

BANK OF AMERICA CORP /DE/

Form 10-Q

November 09, 2007

[Table of Contents](#)

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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, 2007

or

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

EXCHANGE ACT OF 1934

**Commission file number:**

1-6523

**Exact name of registrant as specified in its charter:**

Bank of America Corporation

**State of incorporation:**

Delaware

**IRS Employer Identification Number:**

56-0906609

**Address of principal executive offices:**

Bank of America Corporate Center

100 N. Tryon Street

Charlotte, North Carolina 28255

**Registrant's telephone number, including area code:**

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(704) 386-5681

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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

Yes ☐ No ☒

On October 31, 2007, there were 4,438,318,140 shares of Bank of America Corporation Common Stock outstanding.

## Table of Contents

### Bank of America Corporation

### September 30, 2007 Form 10-Q

#### INDEX

		Page
Part I.		
Financial	Item 1. Financial Statements:	
	<u>Consolidated Statement of Income for the Three and Nine Months Ended September 30, 2007 and 2006</u>	
Information		3
	<u>Consolidated Balance Sheet at September 30, 2007 and December 31, 2006</u>	4
	<u>Consolidated Statement of Changes in Shareholders' Equity for the Nine Months Ended September 30, 2007 and 2006</u>	5
	<u>Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2007 and 2006</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	
	<u>Table of Contents</u>	46
	<u>Discussion and Analysis</u>	47
	Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	134
	Item 4. <u>Controls and Procedures</u>	134
Part II.		
Other		
Information		
	Item 1. <u>Legal Proceedings</u>	134
	Item 1A. <u>Risk Factors</u>	134
	Item 2. <u>Unregistered Sales of Equity Securities and the Use of Proceeds</u>	135
	Item 6. <u>Exhibits</u>	135
	<u>Signature</u>	136
	<u>Index to Exhibits</u>	137

**Table of Contents****Bank of America Corporation and Subsidiaries****Consolidated Statement of Income**

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions, except per share information)	2007	2006	2007	2006
<b>Interest income</b>				
Interest and fees on loans and leases	\$ 14,111	\$ 12,638	\$ 40,318	\$ 35,569
Interest on debt securities	2,334	3,080	7,046	9,215
Federal funds sold and securities purchased under agreements to resell	1,839	2,146	5,974	5,755
Trading account assets	2,519	1,856	7,059	5,031
Other interest income	1,230	952	3,428	2,524
Total interest income	22,033	20,672	63,825	58,094
<b>Interest expense</b>				
Deposits	4,545	3,976	12,840	10,491
Short-term borrowings	5,521	5,467	16,376	14,618
Trading account liabilities	906	727	2,619	1,840
Long-term debt	2,446	1,916	6,721	5,153
Total interest expense	13,418	12,086	38,556	32,102
<b>Net interest income</b>	<b>8,615</b>	<b>8,586</b>	<b>25,269</b>	<b>25,992</b>
<b>Noninterest income</b>				
Card income	3,595	3,473	10,486	10,571
Service charges	2,221	2,147	6,493	6,125
Investment and brokerage services	1,378	1,085	3,720	3,334
Investment banking income	389	510	1,801	1,623
Equity investment income	904	705	3,747	2,122
Trading account profits (losses)	(1,457)	731	305	2,706
Mortgage banking income	155	189	516	415
Gains (losses) on sales of debt securities <sup>(1)</sup>	7	(469)	71	(464)
Other income	122	1,227	1,239	1,670
Total noninterest income	7,314	9,598	28,378	28,102
<b>Total revenue, net of interest expense</b>	<b>15,929</b>	<b>18,184</b>	<b>53,647</b>	<b>54,094</b>
<b>Provision for credit losses</b>	<b>2,030</b>	<b>1,165</b>	<b>5,075</b>	<b>3,440</b>
<b>Noninterest expense</b>				
Personnel	4,169	4,474	13,931	13,767
Occupancy	754	696	2,211	2,100
Equipment	336	318	1,018	978
Marketing	552	587	1,644	1,713
Professional fees	258	259	770	710
Amortization of intangibles	429	441	1,209	1,322
Data processing	463	426	1,372	1,245
Telecommunications	255	237	750	685
Other general operating	1,243	1,156	3,558	3,423
Merger and restructuring charges	84	269	270	561
Total noninterest expense	8,543	8,863	26,733	26,504
<b>Income before income taxes</b>	<b>5,356</b>	<b>8,156</b>	<b>21,839</b>	<b>24,150</b>
<b>Income tax expense</b>	<b>1,658</b>	<b>2,740</b>	<b>7,125</b>	<b>8,273</b>
<b>Net income</b>	<b>\$ 3,698</b>	<b>\$ 5,416</b>	<b>\$ 14,714</b>	<b>\$ 15,877</b>
<b>Preferred stock dividends</b>	<b>43</b>	<b>-</b>	<b>129</b>	<b>9</b>
<b>Net income available to common shareholders</b>	<b>\$ 3,655</b>	<b>\$ 5,416</b>	<b>\$ 14,585</b>	<b>\$ 15,868</b>
<b>Per common share information</b>				
Earnings	\$ 0.83	\$ 1.20	\$ 3.30	\$ 3.49
Diluted earnings	0.82	1.18	3.25	3.44
Dividends paid	0.64	0.56	1.76	1.56
<b>Average common shares issued and outstanding (in thousands)</b>	<b>4,420,616</b>	<b>4,499,704</b>	<b>4,424,269</b>	<b>4,547,693</b>
<b>Average diluted common shares issued and outstanding (in thousands)</b>	<b>4,475,917</b>	<b>4,570,558</b>	<b>4,483,465</b>	<b>4,614,599</b>

<sup>(1)</sup> Effective April 1, 2007, the Corporation changed its income statement presentation to reflect gains (losses) on sales of debt securities as a component of noninterest income.

See accompanying Notes to Consolidated Financial Statements.



**Table of Contents**

<b>Bank of America Corporation and Subsidiaries</b>		
<b>Consolidated Balance Sheet</b>		
(Dollars in millions)	<b>September 30 2007</b>	<b>December 31 2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 34,956	\$ 36,429
Time deposits placed and other short-term investments	8,829	13,952
Federal funds sold and securities purchased under agreements to resell (includes \$2,561 measured at fair value at September 30, 2007 and \$135,110 and \$135,409 pledged as collateral)	135,150	135,478
Trading account assets (includes \$72,704 and \$92,274 pledged as collateral)	179,365	153,052
Derivative assets	30,843	23,439
<b>Debt securities:</b>		
Available-for-sale (includes \$99,048 and \$83,785 pledged as collateral)	176,778	192,806
Held-to-maturity, at cost (fair value \$518 and \$40)	518	40
Total debt securities	177,296	192,846
Loans and leases (includes \$4,525 measured at fair value at September 30, 2007 and \$119,371 and \$14,290 pledged as collateral)	793,537	706,490
Allowance for loan and lease losses	(9,535)	(9,016)
Loans and leases, net of allowance	784,002	697,474
Premises and equipment, net	9,762	9,255
Mortgage servicing rights (includes \$3,179 and \$2,869 measured at fair value)	3,417	3,045
Goodwill	67,433	65,662
Intangible assets	9,635	9,422
Other assets (includes \$26,285 measured at fair value at September 30, 2007)	138,075	119,683
<b>Total assets</b>	<b>\$ 1,578,763</b>	<b>\$ 1,459,737</b>
<b>Liabilities</b>		
<b>Deposits in domestic offices:</b>		
Noninterest-bearing	\$ 165,343	\$ 180,231
Interest-bearing (includes \$521 measured at fair value at September 30, 2007)	434,728	418,100
<b>Deposits in foreign offices:</b>		
Noninterest-bearing	3,950	4,577
Interest-bearing	95,201	90,589
Total deposits	699,222	693,497
Federal funds purchased and securities sold under agreements to repurchase	199,293	217,527
Trading account liabilities	87,155	67,670
Derivative liabilities	19,012	16,339
Commercial paper and other short-term borrowings	201,155	141,300
Accrued expenses and other liabilities (includes \$454 measured at fair value at September 30, 2007 and \$392 and \$397 of reserve for unfunded lending commitments)	48,932	42,132
Long-term debt	185,484	146,000
<b>Total liabilities</b>	<b>1,440,253</b>	<b>1,324,465</b>
<b>Commitments and contingencies (Note 9 Variable Interest Entities and Note 11 Commitments and Contingencies)</b>		
<b>Shareholders' equity</b>		
Preferred stock, \$0.01 par value; authorized - 100,000,000 shares; issued and outstanding 143,739 and 121,739 shares	3,401	2,851
Common stock and additional paid-in capital, \$0.01 par value; authorized 7,500,000,000 shares; issued and outstanding 4,436,855,341 and 4,458,151,391 shares	60,276	61,574
Retained earnings	84,027	79,024
Accumulated other comprehensive income (loss)	(8,615)	(7,711)
Other	(579)	(466)
<b>Total shareholders' equity</b>	<b>138,510</b>	<b>135,272</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,578,763</b>	<b>\$ 1,459,737</b>

See accompanying Notes to Consolidated Financial Statements.



**Table of Contents****Bank of America Corporation and Subsidiaries****Consolidated Statement of Changes in Shareholders' Equity**

(Dollars in millions, shares in thousands)	Common Stock							
	Preferred Stock	Paid-in Shares	Capital Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) <sup>(1)</sup>	Other	Total Shareholders' Equity	Comprehensive Income
<b>Balance, December 31, 2005</b>	\$ 271	3,999,688	\$ 41,693	\$ 67,552	\$ (7,556)	\$ (427)	\$ 101,533	
Net income				15,877			15,877	\$ 15,877
Net changes in available-for-sale debt and marketable equity securities					(106)		(106)	(106)
Net changes in foreign currency translation adjustments					177		177	177
Net changes in derivatives					618		618	618
Cash dividends paid:								
Common				(7,149)			(7,149)	
Preferred				(9)			(9)	
Issuance of preferred stock	825						825	
Redemption of preferred stock	(270)						(270)	
Common stock issued under employee plans and related tax benefits		98,312	3,988			(135)	3,853	
Stock issued in acquisition <sup>(2)</sup>		631,145	29,377				29,377	
Common stock repurchased		(231,000)	(11,129)				(11,129)	
<b>Balance, September 30, 2006</b>	\$ 826	4,498,145	\$ 63,929	\$ 76,271	\$ (6,867)	\$ (562)	\$ 133,597	\$ 16,566
<b>Balance, December 31, 2006</b>	\$ 2,851	4,458,151	\$ 61,574	\$ 79,024	\$ (7,711)	\$ (466)	\$ 135,272	
Cumulative adjustment for accounting changes <sup>(3)</sup> :								
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)
Amortization of costs included in net periodic benefit costs					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)	
<b>Balance, September 30, 2007</b>	\$ 3,401	4,436,855	\$ 60,276	\$ 84,027	\$ (8,615)	\$ (579)	\$ 138,510	\$ 13,810

<sup>(1)</sup> Amounts shown are net of tax. For additional information on accumulated OCI, see *Note 12 Shareholders' Equity and Earnings Per Common Share* to the Consolidated Financial Statements.

<sup>(2)</sup> Includes adjustment for the fair value of outstanding MBNA Corporation (MBNA) stock options of \$435 million.

<sup>(3)</sup> 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.

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See accompanying Notes to Consolidated Financial Statements

**Table of Contents****Bank of America Corporation and Subsidiaries****Consolidated Statement of Cash Flows**

	<b>Nine Months Ended September 30</b>	
(Dollars in millions)	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net income	\$ 14,714	\$ 15,877
Reconciliation of net income to net cash provided by (used in) operating activities:		
Provision for credit losses	5,075	3,440
(Gains) losses on sales of debt securities	(71)	464
Depreciation and premises improvements amortization	836	835
Amortization of intangibles	1,209	1,322
Deferred income tax (benefit) expense	(213)	1,322
Net (increase) decrease in trading and derivative instruments	(14,252)	7,830
Net increase in other assets	(19,157)	(26,704)
Net increase in accrued expenses and other liabilities	7,238	648
Other operating activities, net	3,429	(2,192)
Net cash provided by (used in) operating activities	(1,192)	2,842
<b>Investing activities</b>		
Net (increase) decrease in time deposits placed and other short-term investments	5,135	(295)
Net decrease in federal funds sold and securities purchased under agreements to resell	148	13,903
Proceeds from sales of available-for-sale debt securities	10,956	17,122
Proceeds from paydowns and maturities of available-for-sale debt securities	15,231	17,708
Purchases of available-for-sale debt securities	(7,217)	(38,270)
Proceeds from maturities of held-to-maturity debt securities	547	-
Purchases of held-to-maturity debt securities	(116)	-
Proceeds from sales of loans and leases	45,058	29,902
Other changes in loans and leases, net	(138,371)	(96,643)
Net purchases of premises and equipment	(1,318)	(398)
Proceeds from sales of foreclosed properties	60	86
(Acquisition) divestiture of business activities, net	(3,694)	(3,615)
Other investing activities, net	2,078	(222)
Net cash used in investing activities	(71,503)	(60,722)
<b>Financing activities</b>		
Net increase in deposits	2,318	7,249
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(18,809)	18,109
Net increase in commercial paper and other short-term borrowings	59,928	17,454
Proceeds from issuance of long-term debt	60,580	37,403
Retirement of long-term debt	(23,018)	(13,507)
Issuance of preferred stock	550	825
Redemption of preferred stock	-	(270)
Proceeds from issuance of common stock	1,022	2,587
Common stock repurchased	(3,664)	(11,129)
Cash dividends paid	(7,976)	(7,158)
Excess tax benefits related to share-based payments	233	342
Other financing activities, net	(52)	121
Net cash provided by financing activities	71,112	52,026
Effect of exchange rate changes on cash and cash equivalents	110	94
Net decrease in cash and cash equivalents	(1,473)	(5,760)
Cash and cash equivalents at January 1	36,429	36,999
<b>Cash and cash equivalents at September 30</b>	<b>\$ 34,956</b>	<b>\$ 31,239</b>

The fair values of noncash assets acquired and liabilities assumed in the U.S. Trust Corporation merger were \$12.9 billion and \$9.8 billion at July 1, 2007.

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.

During the nine months ended September 30, 2007, the Corporation transferred \$1.7 billion of trading account assets to AFS debt securities.

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

The fair values of noncash assets acquired and liabilities assumed in the MBNA merger were \$83.3 billion and \$50.4 billion at January 1, 2006.

Approximately 631 million shares of common stock, valued at approximately \$28.9 billion, were issued in connection with the MBNA merger at January 1, 2006.

See accompanying Notes to Consolidated Financial Statements.

## **Table of Contents**

### **Bank of America Corporation and Subsidiaries**

#### **Notes to Consolidated Financial Statements**

Bank of America Corporation and its subsidiaries (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, 2007, the Corporation operated its banking activities primarily under two charters: Bank of America, National Association (Bank of America, N.A.) and FIA Card Services, N.A.

### **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.

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. Results of operations of companies purchased are included from the dates of acquisition.

Effective January 1, 2007, the Corporation changed its basis of presentation for its business segments. For additional information, see *Note 17 Business Segment Information* to the Consolidated Financial Statements.

Effective April 1, 2007, the Corporation changed the current and historical presentation of its Consolidated Statement of Income to present gains (losses) on sales of debt securities as a component of noninterest income.

Prior period amounts have been reclassified to conform to current period presentation.

#### ***Recently Issued Accounting Pronouncements***

On June 27, 2007, the Financial Accounting Standards Board (FASB) ratified the 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). EITF 06-11 requires 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 Corporation currently accounts for this tax benefit as a reduction to income tax expense. EITF 06-11 is to be applied prospectively for tax benefits on dividends declared by the Corporation on or after January 1, 2008. The Corporation expects to adopt the provisions of EITF 06-11 on January 1, 2008. The adoption of EITF 06-11 will not have a material impact on the Corporation's financial condition and results of operations.

Effective January 1, 2007, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) and SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States (GAAP) and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 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. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The impact of adopting both SFAS 157 and SFAS 159 reduced the beginning balance of retained earnings as of January 1, 2007 by \$208 million, net of tax. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur. For additional information on the fair value of certain financial assets and liabilities, see *Note 15 Fair Value Disclosures* to the Consolidated Financial Statements.

## **Table of Contents**

Effective January 1, 2007, the Corporation adopted FASB Staff Position (FSP) No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction (FSP 13-2). The principal provision of FSP 13-2 is the requirement that a lessor recalculate the recognition of lease income when there is a change in the estimated timing of the cash flows relating to income taxes generated by such leveraged lease. The adoption of FSP 13-2 reduced the beginning balance of retained earnings as of January 1, 2007 by \$1.4 billion, net of tax, with a corresponding offset decreasing the net investment in leveraged leases recorded as part of loans and leases. Following the adoption, if during the remainder of the lease term the timing of the income tax cash flows generated by the leveraged leases are revised as a result of final determination by the Internal Revenue Service on certain leveraged leases or management changes its assumption about the timing of the tax cash flows, the rate of return shall be recalculated from the inception of the lease using the revised assumption and the change in the net investment shall be recognized as a gain or loss in the year in which the assumption is changed.

Effective January 1, 2007, the Corporation adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The adoption of FIN 48 reduced the beginning balance of retained earnings as of January 1, 2007 by \$146 million and increased goodwill by \$52 million. For additional information on income taxes, see *Note 14 Income Taxes* to the Consolidated Financial Statements.

For additional information on recently issued accounting pronouncements and other significant accounting principles, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements filed as Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007.

### **NOTE 2 Merger and Restructuring Activity**

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. With this acquisition, the Corporation significantly expanded its metropolitan Chicago and Michigan presence by adding LaSalle's commercial banking clients, retail customers, and banking centers. LaSalle's results of operations will be included in the Corporation's results beginning October 1, 2007.

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 \$1.6 billion to goodwill and \$1.3 billion to intangible assets as part of the preliminary purchase price allocation. U.S. Trust Corporation's results of operations were included in the Corporation's results beginning July 1, 2007.

On January 1, 2006, the Corporation acquired 100 percent of the outstanding stock of MBNA. 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, 2007 and 2006.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Severance and employee-related charges	\$ 21	\$ 40	\$ 39	\$ 74
Systems integrations and related charges	47	183	183	363
Other	16	46	48	124
<b>Total merger and restructuring charges <sup>(1)</sup></b>	<b>\$ 84</b>	<b>\$ 269</b>	<b>\$ 270</b>	<b>\$ 561</b>

<sup>(1)</sup> Included for the three and nine months ended September 30, 2007 are merger-related charges of \$46 million and \$61 million related to the U.S. Trust Corporation acquisition and \$38 million and \$209 million related to the MBNA acquisition.

***Merger-related Exit Cost and Restructuring Reserves***

As of December 31, 2006, there were \$125 million of exit cost reserves related to the MBNA acquisition, including \$121 million for severance, relocation and other employee-related expenses and \$4 million for contract terminations. During both the three and nine months ended September 30, 2007, \$35 million was added to the exit cost reserves related to the U.S. Trust Corporation acquisition. Included in the \$35 million were \$30 million for severance and other employee-related expenses and \$5 million for contract terminations. Cash payments of \$12 million and \$57 million during the three and nine months ended September 30, 2007, consisted of \$12 million and \$55 million of severance, relocation and other employee-related costs. In addition, cash payments of \$2 million for contract terminations were recorded during the nine months ended September 30, 2007.

As of December 31, 2006, there were \$67 million of restructuring reserves related to the MBNA acquisition, including \$58 million related to severance and other employee-related expenses and \$9 million related to contract terminations. During the three and nine months ended September 30, 2007, \$21 million and \$37 million were added to the restructuring reserve consisting of severance and other employee-related expenses associated with the MBNA and U.S. Trust Corporation acquisitions. Cash payments of \$7 million and \$54 million during the three and nine months ended September 30, 2007 consisted of \$7 million and \$49 million of severance and other employee-related costs. In addition, cash payments of \$5 million for contract terminations have reduced this liability during the nine months ended September 30, 2007.

**Table of Contents**

Payments under exit cost and restructuring reserves associated with the MBNA merger are expected to be substantially completed in 2007 while payments associated with the U.S. Trust Corporation acquisition will continue through 2008. The following table presents the changes in exit cost and restructuring reserves for the three and nine months ended September 30, 2007 and 2006.

(Dollars in millions)	Exit Cost Reserves <sup>(1, 2)</sup>		Restructuring Reserves <sup>(2, 3)</sup>	
	2007	2006	2007	2006
<b>Balance, January 1</b>	<b>\$ 125</b>	<b>\$ -</b>	<b>\$ 67</b>	<b>\$ -</b>
MBNA exit costs and restructuring charges	-	368	16	74
Cash payments	(45)	(67)	(47)	(4)
<b>Balance, June 30</b>	<b>80</b>	<b>301</b>	<b>36</b>	<b>70</b>
MBNA exit costs and restructuring charges	-	(69)	2	59
U.S. Trust Corporation exit costs and restructuring charges	35	-	19	-
Cash payments	(12)	(41)	(7)	(7)
<b>Balance, September 30</b>	<b>\$ 103</b>	<b>\$ 191</b>	<b>\$ 50</b>	<b>\$ 122</b>

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

(2) At September 30, 2007, there were no exit cost and restructuring reserves related to the LaSalle acquisition. The Corporation will record exit cost and restructuring reserves related to the LaSalle acquisition beginning in the fourth quarter of 2007.

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

**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, 2007 and December 31, 2006.

(Dollars in millions)	September 30 2007	December 31 2006
<b>Trading account assets</b>		
Corporate securities, trading loans and other	\$ 60,848	\$ 53,923
U.S. Government and agency securities <sup>(1)</sup>	46,327	36,656
Equity securities	32,022	27,103
Mortgage trading loans and asset-backed securities	21,324	15,449
Foreign sovereign debt	18,844	19,921
<b>Total trading account assets</b>	<b>\$ 179,365</b>	<b>\$ 153,052</b>
<b>Trading account liabilities</b>		
U.S. Government and agency securities	\$ 38,650	\$ 26,760
Equity securities	31,995	23,908
Foreign sovereign debt	8,532	9,261
Corporate securities and other	7,978	7,741
<b>Total trading account liabilities</b>	<b>\$ 87,155</b>	<b>\$ 67,670</b>

(1) Includes \$18.8 billion and \$22.7 billion at September 30, 2007 and December 31, 2006 of government-sponsored enterprise obligations that are not backed by the full faith and credit of the U.S. government.

**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

**Table of Contents**

instruments with similar characteristics. 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 designated as hedges for SFAS 133 purposes are either accounted for as cash flow, fair value or net investment hedges. Derivatives held for trading purposes are included in derivative assets or derivative liabilities with 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. A detailed discussion of derivative trading activities and asset and liability management (ALM) activities are presented in *Note 1 Summary of Significant Accounting Principles* and *Note 4 Derivatives* to the Consolidated Financial Statements filed as Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007.

The following table presents the contract/notional amounts and credit risk amounts at September 30, 2007 and December 31, 2006 of all the Corporation's derivative positions. These derivative positions are primarily executed in the over-the-counter market. Credit risk associated with derivatives is measured as the net replacement cost in the event the counterparties with contracts in a gain position to the Corporation completely fail to perform under the terms of those contracts. 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, 2007 and December 31, 2006, the cash collateral applied against derivative assets on the Consolidated Balance Sheet was \$9.6 billion and \$7.3 billion. In addition, at September 30, 2007 and December 31, 2006, the cash collateral placed against derivative liabilities was \$7.4 billion and \$6.5 billion.

(Dollars in millions)	September 30, 2007		December 31, 2006	
	Contract/ Notional <sup>(1)</sup>	Credit Risk	Contract/ Notional <sup>(1)</sup>	Credit Risk
<b>Interest rate contracts</b>				
Swaps	\$ 22,339,658	\$ 10,332	\$ 18,185,655	\$ 9,601
Futures and forwards	2,385,605	87	2,283,579	103
Written options	1,503,936	-	1,043,933	-
Purchased options	1,590,442	2,245	1,308,888	2,212
<b>Foreign exchange contracts</b>				
Swaps	535,712	6,871	451,462	4,241
Spot, futures and forwards	1,651,657	4,602	1,234,009	2,995
Written options	388,337	-	464,420	-
Purchased options	381,459	1,487	414,004	1,391
<b>Equity contracts</b>				
Swaps	57,808	1,742	32,247	577
Futures and forwards	19,427	87	19,947	24
Written options	214,339	-	102,902	-
Purchased options	236,880	6,937	104,958	7,513
<b>Commodity contracts</b>				
Swaps	13,242	726	4,868	1,129
Futures and forwards	21,300	39	13,513	2
Written options	17,364	-	9,947	-
Purchased options	16,764	227	6,796	184
<b>Credit derivatives</b>	<b>2,959,027</b>	<b>5,050</b>	<b>1,497,869</b>	<b>756</b>
Credit risk before cash collateral		40,432		30,728
Less: Cash collateral applied		9,589		7,289
<b>Total derivative assets</b>		<b>\$ 30,843</b>		<b>\$ 23,439</b>

<sup>(1)</sup> Represents the total contract/notional amount of the derivatives outstanding and includes both short and long positions.

The average fair value of derivative assets, less cash collateral, for the three months ended September 30, 2007 and December 31, 2006 was \$30.9 billion and \$24.3 billion. The average fair value of derivative liabilities for the three months ended September 30, 2007 and December 31, 2006 was \$21.5 billion and \$17.1 billion.



**Table of Contents*****Fair Value and Cash Flow 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 other comprehensive income (OCI) of approximately \$1.3 billion (\$800 million after-tax) are expected to be reclassified into earnings. These net losses reclassified into earnings are expected to impact 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, 2007 and 2006.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>Fair value hedges</b>				
Hedge ineffectiveness recognized in net interest income	\$ 35	\$ 6	\$ (1)	\$ 5
<b>Cash flow hedges</b>				
Hedge ineffectiveness recognized in net interest income	(8)	7	(1)	10
Net gains 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. The Corporation recorded net derivative losses in accumulated OCI associated with net investment hedges of \$266 million and \$568 million for the three and nine months ended September 30, 2007 as compared to losses of \$94 million and \$296 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, 2007 and December 31, 2006 were:

(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale debt securities, September 30, 2007</b>				
U.S. Treasury securities and agency debentures	\$ 763	\$ 2	\$ (4)	\$ 761
Mortgage-backed securities <sup>(1)</sup>	150,632	7	(5,719)	144,920
Foreign securities	7,739	4	(180)	7,563
Corporate/Agency bonds	3,799	6	(97)	3,708
Other taxable securities <sup>(2)</sup>	13,215	7	(52)	13,170
Total taxable securities	176,148	26	(6,052)	170,122
Tax-exempt securities	6,721	7	(72)	6,656
<b>Total available-for-sale debt securities</b>	<b>\$ 182,869</b>	<b>\$ 33</b>	<b>\$ (6,124)</b>	<b>\$ 176,778</b>
<b>Available-for-sale marketable equity securities <sup>(3)</sup></b>	<b>\$ 3,313</b>	<b>\$ 176</b>	<b>\$ (195)</b>	<b>\$ 3,294</b>
<b>Available-for-sale debt securities, December 31, 2006</b>				
U.S. Treasury securities and agency debentures	\$ 697	\$ -	\$ (9)	\$ 688
Mortgage-backed securities <sup>(1)</sup>	161,693	4	(4,804)	156,893
Foreign securities	12,126	2	(78)	12,050
Corporate/Agency bonds	4,699	-	(96)	4,603
Other taxable securities <sup>(2)</sup>	12,077	10	(38)	12,049
Total taxable securities	191,292	16	(5,025)	186,283
Tax-exempt securities	6,493	64	(34)	6,523
<b>Total available-for-sale debt securities</b>	<b>\$ 197,785</b>	<b>\$ 80</b>	<b>\$ (5,059)</b>	<b>\$ 192,806</b>
<b>Available-for-sale marketable equity securities <sup>(3)</sup></b>	<b>\$ 2,799</b>	<b>\$ 408</b>	<b>\$ (10)</b>	<b>\$ 3,197</b>

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

<sup>(2)</sup> Includes asset-backed securities.

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

At September 30, 2007, the amortized cost and fair value of both taxable and tax-exempt held-to-maturity debt securities were \$518 million. At December 31, 2006, the amortized cost and fair value of both taxable and tax-exempt held-to-maturity debt securities were \$40 million. Effective January 1, 2007, the Corporation redesignated \$909 million of debt securities at amortized cost from AFS to held-to-maturity.

At September 30, 2007 and December 31, 2006, accumulated net unrealized losses on AFS debt and marketable equity securities included in accumulated OCI were \$3.9 billion and \$2.9 billion, net of the related income tax benefit of \$2.2 billion and \$1.7 billion, respectively.

For all AFS debt and marketable equity securities that are in an unrealized loss position, we have the intent and ability to hold these securities to recovery.

**Certain Corporate and Strategic Investments**

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In August 2007, the Corporation made a \$2.0 billion investment in Countrywide Financial Corporation (Countrywide), the largest mortgage lender in the U.S., in the form of a Series B non-voting convertible preferred security yielding 7.25 percent, which is recorded in other assets. The security is convertible into common stock of Countrywide at \$18 per share,

## **Table of Contents**

which would result in an ownership interest of approximately 16 percent in Countrywide if converted. This investment is accounted for under the cost method of accounting.

The Corporation owns approximately eight percent, or 19.1 billion shares, of the stock of China Construction Bank (CCB) which is recorded in other assets. These shares are accounted for at cost as they are non-transferable until October 2008. The Corporation also holds an option to increase its ownership interest in CCB to 19.1 percent. This option expires in February 2011. The strike price of the option is based on the initial public offering price that steps up on an annual basis beginning at 103 percent and is capped at 118 percent depending on when the option is exercised.

Additionally, the Corporation owns approximately 137.0 million and 41.1 million of preferred and common shares, respectively, of Banco Itaú Holding Financeira S.A. (Banco Itaú) at September 30, 2007 which are recorded in other assets. These shares are accounted for at cost as they are non-transferable until May 2009.

The shares of CCB and Banco Itaú are currently carried at cost but, in accordance with GAAP, will be accounted for as AFS marketable equity securities and carried at fair value with an offset to accumulated OCI beginning in the fourth quarter of 2007 and second quarter of 2008. Dividend income on these investments is accounted for as part of equity investment income. The cost of the CCB and Banco Itaú investments was \$3.0 billion and \$2.6 billion. The fair values of the CCB shares and Banco Itaú shares were approximately \$17.5 billion and \$4.5 billion at September 30, 2007.

The Corporation has a 24.9 percent, or \$2.7 billion, investment in Grupo Financiero Santander Serfin (Santander) which is recorded in other assets. This investment is accounted for under the equity method of accounting and income is recorded in equity investment income.

For additional information on securities, see *Note 1 Summary of Significant Accounting Principles* and *Note 5 Securities* to the Consolidated Financial Statements filed as Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007.

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

Outstanding loans and leases at September 30, 2007 and December 31, 2006 were:

(Dollars in millions)	September 30 2007	December 31 2006
<b>Consumer</b>		
Residential mortgage	\$ 271,753	\$ 241,181
Credit card domestic	58,716	61,195
Credit card foreign	12,986	10,999
Home equity <sup>(1)</sup>	101,046	87,893
Direct/Indirect consumer <sup>(1)</sup>	70,424	55,504
Other consumer <sup>(1, 2)</sup>	7,780	8,933
<b>Total consumer</b>	<b>522,705</b>	<b>465,705</b>
<b>Commercial</b>		
Commercial domestic <sup>(3)</sup>	177,251	161,982
Commercial real estate <sup>(4)</sup>	40,374	36,258
Commercial lease financing	20,357	21,864
Commercial foreign	28,325	20,681
Total commercial loans measured at historical cost	266,307	240,785
Commercial loans measured at fair value <sup>(5)</sup>	4,525	n/a
<b>Total commercial</b>	<b>270,832</b>	<b>240,785</b>
<b>Total loans and leases</b>	<b>\$ 793,537</b>	<b>\$ 706,490</b>

<sup>(1)</sup> Home equity loans of \$13.0 billion at December 31, 2006 have been reclassified to home equity from direct/indirect consumer and other consumer to conform to the current period presentation.

<sup>(2)</sup> Includes foreign consumer loans of \$4.6 billion and \$6.2 billion, and consumer finance loans of \$3.1 billion and \$2.8 billion at September 30, 2007 and December 31, 2006.

<sup>(3)</sup> Includes small business commercial domestic loans of \$16.4 billion and \$13.7 billion at September 30, 2007 and December 31, 2006.

<sup>(4)</sup> Includes domestic commercial real estate loans of \$39.1 billion and \$35.7 billion, and foreign commercial real estate loans of \$1.2 billion and \$578 million at September 30, 2007 and December 31, 2006.

<sup>(5)</sup> Certain commercial loans are measured at fair value in accordance with SFAS 159 and include commercial domestic loans of \$3.63 billion, commercial foreign loans of \$672 million and commercial real estate loans of \$224 million at September 30, 2007. See *Note 15 Fair Value Disclosures* to the Consolidated Financial Statements for additional discussion of fair value for certain financial instruments.

n/a = not applicable

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 No. 114, *Accounting by Creditors for Impairment of a Loan*, (SFAS 114) at September 30, 2007 and December 31, 2006. SFAS 114 impairment includes performing troubled debt restructurings and excludes all commercial leases.

(Dollars in millions)	September 30 2007	December 31 2006
Commercial domestic <sup>(1)</sup>	\$ 766	\$ 586

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Commercial real estate	352	118
Commercial foreign	16	13
<b>Total impaired loans</b>	<b>\$ 1,134</b>	<b>\$ 717</b>

<sup>(1)</sup> Includes small business commercial domestic loans of \$97 million and \$79 million at September 30, 2007 and December 31, 2006.

At September 30, 2007 and December 31, 2006, nonperforming loans and leases, including impaired and nonaccrual consumer loans, totaled \$3.2 billion and \$1.8 billion. In addition, included in other assets were consumer and commercial nonperforming loans held-for-sale of \$93 million and \$80 million at September 30, 2007 and December 31, 2006.

**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, 2007 and 2006.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(Dollars in millions)	2007	2006	2007	2006
<b>Allowance for loan and lease losses, beginning of period</b>	<b>\$ 9,060</b>	<b>\$ 9,080</b>	<b>\$ 9,016</b>	<b>\$ 8,045</b>
Transition adjustment due to the adoption of SFAS 159	-	-	(32)	-
MBNA balance, January 1, 2006	-	-	-	577
Loans and leases charged off	(1,897)	(1,637)	(5,445)	(4,161)
Recoveries of loans and leases previously charged off	324	360	950	1,039
Net charge-offs	(1,573)	(1,277)	(4,495)	(3,122)
Provision for loan and lease losses	2,014	1,165	5,050	3,440
Other <sup>(1)</sup>	34	(96)	(4)	(68)
<b>Allowance for loan and lease losses, September 30</b>	<b>9,535</b>	<b>8,872</b>	<b>9,535</b>	<b>8,872</b>
<b>Reserve for unfunded lending commitments, beginning of period</b>	<b>376</b>	<b>395</b>	<b>397</b>	<b>395</b>
Transition adjustment due to the adoption of SFAS 159	-	-	(28)	-
Provision for unfunded lending commitments	16	-	25	-
Other	-	(7)	(2)	(7)
<b>Reserve for unfunded lending commitments, September 30</b>	<b>392</b>	<b>388</b>	<b>392</b>	<b>388</b>
<b>Allowance for credit losses, September 30</b>	<b>\$ 9,927</b>	<b>\$ 9,260</b>	<b>\$ 9,927</b>	<b>\$ 9,260</b>

<sup>(1)</sup> Includes \$25 million as of July 1, 2007 related to the acquisition of U.S. Trust Corporation.

**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, cash reserve accounts, all of which are known as retained interests. These retained interests are recorded in other assets and/or AFS debt securities 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.

**Table of Contents**

As of September 30, 2007 and December 31, 2006 the aggregate debt securities outstanding for the Corporation's credit card securitization trusts were \$100.4 billion and \$96.8 billion. Key assumptions used in measuring the fair value of certain interests that continue to be held by the Corporation (included in other assets) from credit card securitizations and the sensitivity of the current fair value of residual cash flows to changes in those assumptions are as follows:

(Dollars in millions)	September 30 2007	December 31 2006
<b>Carrying amount of residual interests (at fair value) <sup>(1)</sup></b>	<b>\$ 3,040</b>	<b>\$ 2,929</b>
<b>Balance of unamortized securitized loans</b>	<b>102,068</b>	<b>98,295</b>
<b>Weighted average life to call or maturity (in years)</b>	<b>0.3</b>	<b>0.3</b>
<b>Monthly payment rate</b>	<b>11.7-16.6 %</b>	<b>11.2-19.8 %</b>
Impact on fair value of 10% favorable change	\$ 48	\$ 43
Impact on fair value of 25% favorable change	140	133
Impact on fair value of 10% adverse change	(35)	(38)
Impact on fair value of 25% adverse change	(83)	(82)
<b>Expected credit losses (annual rate)</b>	<b>3.4-5.7 %</b>	<b>3.8-5.8 %</b>
Impact on fair value of 10% favorable change	\$ 121	\$ 86
Impact on fair value of 25% favorable change	306	218
Impact on fair value of 10% adverse change	(121)	(85)
Impact on fair value of 25% adverse change	(302)	(211)
<b>Residual cash flows discount rate (annual rate)</b>	<b>11.5 %</b>	<b>12.5 %</b>
Impact on fair value of 100 bps favorable change	\$ 11	\$ 12
Impact on fair value of 200 bps favorable change	15	17
Impact on fair value of 100 bps adverse change	(13)	(14)
Impact on fair value of 200 bps adverse change	(26)	(27)

<sup>(1)</sup> Residual interests include interest-only strips, subordinated tranches, 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 \$45.7 billion and \$135.0 billion for the three and nine months ended September 30, 2007, and \$41.6 billion and \$120.8 billion for the three and nine months ended September 30, 2006. Contractual credit card servicing fee income totaled \$526 million and \$1.5 billion for the three and nine months ended September 30, 2007, and \$472 million and \$1.4 billion for the three and nine months ended September 30, 2006. Other cash flows received on credit card securitization interests that continued to be held by the Corporation were \$1.7 billion and \$4.9 billion for the three and nine months ended September 30, 2007, and \$1.7 billion and \$5.1 billion for the three and nine months ended September 30, 2006.

**Table of Contents****NOTE 9 Variable Interest Entities**

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.

(Dollars in millions)	Consolidated <sup>(1)</sup>		Unconsolidated	
	Total Assets	Loss Exposure	Total Assets	Loss Exposure
<b>Variable interest entities, September 30, 2007</b>				
Corporation-sponsored multi-seller conduits	\$ 9,191	\$ 12,603	\$ 28,674	\$ 50,024
Collateralized debt obligations	3,415	3,415	13,573	12,281
Leveraged lease trusts	6,187	6,187	-	-
Other	6,354	4,965	20,820	8,583
<b>Total variable interest entities</b>	<b>\$ 25,147</b>	<b>\$ 27,170</b>	<b>\$ 63,067</b>	<b>\$ 70,888</b>
<b>Variable interest entities, December 31, 2006</b>				
Corporation-sponsored multi-seller conduits	\$ 9,090	\$ 11,515	\$ 18,983	\$ 29,836
Collateralized debt obligations	-	-	8,489	7,658
Leveraged lease trusts	8,575	8,575	-	-
Other	4,717	3,019	12,709	9,310
<b>Total variable interest entities</b>	<b>\$ 22,382</b>	<b>\$ 23,109</b>	<b>\$ 40,181</b>	<b>\$ 46,804</b>

<sup>(1)</sup> 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 three multi-seller conduits 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 high-grade, short-term commercial paper that 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. The Corporation is the primary beneficiary of one conduit which is included in the Consolidated Financial Statements of the Corporation. The Corporation does not consolidate the other two conduits which issued capital notes to independent third parties as it does not expect to absorb a majority of the variability of the conduits. The assets of the consolidated conduit are recorded in AFS and held-to-maturity debt securities and other assets.

At September 30, 2007, the Corporation's liquidity commitments to these conduits were collateralized by various classes of assets, including student loans of 24 percent, credit card loans of 13 percent, auto loans and trade receivables of eight percent each, and prime residential mortgages of four percent. Less than one percent of these commitments are collateralized by subprime residential mortgages. In addition, 27 percent of the Corporation's commitments were collateralized by the conduits' short-term lending obligations to investment funds (e.g., real estate limited partnerships, private equity or venture capital funds). Amounts advanced under these obligations are expected to be repaid when the investment funds issue capital calls to their qualified equity investors. Net revenues earned from fees associated with these commitments were \$51 million and \$135 million for the three and nine months ended September 30, 2007, and \$34 million and \$89 million for the three and nine months ended September 30, 2006.

## **Table of Contents**

### **Collateralized debt obligations**

Collateralized debt obligations (CDOs) are special purpose entities (SPEs) that hold diversified pools of fixed income securities. They issue multiple tranches of debt securities, including commercial paper, and equity securities. The Corporation receives fees for structuring the CDOs and/or placing debt securities with third party investors.

At September 30, 2007 and December 31, 2006, the Corporation provided liquidity support in the form of written put options on \$10.0 billion and \$2.1 billion of commercial paper issued by CDOs including \$3.2 billion issued by the consolidated CDO at September 30, 2007. The commercial paper is the most senior class of securities issued by the CDOs and benefits from the subordination of all other securities, including AAA-rated securities, issued by the CDOs. The Corporation is obligated under the written put options to provide funding to the CDOs by purchasing the commercial paper at predetermined contractual yields in the event of a severe disruption in the short-term funding market. See *Note 11 Commitments and Contingencies* to the Consolidated Financial Statements for more information on the written put options. These written put options are recorded as derivatives on the Consolidated Balance Sheet and are carried at fair value with changes in fair value recorded in trading account profits (losses). Derivative activity related to these entities is included in *Note 4 Derivatives* to the Consolidated Financial Statements. The assets of the consolidated conduit are recorded in trading account assets.

The Corporation also administers a CDO conduit that obtains funds by issuing commercial paper to third party investors. The conduit held \$5.5 billion of assets at both September 30, 2007 and December 31, 2006 consisting of super senior tranches of debt securities issued by other CDOs. These securities benefit from overcollateralization exceeding the amount that would be required for a AAA rating. The Corporation provides liquidity support equal to the amount of assets in this conduit which obligates it to purchase the commercial paper at a predetermined contractual yield in the event of a severe disruption in the short-term funding market.

Net revenues earned from fees associated with these liquidity commitments were \$2 million and \$5 million for the three and nine months ended September 30, 2007, and \$1 million and \$2 million for the three and nine months ended September 30, 2006.

### **Leveraged lease trusts**

The Corporation's net investment in leveraged lease trusts totaled \$6.2 billion and \$8.6 billion at September 30, 2007 and December 31, 2006. 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 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, 2007 and December 31, 2006 consisted primarily of securitization vehicles, including an asset acquisition conduit that holds securities on our behalf and term securitization vehicles that did not meet qualified special purpose entity (QSPE) status, as well as managed investment vehicles that invest in financial assets, primarily debt securities. The Corporation's maximum exposure to loss of these VIEs included \$1.3 billion and \$1.1 billion of liquidity exposure to the consolidated asset acquisition conduit and \$348 million and \$272 million of liquidity exposure to consolidated trusts that hold municipal bonds at September 30, 2007 and December 31, 2006. The assets of these consolidated VIEs were recorded in trading account assets, AFS debt securities and other assets. Other unconsolidated VIEs at September 30, 2007 and December 31, 2006 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 \$4 million and \$13 million for the three and nine months ended September 30, 2007 and \$5 million and \$17 million for the three and nine months ended September 30, 2006.

## Table of Contents

### NOTE 10 Goodwill and Intangible Assets

The following tables present goodwill and intangible assets at September 30, 2007 and December 31, 2006.

(Dollars in millions)	September 30 2007	December 31 2006
Global Consumer and Small Business Banking	\$ 38,895	\$ 38,760
Global Corporate and Investment Banking	21,438	21,420
Global Wealth and Investment Management	6,891	5,243
All Other	209	239
<b>Total goodwill</b>	<b>\$ 67,433</b>	<b>\$ 65,662</b>

The gross carrying values and accumulated amortization related to intangible assets at September 30, 2007 and December 31, 2006 are presented below:

(Dollars in millions)	September 30, 2007		December 31, 2006	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Purchased credit card relationships	\$ 6,971	\$ 1,764	\$ 6,790	\$ 1,159
Core deposit intangibles	3,894	2,699	3,850	2,396
Affinity relationships	1,684	356	1,650	205
Other intangibles	2,675	770	1,525	633
<b>Total intangible assets</b>	<b>\$ 15,224</b>	<b>\$ 5,589</b>	<b>\$ 13,815</b>	<b>\$ 4,393</b>

The above tables include \$1.6 billion of goodwill recorded in *Global Wealth and Investment Management* and \$1.3 billion of intangible assets related to the preliminary purchase price allocation of U.S. Trust Corporation.

Amortization of intangibles expense was \$429 million and \$441 million for the three months ended September 30, 2007 and 2006, and \$1.2 billion and \$1.3 billion for the nine months ended September 30, 2007 and 2006. The Corporation estimates aggregate amortization expense will be approximately \$425 million for the fourth quarter of 2007. In addition, the Corporation estimates that aggregate amortization expense will be approximately \$1.6 billion, \$1.3 billion, \$1.3 billion, \$1.0 billion and \$900 million for 2008 through 2012, respectively. These estimates exclude the impact of the LaSalle acquisition.

**Table of Contents****NOTE 11 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. For additional information on commitments to extend credit, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements filed on Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007. The unfunded legally binding lending commitments shown in the following table are net of amounts distributed (e.g., syndicated) to other financial institutions of \$35.4 billion and \$30.5 billion at September 30, 2007 and December 31, 2006. The carrying amount of these commitments, excluding fair value adjustments as discussed below, was \$422 million and \$444 million at September 30, 2007 and December 31, 2006 and was recorded in accrued expenses and other liabilities. At September 30, 2007, the carrying amount included deferred revenue of \$30 million and a reserve for unfunded legally binding lending commitments of \$392 million. At December 31, 2006, the carrying amount included deferred revenue of \$47 million and a reserve for unfunded legally binding lending commitments of \$397 million.

The table below also includes the notional value of commitments of \$20.2 billion which are measured at fair value in accordance with SFAS 159 at September 30, 2007. However, the table below excludes the fair value adjustment of \$454 million on these commitments that was recorded in accrued expenses and other liabilities. See *Note 15 Fair Value Disclosures* to the Consolidated Financial Statements for additional information on the adoption of SFAS 159.

	Expires after 1		Expires after 3		Total
	Expires in 1	year through 3	years through	Expires after	
(Dollars in millions)	year or less	years	5 years	5 years	
<b>Credit extension commitments,</b>					
<b>September 30, 2007</b>					
Loan commitments	\$ 173,480	\$ 70,265	\$ 97,550	\$ 26,907	\$ 368,202
Home equity lines of credit	1,614	1,805	2,706	104,845	110,970
Standby letters of credit and financial guarantees	28,280	11,057	6,302	8,326	53,965
Commercial letters of credit	4,019	33	41	962	5,055
Legally binding commitments <sup>(1)</sup>	207,393	83,160	106,599	141,040	538,192
Credit card lines	874,417	17,018	-	-	891,435
<b>Total credit extension commitments</b>	<b>\$ 1,081,810</b>	<b>\$ 100,178</b>	<b>\$ 106,599</b>	<b>\$ 141,040</b>	<b>\$ 1,429,627</b>
<b>Credit extension commitments,</b>					
<b>December 31, 2006</b>					
Loan commitments	\$ 151,604	\$ 60,637	\$ 90,988	\$ 32,133	\$ 335,362
Home equity lines of credit	1,738	1,801	2,742	91,919	98,200
Standby letters of credit and financial guarantees	29,213	10,712	6,744	6,337	53,006
Commercial letters of credit	3,880	180	27	395	4,482
Legally binding commitments <sup>(1)</sup>	186,435	73,330	100,501	130,784	491,050
Credit card lines	840,215	13,377	-	-	853,592
<b>Total credit extension commitments</b>	<b>\$ 1,026,650</b>	<b>\$ 86,707</b>	<b>\$ 100,501</b>	<b>\$ 130,784</b>	<b>\$ 1,344,642</b>

<sup>(1)</sup> Includes commitments to VIEs disclosed in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements, including \$50.0 billion and \$29.8 billion to corporation-sponsored multi-seller conduits and \$5.5 billion for both periods to CDOs at September 30, 2007 and December 31, 2006. 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

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hold a significant variable interest or because they are QSPEs, including \$4.3 billion and \$2.3 billion to municipal bond trusts and \$2.7 billion and \$4.6 billion to customer-sponsored conduits at September 30, 2007 and December 31, 2006.

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.

## **Table of Contents**

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 our established originate to distribute strategy. These client transactions are sometimes large and leveraged. They can also have a higher degree of risk as we are providing offers or commitments for various components of the clients' capital structures, including lower rated unsecured and subordinated debt tranches and/or equity. In many cases, these offers to finance will not be accepted. If accepted, these conditional commitments are often retired prior to or shortly following funding via the placement of securities, syndication or the client's decision to terminate. Where we have a 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. The Corporation does not believe these commitments are 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. The Corporation's share of the leveraged finance forward calendar was \$28.1 billion at September 30, 2007 compared to \$33.5 billion at June 30, 2007 with the change being transactions that were syndicated of \$700 million, those closed and not yet syndicated of \$4.3 billion and client-terminated transactions of \$8.4 billion, offset by new transactions of \$8.1 billion.

During the three months ended September 30, 2007, there were extreme dislocations in the financial markets in which the Corporation operates and it was unable to distribute all of its funded commitments in excess of designated hold positions via the placement of securities or syndication. Much of the impact associated with corporate credit was centered in the leveraged finance space. At September 30, 2007, the Corporation's funded exposure in excess of designated hold positions for the leveraged finance business was \$4.3 billion. These positions are carried in other assets at the lower of cost or market.

The Corporation recorded a loss of \$247 million (\$97 million related to funded loans and \$150 million related to unfunded commitments), net of fees of \$528 million, in earnings related to funded exposures in excess of designated hold positions and the Corporation's share of the forward calendar, principally leveraged loans and loan commitments.

### ***Other Commitments***

#### **Principal Investments and Other Equity Investments**

At September 30, 2007 and December 31, 2006, the Corporation had unfunded equity investment commitments of approximately \$4.2 billion and \$2.8 billion. These commitments primarily relate to bridge equity commitments and those 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. The Corporation selectively provides equity bridge financing to facilitate its 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. Included in the Corporation's unfunded equity investment commitments were unfunded bridge equity commitments of \$1.8 billion and \$1.2 billion at September 30, 2007 and December 31, 2006. At September 30, 2007, the Corporation had funded \$197 million of equity bridges that it still intends to distribute. These equity instruments were recorded at fair value.

#### **U.S. Government Guaranteed Charge Cards**

At September 30, 2007 and December 31, 2006, 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 \$10.7 billion and \$9.6 billion were not included in credit card line commitments in the previous table. The outstanding balances related to these charge cards were \$265 million and \$193 million at September 30, 2007 and December 31, 2006.

## **Table of Contents**

### **Loan Purchases**

At September 30, 2007, the Corporation had no whole mortgage loan purchase commitments related to our ALM activities. At December 31, 2006, the Corporation had whole mortgage loan purchase commitments related to our ALM activities of \$8.5 billion, all of which settled in the first quarter of 2007.

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. For the nine months ended September 30, 2007, the Corporation purchased \$4.5 billion of loans under this agreement. In 2006, the Corporation purchased \$7.5 billion of such loans. Under the agreement, the Corporation is committed to purchase up to \$5.0 billion for the fiscal period July 1, 2007 to June 30, 2008 and \$10.0 billion in each of the agreement's following two fiscal years. As of September 30, 2007, the remaining commitment amount was \$25.0 billion.

### **Operating Leases**

The Corporation is a party to operating leases for certain of its premises and equipment. Commitments under these leases approximate \$1.5 billion, \$1.6 billion, \$1.4 billion, \$1.3 billion and \$1.2 billion for 2007 through 2011, respectively, and \$7.9 billion for all years thereafter.

### **Other Commitments**

The Corporation provided support to a cash fund advised within its *Global Wealth and Investment Management* business segment by purchasing certain assets for cash at fair market value and by committing to provide a limited amount of capital to the fund. In addition, the Corporation may from time to time, but is under no obligation to, provide additional support to funds advised within the *Global Wealth and Investment Management* business segment. Future support, if any, may take the form of a commitment to provide capital to the funds or to purchase certain assets from the funds.

### ***Other Guarantees***

#### **Written Put Options**

At September 30, 2007 and December 31, 2006, the Corporation provided liquidity support in the form of written put options on \$10.0 billion and \$2.1 billion of commercial paper issued by CDOs, including \$3.2 billion issued by a consolidated CDO at September 30, 2007. The commercial paper is the most senior class of securities issued by the CDOs and benefits from the subordination of all other securities, including AAA-rated securities, issued by the CDOs. The Corporation is obligated under the written put options to provide funding to the CDOs by purchasing the commercial paper at predetermined contractual yields in the event of a severe disruption in the short-term funding market. These agreements have various maturities ranging from two to five years. The underlying collateral in the CDOs includes mortgage-backed securities, asset-backed securities, and CDO securities issued by other vehicles. These written put options are recorded as derivatives on the Consolidated Balance Sheet and are carried at fair value with changes in fair value recorded in trading account profits (losses). Derivative activity related to these entities is included in *Note 4 - Derivatives* to the Consolidated Financial Statements.

## **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, 2007 and 2006, the Corporation processed \$90.1 billion and \$97.0 billion of transactions and recorded losses as a result of these chargebacks of \$2 million and \$4 million. For the nine months ended September 30, 2007 and 2006, the Corporation processed \$264.5 billion and \$282.6 billion of transactions and recorded losses as a result of these chargebacks of \$10 million and \$13 million.

At September 30, 2007 and December 31, 2006, the Corporation held as collateral approximately \$21 million and \$32 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, 2007 and December 31, 2006, the maximum potential exposure totaled approximately \$150.2 billion and \$176.0 billion.

### **Other Guarantees**

For additional information on other guarantees, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements filed on Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007. For additional information on recourse obligations related to residential mortgage loans sold and other guarantees related to securitizations, see *Note 9 Securitizations* to the Consolidated Financial Statements filed on Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007.

### ***Litigation and Regulatory Matters***

The following supplements the disclosure in *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements filed as Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007 and the Corporation's Quarterly Reports on Form 10-Q for the periods ended March 31, 2007 and June 30, 2007.

#### **Adelphia Communications Corporation**

On August 17, 2007, the U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) dismissed the claims asserted by the Equity Committee against Bank of America, N.A., Banc of America Securities LLC (BAS) and Fleet Securities, Inc. (FSI) (in some cases with leave to amend and replead). On September 5, 2007, the U.S. District Court for the Southern District of New York granted Bank of America, N.A., BAS and FSI leave to appeal the Bankruptcy Court's denial of motions to dismiss certain claims asserted by the Creditors Committee.

#### **In re Initial Public Offering Securities Litigation**

On September 27, 2007, the plaintiffs *In re Initial Public Offering Securities Litigation* filed new motions to certify as class actions six of the 309 cases, which the defendants will oppose.

#### **IPO Underwriting Fee Litigation**

BAS, Robertson Stephens, Inc., and other underwriters have been named as defendants in purported class actions, captioned *In re Public Offering Fee Antitrust Litigation* and *In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation*, filed in the U.S. District Court for the Southern District of New York alleging that underwriters conspired to fix the underwriters' discount at 7% of the offering price in certain initial public offerings (IPOs). The complaints, which have been filed by both purchasers and certain issuers in IPOs, seek treble damages and injunctive relief. On February 24, 2004,



## **Table of Contents**

the district court granted the defendants' motion to dismiss as to the purchasers' damages claims. On April 18, 2006, the district court denied class certification with respect to the issuers' damages claims. On September 11, 2007, the U.S. Court of Appeals for the Second Circuit reversed the order denying class certification as to the issuers' damages claims.

### **Refco**

On August 21, 2007, BAS was named as a defendant in a lawsuit, *Kirschner v. Grant Thornton, et al.*, filed in the Circuit Court of Cook County, Illinois on behalf of the estate of Refco Inc. and certain of its affiliates (Refco). The lawsuit, which seeks unspecified damages, names as other defendants Refco's outside auditors, certain officers and directors of Refco, other financial services companies, and others. The lawsuit includes claims against BAS for aiding and abetting breaches of fiduciary duty by Refco insiders in connection with Refco's senior subordinated notes offering in August 2004 and Refco's initial public offering in August 2005. Certain defendants have removed the lawsuit to the U.S. District Court for the Northern District of Illinois. Plaintiffs are seeking to have it remanded to state court.

### **Parmalat Finanziaria S.p.A.**

On July 24, 2007, the U.S. District Court for the Southern District of New York granted the Corporation's motion to dismiss for lack of subject matter jurisdiction the claims of foreign purchaser plaintiffs in *In re Parmalat Securities Litigation (Southern Alaska Carpenters Pension Fund et al. v. Bonlat Financing Corporation et al.)*.

On August 8, 2007, the district court granted the Corporation's motions to dismiss the actions entitled *Gerald K. Smith, Litigation Trustee v. Bank of America Corporation, et al.* (the Farmland Action) and *G. Peter Pappas in his capacity as the Plan Administrator of the Plan of Liquidation of Parmalat-USA Corporation v. Bank of America Corporation, et al.* (the Parmalat USA Action). The district court entered final judgment on September 5, 2007. On September 7, 2007, plaintiffs filed motions to amend the judgment and for leave to amend, which are pending. On September 24, 2007, plaintiffs filed notices of appeal to the U.S. Court of Appeals for the Second Circuit.

On October 1, 2007 the Public Prosecutors Office of Milan filed a criminal charge against three former employees for an alleged violation of Article 640 of the Italian Criminal Code. The charge alleges that these individuals committed fraud upon the Italian state in December 2001 in connection with the structuring of certain payments relating to a single financial transaction with Parmalat. Another former employee is noted as being under investigation but is not currently charged. The charge indicates potential damages of less than \$1 million.

### **Richards**

On September 20, 2007, the Corporation and the other named defendants agreed in principle with class counsel to settle all claims brought on behalf of the class. The agreement is subject to the execution of a definitive settlement agreement and court approval.

**Table of Contents****NOTE 12 Shareholders Equity and Earnings Per Common Share****Common Stock**

The following table presents share repurchase activity for the three and nine months ended September 30, 2007 and 2006, including total common shares repurchased under announced programs, weighted average per share price and the remaining buyback authority under announced programs.

	Common Shares Repurchased <sup>(1)</sup>	Weighted Average Per Share Price	Remaining Buyback Authority <sup>(2)</sup>	
			Amounts	Shares
(Dollars in millions, except per share information; shares in thousands)				
<b>July 1 31, 2007</b>	<b>1,100</b>	<b>\$ 47.88</b>	<b>\$ 15,628</b>	<b>200,538</b>
<b>August 1 31, 2007</b>	<b>3,600</b>	<b>49.27</b>	<b>13,849</b>	<b>196,938</b>
<b>September 1 30, 2007</b>	<b>4,880</b>	<b>49.98</b>	<b>13,605</b>	<b>192,058</b>
<b>Three months ended September 30, 2007</b>	<b>9,580</b>	<b>49.47</b>		
<b>Nine months ended September 30, 2007</b>	<b>71,030</b>	<b>51.61</b>		

	Common Shares Repurchased <sup>(3)</sup>	Weighted Average Per Share Price	Remaining Buyback Authority <sup>(2)</sup>	
			Amounts	Shares
(Dollars in millions, except per share information; shares in thousands)				
<b>July 1 31, 2006</b>	<b>11,500</b>	<b>\$ 49.48</b>	<b>\$ 10,600</b>	<b>171,188</b>
<b>August 1 31, 2006</b>	<b>24,000</b>	<b>52.03</b>	<b>9,352</b>	<b>147,188</b>
<b>September 1 30, 2006</b>	<b>24,000</b>	<b>51.98</b>	<b>8,104</b>	<b>123,188</b>
<b>Three months ended September 30, 2006</b>	<b>59,500</b>	<b>51.51</b>		
<b>Nine months ended September 30, 2006</b>	<b>231,000</b>	<b>48.21</b>		

<sup>(1)</sup> Reduced shareholders' equity by \$3.7 billion and increased diluted earnings per common share by approximately \$0.02 for the nine months ended September 30, 2007. These repurchases were partially offset by the issuance of approximately 49.7 million shares of common stock under employee plans, which increased shareholders' equity by \$2.3 billion, net of \$113 million of deferred compensation related to restricted stock awards, and decreased diluted earnings per common share by approximately \$0.01 for the nine months ended September 30, 2007.

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

<sup>(3)</sup> Reduced shareholders' equity by \$11.1 billion and increased diluted earnings per common share by approximately \$0.06 for the nine months ended September 30, 2006. These repurchases were partially offset by the issuance of approximately 98.3 million shares of common stock under employee plans, which increased shareholders' equity by \$3.9 billion, net of \$135 million of deferred compensation related to restricted stock awards, and decreased diluted earnings per common share by approximately \$0.03 for the nine months ended September 30, 2006.

The Corporation may repurchase shares, from time to time, in the open market or in private transactions through the Corporation's approved repurchase program. The Corporation expects to continue to repurchase a number of shares of common stock comparable to any shares issued under the Corporation's employee stock plans.

In October 2007, the Board declared a regular quarterly cash dividend on common stock of \$0.64 per share, payable on December 28, 2007 to common shareholders of record on December 7, 2007.

In July 2007, the Board increased the regular quarterly cash dividend on common stock 14 percent from \$0.56 to \$0.64 per share, payable on September 28, 2007 to common shareholders of record on September 7, 2007.

In April 2007, the Board declared a regular quarterly cash dividend on common stock of \$0.56 per share, payable on June 22, 2007 to common shareholders of record on June 1, 2007.



**Table of Contents****Preferred Stock Issuance**

In September 2007, the Corporation issued 22 thousand shares of Bank of America Corporation 6.625% Non-Cumulative Preferred Stock, Series I (Series I Preferred Stock) with a par value of \$0.01 per share for \$550 million. Ownership is held in the form of depositary shares, each representing a 1/1,000<sup>th</sup> interest in a share of Series I Preferred Stock, paying a quarterly cash dividend on the liquidation preference of \$25,000 per share of Series I Preferred Stock at an annual rate of 6.625 percent. On any dividend date on or after October 1, 2017, the Corporation may redeem Series I Preferred Stock, in whole or in part, at its option, at \$25,000 per share, plus accrued and unpaid dividends.

**Accumulated OCI**

The following table presents the changes in accumulated OCI for the nine months ended September 30, 2007 and 2006, net of tax:

				Foreign	
(Dollars in millions)	Securities <sup>(1, 2)</sup>	Derivatives <sup>(3)</sup>	Employee Benefit Plans	Currency	Total
<b>Balance, December 31, 2006</b>	\$ (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 <sup>(4)</sup>	(338)	387	92	7	148
<b>Balance, September 30, 2007</b>	\$ (3,863)	\$ (3,719)	\$ (1,336)	\$ 303	\$ (8,615)
<b>Balance, December 31, 2005</b>	\$ (2,978)	\$ (4,338)	\$ (118)	\$ (122)	\$ (7,556)
Net change in fair value recorded in accumulated OCI	(159)	557	-	128	526
Net realized (gains) losses reclassified into earnings <sup>(4)</sup>	53	61	-	49	163
<b>Balance, September 30, 2006</b>	\$ (3,084)	\$ (3,720)	\$ (118)	\$ 55	\$ (6,867)

(1) For the nine months ended September 30, 2007 and 2006, the Corporation reclassified net realized (gains) losses into earnings on the sales of AFS debt securities of \$(45) million and \$292 million net of tax, and gains on the sales of AFS marketable equity securities of \$(293) million and \$(239) million net of tax.

(2) Accumulated OCI includes fair value losses of \$10 million and gains of \$187 million net of tax on certain retained interests in the Corporation's securitization transactions that were included in other assets at September 30, 2007 and 2006.

(3) The amounts included in accumulated OCI for terminated derivative contracts were losses of \$3.2 billion and \$3.1 billion, net of tax, at September 30, 2007 and 2006.

(4) 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. These amounts are reclassified into earnings upon sale of the related security.

**Table of Contents****Earnings per Common Share**

The calculation of earnings per common share and diluted earnings per common share for the three and nine months ended September 30, 2007 and 2006 is presented below:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions, except per share information; shares in thousands)	2007	2006	2007	2006
<b>Earnings per common share</b>				
Net income	\$ 3,698	\$ 5,416	\$ 14,714	\$ 15,877
Preferred stock dividends	(43)	-	(129)	(9)
Net income available to common shareholders	\$ 3,655	\$ 5,416	\$ 14,585	\$ 15,868
Average common shares issued and outstanding	4,420,616	4,499,704	4,424,269	4,547,693
<b>Earnings per common share</b>	\$ 0.83	\$ 1.20	\$ 3.30	\$ 3.49
<b>Diluted earnings per common share</b>				
Net income available to common shareholders	\$ 3,655	\$ 5,416	\$ 14,585	\$ 15,868
Average common shares issued and outstanding	4,420,616	4,499,704	4,424,269	4,547,693
Dilutive potential common shares <sup>(1, 2)</sup>	55,301	70,854	59,196	66,906
Total diluted average common shares issued and outstanding	4,475,917	4,570,558	4,483,465	4,614,599
<b>Diluted earnings per common share</b>	\$ 0.82	\$ 1.18	\$ 3.25	\$ 3.44

(1) 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, 2006, average options to purchase 286 thousand and 28 million shares were outstanding but not included in the computation of earnings per common share because they were antidilutive.

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

**NOTE 13 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) allows participants to select from various earnings measures, which are based on the returns of certain funds or common stock of the Corporation. The participant-selected earnings measures determine the earnings rate on the individual participant account balances in the Pension Plan. A detailed discussion of these plans is presented in *Note 16 Employee Benefit Plans* to the Consolidated Financial Statements filed as Exhibit 99.2 to the Corporation's Current Report on Form 8-K filed on May 23, 2007. In July 2007, the Corporation assumed the obligations related to the plans of the former U.S. Trust Corporation, which were not material.

**Table of Contents**

Net periodic benefit cost (income) for the three and nine months ended September 30, 2007 and 2006 included the following components:

(Dollars in millions)	Three Months Ended September 30					
	Qualified Pension Plans		Nonqualified Pension Plans		Postretirement Health and Life Plans	
	2007	2006	2007	2006	2007	2006
<b>Components of net periodic benefit cost (income)</b>						
Service cost	\$ 78	\$ 77	\$ 2	\$ 4	\$ 4	\$ 3
Interest cost	186	169	18	19	21	18
Expected return on plan assets	(322)	(259)	-	-	(2)	(4)
Amortization of transition obligation	-	-	-	-	8	8
Amortization of prior service cost (credits)	12	10	(2)	(2)	-	-
Recognized net actuarial loss (gain)	38	57	4	5	(16)	(17)
<b>Net periodic benefit cost (income)</b>	<b>\$ (8)</b>	<b>\$ 54</b>	<b>\$ 22</b>	<b>\$ 26</b>	<b>\$ 15</b>	<b>\$ 8</b>

(Dollars in millions)	Nine Months Ended September 30					
	Qualified Pension Plans		Nonqualified Pension Plans		Postretirement Health and Life Plans	
	2007	2006	2007	2006	2007	2006
<b>Components of net periodic benefit cost (income)</b>						
Service cost	\$ 229	\$ 230	\$ 6	\$ 10	\$ 11	\$ 10
Interest cost	546	507	52	59	62	64
Expected return on plan assets	(950)	(776)	-	-	(5)	(8)
Amortization of transition obligation	-	-	-	-	24	24
Amortization of prior service cost (credits)	36	31	(6)	(6)	-	-
Recognized net actuarial loss (gain)	114	171	13	15	(47)	9
Recognized loss due to settlements and curtailments	-	-	13	-	-	-
<b>Net periodic benefit cost (income)</b>	<b>\$ (25)</b>	<b>\$ 163</b>	<b>\$ 78</b>	<b>\$ 78</b>	<b>\$ 45</b>	<b>\$ 99</b>

The Corporation expects to contribute \$147 million and \$95 million in 2007 to its Nonqualified Pension Plans and Postretirement Health and Life Plans. For the nine months ended September 30, 2007, the Corporation contributed \$138 million and \$71 million to these plans.

**NOTE 14 Income Taxes**

Under FIN 48, income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with this FIN 48 model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit (UTB). As of January 1, 2007, the balance of the Corporation's UTBs, excluding any related accrual for interest, was \$2.7 billion, of which \$1.5 billion would, if recognized, affect the Corporation's effective tax rate. Included in the \$2.7 billion UTB balance are some items the recognition of which would not affect the effective tax rate, such as the tax effect of certain temporary differences, the portion of gross state UTBs that would be offset by the tax benefit of the associated federal deduction and UTBs related to acquired entities that will impact goodwill if recognized.

During the second quarter of 2007, the Internal Revenue Service (IRS) completed the examination phase of the audit of the Corporation's federal income tax returns for the years 2000 through 2002 and issued a Revenue Agent's Report (RAR) to the Corporation. Included in this RAR were proposed adjustments to disallow certain tax deductions and include additional

## **Table of Contents**

taxable income relating to certain leveraged leases referred to by the IRS as SILOs. The Corporation filed a protest of this proposed adjustment as well as certain other of the RAR adjustments with the Appeals office of the IRS. We believe our tax treatment of the SILO position as true leases for U.S. income tax purposes is supported by the relevant facts and tax authorities. Further, issuance of the RAR did not change management's estimate of the ultimate resolution of positions included in the UTB balance. However, final determination of the audit or changes in the Corporation's estimate may result in future income tax expense or benefit. The Corporation's federal income tax returns for the years 2003 and 2004 remain under examination by the IRS. In addition, the federal income tax returns of FleetBoston Financial Corporation (FleetBoston) are currently under examination for the years 1997 through March 31, 2004. Upon the final determination of each of the above audits, the UTB balance will decrease, since resolved items would be removed from the balance whether their resolution resulted in payment or recognition. Management does not expect these matters to be concluded within the next 12 months. Finally, the audit of the federal income tax returns of MBNA for the tax years 2001 through 2004 was completed during the second quarter of 2007. The completion of the MBNA audit did not significantly impact the Corporation's effective tax rate or UTB balance. All tax years subsequent to the above years remain open to examination.

As of September 30, 2007, the Corporation's accrual for interest and penalties that relate to income taxes, net of taxes and net of payments and deposits, including applicable interest on certain leveraged lease positions, was \$493 million. This amount represents a decrease from January 1, 2007, primarily as a result of payments to and deposits with the IRS of tax and interest to stop the potential accrual of interest on certain items relating to the examinations. Under FIN 48 the Corporation continues its policy of accruing income-tax-related interest and penalties (if applicable) within income tax expense.

### **NOTE 15 Fair Value Disclosures**

Effective January 1, 2007, the Corporation adopted SFAS 157, which provides a framework for measuring fair value under GAAP. As described more fully below, SFAS 157 also eliminated the deferral of gains and losses at inception of certain derivative contracts whose fair value was not evidenced by market observable data. SFAS 157 requires that the impact of this change in accounting for derivative contracts be recorded as an adjustment to beginning retained earnings in the period of adoption.

The Corporation also adopted SFAS 159 on January 1, 2007. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Corporation elected to adopt the fair value option for certain financial instruments on the adoption date. SFAS 159 requires that the difference between the carrying value before election of the fair value option and the fair value of these instruments be recorded as an adjustment to beginning retained earnings in the period of adoption.

**Table of Contents**

The following table summarizes the impact of the change in accounting for derivative contracts described above and the impact of adopting the fair value option for certain financial instruments on January 1, 2007. Amounts shown represent the carrying value of the affected instruments before and after the changes in accounting resulting from the adoption of SFAS 157 and SFAS 159.

**Transition Impact**

	Ending Balance		Opening Balance
	Sheet	Adoption Net	Sheet
(Dollars in millions)	December 31, 2006	Gain/(Loss)	January 1, 2007
Impact of adopting SFAS 157			
Net derivative assets and liabilities <sup>(1)</sup>	\$ 7,100	\$ 22	\$ 7,122
Impact of electing the fair value option under SFAS 159			
Loans and leases <sup>(2)</sup>	3,968	(21)	3,947
Accrued expenses and other liabilities <sup>(3)</sup>	(28)	(321)	(349)
Other assets <sup>(4)</sup>	8,778	-	8,778
Available-for-sale debt securities <sup>(5)</sup>	3,692	-	3,692
Federal funds sold and securities purchased under agreements to resell <sup>(6)</sup>	1,401	(1)	1,400
Interest-bearing deposits liability in domestic offices <sup>(7)</sup>	(548)	1	(547)
<b>Cumulative-effect adjustment (pre-tax)</b>		(320)	
Tax impact		112	
<b>Cumulative-effect adjustment (net of tax), decrease to retained earnings</b>		\$ (208)	

<sup>(1)</sup> The transition adjustment reflects the impact of recognizing previously deferred gains and losses as a result of the rescission of certain requirements of Emerging Issues Task Force (EITF) Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3) in accordance with SFAS 157.

<sup>(2)</sup> Includes loans to certain large corporate clients. The ending balance at December 31, 2006 and the transition adjustment were net of a \$32 million reduction in the allowance for loan and lease losses.

<sup>(3)</sup> The January 1, 2007 balance after adoption represents the fair value of certain unfunded commercial loan commitments. The December 31, 2006 balance prior to adoption represents the reserve for unfunded lending commitments associated with these commitments.

<sup>(4)</sup> Other assets include loans held-for-sale. No transition adjustment was recorded for the loans held-for-sale because they were already recorded at fair value pursuant to lower of cost or market accounting.

<sup>(5)</sup> Changes in fair value of these AFS debt securities resulting from foreign currency exposure, which is the primary driver of fair value for these securities, had previously been hedged by derivatives that qualified for fair value hedge accounting in accordance with SFAS 133. As a result, there was no transition adjustment. Following the election of the fair value option, these AFS debt securities have been transferred to trading account assets.

<sup>(6)</sup> Includes structured reverse repurchase agreements that were hedged with derivatives in accordance with SFAS 133.

<sup>(7)</sup> Includes long-term fixed rate deposits that were economically hedged with derivatives.

**Fair Value Option****Corporate Loans and Loan Commitments**

The Corporation elected to account 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 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 our 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. Electing the fair value option allows the Corporation to account for these loans and loan commitments at fair value, which is more consistent with management's view of the underlying economics and 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.

Fair values for the 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

## **Table of Contents**

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.

At September 30, 2007, funded loans which the Corporation has elected to fair value had an aggregate fair value of \$4.53 billion recorded in loans and leases and an aggregate outstanding principal balance of \$4.67 billion. At September 30, 2007, unfunded loan commitments that the Corporation has elected to fair value had an aggregate fair value of \$454 million recorded in accrued expenses and other liabilities and an aggregate committed exposure of \$20.2 billion. Interest income on these loans is recorded in interest and fees on loans and leases. At September 30, 2007, none of these loans were 90 days or more past due and still accruing interest or had been placed on nonaccrual status. Net losses resulting from changes in fair value of these loans and loan commitments of \$140 million and \$180 million were recorded in other income and \$2 million and \$3 million were recorded in trading account profits (losses) during the three and nine months ended September 30, 2007. These losses were significantly attributable to changes in instrument-specific credit risk. Following adoption of SFAS 159, an immaterial amount of direct loan origination fees and costs related to items for which the fair value option was elected were recognized in earnings. Previously, these items would have been capitalized and amortized to earnings over the life of the loans.

### **Loans Held-for-Sale**

The Corporation also elected to account for certain loans held-for-sale at fair value. Electing to use 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 has not elected to fair value other loans held-for-sale primarily because these loans are floating rate loans that are not economically hedged using derivative instruments. Fair values for loans held-for-sale 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, 2007, residential mortgage loans, commercial mortgage loans, and other loans held-for-sale for which the fair value option was elected had an aggregate fair value of \$16.95 billion and an aggregate outstanding principal balance of \$17.05 billion and were recorded in other assets. Interest income on these loans is recorded in interest and fees on loans and leases. Net gains (losses) resulting from changes in fair value of these loans, including realized gains (losses) on sale, of \$81 million and \$120 million were recorded in mortgage banking income, \$59 million and \$(186) million were recorded in trading account profits (losses), and \$(46) million and \$(53) million were recorded in other income during the three and nine months ended September 30, 2007. These changes in fair value are mostly offset by hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk. The adoption of SFAS 159 resulted in an increase of \$119 million and \$180 million in mortgage banking income for the three and nine months ended September 30, 2007, and in an increase of \$66 million and \$131 million in noninterest expense for the three and nine months ended September 30, 2007. Subsequent to the adoption of SFAS 159, mortgage loan origination costs are recognized in noninterest expense when incurred. Previously, mortgage loan origination costs would have been capitalized as part of the carrying amount of the loans and recognized as a reduction of mortgage banking income upon the sale of such loans.

### **Debt Securities**

Effective January 1, 2007, the Corporation elected to fair value \$3.7 billion of AFS debt securities through earnings. Changes in fair value resulting from foreign currency exposure, which is the primary driver of fair value for these securities, had previously been hedged by derivatives that qualified for fair value hedge accounting in accordance with SFAS 133. Electing the fair value option allows the Corporation to eliminate the burden of complying with the requirements for hedge accounting under SFAS 133 without introducing accounting volatility. Following election of the fair value option, these securities were reclassified to trading account assets. The Corporation did not elect the fair value option for other AFS debt securities because they are not hedged by derivatives that qualified for hedge accounting in accordance with SFAS 133.

### **Structured Reverse Repurchase Agreements**

The Corporation elected to fair value certain structured reverse repurchase agreements which were hedged with derivatives which qualified for fair value hedge accounting in accordance with SFAS 133. Election of the fair value option allows the Corporation to reduce the burden of complying with the requirements of hedge accounting under SFAS 133. At September 30, 2007, these instruments had an aggregate fair value of \$2.56 billion and a principal balance of \$2.53 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 resulting from changes in fair value of these instruments of \$8 million and \$16 million were recorded in other income for the three and nine months ended September 30, 2007. The Corporation

## **Table of Contents**

did not elect to fair value other financial instruments within the same balance sheet category because they are not economically hedged using derivatives.

### **Long-term Deposits**

The Corporation elected to fair value certain long-term fixed rate deposits which are economically hedged with derivatives. At September 30, 2007, these instruments had an aggregate fair value of \$521 million and principal balance of \$531 million recorded in interest-bearing deposits. Interest paid on these instruments continues to be recorded in interest expense. Net losses resulting from changes in fair value of these instruments of \$25 million and \$4 million were recorded in other income for the three and nine months ended September 30, 2007. Election of the fair value option will allow 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 did not elect to fair value other financial instruments within the same balance sheet category because they are not economically hedged using derivatives.

### ***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. SFAS 157 also establishes a fair value hierarchy 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:

- Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2** Observable inputs other than Level 1 prices, such as 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 for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights (MSRs), asset-backed securities, and highly structured or long-term derivative contracts.

Prior to the adoption of SFAS 157, EITF 02-3 prohibited the recognition of gains and losses at inception of a derivative contract unless the fair value of the contract was evidenced by a quoted price in an active market, an observable price or other market transaction, or other observable data. SFAS 157 rescinded this requirement, resulting in the recognition of previously deferred gains and losses as an increase to the beginning balance of retained earnings of \$22 million (pre-tax).

Valuations of derivative assets and liabilities reflect the value of the instrument including the values associated with counterparty risk. With the issuance of SFAS 157, the accounting industry clarified that these values must also take into account the Corporation's own credit standing, thus including in the valuation of the derivative instrument the value of the net credit differential between the counterparties to the derivative contract. Effective January 1, 2007, the Corporation updated its methodology to calculate the impact of both the counterparty and its own credit standing. The net impact for the three and nine months ended September 30, 2007 was not material.



## Table of Contents

Assets and liabilities measured at fair value on a recurring basis, including financial instruments for which the Corporation has elected the fair value option, are summarized below:

	September 30, 2007				
	Fair Value Measurements Using			Netting	Assets/Liabilities
(Dollars in millions)	Level 1	Level 2	Level 3	Adjustments <sup>(1)</sup>	at Fair Value
<b>Assets</b>					
Federal funds sold and securities purchased under agreements to resell <sup>(2)</sup>	\$ -	\$ 2,561	\$ -	\$ -	\$ 2,561
Trading account assets	55,220	120,434	3,711	-	179,365
Derivative assets	530	309,936	9,004	(288,627)	30,843
Available-for-sale debt securities <sup>(3)</sup>	2,109	174,141	528	-	176,778
Loans and leases <sup>(2,4)</sup>	-	-	4,525	-	4,525
Mortgage servicing rights	-	-	3,179	-	3,179
Other assets <sup>(5)</sup>	3,387	16,017	6,881	-	26,285
<b>Total assets</b>	<b>\$ 61,246</b>	<b>\$ 623,089</b>	<b>\$ 27,828</b>	<b>\$ (288,627)</b>	<b>\$ 423,536</b>
<b>Liabilities</b>					
Interest-bearing deposits in domestic offices <sup>(2)</sup>	\$ -	\$ 521	\$ -	\$ -	\$ 521
Trading account liabilities	63,066	24,089	-	-	87,155
Derivative liabilities	425	295,378	9,626	(286,417)	19,012
Accrued expenses and other liabilities <sup>(2)</sup>	-	-	454	-	454
<b>Total liabilities</b>	<b>\$ 63,491</b>	<b>\$ 319,988</b>	<b>\$ 10,080</b>	<b>\$ (286,417)</b>	<b>\$ 107,142</b>

(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) Amounts represent items for which the Corporation has elected the fair value option under SFAS 159.

(3) Certain securities, primarily U.S. Government and agency mortgage-backed securities, had been classified as Level 1 measurements at March 31, 2007. We subsequently determined that these securities are more appropriately classified as Level 2 measurements. This change in classification did not impact the recorded fair value of the securities.

(4) Loans and leases at September 30, 2007 included \$20.4 billion of leases that were not eligible for the fair value option as they were specifically excluded from fair value option election in accordance with SFAS 159.

(5) Other assets include equity investments held by Principal Investing, AFS equity investments and certain retained interests in securitization vehicles, including interest-only strips, all of which were carried at fair value prior to the adoption of SFAS 159; and loans held-for-sale for which the Corporation has elected the fair value option under SFAS 159. Substantially all of other assets are eligible for fair value accounting at September 30, 2007.

## Table of Contents

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2007. Level 3 loans and loan commitments are carried at fair value due to adoption of the fair value option, as described on page 31. Other Level 3 instruments presented in the table, including derivatives, trading account assets, AFS debt securities, MSRs, certain equity investments and retained interests in securitizations, were carried at fair value prior to the adoption of SFAS 159. During the three months ended September 30, 2007, certain financial instruments, including certain asset-backed securities issued by CDOs and portfolios of loans held-for-sale, were transferred from Level 2 to Level 3 due to the lack of current observable market activity. These instruments were valued using pricing models and discounted cash flow methodologies incorporating assumptions that, in management's judgment, reflect the assumptions a marketplace participant would use at September 30, 2007.

Level 3 Instruments Only	Total Fair Value Measurements Three Months Ended September 30, 2007 Available-						Accrued Expenses and Other Liabilities (3)
	Net Derivatives (1)	Trading Account Assets (2)	for-Sale Debt Securities (2)	Loans and Leases (3)	Mortgage Servicing Rights (2)	Other Assets (4)	
(Dollars in millions)							
<b>Balance, June 30, 2007</b>	<b>\$ (1,301)</b>	<b>\$ 289</b>	<b>\$ 226</b>	<b>\$ 3,606</b>	<b>\$ 3,269</b>	<b>\$ 6,670</b>	<b>\$ (391)</b>
Total gains or losses (realized/unrealized):							
Included in earnings	411	(248)	-	(79)	(151)	228	(63)
Included in other comprehensive income	-	-	(83)	-	-	(10)	-
Purchases, issuances, and settlements	207	412	385	998	61	(1,919)	-
Transfers in to/out of Level 3	61	3,258	-	-	-	1,912	-
<b>Balance, September 30, 2007</b>	<b>\$ (622)</b>	<b>\$ 3,711</b>	<b>\$ 528</b>	<b>\$ 4,525</b>	<b>\$ 3,179</b>	<b>\$ 6,881</b>	<b>\$ (454)</b>

Level 3 Instruments Only	Total Fair Value Measurements Nine Months Ended September 30, 2007						Accrued Expenses and Other Liabilities (3)
	Net Derivatives (1)	Trading Account Assets (2)	Available- for-Sale Debt Securities (2)	Loans and Leases (3)	Mortgage Servicing Rights (2)	Other Assets (4)	
(Dollars in millions)							
<b>Balance, December 31, 2006</b>	<b>\$ 766</b>	<b>\$ 303</b>	<b>\$ -</b>	<b>\$ 3,968</b>	<b>\$ 2,869</b>	<b>\$ 6,605</b>	<b>\$ (28)</b>
Impact of SFAS 157 and SFAS 159 adoption	22	-	-	(21)	-	-	(321)
<b>Balance, January 1, 2007</b>	<b>\$ 788</b>	<b>\$ 303</b>	<b>\$ -</b>	<b>\$ 3,947</b>	<b>\$ 2,869</b>	<b>\$ 6,605</b>	<b>\$ (349)</b>
Total gains or losses (realized/unrealized):							
Included in earnings	(172)	(297)	-	(78)	388	2,169	(105)
Included in other comprehensive income	-	-	(79)	-	-	(73)	-
Purchases, issuances, and settlements	(252)	436	376	656	(78)	(4,069)	-
Transfers in to/out of Level 3	(986)	3,269	231	-	-	2,249	-
<b>Balance, September 30, 2007</b>	<b>\$ (622)</b>	<b>\$ 3,711</b>	<b>\$ 528</b>	<b>\$ 4,525</b>	<b>\$ 3,179</b>	<b>\$ 6,881</b>	<b>\$ (454)</b>

(1) Net derivatives at September 30, 2007 included derivative assets of \$9.00 billion and derivative liabilities of \$9.63 billion, all of which were carried at fair value prior to the adoption of SFAS 159.

(2) Amounts represented items which were carried at fair value prior to the adoption of SFAS 159.

(3)

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Amounts represented items for which the Corporation had elected the fair value option under SFAS 159 including commercial loan commitments recorded in accrued expenses and other liabilities.

- (4) Other assets included equity investments held by Principal Investing and certain retained interests in securitization vehicles, including interest-only strips, all of which were carried at fair value prior to the adoption of SFAS 159, and certain portfolios of loans held-for-sale, principally reverse mortgages, for which the Corporation has elected the fair value option under SFAS 159.

## Table of Contents

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 for the three and nine months ended September 30, 2007. These amounts include gains and losses generated by loans, loans held-for-sale and loan commitments for which the fair value option was elected and by other instruments, including certain derivative contracts, trading account assets, MSRs, equity investments and retained interests in securitizations, which were carried at fair value prior to the adoption of SFAS 159. For the nine months ended September 30, 2007, more than 80 percent of the Level 3 gains were realized in cash.

Level 3 Instruments Only	Total Gains and Losses						Total
	Net	Trading	Loans and	Mortgage		Accrued	
	Derivatives <sup>(1)</sup>	Account	Leases	Servicing	Other	Expenses and	
(Dollars in millions)		Assets <sup>(1)</sup>	<sup>(2)</sup>	Rights <sup>(1)</sup>	Assets <sup>(3)</sup>	Liabilities <sup>(2)</sup>	
Classification of gains and losses (realized/unrealized) included in earnings for the three months ended September 30, 2007:							
Card income	\$ -	\$ -	\$ -	\$ -	\$ (34)	\$ -	\$ (34)
Equity investment income	-	-	-	-	297	-	297
Trading account profits (losses)	332	(248)	-	-	(39)	(2)	43
Mortgage banking income	79	-	-	(151)	(6)	-	(78)
Other income	-	-	(79)	-	10	(61)	(130)
Total	\$ 411	\$ (248)	\$ (79)	\$ (151)	\$ 228	\$ (63)	\$ 98
Classification of gains and losses (realized/unrealized) included in earnings for the 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	(39)	-	-	388	(6)	-	343
Other income	-	-	(78)	-	60	(102)	(120)
Total	\$ (172)	\$ (297)	\$ (78)	\$ 388	\$ 2,169	\$ (105)	\$ 1,905

<sup>(1)</sup> Amounts represented items which were carried at fair value prior to the adoption of SFAS 159.

<sup>(2)</sup> Amounts represented items for which the Corporation had elected the fair value option under SFAS 159.

<sup>(3)</sup> Amounts represented items which were carried at fair value prior to the adoption of SFAS 159 and certain portfolios of loans held-for-sale for which the Corporation has elected the fair value option under SFAS 159.

**Table of Contents**

The table below summarizes changes in unrealized gains or losses recorded in earnings for the three and nine months ended September 30, 2007 for Level 3 assets and liabilities that are still held at September 30, 2007. These amounts include changes in fair value of loans, loans held-for-sale and loan commitments for which the fair value option was elected and changes in fair value for other instruments, including certain derivative contracts, trading account assets, MSRs, equity investments and retained interests in securitizations, which were carried at fair value prior to the adoption of SFAS 159.

<b>Level 3 Instruments Only</b>	<b>Changes in Unrealized Gains or Losses</b>						<b>Total</b>
	<b>Net Derivatives (1)</b>	<b>Trading Account Assets (1)</b>	<b>Loans and Leases (2)</b>	<b>Mortgage Servicing Rights (1)</b>	<b>Other Assets (3)</b>	<b>Accrued Expenses and Other Liabilities (2)</b>	
(Dollars in millions)							
<b>Changes in unrealized gains or losses relating to assets still held at reporting date for the three months ended September 30, 2007:</b>							
Card income	\$ -	\$ -	\$ -	\$ -	\$ (53)	\$ -	\$ (53)
Equity investment income	-	-	-	-	139	-	139
Trading account profits (losses)	475	(248)	-	-	(39)	-	188
Mortgage banking income	40	-	-	(229)	(6)	-	(195)
Other income	-	-	(88)	-	-	(97)	(185)
<b>Total</b>	<b>\$ 515</b>	<b>\$ (248)</b>	<b>\$ (88)</b>	<b>\$ (229)</b>	<b>\$ 41</b>	<b>\$ (97)</b>	<b>\$ (106)</b>
<b>Changes in unrealized gains or losses relating to assets still held at reporting date for the nine months ended September 30, 2007:</b>							
Card income	\$ -	\$ -	\$ -	\$ -	\$ 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	-	-	(98)	-	(2)	(176)	(276)
<b>Total</b>	<b>\$ 7</b>	<b>\$ (297)</b>	<b>\$ (98)</b>	<b>\$ 174</b>	<b>\$ 256</b>	<b>\$ (177)</b>	<b>\$ (135)</b>

(1) Amounts represented items which were carried at fair value prior to the adoption of SFAS 159.

(2) Amounts represented items for which the Corporation had elected the fair value option under SFAS 159.

(3) Amounts represented items which were carried at fair value prior to the adoption of SFAS 159 and certain portfolios of loans held-for-sale for which the Corporation has elected the fair value option under SFAS 159.

Certain assets and liabilities are measured at fair value on a non-recurring basis (e.g., loans held-for-sale, unfunded loan commitments held-for-sale and commercial and residential reverse mortgage MSRs all of which are carried at the lower of cost or fair value). At September 30, 2007, loans held-for-sale for which the Corporation had not elected the fair value option which had an aggregate cost of \$12.13 billion had been written down to fair value of \$11.69 billion (of which \$3.99 billion and \$7.70 billion were classified as Level 2 and Level 3 measures within the fair value hierarchy). In addition, unfunded loan commitments held-for-sale and the Corporation's share of the forward calendar were written down by \$150 million and were recorded in accrued expenses and other liabilities at September 30, 2007 all of which were classified as a Level 3 measure within the fair value hierarchy. For the three and nine months ended September 30, 2007, losses of \$207 million and \$233 million were recorded in other income (primarily leveraged loans and loan commitments held-for-sale), losses of \$6 million and \$10 million were recorded in mortgage banking income (primarily consumer mortgage loans held-for-sale), and losses of \$44 million and \$47 million were recorded in trading account profits (losses) (primarily commercial mortgage loans and loan commitments held-for-sale). During the nine months ended September 30, 2007, lease residuals for which the Corporation had not elected the fair value option, with an aggregate cost of \$65 million had been written down to their then fair value of \$52 million which was classified as a Level 2 measure within the fair value hierarchy. For the nine months ended September 30, 2007, other than temporary impairment charges of \$13 million relating to lease residuals were recorded in other income to write the current carrying amount down to fair value. There were no other than temporary impairment charges

relating to lease residuals recorded during the three months ended September 30, 2007.

**Table of Contents****NOTE 16 Mortgage Servicing Rights**

The Corporation accounts for residential first mortgage 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 such as options and interest rate swaps.

The following table presents activity for residential first mortgage MSRs for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2007	2006	2007	2006
<b>Balance, beginning of period</b>	<b>\$ 3,269</b>	<b>\$ 3,083</b>	<b>\$ 2,869</b>	<b>\$ 2,658</b>
MBNA balance, January 1, 2006	-	-	-	9
Additions	271	188	539	470
Impact of customer payments	(187)	(177)	(554)	(515)
Other changes in MSR market value	(174)	(162)	325	310
<b>Balance, September 30</b>	<b>\$ 3,179</b>	<b>\$ 2,932</b>	<b>\$ 3,179</b>	<b>\$ 2,932</b>

For the three and nine months ended September 30, 2007, other changes in MSR market value of \$(174) million and \$325 million reflect changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates. These amounts do not include \$23 million and \$63 million resulting from the actual cash received exceeding expected prepayments. The total of these amounts of \$(151) million and \$388 million is included in the line *Mortgage banking income* in the table *Total Fair Value Measurements* in *Note 15 Fair Value Disclosures* to the Consolidated Financial Statements.

The key economic assumptions used in valuations of MSRs included modeled prepayment rates and resultant weighted average lives of the MSRs and the option adjusted spread levels. 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 \$238 million at September 30, 2007, and commercial MSRs totaled \$176 million at December 31, 2006 and are not included in the table above.

**NOTE 17 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, business card and certain unsecured lending portfolios, on a managed basis. This basis of presentation excludes the Corporation's securitized mortgage and home equity portfolios for which the Corporation retains servicing. Reporting on a managed basis is consistent with the way that management as well as analysts evaluate the results of *GCSBB*. Managed basis assumes that securitized loans were not sold and presents earnings on these loans in a manner similar to the way loans that have not been sold (i.e., held loans) are presented. Loan securitization is an alternative funding process that is used by the Corporation to diversify funding sources. Loan securitization removes loans from the Consolidated Balance Sheet through the sale of loans to an off-balance sheet QSPE which is excluded from the Corporation's Consolidated Financial Statements in accordance with GAAP.

## **Table of Contents**

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 managed 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 is 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, intersegment eliminations, and the results of certain businesses that are expected to be or have been sold or are in the process of being liquidated (e.g., the Corporation's Brazilian operations, Asia Commercial Banking business and operations in Chile and Uruguay). *All Other* also includes certain amounts associated with ALM activities, including the residual impact of funds transfer pricing allocation methodologies, amounts associated with the change in the value of derivatives used as economic hedges of interest rate and foreign exchange rate fluctuations that did not qualify for SFAS 133 hedge accounting treatment, foreign exchange rate fluctuations related to SFAS No. 52, Foreign Currency Translation revaluation of foreign denominated debt issuances, certain gains (losses) on sales of whole mortgage loans, and gains (losses) on sales of debt securities. In addition, *GCSBB* is reported on a managed basis which includes a securitization impact adjustment which has the effect of assuming that loans that have been securitized were not sold and presenting these loans in a manner similar to the way loans that have not been sold are presented. *All Other*'s results include a corresponding securitization offset which removes the impact of these securitized loans in order to present the consolidated results of the Corporation on a GAAP basis (i.e., held basis).

**Table of Contents**

***Basis of Presentation***

Total revenue, net of interest expense, includes net interest income on a fully taxable-equivalent (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.

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.

## Table of Contents

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, 2007 and 2006, and total assets at September 30, 2007 and 2006 for each business segment, as well as *All Other*.

### Business Segments

#### Three Months Ended September 30

(Dollars in millions)	Total Corporation <sup>(1)</sup>		Global Consumer and Small Business Banking <sup>(2, 3)</sup>		Global Corporate and Investment Banking <sup>(2)</sup>	
	2007	2006	2007	2006	2007	2006
Net interest income <sup>(4)</sup>	\$ 8,990	\$ 8,894	\$ 7,265	\$ 7,016	\$ 2,747	\$ 2,409
Noninterest income	7,314	9,598	4,720	4,268	138	2,759
Total revenue, net of interest expense	16,304	18,492	11,985	11,284	2,885	5,168
Provision for credit losses <sup>(5)</sup>	2,030	1,165	3,121	2,049	228	36
Amortization of intangibles	429	441	327	363	41	56
Other noninterest expense	8,114	8,422	4,644	4,256	2,445	2,805
Income before income taxes	5,731	8,464	3,893	4,616	171	2,271
Income tax expense <sup>(4)</sup>	2,033	3,048	1,441	1,697	71	838
<b>Net income</b>	<b>\$ 3,698</b>	<b>\$ 5,416</b>	<b>\$ 2,452</b>	<b>\$ 2,919</b>	<b>\$ 100</b>	<b>\$ 1,433</b>
<b>Period-end total assets</b>	<b>\$ 1,578,763</b>	<b>\$ 1,449,211</b>	<b>\$ 401,151</b>	<b>\$ 399,385</b>	<b>\$ 738,553</b>	<b>\$ 667,345</b>

(Dollars in millions)	Global Wealth and Investment Management <sup>(2)</sup>		All Other <sup>(2, 3)</sup>	
	2007	2006	2007	2006
Net interest income <sup>(4)</sup>	\$ 1,009	\$ 887	\$ (2,031)	\$ (1,418)
Noninterest income	1,191	891	1,265	1,680
Total revenue, net of interest expense	2,200	1,778	(766)	262
Provision for credit losses <sup>(5)</sup>	(29)	-	(1,290)	(920)
Amortization of intangibles	61	18	-	4
Other noninterest expense	1,213	947	(188)	414
Income before income taxes	955	813	712	764
Income tax expense <sup>(4)</sup>	356	300	165	213
<b>Net income</b>	<b>\$ 599</b>	<b>\$ 513</b>	<b>\$ 547</b>	<b>\$ 551</b>
<b>Period-end total assets</b>	<b>\$ 139,955</b>	<b>\$ 112,298</b>	<b>\$ 299,104</b>	<b>\$ 270,183</b>

<sup>(1)</sup> There were no material intersegment revenues among the segments.

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

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

<sup>(4)</sup> FTE basis

<sup>(5)</sup> 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.

## Table of Contents

### Business Segments

Nine Months Ended September 30

(Dollars in millions)	Total Corporation <sup>(1)</sup>		Global Consumer and Small Business Banking <sup>(2, 3)</sup>		Global Corporate and Investment Banking <sup>(2)</sup>	
	2007	2006	2007	2006	2007	2006
Net interest income <sup>(4)</sup>	\$ 26,368	\$ 26,860	\$ 21,409	\$ 21,059	\$ 7,809	\$ 7,356
Noninterest income	28,378	28,102	13,759	12,196	6,389	8,652
Total revenue, net of interest expense	54,746	54,962	35,168	33,255	14,198	16,008
Provision for credit losses <sup>(5)</sup>	5,075	3,440	8,626	5,757	384	82
Amortization of intangibles	1,209	1,322	987	1,088	125	169
Other noninterest expense	25,524	25,182	13,580	12,503	8,441	8,403
Income before income taxes	22,938	25,018	11,975	13,907	5,248	7,354
Income tax expense <sup>(4)</sup>	8,224	9,141	4,416	5,123	1,948	2,720
<b>Net income</b>	<b>\$ 14,714</b>	<b>\$ 15,877</b>	<b>\$ 7,559</b>	<b>\$ 8,784</b>	<b>\$ 3,300</b>	<b>\$ 4,634</b>
<b>Period-end total assets</b>	<b>\$ 1,578,763</b>	<b>\$ 1,449,211</b>	<b>\$ 401,151</b>	<b>\$ 399,385</b>	<b>\$ 738,553</b>	<b>\$ 667,345</b>

### Global Wealth and

(Dollars in millions)	Investment Management <sup>(2)</sup>		All Other <sup>(2, 3)</sup>	
	2007	2006	2007	2006
Net interest income <sup>(4)</sup>	\$ 2,893	\$ 2,748	\$ (5,743)	\$ (4,303)
Noninterest income	3,203	2,710	5,027	4,544
Total revenue, net of interest expense	6,096	5,458	(716)	241
Provision for credit losses <sup>(5)</sup>	(20)	(41)	(3,915)	(2,358)
Amortization of intangibles	93	54	4	11
Other noninterest expense	3,224	2,827	279	1,449
Income before income taxes	2,799	2,618	2,916	1,139
Income tax expense <sup>(4)</sup>	1,038	968	822	330
<b>Net income</b>	<b>\$ 1,761</b>	<b>\$ 1,650</b>	<b>\$ 2,094</b>	<b>\$ 809</b>
<b>Period-end total assets</b>	<b>\$ 139,955</b>	<b>\$ 112,298</b>	<b>\$ 299,104</b>	<b>\$ 270,183</b>

<sup>(1)</sup> There were no material intersegment revenues among the segments.

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

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

<sup>(4)</sup> FTE basis

<sup>(5)</sup> 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.

## Table of Contents

*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.

### Global Consumer and Small Business Banking Reconciliation

(Dollars in millions)	Three Months Ended September 30, 2007			Three Months Ended September 30, 2006		
	Managed Basis <sup>(1)</sup>	Securitization Impact <sup>(2)</sup>	Held Basis	Managed Basis <sup>(1)</sup>	Securitization Impact <sup>(2)</sup>	Held Basis
Net interest income <sup>(3)</sup>	\$ 7,265	\$ (2,085)	\$ 5,180	\$ 7,016	\$ (1,872)	\$ 5,144
Noninterest income:						
Card income	2,587	896	3,483	2,333	1,032	3,365
Service charges	1,519	-	1,519	1,410	-	1,410
Mortgage banking income	244	-	244	215	-	215
All other income	370	(70)	300	310	(68)	242
Total noninterest income	4,720	826	5,546	4,268	964	5,232
Total revenue, net of interest expense	11,985	(1,259)	10,726	11,284	(908)	10,376
Provision for credit losses	3,121	(1,259)	1,862	2,049	(908)	1,141
Noninterest expense	4,971	-	4,971	4,619	-	4,619
Income before income taxes	3,893	-	3,893	4,616	-	4,616
Income tax expense <sup>(3)</sup>	1,441	-	1,441	1,697	-	1,697
<b>Net income</b>	<b>\$ 2,452</b>	<b>\$ -</b>	<b>\$ 2,452</b>	<b>\$ 2,919</b>	<b>\$ -</b>	<b>\$ 2,919</b>

(Dollars in millions)	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
	Managed Basis <sup>(1)</sup>	Securitization Impact <sup>(2)</sup>	Held Basis	Managed Basis <sup>(1)</sup>	Securitization Impact <sup>(2)</sup>	Held Basis
Net interest income <sup>(3)</sup>	\$ 21,409	\$ (5,956)	\$ 15,453	\$ 21,059	\$ (5,664)	\$ 15,395
Noninterest income:						
Card income	7,564	2,528	10,092	6,739	3,569	10,308
Service charges	4,384	-	4,384	3,949	-	3,949
Mortgage banking income	843	-	843	630	-	630
All other income	968	(221)	747	878	(245)	633
Total noninterest income	13,759	2,307	16,066	12,196	3,324	15,520
Total revenue, net of interest expense	35,168	(3,649)	31,519	33,255	(2,340)	30,915
Provision for credit losses	8,626	(3,649)	4,977	5,757	(2,340)	3,417
Noninterest expense	14,567	-	14,567	13,591	-	13,591
Income before income taxes	11,975	-	11,975	13,907	-	13,907
Income tax expense <sup>(3)</sup>	4,416	-	4,416	5,123	-	5,123
<b>Net income</b>	<b>\$ 7,559</b>	<b>\$ -</b>	<b>\$ 7,559</b>	<b>\$ 8,784</b>	<b>\$ -</b>	<b>\$ 8,784</b>

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

<sup>(2)</sup> 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.

<sup>(3)</sup> FTE basis

# Table of Contents

## All Other Reconciliation

(Dollars in millions)	Three Months Ended September 30, 2007			Three Months Ended September 30, 2006		
	Reported Basis <sup>(1)</sup>	Securitization Offset <sup>(2)</sup>	As Adjusted	Reported Basis <sup>(1)</sup>	Securitization Offset <sup>(2)</sup>	As Adjusted
Net interest income <sup>(3)</sup>	\$ (2,031)	\$ 2,085	\$ 54	\$ (1,418)	\$ 1,872	\$ 454
Noninterest income:						
Card income	739	(896)	(157)	841	(1,032)	(191)
Equity investment income	852	-	852	687	-	687
Gains (losses) on sales of debt securities	7	-	7	(480)	-	(480)
All other income	(333)	70	(263)	632	68	700
Total noninterest income	1,265	(826)	439	1,680	(964)	716
Total revenue, net of interest expense	(766)	1,259	493	262	908	1,170
Provision for credit losses	(1,290)	1,259	(31)	(920)	908	(12)
Merger and restructuring charges	84	-	84	269	-	269
All other noninterest expense	(272)	-	(272)	149	-	149
Income before income taxes	712	-	712	764	-	764
Income tax expense <sup>(3)</sup>	165	-	165	213	-	213
Net income	\$ 547	\$ -	\$ 547	\$ 551	\$ -	\$ 551
(Dollars in millions)	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
	Reported Basis <sup>(1)</sup>	Securitization Offset <sup>(2)</sup>	As Adjusted	Reported Basis <sup>(1)</sup>	Securitization Offset <sup>(2)</sup>	As Adjusted
Net interest income <sup>(3)</sup>	\$ (5,743)	\$ 5,956	\$ 213	\$ (4,303)	\$ 5,664	\$ 1,361
Noninterest income:						
Card income	2,136	(2,528)	(392)	2,969	(3,569)	(600)
Equity investment income	3,467	-	3,467	1,841	-	1,841
Gains (losses) on sales of debt securities	70	-	70	(484)	-	(484)
All other income	(646)	221	(425)	218	245	463
Total noninterest income	5,027	(2,307)	2,720	4,544	(3,324)	1,220
Total revenue, net of interest expense	(716)	3,649	2,933	241	2,340	2,581
Provision for credit losses	(3,915)	3,649	(266)	(2,358)	2,340	(18)
Merger and restructuring charges	270	-	270	561	-	561
All other noninterest expense	13	-	13	899	-	899
Income before income taxes	2,916	-	2,916	1,139	-	1,139
Income tax expense <sup>(3)</sup>	822	-	822	330	-	330
Net income	\$ 2,094	\$ -	\$ 2,094	\$ 809	\$ -	\$ 809

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

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

<sup>(3)</sup> FTE basis

**Table of Contents**

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	
	2007	2006	2007	2006
Segments total revenue, net of interest expense <sup>(1)</sup>	\$ 17,070	\$ 18,230	\$ 55,462	\$ 54,721
Adjustments:				
ALM activities	19	(411)	121	(563)
Equity investment income	852	687	3,467	1,841
Liquidating businesses	83	1,147	536	2,213
FTE basis adjustment	(375)	(308)	(1,099)	(868)
Managed securitization impact to total revenue, net of interest expense	(1,259)	(908)	(3,649)	(2,340)
Other	(461)	(253)	(1,191)	(910)
<b>Consolidated revenue, net of interest expense</b>	<b>\$ 15,929</b>	<b>\$ 18,184</b>	<b>\$ 53,647</b>	<b>\$ 54,094</b>
Segments net income	\$ 3,151	\$ 4,865	\$ 12,620	\$ 15,068
Adjustments, net of taxes:				
ALM activities	(78)	(309)	(111)	(502)
Equity investment income	537	433	2,184	1,160
Liquidating businesses	50	588	399	910
Merger and restructuring charges	53	169	170	353
Other	(15)	(330)	(548)	(1,112)
<b>Consolidated net income</b>	<b>\$ 3,698</b>	<b>\$ 5,416</b>	<b>\$ 14,714</b>	<b>\$ 15,877</b>

<sup>(1)</sup> FTE basis

## **Table of Contents**

### **Bank of America Corporation and Subsidiaries**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

<b>Table of Contents</b>	<b>Page</b>
<u>Recent Events</u>	48
<u>Performance Overview</u>	49
<u>Financial Highlights</u>	51
<u>Supplemental Financial Data</u>	57
<u>Business Segment Operations</u>	64
<u>Global Consumer and Small Business Banking</u>	65
<u>Global Corporate and Investment Banking</u>	73
<u>Global Wealth and Investment Management</u>	80
<u>All Other</u>	86
<u>Off-Balance Sheet Arrangements</u>	88
<u>Obligations and Commitments</u>	91
<u>Managing Risk</u>	93
<u>Strategic Risk Management</u>	93
<u>Liquidity Risk and Capital Management</u>	93
<u>Credit Risk Management</u>	97
<u>Consumer Portfolio Credit Risk Management</u>	97
<u>Commercial Portfolio Credit Risk Management</u>	104
<u>Foreign Portfolio</u>	115
<u>Provision for Credit Losses</u>	117
<u>Allowance for Credit Losses</u>	117
<u>Market Risk Management</u>	121
<u>Trading Risk Management</u>	122
<u>Interest Rate Risk Management for Nontrading Activities</u>	125
<u>Mortgage Banking Risk Management</u>	129
<u>Operational Risk Management</u>	129
<u>Recent Accounting and Reporting Developments</u>	130
<u>Complex Accounting Estimates</u>	130
<u>Glossary</u>	131

## **Table of Contents**

### **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. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as expects, anticipates, believes, estimates and other similar expressions or future or conditional verbs such as will, should, would and could are intended to identify such forward-looking statements. Readers of the Form 10-Q of Bank of America Corporation and its subsidiaries (the Corporation) should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report as well as those discussed under Item 1A. Risk Factors of the Corporation's 2006 Annual Report on Form 10-K. The statements are representative only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement.*

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

The Corporation, headquartered in Charlotte, North Carolina, operates in 30 states, the District of Columbia and 45 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, 2007, the Corporation had \$1.6 trillion in assets and approximately 198 thousand full-time equivalent employees. Notes to Consolidated Financial Statements referred to in the MD&A are incorporated by reference into the MD&A. Throughout the MD&A, we use certain acronyms and abbreviations which are defined in the Glossary beginning on page 131. Certain prior period amounts have been reclassified to conform to current period presentation.

## Table of Contents

### Recent Events

During the third quarter, extreme dislocations emerged in the financial markets, including leveraged finance, subprime mortgage, and the commercial paper markets, and these dislocations were further compounded by the decoupling of typical correlations in the various markets in which we participate. These conditions created less liquidity, a flight to quality, greater volatility, widening of credit spreads and a lack of price transparency. The Corporation's *Capital Markets and Advisory Services* business within the *GCIB* segment operates in these markets, either directly or indirectly, through exposures in securities, loans, derivatives and other commitments and has been and will continue to be adversely impacted by this market disruption. We believe it may take more time for the markets to return to a more normal environment with tighter credit spreads and greater liquidity. For further discussion on how these events affected our businesses and results of operations for the three and nine months ended September 30, 2007, refer to the *GCIB* discussion beginning on page 73.

Subsequent to September 30, 2007 the credit ratings of certain structured securities (i.e., CDOs) were downgraded which among other things triggered further widening of credit spreads for this type of security. We have been an active participant in the CDO market and maintain ongoing exposure to these securities (see pages 78 and 90 for a further discussion of our CDO exposure). We expect these significant dislocations in the CDO market to continue, and it is unclear what impacts these dislocations will have on other markets in which we operate or maintain positions. Previous dislocations experienced in the credit markets were largely confined to the *Capital Markets and Advisory Services* business. The current dislocations in the markets will continue to affect our *Capital Markets and Advisory Services* business and may have broader impacts on the Corporation, including certain businesses within *GWIM* (see page 92 for a further discussion of support of cash funds in *GWIM*). We anticipate that these developments will adversely impact our results during the fourth quarter.

In October 2007, the Corporation announced that it has launched a strategic review of its *Capital Markets and Advisory Services* business model to determine how it can operate more effectively while continuing to meet client financial needs. The Corporation also announced that it expects to eliminate approximately 3,000 positions in various units, representing less than two percent of total employment at the Corporation. These eliminations are expected to occur within the various businesses in *GCIB*, the wholesale mortgage-related business included in *GCSBB*, and other related infrastructure positions. For more information, including certain senior management changes, see Exhibit 99.1 to the Corporation's Current Report on Form 8-K filed on October 25, 2007.

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

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. With this acquisition, the Corporation significantly expanded its metropolitan Chicago and Michigan presence by adding LaSalle's commercial banking clients, retail customers, and banking centers.

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

In August 2007, the Corporation made a \$2.0 billion investment in Countrywide Financial Corporation (Countrywide), the largest mortgage lender in the United States in the form of a Series B non-voting convertible preferred security yielding 7.25 percent. The security is convertible into common stock of Countrywide at \$18 per share, which would result in an ownership interest of approximately 16 percent in Countrywide if converted.

In July 2007, the Corporation completed the acquisition of U.S. Trust Corporation for \$3.3 billion in cash. U.S. Trust Corporation is one of the largest and most respected U.S. firms that focus exclusively on managing wealth for high net-worth and ultra high net-worth individuals and families. The acquisition significantly increases the size and capabilities of the Corporation's wealth business and positions it as one of the largest financial services companies managing private wealth in the U.S.

In June 2007, the Corporation announced the sale of Marsico Capital Management, LLC (Marsico), a 100 percent owned investment manager, to Thomas F. Marsico, founder and chief executive officer of Marsico. The Corporation expects to realize a gain on this transaction of approximately \$1.4 billion (pre-tax). Closing is expected to occur in the fourth quarter of 2007 and is subject to client consents and mutual fund shareholder approval.

In April 2007, the Corporation announced an agreement to purchase 24.9 percent of SLM Corporation (Sallie Mae), the U.S. leader in originating and servicing student loans, for \$2.2 billion. The Corporation is part of a consortium led by J.C. Flowers & Co. and private-equity firm Friedman Fleischer & Lowe, LLC which agreed to invest \$4.4 billion and own 50.2 percent of Sallie Mae, and JP Morgan Chase & Co, which agreed to invest \$2.2 billion and own the remaining 24.9 percent of Sallie Mae. During September and October, the buyers informed

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Sallie Mae that if the conditions to the closing of the agreement to purchase were required to be measured currently, the conditions would not be satisfied due to the enactment of federal legislation as well as adverse changes in the credit markets impacting Sallie Mae. On October 8, 2007, Sallie Mae filed a lawsuit in Delaware Chancery Court against the buyers.

**Table of Contents****Performance Overview**

Net income totaled \$3.7 billion, or \$0.82 per diluted common share, for the three months ended September 30, 2007, decreases of 32 percent and 31 percent from \$5.4 billion, or \$1.18 per diluted common share, for the three months ended September 30, 2006. Net income totaled \$14.7 billion, or \$3.25 per diluted common share, for the nine months ended September 30, 2007, decreases of seven percent and six percent from \$15.9 billion, or \$3.44 per diluted common share, for the nine months ended September 30, 2006.

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

(Dollars in millions)	Three Months Ended September 30				Nine Months Ended September 30			
	Total Revenue <sup>(1)</sup>		Net Income		Total Revenue <sup>(1)</sup>		Net Income	
	2007	2006	2007	2006	2007	2006	2007	2006
Global Consumer and Small Business Banking <sup>(2)</sup>	\$ 11,985	\$ 11,284	\$ 2,452	\$ 2,919	\$ 35,168	\$ 33,255	\$ 7,559	\$ 8,784
Global Corporate and Investment Banking	2,885	5,168	100	1,433	14,198	16,008	3,300	4,634
Global Wealth and Investment Management	2,200	1,778	599	513	6,096	5,458	1,761	1,650
All Other <sup>(2)</sup>	(766)	262	547	551	(716)	241	2,094	809
Total FTE basis	16,304	18,492	3,698	5,416	54,746	54,962	14,714	15,877
FTE adjustment	(375)	(308)	-	-	(1,099)	(868)	-	-
<b>Total Consolidated</b>	<b>\$ 15,929</b>	<b>\$ 18,184</b>	<b>\$ 3,698</b>	<b>\$ 5,416</b>	<b>\$ 53,647</b>	<b>\$ 54,094</b>	<b>\$ 14,714</b>	<b>\$ 15,877</b>

<sup>(1)</sup> 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 57.

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

**Global Consumer and Small Business Banking**

Net income decreased \$467 million, or 16 percent, to \$2.5 billion for the three months ended September 30, 2007 compared to the same period in 2006. Total managed revenue increased \$701 million, or six percent, to \$12.0 billion due to higher card income and service charges, as well as an increase in net interest income. This increase was more than offset by the increase in provision for credit losses of \$1.1 billion, or 52 percent, which was driven by portfolio seasoning in our home equity, small business and unsecured lending portfolios, reflective of growth in the businesses and increased losses from the unusually low levels experienced in 2006 post bankruptcy reform. The weak housing market also contributed to higher provision for credit losses as we increased reserves on our home equity portfolio. Also, noninterest expense increased \$352 million, or eight percent, mainly due to increases in technology, overhead and personnel expenses.

Net income decreased \$1.2 billion, or 14 percent, to \$7.6 billion for the nine months ended September 30, 2007 compared to the same period in 2006. Total managed revenue increased \$1.9 billion, or six percent, to \$35.2 billion and was more than offset by the increases in provision for credit losses of \$2.9 billion, or 50 percent, and noninterest expense of \$976 million. These period-over-period changes were driven by the same factors as described in the three-month discussion above. For more information on *GCSBB*, see page 65.

**Global Corporate and Investment Banking**

Net income decreased \$1.3 billion, or 93 percent, to \$100 million for the three months ended September 30, 2007 compared to the same period in 2006 as extreme market disruptions adversely impacted total revenue. Total revenue decreased \$2.3 billion, or 44 percent, to \$2.9 billion driven by a decrease in noninterest income of \$2.6 billion. Decreases in trading account profits (losses) of \$2.2 billion and investment banking income of \$118 million contributed to the reduction in noninterest income. These decreases were partially offset by an increase in net interest income, primarily market-based, of \$338 million and a decrease in noninterest expense of \$375 million mainly due to a decrease in performance-based incentive



## **Table of Contents**

compensation. Additionally, the provision for credit losses increased \$192 million reflecting the impact of the weak housing market, particularly on the homebuilder sector.

Net income decreased \$1.3 billion, or 29 percent, to \$3.3 billion for the nine months ended September 30, 2007 compared to the same period in 2006. Total revenue decreased \$1.8 billion, or 11 percent, and provision for credit losses increased \$302 million, contributing to the decrease in net income. These period-over-period changes, with the exception of investment banking income, were driven by the same factors as described in the three-month discussion above. The increase in investment banking income of \$240 million was due to strength in debt underwriting and growth in advisory fees when compared to the same period in the prior year. In the nine-month comparison, provision for credit losses was also impacted by the absence of 2006 releases of reserves related to favorable commercial credit market conditions, higher net charge-offs in the retail automotive loan portfolio due to growth and seasoning, and a lower level of commercial recoveries. For more information on *GCIB*, see page 73.

### ***Global Wealth and Investment Management***

Net income increased \$86 million, or 17 percent, for the three months ended September 30, 2007 compared to the same period in 2006. Total revenue grew \$422 million, or 24 percent, driven by higher noninterest income of \$300 million, as a result of higher AUM balances related to organic growth and acquisitions, and an increase in brokerage income. These increases were partially offset by increased noninterest expense of \$309 million driven by acquisitions and continued expansion of client facing associates and higher revenue-generated operating costs.

Net income increased \$111 million, or seven percent, for the nine months ended September 30, 2007 compared to the same period in 2006 as an increase in total revenue of \$638 million, or 12 percent, was partially offset by an increase in noninterest expense of \$436 million. These period-over-period changes were driven by the same factors as described in the three-month discussion above. In addition, provision for credit losses increased mainly due to the absence of a 2006 credit loss recovery.

Total AUM was \$709.9 billion at September 30, 2007, increases of \$166.9 billion and \$192.9 billion since December 31, 2006 and September 30, 2006, due to \$115.6 billion in managed assets acquired from U.S. Trust Corporation, net inflows and market appreciation. For more information on *GWIM*, see page 80.

### ***All Other***

Net income of \$547 million was relatively flat for the three months ended September 30, 2007 compared to the same period in 2006. Excluding the securitization offset, total revenue decreased \$677 million resulting from lower net interest and noninterest income due to the sale of the Latin American operations and Hong Kong based retail and commercial banking business which were included in the Corporation's 2006 results. Also impacting noninterest income was the absence of a \$720 million (pre-tax) gain on the sale of our Brazilian operations partially offset by the absence of a loss on sales of mortgage-backed debt securities of \$496 million in the third quarter of 2006 and higher income from strategic investments. Partially offsetting the decrease in total revenue were lower noninterest expense of \$421 million as a result of the absence of expense associated with the sale of the Latin American operations and Hong Kong based retail and commercial banking business, and decreases in merger and restructuring charges of \$185 million.

Net income increased \$1.3 billion to \$2.1 billion for the nine months ended September 30, 2007 compared to the same period in 2006. Excluding the securitization offset, total revenue increased \$352 million resulting from an increase in noninterest income of \$1.5 billion partially offset by a decrease in net interest income of \$1.1 billion. Higher equity investment income of \$1.6 billion was driven by higher income from strategic investments and the \$600 million gain from the sale of private equity funds to Conversus Capital. The other period-over-period changes were driven by the same factors as described in the three-month discussion above. For more information on *All Other*, see page 86.

**Table of Contents****Financial Highlights****Net Interest Income**

Net interest income on a FTE basis increased \$96 million to \$9.0 billion for the three months ended September 30, 2007 and declined \$492 million to \$26.4 billion for the nine months ended September 30, 2007 compared to the same periods in 2006. The increase for the three months ended September 30, 2007 was driven by the increase in market-based margin and higher levels of consumer and commercial loans. These increases were partially offset by spread compression, higher cost of deposits, increased hedge costs and the impact of divestitures of certain foreign operations in 2006 and the first quarter of 2007. The decrease in net interest income for the nine months ended September 30, 2007 was impacted by substantially the same factors as discussed in the three-month discussion except that the benefit from market-based margin was not as significant. The net interest yield on a FTE basis decreased 12 basis points (bps) to 2.61 percent and 25 bps to 2.60 percent for the three and nine months ended September 30, 2007 compared to the same periods in 2006.

For more information on net interest income on a FTE basis, see Tables 8 and 9 on pages 61 to 63.

**Noninterest Income****Table 2****Noninterest Income**

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Card income	\$ 3,595	\$ 3,473	\$ 10,486	\$ 10,571
Service charges	2,221	2,147	6,493	6,125
Investment and brokerage services	1,378	1,085	3,720	3,334
Investment banking income	389	510	1,801	1,623
Equity investment income	904	705	3,747	2,122
Trading account profits (losses)	(1,457)	731	305	2,706
Mortgage banking income	155	189	516	415
Gains (losses) on sales of debt securities	7	(469)	71	(464)
Other income	122	1,227	1,239	1,670
<b>Total noninterest income</b>	<b>\$ 7,314</b>	<b>\$ 9,598</b>	<b>\$ 28,378</b>	<b>\$ 28,102</b>

Noninterest income decreased \$2.3 billion to \$7.3 billion for the three months ended September 30, 2007 and increased \$276 million to \$28.4 billion for the nine months ended September 30, 2007 compared to the same periods in 2006, primarily due to the following:

Card income on a held basis increased \$122 million for the three months ended September 30, 2007 and decreased \$85 million for the nine months ended September 30, 2007. The three-month period increase was a result of an increase in debit card and cash advance fees partially offset by the impact of higher credit losses on excess servicing income resulting from portfolio seasoning, increases from the unusually low loss levels experienced in 2006 post bankruptcy reform and the impacts of securitization activities. The nine-month period decrease was impacted substantially by the same factors discussed above except that the negative impact of the credit losses on excess servicing income was more significant.

Service charges grew \$74 million and \$368 million for the three and nine months ended September 30, 2007 resulting primarily from new account growth in deposit products.

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Investment and brokerage services increased \$293 million and \$386 million for the three and nine months ended September 30, 2007 due to higher AUM primarily attributable to organic growth and acquisitions, and an increase in brokerage activity.

## **Table of Contents**

Investment banking income decreased \$121 million for the three months ended September 30, 2007 and increased \$178 million for the nine months ended September 30, 2007 as high-yield markets effectively shut down in response to the market disruption during the third quarter of 2007. The nine-month increase was due to strength in debt underwriting and growth in advisory fees when compared to the same period in the prior year.

Equity investment income increased \$199 million and \$1.6 billion for the three and nine months ended September 30, 2007 benefiting from income received on strategic investments. In addition, the increase in the nine-month period included the \$600 million gain on the sale of private equity funds to Conversus Capital.

Trading account profits (losses) decreased \$2.2 billion and \$2.4 billion for the three and nine months ended September 30, 2007, attributable to extreme market disruptions. For more information on the impact of these events refer to the *GCIB* discussion beginning on page 73.

Gains (losses) on sales of debt securities increased \$476 million and \$535 million for the three and nine months ended September 30, 2007 due to the absence of a loss on the sale of mortgage-backed debt securities in the third quarter of 2006.

Other income decreased \$1.1 billion and \$431 million for the three and nine months ended September 30, 2007 primarily due to the absence of a \$720 million (pre-tax) gain on the sale of our Brazilian operations recognized in the third quarter of 2006. Other income in 2007 also includes losses of \$173 million, net of \$409 million in fees, on principally leveraged loans, loan commitments and the Corporation's share of the forward calendar. The decrease in the nine-month period was partially offset by the impact of mark-to-market losses realized in 2006 on certain economic hedges that did not qualify for SFAS 133 hedge accounting and gains recognized on certain lease transactions in 2007.

### ***Provision for Credit Losses***

The provision for credit losses increased \$865 million to \$2.0 billion and \$1.6 billion to \$5.1 billion for the three and nine months ended September 30, 2007 compared to the same periods in 2006. Reserve increases for higher losses inherent in our small business and home equity portfolios, reflective of growth in these businesses, drove the majority of the increase in provision for credit losses. The impact of the weak housing market on the homebuilder sector of our commercial portfolio and on our home equity portfolio was also a contributor. Higher net charge-offs of \$296 million and \$1.4 billion for the three and nine months ended September 30, 2007 were predominantly driven by portfolio seasoning reflective of growth in the businesses and increases from the unusually low charge-off levels experienced in 2006 post bankruptcy reform. In the nine-month comparison, partially offsetting these increases were reductions in reserves from consumer credit card securitization activities and the sale of the Argentina portfolio.

For more information on credit quality, see Credit Risk Management beginning on page 97.

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

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Personnel	\$ 4,169	\$ 4,474	\$ 13,931	\$ 13,767
Occupancy	754	696	2,211	2,100
Equipment	336	318	1,018	978
Marketing	552	587	1,644	1,713
Professional fees	258	259	770	710
Amortization of intangibles	429	441	1,209	1,322
Data processing	463	426	1,372	1,245
Telecommunications	255	237	750	685
Other general operating	1,243	1,156	3,558	3,423
Merger and restructuring charges	84	269	270	561
<b>Total noninterest expense</b>	<b>\$ 8,543</b>	<b>\$ 8,863</b>	<b>\$ 26,733</b>	<b>\$ 26,504</b>

Noninterest expense decreased \$320 million to \$8.5 billion for the three months ended September 30, 2007 and increased \$229 million to \$26.7 billion for the nine months ended September 30, 2007 compared to the same periods in 2006 primarily due to the following:

Personnel expense decreased \$305 million for the three months ended September 30, 2007 and was essentially flat for the nine months ended September 30, 2007. The three-month decrease was mainly due to a reduction in performance-based incentive compensation within *GCIB* partially offset by an increase in salaries due to the acquisition of U.S. Trust Corporation.

Merger and restructuring charges decreased \$185 million and \$291 million for the three and nine months ended September 30, 2007 mainly due to declining integration work associated with the MBNA acquisition partially offset by increased costs associated with the integration of U.S. Trust Corporation.

**Income Tax Expense**

Income tax expense was \$1.7 billion for the three months ended September 30, 2007 compared to \$2.7 billion for the three months ended September 30, 2006, resulting in effective tax rates of 31.0 percent and 33.6 percent. The decrease in the effective tax rate for the three months ended September 30, 2007 was due to lower pre-tax income and an increase in the portion of our earnings taxed solely outside of the U.S. Income tax expense was \$7.1 billion for the nine months ended September 30, 2007 compared to \$8.3 billion for the nine months ended September 30, 2006, resulting in effective rates of 32.6 percent and 34.3 percent. The decrease in the effective tax rate primarily resulted from the 2006 change in tax legislation discussed below, an increase in the portion of our earnings taxed solely outside of the U.S. and the one-time reduction to expense in 2007 of approximately \$50 million resulting from the remeasurement of certain accrued tax liabilities due to the evaluation of new guidance from taxing authorities.

During the second quarter of 2006, the Tax Increase Prevention and Reconciliation Act of 2005 was signed into law. Accounting for the change in law resulted in the discrete recognition of a \$175 million charge to income tax expense during the second quarter of 2006.

## **Table of Contents**

### ***Assets***

At September 30, 2007, total assets were \$1.6 trillion, an increase of \$119.0 billion, or eight percent, from December 31, 2006. Average total assets for the three and nine months ended September 30, 2007 increased \$82.6 billion, or six percent, and \$97.7 billion, or seven percent, compared to the same periods in 2006. Growth in period end and average total assets was due to an increase in loans and leases attributable to organic growth, limited bulk purchases of loans, growth in trading account assets, and an increase in loans held-for-sale. Partially offsetting this growth was a decrease in AFS debt securities due to the third quarter 2006 sale of \$43.7 billion of mortgage-backed securities as well as maturities and paydowns.

### ***Liabilities and Shareholders' Equity***

At September 30, 2007, total liabilities were \$1.4 trillion, an increase of \$115.8 billion, or nine percent, from December 31, 2006. Average total liabilities for the three and nine months ended September 30, 2007 increased \$77.4 billion, or six percent, and \$93.1 billion, or seven percent, compared to the same periods in 2006. The increase in period end and average total liabilities was to support the growth in overall assets.

Period end shareholders' equity was \$138.5 billion at September 30, 2007, an increase of \$3.2 billion from December 31, 2006, due to net income, common stock issued in connection with employee benefit plans and preferred stock issued partially offset by dividend payments, share repurchases, the adoption of certain new accounting standards and increased losses in accumulated OCI. The change in accumulated OCI resulted from unrealized losses on AFS debt securities reflecting higher interest rates at September 30, 2007.

Average shareholders' equity for the three and nine months ended September 30, 2007 compared to the same periods in 2006, increased \$5.2 billion to \$134.5 billion and \$4.6 billion to \$133.9 billion, due to the same period-end factors discussed above.

**Table of Contents****Table 4****Selected Quarterly Financial Data**

(Dollars in millions, except per share information)	2007 Quarters			2006 Quarters	
	Third	Second	First	Fourth	Third
<b>Income statement</b>					
Net interest income	\$ 8,615	\$ 8,386	\$ 8,268	\$ 8,599	\$ 8,586
Noninterest income	7,314	11,177	9,887	9,887	9,598
Total revenue, net of interest expense	15,929	19,563	18,155	18,486	18,184
Provision for credit losses	2,030	1,810	1,235	1,570	1,165
Noninterest expense, before merger and restructuring charges	8,459	9,018	8,986	8,849	8,594
Merger and restructuring charges	84	75	111	244	269
Income before income taxes	5,356	8,660	7,823	7,823	8,156
Income tax expense	1,658	2,899	2,568	2,567	2,740
Net income	3,698	5,761	5,255	5,256	5,416
Average common shares issued and outstanding (in thousands)	4,420,616	4,419,246	4,432,664	4,464,110	4,499,704
Average diluted common shares issued and outstanding (in thousands)	4,475,917	4,476,799	4,497,028	4,536,696	4,570,558
<b>Performance ratios</b>					
Return on average assets	0.93 %	1.48 %	1.40 %	1.39 %	1.43 %
Return on average common shareholders' equity	11.02	17.55	16.16	15.76	16.64
Total ending equity to total ending assets	8.77	8.85	8.98	9.27	9.22
Total average equity to total average assets	8.51	8.55	8.78	8.97	8.63
Dividend payout	77.97	43.60	48.02	47.49	46.82
<b>Per common share data</b>					
Earnings	\$ 0.83	\$ 1.29	\$ 1.18	\$ 1.17	\$ 1.20
Diluted earnings	0.82	1.28	1.16	1.16	1.18
Dividends paid	0.64	0.56	0.56	0.56	0.56
Book value	30.45	29.95	29.74	29.70	29.52
<b>Average balance sheet</b>					
Total loans and leases	\$ 780,516	\$ 740,199	\$ 714,042	\$ 683,598	\$ 673,477
Total assets	1,580,565	1,561,649	1,521,418	1,495,150	1,497,987
Total deposits	702,481	697,035	686,704	680,245	676,851
Long-term debt	175,265	158,500	148,627	140,756	136,769
Common shareholders' equity	131,606	130,700	130,737	132,004	129,098
Total shareholders' equity	134,487	133,551	133,588	134,047	129,262
<b>Asset Quality</b>					
Allowance for credit losses <sup>(1)</sup>	\$ 9,927	\$ 9,436	\$ 9,106	\$ 9,413	\$ 9,260
Nonperforming assets measured at historical cost	3,372	2,392	2,059	1,856	1,656
Allowance for loan and lease losses as a percentage of total loans and leases outstanding measured at historical cost <sup>(2)</sup>	1.21 %	1.20 %	1.21 %	1.28 %	1.33 %
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases measured at historical cost	300	397	443	505	562
Net charge-offs	\$ 1,573	\$ 1,495	\$ 1,427	\$ 1,417	\$ 1,277
Annualized net charge-offs as a percentage of average loans and leases outstanding measured at historical cost <sup>(2)</sup>	0.80 %	0.81 %	0.81 %	0.82 %	0.75 %
Nonperforming loans and leases as a percentage of total loans and leases outstanding measured at historical cost <sup>(2)</sup>	0.40	0.30	0.27	0.25	0.24
Nonperforming assets as a percentage of total loans, leases and foreclosed properties <sup>(2)</sup>	0.43	0.32	0.29	0.26	0.25
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs	1.53	1.51	1.51	1.60	1.75
<b>Capital ratios (period end)</b>					
Risk-based capital:					
Tier 1	8.22 %	8.52 %	8.57 %	8.64 %	8.48 %
Total	11.86	12.11	11.94	11.88	11.46
Tier 1 leverage	6.20	6.33	6.25	6.36	6.16
Market capitalization	\$ 223,041	\$ 216,922	\$ 226,481	\$ 238,021	\$ 240,966
<b>Market price per share of common stock</b>					
Closing	\$ 50.27	\$ 48.89	\$ 51.02	\$ 53.39	\$ 53.57
High closing	51.87	51.82	54.05	54.90	53.57
Low closing	47.00	48.80	49.46	51.66	47.98

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<sup>(1)</sup> Includes allowance for loan and lease losses, and reserve for unfunded lending commitments.

<sup>(2)</sup> Ratios do not include loans measured at fair value in accordance with SFAS 159 at and for the periods ended September 30, 2007, June 30, 2007 and March 31, 2007. Loans measured at fair value were \$4.53 billion, \$3.61 billion and \$3.86 billion at September 30, 2007, June 30, 2007 and March 31, 2007.

**Table of Contents****Table 5****Selected Year-to-Date Financial Data**

(Dollars in millions, except per share information)	Nine Months Ended September 30	
	2007	2006
<b>Income statement</b>		
Net interest income	\$ 25,269	\$ 25,992
Noninterest income	28,378	28,102
Total revenue, net of interest expense	53,647	54,094
Provision for credit losses	5,075	3,440
Noninterest expense, before merger and restructuring charges	26,463	25,943
Merger and restructuring charges	270	561
Income before income taxes	21,839	24,150
Income tax expense	7,125	8,273
Net income	14,714	15,877
Average common shares issued and outstanding (in thousands)	4,424,269	4,547,693
Average diluted common shares issued and outstanding (in thousands)	4,483,465	4,614,599
<b>Performance ratios</b>		
Return on average assets	1.27 %	1.46 %
Return on average common shareholders' equity	14.88	16.44
Total ending equity to total ending assets	8.77	9.22
Total average equity to total average assets	8.61	8.87
Dividend payout	53.79	45.05
<b>Per common share data</b>		
Earnings	\$ 3.30	\$ 3.49
Diluted earnings	3.25	3.44
Dividends paid	1.76	1.56
Book value	30.45	29.52
<b>Average balance sheet</b>		
Total loans and leases	\$ 745,162	\$ 641,909
Total assets	1,554,760	1,457,087
Total deposits	695,465	670,552
Long-term debt	160,895	126,541
Common shareholders' equity	131,017	129,020
Total shareholders' equity	133,878	129,256
<b>Asset Quality</b>		
Allowance for credit losses <sup>(1)</sup>	\$ 9,927	\$ 9,260
Nonperforming assets measured at historical cost	3,372	1,656
Allowance for loan and lease losses as a percentage of total loans and leases outstanding measured at historical cost <sup>(2)</sup>	1.21 %	1.33 %
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases measured at historical cost	300	562
Net charge-offs	\$ 4,495	\$ 3,122
Annualized net charge-offs as a percentage of average loans and leases outstanding measured at historical cost <sup>(2)</sup>	0.80 %	0.65 %
Nonperforming loans and leases as a percentage of total loans and leases outstanding measured at historical cost <sup>(2)</sup>	0.40	0.24
Nonperforming assets as a percentage of total loans, leases and foreclosed properties <sup>(2)</sup>	0.43	0.25
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs	1.59	2.13
<b>Market price per share of common stock</b>		
Closing	\$ 50.27	\$ 53.57
High closing	54.05	53.57
Low closing	47.00	43.09

<sup>(1)</sup> Includes allowance for loan and lease losses, and reserve for unfunded lending commitments.

<sup>(2)</sup> Ratios do not include loans measured at fair value in accordance with SFAS 159 at and for the nine months ended September 30, 2007. Loans measured at fair value were \$4.53 billion at September 30, 2007.

## **Table of Contents**

### **Supplemental Financial Data**

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

### ***Operating Basis Presentation***

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

### ***Net Interest Income FTE Basis***

In addition, we view net interest income and related ratios and analysis (i.e., efficiency ratio, net interest yield and operating leverage) on a FTE basis. Although this is a non-GAAP measure, we believe managing the business with net interest income on a FTE basis provides a more accurate picture of the interest margin for comparative purposes. To derive the FTE basis, net interest income is adjusted to reflect tax-exempt income on an equivalent before-tax basis with a corresponding increase in income tax expense. For purposes of this calculation, we use the federal statutory tax rate of 35 percent. This measure ensures comparability of net interest income arising from taxable and tax-exempt sources.

### ***Performance Measures***

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

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

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

**Table of Contents****Table 6****Supplemental Financial Data and Reconciliations to GAAP Financial Measures**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(Dollars in millions)	2007	2006	2007	2006
<b>Operating basis</b>				
Operating earnings	\$ 3,751	\$ 5,585	\$ 14,884	\$ 16,230
Return on average assets	0.94 %	1.48 %	1.28 %	1.49 %
Return on average common shareholders equity	11.18	17.16	15.06	16.81
Return on average tangible shareholders equity	22.21	35.07	29.45	34.38
Operating efficiency ratio (FTE basis)	51.89	46.48	48.34	47.20
Dividend payout ratio	76.86	45.40	53.17	44.07
Operating leverage (FTE basis)	(10.27)	8.64	(2.40)	1.75
<b>FTE basis data</b>				
Net interest income	\$ 8,990	\$ 8,894	\$ 26,368	\$ 26,860
Total revenue, net of interest expense	16,304	18,492	54,746	54,962
Net interest yield	2.61 %	2.73 %	2.60 %	2.85 %
Efficiency ratio	52.40	47.93	48.83	48.22
<b>Reconciliation of net income to operating earnings</b>				
Net income	\$ 3,698	\$ 5,416	\$ 14,714	\$ 15,877
Merger and restructuring charges	84	269	270	561
Related income tax benefit	(31)	(100)	(100)	(208)
Operating earnings	\$ 3,751	\$ 5,585	\$ 14,884	\$ 16,230
<b>Reconciliation of average shareholders equity to average tangible shareholders equity</b>				
Average shareholders equity	\$ 134,487	\$ 129,262	\$ 133,878	\$ 129,256
Average goodwill	(67,499)	(66,077)	(66,309)	(66,132)
Average tangible shareholders equity	\$ 66,988	\$ 63,185	\$ 67,569	\$ 63,124
<b>Reconciliation of return on average assets to operating return on average assets</b>				
Return on average assets	0.93 %	1.43 %	1.27 %	1.46 %
Effect of merger and restructuring charges, net of tax benefit	0.01	0.05	0.01	0.03
Operating return on average assets	0.94 %	1.48 %	1.28 %	1.49 %
<b>Reconciliation of return on average common shareholders equity to operating return on average common shareholders equity</b>				
Return on average common shareholders equity	11.02 %	16.64 %	14.88 %	16.44 %
Effect of merger and restructuring charges, net of tax benefit	0.16	0.52	0.18	0.37
Operating return on average common shareholders equity	11.18 %	17.16 %	15.06 %	16.81 %
<b>Reconciliation of return on average tangible shareholders equity to operating return on average tangible shareholders equity</b>				
Return on average tangible shareholders equity	21.90 %	34.00 %	29.11 %	33.63 %
Effect of merger and restructuring charges, net of tax benefit	0.31	1.07	0.34	0.75
Operating return on average tangible shareholders equity	22.21 %	35.07 %	29.45 %	34.38 %
<b>Reconciliation of efficiency ratio to operating efficiency ratio (FTE basis)</b>				
Efficiency ratio	52.40 %	47.93 %	48.83 %	48.22 %
Effect of merger and restructuring charges	(0.51)	(1.45)	(0.49)	(1.02)
Operating efficiency ratio	51.89 %	46.48 %	48.34 %	47.20 %
<b>Reconciliation of dividend payout ratio to operating dividend payout ratio</b>				
Dividend payout ratio	77.97 %	46.82 %	53.79 %	45.05 %
Effect of merger and restructuring charges, net of tax benefit	(1.11)	(1.42)	(0.62)	(0.98)
Operating dividend payout ratio	76.86 %	45.40 %	53.17 %	44.07 %
<b>Reconciliation of operating leverage to operating basis operating leverage (FTE basis)</b>				
Operating leverage	(8.23) %	6.93 %	(1.26) %	1.17 %
Effect of merger and restructuring charges	(2.04)	1.71	(1.14)	0.58
Operating leverage	(10.27) %	8.64 %	(2.40) %	1.75 %

## Table of Contents

### Core Net Interest Income Managed Basis

In managing our business, we review core net interest income managed basis, which adjusts reported net interest income on a FTE basis for the impact of market-based activities and certain securitizations, net of retained securities. As discussed in the *GCIB* business segment section beginning on page 73, we evaluate our market-based results and strategies on a total market-based revenue approach by combining net interest income and noninterest income for *Capital Markets and Advisory Services*. We also adjust for loans that we originated and sold into certain securitizations. These securitizations include off-balance sheet loans and leases, specifically those loans in revolving securitizations and other securitizations where servicing is retained by the Corporation (e.g., credit card and home equity). Noninterest income, rather than net interest income and provision for credit losses, is recorded for assets that have been securitized as we are compensated for servicing the securitized assets and record servicing income and gains or losses on securitizations, where appropriate. We believe the use of this non-GAAP presentation provides additional clarity in assessing the results of the Corporation. An analysis of core net interest income managed basis, core average earning assets managed basis and core net interest yield on earning assets managed basis, which adjusts for the impact of these two non-core items from reported net interest income on a FTE basis, is shown below.

Table 7

### Core Net Interest Income Managed Basis

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>Net interest income <sup>(1)</sup></b>				
As reported	\$ 8,990	\$ 8,894	\$ 26,368	\$ 26,860
Impact of market-based net interest income <sup>(2)</sup>	(789)	(377)	(1,907)	(1,173)
Core net interest income	8,201	8,517	24,461	25,687
Impact of securitizations <sup>(3)</sup>	2,009	1,760	5,820	5,195
<b>Core net interest income managed basis</b>	<b>\$ 10,210</b>	<b>\$ 10,277</b>	<b>\$ 30,281</b>	<b>\$ 30,882</b>
<b>Average earning assets</b>				
As reported	\$ 1,375,795	\$ 1,302,366	\$ 1,352,177	\$ 1,258,927
Impact of market-based earning assets <sup>(2)</sup>	(406,947)	(376,967)	(414,218)	(357,853)
Core average earning assets	968,848	925,399	937,959	901,074
Impact of securitizations	104,181	98,722	103,028	97,264
<b>Core average earning assets managed basis</b>	<b>\$ 1,073,029</b>	<b>\$ 1,024,121</b>	<b>\$ 1,040,987</b>	<b>\$ 998,338</b>
<b>Net interest yield contribution <sup>(1, 4)</sup></b>				
As reported	2.61 %	2.73 %	2.60 %	2.85 %
Impact of market-based activities <sup>(2)</sup>	0.77	0.95	0.88	0.96
Core net interest yield on earning assets	3.38	3.68	3.48	3.81
Impact of securitizations	0.42	0.33	0.40	0.32
<b>Core net interest yield on earning assets managed basis</b>	<b>3.80 %</b>	<b>4.01 %</b>	<b>3.88 %</b>	<b>4.13 %</b>

<sup>(1)</sup> FTE basis

<sup>(2)</sup> Represents the impact of market-based amounts included in the *Capital Markets and Advisory Services* business within *GCIB* and excludes net interest income on loans for which the fair value option has been elected.

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

<sup>(4)</sup> Calculated on an annualized basis.

**Table of Contents**

**Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006**

Core net interest income on a managed basis decreased \$67 million compared to the same period in 2006. This decrease was driven by spread compression, the higher cost of deposits, increased hedge costs, and the impact of divestitures of certain foreign operations in 2006 and the first quarter of 2007. Partially offsetting these items was the increase in the levels of consumer and commercial managed loans. Core net interest yield on a managed basis decreased 21 bps to 3.80 percent compared to the same period in 2006 and was driven by the same factors as core net interest income on a managed basis discussed above.

On a managed basis, core average earning assets increased \$48.9 billion compared to the same period in 2006 due to higher levels of consumer and commercial managed loans partially offset by a decrease in average debt securities.

**Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006**

Core net interest income on a managed basis decreased \$601 million, core average earning assets increased \$42.6 billion and core net interest yield decreased 25 bps compared to the same period in 2006. These period-over-period changes were driven by the same factors as discussed in the three-month discussion above.

**Table of Contents****Table 8****Quarterly Average Balances and Interest Rates FTE Basis**

(Dollars in millions)	Third Quarter 2007			Second Quarter 2007		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>Earning assets</b>						
Time deposits placed and other short-term investments	\$ 11,879	\$ 148	4.92 %	\$ 15,310	\$ 188	4.92 %
Federal funds sold and securities purchased under agreements to resell	139,259	1,839	5.27	166,258	2,156	5.19
Trading account assets	194,661	2,604	5.33	188,287	2,364	5.03
Debt securities <sup>(1)</sup>	174,568	2,380	5.45	177,834	2,394	5.39
Loans and leases <sup>(2)</sup> :						
Residential mortgage	274,385	3,928	5.72	260,099	3,708	5.70
Credit card domestic	57,491	1,780	12.29	56,235	1,777	12.67
Credit card foreign	11,995	371	12.25	11,946	350	11.76
Home equity <sup>(3)</sup>	98,611	1,884	7.58	94,267	1,779	7.57
Direct/Indirect consumer	69,425	1,515	8.66	64,227	1,354	8.46
Other consumer <sup>(4)</sup>	7,875	181	9.12	8,101	187	9.28
Total consumer	519,782	9,659	7.39	494,875	9,155	7.41
Commercial domestic	176,554	3,207	7.21	166,529	3,039	7.32
Commercial real estate <sup>(5)</sup>	38,977	733	7.47	36,788	687	7.49
Commercial lease financing	20,044	246	4.91	19,784	217	4.40
Commercial foreign	25,159	377	5.95	22,223	319	5.75
Total commercial	260,734	4,563	6.95	245,324	4,262	6.97
Total loans and leases	780,516	14,222	7.25	740,199	13,417	7.26
Other earning assets	74,912	1,215	6.46	70,311	1,108	6.31
<b>Total earning assets <sup>(6)</sup></b>	<b>1,375,795</b>	<b>22,408</b>	<b>6.48</b>	<b>1,358,199</b>	<b>21,627</b>	<b>6.38</b>
Cash and cash equivalents	31,356			33,689		
Other assets, less allowance for loan and lease losses	173,414			169,761		
<b>Total assets</b>	<b>\$ 1,580,565</b>			<b>\$ 1,561,649</b>		
<b>Interest-bearing liabilities</b>						
Domestic interest-bearing deposits:						
Savings	\$ 31,510	\$ 50	0.62 %	\$ 33,039	\$ 47	0.58 %
NOW and money market deposit accounts	215,078	1,104	2.04	212,330	987	1.86
Consumer CDs and IRAs	165,840	1,949	4.66	161,703	1,857	4.61
Negotiable CDs, public funds and other time deposits	17,392	227	5.20	16,256	191	4.70
Total domestic interest-bearing deposits	429,820	3,330	3.07	423,328	3,082	2.92
Foreign interest-bearing deposits:						
Banks located in foreign countries	43,727	564	5.12	41,940	522	4.99
Governments and official institutions	17,206	218	5.03	17,868	224	5.02
Time, savings and other	41,868	433	4.09	40,335	433	4.31
Total foreign interest-bearing deposits	102,801	1,215	4.69	100,143	1,179	4.72
Total interest-bearing deposits	532,621	4,545	3.39	523,471	4,261	3.27
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	409,070	5,521	5.36	419,260	5,537	5.30
Trading account liabilities	86,118	906	4.17	85,550	821	3.85
Long-term debt	175,265	2,446	5.58	158,500	2,227	5.62
<b>Total interest-bearing liabilities <sup>(6)</sup></b>	<b>1,203,074</b>	<b>13,418</b>	<b>4.43</b>	<b>1,186,781</b>	<b>12,846</b>	<b>4.34</b>
Noninterest-bearing sources:						
Noninterest-bearing deposits	169,860			173,564		
Other liabilities	73,144			67,753		
Shareholders' equity	134,487			133,551		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,580,565</b>			<b>\$ 1,561,649</b>		
Net interest spread			2.05 %			2.04 %
Impact of noninterest-bearing sources			0.56			0.55
<b>Net interest income/yield on earning assets</b>		<b>\$ 8,990</b>	<b>2.61 %</b>		<b>\$ 8,781</b>	<b>2.59 %</b>

<sup>(1)</sup> Yields on AFS debt securities are calculated based on fair value rather than historical cost balances. The use of fair value does not have a material impact on net interest yield.

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- (2) Nonperforming loans are included in the respective average loan balances. Income on these nonperforming loans is recognized on a cash basis.
- (3) Includes home equity loans of \$16.7 billion, \$15.6 billion and \$13.5 in the third, second and first quarters of 2007, and \$11.7 billion and \$9.9 billion in the fourth and third quarters of 2006, respectively.
- (4) Includes consumer finance loans of \$3.2 billion, \$3.4 billion and \$3.0 billion in the third, second and first quarters of 2007, and \$2.8 billion and \$2.9 billion in the fourth, and third quarters of 2006, respectively; and foreign consumer loans of \$4.7 billion, \$4.7 billion and \$5.8 billion in the third, second and first quarters of 2007, and \$7.8 billion and \$8.1 billion in the fourth and third quarters of 2006, respectively.
- (5) Includes domestic commercial real estate loans of \$38.0 billion, \$36.2 billion and \$35.5 billion in the third, second and first quarters of 2007, and \$36.1 billion and \$36.7 billion in the fourth and third quarters of 2006, respectively.
- (6) Interest income includes the impact of interest rate risk management contracts, which decreased interest income on assets \$170 million, \$117 million and \$121 million in the third, second and first quarters of 2007, and \$198 million and \$128 million in the fourth and third quarters of 2006, respectively. Interest expense includes the impact of interest rate risk management contracts, which increased (decreased) interest expense on liabilities \$226 million, \$207 million and \$179 million in the third, second and first quarters of 2007, and \$(69) million and \$(48) million in the fourth and third quarters of 2006, respectively. For further information on interest rate contracts, see Interest Rate Risk Management for Nontrading Activities beginning on page 125.

**Table of Contents****Quarterly Average Balances and Interest Rates FTE Basis (Continued)**

(Dollars in millions)	First Quarter 2007			Fourth Quarter 2006			Third Quarter 2006		
	Average Balance	Interest Expense	Yield/Rate	Average Balance	Interest Expense	Yield/Rate	Average Balance	Interest Expense	Yield/Rate
<b>Earning assets</b>									
Time deposits placed and other short-term investments	\$ 15,023	\$ 169	4.57 %	\$ 15,760	\$ 166	4.19 %	\$ 15,629	\$ 173	4.39 %
Federal funds sold and securities purchased under agreements to resell	166,195	1,979	4.79	174,167	2,068	4.73	173,381	2,146	4.94
Trading account assets	175,249	2,357	5.41	167,163	2,289	5.46	146,817	1,928	5.24
Debt securities <sup>(1)</sup>	186,498	2,451	5.27	193,601	2,504	5.17	236,033	3,136	5.31
Loans and leases <sup>(2)</sup> :									
Residential mortgage	246,618	3,504	5.69	225,985	3,202	5.66	222,889	3,151	5.65
Credit card domestic	57,720	1,887	13.26	59,802	2,101	13.94	62,508	2,189	13.90
Credit card foreign	11,133	317	11.55	10,375	305	11.66	9,455	286	12.02
Home equity <sup>(3)</sup>	89,559	1,679	7.60	84,905	1,626	7.60	79,899	1,522	7.56
Direct/Indirect consumer	60,157	1,221	8.23	53,480	1,101	8.17	51,536	1,022	7.90
Other consumer <sup>(4)</sup>	8,809	204	9.36	10,597	225	8.47	11,076	298	10.66
Total consumer	473,996	8,812	7.50	445,144	8,560	7.65	437,363	8,468	7.71
Commercial domestic	163,620	2,934	7.27	158,604	2,907	7.27	153,007	2,805	7.28
Commercial real estate <sup>(5)</sup>	36,117	672	7.55	36,851	704	7.58	37,471	724	7.67
Commercial lease financing	19,651	175	3.55	21,159	254	4.80	20,875	232	4.46
Commercial foreign	20,658	330	6.48	21,840	337	6.12	24,761	454	7.27
Total commercial	240,046	4,111	6.94	238,454	4,202	7.00	236,114	4,215	7.09
Total loans and leases	714,042	12,923	7.31	683,598	12,762	7.42	673,477	12,683	7.49
Other earning assets	64,939	1,010	6.28	65,172	1,058	6.46	57,029	914	6.38
<b>Total earning assets <sup>(6)</sup></b>	<b>1,321,946</b>	<b>20,889</b>	<b>6.37</b>	<b>1,299,461</b>	<b>20,847</b>	<b>6.39</b>	<b>1,302,366</b>	<b>20,980</b>	<b>6.41</b>
Cash and cash equivalents	33,623			32,816			33,495		
Other assets, less allowance for loan and lease losses	165,849			162,873			162,126		
<b>Total assets</b>	<b>\$ 1,521,418</b>			<b>\$ 1,495,150</b>			<b>\$ 1,497,987</b>		
<b>Interest-bearing liabilities</b>									
Domestic interest-bearing deposits:									
Savings	\$ 32,773	\$ 41	0.50 %	\$ 32,965	\$ 48	0.58 %	\$ 34,268	\$ 69	0.81 %
NOW and money market deposit accounts	212,249	936	1.79	211,055	966	1.81	212,690	1,053	1.96
Consumer CDs and IRAs	159,505	1,832	4.66	154,621	1,794	4.60	147,607	1,658	4.46
Negotiable CDs, public funds and other time deposits	13,376	136	4.12	13,052	140	4.30	14,105	150	4.19
Total domestic interest-bearing deposits	417,903	2,945	2.86	411,693	2,948	2.84	408,670	2,930	2.84
Foreign interest-bearing deposits:									
Banks located in foreign countries	40,372	531	5.34	38,648	507	5.21	38,588	562	5.78
Governments and official institutions	14,482	178	4.98	14,220	168	4.70	12,801	156	4.83
Time, savings and other	39,534	380	3.90	41,328	366	3.50	40,444	328	3.22
Total foreign interest-bearing deposits	94,388	1,089	4.68	94,196	1,041	4.38	91,833	1,046	4.52
Total interest-bearing deposits	512,291	4,034	3.19	505,889	3,989	3.13	500,503	3,976	3.15
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	414,104	5,318	5.20	405,748	5,222	5.11	429,882	5,467	5.05
Trading account liabilities	77,635	892	4.66	75,261	800	4.21	69,462	727	4.15
Long-term debt	148,627	2,048	5.51	140,756	1,881	5.34	136,769	1,916	5.60
<b>Total interest-bearing liabilities <sup>(6)</sup></b>	<b>1,152,657</b>	<b>12,292</b>	<b>4.31</b>	<b>1,127,654</b>	<b>11,892</b>	<b>4.19</b>	<b>1,136,616</b>	<b>12,086</b>	<b>4.23</b>
Noninterest-bearing sources:									
Noninterest-bearing deposits	174,413			174,356			176,348		
Other liabilities	60,760			59,093			55,761		
Shareholders' equity	133,588			134,047			129,262		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,521,418</b>			<b>\$ 1,495,150</b>			<b>\$ 1,497,987</b>		
Net interest spread			2.06 %			2.20 %			2.18 %
Impact of noninterest-bearing sources			0.55			0.55			0.55
<b>Net interest income/yield on earning assets</b>		<b>\$ 8,597</b>	<b>2.61 %</b>		<b>\$ 8,955</b>	<b>2.75 %</b>		<b>\$ 8,894</b>	<b>2.73 %</b>

For footnotes, see page 61.

**Table of Contents****Table 9****Year-to-Date Average Balances and Interest Rates FTE Basis**

(Dollars in millions)	Nine Months Ended September 30					
	2007			2006 <sup>(1)</sup>		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>Earning assets</b>						
Time deposits placed and other short-term investments	\$ 14,059	\$ 505	4.80 %	\$ 15,560	\$ 480	4.12 %
Federal funds sold and securities purchased under agreements to resell	157,139	5,974	5.07	175,727	5,755	4.37
Trading account assets	186,137	7,325	5.25	137,961	5,263	5.09
Debt securities <sup>(2)</sup>	179,589	7,225	5.37	235,874	9,341	5.28
Loans and leases <sup>(3)</sup> :						
Residential mortgage	260,469	11,140	5.70	201,777	8,406	5.56
Credit card domestic	57,148	5,444	12.74	65,198	6,537	13.40
Credit card foreign	11,694	1,038	11.86	8,725	842	12.91
Home equity <sup>(4)</sup>	94,179	5,342	7.58	76,098	4,147	7.28
Direct/Indirect consumer	64,637	4,090	8.46	48,799	2,783	7.62
Other consumer <sup>(5)</sup>	8,258	572	9.25	10,748	864	10.73
Total consumer	496,385	27,626	7.43	411,345	23,579	7.66
Commercial domestic	168,948	9,180	7.26	148,746	7,990	7.18
Commercial real estate <sup>(6)</sup>	37,305	2,092	7.50	36,968	2,036	7.36
Commercial lease financing	19,828	638	4.29	20,762	741	4.76
Commercial foreign	22,696	1,026	6.05	24,088	1,337	7.42
Total commercial	248,777	12,936	6.95	230,564	12,104	7.02
Total loans and leases	745,162	40,562	7.27	641,909	35,683	7.43
Other earning assets	70,091	3,333	6.35	51,896	2,440	6.28
<b>Total earning assets <sup>(7)</sup></b>	<b>1,352,177</b>	<b>64,924</b>	<b>6.41</b>	<b>1,258,927</b>	<b>58,962</b>	<b>6.25</b>
Cash and cash equivalents	32,881			34,469		
Other assets, less allowance for loan and lease losses	169,702			163,691		
<b>Total assets</b>	<b>\$ 1,554,760</b>			<b>\$ 1,457,087</b>		
<b>Interest-bearing liabilities</b>						
Domestic interest-bearing deposits:						
Savings	\$ 32,436	\$ 138	0.57 %	\$ 35,162	\$ 221	0.84 %
NOW and money market deposit accounts	213,230	3,027	1.90	220,443	2,957	1.79
Consumer CDs and IRAs	162,372	5,638	4.64	141,407	4,228	4.00
Negotiable CDs, public funds and other time deposits	15,690	554	4.72	11,907	343	3.84
Total domestic interest-bearing deposits	423,728	9,357	2.95	408,919	7,749	2.53
Foreign interest-bearing deposits:						
Banks located in foreign countries	42,025	1,617	5.14	33,751	1,475	5.84
Governments and official institutions	16,529	620	5.01	12,152	418	4.60
Time, savings and other	40,587	1,246	4.10	37,606	849	3.02
Total foreign interest-bearing deposits	99,141	3,483	4.70	83,509	2,742	4.39
Total interest-bearing deposits	522,869	12,840	3.28	492,428	10,491	2.85
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	414,126	16,376	5.29	412,948	14,618	4.73
Trading account liabilities	83,132	2,619	4.21	61,126	1,840	4.03
Long-term debt	160,895	6,721	5.57	126,541	5,153	5.43
<b>Total interest-bearing liabilities <sup>(7)</sup></b>	<b>1,181,022</b>	<b>38,556</b>	<b>4.36</b>	<b>1,093,043</b>	<b>32,102</b>	<b>3.92</b>
Noninterest-bearing sources:						
Noninterest-bearing deposits	172,596			178,124		
Other liabilities	67,264			56,664		
Shareholders equity	133,878			129,256		
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,554,760</b>			<b>\$ 1,457,087</b>		
Net interest spread			2.05 %			2.33 %
Impact of noninterest-bearing sources			0.55			0.52
<b>Net interest income/yield on earning assets</b>		<b>\$ 26,368</b>	<b>2.60 %</b>		<b>\$ 26,860</b>	<b>2.85 %</b>

<sup>(1)</sup> Interest income (FTE basis) for the nine months ended September 30, 2006, does not include the cumulative tax charge resulting from a change in tax legislation relating to extraterritorial tax income and foreign sales corporation regimes. The FTE impact to net interest income and net interest yield on earning assets of this retroactive tax adjustment was a reduction of \$270 million and 3 bps, respectively, for the nine months ended September 30, 2006. Management has excluded this one-time impact to provide a more comparative basis of presentation for net interest income and net interest yield on earning assets on a FTE basis. The impact on any given future period is not expected to be material.

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- (2) Yields on AFS debt securities are calculated based on fair value rather than historical cost balances. The use of fair value does not have a material impact on net interest yield.
- (3) Nonperforming loans are included in the respective average loan balances. Income on these nonperforming loans is recognized on a cash basis.
- (4) Includes home equity loans of \$15.3 billion and \$8.9 billion for the nine months ended September 30, 2007 and 2006.
- (5) Includes consumer finance loans of \$3.2 billion and \$3.0 billion, and foreign consumer loans of \$5.1 billion and \$7.8 billion for the nine months ended September 30, 2007 and 2006.
- (6) Includes domestic commercial real estate loans of \$36.6 billion and \$36.2 billion for the nine months ended September 30, 2007 and 2006.
- (7) Interest income includes the impact of interest rate risk management contracts, which decreased interest income on assets \$408 million and \$174 million in the nine months ended September 30, 2007 and 2006. Interest expense includes the impact of interest rate risk management contracts, which increased interest expense on liabilities \$612 million and \$175 million in the nine months ended September 30, 2007 and 2006. For additional information on interest rate contracts, see Interest Rate Risk Management for Nontrading Activities beginning on page 125.

## **Table of Contents**

### **Business Segment Operations**

#### ***Segment Description***

The Corporation reports the results of its operations through three business segments: *GCSBB*, *GCIB* and *GWIM*, with the remaining operations recorded in *All Other*. Certain prior period amounts have been reclassified to conform to current period presentation. For more information on the Corporation's basis of presentation, selected financial information for the business segments and reconciliations to consolidated total revenue and net income amounts, see *Note 17 Business Segment Information* to the Consolidated Financial Statements.

#### ***Basis of Presentation***

We prepare and evaluate segment results using certain non-GAAP methodologies and performance measures, many of which are discussed in Supplemental Financial Data beginning on page 57. We begin by evaluating the operating results of the businesses which by definition excludes merger and restructuring charges. The segment results also reflect certain revenue and expense methodologies which are utilized to determine net income. The net interest income of the businesses includes the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics.

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

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

Certain expenses not directly attributable to a specific business segment are allocated to the segments based on pre-determined means. The most significant of these expenses include data processing costs, item processing costs and certain centralized or shared functions. Data processing costs are allocated to the segments based on equipment usage. Item processing costs are allocated to the segments based on the volume of items processed for each segment. The costs of certain centralized or shared functions are allocated based on methodologies which reflect utilization.

Equity is allocated to business segments and related businesses using a risk-adjusted methodology incorporating each unit's credit, market, interest rate and operational risk components. The nature of these risks is discussed further beginning on page 93. ROE is calculated by dividing net income by average allocated equity. Average equity is allocated to the business segments and related businesses and is impacted by the portion of goodwill that is specifically assigned to the businesses and the unallocated portion of goodwill that resides in *ALM/Other*.

# Table of Contents

## Global Consumer and Small Business Banking

Three Months Ended September 30, 2007

Consumer

(Dollars in millions)	Total <sup>(1)</sup>	Deposits	Card Services <sup>(1)</sup>	Real Estate <sup>(2)</sup>	ALM/Other
Net interest income <sup>(3)</sup>	\$ 7,265	\$ 2,354	\$ 4,199	\$ 577	\$ 135
Noninterest income:					
Card income	2,587	552	2,034	1	-
Service charges	1,519	1,518	-	1	-
Mortgage banking income	244	-	-	244	-
All other income	370	(1)	272	14	85
Total noninterest income	4,720	2,069	2,306	260	85
Total revenue, net of interest expense	11,985	4,423	6,505	837	220
Provision for credit losses <sup>(4)</sup>	3,121	76	2,743	197	105
Noninterest expense	4,971	2,249	2,042	525	155
Income before income taxes	3,893	2,098	1,720	115	(40)
Income tax expense (benefit) <sup>(3)</sup>	1,441	777	637	42	(15)
Net income	\$ 2,452	\$ 1,321	\$ 1,083	\$ 73	\$ (25)
Net interest yield <sup>(3)</sup>	8.32 %	3.01 %	7.83 %	2.01 %	n/m
Return on average equity <sup>(5)</sup>	15.63	35.25	9.72	6.97	n/m
Efficiency ratio <sup>(3)</sup>	41.48	50.84	31.40	62.70	n/m
Period end total assets <sup>(6)</sup>	\$ 401,151	\$ 331,108	\$ 245,891	\$ 122,024	n/m

Three Months Ended September 30, 2006

(Dollars in millions)	Total <sup>(1)</sup>	Deposits	Card Services <sup>(1)</sup>	Consumer Real Estate <sup>(2)</sup>	ALM/Other
Net interest income <sup>(3)</sup>	\$ 7,016	\$ 2,362	\$ 4,066	\$ 502	\$ 86
Noninterest income:					
Card income	2,333	500	1,831	2	-
Service charges	1,410	1,410	-	-	-
Mortgage banking income	215	-	-	215	-
All other income	310	-	213	7	90
Total noninterest income	4,268	1,910	2,044	224	90
Total revenue, net of interest expense	11,284	4,272	6,110	726	176
Provision for credit losses <sup>(4)</sup>	2,049	51	1,938	17	43
Noninterest expense	4,619	2,185	1,896	452	86
Income before income taxes	4,616	2,036	2,276	257	47
Income tax expense <sup>(3)</sup>	1,697	749	837	95	16
Net income	\$ 2,919	\$ 1,287	\$ 1,439	\$ 162	\$ 31
Net interest yield <sup>(3)</sup>	8.18 %	2.93 %	8.33 %	2.17 %	n/m
Return on average equity <sup>(5)</sup>	18.70	35.05	12.90	19.59	n/m
Efficiency ratio <sup>(3)</sup>	40.94	51.15	31.03	62.32	n/m
Period end total assets <sup>(6)</sup>	\$ 399,385	\$ 342,249	\$ 226,482	\$ 98,132	n/m

<sup>(1)</sup> Presented on a managed basis, specifically *Card Services*.

<sup>(2)</sup> Effective January 1, 2007, *GCSBB* combined the former *Mortgage* and *Home Equity* businesses into *Consumer Real Estate*.

<sup>(3)</sup> FTE basis

<sup>(4)</sup> Represents provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio.

<sup>(5)</sup> Average allocated equity for *GCSBB* was \$62.2 billion and \$61.9 billion for the three months ended September 30, 2007 and 2006.

<sup>(6)</sup> Total assets include asset allocations to match liabilities (i.e., deposits).  
n/m = not meaningful

**Table of Contents**

Global Consumer and Small Business Banking					
Nine Months Ended September 30, 2007					
(Dollars in millions)	Total <sup>(1)</sup>	Deposits	Card Services <sup>(1)</sup>	Consumer Real Estate <sup>(2)</sup>	ALM/Other
Net interest income <sup>(3)</sup>	\$ 21,409	\$ 7,099	\$ 12,198	\$ 1,647	\$ 465
Noninterest income:					
Card income	7,564	1,591	5,969	4	-
Service charges	4,384	4,380	-	4	-
Mortgage banking income	843	-	-		