

BANK OF AMERICA CORP /DE/
Form 10-Q
August 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2008

or

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

EXCHANGE ACT OF 1934

For the transition period from to

Commission file number:

1-6523

Exact Name of Registrant as Specified in its Charter:

Bank of America Corporation

State or Other Jurisdiction of Incorporation or Organization:

Delaware

IRS Employer Identification Number:

56-0906609

Address of Principal Executive Offices:

Bank of America Corporate Center

100 N. Tryon Street

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Charlotte, North Carolina 28255

Registrant's telephone number, including area code:

(704) 386-5681

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

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Yes No

On July 31, 2008, there were 4,560,112,687 shares of Bank of America Corporation Common Stock outstanding.

Table of Contents**Bank of America Corporation****June 30, 2008 Form 10-Q**

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Table of Contents**Part 1. Financial Information****Item 1. Financial Statements****Bank of America Corporation and Subsidiaries
Consolidated Statement of Income**

| (Dollars in millions, except per share information) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|-----------------|--------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest income | | | | |
| Interest and fees on loans and leases | \$ 13,121 | \$ 13,323 | \$ 27,536 | \$ 26,207 |
| Interest on debt securities | 2,900 | 2,332 | 5,674 | 4,712 |
| Federal funds sold and securities purchased under agreements to resell | 800 | 2,156 | 2,008 | 4,135 |
| Trading account assets | 2,229 | 2,267 | 4,593 | 4,540 |
| Other interest income | 977 | 1,154 | 2,075 | 2,198 |
| Total interest income | 20,027 | 21,232 | 41,886 | 41,792 |
| Interest expense | | | | |
| Deposits | 3,520 | 4,261 | 8,108 | 8,295 |
| Short-term borrowings | 3,087 | 5,534 | 7,229 | 10,850 |
| Trading account liabilities | 749 | 821 | 1,589 | 1,713 |
| Long-term debt | 2,050 | 2,227 | 4,348 | 4,275 |
| Total interest expense | 9,406 | 12,843 | 21,274 | 25,133 |
| Net interest income | 10,621 | 8,389 | 20,612 | 16,659 |
| Noninterest income | | | | |
| Card income | 3,451 | 3,558 | 7,090 | 6,891 |
| Service charges | 2,638 | 2,200 | 5,035 | 4,272 |
| Investment and brokerage services | 1,322 | 1,193 | 2,662 | 2,342 |
| Investment banking income | 695 | 774 | 1,171 | 1,412 |
| Equity investment income | 592 | 1,829 | 1,646 | 2,843 |
| Trading account profits (losses) | 357 | 949 | (1,426) | 1,879 |
| Mortgage banking income | 439 | 148 | 890 | 361 |
| Gains on sales of debt securities | 127 | 2 | 352 | 64 |
| Other income (loss) | 73 | 583 | (714) | 1,117 |
| Total noninterest income | 9,694 | 11,236 | 16,706 | 21,181 |
| Total revenue, net of interest expense | 20,315 | 19,625 | 37,318 | 37,840 |
| Provision for credit losses | 5,830 | 1,810 | 11,840 | 3,045 |
| Noninterest expense | | | | |
| Personnel | 4,420 | 4,737 | 9,146 | 9,762 |
| Occupancy | 848 | 744 | 1,697 | 1,457 |
| Equipment | 372 | 332 | 768 | 682 |
| Marketing | 571 | 537 | 1,208 | 1,092 |
| Professional fees | 362 | 283 | 647 | 512 |
| Amortization of intangibles | 447 | 391 | 893 | 780 |
| Data processing | 587 | 472 | 1,150 | 909 |
| Telecommunications | 266 | 244 | 526 | 495 |
| Other general operating | 1,479 | 1,340 | 2,342 | 2,437 |
| Merger and restructuring charges | 212 | 75 | 382 | 186 |
| Total noninterest expense | 9,564 | 9,155 | 18,759 | 18,312 |
| Income before income taxes | 4,921 | 8,660 | 6,719 | 16,483 |
| Income tax expense | 1,511 | 2,899 | 2,099 | 5,467 |
| Net income | \$ 3,410 | \$ 5,761 | \$ 4,620 | \$ 11,016 |
| Preferred stock dividends | 186 | 40 | 376 | 86 |
| Net income available to common shareholders | \$ 3,224 | \$ 5,721 | \$ 4,244 | \$ 10,930 |
| Per common share information | | | | |
| Earnings | \$ 0.73 | \$ 1.29 | \$ 0.96 | \$ 2.47 |
| Diluted earnings | 0.72 | 1.28 | 0.95 | 2.44 |
| Dividends paid | 0.64 | 0.56 | 1.28 | 1.12 |

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| | | | | |
|--|------------------|-----------|------------------|-----------|
| Average common shares issued and outstanding (in thousands) | 4,435,719 | 4,419,246 | 4,431,870 | 4,426,046 |
| Average diluted common shares issued and outstanding (in thousands) | 4,457,193 | 4,476,799 | 4,460,633 | 4,487,224 |

See accompanying Notes to Consolidated Financial Statements.

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| Bank of America Corporation and Subsidiaries | | |
|---|---------------------|---------------------|
| Consolidated Balance Sheet | | |
| | June 30 2008 | December 31 2007 |
| (Dollars in millions) | | |
| Assets | | |
| Cash and cash equivalents | \$ 39,127 | \$ 42,531 |
| Time deposits placed and other short-term investments | 7,649 | 11,773 |
| Federal funds sold and securities purchased under agreements to resell (includes \$2,644 and \$2,578 measured at fair value, and \$106,335 and \$128,887 pledged as collateral) | 107,070 | 129,552 |
| Trading account assets (includes \$95,125 and \$88,745 pledged as collateral) | 167,837 | 162,064 |
| Derivative assets | 42,039 | 34,662 |
| Debt securities: | | |
| Available for-sale (includes \$127,204 and \$107,440 pledged as collateral) | 248,591 | 213,330 |
| Held-to-maturity, at cost (fair value - \$1,268 and \$726) | 1,268 | 726 |
| Total debt securities | 249,859 | 214,056 |
| Loans and leases (includes \$5,014 and \$4,590 measured at fair value and \$111,026 and \$115,285 pledged as collateral) | 870,464 | 876,344 |
| Allowance for loan and lease losses | (17,130) | (11,588) |
| Loans and leases, net of allowance | 853,334 | 864,756 |
| Premises and equipment, net | 11,627 | 11,240 |
| Mortgage servicing rights (includes \$4,250 and \$3,053 measured at fair value) | 4,577 | 3,347 |
| Goodwill | 77,760 | 77,530 |
| Intangible assets | 9,603 | 10,296 |
| Other assets (includes \$38,539 and \$41,088 measured at fair value) | 146,393 | 153,939 |
| Total assets | \$ 1,716,875 | \$ 1,715,746 |
| Liabilities | | |
| Deposits in domestic offices: | | |
| Noninterest-bearing | \$ 199,587 | \$ 188,466 |
| Interest-bearing (includes \$1,912 and \$2,000 measured at fair value) | 497,631 | 501,882 |
| Deposits in foreign offices: | | |
| Noninterest-bearing | 3,432 | 3,761 |
| Interest-bearing | 84,114 | 111,068 |
| Total deposits | 784,764 | 805,177 |
| Federal funds purchased and securities sold under agreements to repurchase | 238,123 | 221,435 |
| Trading account liabilities | 70,806 | 77,342 |
| Derivative liabilities | 21,095 | 22,423 |
| Commercial paper and other short-term borrowings | 177,753 | 191,089 |
| Accrued expenses and other liabilities (includes \$723 and \$660 measured at fair value and \$507 and \$518 of reserve for unfunded lending commitments) | 55,038 | 53,969 |
| Long-term debt | 206,605 | 197,508 |
| Total liabilities | 1,554,184 | 1,568,943 |
| Commitments and contingencies (Note 9 Variable Interest Entities and Note 11 Commitments and Contingencies) | | |
| Shareholders equity | | |
| Preferred stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 185,067 shares | 7,602,067 | 4,409 |
| Common stock and additional paid-in capital, \$0.01 par value; authorized 7,500,000,000 shares; issued and outstanding 4,452,947,217 and 4,437,885,419 shares | 24,151 | 60,328 |
| Retained earnings | 61,109 | 81,393 |
| Accumulated other comprehensive income (loss) | 79,920 | 1,129 |
| Other | (1,864) | (456) |
| Total shareholders equity | 162,691 | 146,803 |
| Total liabilities and shareholders equity | \$ 1,716,875 | \$ 1,715,746 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Common Stock and Additional Paid-in Capital | | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) ⁽¹⁾ | | Total Shareholders' Equity | Comprehensive Income |
|---|---|------------------|-----------------|----------------------|---|----------------|----------------------------------|-------------------------|
| | Preferred Stock | Shares | Amount | | Income | Loss | | |
| (Dollars in millions, shares in thousands) | | | | | | | | |
| Balance, December 31, 2006 | \$2,851 | 4,458,151 | \$61,574 | \$79,024 | \$(7,711) | \$(466) | \$135,272 | |
| Cumulative adjustment for accounting changes ⁽²⁾ : | | | | | | | | |
| Leveraged leases | | | | (1,381) | | | (1,381) | |
| Fair value option and measurement | | | | (208) | | | (208) | |
| Income tax uncertainties | | | | (146) | | | (146) | |
| Net income | | | | 11,016 | | | 11,016 | \$11,016 |
| Net changes in available-for-sale debt and marketable equity securities | | | | | (2,823) | | (2,823) | (2,823) |
| Net changes in foreign currency translation adjustments | | | | | 103 | | 103 | 103 |
| Net changes in derivatives | | | | | 416 | | 416 | 416 |
| Employee benefit plan adjustments | | | | | 58 | | 58 | 58 |
| Cash dividends paid: | | | | | | | | |
| Common | | | | (4,996) | | | (4,996) | |
| Preferred | | | | (86) | | | (86) | |
| Common stock issued under employee plans and related tax benefits | | 40,235 | 1,965 | | | (249) | 1,716 | |
| Common stock repurchased | | (61,450) | (3,190) | | | | (3,190) | |
| Balance, June 30, 2007 | \$2,851 | 4,436,936 | \$60,349 | \$83,223 | \$(9,957) | \$(715) | \$135,751 | \$8,770 |
| Balance, December 31, 2007 | \$4,409 | 4,437,885 | \$60,328 | \$81,393 | \$1,129 | \$(456) | \$146,803 | |
| Net income | | | | 4,620 | | | 4,620 | \$4,620 |
| Net changes in available-for-sale debt and marketable equity securities | | | | | (3,102) | | (3,102) | (3,102) |
| Net changes in foreign currency translation adjustments | | | | | 62 | | 62 | 62 |
| Net changes in derivatives | | | | | 24 | | 24 | 24 |
| Employee benefit plan adjustments | | | | | 23 | | 23 | 23 |
| Cash dividends paid: | | | | | | | | |
| Common | | | | (5,717) | | | (5,717) | |
| Preferred | | | | (376) | | | (376) | |
| Issuance of preferred stock | 19,742 | | | | | | 19,742 | |
| Common stock issued under employee plans and related tax benefits | | 15,062 | 781 | | | (169) | 612 | |
| Balance, June 30, 2008 | \$24,151 | 4,452,947 | \$61,109 | \$79,920 | \$(1,864) | \$(625) | \$162,691 | \$1,627 |

⁽¹⁾ 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.

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

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

| (Dollars in millions) | Six Months Ended June 30 | |
|--|--------------------------|------------------|
| | 2008 | 2007 |
| Operating activities | | |
| Net income | \$ 4,620 | \$ 11,016 |
| Reconciliation of net income to net cash provided by (used in) operating activities: | | |
| Provision for credit losses | 11,840 | 3,045 |
| Gains on sales of debt securities | (352) | (64) |
| Depreciation and premises improvements amortization | 676 | 555 |
| Amortization of intangibles | 893 | 780 |
| Deferred income tax (benefit) expense | (769) | 210 |
| Net increase in trading and derivative instruments | (20,866) | (16,029) |
| Net (increase) decrease in other assets | 8,261 | (10,172) |
| Net increase in accrued expenses and other liabilities | 3,400 | 8,346 |
| Other operating activities, net | 3,495 | (408) |
| Net cash provided by (used in) operating activities | 11,198 | (2,721) |
| Investing activities | | |
| Net decrease in time deposits placed and other short-term investments | 4,124 | 813 |
| Net decrease in federal funds sold and securities purchased under agreements to resell | 22,482 | 3,640 |
| Proceeds from sales of available-for-sale debt securities | 48,991 | 6,078 |
| Proceeds from paydowns and maturities of available-for-sale debt securities | 12,710 | 10,713 |
| Purchases of available-for-sale debt securities | (82,343) | (5,874) |
| Proceeds from maturities of held-to-maturity debt securities | 63 | 24 |
| Purchases of held-to-maturity debt securities | (745) | (70) |
| Proceeds from sales of loans and leases | 36,523 | 29,309 |
| Other changes in loans and leases, net | (58,559) | (91,018) |
| Net purchases of premises and equipment | (1,109) | (849) |
| Proceeds from sales of foreclosed properties | 138 | 52 |
| (Acquisition) divestiture of business activities, net | - | (685) |
| Other investing activities, net | (198) | (631) |
| Net cash used in investing activities | (17,923) | (48,498) |
| Financing activities | | |
| Net increase (decrease) in deposits | (20,413) | 11,079 |
| Net increase in federal funds purchased and securities sold under agreements to repurchase | 16,688 | 3,636 |
| Net increase (decrease) in commercial paper and other short-term borrowings | (13,336) | 18,315 |
| Proceeds from issuance of long-term debt | 20,489 | 41,374 |
| Retirement of long-term debt | (13,750) | (16,728) |
| Proceeds from issuance of preferred stock | 19,742 | - |
| Proceeds from issuance of common stock | 28 | 682 |
| Common stock repurchased | - | (3,190) |
| Cash dividends paid | (6,093) | (5,082) |
| Excess tax benefits of share-based payments | 26 | 190 |
| Other financing activities, net | (18) | (36) |
| Net cash provided by financing activities | 3,363 | 50,240 |
| Effect of exchange rate changes on cash and cash equivalents | (42) | 49 |
| Net decrease in cash and cash equivalents | (3,404) | (930) |
| Cash and cash equivalents at January 1 | 42,531 | 36,429 |
| Cash and cash equivalents at June 30 | \$ 39,127 | \$ 35,499 |

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

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

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries
Notes to Consolidated Financial Statements

On October 1, 2007, Bank of America Corporation and its subsidiaries (the Corporation) acquired all the outstanding shares of ABN AMRO North America Holding Company, parent of LaSalle Bank Corporation (LaSalle), for \$21.0 billion in cash. On July 1, 2007, the Corporation acquired all the outstanding shares of U.S. Trust Corporation for \$3.3 billion in cash. These mergers were accounted for under the purchase method of accounting. Consequently, LaSalle's and U.S. Trust Corporation's results of operations were included in the Corporation's results from their dates of acquisition.

On July 1, 2008, the Corporation acquired Countrywide Financial Corporation (Countrywide) through its merger with a subsidiary of the Corporation. For more information related to our Countrywide acquisition, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

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 June 30, 2008, the Corporation operated its banking activities primarily under three charters: Bank of America, National Association (Bank of America, N.A.), FIA Card Services, N.A. and LaSalle Bank, 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. Results of operations of companies purchased are included from the dates of acquisition and for VIEs, from the dates that the Corporation became the primary beneficiary. Assets held in an agency or fiduciary capacity are not included in the Consolidated Financial Statements. The Corporation accounts for investments in companies for which it owns a voting interest of 20 percent to 50 percent and for which it has the ability to exercise significant influence over operating and financing decisions using the equity method of accounting. These investments are included in other assets and the Corporation's proportionate share of income or loss is included in equity investment income.

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

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

Recently Proposed and Issued Accounting Pronouncements

The FASB has decided to amend SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* a replacement of FASB Statement No. 125 (SFAS 140), impacting the accounting for qualifying special-purpose entities (QSPEs), and make certain changes to FASB Interpretation (FIN) No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* an interpretation of ARB No. 51 (FIN 46R). Exposure drafts of the proposed requirements are expected in the third quarter of 2008. Based on the preliminary discussions and tentative decisions, and assuming no changes to the Corporation's current product offerings, it is possible that these changes may lead to the consolidation of certain QSPEs and VIEs. However, the impact on the Corporation and the timing of adoption cannot be determined until the FASB issues the final amendments to SFAS 140 and FIN 46R.

On June 16, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP 03-6-1). FSP 03-6-1 defines unvested share-based payment awards that contain nonforfeitable rights to dividends as participating securities that should be included in computing earnings per share (EPS) using the two-class method under SFAS No. 128, *Earnings per Share*. FSP 03-6-1 is

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effective for the Corporation's financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. Additionally, all prior-period EPS data shall be adjusted retrospectively. The adoption of FSP 03-6-1 is not expected to have a material impact on the Corporation's financial condition and results of operations.

On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*—an amendment of FASB No. 133 (SFAS 161). SFAS 161 requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on the Corporation's financial position, financial performance and cash flows. SFAS 161 also clarifies that derivatives are subject to credit risk disclosures as required by SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. SFAS 161 is effective for the Corporation's financial statements for the year beginning on January 1, 2009. The adoption of SFAS 161 will not impact the Corporation's financial condition and results of operations.

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

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

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

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

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

Table of Contents**NOTE 2 Merger and Restructuring Activity**

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

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

The LaSalle acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations (SFAS 141). The preliminary purchase price has been allocated to the assets acquired and the liabilities assumed based on their fair values at the LaSalle acquisition date as summarized in the following table.

LaSalle Preliminary Purchase Price Allocation

| | |
|---|------------------|
| (Dollars in millions) | |
| Purchase price | \$ 21,015 |
| Preliminary allocation of the purchase price | |
| LaSalle stockholders' equity | 12,495 |
| LaSalle goodwill and other intangible assets | (2,728) |
| Adjustments to reflect assets acquired and liabilities assumed at fair value: | |
| Loans and leases | (88) |
| Premises and equipment | (185) |
| Identified intangibles ⁽¹⁾ | 1,029 |
| Other assets | (265) |
| Exit and termination liabilities | (426) |
| Other liabilities and deferred income taxes | 5 |
| Fair value of net assets acquired | 9,837 |
| Preliminary goodwill resulting from the LaSalle merger ⁽²⁾ | \$ 11,178 |

⁽¹⁾ Includes core deposit intangibles of \$700 million, and other intangibles of \$329 million. The amortization life for core deposit intangibles and other intangibles is 10 years. These intangibles are amortized on an accelerated basis.

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

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 six months ended June 30, 2008 and 2007.

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|--------------|--------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Severance and employee-related charges | \$ 30 | \$ 5 | \$ 75 | \$ 17 |
| Systems integrations and related charges | 155 | 58 | 245 | 137 |
| Other | 27 | 12 | 62 | 32 |
| Total merger and restructuring charges ⁽¹⁾ | \$ 212 | \$ 75 | \$ 382 | \$ 186 |

⁽¹⁾ Included for the three and six months ended June 30, 2008, are merger-related charges of \$174 million and \$303 million related to the LaSalle merger and \$38 million and \$79 million related to the U.S. Trust Corporation merger.

Merger-related Exit Cost and Restructuring Reserves

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

| (Dollars in millions) | Exit Cost Reserves ⁽¹⁾ | | Restructuring Reserves ⁽²⁾ | |
|--------------------------------------|-----------------------------------|---------------|---------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Balance, January 1 | \$ 377 | \$ 125 | \$ 108 | \$ 67 |
| Exit cost and restructuring charges: | | | | |
| LaSalle | 87 | - | 31 | - |
| U.S. Trust Corporation | - | - | 13 | - |
| MBNA | - | - | - | 11 |
| Cash payments | (59) | (26) | (55) | (33) |
| Balance, March 31 | 405 | 99 | 97 | 45 |
| Exit cost and restructuring charges: | | | | |
| LaSalle | - | - | 15 | - |
| U.S. Trust Corporation | - | - | 13 | - |
| MBNA | (2) | - | - | 5 |
| Cash payments | (53) | (19) | (12) | (14) |
| Balance, June 30 | \$ 350 | \$ 80 | \$ 113 | \$ 36 |

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

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

As of December 31, 2007, there were \$377 million of exit cost reserves related to the MBNA Corporation (MBNA), U.S. Trust Corporation and LaSalle mergers, including \$187 million for severance, relocation and other employee-related costs and \$190 million for contract terminations. Cash payments of \$53 million during the three months ended June 30, 2008 consisted of \$42 million in severance, relocation and other employee-related costs and \$11 million for contract terminations. During the six months ended June 30, 2008, a net amount of \$85 million was added to the exit cost reserves related to the MBNA and LaSalle mergers which were all included in severance, relocation and other

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employee-related costs. Cash payments of \$112 million during the six months ended June 30, 2008 consisted of \$100 million in severance, relocation and other employee-related costs and \$12 million for contract terminations.

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As of December 31, 2007, there were \$108 million of restructuring reserves related to the MBNA, U.S. Trust Corporation and LaSalle mergers, including \$104 million related to severance and other employee-related costs and \$4 million related to contract terminations. During the three and six months ended June 30, 2008, \$28 million and \$72 million were added to the restructuring reserves, related to severance and other employee-related costs. Cash payments of \$12 million during the three months ended June 30, 2008 were all related to severance and other employee-related costs. Cash payments of \$67 million during the six months ended June 30, 2008 consisted of \$65 million in severance and other employee-related costs and \$2 million in contract terminations.

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

Countrywide Acquisition

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

As provided by the merger agreement, 583 million shares of Countrywide common stock were exchanged for 106 million shares of the Corporation's common stock. This represents approximately two percent of the Corporation's outstanding common stock. Countrywide shareholders also received cash of \$346 thousand in place of any fractional shares of the Corporation's common stock that would have otherwise been issued on July 1, 2008. The \$2.0 billion of Countrywide's Series B convertible preferred shares that were previously held by the Corporation were cancelled.

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

Countrywide Preliminary Purchase Price Allocation

(Dollars in billions, except per share information)

| | |
|---|---------------|
| Purchase price | |
| Countrywide common stock exchanged (in thousands) | 583,256 |
| Exchange ratio | 0.1822 |
| Total shares of the Corporation's common stock exchanged (in thousands) | 106,269 |
| Purchase price per share of the Corporation's common stock ⁽¹⁾ | \$ 38.73 |
| Total purchase price | \$ 4.1 |
| Preliminary allocation of the purchase price | |
| Countrywide stockholders' equity ⁽²⁾ | 8.4 |
| Pre-tax adjustments to reflect assets acquired and liabilities assumed at fair value: | |
| Loans ⁽³⁾ | (8.1) |
| Mortgage servicing rights | (1.7) |
| Deferred costs and currency adjustments on loans and debt | 1.6 |
| All other | (4.6) |
| Pre-tax total adjustments | (12.8) |
| Deferred income taxes | 4.5 |
| After-tax total adjustments | (8.3) |
| Fair value of net assets acquired | 0.1 |
| Preliminary goodwill resulting from the Countrywide merger⁽⁴⁾ | \$ 4.0 |

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

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

(3) Loan portfolio credit adjustment of \$14.3 billion less the allowance for loan and lease losses of \$5.1 billion at the acquisition date and other miscellaneous adjustments.

(4) No goodwill is expected to be deductible for federal income tax purposes.

Table of Contents**NOTE 3 Trading Account Assets and Liabilities**

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

| (Dollars in millions) | June 30 2008 | December 31 2007 |
|--|-------------------|---------------------|
| Trading account assets | | |
| U.S. Government and agency securities ⁽¹⁾ | \$ 76,798 | \$ 48,240 |
| Corporate securities, trading loans, and other | 43,006 | 55,360 |
| Equity securities | 19,168 | 22,910 |
| Foreign sovereign debt | 15,581 | 17,161 |
| Mortgage trading loans and asset-backed securities | 13,284 | 18,393 |
| Total trading account assets | \$ 167,837 | \$ 162,064 |
| Trading account liabilities | | |
| U.S. Government and agency securities | \$ 34,978 | \$ 35,375 |
| Equity securities | 20,628 | 25,926 |
| Foreign sovereign debt | 9,865 | 9,292 |
| Corporate securities and other | 5,335 | 6,749 |
| Total trading account liabilities | \$ 70,806 | \$ 77,342 |

⁽¹⁾ Includes \$49.2 billion and \$21.5 billion at June 30, 2008 and December 31, 2007 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 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 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 (loss). A detailed discussion of derivative trading activities and asset and liability management (ALM) activities is presented in *Note 1 Summary of Significant Accounting Principles* and *Note 4 Derivatives* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

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The following table presents the contract/notional amounts and credit risk amounts at June 30, 2008 and December 31, 2007 of all the Corporation's derivative positions. These derivative positions are primarily executed in the over-the-counter market. The credit risk amounts take into consideration the effects of legally enforceable master netting agreements, and on an aggregate basis have been reduced by the cash collateral applied against derivative assets. At June 30, 2008 and December 31, 2007, the cash collateral applied against derivative assets was \$16.5 billion and \$12.8 billion. In addition, at June 30, 2008 and December 31, 2007, the cash collateral applied against derivative liabilities was \$10.1 billion and \$10.0 billion. The average fair value of derivative assets, less cash collateral, for the three months ended June 30, 2008 and December 31, 2007 was \$45.1 billion and \$33.9 billion. The average fair value of derivative liabilities, less cash collateral, for the three months ended June 30, 2008 and December 31, 2007 was \$24.4 billion and \$20.7 billion.

| (Dollars in millions) | June 30, 2008 | | December 31, 2007 | |
|------------------------------------|--------------------------------------|------------------|--------------------------------------|------------------|
| | Contract/ Notional ⁽¹⁾ | Credit Risk | Contract/ Notional ⁽¹⁾ | Credit Risk |
| Interest rate contracts | | | | |
| Swaps | \$ 26,162,587 | \$ 15,136 | \$ 22,472,949 | \$ 15,368 |
| Futures and forwards | 4,810,793 | 322 | 2,596,146 | 10 |
| Written options | 1,734,740 | - | 1,402,626 | - |
| Purchased options | 1,844,397 | 2,428 | 1,479,985 | 2,508 |
| Foreign exchange contracts | | | | |
| Swaps | 478,193 | 9,572 | 505,878 | 7,350 |
| Spot, futures and forwards | 1,955,306 | 5,189 | 1,600,683 | 4,124 |
| Written options | 270,806 | - | 341,148 | - |
| Purchased options | 241,966 | 1,303 | 339,101 | 1,033 |
| Equity contracts | | | | |
| Swaps | 29,551 | 2,038 | 56,300 | 2,026 |
| Futures and forwards | 16,926 | 106 | 12,174 | 10 |
| Written options | 232,166 | - | 166,736 | - |
| Purchased options | 272,998 | 8,842 | 195,240 | 6,337 |
| Commodity contracts | | | | |
| Swaps | 10,159 | 2,521 | 13,627 | 770 |
| Futures and forwards | 13,332 | 36 | 14,391 | 12 |
| Written options | 22,038 | - | 14,206 | - |
| Purchased options | 18,775 | 1,195 | 13,093 | 372 |
| Credit derivatives | 2,693,324 | 9,870 | 3,046,381 | 7,493 |
| Credit risk before cash collateral | | 58,558 | | 47,413 |
| Less: Cash collateral applied | | 16,519 | | 12,751 |
| Total derivative assets | | \$ 42,039 | | \$ 34,662 |

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

Fair Value, Cash Flow and Net Investment Hedges

The Corporation uses various types of interest rate and foreign exchange derivative contracts to protect against changes in the fair value of its assets and liabilities due to fluctuations in interest rates and exchange rates (fair value hedges). The Corporation also uses these types of contracts to protect against changes in the cash flows of its assets and liabilities, and other forecasted transactions (cash flow hedges). During the next 12 months, net losses on derivative instruments included in accumulated OCI of approximately \$1.6 billion (\$1.0 billion after-tax) are expected to be reclassified into earnings. These net losses reclassified into earnings are expected to reduce net interest income related to the respective hedged items.

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

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|---------|--------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Fair value hedges | | | | |
| Hedge ineffectiveness recognized in net interest income | \$ (59) | \$ (38) | \$ 2 | \$ (36) |
| Cash flow hedges | | | | |
| Hedge ineffectiveness recognized in net interest income | (5) | 7 | (8) | 7 |
| Net losses on transactions which are probable of not occurring recognized in other income | - | (14) | - | (14) |

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 a net derivative loss of \$46 million and a net derivative gain of \$8 million in accumulated OCI associated with net investment hedges for the three and six months ended June 30, 2008 as compared to losses of \$267 million and \$302 million for the same periods in the prior year.

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 June 30, 2008 and December 31, 2007 were:

| (Dollars in millions) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| Available-for-sale debt securities, June 30, 2008 | | | | |
| U.S. Treasury securities and agency debentures | \$ 807 | \$ 9 | \$ (5) | \$ 811 |
| Mortgage-backed securities ⁽¹⁾ | 214,161 | 69 | (7,347) | 206,883 |
| Foreign securities | 6,624 | 28 | (88) | 6,564 |
| Corporate/Agency bonds | 4,081 | 4 | (275) | 3,810 |
| Other taxable securities ⁽²⁾ | 21,343 | 52 | (199) | 21,196 |
| Total taxable securities | 247,016 | 162 | (7,914) | 239,264 |
| Tax-exempt securities | 9,692 | 3 | (368) | 9,327 |
| Total available-for-sale debt securities | \$ 256,708 | \$ 165 | \$ (8,282) | \$ 248,591 |
| Available-for-sale marketable equity securities ⁽³⁾ | | | | |
| Available-for-sale debt securities, December 31, 2007 | | | | |
| U.S. Treasury securities and agency debentures | \$ 749 | \$ 10 | \$ - | \$ 759 |
| Mortgage-backed securities ⁽¹⁾ | 166,768 | 92 | (3,144) | 163,716 |
| Foreign securities | 6,568 | 290 | (101) | 6,757 |
| Corporate/Agency bonds | 3,107 | 2 | (76) | 3,033 |
| Other taxable securities ⁽²⁾ | 24,608 | 69 | (84) | 24,593 |
| Total taxable securities | 201,800 | 463 | (3,405) | 198,858 |
| Tax-exempt securities | 14,468 | 73 | (69) | 14,472 |
| Total available-for-sale debt securities | \$ 216,268 | \$ 536 | \$ (3,474) | \$ 213,330 |
| Available-for-sale marketable equity securities ⁽³⁾ | \$ 6,562 | \$ 13,530 | \$ (352) | \$ 19,740 |

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- (1) Substantially all securities were issued by U.S. government-backed or government-sponsored enterprises.
- (2) Includes asset-backed securities (ABS).
- (3) Represents those AFS marketable equity securities that are recorded in other assets on the Consolidated Balance Sheet.

At June 30, 2008 and December 31, 2007, both the amortized cost and fair value of held-to-maturity debt securities was \$1.3 billion and \$726 million and the accumulated net unrealized gains on AFS debt and marketable equity securities included in accumulated OCI were \$3.4 billion and \$6.6 billion, net of the related income tax expense of \$2.1 billion and \$3.7 billion.

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The Corporation recognized \$515 million and \$1.1 billion of other-than-temporary impairment losses on AFS debt, primarily CDO-related, and marketable equity securities during the three and six months ended June 30, 2008. No such losses were recognized during the three and six months ended June 30, 2007. At June 30, 2008 and December 31, 2007, the Corporation had nonperforming AFS debt securities of \$676 million and \$180 million.

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

Certain Corporate and Strategic Investments

At June 30, 2008 and December 31, 2007, the Corporation owned approximately eight percent, or 19.1 billion common shares, of China Construction Bank (CCB). These common shares are accounted for at fair value and recorded as AFS marketable equity securities in other assets with an offset to accumulated OCI. These shares are non-transferable until October 2008. At June 30, 2008 and December 31, 2007, the cost of the CCB investment was \$3.0 billion and the fair value was \$15.6 billion and \$16.4 billion. Dividend income on this investment is recorded in equity investment income. The Corporation also holds an option to increase its ownership interest in CCB to 19.1 percent. Additional shares received upon exercise of this option are restricted through August 2011. This option expires in February 2011. The strike price of the option is based on the greater of 1.2 times the book value per share for the most recent calendar year end or the IPO price that steps up on an annual basis and is currently at 103 percent of the IPO price. When based on the IPO price the strike price is capped at 118 percent.

Additionally, the Corporation owned approximately 171.3 million and 51.3 million of preferred and common shares of Banco Itaú Holding Financeira S.A. (Banco Itaú) at both June 30, 2008 and December 31, 2007. This investment in Banco Itaú is accounted for at fair value and recorded as AFS marketable equity securities in other assets with an offset to accumulated OCI. Prior to the second quarter of 2008, these shares were accounted for at cost. Dividend income on this investment is recorded in equity investment income. At June 30, 2008 and December 31, 2007, the cost of this investment was \$2.6 billion and the fair value was \$4.5 billion and \$4.6 billion.

The Corporation has a 24.9 percent, or \$3.0 billion, investment in Grupo Financiero Santander, S.A., the subsidiary of Grupo Santander, S.A. This investment is recorded in other assets and is accounted for under the equity method of accounting with income being recorded in equity investment income.

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

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

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

| (Dollars in millions) | June 30 2008 | December 31 2007 |
|--|-------------------|---------------------|
| Consumer | | |
| Residential mortgage | \$ 235,472 | \$ 274,949 |
| Credit card domestic | 62,081 | 65,774 |
| Credit card foreign | 16,561 | 14,950 |
| Home equity | 121,409 | 114,820 |
| Direct/Indirect consumer ⁽¹⁾ | 84,907 | 76,538 |
| Other consumer ⁽²⁾ | 3,859 | 4,170 |
| Total consumer | 524,289 | 551,201 |
| Commercial | | |
| Commercial domestic ⁽³⁾ | 220,610 | 208,297 |
| Commercial real estate ⁽⁴⁾ | 62,897 | 61,298 |
| Commercial lease financing | 22,815 | 22,582 |
| Commercial foreign | 34,839 | 28,376 |
| Total commercial loans measured at historical cost | 341,161 | 320,553 |
| Commercial loans measured at fair value ⁽⁵⁾ | 5,014 | 4,590 |
| Total commercial | 346,175 | 325,143 |
| Total loans and leases | \$ 870,464 | \$ 876,344 |

⁽¹⁾ Includes foreign consumer loans of \$2.9 billion and \$3.4 billion at June 30, 2008 and December 31, 2007.

⁽²⁾ Includes consumer finance loans of \$2.8 billion and \$3.0 billion, and other foreign consumer loans of \$839 million and \$829 million at June 30, 2008 and December 31, 2007.

⁽³⁾ Includes small business commercial domestic loans, primarily card related, of \$19.9 billion and \$19.6 billion at June 30, 2008 and December 31, 2007.

⁽⁴⁾ Includes domestic commercial real estate loans of \$61.8 billion and \$60.2 billion, and foreign commercial real estate loans of \$1.1 billion at both June 30, 2008 and December 31, 2007.

⁽⁵⁾ Certain commercial loans are measured at fair value in accordance with SFAS 159 and include commercial domestic loans of \$3.5 billion and \$3.5 billion, commercial foreign loans of \$1.3 billion and \$790 million, and commercial real estate loans of \$176 million and \$304 million at June 30, 2008 and December 31, 2007. See Note 14 Fair Value Disclosures to the Consolidated Financial Statements for additional discussion of fair value for certain financial instruments.

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 June 30, 2008 and December 31, 2007. SFAS 114 defines impairment to include performing loans which had previously entered into a troubled debt restructuring and excludes all commercial leases.

| (Dollars in millions) | June 30 2008 | December 31 2007 |
|-----------------------|-----------------|---------------------|
|-----------------------|-----------------|---------------------|

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| | | |
|------------------------------------|-----------------|-----------------|
| Commercial domestic ⁽¹⁾ | \$ 1,232 | \$ 1,018 |
| Commercial real estate | 2,616 | 1,099 |
| Commercial foreign | 48 | 19 |
| Total impaired loans | \$ 3,896 | \$ 2,136 |

⁽¹⁾ Includes small business commercial domestic loans of \$153 million and \$152 million at June 30, 2008 and December 31, 2007.

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At June 30, 2008 and December 31, 2007, nonperforming loans and leases, including impaired and nonaccrual consumer loans, totaled \$9.2 billion and \$5.6 billion. In addition, included in other assets were consumer and commercial nonperforming loans held-for-sale (LHFS) of \$388 million and \$188 million at June 30, 2008 and December 31, 2007.

NOTE 7 Allowance for Credit Losses

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

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|-----------------|--------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Allowance for loan and lease losses, beginning of period | \$ 14,891 | \$ 8,732 | \$ 11,588 | \$ 9,016 |
| Adjustment due to the adoption of SFAS 159 | - | - | - | (32) |
| Loans and leases charged off | (4,140) | (1,805) | (7,320) | (3,548) |
| Recoveries of loans and leases previously charged off | 521 | 310 | 986 | 626 |
| Net charge-offs | (3,619) | (1,495) | (6,334) | (2,922) |
| Provision for loan and lease losses | 5,830 | 1,808 | 11,851 | 3,036 |
| Other | 28 | 15 | 25 | (38) |
| Allowance for loan and lease losses, June 30 | 17,130 | 9,060 | 17,130 | 9,060 |
| Reserve for unfunded lending commitments, beginning of period | 507 | 374 | 518 | 397 |
| Adjustment due to the adoption of SFAS 159 | - | - | - | (28) |
| Provision for unfunded lending commitments | - | 2 | (11) | 9 |
| Other | - | - | - | (2) |
| Reserve for unfunded lending commitments, June 30 | 507 | 376 | 507 | 376 |
| Allowance for credit losses, June 30 | \$ 17,637 | \$ 9,436 | \$ 17,637 | \$ 9,436 |

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 called 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.

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As of June 30, 2008 and December 31, 2007 the aggregate debt securities outstanding for the Corporation's credit card securitization trusts were \$106.9 billion and \$101.3 billion. Key economic assumptions used in measuring the fair value of certain residual interests that continue to be held by the Corporation (included in other assets) 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) | June 30 2008 | December 31 2007 |
|---|--------------------|---------------------|
| Carrying amount of residual interests (at fair value) ⁽¹⁾ | \$ 2,722 | \$ 2,766 |
| Balance of unamortized securitized loans | 108,521 | 102,967 |
| Weighted average life to call or maturity (in years) | 0.3 | 0.3 |
| Monthly payment rate | 10.2-15.2 % | 11.6-16.6 % |
| Impact on fair value of 10% favorable change | \$ 50 | \$ 51 |
| Impact on fair value of 25% favorable change | 142 | 158 |
| Impact on fair value of 10% adverse change | (47) | (35) |
| Impact on fair value of 25% adverse change | (101) | (80) |
| Expected credit losses (annual rate) | 3.9-6.3 % | 3.7-5.4 % |
| Impact on fair value of 10% favorable change | \$ 179 | \$ 141 |
| Impact on fair value of 25% favorable change | 479 | 374 |
| Impact on fair value of 10% adverse change | (179) | (133) |
| Impact on fair value of 25% adverse change | (448) | (333) |
| Residual cash flows discount rate (annual rate) | 11.5 % | 11.5 % |
| Impact on fair value of 100 bps favorable change | \$ 4 | \$ 9 |
| Impact on fair value of 200 bps favorable change | 5 | 13 |
| Impact on fair value of 100 bps adverse change | (7) | (12) |
| Impact on fair value of 200 bps adverse change | (14) | (23) |

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

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

Principal proceeds from collections reinvested in revolving credit card securitizations were \$43.2 billion and \$88.8 billion for the three and six months ended June 30, 2008 compared to \$44.6 billion and \$89.3 billion for the same periods in 2007. Contractual credit card servicing fee income totaled \$548 million and \$1.1 billion for the three and six months ended June 30, 2008 compared to \$514 million and \$1.0 billion for the same periods in 2007. Other cash flows received on retained interests, such as cash flow from interest-only strips, were \$1.6 billion and \$3.3 billion for the three and six months ended June 30, 2008 compared to \$1.5 billion and \$3.2 billion for the same periods in 2007, for credit card securitizations.

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. In addition to the table below, the Corporation also provided support to certain cash funds managed within *Global Wealth and Investment Management (GWIM)* as described in more detail in *Note 11 Commitments and Contingencies* to the Consolidated Financial Statements.

| (Dollars in millions) | Consolidated ⁽¹⁾ | | Unconsolidated | |
|--|-----------------------------|------------------|------------------|------------------|
| | Total Assets | Loss Exposure | Total Assets | Loss Exposure |
| Variable interest entities, June 30, 2008 | | | | |
| Corporation-sponsored multi-seller conduits | \$ 11,218 | \$ 14,214 | \$ 29,850 | \$ 47,754 |
| Collateralized debt obligation vehicles | 5,775 | 5,775 | 2,624 | 1,960 |
| Leveraged lease trusts | 6,051 | 6,051 | - | - |
| Other | 8,521 | 7,856 | 7,954 | 6,569 |
| Total variable interest entities | \$ 31,565 | \$ 33,896 | \$ 40,428 | \$ 56,283 |
| Variable interest entities, December 31, 2007 | | | | |
| Corporation-sponsored multi-seller conduits | \$ 11,944 | \$ 16,984 | \$ 29,363 | \$ 47,335 |
| Collateralized debt obligation vehicles | 4,464 | 4,311 | 8,324 | 7,410 |
| Leveraged lease trusts | 6,236 | 6,236 | - | - |
| Other | 13,771 | 12,347 | 8,260 | 5,953 |
| Total variable interest entities | \$ 36,415 | \$ 39,878 | \$ 45,947 | \$ 60,698 |

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

Corporation-Sponsored Multi-Seller Conduits

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

The Corporation is the primary beneficiary of one of the above conduits and consequently it is included in the Consolidated Financial Statements. The assets of this conduit are included in AFS and held-to-maturity debt securities, and other assets. At June 30, 2008, liquidity commitments to the conduit were mainly collateralized by credit card loans (23 percent), auto loans (12 percent), capital commitments (eight percent), and equipment loans (seven percent). None of these assets are subprime residential mortgages. In addition, 33 percent of the Corporation's liquidity commitments were collateralized by projected cash flows from long-term contracts (e.g., television broadcast contracts, stadium revenues and royalty payments) which, as mentioned above, incorporate features that provide credit support. Amounts advanced under these arrangements will be repaid when cash flows due under the long-term contracts are received. Approximately 65 percent of this exposure is insured. At June 30, 2008, the weighted average life of assets in the consolidated conduit was 5.4 years and the weighted average maturity of commercial paper issued by this conduit was 34 days. Assets of the Corporation are not available to pay creditors of the consolidated conduit except to the extent the Corporation may be obligated to perform under the liquidity commitments and SBLCs. Assets of the consolidated conduit are not available to pay creditors of the Corporation.

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The Corporation does not consolidate the other three conduits which issued capital notes and equity interests to independent third parties as it does not expect to absorb a majority of the variability of the conduits. At June 30, 2008, the Corporation's liquidity commitments to the unconsolidated conduits were collateralized by credit card loans (23 percent), student loans (22 percent), auto loans (13 percent), equipment loans and trade receivables (eight percent each). Less than one percent of these assets are subprime residential mortgages. In addition, 19 percent of the Corporation's commitments were collateralized by the conduits' short-term lending arrangements with investment funds, primarily real estate funds, which, as mentioned above, incorporate features that provide credit support. Amounts advanced under these arrangements will be repaid when the investment funds issue capital calls to their qualified equity investors. At June 30, 2008, the weighted average life of assets in the unconsolidated conduit was 2.6 years and the weighted average maturity of commercial paper issued by these conduits was 40 days.

Net revenues earned from fees associated with these commitments were \$78 million and \$147 million for the three and six months ended June 30, 2008 compared to \$54 million and \$86 million for the same periods in 2007.

Collateralized Debt Obligation Vehicles

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

The Corporation is the primary beneficiary of certain CDOs which are included in the Consolidated Financial Statements at June 30, 2008 and December 31, 2007. Assets held at fair value in the consolidated CDOs include AFS debt securities of \$4.6 billion and \$2.8 billion and trading account assets of \$1.2 billion and \$1.3 billion at June 30, 2008 and December 31, 2007. Substantially all of these investments were acquired in connection with liquidity support in the form of written put options that had been provided to CDO vehicles and other liquidity support which had been provided to the CDO conduit which are discussed below. The creditors of the consolidated CDOs have no recourse to the general credit of the Corporation.

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

Prior to the second quarter of 2008, the Corporation's liquidity support to unconsolidated CDOs also included other liquidity support of \$2.3 billion at December 31, 2007 to a CDO conduit administered by the Corporation that obtained funds by issuing commercial paper to third party investors. The conduit held \$2.3 billion of assets at December 31, 2007 consisting of super senior tranches of debt securities issued by other CDOs. During the three months ended June 30, 2008, the CDO conduit was liquidated due to a threatened downgrade of its commercial paper. In accordance with its liquidity obligation, the Corporation purchased the assets of the CDO conduit.

At June 30, 2008 and December 31, 2007, the Corporation held commercial paper with a carrying value of \$686 million and \$6.6 billion on the balance sheet that was issued by unconsolidated CDO vehicles, of which \$686 million and \$5.0 billion related to these written put options and at December 31, 2007, \$1.6 billion related to other liquidity support.

Leveraged Lease Trusts

The Corporation's net investment in leveraged lease trusts totaled \$6.1 billion and \$6.2 billion at June 30, 2008 and December 31, 2007. These amounts, which were recorded in loans and leases, represent the Corporation's maximum loss exposure to these entities in the unlikely event that the leveraged lease investments become worthless. Debt issued by the leveraged lease trusts is nonrecourse to the Corporation. The Corporation has no liquidity exposure to these leveraged lease trusts.

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Other consolidated VIEs at June 30, 2008 and December 31, 2007 consisted primarily of securitization vehicles, including an asset acquisition conduit that holds securities on the Corporation's behalf and term securitization vehicles that did not meet QSPE status, as well as managed investment vehicles that invest in financial assets, primarily debt securities. Included within maximum exposure to loss of these VIEs was \$4.6 billion and \$7.4 billion of liquidity exposure to consolidated trusts that hold municipal bonds and \$1.2 billion and \$1.6 billion of liquidity exposure to the consolidated asset acquisition conduit at June 30, 2008 and December 31, 2007. The assets of these consolidated VIEs were recorded in trading account assets, AFS debt securities and other assets. Other unconsolidated VIEs at June 30, 2008 and December 31, 2007 consisted primarily of securitization vehicles, managed investment vehicles that invest in financial assets, primarily debt securities, and investments in affordable housing investment partnerships. Revenues associated with administration, asset management, liquidity, and other services were \$2 million and \$4 million for the three and six months ended June 30, 2008 compared to \$3 million and \$8 million for the same periods in 2007.

NOTE 10 Goodwill and Intangible Assets

The following tables present goodwill and intangible assets at June 30, 2008 and December 31, 2007.

| (Dollars in millions) | June 30 2008 | December 31 2007 |
|--|------------------|---------------------|
| Global Consumer and Small Business Banking | \$ 40,537 | \$ 40,340 |
| Global Corporate and Investment Banking | 29,523 | 29,648 |
| Global Wealth and Investment Management | 6,505 | 6,451 |
| All Other | 1,195 | 1,091 |
| Total goodwill | \$ 77,760 | \$ 77,530 |

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

| (Dollars in millions) | June 30, 2008 | | December 31, 2007 | |
|-------------------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|
| | Gross Carrying Value | Accumulated Amortization | Gross Carrying Value | Accumulated Amortization |
| Purchased credit card relationships | \$ 7,283 | \$ 2,352 | \$ 7,027 | \$ 1,970 |
| Core deposit intangibles | 4,594 | 3,058 | 4,594 | 2,828 |
| Affinity relationships | 1,679 | 497 | 1,681 | 406 |
| Other intangibles | 2,996 | 1,042 | 3,050 | 852 |
| Total intangible assets | \$ 16,552 | \$ 6,949 | \$ 16,352 | \$ 6,056 |

Amortization of intangibles expense was \$447 million and \$391 million for the three months ended June 30, 2008 and 2007 and \$893 million and \$780 million for the six months ended June 30, 2008 and 2007. The Corporation estimates that aggregate amortization expense is expected to be approximately \$430 million for each of the remaining quarters of 2008. In addition, the Corporation estimates the aggregate amortization expense will be approximately \$1.5 billion, \$1.3 billion, \$1.2 billion, \$1.0 billion and \$840 million for 2009 through 2013, respectively.

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. The unfunded legally binding lending commitments shown in the following table are net of amounts distributed (e.g., syndicated) to other financial institutions of \$48.8 billion and \$39.2 billion at June 30, 2008 and December 31, 2007. At June 30, 2008, the carrying amount of these commitments, excluding fair value adjustments, was \$539 million, including deferred revenue of \$32 million and a reserve for unfunded legally binding lending commitments of \$507 million. At December 31, 2007, the comparable amounts were \$550 million, \$32 million and \$518 million. The carrying amount of these commitments is recorded in accrued expenses and other liabilities. For information regarding the Corporation's loan commitments accounted for at fair value, see *Note 14 Fair Value Disclosures* to the Consolidated Financial Statements.

| (Dollars in millions) | Expires after 1 | | | | Total |
|--|---------------------------|----------------------|---------------------------------------|-----------------------|---------------------|
| | Expires in 1 year or less | year through 3 years | Expires after 3 years through 5 years | Expires after 5 years | |
| Credit extension commitments, | | | | | |
| June 30, 2008 | | | | | |
| Loan commitments | \$ 163,093 | \$ 103,530 | \$ 95,797 | \$ 26,441 | \$ 388,861 |
| Home equity lines of credit | 8,278 | 1,787 | 3,041 | 101,209 | 114,315 |
| Standby letters of credit and financial guarantees | 33,989 | 20,309 | 9,631 | 9,860 | 73,789 |
| Commercial letters of credit | 3,751 | 30 | 27 | 1,522 | 5,330 |
| Legally binding commitments ⁽¹⁾ | 209,111 | 125,656 | 108,496 | 139,032 | 582,295 |
| Credit card lines | 885,022 | 28,787 | - | - | 913,809 |
| Total credit extension commitments | \$ 1,094,133 | \$ 154,443 | \$ 108,496 | \$ 139,032 | \$ 1,496,104 |
| Credit extension commitments, | | | | | |
| December 31, 2007 | | | | | |
| Loan commitments | \$ 178,931 | \$ 92,153 | \$ 106,904 | \$ 27,902 | \$ 405,890 |
| Home equity lines of credit | 8,482 | 1,828 | 2,758 | 107,055 | 120,123 |
| Standby letters of credit and financial guarantees | 31,629 | 14,493 | 7,943 | 8,731 | 62,796 |
| Commercial letters of credit | 3,753 | 50 | 33 | 717 | 4,553 |
| Legally binding commitments ⁽¹⁾ | 222,795 | 108,524 | 117,638 | 144,405 | 593,362 |
| Credit card lines | 876,393 | 17,864 | - | - | 894,257 |
| Total credit extension commitments | \$ 1,099,188 | \$ 126,388 | \$ 117,638 | \$ 144,405 | \$ 1,487,619 |

⁽¹⁾ Includes commitments to VIEs disclosed in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements, including \$47.8 billion and \$47.3 billion to corporation-sponsored multi-seller conduits and \$0 and \$2.3 billion to CDOs at June 30, 2008 and December 31, 2007. Also includes commitments to SPEs that are not disclosed in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements because the Corporation does not hold a significant variable interest or because they are QSPEs, including \$7.1 billion and \$6.1 billion to municipal bond trusts and \$1.2 billion and \$1.7 billion to customer-sponsored conduits at June 30, 2008 and December 31, 2007.

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

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

At June 30, 2008 and December 31, 2007, the Corporation's share of the leveraged finance forward calendar was \$4.1 billion and \$12.2 billion. During the six months ended June 30, 2008, the Corporation had new transactions of \$7.7 billion, syndications of \$8.8 billion, closed but not yet syndicated of \$3.9 billion, and had client terminations and other transactions of \$3.1 billion related to the leveraged finance forward calendar. The Corporation also had unfunded real estate loan commitments of \$717 million at June 30, 2008 compared to \$2.2 billion at December 31, 2007 with the primary change resulting from \$1.2 billion of transactions that were funded. Pre-market disruption exposures originated prior to September 30, 2007, included in the leveraged finance forward calendar, amounted to \$599 million at June 30, 2008 compared to \$10.7 billion at December 31, 2007. We have not originated new unfunded real estate loan commitments subsequent to September 30, 2007.

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

At June 30, 2008 and December 31, 2007, the Corporation had unfunded equity investment commitments of approximately \$1.9 billion and \$2.6 billion. These commitments relate primarily to the Strategic Investments portfolio, as well as equity commitments included in the Corporation's Principal Investing business, which is comprised of a diversified portfolio of investments in privately-held and publicly-traded companies at all stages of their life cycle from start-up to buyout. These investments are made either directly in a company or held through a fund and are accounted for at fair value. Bridge equity commitments provide equity bridge financing to facilitate clients' investment activities. These conditional commitments are often retired prior to or shortly following funding via syndication or the client's decision to terminate. Where the Corporation has a binding equity bridge commitment and there is a market disruption or other unexpected event, there may be heightened exposure in the portfolio and higher potential for loss, unless an orderly disposition of the exposure can be made. At June 30, 2008 the Corporation did not have any unfunded bridge equity commitments and had previously funded \$1.2 billion of equity bridges which are considered held for investment. During the three months ended June 30, 2008, the Corporation recorded \$184 million in losses related to these investments through equity investment income.

U.S. Government Guaranteed Charge Cards

At June 30, 2008 and December 31, 2007, the unfunded lending commitments related to charge cards (nonrevolving card lines) to individuals and government entities guaranteed by the U.S. Government in the amount of \$9.2 billion and \$9.9 billion were not included in credit card line commitments in the previous table. The outstanding balances related to these charge cards were \$308 million and \$193 million at June 30, 2008 and December 31, 2007.

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Loan Purchases

At June 30, 2008, the Corporation had no collateralized mortgage obligation loan purchase commitments related to the Corporation's ALM activities. At December 31, 2007, the Corporation had net collateralized mortgage obligation loan purchase commitments related to the Corporation's ALM activities of \$752 million, all of which settled in the first quarter of 2008.

The Corporation entered into an agreement for the committed purchase of retail automotive loans over a five-year period, ending June 30, 2010. The Corporation purchased \$5.0 billion of such loans under this agreement for the six months ended June 30, 2008. In 2007, the Corporation purchased \$4.5 billion of such loans. Under the agreement, the Corporation is committed to purchase up to \$10.0 billion in each of the agreement's following two fiscal years. As of June 30, 2008, the Corporation was committed for additional purchases of up to \$20.0 billion over the remaining term of the agreement. All loans purchased under this agreement are subject to a comprehensive set of credit criteria.

Operating Leases

The Corporation is a party to operating leases for certain of its premises and equipment. Commitments under these leases approximate \$2.0 billion, \$1.9 billion, \$1.7 billion, \$1.4 billion and \$1.2 billion for 2008 through 2012, respectively, and \$8.6 billion for all years thereafter.

Other Commitments

Beginning in the second half of 2007, the Corporation provided support to certain cash funds managed within *GWIM*. The funds for which the Corporation provided support typically invest in high quality, short-term securities with a portfolio weighted average maturity of 90 days or less, including a limited number of securities issued by SIVs. Due to market disruptions, certain SIV investments were downgraded by the rating agencies and experienced a decline in fair value. The Corporation entered into capital commitments which required the Corporation to provide cash to these funds in the event the net asset value per unit of a fund declined below certain thresholds. The capital commitments expire no later than the third quarter of 2010. At June 30, 2008 and December 31, 2007, the Corporation had gross (i.e., funded and unfunded) capital commitments to the funds of \$760 million and \$565 million. For the three and six months ended June 30, 2008, the Corporation incurred losses of \$36 million and \$163 million related to these capital commitments. At June 30, 2008 and December 31, 2007, the remaining loss exposure was \$212 million and \$183 million. Additionally, during the six months ended June 30, 2008, the Corporation purchased \$994 million of certain investments from the funds and recorded losses of \$93 million. The Corporation did not purchase any of these investments or record any losses during the three months ended June 30, 2008.

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

The Corporation is not the primary beneficiary of the cash funds and does not consolidate the cash funds managed within *GWIM* because the subordinated support provided by the Corporation will not absorb a majority of the variability created by the assets of the funds. The cash funds had total assets under management of \$163.4 billion and \$189.5 billion at June 30, 2008 and December 31, 2007.

Other Guarantees

Written Put Options

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

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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 June 30, 2008 and 2007, the Corporation processed \$95.1 billion and \$91.5 billion of transactions and recorded losses as a result of these chargebacks of \$5 million and \$4 million. For the six months ended June 30, 2008 and 2007, the Corporation processed \$183.4 billion and \$174.3 billion of transactions and recorded losses as a result of these chargebacks of \$10 million and \$8 million.

At June 30, 2008 and December 31, 2007, the Corporation held as collateral \$23 million and \$19 million of merchant escrow deposits which the Corporation has the right to offset against amounts due from the individual merchants. The Corporation also has the right to offset any payments with cash flows otherwise due to the merchant. Accordingly, the Corporation believes that the maximum potential exposure is not representative of the actual potential loss exposure. The Corporation believes the maximum potential exposure for chargebacks would not exceed the total amount of merchant transactions processed through Visa and MasterCard for the last six months, which represents the claim period for the cardholder, plus any outstanding delayed-delivery transactions. As of June 30, 2008 and December 31, 2007, the maximum potential exposure totaled approximately \$146.3 billion and \$151.2 billion.

Other Guarantees

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

Litigation and Regulatory Matters

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

Adelphia Communications Corporation

On June 17, 2008, the U.S. District Court for the Southern District of New York entered an order dismissing 25 claims from the lawsuit, including the majority of the fraudulent transfer claims, the preference claims, and the equitable subordination and equitable disallowance claims. The primary claims remaining against Bank of America, N.A., Banc of America Securities, LLC (BAS), Fleet National Bank, and Fleet Securities, Inc. include fraud, aiding and abetting breach of fiduciary duty and aiding and abetting fraud. Plaintiffs have indicated they intend to appeal the court's decision.

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Auction Rate Securities Litigation and Investigations

Four purported class actions have been filed against Bank of America Corporation, Banc of America Investment Services, Inc. (BAI) and Banc of America Securities LLC (BAS) (collectively Bank of America), all of which allege, among other things, that Bank of America violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder in connection with the sale of auction rate securities (ARS). *Bondar v. Bank of America Corporation* was filed in the United States District Court for the Northern District of California on May 22, 2008. *Bearman v. Bank of America Corporation* was filed in the United States District Court for the Southern District of California on June 23, 2008. *Cattell v. Bank of America Corporation* was filed in the United States District Court for the Southern District of Illinois on July 13, 2008. *Ben-Tal v. Bank of America Corporation* was filed in the United States District Court for the Central District of California on July 21, 2008. The four putative class actions all purport to assert claims on behalf of purchasers of auction rate securities between May 2003 and February 2008 and contain substantively similar allegations regarding Bank of America's sales and marketing practices in connection with ARS. A related individual federal action as well as several related Financial Industry Regulatory Authority (FINRA) arbitrations have also been filed. The actions seek damages, attorneys' fees, and rescission. BAI and BAS have also received subpoenas and requests for information from various state and federal governmental agencies regarding auction rate securities and are cooperating fully with those requests.

Countrywide Consolidated Securities Litigation

Prior to its July 1, 2008 merger with Red Oak Merger Subsidiary, a wholly-owned subsidiary of the Corporation, Countrywide Financial Corporation (CFC), had been named as a defendant in a consolidated putative class action entitled *In re Countrywide Financial Corp. Securities Litigation* filed in the U.S. District Court for the Central District of California by certain New York state and municipal pension funds on behalf of purchasers of CFC common stock and other securities. Other defendants include certain of CFC's current and former officers, directors, and public auditors and various underwriting firms (including BAS) that underwrote certain public offerings of CFC debt or other securities. The consolidated complaint alleges, among other things, that CFC made misstatements in certain SEC filings as well as in registration statements and prospectuses filed in connection with such public offerings, including misstatements concerning its financial results during the alleged relevant period and the nature and quality of its loan underwriting practices. Plaintiffs assert claims against CFC for violation of the antifraud provisions of the Exchange Act and against BAS and the other underwriter defendants under Sections 11 and 12 of the Securities Act of 1933. This action seeks unspecified compensatory damages, among other remedies. Defendants have filed a motion to dismiss the consolidated complaint.

CFC has also responded to subpoenas from the SEC, which has advised CFC that it is conducting a formal investigation. Beginning in March 2008, certain news media reported that numerous industry participants, including CFC, were subject to an investigation by the Federal Bureau of Investigation (FBI) in connection with mortgage business practices.

Countrywide State and Local Enforcement Actions

Certain state and local government officials have filed proceedings against CFC and/or various of CFC's wholly-owned subsidiaries, including lawsuits brought by the state attorneys general of California, Florida, Illinois, and Connecticut in their respective state courts. These lawsuits allege, among other things, that CFC and/or its subsidiaries violated state consumer protection laws by engaging in deceptive marketing practices designed to increase the volume of loans it originated and then sold into the secondary market. These lawsuits seek, among other remedies, restitution, other monetary relief, penalties and, in the Illinois action, rescission or repurchase of mortgage loans made to Illinois consumers. In addition, the Director of the Washington State Department of Financial Institutions has commenced an administrative proceeding against a CFC wholly-owned subsidiary alleging, among other things, that such subsidiary did not provide borrowers with certain required disclosures and that the loan products made available to Washington borrowers of protected races or ethnicities were less favorable than those made available to other, similarly situated borrowers. This proceeding seeks, among other things, a monetary fine and an order barring the CFC subsidiary from making consumer loans in the state of Washington for five years.

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Interchange Antitrust Litigation and Visa-Related Litigation

On May 8, 2008, plaintiffs filed a motion for class certification, to which the defendants have not yet responded. On March 19, 2008, Visa Inc. completed its initial public offering (Visa IPO). Visa Inc. has stated that a portion of the proceeds from the Visa IPO is being used to fund liabilities arising from the Visa-Related Litigation.

IPO Underwriting Fee Litigation

On May 23, 2008, the court entered Stipulations and Orders of Dismissal in *In re Public Offering Fee Antitrust Litigation* and in *In re Plaintiff Initial Public Offering Fee Antitrust Litigation*. These cases are concluded.

Municipal Derivatives Matters

Beginning in April 2008, the Corporation and Bank of America, N.A. received subpoenas, interrogatories and/or civil investigative demands from the attorneys general of a number of states requesting documents and information regarding municipal derivatives transactions from 1992 through the present. The Corporation and Bank of America, N.A. are cooperating with the state attorneys general.

Pension Plan Matters

IRS Audit

In May 2008, the Corporation and the Internal Revenue Service (IRS) entered into a closing agreement resolving all matters relating to an audit by the IRS of the 1998 and 1999 tax returns of The Bank of America Pension Plan and The Bank of America 401(k) Plan. The audit included a review of voluntary transfers by participants of 401(k) Plan accounts to The Bank of America Pension Plan. In connection with the agreement, the Bank of America Pension Plan will transfer certain assets and liabilities associated with the transferred accounts to a defined contribution plan.

NOTE 12 Shareholders Equity and Earnings Per Common Share

Common Stock

The Corporation may repurchase shares, from time to time, in the open market or in private transactions through the Corporation's approved repurchase program. For the six months ended June 30, 2008, the Corporation did not repurchase shares of common stock and issued 15.1 million shares under employee stock plans.

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

Table of Contents***Preferred Stock***

During the second quarter of 2008, the Corporation declared aggregate dividends on preferred stock of \$186 million. During the first quarter of 2008, the Corporation declared aggregate dividends on preferred stock of \$190 million.

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

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

In January 2008, the Corporation issued 240 thousand shares of Bank of America Corporation Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K (Series K Preferred Stock) with a par value of \$0.01 per share for \$6.0 billion. The fixed rate is 8.00 percent through January 29, 2018 and then adjusts to three-month LIBOR plus 363 bps thereafter. Ownership is held in the form of depositary shares, each representing a 1/25th interest in a share of Series K Preferred Stock, paying a semiannual cash dividend through January 29, 2018 then adjusts to a quarterly cash dividend, on the liquidation preference of \$25,000 per share of Series K Preferred Stock. On any dividend date on or after January 30, 2018, the Corporation may redeem the Series K Preferred Stock, in whole or in part, at its option, at \$25,000 per share, plus declared and unpaid dividends. The Series K Preferred Stock is not convertible.

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

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

Table of Contents**Accumulated OCI**

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

| | | | Employee | Foreign | |
|---|---------------------------|----------------------------|---------------|----------|------------|
| (Dollars in millions) | Securities ⁽¹⁾ | Derivatives ⁽²⁾ | Benefit Plans | Currency | Total |
| Balance, December 31, 2007 | \$ 6,536 | \$ (4,402) | \$ (1,301) | \$ 296 | \$ 1,129 |
| Net change in fair value recorded in accumulated OCI | (3,491) | (359) | - | 62 | (3,788) |
| Net realized losses reclassified into earnings ⁽³⁾ | 389 | 383 | 23 | - | 795 |
| Balance, June 30, 2008 | \$ 3,434 | \$ (4,378) | \$ (1,278) | \$ 358 | \$ (1,864) |
| Balance, December 31, 2006 | \$ (2,733) | \$ (3,697) | \$ (1,428) | \$ 147 | \$ (7,711) |
| Net change in fair value recorded in accumulated OCI | (2,561) | 197 | - | 90 | (2,274) |
| Net realized (gains) losses reclassified into earnings ⁽³⁾ | (262) | 219 | 58 | 13 | 28 |
| Balance, June 30, 2007 | \$ (5,556) | \$ (3,281) | \$ (1,370) | \$ 250 | \$ (9,957) |

⁽¹⁾ For the six months ended June 30, 2008 and 2007, the Corporation reclassified net realized (gains) losses into earnings on the sale and other-than-temporary impairments of AFS debt securities of \$457 million and \$(41) million, net-of-tax, and net realized (gains) on the sales and other-than-temporary impairments of AFS marketable equity securities of \$(68) million and \$(221) million, net-of-tax.

⁽²⁾ The amounts included in accumulated OCI for terminated interest rate derivative contracts were losses of \$4.0 billion and \$3.3 billion, net-of-tax, at June 30, 2008 and 2007.

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

Earnings per Common Share

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

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

| (Dollars in millions, except per share information; shares in thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|-----------|--------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Earnings per common share | | | | |
| Net income | \$ 3,410 | \$ 5,761 | \$ 4,620 | \$ 11,016 |
| Preferred stock dividends | (186) | (40) | (376) | (86) |
| Net income available to common shareholders | \$ 3,224 | \$ 5,721 | \$ 4,244 | \$ 10,930 |
| Average common shares issued and outstanding | 4,435,719 | 4,419,246 | 4,431,870 | 4,426,046 |
| Earnings per common share | \$ 0.73 | \$ 1.29 | \$ 0.96 | \$ 2.47 |
| Diluted earnings per common share | | | | |
| Net income available to common shareholders | \$ 3,224 | \$ 5,721 | \$ 4,244 | \$ 10,930 |
| Average common shares issued and outstanding | 4,435,719 | 4,419,246 | 4,431,870 | 4,426,046 |
| Dilutive potential common shares ^(1, 2) | 21,474 | 57,553 | 28,763 | 61,178 |
| Total diluted average common shares issued and outstanding | 4,457,193 | 4,476,799 | 4,460,633 | 4,487,224 |
| Diluted earnings per common share | \$ 0.72 | \$ 1.28 | \$ 0.95 | \$ 2.44 |

(1) For the three and six months ended June 30, 2008, average options to purchase 177 million and 140 million shares were outstanding but not included in the computation of earnings per common share because they were antidilutive. For the three and six months ended June 30, 2007, average options to purchase 34 million and 24 million shares were outstanding but not included in the computation of earnings per common share because they were antidilutive. For the three and six months ended June 30, 2008, 138 million and 117 million average dilutive potential common shares associated with the convertible Series L Preferred Stock issued in January of 2008 were excluded from the diluted share count because the result would have been antidilutive under the if-converted method.

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

Table of Contents**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 of the Corporation's 2007 Annual Report on Form 10-K.

Net periodic benefit cost (income) for the three and six months ended June 30, 2008 and 2007 included the following components:

| (Dollars in millions) | Three Months Ended June 30 | | | | | |
|---|-----------------------------------|----------------|-----------------------------------|--------------|---|-------------|
| | Qualified Pension Plans | | Nonqualified Pension Plans | | Postretirement Health and Life Plans | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Components of net periodic benefit cost (income) | | | | | | |
| Service cost | \$ 69 | \$ 65 | \$ 1 | \$ 1 | \$ 3 | \$ 4 |
| Interest cost | 201 | 180 | 19 | 16 | 20 | 19 |
| Expected return on plan assets | (355) | (312) | - | - | (3) | (1) |
| Amortization of transition obligation | - | - | - | - | 8 | 8 |
| Amortization of prior service cost (credits) | 5 | 12 | (2) | (2) | - | - |
| Recognized net actuarial loss (gain) | 22 | 43 | 4 | 4 | (28) | (25) |
| Recognized loss due to settlements and curtailments | - | - | - | 13 | - | - |
| Net periodic benefit cost (income) | \$ (58) | \$ (12) | \$ 22 | \$ 32 | \$ - | \$ 5 |

| (Dollars in millions) | Six Months Ended June 30 | | | | | |
|---|---------------------------------|----------------|-----------------------------------|--------------|---|--------------|
| | Qualified Pension Plans | | Nonqualified Pension Plans | | Postretirement Health and Life Plans | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Components of net periodic benefit cost (income) | | | | | | |
| Service cost | \$ 157 | \$ 151 | \$ 3 | \$ 4 | \$ 8 | \$ 7 |
| Interest cost | 411 | 360 | 38 | 34 | 43 | 41 |
| Expected return on plan assets | (716) | (628) | - | - | (6) | (3) |
| Amortization of transition obligation | - | - | - | - | 16 | 16 |
| Amortization of prior service cost (credits) | 17 | 24 | (4) | (4) | - | - |
| Recognized net actuarial loss (gain) | 38 | 76 | 7 | 9 | (36) | (31) |
| Recognized loss due to settlements and curtailments | - | - | - | 13 | - | - |
| Net periodic benefit cost (income) | \$ (93) | \$ (17) | \$ 44 | \$ 56 | \$ 25 | \$ 30 |

During 2008, the Corporation expects to contribute \$124 million and \$101 million to its nonqualified pension plans and postretirement health and life plans. For the six months ended June 30, 2008, the Corporation contributed \$78 million and \$51 million to these plans. The Corporation does not expect to contribute to its qualified pension plans during 2008.

Table of Contents**Note 14 Fair Value Disclosures*****Fair Value Option*****Corporate Loans and Loan Commitments**

The Corporation accounts for certain large corporate loans and loan commitments which exceeded the Corporation's single name credit risk concentration guidelines at fair value in accordance with SFAS 159. Lending commitments, both funded and unfunded, are actively managed and monitored, and, as appropriate, credit risk for these lending relationships may be mitigated through the use of credit derivatives, with the Corporation's credit view and market perspectives determining the size and timing of the hedging activity. These credit derivatives do not meet the requirements for hedge accounting under SFAS 133 and are therefore carried at fair value with changes in fair value recorded in other income. SFAS 159 allows the Corporation to account for these loans and loan commitments at fair value, which is more consistent with the manner in which they are managed. In addition, accounting for these loans and loan commitments at fair value reduces the accounting asymmetry that would otherwise result from carrying the loans at historical cost and the credit derivatives at fair value.

At June 30, 2008 and December 31, 2007, funded loans that the Corporation fair values had an aggregate fair value of \$5.01 billion and \$4.59 billion recorded in loans and leases and an aggregate outstanding principal balance of \$5.31 billion and \$4.82 billion. At June 30, 2008 and December 31, 2007, unfunded loan commitments that the Corporation fair values had an aggregate fair value of \$723 million and \$660 million recorded in accrued expenses and other liabilities and an aggregate committed exposure of \$18.7 billion and \$20.9 billion. Interest income on these loans and commitment fees on these loan commitments are recorded in interest and fees on loans and leases. At June 30, 2008, \$81 million of these loans were 90 days or more past due and still accruing interest (with an aggregate outstanding principal balance of \$83 million), while none of these loans have been placed on nonaccrual status. At December 31, 2007, none of these loans were 90 days or more past due and still accruing interest or had been placed on nonaccrual status. Net gains (losses) resulting from changes in fair value of these loans and loan commitments of \$234 million and \$(13) million were recorded in other income during the three months ended June 30, 2008 and 2007 while net losses of \$127 million and \$40 million were recorded during the six months ended June 30, 2008 and 2007. These gains and losses were primarily attributable to changes in instrument-specific credit risk. These changes in fair value were predominately offset by hedging activities.

Loans Held-for-Sale

The Corporation also accounts for certain LHFS at fair value. Using fair value allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under SFAS 133. The Corporation does not fair value other LHFS primarily because these loans are floating rate loans that are not economically hedged using derivative instruments. Fair values for LHFS are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Corporation's current origination rates for similar loans and adjusted to reflect the inherent credit risk. At June 30, 2008 and December 31, 2007, residential mortgage loans, commercial mortgage loans, and other LHFS that the Corporation fair values had an aggregate fair value of \$9.03 billion and \$15.77 billion and an aggregate outstanding principal balance of \$9.73 billion and \$16.72 billion and were recorded in other assets. Interest income on these loans is recorded in other interest income. Net gains (losses) resulting from changes in fair value of these loans during the three months ended June 30, 2008 and 2007, including realized gains (losses) on sale, of \$102 million and \$3 million were recorded in mortgage banking income, \$114 million and \$(237) million were recorded in trading account profits (losses), and \$27 million and \$(15) million were recorded in other income. Approximately \$13 million of losses were attributable to instrument-specific credit risk during the three months ended June 30, 2008. During the six months ended June 30, 2008 and 2007 net gains (losses), including realized gains (losses) on sale, of \$117 million and \$59 million were recorded in mortgage banking income, \$(497) million and \$(244) million were recorded in trading account profits (losses), and \$(18) million and \$(10) million were recorded in other income. Approximately \$50 million of losses were attributable to instrument-specific credit risk during the six months ended June 30, 2008. These changes in fair value were predominately offset by hedging activities.

Table of Contents**Structured Reverse Repurchase Agreements**

The Corporation fair values certain structured reverse repurchase agreements which are hedged with derivatives. Using fair value allows the Corporation to reduce volatility in earnings without the burden of complying with the requirements of hedge accounting under SFAS 133. At June 30, 2008 and December 31, 2007, these instruments had an aggregate fair value of \$2.64 billion and \$2.58 billion and a principal balance of \$2.64 billion and \$2.54 billion recorded in federal funds sold and securities purchased under agreements to resell. Interest earned on these instruments continues to be recorded in interest income. Net gains (losses) resulting from changes in fair value of these instruments of \$(10) million and \$6 million were recorded in other income for the three months ended June 30, 2008 and 2007, while gains (losses) of \$(7) million and \$8 million were recorded for the six months ended June 30, 2008 and 2007. The Corporation does not fair value other financial instruments within the same balance sheet category because they were not economically hedged using derivatives.

Long-term Deposits

The Corporation fair values certain long-term fixed rate deposits which are economically hedged with derivatives. At June 30, 2008 and December 31, 2007, these instruments had an aggregate fair value of \$1.91 billion and \$2.00 billion and a principal balance of \$1.88 billion and \$1.99 billion recorded in interest-bearing deposits. Interest paid on these instruments continues to be recorded in interest expense. Net gains resulting from changes in fair value of these instruments of \$33 million and \$22 million were recorded in other income for the three months ended June 30, 2008 and 2007 while net gains (losses) of \$(21) million and \$21 million were recorded for the six months ended June 30, 2008 and 2007. Using fair value allows the Corporation to reduce the accounting volatility that would otherwise result from the accounting asymmetry created by accounting for the financial instruments at historical cost and the economic hedges at fair value. The Corporation does not fair value other financial instruments within the same balance sheet category because they were not economically hedged using derivatives.

Fair Value Measurement

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

Level 1, 2 and 3 Valuation Techniques

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

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

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Corporate Loans and Loan Commitments

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

Structured Reverse Repurchase Agreements and Long-term Deposits

The fair values of structured reverse repurchase agreements and long-term deposits are determined using quantitative models, including discounted cash flow models, that require the use of multiple market inputs including interest rates and spreads to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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

The fair values of trading account assets and liabilities are primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. The fair values of AFS debt securities are generally based on quoted market prices or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of trading account assets or liabilities and AFS debt securities. Market price quotes may not be readily available for some positions, or positions within a market sector where trading activity has slowed significantly or ceased such as certain CDO positions and other ABS. Some of these instruments are valued using a net asset value approach, which considers the value of the underlying securities. Underlying assets are valued using external pricing services, where available, or matrix pricing based on the vintages and ratings. Situations of illiquidity generally are triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial statements and changes in credit ratings made by one or more rating agencies.

Derivative Assets and Liabilities

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case, quantitative-based extrapolations of rate, price or index scenarios are used in determining fair values. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate.

Mortgage Servicing Rights

The fair values of MSRs are determined using models which depend on estimates of prepayment rates, the resultant weighted average lives of the MSRs and the option adjusted spread levels. For more information on MSRs, see *Note 15 - Mortgage Servicing Rights* to the Consolidated Financial Statements.

Other Assets

The Corporation fair values certain other assets including certain LHFS, AFS equity securities and certain retained residual interests in securitization vehicles. The fair values of LHFS are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Corporation's current origination rates for similar loans adjusted to reflect the inherent credit risk. The fair values of AFS equity securities are generally based on quoted market prices or market prices for similar assets. However, non-public investments are initially valued at transaction price and subsequently adjusted when evidence is available to support such adjustments. Retained residual interests in securitization vehicles are based on certain observable inputs such as interest rates and credit spreads, as well as unobservable inputs such as estimated net charge-off and payment rates.

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

| (Dollars in millions) | June 30, 2008 | | | | Assets/Liabilities at Fair Value |
|--|-------------------------------|-------------------|------------------|---------------------------------------|-------------------------------------|
| | Fair Value Measurements Using | | | | |
| | Level 1 | Level 2 | Level 3 | Netting Adjustments ⁽¹⁾ | |
| Assets | | | | | |
| Federal funds sold and securities purchased under agreements to resell | \$ - | \$ 2,644 | \$ - | \$ - | \$ 2,644 |
| Trading account assets | 39,049 | 123,142 | 5,646 | - | 167,837 |
| Derivative assets | 1,486 | 545,213 | 10,269 | (514,929) | 42,039 |
| Available-for-sale debt securities | 2,560 | 237,707 | 8,324 | - | 248,591 |
| Loans and leases ⁽²⁾ | - | - | 5,014 | - | 5,014 |
| Mortgage servicing rights | - | - | 4,250 | - | 4,250 |
| Other assets ⁽³⁾ | 24,061 | 8,454 | 6,024 | - | 38,539 |
| Total assets | \$ 67,156 | \$ 917,160 | \$ 39,527 | \$ (514,929) | \$ 508,914 |
| Liabilities | | | | | |
| Interest-bearing deposits in domestic offices | \$ - | \$ 1,912 | \$ - | \$ - | \$ 1,912 |
| Trading account liabilities | 51,500 | 19,306 | - | - | 70,806 |
| Derivative liabilities | 1,250 | 519,410 | 8,952 | (508,517) | 21,095 |
| Accrued expenses and other liabilities | - | - | 723 | - | 723 |
| Total liabilities | \$ 52,750 | \$ 540,628 | \$ 9,675 | \$ (508,517) | \$ 94,536 |
| December 31, 2007 | | | | | |
| Assets | | | | | |
| Federal funds sold and securities purchased under agreements to resell | \$ - | \$ 2,578 | \$ - | \$ - | \$ 2,578 |
| Trading account assets | 42,986 | 115,051 | 4,027 | - | 162,064 |
| Derivative assets | 516 | 442,471 | 8,972 | (417,297) | 34,662 |
| Available-for-sale debt securities | 2,089 | 205,734 | 5,507 | - | 213,330 |
| Loans and leases ⁽²⁾ | - | - | 4,590 | - | 4,590 |
| Mortgage servicing rights | - | - | 3,053 | - | 3,053 |
| Other assets ⁽³⁾ | 19,796 | 15,971 | 5,321 | - | 41,088 |
| Total assets | \$ 65,387 | \$ 781,805 | \$ 31,470 | \$ (417,297) | \$ 461,365 |
| Liabilities | | | | | |
| Interest-bearing deposits in domestic offices | \$ - | \$ 2,000 | \$ - | \$ - | \$ 2,000 |
| Trading account liabilities | 57,331 | 20,011 | - | - | 77,342 |
| Derivative liabilities | 534 | 426,223 | 10,175 | (414,509) | 22,423 |
| Accrued expenses and other liabilities | - | - | 660 | - | 660 |
| Total liabilities | \$ 57,865 | \$ 448,234 | \$ 10,835 | \$ (414,509) | \$ 102,425 |

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

⁽²⁾ Loans and leases at June 30, 2008 and December 31, 2007 included \$22.8 billion and \$22.6 billion of leases that were not eligible for the fair value option as leases are specifically excluded from fair value option election in accordance with SFAS 159.

⁽³⁾ Other assets include equity investments held by Principal Investing, AFS equity securities and certain retained residual interests in securitization vehicles, including interest-only strips. Certain LHFS are also accounted for at fair value in accordance with SFAS 159. Substantially all of other assets are eligible for, and the Corporation has not chosen to, elect fair value accounting at June 30, 2008 and December 31, 2007.

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

Level 3 - Fair Value Measurements

(Dollars in millions)

| | Three Months Ended June 30, 2008 | | | | | | |
|--|----------------------------------|------------------------|-----------------|---------------------------------|---------------------------|-----------------------------|---|
| | Net Derivatives ⁽¹⁾ | Trading Account Assets | Debt Securities | Loans and Leases ⁽²⁾ | Mortgage Servicing Rights | Other Assets ⁽³⁾ | Accrued Expenses and Other Liabilities ⁽²⁾ |
| Balance, March 31, 2008 | \$ 316 | \$ 5,522 | \$ 9,658 | \$ 5,057 | \$ 3,163 | \$ 5,496 | \$ (903) |
| Included in earnings | (801) | (211) | (310) | 55 | 635 | 121 | 180 |
| Included in other comprehensive income | - | - | 78 | - | - | - | - |
| Purchases, issuances, and settlements | 1,949 | (227) | (2,263) | (98) | 452 | (741) | - |
| Transfers in to (out of) Level 3 | (147) | 562 | 1,161 | - | - | 1,148 | - |
| Balance, June 30, 2008 | \$ 1,317 | \$ 5,646 | \$ 8,324 | \$ 5,014 | \$ 4,250 | \$ 6,024 | \$ (723) |
| | Three Months Ended June 30, 2007 | | | | | | |
| Balance, March 31, 2007 | \$ 608 | \$ 269 | \$ 1,072 | \$ 3,859 | \$ 2,963 | \$ 5,867 | \$ (377) |
| Included in earnings | (519) | 3 | - | - | 418 | 1,211 | (14) |
| Included in other comprehensive income | - | - | - | - | - | (12) | - |
| Purchases, issuances, and settlements | (351) | 6 | (70) | (253) | (112) | (747) | - |
| Transfers in to (out of) Level 3 | (1,039) | 11 | 231 | - | - | 351 | - |
| Balance, June 30, 2007 | \$ (1,301) | \$ 289 | \$ 1,233 | \$ 3,606 | \$ 3,269 | \$ 6,670 | \$ (391) |
| | Six Months Ended June 30, 2008 | | | | | | |
| Balance, January 1, 2008 | \$ (1,203) | \$ 4,027 | \$ 5,507 | \$ 4,590 | \$ 3,053 | \$ 5,321 | \$ (660) |
| Included in earnings | (311) | (771) | (799) | (70) | 588 | 544 | (63) |
| Included in other comprehensive income | - | - | (504) | - | - | - | - |
| Purchases, issuances, and settlements | 2,473 | (795) | (1,011) | 494 | 609 | (865) | - |
| Transfers in to Level 3 | 358 | 3,185 | 5,131 | - | - | 1,024 | - |
| Balance, June 30, 2008 | \$ 1,317 | \$ 5,646 | \$ 8,324 | \$ 5,014 | \$ 4,250 | \$ 6,024 | \$ (723) |
| | Six Months Ended June 30, 2007 | | | | | | |
| Balance, January 1, 2007 | \$ 788 | \$ 303 | \$ 1,133 | \$ 3,947 | \$ 2,869 | \$ 6,605 | \$ (349) |
| Included in earnings | (583) | (27) | - | 1 | 539 | 1,941 | (42) |
| Included in other comprehensive income | - | - | 4 | - | - | (63) | - |
| Purchases, issuances, and settlements | (459) | 2 | (135) | (342) | (139) | (2,150) | - |
| Transfers in to (out of) Level 3 | (1,047) | 11 | 231 | - | - | 337 | - |
| Balance, June 30, 2007 | \$ (1,301) | \$ 289 | \$ 1,233 | \$ 3,606 | \$ 3,269 | \$ 6,670 | \$ (391) |

(1) Net derivatives at June 30, 2008 and 2007 included derivative assets of \$10.27 billion and \$7.58 billion and derivative liabilities of \$8.95 billion and \$8.88 billion.

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

(3) Other assets include equity investments held by Principal Investing and certain retained interests in securitization vehicles, including interest-only strips. Certain portfolios of LHFS are also accounted for at fair value in accordance with SFAS 159.

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

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

(Dollars in millions)

Three Months Ended June 30, 2008

| | Net | Trading Account | Available- for-Sale Debt | Loans and Leases ⁽¹⁾ | Mortgage Servicing Rights | Other Assets ⁽²⁾ | Accrued Expenses and Other Liabilities ⁽¹⁾ | Total |
|----------------------------------|----------|--------------------|-----------------------------|---------------------------------------|---------------------------------|--------------------------------|--|----------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (87) | \$ - | \$ (87) |
| Equity investment income | - | - | - | - | - | 258 | - | 258 |
| Trading account profits (losses) | (708) | (211) | - | - | - | (10) | 1 | (928) |
| Mortgage banking income (loss) | (93) | - | - | - | 635 | (40) | - | 502 |
| Other income (loss) | - | - | (310) | 55 | - | - | 179 | (76) |
| Total | \$ (801) | \$ (211) | \$ (310) | \$ 55 | \$ 635 | \$ 121 | \$ 180 | \$ (331) |

Three Months Ended June 30, 2007

| | | | | | | | | |
|----------------------------------|----------|------|------|------|--------|----------|---------|----------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 99 | \$ - | \$ 99 |
| Equity investment income | - | - | - | - | - | 1,103 | - | 1,103 |
| Trading account profits (losses) | (396) | 3 | - | - | - | - | (1) | (394) |
| Mortgage banking income (loss) | (123) | - | - | - | 418 | - | - | 295 |
| Other income (loss) | - | - | - | - | - | 9 | (13) | (4) |
| Total | \$ (519) | \$ 3 | \$ - | \$ - | \$ 418 | \$ 1,211 | \$ (14) | \$ 1,099 |

Six Months Ended June 30, 2008

| | | | | | | | | |
|--------------------------------|----------|----------|----------|---------|--------|--------|---------|----------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 377 | \$ - | \$ 377 |
| Equity investment income | - | - | - | - | - | 264 | - | 264 |
| Trading account losses | (350) | (771) | - | (2) | - | (40) | (4) | (1,167) |
| Mortgage banking income (loss) | 39 | - | - | - | 588 | (65) | - | 562 |
| Other income (loss) | - | - | (799) | (68) | - | 8 | (59) | (918) |
| Total | \$ (311) | \$ (771) | \$ (799) | \$ (70) | \$ 588 | \$ 544 | \$ (63) | \$ (882) |

Six Months Ended June 30, 2007

| | | | | | | | | |
|--------------------------------|----------|---------|------|------|--------|----------|---------|----------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 280 | \$ - | \$ 280 |
| Equity investment income | - | - | - | - | - | 1,611 | - | 1,611 |
| Trading account losses | (465) | (27) | - | - | - | - | (1) | (493) |
| Mortgage banking income (loss) | (118) | - | - | - | 539 | - | - | 421 |
| Other income (loss) | - | - | - | 1 | - | 50 | (41) | 10 |
| Total | \$ (583) | \$ (27) | \$ - | \$ 1 | \$ 539 | \$ 1,941 | \$ (42) | \$ 1,829 |

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

⁽²⁾ Amounts include certain portfolios of LHFS which are accounted for at fair value in accordance with SFAS 159.

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

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

(Dollars in millions)

Three Months Ended June 30, 2008

| | Net Derivatives | Trading Account Assets | Available-for- Sale Debt Securities | Loans and Leases ⁽¹⁾ | Mortgage Servicing Rights | Other Assets ⁽²⁾ | Accrued Expenses and Other Liabilities ⁽¹⁾ | Total |
|--------------------------------|--------------------|------------------------------|---|------------------------------------|---------------------------------|--------------------------------|--|-----------------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (103) | \$ - | \$ (103) |
| Equity investment income | - | - | - | - | - | 171 | - | 171 |
| Trading account losses | (562) | (212) | - | - | - | (14) | - | (788) |
| Mortgage banking income (loss) | (86) | - | - | - | 615 | (6) | - | 523 |
| Other income (loss) | - | - | (282) | (1) | - | - | 25 | (258) |
| Total | \$ (648) | \$ (212) | \$ (282) | \$ (1) | \$ 615 | \$ 48 | \$ 25 | \$ (455) |

Three Months Ended June 30, 2007

| | | | | | | | | |
|----------------------------------|-----------------|-------------|-------------|----------------|---------------|---------------|----------------|---------------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 64 | \$ - | \$ 64 |
| Equity investment income | - | - | - | - | - | 668 | - | 668 |
| Trading account profits (losses) | (487) | 3 | - | - | - | - | (1) | (485) |
| Mortgage banking income (loss) | (114) | - | - | - | 343 | - | - | 229 |
| Other income (loss) | - | - | - | (10) | - | (4) | (47) | (61) |
| Total | \$ (601) | \$ 3 | \$ - | \$ (10) | \$ 343 | \$ 728 | \$ (48) | \$ 415 |

Six Months Ended June 30, 2008

| | | | | | | | | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|---------------|--------------|-----------------|-------------------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 100 | \$ - | \$ 100 |
| Equity investment income | - | - | - | - | - | 118 | - | 118 |
| Trading account losses | (404) | (800) | - | - | - | (53) | - | (1,257) |
| Mortgage banking income (loss) | (38) | - | - | - | 519 | (66) | - | 415 |
| Other income (loss) | - | - | (758) | (152) | - | - | (309) | (1,219) |
| Total | \$ (442) | \$ (800) | \$ (758) | \$ (152) | \$ 519 | \$ 99 | \$ (309) | \$ (1,843) |

Six Months Ended June 30, 2007

| | | | | | | | | |
|--------------------------------|-----------------|----------------|-------------|----------------|---------------|---------------|----------------|---------------|
| Card income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 92 | \$ - | \$ 92 |
| Equity investment income | - | - | - | - | - | 787 | - | 787 |
| Trading account losses | (637) | (30) | - | - | - | - | (1) | (668) |
| Mortgage banking income (loss) | (111) | - | - | - | 403 | - | - | 292 |
| Other income (loss) | - | - | - | (11) | - | (4) | (79) | (94) |
| Total | \$ (748) | \$ (30) | \$ - | \$ (11) | \$ 403 | \$ 875 | \$ (80) | \$ 409 |

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

⁽²⁾ Amounts include certain portfolios of LHFS which are accounted for at fair value in accordance with SFAS 159.

Certain assets and liabilities are measured at fair value on a non-recurring basis (e.g., LHFS, unfunded loan commitments held-for-sale, and commercial and residential reverse mortgage MSR's, all of which are carried at the lower of cost or market). At June 30, 2008 and December 31, 2007, LHFS that the Corporation accounts for at the lower of cost or market with an aggregate cost of \$13.65 billion and \$14.70 billion had been written down to fair value of \$13.49 billion and \$14.50 billion (of which \$1.56 billion and \$1.20 billion were measured using Level 2 inputs, and \$11.93 billion and \$13.30 billion were measured using Level 3 inputs within the fair value hierarchy). During the three months ended June 30, 2008 and 2007, losses of \$208 million and \$22 million were recorded in other income (primarily commercial mortgage LHFS and leveraged LHFS) and losses of \$7 million and \$0 were recorded in mortgage banking income (primarily consumer mortgage LHFS). During the six months ended June 30, 2008 and 2007, losses of \$896 million and \$26 million were recorded in other income (primarily commercial mortgage LHFS and leveraged LHFS) and losses of \$9 million and \$4 million were recorded in mortgage banking income (primarily consumer mortgage LHFS).

Table of Contents**NOTE 15 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, forward settlement contracts and interest rate swaps.

The following table presents activity for residential first mortgage MSRs for the three and six months ended June 30, 2008 and 2007.

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-------------------------------------|----------------------------|-----------------|--------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Balance, beginning of period | \$ 3,163 | \$ 2,963 | \$ 3,053 | \$ 2,869 |
| Additions | 669 | 97 | 1,035 | 268 |
| Impact of customer payments | (233) | (184) | (430) | (367) |
| Other changes in MSR market value | 651 | 393 | 592 | 499 |
| Balance, June 30 | \$ 4,250 | \$ 3,269 | \$ 4,250 | \$ 3,269 |

For the three and six months ended June 30, 2008, other changes in MSR market value of \$651 million and \$592 million reflect the changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates, as well as the effect of model changes. The amounts do not include \$(16) million and \$(4) million resulting from the actual cash received trailing expected prepayments. The net amounts of \$635 million and \$588 million are included in the line mortgage banking income (loss) in the table Level 3 - Total Realized and Unrealized Gains (Losses) Included in Earnings in Note 14 Fair Value Disclosures to the Consolidated Financial Statements.

The key economic assumptions used in valuations of MSRs include modeled prepayment rates, the 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 \$327 million and \$294 million at June 30, 2008 and December 31, 2007 and are not included in the table above.

NOTE 16 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 evaluates the results of *GCSBB*. Managed basis assumes that securitized loans were not sold and presents earnings on these loans in a manner similar to the way loans that have not been sold (i.e., held loans) are presented. Loan securitization is an alternative funding process that is used by the Corporation to diversify funding sources. Loan securitization removes loans from the Consolidated Balance Sheet through the sale of loans to an off-balance sheet QSPE which is excluded from the Corporation's Consolidated Financial Statements in accordance with GAAP.

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

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

Managed noninterest income includes *GCSBB*'s noninterest income on a held basis less the reclassification of certain components of card income (e.g., excess servicing income) to record 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 are recorded in *GWIM*.

All Other

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

Basis of Presentation

Total revenue, net of interest expense, includes net interest income on a FTE basis and noninterest income. The adjustment of net interest income to a FTE basis results in a corresponding increase in income tax expense. The net interest income of the businesses includes the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics. Net interest income of the business segments also includes an allocation of net interest income generated by the Corporation's ALM activities.

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

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

Business Segments**Three Months Ended June 30**

| (Dollars in millions) | Total Corporation ⁽¹⁾ | | Global Consumer and Small Business Banking ^(2, 3) | | Global Corporate and Investment Banking ⁽²⁾ | |
|--|----------------------------------|---------------------|---|-------------------|---|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net interest income ⁽⁴⁾ | \$ 10,937 | \$ 8,784 | \$ 8,015 | \$ 7,109 | \$ 3,824 | \$ 2,609 |
| Noninterest income | 9,694 | 11,236 | 5,077 | 4,712 | 2,136 | 3,334 |
| Total revenue, net of interest expense | 20,631 | 20,020 | 13,092 | 11,821 | 5,960 | 5,943 |
| Provision for credit losses ⁽⁵⁾ | 5,830 | 1,810 | 6,545 | 3,094 | 363 | 42 |
| Amortization of intangibles | 447 | 391 | 331 | 331 | 49 | 42 |
| Other noninterest expense | 9,117 | 8,764 | 4,962 | 4,579 | 2,752 | 3,185 |
| Income before income taxes | 5,237 | 9,055 | 1,254 | 3,817 | 2,796 | 2,674 |
| Income tax expense ⁽⁴⁾ | 1,827 | 3,294 | 442 | 1,395 | 1,050 | 982 |
| Net income | \$ 3,410 | \$ 5,761 | \$ 812 | \$ 2,422 | \$ 1,746 | \$ 1,692 |
| Period-end total assets | \$ 1,716,875 | \$ 1,534,359 | \$ 426,562 | \$ 403,684 | \$ 779,138 | \$ 731,377 |

| (Dollars in millions) | Global Wealth and Investment Management ⁽²⁾ | | All Other ^(2, 3) | |
|---|---|-------------------|-----------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net interest income ⁽⁴⁾ | \$ 1,133 | \$ 949 | \$ (2,035) | \$ (1,883) |
| Noninterest income | 1,146 | 940 | 1,335 | 2,250 |
| Total revenue, net of interest expense | 2,279 | 1,889 | (700) | 367 |
| Provision for credit losses ⁽⁵⁾ | 119 | (13) | (1,197) | (1,313) |
| Amortization of intangibles | 60 | 16 | 7 | 2 |
| Other noninterest expense | 1,181 | 977 | 222 | 23 |
| Income before income taxes | 919 | 909 | 268 | 1,655 |
| Income tax expense (benefit) ⁽⁴⁾ | 346 | 333 | (11) | 584 |
| Net income | \$ 573 | \$ 576 | \$ 279 | \$ 1,071 |
| Period-end total assets | \$ 167,187 | \$ 128,388 | \$ 343,988 | \$ 270,910 |

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

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

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

(4) FTE basis

(5)

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

Table of Contents**Business Segments**

Six Months Ended June 30

| (Dollars in millions) | Total Corporation ⁽¹⁾ | | Global Consumer and Small Business Banking ^(2, 3) | | Global Corporate and Investment Banking ⁽²⁾ | |
|--|----------------------------------|---------------------|---|-------------------|---|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net interest income ⁽⁴⁾ | \$ 21,228 | \$ 17,383 | \$ 15,699 | \$ 14,113 | \$ 7,415 | \$ 5,017 |
| Noninterest income | 16,706 | 21,181 | 10,699 | 9,039 | 1,704 | 6,369 |
| Total revenue, net of interest expense | 37,934 | 38,564 | 26,398 | 23,152 | 9,119 | 11,386 |
| Provision for credit losses ⁽⁵⁾ | 11,840 | 3,045 | 13,000 | 5,505 | 886 | 157 |
| Amortization of intangibles | 893 | 780 | 662 | 660 | 97 | 84 |
| Other noninterest expense | 17,866 | 17,532 | 9,764 | 8,933 | 5,168 | 6,121 |
| Income before income taxes | 7,335 | 17,207 | 2,972 | 8,054 | 2,968 | 5,024 |
| Income tax expense ⁽⁴⁾ | 2,715 | 6,191 | 1,068 | 2,965 | 1,115 | 1,858 |
| Net income | \$ 4,620 | \$ 11,016 | \$ 1,904 | \$ 5,089 | \$ 1,853 | \$ 3,166 |
| Period-end total assets | \$ 1,716,875 | \$ 1,534,359 | \$ 426,562 | \$ 403,684 | \$ 779,138 | \$ 731,377 |

| (Dollars in millions) | Global Wealth and Investment Management ⁽²⁾ | | All Other ^(2, 3) | |
|--|---|-------------------|-----------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net interest income ⁽⁴⁾ | \$ 2,131 | \$ 1,871 | \$ (4,017) | \$ (3,618) |
| Noninterest income | 2,070 | 1,799 | 2,233 | 3,974 |
| Total revenue, net of interest expense | 4,201 | 3,670 | (1,784) | 356 |
| Provision for credit losses ⁽⁵⁾ | 362 | 9 | (2,408) | (2,626) |
| Amortization of intangibles | 120 | 32 | 14 | 4 |
| Other noninterest expense | 2,436 | 1,935 | 498 | 543 |
| Income before income taxes | 1,283 | 1,694 | 112 | 2,435 |
| Income tax expense ⁽⁴⁾ | 481 | 627 | 51 | 741 |
| Net income | \$ 802 | \$ 1,067 | \$ 61 | \$ 1,694 |
| Period-end total assets | \$ 167,187 | \$ 128,388 | \$ 343,988 | \$ 270,910 |

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

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

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

⁽⁴⁾ FTE basis

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

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*'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 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.

Table of Contents**Global Consumer and Small Business Banking Reconciliation**

| (Dollars in millions) | Three Months Ended June 30, 2008 | | | Three Months Ended June 30, 2007 | | |
|--|----------------------------------|--------------------------------------|---------------|----------------------------------|--------------------------------------|-----------------|
| | Managed Basis ⁽¹⁾ | Securitization Impact ⁽²⁾ | Held Basis | Managed Basis ⁽¹⁾ | Securitization Impact ⁽²⁾ | Held Basis |
| Net interest income ⁽³⁾ | \$ 8,015 | \$ (2,140) | \$ 5,875 | \$ 7,109 | \$ (1,981) | \$ 5,128 |
| Noninterest income: | | | | | | |
| Card income | 2,560 | 557 | 3,117 | 2,596 | 793 | 3,389 |
| Service charges | 1,743 | - | 1,743 | 1,488 | - | 1,488 |
| Mortgage banking income | 409 | - | 409 | 297 | - | 297 |
| All other income | 365 | (61) | 304 | 331 | (74) | 257 |
| Total noninterest income | 5,077 | 496 | 5,573 | 4,712 | 719 | 5,431 |
| Total revenue, net of interest expense | 13,092 | (1,644) | 11,448 | 11,821 | (1,262) | 10,559 |
| Provision for credit losses | 6,545 | (1,644) | 4,901 | 3,094 | (1,262) | 1,832 |
| Noninterest expense | 5,293 | - | 5,293 | 4,910 | - | 4,910 |
| Income before income taxes | 1,254 | - | 1,254 | 3,817 | - | 3,817 |
| Income tax expense ⁽³⁾ | 442 | - | 442 | 1,395 | - | 1,395 |
| Net income | \$ 812 | \$ - | \$ 812 | \$ 2,422 | \$ - | \$ 2,422 |

| (Dollars in millions) | Six Months Ended June 30, 2008 | | | Six Months Ended June 30, 2007 | | |
|--|--------------------------------|--------------------------------------|-----------------|--------------------------------|--------------------------------------|-----------------|
| | Managed Basis ⁽¹⁾ | Securitization Impact ⁽²⁾ | Held Basis | Managed Basis ⁽¹⁾ | Securitization Impact ⁽²⁾ | Held Basis |
| Net interest income ⁽³⁾ | \$ 15,699 | \$ (4,195) | \$ 11,504 | \$ 14,113 | \$ (3,871) | \$ 10,242 |
| Noninterest income: | | | | | | |
| Card income | 5,285 | 1,261 | 6,546 | 4,977 | 1,632 | 6,609 |
| Service charges | 3,309 | - | 3,309 | 2,865 | - | 2,865 |
| Mortgage banking income | 1,065 | - | 1,065 | 599 | - | 599 |
| All other income | 1,040 | (126) | 914 | 598 | (151) | 447 |
| Total noninterest income | 10,699 | 1,135 | 11,834 | 9,039 | 1,481 | 10,520 |
| Total revenue, net of interest expense | 26,398 | (3,060) | 23,338 | 23,152 | (2,390) | 20,762 |
| Provision for credit losses | 13,000 | (3,060) | 9,940 | 5,505 | (2,390) | 3,115 |
| Noninterest expense | 10,426 | - | 10,426 | 9,593 | - | 9,593 |
| Income before income taxes | 2,972 | - | 2,972 | 8,054 | - | 8,054 |
| Income tax expense ⁽³⁾ | 1,068 | - | 1,068 | 2,965 | - | 2,965 |
| Net income | \$ 1,904 | \$ - | \$ 1,904 | \$ 5,089 | \$ - | \$ 5,089 |

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

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

(3) FTE basis

Table of Contents**All Other Reconciliation**

| (Dollars in millions) | Three Months Ended June 30, 2008 | | | Three Months Ended June 30, 2007 | | |
|---|----------------------------------|--------------------------------------|---------------|----------------------------------|--------------------------------------|-----------------|
| | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted |
| Net interest income ⁽³⁾ | \$ (2,035) | \$ 2,140 | \$ 105 | \$ (1,883) | \$ 1,981 | \$ 98 |
| Noninterest income: | | | | | | |
| Card income | 595 | (557) | 38 | 676 | (793) | (117) |
| Equity investment income | 710 | - | 710 | 1,719 | - | 1,719 |
| Gains on sales of debt securities | 131 | - | 131 | 2 | - | 2 |
| All other income (loss) | (101) | 61 | (40) | (147) | 74 | (73) |
| Total noninterest income | 1,335 | (496) | 839 | 2,250 | (719) | 1,531 |
| Total revenue, net of interest expense | (700) | 1,644 | 944 | 367 | 1,262 | 1,629 |
| Provision for credit losses | (1,197) | 1,644 | 447 | (1,313) | 1,262 | (51) |
| Merger and restructuring charges | 212 | - | 212 | 75 | - | 75 |
| All other noninterest expense | 17 | - | 17 | (50) | - | (50) |
| Income before income taxes | 268 | - | 268 | 1,655 | - | 1,655 |
| Income tax expense (benefit) ⁽³⁾ | (11) | - | (11) | 584 | - | 584 |
| Net income | \$ 279 | \$ - | \$ 279 | \$ 1,071 | \$ - | \$ 1,071 |

| (Dollars in millions) | Six Months Ended June 30, 2008 | | | Six Months Ended June 30, 2007 | | |
|--|--------------------------------|--------------------------------------|--------------|--------------------------------|--------------------------------------|-----------------|
| | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted |
| Net interest income ⁽³⁾ | \$ (4,017) | \$ 4,195 | \$ 178 | \$ (3,618) | \$ 3,871 | \$ 253 |
| Noninterest income: | | | | | | |
| Card income | 1,259 | (1,261) | (2) | 1,397 | (1,632) | (235) |
| Equity investment income | 978 | - | 978 | 2,615 | - | 2,615 |
| Gains on sales of debt securities | 351 | - | 351 | 63 | - | 63 |
| All other income (loss) | (355) | 126 | (229) | (101) | 151 | 50 |
| Total noninterest income | 2,233 | (1,135) | 1,098 | 3,974 | (1,481) | 2,493 |
| Total revenue, net of interest expense | (1,784) | 3,060 | 1,276 | 356 | 2,390 | 2,746 |
| Provision for credit losses | (2,408) | 3,060 | 652 | (2,626) | 2,390 | (236) |
| Merger and restructuring charges | 382 | - | 382 | 186 | - | 186 |
| All other noninterest expense | 130 | - | 130 | 361 | - | 361 |
| Income before income taxes | 112 | - | 112 | 2,435 | - | 2,435 |
| Income tax expense ⁽³⁾ | 51 | - | 51 | 741 | - | 741 |
| Net income | \$ 61 | \$ - | \$ 61 | \$ 1,694 | \$ - | \$ 1,694 |

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

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

⁽³⁾ FTE basis

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

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|------------------|--------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Segments total revenue, net of interest expense ⁽¹⁾ | \$ 21,331 | \$ 19,653 | \$ 39,718 | \$ 38,208 |
| Adjustments: | | | | |
| ALM activities | 291 | (136) | 508 | (40) |
| Equity investment income | 710 | 1,719 | 978 | 2,615 |
| Liquidating businesses | 100 | 243 | 174 | 669 |
| FTE basis adjustment | (316) | (395) | (616) | (724) |
| Managed securitization impact to total revenue, net of interest expense | (1,644) | (1,262) | (3,060) | (2,390) |
| Other | (157) | (197) | (384) | (498) |
| Consolidated revenue, net of interest expense | \$ 20,315 | \$ 19,625 | \$ 37,318 | \$ 37,840 |
| Segments net income | \$ 3,131 | \$ 4,690 | \$ 4,559 | \$ 9,322 |
| Adjustments, net of taxes: | | | | |
| ALM activities | (135) | (141) | (159) | (145) |
| Equity investment income | 447 | 1,083 | 616 | 1,647 |
| Liquidating businesses | 24 | 132 | 57 | 437 |
| Merger and restructuring charges | 134 | 47 | 241 | 117 |
| Other | (191) | (50) | (694) | (362) |
| Consolidated net income | \$ 3,410 | \$ 5,761 | \$ 4,620 | \$ 11,016 |

(1) FTE basis

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

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Throughout the MD&A, we use certain acronyms and abbreviations which are defined in the Glossary beginning on page 150.

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

This report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. 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 2007 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 affect the ability to originate and distribute financial products in the primary and secondary markets; changes in foreign exchange rates; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial products including securities, loans, deposits, debt and derivative financial instruments, and other similar financial instruments; political conditions and related actions by the United States abroad which may adversely affect the Corporation's businesses and economic conditions as a whole; liabilities resulting from litigation and regulatory investigations, including costs, expenses, settlements and judgments; changes in domestic or foreign tax laws, rules and regulations as well as court, Internal Revenue Service or other governmental agencies' interpretations thereof; various monetary and fiscal policies and regulations, including those determined by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of Currency, the Federal Deposit Insurance Corporation, state regulators and the Financial Services Authority; changes in accounting standards, rules and interpretations; competition with other local, regional and international banks, thrifts, credit unions and other nonbank financial institutions; ability to grow core businesses; ability to develop and introduce new banking-related products, services and enhancements, and gain market acceptance of such products; mergers and acquisitions and their integration into the Corporation; decisions to downsize, sell or close units or otherwise change the business mix of the Corporation; and management's ability to manage these and other risks.

The Corporation, headquartered in Charlotte, North Carolina, operates in 32 states, the District of Columbia and more than 30 foreign countries. The Corporation provides a diversified range of banking and nonbanking financial services and products domestically and internationally through three business segments: *Global Consumer and Small Business Banking (GCSBB)*, *Global Corporate and Investment Banking (GCIB)*, and *Global Wealth and Investment Management (GWIM)*.

At June 30, 2008, the Corporation had \$1.7 trillion in assets and approximately 207,000 full-time equivalent employees. Notes to Consolidated Financial Statements referred to in the MD&A are incorporated by reference into the MD&A. Certain prior period amounts have been reclassified to conform to current period presentation.

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2008 Economic Environment

The slowing economy and declining housing prices continued to negatively affect our home equity and residential mortgage portfolios, as well as other areas of our consumer portfolio. In addition, we have seen sustained stress in the credit quality of our small business and commercial homebuilder portfolios. These factors have driven increases in consumer and commercial net charge-offs and nonperforming assets as well as higher commercial criticized utilized exposure and reserve increases across most portfolios during the first half of 2008. For more information on credit quality, see the Credit Risk Management discussion beginning on page 107.

The market dislocations that have been experienced in the financial markets over the past year continue to impact our results although to a lesser extent in the second quarter of 2008. We have incurred additional losses on CDOs and related subprime exposure (CDO exposure) and continue to reduce our exposure to these vehicles. For more information on CDOs, the related ongoing exposure and the impacts of the continuing market dislocation (e.g., leveraged finance and CMBS writedowns), see the *Capital Markets and Advisory Services (CMAS)* discussion beginning on page 77.

The market illiquidity continued to impact the credit ratings of certain structured investment vehicles (SIVs). During the first half of 2008, we provided additional support to certain cash funds managed within *GWIM* by utilizing existing capital commitments and purchasing certain investments from these funds. Further, some of the SIVs that we have purchased or are held by these funds are expected to be restructured which may result in additional losses. For more information on our cash fund support, see the *GWIM* discussion beginning on page 86.

The subprime mortgage dislocation also impacted the ratings of certain monoline insurance providers (monolines), which has affected the pricing of certain municipal securities and the liquidity of the short-term public finance markets. We have direct and indirect exposure to monolines and, in certain situations, recognized losses related to some of these exposures during the first half of 2008. For more information related to our monoline exposure, see the Industry Concentrations discussion on page 128.

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

On July 1, 2008, the Corporation acquired Countrywide Financial Corporation (Countrywide) through its merger with a subsidiary of the Corporation. The impacts of the slowing economy and declining housing prices could also negatively affect the results of operations stemming from this acquisition that will be included in our results beginning July 1, 2008.

Recent Events

In July 2008, the Board of Directors (the Board) authorized a stock repurchase program of up to 75 million shares of the Corporation's common stock at an aggregate cost not to exceed \$3.75 billion and is limited to a period of 12 to 18 months. This stock repurchase program replaced the previous stock repurchase program that expired in July 2008.

In July 2008, the Board declared a regular quarterly cash dividend on common stock of \$0.64 per share, payable on September 26, 2008 to common shareholders of record on September 5, 2008. In April 2008, the Board declared a regular quarterly cash dividend on common stock of \$0.64 per share which was paid on June 27, 2008 to common shareholders of record on June 6, 2008. In June and July 2008, we declared aggregate dividends on preferred stock of \$472 million, and in March and April 2008 declared aggregate dividends on preferred stock of \$187 million.

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

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In June 2008, we reached a definitive agreement to sell our equity prime brokerage business to BNP Paribas. The decision to sell the business is part of a strategic realignment within *GCIB* which reflects the decision to exit certain brokerage processing and balance sheet-intensive activities. We remain committed to our hedge fund clients in equities as well as across asset classes and investment banking. The completion of this transaction is subject to obtaining all regulatory approvals and is expected to close in the third quarter of 2008.

In May and June 2008, we issued 117 thousand shares of Bank of America Corporation 8.20% Non-Cumulative Preferred Stock, Series H (Series H Preferred Stock) with a par value of \$0.01 per share for \$2.9 billion. Further, in April 2008, we issued 160 thousand shares of Bank of America Corporation Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series M (Series M Preferred Stock) with a par value of \$0.01 per share for \$4.0 billion. The fixed rate is 8.125 percent through May 14, 2018 and then adjusts to three-month LIBOR plus 364 basis points (bps) thereafter.

Recent Accounting and Regulatory Developments

In July 2008, the President signed into law the Housing and Economic Recovery Act of 2008 (the Act). The Act has several provisions including the establishment of a voluntary program that permits the Federal Housing Administration (FHA) to refinance eligible mortgages for certain qualified borrowers. Some of the Act's other provisions include changes to the FHA program, increases in the limits on the principal balances of mortgage loans that the FHA and government sponsored enterprises (GSEs) can purchase, creating a new regulator for the GSEs, and establishing a registration system for loan originators. We are currently determining how we might use this new program in connection with ongoing home retention efforts within our mortgage business.

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

The FASB has decided to amend SFAS 140 which would impact the accounting for QSPEs and make certain changes to FIN 46R. Exposure drafts of the proposed requirements are expected in the third quarter of 2008. Based on the preliminary discussions and tentative decisions, and assuming no changes to the Corporation's current product offerings, it is possible that these changes may lead to the consolidation of certain QSPEs and VIEs. These consolidations may result in an increase in outstanding loans and on-balance sheet funding, higher provision and allowance for credit losses as well as changes in the timing of recognition and location of where items are classified on our income statement. In addition, regulatory capital amounts and ratios may be negatively impacted based on the outcome of the FASB's decisions. However, the impact on the Corporation cannot be determined until the FASB issues the final amendments to SFAS 140 and FIN 46R and regulators provide guidance on how these amendments will impact regulatory capital. See *Note 1 - Summary of Significant Accounting Principles* to the Consolidated Financial Statements for a further discussion of recently issued accounting pronouncements.

Table of Contents**Performance Overview**

Net income was \$3.4 billion, or \$0.72 per diluted common share for the three months ended June 30, 2008, as compared to \$5.8 billion, or \$1.28 per diluted common share, for the three months ended June 30, 2007. Net income was \$4.6 billion, or \$0.95 per diluted common share for the six months ended June 30, 2008, as compared to \$11.0 billion, or \$2.44 per diluted common share, for the six months ended June 30, 2007.

Table 1
Business Segment Total Revenue and Net Income

| (Dollars in millions) | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|------------------------------|------------------|-----------------|-----------------|------------------------------|------------------|-----------------|------------------|
| | Total Revenue ⁽¹⁾ | | Net Income | | Total Revenue ⁽¹⁾ | | Net Income | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Global Consumer and Small Business Banking ⁽²⁾ | \$ 13,092 | \$ 11,821 | \$ 812 | \$ 2,422 | \$ 26,398 | \$ 23,152 | \$ 1,904 | \$ 5,089 |
| Global Corporate and Investment Banking | 5,960 | 5,943 | 1,746 | 1,692 | 9,119 | 11,386 | 1,853 | 3,166 |
| Global Wealth and Investment Management | 2,279 | 1,889 | 573 | 576 | 4,201 | 3,670 | 802 | 1,067 |
| All Other ⁽²⁾ | (700) | 367 | 279 | 1,071 | (1,784) | 356 | 61 | 1,694 |
| Total FTE basis | 20,631 | 20,020 | 3,410 | 5,761 | 37,934 | 38,564 | 4,620 | 11,016 |
| FTE adjustment | (316) | (395) | - | - | (616) | (724) | - | - |
| Total Consolidated | \$ 20,315 | \$ 19,625 | \$ 3,410 | \$ 5,761 | \$ 37,318 | \$ 37,840 | \$ 4,620 | \$ 11,016 |

⁽¹⁾ Total revenue is net of interest expense, and is on a FTE basis for the business segments and *All Other*. For more information on a FTE basis, see Supplemental Financial Data beginning on page 58.

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

The table above presents total revenue and net income for the business segments and *All Other* and the following discussion presents a summary of the related results. For more information on these results, see Business Segment Operations beginning on page 65.

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

In addition to the drivers discussed above, during the six months ended June 30, 2008, *GCSBB*'s results were favorably impacted by the *Card Services* portion of the Visa IPO transactions. For more information on *GCSBB*, see page 66.

For the three months ended June 30, 2008, *GCIB*'s net income increased as lower incentive compensation more than offset higher provision for credit losses. Revenue remained relatively flat as an increase in net interest income, primarily market-based, was offset by CDO-related writedowns and other market disruption-related losses incurred in *CMAS*. The higher provision for credit losses was due to the impact of the housing markets slowdown on the homebuilder loan portfolio.

In addition to the drivers discussed above, during the six months ended June 30, 2008, *GCIB*'s results were favorably impacted by the *Treasury Services* portion of the Visa IPO transactions. For more information on *GCIB*, see page 74.

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For the three months ended June 30, 2008, *GWIM*'s net income remained relatively flat as higher total revenue was offset by higher noninterest expense and provision for credit losses. Total revenue increased due to growth in investment and brokerage services income, resulting from the U.S. Trust Corporation and LaSalle acquisitions, and higher net interest income. The increase in provision for credit losses was driven by deterioration in the housing markets. Noninterest expense increased due to the addition of U.S. Trust Corporation and LaSalle.

In addition to the drivers discussed above, during the six months ended June 30, 2008, *GWIM*'s results were impacted by losses associated with the support provided to certain cash funds managed within *GWIM*. For more information on *GWIM*, see page 86.

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

In addition to the drivers discussed above, during the six months ended June 30, 2008, *All Other*'s results were impacted by the absence of our Latin America operations, which were sold in the first quarter of 2007. For more information on *All Other*, see page 92.

Financial Highlights**Net Interest Income**

Net interest income on a FTE basis increased \$2.2 billion to \$10.9 billion and \$3.8 billion to \$21.2 billion for the three and six months ended June 30, 2008 compared to the same periods in 2007. The increases were driven by the beneficial impact of the current interest rate environment, strong loan growth, and the acquisition of LaSalle. The net interest yield on a FTE basis increased 33 bps to 2.92 percent and 23 bps to 2.83 percent for the three and six months ended June 30, 2008 compared to the same periods in 2007, due to the improvement in the market-based yield related to our *CMAS* business as well as an increase in loan levels originated at higher spreads partially offset by the impact of the LaSalle acquisition. For more information on net interest income on a FTE basis, see Tables 8 and 9 on pages 62 and 64.

Noninterest Income

Table 2
Noninterest Income

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-----------------------------------|----------------------------|------------------|--------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Card income | \$ 3,451 | \$ 3,558 | \$ 7,090 | \$ 6,891 |
| Service charges | 2,638 | 2,200 | 5,035 | 4,272 |
| Investment and brokerage services | 1,322 | 1,193 | 2,662 | 2,342 |
| Investment banking income | 695 | 774 | 1,171 | 1,412 |
| Equity investment income | 592 | 1,829 | 1,646 | 2,843 |
| Trading account profits (losses) | 357 | 949 | (1,426) | 1,879 |
| Mortgage banking income | 439 | 148 | 890 | 361 |
| Gains on sales of debt securities | 127 | 2 | 352 | 64 |
| Other income (loss) | 73 | 583 | (714) | 1,117 |
| Total noninterest income | \$ 9,694 | \$ 11,236 | \$ 16,706 | \$ 21,181 |

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Noninterest income decreased \$1.5 billion to \$9.7 billion and \$4.5 billion to \$16.7 billion for the three and six months ended June 30, 2008 compared to the same periods in 2007.

Card income on a held basis decreased \$107 million for the three months ended June 30, 2008 primarily due to the unfavorable change in value of the interest-only strip partially offset by increases in debit card income and various fees. Card income increased \$199 million for the six months ended June 30, 2008 due to the same factors noted above except that the change in the value of the interest-only strip increased earnings when compared to the prior period.

Service charges grew \$438 million and \$763 million resulting from increased volume, new account growth in deposit accounts and the beneficial impact of the LaSalle acquisition.

Investment and brokerage services increased \$129 million and \$320 million due primarily to the U.S. Trust Corporation and LaSalle acquisitions. This increase was partially offset by the absence of fees related to Marsico Capital Management, LLC (Marsico) which was sold in late 2007.

Investment banking income decreased \$79 million and \$241 million driven by reduced underwriting and advisory fees due to current markets disruptions.

Equity investment income decreased \$1.2 billion for both the three and the six months ended June 30, 2008. This was due to a reduction in gains from our Principal Investing portfolio attributable to the lack of liquidity in the marketplace including the absence of the \$600 million increase in value during the second quarter of 2007 of private equity funds which were sold during July 2007. For the six months ended June 30, 2008, the decrease was partially offset by the \$776 million gain associated with the Visa IPO.

Trading account profits (losses) decreased \$592 million and \$3.3 billion driven by continued losses related to CDO exposure and the continuing impact of the market disruptions on various parts of our *CMAS* business. For more information on the impact of these events refer to the *GCIB* discussion beginning on page 83.

Mortgage banking income increased \$291 million and \$529 million due to increased production income driven by improved margins on higher mortgage volume originated for distribution and an increased MSR valuation.

Other income (loss) decreased \$510 million and \$1.8 billion due to impairment writedowns of \$501 million and \$1.1 billion associated with CDOs classified as AFS debt securities and \$64 million and \$503 million of writedowns associated with our leveraged finance loans and commitments. In addition, we recorded losses of \$36 million and \$256 million associated with the support provided to certain cash funds managed within *GWIM* and writedowns related to certain investments that were previously purchased from the funds.

Provision for Credit Losses

The provision for credit losses increased \$4.0 billion to \$5.8 billion and \$8.8 billion to \$11.8 billion for the three and six months ended June 30, 2008 compared to the same periods in 2007. Deterioration in the housing markets, particularly in geographic areas that have experienced the most significant home price declines, seasoning of the portfolio, reflective of growth, and the impacts of a slowing economy drove higher net charge-offs and reserve increases.

For more information on credit quality, see Provision for Credit Losses beginning on page 134.

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

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|----------------------------------|----------------------------|-----------------|--------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Personnel | \$ 4,420 | \$ 4,737 | \$ 9,146 | \$ 9,762 |
| Occupancy | 848 | 744 | 1,697 | 1,457 |
| Equipment | 372 | 332 | 768 | 682 |
| Marketing | 571 | 537 | 1,208 | 1,092 |
| Professional fees | 362 | 283 | 647 | 512 |
| Amortization of intangibles | 447 | 391 | 893 | 780 |
| Data processing | 587 | 472 | 1,150 | 909 |
| Telecommunications | 266 | 244 | 526 | 495 |
| Other general operating | 1,479 | 1,340 | 2,342 | 2,437 |
| Merger and restructuring charges | 212 | 75 | 382 | 186 |
| Total noninterest expense | \$ 9,564 | \$ 9,155 | \$ 18,759 | \$ 18,312 |

Noninterest expense increased \$409 million to \$9.6 billion and \$447 million to \$18.8 billion for the three and six months ended June 30, 2008 compared to the same periods in 2007 primarily due to increases in various line items including data processing, occupancy and merger and restructuring charges. These increases were primarily attributable to the LaSalle and U.S. Trust Corporation acquisitions. Personnel expense decreased \$317 million and \$616 million as the impact of the acquisitions of LaSalle and U.S. Trust Corporation were more than offset by a reduction in performance-based incentive compensation expense due in part to modifications to certain employee incentive programs primarily in *GCIB*. The six months ended June 30, 2008 was also impacted by the reversal of certain Visa-related litigation costs associated with the completion of the Visa IPO and a decrease in stock-based compensation granted to eligible employees.

Income Tax Expense

Income tax expense was \$1.5 billion for the three months ended June 30, 2008 compared to \$2.9 billion for the same period in 2007, resulting in an effective tax rate of 30.7 percent and 33.5 percent. Income tax expense was \$2.1 billion for the six months ended June 30, 2008 compared to \$5.5 billion for the same period in 2007, resulting in an effective tax rate of 31.2 percent and 33.2 percent. The decreases in the effective tax rates reflect the impact of lower pre-tax income.

On April 29, 2008, the U.S. Court of Appeals for the Fourth Circuit affirmed a lower court's decision that related to another taxpayer to disallow tax benefits associated with leveraged lease transactions commonly referred to as lease-in, lease-out (LILOs). As a result of this decision, during the second quarter of 2008 in accordance with FSP 13-2, we revised our assumptions related to the projected cash flows of these and certain other leveraged lease transactions (e.g., sale-in, lease-out (SILOs)). The resulting charge, including accrued interest, did not have a significant impact on our financial position or results of operations.

On August 6, 2008, the Internal Revenue Service (IRS) announced a program giving taxpayers 30 days to accept an income tax settlement for LILO and SILO transactions. The Corporation has not received an official communication from the IRS of the settlement proposal and is evaluating the reported proposal settlement and impact of any such resolution on our financial statements or results of operations. Based on publicly available information, such impact is not expected to be material.

Assets

At June 30, 2008, total assets remained relatively flat with December 31, 2007 at \$1.7 trillion as an increase in debt securities was offset by decreases in federal funds sold and securities purchased under agreements to resell, and other assets. Debt securities increased due to net purchases of securities and the securitization of residential mortgage loans into mortgage-backed securities which we retained. The decrease in other assets was primarily attributable to lower loans held for sale.

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Average total assets for the three and six months ended June 30, 2008 increased \$193.0 billion, or 12 percent, and \$218.1 billion, or 14 percent, from the same periods in 2007, primarily due to higher loans and leases and debt securities. The increase in average loans and leases was attributable to organic growth and the LaSalle merger. The increase in debt securities was driven by the same factors as noted above and the LaSalle merger.

Liabilities and Shareholders Equity

At June 30, 2008, total liabilities were \$1.6 trillion, a decrease of \$14.8 billion from December 31, 2007. The decrease in total liabilities was primarily attributable to lower interest-bearing foreign deposits, and commercial paper and other short-term borrowings, partially offset by an increase in federal funds purchased and securities sold under agreements to repurchase, and long term debt.

Average total liabilities for the three and six months ended June 30, 2008 increased \$165.1 billion, or 12 percent, and \$193.6 billion, or 14 percent, from the same periods in 2007. The increase in average total liabilities was attributable to higher deposits and long-term debt to support growth in overall assets and fund the LaSalle merger. In addition these increases were attributable to the assumption of liabilities associated with LaSalle.

Period end shareholders equity was \$162.7 billion at June 30, 2008, an increase of \$15.9 billion from December 31, 2007, due to the issuance of preferred stock of \$19.7 billion and net income of \$4.6 billion, partially offset by dividend payments of \$6.1 billion and a decrease in accumulated OCI of \$3.0 billion.

Average shareholders equity for the three and six months ended June 30, 2008 compared to the same periods in 2007, increased \$27.9 billion and \$24.5 billion due to the same period-end factors discussed above except that accumulated OCI increased due to the fair value adjustment related to our investment in China Construction Bank (CCB).

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

| (Dollars in millions, except per share information) | 2008 Quarters | | | 2007 Quarters | |
|--|---------------|------------|------------|---------------|------------|
| | Second | First | Fourth | Third | Second |
| Income statement | | | | | |
| Net interest income | \$ 10,621 | \$ 9,991 | \$ 9,165 | \$ 8,617 | \$ 8,389 |
| Noninterest income | 9,694 | 7,012 | 3,564 | 7,383 | 11,236 |
| Total revenue, net of interest expense | 20,315 | 17,003 | 12,729 | 16,000 | 19,625 |
| Provision for credit losses | 5,830 | 6,010 | 3,310 | 2,030 | 1,810 |
| Noninterest expense, before merger and restructuring charges | 9,352 | 9,025 | 10,194 | 8,530 | 9,080 |
| Merger and restructuring charges | 212 | 170 | 140 | 84 | 75 |
| Income (loss) before income taxes | 4,921 | 1,798 | (915) | 5,356 | 8,660 |
| Income tax expense (benefit) | 1,511 | 588 | (1,183) | 1,658 | 2,899 |
| Net income | \$ 3,410 | \$ 1,210 | \$ 268 | \$ 3,698 | \$ 5,761 |
| Average common shares issued and outstanding (in thousands) | 4,435,719 | 4,427,823 | 4,421,554 | 4,420,616 | 4,419,246 |
| Average diluted common shares issued and outstanding (in thousands) | 4,457,193 | 4,461,201 | 4,470,108 | 4,475,917 | 4,476,799 |
| Performance ratios | | | | | |
| Return on average assets | 0.78 % | 0.28 % | 0.06 % | 0.93 % | 1.48 % |
| Return on average common shareholders' equity | 9.25 | 2.90 | 0.60 | 11.02 | 17.55 |
| Return on tangible shareholders' equity ⁽¹⁾ | 16.40 | 6.31 | 1.60 | 21.90 | 34.06 |
| Total ending equity to total ending assets | 9.48 | 9.00 | 8.56 | 8.77 | 8.85 |
| Total average equity to total average assets | 9.20 | 8.77 | 8.32 | 8.51 | 8.55 |
| Dividend payout | 88.67 | n/m | n/m | 77.97 | 43.60 |
| Per common share data | | | | | |
| Earnings | \$ 0.73 | \$ 0.23 | \$ 0.05 | \$ 0.83 | \$ 1.29 |
| Diluted earnings | 0.72 | 0.23 | 0.05 | 0.82 | 1.28 |
| Dividends paid | 0.64 | 0.64 | 0.64 | 0.64 | 0.56 |
| Book value | 31.11 | 31.22 | 32.09 | 30.45 | 29.95 |
| Market price per share of common stock | | | | | |
| Closing | \$ 23.87 | \$ 37.91 | \$ 41.26 | \$ 50.27 | \$ 48.89 |
| High closing | 40.86 | 45.03 | 52.71 | 51.87 | 51.82 |
| Low closing | 23.87 | 35.31 | 41.10 | 47.00 | 48.80 |
| Market capitalization | \$ 106,292 | \$ 168,806 | \$ 183,107 | \$ 223,041 | \$ 216,922 |
| Average balance sheet | | | | | |
| Total loans and leases | \$ 878,639 | \$ 875,661 | \$ 868,119 | \$ 780,516 | \$ 740,199 |
| Total assets | 1,754,613 | 1,764,927 | 1,742,467 | 1,580,565 | 1,561,649 |
| Total deposits | 786,002 | 787,623 | 781,625 | 702,481 | 697,035 |
| Long-term debt | 205,194 | 198,463 | 196,444 | 175,265 | 158,500 |
| Common shareholders' equity | 140,243 | 141,456 | 141,085 | 131,606 | 130,700 |
| Total shareholders' equity | 161,428 | 154,728 | 144,924 | 134,487 | 133,551 |
| Asset quality | | | | | |
| Allowance for credit losses ⁽²⁾ | \$ 17,637 | \$ 15,398 | \$ 12,106 | \$ 9,927 | \$ 9,436 |
| Nonperforming assets measured at historical cost ⁽³⁾ | 9,749 | 7,827 | 5,948 | 3,372 | 2,392 |
| Allowance for loan and lease losses as a percentage of total loans and leases outstanding measured at historical cost ⁽⁴⁾ | 1.98 % | 1.71 % | 1.33 % | 1.21 % | 1.20 % |
| Allowance for loan and lease losses as a percentage of total nonperforming loans and leases measured at historical cost | 187 | 203 | 207 | 300 | 397 |
| Net charge-offs | \$ 3,619 | \$ 2,715 | \$ 1,985 | \$ 1,573 | \$ 1,495 |
| Annualized net charge-offs as a percentage of average loans and leases outstanding measured at historical cost ⁽⁴⁾ | 1.67 % | 1.25 % | 0.91 % | 0.80 % | 0.81 % |
| Nonperforming loans and leases as a percentage of total loans and leases outstanding measured at historical cost ⁽⁴⁾ | 1.06 | 0.84 | 0.64 | 0.40 | 0.30 |
| Nonperforming assets as a percentage of total loans, leases and foreclosed properties ^(3,4) | 1.13 | 0.90 | 0.68 | 0.43 | 0.32 |
| Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs | 1.18 | 1.36 | 1.47 | 1.53 | 1.51 |
| Capital ratios (period end) | | | | | |
| Risk-based capital: | | | | | |

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| | | | | | | | | | | |
|-----------------|--------------|---|-------|---|-------|---|-------|---|-------|---|
| Tier 1 | 8.25 | % | 7.51 | % | 6.87 | % | 8.22 | % | 8.52 | % |
| Total | 12.60 | | 11.71 | | 11.02 | | 11.86 | | 12.11 | |
| Tier 1 Leverage | 6.09 | | 5.59 | | 5.04 | | 6.20 | | 6.33 | |

(1) Tangible shareholders' equity is a non-GAAP measure. For additional information on ROTE and a corresponding reconciliation of tangible shareholders' equity to a GAAP financial measure, see Supplemental Financial Data beginning on page 58.

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

(3) Balances and ratios do not include nonperforming LHFS included in other assets and nonperforming AFS debt securities.

(4) Ratios do not include loans measured at fair value in accordance with SFAS 159.

n/m = not meaningful

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

| (Dollars in millions, except per share information) | Six Months Ended June 30 | |
|--|--------------------------|------------|
| | 2008 | 2007 |
| Income statement | | |
| Net interest income | \$ 20,612 | \$ 16,659 |
| Noninterest income | 16,706 | 21,181 |
| Total revenue, net of interest expense | 37,318 | 37,840 |
| Provision for credit losses | 11,840 | 3,045 |
| Noninterest expense, before merger and restructuring charges | 18,377 | 18,126 |
| Merger and restructuring charges | 382 | 186 |
| Income before income taxes | 6,719 | 16,483 |
| Income tax expense | 2,099 | 5,467 |
| Net income | \$ 4,620 | \$ 11,016 |
| Average common shares issued and outstanding (in thousands) | 4,431,870 | 4,426,046 |
| Average diluted common shares issued and outstanding (in thousands) | 4,460,633 | 4,487,224 |
| Performance ratios | | |
| Return on average assets | 0.53 % | 1.44 % |
| Return on average common shareholders' equity | 6.06 | 16.86 |
| Return on tangible shareholders' equity ⁽¹⁾ | 11.56 | 32.73 |
| Total ending equity to total ending assets | 9.48 | 8.85 |
| Total average equity to total average assets | 8.98 | 8.66 |
| Dividend payout | 134.71 | 45.71 |
| Per common share data | | |
| Earnings | \$ 0.96 | \$ 2.47 |
| Diluted earnings | 0.95 | 2.44 |
| Dividends paid | 1.28 | 1.12 |
| Book value | 31.11 | 29.95 |
| Market price per share of common stock | | |
| Closing | \$ 23.87 | \$ 48.89 |
| High closing | 45.03 | 54.05 |
| Low closing | 23.87 | 48.80 |
| Market capitalization | \$ 106,292 | \$ 216,922 |
| Average balance sheet | | |
| Total loans and leases | \$ 877,150 | \$ 727,193 |
| Total assets | 1,759,770 | 1,541,644 |
| Total deposits | 786,813 | 691,898 |
| Long-term debt | 201,828 | 153,591 |
| Common shareholders' equity | 140,849 | 130,718 |
| Total shareholders' equity | 158,078 | 133,569 |
| Asset quality | | |
| Allowance for credit losses ⁽²⁾ | \$ 17,637 | \$ 9,436 |
| Nonperforming assets measured at historical cost ⁽³⁾ | 9,749 | 2,392 |
| Allowance for loan and lease losses as a percentage of total loans and leases outstanding measured at historical cost ⁽⁴⁾ | 1.98 % | 1.20 % |
| Allowance for loan and lease losses as a percentage of total nonperforming loans and leases measured at historical cost | 187 | 397 |
| Net charge-offs | \$ 6,334 | \$ 2,922 |
| Annualized net charge-offs as a percentage of average loans and leases outstanding measured at historical cost ⁽⁴⁾ | 1.46 % | 0.81 % |
| Nonperforming loans and leases as a percentage of total loans and leases outstanding measured at historical cost ⁽⁴⁾ | 1.06 | 0.30 |
| Nonperforming assets as a percentage of total loans, leases and foreclosed properties ^(3, 4) | 1.13 | 0.32 |
| Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs | 1.34 | 1.54 |

(1) Tangible shareholders' equity is a non-GAAP measure. For additional information on ROTE and a corresponding reconciliation of tangible shareholders' equity to a GAAP financial measure, see Supplemental Financial Data beginning on page 58.

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

(3) Balances and ratios do not include nonperforming LHFS included in other assets and nonperforming AFS debt securities.

(4) Ratios do not include loans measured at fair value in accordance with SFAS 159.

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 our results. Targets vary by year and by business, and are based on a variety of factors including maturity of the business, investment appetite, competitive environment, market factors, and other items (e.g., risk appetite). The aforementioned performance measures and ratios, return on average assets and dividend payout ratio, as well as those measures discussed more fully below, are presented in Table 6.

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

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

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

| (Dollars in millions) | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|------------------|------------|
| | 2008 | June 30 | 2008 | June 30 |
| | 2007 | | 2007 | |
| Operating basis | | | | |
| Operating earnings | \$ 3,544 | \$ 5,808 | \$ 4,861 | \$ 11,133 |
| Return on average assets | 0.81 % | 1.49 % | 0.56 % | 1.46 % |
| Return on average common shareholders equity | 9.63 | 17.70 | 6.40 | 17.04 |
| Return on average tangible shareholders equity | 17.05 | 34.34 | 12.17 | 33.08 |
| Operating efficiency ratio (FTE basis) | 45.32 | 45.35 | 48.44 | 47.00 |
| Dividend payout ratio | 85.13 | 43.24 | 127.47 | 45.22 |
| Operating leverage (FTE basis) | 0.07 | 1.94 | (3.01) | 1.58 |
| FTE basis data | | | | |
| Net interest income | \$ 10,937 | \$ 8,784 | \$ 21,228 | \$ 17,383 |
| Total revenue, net of interest expense | 20,631 | 20,020 | 37,934 | 38,564 |
| Net interest yield | 2.92 % | 2.59 % | 2.83 % | 2.60 % |
| Efficiency ratio | 46.35 | 45.73 | 49.45 | 47.48 |
| Reconciliation of net income to operating earnings | | | | |
| Net income | \$ 3,410 | \$ 5,761 | \$ 4,620 | \$ 11,016 |
| Merger and restructuring charges | 212 | 75 | 382 | 186 |
| Related income tax benefit | (78) | (28) | (141) | (69) |
| Operating earnings | \$ 3,544 | \$ 5,808 | \$ 4,861 | \$ 11,133 |
| Reconciliation of average shareholders equity to average tangible shareholders equity | | | | |
| Average shareholders equity | \$ 161,428 | \$ 133,551 | \$ 158,078 | \$ 133,569 |
| Average goodwill | (77,815) | (65,704) | (77,721) | (65,703) |
| Average tangible shareholders equity | \$ 83,613 | \$ 67,847 | \$ 80,357 | \$ 67,866 |
| Reconciliation of return on average assets to operating return on average assets | | | | |
| Return on average assets | 0.78 % | 1.48 % | 0.53 % | 1.44 % |
| Effect of merger and restructuring charges, net-of-tax | 0.03 | 0.01 | 0.03 | 0.02 |
| Operating return on average assets | 0.81 % | 1.49 % | 0.56 % | 1.46 % |
| Reconciliation of return on average common shareholders equity to operating return on average common shareholders equity | | | | |
| Return on average common shareholders equity | 9.25 % | 17.55 % | 6.06 % | 16.86 % |
| Effect of merger and restructuring charges, net-of-tax | 0.38 | 0.15 | 0.34 | 0.18 |
| Operating return on average common shareholders equity | 9.63 % | 17.70 % | 6.40 % | 17.04 % |
| Reconciliation of return on average tangible shareholders equity to operating return on average tangible shareholders equity | | | | |
| Return on average tangible shareholders equity | 16.40 % | 34.06 % | 11.56 % | 32.73 % |
| Effect of merger and restructuring charges, net-of-tax | 0.65 | 0.28 | 0.61 | 0.35 |
| Operating return on average tangible shareholders equity | 17.05 % | 34.34 % | 12.17 % | 33.08 % |
| Reconciliation of efficiency ratio to operating efficiency ratio (FTE basis) | | | | |
| Efficiency ratio | 46.35 % | 45.73 % | 49.45 % | 47.48 % |
| Effect of merger and restructuring charges | (1.03) | (0.38) | (1.01) | (0.48) |
| Operating efficiency ratio | 45.32 % | 45.35 % | 48.44 % | 47.00 % |
| Reconciliation of dividend payout ratio to operating dividend payout ratio | | | | |
| Dividend payout ratio | 88.67 % | 43.60 % | 134.71 % | 45.71 % |
| Effect of merger and restructuring charges, net-of-tax | (3.54) | (0.36) | (7.24) | (0.49) |
| Operating dividend payout ratio | 85.13 % | 43.24 % | 127.47 % | 45.22 % |
| Reconciliation of operating leverage to operating basis operating leverage (FTE basis) | | | | |
| Operating leverage | (1.41) % | 3.43 % | (4.07) % | 2.24 % |
| Effect of merger and restructuring charges | 1.48 | (1.49) | 1.06 | (0.66) |
| Operating leverage | 0.07 % | 1.94 % | (3.01) % | 1.58 % |

Table of Contents**Core Net Interest Income Managed Basis**

We manage core net interest income - managed basis, which adjusts reported net interest income on a FTE basis for the impact of market-based activities and certain securitizations, net of retained securities. As discussed in the *GCIB* business segment section beginning on page 74, we evaluate our market-based results and strategies on a total market-based revenue approach by combining net interest income and noninterest income for *CMAS*. We also adjust for loans that we originated and subsequently sold into certain securitizations. These securitizations include off-balance sheet loans and leases, primarily credit card securitizations where servicing is retained by the Corporation, but excludes first mortgage securitizations. Noninterest income, rather than net interest income and provision for credit losses, is recorded for assets that have been securitized as we are compensated for servicing the securitized assets and record servicing income and gains or losses on securitizations, where appropriate. We believe the use of this non-GAAP presentation provides additional clarity in managing our results. An analysis of core net interest income managed basis, core average earning assets managed basis and core net interest yield on earning assets managed basis, which adjusts for the impact of these two non-core items from reported net interest income on a FTE basis, is shown below.

Table 7**Core Net Interest Income Managed Basis**

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|---------------------|--------------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net interest income ⁽¹⁾ | | | | |
| As reported | \$ 10,937 | \$ 8,784 | \$ 21,228 | \$ 17,383 |
| Impact of market-based net interest income ⁽²⁾ | (1,369) | (636) | (2,677) | (1,119) |
| Core net interest income | 9,568 | 8,148 | 18,551 | 16,264 |
| Impact of securitizations ⁽³⁾ | 2,254 | 1,952 | 4,344 | 3,811 |
| Core net interest income managed basis | \$ 11,822 | \$ 10,100 | \$ 22,895 | \$ 20,075 |
| Average earning assets | | | | |
| As reported | \$ 1,500,234 | \$ 1,358,199 | \$ 1,505,265 | \$ 1,340,172 |
| Impact of market-based earning assets ⁽²⁾ | (375,274) | (426,759) | (389,504) | (418,073) |
| Core average earning assets | 1,124,960 | 931,440 | 1,115,761 | 922,099 |
| Impact of securitizations | 103,131 | 102,357 | 102,854 | 102,442 |
| Core average earning assets managed basis | \$ 1,228,091 | \$ 1,033,797 | \$ 1,218,615 | \$ 1,024,541 |
| Net interest yield contribution ^(1,4) | | | | |
| As reported | 2.92 % | 2.59 % | 2.83 % | 2.60 % |
| Impact of market-based activities ⁽²⁾ | 0.49 | 0.91 | 0.51 | 0.94 |
| Core net interest yield on earning assets | 3.41 | 3.50 | 3.34 | 3.54 |
| Impact of securitizations | 0.45 | 0.41 | 0.43 | 0.39 |
| Core net interest yield on earning assets managed basis | 3.86 % | 3.91 % | 3.77 % | 3.93 % |

(1) FTE basis

(2) Represents the impact of market-based amounts included in the *CMAS* business within *GCIB*. For the three and six months ended June 30, 2008, the impact of market-based net interest income excludes \$52 million and \$25 million of net interest income on loans that are accounted for at fair value in accordance with SFAS 159. For both the three and six months ended June 30, 2007, the impact of market-based net interest income excludes \$22 million of net interest income on loans that are accounted for at fair value in accordance with SFAS 159. For more information, see the market-based revenue discussion on page 79.

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

(4) Calculated on an annualized basis.

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Core net interest income on a managed basis increased \$1.7 billion and \$2.8 billion for the three and six months ended June 30, 2008 compared to the same periods in 2007. The increases were driven by strong loan growth, the acquisition of LaSalle, and the beneficial impact of the current interest rate environment.

On a managed basis, core average earning assets increased \$194.3 billion and \$194.1 billion for the three and six months ended June 30, 2008 compared to the same periods in 2007 due to higher levels of managed loans, increased levels from ALM activities and the impact of the LaSalle acquisition.

Core net interest yield on a managed basis decreased 5 bps to 3.86 percent and 16 bps to 3.77 percent for the three and six months ended June 30, 2008 compared to the same periods in 2007 and was driven by the impact of the LaSalle acquisition, partially offset by an increase in loan levels originated at higher spreads and the beneficial impact of the current interest rate environment.

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

| (Dollars in millions) | Second Quarter 2008 | | | | First Quarter 2008 | | | |
|---|---------------------|--------------------------------|----------------|----------|---------------------|--------------------------------|----------------|----------|
| | Average Balance | Interest Income/ Expense | Yield/ Rate | % | Average Balance | Interest Income/ Expense | Yield/ Rate | % |
| Earning assets | | | | | | | | |
| Time deposits placed and other short-term investments | \$ 10,310 | \$ 87 | 3.40 | % | \$ 10,596 | \$ 94 | 3.56 | % |
| Federal funds sold and securities purchased under agreements to resell | 126,169 | 800 | 2.54 | | 145,043 | 1,208 | 3.34 | |
| Trading account assets | 184,547 | 2,282 | 4.95 | | 192,410 | 2,417 | 5.04 | |
| Debt securities ⁽¹⁾ | 235,369 | 2,963 | 5.04 | | 219,377 | 2,835 | 5.17 | |
| Loans and leases ⁽²⁾ : | | | | | | | | |
| Residential mortgage | 256,164 | 3,541 | 5.54 | | 270,541 | 3,837 | 5.68 | |
| Credit card domestic | 61,655 | 1,603 | 10.45 | | 63,277 | 1,774 | 11.28 | |
| Credit card foreign | 16,566 | 512 | 12.43 | | 15,241 | 474 | 12.51 | |
| Home equity | 120,265 | 1,627 | 5.44 | | 116,562 | 1,872 | 6.46 | |
| Direct/Indirect consumer ⁽³⁾ | 82,593 | 1,731 | 8.43 | | 78,705 | 1,699 | 8.68 | |
| Other consumer ⁽⁴⁾ | 3,953 | 84 | 8.36 | | 4,049 | 87 | 8.61 | |
| Total consumer | 541,196 | 9,098 | 6.75 | | 548,375 | 9,743 | 7.13 | |
| Commercial domestic | 219,537 | 2,762 | 5.06 | | 212,394 | 3,198 | 6.06 | |
| Commercial real estate ⁽⁵⁾ | 62,810 | 737 | 4.72 | | 62,202 | 887 | 5.74 | |
| Commercial lease financing | 22,276 | 243 | 4.37 | | 22,227 | 261 | 4.69 | |
| Commercial foreign | 32,820 | 366 | 4.48 | | 30,463 | 387 | 5.11 | |
| Total commercial | 337,443 | 4,108 | 4.89 | | 327,286 | 4,733 | 5.81 | |
| Total loans and leases | 878,639 | 13,206 | 6.04 | | 875,661 | 14,476 | 6.64 | |
| Other earning assets | 65,200 | 1,005 | 6.19 | | 67,208 | 1,129 | 6.75 | |
| Total earning assets ⁽⁶⁾ | 1,500,234 | 20,343 | 5.44 | | 1,510,295 | 22,159 | 5.89 | |
| Cash and cash equivalents | 33,799 | | | | 33,949 | | | |
| Other assets, less allowance for loan and lease losses | 220,580 | | | | 220,683 | | | |
| Total assets | \$ 1,754,613 | | | | \$ 1,764,927 | | | |
| Interest-bearing liabilities | | | | | | | | |
| Domestic interest-bearing deposits: | | | | | | | | |
| Savings | \$ 33,164 | \$ 64 | 0.77 | % | \$ 31,798 | \$ 50 | 0.63 | % |
| NOW and money market deposit accounts | 258,104 | 856 | 1.33 | | 248,949 | 1,139 | 1.84 | |
| Consumer CDs and IRAs | 178,828 | 1,646 | 3.70 | | 188,005 | 2,071 | 4.43 | |
| Negotiable CDs, public funds and other time deposits | 24,216 | 195 | 3.25 | | 32,201 | 320 | 4.00 | |
| Total domestic interest-bearing deposits | 494,312 | 2,761 | 2.25 | | 500,953 | 3,580 | 2.87 | |
| Foreign interest-bearing deposits: | | | | | | | | |
| Banks located in foreign countries | 33,777 | 272 | 3.25 | | 39,196 | 400 | 4.10 | |
| Governments and official institutions | 11,789 | 77 | 2.62 | | 14,650 | 132 | 3.62 | |
| Time, savings and other | 55,403 | 410 | 2.97 | | 53,064 | 476 | 3.61 | |
| Total foreign interest-bearing deposits | 100,969 | 759 | 3.02 | | 106,910 | 1,008 | 3.79 | |
| Total interest-bearing deposits | 595,281 | 3,520 | 2.38 | | 607,863 | 4,588 | 3.04 | |
| Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings | | | | | | | | |
| Trading account liabilities | 444,578 | 3,087 | 2.79 | | 452,854 | 4,142 | 3.68 | |
| Long-term debt | 70,546 | 749 | 4.27 | | 82,432 | 840 | 4.10 | |
| Total interest-bearing liabilities ⁽⁶⁾ | 205,194 | 2,050 | 4.00 | | 198,463 | 2,298 | 4.63 | |
| Total interest-bearing liabilities ⁽⁶⁾ | 1,315,599 | 9,406 | 2.87 | | 1,341,612 | 11,868 | 3.55 | |
| Noninterest-bearing sources: | | | | | | | | |
| Noninterest-bearing deposits | 190,721 | | | | 179,760 | | | |
| Other liabilities | 86,865 | | | | 88,827 | | | |
| Shareholders equity | 161,428 | | | | 154,728 | | | |
| Total liabilities and shareholders equity | \$ 1,754,613 | | | | \$ 1,764,927 | | | |
| Net interest spread | | | 2.57 | % | | | 2.34 | % |
| Impact of noninterest-bearing sources | | | 0.35 | | | | 0.39 | |
| Net interest income/yield on earning assets | | \$ 10,937 | 2.92 | % | | \$ 10,291 | 2.73 | % |

(1) 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.

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

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- (3) Includes foreign consumer loans of \$3.0 billion and \$3.3 billion in the second and first quarters of 2008, and \$3.6 billion, \$3.8 billion and \$3.9 billion in the fourth, third and second quarters of 2007, respectively.
- (4) Includes consumer finance loans of \$2.8 billion and \$3.0 billion in the second and first quarters of 2008, and \$3.1 billion, \$3.2 billion and \$3.4 billion in the fourth, third and second quarters of 2007, respectively; and other foreign consumer loans of \$862 million and \$857 million in the second and first quarters of 2008, and \$845 million, \$843 million and \$775 million in the fourth, third and second quarters of 2007, respectively.
- (5) Includes domestic commercial real estate loans of \$61.6 billion and \$61.0 billion in the second and first quarters of 2008, and \$58.5 billion, \$38.0 billion and \$36.2 billion in the fourth, third and second quarters of 2007, respectively.
- (6) Interest income includes the impact of interest rate risk management contracts, which decreased interest income on assets \$104 million and \$103 million in the second and first quarters of 2008, and \$134 million, \$170 million and \$117 million in the fourth, third and second quarters of 2007, respectively. Interest expense includes the impact of interest rate risk management contracts, which increased interest expense on liabilities \$37 million and \$49 million in the second and first quarters of 2008, and \$201 million, \$226 million and \$207 million in the fourth, third and second quarters of 2007, respectively. For further information on interest rate contracts, see Interest Rate Risk Management for Nontrading Activities beginning on page 143.

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

| | Fourth Quarter 2007 | | | Third Quarter 2007 | | | Second Quarter 2007 | | |
|---|---------------------|--------------------|----------------|---------------------|--------------------|----------------|---------------------|--------------------|----------------|
| | Interest | | | Interest | | | Interest | | |
| | Average | Income/ Expense | Yield/ Rate | Average | Income/ Expense | Yield/ Rate | Average | Income/ Expense | Yield/ Rate |
| (Dollars in millions) | Balance | Expense | Rate | Balance | Expense | Rate | Balance | Expense | Rate |
| Earning assets | | | | | | | | | |
| Time deposits placed and other short-term investments | \$ 10,459 | \$ 122 | 4.63 % | \$ 11,879 | \$ 148 | 4.92 % | \$ 15,310 | \$ 188 | 4.92 % |
| Federal funds sold and securities purchased under agreements to resell | 151,938 | 1,748 | 4.59 | 139,259 | 1,839 | 5.27 | 166,258 | 2,156 | 5.19 |
| Trading account assets | 190,700 | 2,422 | 5.06 | 194,661 | 2,604 | 5.33 | 188,287 | 2,364 | 5.03 |
| Debt securities ⁽¹⁾ | 206,873 | 2,795 | 5.40 | 174,568 | 2,380 | 5.45 | 177,834 | 2,394 | 5.39 |
| Loans and leases ⁽²⁾ : | | | | | | | | | |
| Residential mortgage | 277,058 | 3,972 | 5.73 | 274,385 | 3,928 | 5.72 | 260,099 | 3,708 | 5.70 |
| Credit card domestic | 60,063 | 1,781 | 11.76 | 57,491 | 1,780 | 12.29 | 56,235 | 1,777 | 12.67 |
| Credit card foreign | 14,329 | 464 | 12.86 | 11,995 | 371 | 12.25 | 11,946 | 350 | 11.76 |
| Home equity | 112,369 | 2,043 | 7.21 | 98,611 | 1,884 | 7.58 | 94,267 | 1,779 | 7.57 |
| Direct/Indirect consumer ⁽³⁾ | 75,138 | 1,658 | 8.75 | 72,978 | 1,600 | 8.70 | 67,927 | 1,441 | 8.51 |
| Other consumer ⁽⁴⁾ | 4,206 | 71 | 6.77 | 4,322 | 96 | 8.90 | 4,401 | 100 | 9.16 |
| Total consumer | 543,163 | 9,989 | 7.32 | 519,782 | 9,659 | 7.39 | 494,875 | 9,155 | 7.41 |
| Commercial domestic | 213,200 | 3,704 | 6.89 | 176,554 | 3,207 | 7.21 | 166,529 | 3,039 | 7.32 |
| Commercial real estate ⁽⁵⁾ | 59,702 | 1,053 | 6.99 | 38,977 | 733 | 7.47 | 36,788 | 687 | 7.49 |
| Commercial lease financing | 22,239 | 574 | 10.33 | 20,044 | 246 | 4.91 | 19,784 | 217 | 4.40 |
| Commercial foreign | 29,815 | 426 | 5.67 | 25,159 | 377 | 5.95 | 22,223 | 319 | 5.75 |
| Total commercial | 324,956 | 5,757 | 7.03 | 260,734 | 4,563 | 6.95 | 245,324 | 4,262 | 6.97 |
| Total loans and leases | 868,119 | 15,746 | 7.21 | 780,516 | 14,222 | 7.25 | 740,199 | 13,417 | 7.26 |
| Other earning assets | 74,909 | 1,296 | 6.89 | 74,912 | 1,215 | 6.46 | 70,311 | 1,108 | 6.31 |
| Total earning assets ⁽⁶⁾ | 1,502,998 | 24,129 | 6.39 | 1,375,795 | 22,408 | 6.48 | 1,358,199 | 21,627 | 6.38 |
| Cash and cash equivalents | 33,714 | | | 31,356 | | | 33,689 | | |
| Other assets, less allowance for loan and lease losses | 205,755 | | | 173,414 | | | 169,761 | | |
| Total assets | \$ 1,742,467 | | | \$ 1,580,565 | | | \$ 1,561,649 | | |
| Interest-bearing liabilities | | | | | | | | | |
| Domestic interest-bearing deposits: | | | | | | | | | |
| Savings | \$ 31,961 | \$ 50 | 0.63 % | \$ 31,510 | \$ 50 | 0.62 % | \$ 33,039 | \$ 47 | 0.58 % |
| NOW and money market deposit accounts | 240,914 | 1,334 | 2.20 | 215,078 | 1,104 | 2.04 | 212,330 | 987 | 1.86 |
| Consumer CDs and IRAs | 183,910 | 2,179 | 4.70 | 165,840 | 1,949 | 4.66 | 161,703 | 1,857 | 4.61 |
| Negotiable CDs, public funds and other time deposits | 34,997 | 420 | 4.76 | 17,392 | 227 | 5.20 | 16,256 | 191 | 4.70 |
| Total domestic interest-bearing deposits | 491,782 | 3,983 | 3.21 | 429,820 | 3,330 | 3.07 | 423,328 | 3,082 | 2.92 |
| Foreign interest-bearing deposits: | | | | | | | | | |
| Banks located in foreign countries | 45,050 | 557 | 4.91 | 43,727 | 564 | 5.12 | 41,940 | 522 | 4.99 |
| Governments and official institutions | 16,506 | 192 | 4.62 | 17,206 | 218 | 5.03 | 17,868 | 224 | 5.02 |
| Time, savings and other | 51,919 | 521 | 3.98 | 41,868 | 433 | 4.09 | 40,335 | 433 | 4.31 |
| Total foreign interest-bearing deposits | 113,475 | 1,270 | 4.44 | 102,801 | 1,215 | 4.69 | 100,143 | 1,179 | 4.72 |
| Total interest-bearing deposits | 605,257 | 5,253 | 3.44 | 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 | 456,530 | 5,598 | 4.87 | 409,070 | 5,519 | 5.36 | 419,260 | 5,534 | 5.29 |
| Trading account liabilities | 81,500 | 825 | 4.02 | 86,118 | 906 | 4.17 | 85,550 | 821 | 3.85 |
| Long-term debt | 196,444 | 2,638 | 5.37 | 175,265 | 2,446 | 5.58 | 158,500 | 2,227 | 5.62 |
| Total interest-bearing liabilities ⁽⁶⁾ | 1,339,731 | 14,314 | 4.25 | 1,203,074 | 13,416 | 4.43 | 1,186,781 | 12,843 | 4.34 |
| Noninterest-bearing sources: | | | | | | | | | |
| Noninterest-bearing deposits | 176,368 | | | 169,860 | | | 173,564 | | |
| Other liabilities | 81,444 | | | 73,144 | | | 67,753 | | |
| Shareholders equity | 144,924 | | | 134,487 | | | 133,551 | | |
| Total liabilities and shareholders equity | \$ 1,742,467 | | | \$ 1,580,565 | | | \$ 1,561,649 | | |
| Net interest spread | | | 2.14 % | | | 2.05 % | | | 2.04 % |
| Impact of noninterest-bearing sources | | | 0.47 | | | 0.56 | | | 0.55 |
| Net interest income/yield on earning assets | | \$ 9,815 | 2.61 % | | \$ 8,992 | 2.61 % | | \$ 8,784 | 2.59 % |

For Footnotes, see page 62.

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

| (Dollars in millions) | Six Months Ended June 30 | | | | | |
|---|--------------------------|--------------------------------|----------------|---------------------|--------------------------------|----------------|
| | 2008 | | | 2007 | | |
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Earning assets | | | | | | |
| Time deposits placed and other short-term investments | \$ 10,453 | \$ 181 | 3.48 % | \$ 15,167 | \$ 357 | 4.75 % |
| Federal funds sold and securities purchased under agreements to resell | 135,606 | 2,008 | 2.97 | 166,227 | 4,135 | 4.99 |
| Trading account assets | 188,478 | 4,699 | 5.00 | 181,804 | 4,721 | 5.21 |
| Debt securities ⁽¹⁾ | 227,373 | 5,798 | 5.10 | 182,142 | 4,845 | 5.32 |
| Loans and leases ⁽²⁾ : | | | | | | |
| Residential mortgage | 263,352 | 7,378 | 5.61 | 253,396 | 7,212 | 5.70 |
| Credit card domestic | 62,466 | 3,377 | 10.87 | 56,973 | 3,664 | 12.97 |
| Credit card foreign | 15,904 | 986 | 12.47 | 11,542 | 667 | 11.66 |
| Home equity | 118,413 | 3,499 | 5.94 | 91,926 | 3,458 | 7.59 |
| Direct/Indirect consumer ⁽³⁾ | 80,649 | 3,430 | 8.55 | 65,893 | 2,744 | 8.40 |
| Other consumer ⁽⁴⁾ | 4,001 | 171 | 8.49 | 4,763 | 222 | 9.36 |
| Total consumer | 544,785 | 18,841 | 6.94 | 484,493 | 17,967 | 7.46 |
| Commercial domestic | 215,965 | 5,960 | 5.55 | 165,083 | 5,973 | 7.30 |
| Commercial real estate ⁽⁵⁾ | 62,506 | 1,624 | 5.22 | 36,454 | 1,359 | 7.52 |
| Commercial lease financing | 22,252 | 504 | 4.53 | 19,718 | 392 | 3.97 |
| Commercial foreign | 31,642 | 753 | 4.78 | 21,445 | 649 | 6.10 |
| Total commercial | 332,365 | 8,841 | 5.35 | 242,700 | 8,373 | 6.95 |
| Total loans and leases | 877,150 | 27,682 | 6.34 | 727,193 | 26,340 | 7.29 |
| Other earning assets | 66,205 | 2,134 | 6.47 | 67,639 | 2,118 | 6.29 |
| Total earning assets ⁽⁶⁾ | 1,505,265 | 42,502 | 5.67 | 1,340,172 | 42,516 | 6.38 |
| Cash and cash equivalents | 33,874 | | | 33,656 | | |
| Other assets, less allowance for loan and lease losses | 220,631 | | | 167,816 | | |
| Total assets | \$ 1,759,770 | | | \$ 1,541,644 | | |
| Interest-bearing liabilities | | | | | | |
| Domestic interest-bearing deposits: | | | | | | |
| Savings | \$ 32,481 | \$ 114 | 0.70 % | \$ 32,907 | \$ 88 | 0.54 % |
| NOW and money market deposit accounts | 253,526 | 1,995 | 1.58 | 212,290 | 1,923 | 1.83 |
| Consumer CDs and IRAs | 183,417 | 3,717 | 4.08 | 160,610 | 3,689 | 4.63 |
| Negotiable CDs, public funds and other time deposits | 28,208 | 515 | 3.68 | 14,824 | 327 | 4.44 |
| Total domestic interest-bearing deposits | 497,632 | 6,341 | 2.56 | 420,631 | 6,027 | 2.89 |
| Foreign interest-bearing deposits: | | | | | | |
| Banks located in foreign countries | 36,487 | 672 | 3.71 | 41,160 | 1,053 | 5.16 |
| Governments and official institutions | 13,219 | 209 | 3.17 | 16,184 | 402 | 5.00 |
| Time, savings and other | 54,234 | 886 | 3.28 | 39,937 | 813 | 4.11 |
| Total foreign interest-bearing deposits | 103,940 | 1,767 | 3.42 | 97,281 | 2,268 | 4.70 |
| Total interest-bearing deposits | 601,572 | 8,108 | 2.71 | 517,912 | 8,295 | 3.23 |
| Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings | | | | | | |
| Trading account liabilities | 448,717 | 7,229 | 3.24 | 416,696 | 10,850 | 5.25 |
| Long-term debt | 76,489 | 1,589 | 4.18 | 81,615 | 1,713 | 4.23 |
| Total interest-bearing liabilities ⁽⁶⁾ | 1,328,606 | 21,274 | 3.22 | 1,169,814 | 25,133 | 4.33 |
| Noninterest-bearing sources: | | | | | | |
| Noninterest-bearing deposits | 185,241 | | | 173,986 | | |
| Other liabilities | 87,845 | | | 64,275 | | |
| Shareholders' equity | 158,078 | | | 133,569 | | |
| Total liabilities and shareholders' equity | \$ 1,759,770 | | | \$ 1,541,644 | | |
| Net interest spread | | | 2.45 % | | | 2.05 % |
| Impact of noninterest-bearing sources | | | 0.38 | | | 0.55 |
| Net interest income/yield on earning assets | | \$ 21,228 | 2.83 % | | \$ 17,383 | 2.60 % |

(1) 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 foreign consumer loans of \$3.1 billion and \$3.9 billion for the six months ended June 30, 2008 and 2007.
- (4) Includes consumer finance loans of \$2.9 billion and \$3.2 billion, and other foreign consumer loans of \$859 million and \$1.4 billion for the six months ended June 30, 2008 and 2007.
- (5) Includes domestic commercial real estate loans of \$61.3 billion and \$35.8 billion for the six months ended June 30, 2008 and 2007.
- (6) Interest income includes the impact of interest rate risk management contracts, which decreased interest income on assets \$207 million and \$238 million for the six months ended June 30, 2008 and 2007. Interest expense includes the impact of interest rate risk management contracts, which increased interest expense on liabilities \$86 million and \$386 million for the six months ended June 30, 2008 and 2007. For further information on interest rate contracts, see Interest Rate Risk Management for Nontrading Activities beginning on page 143.

Table of Contents**Business Segment Operations*****Segment Description***

We report the results of our operations through three business segments: *GCSBB*, *GCIB* and *GWIM*, with the remaining operations recorded in *All Other*. Certain prior period amounts have been reclassified to conform to current period presentation. For more information on our basis of presentation, selected financial information for the business segments and reconciliations to consolidated total revenue and net income, see *Note 16 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 58. We begin by evaluating the operating results of the businesses which by definition excludes merger and restructuring charges. The segment results also reflect certain revenue and expense methodologies which are utilized to determine net income. The net interest income of the businesses includes the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics.

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

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

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

Equity is allocated to business segments and related businesses using a risk-adjusted methodology incorporating each unit's credit, market, interest rate and operational risk components. The Corporation as a whole benefits from risk diversification across the different businesses. This benefit is reflected as a reduction to allocated equity for each segment and is recorded in *ALM/Other*. The nature of these risks is discussed further beginning on page 101. Average equity is allocated to the business segments and related businesses, and is impacted by the portion of goodwill that is specifically assigned to the businesses and the unallocated portion of goodwill that resides in *ALM/Other*.

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(3) Represents provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio.

(4) Average allocated equity for *GCSBB* was \$66.8 billion and \$61.7 billion for the three months ended June 30, 2008 and 2007.

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

n/m = not meaningful

Table of Contents**Global Consumer and Small Business Banking**

| | | Six Months Ended June 30, 2008 | | | | | | | | |
|---|--|--------------------------------|-----------------|-------------------------|-------------------|---------------|------|---------|---|-----|
| | | | | Card | Consumer | | ALM/ | | | |
| (Dollars in millions) | | Total ⁽¹⁾ | Deposits | Services ⁽¹⁾ | Real Estate | Other | | | | |
| Net interest income ⁽²⁾ | | \$ 15,699 | \$ 3,838 | \$ 9,301 | \$ 1,319 | \$ 1,241 | | | | |
| Noninterest income: | | | | | | | | | | |
| Card income | | 5,285 | 1,178 | 4,103 | 4 | - | | | | |
| Service charges | | 3,309 | 3,307 | - | 2 | - | | | | |
| Mortgage banking income | | 1,065 | - | - | 1,065 | - | | | | |
| All other income (loss) | | 1,040 | (3) | 777 | 116 | 150 | | | | |
| Total noninterest income | | 10,699 | 4,482 | 4,880 | 1,187 | 150 | | | | |
| Total revenue, net of interest expense | | 26,398 | 8,320 | 14,181 | 2,506 | 1,391 | | | | |
| Provision for credit losses ⁽³⁾ | | 13,000 | 166 | 8,383 | 4,095 | 356 | | | | |
| Noninterest expense | | 10,426 | 4,881 | 4,113 | 1,237 | 195 | | | | |
| Income (loss) before income taxes | | 2,972 | 3,273 | 1,685 | (2,826) | 840 | | | | |
| Income tax expense (benefit) ⁽²⁾ | | 1,068 | 1,214 | 613 | (1,071) | 312 | | | | |
| Net income (loss) | | \$ 1,904 | \$ 2,059 | \$ 1,072 | \$ (1,755) | \$ 528 | | | | |
| Net interest yield ⁽²⁾ | | 8.40 | % | 2.35 | % | 8.07 | % | 2.07 | % | n/m |
| Return on average equity ⁽⁴⁾ | | 5.77 | | 24.93 | | 4.66 | | (71.72) | | n/m |
| Efficiency ratio ⁽²⁾ | | 39.50 | | 58.67 | | 29.00 | | 49.41 | | n/m |
| Period end total assets ⁽⁵⁾ | | \$ 426,562 | \$ 350,232 | \$ 262,165 | \$ 127,572 | | | | | |
| | | Six Months Ended June 30, 2007 | | | | | | | | |
| | | | | Card | Consumer | | ALM/ | | | |
| (Dollars in millions) | | Total ⁽¹⁾ | Deposits | Services ⁽¹⁾ | Real Estate | Other | | | | |
| Net interest income ⁽²⁾ | | \$ 14,113 | \$ 4,741 | \$ 8,003 | \$ 1,070 | \$ 299 | | | | |
| Noninterest income: | | | | | | | | | | |
| Card income | | 4,977 | 1,039 | 3,935 | 3 | - | | | | |
| Service charges | | 2,865 | 2,863 | - | 2 | - | | | | |
| Mortgage banking income | | 599 | - | - | 599 | - | | | | |
| All other income (loss) | | 598 | (2) | 447 | 10 | 143 | | | | |
| Total noninterest income | | 9,039 | 3,900 | 4,382 | 614 | 143 | | | | |
| Total revenue, net of interest expense | | 23,152 | 8,641 | 12,385 | 1,684 | 442 | | | | |
| Provision for credit losses ⁽³⁾ | | 5,505 | 94 | 5,156 | 157 | 98 | | | | |
| Noninterest expense | | 9,593 | 4,304 | 4,090 | 1,018 | 181 | | | | |
| Income before income taxes | | 8,054 | 4,243 | 3,139 | 509 | 163 | | | | |
| Income tax expense ⁽²⁾ | | 2,965 | 1,562 | 1,156 | 188 | 59 | | | | |
| Net income | | \$ 5,089 | \$ 2,681 | \$ 1,983 | \$ 321 | \$ 104 | | | | |
| Net interest yield ⁽²⁾ | | 8.13 | % | 3.04 | % | 7.93 | % | 2.10 | % | n/m |
| Return on average equity ⁽⁴⁾ | | 16.67 | | 36.35 | | 9.23 | | 17.58 | | n/m |
| Efficiency ratio ⁽²⁾ | | 41.43 | | 49.81 | | 33.03 | | 60.44 | | n/m |
| Period end total assets ⁽⁵⁾ | | \$ 403,684 | \$ 336,371 | \$ 238,861 | \$ 113,215 | | | | | |

(1) Presented on a managed basis, specifically *Card Services*.

(2) FTE basis

(3) Represents provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio.

(4) Average allocated equity for *GCSBB* was \$66.4 billion and \$61.6 billion for the six months ended June 30, 2008 and 2007.

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

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| (Dollars in millions) | Ending Balance | | Average Balance | | | |
|-------------------------------------|----------------|------------|----------------------------|------------|--------------------------|------------|
| | June 30 | 2007 | Three Months Ended June 30 | 2007 | Six Months Ended June 30 | 2007 |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Total loans and leases | \$ 364,535 | \$ 324,452 | \$ 368,136 | \$ 317,247 | \$ 365,581 | \$ 312,701 |
| Total earning assets ⁽¹⁾ | 374,801 | 349,134 | 378,575 | 350,200 | 375,781 | 349,937 |
| Total assets ⁽¹⁾ | 426,562 | 403,684 | 430,179 | 403,257 | 428,764 | 403,359 |
| Total deposits | 339,098 | 326,878 | 341,339 | 326,622 | 342,387 | 326,550 |

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

The strategy for *GCSBB* is to attract, retain and deepen customer relationships. We achieve this strategy through our ability to offer a wide range of products and services through a franchise that stretches coast to coast through 32 states and the District of Columbia. We also provide credit card products to customers in Canada, Ireland, Spain and the United Kingdom. In the U.S., we serve approximately 59 million consumer and small business relationships utilizing our network of 6,131 banking centers, 18,531 domestic branded ATMs, and telephone and Internet channels. Within *GCSBB*, there are three primary businesses: *Deposits*, *Card Services* and *Consumer Real Estate*. In addition, *ALM/Other* includes the results of ALM activities and other consumer-related businesses (e.g., insurance and certain noncard small business lending activities). *GCSBB*, specifically *Card Services*, is presented on a managed basis. For a reconciliation of managed *GCSBB* to held *GCSBB*, see *Note 16 Business Segment Information* to the Consolidated Financial Statements.

Three months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income decreased \$1.6 billion, or 66 percent, as increases in net interest income and noninterest income were more than offset by higher provision for credit losses and noninterest expense.

Net interest income increased \$906 million, or 13 percent, due to organic growth in average loans and leases, increased spreads and higher margin on ALM activities. Partially offsetting these increases was the impact of competitive deposit pricing. Noninterest income increased \$365 million, or eight percent, mainly due to higher service charges and mortgage banking income.

Provision for credit losses increased \$3.5 billion, or 112 percent, driven by an increase of \$2.1 billion and \$1.2 billion in *Consumer Real Estate* and *Card Services*. For further discussion related to *Card Services* and *Consumer Real Estate*, see their respective discussions beginning on pages 69 and 72.

Noninterest expense increased \$383 million, or eight percent, largely due to the addition of LaSalle as well as higher deposit account and transaction volumes.

Six months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$3.2 billion, or 63 percent, as increases in noninterest income of \$1.7 billion and net interest income of \$1.6 billion were more than offset by higher provision for credit losses of \$7.5 billion and noninterest expense of \$833 million. In addition to the factors described in the three-month discussion above, noninterest income and noninterest expense benefited from the favorable impact of the Visa IPO transactions.

Deposits

Deposits provides a comprehensive range of products to consumers and small businesses. Our products include traditional savings accounts, money market savings accounts, CDs and IRAs, and noninterest and interest-bearing checking accounts. Debit card results are also included in *Deposits*.

Deposit products provide a relatively stable source of funding and liquidity. We earn net interest spread revenues from investing this liquidity in earning assets through client-facing lending activity and our ALM activities. The revenue is allocated to the deposit products using our funds transfer pricing process which takes into account the interest rates and

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maturity characteristics of the deposits. Deposits also generate fees such as account service fees, non-sufficient fund fees, overdraft charges and ATM fees, while debit cards generate merchant interchange fees based on purchase volume.

We added 674 thousand and 1.2 million net new retail checking accounts for the three and six months ended June 30, 2008. These additions resulted from continued improvement in sales and service results in the Banking Center Channel and Online, and the success of such products as Keep the Change™ and new Affinity relationships. During the first half of 2008, we added 1.5 million subscribers to our active online banking customer base. In addition, our active bill pay users paid \$145.7 billion worth of bills online for the six months ended June 30, 2008.

We continue to migrate qualifying affluent customers and their related deposit balances from *GCSBB* to *GWIM*. For the three and six months ended June 30, 2008, a total of \$5.6 billion and \$12.6 billion of deposits, including \$2.3 billion during the first quarter of 2008 related to the one-time migration of legacy LaSalle accounts, were migrated from *GCSBB* to *GWIM*. For the three and six months ended June 30, 2007 a total of \$2.9 billion and \$6.4 billion were migrated from *GCSBB* to *GWIM*. After migration, the associated net interest income, service charges and noninterest expense are recorded in *GWIM*.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income decreased \$301 million, or 22 percent, as an increase in noninterest income was more than offset by lower net interest income combined with higher noninterest expense. Net interest income decreased \$503 million, or 21 percent, due to the impact of competitive deposit pricing partially offset by growth in average deposits. Average deposits increased \$14.5 billion, or five percent, due to the acquisition of LaSalle and organic growth partially offset by the migration of customer relationships and related deposit balances to *GWIM*. The increase in noninterest income was driven by higher service charges of \$255 million, or 17 percent, primarily as a result of increased volume, new demand deposit account growth and the addition of LaSalle. Additionally, debit card revenue growth of \$77 million, or 14 percent, was due to new account and card growth, increased usage and the addition of LaSalle.

Noninterest expense increased \$250 million, or 11 percent, primarily due to the addition of LaSalle, a higher number of accounts and transaction volumes.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$622 million, or 23 percent, driven by lower net interest income of \$903 million, or 19 percent, combined with higher noninterest expense of \$577 million, or 13 percent, partially offset by an increase in noninterest income of \$582 million, or 15 percent. These period-over-period changes were driven by the same factors as described in the three-month discussion above.

Card Services

Card Services, which excludes the results of debit cards (included in *Deposits*), provides a broad offering of products, including U.S. Consumer and Business Card, Unsecured Lending, and International Card. We offer a variety of co-branded and affinity credit card products and have become the leading issuer of credit cards through endorsed marketing in the U.S. and Europe.

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

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

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Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income decreased \$486 million, or 55 percent, as growth in net interest income was more than offset by higher provision for credit losses and lower noninterest income.

Net interest income grew \$701 million, or 17 percent, driven by higher managed average loans and leases of \$29.3 billion, or 14 percent combined with the beneficial impact of the decrease in short-term interest rates on our funding costs. Noninterest income decreased \$189 million, or eight percent, as card income was impacted by an unfavorable change in the value of the interest-only strip and lower interchange income partially offset by increases in cash advance and other fees.

Provision for credit losses increased \$1.2 billion, or 42 percent, primarily driven by higher managed losses and reserve increases reflecting the impacts of the slowing economy and seasoning of the portfolio, reflective of growth. For further discussion, see Provision for Credit Losses beginning on page 134.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$911 million, or 46 percent, as growth in net interest income of \$1.3 billion was more than offset by higher provision for credit losses of \$3.2 billion. These period-over-period changes were driven by the same factors as described in the three-month discussion above. Also, for the six-month comparison, noninterest income increased \$498 million, or 11 percent, mainly due to the \$388 million gain related to *Card Services* allocation of the Visa IPO and an increase of \$168 million in card income. Card income was impacted by a favorable change in the value of the interest-only strip and higher cash advance fees. Noninterest expense remained flat at \$4.1 billion as higher personnel-related expenses and technology-related costs primarily driven by increased customer assistance and collection infrastructure were offset by the reversal of certain Visa-related litigation costs associated with the completion of the Visa IPO.

Table of Contents**Key Statistics**

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-------------------------------------|----------------------------|------------|--------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Card Services | | | | |
| Average total loans and leases: | | | | |
| Managed | \$ 233,593 | \$ 204,332 | \$ 231,370 | \$ 202,758 |
| Held | 126,155 | 102,427 | 125,063 | 100,917 |
| Period end total loans and leases: | | | | |
| Managed | 235,625 | 208,130 | 235,625 | 208,130 |
| Held | 127,104 | 105,378 | 127,104 | 105,378 |
| Managed net losses ⁽¹⁾ : | | | | |
| Amount | 3,667 | 2,534 | 6,740 | 4,865 |
| Percent ⁽³⁾ | 6.31 % | 4.98 % | 5.86 % | 4.84 % |
| Credit Card ⁽²⁾ | | | | |
| Average total loans and leases: | | | | |
| Managed | \$ 185,659 | \$ 167,569 | \$ 184,676 | \$ 167,481 |
| Held | 78,221 | 68,181 | 78,370 | 68,515 |
| Period end total loans and leases: | | | | |
| Managed | 187,162 | 169,852 | 187,162 | 169,852 |
| Held | 78,642 | 69,241 | 78,642 | 69,241 |
| Managed net losses ⁽¹⁾ : | | | | |
| Amount | 2,751 | 2,099 | 5,123 | 4,052 |
| Percent ⁽³⁾ | 5.96 % | 5.02 % | 5.58 % | 4.88 % |

⁽¹⁾Represents net charge-offs on held loans combined with realized credit losses associated with the securitized loan portfolio.

⁽²⁾Includes U.S. consumer card and foreign credit card. Does not include business card and unsecured lending.

⁽³⁾Ratios are calculated as annualized managed net losses divided by average outstanding managed loans and leases during the period. The table above and the following discussion presents select key indicators for the *Card Services* and credit card portfolios.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Managed *Card Services* net losses increased \$1.1 billion to \$3.7 billion, or 6.31 percent of average outstandings compared to \$2.5 billion, or 4.98 percent for the same period in 2007. This increase was driven by portfolio seasoning, the impacts of a slowing economy and higher bankruptcies.

Managed credit card net losses increased \$652 million to \$2.8 billion, or 5.96 percent of average credit card outstandings compared to \$2.1 billion, or 5.02 percent for the same period in 2007. The increase was driven by the same factors as described above.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Managed *Card Services* net losses increased \$1.9 billion to \$6.7 billion, or 5.86 percent of average outstandings compared to \$4.9 billion, or 4.84 percent for the same period in 2007. This increase was driven by portfolio seasoning, the impacts of a slowing economy and higher bankruptcies.

Managed credit card net losses increased \$1.1 billion to \$5.1 billion, or 5.58 percent of average credit card outstandings compared to \$4.1 billion, or 4.88 percent for the same period in 2007. The increase was driven by the same factors as described above.

For more information on credit quality, see Consumer Portfolio Credit Risk Management beginning on page 108.

Table of Contents***Consumer Real Estate***

Consumer Real Estate generates revenue by providing an extensive line of consumer real estate products and services to customers nationwide. *Consumer Real Estate* products are available to our customers through a retail network of personal bankers located in 6,131 banking centers, mortgage loan officers in nearly 160 locations and through a sales force offering our customers direct telephone and online access to our products. *Consumer Real Estate* products include fixed and adjustable rate loans for home purchase and refinancing needs, reverse mortgages, lines of credit and home equity loans. First mortgage products are either sold into the secondary mortgage market to investors, while retaining the Bank of America customer relationships, or are held on our balance sheet for ALM purposes. *Consumer Real Estate* is not impacted by the Corporation's mortgage production retention decisions as *Consumer Real Estate* is compensated for the decision on a management accounting basis with a corresponding offset recorded in *All Other*.

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

Within *GCSBB*, the *Consumer Real Estate* first mortgage and home equity production was \$18.5 billion and \$9.0 billion, and \$36.6 billion and \$22.8 billion for the three and six months ended June 30, 2008 compared to \$25.8 billion and \$18.6 billion, and \$46.4 billion and \$35.9 billion for the same periods in 2007.

In July 2008, the Corporation acquired Countrywide through its merger with a subsidiary of the Corporation. Countrywide's results of operations will be included in our results beginning July 1, 2008. For more information related to the Countrywide acquisition, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Consumer Real Estate had a net loss of \$982 million, a \$1.1 billion decrease, as growth in net interest income and noninterest income were more than offset by higher provision for credit losses and an increase in noninterest expense. Net interest income grew \$139 million, or 25 percent, driven by an increase in average loans and leases. The growth in average loans and leases of \$19.8 billion, or 19 percent, was attributable to growth in our home equity portfolio as a result of slower prepayment speeds and organic growth as well as the LaSalle acquisition. Mortgage banking income grew \$112 million due to increased production income driven by improved margins and an increased MSR valuation.

Provision for credit losses increased \$2.1 billion to \$2.2 billion compared to the same period in 2007. This increase was driven primarily by reserve increases and higher losses in the home equity portfolio, reflective of deterioration in the housing markets particularly in geographic areas that have experienced the most significant declines in home prices. In addition, most home equity loans are secured by second lien positions, significantly reducing and in some cases resulting in no collateral value after consideration of the first lien position. This drove more severe charge-offs as borrowers defaulted. To a lesser extent, seasoning of the portfolio, reflective of growth contributed to the increase in net charge-offs. For further discussion, see *Provision for Credit Losses* beginning on page 134.

Noninterest expense increased \$57 million, or 11 percent, driven by costs associated with increased direct-to-consumer volume as well as higher operating expenses to service the portfolio.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Consumer Real Estate had a net loss of \$1.8 billion, a \$2.1 billion decrease, as growth in noninterest income of \$573 million and net interest income of \$249 million were more than offset by higher provision for credit losses of \$3.9 billion and an increase in noninterest expense of \$219 million. These period-over-period changes were driven by the same factors as described in the three-month discussion above. Additionally, mortgage banking income benefited from the adoption of SAB 109 which was partially offset by illiquidity in the secondary market which drove reduced valuations for certain loans held for sale. For more information on the adoption of SAB 109 on mortgage banking income, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements.

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The *Consumer Real Estate* servicing portfolio includes loans serviced for others, and originated and retained residential mortgages. The servicing portfolio at June 30, 2008 was \$540.8 billion, \$23.9 billion higher than at December 31, 2007, driven by production. Included in this amount was \$292.4 billion of residential first mortgage loans serviced for others.

At June 30, 2008, the residential first mortgage MSR balance was \$4.3 billion, an increase of \$1.2 billion, or 39 percent, from December 31, 2007. This value represented 145 bps of the related unpaid principal balance, a 27 bps increase from December 31, 2007.

ALM/Other

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

Net income increased \$274 million and \$424 million for the three and six months ended June 30, 2008 compared to the same periods in 2007 as higher contributions from ALM activities, which was due in part to investing the Corporation's deposits at profitable spreads, were offset by higher provision for credit losses. Provision for credit losses increased \$135 million and \$258 million for the three and six months ended June 30, 2008 compared to the same periods in 2007. These increases were driven primarily by higher losses in the small business lending portfolio managed outside of *Card Services* due to seasoning of the portfolio, reflective of growth as well as the impacts of a slowing economy. For more information on the Corporation's small business commercial domestic portfolio, see Commercial Portfolio Credit Risk Management beginning on page 119.

Table of Contents**Global Corporate and Investment Banking**

| (Dollars in millions) | Three Months Ended June 30, 2008 | | | | |
|---|----------------------------------|------------------|--|-------------------|--------------|
| | Total | Business Lending | Capital Markets and Advisory Services ⁽¹⁾ | Treasury Services | ALM/ Other |
| Net interest income ⁽²⁾ | \$ 3,824 | \$ 1,452 | \$ 1,394 | \$ 863 | \$ 115 |
| Noninterest income: | | | | | |
| Service charges | 856 | 154 | 31 | 670 | 1 |
| Investment and brokerage services | 210 | - | 200 | 10 | - |
| Investment banking income | 765 | - | 765 | - | - |
| Trading account profits (losses) | 369 | 151 | 200 | 19 | (1) |
| All other income (loss) | (64) | 270 | (640) | 303 | 3 |
| Total noninterest income | 2,136 | 575 | 556 | 1,002 | 3 |
| Total revenue, net of interest expense | 5,960 | 2,027 | 1,950 | 1,865 | 118 |
| Provision for credit losses | 363 | 397 | (38) | 4 | - |
| Noninterest expense | 2,801 | 563 | 1,280 | 896 | 62 |
| Income before income taxes | 2,796 | 1,067 | 708 | 965 | 56 |
| Income tax expense ⁽²⁾ | 1,050 | 416 | 259 | 357 | 18 |
| Net income | \$ 1,746 | \$ 651 | \$ 449 | \$ 608 | \$ 38 |
| Net interest yield ⁽²⁾ | 2.20 | % 1.89 | % n/m | 2.10 | % n/m |
| Return on average equity ⁽³⁾ | 11.57 | 11.76 | 9.14 | % 30.48 | n/m |
| Efficiency ratio ⁽²⁾ | 46.99 | 27.76 | 65.63 | 48.03 | n/m |
| Period end total assets ⁽⁴⁾ | \$ 779,138 | \$ 321,263 | \$ 393,564 | \$ 195,554 | n/m |

| (Dollars in millions) | Three Months Ended June 30, 2007 | | | | |
|---|----------------------------------|------------------|--|-------------------|----------------|
| | Total | Business Lending | Capital Markets and Advisory Services ⁽¹⁾ | Treasury Services | ALM/ Other |
| Net interest income ⁽²⁾ | \$ 2,609 | \$ 1,089 | \$ 658 | \$ 943 | \$ (81) |
| Noninterest income: | | | | | |
| Service charges | 683 | 123 | 36 | 524 | - |
| Investment and brokerage services | 221 | - | 211 | 10 | - |
| Investment banking income | 821 | - | 821 | - | - |
| Trading account profits | 937 | 5 | 916 | 16 | - |
| All other income | 672 | 270 | 90 | 291 | 21 |
| Total noninterest income | 3,334 | 398 | 2,074 | 841 | 21 |
| Total revenue, net of interest expense | 5,943 | 1,487 | 2,732 | 1,784 | (60) |
| Provision for credit losses | 42 | 33 | (1) | 10 | - |
| Noninterest expense | 3,227 | 541 | 1,741 | 867 | 78 |
| Income (loss) before income taxes | 2,674 | 913 | 992 | 907 | (138) |
| Income tax expense (benefit) ⁽²⁾ | 982 | 332 | 365 | 336 | (51) |
| Net income (loss) | \$ 1,692 | \$ 581 | \$ 627 | \$ 571 | \$ (87) |
| Net interest yield ⁽²⁾ | 1.55 | % 1.87 | % n/m | 2.75 | % n/m |
| Return on average equity ⁽³⁾ | 16.15 | 15.83 | 20.57 | % 29.60 | n/m |
| Efficiency ratio ⁽²⁾ | 54.31 | 36.47 | 63.74 | 48.59 | n/m |
| Period end total assets ⁽⁴⁾ | \$ 731,377 | \$ 241,497 | \$ 436,002 | \$ 162,472 | n/m |

⁽¹⁾ Includes \$25 million and \$22 million of net interest income on loans for which the fair value option has been elected and is not considered market-based income for the three months ended June 30, 2008 and 2007. For more information, see the market-based revenue discussion on page 79.

⁽²⁾ FTE basis

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⁽³⁾ Average allocated equity for *GCIB* was \$60.7 billion and \$42.0 billion for the three months ended June 30, 2008 and 2007. The increase was attributable to goodwill associated with the LaSalle acquisition, portfolio growth, and higher trading and operational risk.

⁽⁴⁾ Total assets include asset allocations to match liabilities (i.e., deposits).
n/m = not meaningful

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⁽³⁾ Average allocated equity for *GCIB* was \$59.8 billion and \$41.8 billion for the six months ended June 30, 2008 and 2007. The increase was attributable to goodwill associated with the LaSalle acquisition, portfolio growth, and higher trading and operational risk.

⁽⁴⁾ Total assets include asset allocations to match liabilities (i.e., deposits).
n/m = not meaningful

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| (Dollars in millions) | Ending Balance | | Average Balance | | | |
|--|----------------|------------|----------------------------|------------|--------------------------|------------|
| | June 30 | | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Total loans and leases | \$ 344,628 | \$ 257,537 | \$ 334,680 | \$ 253,895 | \$ 329,714 | \$ 250,913 |
| Total trading-related assets | 303,423 | 342,629 | 337,059 | 377,171 | 349,490 | 368,896 |
| Total market-based earning assets ⁽¹⁾ | 335,207 | 386,958 | 375,274 | 426,759 | 389,504 | 418,073 |
| Total earning assets ⁽²⁾ | 668,348 | 637,880 | 700,178 | 673,184 | 709,498 | 661,832 |
| Total assets ⁽²⁾ | 779,138 | 731,377 | 814,358 | 765,118 | 824,417 | 749,798 |
| Total deposits | 228,817 | 221,866 | 234,605 | 220,180 | 235,202 | 214,402 |

⁽¹⁾ Total market-based earning assets represents earning assets included in *CMAS* but excludes loans that are accounted for at fair value in accordance with SFAS 159.

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

GCIB provides a wide range of financial services to both our issuer and investor clients that range from business banking clients to large international corporate and institutional investor clients using a strategy to deliver value-added financial products, transaction and advisory services. *GCIB*'s products and services are delivered from three primary businesses: *Business Lending*, *CMAS*, and *Treasury Services*, and are provided to our clients through a global team of client relationship managers and product partners. In addition, *ALM/Other* includes the results of *ALM* activities and other *GCIB* activities. Our clients are supported through offices in 22 countries that are divided into four distinct geographic regions: U.S. and Canada; Asia; Europe, Middle East, and Africa; and Latin America. For more information on our foreign operations, see Foreign Portfolio beginning on page 133.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income increased \$54 million, or three percent, to \$1.7 billion as growth in net interest income and decrease in noninterest expense more than offset decreases in market-based noninterest income related to the *CMAS* business, including CDO-related writedowns, and a higher provision for credit losses.

Net interest income increased \$1.2 billion, or 47 percent, driven primarily by higher market-based net interest income which benefited from the decrease in the cost of market-based funding due to a decline in short-term interest rates and trading strategies. Additionally, net interest income benefited from growth in average loans and leases of \$80.8 billion, or 32 percent, combined with a higher margin on *ALM* activities. These benefits were partially offset by the impact of competitive deposit pricing and a shift in the deposit product mix as more customers moved their deposits to higher yielding products. The growth in average loans and average deposits was due to the LaSalle merger as well as organic growth.

Noninterest income decreased \$1.2 billion, or 36 percent, driven by declines in trading account profits (losses) of \$568 million and all other income (loss) of \$736 million. For more information on the aforementioned decreases, see the *CMAS* discussion.

The provision for credit losses increased \$321 million to \$363 million driven by higher credit costs in *Business Lending*. For further information, see the *Business Lending* discussion.

Noninterest expense decreased \$426 million, or 13 percent, mainly due to a reduction in performance-based incentive compensation in *CMAS* partially offset by the addition of LaSalle.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$1.3 billion, or 41 percent driven by lower noninterest income of \$4.7 billion and an increase of \$729 million in provision for credit losses. These items were partially offset by an increase in net interest income of \$2.4 billion and a decrease of \$940 million in noninterest expense. These period-over-period changes were driven by the same factors as described in the three-month discussion above, except that noninterest income and noninterest expense benefited from the favorable impact of the Visa IPO transactions.

Table of Contents***Business Lending***

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

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income increased \$70 million, or 12 percent, to \$651 million as the increases in net interest income and noninterest income were partially offset by higher provision for credit losses and noninterest expense. Net interest income increased \$363 million, or 33 percent, driven by average loan growth of 33 percent to \$306.5 billion. The increase in average loans and leases was attributable to the LaSalle merger and organic growth primarily in commercial domestic and real estate loans. The increase in noninterest income of \$177 million, or 44 percent, was mainly driven by an increase in trading account profits which was attributable to a positive valuation adjustment related to our option to purchase loans. In addition, service charges increased \$31 million due to the LaSalle merger.

The provision for credit losses increased \$364 million to \$397 million reflecting reserve increases and higher charge-offs primarily due to the continued weakness in the housing markets on the homebuilder loan portfolio. Also contributing to the increase were higher net charge-offs in the dealer-related retail portfolios due to deterioration and seasoning of the portfolio reflective of growth, and higher commercial domestic net charge-offs from very low prior year levels.

Noninterest expense increased \$22 million, or four percent, primarily due to the LaSalle merger.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$63 million, or six percent, to \$975 million as increases in net interest income of \$739 million and noninterest income of \$102 million were more than offset by increases in provision for credit losses of \$784 million and noninterest expense of \$121 million. These period-over-period changes were driven by the same factors as described in the three-month discussion above, except the increase in all other income primarily resulted from improved economic hedging results of our exposures to certain commercial clients. These increases were partially offset by lower trading account profits (losses) due to a net writedown related to an option to purchase loans.

Capital Markets and Advisory Services

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

In January 2008, we announced changes in our *CMAS* business which better align the strategy of this business with *GCIB*'s broader integrated platform. We continue to provide corporate, commercial and institutional clients with debt and equity capital-raising services, strategic advice, and a wide range of corporate banking capabilities. However, we have reduced activities in certain structured products (e.g., CDOs) and are resizing the international platform to emphasize debt, cash management, and selected trading services, including rates and foreign exchange. As of June 30, 2008, the expected reductions of 650 front office personnel have been achieved. The cost benefit of these reductions has been minimal to date, due to severance costs. In addition, in June 2008, we reached a definitive agreement to sell our equity prime brokerage

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business to BNP Paribas reflecting our decision to exit certain brokerage processing and balance sheet-intensive activities. We remain committed to our hedge fund clients in equities as well as across asset classes and investment banking. The completion of this transaction is subject to obtaining all regulatory approvals and is expected to close in the third quarter of 2008.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

CMAS recognized net income of \$449 million, a decrease of \$178 million, or 28 percent, driven by lower market-based revenue of \$785 million, partially offset by a decline in noninterest expense of \$461 million. The lower market-based revenue was driven by \$645 million of losses, net of hedges, resulting from CDO exposure, \$184 million in losses associated with equity investments we made in acquisition-related financing transactions, \$79 million of losses on CMBS funded debt and the forward calendar, \$64 million of losses on leveraged finance loans and the leveraged forward calendar, and losses on several other credit-related books. These losses were partially offset by favorable results in liquid and credit products. Noninterest expense declined \$461 million due to lower performance-based incentive compensation. For more information relating to our market-based revenue, see the discussion below.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

CMAS recognized a net loss of \$653 million, a decrease of \$1.8 billion, driven by lower market-based revenue of \$3.9 billion. The decrease was driven by \$2.1 billion of losses, net of hedges, resulting from our CDO exposure, \$503 million of losses on leveraged finance loans and the leveraged forward calendar, \$271 million of losses on CMBS funded debt and the forward calendar, \$245 million of losses for counterparty credit risk valuations included in our structured credit trading business, \$250 million of net losses on auction rate securities (ARS) in our public finance business, and \$184 million in losses associated with equity investments we made in acquisition-related financing transactions. Partially offsetting these declines were favorable results in our liquid products business. In addition, noninterest expense declined \$908 million primarily due to lower performance-based incentive compensation. For more information relating to our market-based revenue, see the discussion below.

Table of Contents**Market-Based Revenue**

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

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|-----------------|--------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Investment banking income | | | | |
| Advisory fees | \$ 51 | \$ 110 | \$ 117 | \$ 240 |
| Debt underwriting | 604 | 611 | 963 | 1,114 |
| Equity underwriting | 110 | 100 | 350 | 170 |
| Total investment banking income | 765 | 821 | 1,430 | 1,524 |
| Sales and trading revenue | | | | |
| Fixed income: | | | | |
| Liquid products | 1,290 | 592 | 2,012 | 1,049 |
| Credit products | 495 | 362 | (18) | 883 |
| Structured products | (923) | 494 | (2,776) | 811 |
| Total fixed income | 862 | 1,448 | (782) | 2,743 |
| Equity income | 298 | 441 | 631 | 867 |
| Total sales and trading revenue | 1,160 | 1,889 | (151) | 3,610 |
| Total Capital Markets and Advisory Services market-based revenue ⁽¹⁾ | \$ 1,925 | \$ 2,710 | \$ 1,279 | \$ 5,134 |

⁽¹⁾ Excludes \$25 million and \$22 million for the three months ended June 30, 2008 and 2007, and \$52 million and \$22 million for the six months ended June 30, 2008 and 2007, of net interest income on loans for which the fair value option has been elected and is not considered market-based income. Effective April 1, 2007, the results of loans and loan commitments to certain large corporate clients for which we elected the fair value option (including the associated risk mitigation tools) were transferred from *Business Lending* to *CMAS* to reflect the manner in which they are managed.

Three and Six Months Ended June 30, 2008 Compared to the Same Periods in 2007

Investment banking income was \$765 million and \$1.4 billion, decreases of \$56 million and \$94 million compared to record results in 2007. The six-month comparison for debt underwriting was adversely impacted by the utilization of fees to distribute leveraged loan commitments during the first quarter of 2008. Equity underwriting income was also driven by fees earned on the Corporation's preferred stock issuances in the first and second quarters of 2008 for which *CMAS* was compensated on a management accounting basis with a corresponding offset in *All Other*.

Sales and trading revenue declined \$729 million and \$3.8 billion to \$1.2 billion and a loss of \$151 million for the three and six months ended June 30, 2008 compared to the same periods in 2007.

Liquid products sales and trading revenue increased \$698 million and \$963 million for the three and six months ended June 30, 2008 compared to the same periods in 2007 as *CMAS* took advantage of trending volatility in interest rate and foreign exchange markets which also drove favorable client flows. For the six-month period ending June 30, 2008, this growth was partially offset by the impact of net losses on ARS of \$250 million, of which \$204 million was related to student loan ARS. For further discussion on our ARS exposure, see Industry Concentrations beginning on page 128.

Credit products sales and trading revenue increased \$133 million to \$495 million for the three months ended June 30, 2008 compared to the same period in 2007 as favorable trading results were partially offset by losses of \$64 million incurred on leveraged finance loans and the leveraged forward calendar, as liquidity in these

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markets continues to be limited. No fees were utilized to distribute leveraged loan commitments during the three months ended June 30, 2008. Credit products sales and trading revenue declined \$901 million to a loss of \$18 million for the six months ended June 30, 2008 compared to the same period in 2007 due to losses of \$503 million, net of \$286 million of fees, incurred on leveraged finance loans and the leveraged forward calendar as these markets continued to experience illiquidity during the first half of the year. Losses incurred on our leveraged exposure were not concentrated in any one type (senior secured or subordinated/senior unsecured) and were generally due to wider new issuance credit spreads as compared to the negotiated spreads.

At June 30, 2008 and December 31, 2007, the Corporation's leveraged forward calendar was \$4.1 billion and \$12.2 billion and funded position held for distribution was \$6.2 billion and \$6.1 billion. The decrease of \$8.1 billion in the leveraged forward finance calendar was primarily due to the funding of outstanding commitments, approximately 80 percent of which were distributed through syndication, and client-terminated commitments. These decreases were partially offset by new commitments that were entered into during the period. The leveraged forward calendar at June 30, 2008 generally represents new business at market terms. Pre-market disruption exposure originated prior to September 30, 2007, included in the leveraged finance forward calendar and funded portfolio amounted to \$599 million and \$6.1 billion at June 30, 2008 compared to \$10.7 billion and \$6.1 billion at December 31, 2007. Over 60 percent of the leveraged forward calendar and the funded positions held for distribution are senior secured.

Structured products sales and trading revenue was a loss of \$923 million and \$2.8 billion, which represented declines in revenue of \$1.4 billion and \$3.6 billion for the three and six months ended June 30, 2008 compared to the same periods in the prior year. The decreases were driven by \$645 million and \$2.1 billion of losses resulting from our CDO exposure, which includes our super senior, warehouse, and sales and trading positions, and our hedging activities including counterparty credit valuations. See the detailed CDO exposure discussion below. Also, structured products was adversely impacted by \$79 million and \$271 million of losses (net of hedges) on CMBS funded debt and the forward calendar for the three and six months ended June 30, 2008, and losses related to other structured products including \$245 million of losses for counterparty credit risk valuations related to our structured credit trading business during the six months ended June 30, 2008. In addition, the three and six months ended June 30, 2008 included \$184 million in losses associated with equity investments we made in acquisition-related financing transactions. Other structured products, including residential mortgage-backed securities as well as other residual structured credit positions were negatively impacted by spread widening due to the credit market disruptions that continued into the second quarter of 2008.

At June 30, 2008 and December 31, 2007, we held \$8.5 billion and \$13.6 billion of funded CMBS debt of which \$7.6 billion and \$8.9 billion were primarily floating-rate acquisition-related financings to major, well known operating companies. In addition, at June 30, 2008 and December 31, 2007, we had a forward calendar of \$717 million and \$2.2 billion. The decrease in funded CMBS debt was driven by securitizations, including the securitization of a portion of the legacy LaSalle portfolio, while the decrease in the forward calendar was driven by the funding of outstanding commitments and the business decision not to enter into any new floating-rate acquisition-related financings. The forward calendar at June 30, 2008 was comprised primarily of fixed-rate conduit product financings. The \$79 million and \$271 million of losses recorded during the three and six months ended June 30, 2008, associated with our CMBS exposure were concentrated in the more difficult to hedge floating-rate debt. We have not originated new CMBS exposures subsequent to September 30, 2007.

Equity products sales and trading revenue decreased \$143 million and \$236 million to \$298 million and \$631 million for the three and six months ended June 30, 2008 compared to the same periods in 2007 primarily due to lower trading results in the equity structured derivative businesses.

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Collateralized Debt Obligation Exposure at June 30, 2008

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

Our CDO exposure can be divided into funded and unfunded super senior liquidity commitment exposure, other super senior exposure (i.e., cash positions and derivative contracts), warehouse, and sales and trading positions. For more information on our CDO liquidity commitments, refer to Collateralized Debt Obligation Vehicles as part of Off- and On-Balance Sheet Arrangements beginning on page 94. Super senior exposure represents the most senior class of commercial paper or notes that are issued by the CDO vehicles. These financial instruments benefit from the subordination of all other securities issued by the CDO vehicles.

During the three and six months ended June 30, 2008, we recorded CDO-related losses of \$645 million and \$2.1 billion including losses on super senior exposure of \$444 million and \$2.0 billion. Also included in the above amounts, we liquidated certain CDO vehicles and purchased underlying securities from the vehicles at auction and recorded losses of \$115 million and \$140 million related to these assets subsequent to their purchase. These combined losses reduced trading account profits (losses) by \$58 million and \$1.1 billion and other income by \$501 million and \$1.1 billion. Also included during the three and six months ended June 30, 2008, we recorded gains in trading account profits (losses) of \$219 million and \$635 million related to our hedging activity, \$75 million and \$199 million of losses related to subprime sales and trading and CDO warehouse positions, and \$230 million and \$387 million of losses to cover counterparty risk on our CDO and subprime-related exposure. The losses recorded in other income were other-than-temporary impairment charges related to CDOs and purchased securities classified as AFS debt securities at June 30, 2008.

The CDO and related markets continued to deteriorate, although to a lesser extent in the second quarter of 2008, experiencing significant illiquidity impacting the availability and reliability of transparent pricing. At June 30, 2008, we valued these CDO structures assuming they would terminate and looked through the structures to the underlying net asset values of the securities. We were able to obtain security values using either external pricing services or offsetting trades for approximately 72 percent of the CDO exposure and purchased securities for which we used the average of all prices obtained by security. The majority of the remaining positions where no pricing quotes were available were valued using matrix pricing by aligning the value to securities that had similar vintage of underlying assets and ratings, using the lowest rating between the rating services. The remaining securities were valued as interest-only strips, based on estimated average life, exposure type and vintage of the underlying assets. We assigned a zero value to the CDO positions for which an event of default has been triggered and liquidation notice has been issued. The value of cash held by the trustee for all CDO structures was also incorporated into the resulting net asset value.

As presented in the following table, during the three and six months ended June 30, 2008, our super senior net exposure, excluding purchased securities from liquidated CDOs, decreased \$2.5 billion and \$4.9 billion to \$6.8 billion at June 30, 2008, primarily driven by paydowns, liquidations and writedowns. In addition, during these periods we reclassified \$2.4 billion and \$5.2 billion of super senior liquidity commitments exposure to other super senior exposure as the liquidity commitments were triggered and, as a result, we now own super senior securities issued by the CDOs. Including purchased securities our super senior net exposure decreased \$1.1 billion and \$3.2 billion to \$8.4 billion.

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The following table presents a rollforward of our super senior CDO exposure for the three and six months ended June 30, 2008.

Super Senior Collateralized Debt Obligation Exposure Rollforward
Three Months Ended June 30, 2008

| (Dollars in millions) | March 31, 2008 Net Exposure | Second Quarter 2008 | | | June 30, 2008 Net Exposure |
|--|-----------------------------------|--|--------------------------|--------------------------|-------------------------------------|
| | | Paydowns / Liquidations / Other | Net Writedowns (1) | Reclassifications (2) | |
| Super senior liquidity commitments | | | | | |
| High grade | \$ 2,892 | \$ (51) | \$ (32) | \$ (2,095) | \$ 714 |
| Mezzanine | 358 | - | - | - | 358 |
| CDO-squared | 414 | - | (80) | (334) | - |
| Total super senior liquidity commitments | 3,664 | (51) | (112) | (2,429) | 1,072 |
| Other super senior exposure | | | | | |
| High grade | 3,429 | (1,842) | (74) | 2,095 | 3,608 |
| Mezzanine | 495 | (174) | (44) | - | 277 |
| CDO-squared | 1,697 | (13) | (214) | 334 | 1,804 |
| Total other super senior | 5,621 | (2,029) | (332) | 2,429 | 5,689 |
| Total super senior | \$ 9,285 | \$ (2,080) | \$ (444) | \$ - | \$ 6,761 |
| Purchased securities from liquidated CDOs | 264 | 1,518 | (115) | - | 1,667 |
| Total | \$ 9,549 | \$ (562) | \$ (559) | \$ - | \$ 8,428 |

Six Months Ended June 30, 2008

| (Dollars in millions) | December 31, 2007 Net Exposure | Year-to-Date 2008 | | | June 30, 2008 Net Exposure |
|--|-----------------------------------|--|--------------------|-----------------------|----------------------------------|
| | | Paydowns / Liquidations / Other | Net Writedowns (1) | Reclassifications (2) | |
| Super senior liquidity commitments | | | | | |
| High grade | \$ 5,166 | \$ (115) | \$ (420) | \$ (3,917) | \$ 714 |
| Mezzanine | 358 | - | - | - | 358 |
| CDO-squared | 2,227 | (361) | (548) | (1,318) | - |
| Total super senior liquidity commitments | 7,751 | (476) | (968) | (5,235) | 1,072 |
| Other super senior exposure | | | | | |
| High grade | 2,125 | (2,178) | (256) | 3,917 | 3,608 |
| Mezzanine | 795 | (150) | (368) | - | 277 |
| CDO-squared | 959 | (49) | (424) | 1,318 | 1,804 |
| Total other super senior | 3,879 | (2,377) | (1,048) | 5,235 | 5,689 |
| Total super senior | \$ 11,630 | \$ (2,853) | \$ (2,016) | \$ - | \$ 6,761 |
| Purchased securities from liquidated CDOs | - | 1,807 | (140) | - | 1,667 |
| Total | \$ 11,630 | \$ (1,046) | \$ (2,156) | \$ - | \$ 8,428 |

(1) Net of insurance.

(2) Represents CDO exposure that was reclassified from super senior liquidity commitments to other super senior exposure as the Corporation is no longer providing liquidity.

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The following table presents our super senior CDO exposure at June 30, 2008 and December 31, 2007.

Super Senior Collateralized Debt Obligation Exposure

| (Dollars in millions) | Total CDO Exposure at June 30, 2008 | | | | | | | | | | | Total CDO Net Exposure | |
|--|-------------------------------------|-------------------|-----------------|----------------------------|-----------------|--------------------------------------|-------------------|-----------------|----------------------------|-----------------|-----------------|------------------------|--|
| | Subprime Exposure ⁽¹⁾ | | | | | Non-Subprime Exposure ⁽²⁾ | | | | | | | |
| | Net of Cumulative | | | | | Cumulative | | | | | December 31 | | |
| | Gross | Insured | Amount | Write-downs ⁽³⁾ | Net Exposure | Gross | Insured | Amount | Write-downs ⁽³⁾ | Net Exposure | June 30 2008 | 2007 | |
| Super senior liquidity commitments | | | | | | | | | | | | | |
| High grade | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 714 | \$ - | \$ 714 | \$ - | \$ 714 | \$ 714 | \$ 5,166 | |
| Mezzanine | 363 | - | 363 | (5) | 358 | - | - | - | - | - | 358 | 358 | |
| CDO-squared | - | - | - | - | - | - | - | - | - | - | - | 2,227 | |
| Total super senior liquidity commitments | 363 | - | 363 | (5) | 358 | 714 | - | 714 | - | 714 | 1,072 | 7,751 | |
| Other super senior exposure | | | | | | | | | | | | | |
| High grade | 5,170 | (3,741) | 1,429 | (367) | 1,062 | 3,463 | (735) | 2,728 | (182) | 2,546 | 3,608 | 2,125 | |
| Mezzanine | 1,019 | - | 1,019 | (742) | 277 | - | - | - | - | - | 277 | 795 | |
| CDO-squared | 5,107 | - | 5,107 | (3,303) | 1,804 | 365 | (365) | - | - | - | 1,804 | 959 | |
| Total other super senior | 11,296 | (3,741) | 7,555 | (4,412) | 3,143 | 3,828 | (1,100) | 2,728 | (182) | 2,546 | 5,689 | 3,879 | |
| Total super senior | \$ 11,659 | \$ (3,741) | \$ 7,918 | \$ (4,417) | \$ 3,501 | \$ 4,542 | \$ (1,100) | \$ 3,442 | \$ (182) | \$ 3,260 | \$ 6,761 | \$ 11,630 | |
| Purchased securities from liquidated CDOs | | | | | 1,667 | | | | | | 1,667 | - | |
| Total | | | | | \$ 5,168 | | | | | | \$ 8,428 | \$ 11,630 | |

⁽¹⁾ Classified as subprime when subprime consumer real estate loans make up at least 35 percent of the ultimate underlying collateral's original net exposure value.

⁽²⁾ Includes highly-rated collateralized loan obligations and commercial mortgage-backed securities super senior exposure.

⁽³⁾ Net of insurance excluding losses taken on liquidated CDOs.

At June 30, 2008, we held \$3.7 billion of purchased insurance on our subprime super senior CDO exposure of which 59 percent was provided by monolines in the form of CDS, total-return-swaps (TRS) or financial guarantees. In the case of default, we will first look to the underlying securities and then to recovery on purchased insurance. At June 30, 2008, these contracts were valued at \$1.6 billion by referencing the fair value of the CDO which is valued in the same manner as the unhedged portion. We have adjusted these values downward by \$477 million to reflect counterparty credit risk to the issuers of the insurance. In addition, we held collateral in the form of cash and marketable securities of \$307 million related to our purchased insurance. The underlying insured CDOs are collateralized with approximately 45 percent of subprime assets of which approximately 66 percent are of higher quality vintages from 2005 and prior. For more information on our credit exposure to monolines, see Industry Concentrations beginning on page 128.

At June 30, 2008, super senior exposure, net of writedowns, in the form of cash positions, liquidity commitments, and derivative contracts consisted of net subprime super senior exposure of \$3.5 billion and net non-subprime super senior exposure of \$3.3 billion. In addition, we had \$1.7 billion of exposure in purchased securities from liquidated CDOs. At June 30, 2008, these purchased securities were carried at approximately 44 percent of their original net exposure amount and approximately 51 percent of the underlying assets are subprime. For more information on our super senior liquidity exposure, see the CDO discussion beginning on page 98.

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The following table presents the carrying values of our subprime net exposures including subprime collateral content and percentages of recent vintages.

Subprime Super Senior Collateralized Debt Obligation Carrying Values ⁽¹⁾
June 30, 2008

| | Carrying Value | | Vintage of Subprime Collateral | | |
|--|-----------------|--------------|--------------------------------|------------|------------|
| | as a Percent of | | Subprime | Percent in | Percent in |
| | Subprime | Original Net | Content of | 2006/2007 | 2005/Prior |
| (Dollars in millions) | Net Exposure | Exposure | Collateral ⁽²⁾ | Vintages | Vintages |
| Super senior liquidity commitments | | | | | |
| High grade | \$ - | - % | - % | - % | - % |
| Mezzanine | 358 | 99 | 34 | 55 | 45 |
| CDO-squared | - | - | - | - | - |
| Total super senior liquidity commitments | 358 | 99 | | | |
| Other super senior exposure | | | | | |
| High grade | 1,062 | 73 | 53 | 13 | 87 |
| Mezzanine | 277 | 28 | 81 | 59 | 41 |
| CDO-squared | 1,804 | 33 | 23 | 71 | 29 |
| Total other super senior | 3,143 | 39 | | | |
| Total super senior | \$ 3,501 | 42 | | | |
| Purchased securities from liquidated CDOs | 1,667 | 44 | 51 | 43 | 57 |
| Total | \$ 5,168 | 43 | | | |

⁽¹⁾ Classified as subprime when subprime consumer real estate loans make up at least 35 percent of the ultimate underlying collateral's original net exposure value.

⁽²⁾ Based on current net exposure value.

Net subprime super senior liquidity commitments were \$358 million at June 30, 2008. This mezzanine exposure is collateralized with about 34 percent of subprime assets of which approximately 45 percent are of higher quality vintages from 2005 and prior. We did not record any losses associated with these exposures during the three and six months ended June 30, 2008.

Net other subprime super senior exposure was \$3.1 billion at June 30, 2008. Other subprime super senior exposure consists primarily of cash and CDS on CDO positions. The collateral supporting the high grade exposure consisted of about 53 percent subprime, of which approximately 13 percent was made up of 2006 and 2007 vintages while the remaining amount was comprised of higher quality vintages from 2005 and prior. The mezzanine exposure underlying collateral was heavily weighted to subprime with approximately 59 percent coming from later vintages while the CDO-squared collateral was approximately 23 percent subprime of which approximately 71 percent was comprised of later vintages. We recorded losses associated with these exposures of \$412 million and \$1.9 billion for the three and six months ended June 30, 2008.

We also had net non-subprime super senior exposure of \$3.3 billion which primarily included highly-rated CLO and CMBS super senior exposures. The net non-subprime super senior exposure is comprised of \$714 million of high grade super senior liquidity commitment exposure and \$2.5 billion of high grade other super senior exposure. We recorded losses of \$32 million and \$125 million associated with these exposures during the three and six months ended June 30, 2008. These losses were primarily driven by spread widening rather than impairment of principal.

In addition to the super senior exposure including purchased securities at June 30, 2008, we also had commercial real estate and mortgage-related security exposure with a market value of \$799 million in our CDO sales and trading portfolio, of which approximately \$431 million was classified as subprime. This subprime exposure is carried at approximately 18 percent of par value and includes \$188 million of positions in legacy warehouses, which were initiated in 2007. We also had purchased exposure related to a subprime mortgage securitization of \$65 million.

Table of Contents***Treasury Services***

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

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income increased \$37 million, or six percent, driven by higher noninterest income partially offset by a decline in net interest income and an increase in noninterest expense. Net interest income decreased \$80 million, or eight percent, primarily due to spread compression resulting from the impact of competitively pricing our deposits in a decreasing rate environment and the change in the mix between interest-bearing and noninterest-bearing deposits as clients shifted to interest-bearing and/or higher yielding investment alternatives. Partially offsetting these impacts was an increase in average deposits of \$23.1 billion due to organic growth as well as the LaSalle merger. Noninterest income grew \$161 million, or 19 percent, driven by increased service charges of \$146 million which was due to organic growth, changes in our pricing structure, and the LaSalle merger. Noninterest expense increased \$29 million, or three percent, due to the acquisition of LaSalle.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income increased \$389 million, or 35 percent, as an increase of \$693 million in noninterest income combined with a decrease of \$112 million in noninterest expense were partially offset by a decrease in net interest income of \$194 million. These period-over-period changes were driven by the same factors as described in the three-month discussion above, except that noninterest income and noninterest expense benefited from the favorable impact of the Visa IPO transactions.

ALM/Other

ALM/Other includes an allocation of a portion of the Corporation's net interest income from ALM activities as well as residual amounts related to discontinued business activities.

Net income increased \$125 million and \$165 million for the three and six months ended June 30, 2008 compared to the same periods in 2007 mainly due to increases in net interest income of \$196 million and \$265 million, resulting from a higher contribution from the Corporation's ALM activities, which was due in part to investing the Corporation's deposits at profitable spreads.

Table of Contents**Global Wealth and Investment Management**

| (Dollars in millions) | Three Months Ended June 30, 2008 | | | | |
|--|----------------------------------|---------------------------|---------------------|-------------------------|---------------|
| | Total | Premier | | | |
| | | U.S. Trust ⁽¹⁾ | Columbia Management | Banking and Investments | ALM/ Other |
| Net interest income ⁽²⁾ | \$ 1,133 | \$ 304 | \$ (5) | \$ 536 | \$ 298 |
| Noninterest income: | | | | | |
| Investment and brokerage services | 1,095 | 387 | 403 | 263 | 42 |
| All other income (loss) | 51 | 15 | (33) | 66 | 3 |
| Total noninterest income | 1,146 | 402 | 370 | 329 | 45 |
| Total revenue, net of interest expense | 2,279 | 706 | 365 | 865 | 343 |
| Provision for credit losses | 119 | 6 | - | 113 | - |
| Noninterest expense | 1,241 | 458 | 302 | 452 | 29 |
| Income before income taxes | 919 | 242 | 63 | 300 | 314 |
| Income tax expense ⁽²⁾ | 346 | 90 | 24 | 111 | 121 |
| Net income | \$ 573 | \$ 152 | \$ 39 | \$ 189 | \$ 193 |
| Net interest yield ⁽²⁾ | 2.91 % | 2.40 % | n/m | 1.79 % | n/m |
| Return on average equity ⁽³⁾ | 19.58 | 12.95 | 23.54 % | 39.03 | n/m |
| Efficiency ratio ⁽²⁾ | 54.44 | 64.79 | 82.63 | 52.30 | n/m |
| Period end - total assets ⁽⁴⁾ | \$ 167,187 | \$ 56,560 | \$ 2,819 | \$ 123,359 | n/m |

| (Dollars in millions) | Three Months Ended June 30, 2007 | | | | |
|--|----------------------------------|---------------------------|---------------------|-------------------------|--------------|
| | Total | Premier | | | |
| | | U.S. Trust ⁽¹⁾ | Columbia Management | Banking and Investments | ALM/ Other |
| Net interest income ⁽²⁾ | \$ 949 | \$ 226 | \$ 1 | \$ 672 | \$ 50 |
| Noninterest income: | | | | | |
| Investment and brokerage services | 863 | 253 | 335 | 240 | 35 |
| All other income | 77 | 13 | 24 | 36 | 4 |
| Total noninterest income | 940 | 266 | 359 | 276 | 39 |
| Total revenue, net of interest expense | 1,889 | 492 | 360 | 948 | 89 |
| Provision for credit losses | (13) | (12) | - | (1) | - |
| Noninterest expense | 993 | 310 | 242 | 421 | 20 |
| Income before income taxes | 909 | 194 | 118 | 528 | 69 |
| Income tax expense ⁽²⁾ | 333 | 72 | 43 | 195 | 23 |
| Net income | \$ 576 | \$ 122 | \$ 75 | \$ 333 | \$ 46 |
| Net interest yield ⁽²⁾ | 3.14 % | 2.69 % | n/m | 2.81 % | n/m |
| Return on average equity ⁽³⁾ | 26.35 | 34.39 | 66.93 % | 83.24 | n/m |
| Efficiency ratio ⁽²⁾ | 52.57 | 62.93 | 67.11 | 44.46 | n/m |
| Period end - total assets ⁽⁴⁾ | \$ 128,388 | \$ 35,102 | \$ 1,443 | \$ 98,464 | n/m |

(1) In July 2007, the operations of the acquired U.S. Trust Corporation were combined with the former *Private Bank* creating *U.S. Trust, Bank of America Private Wealth Management*. The results of the combined business were reported for periods beginning on July 1, 2007. Prior to July 1, 2007, the results solely reflect that of the former *Private Bank*.

(2) FTE basis

(3) Average allocated equity for *GWIM* was \$11.8 billion and \$8.8 billion for the three months ended June 30, 2008 and 2007.

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

Table of Contents**Global Wealth and Investment Management**

| (Dollars in millions) | Six Months Ended June 30, 2008 | | | | |
|---|--------------------------------|------------------------------|------------------------|---------------------------------------|---------------|
| | Total | U.S. Trust ⁽¹⁾ | Columbia Management | Premier Banking and Investments | ALM/ Other |
| Net interest income ⁽²⁾ | \$ 2,131 | \$ 582 | \$ (3) | \$ 1,071 | \$ 481 |
| Noninterest income: | | | | | |
| Investment and brokerage services | 2,176 | 766 | 801 | 521 | 88 |
| All other income (loss) | (106) | 33 | (254) | 114 | 1 |
| Total noninterest income | 2,070 | 799 | 547 | 635 | 89 |
| Total revenue, net of interest expense | 4,201 | 1,381 | 544 | 1,706 | 570 |
| Provision for credit losses | 362 | 9 | - | 353 | - |
| Noninterest expense | 2,556 | 962 | 607 | 891 | 96 |
| Income (loss) before income taxes | 1,283 | 410 | (63) | 462 | 474 |
| Income tax expense (benefit) ⁽²⁾ | 481 | 152 | (23) | 171 | 181 |
| Net income (loss) | \$ 802 | \$ 258 | \$ (40) | \$ 291 | \$ 293 |
| Net interest yield ⁽²⁾ | 2.82 | % 2.36 | % n/m | 1.84 | % n/m |
| Return on average equity ⁽³⁾ | 13.82 | % 11.36 | (11.40) | % 29.92 | n/m |
| Efficiency ratio ⁽²⁾ | 60.84 | 69.61 | n/m | 52.26 | n/m |
| Period end - total assets ⁽⁴⁾ | \$ 167,187 | \$ 56,560 | \$ 2,819 | \$ 123,359 | n/m |

| (Dollars in millions) | Six Months Ended June 30, 2007 | | | | |
|---|--------------------------------|------------------------------|------------------------|---------------------------------------|---------------|
| | Total | U.S. Trust ⁽¹⁾ | Columbia Management | Premier Banking and Investments | ALM/ Other |
| Net interest income ⁽²⁾ | \$ 1,871 | \$ 449 | \$ 1 | \$ 1,331 | \$ 90 |
| Noninterest income: | | | | | |
| Investment and brokerage services | 1,669 | 480 | 654 | 460 | 75 |
| All other income | 130 | 24 | 26 | 70 | 10 |
| Total noninterest income | 1,799 | 504 | 680 | 530 | 85 |
| Total revenue, net of interest expense | 3,670 | 953 | 681 | 1,861 | 175 |
| Provision for credit losses | 9 | 9 | - | - | - |
| Noninterest expense | 1,967 | 617 | 477 | 834 | 39 |
| Income before income taxes | 1,694 | 327 | 204 | 1,027 | 136 |
| Income tax expense ⁽²⁾ | 627 | 121 | 75 | 380 | 51 |
| Net income | \$ 1,067 | \$ 206 | \$ 129 | \$ 647 | \$ 85 |
| Net interest yield ⁽²⁾ | 3.16 | % 2.73 | % n/m | 2.83 | % n/m |
| Return on average equity ⁽³⁾ | 24.51 | % 28.33 | 54.66 | % 81.05 | n/m |
| Efficiency ratio ⁽²⁾ | 53.59 | 64.83 | 70.05 | 44.79 | n/m |
| Period end total assets ⁽⁴⁾ | \$ 128,388 | \$ 35,102 | \$ 1,443 | \$ 98,464 | n/m |

⁽¹⁾ In July 2007, the operations of the acquired U.S. Trust Corporation were combined with the former *Private Bank* creating *U.S. Trust, Bank of America Private Wealth Management*. The results of the combined business were reported for periods beginning on July 1, 2007. Prior to July 1, 2007, the results solely reflect that of the former *Private Bank*.

⁽²⁾ FTE basis

⁽³⁾ Average allocated equity for *GWIM* was \$11.7 billion and \$8.8 billion for the six months ended June 30, 2008 and 2007.

⁽⁴⁾ Total assets include asset allocations to match liabilities (i.e., deposits).
n/m = not meaningful

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| (Dollars in millions) | Ending Balance | | Average Balance | | | |
|-------------------------------------|----------------|-----------|----------------------------|-----------|--------------------------|-----------|
| | June 30 | | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Total loans and leases | \$ 88,171 | \$ 69,217 | \$ 87,572 | \$ 67,964 | \$ 86,607 | \$ 66,907 |
| Total earning assets ⁽¹⁾ | 157,333 | 121,806 | 156,418 | 121,024 | 151,765 | 119,329 |
| Total assets ⁽¹⁾ | 167,187 | 128,388 | 165,860 | 127,372 | 161,387 | 125,735 |
| Total deposits | 158,227 | 118,972 | 157,113 | 118,254 | 152,807 | 116,614 |

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

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

In December 2007, we completed the sale of Marsico. Prior year Marsico business results have been transferred to *All Other* to better facilitate year-over-year comparisons.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income was relatively flat, as an increase in total revenue was offset by higher noninterest expense and provision for credit losses.

Net interest income increased \$184 million, or 19 percent, due to higher margin on ALM activities, the acquisitions of U.S. Trust Corporation and LaSalle, and growth in average deposit and loan balances. These increases were partially offset by spread compression driven by deposit mix and competitive deposit pricing. *GWIM* deposit growth benefited from the U.S. Trust Corporation and LaSalle acquisitions, the migration of customer relationships and related deposit balances from *GCSBB*, and organic growth. A more detailed discussion regarding migrated customer relationships and related deposit balances is provided in the *PB&I* discussion beginning on page 91.

Noninterest income increased \$206 million, or 22 percent, driven by higher investment and brokerage services income primarily attributable to the impact of the U.S. Trust Corporation and LaSalle acquisitions, partially offset by \$36 million in losses related to the support provided to certain cash funds managed within *Columbia*.

Provision for credit losses increased \$132 million to \$119 million as a result of increased reserves and higher net charge-offs due to the deterioration in the housing markets.

Noninterest expense increased \$248 million, or 25 percent, driven by the additions of U.S. Trust Corporation and LaSalle.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$265 million, or 25 percent, as increases of \$507 million in investment and brokerage services income and \$260 million in net interest income were more than offset by increases of \$589 million in noninterest expense and \$353 million in provision for credit losses. These period-over-period changes were driven by the same factors as discussed in the three-month discussion above. In addition during 2008, losses of \$256 million were recorded in all other income related to the support provided to certain cash funds managed within *Columbia*.

Table of Contents**Client Assets**

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

Client Assets ⁽¹⁾

| (Dollars in millions) | 2008 | June 30 2007 |
|---|----------------|-----------------|
| Assets under management | \$ 589,459 | \$ 566,267 |
| Client brokerage assets | 210,701 | 213,711 |
| Assets in custody | 156,530 | 109,360 |
| Less: Client brokerage assets and assets in custody included in assets under management | (89,234) | (80,784) |
| Total net client assets | 867,456 | 808,554 |
| | \$ | \$ |

⁽¹⁾ In December 2007, the Corporation completed the sale of Marsico. Total AUM at June 30, 2007 includes AUM that were managed prior to the sale of Marsico of \$53.7 billion (including \$5.2 billion in eliminations). Prior year Marsico business results have been transferred to *All Other* to better facilitate year-over-year comparisons.

AUM increased \$23.2 billion, or four percent, as of June 30, 2008 compared to the same period in 2007, driven by the U.S. Trust Corporation and LaSalle acquisitions, which contributed \$115.6 billion and \$7.5 billion. These increases were partially offset by the sale of Marsico, which resulted in a decrease of \$60.9 billion, and market declines. As of June 30, 2008, client brokerage assets decreased by \$3.0 billion, or one percent, compared to the same period in 2007, driven by market declines partially offset by the addition of LaSalle. Assets in custody increased \$47.2 billion, or 43 percent, to \$156.5 billion compared to the same period in 2007, driven by U.S. Trust Corporation which contributed \$45.0 billion.

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

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

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income increased \$30 million, or 25 percent, due to higher noninterest income and net interest income partially offset by higher noninterest expense. Net interest income increased \$78 million, or 35 percent, driven by growth in average deposits of \$14.5 billion and average loans and leases of \$17.4 billion, partially offset by deposit spread compression. The growth in average balances is attributable to the U.S. Trust Corporation and LaSalle acquisitions coupled with organic growth. Noninterest income grew \$136 million, or 51 percent, and noninterest expense increased \$148 million, or 48 percent, primarily driven by the U.S. Trust Corporation and LaSalle acquisitions.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income increased \$52 million, or 25 percent, driven by increases of \$295 million in noninterest income and \$133 million in net interest income partially offset by an increase of \$345 million in noninterest expense. These period-over-period changes were driven by the same factors

as discussed in the three-month discussion above.

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Columbia Management

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

In December 2007, we completed the sale of Marsico. Prior year Marsico business results have been transferred to *All Other* to better facilitate year-over-year comparisons.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income decreased \$36 million, or 48 percent, as higher investment and brokerage services income was more than offset by an increase in noninterest expense and a loss of \$36 million recorded in all other income (loss) related to the support provided to certain cash funds as discussed below. The increases in investment and brokerage services income of \$68 million and noninterest expense of \$60 million were primarily driven by the U.S. Trust Corporation acquisition.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income declined \$169 million to a loss of \$40 million driven primarily by losses recorded in all other income (loss) of \$256 million related to the support provided to certain cash funds combined with an increase in noninterest expense of \$130 million. These items were partially offset by an increase of \$147 million in investment and brokerage services income. The increase in investment and brokerage services income and noninterest expense were driven by the same factors as discussed in the three-month discussion above. In addition, noninterest expense increased due to higher revenue-related expenses.

Cash Funds Support

Beginning in the second half of 2007, we provided support to certain cash funds managed within *Columbia*. The funds for which we provided support typically invest in high quality, short-term securities with a portfolio weighted average maturity of 90 days or less, including a limited number of securities issued by SIVs. Due to market disruptions, certain SIV investments were downgraded by the rating agencies and experienced a decline in fair value. We entered into capital commitments which required the Corporation to provide cash to these funds in the event the net asset value per unit of a fund declined below certain thresholds. The capital commitments expire no later than the third quarter of 2010. At June 30, 2008 and December 31, 2007 we had gross (i.e., funded and unfunded) capital commitments to the funds of \$760 million and \$565 million. For the three and six months ended June 30, 2008, we incurred losses of \$36 million and \$163 million related to these capital commitments. At June 30, 2008 and December 31, 2007 the remaining loss exposure on capital commitments was \$212 million and \$183 million.

Additionally, during the six months ended June 30, 2008 we purchased \$994 million of certain investments from the funds and recorded losses of \$93 million. We did not purchase any of these investments or record any losses during the three months ended June 30, 2008. At June 30, 2008 and December 31, 2007, \$660 million and \$159 million of investments purchased from the funds were classified as nonperforming AFS securities.

We may from time to time, but are under no obligation to, provide additional support to funds managed within *Columbia*. Future support, if any, may take the form of additional capital commitments to the funds or the purchase of assets from the funds. During the third quarter of 2008, we purchased \$525 million of assets in connection with a SIV restructuring. This restructuring resulted in a decrease in our gross capital commitments of \$173 million of which \$158 million was expensed during the first six months of 2008. In addition, other SIVs that we have purchased or are held by these funds are expected to be restructured and may result in further losses.

We are not the primary beneficiary of the cash funds and we do not consolidate the cash funds managed within *Columbia* because the subordinated support provided by the Corporation will not absorb a majority of the variability created by the assets of the funds. The cash funds had total AUM of \$163.4 billion and \$189.5 billion at June 30, 2008 and December 31, 2007.

Table of Contents***Premier Banking and Investments***

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

PB&I includes the impact of migrating qualifying affluent customers, including their related deposit balances, from *GCSBB* to our *PB&I* model. After migration, the associated net interest income, service charges and noninterest expense are recorded in *PB&I*. The change reported in the financial results of *PB&I* includes both the impact of migration, as well as the impact of incremental organic growth from providing a broader array of financial products and services to *PB&I* customers. For the three and six months ended June 30, 2008 a total of \$5.6 billion and \$12.6 billion of deposits, including \$2.3 billion during the first quarter of 2008 related to the one-time migration of legacy LaSalle accounts, were migrated from *GCSBB* to *PB&I*. For the three and six months ended June 30, 2007 a total of \$2.9 billion and \$6.4 billion of deposits were migrated from *GCSBB* to *PB&I*.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income decreased \$144 million, or 43 percent, due to lower net interest income and an increase in provision for credit losses, partially offset by higher noninterest income. Net interest income declined \$136 million, or 20 percent, as spread compression, driven by deposit mix and competitive deposit pricing, more than offset higher average deposit and loan balances. Noninterest income increased \$53 million, or 19 percent, partially driven by higher investment and brokerage services income. Provision for credit losses increased \$114 million primarily driven by higher credit costs in the home equity portfolio reflective of deterioration in the housing markets.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$356 million, or 55 percent, primarily due to an increase of \$353 million in provision for credit losses and a decrease of \$260 million in net interest income partially offset by an increase of \$105 million in noninterest income. These period-over-period changes were driven by the same factors as discussed in the three-month discussion above.

ALM/Other

ALM/Other primarily includes the results of ALM activities.

Net income increased \$147 million and \$208 million for the three and six months ended June 30, 2008, compared to the same period in the prior year, driven by higher net interest income of \$248 million and \$391 million primarily due to the increased contribution from ALM activities. In addition, noninterest expense increased \$57 million for the six months ended June 30, 2008, primarily driven by higher expenses related to the mass affluent and retirement initiatives.

Table of Contents**All Other**

| (Dollars in millions) | For the Three Months Ended June 30, 2008 | | | For the Three Months Ended June 30, 2007 | | |
|---|--|--------------------------------------|---------------|--|--------------------------------------|-----------------|
| | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted |
| Net interest income ⁽³⁾ | \$ (2,035) | \$ 2,140 | \$ 105 | \$ (1,883) | \$ 1,981 | \$ 98 |
| Noninterest income: | | | | | | |
| Card income | 595 | (557) | 38 | 676 | (793) | (117) |
| Equity investment income | 710 | - | 710 | 1,719 | - | 1,719 |
| Gains on sales of debt securities | 131 | - | 131 | 2 | - | 2 |
| All other income (loss) | (101) | 61 | (40) | (147) | 74 | (73) |
| Total noninterest income | 1,335 | (496) | 839 | 2,250 | (719) | 1,531 |
| Total revenue, net of interest expense | (700) | 1,644 | 944 | 367 | 1,262 | 1,629 |
| Provision for credit losses | (1,197) | 1,644 | 447 | (1,313) | 1,262 | (51) |
| Merger and restructuring charges ⁽⁴⁾ | 212 | - | 212 | 75 | - | 75 |
| All other noninterest expense | 17 | - | 17 | (50) | - | (50) |
| Income before income taxes | 268 | - | 268 | 1,655 | - | 1,655 |
| Income tax expense (benefit) ⁽³⁾ | (11) | - | (11) | 584 | - | 584 |
| Net income | \$ 279 | \$ - | \$ 279 | \$ 1,071 | \$ - | \$ 1,071 |

| (Dollars in millions) | For the Six Months Ended June 30, 2008 | | | For the Six Months Ended June 30, 2007 | | |
|---|--|--------------------------------------|--------------|--|--------------------------------------|-----------------|
| | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted | Reported Basis ⁽¹⁾ | Securitization Offset ⁽²⁾ | As Adjusted |
| Net interest income ⁽³⁾ | \$ (4,017) | \$ 4,195 | \$ 178 | \$ (3,618) | \$ 3,871 | \$ 253 |
| Noninterest income: | | | | | | |
| Card income | 1,259 | (1,261) | (2) | 1,397 | (1,632) | (235) |
| Equity investment income | 978 | - | 978 | 2,615 | - | 2,615 |
| Gains on sales of debt securities | 351 | - | 351 | 63 | - | 63 |
| All other income (loss) | (355) | 126 | (229) | (101) | 151 | 50 |
| Total noninterest income | 2,233 | (1,135) | 1,098 | 3,974 | (1,481) | 2,493 |
| Total revenue, net of interest expense | (1,784) | 3,060 | 1,276 | 356 | 2,390 | 2,746 |
| Provision for credit losses | (2,408) | 3,060 | 652 | (2,626) | 2,390 | (236) |
| Merger and restructuring charges ⁽⁴⁾ | 382 | - | 382 | 186 | - | 186 |
| All other noninterest expense | 130 | - | 130 | 361 | - | 361 |
| Income before income taxes | 112 | - | 112 | 2,435 | - | 2,435 |
| Income tax expense ⁽³⁾ | 51 | - | 51 | 741 | - | 741 |
| Net income | \$ 61 | \$ - | \$ 61 | \$ 1,694 | \$ - | \$ 1,694 |

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

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

(3) FTE basis

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

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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* results include a corresponding securitization offset which removes the impact of these securitized loans in order to present the consolidated results on a GAAP basis (i.e., held basis). See the *GCSBB* section beginning on page 66 for information on the *GCSBB* managed results. The following *All Other* discussion focuses on the results on an as adjusted basis excluding the securitization offset. For additional information, see *Note 16 Business Segment Information* to the Consolidated Financial Statements.

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

Equity Investments includes Principal Investing, Corporate Investments and Strategic Investments. Principal Investing is comprised of a diversified portfolio of investments in privately-held and publicly-traded companies at all stages of their life cycle from start-up to buyout. These investments are made either directly in a company or held through a fund and are accounted for at fair value. In addition, Principal Investing has unfunded equity commitments related to some of these investments. For more information on these commitments see *Note 11 Commitments and Contingencies* to the Consolidated Financial Statements.

Corporate Investments primarily includes investments in publicly-traded equity securities and funds which are accounted for as AFS marketable equity securities. Strategic Investments includes investments of \$15.6 billion in CCB, \$4.5 billion in Banco Itaú, \$3.0 billion in Grupo Financiero Santander, S.A. (Santander) and other investments. Shares of CCB are accounted for as AFS marketable equity securities and carried at fair value with a corresponding net-of-tax offset to accumulated OCI. These shares are non-transferable until October 2008. We also hold an option to increase our ownership interest in CCB to 19.1 percent. Additional shares received upon exercise of this option are restricted through August 2011. This option expires in February 2011. The strike price of the option is based on the greater of 1.2 times the book value per share for the most recent calendar year-end or the IPO price that steps up on an annual basis and is currently at 103 percent of the IPO price. The strike price of the option when based upon the IPO price is capped at 118 percent. On July 21, 2008, under the terms of our purchase option we increased our ownership to 10.8 percent by purchasing approximately \$1.9 billion of the common shares of CCB. These recently purchased shares are restricted through August 2011 and are carried at cost. The restricted shares of Banco Itaú are carried at fair value with an offset, net-of-tax, to accumulated OCI and are accounted for as AFS marketable equity securities. Prior to the second quarter of 2008, these shares were accounted for at cost. Our investment in Santander is accounted for under the equity method of accounting. Income associated with *Equity Investments* is recorded in equity investment income.

The following table presents the components of *All Other*'s equity investment income and a reconciliation to the total consolidated equity investment income for the three and six months ended June 30, 2008 and 2007.

Components of Equity Investment Income

| (Dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|-----------------|--------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Principal Investing | \$ 296 | \$ 1,250 | \$ 308 | \$ 1,825 |
| Corporate Investments | 112 | 150 | 144 | 340 |
| Strategic and other investments | 302 | 319 | 526 | 450 |
| Total equity investment income included in All Other | 710 | 1,719 | 978 | 2,615 |
| Total equity investment income included in the business segments | (118) | 110 | 668 | 228 |
| Total consolidated equity investment income | \$ 592 | \$ 1,829 | \$ 1,646 | \$ 2,843 |

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

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income housing tax credits) that have been grossed up within noninterest income to a FTE amount in the business segments.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net income decreased \$792 million to \$279 million due to a decline in noninterest income combined with higher provision for credit losses and increased merger and restructuring charges.

Noninterest income declined \$692 million to \$839 million due to a decrease in equity investment income of \$1.0 billion due to a reduction in gains from our Principal Investing portfolio attributable to a lack of liquidity in the marketplace. This decrease included the absence of the \$600 million increase in value during the second quarter of 2007 of private equity funds which were sold during July 2007. This decrease was partially offset by the increase in card income of \$155 million driven by the difference between the funds transfer pricing allocations and the actual bond costs associated with our *Card Services* securitizations due to the rapid decrease in short-term interest rates over the past nine months.

Provision for credit losses increased \$498 million to \$447 million primarily due to higher credit costs related to our ALM residential mortgage portfolio reflective of deterioration in the housing markets.

Merger and restructuring charges increased \$137 million to \$212 million due to the integration costs associated with the LaSalle and U.S. Trust Corporation mergers. For additional information on merger and restructuring charges, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

Income tax expense (benefit) decreased \$595 million to \$(11) million primarily due to lower pre-tax income and increased low-income housing tax credits.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Net income decreased \$1.6 billion to \$61 million primarily due to a decrease of \$1.4 billion in noninterest income, combined with a higher provision for credit losses of \$888 million and increased merger and restructuring charges of \$196 million partially offset by a decrease of \$690 million in income tax expense. These changes were due to the same factors as described in the three-month discussion above. In addition, *All Other* results were adversely impacted by the absence of earnings due to the sale of our Latin American operations in the first quarter of 2007.

Off- and On-Balance Sheet Arrangements

In the ordinary course of business, we support our customers' financing needs by facilitating their access to the commercial paper market. In addition, we utilize certain financing arrangements to meet our balance sheet management, funding and liquidity needs. For additional information on our liquidity risk, see *Liquidity Risk and Capital Management* beginning on page 102. These activities utilize SPEs, typically in the form of corporations, limited liability companies, or trusts, which raise funds by issuing short-term commercial paper or similar instruments to third party investors. These SPEs typically hold various types of financial assets whose cash flows are the primary source of repayment for the liabilities of the SPEs. Investors have recourse to the assets in the SPE and often benefit from other credit enhancements, such as overcollateralization in the form of excess assets in the SPE, liquidity facilities, and other arrangements. As a result, the SPEs can typically obtain a favorable credit rating from the rating agencies, resulting in lower financing costs for our customers.

We have liquidity agreements, SBLCs or other arrangements with the SPEs, as described below, under which we are obligated to provide funding in the event of a market disruption or other specified event or otherwise provide credit support to the entities (hereinafter referred to as liquidity exposure). We manage our credit risk and any market risk on these arrangements by subjecting them to our normal underwriting and risk management processes. Our credit ratings and changes thereto will affect the borrowing cost and liquidity of these SPEs. In addition, significant changes in counterparty asset valuation and credit standing may also affect the ability of the SPEs to issue commercial paper. The contractual or notional amount of these commitments as presented in Table 10 represents our maximum possible funding obligation and is not, in management's view, representative of expected losses or funding requirements. From time to time, we may purchase commercial paper issued by these SPEs in connection with market-making activities or for investment purposes. During the second half of 2007 and into the first half of 2008, there were instances in which the asset-backed commercial paper market became illiquid due to market perceptions of uncertainty and certain investment activities were affected. As a

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result, at June 30, 2008 and December 31, 2007, we held \$686 million and \$6.6 billion of commercial paper on the Corporation's Consolidated Balance Sheet that was issued in connection with our liquidity obligations to unconsolidated CDOs summarized in the table below.

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

Table 10**Special Purpose Entities Liquidity Exposure ⁽¹⁾**

| (Dollars in millions) | June 30, 2008 | | | | Total |
|--|-----------------------------|------------------|-----------------|--|------------------|
| | VIEs | | QSPEs | | |
| | Consolidated ⁽²⁾ | Unconsolidated | Unconsolidated | | |
| Corporation-sponsored multi-seller conduits | \$ 14,214 | \$ 47,754 | \$ - | | \$ 61,968 |
| Municipal bond trusts and corporate SPEs | 4,645 | 4,168 | 5,419 | | 14,232 |
| Asset acquisition conduits | 1,157 | 4,116 | - | | 5,273 |
| Customer-sponsored conduits | - | 1,231 | - | | 1,231 |
| Collateralized debt obligation vehicles ⁽³⁾ | - | 1,077 | - | | 1,077 |
| Total liquidity exposure | \$ 20,016 | \$ 58,346 | \$ 5,419 | | \$ 83,781 |

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

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

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

⁽³⁾ For additional information on our CDO exposures at June 30, 2008 and December 31, 2007 and related writedowns, see the CDO discussion beginning on page 81.

At June 30, 2008 the Corporation's total liquidity exposure to SPEs was \$83.8 billion, a decrease of \$20.3 billion from December 31, 2007 due to lower liquidity exposure in all categories. Of this amount, \$11.2 billion was attributable to a decline in CDO liquidity exposure.

Corporation-Sponsored Multi-Seller Conduits

We administer four multi-seller conduits, three of which are unconsolidated, which provide a low-cost funding alternative to our customers by facilitating their access to the commercial paper market. We receive fees for providing combinations of liquidity and SBLCs or similar loss protection commitments to the conduits. These commitments represent significant variable interests in the SPEs, which are discussed in more detail in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements.

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At June 30, 2008, our liquidity commitments to the conduits were collateralized by various classes of assets which incorporate features such as overcollateralization and cash reserves which are designed to provide credit support at a level equivalent to investment grade as determined in accordance with internal risk rating guidelines.

Our liquidity, SBLCs and similar loss protection commitments obligate us to purchase assets from the conduits at the conduits' cost. Subsequent realized losses on assets purchased from the unconsolidated conduits would be reimbursed from the cash received from the sale of capital notes and equity interests to third party investors. We would absorb losses in excess of such amounts. If a conduit is unable to re-issue commercial paper due to illiquidity in the commercial paper markets or deterioration in the asset portfolio, we are obligated to provide funding subject to the following limitations. Our obligations to purchase assets under the SBLCs and similar loss protection commitments are subject to a maximum commitment amount which is typically set at eight to 10 percent of total outstanding commercial paper. Our obligation to purchase assets under the liquidity agreements, which comprise the remainder of our exposure, is generally limited to the amount of non-defaulted assets. We are not obligated to fund under the liquidity, SBLCs or similar loss protection commitments if the conduit is the subject of a voluntary or involuntary bankruptcy proceeding.

One of the unconsolidated conduits holds CDO investments with an aggregate outstanding par value of \$461 million. The underlying collateral includes middle market loans held in an insured CDO (69 percent) and subprime residential mortgages (11 percent). During the first half of 2008, these investments were downgraded or threatened with a downgrade by the rating agencies. In accordance with the terms of our existing liquidity obligations, these investments were funded by the Corporation through a secured borrowing transaction with the conduit and therefore they no longer serve as collateral for commercial paper issuances. We will be reimbursed for any realized losses on these investments up to the amount of capital notes issued by the conduit. There were no other significant downgrades of assets and there were no writedowns of assets held by any of the conduits during this period.

During the three months ended June 30, 2008, we issued additional capital notes to third parties due in part to the risk inherent in the CDO investments described above and in connection with a new multi-seller conduit. On a combined basis, the unconsolidated conduits have now issued approximately \$97 million of capital notes and equity interests to third parties, \$92 million of which were outstanding at June 30, 2008. This represents the maximum amount of loss that would be absorbed by the third party investors. Based on an analysis of projected cash flows, we have determined that we will not absorb a majority of the variability created by the assets of the unconsolidated conduits.

The liquidity commitments and SBLCs provided to unconsolidated conduits are included in *Note 11 Commitments and Contingencies* to the Consolidated Financial Statements. We have no other contractual obligations to the unconsolidated conduits, nor do we intend to provide noncontractual or other forms of support.

Despite the market disruptions in the second half of 2007 and through the first half of 2008, the conduits did not experience any material difficulties in issuing commercial paper. The Corporation did not purchase any commercial paper issued by the conduits other than incidentally and in its role as a commercial paper dealer.

Municipal Bond Trusts and Corporate SPEs

We have provided a total of \$14.2 billion and \$17.7 billion in liquidity support to municipal bond trusts and corporate SPEs at June 30, 2008 and December 31, 2007. We administer municipal bond trusts that hold highly-rated, long-term, fixed-rate municipal bonds, some of which are callable prior to maturity, for which we provided liquidity support of \$11.7 billion and \$13.4 billion at June 30, 2008 and December 31, 2007. In addition, we administer several conduits to which we provided \$2.5 billion and \$4.3 billion of liquidity support at June 30, 2008 and December 31, 2007.

As it relates to the municipal bond trusts the weighted average remaining life of the bonds at June 30, 2008 was 19.2 years. Substantially all of the bonds are rated AAA or AA and some of the bonds benefit from insurance provided by monolines. There were no material writedowns or downgrades of assets or issuers during the three and six months ended June 30, 2008. The trusts obtain financing by issuing floating-rate trust certificates that reprice on a weekly basis to third party investors. The floating-rate investors have the right to tender the certificates at any time upon seven days notice. We serve as remarketing agent and liquidity provider for the trusts. Should we be unable to remarket the tendered certificates, we are generally obligated to purchase them at par. We are not obligated to purchase the certificate if a bond's credit rating declines below investment grade or in the event of certain defaults or bankruptcy of the issuer and insurer. Some of these trusts are QSPEs. We consolidate those trusts that are not QSPEs if we hold the residual interest or otherwise expect to absorb a majority of the variability of the trusts. Included in liquidity support are \$7.1 billion and \$6.1 billion of liquidity commitments to unconsolidated trusts at June 30, 2008 and December 31, 2007, which are included in *Note 11*

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Commitments and Contingencies to the Consolidated Financial Statements. At June 30, 2008 and December 31, 2007, we held \$291 million and \$125 million of floating rate certificates issued by unconsolidated municipal bond trusts.

Assets of the other corporate conduits consisted primarily of high-grade, long-term municipal, corporate, and mortgage-backed securities which had a weighted average remaining life of approximately 5.5 years at June 30, 2008. Substantially all of the securities are rated AAA or AA and some of the bonds benefit from insurance provided by monolines. These conduits, which are QSPEs, obtain funding by issuing commercial paper to third party investors. At June 30, 2008, the weighted average maturity of the commercial paper was 32 days. We have entered into derivative contracts which provide interest rate, currency and a pre-specified amount of credit protection to the entities in exchange for the commercial paper rate. In addition, we may be obligated to purchase assets from the vehicles if the assets or insurers are downgraded. If an asset's rating declines below a certain investment quality as evidenced by its credit rating or defaults, we are no longer exposed to the risk of loss. During the three months ended June 30, 2008 two monoline insurers were downgraded by the rating agencies which resulted in the mandatory sale of \$1.2 billion of assets out of the conduits. We purchased a majority of these assets, and they are recorded within trading account assets at June 30, 2008, at fair value. Due to the market disruptions beginning in the second half of 2007 these conduits experienced difficulties in issuing commercial paper. At June 30, 2008, we held \$121 million and at December 31, 2007 we did not hold any of the commercial paper. In the event that we are unable to remarket the conduits' commercial paper such that they no longer qualify as QSPEs, we would consolidate the conduits which may have an adverse impact on the fair value of the related derivative contracts.

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

Derivative activity related to these entities is included in *Note 4 - Derivatives* to the Consolidated Financial Statements. For more information on QSPEs, see *Note 9 - Variable Interest Entities* to the Consolidated Financial Statements. For additional information on our monoline exposure, see Industry Concentrations beginning on page 128.

Asset Acquisition Conduits

We administer two unconsolidated conduits which acquire assets on behalf of our customers. The return on the assets held in the conduits, which consist principally of liquid exchange-traded securities and some leveraged loans, is passed through to our customers through a series of derivative contracts. We consolidate a third conduit which holds subordinated debt securities for our benefit. These conduits obtain funding through the issuance of commercial paper and subordinated certificates to third party investors. Repayment of the commercial paper and certificates is assured by total return swap contracts between the Corporation and the conduits, and we are reimbursed through total return swap contracts with our customers.

Assets are placed into the unconsolidated asset acquisition conduits at the request of a customer who wishes to benefit from the economic returns of the specified asset on a leveraged basis. At the time the conduit acquires an asset, we enter into back-to-back total return swaps with the conduit and the customer such that the economic returns of the assets are passed through to the customer. Our performance under the derivatives is collateralized by the underlying assets. Derivative activity related to these entities is included in *Note 4 - Derivatives* to the Consolidated Financial Statements.

Despite the market disruptions in the second half of 2007 and first half of 2008, the conduits did not experience any significant difficulties in issuing commercial paper. The Corporation held \$53 million and \$27 million of commercial paper and certificates issued by the conduits at June 30, 2008 and December 31, 2007. The weighted average maturity of commercial paper issued by the conduits at June 30, 2008 was 42 days.

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

Customer-Sponsored Conduits

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

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These commitments are included in *Note 11 Commitments and Contingencies* to the Consolidated Financial Statements. As we typically provide less than 20 percent of the total liquidity commitments to these conduits and do not provide other forms of support, we have concluded that we do not hold a significant variable interest in the conduits and they are not included in our discussion of VIEs in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements.

Collateralized Debt Obligation Vehicles

We provided liquidity support in the form of written put options to several CDOs totaling \$1.1 billion and \$10.0 billion at June 30, 2008 and December 31, 2007. In addition, we provided other liquidity support to a CDO conduit of \$2.3 billion at December 31, 2007.

The decrease of \$8.9 billion in the notional amount of written put options was due primarily to the elimination of liquidity commitments to certain CDOs for which we no longer provide liquidity support, including \$3.2 billion related to a CDO which was consolidated at December 31, 2007. We are obligated under the remaining written put options to provide funding to the CDOs by purchasing the commercial paper at predetermined contractual yields in the event of a severe disruption in the short-term funding market as evidenced by the inability of the CDOs to issue commercial paper at spreads below a predetermined rate. No third parties provide similar commitments to these CDOs. For additional information refer to the CDO exposure discussion beginning on page 81. See *Note 9 Variable Interest Entities* to the Consolidated Financial Statements for more information on the written put options. These written put options are recorded as derivatives and are carried at fair value with changes in fair value recorded in trading account profits (losses). Derivative activity related to these entities is included in *Note 4 Derivatives* to the Consolidated Financial Statements.

Prior to the second quarter of 2008, we also administered a CDO conduit that obtained funds by issuing commercial paper to third party investors. The conduit held \$2.3 billion of assets at December 31, 2007 consisting of super senior tranches of debt securities issued by other CDOs. During the second quarter of 2008, we liquidated the CDO conduit and purchased the assets due to a threatened downgrade of the CDO conduit's commercial paper. Two CDO vehicles which issued securities formerly held in the CDO conduit are consolidated on our balance sheet at June 30, 2008.

Prior to the second half of 2007, we believed that the likelihood of our experiencing an economic loss as the result of these liquidity obligations was remote. However, due to severe market disruptions beginning in the second half of 2007 the CDOs holding the put options and the CDO conduit began to experience difficulties in issuing commercial paper. Shortly thereafter, a significant portion of the assets held in these CDOs were downgraded or threatened with downgrade by the rating agencies. As a result of these factors, we began to purchase commercial paper that could not be issued to third parties at less than the contractual yield specified in our liquidity obligations. At December 31, 2007, we held commercial paper with a carrying value of \$6.6 billion on the balance sheet that was issued by the unconsolidated CDOs and the CDO conduit. During the first half of 2008 we consolidated several CDO vehicles due to a change in contractual arrangements such as a conversion of commercial paper into term notes. In addition, as discussed above, we liquidated the CDO conduit. As a result, commercial paper held by the Corporation due to these liquidity commitments declined to \$686 million at June 30, 2008. For more information on our super senior CDO exposure and related writedowns see our CDO exposure discussion beginning on page 81.

Obligations and Commitments

We have contractual obligations to make future payments on debt and lease agreements. Additionally, in the normal course of business, we enter into a number of off-balance sheet commitments. These obligations and commitments are more fully discussed in *Note 11 Commitments and Contingencies* to the Consolidated Financial Statements and in *Note 12 Short-term Borrowings and Long-term Debt*, and *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

Table of Contents**Fair Values of Level 3 Assets and Liabilities**

We fair value certain assets and liabilities that are classified as Level 3 under the fair value hierarchy established in SFAS 157. These Level 3 assets and liabilities are valued using significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These Level 3 financial assets and liabilities, include private equity investments, retained residual interests in securitizations, residential MSR, ABSs, highly structured or long-term derivative contracts and certain CDOs, for which there is not an active market for identical assets from which to determine fair value. Neither is there sufficient, current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model. In those cases, the fair values of these Level 3 financial assets and liabilities are determined using pricing models, discounted cash flow methodologies, a net asset value approach for certain structured securities, or similar techniques, for which the determination of fair value requires significant management judgment or estimation.

Valuations of products using models or other techniques are sensitive to assumptions used for the significant inputs. Where market data is available, the inputs used for valuation reflect that information as of our valuation date. In periods of extreme volatility, lessened liquidity or in illiquid markets, there may be more variability in market pricing or a lack of market data to use in the valuation process. Judgment is then applied in formulating those inputs. Our valuation risk, however, is mitigated through the holding of valuation adjustments for particular inputs, performance of stress testing of those inputs to understand the impact that varying assumptions may have on the valuation and other review processes performed to ensure appropriate valuation.

For example, at June 30, 2008, classified within Level 3 are \$2.4 billion of trading account assets, \$4.5 billion of AFS debt securities, and \$1.2 billion of net derivative assets associated with our CDO exposures which were valued using certain techniques. Substantially all of the AFS debt securities were acquired as a result of our liquidity obligations to certain CDOs. For more information regarding our CDO exposure, the types of assets underlying these exposures (e.g., percentage of subprime assets and vintages) and related valuation techniques see our CDO exposure discussion on page 81. At June 30, 2008, Level 3 AFS debt securities and trading account assets also included \$2.2 billion of securities primarily backed by prime and residential reverse mortgages.

Another example of Level 3 assets are consumer MSR which also require significant management judgment and estimation. The fair value of consumer MSR is determined using models which depend on estimates of prepayment rates, the resultant weighted average lives of the MSR and the option adjusted spread (OAS) levels. For more information on Level 3 MSR and their sensitivity to prepayment rates and OAS levels, see *Note 15 Mortgage Servicing Rights* to the Consolidated Financial Statements and *Note 21 Mortgage Servicing Rights* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

For additional information on our Level 1, 2 and 3 fair value measurements, including the valuation techniques utilized to determine their fair values, see *Note 14 Fair Value Disclosures* to the Consolidated Financial Statements.

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The table below presents a reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis during the three and six months ended June 30, 2008, including realized and unrealized gains (losses) included in earnings and OCI. Level 3 assets, before the impact of counterparty netting related to our derivative positions, were \$39.5 billion as of June 30, 2008 and represented approximately eight percent of assets measured at fair value (or two percent of total assets). Level 3 liabilities, before the impact of counterparty netting related to our derivative positions, were \$9.7 billion as of June 30, 2008 and represented approximately 10 percent of the liabilities measured at fair value (or less than one percent of total liabilities). See page 36 of *Note 14 Fair Value Disclosures* for a table that presents the fair value of Level 1, 2 and 3 assets and liabilities at June 30, 2008.

Table 11
Level 3 Fair Value Measurements

| (Dollars in millions) | Three Months Ended June 30, 2008 | | | | | | |
|--|----------------------------------|------------------------|----------------------|---------------------------------|---------------------------|-----------------------------|---|
| | Net Derivatives ⁽¹⁾ | Trading Account Assets | Sale Debt Securities | Loans and Leases ⁽²⁾ | Mortgage Servicing Rights | Other Assets ⁽³⁾ | Accrued Expenses and Other Liabilities ⁽²⁾ |
| Balance, March 31, 2008 | \$ 316 | \$ 5,522 | \$ 9,658 | \$ 5,057 | \$ 3,163 | \$ 5,496 | \$ (903) |
| Included in earnings | (801) | (211) | (310) | 55 | 635 | 121 | 180 |
| Included in other comprehensive income | - | - | 78 | - | - | - | - |
| Purchases, issuances, and settlements | 1,949 | (227) | (2,263) | (98) | 452 | (741) | - |
| Transfers in to (out of) Level 3 | (147) | 562 | 1,161 | - | - | 1,148 | - |
| Balance, June 30, 2008 | \$ 1,317 | \$ 5,646 | \$ 8,324 | \$ 5,014 | \$ 4,250 | \$ 6,024 | \$ (723) |
| | Six Months Ended June 30, 2008 | | | | | | |
| Balance, January 1, 2008 | \$ (1,203) | \$ 4,027 | \$ 5,507 | \$ 4,590 | \$ 3,053 | \$ 5,321 | \$ (660) |
| Included in earnings | (311) | (771) | (799) | (70) | 588 | 544 | (63) |
| Included in other comprehensive income | - | - | (504) | - | - | - | - |
| Purchases, issuances, and settlements | 2,473 | (795) | (1,011) | 494 | 609 | (865) | - |
| Transfers in to Level 3 | 358 | 3,185 | 5,131 | - | - | 1,024 | - |
| Balance, June 30, 2008 | \$ 1,317 | \$ 5,646 | \$ 8,324 | \$ 5,014 | \$ 4,250 | \$ 6,024 | \$ (723) |

(1) Net derivatives at June 30, 2008 included derivative assets of \$10.27 billion and derivative liabilities of \$8.95 billion.

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

(3) Other assets included equity investments held by Principal Investing and certain retained interests in securitization vehicles, including interest-only strips. Certain portfolios of LHFS are also accounted for at fair value in accordance with SFAS 159.

During the three and six months ended June 30, 2008, valuations of certain CDO securities and related written put options continued to decline in response to market concerns. Additionally, liquidity issues in the ARS sector have impacted the value of such securities. It is possible that the economic value of these securities could be different as the cash flows from the underlying assets may ultimately be higher or lower than the assumptions used in current valuation models. With the exception of the changes discussed below, there have been no significant changes to the valuation methodologies used to value Level 3 assets and liabilities during the period.

During the three and six months ended June 30, 2008, we recognized net realized and unrealized losses of \$331 million and \$882 million on Level 3 assets and liabilities which were primarily related to losses on derivatives, AFS debt securities and trading account assets which were partially offset by gains on our MSRs. The losses in AFS debt securities and trading account assets were due to CDO-related exposures. The six months ended June 30, 2008 also included losses on ARS. We also recorded unrealized gains (losses) of \$78 million and \$(504) million (pre-tax) through OCI during the three and six months ended June 30, 2008, due primarily to residential mortgage-backed securities backed principally by prime collateral, as related credit spreads tightened at June 30, 2008 when compared to March 31, 2008. These same spreads widened when compared to December 31, 2007 resulting in an unrealized loss for the six months ended June 30, 2008.

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Level 3 financial instruments may be economically hedged with derivatives not classified as Level 3; therefore, gains or losses associated with Level 3 financial instruments may be offset by gains or losses associated with financial instruments classified in other levels of the fair value hierarchy. The net losses recorded in earnings and OCI did not have a significant impact on our liquidity or capital resources.

During the three months ended June 30, 2008, we had net settlements of \$(2.3) billion of Level 3 AFS debt securities mainly due to changes in certain super senior CDO exposures from commercial paper carried at par to term notes. These changes were also the primary driver of net settlements of \$1.9 billion of Level 3 net derivatives as derivative liabilities associated with our liquidity exposure to the commercial paper were extinguished.

During the six months ended June 30, 2008, we had net settlements of \$(1.0) billion of Level 3 AFS debt securities and a \$2.5 billion net settlement in Level 3 net derivative assets which included the changes in CDO exposures mentioned in the paragraph above partially offset by certain investments purchased for \$994 million from the *Columbia* mutual funds during the first quarter and classified as AFS debt securities. Losses of \$93 million were recorded on these investments for the six months ended June 30, 2008. No such losses were recorded during the second quarter of 2008.

Transfers into or out of Level 3 were made if the inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable respectively, in the current marketplace. These transfers are effective as of the beginning of the quarter, therefore any gains or losses occurring on these assets and liabilities are included in the table above.

During the three months ended June 30, 2008, there were two significant transfers into Level 3. The first involves \$1.1 billion of AFS debt securities in the form of residential mortgage-backed securities for which no observable model inputs existed in the marketplace. The second significant transfer of \$1.1 billion relates to commercial and consumer LHFS, included in other assets in the table above, which were transferred due to a lack of liquidity caused by market disruptions. In light of market conditions, we implemented a change in our valuation approach for these loans, basing the valuation on pricing models including discounted cash flow methodologies. Previously, these loans were valued based on quoted prices from market participants.

During the six months ended June 30, 2008, we had transfers into Level 3 AFS debt securities of \$5.1 billion, trading account assets of \$3.2 billion, and other assets of \$1.0 billion. In addition to the amounts disclosed in the preceding paragraph, AFS debt securities included \$4.4 billion of securities in the form of commercial paper issued by CDOs which were transferred due to a lack of liquidity in the market in the first quarter. Trading account assets transfers related primarily to ARS of \$2.3 billion that were transferred in during the six months ended June 30, 2008. Of these, \$1.5 billion were ARS backed by student loans, and prices for these assets became unobservable in the marketplace due to a lack of liquidity in the first half of 2008. A loss of \$250 million was recognized in earnings due to a decline in market value of the ARS, primarily student loan ARS, during the six months ended June 30, 2008. In light of the illiquidity in the student loan ARS sector, we implemented a change to our valuation approach for these instruments, basing the valuation on assumptions about the weighted average life of the security, estimated future coupons to be paid and spreads observed in pricing of similar instruments. The other assets transfers were driven by the same factors as described in the three-month discussion above.

Managing Risk

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

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operational risk. For a more detailed discussion of our risk management activities, see pages 40 through 68 of the MD&A of the Corporation's 2007 Annual Report on Form 10-K.

Strategic Risk Management

Strategic risk is the risk that adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, execution and/or other intrinsic risks of business will impact our ability to meet our objectives. We use an integrated planning process to help manage strategic risk. A key component of the planning process aligns strategies, goals, tactics and resources throughout the enterprise. The process begins with the creation of a corporate-wide business plan which incorporates an assessment of the strategic risks. This business plan establishes the corporate strategic direction. The planning process then cascades through the lines of business, creating business line plans that are aligned with the Corporation's strategic direction. At each level, tactics and metrics are identified to measure success in achieving goals and assure adherence to the plans. As part of this process, the lines of business continuously evaluate the impact of changing market and business conditions, and the overall risk in meeting objectives. See the Operational Risk Management section beginning on page 148 for a further description of this process. Corporate Audit in turn monitors, and independently reviews and evaluates, the plans and measurement processes.

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

Liquidity Risk and Capital Management**Liquidity Risk**

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events. A more detailed discussion of our liquidity risk is included beginning on page 41 of the MD&A of the Corporation's 2007 Annual Report on Form 10-K.

Our borrowing costs and ability to raise funds are directly impacted by our credit ratings. The credit ratings of Bank of America Corporation and Bank of America, N.A. as of August 7, 2008 are reflected in the table below.

Table 12
Credit Ratings

| | Bank of America Corporation | | | Bank of America, N.A. | |
|---------------------------|-----------------------------|--------------|------------|-----------------------|----------------|
| | Senior | Subordinated | Commercial | Short-term Borrowings | Long-term Debt |
| Moody's Investors Service | Aa2 | Aa3 | Paper P-1 | P-1 | Aaa |
| Standard & Poor's | AA | AA- | A-1+ | A-1+ | AA+ |
| Fitch Ratings | A+ | A | F1+ | F1+ | AA- |

The parent company maintains a cushion of excess liquidity that would be sufficient to fully fund the holding company and nonbank affiliate operations for an extended period during which funding from normal sources is disrupted. The primary measure used to assess the parent company's liquidity is the Time to Required Funding during such a period of liquidity disruption. This measure assumes that the parent company is unable to generate funds from debt or equity issuance, receives no dividend income from subsidiaries, and no longer pays dividends to shareholders while continuing to meet nondiscretionary uses needed to maintain bank operations and repayment of contractual principal and interest.

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payments owed by the parent company and affiliated companies. Under this scenario, the amount of time the parent company and its nonbank subsidiaries can operate and meet all obligations before the current liquid assets are exhausted is considered the Time to Required Funding. ALCO approves the target range set for this metric, in months, and monitors adherence to the target. Maintaining excess parent company cash helps to facilitate the target range of 21 to 27 months for Time to Required Funding and is the primary driver of the timing and amount of the Corporation's debt issuances. As of June 30, 2008, Time to Required Funding was 22 months compared to 19 months at December 31, 2007.

One ratio that can be used to monitor the stability of funding composition is the loan to domestic deposit ratio. This ratio reflects the percent of loans and leases that are funded by domestic core deposits, a relatively stable funding source. A ratio below 100 percent indicates that our loan portfolio is completely funded by domestic core deposits. The ratio was 125 percent at June 30, 2008 compared to 127 percent at December 31, 2007.

The financial market disruptions that began in 2007 continued to impact the economy and financial services sector during the six months ended June 30, 2008. While market conditions have been challenging, we have taken direct actions to enhance our liquidity position during the first half of 2008 including the issuance of \$19.7 billion of preferred stock, \$6.0 billion of senior notes and \$1.0 billion of Eurodollar floating rate notes by the parent company. In addition, Bank of America N.A. issued \$6.0 billion of extendible bank notes and \$4.0 billion of senior bank notes. It remains unclear when the current market conditions will subside, however, the conservative management of our liquidity position enables us to meet our liquidity requirements and manage within our usual parameters.

Regulatory Capital

As a regulated financial services company, we are governed by certain regulatory capital requirements. To meet minimum, adequately-capitalized regulatory requirements, an institution must maintain a Tier 1 Capital ratio of four percent and a Total Capital ratio of eight percent. A well-capitalized institution must generally maintain capital ratios 200 bps higher than the minimum guidelines. The risk-based capital rules have been further supplemented by a leverage ratio, defined as Tier 1 Capital divided by adjusted quarterly average total assets, after certain adjustments. Well-capitalized bank holding companies must maintain a minimum Tier 1 leverage ratio of three percent. National banks must maintain a Tier 1 leverage ratio of at least five percent to be classified as well-capitalized.

At June 30, 2008 and December 31, 2007, the Corporation, Bank of America, N.A., FIA Card Services, N.A., and LaSalle Bank, N.A., were classified as well-capitalized for regulatory purposes, the highest classification. There have been no conditions or events since June 30, 2008 that have changed the Corporation's, Bank of America, N.A.'s, FIA Card Services, N.A.'s, and LaSalle Bank, N.A.'s capital classifications.

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Presented in Table 13 are the regulatory capital ratios, actual capital amounts and minimum required capital amounts for the Corporation, Bank of America, N.A., FIA Card Services, N.A., and LaSalle Bank, N.A. at June 30, 2008 and December 31, 2007.

Table 13
Regulatory Capital

| | June 30, 2008 | | | December 31, 2007 | | |
|------------------------------------|---------------|-------------------|---------------------------------|-------------------|---------------|---------------------------------|
| | Ratio | Actual Amount | Minimum Required ⁽¹⁾ | Ratio | Actual Amount | Minimum Required ⁽¹⁾ |
| (Dollars in millions) | | | | | | |
| Risk-based capital | | | | | | |
| Tier 1 | | | | | | |
| <i>Bank of America Corporation</i> | 8.25 % | \$ 101,541 | | | | |