BANK OF AMERICA CORP /DE/
Form 10-K
February 23, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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|---|---|
| [P] | ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934<br>For the fiscal year ended December 31, 2011 |

or

| | |
|---|---|
| [ ] | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |

For the transition period from to
Commission file number:
1-6523

Exact name of registrant as specified in its charter:
Bank of America Corporation

State or other jurisdiction of incorporation or organization:
Delaware
IRS Employer Identification No.:
56-0906609
Address of principal executive offices:
Bank of America Corporate Center
100 North Tryon Street
Charlotte, North Carolina 28255
Registrant's telephone number, including area code:
(704) 386-5681
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange<br>London Stock Exchange<br>Tokyo Stock Exchange |
| Depositary Shares, each Representing a 1/1,000th interest in a share of 6.204% Non-Cumulative Preferred Stock, Series D | New York Stock Exchange |
| Depositary Shares, each Representing a 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series E | New York Stock Exchange |
| Depositary Shares, each Representing a 1/1,000th Interest in a share of 8.20% Non-Cumulative Preferred Stock, Series H | New York Stock Exchange |

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|---|---|
| Depositary Shares, each Representing a 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series I | New York Stock Exchange |
| Depositary Shares, each Representing a 1/1,000th interest in a share of 7.25% Non-Cumulative Preferred Stock, Series J | New York Stock Exchange |
| 7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L | New York Stock Exchange |
| Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 1 | New York Stock Exchange |

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| Title of each class | Name of each exchange on which registered |
| --- | --- |
| Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 2 | New York Stock Exchange |
| Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation 6.375% Non-Cumulative Preferred Stock, Series 3 | New York Stock Exchange |
| Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 4 | New York Stock Exchange |
| Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 5 | New York Stock Exchange |
| Depositary Shares, each representing a 1/40th interest in a share of Bank of America Corporation 6.70% Non-cumulative Perpetual Preferred Stock, Series 6 | New York Stock Exchange |
| Depositary Shares, each representing a 1/40th interest in a share of Bank of America Corporation 6.25% Non-cumulative Perpetual Preferred Stock, Series 7 | New York Stock Exchange |
| Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation 8.625% Non-Cumulative Preferred Stock, Series 8 | New York Stock Exchange |
| 6.75% Trust Preferred Securities of Countrywide Capital IV (and the guarantees related thereto) | New York Stock Exchange |
| 7.00% Capital Securities of Countrywide Capital V (and the guarantees related thereto) | New York Stock Exchange |
| Capital Securities of BAC Capital Trust I (and the guarantee related thereto) | New York Stock Exchange |
| Capital Securities of BAC Capital Trust II (and the guarantee related thereto) | New York Stock Exchange |
| Capital Securities of BAC Capital Trust III (and the guarantee related thereto) | New York Stock Exchange |
| $5^{7/8}$% Capital Securities of BAC Capital Trust IV (and the guarantee related thereto) | New York Stock Exchange |
| 6% Capital Securities of BAC Capital Trust V (and the guarantee related thereto) | New York Stock Exchange |
| 6% Capital Securities of BAC Capital Trust VIII (and the guarantee related thereto) | New York Stock Exchange |
| $6^{1/4}$% Capital Securities of BAC Capital Trust X (and the guarantee related thereto) | New York Stock Exchange |
| $6^{7/8}$% Capital Securities of BAC Capital Trust XII (and the guarantee related thereto) | New York Stock Exchange |
| Floating Rate Preferred Hybrid Income Term Securities of BAC Capital Trust XIII (and the guarantee related thereto) | New York Stock Exchange |
| 5.63% Fixed to Floating Rate Preferred Hybrid Income Term Securities of BAC Capital Trust XIV (and the guarantee related thereto) | New York Stock Exchange |
| MBNA Capital A 8.278% Capital Securities, Series A (and the guarantee related thereto) | New York Stock Exchange |
| MBNA Capital B Floating Rate Capital Securities, Series B (and the guarantee related thereto) | New York Stock Exchange |
| MBNA Capital D 8.125% Trust Preferred Securities, Series D (and the guarantee related thereto) | New York Stock Exchange |
| MBNA Capital E 6.10% Trust Originated Preferred Securities, Series E (and the guarantee related thereto) | New York Stock Exchange |
| Preferred Securities of Fleet Capital Trust VIII (and the guarantee related thereto) | |

| | |
|---|---|
| | New York Stock Exchange |
| Preferred Securities of Fleet Capital Trust IX (and the guarantee related thereto) | New York Stock Exchange |
| $6^{1/2}$% Subordinated InterNotes℠, due 2032 | New York Stock Exchange |
| $5^{1/2}$% Subordinated InterNotes℠, due 2033 | New York Stock Exchange |
| $5^{7/8}$% Subordinated InterNotes℠, due 2033 | New York Stock Exchange |
| 6% Subordinated InterNotes℠, due 2034 | New York Stock Exchange |
| Market-Linked Step Up Notes Linked to the S&P 500® Index, due November 26, 2012 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠ due December 2, 2014 | NYSE Arca, Inc. |
| Market-Linked Step Up Notes Linked to the S&P 500® Index, due December 23, 2011 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the S&P 500® Index, due September 27, 2013 | NYSE Arca, Inc. |
| Leveraged Index Return Notes® Linked to the S&P 500® Index, due July 27, 2012 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the S&P 500® Index, due July 26, 2013 | NYSE Arca, Inc. |
| Leveraged Index Return Notes® Linked to the S&P 500® Index, due June 29, 2012 | NYSE Arca, Inc. |
| Leveraged Index Return Notes® Linked to the S&P 500® Index, due June 1, 2012 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠, due May 31, 2013 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the S&P 500® Index, due April 25, 2014 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the S&P 500® Index, due March 28, 2014 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the S&P 500® Index, due February 28, 2014 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠, due January 30, 2015 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the S&P 500® Index, due February 27, 2015 | NYSE Arca, Inc. |

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| Title of each class | Name of each exchange on which registered |
|---|---|
| Capped Leveraged Return Notes® Linked to the S&P 500® Index, due February 24, 2012 | NYSE Arca, Inc. |
| Market-Linked Step Up Notes Linked to the S&P 500® Index, due February 25, 2013 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average$^{SM}$, due March 27, 2015 | NYSE Arca, Inc. |
| Capped Leveraged Index Return Notes® Linked to the S&P 500® Index, due March 30, 2012 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average$^{SM}$, due April 24, 2015 | NYSE Arca, Inc. |
| Capped Leveraged Index Return Notes® Linked to the S&P 500® Index, due April 27, 2012 | NYSE Arca, Inc. |
| Capped Leveraged Index Return Notes® Linked to the S&P 500® Index, due May 25, 2012 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average$^{SM}$, due May 29, 2015 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average$^{SM}$, due June 26, 2015 | NYSE Arca, Inc. |
| Capped Leveraged Index Return Notes® Linked to the S&P 500® Index, due June 29, 2012 | NYSE Arca, Inc. |
| Capped Leveraged Index Return Notes® Linked to the S&P 500® Index, due July 27, 2012 | NYSE Arca, Inc. |
| Market Index Target-Term Securities® Linked to the S&P 500® Index, due July 31, 2015 | NYSE Arca, Inc. |
| Capped Leveraged Index Return Notes® Linked to the S&P 500® Index, due August 31, 2012 | NYSE Arca, Inc. |

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes ü  No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No ü
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes ü  No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes ü  No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer P | 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 Rule 12b-2 of the Act). Yes No ü

The aggregate market value of the registrant's common stock ("Common Stock") held on June 30, 2011 by non-affiliates was approximately $111,017,740,050 (based on the June 30, 2011 closing price of Common Stock of $10.96 per share as reported on the New York Stock Exchange). As of February 17, 2012, there were 10,732,388,501 shares of Common Stock outstanding.

Documents Incorporated by reference: Portions of the definitive proxy statement relating to the registrant's annual meeting of stockholders scheduled to be held on May 9, 2012 are incorporated by reference in this Form 10-K in response to items 10, 11, 12, 13 and 14 of Part III.

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Bank of America Corporation and Subsidiaries

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Part I

Bank of America Corporation and Subsidiaries

Item 1. Business

General

Bank of America Corporation (together, with its consolidated subsidiaries, Bank of America, the Corporation, we or us) is a Delaware corporation, a bank holding company and a financial holding company. When used in this report, "the Corporation" may refer to the Corporation individually, the Corporation and its subsidiaries, or certain of the Corporation's subsidiaries or affiliates.

Bank of America is one of the world's largest financial institutions, serving individual consumers, small- and middle-market businesses, institutional investors, large corporations and governments with a full range of banking, investing, asset management and other financial and risk management products and services. Our principal executive offices are located in the Bank of America Corporate Center, 100 North Tryon Street, Charlotte, North Carolina 28255.

Bank of America's website is www.bankofamerica.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website at http://investor.bankofamerica.com under the heading U.S. Securities and Exchange Commission (SEC) Filings as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC. In addition, we make available on http://investor.bankofamerica.com under the heading Corporate Governance: (i) our Code of Ethics (including our insider trading policy); (ii) our Corporate Governance Guidelines; and (iii) the charter of each committee of our Board of Directors (the Board) (accessible by clicking on the committee names under the Committee Composition link), and we also intend to disclose any amendments to our Code of Ethics, or waivers of our Code of Ethics on behalf of our Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, on our website. All of these corporate governance materials are also available free of charge in print to stockholders who request them in writing to: Bank of America Corporation, Attention: Shareholder Relations, Hearst Tower, 214 North Tryon Street, NC1-027-20-05, Charlotte, North Carolina 28202.

Segments

Through our banking and various nonbanking subsidiaries throughout the United States and in international markets, we provide a diversified range of banking and nonbanking financial services and products through six business segments: Deposits, Card Services, Consumer Real Estate Services (CRES), Global Commercial Banking, Global Banking & Markets (GBAM) and Global Wealth & Investment Management (GWIM), with the remaining operations recorded in All Other. Additional information related to our business segments and the products and services they provide is included in the information set forth on pages 39 through 55 of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and Note 26 – Business Segment Information to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data (Consolidated Financial Statements).

Competition

We operate in a highly competitive environment. Our competitors include banks, thrifts, credit unions, investment banking firms, investment advisory firms, brokerage firms, investment companies, insurance companies, mortgage banking companies, credit card issuers, mutual fund companies and e-commerce and other internet-based companies. We compete with some of these competitors globally and with others on a regional or product basis.

Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates on loans and deposits, lending limits and customer convenience. Our ability to continue to compete effectively also depends in large part on our ability to attract new employees and retain and motivate our existing employees, while managing compensation and other costs.

Employees

As of December 31, 2011, we had approximately 282,000 full-time equivalent employees. None of our domestic employees is subject to a collective bargaining agreement. Management considers our employee relations to be good.

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Government Supervision and Regulation

The following discussion describes, among other things, elements of an extensive regulatory framework applicable to bank holding companies, financial holding companies and banks, including specific information about Bank of America. U.S. federal regulation of banks, bank holding companies and financial holding companies is intended primarily for the protection of depositors and the Deposit Insurance Fund (DIF) rather than for the protection of stockholders and creditors. For additional information about recent regulatory programs, initiatives and legislation that impact us, see Regulatory Matters in the MD&A on page 66.

General

We are subject to an extensive regulatory framework applicable to bank holding companies, financial holding companies and banks.

As a registered financial holding company and bank holding company, Bank of America Corporation is subject to the supervision of, and regular inspection by, the Board of Governors of the Federal Reserve System (Federal Reserve). Our banking subsidiaries (the Banks) organized as national banking associations are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve. The Bureau of Consumer Financial Protection (CFPB) regulates consumer financial products and services.

U.S. financial holding companies, and the companies under their control, are permitted to engage in activities considered "financial in nature" as defined by the Gramm-Leach-Bliley Act and related Federal Reserve interpretations. Unless otherwise limited by the Federal Reserve, a financial holding company may engage directly or indirectly in activities considered financial in nature provided the financial holding company gives the Federal Reserve after-the-fact notice of the new activities. The Gramm-Leach-Bliley Act also permits national banks to engage in activities considered financial in nature through a financial subsidiary, subject to certain conditions and limitations and with the approval of the OCC. If the Federal Reserve finds that any of the Banks is not "well-capitalized" or "well-managed," we would be required to enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements, which may contain additional limitations or conditions relating to our activities.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies to acquire banks located in states other than their home state without regard to state law, subject to certain conditions, including the condition that the bank holding company, after and as a result of the acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act) restricts acquisitions by financial companies if, as a result of the acquisition, the total liabilities of the financial company would exceed 10 percent of the total liabilities of all financial companies. At December 31, 2011, we held approximately 12 percent of the total amount of deposits of insured depository institutions in the U.S.

We are also subject to various other laws and regulations, as well as supervision and examination by other regulatory agencies, all of which directly or indirectly affect our operations and

management and our ability to make distributions to stockholders. Our U.S. broker/dealer subsidiaries are subject to regulation by and supervision of the SEC, New York Stock Exchange and Financial Industry Regulatory Authority; our commodities businesses in the U.S. are subject to regulation by and supervision of the U.S. Commodities Futures Trading Commission (CFTC); and our insurance activities are subject to licensing and regulation by state insurance regulatory agencies.

Our non-U.S. businesses are also subject to extensive regulation by various non-U.S. regulators, including governments, securities exchanges, central banks and other regulatory bodies, in the jurisdictions in which those businesses operate. Our financial services operations in the U.K. are subject to regulation by and supervision of the Financial Services Authority (FSA). In July of 2010, the U.K. proposed abolishing the FSA and replacing it with the Financial Policy Committee within the Bank of England (FPC) and two new regulators, the Prudential Regulatory Authority and the Consumer Protection and Markets Authority (CPMA). Our U.K. regulated entities will be subject to the supervision of the FPC and the PRA for prudential matters and the CPMA for conduct of business matters. The new financial regulatory structure is intended to be in place by the end of 2012. We continue to monitor the development and potential impact of this regulatory restructuring.

Financial Reform Act

On July 21, 2010, the Financial Reform Act was signed into law. As a result of the Financial Reform Act, several significant regulatory developments occurred in 2011, and additional regulatory developments may occur in 2012 and beyond. The Financial Reform Act has had, and will continue to have, a significant and negative impact on our earnings through fee reductions, higher costs and new restrictions. For a description of significant developments see Regulatory Matters in the MD&A on page 66.

Capital and Operational Requirements

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identifies five capital categories for insured depository institutions (“well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized”) and requires the respective federal regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital-raising requirements. An “undercapitalized” bank must develop a capital restoration plan and its parent holding company must guarantee that bank’s compliance with the plan.

As a financial services holding company, we are subject to the risk-based capital guidelines issued by the Federal Reserve (Basel I) and risk-based capital guidelines issued by other U.S. banking regulators. Under these guidelines, we measure capital adequacy based on Tier 1 capital, Tier 2 capital and Total capital (Tier 1 plus Tier 2 capital). Capital ratios are calculated by dividing each capital amount by risk-weighted assets. Under Basel I, the minimum Tier 1 capital ratio is four percent and the minimum total capital ratio is eight percent. A “well-capitalized” institution must generally

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maintain capital ratios an additional two percentage points higher than these minimum guidelines.

While not an explicit requirement of law or regulation, bank regulatory agencies have stated that they expect common equity to be the primary component of a financial holding company's Tier 1 capital and that financial holding companies should maintain a Tier 1 common capital ratio of at least four percent.

The Tier 1 leverage ratio is determined by dividing Tier 1 capital by adjusted quarterly average total assets, after certain adjustments. "Well-capitalized" bank holding companies must have a minimum Tier 1 leverage ratio of four percent and not be subject to a Federal Reserve directive to maintain higher capital levels. "Well-capitalized" national banks must maintain a Tier 1 leverage ratio of at least five percent and not be subject to a Federal Reserve directive to maintain higher capital levels. We are currently classified as "well-capitalized" under Basel I.

The Basel II Final Rule (Basel II) was published in December 2007 and established requirements for U.S. implementation of Basel II and provided detailed requirements for a new regulatory capital framework. This regulatory capital framework includes requirements related to credit and operational risk (Pillar 1), supervisory requirements (Pillar 2) and disclosure requirements (Pillar 3). We are currently in the Basel II parallel period.

On December 16, 2010, the Basel Committee on Banking Supervision (Basel Committee) issued "Basel III: A global regulatory framework for more resilient banks and banking systems" (Basel III), proposing a January 2013 implementation date for Basel III. If implemented by U.S. banking regulators as proposed, Basel III could significantly increase our capital requirements. Basel III and the Financial Reform Act propose the disqualification of qualifying trust preferred securities from Tier 1 capital, with the Financial Reform Act proposing that the disqualification be phased in from 2013 through 2015. Basel III also proposes the deduction of certain assets from capital (including deferred tax assets, mortgage servicing rights (MSRs), investments in financial firms and pension assets, among others, within prescribed limitations), the inclusion of accumulated other comprehensive income (OCI) in capital, increased capital requirements for counterparty credit risk, and new minimum capital and buffer requirements. The phase-in period for the capital deductions is proposed to occur in 20 percent increments from 2014 through 2018 with full implementation by December 31, 2018. An increase in capital requirements for counterparty credit is proposed to be effective January 2013. The phase-in period for the new minimum capital requirements and related buffers is proposed to occur between 2013 and 2019. U.S. banking regulators have not yet issued proposed regulations that will implement these requirements.

On December 29, 2011, U.S. regulators issued a notice of proposed rulemaking (NPR) that would amend a December 2010 NPR on the Market Risk Rules. This amended NPR is expected to increase the capital requirements for our trading assets and liabilities. We continue to evaluate the capital impact of the proposed rules and currently anticipate that we will be in compliance with any final rules by the projected implementation date in late 2012.

On June 17, 2011, U.S. banking regulators proposed rules requiring all large bank holding companies (BHCs) to submit a comprehensive capital plan to the Federal Reserve as part of an annual Comprehensive Capital Analysis and Review (CCAR). The proposed regulations require BHCs to demonstrate adequate capital to support planned capital actions, such as dividends,

share repurchases or other forms of distributing capital. CCAR submissions are subject to approval by the Federal Reserve. The Federal Reserve may require BHCs to provide prior notice under certain circumstances before making a capital distribution.

On July 19, 2011, the Basel Committee published the consultative document "Globally systemic important banks: Assessment methodology and the additional loss absorbency requirement" which sets out measures for global, systemically important financial institutions including the methodology for measuring systemic importance, the additional capital required (the SIFI buffer), and the arrangements by which they will be phased in. As proposed, the SIFI buffer would be met with additional Tier 1 common equity ranging from one percent to 2.5 percent, and in certain circumstances, 3.5 percent. This will be phased in from 2016 through 2018. U.S. banking regulators have not yet provided similar rules for U.S. implementation of a SIFI buffer.

In addition to the capital proposals, in December 2010 the Basel Committee proposed two measures of liquidity risk. The Liquidity Coverage Ratio (LCR) identifies the amount of unencumbered, high-quality liquid assets a financial institution holds that can be used to offset the net cash outflows the institution would encounter under an acute 30-day stress scenario. The Net Stable Funding Ratio (NSFR) measures the amount of longer-term, stable sources of funding employed by a financial institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liability arising from off-balance sheet commitments and obligations, over a one-year period. These two minimum liquidity measures are also considered part of Basel III.

Given that the U.S. regulatory agencies have issued neither proposed rulemaking nor supervisory guidance on Basel III, significant uncertainty exists regarding the ultimate impacts of Basel III on U.S. financial institutions, including us.

For additional information about our calculation of regulatory capital and capital composition, see Capital Management – Regulatory Capital in the MD&A on page 72, and Note 18 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements. For more information about regulatory capital changes, see Capital Management – Regulatory Capital Changes in the MD&A on page 73.

Distributions

We are subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine, under certain circumstances relating to the financial condition of a bank or bank holding company, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. For instance, under proposed rules we are required to submit to the Federal Reserve a capital plan as part of an annual CCAR (the Capital Plan). Supervisory review of the CCAR has a stated purpose of assessing the capital planning process of major U.S. bank holding companies, including any planned capital actions such as the payment of dividends on common stock. For additional information regarding the restrictions on our ability to receive dividends or other distributions from the Banks, see Item 1A. Risk Factors.

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

For additional information regarding the requirements relating to the payment of dividends, including the minimum capital requirements, see Note 15 – Shareholders' Equity and Note 18 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements.

Source of Strength

According to the Financial Reform Act and Federal Reserve policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. Similarly, under the cross-guarantee provisions of the FDICIA, in the event of a loss suffered or anticipated by the FDIC - either as a result of default of a banking subsidiary or related to FDIC assistance provided to such a subsidiary in danger of default - the affiliate banks of such a subsidiary may be assessed for the FDIC's loss, subject to certain exceptions. For additional information about our calculation of regulatory capital and capital composition, and proposed capital rules, see Capital Management – Regulatory Capital in the MD&A on page 72, and Note 18 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements.

Deposit Insurance

Deposits placed at U.S. domiciled Banks (U.S. Banks) are insured by the FDIC, subject to limits and conditions of applicable law and the FDIC's regulations. Pursuant to the Financial Reform Act, FDIC insurance coverage limits were permanently increased to $250,000 per customer. The Financial Reform Act also provides for unlimited FDIC insurance coverage for noninterest-bearing demand deposit accounts for a two-year period beginning on December 31, 2010 and ending on January 1, 2013. All insured depository institutions are required to pay assessments to the FDIC in order to fund the DIF.

The FDIC is required to maintain at least a designated minimum ratio of the DIF to insured deposits in the U.S. The Financial Reform Act requires the FDIC to assess insured depository institutions to achieve a DIF ratio of at least 1.35 percent by September 30, 2020. The FDIC has adopted new regulations that establish a long-term target DIF ratio of greater than two percent. The DIF ratio is currently below the required targets and the FDIC has adopted a restoration plan that will result in substantially higher deposit insurance assessments for all depository institutions over the coming years. Deposit insurance assessment rates are subject to change by the FDIC and will be impacted by the overall economy and the stability of the banking industry as a whole. For additional information regarding deposit insurance, see Item 1A. Risk Factors – Regulatory and Legal Risk on page 14 and Regulatory Matters – Financial Reform Act and Regulatory Matters – FDIC Deposit Insurance Assessments in the MD&A on pages 66 and 67.

Transactions with Affiliates

U.S. Banks are subject to restrictions under federal law that limit certain types of transactions between the Banks and their non-bank affiliates. In general, U.S. Banks are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving Bank of America and its non-bank affiliates. Transactions between the U.S. Banks and their

non-bank affiliates are required to be on arm's length terms. For additional information regarding transactions with affiliates, see Regulatory Matters – Transactions with Affiliates in the MD&A on page 68.

Privacy and Information Security

We are subject to many U.S. federal, state and international laws and regulations governing requirements for maintaining policies and procedures to protect the non-public confidential information of our customers. The Gramm-Leach-Bliley Act requires the Banks to periodically disclose Bank of America's privacy policies and practices relating to sharing such information and enables retail customers to opt out of our ability to market to affiliates and non-affiliates under certain circumstances. The Gramm-Leach-Bliley Act also requires the Banks to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures for the protection of personal and confidential information are in effect across all businesses and geographic locations.

Item 1A. Risk Factors

In the course of conducting our business operations, we are exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to our own businesses. The following discussion addresses the most significant factors that could affect our businesses, operations and financial condition. Additional factors that could affect our financial condition and operations are discussed in Forward-looking Statements in the MD&A on page 25. However, other factors could also adversely affect our businesses, operations and financial condition. Therefore, the risk factors below should not be considered a complete list of potential risks that we may face.

General Economic and Market Conditions Risk

Our businesses and results of operations have been, and may continue to be, materially and adversely affected by the U.S. and international financial markets and economic conditions generally.

Our businesses and results of operations are materially affected by the financial markets and general economic conditions in the U.S. and abroad, including factors such as the level and volatility of short-term and long-term interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of capital and credit, investor sentiment and confidence in the financial markets, European sovereign debt risks and the strength of the U.S. economy and the non-U.S. economies in which we operate. The deterioration of any of these conditions can adversely affect our consumer and commercial businesses and securities portfolios, our level of charge-offs and provision for credit losses, the carrying value of our deferred tax assets, our capital levels and liquidity, and our results of operations.

Although the U.S. economy continued its modest recovery in 2011, elevated unemployment, under-employment and household debt, along with continued stress in the consumer real estate market and certain commercial real estate markets, pose

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challenges for domestic economic performance and the financial services industry. The sustained high unemployment rate and the lengthy duration of unemployment have directly impaired consumer finances and pose risks to the financial services industry. The housing market remains weak and elevated levels of distressed and delinquent mortgages pose further risks to the housing market. In addition, the public perception of certain financial services firms and practices appeared to decline during 2011. The current environment of heightened scrutiny of financial institutions has resulted in increased public awareness of and sensitivity to banking fees and practices. Mortgage and housing market-related risks may be accentuated by attempts to forestall foreclosure proceedings, as well as state and federal investigations into foreclosure practices by mortgage servicers. Each of these factors may adversely affect our fees and costs.

For additional information about economic conditions and challenges discussed above, see Executive Summary – 2011 Economic and Business Environment in the MD&A on page 27.

Mortgage and Housing Market-Related Risk

We have been, and expect to continue to be, required to repurchase mortgage loans and/or reimburse government-sponsored enterprises, Fannie Mae (FNMA) and Freddie Mac (collectively, the GSEs) and monolines for losses due to claims related to representations and warranties made in connection with sales of residential mortgage-backed securities (RMBS) and mortgage loans, and have received similar claims, and may receive additional claims, from whole-loan purchasers, private-label securitization investors and private-label securitization trustees, monolines and others. The ultimate resolution of these exposures could have a material adverse effect on our cash flows, financial condition and results of operations.

In connection with residential mortgage loans sold to GSEs and first-lien residential mortgage and home equity loans sold to investors other than GSEs, we or our subsidiaries or legacy companies make or have made various representations and warranties. Breaches of these representations and warranties may result in a requirement that we repurchase mortgage loans, or indemnify or provide other remedies to counterparties (collectively, repurchases). The Corporation and legacy Countrywide sold approximately $1.1 trillion of loans originated from 2004 through 2008 to the GSEs. In addition, legacy companies and certain subsidiaries sold loans originated from 2004 through 2008 with an original principal balance of $963 billion to investors other than GSEs.

The amount of our total unresolved repurchase claims from all sources totaled approximately $14.3 billion at December 31, 2011. The total amount of our recorded liability related to representations and warranties repurchase exposure was $15.9 billion at December 31, 2011.

Our estimated liability at December 31, 2011 for obligations under representations and warranties with respect to GSE exposures is necessarily dependent on, and limited by, our historical claims experience with the GSEs. It includes our understanding of our agreements with the GSEs and projections of future defaults, as well as certain other assumptions and judgmental factors. The GSEs' repurchase requests, standards for rescission of repurchase requests and resolution processes have become increasingly inconsistent with the GSEs' own past conduct and our interpretation of our contractual obligations. These developments have resulted in an increase in claims outstanding from the GSEs. We are not able to predict changes in the behavior of the GSEs based on our past experiences. Therefore, it is not possible to reasonably estimate a possible loss or range of possible loss with respect to any such potential impact in excess of current accrued liabilities.

Beginning in February 2012, we are no longer delivering purchase money and non-Making Home Affordable Program (MHA) refinance first-lien residential mortgage products into FNMA mortgage-backed securities (MBS) pools because of the expiration and mutual non-renewal of certain contractual delivery commitments and variances that permit efficient delivery of such loans to FNMA. While we continue to have a valid agreement with FNMA permitting the delivery of purchase money and non-MHA refinance first-lien residential mortgage products without such contractual delivery commitments and variances, the delivery of such products without such contractual variances would involve time and expense to implement the necessary operational and systems changes and otherwise present practical operational issues. The non-renewal of these contractual delivery commitments and variances was influenced, in part, by our ongoing differences with FNMA in other contexts, including repurchase claims. We continue to deliver MHA refinancing products into FNMA MBS pools, and continue to engage in dialogue to attempt to address these differences.

While we are seeking to resolve our differences with the GSEs concerning each party's interpretation of the requirements of the governing contracts, whether we will be able to achieve a resolution of these differences on acceptable terms and timing thereof, is subject to significant uncertainty.

In addition to repurchase claims, we receive notices from mortgage insurance (MI) companies of claim denials, cancellations, or coverage rescission (collectively, MI rescission notices) and the amount of such notices have remained elevated. As of December 31, 2011, 74 percent of the MI rescission notices received had not been resolved. On June 30, 2011, FNMA issued an announcement requiring servicers to report, effective October 1, 2011, all MI rescission notices with respect to loans sold to FNMA. The announcement also confirmed FNMA's view of its position that a mortgage insurance company's issuance of a MI rescission notice constitutes a breach of the lender's representations and warranties and permits FNMA to require the lender to repurchase the mortgage loan or promptly remit a make-whole payment covering FNMA's loss even if the lender is contesting the mortgage insurer's rescission. We have informed FNMA that we do not believe that the new policy is valid under our relevant contracts with FNMA and that we do not intend to repurchase loans under the terms set forth in the new policy. If we are required to abide by the terms of the new FNMA policy, our representations and warranties liability will likely increase.

Our estimated liability and range of possible loss with respect to non-GSE exposures is necessarily dependent on, and limited by, our historical claims and settlement experience with non-GSE counterparties and may materially change in the future based on factors beyond our control. Future provisions and/or estimated ranges of possible loss for non-GSE representations and warranties may be significantly impacted if actual experiences are different from our assumptions in our predictive models, including, without limitation, those regarding ultimate resolution of the Bank of New York Mellon settlement (BNY Mellon Settlement), estimated repurchase rates, economic conditions, estimated home prices, consumer and counterparty behavior, and a variety of other judgmental factors. In addition, we have not recorded any representations and warranties liability for certain potential monoline exposures and certain potential whole-loan and other private-label securitization exposures. We currently estimate that the range of possible loss related to non-GSE representations and warranties exposure as of December 31, 2011 could be up to $5.0 billion over existing accruals. Reserves for certain potential monoline exposure are considered in our litigation reserves. This estimated range of possible loss for non-GSE representations and warranties does not represent a probable loss, is based on currently available information, significant judgment and a number of assumptions that are subject to change, including the assumption that the conditions to the BNY Mellon Settlement are satisfied. Adverse developments with respect to one or more of the assumptions underlying the liability for non-GSE representations and warranties and the corresponding estimated range of possible loss could result in significant increases to future provisions and our estimated range of possible loss.

If future representations and warranties losses occur in excess of our recorded liability for GSE exposures and in excess of our recorded liability and estimated range of possible loss for non-GSE exposures, including as a result of the factors set forth above, such losses could have a material adverse effect on our cash flows, financial condition and results of operations. The liability for obligations under representations and warranties with respect to GSE and non-GSE exposures and the corresponding estimated range of possible loss related to non-GSE representations and warranties exposures do not include any losses related to litigation matters disclosed in Note 14 – Commitments and Contingencies to the Consolidated Financial Statements, nor do they include any separate foreclosure costs and related costs, assessments and compensatory fees or any possible losses related to potential claims for breaches of performance of servicing obligations (except as such losses are included as potential costs of the BNY Mellon settlement), potential securities law or fraud claims or potential indemnity or other claims against us, including claims related to loans guaranteed by the Federal Housing Administration (FHA). We are not able to reasonably estimate the amount of any possible loss with respect to any such servicing, securities law (except to the extent reflected in the aggregate range of possible loss for litigation and regulatory matters disclosed in Note 14 – Commitments and Contingencies to the Consolidated Financial Statements), fraud or other claims against us; however, such loss could have a material adverse effect on our cash flows, financial condition and results of operations.

For additional information about our representations and warranties exposure, see Off-Balance Sheet Arrangements and Contractual Obligations – Representations and Warranties in the MD&A on page 56, Consumer Portfolio Credit Risk Management in the MD&A on page 81 and Note 9 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements.

If final court approval is not obtained with respect to the BNY Mellon Settlement to resolve nearly all of the legacy Countrywide-issued first-lien non-GSE RMBS repurchase exposures of the 2004-2008 vintages, or if the Corporation and legacy Countrywide determine to withdraw from the BNY Mellon Settlement in accordance with its terms, the Corporation’s future representations and warranties losses could be substantially higher than existing accruals and the estimated range of possible loss over existing accruals, and consequently could have a material adverse effect on our cash flows, financial condition and results of operations.

The BNY Mellon Settlement is subject to final court approval and certain other conditions. It is not currently possible to predict the timing or ultimate outcome of the court approval process, which can include appeals and could take a substantial period of time. There can be no assurance that final court approval of the settlement will be obtained, that all conditions will be satisfied (including the receipt of private letter rulings from the IRS and other tax rulings and opinions) or that, if certain conditions in the BNY Mellon Settlement permitting withdrawal are met, the Corporation and legacy Countrywide will not determine to withdraw from the BNY Mellon Settlement agreement.

If final court approval is not obtained with respect to the BNY Mellon Settlement or if the Corporation and legacy Countrywide determine to withdraw from the BNY Mellon Settlement agreement in accordance with its terms, the Corporation’s future representations and warranties losses with respect to non-GSEs could substantially exceed our non-GSE reserve, together with estimated reasonably possible loss related to non-GSE representations and warranties exposure of up to $5.0 billion over existing accruals at December 31, 2011. Developments with respect to one or more of the assumptions underlying the estimated range of possible loss for non-GSE representations and warranties (including the timing and ultimate outcome of the court approval process relating to the BNY Mellon Settlement)

could result in significant increases in our non-GSE reserve and/or to this estimated range of possible loss, and such increases could have a material adverse effect on our cash flows, financial condition and results of operations. For additional information regarding the BNY Mellon Settlement, see Off-Balance Sheet Arrangements and Contractual Obligations – Representations and Warranties in the MD&A on page 56.
Further weakness in the U.S. housing market, including home prices, may adversely affect our consumer portfolios and have a significant adverse effect on our financial condition and results of operations.
Economic weakness in 2011 was accompanied by continued stress in the U.S. housing market, including declines in home prices. These declines in the housing market, with falling home prices and elevated foreclosures, have negatively impacted the demand for many of our products and the credit performance of our consumer mortgage portfolios. Additionally, our mortgage loan production volume is generally influenced by the rate of growth in residential mortgage debt outstanding and the size of the residential mortgage market, which has declined due to reduced activity in the housing market. Continued high unemployment rates in the U.S. have challenged U.S. consumers and further compounded these stresses in the U.S. housing market as employment conditions may be compelling some consumers to delay new home purchases or miss payments on existing mortgages.
Conditions in the U.S. housing market have also resulted in significant write-downs of asset values in several asset classes, notably MBS and exposure to monolines. These conditions may negatively affect the value of real estate which could negatively affect our exposure to representations and warranties. While there were continued indications throughout the past year that the U.S. economy is stabilizing, the performance of our overall consumer portfolios may not significantly improve in the near future. A protracted continuation or worsening of these difficult housing market conditions may exacerbate the adverse effects outlined above and have a significant adverse effect on our financial condition and results of operations.

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We temporarily suspended our foreclosure sales nationally in 2010 to conduct an assessment of our foreclosure processes. Subsequently, numerous state and federal investigations of foreclosure processes across our industry have been initiated. Those investigations and any irregularities that might be found in our foreclosure processes, along with any remedial steps taken in response to governmental investigations or to our own internal assessment, could have a material adverse effect on our financial condition and results of operations.
We have resumed foreclosure sales in nearly all states where foreclosure does not require a court order (non-judicial states). While we have resumed foreclosure proceedings in nearly all states where a court order is required (judicial states), our progress on foreclosure sales in judicial states has been much slower than in non-judicial states. The pace of foreclosure sales in judicial states increased significantly by the fourth quarter of 2011. However, there continues to be a backlog of foreclosure inventory in judicial states.
The implementation of changes in procedures and controls, including loss mitigation procedures related to our ability to recover on FHA insurance-related claims, and governmental, regulatory and judicial actions, may result in continuing delays in foreclosure proceedings and foreclosure sales and create obstacles to the collection of certain fees and expenses, in both judicial and non-judicial foreclosures.
We entered into a consent order with the Federal Reserve and Bank of America, N.A. (BANA) entered into a consent order with the OCC on April 13, 2011. The OCC consent order required that we retain an independent consultant, approved by the OCC, to conduct a review of all foreclosure actions pending, or foreclosure sales that occurred, between January 1, 2009 and December 31, 2010, and submit a plan to the OCC to remediate all financial injury to borrowers caused by any deficiencies identified through the review. The review is comprised of two parts: a sample file review conducted by the independent consultant, which began in October 2011, and file reviews by the independent consultant based upon requests for review from customers with in-scope foreclosures. We began outreach to those customers in November 2011 and additional outreach efforts are underway. Because the review process is available to a large number of potentially eligible borrowers and involves an examination of many details and documents, each review could take several months to complete. We cannot yet determine how many borrowers will ultimately request a review, how many borrowers will meet the eligibility requirements or how much in compensation might ultimately be paid to eligible borrowers.
We continue to be subject to additional borrower and non-borrower litigation and governmental and regulatory scrutiny related to our past and current servicing and foreclosure activities, including those claims not covered by the Servicing Resolution Agreements, defined below. This scrutiny may extend beyond our pending foreclosure matters to issues arising out of alleged irregularities with respect to previously completed foreclosure activities. The current environment of heightened regulatory scrutiny has the potential to subject us to inquiries or investigations that could significantly adversely affect our reputation. Such investigations by state and federal authorities, as well as any other governmental or regulatory scrutiny of our foreclosure processes, could result in material fines, penalties, equitable remedies, additional default servicing requirements and process changes, or other enforcement actions, and could result in significant legal costs in responding to governmental investigations and additional litigation and, accordingly, could have a material adverse effect on our financial condition and results of operation.
We expect that mortgage-related assessments and waivers costs, including compensatory fees assessed by the GSEs and other costs associated with foreclosures will remain elevated as additional loans are delayed in the foreclosure process. This will likely result in continued higher noninterest expense, including higher default servicing costs and legal expenses in CRES. In addition, required process changes, including those required under the consent orders with federal bank regulators, are likely to result in further increases in our default servicing costs over the longer term. Delays in foreclosure sales may result in additional costs associated with the maintenance of properties or possible home price declines, result in a greater number of nonperforming loans and increased servicing advances and may adversely impact the collectability of such advances and the value of our MSR asset, MBS and real estate owned properties. With respect to GSE MBS, the valuation of certain MBS could be negatively affected under certain scenarios due to changes in the timing of cash flows. With respect to non-GSE MBS, under certain scenarios the timing and amount of cash flows could be negatively affected. For additional information regarding the temporary

suspension of our foreclosure sales, see Off-Balance Sheet Arrangements and Contractual Obligations – Other Mortgage-related Matters in the MD&A on page 63.

We reached an agreement in principle (AIP) with the U.S. Department of Justice (DOJ), various federal agencies and 49 state attorneys general, to resolve various investigations into our foreclosure, servicing and certain mortgage origination practices. We also reached an agreement in principle with the FHA to resolve certain claims relating to the origination of FHA-insured mortgage loans and agreements in principle with the Federal Reserve and OCC regarding civil monetary penalties. These agreements are subject to ongoing discussions among the parties and the completion and execution of definitive documentation, as well as required regulatory and court approvals. Failure to finalize the documentation or to obtain the required approvals with respect to these agreements in principle, and failure to meet certain borrower assistance and refinancing assistance commitment goals in the agreements in principle which would trigger additional monetary payments and exposure to claims not covered by the agreements in principle, could have a material adverse effect on our financial condition or results of operations.

On February 9, 2012, we reached agreements in principle (collectively, the Servicing Resolution Agreements) with (1) the DOJ, various federal regulatory agencies and 49 attorneys general to resolve federal and state investigations into certain origination, servicing and foreclosure practices (the Global AIP), (2) the FHA to resolve certain claims relating to the origination of FHA-insured mortgage loans, primarily by Countrywide prior to and for a period following our acquisition of that lender (the FHA AIP) and (3) each of the Federal Reserve and the OCC regarding civil monetary penalties related to conduct that was the subject of consent orders entered into with the banking regulators in April 2011 (the Consent Order AIPs).

The Servicing Resolution Agreements are subject to ongoing discussions among the parties and completion and execution of definitive documentation, as well as required regulatory and court approvals. The Global AIP is subject to, among other things, Federal court approval in the United States District Court in the District of Columbia and regulatory approvals of the United States

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Department of the Treasury and other federal agencies. The Consent Order AIPs are subject to, among other things, the finalization of the Global AIP. There can be no assurance as to when or whether binding settlement agreements will be reached, that they will be on terms consistent with the agreements in principle, or as to when or whether the necessary approvals will be obtained and the settlements will be finalized.

The Global AIP calls for the establishment of certain uniform servicing standards, upfront cash payments of approximately $1.9 billion to the state and federal governments and for borrower restitution, approximately $7.6 billion in borrower assistance in the form of, among other things, principal reduction, short sales and deeds-in-lieu of foreclosure, and approximately $1.0 billion in refinancing assistance. We could be required to make additional payments if we fail to meet our borrower assistance and refinancing assistance commitments over a three-year period. In addition, we could be required to pay an additional $350 million if we fail to meet certain first-lien principal reduction thresholds over a three-year period. We also entered into agreements with several states under which we committed to perform certain minimum levels of principal reduction and related activities within those states as part of the Global AIP, and under which we could be required to make additional payments if we fail to meet such minimum levels. We expect to recognize the refinancing assistance as lower interest income in future periods as qualified borrowers pay reduced interest rates on loans refinanced. We may also incur additional operating costs (e.g., servicing costs) to implement certain terms of the Global AIP in future periods.

The FHA AIP provides for an upfront cash payment by us of $500 million. We would have the obligation to pay an additional $500 million if we fail to meet certain principal reduction thresholds over a three-year period.

Pursuant to an agreement in principle, the OCC agreed to hold in abeyance the imposition of a civil monetary penalty of $164 million. Pursuant to a separate agreement in principle, the Federal Reserve will assess a civil monetary penalty in the amount of $176 million against us. Satisfying our payment, borrower assistance and remediation obligations under the Global AIP will satisfy any civil monetary penalty obligations arising under these agreements in principle. If, however, we do not make certain required payments or undertake certain required actions under the Global AIP, the OCC will assess, and the Federal Reserve will require us to pay, the difference between the aggregate value of the payments and actions under these agreements in principle and the penalty amounts.

The Servicing Resolution Agreements do not cover claims arising out of securitization (including representations made to investors respecting MBS), criminal claims, private claims by borrowers, claims by certain states for injunctive relief or actual economic damages to borrowers related to Mortgage Electronic Registration Systems, Inc. (MERS), and claims by the GSEs (including repurchase demands), among other items. Failure to finalize the documentation related to the Servicing Resolution Agreements, to obtain the required court and regulatory approvals, to meet our borrower and refinancing commitments or other adverse developments with respect to the foregoing could have a material adverse effect on our financial condition and results of operations. For additional information regarding the temporary suspension of our foreclosure sales, see Off-Balance Sheet Arrangements and Contractual Obligations – Other Mortgage-related Matters in the MD&A on page 63.

Failure to satisfy our obligations as servicer in the residential mortgage securitization process, including obligations related to residential mortgage foreclosure actions, along with other losses we could incur in our capacity as servicer, could have a material adverse effect on our financial condition and results of operations.

Bank of America and its legacy companies have securitized a significant portion of the residential mortgage loans that they have originated or acquired. The Corporation services a large portion of the loans it or its subsidiaries have securitized and also services loans on behalf of third-party securitization vehicles and other investors. In addition to identifying specific servicing criteria, pooling and servicing arrangements entered into in connection with a securitization or whole loan sale typically impose standards of care on the servicer, with respect to its activities, that may include the obligation to adhere to the accepted servicing practices of prudent mortgage lenders and/or to exercise the degree of care and skill that the servicer employs when servicing loans for its own account.

Many non-GSE residential mortgage-backed securitizations and whole-loan servicing agreements also require us to indemnify the trustee or other investor for or against failures by us to perform our servicing obligations or acts or omissions that involve willful malfeasance, bad faith or gross negligence in the performance of, or reckless disregard of, our duties. Servicing agreements with the GSEs generally provide the GSEs with broader rights relative to the servicer than are found in servicing agreements with private investors. Each GSE typically claims the right to demand that we repurchase loans that breach the seller's representations and warranties made in connection with the initial sale of the loans, even if we were not the seller. The GSEs also claim that they have the contractual right to demand indemnification or loan repurchase for certain servicing breaches. The GSEs' first mortgage seller/servicer guides provide for timelines to resolve delinquent loans through workout efforts or liquidation, if necessary, and purport to require the imposition of compensatory fees if those deadlines are not satisfied except for reasons beyond our control. We believe that the governing contracts, our course of dealing and collective past practices and understandings should inform resolution of these matters. Beginning in 2010, the GSEs increased the level of compensatory fees imposed and have recently amended those servicing guides retroactively to impose significantly new and more stringent requirements relating to default activities, which could increase our exposure to claims for compensatory fees. We have informed the GSEs that we do not believe that the new policies, or their retroactive application, are valid under the relevant contracts, and that we do not agree that the newly articulated policies are the proper method for the assessment of any compensatory fees under the terms of the relevant contracts.

With regard to alleged irregularities in foreclosure process-related activities referred to above, we may incur costs or losses if we elect or are required to re-execute or re-file documents or take other action in connection with pending or completed foreclosures. We may also incur costs or losses if the validity of a foreclosure action is challenged by a borrower, or overturned by a court because of errors or deficiencies in the foreclosure process. These costs and liabilities may not be reimbursable to us. We may also incur costs or losses relating to delays or alleged deficiencies in processing documents necessary to comply with state law governing foreclosures. We may be subject to deductions by insurers for MI or guarantee benefits relating to delays or alleged deficiencies. Additionally, if we commit a material breach of our servicing obligations that is not cured within specified timeframes,

including those related to default servicing and foreclosure, we could be terminated as servicer under servicing agreements under certain circumstances. Any of these actions may harm our reputation or increase our servicing costs.
Mortgage notes, assignments or other documents are often required to be maintained and are often necessary to enforce mortgages loans. There has been significant public commentary regarding the common industry practice of recording mortgages in the name of MERS, as nominee on behalf of the note holder, and whether securitization trusts own the loans purported to be conveyed to them and have valid liens securing those loans. We currently use the MERS system for a substantial portion of the residential mortgage loans that we originate, including loans that have been sold to investors or securitization trusts. A component of the OCC consent order requires significant changes in the manner in which we service loans identifying MERS as the mortgagee. Additionally, certain local and state governments have commenced legal actions against us, MERS, and other MERS members, questioning the validity of the MERS model. Other challenges have also been made to the process for transferring mortgage loans to securitization trusts, asserting that having a mortgagee of record that is different than the holder of the mortgage note could “break the chain of title” and cloud the ownership of the loan. In order to foreclose on a mortgage loan, in certain cases it may be necessary or prudent for an assignment of the mortgage to be made to the holder of the note, which in the case of a mortgage held in the name of MERS as nominee would need to be completed by a MERS signing officer. As such, our practice is to obtain assignments of mortgages from MERS prior to instituting foreclosure. If certain required documents are missing or defective, or if the use of MERS is found not to be valid, we could be obligated to cure certain defects or in some circumstances be subject to additional costs and expenses. Our use of MERS as nominee for the mortgage may also create reputational and other risks for us.
These costs and liabilities could have a material adverse effect on our cash flows, financial condition and results of operations. We may also face negative reputational costs from these servicing risks, which could reduce our future business opportunities in this area or cause that business to be on less favorable terms to us.
For additional information concerning our servicing risks, see Recent Events in the MD&A on page 28. For additional information regarding the temporary suspension of our foreclosure sales, see Off-Balance Sheet Arrangements and Contractual Obligations – Other Mortgage-related Matters in the MD&A on page 63.

Liquidity Risk

Liquidity Risk is the Potential Inability to Meet Our Contractual and Contingent Financial Obligations, On- or Off-balance Sheet, as they Become Due.

Adverse changes to our credit ratings from the major credit rating agencies could have a material adverse effect on our liquidity, cash flows, competitive position, financial condition and results of operations by significantly limiting our access to funding or the capital markets, increasing our borrowing costs, or triggering additional collateral or funding requirements.

Our borrowing costs and ability to raise funds are directly impacted by our credit ratings. In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions, including over-the-counter (OTC) derivatives. Credit ratings and outlooks are opinions on our creditworthiness and that of our obligations or securities, including long-term debt, short-term borrowings, preferred stock and other securities, including asset securitizations. Our credit ratings are subject to ongoing review by the rating agencies which consider a number of factors, including our own financial strength, performance, prospects and operations as well as factors not under our control.
On December 15, 2011, Fitch Ratings (Fitch) downgraded the Corporation’s and BANA’s long-term and short-term debt ratings as a result of Fitch’s decision to lower its “support floor” for systemically important U.S. financial institutions. On November 29, 2011, Standard & Poor’s Ratings Services (S&P) downgraded the Corporation’s long-term and short-term debt ratings as well as BANA’s long-term debt rating as a result of S&P’s implementation of revised methodologies for determining Banking Industry Country Risk Assessments and bank ratings. On September 21, 2011, Moody’s Investors Service, Inc. (Moody’s) downgraded the Corporation’s long-term and short-term debt ratings as well as BANA’s long-term debt rating as a result of Moody’s lowering the amount of uplift for potential U.S. government support it incorporates into ratings. On February 15, 2012, Moody’s placed the Corporation’s long-term

debt ratings and BANA’s long-term and short-term debt ratings on review for possible downgrade as part of its review of financial institutions with global capital markets operations. Any adjustment to our ratings will be determined based on Moody’s review; however, the agency offered guidance that downgrades to our ratings, if any, would likely be limited to one notch.

Currently, the Corporation’s long-term/short-term senior debt ratings and outlooks expressed by the rating agencies are as follows: Baa1/P-2 (negative) by Moody’s; A-/A-2 (negative) by S&P; and A/F1 (stable) by Fitch. The rating agencies could make further adjustments to our credit ratings at any time. There can be no assurance that additional downgrades will not occur.

A further reduction in certain of our credit ratings may have a material adverse effect on our liquidity, access to credit markets, the related cost of funds, our businesses and on certain trading revenues, particularly in those businesses where counterparty creditworthiness is critical. If the short-term credit ratings of our parent company, bank or broker/dealer subsidiaries were downgraded by one or more levels, the potential loss of access to short-term funding sources such as repo financing, and the effect on our incremental cost of funds and earnings could be material.

In addition, under the terms of certain OTC derivative contracts and other trading agreements, in the event of a further downgrade of our credit ratings or certain subsidiaries’ credit ratings, counterparties to those agreements may require us or certain subsidiaries to provide additional collateral, terminate these contracts or agreements, or provide other remedies. At December 31, 2011, if the rating agencies had downgraded their long-term senior debt ratings for us or certain subsidiaries by one incremental notch, the amount of additional collateral contractually required by derivative contracts and other trading agreements would have been approximately $1.6 billion comprised of $1.2 billion for BANA and $375 million for Merrill Lynch & Co., Inc. (Merrill Lynch) and certain of its subsidiaries. If the agencies had downgraded their long-term senior debt ratings for these entities by a second incremental notch, approximately $1.1 billion in additional collateral, comprised of $871 million for BANA and $269 million for Merrill Lynch and certain of its subsidiaries, would have been required.

Also, if the rating agencies had downgraded their long-term senior debt ratings for us or certain subsidiaries by one incremental notch, the derivative liability that would be subject to unilateral termination by counterparties as of December 31, 2011 was $2.9 billion, against which $2.7 billion of collateral had been posted. If the rating agencies had downgraded their long-term senior debt ratings for us or certain subsidiaries a second incremental notch, the derivative liability that would be subject to unilateral termination by counterparties as of December 31, 2011 was an incremental $5.6 billion, against which $5.4 billion of collateral had been posted.

While certain potential impacts are contractual and quantifiable, the full consequences of a credit ratings downgrade to a financial institution are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including whether any downgrade of a firm's long-term credit ratings precipitates downgrades to its short-term credit ratings, and assumptions about the potential behaviors of various customers, investors and counterparties.

For additional information about our credit ratings and their potential effects to our liquidity, see Liquidity Risk – Credit Ratings in the MD&A on page 79 and Note 4 – Derivatives to the Consolidated Financial Statements.

Our liquidity, cash flows, financial condition and results of operations, and competitive position may be significantly adversely affected if we are unable to access the capital markets, continue to raise deposits, sell assets on favorable terms, or if there is an increase in our borrowing costs.

Liquidity is essential to our businesses. We fund our assets primarily with globally sourced deposits in our bank entities, as well as secured and unsecured liabilities transacted in the capital markets. We rely on certain secured funding sources, such as repo markets, which are typically short-term and credit-sensitive in nature. We also engage in asset securitization transactions, including with the GSEs, to fund consumer lending activities. Our liquidity could be significantly adversely affected by our ability to access the capital markets; illiquidity or volatility in the capital markets; unforeseen outflows of cash, including customer deposits, funding for commitments and contingencies, including Variable Rate Demand Notes; the ability to sell assets on favorable terms; increased liquidity requirements on our banking and nonbanking subsidiaries imposed by their home countries; or negative perceptions about our short- or long-term business prospects, including downgrades of our credit ratings. Several of these factors may arise due to circumstances beyond our control, such as a general market disruption, negative views about the financial services industry generally, changes in the regulatory environment, actions by credit rating agencies or an operational problem that affects third parties or us.

Our cost of obtaining funding is directly related to prevailing market interest rates and to our credit spreads. Credit spreads are the amount in excess of the interest rate of U.S. Treasury securities, or other benchmark securities, of the same maturity that we need to pay to our funding providers. Increases in interest rates and our credit spreads can significantly increase the cost of our funding. Changes in our credit spreads are market-driven, and may be influenced by market perceptions of our creditworthiness. Changes to interest rates and our credit spreads occur continuously and may be unpredictable and highly volatile.

For additional information about our liquidity position and other liquidity matters, including credit ratings and outlooks and the policies and procedures we use to manage our liquidity risks, see

Capital Management and Liquidity Risk in the MD&A on pages 71 and 76.

Bank of America Corporation is a holding company and as such we are dependent upon our subsidiaries for liquidity, including our ability to pay dividends to stockholders. Applicable laws and regulations, including capital and liquidity requirements, may restrict our ability to transfer funds from our subsidiaries to Bank of America Corporation or other subsidiaries.

Bank of America Corporation, as the parent company, is a separate and distinct legal entity from our banking and nonbanking subsidiaries. We evaluate and manage liquidity on a legal entity basis. Legal entity liquidity is an important consideration as there are legal and other limitations on our ability to utilize liquidity from one legal entity to satisfy the liquidity requirements of another, including the parent company. For instance, the parent company depends on dividends, distributions and other payments from our banking and nonbanking subsidiaries to fund dividend payments on our common stock and preferred stock and to fund all payments on our other obligations, including debt obligations. Many of our subsidiaries, including our bank and broker/dealer subsidiaries, are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to the parent company or other subsidiaries. In addition, our bank and broker/dealer subsidiaries are subject to restrictions on their ability to lend or transact with affiliates and to minimum regulatory capital and liquidity requirements, as well as restrictions on their ability to use funds deposited with them in bank or brokerage accounts to fund their businesses.

Additional restrictions on related party transactions, increased capital and liquidity requirements and additional limitations on the use of funds on deposit in bank or brokerage accounts, as well as lower earnings, can reduce the amount of funds available to meet the obligations of the parent company and even require the parent company to provide additional funding to such subsidiaries. Regulatory action of that kind could impede access to funds we need to make payments on our obligations or dividend payments. In addition, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors. For additional information regarding our ability to pay dividends, see Note 15 – Shareholders’ Equity and Note 18 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements.

Credit Risk

Credit Risk is the Risk of Loss Arising from a Borrower, Obligor or Counterparty Default when a Borrower, Obligor or Counterparty does not Meet its Obligations.

Increased credit risk, due to economic or market disruptions, insufficient credit loss reserves or concentration of credit risk, may necessitate increased provisions for credit losses and could have an adverse effect on our financial condition and results of operations.

When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, or the risk of losses if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their agreements. A number of our products expose us to credit risk, including loans, leases and lending commitments, derivatives, trading account assets and assets held-for-sale. As one of the

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nation's largest lenders, the credit quality of our consumer and commercial portfolios has a significant impact on our earnings.

Global and U.S. economic conditions continue to weigh on our credit portfolios. Economic or market disruptions are likely to increase our credit exposure to customers, obligors or other counterparties due to the increased risk that they may default on their obligations to us. These potential increases in delinquencies and default rates could adversely affect our consumer credit card, home equity, consumer real estate and purchased credit-impaired portfolios, through increased charge-offs and provisions for credit losses. In addition, despite improvement in the mix of our commercial portfolio, increased credit risk could also adversely affect our commercial loan portfolios where we continue to experience elevated losses, particularly in our commercial real estate portfolios, reflecting continued stress across industries, property types and borrowers.

We estimate and establish an allowance for credit losses for losses inherent in our lending activities (including unfunded lending commitments), excluding those measured at fair value, through a charge to earnings. The amount of allowance is determined based on our evaluation of the potential credit losses included within our loan portfolio. The process for determining the amount of the allowance, which is critical to our financial condition and results of operations, requires difficult, subjective and complex judgments, including forecasts of economic conditions and how our borrowers will react to those conditions. Our ability to assess future economic conditions or the creditworthiness of our customers, obligors or other counterparties is imperfect. The ability of our borrowers to repay their loans will likely be impacted by changes in economic conditions, which in turn could impact the accuracy of our forecasts.

As with any such assessments, there is also the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we identify. We may suffer unexpected losses if the models and assumptions we use to establish reserves and make judgments in extending credit to our borrowers and other counterparties become less predictive of future events. Although we believe that our allowance for credit losses was in compliance with applicable accounting standards at December 31, 2011, there is no guarantee that it will be sufficient to address future credit losses, particularly if economic conditions deteriorate. In such an event, we might need to increase the size of our allowance, which could adversely affect our financial condition and results of operations.

In the ordinary course of our business, we also may be subject to a concentration of credit risk in a particular industry, country, counterparty, borrower or issuer. A deterioration in the financial condition or prospects of a particular industry or a failure or downgrade of, or default by, any particular entity or group of entities could have a material adverse effect on our businesses, and the processes by which we set limits and monitor the level of our credit exposure to individual entities, industries and countries may not function as we have anticipated. While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers/dealers, commercial banks, investment funds and insurers. This has resulted in significant credit concentration with respect to this industry. In the ordinary course of business, we also enter into transactions with sovereign nations, U.S. states and U.S. municipalities. Unfavorable economic or political conditions, disruptions to capital markets, currency fluctuations, social instability and changes in government policies could impact the operating budgets or credit ratings of sovereign nations, U.S. states and U.S. municipalities and expose us to credit risk.

We also have a concentration of credit risk with respect to our consumer real estate, consumer credit card and commercial real estate portfolios, which represent a large percentage of our overall credit portfolio. The economic downturn has adversely affected these portfolios and further exposed us to this concentration of risk. Continued economic weakness or deterioration in real estate values or household incomes could result in materially higher credit losses.

For additional information about our credit risk and credit risk management policies and procedures, see Credit Risk Management in the MD&A on page 80 and Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

We could suffer losses as a result of the actions of or deterioration in the commercial soundness of our counterparties and other financial services institutions.

We could suffer losses and our ability to engage in routine trading and funding transactions could be adversely affected by the actions and commercial soundness of other market participants. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers/dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients. Financial services institutions and other counterparties are inter-related because of trading, funding, clearing or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to significant future liquidity problems, including losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of a counterparty or client. In addition, our credit risk may be impacted when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivatives exposure due us. Any such losses could materially adversely affect our financial condition and results of operations.

Our derivatives businesses may expose us to unexpected risks and potential losses.

We are party to a large number of derivatives transactions, including credit derivatives. Our derivatives businesses may expose us to unexpected market, credit and operational risks that could cause us to suffer unexpected losses and have an adverse effect on our financial condition and results of operations. Severe declines in asset values, unanticipated credit events or unforeseen circumstances that may cause previously uncorrelated factors to become correlated (and vice versa) may create losses resulting from risks not appropriately taken into account in the development, structuring or pricing of a derivative instrument. The terms of certain of our OTC derivative contracts and other trading agreements provide that upon the occurrence of certain specified events, such as a change in our credit ratings, we may be required to provide additional collateral or to provide other remedies, or our counterparties may have the right to terminate or otherwise diminish our rights under these contracts or agreements.

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Many derivative instruments are individually negotiated and non-standardized, which can make exiting, transferring or settling some positions difficult. Many derivatives require that we deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, we do not hold, and may not be able to obtain, the underlying security, loan or other obligation.

Following the downgrade of the credit ratings of the Corporation, we have engaged in discussions with certain derivative and other counterparties regarding their rights under these agreements. In response to counterparties' inquiries and requests, we have discussed and in some cases substituted derivative contracts and other trading agreements, including naming BANA as the new counterparty. Our ability to substitute or make changes to these agreements to meet counterparties' requests may be subject to certain limitations, including counterparty willingness, regulatory limitations on naming BANA as the new counterparty, and the type or amount of collateral required. It is possible that such limitations on our ability to substitute or make changes to these agreements, including naming BANA as the new counterparty, could adversely affect our results of operations.

Derivatives contracts and other transactions entered into with third parties are not always confirmed by the counterparties or settled on a timely basis. While a transaction remains unconfirmed or during any delay in settlement, we are subject to heightened credit and operational risk and in the event of default may find it more difficult to enforce the contract. In addition, as new and more complex derivatives products have been created, covering a wider array of underlying credit and other instruments, disputes about the terms of the underlying contracts may arise, which could impair our ability to effectively manage our risk exposures from these products and subject us to increased costs.

For additional information on our derivatives exposure, see Note 4 – Derivatives to the Consolidated Financial Statements.

Market Risk

Market Risk is the Risk that Values of Assets and Liabilities or Revenues will be Adversely Affected by Changes in Market Conditions Such as Market Volatility. Market Risk is Inherent in the Financial Instruments Associated with our Operations and Activities, Including Loans, Deposits, Securities, Short-term Borrowings, Long-term Debt, Trading Account Assets and Liabilities, and Derivatives.

Our businesses and results of operations have been, and may continue to be, significantly adversely affected by changes in the levels of market volatility and by other financial or capital market conditions.

Our businesses and results of operations may be adversely affected by market risk factors such as changes in interest and currency exchange rates, equity and futures prices, the implied volatility of interest rates, credit spreads and other economic and business factors. These market risks may adversely affect, among other things, (i) the value of our on- and off-balance sheet securities, trading assets other financial instruments, and MSRs, (ii) the cost of debt capital and our access to credit markets, (iii) the value of assets under management, which could reduce our fee income relating to those assets, (iv) customer allocation of capital among investment alternatives, (v) the volume of client activity in our trading operations, (vi) investment banking fees, and (vii) the general profitability and risk level of the transactions in which we engage. Any of these developments could have a significant adverse impact on our financial condition and results of operations.

We use various models and strategies to assess and control our market risk exposures but those are subject to inherent limitations. Our models, which rely on historical trends and assumptions, may not be sufficiently predictive of future results due to limited historical patterns, extreme or unanticipated market movements and illiquidity, especially during severe market downturns or stress events. The models that we use to assess and control our market risk exposures also reflect assumptions about the degree of correlation or lack thereof among prices of various asset classes or other market indicators.

In times of market stress or other unforeseen circumstances, such as the market conditions experienced in 2008 and 2009, previously uncorrelated indicators may become correlated, or previously correlated indicators may move in different directions. These types of market movements have at times limited the effectiveness of our hedging strategies and have caused us to incur significant losses, and they may do so in the future. These changes in correlation can be exacerbated where other market participants are using risk or trading models with assumptions or algorithms that are similar to ours. In these and other cases, it may be difficult to reduce our risk positions due to the activity of other market participants or widespread market dislocations, including circumstances where asset values are declining significantly or no market exists for certain assets. To the extent that we own securities that do not have an established liquid trading market or are otherwise subject to restrictions on sale or hedging, we may not be able to reduce our positions and therefore reduce our risk associated with such positions. In addition, challenging market conditions may also adversely affect our investment banking fees.

For additional information about market risk and our market risk management policies and procedures, see Market Risk Management in the MD&A on page 112.

Further downgrades in the U.S. government's sovereign credit rating, or in the credit ratings of instruments issued, insured or guaranteed by related institutions, agencies or instrumentalities, could result in risks to the Corporation and its credit ratings and general economic conditions that we are not able to predict.

On August 2, 2011, Moody's affirmed the U.S. government's existing sovereign rating, but revised the rating outlook to negative. On August 5, 2011, S&P downgraded the U.S. government's long-term sovereign credit rating to AA+ from AAA and stated that the outlook on the long-term rating is negative. On the same day, S&P affirmed its A-1+ short-term rating on the U.S. and removed it from CreditWatch negative. On November 28, 2011, Fitch affirmed its AAA long-term rating on the U.S., but changed the outlook from stable to negative. On the same day, Fitch affirmed its F1+ short-term rating on the U.S. All three rating agencies have indicated that they will continue to assess fiscal projections and consolidation measures, as well as the medium-term economic outlook for the United States.

There continues to be the perceived risk of a sovereign credit ratings downgrade of the U.S. government, including the ratings of U.S. Treasury securities. It is foreseeable that the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly

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affected by any such downgrade. Instruments of this nature are key assets on the balance sheets of financial institutions, including the Corporation, and are widely used as collateral by financial institutions to meet their day-to-day cash flows in the short-term debt market. A downgrade of the sovereign credit ratings of the U.S. government and perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments.

We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Such ratings actions could result in a significant adverse impact to the Corporation. The credit rating agencies' ratings for the Corporation or its subsidiaries could be directly or indirectly impacted by a downgrade of the U.S. government's sovereign rating because the credit ratings of large systemically important financial institutions, including the Corporation, currently incorporate a degree of uplift due to assumptions concerning government support. In addition, the Corporation presently delivers a material portion of the residential mortgage loans it originates into GSEs, agencies or instrumentalities (or instruments insured or guaranteed thereby). We cannot predict if, when or how any changes to the credit ratings of these organizations will affect their ability to finance residential mortgage loans. Such ratings actions, if any, could result in a significant change to the business operations of CRES.

A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instrumentalities would significantly exacerbate the other risks to which the Corporation is subject and any related adverse effects on our business, financial condition and results of operations, including those described under Risk Factors – Credit Risk – "We could suffer losses as a result of the actions of or deterioration in the commercial soundness of our counterparties and other financial services institutions," Risk Factors – Market Risk – "Our businesses and results of operations have been, and may continue to be, significantly adversely affected by changes in the levels of market volatility and by other financial or capital market conditions" and Risk Factors – Liquidity Risk – "Our liquidity, cash flows, financial condition and results of operations, and competitive position may be significantly adversely affected if we are unable to access capital markets, continue to raise deposits, sell assets on favorable terms, or if there is an increase in our borrowing costs."

Uncertainty about the financial stability of several countries in the European Union (EU), the increasing risk that those countries may default on their sovereign debt and related stresses on financial markets, the Euro and the EU could have a significant adverse effect on our business, financial condition and results of operations.

In 2011, the financial crisis in Europe continued, triggered by high sovereign budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these EU countries to continue to service their sovereign debt obligations. These conditions impacted financial markets and resulted in credit ratings downgrades for, and high and volatile bond yields on, the sovereign debt of many EU countries. Certain European countries continue to experience varying degrees of financial stress, and yields on government-issued bonds in Greece, Ireland, Italy,

Portugal and Spain have risen and remain volatile. Despite assistance packages to certain of these countries, the creation of a joint EU-IMF European Financial Stability Facility and additional expanded financial assistance to Greece, uncertainty over the outcome of the EU governments' financial support programs and worries about sovereign finances and the stability of the Euro and EU persist. Market concerns over the direct and indirect exposure of certain European banks and insurers to these EU countries resulted in a widening of credit spreads and increased costs of funding for these financial institutions. While we have reduced our exposure to European financial institutions, the insolvency of one or more major European financial institutions could adversely impact financial markets and, consequently, our results of operations.

Risks and ongoing concerns about the debt crisis in Europe could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions and international financial institutions with exposure to the region, including us. Market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and residential mortgages, and housing prices among other factors. There can be no assurance that the market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the European economic recovery continues to negatively impact consumer confidence and consumer credit factors, or should the EU enter a deep recession, both the U.S. economy and our business and results of operations could be significantly and adversely affected. Global economic uncertainty, regulatory initiatives and reform have impacted, and will likely continue to impact, non-U.S. credit and trading portfolios. Our Regional Risk Committee, a subcommittee of our Credit Risk Committee, is seeking to address this risk but there can be no assurance our efforts in this respect will be sufficient or successful. Our total sovereign and non-sovereign exposure to Greece, Italy, Ireland, Portugal and Spain, was $15.3 billion at December 31, 2011 compared to $16.6 billion at December 31, 2010. Our total net sovereign and non-sovereign exposure to these countries was $10.5 billion at December 31, 2011 compared to $12.4 billion at December 31, 2010, after taking into account net credit default protection. At December 31, 2011 and 2010, the fair value of net credit default protection purchased was $4.9 billion and $4.2 billion. Losses could still result because our credit protection contracts only pay out under certain scenarios.

For more information on our direct sovereign and non-sovereign exposures in Europe, see Executive Summary – 2011 Economic and Business Environment in the MD&A on page 27 and Non-U.S. Portfolio in the MD&A on page 104.

Declines in the value of certain of our assets could have an adverse effect on our results of operations.

We have a large portfolio of financial instruments, including, among others, certain corporate loans and loan commitments, loans held-for-sale, repurchase agreements, long-term deposits, trading account assets and liabilities, derivatives assets and liabilities, available-for-sale debt and marketable equity securities, consumer-related MSRs and certain other assets and liabilities that we measure at fair value. We determine the fair values of these instruments based on the fair value hierarchy under applicable accounting guidance. The fair values of these financial instruments include adjustments for market liquidity, credit quality and other transaction-specific factors, where appropriate.

Gains or losses on these instruments can have a direct and significant impact on our results of operations, unless we have effectively hedged our exposures. Changes in loan prepayment speeds, which are influenced by interest rates, among other things, can impact the value of our MSRs and can result in substantially higher or lower mortgage banking income and earnings, depending upon our ability to fully hedge the performance of our MSRs. Fair values may be impacted by declining values of the underlying assets or the prices at which observable market transactions occur and the continued availability of these transactions. The financial strength of counterparties, such as monolines, with whom we have economically hedged some of our exposure to these assets, also will affect the fair value of these assets. Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading activity for these assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions and the difficulty in valuing assets may increase our risk-weighted assets, which requires us to maintain additional capital and increases our funding costs.

Asset values also directly impact revenues in our asset management businesses. We receive asset-based management fees based on the value of our clients' portfolios or investments in funds managed by us and, in some cases, we also receive incentive fees based on increases in the value of such investments. Declines in asset values can reduce the value of our clients' portfolios or fund assets, which in turn can result in lower fees earned for managing such assets. For additional information about fair value measurements, see Note 22 – Fair Value Measurements to the Consolidated Financial Statements. For additional information about our asset management businesses, see Business Segment Operations – Global Wealth & Investment Management in the MD&A on page 52.

Changes to loan prepayment speeds could reduce our net interest income and earnings.

Government officials and regulatory authorities have advanced various proposals to assist homeowners and the housing and mortgage markets more generally. Certain of these proposals have included expanded access to residential mortgage loan refinancing options, including refinancing options for borrowers who may be current on their existing mortgage loans and for borrowers whose current mortgage principal balance may exceed the current appraised value of the mortgaged property. Expanded refinancing access may also result from our implementation of the Servicing Resolution Agreements discussed above. Adoption of proposals of this nature could result in an increased number of mortgage refinancings, and accordingly, greater reductions in interest rates and principal prepayments on the mortgage loans in our portfolio than we would otherwise expect to experience without those proposals. Reductions in interest rates and increases in mortgage prepayment speeds of this nature could adversely impact the value of our MSR asset, cause a significant acceleration of purchase premium amortization on our mortgage portfolio, adversely affect our net interest margin, and adversely affect our net interest income and earnings. For additional information about interest rate risk management, see Interest Rate Risk Management for Nontrading Activities in the MD&A on page 116.

## Regulatory and Legal Risk

Bank regulatory agencies may require us to hold higher levels of regulatory capital, increase our regulatory capital ratios or increase liquidity, which could result in the need to issue additional securities that qualify as regulatory capital or to sell company assets.

We are subject to the risk-based capital guidelines issued by the Federal Reserve. These guidelines establish regulatory capital requirements for banking institutions to meet minimum requirements as well as to qualify as a "well-capitalized" institution. (A "well-capitalized" institution must generally maintain capital ratios 200 basis points higher than the minimum guidelines.) The risk-based capital rules have been further supplemented by required leverage ratios, defined as Tier I (the highest grade) capital divided by quarterly average total assets, after certain adjustments. If any of our insured depository institutions fails to maintain its status as "well-capitalized" under the capital rules of their primary federal regulator, the Federal Reserve will require us to enter into an agreement to bring the insured depository institution or institutions back into a "well-capitalized" status. For the duration of such an agreement, the Federal Reserve may impose restrictions on the activities in which we may engage. If we were to fail to enter into such an agreement, or fail to comply with the terms of such agreement, the Federal Reserve may impose more severe restrictions on the activities in which we may engage, including requiring us to cease and desist in activities permitted under the Bank Holding Act.

It is possible that increases in regulatory capital requirements, changes in how regulatory capital is calculated or increases to liquidity requirements, may cause the loss of our "well-capitalized" status unless we increase our capital levels by issuing additional common stock, thus diluting our existing shareholders, or by selling assets. On December 20, 2011, the Federal Reserve proposed rules relating to risk-based capital and leverage requirements, liquidity requirements, stress tests, single-counterparty credit limits and early remediation requirements. These rules, when finalized, are likely to influence our regulatory capital and liquidity planning process, and may impose additional operational and compliance costs on us. Any requirement that we increase our regulatory capital, regulatory capital ratios or liquidity could have a material adverse effect on our financial condition and results of operations, as we may need to sell certain assets, perhaps on terms unfavorable to us and contrary to our business plans. Such a requirement could also compel us to issue additional securities, which could dilute our current common stockholders. For additional information about the proposals described above and their potential effect on our required levels of regulatory capital, see Capital Management – Regulatory Capital in the MD&A on page 72.

Government measures to regulate the financial industry, including the Financial Reform Act, either individually, in combination or in the aggregate, have increased and will continue to increase our compliance costs and could require us to change certain of our business practices, impose significant additional costs on us, limit the products that we offer, limit our ability to pursue business opportunities in an efficient manner, require us to increase our regulatory capital, impact the value of assets that we hold, significantly reduce our revenues or otherwise materially and adversely affect our businesses, financial condition and results of operations

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As a financial institution, we are heavily regulated at the state, federal and international levels. As a result of the 2008-2009 financial crisis and related global economic downturn, we have faced and expect to continue to face increased public and legislative scrutiny as well as stricter and more comprehensive regulation of our businesses. These regulatory and legislative measures, either individually, in combination or in the aggregate, could require us to further change certain of our business practices, impose significant additional costs on us, limit the products that we offer, limit our ability to pursue business opportunities in an efficient manner, require us to increase our regulatory capital, impact the value of assets that we hold, significantly reduce our revenues or otherwise materially and adversely affect our businesses, financial condition and results of operations.

On October 11, 2011, the Federal Reserve, the OCC, FDIC and the SEC, four of the five regulatory agencies charged with promulgating regulations implementing limitations on proprietary trading as well as the sponsorship of or investment in hedge funds and private equity funds (the Volcker Rule) established by the Financial Reform Act, released for comment proposed regulations. On January 11, 2012, the CFTC, the fifth agency, released for comment its proposed regulations under the Volcker Rule. The proposed regulations include clarifications to the definition of proprietary trading and distinctions between permitted and prohibited activities. The comment period for the first regulations proposed ended on February 13, 2012 and the comment period for the CFTC regulations will end in March 2012.

The statutory provisions of the Volcker Rule will become effective on July 21, 2012, whether or not the final regulations are adopted, and it gives certain financial institutions two years from the effective date, with opportunities for additional extensions, to bring activities and investments into compliance. Although GBAM exited its stand-alone proprietary trading business as of June 30, 2011 in anticipation of the Volcker Rule and to further our initiative to optimize our balance sheet, the ultimate impact of the Volcker Rule on us remains uncertain. However, based on the contents of the proposed regulations, it is possible that the implementation of the Volcker Rule could limit or restrict our remaining trading activities. Implementation of the Volcker Rule could also limit or restrict our ability to sponsor and hold ownership interests in hedge funds, private equity funds and other subsidiary operations. Additionally, implementation of the Volcker Rule could increase our operational and compliance costs and reduce our trading revenues, and adversely affect our results of operations. The date by which final regulations will be issued is uncertain.

Additionally, the Financial Reform Act includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, imposing new capital, margin, reporting, registration and business conduct requirements for certain market participants and imposing position limits on certain OTC derivatives. The Financial Reform Act grants the CFTC and the SEC substantial new authority and requires numerous rulemakings by these agencies. The Financial Reform Act required regulators to promulgate the rulemakings necessary to implement these regulations by July 16, 2011. However, the rulemaking process was not completed as of that date, and is not expected to conclude until well into 2012. Further, the regulators granted temporary relief from certain requirements that would have taken effect on July 16, 2011 absent any rulemaking. The SEC temporary relief is effective until final rules relevant to each requirement become effective. The CFTC temporary relief is effective until the earlier of July 16, 2012 or the date on which final rules relevant to each requirement become effective. The ultimate impact of these derivatives regulations, and the time it will take to comply, continue to remain uncertain. The final regulations will impose additional operational and compliance costs on us and may require us to restructure certain businesses and negatively impact our revenues and results of operations.

In April 2011, a new regulation became effective that implements revisions to the assessment system mandated by the Financial Reform Act that increased our FDIC expense. In addition, the FDIC has broad discretionary authority to increase assessments on large and highly complex institutions on a case by case basis. Any future increases in required deposit insurance premiums or other bank industry fees could have an adverse impact on our financial condition and results of operations.

The Financial Reform Act provided for a new resolution authority to establish a process to resolve the failure of large systemically important financial institutions. As part of that process, we are required to develop and implement a resolution plan which will be subject to review by the FDIC and the Federal Reserve to determine whether our plan is credible. As a result of FDIC and Federal Reserve review, we could be required to take certain actions over the next several years which could impose operational costs and could potentially result in the divestiture or restructuring of certain businesses and subsidiaries.

In 2011, the Federal Reserve and FDIC jointly approved a final rule that requires the Corporation and other bank holding companies with assets of $50 billion or more, as well as companies designated as systemic by the Financial Stability Oversight Council, to periodically report to the FDIC and the Federal Reserve their plans for a rapid and orderly resolution in the event of material financial distress or failure. If the FDIC and the Federal Reserve determine that a company’s plan is not credible and the company fails to cure the deficiencies in a timely manner, then the FDIC and the Federal Reserve may jointly impose on the company, or on any of its subsidiaries, more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations. The Corporation’s initial plan is required to be submitted on or before July 1, 2012, and to be updated annually. Similarly, in the U.K., the FSA has issued proposed rules requiring the submission of significant information about certain U.K. incorporated subsidiaries (including information on intra-group dependencies and legal entity separation) to allow the FSA to develop resolution plans. As a result of the FSA review, we could be required to take certain actions over the next several years which could impose operational costs and potentially could result in the restructuring of certain businesses and subsidiaries.

Under the Financial Reform Act, when a systemically important financial institution such as the Corporation is in default or danger of default, the FDIC may, in certain circumstances, be appointed receiver in order to conduct an orderly liquidation of such systemically important financial institution. In such a case, the FDIC could invoke a new form of resolution authority, called the orderly liquidation authority, instead of the U.S. Bankruptcy Code, if the Secretary of the Treasury makes certain financial distress and systemic risk determinations. The orderly liquidation authority is modeled in part on the Federal Deposit Insurance Act, but also adopts certain concepts from the U.S. Bankruptcy Code. However, the orderly liquidation authority contains certain differences from the U.S. Bankruptcy Code. Macroprudential systemic protection is the primary objective of the orderly liquidation authority, subject to minimum threshold protections for creditors. Accordingly, in

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certain circumstances under the orderly liquidation authority, the FDIC could permit payment of obligations determined to be systemically significant (for example, short-term creditors or operating creditors) in lieu of the payment of other obligations (for example, long-term creditors) without the need to obtain creditors' consent or prior court review. Additionally, under the orderly liquidation authority, amounts owed to the U.S. government generally enjoy a statutory payment priority.

The Financial Reform Act established the CFPB to regulate the offering of consumer financial products or services under the federal consumer financial laws. In addition, under the Financial Reform Act, the CFPB was granted general authority to prevent covered persons or service providers from committing or engaging in unfair, deceptive or abusive acts or practices under Federal law in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. Pursuant to the Financial Reform Act, on July 21, 2011, certain federal consumer financial protection statutes and related regulatory authority were transferred to the CFPB. As a consequence of this transfer of authority, certain Federal consumer financial laws to which we are subject, including, but not limited to, the Equal Credit Opportunity Act, Home Mortgage Disclosure Act, Electronic Fund Transfers Act, Fair Credit Reporting Act, Truth in Lending and Truth in Savings Acts will be enforced by the CFPB, subject to certain statutory limitations. On January 4, 2012, a Director of the CFPB was appointed, via recess appointment, and accordingly, the CFPB was vested with full authority to exercise all supervisory, enforcement and rulemaking authorities granted to the CFPB under the Financial Reform Act, including its supervisory powers over non-bank financial institutions such as pay-day lenders and other types of non-bank financial institutions.

On December 20, 2011, the Federal Reserve issued proposed rules to implement enhanced supervisory and prudential requirements and the early remediation requirements established under the Financial Reform Act. The enhanced standards include risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management, single-counterparty credit limits, stress test requirements and a debt-to-equity limit for certain companies determined to pose a threat to financial stability. Comments on the proposed rules are due by March 31, 2012, and final regulations will not be adopted until after that date. The final rules are likely to influence our regulatory capital and liquidity planning process, and may impose additional operational and compliance costs on us.

Many of the provisions under the Financial Reform Act have begun to be phased in or will be phased in over the next several months or years and will be subject both to further rulemaking and the discretion of applicable regulatory bodies. The Financial Reform Act will continue to have a significant and negative impact on our earnings through fee reductions, higher costs and new restrictions. The Financial Reform Act may also continue to have a material adverse impact on the value of certain assets and liabilities held on our balance sheet. The ultimate impact of the Financial Reform Act on our businesses and results of operations will depend on regulatory interpretation and rulemaking, as well as the success of any of our actions to mitigate the negative earnings impact of certain provisions.

In December 2010, the Basel Committee issued "Basel III: A global regulatory framework for more resilient banks and banking systems" and "International framework for liquidity risk measurement, standards and monitoring" (together, Basel III). If

implemented by U.S. banking regulators as proposed, Basel III's capital standards could significantly increase our capital requirements. Basel III and the Financial Reform Act propose the disqualification of trust preferred securities from Tier 1 capital, with the Financial Reform Act proposing that the disqualification be phased in from 2013 to 2015. Basel III also proposes the deduction of certain assets from capital (deferred tax assets, MSRs, investments in financial firms and pension assets, among others, within prescribed limitations), the inclusion of accumulated OCI in capital, increased capital requirements for counterparty credit risk, and new minimum capital and buffer requirements. Basel III also proposes two minimum liquidity measures. The LCR measures the amount of a financial institution's unencumbered, high-quality, liquid assets relative to the net cash outflows the institution could encounter under an acute 30-day stress scenario. The NSFR measures the amount of longer-term, stable sources of funding employed by a financial institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations over a one-year period.

On July 19, 2011, the Basel Committee published the consultative document, "Globally systemic important banks: Assessment methodology and the additional loss absorbency requirement," which sets out measures for global, systemically important financial institutions including the methodology for measuring systemic importance, the additional capital required (the SIFI buffer), and the arrangements by which they will be phased in. As proposed, the SIFI buffer would be met with additional Tier 1 common equity ranging from one percent to 2.5 percent, and in certain circumstances, 3.5 percent. This will be phased in from 2016 through 2018. U.S. banking regulators have not yet provided similar rules for U.S. implementation of a SIFI buffer.

Preparation for Basel III has influenced and, when finalized, is likely to continue to influence our regulatory capital and liquidity planning process, and may impose additional operational and compliance costs on us. Any requirement that we increase our regulatory capital, regulatory capital ratios or liquidity could have a material adverse effect on our financial condition and results of operations, as we may need to liquidate certain assets, perhaps on terms unfavorable to us and contrary to our business plans. Such a requirement could also compel us to issue additional securities, which could dilute our current common stockholders.

For additional information about the regulatory initiatives discussed above, see Regulatory Matters in the MD&A on page 66.

Changes in the structure of the GSEs and the relationship among the GSEs, the government and the private markets, or the conversion of the current conservatorship of the GSEs into receivership, could result in significant changes to the business operations of CRES, and adversely impact certain operations of GBAM.

During the last ten years, the Corporation and its subsidiaries and legacy companies have sold over $2.0 trillion of loans to the GSEs. Each GSE is currently in a conservatorship, with its primary regulator, the Federal Housing Finance Agency, acting as conservator. We cannot predict if, when or how the conservatorships will end, or any associated changes to the GSEs' business structure that could result. We also cannot predict whether the conservatorships will end in receivership. There are several proposed approaches to reform the GSEs which, if enacted, could change the structure of the GSEs and the relationship among

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the GSEs, the government and the private markets, including the trading markets for agency conforming mortgage loans and markets for mortgage-related securities in which GBAM participates. We cannot predict the prospects for the enactment, timing or content of legislative or rulemaking proposals regarding the future status of the GSEs. Accordingly, there continues to be uncertainty regarding the future of the GSEs, including whether they will continue to exist in their current form. GSE reform, if enacted, could result in a significant change to the business operations of CRES and adversely impact certain operations of GBAM.

We face substantial potential legal liability and significant regulatory action, which could have material adverse effects on our cash flows, financial condition and results of operations, or cause significant reputational harm to us.

We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against us and other financial institutions remain high and are increasing. Increased litigation costs, substantial legal liability or significant regulatory action against us could have material adverse effects on our financial condition and results of operations or cause significant reputational harm to us, which in turn could adversely impact our business prospects. In addition, we continue to face increased litigation risk and regulatory scrutiny. We have continued to experience increased litigation and other disputes with counterparties regarding relative rights and responsibilities. Consumers, clients and other counterparties have grown more litigious. Our experience with certain regulatory authorities suggests a migration towards an increasing supervisory focus on enforcement, including in connection with alleged violations of law and customer harm. The current environment of additional regulation, increased regulatory compliance burdens, and enhanced regulatory enforcement, combined with ongoing uncertainty related to the continuing evolution of the regulatory environment, has resulted in significant operational and compliance costs and may limit our ability to continue providing certain products and services.

These litigation and regulatory matters and any related settlements could have a material adverse effect on our cash flows, financial condition and results of operations. They could also negatively impact our reputation and lead to volatility of our stock price. For a further discussion of litigation risks, see Note 14 – Commitments and Contingencies to the Consolidated Financial Statements.

Changes in governmental fiscal and monetary policy could adversely affect our financial condition and results of operations.

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

to predict but could have an adverse impact on our capital requirements and the costs of running our businesses, in turn adversely impacting our financial condition and results of operations.

Changes in U.S. and non-U.S. tax and other laws and regulations could adversely affect our financial condition and results of operations.

The U.S. Congress and the Administration have signaled growing interest in reforming the U.S. corporate income tax. While the timing of such reform is unclear, possible approaches include lowering the 35 percent corporate tax rate, modifying the taxation of income earned outside of the U.S. and limiting or eliminating various other deductions, tax credits and/or other tax preferences. It is not possible at this time to quantify either the one-time impact from remeasuring deferred tax assets and liabilities that might result upon enactment of tax reform or the ongoing impact reform might have on income tax expense, but either of these impacts could adversely affect our financial condition and results of operations.

In addition, the income from certain non--U.S. subsidiaries has not been subject to U.S. income tax as a result of long-standing deferral provisions applicable to income that is derived in the active conduct of a banking and financing business (active finance income). The U.S. Congress has extended the application of these deferral provisions several times, most recently in 2010. These provisions now are set to expire for taxable years beginning on or after January 1, 2012. Absent an extension of these provisions, active financing income earned by certain non-U.S. subsidiaries will generally be subject to a tax provision that considers incremental U.S. income tax. The impact of the expiration of these provisions would depend upon the amount, composition and geographic mix of our future earnings.

Other countries have also proposed and, in some cases, adopted certain regulatory changes targeted at financial institutions or that otherwise affect us. The EU has adopted increased capital requirements and the U.K. has (i) increased liquidity requirements for local financial institutions, including regulated U.K. subsidiaries of non-U.K. bank holding companies and other financial institutions as well as branches of non-U.K. banks located in the U.K; (ii) adopted a Bank Tax Levy which will apply to the aggregate balance sheet of branches and subsidiaries of non-U.K. banks and banking groups operating in the U.K.; and (iii) proposed the creation and production of recovery and resolution plans by U.K.-regulated entities.

On July 19, 2011, the U.K. 2011 Finance Bill was enacted which reduced the corporate income tax rate one percent to 26 percent beginning on April 1, 2011, and then to 25 percent effective April 1, 2012. These rate reductions will favorably affect income tax expense on future U.K. earnings but also required us to remeasure our U.K. net deferred tax assets using the lower tax rates. The income tax benefit for 2011 included a $782 million charge for the remeasurement, substantially all of which was recorded in GBAM. If corporate income tax rates were to be reduced to 23 percent by 2014 as suggested in U.K. Treasury announcements and assuming no change in the deferred tax asset balance, a charge to income tax expense of approximately $400 million for each one percent reduction in the rate would result in each period of enactment (for a total of approximately $800 million). We are also monitoring other international legislative proposals that could materially impact us, such as changes to corporate income tax laws.

Currently, in the U.K., net operating loss carryforwards (NOLs) have an indefinite life. Were the U.K.

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taxing authorities to introduce limitations on the future utilization of NOLs and were the Corporation unable to document its continued ability to fully utilize its NOLs, we would be required to establish a valuation allowance by a charge to corporate income tax expense. Depending upon the nature of the limitations, such a charge could be material to our results of operations in the period of enactment.

Risk of the Competitive Environment in which We Operate

We face significant and increasing competition in the financial services industry.

We operate in a highly competitive environment. Over time, there has been substantial consolidation among companies in the financial services industry, and this trend accelerated in recent years. This trend has also hastened the globalization of the securities and financial services markets. We will continue to experience intensified competition as consolidation in and globalization of the financial services industry may result in larger, better-capitalized and more geographically diverse companies that are capable of offering a wider array of financial products and services at more competitive prices. To the extent we expand into new business areas and new geographic regions, we may face competitors with more experience and more established relationships with clients, regulators and industry participants in the relevant market, which could adversely affect our ability to compete. In addition, technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products, and for financial institutions to compete with technology companies in providing electronic and internet-based financial solutions. Increased competition may negatively affect our results of operations by creating pressure to lower prices on our products and services and reducing market share.

Damage to our reputation could significantly harm our businesses, including our competitive position and business prospects.

Our ability to attract and retain customers, clients, investors and employees is impacted by our reputation. Public perception of us and others in the financial services industry appeared to decline in 2011. We continue to face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn as well as alleged irregularities in servicing, foreclosure, consumer collections, mortgage loan modifications and other practices, lending volumes, compensation practices, our acquisitions of Countrywide and Merrill Lynch and the suitability or reasonableness of recommending particular trading or investment strategies.

Significant harm to our reputation can also arise from other sources, including employee misconduct, unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, unintended disclosure of confidential information, and the activities of our clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry also can significantly adversely affect our reputation.

We are subject to complex and evolving laws and regulations regarding privacy, data protections and other matters. Principles concerning the appropriate scope of consumer and commercial

privacy vary considerably in different jurisdictions, and regulatory and public expectations regarding the definition and scope of consumer and commercial privacy may remain fluid into the future. It is possible that these laws may be interpreted and applied by various jurisdictions in a manner that is inconsistent with our current or future practices, or that is inconsistent with one another. We face regulatory, reputational and operational risks if personal, confidential or proprietary information of customers or clients in our possession is mishandled or misused.

We could suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions, which could adversely affect our businesses.

Our actual or perceived failure to address these and other issues gives rise to reputational risk that could cause significant harm to us and our business prospects, including failure to properly address operational risks. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions, legal risks and reputational harm, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

Our ability to attract and retain qualified employees is critical to the success of our businesses and failure to do so could adversely affect our business prospects, including our competitive position and results of operations.

Our performance is heavily dependent on the talents and efforts of highly skilled individuals. Competition for qualified personnel within the financial services industry and from businesses outside the financial services industry has been, and is expected to continue to be, intense. Our competitors include non-U.S.-based institutions and institutions otherwise not subject to compensation and hiring regulations imposed on U.S. institutions and financial institutions in particular. The difficulty we face in competing for key personnel is exacerbated in emerging markets, where we are often competing for qualified employees with entities that may have a significantly greater presence or more extensive experience in the region.

In order to attract and retain qualified personnel, we must provide market-level compensation. As a large financial and banking institution, we may be subject to limitations on compensation practices (which may or may not affect our competitors) by the Federal Reserve, the FDIC or other regulators around the world. Any future limitations on executive compensation imposed by legislation or regulation could adversely affect our ability to attract and maintain qualified employees. Furthermore, a substantial portion of our annual bonus compensation paid to our senior employees has in recent years taken the form of long-term equity awards. The value of long-term equity awards to senior employees generally has been negatively affected by the significant decline in the market price of our common stock. If we are unable to continue to attract and retain qualified individuals, our business prospects, including our competitive position and results of operations, could be adversely affected.

In addition, if we fail to retain the wealth advisors that we employ in GWIM, particularly those with significant client relationships, such failure could result in a significant loss of clients or the withdrawal of significant client assets. Any such loss or withdrawal could adversely impact GWIM's business activities and our financial condition, results of operations and cash flows.

We may not be able to achieve expected cost savings from cost-saving initiatives, including from Project New BAC, or in accordance with currently anticipated time frames.

We are currently engaged in numerous efforts to achieve certain cost savings, including, among other things, Project New BAC.

Project New BAC is a two-phase, enterprise-wide initiative to simplify and streamline workflows and processes, align businesses and costs more closely with our overall strategic plan and operating principles, and increase revenues. Phase 1 focuses on the consumer businesses, including Deposits, Card Services and CRES, and related support, technology and operations functions. Phase 2 focuses on Global Commercial Banking, GBAM and GWIM, and related support, technology and operations functions not subject to evaluation in Phase 1. All aspects of Project New BAC are expected to be implemented by the end of 2014.

We may be unable to fully realize the cost savings and other anticipated benefits from our cost saving initiatives or in accordance with currently anticipated timeframes.

Our inability to adapt our products and services to evolving industry standards and consumer preferences could harm our businesses.

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

Risks Related to Risk Management

Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to the types of risk to which we are subject, including strategic, credit, market, liquidity, compliance, operational and reputational risks, among others. While we employ a broad and diversified set of risk monitoring and mitigation techniques, those techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions, heightened legislative and regulatory scrutiny of the financial services industry and increases in the overall complexity of our operations, among other developments, have resulted in a heightened level of risk for us. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks, including all correlations and downstream secondary or follow-on effects that occur.

For additional information about our risk management policies and procedures, see Managing Risk in the MD&A on page 68.

A failure in or breach of our operational or security systems or infrastructure, or those of third parties with which we do business, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. Any such failure also could have a material adverse effect on our business, financial condition and results of operations.

Our businesses are highly dependent on our ability to process, record and monitor, on a continuous basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. The potential for operational risk exposure exists throughout our organization, including losses resulting from unauthorized trades by any employees.

Integral to our performance is the continued efficacy of our internal processes, systems, relationships with third parties and the vast array of employees and key executives in our day-to-day and ongoing operations. With regard to the physical infrastructure and systems that support our operations, we have taken measures to implement backup systems and other safeguards, but our ability to conduct business may be adversely affected by any significant and widespread disruption to our infrastructure or systems. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our ability to process these transactions or provide these services. There could be sudden increases in customer transaction volume; electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and cyber attacks. We continuously update these systems to support our operations and growth. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones.

Information security risks for large financial institutions such as the Corporation have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks. Our banking, brokerage, investment advisory and capital markets businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smartphones, tablet PCs and other mobile devices that are beyond our control systems. Our technologies, systems, networks and our customers' devices have been subject to, and are likely to continue to be the target of, cyber attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business operations. Because of our prominence, we believe that such attacks may continue.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of the Corporation and its role in the financial services industry, our plans to continue to implement our Internet banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint and international presence, the outsourcing of some of our business operations, the continued uncertain global economic environment, and system and customer account conversions. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses and increased interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses. This consolidation and interconnectivity increases the risk of operational failure, on both individual and industry-wide bases, as disparate complex systems need to be integrated, often on an accelerated basis. Any such failure, termination or constraint could adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses, and could have a significant adverse impact on our liquidity, financial condition and results of operations.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in the loss of customers and business opportunities, legal liability, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensatory costs, and additional compliance costs, any of which could materially adversely affect our business, financial condition and results of operations.

For more information on operational risks and our operational risk management, see Operational Risk Management in the MD&A on page 119.

Risk of Being an International Business

We are subject to numerous political, economic, market, reputational, operational, legal, regulatory and other risks in the non-U.S. jurisdictions in which we operate which could adversely impact our businesses, financial condition and results of operations.

We do business throughout the world, including in developing regions of the world commonly known as emerging markets. Our businesses and revenues derived from non-U.S. jurisdictions are subject to risk of loss from currency fluctuations, social or judicial instability, changes in governmental policies or policies of central banks, expropriation, nationalization and/or confiscation of assets, price controls, capital controls, exchange controls, other restrictive actions, unfavorable political and diplomatic developments, and changes in legislation. These risks are especially acute in emerging markets. Many non-U.S. jurisdictions in which we do business have been negatively impacted by recessionary conditions. While a number of these jurisdictions are showing signs of recovery, others continue to experience increasing levels of stress. In addition, the increasing potential risk of default on sovereign debt in some non-U.S. jurisdictions could expose us to substantial losses. Risks in one country can affect our operations in another country or countries, including our operations in the U.S. As a result, any such unfavorable conditions or developments could have an adverse impact on our businesses, financial condition and results of operations.

Our non-U.S. businesses are also subject to extensive regulation by various non-U.S. regulators, including governments, securities exchanges, central banks and other regulatory bodies, in the jurisdictions in which those businesses operate. In many countries, the laws and regulations applicable to the financial services and securities industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market or manage our relationships with multiple regulators in various jurisdictions. Our inability to remain in compliance with local laws in a particular market and manage our relationships with regulators could have a significant and adverse effect not only on our businesses in that market but also on our reputation generally.

We also invest or trade in the securities of corporations and governments located in non-U.S. jurisdictions, including emerging markets. Revenues from the trading of non-U.S. securities may be subject to negative fluctuations as a result of the above factors. Furthermore, the impact of these fluctuations could be magnified, because non-U.S. trading markets, particularly in emerging market countries, are generally smaller, less liquid and more volatile than U.S. trading markets.

We are subject to geopolitical risks, including acts or threats of terrorism, and actions taken by the U.S. or other governments in response thereto and/or military conflicts, that could adversely affect business and economic conditions abroad as well as in the U.S.

For more information on our non-U.S. credit and trading portfolio, see Non-U.S. Portfolio in the MD&A on page 104.

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Risk from Accounting Changes

Changes in accounting standards or inaccurate estimates or assumptions in the application of accounting policies could adversely affect our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the reported value of our assets or liabilities and results of operations and are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. If those assumptions, estimates or judgments were incorrectly made, we could be required to correct and restate prior period financial statements.

Accounting standard-setters and those who interpret the accounting standards (such as the Financial Accounting Standards Board, the SEC, banking regulators and our independent registered public accounting firm) may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the Corporation needing to revise and republish prior period financial statements.

For more information on some of our critical accounting policies and standards and recent accounting changes, see Complex Accounting Estimates in the MD&A on page 120 and Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

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Item 1B. Unresolved Staff Comments
None
Item 2. Properties
As of December 31, 2011, our principal offices and other materially important properties consisted of the following:

| Facility Name | Location | General Character of the Physical Property | Primary Business Segment | Property Status | Property Square Feet [(1)] |
|---|---|---|---|---|---|
| Corporate Center | Charlotte, NC | 60 Story Building | Principal Executive Offices | Owned | 1,222,129 |
| One Bryant Park | New York, NY | 54 Story Building | GBAM, GWIM and Global Commercial Banking | Leased [(2)] | 1,788,182 |
| Bank of America Home Loans | Calabasas, CA | 3 Story Building | CRES | Owned | 245,000 |
| Merrill Lynch Financial Center | London, UK | 4 Building Campus | GBAM and GWIM | Leased | 568,307 |
| Nihonbashi 1-Chome Building | Tokyo, Japan | 24 Story Building | GBAM | Leased | 263,723 |

(1) For leased properties, property square feet represents the square footage occupied by the Corporation.
(2) The Corporation has a 49.9 percent joint venture interest in this property.

We own or lease approximately 115.5 million square feet in 25,912 locations globally, including approximately 107.9 million square feet in the United States (all 50 U.S. states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico) and approximately 7.6 million square feet in 46 non-U.S. countries.
We believe our owned and leased properties are adequate for our business needs and are well maintained. We continue to evaluate our owned and leased real estate and may determine from time to time that certain of our premises and facilities, or ownership structures, are no longer necessary for our operations. In connection therewith, we are evaluating the sale or sale/

leaseback of certain properties and we may incur costs in connection with any such transactions.
Item 3. Legal Proceedings
See Litigation and Regulatory Matters in Note 14 – Commitments and Contingencies to the Consolidated Financial Statements, which is incorporated herein by reference.
Item 4. Mine Safety Disclosures
None

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Part II
Bank of America Corporation and Subsidiaries
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

| | Quarter | High | Low |
|---|---|---|---|
| 2010 | first | $18.04 | $14.45 |
| | second | 19.48 | 14.37 |
| | third | 15.67 | 12.32 |
| | fourth | 13.56 | 10.95 |
| 2011 | first | 15.25 | 13.33 |
| | second | 13.72 | 10.50 |
| | third | 11.09 | 6.06 |
| | fourth | 7.35 | 4.99 |

As of February 17, 2012, there were 237,902 registered shareholders of common stock. During 2010 and 2011, we paid

dividends on the common stock on a quarterly basis.

The table below sets forth dividends paid per share of our common stock for the periods indicated:

| | Quarter | Dividend |
|---|---|---|
| 2010 | first | $0.01 |
| | second | 0.01 |
| | third | 0.01 |
| | fourth | 0.01 |
| 2011 | first | 0.01 |
| | second | 0.01 |
| | third | 0.01 |
| | fourth | 0.01 |

For additional information regarding our ability to pay dividends, see Note 15 – Shareholders' Equity and Note 18 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements, which are incorporated herein by reference.

For information on our equity compensation plans, see Note 20 – Stock-based Compensation Plans to the Consolidated Financial Statements and Item 12 on page 278 of this report, which are incorporated herein by reference.

The table below presents share repurchase activity for the three months ended December 31, 2011.

| (Dollars in millions, except per share information; shares in thousands) | Common Shares Repurchased [1] | Weighted-Average Per Share Price | Shares Purchased as Part of | Remaining Buyback Authority Amounts | Shares |
|---|---|---|---|---|---|

| | | | Publicly Announced Programs | | |
|---|---|---|---|---|---|
| October 1 – 31, 2011 | 281 | $ 6.15 | — | $— | — |
| November 1 – 30, 2011 | 3 | 6.44 | — | — | — |
| December 1 – 31, 2011 | 80 | 5.66 | — | — | — |
| Three months ended December 31, 2011 | 364 | 6.05 | | | |

(1) Consists of shares acquired by the Corporation in connection with satisfaction of tax withholding obligations on vested restricted stock or restricted stock units and certain forfeitures from terminations of employment related to awards under equity incentive plans.

We did not have any unregistered sales of our equity securities in 2011, except as previously disclosed on Form 8-K.

## Item 6. Selected Financial Data

See Table 7 in the MD&A on page 37 and Table XII of the Statistical Tables in the MD&A on page 139, which are incorporated herein by reference.

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Item 7. 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.

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

This report on Form 10-K, the documents that it incorporates by reference and the documents into which it may be incorporated by reference may contain, and from time to time Bank of America Corporation (collectively with its subsidiaries, the Corporation) and its management may make certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "expects," "anticipates," "believes," "estimates," "targets," "intends," "plans," "goal" and other similar expressi future or conditional verbs such as "will," "may," "might," "should," "would" and "could." The forward-looking statements ma represent the current expectations, plans or forecasts of the Corporation regarding the Corporation's future results and revenues, and future business and economic conditions more generally, including statements concerning: the potential impacts of the European Union sovereign debt crisis; the impact of the U.K. 2011 Finance Bill and review by the U.K. Financial Services Authority; the charge to income for each one percent reduction in the U.K. corporate income tax rate; the agreements in principle with the state attorneys general and U.S. Department of Justice are expected to result in programs that would extend additional relief to homeowners and make refinancing options available to more homeowners; the programs expected to be developed pursuant to the agreements in principle, including expanded mortgage modification solutions such as broader use of principal reduction, short sales and other additional assistance programs, expanded refinancing opportunities, the amount of our commitments under the agreements in principle, as well as expectations that further details about eligibility and implementation will be provided; that the financial impact of the settlements is not expected to cause any additional reserves over existing accruals as of December 31, 2011 based on our understanding of the terms of the agreements in principle, as well as the expected impact of refinancing assistance and operating costs; that certain amounts may be reduced by credits earned for principal reductions; that our payment obligations under agreements in principle with the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency would be deemed satisfied by payments and provisions of relief under the agreements in principle; the expectation that government entities will provide releases from further liability and the exclusions from the releases; expectations regarding reaching final agreements, obtaining necessary regulatory and court approvals and finalization of the settlements; the planned schedule and details for implementation and completion of, and the expected impact from, Phase 1 and Phase 2 of Project New BAC, including expected personnel reductions and estimated cost savings; the impact of and costs associated with each of the agreements with the Bank of New York Mellon (as trustee for certain legacy Countrywide Financial Corporation (Countrywide) private-label securitization trusts), and each of the government-sponsored enterprises, Fannie Mae (FNMA) and Freddie Mac (collectively, the GSEs), to resolve bulk representations and warranties claims; our expectation that the $1.7 billion in claims from private-label securitization investors in the covered trusts under the private-label securitization settlement with the Bank of New York Mellon (the BNY Mellon Settlement) would be extinguished upon

final court approval of the BNY Mellon Settlement; the belief that the provisions recorded in connection with the BNY Mellon Settlement and the additional non-GSE representations and warranties provisions recorded in 2011 have provided for a substantial portion of the Corporation's non-GSE repurchase claims; the estimated range of possible loss for non-GSE representations and warranties exposure as of December 31, 2011 of up to $5 billion over existing accruals and the effect of adverse developments with respect to one or more of the assumptions underlying the liability for non-GSE representations and warranties and the corresponding estimated range of possible loss; the continually evolving behavior of the GSEs, and the Corporation's intention to monitor and repurchase loans to the extent required under the contracts and standards that govern our relationships with the GSEs and update its processes related to these changing GSE behaviors; our expressed intention not to pay compensatory fees under the new GSE servicing guides; the adequacy of the liability for the remaining representations and warranties exposure to the GSEs and the future impact to earnings, including the impact on such estimated liability arising from the announcement by FNMA regarding mortgage rescissions, cancellations and claim denials; our beliefs regarding our ability to resolve rescissions before the expiration of the appeal period allowed by FNMA; our expectation that mortgage-related assessments and waivers costs and costs related to resources necessary to perform the foreclosure process assessments will remain elevated as additional loans are delayed in the foreclosure process; the expected repurchase claims on the 2004-2008 loan vintages, including the belief regarding reduced exposure related to loans originated after 2008; the Corporation's intention to vigorously contest any requests for repurchase for which it concludes that a valid basis does not exist; future impact of complying with the terms of the consent orders with federal bank regulators regarding the foreclosure process; the impact of delays in connection with the Corporation's temporary halt of foreclosure proceedings in late 2010; continued cooperation with investigations; the potential materiality of liability with respect to potential servicing-related claims; our estimates regarding the percentages of loans expected to prepay, default or reset in 2012 and thereafter; the net recovery projections for credit default swaps with monoline financial guarantors; the impact on economic conditions and on the Corporation arising from any further changes to the credit rating or perceived creditworthiness of instruments issued, insured or guaranteed by the U.S. government, or of institutions, agencies or instrumentalities directly linked to the U.S. government; the realizability of deferred tax assets prior to expiration of any carryforward periods; credit trends and conditions, including credit losses, credit reserves, the allowance for credit losses, the allowance for loan and lease losses, charge-offs, delinquency, collection and bankruptcy trends, and nonperforming asset levels, including continued expected reductions in the allowance for loan and lease losses in 2012; the role of non-core asset sales in our capital strategy; investment banking fees; sales and trading revenue; consumer and commercial service charges, including the impact of changes in the Corporation's overdraft policy and the Corporation's ability to mitigate a decline in revenues; the effects of new accounting pronouncements; capital levels determined by or established in accordance with accounting principles generally accepted in the United States of America and with the requirements

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of various regulatory agencies, including our ability to comply with any Basel capital requirements endorsed by U.S. regulators within any applicable regulatory timelines; the expectation that the Corporation will meet the Basel III liquidity standards within regulatory timelines; the revenue impact and the impact on the value of our assets and liabilities resulting from, and any mitigation actions taken in response to, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act), including, but not limited to, the Durbin Amendment and the Volcker Rule; our expectations regarding the December 15, 2010 notice of proposed rulemaking on the Risk-based Capital Guidelines for Market Risk; our expectation that our market share of mortgage originations will continue to decline in 2012; CRES's ceasing to deliver purchase money first mortgage products into FNMA mortgage-backed securities pools and our expectation that this cessation will not have a material impact on CRES's business; our expectations regarding losses in the event of legitimate mortgage insurance rescissions related to loans held for investment; our expressed intended actions in the response to repurchase requests with which we do not agree; the continued reduction of our debt footprint as appropriate through 2013; the estimated range of possible loss from and the impact of various legal proceedings discussed in "Litigation and Regulatory Matters" in Note 14 – Commitments and Contingencies to the Consolidated Financial Statements; our management processes; credit protection maintained and the effects of certain events on those positions; our estimates of contributions to be made to pension plans; our expectations regarding probable losses related to unfunded lending commitments; our funding strategies including contingency plans; our trading risk management processes; our interest rate and mortgage banking risk management strategies and models; our expressed intention to build capital through retaining earnings, actively reducing legacy asset portfolios and implementing other capital-related initiatives, including focusing on reducing both higher risk-weighted assets and assets currently deducted or expected to be deducted under Basel III, from capital; and other matters relating to the Corporation and the securities that it may offer from time to time. The foregoing is not an exclusive list of all forward-looking statements the Corporation makes. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and are often beyond Bank of America's control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties more fully discussed elsewhere in this report, under Item 1A. Risk Factors of this report and in any of the Corporation's subsequent Securities and Exchange Commission filings: the Corporation's timing and determinations regarding any revised comprehensive capital plan submission and the Federal Reserve's response; the accuracy and variability of estimates and assumptions in determining the expected value of the loss-sharing reinsurance arrangement relating to the agreement with Assured Guaranty and the total cost of the agreement to the Corporation; the Corporation's resolution of certain representations and warranties obligations with the GSEs and our ability to resolve the GSEs' remaining claims; the Corporation's ability to resolve its

representations and warranties obligations, and any related servicing, securities, fraud, indemnity or other claims with monolines, and private-label investors and other investors, including those monolines and investors from whom the Corporation has not yet received claims or with whom it has not yet reached any resolutions; the Corporation's mortgage modification policies and related results; the timing and amount of any potential dividend increase, including any necessary approvals; estimates of the fair value of certain of the Corporation's assets and liabilities; the identification and effectiveness of any initiatives to mitigate the negative impact of the Financial Reform Act; the Corporation's ability to limit liabilities acquired as a result of the Merrill Lynch & Co., Inc. and Countrywide acquisitions; and decisions to downsize, sell or close units or otherwise change the business mix of the Corporation.

Forward-looking statements speak only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

Notes to the Consolidated Financial Statements referred to in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) are incorporated by reference into the MD&A. Certain prior period amounts have been reclassified to conform to current period presentation. Throughout the MD&A, the Corporation uses certain acronyms and abbreviations which are defined in the Glossary.

## Executive Summary

### Business Overview

The Corporation is a Delaware corporation, a bank holding company and a financial holding company. When used in this report, "the Corporation" may refer to the Corporation individually, the Corporation and its subsidiaries, or certain of the Corporation's subsidiaries or affiliates. Our principal executive offices are located in Charlotte, North Carolina. Through our banking and various nonbanking subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbanking financial services and products through six business segments: Deposits, Card Services, Consumer Real Estate Services (CRES), Global Commercial Banking, Global Banking & Markets (GBAM) and Global Wealth & Investment Management (GWIM), with the remaining operations recorded in All Other. At December 31, 2011, the Corporation had $2.1 trillion in assets and approximately 282,000 full-time equivalent employees.

As of December 31, 2011, we operate in all 50 states, the District of Columbia and more than 40 countries. Our retail banking footprint covers approximately 80 percent of the U.S. population and in the U.S., we serve approximately 57 million consumer and small business relationships with 5,700 banking centers, 17,750 ATMs, nationwide call centers, and leading online and mobile banking platforms. We offer industry-leading support to approximately four million small business owners. We are a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions and individuals around the world.

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Table 1 provides selected consolidated financial data for 2011 and 2010.

Table 1 Selected Financial Data

| (Dollars in millions, except per share information) | 2011 | | 2010 | |
|---|---|---|---|---|
| Income statement | | | | |
| Revenue, net of interest expense (FTE basis) [1] | $94,426 | | $111,390 | |
| Net income (loss) | 1,446 | | (2,238 | ) |
| Net income, excluding goodwill impairment charges [2] | 4,630 | | 10,162 | |
| Diluted earnings (loss) per common share [3] | 0.01 | | (0.37 | ) |
| Diluted earnings per common share, excluding goodwill impairment charges [2] | 0.32 | | 0.86 | |
| Dividends paid per common share | 0.04 | | 0.04 | |
| Performance ratios | | | | |
| Return on average assets | 0.06 | % | n/m | |
| Return on average assets, excluding goodwill impairment charges [2] | 0.20 | | 0.42 | % |
| Return on average tangible shareholders' equity[1] | 0.96 | | n/m | |
| Return on average tangible shareholders' equity, excluding goodwill impairment charges[1, 2] | 3.08 | | 7.11 | |
| Efficiency ratio (FTE basis) [1] | 85.01 | | 74.61 | |
| Efficiency ratio (FTE basis), excluding goodwill impairment charges [1, 2] | 81.64 | | 63.48 | |
| Asset quality | | | | |
| Allowance for loan and lease losses at December 31 | $33,783 | | $41,885 | |
| Allowance for loan and lease losses as a percentage of total loans and leases outstanding at December 31 [4] | 3.68 | % | 4.47 | % |
| Nonperforming loans, leases and foreclosed properties at December 31 [4] | $27,708 | | $32,664 | |
| Net charge-offs | 20,833 | | 34,334 | |
| Net charge-offs as a percentage of average loans and leases outstanding [4] | 2.24 | % | 3.60 | % |
| Net charge-offs as a percentage of average loans and leases outstanding excluding purchased credit-impaired loans [4] | 2.32 | | 3.73 | |
| Ratio of the allowance for loan and lease losses at December 31 to net charge-offs | 1.62 | | 1.22 | |
| Ratio of the allowance for loan and lease losses at December 31 to net charge-offs excluding purchased credit-impaired loans | 1.22 | | 1.04 | |
| Balance sheet at year end | | | | |
| Total loans and leases | $926,200 | | $940,440 | |
| Total assets | 2,129,046 | | 2,264,909 | |
| Total deposits | 1,033,041 | | 1,010,430 | |
| Total common shareholders' equity | 211,704 | | 211,686 | |
| Total shareholders' equity | 230,101 | | 228,248 | |
| Capital ratios at year end | | | | |
| Tier 1 common capital | 9.86 | % | 8.60 | % |
| Tier 1 capital | 12.40 | | 11.24 | |
| Total capital | 16.75 | | 15.77 | |
| Tier 1 leverage | 7.53 | | 7.21 | |

(1) Fully taxable-equivalent (FTE) basis, return on average tangible shareholders' equity and the efficiency ratio are non-GAAP financial measures. Other companies may define or calculate these measures differently. For additional information on these measures and ratios, see Supplemental Financial Data on page 38, and for a corresponding reconciliation to GAAP financial measures, see Table XV.

(2) Net income (loss), diluted earnings (loss) per common share, return on average assets, return on average tangible shareholders' equity and the efficiency ratio have been calculated excluding the impact of goodwill impairment charges of $3.2 billion and $12.4 billion in 2011 and 2010, and accordingly, these are non-GAAP financial

measures. For additional information on these measures and ratios, see Supplemental Financial Data on page 38, and for a corresponding reconciliation to GAAP financial measures, see Table XV.

(3) Due to a net loss applicable to common shareholders in 2010, the impact of antidilutive equity instruments was excluded from diluted earnings (loss) per share and average diluted common shares.

(4) Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions from nonperforming loans, leases and foreclosed properties, see Nonperforming Consumer Loans and Foreclosed Properties Activity on page 92 and corresponding Table 36, and Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity on page 100 and corresponding Table 45.

n/m = not meaningful

## 2011 Economic and Business Environment

The banking environment and markets in which we conduct our businesses will continue to be strongly influenced by developments in the U.S. and global economies, including the results of the European Union (EU) sovereign debt crisis, continued large budget imbalances in key developed nations, and the implementation and rulemaking associated with recent financial reform. The global economy expanded at a diminished pace in 2011, with the U.S., U.K., Europe and Japan all losing momentum, while economic growth in emerging nations diminished somewhat but remained robust.

### United States

The U.S. economy expanded only modestly in 2011, as a promising beginning with an improving labor market gave way to an appreciable slowdown in domestic demand early in the year. By mid-year, the labor market had slowed once more, followed by a

sharp reversal in the stock market and in consumer sentiment. Increasing oil prices and supply chain disruptions stemming from Japan's earthquake, along with continued financial market anxiety due to the European sovereign debt crisis and difficult and protracted U.S. budget negotiations related to the federal debt ceiling, contributed to the weakness. As some of these factors dissipated, domestic demand picked up in the second half of 2011, easing U.S. recession fears. In the fourth quarter, equities rebounded from their mid-year declines, consumer confidence edged up and labor markets showed clear signs of improvement. The unemployment rate ended the year at 8.5 percent compared to 9.4 percent at December 31, 2010.

Despite subdued U.S. economic growth, year-over-year inflation drifted higher over the first three quarters of 2011, lifted in part by the surge in energy costs, before edging lower in the fourth quarter. Fears of deflation, prevalent in 2010, faded as year-over-year core inflation, which began 2011 below one percent, moved

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to above two percent by year end. Nevertheless, bond yields, which drifted gradually lower in the first half of 2011, fell during a volatile third quarter amid anxiety over the European sovereign debt crisis, exacerbated by the U.S. debt ceiling debate and fears of recession. Despite the Standard & Poor's Rating Services (S&P) ratings downgrade of U.S. sovereign debt, mounting concerns about Europe's financial crisis generated strong demand for U.S. government securities. The Federal Reserve completed its second round of quantitative easing near mid-year. Responding to sharp declines in equity markets, low consumer expectations and heightened worries about recession, the Federal Reserve adopted another financial support program in September 2011 aimed at lowering bond yields. The program involved sales of $400 billion of shorter-term (less than three years) government securities and purchases of an equal volume of longer-term (six years and over) government bonds. Bonds yields held near all-time post-Great Depression lows at year end.

Housing activity remained at historically low levels in 2011 and the supply of unsold homes remained high. Meanwhile, corporate profits continued to grow at a robust pace in 2011, despite slowing from their initial sharp rebound. After bottoming in late 2010, commercial and industrial lending also accelerated in 2011.

Europe

Europe's financial crisis escalated in 2011 despite a series of initiatives by policymakers, and several European nations were experiencing recessionary conditions in the fourth quarter. Europe's problems involve unsustainably high public debt in some nations, including Greece and Portugal, slow growth and significant refinancing risk related to maturing sovereign debt in Italy, and excess household debt and sharp declines in wealth stemming from falling home values following unsustainable housing bubbles in other nations, including Spain and Ireland. These national challenges are closely intertwined with the problems facing Europe's banks, which are some of the largest holders of the bonds of troubled European nations. During 2011, financial markets became increasingly skeptical that government policies would resolve these problems, and risk-averse investors reduced their exposures to bonds of troubled nations, driving up their bond yields and, to varying degrees, restricting access to capital markets. This exacerbated already onerous debt service burdens. In response, European policymakers provided financial support to troubled nations through the European Financial Stability Facility (EFSF) and purchases of sovereign debt by the European Central Bank (ECB). Despite these efforts, sharp increases in the bond yields of Spanish and Italian bonds further complicated Europe's financial problems beyond the current capabilities of the EFSF. As the magnitude of the financial stresses rose, reflected in higher sovereign bond yields and mounting funding shortfalls at select banks, the ECB instituted new programs to provide low-cost, three-year loans to European banks, and expanded collateral eligibility. This served to alleviate bank funding pressures toward year end and provided greater liquidity in sovereign debt markets.

Asia

Japan's economic environment in 2011 was marked by the trauma of its massive earthquake in early 2011 that caused a dramatic decline in economic activity followed by a quick rebound. A sharp decline in consumption and domestic demand was accompanied

by temporary production shutdowns of various intermediate and durable goods that disrupted supply chains throughout Asia and the world. The ripple effects were pronounced, although temporary, throughout Asia. China continued to grow rapidly throughout 2011, with real GDP growth exceeding nine percent, despite elevated inflation and government efforts to constrain price pressures through the tightening of monetary policy and bank credit, and regulations that limit speculation and price increases in real estate. China's economic growth slowed modestly in the second half of the year, reflecting in part slower growth of exports to Europe and other destinations. China's inflation also began to subside toward year end. Other Asian nations continued to experience strong growth rates.

For information on our non-U.S. portfolio, see Non-U.S. Portfolio on page 104 and Note 28 – Performance by Geographical Area to the Consolidated Financial Statements.

Recent Events

Mortgage Related Matters

Department of Justice/Attorney General Matters

On February 9, 2012, we reached agreements in principle (collectively, the Servicing Resolution Agreements) with (1) the U.S. Department of Justice (DOJ), various federal regulatory agencies and 49 state attorneys general to resolve federal and state investigations into certain origination, servicing and foreclosure practices (the Global AIP), (2) the Federal Housing Administration (FHA) to resolve certain claims relating to the origination of FHA-insured mortgage loans, primarily by Countrywide prior to and for a period following our acquisition of that lender (the FHA AIP) and (3) each of the Federal Reserve and the Office of the Comptroller of the Currency (OCC) regarding civil monetary penalties related to conduct that was the subject of consent orders entered into with the banking regulators in April 2011 (the Consent Order AIPs).

The Servicing Resolution Agreements are subject to ongoing discussions among the parties and completion and execution of definitive documentation, as well as required regulatory and court approvals. The FHA AIP provides for an upfront cash payment and an additional cash payment if we fail to meet certain principal reduction thresholds over a three-year period. Under the terms of the Servicing Resolution Agreements, the federal and participating state governments would provide us with releases from liability for certain alleged residential mortgage origination, servicing and foreclosure deficiencies.

The financial impact of the Servicing Resolution Agreements is not expected to require any additional reserves over existing accruals as of December 31, 2011, based on our understanding of the terms of the Servicing Resolution Agreements. The refinancing assistance commitment under the Servicing Resolution Agreements is expected to be recognized as lower interest income in future periods as qualified borrowers pay reduced interest rates on loans refinanced. The Servicing Resolution Agreements do not cover claims arising out of securitization, including representations made to investors respecting mortgage-backed securities (MBS) and certain other claims. For additional information, see Item 1A. Risk Factors and Off-Balance Sheet Arrangements and Contractual Obligations – Other Mortgage-related Matters on page 63.

Private-label Securitization Settlement with the Bank of New York Mellon

On June 28, 2011, the Corporation, BAC Home Loans Servicing, LP (BAC HLS, which was subsequently merged with and into Bank of America, N.A. (BANA) in July 2011), and its legacy Countrywide affiliates entered into a settlement agreement with BNY Mellon, as trustee (Trustee), to resolve all outstanding and potential claims related to alleged representations and warranties breaches (including repurchase claims), substantially all historical loan servicing claims and certain other historical claims with respect to 525 legacy Countrywide first-lien and five second-lien non government-sponsored enterprise (GSE) residential mortgage-backed securitization trusts (the Covered Trusts) containing loans principally originated between 2004 and 2008 for which BNY Mellon acts as trustee or indenture trustee (the BNY Mellon Settlement). The BNY Mellon Settlement agreement is subject to final court approval and certain other conditions.

An investor opposed to the settlement removed the proceeding to the U.S. District Court for the Southern District of New York. On October 19, 2011, the district court denied BNY Mellon's motion to remand the proceeding to state court. BNY Mellon and the Investor Group petitioned to appeal the denial of this motion and on December 27, 2011, the U.S. Court of Appeals for the Second Circuit accepted the appeal and stated in an amended scheduling order that, pursuant to statute, it would decide the appeal by February 27, 2012. On November 4, 2011, the district court entered a written order setting a discovery schedule, and discovery is ongoing.

It is not currently possible to predict how many of the parties who have appeared in the court proceeding will ultimately object to the BNY Mellon Settlement, whether the objections will prevent receipt of final court approval or the ultimate outcome of the court approval process, which can include appeals and could take a substantial period of time. In particular, the conduct of discovery and the resolution of the objections to the settlement and any appeals could also take a substantial period of time and these factors, along with the removal of the proceedings to federal court and the associated appeal, could materially delay the timing of final court approval. Accordingly, it is not possible to predict when the court approval process will be completed.

For additional information about the BNY Mellon Settlement, see Off-Balance Sheet Arrangements and Contractual Obligations – Representations and Warranties on page 56, Off-Balance Sheet Arrangements and Contractual Obligations – Other Mortgage-related Matters on page 63 and Note 9 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements. For more information about the risks associated with the BNY Mellon Settlement, see Item 1A. Risk Factors.

Capital Related Matters

We continued to sell certain business units and assets as part of our capital management and enterprise-wide initiatives. In November 2011, we sold an aggregate of approximately 10.4 billion common shares of China Construction Bank Corporation (CCB) through private transactions with investors resulting in an aggregate pre-tax gain of $2.9 billion. We currently hold approximately one percent of the outstanding common shares of CCB. The sale also generated approximately $2.9 billion of Tier 1 common capital and reduced our risk-weighted assets by $4.9 billion under Basel I, strengthening our Tier 1 common capital ratio by approximately 24 basis points (bps).

In December 2011, we sold our Canadian consumer card portfolio strengthening our Tier 1 common capital ratio by approximately seven bps.

In November and December 2011, we entered into separate agreements with certain institutional preferred and trust preferred security holders to exchange shares, or depositary shares representing fractional interests in shares, of various series of our outstanding preferred stock, or trust preferred or hybrid income term securities of various unconsolidated trusts, as applicable, with an aggregate liquidation preference of $5.8 billion for 400 million shares of our common stock and $2.3 billion aggregate principal amount of our senior notes. In connection with the exchanges of trust preferred securities, we recorded gains of $1.2 billion. The exchanges in aggregate resulted in an increase of $3.9 billion in Tier 1 common capital and increased our Tier 1 common capital ratio approximately 29 bps under Basel I. For additional information regarding these exchanges, see Note 13 – Long-term Debt and Note 15 – Shareholders' Equity to the Consolidated Financial Statements.

Overall during 2011, we generated 126 bps of Tier 1 common capital and reduced risk-weighted assets by $172 billion, including as a result of, among other things, the exchanges of preferred stock and trust preferred or hybrid securities, our sales of CCB shares and the $5.0 billion investment in preferred stock and common stock warrant by Berkshire Hathaway, Inc. (Berkshire). For additional information on the Berkshire investment, see Note 15 – Shareholders' Equity to the Consolidated Financial Statements.

As credit spreads for many financial institutions, including the Corporation, have widened during the past year due to global uncertainty and volatility, the market value of debt previously issued by financial institutions has decreased. This uncertainty in the market, evidenced by, among other things, volatility in credit spreads, makes it economically advantageous to consider purchasing and retiring certain of our outstanding debt instruments. In 2012, we completed a tender offer to purchase and retire certain subordinated notes for approximately $3.4 billion in cash and will consider additional purchases in the future depending upon prevailing market conditions, liquidity and other factors. If the purchase of any debt instruments is at an amount less than the carrying value, such purchases would be accretive to earnings and capital.

We intend to continue to build capital through retaining earnings, actively reducing legacy asset portfolios and implementing other capital related initiatives, including focusing on reducing both higher risk-weighted assets and assets currently deducted, or expected to be deducted under Basel III, from capital. We expect non-core asset sales to play a less prominent role in our capital strategy in future periods. We issued approximately 122 million of immediately tradable shares of common stock, or approximately $1.0 billion (after-tax) to certain employees in February 2012 in lieu of a portion of their 2011 year-end cash incentive. We may engage, from time to time, in privately negotiated transactions involving the issuance of common stock, cash or other consideration in exchange for preferred stock and certain trust preferred securities in amounts that are not expected to be material to us, either individually or in the aggregate.

Credit Ratings

On December 15, 2011, Fitch Ratings (Fitch) downgraded the Corporation's and BANA's long-term and short-term debt ratings as a result of Fitch's decision to lower its "support floor" for systemically important U.S. financial institutions. On November 29, 2011, S&P downgraded our long-term and short-term debt ratings as well as BANA's long-term debt rating as a result of S&P's implementation of revised methodologies for determining Banking Industry Country Risk Assessments and bank ratings. On September 21, 2011, Moody's Investors Service, Inc. (Moody's) downgraded our long-term and short-term debt ratings as well as BANA's long-term debt rating as a result of Moody's lowering the amount of uplift for potential U.S. government support it incorporates into ratings. On February 15, 2012, Moody's placed the Corporation's long-term debt ratings and BANA's long-term and short-term debt ratings on review for possible downgrade as part of its review of financial institutions with global capital markets operations. Any adjustment to our ratings will be determined based on Moody's review; however, the agency offered guidance that downgrades to our ratings, if any, would likely be limited to one notch.

Currently, our long-term/short-term senior debt ratings and outlooks expressed by the rating agencies are as follows: Baa1/P-2 (negative) by Moody's, A-/A-2 (negative) by S&P and A/F1 (stable) by Fitch. The rating agencies could make further adjustments to our ratings at any time and there can be no assurance that additional downgrades will not occur.

Under the terms of certain over-the-counter (OTC) derivative contracts and other trading agreements, in the event of a downgrade of our credit ratings or certain subsidiaries' credit ratings, counterparties to those agreements may require us or certain subsidiaries to provide additional collateral or to terminate those contracts or agreements or provide other remedies.

For information regarding the risks associated with adverse changes in our credit ratings, see Liquidity Risk – Credit Ratings on page 79, Note 4 – Derivatives to the Consolidated Financial Statements and Item 1A. Risk Factors.

European Union Sovereign Credit Risks

Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, continue to experience varying degrees of financial stress. Uncertainty in the progress of debt restructuring negotiations and the lack of a clear resolution to the crisis has led to continued volatility in European as well as global financial markets, and if the situation worsens, may further adversely affect these markets. In December 2011, the European Central Bank announced initiatives to address European bank liquidity and funding concerns by providing low-cost, three-year loans to banks, and expanding collateral eligibility. While reducing systemic risk, there remains considerable uncertainty as to future developments regarding the European debt crisis. In early 2012, S&P, Fitch and Moody's downgraded the credit ratings of several European countries, and S&P downgraded the credit rating of the EFSF, adding to concerns about investor appetite for continued support in stabilizing the affected countries. Our total sovereign and non-sovereign exposure to Greece, Italy, Ireland, Portugal and Spain, was $15.3 billion at December 31, 2011 compared to $16.6 billion at December 31, 2010. Our total net sovereign and non-sovereign exposure to these countries was $10.5 billion at December 31, 2011 compared to $12.4 billion at December 31, 2010, after taking into account net credit default protection. At December 31, 2011 and 2010, the fair value of net credit default protection purchased was $4.9 billion and $4.2 billion. Losses could still result because our credit protection contracts only pay out under certain scenarios. For a further discussion of our direct sovereign and non-sovereign exposures in Europe, see Non-U.S. Portfolio on page 104 and for more information about the risks associated with our non-sovereign exposures in Europe, see Item 1A. Risk Factors.

Project New BAC

Project New BAC is a two-phase, enterprise-wide initiative to simplify and streamline workflows and processes, align businesses and expenses more closely with our overall strategic plan and operating principles, and increase revenues. Phase 1 evaluations, which were completed in September 2011, focused on the consumer businesses, including Deposits, Card Services and CRES, and related support, technology and operations functions. Phase 2 evaluations began in October 2011 and are focused on Global Commercial Banking, GBAM and GWIM, and related support, technology and operations functions not subject to evaluation in Phase 1. Phase 2 evaluations are expected to continue through April 2012.

Implementation of Phase 1 recommendations began in 2011. Phase 1 has a stated goal of a reduction of approximately 30,000 positions, with natural attrition and the elimination of unfilled positions expected to represent a significant part of the reduction. A stated goal of the full implementation of Phase 1 is to reduce certain costs by $5 billion per year by 2014 and we anticipate that more than 20 percent of these cost savings could be achieved by the end of 2012. As implementation of the Phase 1 recommendations continues and Phase 2 begins, reductions in staffing levels in the affected areas are expected to result in some incremental costs including severance.

Reductions in the areas subject to evaluation for Phase 2 have not yet been fully identified, and accordingly, potential cost savings cannot be estimated at this time; however, they are expected to be lower than Phase 1 because the businesses have lower headcount. All aspects of New BAC are expected to be implemented by the end of 2014. There were no material expenses related to New BAC recorded in 2011. For information about the risks associated with Project New BAC, see Item 1A. Risk Factors.

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Performance Overview

Net income was $1.4 billion in 2011 compared to a net loss of $2.2 billion in 2010. After preferred stock dividends of $1.4 billion in both 2011 and 2010, net income applicable to common shareholders was $85 million, or $0.01 per diluted common share in 2011 compared to a net loss of $3.6 billion, or $0.37 per diluted common share in 2010. The principal contributors to the pre-tax net income in 2011 were the following: gains of $6.5 billion on the sale of CCB shares (we currently hold approximately one percent of the outstanding common shares), a $7.4 billion reduction in the allowance for credit losses, $3.4 billion of gains on sales of debt securities, positive fair value adjustments of $3.3 billion related to our own credit spreads on structured liabilities, a $1.2 billion gain on the exchange of certain trust preferred securities for common stock and debt and DVA gains on derivatives of $1.0 billion, net of hedges. These contributors were offset by $15.6 billion in representations and warranties provision, litigation expense of $5.6 billion, goodwill impairment charges of $3.2 billion, $1.8 billion of mortgage-related assessments and waivers costs, and $1.1 billion of impairment charges on our merchant services joint venture.

Table 2 Summary Income Statement

| (Dollars in millions) | 2011 | 2010 |
|---|---|---|
| Net interest income (FTE basis) [1] | $45,588 | $52,693 |
| Noninterest income | 48,838 | 58,697 |
| Total revenue, net of interest expense (FTE basis) [1] | 94,426 | 111,390 |
| Provision for credit losses | 13,410 | 28,435 |
| Goodwill impairment | 3,184 | 12,400 |
| All other noninterest expense | 77,090 | 70,708 |
| Income (loss) before income taxes | 742 | (153) |
| Income tax expense (benefit) (FTE basis) [1] | (704) | 2,085 |
| Net income (loss) | 1,446 | (2,238) |
| Preferred stock dividends | 1,361 | 1,357 |
| Net income (loss) applicable to common shareholders | $85 | $(3,595) |
| | | |
| Per common share information | | |
| Earnings (loss) | $0.01 | $(0.37) |
| Diluted earnings (loss) | 0.01 | (0.37) |

(1) Fully taxable-equivalent (FTE) basis is a non-GAAP financial measure. Other companies may define or calculate this measure differently. For more information on this measure, see Supplemental Financial Data on page 38, and for a corresponding reconciliation to a GAAP financial measure, see Table XV.

Net interest income on a FTE basis decreased $7.1 billion in 2011 to $45.6 billion. The decline was primarily due to lower consumer loan balances and yields and decreased investment security yields. Lower trading-related net interest income also negatively impacted 2011 results. These decreases were partially offset by ongoing reductions in our debt footprint and lower rates paid on deposits. The net interest yield on a FTE basis was 2.48 percent for 2011 compared to 2.78 percent for 2010.

Noninterest income decreased $9.9 billion in 2011 to $48.8 billion. The most significant contributors to the decline were lower mortgage banking income, down $11.6 billion largely due to higher representations and warranties provision, and a decrease of $3.4 billion in trading account profits. These declines were partially offset by the gains on the sale of CCB shares and higher positive fair value adjustments related to our own credit on structured liabilities in 2011. In addition, in connection with separate agreements with certain trust preferred security holders to exchange their holdings for common stock and senior notes, we recorded gains of $1.2 billion in 2011. For additional information on these exchange agreements, see Note 13 – Long-term Debt to the Consolidated Financial Statements.

The provision for credit losses decreased $15.0 billion in 2011 to $13.4 billion. The provision for credit losses was $7.4 billion lower than net charge-offs for 2011, resulting in a reduction in the allowance for credit losses, as portfolio trends continued to improve across most of the consumer and commercial businesses, particularly the Card Services and commercial real estate portfolios partially offset by additions to consumer purchased credit-impaired (PCI) loan portfolio reserves. This compared to a $5.9 billion reduction in the allowance for credit losses in 2010.

Noninterest expense decreased $2.8 billion in 2011 to $80.3 billion. The decline was driven by a $9.2 billion decrease in goodwill impairment charges and a $1.2 billion decline in merger and restructuring charges in 2011. Partially offsetting these decreases was a $4.9 billion increase in other general operating expense which included increases of $3.0 billion in litigation expense and $1.6 billion in mortgage-related assessments and waivers costs, and an increase of $1.8 billion in personnel costs due to the continued build-out of certain businesses, technology costs as well as increases in default-related servicing costs.

The income tax benefit on a FTE basis was $704 million on the pre-tax income of $742 million for 2011 compared to income tax expense on a FTE basis of $2.1 billion on the pre-tax loss of $153 million for 2010. For more information, see Financial Highlights – Income Tax Expense on page 34.

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Segment Results

The following discussion provides an overview of the results of our business segments and All Other for 2011 compared to 2010. For additional information on these results, see Business Segment Operations on page 39.

Table 3 Business Segment Results

| | Total Revenue [1] | | Net Income (Loss) | |
|---|---|---|---|---|
| (Dollars in millions) | 2011 | 2010 | 2011 | 2010 |
| Deposits | $12,689 | $13,562 | $1,192 | $1,362 |
| Card Services | 18,143 | 22,340 | 5,788 | (6,980 ) |
| Consumer Real Estate Services | (3,154 ) | 10,329 | (19,529 ) | (8,947 ) |
| Global Commercial Banking | 10,553 | 11,226 | 4,402 | 3,218 |
| Global Banking & Markets | 23,618 | 27,949 | 2,967 | 6,297 |
| Global Wealth & Investment Management | 17,376 | 16,289 | 1,635 | 1,340 |
| All Other | 15,201 | 9,695 | 4,991 | 1,472 |
| Total FTE basis | 94,426 | 111,390 | 1,446 | (2,238 ) |
| FTE adjustment | (972 ) | (1,170 ) | — | — |
| Total Consolidated | $93,454 | $110,220 | $1,446 | $(2,238 ) |

(1) Total revenue is net of interest expense and is on a FTE basis which is a non-GAAP financial measure. For more information on this measure, see Supplemental Financial Data on page 38, and for a corresponding reconciliation to a GAAP financial measure, see Table XV.

Deposits net income decreased compared to the prior year due to a decline in revenue partially offset by lower noninterest expense. The decline in revenue was primarily driven by a decline in service charges reflecting the impact of overdraft policy changes in conjunction with Regulation E that were fully implemented during the third quarter of 2010, partially offset by an increase in net interest income as a result of a customer shift to more liquid products and continued pricing discipline. Noninterest expense decreased due to lower litigation and operating expenses partially offset by an increase in Federal Deposit Insurance Corporation (FDIC) expense.

Card Services net income increased compared to the prior year due primarily to a $10.4 billion non-cash, non-tax deductible goodwill impairment charge in 2010 and a decrease in the provision for credit losses. The decrease in revenue was driven by lower average loan balances and yields. Noninterest income decreased primarily due to the implementation of the Durbin Amendment, the absence of the gain on the sale of our MasterCard position in 2010 and the implementation of the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act).

CRES net loss increased compared to the prior year primarily due to a decline in revenue and an increase in noninterest expense. Revenue declined due to an increase in representations and warranties provision, lower core production income and a decrease in insurance income due to the sale of Balboa Insurance Company's lender-placed insurance business (Balboa). Noninterest expense increased due to higher litigation expense, increased mortgage-related assessments and waivers costs, higher default-related and other loss mitigation expenses and a higher non-cash, non-tax deductible goodwill impairment charge, partially offset by lower insurance and production expenses.

Global Commercial Banking net income increased compared to the prior year primarily due to an improvement in the provision for credit losses. Revenue decreased primarily driven by lower net interest income related to asset and liability management (ALM) activities and lower average loan balances, partially offset by an increase in average deposits. The decrease in the provision for credit losses was driven by improved economic conditions and an accelerated rate of loan resolutions in the commercial real estate portfolio.

GBAM net income decreased compared to the prior year driven by a decline in sales and trading revenue due to a challenging market environment, partially offset by DVA gains, net of hedges. Provision for credit losses decreased driven by the positive impact of the economic environment on the credit portfolio in 2011. Higher noninterest expense was driven primarily by increased costs related to investments in infrastructure. Income tax expense included a charge related to the U.K. corporate income tax rate changes enacted during the year to reduce the carrying value of the deferred tax assets.

GWIM net income increased compared to the prior year driven by higher net interest income, higher asset management fees and lower credit costs, partially offset by higher noninterest expense. Revenue increased driven by higher asset management fees from higher market levels and long-term assets under management (AUM) flows as well as higher net interest income. The provision for credit losses decreased driven by improving portfolio trends. Noninterest expense increased due to higher volume-driven expenses and personnel costs associated with the continued investment in the business.

All Other net income increased compared to the prior year primarily due to higher noninterest income and lower merger and restructuring charges. Noninterest income increased due to an increase in the positive fair value adjustments related to our own credit spreads on structured liabilities as well as the gain on the sale of CCB shares in 2011. The provision for credit losses decreased primarily due to divestitures, improvements in delinquencies, collections and insolvencies in the non-U.S. credit card portfolio and continued run-off in the legacy Merrill Lynch & Co., Inc. (Merrill Lynch) commercial portfolio.

## Financial Highlights

### Net Interest Income

Net interest income on a FTE basis decreased $7.1 billion to $45.6 billion for 2011 compared to 2010. The decline was primarily due to lower consumer loan balances and yields and decreased investment security yields, including the acceleration of purchase premium amortization from an increase in modeled prepayment expectations, and increased hedge ineffectiveness. Lower trading-related net interest income also negatively impacted 2011 results.

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These decreases were partially offset by ongoing reductions in our debt footprint and lower interest rates paid on deposits. The net interest yield on a FTE basis decreased 30 bps to 2.48 percent for 2011 compared to 2010 as the yield continues to be under pressure due to the aforementioned items and the low rate environment. We expect net interest income to continue to be muted based on the current forward yield curve in 2012.

Noninterest Income

Table 4 Noninterest Income

| (Dollars in millions) | 2011 | 2010 |
|---|---|---|
| Card income | $7,184 | $8,108 |
| Service charges | 8,094 | 9,390 |
| Investment and brokerage services | 11,826 | 11,622 |
| Investment banking income | 5,217 | 5,520 |
| Equity investment income | 7,360 | 5,260 |
| Trading account profits | 6,697 | 10,054 |
| Mortgage banking income (loss) | (8,830) | 2,734 |
| Insurance income | 1,346 | 2,066 |
| Gains on sales of debt securities | 3,374 | 2,526 |
| Other income | 6,869 | 2,384 |
| Net impairment losses recognized in earnings on available-for-sale debt securities | (299) | (967) |
| Total noninterest income | $48,838 | $58,697 |

Noninterest income decreased $9.9 billion to $48.8 billion for 2011 compared to 2010. The following highlights the significant changes.

Card income decreased $924 million primarily due to the implementation of new interchange fee rules under the Durbin Amendment, which became effective on October 1, 2011 and the CARD Act provisions that were implemented during 2010.

Service charges decreased $1.3 billion largely due to the impact of overdraft policy changes in conjunction with Regulation E, which became effective in the third quarter of 2010.

Equity investment income increased $2.1 billion. The results for 2011 included $6.5 billion of gains on the sale of CCB shares, $836 million of CCB dividends and a $377 million gain on the sale of our investment in BlackRock, Inc. (BlackRock), partially offset by $1.1 billion of impairment charges on our merchant services joint venture. The prior year included $2.5 billion of net gains which included the sales of certain strategic investments, $2.3 billion of gains in our Global Principal Investments (GPI) portfolio which included both cash gains and fair value adjustments, and $535 million of CCB dividends.

Trading account profits decreased $3.4 billion primarily due to adverse market conditions and extreme volatility in the credit markets compared to the prior year. DVA gains, net of hedges, on derivatives were $1.0 billion in 2011 compared to $262 million in 2010 as a result of a widening of our credit spreads. In conjunction with regulatory reform measures GBAM exited its stand-alone proprietary trading business as of June 30, 2011. Proprietary trading revenue was $434 million for the six months ended June 30, 2011 compared to $1.4 billion for 2010.

Mortgage banking income decreased $11.6 billion primarily due to an $8.8 billion increase in the representations and warranties provision which was largely related to the BNY Mellon Settlement. Also contributing to the decline was lower production income due to a reduction in new loan origination volumes partially offset by an increase in servicing income.

Other income increased $4.5 billion primarily due to positive fair value adjustments of $3.3 billion related to widening of our own credit spreads on structured liabilities compared to $18 million in 2010. In addition, 2011 included a $771 million gain on the sale of Balboa as well as a $1.2 billion gain on the exchange of certain trust preferred securities for common stock and debt.

Provision for Credit Losses

The provision for credit losses decreased $15.0 billion to $13.4 billion for 2011 compared to 2010. The provision for credit losses was $7.4 billion lower than net charge-offs for 2011, resulting in a reduction in the allowance for credit losses driven primarily by lower delinquencies, improved collection rates and fewer bankruptcy filings across the Card Services portfolio, and improvement in overall credit quality in the commercial real estate portfolio partially offset by additions to consumer PCI loan portfolio reserves. This compared to a $5.9 billion reduction in the allowance for credit losses in 2010. We expect reductions in the allowance for credit losses to be lower in 2012.

The provision for credit losses related to our consumer portfolio decreased $11.1 billion to $14.3 billion for 2011 compared to 2010. The provision for credit losses related to our commercial portfolio including the provision for unfunded lending commitments decreased $3.9 billion to a benefit of $915 million for 2011 compared to 2010.

Net charge-offs totaled $20.8 billion, or 2.24 percent of average loans and leases for 2011 compared to $34.3 billion, or 3.60 percent for 2010. The decrease in net charge-offs was primarily driven by improvements in general economic conditions that resulted in lower delinquencies, improved collection rates and fewer bankruptcy filings across the Card Services portfolio as well as lower losses in the home equity portfolio driven primarily by fewer delinquent loans. For more information on the provision for credit losses, see Provision for Credit Losses on page 108.

Noninterest Expense

Table 5 Noninterest Expense

| (Dollars in millions) | 2011 | 2010 |
|---|---|---|
| Personnel | $36,965 | $35,149 |
| Occupancy | 4,748 | 4,716 |
| Equipment | 2,340 | 2,452 |
| Marketing | 2,203 | 1,963 |
| Professional fees | 3,381 | 2,695 |
| Amortization of intangibles | 1,509 | 1,731 |
| Data processing | 2,652 | 2,544 |
| Telecommunications | 1,553 | 1,416 |
| Other general operating | 21,101 | 16,222 |
| Goodwill impairment | 3,184 | 12,400 |
| Merger and restructuring charges | 638 | 1,820 |
| Total noninterest expense | $80,274 | $83,108 |

Noninterest expense decreased $2.8 billion to $80.3 billion for 2011 compared to 2010. The prior year included goodwill impairment charges of $12.4 billion compared to $3.2 billion for 2011.

Personnel expense increased $1.8 billion for 2011 attributable to personnel costs related to the continued build-out of certain businesses, technology costs as well as increases in default-

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related servicing. Additionally, professional fees increased $686 million related to consulting fees for regulatory initiatives as well as higher legal expenses. Other general operating expenses increased $4.9 billion largely as a result of a $3.0 billion increase in litigation expense, primarily mortgage-related, and an increase of $1.6 billion in mortgage-related assessments and waivers costs. Merger and restructuring expenses decreased $1.2 billion in 2011.

Income Tax Expense

The income tax benefit was $1.7 billion on the pre-tax loss of $230 million for 2011 compared to income tax expense of $915 million on the pre-tax loss of $1.3 billion for 2010. These amounts are before FTE adjustments. The effective tax rate for 2011 was not meaningful due to a small pre-tax loss, and for 2010, due to the impact of non-deductible goodwill impairment charges of $12.4 billion.

The income tax benefit for 2011 was driven by recurring tax preference items, such as tax-exempt income and affordable housing credits, a $1.0 billion benefit from the release of the remaining valuation allowance applicable to the Merrill Lynch capital loss carryover deferred tax asset, and a benefit of $823 million for planned realization of previously unrecognized deferred tax assets related to the tax basis in certain subsidiaries. These benefits were partially offset by the $782 million tax charge for the U.K. corporate income tax rate reductions referred to below.

The $3.2 billion of goodwill impairment charges recorded in 2011 were non-deductible.

The effective tax rate for 2010 excluding goodwill impairment charges from pre-tax income was 8.3 percent. In addition to our recurring tax preference items, this rate was driven by a $1.7 billion benefit from the release of a portion of the valuation allowance applicable to the Merrill Lynch capital loss carryover deferred tax asset, partially offset by the $392 million charge from a one percent reduction to the U.K. corporate income tax rate enacted during 2010.

On July 19, 2011, the U.K. 2011 Finance Bill was enacted which reduced the corporate income tax rate one percent to 26 percent beginning on April 1, 2011, and then to 25 percent effective April 1, 2012. These rate reductions will favorably affect income tax expense on future U.K. earnings but also required us to remeasure our U.K. net deferred tax assets using the lower tax rates. As noted above, the income tax benefit for 2011 included a $782 million charge for the remeasurement, substantially all of which was recorded in GBAM. If corporate income tax rates were to be reduced to 23 percent by 2014 as suggested in U.K. Treasury announcements and assuming no change in the deferred tax asset balance, a charge to income tax expense of approximately $400 million for each one percent reduction in the rate would result in each period of enactment (for a total of approximately $800 million).

Balance Sheet Overview

Table 6 Selected Balance Sheet Data

| | December 31 | | Average Balance | |
|---|---|---|---|---|
| (Dollars in millions) | 2011 | 2010 | 2011 | 2010 |
| Assets | | | | |
| Federal funds sold and securities borrowed or purchased under agreements to resell | $211,183 | $209,616 | $245,069 | $256,943 |
| Trading account assets | 169,319 | 194,671 | 187,340 | 213,745 |
| Debt securities | 311,416 | 338,054 | 337,120 | 323,946 |
| Loans and leases | 926,200 | 940,440 | 938,096 | 958,331 |
| Allowance for loan and lease losses | (33,783) | (41,885) | (37,623) | (45,619) |
| All other assets | 544,711 | 624,013 | 626,320 | 732,260 |
| Total assets | $2,129,046 | $2,264,909 | $2,296,322 | $2,439,606 |
| Liabilities | | | | |
| Deposits | $1,033,041 | $1,010,430 | $1,035,802 | $988,586 |
| | 214,864 | 245,359 | 272,375 | 353,653 |

| | | | | |
|---|---|---|---|---|
| Federal funds purchased and securities loaned or sold under agreements to repurchase | | | | |
| Trading account liabilities | 60,508 | 71,985 | 84,689 | 91,669 |
| Commercial paper and other short-term borrowings | 35,698 | 59,962 | 51,894 | 76,676 |
| Long-term debt | 372,265 | 448,431 | 421,229 | 490,497 |
| All other liabilities | 182,569 | 200,494 | 201,238 | 205,290 |
| Total liabilities | 1,898,945 | 2,036,661 | 2,067,227 | 2,206,371 |
| Shareholders’ equity | 230,101 | 228,248 | 229,095 | 233,235 |
| Total liabilities and shareholders’ equity | $2,129,046 | $2,264,909 | $2,296,322 | $2,439,606 |

At December 31, 2011, total assets were $2.1 trillion, a decrease of $136 billion, or six percent, from December 31, 2010. Average total assets decreased $143 billion in 2011. At December 31, 2011, total liabilities were $1.9 trillion, a decrease of $138 billion, or seven percent, from December 31, 2010. Average total liabilities decreased $139 billion in 2011.

Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities, primarily involving our portfolios of highly

liquid assets, that are designed to ensure the adequacy of capital while enhancing our ability to manage liquidity requirements for the Corporation and for our customers, and to position the balance sheet in accordance with the Corporation’s risk appetite. The execution of these activities requires the use of balance sheet and capital-related limits including spot, average and risk-weighted asset limits, particularly in our trading businesses. One of our key metrics, Tier 1 leverage ratio, is calculated based on adjusted quarterly average total assets.

## Assets

### Federal Funds Sold and Securities Borrowed or Purchased Under Agreements to Resell

Federal funds transactions involve lending reserve balances on a short-term basis. Securities borrowed and securities purchased under agreements to resell are utilized to accommodate customer transactions, earn interest rate spreads and obtain securities for settlement. Average federal funds sold and securities borrowed or purchased under agreements to resell decreased $11.9 billion, or five percent, in 2011 attributable to an overall decline in balance sheet usage.

### Trading Account Assets

Trading account assets consist primarily of fixed-income securities including government and corporate debt, and equity and convertible instruments. Year-end trading account assets decreased $25.4 billion in 2011 primarily due to actions to reduce risk on the balance sheet. Average trading account assets decreased $26.4 billion in 2011 primarily due to a reclassification of noninterest-earning equity securities from trading account assets to other assets for average balance sheet purposes.

### Debt Securities

Debt securities primarily include U.S. Treasury and agency securities, MBS, principally agency MBS, foreign bonds, corporate bonds and municipal debt. We use the debt securities portfolio primarily to manage interest rate and liquidity risk and to take advantage of market conditions that create more economically attractive returns on these investments. Year-end balances of debt securities decreased $26.6 billion due to agency MBS sales in 2011. Average balances of debt securities increased $13.2 billion due to agency MBS purchases in the second half of 2010 and the first three quarters of 2011. For additional information on available-for-sale (AFS) debt securities, see Note 5 – Securities to the Consolidated Financial Statements.

### Loans and Leases

Year-end and average loans and leases decreased $14.2 billion to $926.2 billion and $20.2 billion to $938.1 billion in 2011. The decrease was primarily due to consumer portfolio run-off outpacing new originations and loan portfolio sales, partially offset by non-U.S. commercial growth as international demand continues to remain high. For a more detailed discussion of the loan portfolio, see Note 6 – Outstanding Loans and Leases to the Consolidated Financial Statements.

### Allowance for Loan and Lease Losses

Year-end and average allowance for loan lease losses decreased $8.1 billion and $8.0 billion in 2011 primarily due to the impact of the improving economy partially offset by reserve additions in the PCI portfolio throughout 2011. For a more detailed discussion of the Allowance for Loan and Lease Losses, see page 109.

### All Other Assets

Year-end and average other assets decreased $79.3 billion and $105.9 billion in 2011 driven primarily by the sale of strategic investments, a reduction in loans held-for-sale (LHFS) and lower

mortgage servicing rights (MSRs). Average other assets was also impacted by lower cash balances held at the Federal Reserve.

## Liabilities

### Deposits

Year-end and average deposits increased $22.6 billion and $47.2 billion to $1.0 trillion in 2011. The increase was attributable to growth in our noninterest-bearing deposits.

### Federal Funds Purchased and Securities Loaned or Sold Under Agreements to Repurchase

Federal funds transactions involve borrowing reserve balances on a short-term basis. Securities loaned and securities sold under agreements to repurchase are collateralized borrowing transactions utilized to accommodate customer transactions, earn interest rate spreads and finance assets on the balance sheet. Year-end and average federal funds purchased and securities loaned or sold under agreements to repurchase decreased $30.5 billion and $81.3 billion in 2011 primarily due to planned funding reductions.

### Trading Account Liabilities

Trading account liabilities consist primarily of short positions in fixed-income securities including government and corporate debt, equity and convertible instruments. Year-end and average trading account liabilities decreased $11.5

billion and $7.0 billion in 2011 in line with declines in trading account assets.
Commercial Paper and Other Short-term Borrowings
Commercial paper and other short-term borrowings provide an additional funding source. Year-end and average commercial paper and other short-term borrowings decreased $24.3 billion to $35.7 billion and $24.8 billion to $51.9 billion in 2011 due to planned reductions in wholesale borrowings. During 2011, we reduced to an insignificant amount our use of unsecured short-term borrowings including commercial paper and master notes.
Long-term Debt
Year-end and average long-term debt decreased $76.2 billion to $372.3 billion and $69.3 billion to $421.2 billion in 2011. The decreases were attributable to the Corporation's strategy to reduce our debt footprint. For additional information on long-term debt, see Note 13 – Long-term Debt to the Consolidated Financial Statements.
All Other Liabilities
Year-end all other liabilities decreased $17.9 billion in 2011 driven primarily by a decline in the liability related to collateral held, a decrease in lower customer margin credits and liquidation of a consolidated variable interest entity (VIE).
Shareholders' Equity
Year-end shareholders' equity increased $1.9 billion. The increase was driven primarily by the investment by Berkshire, exchanges of certain preferred securities for common stock and debt and positive earnings. Average shareholders' equity decreased $4.1 billion in 2011 primarily driven by losses late in 2010.

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Cash Flows Overview

The Corporation's operating assets and liabilities support our global markets and lending activities. We believe that cash flows from operations, available cash balances and our ability to generate cash through short- and long-term debt are sufficient to fund our operating liquidity needs. Our investing activities primarily include the AFS securities portfolio and other short-term investments. Our financing activities reflect cash flows primarily related to increased customer deposits and net long-term debt repayments.

Cash and cash equivalents increased $11.7 billion during 2011 due to sales of non-core assets and net sales of AFS securities partially offset by repayment and maturities of certain long-term debt. Cash and cash equivalents decreased $12.9 billion during 2010 due to repayment and maturities of certain long-term debt

and net purchases of AFS securities partially offset by deposit growth.

During 2011, net cash provided by operating activities was $64.5 billion compared to $82.6 billion in 2010. The more significant adjustments to net income (loss) to arrive at cash provided by operating activities included the provision for credit losses, goodwill impairment charges and the net decrease in trading and derivative instruments.

During 2011, net cash provided by investing activities increased to $52.4 billion primarily driven by net sales of debt securities. During 2010, net cash of $30.3 billion was used in investing activities primarily for net purchases of debt securities.

During 2011 and 2010, the net cash used in financing activities of $104.7 billion and $65.4 billion primarily reflected the net decreases in long-term debt as maturities outpaced new issuances.

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Table 7 Five Year Summary of Selected Financial Data

| (In millions, except per share information) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Income statement | | | | | |
| Net interest income | $44,616 | $51,523 | $47,109 | $45,360 | $34,441 |
| Noninterest income | 48,838 | 58,697 | 72,534 | 27,422 | 32,392 |
| Total revenue, net of interest expense | 93,454 | 110,220 | 119,643 | 72,782 | 66,833 |
| Provision for credit losses | 13,410 | 28,435 | 48,570 | 26,825 | 8,385 |
| Goodwill impairment | 3,184 | 12,400 | — | — | — |
| Merger and restructuring charges | 638 | 1,820 | 2,721 | 935 | 410 |
| All other noninterest expense (1) | 76,452 | 68,888 | 63,992 | 40,594 | 37,114 |
| Income (loss) before income taxes | (230) | (1,323) | 4,360 | 4,428 | 20,924 |
| Income tax expense (benefit) | (1,676) | 915 | (1,916) | 420 | 5,942 |
| Net income (loss) | 1,446 | (2,238) | 6,276 | 4,008 | 14,982 |
| Net income (loss) applicable to common shareholders | 85 | (3,595) | (2,204) | 2,556 | 14,800 |
| Average common shares issued and outstanding | 10,143 | 9,790 | 7,729 | 4,592 | 4,424 |
| Average diluted common shares issued and outstanding (2) | 10,255 | 9,790 | 7,729 | 4,596 | 4,463 |
| Performance ratios | | | | | |
| Return on average assets | 0.06% | n/m | 0.26% | 0.22% | 0.94% |
| Return on average common shareholders' equity | 0.04 | n/m | n/m | 1.80 | 11.08 |
| Return on average tangible common shareholders' equity (3) | 0.06 | n/m | n/m | 4.72 | 26.19 |
| Return on average tangible shareholders' equity(3) | 0.96 | n/m | 4.18 | 5.19 | 25.13 |
| Total ending equity to total ending assets | 10.81 | 10.08% | 10.38 | 9.74 | 8.56 |
| Total average equity to total average assets | 9.98 | 9.56 | 10.01 | 8.94 | 8.53 |
| Dividend payout | n/m | n/m | n/m | n/m | 72.26 |
| Per common share data | | | | | |
| Earnings (loss) | $0.01 | $(0.37) | $(0.29) | $0.54 | $3.32 |
| Diluted earnings (loss) (2) | 0.01 | (0.37) | (0.29) | 0.54 | 3.29 |
| Dividends paid | 0.04 | 0.04 | 0.04 | 2.24 | 2.40 |
| Book value | 20.09 | 20.99 | 21.48 | 27.77 | 32.09 |
| Tangible book value (3) | 12.95 | 12.98 | 11.94 | 10.11 | 12.71 |
| Market price per share of common stock | | | | | |
| Closing | $5.56 | $13.34 | $15.06 | $14.08 | $41.26 |
| High closing | 15.25 | 19.48 | 18.59 | 45.03 | 54.05 |
| Low closing | 4.99 | 10.95 | 3.14 | 11.25 | 41.10 |
| Market capitalization | $58,580 | $134,536 | $130,273 | $70,645 | $183,107 |
| Average balance sheet | | | | | |
| Total loans and leases | $938,096 | $958,331 | $948,805 | $910,871 | $776,154 |
| Total assets | 2,296,322 | 2,439,606 | 2,443,068 | 1,843,985 | 1,602,073 |
| Total deposits | 1,035,802 | 988,586 | 980,966 | 831,157 | 717,182 |
| Long-term debt | 421,229 | 490,497 | 446,634 | 231,235 | 169,855 |
| Common shareholders' equity | 211,709 | 212,686 | 182,288 | 141,638 | 133,555 |
| Total shareholders' equity | 229,095 | 233,235 | 244,645 | 164,831 | 136,662 |
| Asset quality (4) | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Allowance for credit losses (5) | $34,497 | $43,073 | $38,687 | $23,492 | $12,106 |
| Nonperforming loans, leases and foreclosed properties (6) | 27,708 | 32,664 | 35,747 | 18,212 | 5,948 |
| Allowance for loan and lease losses as a percentage of total loans and leases outstanding (6) | 3.68 % | 4.47 % | 4.16 % | 2.49 % | 1.33 % |
| Allowance for loan and lease losses as a percentage of total nonperforming loans and leases (6) | 135 | 136 | | | |