

BANK OF AMERICA CORP /DE/  
Form 10-Q  
August 01, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2016

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from            to

Commission file number:

1-6523

Exact name of registrant as specified in its charter:

Bank of America Corporation

State or other jurisdiction of incorporation or organization:

Delaware

IRS Employer Identification No.:

56-0906609

Address of principal executive offices:

Bank of America Corporate Center

100 N. Tryon Street

Charlotte, North Carolina 28255

Registrant's telephone number, including area code:

(704) 386-5681

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

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

Yes ☒ No ☐

Indicate by check mark whether the registrant 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Non-accelerated filer

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

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

Yes ☐ No ☒

On July 29, 2016, there were 10,204,798,799 shares of Bank of America Corporation Common Stock outstanding.

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Bank of America Corporation  
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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report on Form 10-Q, 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 "anticipates," "targets," "expects," "hopes," "estimates," "intends," "plans," "goals," "believes," "continue" and other similar expressions or future or conditional verbs such as "will," "may," "might," "should," "would" and "could." Forward-looking statements represent the Corporation's current expectations, plans or forecasts of its future results, revenues, expenses, efficiency ratio, capital measures, and future business and economic conditions more generally, and other future matters. These statements are not guarantees of future results or performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict and are often beyond the Corporation'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, including under Item 1A. Risk Factors of the Corporation's 2015 Annual Report on Form 10-K and in any of the Corporation's subsequent Securities and Exchange Commission filings: the Corporation's ability to resolve representations and warranties repurchase and related claims, including claims brought by investors or trustees seeking to distinguish certain aspects of the New York Court of Appeals' ACE Securities Corp v. DB Structured Products, Inc. (ACE) decision or to assert other claims seeking to avoid the impact of the ACE decision; the possibility that the Corporation could face increased servicing, securities, fraud, indemnity, contribution or other claims from one or more counterparties, including trustees, purchasers of loans, underwriters, issuers, other parties involved in securitizations, monolines or private-label and other investors; the possibility that future representations and warranties losses may occur in excess of the Corporation's recorded liability and estimated range of possible loss for its representations and warranties exposures; potential claims, damages, penalties, fines and reputational damage resulting from pending or future litigation and regulatory proceedings, including the possibility that amounts may be in excess of the Corporation's recorded liability and estimated range of possible loss for litigation exposures; the possible outcome of LIBOR, other reference rate, financial instrument and foreign exchange inquiries, investigations and litigation; uncertainties about the financial stability and growth rates of non-U.S. jurisdictions, the risk that those jurisdictions may face difficulties servicing their sovereign debt, and related stresses on financial markets, currencies and trade, and the Corporation's exposures to such risks, including direct, indirect and operational; the impact of U.S. and global interest rates (including negative or continued low interest rates), currency exchange rates and economic conditions; the possibility that future credit losses may be higher than currently expected due to changes in economic assumptions, customer behavior and other uncertainties; the impact on the Corporation's business, financial condition and results of operations of a potential higher interest rate environment; the impact on the Corporation's business, financial condition and results of operations from a protracted period of lower oil prices or ongoing volatility with respect to oil prices; our ability to achieve our expense targets; adverse changes to the Corporation's credit ratings from the major credit rating agencies; estimates of the fair value of certain of the Corporation's assets and liabilities; uncertainty regarding the content, timing and impact of regulatory capital and liquidity requirements, including the potential adoption of total loss-absorbing capacity requirements; the potential for payment protection insurance exposure to increase as a result of Financial Conduct Authority actions; the impact of recent proposed U.K. tax law changes including a further limitation on how much net operating losses can offset annual profits and a reduction to the U.K. corporate tax rate which, if enacted, will result in a tax charge upon enactment; the possible impact of Federal Reserve actions on the Corporation's capital plans; the possible impact of the Corporation's failure to remediate deficiencies identified by banking regulators in the Corporation's Recovery and Resolution plans; the

impact of implementation and compliance with U.S. and international laws, regulations and regulatory interpretations, including, but not limited to, recovery and resolution planning requirements, FDIC assessments, the Volcker Rule, and derivatives regulations; a failure in or breach of the Corporation's operational or security systems or infrastructure, or those of third parties, including as a result of cyber attacks; the impact on the Corporation's business, financial condition and results of operations from the potential exit of the United Kingdom from the European Union; and other similar matters.

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.

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### Executive Summary

### Business Overview

The Corporation is a Delaware corporation, a bank holding company (BHC) and a financial holding company. When used in this report, "the Corporation" may refer to Bank of America Corporation individually, Bank of America Corporation and its subsidiaries, or certain of Bank of America Corporation's subsidiaries or affiliates. Our principal executive offices are located in Charlotte, North Carolina. Through our banking and various nonbank subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbank financial services and products. We operate our banking activities primarily under the Bank of America, National Association (Bank of America, N.A. or BANA) charter. At June 30, 2016, the Corporation had approximately \$2.2 trillion in assets and approximately 211,000 full-time equivalent employees.

In the Annual Report on Form 10-K for the year ended December 31, 2015, we reported our results of operations through five business segments: Consumer Banking, Global Wealth & Investment Management (GWIM), Global Banking, Global Markets and Legacy Assets & Servicing (LAS), with the remaining operations recorded in All Other. Effective April 1, 2016, to align the segments with how we now manage our businesses, we changed our basis of presentation to eliminate the LAS segment, and following such change, we report our results of operations through the following four business segments: Consumer Banking, GWIM, Global Banking and Global Markets, with the remaining operations recorded in All Other. Consumer real estate loans, including loans previously held in or serviced by LAS, have been designated as either core or non-core based on criteria described in Business Segment Operations on page 24. Following the realignment, core loans owned by the Corporation, which include all loans originated after the realignment, are held in the Consumer Banking and GWIM segments. Non-core loans owned by the Corporation, which are principally run-off portfolios, as well as loans held for asset and liability management (ALM) activities, are held in All Other. Mortgage servicing rights (MSRs) pertaining to core and non-core loans serviced for others are held in Consumer Banking and All Other, respectively. Prior periods have been reclassified to conform to current period presentation.

As of June 30, 2016, we operated in all 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and more than 35 countries. Our retail banking footprint covers approximately 80 percent of the U.S. population, and we serve approximately 47 million consumer and small business relationships with approximately 4,700 retail financial centers, approximately 16,000 ATMs, and leading online and mobile banking platforms with approximately 33 million active accounts and more than 20 million mobile active users ([www.bankofamerica.com](http://www.bankofamerica.com)). We offer industry-leading support to approximately three million small business owners. Our wealth management businesses, with client balances of \$2.4 trillion, provide tailored solutions to meet client needs through a full set of investment management, brokerage, banking, trust and retirement products. 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.

### Second-Quarter 2016 Economic and Business Environment

In the U.S., the economy showed renewed signs of momentum in the second quarter of 2016. Consumer spending accelerated, as retail sales and service spending increased. The housing sector continued to expand, reflecting continued low mortgage rates and growing disposable income, but the pace of expansion slowed from recent quarters. While oil prices slightly rebounded from earlier declines, business spending remained suppressed by the delayed impact on the demand for capital goods in the energy sector. With numerous uncertainties during the quarter, businesses continued to reduce inventory accumulation, restraining the manufacturing sector. As a result, production growth lagged behind strong gains in domestic final sales, which exclude net exports and inventory investments. However, an increase in manufacturing activity late in the quarter signaled a positive business response to



strengthening domestic demand.

In contrast to the increase in consumer demand, payroll gains slowed further, showing almost no net new job creation earlier in the quarter before rebounding in June. The unemployment rate moved slightly lower, largely as a result of a stagnant labor force as recent gains in participation rates were partially reversed. The split between stronger domestic demand and a softer labor market is expected to be resolved in the second half of the year. Core inflation maintained the momentum gained early in the year, but remained below the Board of Governors of the Federal Reserve System's (Federal Reserve) longer-term annual target of two percent.

The Federal Open Market Committee (FOMC) left its federal funds rate target unchanged in the quarter. Members of the FOMC remained concerned about conditions abroad (including the outcome of the U.K.'s Referendum on exiting the European Union (EU) (U.K. Referendum)) and the slowdown in payroll gains. At the June meeting, members both slowed their projected pace of tightening and lowered the expected longer-run level of the federal funds rate. In response, treasury yields fell during the quarter, especially in the first few days after the U.K. Referendum. Equities rose slightly during the quarter.

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International concerns centered on Europe where the run-up to the U.K. Referendum, as well as the result, increased uncertainty. When the U.K. voted on June 23, 2016 to leave the EU, the British pound fell and market volatility temporarily increased. For more information on the U.K. Referendum, see Executive Summary – Recent Events on page 5. Financial markets settled down in the ensuing days, but the outcome of the U.K. Referendum was generally seen as reducing confidence and is expected to have a negative impact on the British economy in the near term. The European Central Bank and the Bank of Japan maintained accommodative conditions during the quarter by expanding the overall monetary supply in order to boost slowed economic growth. International yields fell, with German 10-year Bund yields dropping into negative territory. Among emerging nations, Brazil continued to struggle with a deep recession and high inflation, and Venezuela experienced unrest related to a rapidly shrinking economy and deteriorating political situation. Russia benefited from the recovery in oil prices, with economic growth likely to resume in the second half of the year. The Chinese economy was stable during the quarter. In early July, a coup attempt in Turkey increased political instability, although the current government remained in power and financial market reaction outside of Turkey was minimal.

## Recent Events

### United Kingdom Referendum to Exit the European Union

The U.K. Referendum was held on June 23, 2016, which resulted in a majority vote in favor of exiting the EU. At this time, the ultimate impact of the U.K.'s potential exit from the EU is unknown. The timing of the U.K.'s formal commencement of the exit process is uncertain. Once the exit process begins, negotiations to agree on the terms of the exit are expected to be a multi-year process. During this transition period, the ultimate impact of the U.K.'s potential exit from the EU will remain unclear and economic and market volatility may continue. If uncertainty resulting from the U.K.'s potential exit from the EU negatively impacts economic conditions, financial markets and consumer confidence, our business, results of operations, financial position and/or operational model could be affected. For more information about the potential impact on us of the U.K.'s exit from the EU, see Item 1A. Risk Factors on page 215.

## Capital Management

In April 2016, we submitted our 2016 Comprehensive Capital Analysis and Review (CCAR) capital plan which included a request to repurchase \$5.0 billion of common stock over four quarters beginning in the third quarter of 2016, and to increase the quarterly common stock dividend from \$0.05 per share to \$0.075 per share. In addition, our capital plan includes the repurchase of common shares to offset the dilution resulting from certain equity compensation. On June 29, 2016, following the Federal Reserve's non-objection to our 2016 CCAR capital plan, the Board of Directors (the Board) authorized the common stock repurchases described above. The common stock repurchase authorization includes both common stock and warrants. On July 27, 2016, the Board declared a quarterly common stock dividend of \$0.075 per share, payable on September 23, 2016 to shareholders of record as of September 2, 2016. For additional information, see the Corporation's Current Report on Form 8-K as filed on June 29, 2016.

During the three and six months ended June 30, 2016, we repurchased \$783 million and \$1.6 billion of common stock in connection with our 2015 CCAR capital plan, which included a request to repurchase \$4.0 billion of common stock over five quarters beginning in the second quarter of 2015. Additionally, on March 18, 2016, the Corporation announced that the Board authorized additional repurchases of common stock up to \$800 million outside of the scope of the 2015 CCAR capital plan to offset the share count dilution resulting from equity incentive compensation awarded to retirement-eligible employees, to which the Federal Reserve did not object. In connection with this authorization, the Corporation repurchased \$600 million and \$800 million of common stock during the three and six months ended June 30, 2016. For additional information, see Capital Management on page 48.



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## Selected Financial Data

Table 1 provides selected consolidated financial data for the three and six months ended June 30, 2016 and 2015, and at June 30, 2016 and December 31, 2015.

Table 1  
Selected Financial Data <sup>(1)</sup>

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
(Dollars in millions, except per share information)				
Income statement				
Revenue, net of interest expense	\$20,398	\$21,956	\$39,910	\$42,870
Net income	4,232	5,134	6,912	8,231
Diluted earnings per common share	0.36	0.43	0.56	0.68
Dividends paid per common share	0.05	0.05	0.10	0.10
Performance ratios				
Return on average assets	0.78	% 0.96	% 0.64	% 0.77
Return on average common shareholders' equity	6.48	8.42	5.14	6.68
Return on average tangible common shareholders' equity <sup>(2)</sup>	9.24	12.31	7.34	9.79
Efficiency ratio	66.14	63.57	70.93	69.48
			June 30 2016	December 31 2015
Balance sheet				
Total loans and leases <sup>(3)</sup>			\$903,153	\$896,983
Total assets			2,186,609	2,144,316
Total deposits			1,216,091	1,197,259
Total common shareholders' equity			241,849	233,932
Total shareholders' equity			267,069	256,205

<sup>(1)</sup> Certain amounts in the table that have been reported in previous filings using fully taxable-equivalent (FTE) basis (a non-GAAP financial measure) are now shown on a GAAP basis. See Table 11 for a reconciliation.

Return on average tangible common shareholders' equity is a non-GAAP financial measure. Other companies may

<sup>(2)</sup> define or calculate this measure differently. For more information and a corresponding reconciliation to GAAP financial measures, see Supplemental Financial Data on page 16.

Beginning in the first quarter of 2016, the Corporation classifies certain leases in other assets. Previously these

<sup>(3)</sup> leases were classified in loans and leases. For December 31, 2015, \$6.0 billion of these leases were reclassified from loans and leases to other assets to conform to this presentation.

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## Financial Highlights

Net income was \$4.2 billion, or \$0.36 per diluted share, and \$6.9 billion, or \$0.56 per diluted share for the three and six months ended June 30, 2016 compared to \$5.1 billion, or \$0.43, and \$8.2 billion, or \$0.68 for the same periods in 2015. The results for the three and six months ended June 30, 2016 compared to the prior-year periods were primarily driven by declines in net interest income and noninterest income, and higher provision for credit losses, partially offset by lower noninterest expense. Included in net interest income were negative market-related adjustments on debt securities of \$974 million and \$2.2 billion for the three and six months ended June 30, 2016 compared to positive market-related adjustments on debt securities of \$669 million and \$185 million for the same periods in 2015.

Total assets increased \$42.3 billion from December 31, 2015 to \$2.2 trillion at June 30, 2016 primarily driven by higher securities borrowed or purchased under agreements to resell due to increased customer financing activity, higher cash and cash equivalents due to strong deposit inflows, and an increase in loans and leases driven by demand for commercial loans outpacing consumer loan sales and run-off. Total liabilities increased \$31.4 billion from December 31, 2015 to \$1.9 trillion at June 30, 2016 primarily driven by increases in deposits, trading account liabilities and short-term borrowings, partially offset by a decrease in long-term debt. During the six months ended June 30, 2016, we returned \$4.2 billion in capital to shareholders through common and preferred stock dividends and common stock repurchases. For more information on the balance sheet, see Executive Summary – Balance Sheet Overview on page 11.

From a capital management perspective, during the six months ended June 30, 2016, we maintained our strong capital position with Common equity tier 1 capital of \$161.8 billion, risk-weighted assets of \$1,542 billion and a Common equity tier 1 capital ratio of 10.5 percent at June 30, 2016 as measured under the Basel 3 Advanced approaches, on a fully phased-in basis. The Corporation's fully phased-in supplementary leverage ratio (SLR) was 6.9 percent and 6.4 percent at June 30, 2016 and December 31, 2015, both above the 5.0 percent required minimum (including leverage buffer) effective January 1, 2018. Our Global Excess Liquidity Sources (GELS) were \$515 billion with time-to-required funding at 35 months at June 30, 2016 compared to \$504 billion and 39 months at December 31, 2015. For additional information, see Capital Management on page 48 and Liquidity Risk on page 58.

Table 2  
Summary Income Statement <sup>(1)</sup>

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2016	2015	2016	2015
Net interest income	\$9,213	\$10,461	\$18,384	\$19,872
Noninterest income	11,185	11,495	21,526	22,998
Total revenue, net of interest expense	20,398	21,956	39,910	42,870
Provision for credit losses	976	780	1,973	1,545
Noninterest expense	13,493	13,958	28,309	29,785
Income before income taxes	5,929	7,218	9,628	11,540
Income tax expense	1,697	2,084	2,716	3,309
Net income	4,232	5,134	6,912	8,231
Preferred stock dividends	361	330	818	712
Net income applicable to common shareholders	\$3,871	\$4,804	\$6,094	\$7,519
Per common share information				
Earnings	\$0.38	\$0.46	\$0.59	\$0.72
Diluted earnings	0.36	0.43	0.56	0.68

(1)

Certain amounts in the table that have been reported in previous filings using FTE basis (a non-GAAP financial measure) are now shown on a GAAP basis. See Table 11 for a reconciliation.

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## Net Interest Income

Net interest income decreased \$1.2 billion to \$9.2 billion (\$9.4 billion on an FTE basis), and \$1.5 billion to \$18.4 billion (\$18.8 billion on an FTE basis) for the three and six months ended June 30, 2016 compared to the same periods in 2015. The net interest yield decreased 34 basis points (bps) to 1.98 percent (2.03 percent on an FTE basis), and 23 bps to 1.99 percent (2.04 percent on an FTE basis). The decreases for the three- and six-month periods were primarily driven by a negative change in market-related adjustments on debt securities and the impact of lower consumer loan balances, partially offset by growth in commercial loans, the impact of higher short-end interest rates and increased debt securities. Market-related adjustments on debt securities resulted in an expense of \$974 million and \$2.2 billion for the three and six months ended June 30, 2016 compared to a benefit of \$669 million and \$185 million for the same periods in 2015. Negative market-related adjustments on debt securities were primarily due to the acceleration of premium amortization on debt securities as the decline in long-term interest rates shortened the estimated lives of mortgage-related debt securities. Also included in market-related adjustments is hedge ineffectiveness that impacted net interest income. For additional information, see Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements of the Corporation's 2015 Annual Report on Form 10-K.

## Noninterest Income

Table 3

## Noninterest Income

	Three Months		Six Months	
	Ended June 30		Ended June 30	
(Dollars in millions)	2016	2015	2016	2015
Card income	\$1,464	\$1,477	\$2,894	\$2,871
Service charges	1,871	1,857	3,708	3,621
Investment and brokerage services	3,201	3,387	6,383	6,765
Investment banking income	1,408	1,526	2,561	3,013
Trading account profits	2,018	1,647	3,680	3,894
Mortgage banking income	312	1,001	745	1,695
Gains on sales of debt securities	267	168	493	436
Other income	644	432	1,062	703
Total noninterest income	\$11,185	\$11,495	\$21,526	\$22,998

Noninterest income decreased \$310 million to \$11.2 billion, and \$1.5 billion to \$21.5 billion for the three and six months ended June 30, 2016 compared to the same periods in 2015. The following highlights the significant changes.

Investment and brokerage services income decreased \$186 million and \$382 million driven by lower advisory fees due to lower market levels and lower transactional revenue.

Investment banking income decreased \$118 million and \$452 million primarily driven by lower equity issuance fees due to a decline in market fee pools.

Trading account profits increased \$371 million for the three months ended June 30, 2016 compared to the same period in 2015 driven by stronger performance in rates products, as well as improved credit market conditions. Trading account profits decreased \$214 million for the six months ended June 30, 2016 compared to the same period in 2015 driven by declines in credit-related products due to challenging market conditions during the first quarter of 2016, as well as reduced client activity in equities in Asia and lower revenue in currencies which performed strongly in the same period in 2015.

• Mortgage banking income decreased \$689 million and \$950 million primarily due to less favorable MSR net-of-hedge performance, a provision for representations and warranties in the current-year periods compared to a benefit in the prior-year periods, as well as declines in production income and, to a lesser extent, servicing fees.

Other income increased \$212 million and \$359 million primarily due to improvements of \$172 million and \$497 million in debit valuation adjustments (DVA) on structured liabilities, as well as improved results from loan hedging activities in the fair value option portfolio, partially offset by lower gains on asset sales. DVA losses related to structured liabilities were \$23 million and \$53 million for the three and six months ended June 30, 2016 compared to \$195 million and \$550 million in the same periods in 2015.



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## Provision for Credit Losses

Table 4

## Credit Quality Data

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2016	2015	2016	2015
Provision for credit losses				
Consumer	\$733	\$553	\$1,135	\$1,172
Commercial	243	227	838	373
Total provision for credit losses	\$976	\$780	\$1,973	\$1,545

Net charge-offs <sup>(1)</sup> \$985 \$1,068 \$2,053 \$2,262

Net charge-off ratio <sup>(2)</sup> 0.44 % 0.49 % 0.46 % 0.53 %

<sup>(1)</sup> Net charge-offs exclude write-offs in the purchased credit-impaired (PCI) loan portfolio.

<sup>(2)</sup> Net charge-off ratios are calculated as annualized net charge-offs divided by average outstanding loans and leases excluding loans accounted for under the fair value option.

The provision for credit losses increased \$196 million to \$976 million, and \$428 million to \$2.0 billion for the three and six months ended June 30, 2016 compared to the same periods in 2015. The provision for credit losses in the consumer portfolio increased \$180 million for the three months ended June 30, 2016 compared to the prior-year period due to a slower pace of improvement. The provision for credit losses in the consumer portfolio remained relatively unchanged at \$1.1 billion for the six months ended June 30, 2016 compared to the same period in 2015. The provision for credit losses for the commercial portfolio increased \$16 million and \$465 million compared to the same periods in 2015, with the increase for the six months ended June 30, 2016 primarily driven by an increase in energy sector reserves to increase the allowance coverage for the higher risk sub-sectors. For more information on our energy sector exposure, see Commercial Portfolio Credit Risk Management – Industry Concentrations on page 89. The decreases in net charge-offs for the three and six months ended June 30, 2016 were primarily driven by charge-offs related to the consumer relief portion of the settlement with the U.S. Department of Justice (DoJ) in the prior-year periods and credit quality improvement in the consumer portfolio, partially offset by higher energy-related net charge-offs in the commercial portfolio.

For the remainder of 2016, we currently expect that provision expense should approximate net charge-offs. For more information on the provision for credit losses, see Provision for Credit Losses on page 95.

## Noninterest Expense

Table 5

## Noninterest Expense

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2016	2015	2016	2015
Personnel	\$7,722	\$7,890	\$16,574	\$17,504
Occupancy	1,036	1,027	2,064	2,054
Equipment	451	500	914	1,012
Marketing	414	445	833	885
Professional fees	472	494	897	915
Amortization of intangibles	186	212	373	425
Data processing	717	715	1,555	1,567

Telecommunications	189	202	362	373
Other general operating	2,306	2,473	4,737	5,050
Total noninterest expense	\$13,493	\$13,958	\$28,309	\$29,785

Noninterest expense decreased \$465 million to \$13.5 billion, and \$1.5 billion to \$28.3 billion for the three and six months ended June 30, 2016 compared to the same periods in 2015. Personnel expense decreased \$168 million and \$930 million as we continue to manage headcount and achieve cost savings. Continued expense management, as well as the expiration of fully-amortized advisor retention awards, more than offset the increases in client-facing professionals. Other general operating expense decreased \$167 million and \$313 million primarily due to lower foreclosed properties expense.

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The Corporation has previously announced an annual noninterest expense target of approximately \$53 billion for the year 2018. See information about forward-looking statements described in Item 2. Management's Discussion and Analysis on page 3.

## Income Tax Expense

Table 6

## Income Tax Expense

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2016	2015	2016	2015
Income before income taxes	\$5,929	\$7,218	\$9,628	\$11,540
Income tax expense	1,697	2,084	2,716	3,309
Effective tax rate	28.6	% 28.9	% 28.2	% 28.7

The effective tax rates for the three and six months ended June 30, 2016 and 2015 were driven by our recurring tax preference items. We expect an effective tax rate of approximately 29 percent for the remainder of 2016, absent unusual items.

The U.K. Chancellor's Budget 2016 was announced on March 16, 2016 and proposes to further reduce the U.K. corporate income tax rate by one percent to 17 percent effective April 1, 2020. This reduction would favorably affect income tax expense on future U.K. earnings but also would require us to remeasure, in the period of enactment, our U.K. net deferred tax assets using the lower tax rate. Accordingly, upon enactment, we would expect to record a charge to income tax expense of approximately \$350 million. In addition, for banking companies, the portion of U.K. taxable income that can be reduced by net operating loss carryforwards would be further restricted from 50 percent to 25 percent retroactive to April 1, 2016.

The majority of our U.K. deferred tax assets, which consist primarily of net operating losses, are expected to be realized by certain subsidiaries over a number of years. Significant changes to management's earnings forecasts for those subsidiaries, such as changes caused by a substantial and prolonged worsening of the condition of Europe's capital markets, changes in applicable laws, further changes in tax laws or the ability of our U.K. subsidiaries to conduct business in the EU, could lead management to reassess our ability to realize the U.K. deferred tax assets. For information on potential impacts of the U.K.'s exit from the EU, see Item 1A. Risk Factors on page 215.

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## Balance Sheet Overview

## Table 7

## Selected Balance Sheet Data

(Dollars in millions)	June 30 2016	December 31 2015	% Change
<b>Assets</b>			
Cash and cash equivalents	\$ 171,207	\$ 159,353	7 %
Federal funds sold and securities borrowed or purchased under agreements to resell	213,737	192,482	11
Trading account assets	175,365	176,527	(1 )
Debt securities	411,949	407,005	1
Loans and leases	903,153	896,983	1
Allowance for loan and lease losses	(11,837 )	(12,234 )	(3 )
All other assets	323,035	324,200	<(1)
<b>Total assets</b>	<b>\$ 2,186,609</b>	<b>\$ 2,144,316</b>	<b>2</b>
<b>Liabilities</b>			
Deposits	\$ 1,216,091	\$ 1,197,259	2 %
Federal funds purchased and securities loaned or sold under agreements to repurchase	178,062	174,291	2
Trading account liabilities	74,282	66,963	11
Short-term borrowings	33,051	28,098	18
Long-term debt	229,617	236,764	(3 )
All other liabilities	188,437	184,736	2
<b>Total liabilities</b>	<b>1,919,540</b>	<b>1,888,111</b>	<b>2</b>
Shareholders' equity	267,069	256,205	4
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,186,609</b>	<b>\$ 2,144,316</b>	<b>2</b>

## Assets

At June 30, 2016, total assets were approximately \$2.2 trillion, up \$42.3 billion from December 31, 2015. The increase in assets was primarily driven by higher securities borrowed or purchased under agreements to resell due to increased customer financing activity, higher cash and cash equivalents driven by strong deposit inflows, and an increase in loans and leases driven by demand for commercial loans outpacing consumer loan sales and run-off.

## Liabilities and Shareholders' Equity

At June 30, 2016, total liabilities were approximately \$1.9 trillion, up \$31.4 billion from December 31, 2015, primarily driven by increases in deposits, trading account liabilities and short-term borrowings, partially offset by a decrease in long-term debt.

Shareholders' equity of \$267.1 billion at June 30, 2016 increased \$10.9 billion from December 31, 2015 driven by earnings, an increase in accumulated other comprehensive income (OCI) due to a positive net change in the fair value of available-for-sale (AFS) debt securities as a result of lower interest rates, and preferred stock issuances, partially offset by returns of capital to shareholders of \$4.2 billion through common and preferred stock dividends and common stock repurchases.

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Table 8

## Selected Quarterly Financial Data

(In millions, except per share information)	2016 Quarters		2015 Quarters		Second
	Second	First	Fourth	Third	
Income statement					
Net interest income	\$9,213	\$9,171	\$9,756	\$9,471	\$10,461
Noninterest income	11,185	10,341	9,911	11,042	11,495
Total revenue, net of interest expense	20,398	19,512	19,667	20,513	21,956
Provision for credit losses	976	997	810	806	780
Noninterest expense	13,493	14,816	14,010	13,940	13,958
Income before income taxes	5,929	3,699	4,847	5,767	7,218
Income tax expense	1,697	1,019	1,511	1,446	2,084
Net income	4,232	2,680	3,336	4,321	5,134
Net income applicable to common shareholders	3,871	2,223	3,006	3,880	4,804
Average common shares issued and outstanding	10,254	10,340	10,399	10,444	10,488
Average diluted common shares issued and outstanding	11,059	11,100	11,153	11,197	11,238
Performance ratios					
Return on average assets	0.78	% 0.50	% 0.61	% 0.79	% 0.96
Four quarter trailing return on average assets <sup>(1)</sup>	0.67	0.71	0.74	0.73	0.52
Return on average common shareholders' equity	6.48	3.77	5.08	6.65	8.42
Return on average tangible common shareholders' equity <sup>(2)</sup>	9.24	5.41	7.32	9.65	12.31
Return on average shareholders' equity	6.42	4.14	5.15	6.75	8.20
Return on average tangible shareholders' equity <sup>(2)</sup>	8.79	5.72	7.15	9.43	11.51
Total ending equity to total ending assets	12.21	12.02	11.95	11.89	11.71
Total average equity to total average assets	12.12	11.98	11.79	11.71	11.67
Dividend payout	13.39	23.23	17.27	13.43	10.90
Per common share data					
Earnings	\$0.38	\$0.21	\$0.29	\$0.37	\$0.46
Diluted earnings	0.36	0.21	0.28	0.35	0.43
Dividends paid	0.05	0.05	0.05	0.05	0.05