BANK OF AMERICA CORP /DE/
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2009

or

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

EXCHANGE ACT OF 1934

For the transition period from to

Commission file number:

1-6523

Exact Name of Registrant as Specified in its Charter:

Bank of America Corporation

State or Other Jurisdiction of Incorporation or Organization:

Delaware

IRS Employer Identification Number:

56-0906609

Address of Principal Executive Offices:

Bank of America Corporate Center

100 N. Tryon Street

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 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 (§ 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 ü 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).

Large accelerated filer ü Accelerated filer Non-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 ü

On October 31, 2009, there were 8,650,759,836 shares of Bank of America Corporation Common Stock outstanding.

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Bank of America Corporation

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Part 1. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Bank of America Corporation and Subsidiaries

Consolidated Statement of Income

(Dollars in millions, except per share information)	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Interest income				
Interest and fees on loans and leases	**$ 11,620**	$ 14,261	**$ 37,298**	$ 41,797
Interest on debt securities	**2,975**	3,621	**10,088**	9,295
Federal funds sold and securities borrowed or purchased under agreements to resell	**722**	912	**2,567**	2,920
Trading account assets	**1,843**	2,344	**6,223**	6,937
Other interest income	**1,363**	1,058	**4,095**	3,133
Total interest income	**18,523**	22,196	**60,271**	64,082
Interest expense				
Deposits	**1,710**	3,846	**6,335**	11,954
Short-term borrowings	**1,237**	3,223	**4,854**	10,452
Trading account liabilities	**455**	661	**1,484**	2,250
Long-term debt	**3,698**	2,824	**12,048**	7,172
Total interest expense	**7,100**	10,554	**24,721**	31,828
Net interest income	**11,423**	11,642	**35,550**	32,254
Noninterest income				
Card income	**1,557**	3,122	**6,571**	10,212
Service charges	**3,020**	2,722	**8,282**	7,757
Investment and brokerage services	**2,948**	1,238	**8,905**	3,900
Investment banking income	**1,254**	474	**3,955**	1,645
Equity investment income (loss)	**843**	(316)	**7,988**	1,330
Trading account profits (losses)	**3,395**	(384)	**10,760**	(1,810)
Mortgage banking income	**1,298**	1,674	**7,139**	2,564
Insurance income	**707**	678	**2,057**	1,092
Gains on sales of debt securities	**1,554**	10	**3,684**	362
Other income (loss)	**(1,167)**	(317)	**1,870**	(206)
Other-than-temporary impairment losses on AFS debt securities:				
Total other-than-temporary impairment losses	**(847)**	(922)	**(2,671)**	(1,998)
Less: Portion of other-than-temporary impairment losses recognized in OCI	**50**	-	**477**	-
Net impairment losses recognized in earnings on AFS debt securities	**(797)**	(922)	**(2,194)**	(1,998)
Total noninterest income	**14,612**	7,979	**59,017**	24,848
Total revenue, net of interest expense	**26,035**	19,621	**94,567**	57,102
Provision for credit losses	**11,705**	6,450	**38,460**	18,290
Noninterest expense				
Personnel	**7,613**	5,198	**24,171**	14,344
Occupancy	**1,220**	926	**3,567**	2,623
Equipment	**617**	440	**1,855**	1,208
Marketing	**470**	605	**1,490**	1,813
Professional fees	**562**	424	**1,511**	1,071
Amortization of intangibles	**510**	464	**1,546**	1,357
Data processing	**592**	755	**1,861**	1,905
Telecommunications	**361**	288	**1,033**	814
Other general operating	**3,767**	2,313	**11,106**	4,818
Merger and restructuring charges	**594**	247	**2,188**	629
Total noninterest expense	**16,306**	11,660	**50,328**	30,582
Income (loss) before income taxes	**(1,976)**	1,511	**5,779**	8,230
Income tax expense (benefit)	**(975)**	334	**(691)**	2,433
Net income (loss)	**$ (1,001)**	$ 1,177	**$ 6,470**	$ 5,797
Preferred stock dividends	**1,240**	473	**3,478**	849
Net income (loss) applicable to common shareholders	**$ (2,241)**	$ 704	**$ 2,992**	$ 4,948
Per common share information				
Earnings (loss)	**$ (0.26)**	$ 0.15	**$ 0.39**	$ 1.09
Diluted earnings (loss)	**(0.26)**	0.15	**0.39**	1.09

Dividends paid	**0.01**	0.64	**0.03**	1.92
Average common shares issued and outstanding (in thousands)	**8,633,834**	4,543,963	**7,423,341**	4,469,517
Average diluted common shares issued and outstanding (in thousands)	**8,633,834**	4,547,578	**7,449,911**	4,477,994

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries
Consolidated Balance Sheet

(Dollars in millions)	September 30 2009	December 31 2008
Assets		
Cash and cash equivalents	**$ 152,412**	$ 32,857
Time deposits placed and other short-term investments	**22,992**	9,570
Federal funds sold and securities borrowed or purchased under agreements to resell (includes **$66,218** and $2,330 measured at fair value and **$187,634** and $82,099 pledged as collateral)	**187,761**	82,478
Trading account assets (includes **$55,151** and $69,348 pledged as collateral)	**204,838**	134,315
Derivative assets	**94,855**	62,252
Debt securities:		
Available-for-sale (includes **$99,615** and $158,939 pledged as collateral)	**247,200**	276,904
Held-to-maturity, at cost (fair value - **$7,879** and $685)	**9,545**	685
Total debt securities	**256,745**	277,589
Loans and leases (includes **$6,197** and $5,413 measured at fair value and **$117,523** and $166,891 pledged as collateral)	**914,266**	931,446
Allowance for loan and lease losses	**(35,832)**	(23,071)
Loans and leases, net of allowance	**878,434**	908,375
Premises and equipment, net	**15,373**	13,161
Mortgage servicing rights (includes **$17,539** and $12,733 measured at fair value)	**17,850**	13,056
Goodwill	**86,009**	81,934
Intangible assets	**12,715**	8,535
Loans held-for-sale (includes **$28,803** and $18,964 measured at fair value)	**40,124**	31,454
Other assets (includes **$63,666** and $55,113 measured at fair value)	**280,935**	162,367
Total assets	**$ 2,251,043**	$ 1,817,943
Liabilities		
Deposits in domestic offices:		
Noninterest-bearing	**$ 246,729**	$ 213,994
Interest-bearing (includes **$1,652** and $1,717 measured at fair value)	**652,730**	576,938
Deposits in foreign offices:		
Noninterest-bearing	**4,889**	4,004
Interest-bearing	**70,551**	88,061
Total deposits	**974,899**	882,997
Federal funds purchased and securities loaned or sold under agreements to repurchase (includes **$51,804** measured at fair value at September 30, 2009)	**249,578**	206,598
Trading account liabilities	**71,672**	51,723
Derivative liabilities	**52,624**	30,709
Commercial paper and other short-term borrowings (includes **$568** measured at fair value at September 30, 2009)	**62,280**	158,056
Accrued expenses and other liabilities (includes **$17,489** and $7,542 measured at fair value and **$1,567** and $421 of reserve for unfunded lending commitments)	**126,019**	42,516
Long-term debt (includes **$43,967** measured at fair value at September 30, 2009)	**456,288**	268,292
Total liabilities	**1,993,360**	1,640,891
Commitments and contingencies (*Note 9 Variable Interest Entities* and *Note 12 Commitments and Contingencies*)		
Shareholders equity		
Preferred stock, $0.01 par value; authorized - **100,000,000** shares; issued and outstanding **5,760,660** and 8,202,042 shares	**58,840**	37,701
Common stock and additional paid-in capital, $0.01 par value; authorized **10,000,000,000** shares; issued and outstanding **8,650,314,133** and 5,017,435,592 shares	**128,823**	76,766
Retained earnings	**76,881**	73,823
Accumulated other comprehensive income (loss)	**(6,705)**	(10,825)
Other	**(156)**	(413)
Total shareholders equity	**257,683**	177,052

Total liabilities and shareholders equity	**$ 2,251,043**	$ 1,817,943

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries

Consolidated Statement of Changes in Shareholders Equity

(Dollars in millions, shares in thousands)	Preferred Stock	Common Stock and Additional Paid-in Capital Shares	Common Stock and Additional Paid-in Capital Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) [1]	Other	Total Shareholders Equity	Comprehensive Income
Balance, December 31, 2007	$ 4,409	4,437,885	$ 60,328	$ 81,393	$ 1,129	$ (456)	$ 146,803	
Net income				5,797			5,797	$ 5,797
Net changes in available-for-sale debt and marketable equity securities					(7,054)		(7,054)	(7,054)
Net changes in foreign currency translation adjustments					(242)		(242)	(242)
Net changes in derivatives					485		485	485
Employee benefit plan adjustments					35		35	35
Dividends paid:								
Common				(8,646)			(8,646)	
Preferred				(849)			(849)	
Issuance of preferred stock	19,742						19,742	
Stock issued in acquisition [2]		106,776	4,201				4,201	
Common stock issued under employee plans and related tax effects		17,394	832			(65)	767	
Balance, September 30, 2008	$ 24,151	4,562,055	$ 65,361	$ 77,695	$ (5,647)	$ (521)	$ 161,039	$ (979)
Balance, December 31, 2008	**$ 37,701**	**5,017,436**	**$ 76,766**	**$ 73,823**	**$ (10,825)**	**$ (413)**	**$ 177,052**	
Cumulative adjustment for accounting change Other-than-temporary impairments on debt securities [3]				**71**	**(71)**		**-**	
Net income				**6,470**			**6,470**	**$ 6,470**
Net changes in available-for-sale debt and marketable equity securities					**3,110**		**3,110**	**3,110**
Net changes in foreign currency translation adjustments					**26**		**26**	**26**
Net changes in derivatives					**721**		**721**	**721**
Employee benefit plan adjustments					**334**		**334**	**334**
Dividends paid:								
Common				**(238)**			**(238)**	
Preferred [4]				**(3,295)**			**(3,295)**	
Issuance of preferred stock and stock warrants [5]	**26,800**		**3,200**				**30,000**	
Stock issued in acquisition	**8,605**	**1,375,476**	**20,504**				**29,109**	
Issuance of common stock		**1,250,000**	**13,468**				**13,468**	
Exchange of preferred stock	**(14,797)**	**999,935**	**14,221**	**576**			**-**	
Common stock issued under employee plans and related tax effects		**7,467**	**664**			**257**	**921**	
Other	**531**			**(526)**			**5**	
Balance, September 30, 2009	**$ 58,840**	**8,650,314**	**$ 128,823**	**$ 76,881**	**$ (6,705)**	**$ (156)**	**$ 257,683**	**$ 10,661**

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

(2) Includes adjustments for the fair value of certain Countrywide stock-based compensation awards of 507 thousand shares and $86 million.

(3) Effective January 1, 2009, the Corporation adopted new accounting guidance related to the recognition of other-than-temporary impairment charges on debt securities. For additional information on the adoption of this accounting pronouncement, see *Note 1 Summary of Significant Accounting Principles* and *Note 5 Securities* to the Consolidated Financial Statements. Amounts shown are net-of-tax.

(4) Excludes $233 million of third quarter 2009 cumulative preferred dividends not declared as of September 30, 2009 and $526 million of accretion of discounts on preferred stock.

(5) Proceeds from the issuance of Series Q and Series R Preferred Stock were allocated to the preferred stock and warrants on a relative fair value basis. For more information, see *Note 13 Shareholders Equity and Earnings Per Common Share* to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries

Consolidated Statement of Cash Flows

	Nine Months Ended September 30	
(Dollars in millions)	**2009**	2008
Operating activities		
Net income	**$ 6,470**	$ 5,797
Reconciliation of net income to net cash provided by operating activities:		
Provision for credit losses	**38,460**	18,290
Gains on sales of debt securities	**(3,684)**	(362)
Depreciation and premises improvements amortization	**1,755**	1,074
Amortization of intangibles	**1,546**	1,357
Deferred income tax expense (benefit)	**3,560**	(1,429)
Net decrease (increase) in trading and derivative instruments	**42,827**	(17,963)
Net decrease in other assets	**21,970**	6,422
Net (decrease) increase in accrued expenses and other liabilities	**(20,945)**	17,987
Other operating activities, net	**5,718**	103
Net cash provided by operating activities	**97,677**	31,276
Investing activities		
Net decrease in time deposits placed and other short-term investments	**20,291**	64
Net decrease in federal funds sold and securities borrowed or purchased under agreements to resell	**33,541**	49,163
Proceeds from sales of available-for-sale debt securities	**122,756**	69,218
Proceeds from paydowns and maturities of available-for-sale debt securities	**47,238**	18,825
Purchases of available-for-sale debt securities	**(82,377)**	(109,219)
Proceeds from maturities of held-to-maturity debt securities	**1,831**	176
Purchases of held-to-maturity debt securities	**(2,677)**	(840)
Proceeds from sales of loans and leases	**6,565**	42,209
Other changes in loans and leases, net	**19,221**	(62,464)
Net purchases of premises and equipment	**(1,532)**	(1,526)
Proceeds from sales of foreclosed properties	**1,352**	506
Cash received upon acquisition, net	**31,804**	6,650
Other investing activities, net	**9,812**	(214)
Net cash provided by investing activities	**207,825**	12,548
Financing activities		
Net (decrease) increase in deposits	**(6,205)**	5,884
Net decrease in federal funds purchased and securities loaned or sold under agreements to repurchase	**(68,600)**	(15,398)
Net decrease in commercial paper and other short-term borrowings	**(133,672)**	(45,277)
Proceeds from issuance of long-term debt	**62,809**	24,038
Retirement of long-term debt	**(80,302)**	(26,559)
Proceeds from issuance of preferred stock	**30,000**	19,742
Proceeds from issuance of common stock	**13,468**	229
Cash dividends paid	**(3,533)**	(9,495)
Excess tax benefits of share-based payments	**-**	34
Other financing activities, net	**(37)**	(85)
Net cash used in financing activities	**(186,072)**	(46,887)
Effect of exchange rate changes on cash and cash equivalents	**125**	(127)
Net increase (decrease) in cash and cash equivalents	**119,555**	(3,190)
Cash and cash equivalents at January 1	**32,857**	42,531
Cash and cash equivalents at September 30	**$ 152,412**	$ 39,341

The Corporation securitized $11.6 billion of residential mortgage loans into mortgage-backed securities which were retained by the Corporation during the nine months ended September 30, 2009.

During the nine months ended September 30, 2009, the Corporation exchanged $14.8 billion of preferred stock by issuing 1.0 billion shares of common stock valued at $11.5 billion.

During the nine months ended September 30, 2009, the Corporation transferred credit card loans of $8.5 billion and the related allowance for loan and lease losses of $750 million in exchange for a $7.8 billion held-to-maturity debt security that was issued by the Corporation s U.S. Credit Card Securitization Trust.

During the nine months ended September 30, 2009, the Corporation transferred $1.7 billion of ARS from trading account assets to AFS debt securities.

The fair values of noncash assets acquired and liabilities assumed in the Merrill Lynch acquisition were $618.9 billion and $626.4 billion.

Approximately 1.4 billion shares of common stock valued at approximately $20.5 billion and 376 thousand shares of preferred stock valued at $8.6 billion were issued in connection with the Merrill Lynch acquisition.

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

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

The fair values of noncash assets acquired and liabilities assumed in the Countrywide acquisition were $157.4 billion and $157.8 billion.

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

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 Summary of Significant Accounting Principles

On January 1, 2009, Bank of America Corporation and its subsidiaries (the Corporation) acquired all of the outstanding shares of Merrill Lynch & Co., Inc. (Merrill Lynch) through its merger with a subsidiary of the Corporation in exchange for common and preferred stock with a value of $29.1 billion. On July 1, 2008, the Corporation acquired all of the outstanding shares of Countrywide Financial Corporation (Countrywide) through its merger with a subsidiary of the Corporation in exchange for common stock with a value of $4.2 billion. Consequently, Merrill Lynch s and Countrywide s results of operations were included in the Corporation s results from their dates of acquisition. For more information related to the Merrill Lynch and Countrywide acquisitions, see *Note 2 Merger and Restructuring Activity*.

The Corporation, through its banking and nonbanking subsidiaries, provides a diverse range of financial services and products throughout the U.S. and in selected international markets. At September 30, 2009, the Corporation operated its banking activities primarily under two charters: Bank of America, National Association (Bank of America, N.A.) and FIA Card Services, N.A. In addition, with the acquisition of Merrill Lynch, the Corporation acquired Merrill Lynch Bank USA and Merrill Lynch Bank & Trust Co., FSB. Effective April 27, 2009, Countrywide Bank, FSB merged into Bank of America, N.A. Effective July 1, 2009, Merrill Lynch Bank USA merged into Bank of America, N.A. In addition, effective November 2, 2009, Merrill Lynch Bank & Trust Co., FSB merged into Bank of America, N.A. These mergers had no impact on the Consolidated Financial Statements of the Corporation.

Principles of Consolidation and Basis of Presentation

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

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions.

These unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements filed as Exhibit 99.2 to the Corporation s Current Report on Form 8-K filed on May 28, 2009. The nature of the Corporation s business is such that the results of any interim period are not necessarily indicative of results for a full year. In the opinion of management, normal recurring adjustments necessary for a fair statement of the interim period results have been made. The Corporation evaluates subsequent events through the date of filing with the SEC. Certain prior period amounts have been reclassified to conform to current period presentation.

Recently Proposed and Issued Accounting Pronouncements

On July 1, 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement of Financial Accounting Standards (SFAS) No. 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted

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Accounting Principles, which is included in FASB Accounting Standards Codification (ASC) 105 Generally Accepted Accounting Principles. This new guidance approved the FASB ASC as the single source of authoritative nongovernmental GAAP. The FASB ASC is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB ASC will be considered nonauthoritative. The ASC is a restructuring of GAAP designed to simplify access to all authoritative literature by providing a topically organized structure. The adoption of FASB ASC did not impact the Corporation s financial condition or results of operations. Technical references to GAAP included in these Notes to the Consolidated Financial Statements are provided under the new FASB ASC structure.

On June 12, 2009, the FASB issued two new accounting standards: SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166) and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), which will amend FASB ASC 860-10, Transfers and Servicing, and FASB ASC 810-10, Consolidation of Variable Interest Entities. These statements are effective on January 1, 2010. SFAS 166 revises existing sale accounting criteria for transfers of financial assets. As described more fully in *Note 8 Securitizations*, the Corporation routinely transfers mortgage loans, credit card receivables, and other financial instruments to special purpose entities (SPEs) that meet the definition of a qualifying special purpose entity (QSPE) which are not currently subject to consolidation by the transferor. Among other things, SFAS 166 eliminates the concept of a QSPE. As a result, existing QSPEs generally will be subject to consolidation in accordance with the guidance provided in SFAS 167.

SFAS 167 significantly changes the criteria by which an enterprise determines whether it must consolidate a VIE. A VIE is an entity, typically an SPE, which has insufficient equity at risk or which is not controlled through voting rights held by equity investors. Currently, a VIE is consolidated by the enterprise that will absorb a majority of the expected losses or expected residual returns created by the assets of the VIE. SFAS 167 requires that a VIE be consolidated by the enterprise that has both the power to direct the activities that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. SFAS 167 also requires that an enterprise continually reassess, based on current facts and circumstances, whether it should consolidate the VIEs with which it is involved.

The adoption of SFAS 166 and 167 on January 1, 2010 will result in the consolidation of certain QSPEs and VIEs that are not currently recorded on the Corporation s Consolidated Balance Sheet, which will result in an increase in net loans and leases, securities, short-term borrowings and long-term debt. Consolidation of currently unconsolidated VIEs may also result in an increase in the allowance for credit losses for newly consolidated loans, along with changes in classification in the Corporation s Consolidated Statement of Income. The Corporation expects to consolidate on January 1, 2010 certain vehicles including credit card securitization trusts, commercial paper conduits and revolving home equity securitization trusts with a net incremental impact on total assets of approximately $121 billion (based on estimates at September 30, 2009) of which approximately $80 billion is related to credit card securitizations and commercial paper conduits that are currently included at the appropriate risk weighting in the Corporation s risk-weighted asset calculation for regulatory capital purposes, based on current guidance. The Corporation is also evaluating other VIEs with which it is involved to determine the impact of adoption.

On April 9, 2009, the FASB issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, which amends FASB ASC 820-10, Fair Value Measurements and Disclosures. This amendment provides guidance for determining whether a market is inactive and a transaction is distressed in order to apply the existing fair value measurement guidance, and acknowledges that in these circumstances quoted prices may not be determinative of fair value. Additionally, this amendment requires enhanced disclosures regarding financial assets and liabilities that are recorded at fair value. The Corporation elected to early adopt this new guidance effective January 1, 2009 and the adoption did not have a material impact on the Corporation s financial condition or results of operations. The enhanced disclosures are included in *Note 16 Fair Value Disclosures*.

On April 9, 2009, the FASB issued FSP No. FAS 115-2, FAS 124-2 and EITF 99-20-2, Recognition and Presentation of Other-Than-Temporary Impairments, which amends FASB ASC 320-10, Investments Debt and Equity Securities. This new guidance requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in other comprehensive income (OCI) when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. The new guidance also requires expanded disclosures. The Corporation elected to early adopt this new guidance effective January 1, 2009, and recorded a cumulative-effect adjustment to reclassify $71 million, net-of-tax, from retained earnings to accumulated OCI as of January 1, 2009. The new guidance does not change the recognition of other-than-temporary

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impairment for equity securities. The expanded disclosures are included in *Note 5 Securities* and on the Corporation s Consolidated Statement of Income.

On April 9, 2009, the FASB issued FSP No. FAS 107-1 and APB Opinion 28-1, Interim Disclosures about Fair Value of Financial Instruments, which amends FASB ASC 825-10, Financial Instruments. This new guidance requires that disclosures for financial instruments such as loans that are not measured at fair value through earnings be provided on a quarterly basis, whereas previously these disclosures were required to be provided only annually. The expanded disclosure requirements were effective for the Corporation s quarterly financial statements for the period ended June 30, 2009. The adoption of this new guidance did not impact the Corporation s financial condition or results of operations. These disclosures are included in *Note 17 Fair Value of Financial Instruments.*

On April 1, 2009, the FASB issued FSP No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, which amends FASB ASC 805, Business Combinations, and requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing accounting guidance. This new guidance is effective for acquisitions consummated on or after January 1, 2009. The Corporation applied this new guidance to its January 1, 2009 acquisition of Merrill Lynch. See *Note 2 Merger and Restructuring Activity.*

NOTE 2 Merger and Restructuring Activity

Merrill Lynch

On January 1, 2009, the Corporation acquired Merrill Lynch through its merger with a subsidiary of the Corporation in exchange for common and preferred stock with a value of $29.1 billion, creating a financial services franchise with significantly enhanced wealth management, investment banking and international capabilities. Under the terms of the merger agreement, Merrill Lynch common shareholders received 0.8595 of a share of Bank of America Corporation common stock in exchange for each share of Merrill Lynch common stock. In addition, Merrill Lynch non-convertible preferred shareholders received Bank of America Corporation preferred stock having substantially similar terms. Merrill Lynch convertible preferred stock remains outstanding and is convertible into Bank of America common stock at an equivalent exchange ratio. With the acquisition, the Corporation has one of the largest wealth management businesses in the world with approximately 15,000 financial advisors and more than $1.9 trillion in client assets. Global investment management capabilities include an economic ownership of approximately 48 percent in BlackRock, Inc. (BlackRock), a publicly traded investment management company. In addition, the acquisition adds strengths in debt and equity underwriting, sales and trading, and merger and acquisition advice, creating significant opportunities to deepen relationships with corporate and institutional clients around the globe. Merrill Lynch s results of operations were included in the Corporation s results beginning January 1, 2009.

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The Merrill Lynch merger is being accounted for under the acquisition method of accounting. Accordingly, the purchase price was preliminarily allocated to the acquired assets and liabilities based on their estimated fair values at the Merrill Lynch acquisition date as summarized in the following table. Preliminary goodwill of $4.8 billion is calculated as the purchase premium after adjusting for the fair value of net assets acquired and represents the value expected from the synergies created from combining the Merrill Lynch wealth management and corporate and investment banking businesses with the Corporation s capabilities in consumer and commercial banking as well as the economies of scale expected from combining the operations of the two companies.

Merrill Lynch Preliminary Purchase Price Allocation

(Dollars in billions, except per share amounts)	
Purchase price	
Merrill Lynch common shares exchanged (in millions)	**1,600**
Exchange ratio	0.8595
The Corporation s common shares issued (in millions)	1,375
Purchase price per share of the Corporation s common stock[1]	$ 14.08
Total value of the Corporation s common stock and cash exchanged for fractional shares	$ 19.4
Merrill Lynch preferred stock [2]	8.6
Fair value of outstanding employee stock awards	1.1
Total purchase price	**$ 29.1**
Preliminary allocation of the purchase price	
Merrill Lynch stockholders equity	19.9
Merrill Lynch goodwill and intangible assets	(2.6)
Pre-tax adjustments to reflect acquired assets and liabilities at fair value:	
Derivatives and securities	(1.2)
Loans	(6.1)
Intangible assets [3]	5.7
Other assets	(1.5)
Long-term debt [4]	15.8
Pre-tax total adjustments	12.7
Deferred income taxes	(5.7)
After-tax total adjustments	7.0
Fair value of net assets acquired	24.3
Preliminary goodwill resulting from the Merrill Lynch merger [5]	**$ 4.8**

(1) The value of the shares of common stock exchanged with Merrill Lynch shareholders was based upon the closing price of the Corporation s common stock at December 31, 2008, the last trading day prior to the date of acquisition.

(2) Represents Merrill Lynch s preferred stock exchanged for Bank of America preferred stock having substantially similar terms and also includes $1.5 billion of convertible preferred stock.

(3) Consists of trade name of $1.2 billion and customer relationship and core deposit intangibles of $4.5 billion. The amortization life is 10 years for the customer relationship and core deposit intangibles which are primarily amortized on a straight-line basis.

(4) The change in the estimated fair value of long-term debt of approximately $400 million had an immaterial impact on net income for the first and second quarters of 2009.

(5) No goodwill is expected to be deductible for federal income tax purposes. The goodwill was allocated to *Global Wealth & Investment Management (GWIM)* and *Global Markets.*

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Preliminary Condensed Statement of Net Assets Acquired

The following condensed statement of net assets acquired reflects the preliminary values assigned to Merrill Lynch s net assets as of the acquisition date.

(Dollars in billions)		January 1, 2009
Assets		
Federal funds sold and securities borrowed or purchased under agreements to resell	$	138.8
Trading account assets		87.9
Derivative assets		97.1
Investment securities		70.5
Loans and leases		55.9
Intangible assets		5.7
Other assets		194.8
Total assets	**$**	**650.7**
Liabilities		
Deposits	$	98.1
Federal funds purchased and securities loaned or sold under agreements to repurchase		111.6
Trading account liabilities		18.1
Derivative liabilities		72.0
Commercial paper and other short-term borrowings		37.9
Accrued expenses and other liabilities		99.6
Long-term debt		189.1
Total liabilities	**$**	**626.4**
Fair value of net assets acquired (1)	**$**	**24.3**

(1) The fair value of net assets acquired excludes preliminary goodwill resulting from the Merrill Lynch merger of $4.8 billion.

The fair value of net assets acquired includes preliminary fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. These fair value adjustments were determined using incremental spreads for credit and liquidity risk which are part of the rate used to discount contractual cash flows. However, the Corporation believes that all contractual cash flows related to these financial instruments are collectible. These receivables include non-impaired loans and customer receivables with a preliminary fair value and gross contractual amounts receivable of $152.8 billion and $159.8 billion at the date of acquisition. For more information on the purchased impaired loan portfolio, see *Note 6 Outstanding Loans and Leases*.

Contingencies

The fair value of net assets acquired includes certain contingent liabilities that were recorded as of the acquisition date. Merrill Lynch has been named as a defendant in various pending legal actions and proceedings arising in connection with its activities as a global diversified financial services institution. Some of these legal actions and proceedings include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. Due to the number of variables and assumptions involved in assessing the possible outcome of these legal actions, sufficient information does not exist to reasonably estimate the fair value of these contingent liabilities. As such, these contingencies have been measured in accordance with accounting guidance on contingencies which states that a loss is recognized when it is probable of occurring and the loss amount can be reasonably estimated. For further information, see *Note 12 Commitments and Contingencies.*

In connection with the Merrill Lynch acquisition, on January 1, 2009, the Corporation recorded certain guarantees, primarily standby liquidity facilities and letters of credit, with a fair value of approximately $1 billion. At the time of acquisition, the maximum amount that could be drawn under these guarantees was approximately $20 billion.

Countrywide

On July 1, 2008, the Corporation acquired Countrywide through its merger with a subsidiary of the Corporation. Under the terms of the agreement, Countrywide shareholders received 0.1822 of a share of Bank of America Corporation common stock in exchange for each share of Countrywide common stock. The acquisition of Countrywide significantly expanded the Corporation s mortgage originating and servicing capabilities, making it a leading mortgage originator and servicer. As provided by the merger agreement, 583 million shares of Countrywide common stock were exchanged for 107 million shares of the Corporation s common stock. Countrywide s results of operations were included in the Corporation s results beginning July 1, 2008.

LaSalle

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

U.S. Trust Corporation

On July 1, 2007, the Corporation acquired all the outstanding shares of U.S. Trust Corporation for $3.3 billion in cash. U.S. Trust Corporation s results of operations were included in the Corporation s results beginning July 1, 2007. The acquisition increased the size and capabilities of the Corporation s wealth management business and positions it as one of the largest financial services companies managing private wealth in the U.S.

Unaudited Pro Forma Condensed Combined Financial Information

If the Merrill Lynch and Countrywide mergers had been completed on January 1, 2008, total revenue, net of interest expense would have been $20.4 billion and $62.9 billion, net loss from continuing operations would have been $3.8 billion and $8.5 billion, and basic and diluted loss per common share would have been $1.16 and $2.24 for the three and nine months ended September 30, 2008. These results include the impact of amortizing certain purchase accounting adjustments such as intangible assets as well as fair value adjustments to loans, securities and issued debt. The pro forma financial information does not include the impact of possible business model changes nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies, asset dispositions, share repurchases, or other factors. For the three and nine months ended September 30, 2009, Merrill Lynch contributed $5.1 billion and $16.8 billion in revenue, net of interest expense, and $690 million and $2.2 billion in net income. These amounts are before the consideration of certain merger-related costs, revenue opportunities and certain consolidating tax benefits that were recognized in legacy Bank of America legal entities.

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Merger and Restructuring Charges

Merger and restructuring charges are recorded in the Consolidated Statement of Income and include incremental costs to integrate the operations of the Corporation, Merrill Lynch, Countrywide, LaSalle and U.S. Trust Corporation. These charges represent costs associated with these one-time activities and do not represent ongoing costs of the fully integrated combined organization. The following table presents severance and employee-related charges, systems integrations and related charges, and other merger-related charges.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	**2009**	2008	**2009**	2008
Severance and employee-related charges	**$ 225**	$ 15	**$ 1,207**	$ 90
Systems integrations and related charges	**329**	186	**813**	431
Other	**40**	46	**168**	108
Total merger and restructuring charges	**$ 594**	$ 247	**$ 2,188**	$ 629

Included for the three and nine months ended September 30, 2009 are merger-related charges of $371 million and $1.5 billion related to the Merrill Lynch acquisition, $212 million and $632 million related to the Countrywide acquisition, and $11 million and $92 million related to the LaSalle acquisition. Included for the three and nine months ended September 30, 2008 are merger-related charges of $72 million for both periods related to the Countrywide acquisition, $159 million and $462 million related to the LaSalle acquisition and $16 million and $95 million related to the U.S. Trust Corporation acquisition.

During the three and nine months ended September 30, 2009, the $371 million and $1.5 billion of merger-related charges for the Merrill Lynch acquisition included $196 million and $1.1 billion for severance and other employee-related costs, $153 million and $294 million of system integration costs, and $22 million and $94 million in other merger-related costs.

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Merger-related Exit Cost and Restructuring Reserves

The following table presents the changes in exit cost and restructuring reserves for the three and nine months ended September 30, 2009 and 2008.

	Exit Cost Reserves [1]		Restructuring Reserves [2]	
(Dollars in millions)	**2009**	2008	**2009**	2008
Balance, January 1	**$ 523**	$ 377	**$ 86**	$ 108
Exit costs and restructuring charges:				
Merrill Lynch	**n/a**	n/a	**732**	n/a
Countrywide	**-**	n/a	**108**	n/a
LaSalle	**-**	87	**(5)**	46
U.S. Trust Corporation	**-**	-	**(1)**	26
MBNA	**-**	(2)	**-**	-
Cash payments	**(305)**	(112)	**(490)**	(67)
Balance, June 30	**218**	350	**430**	113
Exit costs and restructuring charges:				
Merrill Lynch	**n/a**	n/a	**132**	n/a
Countrywide	**-**	588	**37**	32
LaSalle	**(6)**	(56)	**(2)**	(22)
U.S. Trust Corporation	**-**	-	**-**	5
MBNA	**-**	(4)	**-**	(3)
Cash payments	**(58)**	(203)	**(226)**	(50)
Balance, September 30	**$ 154**	$ 675	**$ 371**	$ 75

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

(2) Restructuring reserves were established by a charge to merger and restructuring charges.
n/a = not applicable

As of December 31, 2008, there were $523 million of exit cost reserves related to the Countrywide, LaSalle and U.S. Trust Corporation acquisitions, including $347 million for severance, relocation and other employee-related costs and $176 million for contract terminations. Cash payments of $58 million during the three months ended September 30, 2009 consisted of $38 million in severance, relocation and other employee-related costs and $20 million in contract terminations. Cash payments of $363 million during the nine months ended September 30, 2009 consisted of $261 million in severance, relocation and other employee-related costs and $102 million in contract terminations. Exit costs were not recorded in purchase accounting for the Merrill Lynch acquisition in accordance with amendments to the accounting guidance for business combinations which were effective on January 1, 2009.

As of December 31, 2008, there were $86 million of restructuring reserves related to the Countrywide, LaSalle and U.S. Trust Corporation acquisitions for severance and other employee-related costs. During the three and nine months ended September 30, 2009, $167 million and $1.0 billion were added to the restructuring reserves related to severance and other employee-related costs primarily associated with the Merrill Lynch acquisition. Cash payments of $226 million and $716 million during the three and nine months ended September 30, 2009 were all related to severance and other employee-related costs.

Payments under exit cost and restructuring reserves associated with the U.S. Trust Corporation acquisition will be substantially completed in 2009 while payments associated with the LaSalle, Countrywide and Merrill Lynch acquisitions will continue into 2010.

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NOTE 3 Trading Account Assets and Liabilities

The following table presents the fair values of the components of trading account assets and liabilities at September 30, 2009 and December 31, 2008.

(Dollars in millions)	**September 30 2009**	December 31 2008
Trading account assets		
U.S. government and agency securities [1]	**$ 63,982**	$ 60,038
Corporate securities, trading loans and other	**59,046**	34,056
Equity securities	**33,500**	20,258
Foreign sovereign debt	**29,879**	13,614
Mortgage trading loans and asset-backed securities	**18,431**	6,349
Total trading account assets	**$ 204,838**	$ 134,315
Trading account liabilities		
U.S. government and agency securities	**$ 25,287**	$ 27,286
Equity securities	**18,560**	12,128
Foreign sovereign debt	**20,072**	7,252
Corporate securities and other	**7,753**	5,057
Total trading account liabilities	**$ 71,672**	$ 51,723

(1) Includes $29.8 billion and $52.6 billion at September 30, 2009 and December 31, 2008 of government-sponsored enterprise obligations.

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NOTE 4 Derivatives

The Corporation designates derivatives as trading derivatives, economic hedges, or as derivatives designated as hedging instruments under applicable GAAP. For additional information on the Corporation s derivatives and hedging activities, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements filed as Exhibit 99.2 to the Corporation s Current Report on Form 8-K filed on May 28, 2009.

Derivative Balances

The Corporation enters into derivatives to facilitate client transactions, for proprietary trading purposes and to manage risk exposures. The following table identifies derivative instruments included on the Corporation s Consolidated Balance Sheet in derivative assets and liabilities at September 30, 2009 and December 31, 2008. Balances are provided on a gross basis, prior to the application of the impact of counterparty and collateral netting. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements and have been reduced by the cash collateral applied.

	September 30, 2009						
		Gross Derivative Assets			Gross Derivative Liabilities		
(Dollars in billions)	Contract/ Notional (1)	Derivatives Used in Trading Activities and as Economic Hedges	Derivatives Designated as Hedging Instruments (2)	Total	Derivatives Used in Trading Activities and as Economic Hedges	Derivatives Designated as Hedging Instruments (2)	Total
Interest rate contracts							
Swaps	**$ 48,676.6**	**$ 1,385.8**	**$ 5.8**	**$ 1,391.6**	**$ 1,349.5**	**$ 0.7**	**$ 1,350.2**
Futures and forwards	**8,890.7**	**6.4**	**-**	**6.4**	**7.4**	**0.1**	**7.5**
Written options	**2,831.4**	**-**	**-**	**-**	**93.4**	**-**	**93.4**
Purchased options	**2,591.5**	**92.7**	**-**	**92.7**	**-**	**-**	**-**
Foreign exchange contracts							
Swaps	**669.2**	**28.1**	**5.9**	**34.0**	**32.4**	**0.6**	**33.0**
Spot, futures and forwards	**1,979.4**	**32.8**	**-**	**32.8**	**32.6**	**0.1**	**32.7**
Written options	**416.7**	**-**	**-**	**-**	**15.3**	**-**	**15.3**
Purchased options	**398.9**	**15.8**	**-**	**15.8**	**-**	**-**	**-**
Equity contracts							
Swaps	**54.1**	**2.0**	**-**	**2.0**	**2.4**	**-**	**2.4**
Futures and forwards	**103.0**	**4.5**	**-**	**4.5**	**3.6**	**-**	**3.6**
Written options	**382.8**	**-**	**-**	**-**	**34.0**	**0.2**	**34.2**
Purchased options	**342.1**	**36.1**	**-**	**36.1**	**-**	**-**	**-**
Commodity contracts							
Swaps	**78.1**	**9.5**	**0.1**	**9.6**	**9.0**	**-**	**9.0**
Futures and forwards	**2,092.1**	**14.8**	**-**	**14.8**	**13.6**	**-**	**13.6**
Written options	**98.4**	**-**	**-**	**-**	**8.1**	**-**	**8.1**
Purchased options	**95.8**	**7.7**	**-**	**7.7**	**-**	**-**	**-**
Credit derivatives							
Purchased protection:							
Credit default swaps	**2,739.4**	**130.4**	**-**	**130.4**	**38.7**	**-**	**38.7**
Total return swaps/other	**14.0**	**1.7**	**-**	**1.7**	**0.7**	**-**	**0.7**
Written protection:							
Credit default swaps	**2,811.8**	**37.7**	**-**	**37.7**	**129.1**	**-**	**129.1**

Total return swaps/other	**24.9**	**2.1**	**-**	**2.1**	**4.6**	**-**	**4.6**
Gross derivative assets/liabilities		**$ 1,808.1**	**$ 11.8**	**1,819.9**	**$ 1,774.4**	**$ 1.7**	**1,776.1**
Less: Legally enforceable master netting agreements				**(1,653.1)**			**(1,653.1)**
Less: Cash collateral applied				**(71.9)**			**(70.4)**
Total derivative assets/liabilities				**$ 94.9**			**$ 52.6**

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

(2) Excludes $4.4 billion of long-term debt designated as a hedge of foreign currency risk.

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		December 31, 2008					
		Gross Derivative Assets			Gross Derivative Liabilities		
(Dollars in billions)	Contract/ Notional [1]	Derivatives Used in Trading Activities and as Economic Hedges	Derivatives Designated as Hedging Instruments [2]	Total	Derivatives Used in Trading Activities and as Economic Hedges	Derivatives Designated as Hedging Instruments [2]	Total
Interest rate contracts							
Swaps	$ 26,577.4	$ 1,213.2	$ 2.2	$ 1,215.4	$ 1,186.0	$ -	$ 1,186.0
Futures and forwards	4,432.1	5.1	-	5.1	7.9	-	7.9
Written options	1,731.1	-	-	-	62.7	-	62.7
Purchased options	1,656.6	60.3	-	60.3	-	-	-
Foreign exchange contracts							
Swaps	438.9	17.5	3.6	21.1	20.5	1.3	21.8
Spot, futures and forwards	1,376.5	52.3	-	52.3	51.3	-	51.3
Written options	199.8	-	-	-	7.5	-	7.5
Purchased options	175.7	8.0	-	8.0	-	-	-
Equity contracts							
Swaps	34.7	1.8	-	1.8	1.0	-	1.0
Futures and forwards	14.1	0.3	-	0.3	0.1	-	0.1
Written options	214.1	-	-	-	31.6	0.1	31.7
Purchased options	217.5	32.6	-	32.6	-	-	-
Commodity contracts							
Swaps	2.1	2.4	-	2.4	2.1	-	2.1
Futures and forwards	9.6	1.2	-	1.2	1.0	-	1.0
Written options	17.6	-	-	-	3.8	-	3.8
Purchased options	15.6	3.7	-	3.7	-	-	-
Credit derivatives							
Purchased protection:							
Credit default swaps	1,025.9	125.7	-	125.7	3.4	-	3.4
Total return swaps	6.6	1.8	-	1.8	0.2	-	0.2
Written protection:							
Credit default swaps	1,000.0	3.4	-	3.4	118.8	-	118.8
Total return swaps	6.2	0.4	-	0.4	0.1	-	0.1
Gross derivative assets/liabilities		$ 1,529.7	$ 5.8	1,535.5	$ 1,498.0	$ 1.4	1,499.4
Less: Legally enforceable master netting agreements				(1,438.4)			(1,438.4)
Less: Cash collateral applied				(34.8)			(30.3)
Total derivative assets/liabilities				$ 62.3			$ 30.7

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

(2) Excludes $2.0 billion of long-term debt designated as a hedge of foreign currency risk.

ALM and Risk Management Derivatives

The Corporation s asset and liability management (ALM) and risk management activities include the use of derivatives to mitigate risk to the Corporation including both derivatives that are designated as hedging instruments and economic hedges. Interest rate, commodity, credit and foreign exchange contracts are utilized in the Corporation s ALM and risk management activities.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of interest rate contracts to minimize significant fluctuations in earnings that are caused by interest rate volatility. The Corporation s goal is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect net interest income. As a result of interest rate fluctuations hedged fixed-rate assets and liabilities appreciate or depreciate in market value. Gains or losses on the derivative instruments that are linked to the hedged fixed-rate assets and liabilities are expected to substantially offset this unrealized appreciation or depreciation.

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Interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options, futures and forwards, assist the Corporation in the management of its interest rate risk position. Non-leveraged generic interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments based on the contractual underlying notional amount. Basis swaps involve the exchange of interest payments based on the contractual underlying notional amounts, where both the pay rate and the receive rate are floating rates based on different indices. Option products primarily consist of caps, floors and swaptions. Futures contracts used for the Corporation s ALM activities are primarily index futures providing for cash payments based upon the movements of an underlying rate index.

Interest rate and market risk can be substantial in the mortgage business. To hedge interest rate risk in mortgage banking production income, the Corporation utilizes forward loan sale commitments and other derivative instruments including purchased options. The Corporation also utilizes derivatives such as interest rate options, interest rate swaps, forward settlement contracts and euro-dollar futures as economic hedges of the fair value of mortgage servicing rights (MSRs). For additional information on MSRs, see *Note 18 Mortgage Servicing Rights*.

The Corporation uses foreign currency contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities, as well as the Corporation s investments in foreign subsidiaries. Foreign exchange contracts, which include spot and forward contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date. Exposure to loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

The Corporation enters into derivative commodity contracts such as futures, swaps, options and forwards as well as non-derivative commodity contracts to provide price risk management services to customers or to manage price risk associated with its physical and financial commodity positions. The non-derivative commodity contracts and physical inventories of commodities expose the Corporation to earnings volatility. Cash flow and fair value hedging provide a method to mitigate a portion of this earnings volatility.

The Corporation purchases credit derivatives to manage credit risk related to certain funded and unfunded credit exposures. Credit derivatives include credit default swaps, total return swaps and swaptions. These derivatives are accounted for as economic hedges and changes in fair value are recorded in other income.

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Derivatives Designated as Hedging Instruments

The Corporation uses various types of interest rate, commodity and foreign exchange derivative contracts to protect against changes in the fair value of its assets and liabilities due to fluctuations in interest rates, exchange rates and commodity prices (fair value hedges). The Corporation also uses these types of contracts to protect against changes in the cash flows of its assets and liabilities, and other forecasted transactions (cash flow hedges). The Corporation hedges its net investment in consolidated foreign operations determined to have functional currencies other than the U.S. dollar using forward exchange contracts that typically settle in 90 days, cross-currency basis swaps, and by issuing foreign-denominated debt.

The following table summarizes certain information related to the Corporation s derivatives designated as fair value hedge relationships for the three and nine months ended September 30, 2009 and 2008.

	Amounts Recognized in Income for the Three Months Ended					
	September 30, 2009			September 30, 2008		
(Dollars in millions)	**Derivative**	**Hedged Item**	**Hedge Ineffectiveness**	Derivative	Hedged Item	Hedge Ineffectiveness
Derivatives designated as fair value hedge relationships						
Interest rate risk on long-term debt [1]	**$ 1,591**	**$ (1,778)**	**$ (187)**	$ 599	$ (529)	$ 70
Interest rate and foreign currency risk on long-term debt [1]	**1,561**	**(1,568)**	**(7)**	(1,771)	1,694	(77)
Interest rate risk on available-for-sale securities [2]	**(603)**	**433**	**(170)**	68	(70)	(2)
Commodity price risk on commodity inventory [3]	**3**	**(2)**	**1**	n/a	n/a	n/a
Total	**$ 2,552**	**$ (2,915)**	**$ (363)**	$ (1,104)	$ 1,095	$ (9)

	Amounts Recognized in Income for the Nine Months Ended					
	September 30, 2009			September 30, 2008		
(Dollars in millions)	**Derivative**	**Hedged Item**	**Hedge Ineffectiveness**	Derivative	Hedged Item	Hedge Ineffectiveness
Derivatives designated as fair value hedge relationships						
Interest rate risk on long-term debt [1]	**$ (3,025)**	**$ 2,387**	**$ (638)**	$ 541	$ (466)	$ 75
Interest rate and foreign currency risk on long-term debt [1]	**1,624**	**(1,546)**	**78**	(602)	524	(78)
Interest rate risk on available-for-sale securities [2]	**(343)**	**121**	**(222)**	75	(79)	(4)
Commodity price risk on commodity inventory [3]	**63**	**(59)**	**4**	n/a	n/a	n/a
Total	**$ (1,681)**	**$ 903**	**$ (778)**	$ 14	$ (21)	$ (7)

(1) Amounts are recorded in interest expense on long-term debt.
(2) Amounts are recorded in interest income on AFS securities.
(3) Amounts are recorded in trading account profits (losses).
n/a = not applicable

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The following table summarizes certain information related to the Corporation s derivatives designated as cash flow hedge relationships and net investment hedges for the three and nine months ended September 30, 2009 and 2008. During the next 12 months, net losses in accumulated OCI of approximately $577 million ($364 million after-tax) on derivative instruments that qualify as cash flow hedge relationships are expected to be reclassified in earnings. These net losses reclassified into earnings are expected to reduce net interest income related to the respective hedged items.

	Three Months Ended September 30					
	2009			2008		
(Dollars in millions, amounts pre-tax)	**Amounts Recognized in OCI on Derivatives**	**Amounts Reclassified from OCI into Income**	**Hedge Ineffectiveness and Amount Excluded from Effectiveness Testing [1]**	Amounts Recognized in OCI on Derivatives	Amounts Reclassified from OCI into Income	Hedge Ineffectiveness and Amount Excluded from Effectiveness Testing [1]
Derivatives designated as cash flow hedge relationships						
Interest rate risk on variable rate portfolios [2,3,4,5]	**$ 246**	**$ (247)**	**$ 19**	$ 166	$ (313)	$ 1
Commodity price risk on forecasted purchases and sales [6]	**(4)**	**53**	**(1)**	n/a	n/a	n/a
Price risk on equity investments included in available-for-sale securities	**(101)**	**-**	**-**	272	-	-
Total	**$ 141**	**$ (194)**	**$ 18**	$ 438	$ (313)	$ 1
Net investment hedges						
Foreign exchange risk [7]	**$ (737)**	**$ -**	**$ 19**	$ 1,402	$ -	$ (57)

	Nine Months Ended September 30					
	2009			2008		
(Dollars in millions, amounts pre-tax)	**Amounts Recognized in OCI on Derivatives**	**Amounts Reclassified from OCI into Income**	**Hedge Ineffectiveness and Amount Excluded from Effectiveness Testing [1]**	Amounts Recognized in OCI on Derivatives	Amounts Reclassified from OCI into Income	Hedge Ineffectiveness and Amount Excluded from Effectiveness Testing [1]
Derivatives designated as cash flow hedge relationships						
Interest rate risk on variable rate portfolios [2,3,4,5]	**$ 211**	**$ (1,033)**	**$ 58**	$ (279)	$ (921)	$ (7)
Commodity price risk on forecasted purchases and sales [6]	**64**	**59**	**(1)**	n/a	n/a	n/a
Price risk on equity investments included in available-for-sale securities	**(155)**	**-**	**-**	125	-	-
Total	**$ 120**	**$ (974)**	**$ 57**	$ (154)	$ (921)	$ (7)
Net investment hedges						
Foreign exchange risk [7]	**$ (2,736)**	**$ -**	**$ (88)**	$ 1,410	$ -	$ (136)

(1) Amounts related to derivatives designated as cash flow hedge relationships represent hedge ineffectiveness and amounts related to net investment hedges represent amounts excluded from effectiveness testing.

(2) Amounts reclassified from OCI increased (decreased) interest income on assets by $5 million and $(7) million and increased interest expense $252 million and $306 million during the three months ended September 30, 2009 and 2008. Amounts reclassified from OCI reduced interest income on assets by $103 million and $134 million and increased interest expense $930 million and $787 million during the nine months ended September 30, 2009 and 2008.

(3) Hedge ineffectiveness of $36 million and $3 million was recorded in interest income and $17 million and $2 million was recorded in interest expense during the three months ended September 30, 2009 and 2008. Hedge ineffectiveness of $75 million and $7 million was recorded in interest income and $17 million and $14 million was recorded in interest expense during the nine months ended September 30, 2009 and 2008.

(4) Amounts recognized in OCI on derivatives exclude amounts related to terminated hedges of AFS securities of $23 million and $88 million for the three and nine months ended September 30, 2009 compared to $31 million and $49 million for the same periods in 2008.

(5) Amounts reclassified from OCI exclude amounts related to derivative interest accruals which increased interest income by $49 million and $104 million for the three and nine months ended September 30, 2009 compared to amounts which increased interest expense by $4 million and $73 million for the same periods in 2008.

(6) Gains reclassified from OCI into income were recorded in trading account profits (losses). Included in the gains reclassified into trading account profits (losses) during the three and nine months ended September 30, 2009 were $44 million related to the discontinuance of cash flow hedging because it was probable that the original forecasted transaction would not occur.

(7) Amounts recognized in OCI on derivatives exclude gains of $74 million and losses of $365 million related to long-term debt designated as a net investment hedge for the three and nine months ended September 30, 2009.

n/a = not applicable

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Economic Hedges

Derivatives designated as economic hedges are used by the Corporation to reduce certain risk exposure but are not accounted for as qualifying derivatives designated as hedging instruments. The following table presents gains (losses) on these derivatives for the three and nine months ended September 30, 2009 and 2008. These gains (losses) are largely offset by the income or expense that is recorded on the economic hedged item.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	**2009**	2008	**2009**	2008
Price risk on mortgage banking production income [1, 2]	**$ 1,209**	$ 275	**$ 5,734**	$ 419
Interest rate risk on mortgage banking servicing income [1]	**1,309**	831	**(1,867)**	539
Credit risk on loans and leases [3]	**(330)**	24	**(603)**	88
Interest rate and foreign currency risk on long-term debt and other foreign exchange transactions [3]	**3,437**	(2,889)	**2,919**	(569)
Other [3]	**18**	(25)	**-**	10
Total	**$ 5,643**	$ (1,784)	**$ 6,183**	$ 487

(1) Gains (losses) on these derivatives are recorded in mortgage banking income.

(2) Includes gains on interest rate lock commitments related to the origination of mortgage loans that will be held for sale, which are considered derivative instruments, of $2.6 billion and $6.3 billion for the three and nine months ended September 30, 2009 compared to $485 million and $554 million for the same periods in 2008.

(3) Gains (losses) on these derivatives are recorded in other income.

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Sales and Trading Revenue

The Corporation enters into trading derivatives to facilitate client transactions, for proprietary trading purposes, and to manage risk exposures arising from trading assets and liabilities. It is the Corporation s policy to include these derivative instruments in its trading activities which include derivative and non-derivative cash instruments. The resulting risk from these derivatives is managed on a portfolio basis as part of the Corporation s *Global Markets* business segment. The related sales and trading revenue generated within *Global Markets* is recorded on different income statement line items including trading account profits (losses) and net interest income as well as other revenue categories. However, the vast majority of income related to derivative instruments is recorded in trading account profits (losses). The following table identifies the amounts in the income statement line items attributable to the Corporation s sales and trading revenue categorized by primary risk for the three and nine months ended September 30, 2009 and 2008.

	Three Months Ended September 30							
	2009				2008			
(Dollars in millions)	**Trading Account Profits**	**Other Revenues [(1)]**	**Net Interest Income**	**Total**	Trading Account Profits (Losses)	Other Revenues [(1)]	Net Interest Income	Total
Interest rate risk	**$ 258**	**$ (1)**	**$ 237**	**$ 494**	$ 556	$ (16)	$ 93	$ 633
Foreign exchange risk	**219**	**1**	**14**	**234**	341	2	7	350
Equity risk	**617**	**585**	**63**	**1,265**	(51)	182	39	170
Credit risk	**2,177**	**(95)**	**1,051**	**3,133**	(1,330)	(1,416)	1,053	(1,693)
Other risk	**109**	**40**	**(51)**	**98**	(15)	16	(1)	-
Total sales and trading revenue	**$ 3,380**	**$ 530**	**$ 1,314**	**$ 5,224**	$ (499)	$ (1,232)	$ 1,191	$ (540)

	Nine Months Ended September 30							
	2009				2008			
(Dollars in millions)	**Trading Account Profits**	**Other Revenues [(1)]**	**Net Interest Income**	**Total**	Trading Account Profits (Losses)	Other Revenues [(1)]	Net Interest Income	Total
Interest rate risk	**$ 2,923**	**$ 19**	**$ 847**	**$ 3,789**	$ 1,480	$ (4)	$ 124	$ 1,600
Foreign exchange risk	**753**	**6**	**27**	**786**	827	6	12	845
Equity risk	**1,762**	**2,024**	**165**	**3,951**	(8)	575	172	739
Credit risk	**4,073**	**(1,565)**	**3,724**	**6,232**	(4,300)	(3,286)	3,030	(4,556)
Other risk	**803**	**(1)**	**(348)**	**454**	83	60	(8)	135
Total sales and trading revenue	**$ 10,314**	**$ 483**	**$ 4,415**	**$ 15,212**	$ (1,918)	$ (2,649)	$ 3,330	$ (1,237)

(1) Represents investment and brokerage services and other income recorded in *Global Markets* that the Corporation includes in its definition of sales and trading revenue.

Credit Derivatives

The Corporation enters into credit derivatives primarily to facilitate client transactions and to manage credit risk exposures. Credit derivatives derive value based on an underlying third party-referenced obligation or a portfolio of referenced obligations and generally require the Corporation as the seller of credit protection to make payments to a buyer upon the occurrence of a predefined credit event. Such credit events generally include bankruptcy of the referenced credit entity and failure to pay under the obligation, as well as acceleration of indebtedness and payment repudiation or moratorium. For credit derivatives based on a portfolio of referenced credits or credit indices, the Corporation may not be required to make payment until a specified amount of loss has occurred and/or may only be required to make payment up to a specified amount.

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Credit derivative instruments in which the Corporation is the seller of credit protection and their expiration at September 30, 2009 and December 31, 2008 are summarized as follows. These instruments are classified as investment and non-investment grade based on the credit quality of the underlying reference obligation.

			September 30, 2009 Carrying Value		
(Dollars in millions)	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Credit default swaps:					
Investment grade (1)	$ 940	$ 7,117	$ 10,763	$ 27,199	$ 46,019
Non-investment grade (2)	1,657	14,817	24,877	41,777	83,128
Total	2,597	21,934	35,640	68,976	129,147
Total return swaps/other:					
Investment grade (1)	123	4	436	1,540	2,103
Non-investment grade (2)	-	190	491	1,802	2,483
Total	123	194	927	3,342	4,586
Total credit derivatives	$ 2,720	$ 22,128	$ 36,567	$ 72,318	$ 133,733
			Maximum Payout/Notional		
Credit default swaps:					
Investment grade (1)	$ 125,714	$ 329,927	$ 631,153	$ 354,000	$ 1,440,794
Non-investment grade (2)	105,360	311,464	466,507	487,693	1,371,024
Total	231,074	641,391	1,097,660	841,693	2,811,818
Total return swaps/other:					
Investment grade (1)	169	68	3,144	7,780	11,161
Non-investment grade (2)	167	963	1,052	11,530	13,712
Total	336	1,031	4,196	19,310	24,873
Total credit derivatives	$ 231,410	$ 642,422	$ 1,101,856	$ 861,003	$ 2,836,691

			December 31, 2008 Carrying Value		
(Dollars in millions)	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Credit default swaps:					
Investment grade (1)	$ 1,039	$ 13,062	$ 32,594	$ 29,153	$ 75,848
Non-investment grade (2)	1,483	9,222	19,243	13,012	42,960

Total	2,522	22,284	51,837	42,165	118,808
Total return swaps/other:					
Non-investment grade [(2)]	36	8	-	13	