BANK OF AMERICA CORP /DE/
Form 10-K
February 25, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[ü] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

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
Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange London Stock Exchange Tokyo Stock Exchange
Warrants to purchase Common Stock (expiring October 28, 2018)	New York Stock Exchange
Warrants to purchase Common Stock (expiring January 16, 2019)	

	New York Stock Exchange
Depositary Shares, each representing a 1/1,000th interest in a share of 6.204% Non-Cumulative Preferred Stock, Series D	New York Stock Exchange
Depositary Shares, each representing a 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series E	New York Stock Exchange
Depositary Shares, each representing a 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series I	New York Stock Exchange
7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L	New York Stock Exchange
Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 1	New York Stock Exchange
Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 2	New York Stock Exchange

Title of each class	Name of each exchange on which registered
Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation 6.375% Non-Cumulative Preferred Stock, Series 3	New York Stock Exchange
Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 4	New York Stock Exchange
Depositary Shares, each representing a 1/1,200th interest in a share of Bank of America Corporation Floating Rate Non-Cumulative Preferred Stock, Series 5	New York Stock Exchange
6.75% Trust Preferred Securities of Countrywide Capital IV (and the guarantees related thereto)	New York Stock Exchange
7.00% Capital Securities of Countrywide Capital V (and the guarantees related thereto)	New York Stock Exchange
6% Capital Securities of BAC Capital Trust VIII (and the guarantee related thereto)	New York Stock Exchange
Floating Rate Preferred Hybrid Income Term Securities of BAC Capital Trust XIII (and the guarantee related thereto)	New York Stock Exchange
5.63% Fixed to Floating Rate Preferred Hybrid Income Term Securities of BAC Capital Trust XIV (and the guarantee related thereto)	New York Stock Exchange
MBNA Capital B Floating Rate Capital Securities, Series B (and the guarantee related thereto)	New York Stock Exchange
Trust Preferred Securities of Merrill Lynch Capital Trust I (and the guarantee of the Registrant with respect thereto)	New York Stock Exchange
Trust Preferred Securities of Merrill Lynch Capital Trust II (and the guarantee of the Registrant with respect thereto)	New York Stock Exchange
Trust Preferred Securities of Merrill Lynch Capital Trust III (and the guarantee of the Registrant with respect thereto)	New York Stock Exchange
Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠ due December 2, 2014	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the S&P 500® Index, due April 25, 2014	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the S&P 500® Index, due March 28, 2014	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the S&P 500® Index, due February 28, 2014	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠, due January 30, 2015	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the S&P 500® Index, due February 27, 2015	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠, due March 27, 2015	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠, due April 24, 2015	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠, due May 29, 2015	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the Dow Jones Industrial Average℠, due June 26, 2015	NYSE Arca, Inc.
Market Index Target-Term Securities® Linked to the S&P 500® Index, due July 31, 2015	NYSE Arca, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No ü

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ü

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	Smaller reporting company
		(do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No ü

The aggregate market value of the registrant's common stock ("Common Stock") held on June 30, 2013 by non-affiliates was approximately $138,156,239,714 (based on the June 30, 2013 closing price of Common Stock of $12.86 per share as reported on the New York Stock Exchange). As of February 24, 2014, there were 10,568,135,287 shares of Common Stock outstanding.

Documents incorporated by reference: Portions of the definitive proxy statement relating to the registrant's annual meeting of stockholders scheduled to be held on May 7, 2014 are incorporated by reference in this Form 10-K in response to Items 10, 11, 12, 13 and 14 of Part III.

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Part I

Bank of America Corporation and Subsidiaries

Item 1. Business

General

Bank of America Corporation (together, with its consolidated subsidiaries, Bank of America, we or us) 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. On October 1, 2013, we completed the merger of our Merrill Lynch & Co., Inc. (Merrill Lynch) subsidiary into Bank of America Corporation. This merger had no effect on the Merrill Lynch name or brand and is not expected to have any effect on customers or clients. As part of our efforts to streamline the Corporation's organizational structure, reduce complexity and costs, the Corporation has reduced and intends to continue to reduce the number of its corporate subsidiaries, including through intercompany mergers.

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

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

Segments

Through our banking and various nonbanking subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbanking financial services and products through five business segments: Consumer & Business Banking (CBB), Consumer Real Estate Services (CRES), Global Wealth & Investment Management (GWIM), Global Banking and

Global Markets, with the remaining operations recorded in All Other. Additional information related to our business segments and the products and services they provide is included in the information set forth on pages 35 through 51 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and Note 24 – Business Segment Information to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data (Consolidated Financial Statements).

Competition

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

Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates on loans and deposits, lending limits and customer convenience.

Our ability to continue to compete effectively also depends in large part on our ability to attract new employees and retain and motivate our existing employees, while managing compensation and other costs.

Employees

As of December 31, 2013, we had approximately 242,000 full-time equivalent employees. None of our domestic employees are subject to a collective bargaining agreement. Management considers our employee relations to be good.

Government Supervision and Regulation

The following discussion describes, among other things, elements of an extensive regulatory framework applicable to BHCs, financial holding companies, banks and broker/dealers, including specific information about Bank of America. U.S. federal regulation of banks, BHCs and financial holding companies is intended primarily for the protection of depositors and the Deposit Insurance Fund (DIF) rather than for the protection of stockholders and creditors. For more information about recent regulatory programs, initiatives and legislation that impact us, see Regulatory Matters in the MD&A on page 59.

General

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

As a registered financial holding company and BHC, the Corporation is subject to the supervision of, and regular inspection by, the Board of Governors of the Federal Reserve System (Federal Reserve). Our banking subsidiaries (the Banks) organized as national banking associations are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation

(FDIC) and the Federal Reserve. The Consumer Financial Protection Bureau (CFPB) regulates consumer financial products and services.

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

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits BHCs to acquire banks located in states other than their home state without regard to state law, subject to certain conditions, including the condition that the BHC, after and as a result of the acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the U.S. and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act) restricts acquisitions by financial companies if, as a result of the acquisition, the total liabilities of the financial company would exceed 10 percent of the total liabilities of all financial companies. At December 31, 2013, we held approximately 11 percent of the total amount of deposits of insured depository institutions in the U.S.

We are also subject to various other laws and regulations, as well as supervision and examination by other regulatory agencies, all of which directly or indirectly affect our operations and management and our ability to make distributions to stockholders. Our U.S. broker/dealer subsidiaries are subject to regulation by and supervision of the SEC, New York Stock Exchange and Financial Industry Regulatory Authority; our commodities businesses in the U.S. are subject to regulation by and supervision of the U.S. Commodity Futures Trading Commission (CFTC); our derivatives activity is generally subject to regulation and supervision of the CFTC and National Futures Association or the SEC, and, in the case of the Banks, certain banking regulators; and our insurance activities are subject to licensing and regulation by state insurance regulatory agencies.

Our non-U.S. businesses are also subject to extensive regulation by various non-U.S. regulators, including governments, securities exchanges, central banks and other regulatory bodies, in the jurisdictions in which those businesses operate. Prior to April 1, 2013, our financial services operations in the U.K. were subject to regulation by and supervision of the Financial Services Authority (FSA). Beginning on April 1, 2013, our financial services operations in the U.K. became subject to regulation by and supervision of the Financial Policy Committee (FPC) and the Prudential Regulatory Authority (PRA) for prudential matters and the Financial Conduct Authority for the conduct of business matters.

Financial Reform Act

As a result of the July 2010 Financial Reform Act, several significant regulatory developments occurred in 2013, and additional regulatory developments may occur in 2014 and beyond. The Financial Reform Act has impacted and will continue to impact our earnings through reduced fees, higher costs and new operating restrictions. For a description of significant developments, see Regulatory Matters – Financial Reform Act in the MD&A on page 59.

Capital and Operational Requirements

As a financial services holding company, we and our banking subsidiaries are subject to the risk-based capital guidelines issued by the Federal Reserve and other U.S. banking regulators, including the FDIC and the OCC. These capital rules are complex and are evolving as U.S. and international regulatory authorities propose enhanced capital rules in response to the financial crisis and pursuant to legislation, including the Financial Reform Act. The Corporation seeks to manage its capital position to maintain sufficient capital to meet these regulatory guidelines and to support our business activities. These evolving capital rules are likely to influence our regulatory capital and liquidity planning processes, require additional liquidity, and may impose additional operational and compliance costs on the Corporation.

For a discussion of regulatory capital rules, capital composition, and pending or proposed regulatory capital changes, see Capital Management – Regulatory Capital in the MD&A on page 65, and Note 16 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements, which are incorporated by reference in this Item 1.

Distributions

We are subject to various regulatory policies and requirements relating to capital actions, including payment of dividends and common stock repurchases, as well as requirements to maintain capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine, under certain circumstances relating to the financial condition of a bank or BHC, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. For instance, we are required to submit to the Federal Reserve a capital plan as part of an annual Comprehensive Capital Analysis and Review (CCAR). Supervisory review of the CCAR has a stated purpose of assessing the capital planning process of major U.S. BHCs, including any planned capital actions (e.g., payment of dividends on common stock and common stock repurchases).

In addition, our ability to pay dividends is affected by the various minimum capital requirements and the capital and non-capital standards established under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). The right of the Corporation, our stockholders and our creditors to participate in any distribution of the assets or earnings of our subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries. For more information regarding the requirements relating to the payment of dividends, including the minimum capital requirements, see Note 13 – Shareholders' Equity and Note 16 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements.

Source of Strength

According to the Financial Reform Act and Federal Reserve policy, BHCs are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. Similarly, under the cross-guarantee provisions of FDICIA, in the event of a loss suffered or anticipated by the FDIC, either as a result of default of a banking subsidiary or related to FDIC assistance provided to such a subsidiary in danger of default, the affiliate banks of such a subsidiary may be assessed for the FDIC's loss, subject to certain exceptions. For more information about our calculation of regulatory capital and capital composition, and proposed capital rules, see Capital Management – Regulatory Capital in the MD&A on page 65, and Note 16 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements.

Deposit Insurance

Deposits placed at U.S. domiciled banks (U.S. banks) are insured by the FDIC, subject to limits and conditions of applicable law and the FDIC's regulations. Pursuant to the Financial Reform Act, FDIC insurance coverage limits were permanently increased to

$250,000 per customer. All insured depository institutions are required to pay assessments to the FDIC in order to fund the DIF.

The FDIC is required to maintain at least a designated minimum ratio of the DIF to insured deposits in the U.S. The Financial Reform Act requires the FDIC to assess insured depository institutions to achieve a DIF ratio of at least 1.35 percent by September 30, 2020. The FDIC has adopted new regulations that establish a long-term target DIF ratio of greater than two percent. The DIF ratio is currently below the required targets and the FDIC has adopted a restoration plan that may result in substantially higher deposit insurance assessments for all depository institutions over the coming years. Deposit insurance assessment rates are subject to change by the FDIC and will be impacted by the overall economy and the stability of the banking industry as a whole. For more information regarding deposit insurance, see Item 1A. Risk Factors – Regulatory and Legal Risk on page 13 and Regulatory Matters – Financial Reform Act in the MD&A on page 59.

Transactions with Affiliates

The Banks are subject to restrictions under federal law that limit certain types of transactions between the Banks and their non-bank affiliates. In general, U.S. Banks are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving Bank of America and its non-bank affiliates. Transactions between U.S. Banks and their non-bank affiliates are required to be on arm's length terms. For more information regarding transactions with affiliates, see Regulatory Matters – Derivatives in the MD&A on page 60.

Privacy and Information Security

We are subject to many U.S. federal, state and international laws and regulations governing requirements for maintaining policies and procedures to protect the non-public confidential information of our customers. The

Gramm-Leach-Bliley Act requires the Banks to periodically disclose Bank of America's privacy policies and practices relating to sharing such information and enables retail customers to opt out of our ability to share information with unaffiliated third parties under certain circumstances. Other laws and regulations, at both the federal and state level, impact our ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. The Gramm-Leach-Bliley Act also requires the Banks to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures for the protection of personal and confidential information are in effect across all businesses and geographic locations.

Item 1A. Risk Factors

In the course of conducting our business operations, we are exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to our own businesses. The discussion below addresses the most significant factors, of which we are aware, that could affect our businesses, results of operations and financial condition. Additional factors that could affect our businesses, results of operations and financial condition are discussed in Forward-looking Statements in the MD&A on page 23. However, other factors not discussed below or elsewhere in this Annual Report on Form 10-K could also adversely affect our businesses, results of operations and financial condition. Therefore, the risk factors below should not be considered a complete list of potential risks that we may face.

Any risk factor described in this Annual Report on Form 10-K or in any of our other SEC filings could by itself, or together with other factors, materially adversely affect our liquidity, cash flows, competitive position, business, reputation, results of operations or financial condition, including by materially increasing our expenses or decreasing our revenues, which could result in material losses.

General Economic and Market Conditions Risk

Our businesses and results of operations may be adversely affected by the U.S. and international financial markets, U.S. and non-U.S. fiscal and monetary policy, and economic conditions generally.

Our businesses and results of operations are affected by the financial markets and general economic conditions in the U.S. and abroad, including factors such as the level and volatility of short-term and long-term interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of capital and credit, investor sentiment and confidence in the financial markets, the sustainability of economic growth in the U.S., Europe, China and Japan, and economic, market, political and social conditions in several larger emerging market countries. The deterioration of any of these conditions could adversely affect our consumer and commercial businesses and securities portfolios, our level of charge-offs and provision for credit losses, the carrying value of our deferred tax assets, our capital levels and liquidity, and our results of operations.

Continued elevated unemployment, under-employment and household debt and rising interest rates, along with continued stress in the consumer real estate market and certain commercial real estate markets in the U.S. pose challenges for domestic economic performance and the financial services industry. The sustained high unemployment rate and the lengthy duration of unemployment have directly impaired consumer finances and pose risks to the financial services industry.

Continued uncertainty in a number of housing markets and elevated levels of distressed and delinquent mortgages remain risks to the housing market. The current environment of heightened scrutiny of financial institutions has resulted in increased public awareness of and sensitivity to banking fees and practices. Mortgage and housing market-related risks may be accentuated by attempts to forestall foreclosure proceedings, as well as state and federal investigations into foreclosure practices by mortgage

servicers. Each of these factors may adversely affect our fees and costs.

Our businesses and results of operations are also affected by domestic and international fiscal and monetary policy. The actions of the Federal Reserve in the U.S. and central banks internationally regulate the supply of money and credit in the global financial system. Their policies affect our cost of funds for lending, investing and capital raising activities and the return we earn on those loans and investments, both of which affect our net interest margin. The actions of the Federal Reserve in the U.S. and central banks internationally also can affect the value of financial instruments and other assets, such as debt securities and mortgage servicing rights (MSRs), and its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Our businesses and earnings are also affected by the fiscal or other policies that are adopted by the U.S. government, various U.S. regulatory authorities, and non-U.S. governments and regulatory authorities. Changes in domestic and international fiscal and monetary policies are beyond our control and difficult to predict but could have an adverse impact on our capital requirements and the costs of running our business.

For more information about economic conditions and challenges discussed above, see Executive Summary – 2013 Economic and Business Environment in the MD&A on page 24.

Mortgage and Housing Market-Related Risk

Our mortgage loan repurchase obligations or claims from third parties could result in additional losses.

We and our legacy companies have sold significant amounts of residential mortgage loans. In connection with these sales, we or certain of our subsidiaries or legacy companies make or have made various representations and warranties, breaches of which may result in a requirement that we repurchase the mortgage loans, or otherwise make whole or provide other remedies to counterparties. As of December 31, 2013, we had approximately $19.7 billion of unresolved repurchase claims and an additional approximately $1.2 billion of repurchase demands that we do not consider to be valid repurchase claims. These repurchase claims and demands relate primarily to private-label securitizations and monoline-insured securitizations. Private-label securitization unresolved repurchase claims have increased in recent periods, and we expect such claims to continue to increase. In addition to repurchase claims, we receive notices from mortgage insurance companies of claim denials, cancellations or coverage rescission (collectively, MI rescission notices) and the number of such notices has remained elevated.

We have recorded a liability of $13.3 billion for obligations under representations and warranties exposures (which includes exposures related to MI rescission notices). We have also established an estimated range of possible loss of up to $4 billion over our recorded liability. Although we have not recorded any representations and warranties liability for certain potential private-label securitization and whole-loan exposures where we have little to no claim experience, these exposures are included in the estimated range of possible loss. Reserves and estimated range of possible loss for certain potential monoline representations and warranties exposures are considered in our litigation reserve and estimated range of possible loss. Our recorded liability and estimated range of possible loss for representations and warranties exposures are based on currently available information and are necessarily dependent on, and limited by a number of factors, including our historical claims and settlement experiences as well as significant judgment and a number of assumptions that are subject to change. As a result, our liability and estimated range of possible loss related to our representations and warranties exposures may materially change in the future. If future representations and warranties losses occur in excess of our recorded liability, such losses could have an adverse effect on our cash flows, financial condition and results of operations.

The liability for obligations under representations and warranties exposures and the corresponding estimated range of possible loss do not consider any losses related to litigation matters, including residential mortgage-backed securities (RMBS) litigation or litigation brought by monoline insurers nor do they include any separate foreclosure costs and related costs, assessments and compensatory fees or any other possible losses related to potential claims for breaches of performance of servicing obligations (except as such losses are included as potential costs of the BNY Mellon Settlement (defined below)), potential securities law or fraud claims or potential indemnity or other claims against us, including claims related to loans insured by the Federal Housing Administration (FHA). We are not able to reasonably estimate the amount of any possible loss with respect to any such servicing, securities law, fraud or other claims against us, except to the extent reflected in existing accruals or the estimated range of possible loss for litigation and regulatory matters disclosed in Note 12 – Commitments and Contingencies to the Consolidated Financial Statements; however, such loss could have an adverse effect on our cash flows, financial condition and results of operations.

For more information about our representations and warranties exposure, including the range of possible loss, see Off-Balance Sheet Arrangements and Contractual Obligations – Representations and Warranties in the MD&A on page 52, Consumer Portfolio Credit Risk Management in the MD&A on page 77 and Note 7 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements.

Our representations and warranties losses could be substantially different from existing accruals and the existing estimated range of possible loss for representations and warranties liability if court approval of the BNY Mellon Settlement is not obtained or if it is otherwise abandoned.

The Bank of New York Mellon settlement (BNY Mellon Settlement) remains subject to final court approval and certain other conditions. It is not currently possible to predict the ultimate outcome of the court approval process, which can include appeals and could take a substantial period of time. The court approval hearing began in the New York Supreme Court, New York County, on June 3, 2013 and concluded on November 21, 2013. On January 31, 2014, the court issued a decision, order and judgment approving the BNY Mellon Settlement. The court overruled the objections to the settlement, holding that the Trustee, BNY Mellon, acted in good faith, within its discretion and within the bounds of reasonableness in determining that the settlement agreement was in the best interests of the covered trusts. The court declined to approve the Trustee's conduct only with respect to the Trustee's consideration of a potential claim that a loan must be repurchased if the servicer modifies its terms. On February 4, 2014, one of the objectors filed a motion to stay entry of judgment and to hold additional proceedings in the trial court on issues it alleged had not been litigated or decided by the court in its January 31, 2014 decision, order and judgment. On February 18, 2014, the same objector also filed a motion for reargument of the trial court's

January 31, 2014 decision. The court held a hearing on the motion to stay on February 19, 2014, and rejected the application for stay and for further proceedings in the trial court. The court also ruled it would not hold oral argument on the objector's motion for reargument before April 2014. On February 21, 2014, final judgment was entered and the Trustee filed a notice of appeal regarding the court's ruling on loan modification claims in the settlement. The court's January 31, 2014 decision, order and judgment remain subject to appeal and the motion to reargue, and it is not possible to predict the timetable for appeals or when the court approval process will be completed.

If final court approval is not obtained with respect to the BNY Mellon Settlement, or if the Corporation and legacy Countrywide determine to withdraw from the BNY Mellon Settlement agreement in accordance with its terms, the Corporation's future representations and warranties losses could be substantially different from existing accruals, together with our estimated range of possible loss for all representations and warranties exposures of up to $4 billion over existing accruals at December 31, 2013. Developments with respect to one or more of the assumptions underlying the estimated range of possible loss for representations and warranties (including the timing and ultimate outcome of the court approval process relating to the BNY Mellon Settlement) could result in changes in our non-government-sponsored enterprise (GSE) reserve and/or our estimated range of possible loss.

For more information regarding the BNY Mellon Settlement, see Note 7 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements.

If the U.S. housing market weakens, or home prices decline, our consumer loan portfolios, credit quality, credit losses, representations and warranties exposures, and earnings may be adversely affected.

Although U.S. home prices continued to improve during 2013, the declines in prior years have negatively impacted the demand for many of our products and the credit performance of our consumer mortgage portfolios. Additionally, our mortgage loan production volume is generally influenced by the rate of growth in residential mortgage debt outstanding and the size of the residential mortgage market.

Conditions in the U.S. housing market in prior years have also resulted in significant write-downs of asset values in several asset classes, notably mortgage-backed securities (MBS), and increased exposure to monolines. If the U.S. housing market were to weaken, the value of real estate could decline, which could negatively affect our exposure to representations and warranties. While there were continued indications in 2013 that the U.S. economy is stabilizing, the performance of our overall consumer portfolios may not significantly improve in the near future. A protracted continuation or worsening of difficult housing market conditions may exacerbate the adverse effects outlined above and could have an adverse effect on our financial condition and results of operations.

In addition, our home equity portfolio, which makes up approximately 27 percent of our total home loans portfolio, contains a significant percentage of loans in second-lien or more junior-lien positions, and such loans have elevated risk characteristics. Our home equity portfolio had an outstanding balance of $93.7 billion as of December 31, 2013, including $80.3 billion of home equity lines of credit (HELOC), $12.0 billion of home equity loans and $1.4 billion of reverse mortgages. Of the total home equity portfolio at December 31, 2013, $23.0 billion, or 25 percent, were in first-lien positions (26 percent excluding the purchased credit-impaired (PCI) home equity portfolio) and $70.7 billion, or 75 percent (74 percent excluding the PCI home equity portfolio) were in second-lien or more junior-lien positions. The HELOCs that have entered the amortization period have experienced a higher percentage of early stage delinquencies and nonperforming status when compared to the home equity line of credit portfolio as a whole. Loans in our home equity line of credit portfolio generally have an initial draw period of 10 years and more than 85 percent of these loans will not enter their amortization period until 2015 or later. As a result, delinquencies and defaults may increase in future periods.

Continued mortgage foreclosure delays and investigations into our residential mortgage foreclosure practices may increase our costs. In addition, mortgage foreclosure proceedings have been slow in certain states due to a high volume of pending proceedings, which may cause us to have higher credit losses.

Foreclosure sales in states where foreclosure requires a court order (judicial states) have been much slower than in those states where foreclosure does not require a court order (non-judicial states). There continues to be a backlog of foreclosure inventory in judicial states as the process of obtaining a court order can significantly increase the time required to complete a foreclosure. Excluding fully-insured portfolios, approximately 30 percent of our residential mortgage loan portfolio, including 37 percent of nonperforming residential mortgage loans, and 36 percent of our home equity portfolio, including 44 percent of nonperforming home equity loans, were in judicial states as of December 31, 2013.

The implementation of changes in procedures and controls, including loss mitigation procedures related to our ability to recover on FHA insurance-related claims, and governmental, regulatory and judicial actions, may result in continuing delays in foreclosure proceedings and foreclosure sales and create obstacles to the collection of certain fees and expenses, in both judicial and non-judicial foreclosures, which could cause us to have higher credit losses. Although we expect total servicing costs will decline if the number of delinquencies continue to decline, we expect that mortgage-related assessments and waiver costs, including compensatory fees and similar costs, and other costs associated with foreclosures will remain elevated as additional loans are delayed in the foreclosure process. These elevated costs, along with elevated default servicing costs and legal expense, may result in elevated noninterest expense in future periods. Contributing to the elevated default servicing costs are required process changes, including those required under the consent orders with federal bank regulators and new requirements from the Consumer Financial Protection Bureau. Delays in foreclosure sales may result in additional costs associated with the maintenance of properties or possible home price declines, result in a greater number of nonperforming loans and increased servicing advances and may adversely impact the collectability of such advances and the value of our MSR asset, MBS and real estate owned properties. With respect to GSE MBS, the valuation of certain MBS could be negatively affected under certain scenarios due to changes in the

timing of cash flows. With respect to non-GSE MBS, under certain scenarios, the timing and amount of cash flows could be negatively affected.

For more information regarding our foreclosure sales, see Off-Balance Sheet Arrangements and Contractual Obligations – Servicing, Foreclosure and Other Mortgage Matters in the MD&A on page 57.

Continued investigations into and heightened scrutiny regarding our mortgage-related activities could result in additional costs and damage to our reputation.

In 2012, we entered into the National Mortgage Settlement with the U.S. Department of Justice, various federal regulatory agencies and 49 state Attorneys General, the U.S. Department of Housing and Urban Development (HUD), the Federal Reserve and the OCC, which resolved a significant amount of HUD claims and federal and state investigations into certain origination, servicing and foreclosure practices. However, the National Mortgage Settlement did not cover claims arising out of securitization (including representations made to investors with respect to MBS), criminal claims, private claims by borrowers, claims by certain states for injunctive relief or actual economic damages to borrowers related to Mortgage Electronic Registration Systems, Inc. (MERS), and claims by the GSEs (including repurchase demands), among other items.

We continue to be subject to additional borrower and non-borrower litigation and governmental and regulatory scrutiny related to our past and current origination, servicing, transfer of servicing and servicing rights, and foreclosure activities, including those claims not covered by the National Mortgage Settlement. This scrutiny may extend beyond our pending foreclosure matters to issues arising out of alleged irregularities with respect to previously completed foreclosure activities. We are also subject to inquiries, investigations, actions and claims from regulators, trustees, investors and other third parties relating to other mortgage-related activities such as the purchase, sale, pooling, and origination and securitization of loans, as well as structuring, marketing, underwriting and issuance of MBS and other securities, including claims relating to the adequacy and accuracy of disclosures in offering documents and representations and warranties made in connection with whole-loan sales or securitizations, including claims for contractual indemnification. The ongoing environment of heightened scrutiny may subject us to governmental or regulatory inquiries, investigations, actions, penalties and fines, including by the U.S. Department of Justice, state Attorneys General and other members of the RMBS Working Group of the Financial Fraud Enforcement Task Force, or by other regulators or government agencies that could adversely affect our reputation and result in costs to us in excess of current reserves and management's estimate of the aggregate range of possible loss for litigation matters. For more information regarding the National Mortgage Settlement, see Off-Balance Sheet Arrangements and Contractual Obligations – Servicing, Foreclosure and Other Mortgage Matters in the MD&A on page 57.

Failure to satisfy our obligations as servicer in the residential mortgage securitization process, including residential mortgage foreclosure obligations, along with other losses we could incur in our capacity as servicer, could cause losses.

We and our legacy companies have securitized a significant portion of the residential mortgage loans that we originated or acquired. We service a large portion of the loans we have securitized and also service loans on behalf of third-party securitization vehicles and other investors. At December 31, 2013, we serviced approximately 6.1 million loans with an aggregate unpaid principal balance of $810 billion, including loans owned by us and by others. Of the 3.6 million loans serviced for others, approximately 65 percent and 35 percent are held in GSE and non-GSE securitization vehicles, respectively. In addition to identifying specific servicing criteria, pooling and servicing arrangements in a securitization or whole-loan sale typically impose standards of care on the servicer that may include the obligation to adhere to the accepted servicing practices of prudent mortgage lenders and/or to exercise the degree of care and skill that the servicer employs when servicing loans for its own account. Servicing agreements with the government-sponsored entities, Fannie Mae (FNMA) and Freddie Mac (FHLMC) (collectively, the GSEs), generally provide the GSEs with broader rights relative to the servicer than are found in servicing agreements with private investors.

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

If we commit a material breach of our obligations as servicer or master servicer, we may be subject to termination if the breach is not cured within a specified period of time following notice, which can generally be given by the securitization trustee or a specified percentage of security holders, causing us to lose servicing income. In addition, we may have liability for any failure by us, as a servicer or master servicer, for any act or omission on our part that involves willful misfeasance, bad faith, gross negligence or reckless disregard of our duties. If any of these actions were to occur, it may harm our reputation, increase our servicing costs or adversely impact our results of operations.

Mortgage notes, assignments or other documents are often required to be maintained and are often necessary to enforce mortgage loans. We currently use the MERS system for approximately half of the residential mortgage loans that we have originated and remain in our servicing portfolio, including loans that have been sold to investors or securitization trusts. Additionally, certain local and state governments have commenced legal actions against us, MERS and other MERS members, questioning the validity of the MERS model. Other challenges have also been made to the process for transferring mortgage loans to securitization trusts, asserting that having a mortgagee of record that is different than the holder of the mortgage note could “break the chain of title” and cloud the ownership of the loan. If certain

required documents are missing or defective, or if the use of MERS is found not to be valid, we could be obligated to cure certain defects or in some circumstances be subject to additional costs and expenses. Our use of MERS as nominee for the mortgage may also create reputational risks for us.

In addition to the adverse impact these factors could directly have on us, we may also face negative reputational costs from these servicing risks, which could reduce our future business opportunities in this area or cause that business to be on less favorable terms to us.

For additional information, see Off-Balance Sheet Arrangements and Contractual Obligations in the MD&A on page 52.

Liquidity Risk

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

Adverse changes to our credit ratings from the major credit rating agencies could significantly limit our access to funding or the capital markets, increase our borrowing costs, or trigger additional collateral or funding requirements.

Our borrowing costs and ability to raise funds are directly impacted by our credit ratings. In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions, including over-the-counter (OTC) derivatives. Credit ratings and outlooks are opinions expressed by rating agencies on our creditworthiness and that of our obligations or securities, including long-term debt, short-term borrowings, preferred stock and other securities, including asset securitizations. Our credit ratings are subject to ongoing review by the rating agencies, which consider a number of factors, including our own financial strength, performance, prospects and operations as well as factors not under our control.

Currently, the Corporation's long-term/short-term senior debt ratings and outlooks expressed by the rating agencies are as follows: Baa2/P-2 (Stable) by Moody's Investors Service, Inc. (Moody's); A-/A-2 (Negative) by Standard & Poor's Ratings Services (S&P); and A/F1 (Stable) by Fitch Ratings (Fitch). The rating agencies could make adjustments to our credit ratings at any time. There can be no assurance that downgrades will not occur.

A reduction in certain of our credit ratings could negatively affect our liquidity, access to credit markets, the related cost of funds, our businesses and certain trading revenues, particularly in those businesses where counterparty creditworthiness is critical. If the short-term credit ratings of our parent company, bank or broker/dealer subsidiaries were downgraded by one or more levels, we may suffer the potential loss of access to short-term funding sources such as repo financing, and/or increased cost of funds.

In addition, under the terms of certain OTC derivative contracts and other trading agreements, in the event of a downgrade of our credit ratings or certain subsidiaries' credit ratings, counterparties to those agreements may require us or certain subsidiaries to provide additional collateral, terminate these contracts or agreements, or provide other remedies. At December 31, 2013, if the rating agencies had downgraded their long-term senior debt ratings for us or certain subsidiaries by one incremental notch, the amount of additional collateral contractually required by derivative contracts and other trading agreements would have been approximately $1.3 billion, including $881 million for Bank of America, N.A. (BANA). If the rating agencies had downgraded their long-term senior debt ratings for these entities by an additional incremental notch, approximately $4.1 billion in additional incremental collateral, including $3.0 billion for BANA would have been required.

Also, if the rating agencies had downgraded their long-term senior debt ratings for us or certain subsidiaries by one incremental notch, the derivative liability that would be subject to unilateral termination by counterparties as of December 31, 2013 was $927 million against which $733 million of collateral has been posted. If the rating agencies had downgraded their long-term senior debt ratings for us and certain subsidiaries by a second incremental notch, the derivative liability that would be subject to unilateral termination by counterparties as of December 31, 2013 was an incremental $1.9 billion, against which $1.5 billion of collateral has been posted.

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

For more information about our credit ratings and their potential effects to our liquidity, see Liquidity Risk – Credit Ratings in the MD&A on page 75 and Note 2 – Derivatives to the Consolidated Financial Statements.

If we are unable to access the capital markets, continue to maintain deposits, or our borrowing costs increase, our liquidity and competitive position will be negatively affected.

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

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

For more information about our liquidity position and other liquidity matters, including credit ratings and outlooks and the policies and procedures we use to manage our liquidity risks, see Capital Management and Liquidity Risk in the MD&A on pages 65 and 71.

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

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

Additional restrictions on related party transactions, increased capital and liquidity requirements and additional limitations on the use of funds on deposit in bank or brokerage accounts, as well as lower earnings, can reduce the amount of funds available to meet the obligations of the parent company and even require the parent company to provide additional funding to such subsidiaries. Regulatory action of that kind could impede access to funds we need to make payments on our obligations or dividend payments. In addition, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors. For more information regarding our ability to pay dividends, see Note 13 – Shareholders’ Equity and Note 16 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements.

Credit Risk
Credit Risk is the Risk of Loss Arising from a Borrower, Obligor or Counterparty Default when a Borrower, Obligor or Counterparty does not Meet its Obligations.
Economic or market disruptions, insufficient credit loss reserves or concentration of credit risk may necessitate an increase in the provision for credit losses, which could have an adverse effect on our financial condition and results of operations.
When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, or the risk of losses if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their agreements. A number of our products expose us to credit risk, including loans, leases and lending commitments, derivatives, trading account assets and assets held-for-sale. As one of the nation's largest lenders, the credit quality of our consumer and commercial portfolios has a significant impact on our earnings.
Global and U.S. economic conditions may impact our credit portfolios. To the extent economic or market disruptions occur, such disruptions would likely increase our credit exposure to customers, obligors or other counterparties due to the increased risk that they may default on their obligations to us. These potential increases in delinquencies and default rates could adversely affect our consumer credit card, home equity, consumer real estate and PCI portfolios through increased charge-offs and provision for credit losses. Additionally, increased credit risk could also adversely affect our commercial loan portfolios.
We estimate and establish an allowance for credit losses for losses inherent in our lending activities (including unfunded lending commitments), excluding those measured at fair value, through a charge to earnings. The amount of allowance is determined based on our evaluation of the potential credit losses included within our loan portfolio. The process for determining the amount of the allowance, which is critical to our financial condition and results of operations, requires difficult, subjective and complex judgments, including forecasts of economic conditions and how borrowers will react to those conditions. Our ability to assess future economic conditions or the creditworthiness of our customers, obligors or other counterparties is imperfect. The ability of our borrowers to repay their loans will likely be impacted by changes in economic conditions, which in turn could impact the accuracy of our forecasts.
As with any such assessments, there is also the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we identify.
We may suffer unexpected losses if the models and assumptions we use to establish reserves and make judgments in extending credit to our borrowers and other counterparties become less predictive of future events. Although we believe that our allowance for credit losses was in compliance with applicable accounting standards at December 31, 2013, there is no guarantee that it will be sufficient to address future credit losses, particularly if economic conditions deteriorate. In such an event, we might need to increase the size of our allowance, which reduces our earnings.
In the ordinary course of our business, we also may be subject to a concentration of credit risk in a particular industry, country, counterparty, borrower or issuer. A deterioration in the financial

condition or prospects of a particular industry or a failure or downgrade of, or default by, any particular entity or group of entities could negatively affect our businesses, and the processes by which we set limits and monitor the level of our credit exposure to individual entities, industries and countries may not function as we have anticipated.
While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers/dealers, commercial banks, investment banks, insurers, mutual and hedge funds, and other institutional clients and funds. This has resulted in significant credit concentration with respect to this industry. Financial services institutions and other counterparties are inter-related because of trading, funding, clearing or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to significant future liquidity problems, including losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of a counterparty or client. In addition, our credit risk may be impacted when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivatives exposure due us.
In the ordinary course of business, we also enter into transactions with sovereign nations, U.S. states and U.S. municipalities. Unfavorable economic or political conditions, disruptions to capital markets, currency fluctuations,

changes in energy prices, social instability and changes in government policies could impact the operating budgets or credit ratings of sovereign nations, U.S. states and U.S. municipalities and expose us to credit risk.
We also have a concentration of credit risk with respect to our consumer real estate, consumer credit card and commercial real estate portfolios, which represent a large percentage of our overall credit portfolio. The economic downturn has adversely affected these portfolios and further exposed us to this concentration of risk. Continued economic weakness or deterioration in real estate values or household incomes could result in higher credit losses.
For more information about our credit risk and credit risk management policies and procedures, see Credit Risk Management in the MD&A on page 76 and Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.
Our derivatives businesses may expose us to unexpected risks and potential losses.
We are party to a large number of derivatives transactions, including credit derivatives. Our derivatives businesses may expose us to unexpected market, credit and operational risks that could cause us to suffer unexpected losses. Severe declines in asset values, unanticipated credit events or unforeseen circumstances that may cause previously uncorrelated factors to become correlated (and vice versa) may create losses resulting from risks not appropriately taken into account in the development, structuring or pricing of a derivative instrument. The terms of certain of our OTC derivative contracts and other trading agreements provide that upon the occurrence of certain specified events, such as a change in our credit ratings, we may be required to provide additional collateral or to provide other remedies, or our counterparties may have the right to terminate or otherwise diminish our rights under these contracts or agreements.

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

In the event of a downgrade of the Corporation's credit ratings, certain derivative and other counterparties may request we substitute BANA as counterparty for certain derivative contracts and other trading agreements. Our ability to substitute or make changes to these agreements to meet counterparties' requests may be subject to certain limitations, including counterparty willingness, regulatory limitations on naming BANA as the new counterparty, and the type or amount of collateral required. It is possible that such limitations on our ability to substitute or make changes to these agreements, including naming BANA as the new counterparty, could adversely affect our results of operations.

Derivatives contracts, including new and more complex derivatives products, and other transactions entered into with third parties are not always confirmed by the counterparties or settled on a timely basis. While a transaction remains unconfirmed, or during any delay in settlement, we are subject to heightened credit, market and operational risk and, in the event of default, may find it more difficult to enforce the contract. In addition, disputes may arise with counterparties, including government entities, about the terms, enforceability and/or suitability of the underlying contracts. These factors could negatively impact our ability to effectively manage our risk exposures from these products and subject us to increased credit and operating costs and reputational risk.

For more information on our derivatives exposure, see Note 2 – Derivatives to the Consolidated Financial Statements.

Market Risk

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

Increased market volatility and adverse changes in other financial or capital market conditions may increase our market risk.

Our liquidity, cash flows, competitive position, business, results of operations and financial condition are affected by market risk factors such as changes in interest and currency exchange rates, equity and futures prices, the implied volatility of interest rates, credit spreads and other economic and business factors. These market risks may adversely affect, among other things, (i) the value of our on- and off-balance sheet securities, trading assets, other financial instruments, and MSRs, (ii) the cost of debt capital and our access to credit markets, (iii) the value of assets under management (AUM), (iv) fee income relating to AUM, (v) customer allocation of capital among investment alternatives, (vi) the volume of client activity in our trading operations, (vii) investment banking fees, and (viii) the general profitability and risk level of the transactions in which we engage. For example, the value of certain of our assets is sensitive to changes in market interest rates. If the Federal Reserve changes or signals a change in the timing or pace of tapering of its current mortgage securities repurchase program, market interest rates could be affected, which could adversely impact the value of such assets.

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

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

For more information about market risk and our market risk management policies and procedures, see Market Risk Management in the MD&A on page 108.

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

On October 15, 2013, Fitch placed its AAA long-term and F1+ short-term sovereign credit rating on the U.S. government on rating watch negative. On July 18, 2013, Moody's revised its outlook on the U.S. government to stable from negative and affirmed its AAA long-term sovereign credit rating on the U.S. government. On June 10, 2013, S&P affirmed its AA+ long-term and A-1+ short-term sovereign credit rating on the U.S. government, and revised the outlook on the long-term credit rating to stable from negative. All three rating agencies have indicated that they will continue to assess fiscal projections and consolidation measures, as well as the medium-term economic outlook for the U.S.

The ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected by any downgrade. Instruments of this nature are often held as trading, investment or excess liquidity positions on the balance sheets of financial institutions, including the Corporation, and are widely used as collateral by financial institutions to raise cash in the secured financing markets. A downgrade of the sovereign credit ratings of the U.S. government and perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments.

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

A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instrumentalities would exacerbate the other risks to which the Corporation is subject and any related adverse effects on our business, financial condition and results of operations.

Our businesses may be affected by uncertainty 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.

Risks and ongoing concerns about the financial stability of several non-U.S. jurisdictions could impact our operations and have a detrimental impact on the global economic recovery. For instance, sovereign and non-sovereign debt levels remain elevated. Market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, corporate investment and job creation, bankruptcy rates, levels of incurrence and default on consumer debt and corporate debt, economic growth rates and asset values, among other factors.

A number of non-U.S. jurisdictions in which we do business have been negatively impacted by slowing growth rates or recessionary conditions, market volatility and/or political unrest. Additionally, there can be no assurance that the recent market stabilization in Europe, including reduced costs of funding for certain governments and financial institutions, is sustainable, nor can there be any assurance that future assistance packages, if required, will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent European economic recovery uncertainty continues to negatively impact consumer and business confidence and credit factors, or should the EU enter a deep recession, both the U.S. economy and our business and results of operations could be adversely affected.

The Corporation has substantial U.K. net deferred tax assets, which consist primarily of net operating losses (NOLs) that are expected to be realized by certain subsidiaries over an extended number of years. Management concluded that no valuation allowance was necessary with respect to such net deferred tax assets. Management's conclusion is supported by recent financial results and forecasts, the reorganization of certain business activities and the indefinite period to carry forward NOLs. However, significant changes to those expectations, such as would be caused by a substantial and prolonged worsening of the condition of Europe's capital markets, could lead management to reassess its U.K. valuation allowance conclusions.

Global economic and political uncertainty, regulatory initiatives and reform have impacted, and will likely continue to impact, non-U.S. credit and trading portfolios. There can be no assurance our risk mitigation efforts in this respect will be sufficient or successful. Our total sovereign and non-sovereign exposure to Greece, Italy, Ireland, Portugal and Spain was $17.1 billion at December 31, 2013 compared to $14.5 billion at December 31, 2012. Our total net sovereign and non-sovereign exposure to these countries was $10.4 billion at December 31, 2013 compared to $9.5 billion at December 31, 2012, after taking into account net credit default protection. At December 31, 2013 and 2012, the fair value of hedges and credit default protection was $6.8 billion and $5.1 billion. Losses could still result because our credit protection contracts only pay out under certain scenarios. For example, it is possible that a voluntary restructuring will not constitute a credit event under the terms of a credit default swap (CDS), and consequently may not trigger a payment under the relevant CDS contract.

For more information on our direct sovereign and non-sovereign exposures in the top 20 non-U.S. countries and Europe, see Non-U.S. Portfolio in the MD&A on page 100.

We may incur losses if the values of certain assets decline, including due to changes in interest rates and prepayment speeds.

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

Gains or losses on these instruments can have a direct impact on our results of operations, including higher or lower mortgage banking income and earnings, unless we have effectively hedged our exposures. For example, decreases in interest rates and increases in mortgage prepayment speeds, which are influenced by interest rates, among other things, could adversely impact the value of our MSR asset, cause a significant acceleration of purchase premium amortization on our mortgage portfolio, and adversely affect our net interest margin. Conversely, increases in interest rates may result in a decrease in residential mortgage loan originations. In addition, increases in interest rates may adversely impact the fair value of debt securities and, accordingly, for debt securities classified as AFS, may adversely affect accumulated other comprehensive income (OCI) and, thus, capital levels.

Fair values may be impacted by declining values of the underlying assets or the prices at which observable market transactions occur and the continued availability of these transactions. The financial strength of counterparties, with whom we have economically hedged some of our exposure to these assets, also will affect the fair value of these assets. Sudden declines and volatility in the prices of assets may curtail or eliminate the trading activity for these assets, which may make it difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions and the difficulty in valuing assets may increase our risk-weighted assets, which requires us to maintain additional capital and increases our funding costs.

Asset values also directly impact revenues in our asset management businesses. We receive asset-based management fees based on the value of our clients' portfolios or investments in funds managed by us and, in some cases, we also receive performance fees based on increases in the value of such investments. Declines in asset values can reduce the value of our clients' portfolios or fund assets, which in turn can result in lower fees earned for managing such assets.

For more information about fair value measurements, see Note 20 – Fair Value Measurements to the Consolidated Financial Statements. For more information about our asset management businesses, see Business Segment Operations – Global Wealth & Investment Management in the MD&A on page 44. For more information about interest rate risk management, see Interest Rate Risk Management for Nontrading Activities in the MD&A on page 113.

Changes in the method of determining the London Interbank Offered Rate (LIBOR) or other reference rates may adversely impact the value of debt securities and other financial instruments we hold or issue that are linked to LIBOR or other reference rates in ways that are difficult to predict and could adversely impact our financial condition or results of operations.

In recent years, concerns have been raised about the accuracy of the calculation of LIBOR. Aspects of the method for determining how LIBOR is formulated and its use in the market have changed and may continue to change, including, but not limited to, requiring that LIBOR submissions be kept confidential, replacing the administrator of LIBOR, reducing the currencies and tenors for which LIBOR is calculated and requiring banks to provide LIBOR submissions based on actual transaction data or otherwise changing the structure of LIBOR, each of which could impact the availability and volatility of LIBOR. For example, the British Bankers' Association (BBA) reduced the tenors for which LIBOR is calculated and published. In addition, the BBA has announced the administration of LIBOR will transfer from the BBA to the ICE Benchmark Administration Limited. Similar changes may occur with respect to other reference rates. Accordingly, it is not currently possible to determine whether, or to what extent, any such changes would impact the value of any debt securities we hold or issue that are linked to LIBOR or other reference rates, or any loans, derivatives and other financial obligations or extensions of credit we hold or are due to us, or for which we are an obligor, that are linked to LIBOR or other reference rates, or whether, or to what extent, such changes would impact our financial condition or results of operations.

Regulatory and Legal Risk

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

We are subject to the Federal Reserve's risk-based capital guidelines. These guidelines establish regulatory capital requirements for banking institutions to meet minimum requirements as well as to qualify as a "well-capitalized" institution. If any of our subsidiary insured depository institutions fail to maintain its status as "well-capitalized" under the applicable regulatory capital rules, the Federal Reserve will require us to agree to bring the insured depository institution or institutions back to "well-capitalized" status. For the duration of such an agreement, the Federal Reserve may impose restrictions on our activities. If we were to fail to enter into such an agreement, or fail to comply with the terms of such agreement, the Federal Reserve may impose more severe restrictions on our activities, including requiring us to cease and desist activities permitted under the Bank Holding Company Act of 1956.

It is possible that increases in regulatory capital requirements, changes in how regulatory capital is calculated or increases to liquidity requirements may cause the loss of our "well-capitalized" status unless we increase our capital levels by issuing additional common stock, thus diluting our existing shareholders, or by taking other actions, such as selling company assets.

In July 2013, U.S. banking regulators approved the final Basel 3 Regulatory Capital Rules (Basel 3). Basel 3 materially changes how our Tier 1 common, Tier 1 and Total capital are calculated. Additionally, Basel 3 introduces new minimum capital ratios and buffer requirements, a supplementary leverage ratio, changes the composition of regulatory capital, revises the adequately capitalized minimum requirement under the Prompt Corrective Action framework, expands and modifies the calculation of risk-weighted assets for credit and market risk and introduces a Standardized approach for the calculation of risk-weighted assets. The U.S. banking regulators are expected to propose and enact regulations to implement a systemically important financial institution (SIFI) capital buffer. The SIFI buffer would require us to hold Tier 1 common capital in addition to regulatory minimums.

The U.S. banking regulators are also expected to adopt regulatory liquidity requirements, including a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR), which are intended to ensure that firms hold sufficient liquid assets over different time horizons to fund operations if other funding sources are unavailable. In October 2013, the U.S. banking regulators issued a notice of proposed rulemaking, which, if adopted, would implement the LCR beginning on January 1, 2015 and be fully phased in by January 1, 2017. Additionally, although the timing is uncertain, the U.S. banking regulators are expected to propose and enact rules regarding the NSFR. For additional information, see Liquidity Risk – Basel 3 Liquidity Standards on page 73.

Compliance with the regulatory capital and liquidity requirements may impact our operations by requiring us to liquidate assets, increase borrowings, issue additional equity or other securities, cease or alter certain operations, or hold highly liquid assets, which may adversely affect our results of operations.

For more information about the proposals and regulatory changes described above, see Capital Management – Regulatory Capital in the MD&A on page 65.

We are subject to extensive government legislation and regulations, both domestically and internationally, which impact our operating costs and could require us to make changes to our operations, which could result in an adverse impact on our results of operations. Additionally, these regulations, and certain consent orders and settlements we have entered into, have increased and will continue to increase our compliance and operational costs.

We are subject to extensive laws and regulations promulgated by U.S. state, U.S. federal and non-U.S. laws in the jurisdictions in which we operate. In response to the financial crisis, the U.S. adopted the Financial Reform Act, which has resulted in significant rulemaking and proposed rulemaking by the Treasury, the Federal Reserve, the OCC, the CFPB, FSOC, the FDIC, the SEC and CFTC. A number of the provisions of the Financial Reform Act, including those described below, may have an impact on our operations.

Consumer Businesses. Our consumer businesses are subject to extensive regulation and oversight by the OCC, the CFPB, the FDIC and other federal and state regulators. The CFPB has promulgated several proposed and final rules that have affected and will continue to affect our consumer businesses, including, but not limited to, establishing enhanced underwriting standards and new mortgage loan servicing standards. The CFPB has also proposed rules addressing items such as remittance transfer services, appraisal requirements and loan originator compensation requirements, and debt collection practices. The Corporation is devoting substantial compliance, legal and operational business resources to facilitate compliance with these rules by their respective effective dates; however, it is possible that the final and proposed rules could have an adverse impact on our results of operations.

Debit Interchange. On July 31, 2013, the U.S. District Court for the District of Columbia issued a ruling regarding the Federal Reserve’s rules implementing a limit on debit interchange fees mandated by the Durbin Amendment of the Financial Reform Act. The ruling requires the Federal Reserve to reconsider the current $0.21 per transaction cap on debit card interchange fees. The Federal Reserve is appealing the ruling and final resolution is expected in the first half of 2014. If the Federal Reserve, upon final resolution, implements a lower per transaction cap, it may have an adverse impact on our debit card interchange fee revenue.

Derivatives. The Financial Reform Act includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives; imposing new capital, margin, reporting, registration and business conduct requirements for certain market participants; and imposing position limits on certain OTC derivatives. Compliance with these rules could have an adverse impact on our results of operations.

FDIC. The FDIC has broad discretionary authority to increase assessments on large and highly complex institutions on a case by case basis. Any future increases in required deposit insurance premiums or other bank industry fees could have an adverse impact on our financial condition and results of operations.

Orderly Liquidation. The Financial Reform Act established an orderly liquidation process in the event of the failure of a large systemically important financial institution. Specifically, when a systemically important financial institution such as the Corporation is in default or danger of default, the FDIC may be appointed receiver under the orderly liquidation authority instead of the U.S. Bankruptcy Code. In certain circumstances under the orderly liquidation authority, the FDIC could permit payment of obligations it determines to be systemically significant (e.g., short-term creditors or operating creditors) in lieu of paying other obligations (e.g., long-term senior and subordinated creditors, among others) without the need to obtain creditors’ consent or prior court review. The insolvency and resolution process could also lead to a large reduction in or total elimination of the value of a BHC’s outstanding equity. Additionally, under the orderly liquidation authority, amounts owed to the U.S. government generally receive a statutory payment priority.

Resolution Planning. Under the Financial Reform Act, all BHCs with assets of $50 billion or more are required to develop and submit resolution plans annually to the FDIC and the Federal Reserve, who will review such plans to determine whether they are credible. If the FDIC and the Federal Reserve determine that our plan is not credible and we fail to cure the deficiencies in a timely manner, the FDIC and the Federal Reserve may jointly impose more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations of the Corporation. We could be required to take certain actions that could impose operating costs and could potentially result in the divestiture or restructuring of certain businesses and subsidiaries.

Volcker Rule. On December 10, 2013, the Federal Reserve, OCC, FDIC, SEC and CFTC issued final regulations under the Financial Reform Act implementing limitations on proprietary trading as well as the sponsorship of, or investment in, hedge funds and private equity funds (the Volcker Rule) and set a conformance period that will expire on July 21, 2015. Subject to certain exceptions, the Volcker Rule prohibits us from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options for our own account, as well as imposes limits on our investments in, and other relationships with, hedge funds and private equity funds.

We are still in the process of evaluating the full impact of the Volcker Rule on our current trading activities and our ownership interests in and transactions with hedge funds, private equity funds, commodity pools and other subsidiary operations. The Volcker Rule will likely increase our operational and compliance costs, reduce our trading revenues, and adversely affect our results of operations.

CCAR. On October 12, 2012, the Federal Reserve issued final rules requiring covered entities to undergo annual stress tests conducted by the Federal Reserve, the CCAR, and to conduct their own "company-run" stress tests twice a year. As part of the CCAR process, we must submit our capital plan, including any potential requests for capital actions, to the Federal Reserve on an annual basis. Our ability to return capital to shareholders, through dividends, share repurchases or otherwise, is subject to the Federal Reserve's not objecting to our capital plan.

In addition, non-U.S. regulators, such as the PRA and the European Parliament and Commission, have adopted or have proposed laws and regulations regarding financial institutions located in their jurisdictions. For example, in the United Kingdom, the PRA has issued proposed rules regarding resolution planning for our U.K.-based entities that could require us to take certain actions over the next several years that could impose operating costs on us and could potentially result in the restructuring of certain of our businesses and subsidiaries. In addition, we are subject to the European Market Infrastructure Regulation (EMIR), which regulates OTC derivatives, central counterparties and trade repositories, and imposes requirements for certain market participants with respect to derivatives reporting, clearing, business conduct and collateral. Adapting to and implementing EMIR requirements could impose operating costs. The ultimate impact of these laws and regulations remains uncertain. Many rules are still being finalized, and upon finalization could require additional regulatory guidance and interpretation. Additionally, laws proposed by different jurisdictions could create competing or conflicting requirements.

We are also subject to other significant regulations, such as OFAC, FCPA, and U.S. and international anti-money laundering regulations. Laws proposed by different jurisdictions could create competing or conflicting requirements. We could become subject to regulatory requirements beyond those currently proposed, adopted or contemplated. Additionally, we are subject to the terms of settlements we have entered into with government agencies, such as the OCC Consent Order and the National Mortgage settlement.

While we believe that we have adopted appropriate risk management and compliance programs, compliance risks will continue to exist, particularly as we adapt to new rules and regulations. Our regulators have assumed an increasingly active oversight, inspection and investigatory role over our operations and the financial services industry generally. In addition, legal and regulatory proceedings and other contingencies will arise from time to time that may result in fines, penalties, equitable relief and changes to our business practices. As a result, we are and will continue to be subject to heightened compliance and operating costs that could adversely affect our results of operations.

For more information about the regulatory initiatives discussed above, see Regulatory Matters in the MD&A on page 59.

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

We have sold over $2.0 trillion of loans to the GSEs. Each GSE is currently in a conservatorship, with its primary regulator, the Federal Housing Finance Agency, acting as conservator. We cannot predict if, when or how the conservatorships will end, or any associated changes to the GSEs' business structure that could result. We also cannot predict whether the conservatorships will end in receivership. There are several proposed approaches to reform the GSEs that, if enacted, could change the structure of the GSEs and the relationship among the GSEs, the government and the private markets, including the trading markets for agency conforming mortgage loans and markets for mortgage-related securities in which we participate. We cannot predict the prospects for the enactment, timing or content of legislative or rulemaking proposals regarding the future status of the GSEs. Accordingly, there continues to be uncertainty regarding the future of the GSEs, including whether they will continue to exist in their current form.

We are subject to significant financial and reputational risks from potential liability arising from lawsuits, regulatory or government action.

We face significant legal risks in our business, and the volume of claims and amount of damages, penalties and fines claimed in

litigation, and regulatory and government proceedings against us and other financial institutions remain high and are increasing. For example, we are currently involved in MBS litigation including purported class action suits, actions brought by individual MBS purchasers, actions brought by the Federal Housing Finance Agency (FHFA) as conservator for the GSEs and governmental actions. Increased litigation and investigation costs, substantial legal liability or significant regulatory or government action against us could have adverse effects on our financial condition and results of operations or cause significant reputational harm to us, which in turn could adversely impact our business prospects. We continue to experience increased litigation and other disputes, including claims for contractual indemnification, with counterparties regarding relative rights and responsibilities. Consumers, clients and other counterparties have grown more litigious. Our experience with certain regulatory authorities suggests an increasing supervisory focus on enforcement, including in connection with alleged violations of law and customer harm. Additionally, the ongoing environment of heightened scrutiny may subject us to governmental or regulatory inquiries, investigations, actions, penalties and fines, including by the U.S. Department of Justice, state Attorneys General and other members of the RMBS Working Group of the Financial Fraud Enforcement Task Force, or by other regulators or government agencies that could adversely affect our reputation and result in costs to us in excess of current reserves and management's estimate of the aggregate range of possible loss for litigation matters. Recent actions by regulators and government agencies indicate that they may, on an industry basis, increasingly pursue claims under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the False Claims Act (FCA). For example, the Civil Division of the U.S. Attorney's office for the Eastern District of New York is conducting an investigation concerning our compliance with the requirements of the Federal Housing Administration's Direct Endorsement Program. FIRREA contemplates civil monetary penalties as high as $1.1 million per violation or, if permitted by the court, based on pecuniary gain derived or pecuniary loss suffered as a result of the violation. Treble damages are potentially available for FCA claims. The ongoing environment of additional regulation, increased regulatory compliance burdens, and enhanced regulatory enforcement, combined with ongoing uncertainty related to the continuing evolution of the regulatory environment, has resulted in operational and compliance costs and may limit our ability to continue providing certain products and services.

For a further discussion of litigation risks, see Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

We may be adversely affected by changes in U.S. and non-U.S. tax and other laws and regulations.

The U.S. Congress and the Administration have indicated an interest in reforming the U.S. corporate income tax code. Possible approaches include lowering the 35 percent corporate tax rate, modifying the taxation of income earned outside the U.S. and limiting or eliminating various other deductions, tax credits and/or other tax preferences. Also, the Governor of New York has issued a proposal to reform the New York state corporate income tax. It is not possible at this time to quantify either the one-time impacts from the remeasurement of deferred tax assets and liabilities that might result upon tax reform enactment or the ongoing impacts reform proposals might have on income tax expense.

In addition, income from certain non-U.S. subsidiaries has not been subject to U.S. income tax as a result of long-standing deferral provisions applicable to income that is derived in the active conduct of a banking and financing business abroad. These deferral provisions have expired for taxable years beginning on or after January 1, 2014. However, the U.S. Congress has extended these provisions several times, most recently in January 2013, when it reinstated the provisions retroactively to apply to 2012 taxable years. Congress this year may similarly consider reinstating these provisions to apply to 2014 taxable years. Absent an extension, active financing income earned by certain non-U.S. subsidiaries will generally be subject to a tax provision that considers incremental U.S. income tax. The impact of the expiration of these provisions would depend upon the amount, composition and geographic mix of our future earnings.

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

Risk of the Competitive Environment in which We Operate

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

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

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

Our ability to attract and retain customers, clients, investors and employees is impacted by our reputation. We continue to face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn as well as alleged irregularities in servicing, foreclosure, consumer collections, mortgage loan modifications and other practices, compensation practices, our

acquisitions of Countrywide and Merrill Lynch & Co., Inc. and the suitability or reasonableness of recommending particular trading or investment strategies.

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

We are subject to complex and evolving laws and regulations regarding privacy, data protections and other matters.

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

Additionally, the ongoing environment of heightened scrutiny may subject us to governmental or regulatory inquiries, investigations, actions, penalties and fines, including by the RMBS Working Group of the Financial Fraud Enforcement Task Force, or by other regulators or government agencies that could adversely affect our reputation and result in costs to us in excess of current reserves and management's estimate of the aggregate range of possible loss for litigation matters.

We could suffer reputational harm if we fail to properly identify and manage potential conflicts of interest.

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

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

Our ability to attract and retain qualified employees is critical to the success of our business and failure to do so could hurt our business prospects and competitive position.

Our performance is heavily dependent on the talents and efforts of highly skilled individuals. Competition for qualified personnel within the financial services industry and from businesses outside the financial services industry has been, and is expected to continue to be, intense. Our competitors include non-U.S.-based institutions and institutions subject to different compensation and hiring regulations than those imposed on U.S. institutions and financial institutions. The difficulty we face in competing for key personnel is exacerbated in emerging markets, where we are often competing for qualified employees with entities that may have a significantly greater presence or more extensive experience in the region.

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

In addition, if we fail to retain the wealth advisors that we employ in GWIM, particularly those with significant client relationships, such failure could result in a loss of clients or the withdrawal of significant client assets.

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

We are currently engaged in numerous efforts to achieve certain cost savings, including, among other things, Project New BAC. We currently expect our planned New BAC cost savings of $2 billion per quarter to be fully realized by mid-2015 and for our Legacy Assets and Servicing costs, excluding litigation costs, to decrease to approximately $1.1 billion per quarter by the fourth quarter of 2014. However, we may be unable to fully realize the cost savings and other anticipated benefits from our cost saving initiatives or in accordance with currently anticipated timeframes. In addition, our litigation expense may vary from period to period and may cause our noninterest expense to increase for any particular period even if we otherwise achieve the cost savings mentioned above.

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

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

Risks Related to Risk Management

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

Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to the types of risk to which we are subject, including strategic, credit, market, liquidity, compliance, operational and reputational risks, among others. While we employ a broad and diversified set of risk monitoring and mitigation techniques, including hedging strategies and techniques that seek to balance our ability to profit from trading positions with our exposure to potential losses, those techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. The Volcker Rule may impact our ability to engage in certain hedging strategies. Recent economic conditions, heightened legislative and regulatory scrutiny of the financial services industry and increases in the overall complexity of our operations, among other developments, have resulted in a heightened level of risk for us. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

For more information about our risk management policies and procedures, see Managing Risk in the MD&A on page 61.

A failure in or breach of our operational or security systems or infrastructure, or those of third parties with which we do business, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

Our businesses are highly dependent on our ability to process, record and monitor, on a continuous basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. The potential for operational risk exposure exists throughout our organization and is not limited to operations functions. Operational risk exposures can impact our results of operations, such as losses resulting from unauthorized trades by employees, and their impact may extend beyond financial losses.

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

Information security risks for large financial institutions like us have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks. Our banking, brokerage, investment advisory and capital markets businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smartphones, PCs and other computing devices, tablet PCs and other mobile devices that are beyond our control systems. Our technologies, systems, networks and our customers' devices have been subject to, and are likely to continue to be the target of, cyber attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the Corporation, our employees or our customers, or otherwise disrupt our or our customers' or other third parties' business operations. For example, our websites have been subject to a series of distributed denial of service cyber security incidents. Although these incidents have not had a material impact on Bank of America, nor have they resulted in unauthorized access to our or our customers' confidential, proprietary or other information, because of our prominence, we believe that such incidents may continue.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains

heightened because of, among other things, the evolving nature of these threats, our prominent size and scale and our role in the financial services industry, our plans to continue to implement our internet banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint and international presence, the outsourcing of some of our business operations, the continued uncertain global economic environment, threats of cyberterrorism, external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends, and system and customer account conversions. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses and increased interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses. This consolidation and interconnectivity increases the risk of operational failure, on both individual and industry-wide bases, as disparate

complex systems need to be integrated, often on an accelerated basis. Any such failure, termination or constraint could adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses, and could have an adverse impact on our liquidity, financial condition and results of operations.
Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in the loss of customers and business opportunities, significant business disruption to the Corporation’s operations and business, misappropriation of the Corporation’s confidential information and/or that of its customers, or damage to the Corporation’s computers or systems and/or those of its customers and/or counterparties, and could result in violations of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in the Corporation’s security measures, reputational damage, reimbursement or other compensatory costs, and additional compliance costs.
For more information on operational risks and our operational risk management, see Operational Risk Management in the MD&A on page 116.

Risk of Being an International Business

We are subject to numerous political, economic, market, reputational, operational, legal, regulatory and other risks in the non-U.S. jurisdictions in which we operate.

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

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

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

In addition to non-U.S. legislation, our international operations are also subject to U.S. legal requirements. For example, our international operations are subject to U.S. laws on foreign corrupt practices, the Office of Foreign Assets Control, and anti-money laundering regulations.

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

For more information on our non-U.S. credit and trading portfolios, see Non-U.S. Portfolio in the MD&A on page 100.

Risk from Accounting Changes

Changes in accounting standards or inaccurate estimates or assumptions in applying accounting policies could adversely affect us.

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

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

The FASB issued on December 20, 2012 a proposed standard on accounting for credit losses. The standard would replace multiple existing impairment models, including replacing an "incurred loss" model for loans with an "expected loss" model. The FASB announced it will establish the effective date when it issues the final standard. We cannot predict whether or when a final standard will be issued, when it will be effective or what its final provisions will be. The final standard may materially reduce retained earnings in the period of adoption.

For more information on some of our critical accounting policies and standards and recent accounting changes, see Complex Accounting Estimates in the MD&A on page 117 and Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

As of December 31, 2013, our principal offices and other materially important properties consisted of the following:

Facility Name	Location	General Character of the Physical Property	Primary Business Segment	Property Status	Property Square Feet (1)
Corporate Center	Charlotte, NC	60 Story Building	Principal Executive Offices	Owned	1,200,392
One Bryant Park	New York, NY	54 Story Building	GWIM, Global Banking and Global Markets	Leased (2)	1,798,373
Merrill Lynch Financial Centre	London, UK	4 Building Campus	GWIM, Global Banking and Global Markets	Leased	563,944
Nihonbashi 1-Chome Building	Tokyo, Japan	24 Story Building	Global Banking and Global Markets	Leased	186,901

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

We own or lease approximately 100.2 million square feet in 23,297 locations globally, including approximately 93.3 million square feet in the U.S. (all 50 U.S. states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico) and approximately 6.9 million square feet in more than 40 countries.

We believe our owned and leased properties are adequate for our business needs and are well maintained. We continue to evaluate our owned and leased real estate and may determine from time to time that certain of our premises and facilities, or ownership structures, are no longer necessary for our operations. In connection therewith, we are evaluating the sale or sale/leaseback of certain properties and we may incur costs in connection with any such transactions.

Item 3. Legal Proceedings

See Litigation and Regulatory Matters in Note 12 – Commitments and Contingencies to the Consolidated Financial Statements, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

None

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

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

	Quarter	High	Low
2012	first	$9.93	$5.80
	second	9.68	6.83
	third	9.55	7.04
	fourth	11.61	8.93
2013	first	12.78	11.03
	second	13.83	11.44
	third	14.95	12.83
	fourth	15.88	13.69

As of February 24, 2014, there were 215,755 registered shareholders of common stock. During 2012 and 2013, we paid dividends on the common stock on a quarterly basis.

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

	Quarter	Dividend
2012	first	$0.01
	second	0.01
	third	0.01
	fourth	0.01
2013	first	0.01
	second	0.01
	third	0.01
	fourth	0.01

For more information regarding our ability to pay dividends, see Note 13 – Shareholders' Equity and Note 16 – Regulatory Requirements and Restrictions to the Consolidated Financial Statements, which are incorporated herein by reference.

For information on our equity compensation plans, see Note 18 – Stock-based Compensation Plans to the Consolidated Financial Statements and Item 12 on page 285 of this report, which are incorporated herein by reference.

The table below presents share repurchase activity for the three months ended December 31, 2013. We did not have any unregistered sales of our equity securities in 2013.

(Dollars in millions, except per share information; shares in thousands)	Common Shares Repurchased (1)	Weighted-Average Per Share Price	Shares Purchased as Part of Publicly Announced Programs	Remaining Buyback Authority Amounts (2)
October 1 - 31, 2013	23,734	$ 14.39	23,403	$2,794
November 1 - 30, 2013	57,961	14.55	57,894	1,951

December 1 - 31, 2013	10,840	15.88	10,800	1,780
Three months ended December 31, 2013	92,535	14.67		

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

(2) On March 14, 2013, the Corporation announced that its Board of Directors authorized the repurchase of up to $5.0 billion of the Corporation's common stock through open market purchases or privately negotiated transactions, including Rule 10b5-1 plans, over four quarters beginning with the second quarter of 2013. For additional information, see Capital Management – Regulatory Capital on page 65 and Note 13 – Shareholders' Equity to the Consolidated Financial Statements.

Item 6. Selected Financial Data

See Table 7 in the MD&A on page 31 and Table XII of the Statistical Tables in the MD&A on page 138, which are incorporated herein by reference.

Item 7. Bank of America Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The Annual Report on Form 10-K, the documents that it incorporates by reference and the documents into which it may be incorporated by reference may contain, and from time to time Bank of America Corporation (collectively with its subsidiaries, the Corporation) and its management may make certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "expects," "anticipates," "believes," "estimates," "targets," "intends," "plans," "goal" and other similar expressi future or conditional verbs such as "will," "may," "might," "should," "would" and "could." The forward-looking statements ma represent the current expectations, plans or forecasts of the Corporation regarding the Corporation's future results and revenues, and future business and economic conditions more generally, and other matters. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and are often beyond 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 this report and in any of the Corporation's subsequent Securities and Exchange Commission filings: the Corporation's ability to resolve representations and warranties repurchase claims made by monolines and private-label and other investors, including as a result of any adverse court rulings, and the chance that the Corporation could face related servicing, securities, fraud, indemnity or other claims from one or more of the government-sponsored enterprises, monolines or private-label and other investors; the possibility that final court approval of negotiated settlements is not obtained; the possibility that the court decision with respect to the BNY Mellon Settlement is appealed and overturned in whole or in part; 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; the possibility that the Corporation may not collect mortgage insurance claims; the possible impact of a future FASB standard on accounting for credit losses; 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; uncertainties related to the timing and pace of Federal Reserve tapering of quantitative easing, and the impact on global interest rates, currency exchange rates, and economic conditions in a number of countries; the possibility of

future inquiries or investigations regarding pending or completed foreclosure activities; the possibility that unexpected foreclosure delays could impact the rate of decline of default-related servicing costs; uncertainty regarding timing and the potential impact of regulatory capital and liquidity requirements (including Basel 3); the negative impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the Corporation's businesses and earnings, including as a result of additional regulatory interpretation and rulemaking and the success of the Corporation's actions to mitigate such impacts; the potential impact on debit card interchange fee revenue in connection with the U.S. District Court for the District of Columbia's ruling on July 31, 2013 regarding the Federal Reserve's rules implementing the Financial Reform Act's Durbin Amendment; the potential impact of implementing and conforming to the Volcker Rule; the potential impact of future derivative regulations; 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; reputational damage that may result from negative publicity, fines and penalties from regulatory violations and judicial proceedings; the possibility that the European Commission will impose remedial measures in relation to its investigation of the Corporation's competitive practices; the impact of potential regulatory enforcement action relating to optional identity theft protection services and certain optional credit card debt cancellation products; unexpected claims, damages, penalties and fines resulting from pending or future litigation and regulatory proceedings, including proceedings instituted by the U.S. Department of Justice, state Attorneys General and other members of the RMBS Working Group of the Financial Fraud Enforcement Task Force; the Corporation's ability to fully realize the cost savings and other anticipated benefits from Project New BAC, including in accordance with currently anticipated timeframes; a failure in or breach of the Corporation's operational or security systems or infrastructure, or those of third parties with which we do business, including as a result of cyber attacks; the impact on the Corporation's business, financial condition and results of operations of a potential higher interest rate environment; 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.

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 nonbanking subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbanking financial services and products through five business segments: Consumer & Business Banking (CBB), Consumer Real Estate Services (CRES), Global Wealth & Investment Management (GWIM), Global Banking and Global Markets, with the remaining operations recorded in All Other. We operate our banking activities primarily under two national bank charters: Bank of America, National Association (Bank of America, N.A. or BANA) and FIA Card Services, National Association (FIA Card Services, N.A. or FIA). On October 1, 2013, we completed the merger of our Merrill Lynch & Co., Inc. (Merrill Lynch) subsidiary into Bank of America Corporation. This merger had no effect on the Merrill Lynch name or brand and is not expected to have any effect on customers or clients. At December 31, 2013, the Corporation had approximately $2.1 trillion in assets and approximately 242,000 full-time equivalent employees.
As of December 31, 2013, we operated in all 50 states, the District of Columbia and more than 40 countries. Our retail banking footprint covers approximately 80 percent of the U.S. population and we serve approximately 50 million consumer and small business relationships with approximately 5,100 banking centers, 16,300 ATMs, nationwide call centers, and leading online (www.bankofamerica.com) and mobile banking platforms. We offer industry-leading support to more than three million small business owners. We are a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions and individuals around the world.
2013 Economic and Business Environment
In the U.S., economic growth continued in 2013, ending the year in the midst of its fifth consecutive year of recovery. However, the year ended amid uncertainty as to whether the upward trend in economic performance would continue into 2014. Employment gains were generally steady but moderate, and the unemployment rate fell to 6.7 percent at year end, but with significant contribution from a declining labor force participation rate. Retail sales grew at a solid pace through most of 2013, and following extreme weakness through mid-2013, service spending also displayed a modest rebound late in the year. Core inflation fell in 2013 to

almost a full percentage point below the Board of Governors of the Federal Reserve System’s (Federal Reserve) longer-term target of two percent.
U.S. household net worth increased significantly in 2013. Home prices rose approximately 12 percent in 2013, but showed signs of deceleration late in the year, and equity markets surged. U.S. Treasury yields rose over the course of the year amid expectations that the Federal Reserve would adjust the pace of its purchases of agency mortgage-backed securities (MBS) and long-term U.S. Treasury securities if economic progress was sustained.
Despite a partial federal government shutdown in October, the impact on U.S. economic performance was minimal. The Federal Reserve announced that it would begin to reduce its securities purchases early in 2014, but would not raise its federal funds rate target until significantly after the unemployment rate reached its 6.5 percent threshold. By year end, the U.S. Congress agreed on a two-year budget framework that reduced fiscal uncertainty, and pending implementation, restored some of the planned federal sequester spending for 2014.
Internationally, Europe experienced significant economic improvement in 2013. European financial anxieties eased, reflected in sustained narrowing of bond spreads, following the European Central Bank’s 2012 assertion of its role as lender of last resort. Economic performance also improved, with the long six-quarter recession in the European Union ending in the second quarter of 2013, followed by modest growth and varied performance in the second half of the year.
Monetary policies in Japan combined with the sharp depreciation of the yen led to moderate economic expansion in 2013, but economic growth diminished in the second half of 2013. In Japan, inflation rose gradually during the year, exceeding one percent annualized by year end. However, doubts remained about the sustainability of economic improvement in Japan in the absence of clear plans for long-run economic reform. As China’s government focused on

issues beyond simply maximizing economic growth, China’s gross domestic product growth in 2013 decelerated. Additionally, growth rates in a number of emerging nations have decreased, while select countries are also dealing with greater social and political unrest and capital markets volatility. Following the announcement of the Federal Reserve’s intent to reduce securities purchases in mid-2013, investors increased withdrawals of capital from certain emerging market countries, impacting interest rates, foreign exchange rates and credit spreads. These trends intensified as the Federal Reserve initiated its securities purchases tapering actions in January 2014, and investors became more concerned about the implications of a slowing Chinese economy on its key trading partners. For more information on our international exposure, see Non-U.S. Portfolio on page 100.

Recent Events

BNY Mellon Settlement

In the first quarter of 2014, the New York Supreme Court entered final judgment approving the BNY Mellon Settlement. The court overruled the objections to the settlement, holding that the Trustee, BNY Mellon, acted in good faith, within its discretion and within the bounds of reasonableness in determining that the settlement agreement was in the best interests of the covered trusts. The court declined to approve the Trustee's conduct only with respect to the Trustee's consideration of a potential claim that a loan must be repurchased if the servicer modifies its terms. The court's January 31, 2014 decision, order and judgment remain subject to appeal and the motion to reargue, and it is not possible to predict the timetable for appeals or when the court approval process will be completed. For additional information, including a description of the BNY Mellon Settlement, see Note 7 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements.

Capital and Liquidity Related Matters

In July 2013, U.S. banking regulators approved final Basel 3 Regulatory Capital rules (Basel 3) which became effective January 1, 2014. Basel 3 generally continues to be subject to interpretation by the U.S. banking regulators. Basel 3 also will require us to calculate a supplementary leverage ratio. For additional information, see Capital Management – Regulatory Capital Changes on page 68.

The Basel Committee on Banking Supervision (Basel Committee) issued two liquidity risk-related standards that are considered part of Basel 3: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). For additional information, see Liquidity Risk – Basel 3 Liquidity Standards on page 73.

Freddie Mac Settlement

On November 27, 2013, we entered into an agreement with Freddie Mac (FHLMC) under which we paid FHLMC a total of $404 million (less credits of $13 million) to resolve all outstanding and potential mortgage repurchase and make-whole claims arising out of any alleged breach of selling representations and warranties related to loans that had been sold directly to FHLMC by entities related to Bank of America, N.A. from January 1, 2000 to December 31, 2009, and to compensate FHLMC for certain past losses and potential future losses relating to denials, rescissions and cancellations of mortgage insurance (MI).

In 2010, we had entered into an agreement with FHLMC to resolve all outstanding and potential representations and warranties claims related to loans sold by Countrywide Financial Corporation (Countrywide) to FHLMC through 2008.

With these agreements, combined with prior settlements with Fannie Mae (FNMA), Bank of America has resolved substantially all outstanding and potential representations and warranties claims on whole loans sold by legacy Bank of America and Countrywide to FNMA and FHLMC through 2008 and 2009, respectively, subject to certain exceptions which we do not believe are material.

For additional information, see Note 7 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements.

Common Stock Repurchases and Liability Management Actions

As disclosed in prior filings, the capital plan that the Corporation submitted to the Federal Reserve in January 2013 pursuant to the 2013 Comprehensive Capital Analysis and Review (CCAR), included a request to repurchase up to $5.0 billion of common stock and redeem $5.5 billion in preferred stock over four quarters beginning in the second quarter of 2013, and continue the quarterly common stock dividend at $0.01 per share. During 2013, we repurchased and retired 231.7 million common shares for an aggregate purchase price of approximately $3.2 billion and redeemed our Series H and 8 preferred stock for $5.5 billion. As of December 31, 2013, under the capital plan, we can purchase up to $1.8 billion of additional common stock through the first quarter of 2014.

In addition to the CCAR actions, during 2013, we redeemed certain of our preferred stock for $1.0 billion and issued $1.0 billion of our Fixed-to-Floating Rate Semi-annual Non-Cumulative Preferred Stock, Series U. For additional information, see Capital Management – Regulatory Capital on page 65 and Note 13 – Shareholders' Equity to the Consolidated Financial Statements.

During 2013, we repurchased certain of our debt and trust preferred securities with an aggregate carrying value of $10.1 billion for $10.2 billion in cash.

We may conduct additional redemptions, tender offers, exercises and other transactions in the future depending on prevailing market conditions, capital, liquidity and other factors.

Selected Financial Data

Table 1 provides selected consolidated financial data for 2013 and 2012.

Table 1 Selected Financial Data

(Dollars in millions, except per share information)	2013	2012
Income statement		
Revenue, net of interest expense (FTE basis) [1]	$89,801	$84,235
Net income	11,431	4,188
Diluted earnings per common share	0.90	0.25
Dividends paid per common share	0.04	0.04
Performance ratios		
Return on average assets	0.53 %	0.19 %
Return on average tangible shareholders' equity [1]	7.13	2.60
Efficiency ratio (FTE basis) [1]	77.07	85.59
Asset quality		
Allowance for loan and lease losses at December 31	$17,428	$24,179
Allowance for loan and lease losses as a percentage of total loans and leases outstanding at December 31 [2]	1.90 %	2.69 %
Nonperforming loans, leases and foreclosed properties at December 31 [2]	$17,772	$23,555
Net charge-offs [3]	7,897	14,908
Net charge-offs as a percentage of average loans and leases outstanding [2, 3]	0.87 %	1.67 %
Net charge-offs as a percentage of average loans and leases outstanding, excluding the purchased credit-impaired loan portfolio [2]	0.90	1.73
Net charge-offs and purchased credit-impaired write-offs as a percentage of average loans and leases outstanding [2]	1.13	1.99
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs [3]	2.21	1.62
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs, excluding the purchased credit-impaired loan portfolio	1.89	1.25
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs and purchased credit-impaired write-offs	1.70	1.36
Balance sheet at year end		
Total loans and leases	$928,233	$907,819
Total assets	2,102,273	2,209,974
Total deposits	1,119,271	1,105,261
Total common shareholders' equity	219,333	218,188
Total shareholders' equity	232,685	236,956
Capital ratios at year end [4]		
Tier 1 common capital	11.19 %	11.06 %
Tier 1 capital	12.44	12.89
Total capital	15.44	16.31
Tier 1 leverage	7.86	7.37

(1) Fully taxable-equivalent (FTE) basis, return on average tangible shareholders' equity and the efficiency ratio are non-GAAP financial measures. Other companies may define or calculate these measures differently. For more information, see Supplemental Financial Data on page 33, and for corresponding reconciliations to GAAP financial measures, see Statistical Table XV.

(2) Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions from nonperforming loans, leases and foreclosed properties, see Consumer Portfolio Credit Risk Management – Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity on page 89 and corresponding Table 41, and Commercial Portfolio Credit Risk Management – Nonperforming Commercial Loans, Leases and Foreclosed

Properties Activity on page 96 and corresponding Table 50.

(3) Net charge-offs exclude $2.3 billion of write-offs in the purchased credit-impaired loan portfolio for 2013 compared to $2.8 billion for 2012. These write-offs decreased the purchased credit-impaired valuation allowance included as part of the allowance for loan and lease losses. For more information on purchased credit-impaired write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 85.

(4) Presents capital ratios in accordance with the Basel 1 – 2013 Rules, which include the Market Risk Final Rule at December 31, 2013. Basel 1 did not include the Basel 1 – 2013 Rules at December 31, 2012.

Financial Highlights

Net income was $11.4 billion, or $0.90 per diluted share in 2013 compared to $4.2 billion, or $0.25 per diluted share in 2012. The results for 2013 reflect our efforts to stabilize revenue, decrease costs, strengthen the balance sheet and improve credit quality.

Table 2 Summary Income Statement

(Dollars in millions)	2013	2012
Net interest income (FTE basis) [(1)]	$43,124	$41,557
Noninterest income	46,677	42,678
Total revenue, net of interest expense (FTE basis) [(1)]	89,801	84,235
Provision for credit losses	3,556	8,169
Noninterest expense	69,214	72,093
Income before income taxes	17,031	3,973
Income tax expense (benefit) (FTE basis) [(1)]	5,600	(215)
Net income	11,431	4,188
Preferred stock dividends	1,349	1,428
Net income applicable to common shareholders	$10,082	$2,760
Per common share information		
Earnings	$0.94	$0.26
Diluted earnings	0.90	0.25

(1) FTE basis is a non-GAAP financial measure. For more information on this measure, see Supplemental Financial Data on page 33, and for a corresponding reconciliation to GAAP financial measures, see Statistical Table XV.

Net Interest Income

Net interest income on a fully taxable-equivalent (FTE) basis increased $1.6 billion to $43.1 billion for 2013 compared to 2012. The increase was primarily due to reductions in long-term debt balances, higher yields on debt securities including the impact of market-related premium amortization expense, lower rates paid on deposits, higher commercial loan balances and increased trading-related net interest income, partially offset by lower consumer loan balances as well as lower asset yields and the low rate environment. The net interest yield on a FTE basis increased 12 basis points (bps) to 2.47 percent for 2013 compared to 2012 due to the same factors as described above.

Noninterest Income

Table 3 Noninterest Income

(Dollars in millions)	2013	2012
Card income	$5,826	$6,121
Service charges	7,390	7,600
Investment and brokerage services	12,282	11,393
Investment banking income	6,126	5,299
Equity investment income	2,901	2,070
Trading account profits	7,056	5,870
Mortgage banking income	3,874	4,750
Gains on sales of debt securities	1,271	1,662
Other loss	(29)	(2,034)
Net impairment losses recognized in earnings on AFS debt securities	(20)	(53)
Total noninterest income	$46,677	$42,678

Noninterest income increased $4.0 billion to $46.7 billion for 2013 compared to 2012. The following highlights the significant changes.

Card income decreased $295 million primarily driven by lower revenue as a result of our exit of consumer protection products.

Investment and brokerage services income increased $889 million primarily driven by the impact of long-term assets under management (AUM) inflows and higher market levels.

Investment banking income increased $827 million primarily due to strong equity issuance fees attributable to a significant increase in global equity capital markets volume and higher debt issuance fees, primarily within leveraged finance and investment-grade underwriting.

Equity investment income increased $831 million. The results for 2013 included $753 million of gains related to the sale of our remaining investment in China Construction Bank Corporation (CCB) and gains of $1.4 billion on the sales of a portion of an equity investment. The results for 2012 included $1.6 billion of gains related to sales of certain equity and strategic investments.

Trading account profits increased $1.2 billion. Net debit valuation adjustment (DVA) losses on derivatives were $508 million in 2013 compared to losses of $2.5 billion in 2012. Excluding net DVA, trading account profits decreased $783 million due to decreases in our fixed-income, currency and commodities (FICC) businesses driven by a challenging trading environment, partially offset by an increase in our equities businesses.

Mortgage banking income decreased $876 million primarily driven by lower servicing income and lower core production revenue, partially offset by lower representations and warranties provision.

Other loss decreased $2.0 billion due to lower negative fair value adjustments on our structured liabilities of $649 million compared to negative fair value adjustments of $5.1 billion in 2012. The prior year included gains of $1.6 billion related to debt repurchases and exchanges of trust preferred securities.

Provision for Credit Losses

The provision for credit losses decreased $4.6 billion to $3.6 billion for 2013 compared to 2012. The provision for credit losses was $4.3 billion lower than net charge-offs for 2013, resulting in a reduction in the allowance for credit losses due to continued improvement in the home loans and credit card portfolios. This compared to a reduction of $6.7 billion in the allowance for credit losses for the prior year. If the economy and our asset quality continue to improve, we anticipate additional reductions in the allowance for credit losses in future periods, although at a significantly lower level than in 2013.

Net charge-offs totaled $7.9 billion, or 0.87 percent of average loans and leases for 2013 compared to $14.9 billion, or 1.67 percent for 2012. The decrease in net charge-offs was primarily driven by credit quality improvement across all major portfolios. Also, the prior year included charge-offs associated with the National Mortgage Settlement and loans discharged in Chapter 7 bankruptcy due to the implementation of regulatory guidance. Given improving trends in delinquencies and the Home Price Index, absent any unexpected changes in the economy, we expect net charge-offs to continue to improve in 2014, but at a slower pace than 2013. For more information on the provision for credit losses, see Provision for Credit Losses on page 104.

Noninterest Expense

Table 4 Noninterest Expense

(Dollars in millions)	2013	2012
Personnel	$34,719	$35,648
Occupancy	4,475	4,570
Equipment	2,146	2,269
Marketing	1,834	1,873
Professional fees	2,884	3,574
Amortization of intangibles	1,086	1,264
Data processing	3,170	2,961
Telecommunications	1,593	1,660
Other general operating	17,307	18,274
Total noninterest expense	$69,214	$72,093

Noninterest expense decreased $2.9 billion to $69.2 billion for 2013 compared to 2012 primarily driven by a $967 million decline in other general operating expense largely due to a provision of $1.1 billion in 2012 for the 2013 Independent Foreclosure Review (IFR) Acceleration Agreement, lower Federal Deposit Insurance Corporation (FDIC) expense, and lower default-related servicing expenses in Legacy Assets & Servicing and mortgage-related assessments, waivers and similar costs related to foreclosure delays. Partially offsetting these declines was a $1.9 billion increase in litigation expense to $6.1 billion in 2013. Personnel expense decreased $929 million in 2013 as we continued to streamline processes and achieve cost savings. Professional fees decreased $690 million due in part to reduced default-related management activities in Legacy Assets & Servicing.

In connection with Project New BAC, which was first announced in the third quarter of 2011, we continue to achieve cost savings in certain noninterest expense categories as we further streamline workflows, simplify processes and align expenses with our overall strategic plan and operating principles. We expect total cost savings from Project New BAC, since inception of the project, to reach $8 billion on an annualized basis, or $2 billion per quarter, by mid-2015, of which approximately $1.5 billion per quarter has been realized.

Income Tax Expense

Table 5 Income Tax Expense

(Dollars in millions)	2013	2012
Income before income taxes	$16,172	$3,072
Income tax expense (benefit)	4,741	(1,116)
Effective tax rate	29.3 %	(36.3)%

The effective tax rate for 2013 was driven by our recurring tax preference items and by certain tax benefits related to non-U.S. operations, including additional tax benefits from the 2012 non-U.S. restructurings. These benefits were partially offset by the $1.1 billion impact of the U.K. 2013 Finance Act enacted on July 17, 2013, which reduced the U.K. corporate income tax rate by three percent to 20 percent. Two percent of the reduction will become effective April 1, 2014 and the additional one percent reduction on April 1, 2015. These reductions, which represented the final in a series of announced reductions, are expected to favorably affect income tax expense on future U.K. earnings but also required us to remeasure, in the period of enactment, our U.K. net deferred tax assets using the lower tax rates. Because our deferred tax assets in excess of a certain amount are disallowed in calculating regulatory capital, this charge did not impact our capital ratios.

The negative effective tax rate for 2012 included a $1.7 billion tax benefit attributable to the excess of foreign tax credits recognized in the U.S. upon repatriation of the earnings of certain subsidiaries over the related U.S. tax liability. Partially offsetting the benefit was the $788 million impact of the U.K. 2012 Finance Act enacted in July 2012, which reduced the U.K. corporate income tax rate by two percent.

Balance Sheet Overview

Table 6 Selected Balance Sheet Data

	December 31			Average Balance		
(Dollars in millions)	2013	2012	% Change	2013	2012	% Change
Assets						
Federal funds sold and securities borrowed or purchased under agreements to resell	$190,328	$219,924	(13)%	$224,331	$236,042	(5)%
Trading account assets	200,993	227,775	(12)	217,865	203,799	7
Debt securities	323,945	360,331	(10)	337,953	353,577	(4)
Loans and leases	928,233	907,819	2	918,641	898,768	2
Allowance for loan and lease losses	(17,428)	(24,179)	(28)	(21,188)	(29,843)	(29)
All other assets	476,202	518,304	(8)	485,911	529,013	(8)
Total assets	$2,102,273	$2,209,974	(5)	$2,163,513	$2,191,356	(1)
Liabilities						
Deposits	$1,119,271	$1,105,261	1	$1,089,735	$1,047,782	4
Federal funds purchased and securities loaned or sold under agreements to repurchase	198,106	293,259	(32)	257,601	281,900	(9)
Trading account liabilities	83,469	73,587	13	88,323	78,554	12
Short-term borrowings	45,999	30,731	50	43,816	36,500	20
Long-term debt	249,674	275,585	(9)	263,416	316,393	(17)
All other liabilities	173,069	194,595	(11)	186,675	194,550	(4)
Total liabilities	1,869,588	1,973,018	(5)	1,929,566	1,955,679	(1)
Shareholders' equity	232,685	236,956	(2)	233,947	235,677	(1)
Total liabilities and shareholders' equity	$2,102,273	$2,209,974	(5)	$2,163,513	$2,191,356	(1)

Year-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities, primarily involving our portfolios of highly liquid assets. These portfolios are designed to ensure the adequacy of capital while enhancing our ability to manage liquidity requirements for the Corporation and our customers, and to position the balance sheet in accordance with the Corporation's risk appetite. The execution of these activities requires the use of balance sheet and capital-related limits including spot, average and risk-weighted asset limits, particularly within the market-making activities of our trading businesses. One of our key regulatory metrics, Tier 1 leverage ratio, is calculated based on adjusted quarterly average total assets.

Assets

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

Federal funds transactions involve lending reserve balances on a short-term basis. Securities borrowed or purchased under agreements to resell are collateralized lending transactions utilized to accommodate customer transactions, earn interest rate spreads, and obtain securities for settlement and for collateral. Year-end and average federal funds sold and securities borrowed or purchased under agreements to resell decreased $29.6 billion from December 31, 2012 and $11.7 billion in 2013 compared to 2012 driven by a lower matched-book as we adjust our activity to address the adverse treatment of reverse repurchase agreements under the proposed supplementary leverage ratio.

Trading Account Assets

Trading account assets consist primarily of long positions in equity and fixed-income securities including U.S. government and agency securities, corporate securities, and non-U.S. sovereign debt. Year-end trading account assets decreased $26.8 billion primarily due to a reduction in U.S. government and agency securities. Average trading account assets increased $14.1 billion primarily due to higher equity securities inventory and client-based activity.

Debt Securities

Debt securities primarily include U.S. Treasury and agency securities, MBS, principally agency MBS, foreign bonds, corporate bonds and municipal debt. We use the debt securities portfolio primarily to manage interest rate and liquidity risk and to take advantage of market conditions that create more economically attractive returns on these investments. Year-end and average debt securities decreased $36.4 billion and $15.6 billion primarily due to net sales of U.S. Treasuries, paydowns and decreases in the fair value of available-for-sale (AFS) debt securities resulting from the impact of higher interest rates. For more information on debt securities, see Note 3 – Securities to the Consolidated Financial Statements.

Loans and Leases

Year-end and average loans and leases increased $20.4 billion and $19.9 billion. The increases were primarily due to higher commercial loan balances primarily in the U.S. commercial and non-U.S. commercial product types, partially offset by lower consumer loan balances driven by continued runoff in certain portfolios as well as paydowns and charge-offs outpacing originations. For a more detailed discussion of the loan portfolio, see Credit Risk Management on page 76.

Allowance for Loan and Lease Losses

Year-end and average allowance for loan and lease losses decreased $6.8 billion and $8.7 billion primarily due to the impact of the improving economy, partially offset by increases in reserves in the commercial portfolio due to loan growth. For a more detailed discussion, see Allowance for Credit Losses on page 104.

All Other Assets
Year-end other assets decreased $42.1 billion driven by lower customer and other receivables, other earning assets, loans held-for-sale and derivative assets, partially offset by increases in cash and cash equivalents. Average other assets decreased $43.1 billion primarily driven by lower derivative assets, other earning assets, and cash and cash equivalents.
Liabilities
Deposits
Year-end and average deposits increased $14.0 billion from December 31, 2012 and $42.0 billion in 2013 compared to 2012. The increases were primarily driven by customer and client shifts to more liquid products in the low rate environment.
Federal Funds Purchased and Securities Loaned or Sold Under Agreements to Repurchase
Federal funds transactions involve borrowing reserve balances on a short-term basis. Securities loaned or sold under agreements to repurchase are collateralized borrowing transactions utilized to accommodate customer transactions, earn interest rate spreads and finance assets on the balance sheet. Year-end federal funds purchased and securities loaned or sold under agreements to repurchase decreased $95.2 billion primarily driven by a lower matched-book as we adjust our activity to address the adverse treatment of repurchase agreements under the proposed supplementary leverage ratio and lower trading inventory. Average federal funds purchased and securities loaned or sold under agreements to repurchase decreased $24.3 billion due to lower matched-book activity.
Trading Account Liabilities
Trading account liabilities consist primarily of short positions in equity and fixed-income securities including U.S. government and agency securities, corporate securities, and non-U.S. sovereign debt. Year-end and average trading account liabilities increased $9.9 billion and $9.8 billion primarily due to increased short positions in equity securities.
Short-term Borrowings
Short-term borrowings provide an additional funding source and primarily consist of Federal Home Loan Bank (FHLB) short-term borrowings, notes payable and various other borrowings that generally have maturities of one year or less. Year-end and average short-term borrowings increased $15.3 billion and $7.3 billion due to an increase in short-term FHLB advances. For more information on short-term borrowings, see Note 10 – Federal Funds Sold or Purchased, Securities Financing Agreements and Short-term Borrowings to the Consolidated Financial Statements.
Long-term Debt
Year-end and average long-term debt decreased $25.9 billion and $53.0 billion. The decreases were attributable to planned reductions in long-term debt as maturities outpaced new issuances. For more information on long-term debt, see Note 11 – Long-term Debt to the Consolidated Financial Statements.

All Other Liabilities
Year-end all other liabilities decreased $21.5 billion driven by decreases in noninterest payables and derivative liabilities. Average all other liabilities decreased $7.9 billion driven by a decrease in derivative liabilities.
Shareholders' Equity
Year-end and average shareholders' equity decreased $4.3 billion and $1.7 billion. The decreases were driven by a decrease in the fair value of AFS debt securities resulting from the impact of higher interest rates, which is recorded in accumulated other comprehensive income (OCI), net preferred stock redemptions and common stock repurchases, partially offset by earnings.
Cash Flows Overview
The Corporation's operating assets and liabilities support our global markets and lending activities. We believe that cash flows from operations, available cash balances and our ability to generate cash through short- and long-term debt are sufficient to fund our operating liquidity needs. Our investing activities primarily include the debt securities portfolio and other short-term investments. Our financing activities reflect cash flows primarily related to increased customer deposits and net long-term debt reductions.
Cash and cash equivalents increased $20.6 billion during 2013 due to net cash provided by operating and investing activities, partially offset by net cash used in financing activities. Cash and cash equivalents decreased $9.4 billion during 2012 due to net cash used in operating and investing activities, partially offset by net cash provided by

financing activities.
During 2013, net cash provided by operating activities was $92.8 billion. The more significant adjustments to net income to arrive at cash used in operating activities included net decreases in other assets, and trading and derivative instruments, as well as net proceeds from sales, securitizations and paydowns of loans held-for-sale (LHFS). During 2012, net cash used in operating activities was $16.1 billion. The more significant adjustments to net income to arrive at cash used in operating activities included net increases in trading and derivative instruments, and the provision for credit losses.
During 2013, net cash provided by investing activities was $25.1 billion primarily driven by a decrease in federal funds sold and securities borrowed or purchased under agreements to resell and net sales of debt securities, partially offset by net increases in loans and leases. During 2012, net cash used in investing activities was $35.0 billion, primarily driven by net purchases of debt securities.
During 2013, net cash used in financing activities of $95.4 billion primarily reflected a decrease in federal funds purchased and securities loaned or sold under agreements to repurchase and net reductions in long-term debt, partially offset by growth in short-term borrowings and deposits. During 2012, the net cash provided by financing activities of $42.4 billion primarily reflected an increase in federal funds purchased and securities loaned or sold under agreements to repurchase and growth in deposits, partially offset by planned reductions in long-term debt.

Table 7 Five-year Summary of Selected Financial Data

(In millions, except per share information)	2013	2012	2011	2010	2009
Income statement					
Net interest income	$42,265	$40,656	$44,616	$51,523	$47,109
Noninterest income	46,677	42,678	48,838	58,697	72,534
Total revenue, net of interest expense	88,942	83,334	93,454	110,220	119,643
Provision for credit losses	3,556	8,169	13,410	28,435	48,570
Goodwill impairment	—	—	3,184	12,400	—
Merger and restructuring charges	—	—	638	1,820	2,721
All other noninterest expense [1]	69,214	72,093	76,452	68,888	63,992
Income (loss) before income taxes	16,172	3,072	(230)	(1,323)	4,360
Income tax expense (benefit)	4,741	(1,116)	(1,676)	915	(1,916)
Net income (loss)	11,431	4,188	1,446	(2,238)	6,276
Net income (loss) applicable to common shareholders	10,082	2,760	85	(3,595)	(2,204)
Average common shares issued and outstanding	10,731	10,746	10,143	9,790	7,729
Average diluted common shares issued and outstanding [2]	11,491	10,841	10,255	9,790	7,729
Performance ratios					
Return on average assets	0.53 %	0.19 %	0.06 %	n/m	0.26 %
Return on average common shareholders' equity	4.62	1.27	0.04	n/m	n/m
Return on average tangible common shareholders' equity [3]	6.97	1.94	0.06	n/m	n/m
Return on average tangible shareholders' equity[3]	7.13	2.60	0.96	n/m	4.18
Total ending equity to total ending assets	11.07	10.72	10.81	10.08 %	10.38
Total average equity to total average assets	10.81	10.75	9.98	9.56	10.01
Dividend payout	4.25	15.86	n/m	n/m	n/m
Per common share data					
Earnings (loss)	$0.94	$0.26	$0.01	$(0.37)	$(0.29)
Diluted earnings (loss) [2]	0.90	0.25	0.01	(0.37)	(0.29)
Dividends paid	0.04	0.04	0.04	0.04	0.04
Book value	20.71	20.24	20.09	20.99	21.48
Tangible book value [3]	13.79	13.36	12.95	12.98	11.94
Market price per share of common stock					
Closing	$15.57	$11.61	$5.56	$13.34	$15.06
High closing	15.88	11.61	15.25	19.48	18.59
Low closing	11.03	5.80	4.99	10.95	3.14
Market capitalization	$164,914	$125,136	$58,580	$134,536	$130,273

(1) Excludes merger and restructuring charges and goodwill impairment charges.

(2) Due to a net loss applicable to common shareholders for 2010 and 2009, the impact of antidilutive equity instruments was excluded from diluted earnings (loss) per share and average diluted common shares.

(3) Tangible equity ratios and tangible book value per share of common stock are non-GAAP financial measures. Other companies may define or calculate these measures differently. For more information on these ratios, see Supplemental Financial Data on page 33, and for corresponding reconciliations to GAAP financial measures, see Statistical Table XV on page 143.

(4) For more information on the impact of the purchased credit-impaired loan portfolio on asset quality, see Consumer Portfolio Credit Risk Management on page 77.

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

(6) Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions from nonperforming loans, leases and foreclosed properties, see Consumer Portfolio Credit Risk Management – Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity on page 89 and corresponding Table 41, and Commercial Portfolio Credit Risk Management – Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity on page 96 and corresponding Table 50.

(7) Primarily includes amounts allocated to the U.S. credit card and unsecured consumer lending portfolios in CBB, purchased credit-impaired loans and the non-U.S. credit card portfolio in All Other.

(8) Net charge-offs exclude $2.3 billion and $2.8 billion of write-offs in the purchased credit-impaired loan portfolio for 2013 and 2012. These write-offs decreased the purchased credit-impaired valuation allowance included as part of the allowance for loan and lease losses. For more information on purchased credit-impaired write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 85.

(9) There were no write-offs of PCI loans in 2011, 2010, and 2009.

(10) Presents capital ratios in accordance with the Basel 1 – 2013 Rules, which include the Market Risk Final Rule at December 31, 2013. Basel 1 did not include the Basel 1 – 2013 Rules at December 31, 2012.

n/m = not meaningful

Table 7 Five-year Summary of Selected Financial Data (continued)

(Dollars in millions)	2013	2012	2011	2010	2009
Average balance sheet					
Total loans and leases	$918,641	$898,768	$938,096	$958,331	$948,805
Total assets	2,163,513	2,191,356	2,296,322	2,439,606	2,443,068
Total deposits	1,089,735	1,047,782	1,035,802	988,586	980,966
Long-term debt	263,416	316,393	421,229	490,497	446,634
Common shareholders' equity	218,468	216,996	211,709	212,686	182,288
Total shareholders' equity	233,947	235,677	229,095	233,235	244,645
Asset quality [4]					
Allowance for credit losses [5]	$17,912	$24,692	$34,497	$43,073	$38,687
Nonperforming loans, leases and foreclosed properties [6]	17,772	23,555	27,708	32,664	35,747
Allowance for loan and lease losses as a percentage of total loans and leases outstanding [6]	1.90 %	2.69 %	3.68 %	4.47 %	4.16 %
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases [6]	102	107	135	136	111
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases, excluding the PCI loan portfolio [6]	87	82	101	116	99
Amounts included in allowance that are excluded from nonperforming loans and leases [7]	$7,680	$12,021	$17,490	$22,908	$17,690
Allowance as a percentage of total nonperforming loans and leases, excluding amounts included in the allowance that are excluded from nonperforming loans and leases [7]	57 %	54 %	65 %	62 %	58 %
Net charge-offs [8]	$7,897	$14,908	$20,833	$34,334	$33,688
Net charge-offs as a percentage of average loans and leases outstanding [6, 8]	0.87 %	1.67 %	2.24 %	3.60 %	3.58 %
Net charge-offs as a percentage of average loans and leases outstanding, excluding the PCI loan portfolio [6]	0.90	1.73	2.32	3.73	3.71
Net charge-offs and PCI write-offs as a percentage of average loans and leases outstanding [6, 9]	1.13	1.99	2.24	3.60	3.58
Nonperforming loans and leases as a percentage of total loans and leases outstanding [6]	1.87	2.52	2.74	3.27	3.75
Nonperforming loans, leases and foreclosed properties as a percentage of total loans, leases and foreclosed properties [6]	1.93	2.62	3.01	3.48	3.98
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs [8]	2.21	1.62	1.62	1.22	1.10
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs, excluding the PCI loan portfolio	1.89	1.25	1.22	1.04	1.00
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs and PCI write-offs [9]	1.70	1.36	1.62	1.22	1.10
Capital ratios at year end [10]					
Risk-based capital:					

Tier 1 common capital	11.19	%	11.06	%	9.86	%	8.60	%	7.81	%
Tier 1 capital	12.44		12.89		12.40		11.24		10.40	
Total capital	15.44		16.31		16.75		15.77		14.66	
Tier 1 leverage	7.86		7.37		7.53		7.21		6.88	
Tangible equity [3]	7.86		7.62		7.54		6.75		6.40	
Tangible common equity [3]	7.20		6.74		6.64		5.99		5.56	

For footnotes see page 31.

Supplemental Financial Data

We view net interest income and related ratios and analyses on a FTE basis, which when presented on a consolidated basis, are non-GAAP financial measures. We believe managing the business with net interest income on a FTE basis provides a more accurate picture of the interest margin for comparative purposes. To derive the FTE basis, net interest income is adjusted to reflect tax-exempt income on an equivalent before-tax basis with a corresponding increase in income tax expense. For purposes of this calculation, we use the federal statutory tax rate of 35 percent. This measure ensures comparability of net interest income arising from taxable and tax-exempt sources.

Certain performance measures including the efficiency ratio and net interest yield utilize net interest income (and thus total revenue) on a FTE basis. The efficiency ratio measures the costs expended to generate a dollar of revenue, and net interest yield measures the bps we earn over the cost of funds.

We also evaluate our business based on certain ratios that utilize tangible equity, a non-GAAP financial measure. Tangible equity represents an adjusted shareholders' equity or common shareholders' equity amount which has been reduced by goodwill and intangible assets (excluding mortgage servicing rights (MSRs)), net of related deferred tax liabilities. These measures are used to evaluate our use of equity. In addition, profitability, relationship and investment models all use return on average tangible shareholders' equity (ROTE) as key measures to support our overall growth goals. These ratios are as follows:

Return on average tangible common shareholders' equity measures our earnings contribution as a percentage of adjusted common shareholders' equity. The tangible common equity ratio represents adjusted ending common shareholders' equity divided by total assets less goodwill and intangible assets (excluding MSRs), net of related deferred tax liabilities.

ROTE measures our earnings contribution as a percentage of adjusted average total shareholders' equity. The tangible equity ratio represents adjusted ending shareholders' equity divided by total assets less goodwill and intangible assets (excluding MSRs), net of related deferred tax liabilities.

Tangible book value per common share represents adjusted ending common shareholders' equity divided by ending common shares outstanding.

The aforementioned supplemental data and performance measures are presented in Table 7 and Statistical Table XII. In addition, in Table 8, we have excluded the impact of goodwill impairment charges of $3.2 billion and $12.4 billion recorded in 2011 and 2010 when presenting certain of these metrics. Accordingly, these are non-GAAP financial measures.

We evaluate our business segment results based on measures that utilize return on average allocated capital, and prior to January 1, 2013, the return on average economic capital, both of which represent non-GAAP financial measures. These ratios are calculated as net income adjusted for cost of funds and earnings credits and certain expenses related to intangibles, divided by average allocated capital or average economic capital, as applicable. In addition, for purposes of goodwill impairment testing, the Corporation utilizes allocated equity as a proxy for the carrying value of its reporting units. Allocated equity for the business segments is comprised of allocated capital (or economic capital prior to 2013) plus capital for the portion of goodwill and intangibles specifically assigned to the business segment. For additional information, see Business Segment Operations on page 35 and Note 8 – Goodwill and Intangible Assets to the Consolidated Financial Statements.

In 2009, Common Equivalent Securities were reflected in our reconciliations given the expectation that the underlying Common Equivalent Junior Preferred Stock, Series S would convert into common stock following shareholder approval of additional authorized shares. Shareholders approved the increase in the number of authorized shares of common stock and the Common Equivalent Stock converted into common stock on February 24, 2010.

Statistical Tables XV, XVI and XVII on pages 143, 144 and 145 provide reconciliations of these non-GAAP financial measures to GAAP financial measures. We believe the use of these non-GAAP financial measures provides additional clarity in assessing the results of the Corporation and our segments. Other companies may define or calculate these measures and ratios differently.

Table 8 Five-year Supplemental Financial Data

(Dollars in millions, except per share information)	2013	2012	2011	2010	2009
Fully taxable-equivalent basis data					
Net interest income [1]	$43,124	$41,557	$45,588	$52,693	$48,410
Total revenue, net of interest expense	89,801	84,235	94,426	111,390	120,944
Net interest yield [1]	2.47 %	2.35 %	2.48 %	2.78 %	2.65 %
Efficiency ratio	77.07	85.59	85.01	74.61	55.16
Performance ratios, excluding goodwill impairment charges [2]					
Per common share information					
Earnings			$0.32	$0.87	
Diluted earnings			0.32	0.86	
Efficiency ratio (FTE basis)			81.64 %	63.48 %	
Return on average assets			0.20	0.42	
Return on average common shareholders' equity			1.54	4.14	
Return on average tangible common shareholders' equity			2.46	7.03	
Return on average tangible shareholders' equity			3.08	7.11	

(1) Net interest income and net interest yield include fees earned on overnight deposits placed with the Federal Reserve and fees earned on deposits, primarily overnight, placed with certain non-U.S. central banks.

(2) Performance ratios are calculated excluding the impact of goodwill impairment charges of $3.2 billion and $12.4 billion recorded in 2011 and 2010.

Net Interest Income Excluding Trading-related Net Interest Income

We manage net interest income on a FTE basis and excluding the impact of trading-related activities. As discussed in Global Markets on page 48, we evaluate our sales and trading results and strategies on a total market-based revenue approach by combining net interest income and noninterest income for Global Markets. An analysis of net interest income, average earning assets and net interest yield on earning assets, all of which adjust for the impact of trading-related net interest income from reported net interest income on a FTE basis, is shown below. We believe the use of this non-GAAP presentation in Table 9 provides additional clarity in assessing our results.

Table 9 Net Interest Income Excluding Trading-related Net Interest Income

(Dollars in millions)	2013	2012
Net interest income (FTE basis)		
As reported [(1)]	$43,124	$41,557
Impact of trading-related net interest income	(3,868)	(3,308)
Net interest income excluding trading-related net interest income [(2)]	$39,256	$38,249
Average earning assets		
As reported	$1,746,974	$1,769,969
Impact of trading-related earning assets	(469,048)	(449,660)
Average earning assets excluding trading-related earning assets [(2)]	$1,277,926	$1,320,309
Net interest yield contribution (FTE basis)		
As reported [(1)]	2.47 %	2.35 %
Impact of trading-related activities	0.60	0.55
Net interest yield on earning assets excluding trading-related activities [(2)]	3.07 %	2.90 %

(1) Net interest income and net interest yield include fees earned on overnight deposits placed with the Federal Reserve and fees earned on deposits, primarily overnight, placed with certain non-U.S. central banks.

(2) Represents a non-GAAP financial measure.

Net interest income excluding trading-related net interest income increased $1.0 billion to $39.3 billion for 2013 compared to 2012. The increase was primarily due to reductions in long-term debt balances and yields, market-related premium amortization expense due to an increase in long-end rates, and lower rates paid on deposits, partially offset by lower consumer loan balances and yields as well as lower net interest income from the discretionary asset and liability management (ALM) portfolio. For more information on the impacts of interest rates, see Interest Rate Risk Management for Nontrading Activities on page 113.

Average earning assets excluding trading-related earning assets decreased $42.4 billion to $1,277.9 billion, or three percent, for 2013 compared to 2012. The decrease was primarily due to declines in consumer loans, debt securities and other earning assets, partially offset by an increase in commercial loans.

Net interest yield on earning assets excluding trading-related activities increased 17 bps to 3.07 percent for 2013 compared to 2012 due to the same factors as described above.

Business Segment Operations

Segment Description and Basis of Presentation

We report the results of our operations through five business segments: CBB, CRES, GWIM, Global Banking and Global Markets, with the remaining operations recorded in All Other. The primary activities, products or businesses of the business segments and All Other are shown below. For additional detailed information, see the business segment and All Other discussions which follow.

We prepare and evaluate segment results using certain non-GAAP financial measures. For additional information, see Supplemental Financial Data on page 33. Table 10 provides selected summary financial data for our business segments and All Other for 2013 compared to 2012.

Table 10 Business Segment Results

	Total Revenue [1]		Provision for Credit Losses		Noninterest Expense		Net Income (Loss)	
(Dollars in millions)	2013	2012	2013	2012	2013	2012	2013	2012
Consumer & Business Banking	$29,867	$29,790	$3,107	$4,148	$16,357	$16,995	$6,588	$5,546
Consumer Real Estate Services	7,716	8,751	(156)	1,442	16,013	17,190	(5,155)	(6,439)
Global Wealth & Investment Management	17,790	16,518	56	266	13,038	12,721	2,974	2,245
Global Banking	16,481	15,674	1,075	(342)	7,552	7,619	4,974	5,344
Global Markets	16,058	14,284	140	34	12,013	11,295	1,563	1,229
All Other	1,889	(782)	(666)	2,621	4,241	6,273	487	(3,737)
Total FTE basis	89,801	84,235	3,556	8,169	69,214	72,093	11,431	4,188
FTE adjustment	(859)	(901)	—	—	—	—	—	—
Total Consolidated	$88,942	$83,334	$3,556	$8,169	$69,214	$72,093	$11,431	$4,188

(1) Total revenue is net of interest expense and is on a FTE basis which for consolidated revenue is a non-GAAP financial measure. For more information on this measure, see Supplemental Financial Data on page 33, and for a corresponding reconciliation to a GAAP financial measure, see Statistical Table XV.

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

Total revenue, net of interest expense, includes net interest income on a FTE basis and noninterest income. The adjustment of net interest income to a FTE basis results in a corresponding increase in income tax expense. The segment results also reflect certain revenue and expense methodologies that are utilized to determine net income. The net interest income of the businesses includes the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics. For presentation purposes, in segments where the total of liabilities and equity exceeds assets, which are generally deposit-taking segments, we allocate assets to match liabilities. Net interest income of the business segments also includes an allocation of net interest income generated by certain of our ALM activities.

Our ALM activities include an overall interest rate risk management strategy that incorporates the use of various derivatives and cash instruments to manage fluctuations in earnings and capital that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect earnings and capital. The results of a majority of our ALM activities are allocated to the business segments and fluctuate based on the performance of the ALM activities. ALM activities include external product pricing decisions including deposit pricing strategies, the effects of our internal funds transfer pricing process and the net effects of other ALM activities.

Certain expenses not directly attributable to a specific business segment are allocated to the segments. The most significant of these expenses include data and item processing costs and

certain centralized or shared functions. Data processing costs are allocated to the segments based on equipment usage. Item processing costs are allocated to the segments based on the volume of items processed for each segment. The costs of certain other centralized or shared functions are allocated based on methodologies that reflect utilization.

Effective January 1, 2013, on a prospective basis, we adjusted the amount of capital being allocated to our business segments. The adjustment reflected a refinement to the prior-year methodology (economic capital) which focused solely on internal risk-based economic capital models. The refined methodology (allocated capital) now also considers the effect of regulatory capital requirements in addition to internal risk-based economic capital models. The Corporation's internal risk-based capital models use a risk-adjusted methodology incorporating each segment's credit, market, interest rate, business and operational risk components. For more information on the nature of these risks, see Managing Risk on page 61 and Strategic Risk Management on page 65. The capital allocated to the business segments is currently referred to as allocated capital and, prior to January 1, 2013, was referred to as economic capital, both of which represent non-GAAP financial measures. For purposes of goodwill impairment testing, the Corporation utilizes allocated equity as a proxy for the carrying value of its reporting units. For additional information, see Note 8 – Goodwill and Intangible Assets to the Consolidated Financial Statements.

Allocated capital is subject to change over time, and as part of our normal annual planning process, the capital being allocated to our business segments is expected to change in the first quarter of 2014. We expect that this change will result in a reduction of unallocated tangible capital and an aggregate increase to the amount of capital being allocated to the business segments.

For more information on the business segments and reconciliations to consolidated total revenue, net income (loss) and year-end total assets, see Note 24 – Business Segment Information to the Consolidated Financial Statements.

Consumer & Business Banking

	Deposits		Consumer Lending		Total Consumer & Business Banking		
(Dollars in millions)	2013	2012	2013	2012	2013	2012	% Change
Net interest income (FTE basis)	$9,808	$9,046	$10,243	$10,807	$20,051	$19,853	1 %
Noninterest income:							
Card income	60	62	4,744	5,253	4,804	5,315	(10)
Service charges	4,208	4,277	—	—	4,208	4,277	(2)
All other income (loss)	509	397	295	(52)	804	345	133
Total noninterest income	4,777	4,736	5,039	5,201	9,816	9,937	(1)
Total revenue, net of interest expense (FTE basis)	14,585	13,782	15,282	16,008	29,867	29,790	—
Provision for credit losses	299	488	2,808	3,660	3,107	4,148	(25)
Noninterest expense	10,927	11,310	5,430	5,685	16,357	16,995	(4)
Income before income taxes	3,359	1,984	7,044	6,663	10,403	8,647	20
Income tax expense (FTE basis)	1,232	723	2,583	2,378	3,815	3,101	23
Net income	$2,127	$1,261	$4,461	$4,285	$6,588	$5,546	19
Net interest yield (FTE basis)	1.88 %	1.90 %	7.18 %	7.18 %	3.72 %	4.04 %	
Return on average allocated capital (1)	13.82	—	30.60	—	21.98	—	
Return on average economic capital (1)	—	9.72	—	38.83	—	23.12	
Efficiency ratio (FTE basis)	74.92	82.07	35.53	35.51	54.76	57.05	
Balance Sheet							
Average							
Total loans and leases	$22,437	$23,369	$142,133	$149,667	$164,570	$173,036	(5)
Total earning assets (2)	522,870	477,142	142,725	150,515	539,213	491,767	10
Total assets (2)	555,653	510,384	151,443	158,333	580,714	532,827	9
Total deposits	518,470	474,822	n/m	n/m	518,980	475,180	9
Allocated capital (1)	15,400	—	14,600	—	30,000	—	n/m
Economic capital (1)	—	12,985	—	11,066	—	24,051	n/m
Year end							
Total loans and leases	$22,574	$22,907	$142,516	$146,359	$165,090	$169,266	(2)
Total earning assets (2)	534,946	498,147	143,917	146,809	550,610	513,109	7
Total assets (2)	567,837	531,354	153,394	155,408	592,978	554,915	7
Total deposits	530,947	495,711	n/m	n/m	531,707	496,159	7

(1) Effective January 1, 2013, we revised, on a prospective basis, the methodology for allocating capital to the business segments. In connection with the change in methodology, we updated the applicable terminology in the above table to allocated capital from economic capital as reported in prior periods. For additional information, see Business Segment Operations on page 35.

(2)

For presentation purposes, in segments and businesses where the total of liabilities and equity exceeds assets, we allocate assets from All Other to match the segments' and businesses' liabilities and allocated shareholders' equity. As a result, total earning assets and total assets of the businesses may not equal total CBB.

n/m = not meaningful

CBB, which is comprised of Deposits and Consumer Lending, offers a diversified range of credit, banking and investment products and services to consumers and businesses. Our customers and clients have access to a franchise network that stretches coast to coast through 31 states and the District of Columbia. The franchise network includes approximately 5,100 banking centers, 16,300 ATMs, nationwide call centers, and online and mobile platforms. During 2013, Business Banking results were moved into Deposits as we continue to integrate these businesses. Also during 2013, consumer Dealer Financial Services (DFS) results were moved into CBB from Global Banking to align this business more closely with our consumer lending activity and better serve the needs of our customers. As a result, Card Services was renamed Consumer Lending. Prior periods were reclassified to conform to current period presentation.

CBB Results

Net income for CBB increased $1.0 billion to $6.6 billion in 2013 compared to 2012 primarily driven by lower provision for credit losses and noninterest expense. Net interest income of $20.1 billion remained relatively unchanged as the impact of higher deposit balances was offset by the impact of lower average loan balances. Noninterest income of $9.8 billion remained relatively unchanged as the allocation of certain card revenue to GWIM for clients with a credit card, as described below, and lower deposit service charges were offset by the net impact of consumer protection products, primarily due to charges recorded in 2012.

The provision for credit losses decreased $1.0 billion to $3.1 billion in 2013 primarily as a result of improvements in credit quality. Noninterest expense decreased $638 million to $16.4 billion driven by lower operating, personnel and FDIC expenses.

Deposits

Deposits includes the results of consumer deposit activities which consist of a comprehensive range of products provided to consumers and small businesses. Our deposit products include traditional savings accounts, money market savings accounts, CDs and IRAs, noninterest- and interest-bearing checking accounts, as well as investment accounts and products. The revenue is allocated to the deposit products using our funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics. Deposits generates fees such as account service fees, non-sufficient funds fees, overdraft charges and ATM fees, as well as investment and brokerage fees from Merrill Edge accounts. Merrill Edge is an integrated investing and banking service targeted at customers with less than $250,000 in investable assets. Merrill Edge provides investment advice and guidance, client brokerage asset services, a self-directed online investing platform and key banking capabilities including access to the Corporation's network of banking centers and ATMs.

Business Banking within Deposits provides a wide range of lending-related products and services, integrated working capital management and treasury solutions to clients through our network of offices and client relationship teams along with various product partners. Our clients include U.S.-based companies generally with annual sales of $1 million to $50 million. Our lending products and services include commercial loans, lines of credit and real estate lending. Our capital management and treasury solutions include treasury management, foreign exchange and short-term investing options. Deposits also includes the results of our merchant services joint venture.

Deposits includes the net impact of migrating customers and their related deposit balances between Deposits and GWIM as well as other client-managed businesses. For more information on the migration of customer balances to or from GWIM, see GWIM on page 44.

Net income for Deposits increased $866 million to $2.1 billion in 2013 driven by higher revenue, a decrease in noninterest expense and lower provision for credit losses. Net interest income increased $762 million to $9.8 billion driven by the impact of higher deposit balances, a customer shift to higher spread liquid products and continued pricing discipline, partially offset by compressed deposit spreads due to the continued low rate environment. Noninterest income of $4.8 billion remained relatively unchanged.

The provision for credit losses decreased $189 million to $299 million in 2013 due to improvements in credit quality in Business Banking. Noninterest expense decreased $383 million to $10.9 billion due to lower operating, personnel and FDIC expenses.

Average loans decreased $932 million to $22.4 billion in 2013 primarily driven by continued run-off of non-core portfolios. Average deposits increased $43.6 billion to $518.5 billion in 2013 driven by a customer shift to more liquid products in the low rate environment. Additionally, $15.5 billion of the increase in average deposits was due to net transfers from other businesses, largely GWIM. Growth in checking, traditional savings and money market savings of $49.5 billion was partially offset by a decline in time deposits of $5.9 billion. As a result of our continued pricing discipline and the shift in the mix of deposits, the rate paid on average deposits declined by seven bps to 11 bps.

Key Statistics

	2013	2012
Total deposit spreads (excludes noninterest costs)	1.52 %	1.81 %
Year end		
Client brokerage assets (in millions)	$96,048	$75,946
Online banking active accounts (units in thousands)	29,950	29,638
Mobile banking active accounts (units in thousands)	14,395	12,013
Banking centers	5,151	5,478
ATMs	16,259	16,347

Client brokerage assets increased $20.1 billion in 2013 driven by market valuations and increased account flows. Mobile banking customers increased 2.4 million reflecting continuing changes in our customers' banking preferences. The number of banking centers declined 327 and ATMs declined 88 as we continue to optimize our consumer banking

network and improve our cost-to-serve.
Consumer Lending
Consumer Lending is one of the leading issuers of credit and debit cards to consumers and small businesses in the U.S. Our lending products and services also include direct and indirect consumer loans such as automotive, marine, aircraft, recreational vehicle and consumer personal loans. In addition to earning net interest spread revenue on its lending activities, Consumer Lending generates interchange revenue from credit and debit card transactions as well as annual credit card fees and other miscellaneous fees.
Beginning in March 2013, the revenue and expense associated with GWIM clients that hold credit cards was allocated to GWIM. Beginning in the fourth quarter of 2013, Consumer Lending migrated these related credit card loan balances to GWIM. For more information on the migration of customer balances to GWIM, see GWIM on page 44.
On July 31, 2013, the U.S. District Court for the District of Columbia issued a ruling regarding the Federal Reserve's rules implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act's (Financial Reform Act) Durbin Amendment. The ruling requires the Federal Reserve to reconsider the current $0.21 per transaction cap on debit card interchange fees. The Federal Reserve is appealing the ruling and final resolution is expected in the first half of 2014. If the Federal Reserve, upon final resolution, implements a lower per transaction cap than the initial range, it may have a significant adverse impact on our debit card interchange fee revenue.
Net income for Consumer Lending increased $176 million to $4.5 billion in 2013 as lower provision for credit losses and noninterest expense were partially offset by a decrease in revenue. Net interest income decreased $564 million to $10.2 billion driven by the impact of lower average loan balances. Noninterest income decreased $162 million to $5.0 billion driven by the allocation of certain card revenue to GWIM for clients with a credit card and the net impact of portfolio sales, partially offset by the net impact of consumer protection products, primarily due to charges recorded in 2012.

The provision for credit losses decreased $852 million to $2.8 billion in 2013 due to improvements in credit quality. Noninterest expense decreased $255 million to $5.4 billion driven by lower operating and personnel expenses. Average loans decreased $7.5 billion to $142.1 billion in 2013 primarily driven by charge-offs and continued run-off of non-core portfolios.

Key Statistics

(Dollars in millions)	2013		2012	
Total Corporation U.S. credit card [1]				
Gross interest yield	9.73	%	10.02	%
Risk-adjusted margin	8.68		7.54	
New accounts (in thousands)	3,911		3,258	
Purchase volumes	$205,914		$193,500	
Debit card purchase volumes	$267,087		$258,363	

(1) In addition to the U.S. credit card portfolio in CBB, the remaining U.S. credit card portfolio is in GWIM.

During 2013, the total Corporation U.S. credit card risk-adjusted margin increased 114 bps due to an improvement in credit quality. During 2013, total Corporation U.S. credit card purchase volumes increased $12.4 billion, or six percent, to $205.9 billion and debit card purchase volumes increased $8.7 billion, or three percent, to $267.1 billion, reflecting higher levels of consumer spending.

Consumer Real Estate Services

	Home Loans		Legacy Assets & Servicing		Total Consumer Real Estate Services		
(Dollars in millions)	2013	2012	2013	2012	2013	2012	% Change
Net interest income (FTE basis)	$1,349	$1,361	$1,541	$1,569	$2,890	$2,930	(1)%
Noninterest income:							
Mortgage banking income	1,916	3,284	2,669	2,269	4,585	5,553	(17)
All other income (loss)	(6)	1	247	267	241	268	(10)
Total noninterest income	1,910	3,285	2,916	2,536	4,826	5,821	(17)
Total revenue, net of interest expense (FTE basis)	3,259	4,646	4,457	4,105	7,716	8,751	(12)
Provision for credit losses	127	72	(283)	1,370	(156)	1,442	n/m
Noninterest expense	3,318	3,195	12,695	13,995	16,013	17,190	(7)
Income (loss) before income taxes	(186)	1,379	(7,955)	(11,260)	(8,141)	(9,881)	(18)
Income tax expense (benefit) (FTE basis)	(68)	502	(2,918)	(3,944)	(2,986)	(3,442)	(13)
Net income (loss)	$(118)	$877	$(5,037)	$(7,316)	$(5,155)	$(6,439)	(20)
Net interest yield (FTE basis)	2.54 %	2.41 %	3.19 %	2.45 %	2.85 %	2.43 %	
Efficiency ratio (FTE basis)	n/m	68.77	n/m	n/m	n/m	n/m	
Balance Sheet							
Average							
Total loans and leases	$47,675	$50,023	$42,603	$53,501	$90,278	$103,524	(13)
Total earning assets	53,148	56,581	48,272	64,055	101,420	120,636	(16)
Total assets	53,429	57,552	67,131	87,817	120,560	145,369	(17)
Allocated capital [1]	6,000	—	18,000	—	24,000	—	n/m
Economic capital [1]	—	3,734	—				