

BANK OF AMERICA CORP /DE/
Form 10-K
February 23, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
[ü] 1934

For the fiscal year ended December 31, 2016

or

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

For the transition period from to

Commission file number:
1-6523

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

State or other jurisdiction of incorporation or organization:
Delaware

IRS Employer Identification No.:
56-0906609

Address of principal executive offices:
Bank of America Corporate Center
100 N. Tryon Street
Charlotte, North Carolina 28255

Registrant's telephone number, including area code:
(704) 386-5681

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

Title of each class

Common Stock, par value \$0.01 per share

Warrants to purchase Common Stock (expiring October 28, 2018)

Warrants to purchase Common Stock (expiring January 16, 2019)

Depository Shares, each representing a 1/1,000th interest in a share of 6.204%

Non-Cumulative

Preferred Stock, Series D

Depository Shares, each representing a 1/1,000th interest in a share of Floating Rate

Non-Cumulative

Preferred Stock, Series E

Name of each exchange on
which registered

New York Stock Exchange

London Stock Exchange

Tokyo Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

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Depository Shares, each representing a 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series I	New York Stock Exchange
Depository Shares, each representing a 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series W	New York Stock Exchange
Depository Shares, each representing a 1/1,000th interest in a share of 6.500% Non-Cumulative Preferred Stock, Series Y	New York Stock Exchange
Depository Shares, each representing a 1/1,000th interest in a share of 6.200% Non-Cumulative Preferred Stock, Series CC	New York Stock Exchange
Depository Shares, each representing a 1/1,000th interest in a share of 6.000% Non-Cumulative Preferred Stock, Series EE	New York Stock Exchange

Title of each class	Name of each exchange on which registered
7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L	New York Stock Exchange
Depository 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
Depository 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
Depository 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
Depository 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
Depository 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
7.00% Capital Securities of Countrywide Capital V (and the guarantees 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 III (and the guarantee of the Registrant with respect thereto)	New York Stock Exchange
Senior Medium-Term Notes, Series A, Step Up Callable Notes, due November 28, 2031 of BofA Finance LLC (and the guarantee of the Registrant with respect thereto)	New York Stock Exchange

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 ☐ 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 ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐ 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 ☒

The aggregate market value of the registrant's common stock ("Common Stock") held on June 30, 2016 by non-affiliates was approximately \$135,576,678,761 (based on the June 30, 2016 closing price of Common Stock of \$13.27 per share as reported on the New York Stock Exchange). At February 22, 2017, there were 10,025,121,972 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 April 26, 2017 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

Bank of America 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. As part of our efforts to streamline the Corporation’s organizational structure and 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 (Exchange Act) 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). Also, 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 shareholders who request them in writing to: Bank of America Corporation, Attention: Office of the Corporate Secretary, Hearst Tower, 214 North Tryon Street, NC1-027-18-05, Charlotte, North Carolina 28255.

Segments

Through our banking and various nonbank subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbank financial services and products through four business segments: Consumer Banking, 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 29 through 40 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

At December 31, 2016, we had approximately 208,000 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 previously defined BHCs, financial holding companies, banks and broker-dealers, including specific information about Bank of America.

We are subject to an extensive regulatory framework applicable to BHCs, financial holding companies and banks and other financial services entities. 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 shareholders and creditors.

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 U.S. 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. 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.

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act) enacted sweeping financial regulatory reform across the financial services industry, including significant changes regarding capital adequacy and capital planning, stress testing, resolution planning, derivatives activities, prohibitions on proprietary

trading and restrictions on debit interchange fees. As a result of the Financial Reform Act, we have altered and will continue to alter the way in which we conduct certain businesses.

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 shareholders. For instance, our broker-dealer subsidiaries are subject to both U.S. and international regulation, including supervision by the SEC, the New York Stock Exchange and the Financial Industry Regulatory Authority, among others; our commodities businesses in the U.S. are subject to regulation by and supervision of the U.S. Commodity Futures Trading Commission (CFTC); our U.S. derivatives activity is 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; our insurance activities are subject to licensing and regulation by state insurance regulatory agencies; and our consumer financial products and services are regulated by the Consumer Financial Protection Bureau (CFPB).

Our non-U.S. businesses are also subject to extensive regulation by various non-U.S. regulators, including governments, securities exchanges, prudential regulators, central banks and other regulatory bodies, in the jurisdictions in which those businesses operate. For example, our financial services operations in the United Kingdom (U.K.) are subject to regulation by and supervision of the Prudential Regulatory Authority for prudential matters, and the Financial Conduct Authority for the conduct of business matters.

Source of Strength

Under 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 the Federal Deposit Insurance Corporation Improvement Act of 1991 (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.

Transactions with Affiliates

Pursuant to Section 23A and 23B of the Federal Reserve Act, as implemented by the Federal Reserve's Regulation W, the Banks are subject to restrictions that limit certain types of transactions between the Banks and their nonbank 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 its nonbank affiliates. Additionally, transactions between U.S. banks and their nonbank affiliates are required to be on arm's length terms and must be consistent with standards of safety and soundness.

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 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 increased deposit insurance assessments. Beginning in the third quarter of 2016, the FDIC implemented a surcharge to accelerate compliance to the 1.35 percentage requirement. 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, Compliance and Legal on page 12.

Capital, Liquidity and Operational Requirements

As a financial holding company, we and our bank 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 rules are complex and are evolving as U.S. and international regulatory authorities propose and enact enhanced capital and liquidity rules. 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 rules are likely to influence our planning processes for, and may require additional, regulatory capital and liquidity, as well as impose additional operational and compliance costs on the Corporation. In addition, the Federal Reserve and the OCC have adopted guidelines that establish minimum standards for the design, implementation and board oversight of BHC's and national banks' risk governance frameworks. The Federal Reserve has also issued a final rule requiring us to maintain minimum amounts of long-term debt meeting specified eligibility requirements.

For more information on regulatory capital rules, capital composition and pending or proposed regulatory capital changes, see Capital Management – Regulatory Capital in the MD&A on page 45, 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. For instance, Federal Reserve regulations require major U.S. BHCs to submit a capital plan as part of an annual Comprehensive Capital Analysis and Review (CCAR). The purpose of the CCAR is to assess the capital planning process of the BHC, including any planned capital actions, such as payment of dividends and common stock repurchases.

Our ability to pay dividends is also affected by the various minimum capital requirements and the capital and non-capital standards established under the FDICIA. The right of the Corporation, our shareholders 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.

If the Federal Reserve finds that any of our Banks are 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. Additionally, the applicable 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 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.

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.

Resolution Planning

As a BHC with greater than \$50 billion of assets, the Corporation is required by the Federal Reserve and the FDIC to annually submit a plan for a rapid and orderly resolution in the event of material financial distress or failure.

Such resolution plan is intended to be a detailed roadmap for the orderly resolution of a BHC and material entities pursuant to the U.S. Bankruptcy Code and other applicable resolution regimes under one or more hypothetical scenarios assuming no extraordinary government assistance.

If both the Federal Reserve and the FDIC determine that the Corporation’s plan is not credible, the Federal Reserve and the FDIC may jointly impose on us more stringent capital, leverage or liquidity requirements or restrictions on our growth, activities or operations. A description of our plan is available on the Federal Reserve and FDIC websites.

The FDIC also requires the submission of a resolution plan for Bank of America, N.A. (BANA), which must describe how the insured depository institution would be resolved under the bank resolution provisions of the Federal Deposit Insurance Act. A description of this plan is also available on the FDIC’s website.

We continue to make substantial progress to enhance our resolvability, including simplifying our legal entity structure and business operations, and increasing our preparedness to

implement our resolution plan, both from a financial and operational standpoint.

Similarly, in the U.K., rules have been issued requiring the submission of significant information about certain U.K.-incorporated subsidiaries and other financial institutions, as well as branches of non-U.K. banks located in the U.K. (including information on intra-group dependencies, legal entity separation and barriers to resolution) to allow the Bank of England to develop resolution plans. As a result of the Bank of England's review of the submitted information, we could be required to take certain actions over the next several years which could increase operating costs and potentially result in the restructuring of certain businesses and subsidiaries.

For more information regarding our resolution, see Item 1A. Risk Factors – Regulatory, Compliance and Legal on page 12.

Insolvency and the Orderly Liquidation Authority

Under the Federal Deposit Insurance Act, the FDIC may be appointed receiver of an insured depository institution if it is insolvent or in certain other circumstances. In addition, under the Financial Reform Act, when a systemically important financial institution (SIFI) such as the Corporation is in default or danger of default, the FDIC may be appointed receiver in order to conduct an orderly liquidation of such institution. In the event of such appointment, the FDIC could, among other things, invoke the orderly liquidation authority, instead of the U.S. Bankruptcy Code, if the Secretary of the Treasury makes certain financial distress and systemic risk determinations. The orderly liquidation authority is modeled in part on the Federal Deposit Insurance Act, but also adopts certain concepts from the U.S. Bankruptcy Code.

The orderly liquidation authority contains certain differences from the U.S. Bankruptcy Code. For example, in certain circumstances, 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 creditors) without the need to obtain creditors' consent or prior court review. The insolvency and resolution process could also lead to a large reduction or total elimination of the value of a BHC's outstanding equity, as well as impairment or elimination of certain debt.

In 2013, the FDIC issued a notice describing its preferred "single point of entry" strategy for resolving SIFIs. Under this approach, the FDIC could replace a distressed BHC with a bridge holding company, which could continue operations and result in an orderly resolution of the underlying bank, but whose equity is held solely for the benefit of creditors of the original BHC.

Furthermore, the Federal Reserve Board has finalized regulations regarding the minimum levels of long-term debt required for BHCs to ensure there is adequate loss absorbing capacity in the event of a resolution.

For more information regarding our resolution, see Item 1A. Risk Factors – Regulatory, Compliance and Legal on page 12.

Limitations on Acquisitions

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits a BHC to acquire banks located in states other than its 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. At June 30, 2016,

we held greater than 10 percent of the total amount of deposits of insured depository institutions in the U.S.

In addition, the Financial Reform Act restricts acquisitions by a financial institution if, as a result of the acquisition, the total liabilities of the financial institution would exceed 10 percent of the total liabilities of all financial institutions in the U.S. At June 30, 2016, our liabilities did not exceed 10 percent of the total liabilities of all financial institutions in the U.S.

The Volcker Rule

The Volcker Rule prohibits insured depository institutions and companies affiliated with insured depository institutions (collectively, banking entities) from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options for their own account. The Volcker Rule also imposes limits on banking entities' investments in, and other relationships with, hedge funds and private equity funds, although the Federal Reserve extended the conformance period for certain existing covered investments and relationships to July 2017 and

has issued a process for seeking additional extensions related to certain legacy covered funds. The Volcker Rule provides exemptions for certain activities, including market-making, underwriting, hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds and private equity funds. The Volcker Rule also clarifies that certain activities are not prohibited, including acting as agent, broker or custodian. A banking entity with significant trading operations, such as the Corporation, is required to maintain a detailed compliance program to comply with the restrictions of the Volcker Rule.

Derivatives

Our derivatives operations are subject to extensive regulation globally. Various regulations have been promulgated since the financial crisis, including those under the Financial Reform Act, the European Union Markets in Financial Instruments Directive II/Regulation and the European Market Infrastructure Regulation, that regulate or will regulate the derivatives market by: requiring clearing and exchange trading of certain derivatives; imposing new capital, margin, reporting, registration and business conduct requirements for certain market participants; imposing position limits on certain over-the-counter (OTC) derivatives; and requiring the registration of U.S.-based derivatives dealers as swap dealers. In addition, in support of efforts to enhance the resolvability of SIFIs in an orderly manner, we and 23 other SIFIs have adhered to a protocol published by International Swaps and Derivatives Association, Inc. (ISDA) amending certain financial contracts to provide for contractual recognition of stays of termination rights under various statutory resolution regimes. In addition, the U.K., Germany, and Japan have adopted resolution stay regulations and other G-20 prudential regulators, including U.S. regulators, are expected to adopt similar resolution stay regulations in the near future.

Consumer Regulations

Our consumer businesses are subject to extensive regulation and oversight by federal and state regulators. Certain federal consumer finance laws to which we are subject, including, but not limited to, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Electronic Fund Transfer Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act, the Truth in Lending Act and Truth in Savings Act, are enforced by the CFPB.

Other

federal consumer finance laws, such as the Servicemembers Civil Relief Act, are enforced by the OCC.

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 and employees. 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 the international, 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. The European Union (EU) has adopted the General Data Protection Regulation (GDPR) which replaces the Data Protection Directive and related implementing national laws in the Member States. The compliance date for the GDPR is May 25, 2018. It will have impacts across the enterprise and impact assessments are underway. Meanwhile other legislation, regulatory activity (the proposed e-Privacy Regulation, elements of the Fourth Money Laundering Directive) and court proceedings, and any impact of bilateral U.S. and EU political developments on the validity of cross-border data transfer mechanisms from the EU continue to lend uncertainty to privacy compliance in the EU.

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 currently 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 20. 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. For more information on how we manage risks, see Managing Risk in the MD&A on page 41.

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, competitive position, business, reputation, results of operations, capital position or financial condition, including by materially increasing our expenses or decreasing our revenues, which could result in material losses.

Market

Our business 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 policies and economic conditions generally.

Financial markets and general economic, political and social conditions in the U.S. and abroad, including the level and volatility of interest rates, gross domestic product (GDP) growth, inflation, consumer spending, employment levels, energy prices, home prices, bankruptcies, fluctuations or other significant changes in both debt and equity capital markets and currencies, liquidity of the global financial markets, the growth of global trade and commerce, trade policies, the availability and cost of capital and credit, investor sentiment and confidence, and the sustainability of economic growth all affect our business.

In the U.S. and abroad, uncertainties surrounding monetary and fiscal policies present economic challenges. Actions taken by the Federal Reserve and other central banks are beyond our control and difficult to predict and can affect the value of financial instruments and other assets, such as debt securities and mortgage servicing rights (MSRs), and impact our borrowers, potentially increasing delinquency rates.

Changes to existing U.S. laws and regulatory policies including those related to financial regulation, taxation, international trade, fiscal policy and healthcare may adversely impact us. For example, significant fiscal policy initiatives, including tax changes and new spending programs, may increase uncertainty surrounding the formulation

of U.S. monetary policy and direction, and volatility of interest rates. Higher U.S. interest rates relative to other major economies could increase the likelihood of a more volatile and appreciating U.S. dollar. Changes to certain trade policies or measures could upset financial markets, and disrupt world trade and commerce.

Any of these developments could adversely affect our consumer and commercial businesses, our securities and derivatives 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 the costs of running our business and our results of operations.

For more information about economic conditions and challenges discussed above, see Executive Summary – 2016 Economic and Business Environment in the MD&A on page 21.

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

Our liquidity, competitive position, business, results of operations and financial condition are affected by market risks 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 or a non-U.S. central bank changes or signals a change in monetary policy, market interest rates could be affected, which could adversely impact the value of such assets. In addition, while

we expect our net interest income to benefit from increases in interest rates that occurred in the fourth quarter of 2016, if the ongoing low interest rate environment continues, this could negatively impact our liquidity, financial condition or results of operations, including future revenue and earnings growth.

We use various models and strategies to assess and control our market risk exposures but those are subject to inherent limitations. For more information regarding models and strategies, see Item 1A. Risk Factors – Other on page 15. 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 and vice versa. 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 assumption or algorithms that are similar to ours. In these and other cases, it may be difficult to reduce our risk positions due to 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 79.

We may incur losses if the value 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, derivative assets and liabilities, available-for-sale (AFS) debt and marketable equity securities, other debt securities, certain MSRs and certain other assets and liabilities that we measure at fair value. We determine the fair values of these instruments based on applicable accounting guidance which requires an entity to base fair value on exit price and to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurements. The fair values of these financial instruments include adjustments for market liquidity, credit quality, funding impact on certain derivatives 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 and other factors such as reductions in mortgage insurance premiums and origination costs, could adversely impact the value of our MSR asset, cause a significant acceleration of purchase premium amortization on our mortgage portfolio, because a decline in long-term interest rates shortens the expected lives of the securities, 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 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 trading activities in these assets, which may make it difficult to sell, hedge or value these 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 wealth management and related advisory 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 GWIM in the MD&A on page 33. For more information about interest rate risk management, see Interest Rate Risk Management for the Banking Book in the MD&A on page 84.

Liquidity

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 government-sponsored enterprises (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; changes to our relationships with our funding providers based on real or perceived changes in our risk profile; changes in regulations or guidance that impact our funding avenues or ability to access certain funding sources; increased regulatory liquidity, capital and margin requirements for our U.S. or international banks and their nonbank subsidiaries; significant failure by a third party, such as a clearing agent or custodian; reputational issues; 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 or shock, negative views about the financial services industry generally or a specific news event, changes in the regulatory environment, actions by credit rating agencies or an operational problem that affects third parties or us. The impact of these events, whether within our control or not, could include an inability to sell assets, redeem investments or unforeseen outflows of cash, including customer deposits, additional funding for

commitments and contingencies, as well as unexpected collateral calls, among other things.

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. Additionally, concentrations within our funding profile, such as maturities, currencies, or counterparties, can reduce our funding efficiency.

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 Liquidity Risk in the MD&A on page 51.

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 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 asset securitizations. Our credit ratings are subject to ongoing review by 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 such as the likelihood of the U.S. government providing meaningful support to us or our subsidiaries in a crisis.

Rating agencies could make adjustments to our credit ratings at any time, and 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. Under the terms of certain OTC derivative contracts and other trading agreements, if our or our subsidiaries' credit ratings are downgraded, the counterparties may require additional collateral or terminate these contracts or agreements.

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 information about the amount of additional collateral required and derivative liabilities that would be subject to unilateral termination at December 31, 2016 if the rating agencies had downgraded their long-term senior debt ratings for the Corporation or certain subsidiaries by each of two incremental notches, see Credit-related Contingent Features and Collateral in Note 2 – Derivatives to the Consolidated Financial Statements.

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 54 and Note 2 – Derivatives to the Consolidated Financial Statements.

Bank of America Corporation is a holding company and we depend upon our subsidiaries for liquidity, including our ability to pay dividends to shareholders and to fund payments on our other obligations. Applicable laws and regulations, including capital and liquidity requirements, and actions taken pursuant to our resolution plan could 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 nonbank subsidiaries. We evaluate and manage liquidity on a legal entity basis. Legal entity liquidity is an important consideration as there are legal, contractual and other limitations on our ability to utilize liquidity from one legal entity to satisfy the liquidity requirements of another, including the parent company. The parent company depends on dividends, distributions, loans, advances and other payments from our banking and nonbank 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. 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. Intercompany arrangements we entered into in connection with our resolution planning submissions could restrict the amount of funding available to the Corporation from our subsidiaries in certain severely adverse liquidity scenarios. For more information regarding our resolution plan, see Item 1A. Risk Factors – Other on page 15.

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. Also, regulatory action that requires additional liquidity at each of our subsidiaries could impede access to funds we need to pay our obligations or pay dividends. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to prior claims of the subsidiary's creditors. For more information regarding our ability to pay dividends, see Capital Management in the MD&A on page 45 and Note 13 – Shareholders' Equity to the Consolidated Financial Statements.

In the event of our resolution under our preferred single point of entry resolution strategy, such resolution could materially adversely affect our liquidity and financial condition and our ability to pay dividends to shareholders and to pay our obligations.

Bank of America Corporation, our parent holding company, is required annually to submit a plan to the FDIC and Federal Reserve, describing its resolution strategy under the U.S. Bankruptcy Code in the event of material financial distress or failure. In the current plan, Bank of America Corporation's preferred resolution strategy is a single point of entry strategy. This strategy provides that only the parent holding company files for resolution under the U.S.

Bankruptcy Code and contemplates providing certain key operating subsidiaries with sufficient capital and liquidity to operate through severe stress and to enable such subsidiaries to continue operating or be wound down in a solvent manner following a bankruptcy. Bank of America Corporation and key subsidiaries have entered into intercompany arrangements governing the contribution of capital and liquidity. As part of these arrangements, Bank of America Corporation transferred certain of its assets (and has agreed to transfer additional assets) to a wholly-owned holding company subsidiary in exchange for a subordinated note. Certain remaining assets secure ongoing obligations under these intercompany arrangements. The wholly-owned holding company subsidiary has also provided a committed line of credit which, in addition to cash, dividends and interest payments, including interest payments received in respect of the subordinated note, may be used to fund its obligations. These intercompany arrangements include provisions to terminate the line of credit, forgive the subordinated note and require Bank of America Corporation to contribute its remaining financial assets to the wholly-owned holding company subsidiary if its projected liquidity resources deteriorate so severely that resolution becomes imminent, which could materially and adversely affect our liquidity and ability to meet our payment obligations.

Further, if the FDIC and Federal Reserve jointly determine that Bank of America Corporation's resolution plan is not credible, they could impose more stringent capital, leverage or liquidity requirements or restrictions on our growth, activities or operations, and 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.

In addition, under the Financial Reform Act, when a global systemically important bank (G-SIB) such as Bank of America Corporation is in default or danger of default, the FDIC may be appointed receiver in order to conduct an orderly liquidation of such institution. In the event of such appointment, the FDIC could, among other things, invoke the orderly liquidation authority, instead of the U.S. Bankruptcy Code, if the Secretary of the Treasury makes certain financial distress and systemic risk determinations. In 2013, the FDIC issued a notice describing its preferred "single point of entry" strategy for resolving a G-SIB. Under this approach, the FDIC could replace Bank of America Corporation with a bridge holding company, which could continue operations and result in an orderly resolution of the underlying bank, but whose equity is held solely for the benefit of our creditors. The FDIC's single point of entry strategy may result in our security holders suffering greater losses than would have been the case under a bankruptcy proceeding or a different resolution strategy.

We are subject to the Federal Reserve Board's recently finalized rules requiring U.S. G-SIBs to maintain minimum amounts of external total loss-absorbing capacity (TLAC).

On December 15, 2016, the Federal Reserve issued a final rule establishing external TLAC requirements to improve the resolvability and resiliency of large, interconnected BHCs. The rule will be effective January 1, 2019 and U.S. G-SIBs, including Bank of America, will be required to maintain a minimum external TLAC. We estimate our minimum required external TLAC would be the greater of 22.5 percent of risk-weighted assets or 9.5 percent of SLR leverage exposure. In addition, U.S. G-SIBs must meet a minimum long-term debt requirement. Our minimum required long-term debt is estimated to be the greater of 8.5 percent of risk-weighted assets or 4.5 percent of SLR leverage exposure. Actions required to comply with the minimum external TLAC requirement by January 1, 2019 could impact our cost of funding and liquidity risk management plans.

Credit

Economic or market disruptions, insufficient credit loss reserves or concentration of credit risk may result in an increase in the provision for credit losses, which could have an adverse effect on our financial condition and results of operations.

A number of our products expose us to credit risk, including loans, letters of credit, derivatives, debt securities, trading account assets and assets held-for-sale. The financial condition of our consumer and commercial borrowers and counterparties could adversely affect our financial condition and results of operations.

Global and U.S. economic conditions may impact our credit portfolios. Economic or market disruptions would likely increase the risk that borrowers or counterparties would default or become delinquent in their obligations to us.

Increases in delinquencies and default rates could adversely affect our consumer credit card, home equity, residential mortgage and purchased credit-impaired portfolios through increased charge-offs and provisions for credit losses.

Additionally, increased credit risk could also adversely affect our commercial loan portfolios with weakened customer and collateral positions.

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 process for determining the amount of the allowance requires us to make difficult and complex judgments, including loss forecasts on how borrowers will react to changing economic conditions. The ability of our borrowers or counterparties to repay their obligations will likely be impacted by changes in future economic conditions, which in turn could impact the accuracy of our loss forecasts and allowance estimate. There is also the possibility that we will fail to accurately identify the appropriate economic indicators or that we will fail to accurately estimate their impacts.

We may suffer unexpected losses if the models and assumptions we use to establish reserves and make judgments in extending credit to our borrowers or counterparties become less predictive of future events. In addition, external factors, such as natural disasters, can influence recognition of credit losses in our portfolios and impact our allowance for credit losses. Although we believe that our allowance for credit losses was in compliance with applicable accounting standards at December 31, 2016, there is no guarantee that it will be sufficient to address credit losses, particularly if economic conditions deteriorate. In such an event,

we may increase the size of our allowance which would reduce our earnings.

In the ordinary course of our business, we also may be subject to a concentration of credit risk in a particular industry, geographic location, 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 broker-dealers, commercial banks, investment banks, insurers, mutual funds and hedge funds, and other institutional clients. 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 market uncertainty about the financial stability of one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity disruptions, losses and defaults. Many of these transactions expose us to credit risk and, in some cases, disputes and litigation in the event of default of a counterparty. In addition, our credit risk may be heightened by market risk 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 to us. Further, disputes with obligors as to the valuation of collateral could increase in times of significant market stress, volatility or illiquidity, and we could suffer losses during such periods if we are unable to realize the fair value of the collateral or manage declines in the value of collateral.

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 oil prices, social instability and changes in government policies could impact the operating budgets or credit ratings of these government entities and expose us to credit risk.

We also have a concentration of credit risk with respect to our consumer real estate loans, including home equity lines of credit (HELOCs), auto loans, consumer credit card and commercial real estate portfolios, which represent a large percentage of our overall credit portfolio. In addition, our commercial portfolios include exposures to certain industries, including the energy sector, which may result in higher credit losses for us due to adverse business conditions, market disruptions or greater volatility in those industries as the result of low energy prices or other factors. Economic weakness or deterioration in real estate values or household incomes could result in higher credit losses.

In addition, our home equity 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 is largely comprised of HELOCs that have not yet entered their amortization period. HELOCs that have entered the amortization period have experienced a higher percentage of early stage delinquencies and nonperforming status when compared to the HELOC portfolio as a whole. Loans in our HELOC portfolio generally have an initial draw period of 10 years and 23 percent of these loans will enter the amortization period during 2017. As a result, delinquencies and defaults may increase in future periods.

For additional information, see Consumer Portfolio Credit Risk Management in the MD&A on page 56.

Liquidity disruptions in the financial markets may result in our inability to sell, syndicate or realize the value of our positions, leading to increased concentrations, which could increase the credit and market risk associated with our positions as well as increasing our risk-weighted assets.

For more information about our credit risk and credit risk management policies and procedures, see Credit Risk Management in the MD&A on page 55, Note 1 – Summary of Significant Accounting Principles and Note 4 – Outstanding Loans and Leases 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 2016, the declines in prior years have negatively impacted the demand for many of our products. 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, and 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 and could have an adverse effect on our financial condition and results of operations.

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

We are party to a large number of derivatives transactions, including credit derivatives. Our derivatives businesses may expose us to unexpected market, credit and operational risks that could cause us to suffer unexpected losses. 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 or that of certain of our subsidiaries, we may be required to provide additional collateral or 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 our credit ratings, certain derivative and other counterparties may request we substitute BANA (which has generally had equal or higher credit ratings than the parent company) as counterparty for certain derivative contracts and other trading agreements. The parent company's 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.

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

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 emerging markets. Our businesses and revenues derived from non-U.S. jurisdictions are subject to risk of loss from currency fluctuations, financial, 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 and other restrictive actions, unfavorable political and diplomatic developments, oil price fluctuation and changes in legislation. These risks are especially elevated in emerging markets. A number of non-U.S. jurisdictions in which we do business have been negatively impacted by slow growth rates or recessionary conditions, market volatility and/or political unrest. The political and economic environment in Europe remains challenging and the current degree of political and economic uncertainty could increase. In the U.K., the impact of the vote to leave the EU remains uncertain.

Potential risks of default on sovereign debt in some non-U.S. jurisdictions could expose us to substantial losses. Risks in one nation can limit our opportunities for portfolio growth and negatively affect our operations in other nations, including our U.S. operations. Market and economic disruptions may affect consumer confidence levels and spending, corporate investment and job creation, bankruptcy rates, levels of incurrence and default on consumer and corporate debt, economic growth rates and asset values, among other factors. Any such unfavorable conditions or developments could have an adverse impact on our company.

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 markets, are generally smaller, less liquid and more volatile than U.S. trading markets.

Our non-U.S. businesses are also subject to extensive regulation by governments, securities exchanges, central banks and other regulatory bodies. 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 in general.

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, know-your-customer requirements and anti-money laundering regulations. Our ability to

comply with these laws is dependent on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability.

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 74. The U.K. Referendum, and the potential exit of the U.K. from the EU, could adversely affect us.

We conduct business in Europe primarily through our U.K. subsidiaries. For the year ended December 31, 2016, our operations in Europe, Middle East and Africa, including the U.K., represented approximately eight percent of our total revenue, net of interest expense. A referendum was held in the U.K. on June 23, 2016, which resulted in a majority vote in favor of exiting the EU. The vote outcome increased global economic and market uncertainty and volatility, and resulted in significant declines in the value of the British Pound. Market volatility has since reduced but the British Pound has continued to show weakness. The U.K. government has announced an intention to formally

commence the exit process. Once the exit process begins, negotiations on the terms of the exit are expected to be a multi-year process. During this transition period, the ultimate impact of the U.K.'s exit from the EU may remain unclear and economic and market volatility may continue to occur. If uncertainty resulting from the U.K.'s potential exit from the EU negatively impacts economic conditions, financial markets and consumer confidence, our business, results of operations, financial position and/or operational model could be adversely affected.

In addition, if the terms of the exit limit the ability of our U.K. entities to conduct business in the EU or otherwise result in a significant increase in economic barriers between the U.K. and the EU, it is possible these changes could impose additional costs on us, cause us to be subject to different laws, regulations and/or regulatory authorities, cause adverse tax consequences to us, and could adversely impact our business, financial condition and operational model.

Business Operations

A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

The potential for operational risk exposure exists throughout our organization and, as a result of our interactions with, and reliance on, third parties, is not limited to our own internal operational functions. Our operational and security systems, infrastructure, including our computer systems, data management, and internal processes, as well as those of third parties, are integral to our performance. We rely on our employees and third parties in our day-to-day and ongoing operations, who may, as a result of human error, misconduct, malfeasance or failure, or breach of third-party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and other safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact and rely. For example, large-scale strategic technology project implementation challenges may cause business interruptions. In addition, our

ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with respect to our own systems. Our financial, accounting, data processing, backup or other operating or security systems and infrastructure 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 which could adversely affect our ability to process these transactions or provide these services. There could be sudden increases in customer transaction volume; electrical, telecommunications or other major physical infrastructure outages; natural disasters such as earthquakes, tornadoes, hurricanes and floods; disease pandemics; and events arising from local or larger scale political or social matters, including terrorist acts. We continuously update these systems to support our operations and growth and to remain compliant with all applicable laws, rules and regulations globally. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones, including business interruptions. Operational risk exposures could adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

A cyberattack, information or security breach, or a technology failure of ours or of a third party could adversely affect our ability to conduct our business, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

Our businesses are highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. Cybersecurity risks for financial institutions 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 businesses rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment. We, our customers, regulators and other third parties have been subject to, and are likely to continue to be the target of, cyberattacks. These cyberattacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of ours, our employees, our customers or of third parties, or otherwise materially disrupt our or our customers' or other third parties' network access or business operations.

Although to date we have not experienced any material losses or other material consequences relating to technology failure, cyberattacks or other information or security breaches, whether directed at us or third parties, there can be no assurance that we will not suffer such losses or other consequences in the future. Our risk and exposure to these matters remain 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 and the broader economy, 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 continuous transmission of sensitive information to, and storage of such information by, third parties, including our vendors and regulators, our geographic footprint and international presence, the outsourcing of some of our business operations, the continued uncertain global economic environment, threats of cyber terrorism, external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends, and system and customer account updates and 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 cyberthreats 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 or incidents.

We also face indirect technology, cybersecurity and operational risks relating to the customers, clients and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including financial counterparties; financial intermediaries such as clearing agents, exchanges and clearing houses; vendors; regulators; providers of critical infrastructure such as internet access and electrical power; and retailers for whom we process transactions. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyberattack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. This consolidation interconnectivity and complexity increases the risk of operational failure, on both individual and industry-wide bases, as disparate systems need to be integrated, often on an accelerated basis. Any third-party technology failure, cyberattack or other information or security breach, termination or constraint could, among other things, adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses.

Any of the matters discussed above could result in our loss of customers and business opportunities, significant business disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact our results of operations, liquidity and financial condition.

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 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. At December 31, 2016, we had approximately \$18.3 billion of unresolved repurchase claims, net of duplicate claims and excluding claims where the statute of limitations has expired without litigation being commenced. We have also received notifications pertaining to loans for which we have not received a repurchase request from sponsors of third-party securitizations with whom we engaged in whole-loan transactions and for which we may owe indemnity obligations.

We have recorded a liability of \$2.3 billion for obligations under representations and warranties exposures. We also have an estimated range of possible loss of up to \$2 billion over our recorded liability. The recorded liability and estimated range of possible loss are based on currently available information, significant judgment and a number of assumptions that are subject to change. Future representations and warranties losses may occur in excess of our recorded liability and estimated range of possible loss and such losses could have an adverse effect on our liquidity, financial condition and results of operations.

Additionally, our recorded liability for representations and warranties exposures and the corresponding estimated range of possible loss do not consider certain losses related to servicing, including foreclosure and related costs, fraud, indemnity, or claims (including for residential mortgage-backed securities (RMBS)) related to securities law or monoline insurance litigation. Losses with respect to one or more of these matters could be material to our results of operations or liquidity.

For more information about our representations and warranties exposure, including the estimated range of possible loss, see Off-Balance Sheet Arrangements and Contractual Obligations – Representations and Warranties in the MD&A on page 40, Consumer Portfolio Credit Risk Management in the MD&A on page 56 and Note 7 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements.

Failure to satisfy our obligations as servicer for residential mortgage securitizations, along with other losses we could incur in our capacity as servicer, and foreclosure delays and/or investigations into our residential mortgage foreclosure practices 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. 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 could cause us to lose servicing income. In addition, for loans principally held in private-label securitization trusts, 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 such breach were found to have occurred, it may harm our reputation, increase our servicing costs or adversely impact our results of operations. Additionally, with respect to foreclosures, we may incur costs or losses due to irregularities in the underlying documentation, or 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. We may also incur costs or losses relating to delays or alleged deficiencies in processing documents necessary to comply with state law governing foreclosure.

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 Fannie Mae or Freddie Mac into receivership, could result in significant changes to our business operations and may adversely impact our business.

During 2016, we sold approximately \$15.3 billion of loans to Fannie Mae and Freddie Mac. Each 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, any associated changes to their business structure that could result or whether the conservatorships will end in receivership. There are several proposed approaches to reform that, if enacted, could change the structure 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 any GSEs. Accordingly, there continues to be uncertainty regarding their future, including whether they will continue to exist in their current form.

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. 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 development of currently unanticipated or unknown risks and rely upon our ability to manage and aggregate data. For instance, we use various models to assess and control risk, which are subject to inherent limitations.

Our risk management framework is also dependent on ensuring that a sound risk culture exists throughout the Corporation, and that we manage risks associated with third parties and vendors. Uncertain economic conditions, heightened legislative and regulatory scrutiny of the financial services industry and 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 risks.

For more information about our risk management policies and procedures, see Managing Risk in the MD&A on page 41.

Regulatory, Compliance and Legal

We are subject to comprehensive government legislation and regulations, both domestically and internationally, which impact our operating costs, and could require us to make changes to our operations and result in an adverse impact on our results of operations. Additionally, these regulations and uncertainty surrounding the scope and requirements of the final rules implementing recently enacted and proposed legislation, as well as certain settlements and consent orders we have entered into, have increased and will continue to increase our compliance and operational risks and costs.

We are subject to comprehensive regulation under federal and state laws in the U.S. and the laws of the various jurisdictions in which we operate. These laws and regulations significantly affect

and have the potential to restrict the scope of our existing businesses, limit our ability to pursue certain business opportunities or make our products and services more expensive for clients and customers.

Significant new legislation and regulations affecting the financial services industry have been enacted or proposed in recent years, both in the U.S. and globally. 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 U.S. Department of the Treasury, the Federal Reserve, the OCC, the CFPB, Financial Stability Oversight Council, the FDIC, the Department of Labor, the SEC and CFTC. Under the provisions of the Financial Reform Act known as the “Volcker Rule,” we are prohibited from proprietary trading and limited in our sponsorship of, and investment in, hedge funds, private equity funds and certain other covered private funds. Non-U.S. regulators, such as the U.K. financial regulators and the European Parliament and Commission, have adopted or proposed laws and regulations regarding financial institutions located in their jurisdictions, which could require us to make significant modifications to our non-U.S. businesses, operations and legal entity structure in order to comply with these requirements.

We continue to make adjustments to our business and operations, legal entity structure and capital and liquidity management policies, procedures and controls to comply with these new and proposed laws and regulations. However, a number of provisions still require final rulemaking, guidance and interpretation by regulatory authorities. Further, we could become subject to regulatory requirements beyond those currently proposed, adopted or contemplated. Accordingly, the cumulative effect of all of the new and proposed legislation and regulations on our business, operations and profitability remains uncertain. This uncertainty necessitates that in our business planning we make certain assumptions with respect to the scope and requirements of the proposed rules. If these assumptions prove incorrect, we could be subject to increased regulatory and compliance risks and costs as well as potential reputational harm. In addition, U.S. and international regulatory initiatives may overlap, and non-U.S. regulations and initiatives may be inconsistent or may conflict with current or proposed U.S. regulations, which could lead to compliance risks and increased costs.

Our regulators’ prudential and supervisory authority gives them broad power and discretion to direct our actions, and they have assumed an increasingly active oversight, inspection and investigatory role across the financial services industry. Regulatory focus is not limited to laws and regulations applicable to the financial services industry specifically, but also extends to other significant regulations such as the Foreign Corrupt Practices Act and U.S. and international anti-money laundering regulations. The number of investigations and proceedings brought by regulators against the financial services industry generally has increased. As part of their enforcement authority, our regulators have the authority to, among other things, assess significant civil or criminal monetary penalties, fines or restitution, issue cease and desist or removal orders and initiate injunctive actions. The amounts paid by us and other financial institutions to settle proceedings or investigations have been substantial and may continue to increase. In some cases, governmental authorities have required criminal pleas or other extraordinary terms as part of such settlements, which could have significant consequences for a financial institution, including reputational harm, loss of

customers, restrictions on the ability to access capital markets, and the inability to operate certain businesses or offer certain products for a period of time.

The complexity of the federal and state regulatory and enforcement regimes in the U.S., coupled with the global scope of our operations and the increasing aggressiveness of the regulatory environment worldwide also means that a single event or practice or a series of related events or practices may give rise to a large number of overlapping investigations and regulatory proceedings, either by multiple federal and state agencies in the U.S. or by multiple regulators and other governmental entities in different jurisdictions. Responding to inquiries, investigations, lawsuits and proceedings, regardless of the ultimate outcome of the matter, is time-consuming and expensive and can divert the attention of our senior management from our business. The outcome of such proceedings may be difficult to predict or estimate until late in the proceedings, which may last a number of years.

We are currently subject to the terms of settlements and consent orders that we have entered into with government agencies and may become subject to additional settlements or orders in the future. Such settlements and consent orders impose significant operational and compliance costs on us as they typically require us to enhance our procedures and controls, expand our risk and control functions within our lines of business, invest in technology and hire significant numbers of additional risk, control and compliance personnel. Moreover, if we fail to meet the

requirements of the regulatory settlements and orders to which we are subject, or more generally, to maintain risk and control procedures and processes that meet the heightened standards established by our regulators and other government agencies, we could be required to enter into further settlements and orders, pay additional fines, penalties or judgments, or accept material regulatory restrictions on our businesses.

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. We also rely upon third parties who may expose us to compliance and legal risk. Future legislative or regulatory actions, and any required changes to our business or operations, or those of third parties upon whom we rely, resulting from such developments and actions, could result in a significant loss of revenue, impose additional compliance and other costs or otherwise reduce our profitability, limit the products and services that we offer or our ability to pursue certain business opportunities, require us to dispose of or curtail certain businesses, affect the value of assets that we hold, require us to increase our prices and therefore reduce demand for our products, or otherwise adversely affect our businesses. 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.

U.S. federal banking agencies may require us to hold higher levels of regulatory capital, increase our regulatory capital ratios or increase liquidity requirements, 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 U.S. regulatory capital and liquidity rules. These rules, among other things, establish minimum requirements 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 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 or comply with 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.

In the current regulatory environment, capital and liquidity requirements are frequently introduced and amended. It is possible that regulators may increase regulatory capital requirements, change how regulatory capital is calculated or increase liquidity requirements. Our risk-based capital surcharge (G-SIB surcharge) may increase from current estimates, and we are also subject to a countercyclical capital buffer which, while currently set at zero, may be increased by U.S. federal banking agencies. A significant component of regulatory capital ratios is calculating our risk-weighted assets, including operational risk, which may increase. Additionally, in April 2016, the U.S. banking regulators proposed Net Stable Funding Ratio (NSFR) requirements which target longer term liquidity risk and would apply to us and our subsidiary insured depository institutions beginning on January 1, 2018. The Basel Committee on Banking Supervision (BCBS) also has finalized its fundamental review of the trading book, which updates both modeled and standardized approaches for market risk measurement, and a revised standardized model for counterparty credit risk. The U.S. federal banking agencies may update the U.S. capital rules to incorporate the BCBS revisions. As part of its annual CCAR review, the Federal Reserve conducts economic stress testing on parts of our business using hypothetical economic scenarios prepared by the Federal Reserve. Those scenarios may affect our CCAR stress test results, which may have an effect on our projected regulatory capital amounts in the annual CCAR submission, including the CCAR capital plan.

Changes to and 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, sell company assets, or hold highly liquid assets, which may adversely affect our results of operations. We may be prohibited from taking capital actions such as paying or increasing dividends, or repurchasing securities if the Federal Reserve objects to our CCAR capital plan. The Federal Reserve has indicated that it may consider incorporating a stress capital buffer into our capital plan minimum requirements which could increase our capital requirement. For additional information, see Capital Management – Regulatory Capital in the MD&A on page 45.

Changes in accounting standards 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 us revising and republishing prior-period financial statements.

In June 2016, the FASB issued new accounting guidance that will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. The new guidance is effective on January 1, 2020, with early adoption permitted on January 1, 2019. This new accounting standard is expected, on the date of adoption, to increase the allowance for credit losses with a resulting negative adjustment to retained earnings.

For more information on some of our critical accounting policies and recent accounting changes, see Complex Accounting Estimates in the MD&A on page 87 and Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

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

Policy makers have indicated an interest in reforming the U.S. corporate income tax code in 2017. Possible approaches include lowering the 35 percent corporate tax rate, modifying the U.S. taxation of income earned outside the U.S. and limiting or eliminating various deductions, tax credits and/or other tax preferences. 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, we have U.K. net deferred tax assets which consist primarily of net operating losses that are expected to be realized by certain subsidiaries over an extended number of years. Adverse developments with respect to tax laws or to other material factors, such as prolonged worsening of Europe's capital markets or changes in the ability of our U.K. subsidiaries to conduct business in the EU, could lead our management to reassess and/or change its current conclusion that no valuation allowance is necessary with respect to our U.K. net deferred tax assets.

Reputation

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.

Harm to our reputation can arise from various sources, including employee misconduct, security breaches, unethical behavior, litigation or regulatory outcomes, compensation practices, the suitability or reasonableness of recommending particular trading or investment strategies, sales practices, failing to deliver products, standards of service and quality expected by our customers, clients and the community, compliance failures, inadequacy of responsiveness to internal controls, 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. In addition, adverse publicity or negative information

posted on social media websites, whether or not factually correct, may adversely impact our business prospects or financial results.

We are subject to complex and evolving laws and regulations regarding privacy, know-your-customer requirements, data protection, including GDPR, cross-border data movement 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. 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. If personal, confidential or proprietary information of customers or clients in our possession is mishandled or misused, we may face regulatory, reputational and operational risks which could have an adverse effect on our financial condition and results of operations.

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, such as operational risks, gives rise to reputational risk that could harm us and our business prospects. 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.

For additional information, see Capital Management – Regulatory Capital in the MD&A on page 45.

We are subject to significant financial and reputational risks from potential liability arising from lawsuits, and regulatory and 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 remains high. Greater than expected 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 results and prospects. We continue to experience a significant volume of litigation and other disputes, including claims for contractual indemnification, with counterparties regarding relative rights and responsibilities. Consumers, clients and other counterparties continue to be litigious. Among other things, financial institutions, including us, increasingly have been the subject of claims alleging anti-competitive conduct with respect to various products and markets, including U.S. antitrust class actions claiming joint and several liability for treble damages. Our experience with certain regulatory authorities suggests continued supervisory focus on enforcement, including in connection with alleged violations of law and customer harm. 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, as well as claims under the antitrust laws. FIRREA contemplates civil monetary penalties as high as \$1.89 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 also potentially available for False Claims Act cases. The ongoing environment of extensive regulation, regulatory compliance burdens, and regulatory and government enforcement, combined with uncertainty related to the evolving regulatory environment, has resulted in operational and compliance costs and risks, which may limit our ability to continue providing certain products and services.

For more information on litigation risks, see Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

Other

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

We operate in a highly competitive environment and will continue to experience intense competition from local and global financial institutions as well as new entrants, in both domestic and foreign markets. Additionally, the changing

regulatory environment may create competitive disadvantages for certain financial institutions given geography-driven capital and liquidity requirements. For example, U.S. regulators have in certain instances adopted stricter capital and liquidity requirements than those applicable to non-U.S. institutions. 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 easier 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 including electronic securities trading, marketplace lending and payment processing. Increased competition may negatively affect our earnings by creating pressure to lower prices or credit standards on our products and services requiring additional investment to improve the quality and delivery of our technology and/or reducing our market share.

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 and this may impact our ability to grow revenue and/or effectively compete, in part, due to legislative and regulatory developments that affect the competitive landscape. Additionally, the competitive landscape may be impacted by the growth of non-depository institutions that offer products that were traditionally banking products as well as new innovative products. 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 and payment systems, could require substantial expenditures to modify or adapt our

existing products and services as we grow and develop our internet banking and mobile banking channel strategies in addition to remote connectivity solutions. We might not be successful in developing or introducing new products and services, integrating new products or services into our existing offerings, responding or adapting to changes in consumer behavior, preferences, spending, investing and/or saving habits, achieving market acceptance of our products and services, reducing costs in response to pressures to deliver products and services at lower prices or sufficiently developing and maintaining loyal customers.

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 is 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.

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 OCC, the FDIC or other regulators around the world. Recent EU and U.K. rules limit and subject to clawback certain forms of variable compensation for senior employees. Current and potential 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.

We could suffer losses if our models and strategies fail to properly anticipate and manage risk.

We use proprietary models and strategies extensively to measure the capital requirements for credit, country, market, operational and strategic risks and to assess and control our operations. These models require oversight and periodic re-validation and are subject to inherent limitations due to the use of historical trends and assumptions, and uncertainty regarding economic and financial outcomes. Our models 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. Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk. We could suffer losses if our models and strategies fail to properly anticipate and manage risks.

Failure to properly manage and aggregate data may result in inaccurate financial, regulatory and operational reporting. We rely on our ability to manage data and our ability to aggregate data in an accurate and timely manner for effective risk reporting and management which may be limited by the effectiveness of our policies, programs, processes and practices that govern how data is acquired, validated, stored, protected and processed. While we continuously update our policies, programs, processes and practices, many of our data management and aggregation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risk, to produce accurate financial, regulatory and operational reporting as well as to manage changing business needs.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

As of December 31, 2016, 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⁾
Bank of America Corporate Center	Charlotte, NC	60 Story Building	Principal Executive Offices	Owned	1,200,392
Bank of America Tower at One Bryant Park	New York, NY	55 Story Building	GWIM, Global Banking and Global Markets	Leased ⁽²⁾	1,836,575
Bank of America Merrill Lynch Financial Centre	London, UK	4 Building Campus	Global Banking and Global Markets	Leased	565,866
Cheung Kong Center	Hong Kong	62 Story Building	Global Banking and Global Markets	Leased	149,790

⁽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 81.7 million square feet in 21,194 facility and ATM locations globally, including approximately 76.0 million square feet in the U.S. (all 50 states and the District of Columbia, the U.S. Virgin Islands and Puerto Rico) and approximately 5.7 million square feet in more than 35 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 the Tokyo Stock Exchange. As of February 22, 2017, there were 183,458 registered shareholders of common stock. 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 during 2015 and 2016, as well as the dividends we paid on a quarterly basis:

	Quarter High	Low	Dividend
2015First	\$17.90	\$15.15	\$ 0.05
Second	17.67	15.41	0.05
Third	18.45	15.26	0.05
Fourth	17.95	15.38	0.05
2016First	16.43	11.16	0.05
Second	15.11	12.18	0.05
Third	16.19	12.74	0.075
Fourth	23.16	15.63	0.075

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 218 of this report, which are incorporated herein by reference.

The table below presents share repurchase activity for the three months ended December 31, 2016. The primary source of funds for cash distributions by the Corporation to its shareholders is dividends received from its banking subsidiaries. Each of the banking subsidiaries is subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. All of the Corporation's preferred stock outstanding has preference over the Corporation's common stock with respect to payment of dividends.

(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
October 1 - 31, 2016	18,801	\$ 16.45	18,800	\$ 3,291
November 1 - 30, 2016	30,128	17.72	30,128	2,757
December 1 - 31, 2016	22,323	21.76	22,320	2,271
Three months ended December 31, 2016	71,252	18.65		

Includes shares of the Corporation's common stock acquired by the Corporation in connection with satisfaction of

(1) 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) The Corporation's 2016 CCAR capital plan included a request to repurchase \$5.0 billion of common stock over four quarters beginning in the third quarter of 2016 and to repurchase common stock to offset the dilution resulting from certain equity-based compensation awards. On June 29, 2016, following the Federal Reserve's non-objection to the Corporation's 2016 CCAR capital plan, the Board authorized this common stock repurchase beginning July 1, 2016. During the three months ended December 31, 2016, pursuant to the Board's authorization, the Corporation repurchased \$1.3 billion of common stock, which included common stock to offset equity-based compensation

awards. On January 13, 2017, the Corporation announced that the Board approved the repurchase of an additional \$1.8 billion of common stock during the first and second quarters of 2017. Amounts shown in such column do not include such additional repurchase authority. For additional information, see Capital Management -- CCAR and Capital Planning on page 45 and Note 13 – Shareholders' Equity to the Consolidated Financial Statements.

The Corporation did not have any unregistered sales of its equity securities in 2016.

Item 6. Selected Financial Data

See Table 7 in the MD&A on page 26 and Statistical Table XII in the MD&A on page 105, which are incorporated herein by reference.

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

Bank of America Corporation (the "Corporation") and its management may make certain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipates," "targets," "expects," "hopes," "estimates," "intends," "plans," "goals," "believes," "continue," "suggests" and other similar expressions or future or conditional verbs such as "will," "may," "might," "should," "would" and "could." Forward-looking statements represent the Corporation's current expectations, plans or forecasts of its future results, revenues, expenses, efficiency ratio, capital measures, and future business and economic conditions more generally, and other future matters. These statements are not guarantees of future results or performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict and are often beyond the Corporation's control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties more fully discussed under Item 1A. Risk Factors of this Annual Report on Form 10-K and in any of the Corporation's subsequent Securities and Exchange Commission filings: the Corporation's ability to resolve representations and warranties repurchase and related claims, including claims brought by investors or trustees seeking to distinguish certain aspects of the New York Court of Appeals' *ACE Securities Corp. v. DB Structured Products, Inc. (ACE)* decision or to assert other claims seeking to avoid the impact of the ACE decision; the possibility that the Corporation could face increased servicing, securities, fraud, indemnity, contribution or other claims from one or more counterparties, including trustees, purchasers of loans, underwriters, issuers, other parties involved in securitizations, monolines or private-label and other investors; the possibility that future representations and warranties losses may occur in excess of the Corporation's recorded liability and estimated range of possible loss for its representations and warranties exposures; potential claims, damages, penalties, fines and reputational damage resulting from pending or future litigation and regulatory proceedings, including the possibility that amounts may be in excess of the Corporation's recorded liability and estimated range of possible loss for litigation exposures; the possible outcome of LIBOR, other reference rate, financial instrument and foreign exchange inquiries, investigations and litigation; uncertainties about the financial stability and growth rates of non-U.S. jurisdictions, the risk that those jurisdictions may face difficulties servicing their sovereign debt, and related stresses on financial markets, currencies and trade, and the Corporation's exposures to such risks, including direct, indirect and operational; the impact of U.S. and global interest rates (including rising, negative or continued low interest rates), currency exchange rates and economic conditions; the possibility that future credit losses may be higher than currently expected due to changes in economic assumptions, customer behavior and other uncertainties; the impact on the Corporation's business, financial condition and results of operations of a potential higher interest rate environment; the impact on the Corporation's business, financial condition and results of operations from a protracted period of lower oil prices or ongoing volatility with respect to oil prices; the Corporation's ability to achieve its expense targets or net

interest income or other projections; adverse changes to the Corporation's credit ratings from the major credit rating agencies; estimates of the fair value of certain of the Corporation's assets and liabilities; uncertainty regarding the content, timing and impact of regulatory capital and liquidity requirements, including the potential impact of total loss-absorbing capacity requirements; potential adverse changes to our global systemically important bank (G-SIB) surcharge; the potential for payment protection insurance exposure to increase as a result of Financial Conduct Authority actions; the impact of Federal Reserve actions on the Corporation's capital plans; the possible impact of the Corporation's failure to remediate shortcomings identified by banking regulators in the Corporation's Resolution Plan; the impact of implementation and compliance with U.S. and international laws, regulations and regulatory interpretations, including, but not limited to, recovery and resolution planning requirements, Federal Deposit Insurance Corporation (FDIC) assessments, the Volcker Rule, fiduciary standards and derivatives regulations; a failure in or breach of the Corporation's operational or security systems or infrastructure, or those of third parties, including as a result of cyberattacks; the impact on the Corporation's business, financial condition and results of operations from the potential exit of the United Kingdom (U.K.) from the European Union (EU); 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-year amounts have been reclassified to conform to current-year 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 nonbank subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbank financial services and products through four business segments: Consumer Banking, 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 the Bank of America, National Association (Bank of America, N.A. or BANA) charter. At December 31, 2016, the Corporation had approximately \$2.2 trillion in assets and approximately 208,000 full-time equivalent employees.

As of December 31, 2016, we operated in all 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and more than 35 countries. Our retail banking footprint covers approximately 80 percent of the U.S. population, and we serve

approximately 46 million consumer and small business relationships with approximately 4,600 retail financial centers, approximately 15,900 ATMs, and leading online (www.bankofamerica.com) and mobile banking platforms with approximately 34 million active accounts and more than 22 million mobile active users. We offer industry-leading support to approximately three million small business owners. Our wealth management businesses, with client balances of approximately \$2.5 trillion, provide tailored solutions to meet client needs through a full set of investment management, brokerage, banking, trust and retirement products. We are a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions and individuals around the world.

2016 Economic and Business Environment

The economy in the U.S. grew in 2016 for the seventh consecutive year. Following a soft start to the year partly reflecting severe winter weather, domestic demand grew at a moderate pace over the remainder of the year.

Suppressed by a slowdown in housing gains and a decrease in state and local government purchases, domestic spending growth was less than two percent, while weak exports, in part a lagged response to the sharp U.S. dollar appreciation of recent years, and continued inventory reductions by businesses also had a negative impact on GDP growth.

Meanwhile, the labor market continued to tighten, and average hourly earnings increased at the fastest pace since 2008. Payroll gains remained solid, and the unemployment rate trended downward, with the decline limited by stabilizing labor force participation. With employment and wages both rising, consumer spending, the largest component of the U.S. economy, was an economic bright spot. Core inflation (which, unlike headline inflation, excludes certain items subject to frequent volatile price change such as food and energy) also increased during 2016, but remained below the Federal Reserve System's (Federal Reserve) longer-term target of two percent. Meanwhile, headline inflation recovered, as energy costs began to reverse some of their large declines of recent years.

Following a weak start, equity markets advanced in 2016. Higher energy costs improved the trajectory of the manufacturing sector and the outlook for business investment. Treasury yields decreased in the first half of the year, but more than reversed their declines during the second half, especially in the fourth quarter. The U.S. dollar followed a similar pattern, depreciating in the first half only to reverse the losses later in the year.

For a second consecutive year, the Federal Open Market Committee raised its target range for the Federal funds rate by 25 basis points (bps) at the year's final meeting. With a stronger economy, rising inflation and continued labor market tightening, Federal Reserve members raised expectations that if economic growth continued, the pace of rate increases will pick up in 2017, although the removal of accommodation would remain gradual. The contrast between U.S. tightening and quantitative easing in Europe and Japan remained a source of dollar strength.

Internationally, the Eurozone grew moderately in 2016 amid increasing political uncertainty and fragmentation which led to political impasse and fragile governments in many countries, including Italy and Spain. In this context, the European Central Bank extended its quantitative easing program, albeit at a slower pace. At the same time, the U.K. surprised financial markets by voting in favor of leaving the EU. Despite this decision, the U.K. economy proved resilient. Activity in Japan continued to expand in 2016. However, inflation fell back into negative territory for most of the year, forcing the Bank of Japan to adopt a new monetary policy framework aimed at targeting sovereign yields. Aided in part by the increase in oil prices, the Russian and Brazilian economies showed signs of stabilizing following their deep recessions. China's economy decelerated modestly during the year, as its transition towards a growth model less focused on trade, and public investment continued.

Recent Events

Capital Management

During 2016, we repurchased approximately \$5.1 billion of common stock pursuant to the Board of Directors' (the Board) authorization of our 2016 and 2015 Comprehensive Capital Analysis and Review (CCAR) capital plans and to offset equity-based compensation awards. Also, in addition to the previously announced repurchases associated with the 2016 CCAR capital plan, on January 13, 2017, we announced a plan to repurchase an additional \$1.8 billion of common stock during the first half of 2017, to which the Federal Reserve did not object. For additional information, see Capital Management on page 45.

Sale of Non-U.S. Consumer Credit Card Business

On December 20, 2016, we entered into an agreement to sell our non-U.S. consumer credit card business to a third party. Subject to regulatory approval, this transaction is expected to close by mid-2017. After closing, we will retain substantially all payment protection insurance (PPI) exposure above existing reserves. We have considered this exposure in our estimate of a small after-tax gain on the sale. This transaction, once completed, will reduce risk-weighted assets and goodwill, benefiting regulatory capital. At December 31, 2016, the assets of this business, which are presented in assets of business held for sale on the Consolidated Balance Sheet, included non-U.S. credit card loans of \$9.2 billion. This business is included in All Other for reporting purposes. For more information on the assets and liabilities of this business, see Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

Selected Financial Data

Table 1 provides selected consolidated financial data for 2016 and 2015.

Table 1 Selected Financial Data

(Dollars in millions, except per share information)	2016	2015
Income statement		
Revenue, net of interest expense	\$83,701	\$82,965
Net income	17,906	15,836
Diluted earnings per common share	1.50	1.31
Dividends paid per common share	0.25	0.20
Performance ratios		
Return on average assets	0.82	%0.73 %
Return on average common shareholders' equity	6.71	6.24
Return on average tangible common shareholders' equity ⁽¹⁾	9.54	9.08
Efficiency ratio	65.65	69.59
Balance sheet at year end		
Total loans and leases	\$906,683	\$896,983
Total assets	2,187,702	2,144,287
Total deposits	1,260,934	1,197,259
Total common shareholders' equity	241,620	233,903
Total shareholders' equity	266,840	256,176

Return on average tangible common shareholders' equity is a non-GAAP financial measure. For additional information, see Supplemental Financial Data on page 27, and for corresponding reconciliations to accounting principles generally accepted in the United States of America (GAAP) financial measures, see Statistical Table XV.

Financial Highlights

Net income was \$17.9 billion, or \$1.50 per diluted share in 2016 compared to \$15.8 billion, or \$1.31 per diluted share in 2015. The results for 2016 compared to 2015 were driven by higher net interest income and lower noninterest expense, partially offset by a decline in noninterest income and higher provision for credit losses.

Table 2 Summary Income Statement

(Dollars in millions)	2016	2015
Net interest income	\$41,096	\$38,958
Noninterest income	42,605	44,007
Total revenue, net of interest expense	83,701	82,965
Provision for credit losses	3,597	3,161
Noninterest expense	54,951	57,734
Income before income taxes	25,153	22,070
Income tax expense	7,247	6,234
Net income	17,906	15,836
Preferred stock dividends	1,682	1,483

Net income applicable to common shareholders \$16,224 \$14,353

Per common share information

Earnings \$1.58 \$1.37
Diluted earnings 1.50 1.31

Net Interest Income

Net interest income increased \$2.1 billion to \$41.1 billion in 2016 compared to 2015. The net interest yield increased seven bps to 2.21 percent for 2016. These increases were primarily driven by growth in commercial loans, the impact of higher short-end interest rates and increased debt securities balances, as well as a charge of \$612 million in 2015 related to the redemption of certain trust preferred securities, partially offset by lower loan spreads and market-related hedge ineffectiveness. We expect net interest income to increase approximately \$600 million per quarter beginning in the first quarter of 2017, assuming interest rates remain at the year-end 2016 level and modest growth in loans and deposits.

Noninterest Income

Table 3 Noninterest Income

(Dollars in millions)	2016	2015
Card income	\$5,851	\$5,959
Service charges	7,638	7,381
Investment and brokerage services	12,745	13,337
Investment banking income	5,241	5,572
Trading account profits	6,902	6,473
Mortgage banking income	1,853	2,364
Gains on sales of debt securities	490	1,138
Other income	1,885	1,783
Total noninterest income	\$42,605	\$44,007

Noninterest income decreased \$1.4 billion to \$42.6 billion for 2016 compared to 2015. The following highlights the significant changes.

Service charges increased \$257 million primarily due to higher treasury-related revenue.

Investment and brokerage services income decreased \$592 million driven by lower transactional revenue, and decreased asset management fees due to lower market valuations, partially offset by the impact of higher long-term assets under management (AUM) flows.

Investment banking income decreased \$331 million driven by lower equity issuance fees and advisory fees due to a decline in market fee pools.

Trading account profits increased \$429 million due to a stronger performance across credit products led by mortgages and continued strength in rates products, partially offset by reduced client activity in equities.

Mortgage banking income decreased \$511 million primarily driven by a decline in production income, higher representations and warranties provision and lower servicing income, partially offset by more favorable mortgage servicing rights (MSR) results, net of the related hedge performance.

Gains on sales of debt securities decreased \$648 million primarily driven by lower sales volume.

Other income increased \$102 million primarily due to lower debit valuation adjustment (DVA) losses on structured liabilities, improved results from loans and the related hedging activities in the fair value option portfolio, and lower PPI expense, partially offset by lower gains on asset sales. DVA losses related to structured liabilities were \$97 million in 2016 compared to \$633 million in 2015.

Provision for Credit Losses

The provision for credit losses increased \$436 million to \$3.6 billion for 2016 compared to 2015 due to a slower pace of credit quality improvement in the consumer portfolio and an increase in energy sector reserves for the higher risk energy sub-sectors in the commercial portfolio. For more information on the provision for credit losses, see Provision for Credit Losses on page 75. For more information on our energy sector exposure, see Commercial Portfolio Credit Risk Management – Industry Concentrations on page 71.

Noninterest Expense

Table 4 Noninterest Expense

(Dollars in millions)	2016	2015
Personnel	\$31,616	\$32,868
Occupancy	4,038	4,093
Equipment	1,804	2,039
Marketing	1,703	1,811
Professional fees	1,971	2,264
Amortization of intangibles	730	834
Data processing	3,007	3,115
Telecommunications	746	823
Other general operating	9,336	9,887
Total noninterest expense	\$54,951	\$57,734

Noninterest expense decreased \$2.8 billion to \$55.0 billion for 2016 compared to 2015. Personnel expense decreased \$1.3 billion as we continue to manage headcount and achieve cost savings. Continued expense management, as well as the expiration of advisor retention awards, more than offset the increases in client-facing professionals. Professional fees decreased \$293 million primarily due to lower legal fees. Other general operating expense decreased \$551 million primarily driven by lower foreclosed properties expense and lower brokerage fees, partially offset by higher FDIC expense.

We have previously announced an annual noninterest expense target of approximately \$53 billion for full-year 2018.

Income Tax Expense

Table 5 Income Tax Expense

(Dollars in millions)	2016	2015
Income before income taxes	\$25,153	\$22,070
Income tax expense	7,247	6,234
Effective tax rate	28.8	% 28.2 %

The effective tax rate for 2016 was driven by our recurring tax preferences and net tax benefits related to various tax audit matters, partially offset by a charge for the impact of the U.K. tax law changes discussed below. The effective tax rate for 2015 was driven by our recurring tax preferences and by tax benefits related to certain non-U.S. restructurings, partially offset by a charge for the impact of the U.K. tax law change enacted in 2015.

The U.K. Finance Bill 2016 was enacted on September 15, 2016. The changes included reducing the U.K. corporate income tax rate by one percent to 17 percent, effective April 1, 2020. This reduction favorably affects income tax expense on future U.K. earnings, but required a remeasurement of our U.K. net deferred tax assets using the lower tax rate. Accordingly, upon enactment, we recorded an income tax charge of \$348 million. In addition, for banking companies, the portion of U.K. taxable income that can be reduced by existing net operating loss carryforwards in any

one taxable year has been reduced from 50 percent to 25 percent retroactive to April 1, 2016.

Our U.K. deferred tax assets, which consist primarily of net operating losses, are expected to be realized by certain subsidiaries over a number of years. Significant changes to management's earnings forecasts for those subsidiaries, changes in applicable laws, further changes in tax laws or changes in the ability of our U.K. subsidiaries to conduct business in the EU, could lead management to reassess our ability to realize the U.K. deferred tax assets. For additional information, see Item 1A. Risk Factors.

Balance Sheet Overview

Table 6 Selected Balance Sheet Data

	December 31		
(Dollars in millions)	2016	2015	% Change
Assets			
Cash and cash equivalents	\$147,738	\$159,353	(7)%
Federal funds sold and securities borrowed or purchased under agreements to resell	198,224	192,482	3
Trading account assets	180,209	176,527	2
Debt securities	430,731	406,888	6
Loans and leases	906,683	896,983	1
Allowance for loan and lease losses	(11,237)	(12,234)	(8)
All other assets	335,354	324,288	3
Total assets	\$2,187,702	\$2,144,287	2
Liabilities			
Deposits	\$1,260,934	\$1,197,259	5
Federal funds purchased and securities loaned or sold under agreements to repurchase	170,291	174,291	(2)
Trading account liabilities	63,031	66,963	(6)
Short-term borrowings	23,944	28,098	(15)
Long-term debt	216,823	236,764	(8)
All other liabilities	185,839	184,736	1
Total liabilities	1,920,862	1,888,111	2
Shareholders' equity	266,840	256,176	4
Total liabilities and shareholders' equity	\$2,187,702	\$2,144,287	2

Assets

At December 31, 2016, total assets were approximately \$2.2 trillion, up \$43.4 billion from December 31, 2015. The increase in assets was primarily due to higher debt securities driven by the deployment of deposit inflows, an increase in loans and leases driven by client demand for commercial loans, and higher securities borrowed or purchased under agreements to resell due to increased customer financing activity. These increases were partially offset by a decrease in cash and cash equivalents as excess cash was deployed.

Cash and Cash Equivalents

Cash and cash equivalents decreased \$11.6 billion primarily driven by loan growth, net securities purchases and net debt maturities.

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. Federal funds sold and securities borrowed or purchased under agreements to resell increased \$5.7 billion due to a higher level of customer financing activity.

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.

Trading account assets increased \$3.7 billion primarily driven by client demand within Global Markets.

Debt Securities

Debt securities primarily include U.S. Treasury and agency securities, mortgage-backed securities (MBS), principally agency MBS, non-U.S. 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 economically attractive returns on these investments. Debt securities increased \$23.8 billion primarily driven by the deployment of deposit inflows. For more information on debt securities, see Note 3 – Securities to the Consolidated Financial Statements.

Loans and Leases

Loans and leases increased \$9.7 billion compared to December 31, 2015. The increase consisted of \$18.9 billion in net loan growth driven by strong client demand for commercial loans, partially offset by \$9.2 billion in non-U.S. credit card loans that were reclassified from loans and leases to assets of business held for sale, which is included in all other assets in the table above. For more information on the loan portfolio, see Credit Risk Management on page 55.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses decreased \$1.0 billion primarily due to the impact of improvements in credit quality from a stronger economy. For additional information, see Allowance for Credit Losses on page 75.

All Other Assets

All other assets increased \$11.1 billion driven by the reclassification of \$10.7 billion in assets related to our non-U.S. credit card business primarily from loans and leases and debt securities to assets of business held for sale, which is included in all other assets in Table 6.

Liabilities

At December 31, 2016, total liabilities were approximately \$1.9 trillion, up \$32.8 billion from December 31, 2015, primarily due to an increase in deposits, partially offset by a decrease in long-term debt.

Deposits

Deposits increased \$63.7 billion primarily due to an increase in retail deposits.

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

Federal funds transactions involve borrowing reserve balances on a short-term basis. Securities loaned 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. Federal funds purchased and securities loaned or sold under agreements to repurchase decreased \$4.0 billion primarily due to a decrease in repurchase agreements.

Trading Account Liabilities

Trading account liabilities consist primarily of short positions in equity and fixed-income securities including U.S. Treasury and agency securities, corporate securities and non-U.S. sovereign debt. Trading account liabilities decreased \$3.9 billion primarily due to lower levels of short U.S. Treasury positions driven by less client demand within Global Markets.

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. Short-term borrowings decreased \$4.2 billion primarily due to a decrease in short-term bank notes, partially offset by 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

Long-term debt decreased \$19.9 billion primarily driven by maturities and redemptions outpacing issuances. For more information on long-term debt, see Note 11 – Long-term Debt to the Consolidated Financial Statements.

All Other Liabilities

All other liabilities increased \$1.1 billion due to an increase in derivative liabilities.

Shareholders' Equity

Shareholders' equity increased \$10.7 billion driven by earnings and preferred stock issuances, partially offset by returns of capital to shareholders of \$9.4 billion through common and preferred stock dividends and share repurchases, as well as a decrease in accumulated other comprehensive income (OCI) primarily due to an increase in unrealized losses on available-for-sale (AFS) debt securities as a result of higher interest rates.

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 loans and leases. Our financing activities reflect cash flows primarily related to customer deposits, securities financing agreements and long-term debt. For additional information on liquidity, see Liquidity Risk on page 51.

Table 7 Five-year Summary of Selected Financial Data

(In millions, except per share information)	2016	2015	2014	2013	2012
Income statement					
Net interest income	\$41,096	\$38,958	\$40,779	\$40,719	\$40,135
Noninterest income	42,605	44,007	45,115	46,783	42,663
Total revenue, net of interest expense	83,701	82,965	85,894	87,502	82,798
Provision for credit losses	3,597	3,161	2,275	3,556	8,169
Noninterest expense	54,951	57,734	75,656	69,213	72,094
Income before income taxes	25,153	22,070	7,963	14,733	2,535
Income tax expense (benefit)	7,247	6,234	2,443	4,194	(1,320)
Net income	17,906	15,836	5,520	10,539	3,855
Net income applicable to common shareholders	16,224	14,353	4,476	9,190	2,427
Average common shares issued and outstanding	10,284	10,462	10,528	10,731	10,746
Average diluted common shares issued and outstanding	11,036	11,214	10,585	11,491	10,841
Performance ratios					
Return on average assets	0.82	% 0.73	% 0.26	% 0.49	% 0.18
Return on average common shareholders' equity	6.71	6.24	2.01	4.21	1.12
Return on average tangible common shareholders' equity ⁽¹⁾	9.54	9.08	2.98	6.35	1.71
Return on average shareholder's equity	6.72	6.28	2.32	4.51	1.64
Return on average tangible shareholders' equity ⁽¹⁾	9.19	8.80	3.34	6.58	2.40
Total ending equity to total ending assets	12.20	11.95	11.57	11.06	10.72
Total average equity to total average assets	12.16	11.66	11.11	10.81	10.75
Dividend payout	15.86	14.56	28.20	4.66	18.03
Per common share data					
Earnings	\$1.58	\$1.37	\$0.43	\$0.86	\$0.23
Diluted earnings	1.50	1.31	0.42	0.83	0.22
Dividends paid	0.25	0.20	0.12	0.04	0.04
Book value	24.04	22.53	21.32	20.69	20.24
Tangible book value ⁽¹⁾	16.95	15.62	14.43	13.77	13.36
Market price per share of common stock					
Closing	\$22.10	\$16.83	\$17.89	\$15.57	\$11.61
High closing	23.16	18.45	18.13	15.88	11.61
Low closing	11.16	15.15	14.51	11.03	5.80
Market capitalization	\$222,163	\$174,700	\$188,141	\$164,914	\$125,136

Tangible equity ratios and tangible book value per share of common stock are non-GAAP financial measures. For

- (1) more information on these ratios, see Supplemental Financial Data on page 27, and for corresponding reconciliations to GAAP financial measures, see Statistical Table XV on page 108.
- (2) For more information on the impact of the purchased credit-impaired (PCI) loan portfolio on asset quality, see Consumer Portfolio Credit Risk Management on page 56.
- (3) Includes the allowance for loan and lease losses and the reserve for unfunded lending commitments. 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 –
- (4) Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity on page 64 and corresponding Table 30, and Commercial Portfolio Credit Risk Management – Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity on page 70 and corresponding Table 37.

- Asset quality metrics include \$243 million of non-U.S. credit card allowance for loan and lease losses and \$9.2
- (5) billion of non-U.S. credit card loans, which are included in assets of business held for sale on the Consolidated Balance Sheet at December 31, 2016.
- (6) Primarily includes amounts allocated to the U.S. credit card and unsecured consumer lending portfolios in Consumer Banking, PCI loans and the non-U.S. credit card portfolio in All Other.
- Net charge-offs exclude \$340 million, \$808 million, \$810 million, \$2.3 billion and \$2.8 billion of write-offs in the
- (7) PCI loan portfolio for 2016, 2015, 2014, 2013 and 2012 respectively. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62.
- Risk-based capital ratios are reported under Basel 3 Advanced - Transition at December 31, 2016 and 2015. We
- (8) reported risk-based capital ratios under Basel 3 Standardized - Transition at December 31, 2014 and under the general risk-based approach at December 31, 2013 and 2012. For additional information, see Capital Management on page 45.
- n/a = not applicable

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

(Dollars in millions)	2016	2015	2014	2013	2012
Average balance sheet					
Total loans and leases	\$900,433	\$876,787	\$898,703	\$918,641	\$898,768
Total assets	2,189,971	2,160,197	2,145,393	2,163,296	2,191,361
Total deposits	1,222,561	1,155,860	1,124,207	1,089,735	1,047,782
Long-term debt	228,617	240,059	253,607	263,417	316,393
Common shareholder equity	241,621	230,173	222,907	218,340	216,999
Total shareholder equity	266,277	251,981	238,317	233,819	235,681
Asset quality ⁽²⁾					
Allowance for credit losses ⁽³⁾	\$ 11,999	\$ 12,880	\$ 14,947	\$ 17,912	\$ 24,692
Nonperforming loans, leases and foreclosed properties ⁽⁴⁾	8,084	9,836	12,629	17,772	23,555
Allowance for loan and lease losses as a percentage of total loans and leases outstanding ^(4, 5)	1.26%	% 1.37	% 1.66	% 1.90	% 2.69

Allowance
for loan
and
lease
losses as
a
percentage
of total
nonperforming
loans
and
leases ^{(4,}
⁵⁾

149 130 121 102 107

Allowance
for loan
and
lease
losses as
a
percentage
of total
nonperforming
loans
and
leases,
excluding
the PCI
loan
portfolio ^{(4,}
⁵⁾

144 122 107 87 82

Amounts
included
in
allowance
for loan
and
lease
losses
for loans
and
leases
that are
excluded
from
nonperforming
loans
and
leases ⁽⁶⁾

\$3,951 \$4,518 \$5,944 \$7,680 \$12,021

Allowance
for loan
and

98 % 82 % 71 % 57 % 54 %

lease
losses as
a
percentage
of total
nonperforming
loans
and
leases,
excluding
the
allowance
for loan
and
lease
losses
for loans
and
leases
that are
excluded
from
nonperforming
loans
and
leases ^{(4,}
⁶⁾

Net
charge-offs
\$3,821 \$4,338 \$4,383 \$7,897 \$14,908
⁽⁷⁾

Net
charge-offs
as a
percentage
of
average 0.43 % 0.50 % 0.49 % 0.87 % 1.67 %
loans
and
leases
outstanding
^(4, 7)

Net 0.44 0.51 0.50 0.90 1.73
charge-offs
as a
percentage
of
average
loans
and
leases
outstanding,

excluding
the PCI
loan
portfolio
(4)

Net
charge-offs
and PCI
write-offs
as a
percentage
of 0.47 0.59 0.58 1.13 1.99
average
loans
and
leases
outstanding
(4)

Nonperforming
loans
and
leases as
a
percentage of total 0.85 1.05 1.38 1.87 2.52
loans
and
leases
outstanding (4,
5)

Nonperforming
loans,
leases
and
foreclosed
properties
as a
percentage of total 0.89 1.10 1.45 1.93 2.62
loans,
leases
and
foreclosed
properties (4,
5)

Ratio of 3.00 2.82 3.29 2.21 1.62
the
allowance
for loan
and
lease

losses at
December
31 to net
charge-offs
(5, 7)

Ratio of
the
allowance
for loan
and
lease

losses at
December 31 to net
charge-offs,
excluding
the PCI
loan
portfolio
(5)

Ratio of
the
allowance
for loan
and
lease

losses at
December 31 to net
charge-offs
and PCI
write-offs
(5)

Capital
ratios at
year end
(8)

Risk-based
capital:
Common

equity
tier 1
capital

Tier 1
common
capital

Tier 1
capital

Total
capital

11.0	2.64	2.91	1.89	1.25		
11.0	2.38	2.78	1.70	1.36		
11.0	% 10.2	% 12.3	% n/a	n/a		
n/a	n/a	n/a	10.9	% 10.8	%	
12.4	11.3	13.4	12.2	12.7		
14.3	13.2	16.5	15.1	16.1		
8.9	8.6	8.2	7.7	7.2		

Tier 1 leverage					
Tangible equity ⁽¹⁾	9.2	8.9	8.4	7.8	7.6
Tangible common equity ⁽¹⁾	8.1	7.8	7.5	7.2	6.7

For footnotes see page 26.

Supplemental Financial Data

In this Form 10-K, we present certain non-GAAP financial measures. Non-GAAP financial measures exclude certain items or otherwise include components that differ from the most directly comparable measures calculated in accordance with GAAP. Non-GAAP financial measures are provided as additional useful information to assess our financial condition, results of operations (including period-to-period operating performance) or compliance with prospective regulatory requirements. These non-GAAP financial measures are not intended as a substitute for GAAP financial measures and may not be defined or calculated the same way as non-GAAP financial measures used by other companies.

We view net interest income and related ratios and analyses on an fully taxable-equivalent (FTE) basis, which when presented on a consolidated basis, are non-GAAP financial measures. 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 and a representative state tax rate. In addition, certain performance measures including the efficiency ratio and net interest yield utilize net interest income (and thus total revenue) on an 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 believe that presentation of these items on an FTE basis allows for comparison of amounts from both taxable and tax-exempt sources and is consistent with industry practices.

We may present certain key performance indicators and ratios excluding certain items (e.g., DVA) which result in non-GAAP

financial measures. We believe that the presentation of measures that exclude these items are useful because they provide additional information to assess the underlying operational performance and trends of our businesses and to allow better comparison of period-to-period operating performance.

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 certain acquired intangible assets (excluding MSRs), net of related deferred tax liabilities. These measures are used to evaluate our use of equity. In addition, profitability, relationship and investment models use both return on average tangible common shareholders' equity and return on average tangible shareholders' equity 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 certain acquired intangible assets (excluding MSRs), net of related deferred tax liabilities.

Return on average tangible shareholders' equity 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 certain acquired 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.

We believe that the use of ratios that utilize tangible equity provides additional useful information because they present measures of those assets that can generate income. Tangible book value per share provides additional useful information about the level of tangible assets in relation to outstanding shares of common stock.

The aforementioned supplemental data and performance measures are presented in Table 7 and Statistical Table XII. Statistical Tables XV and XVI on pages 108 and 109 provide reconciliations of these non-GAAP financial measures to GAAP financial measures.

Table 8 Five-year Supplemental Financial Data

(Dollars in millions, except per share information)	2016	2015	2014	2013	2012
Fully taxable-equivalent basis data					
Net interest income	\$41,996	\$39,847	\$41,630	\$41,578	\$41,036
Total revenue, net of interest expense	84,601	83,854	86,745	88,361	83,699
Net interest yield	2.25 %	2.19 %	2.30 %	2.29 %	2.22 %
Efficiency ratio	64.95	68.85	87.22	78.33	86.13

Business Segment Operations

Segment Description and Basis of Presentation

We report our results of operations through the following four business segments: Consumer Banking, GWIM, Global Banking and Global Markets, with the remaining operations recorded in All Other. The primary activities, products and businesses of the business segments and All Other are shown below.

We periodically review capital allocated to our businesses and allocate capital annually during the strategic and capital planning processes. We utilize a methodology that considers the effect of regulatory capital requirements in addition to internal risk-based capital models. Our 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 41. The capital allocated to the business segments is referred to as allocated capital. For purposes of goodwill impairment testing, we utilize allocated equity as a proxy for the

carrying value of our reporting units. Allocated equity in the reporting units is comprised of allocated capital plus capital for the portion of goodwill and intangibles specifically assigned to the reporting unit. For additional information, see Note 8 – Goodwill and Intangible Assets to the Consolidated Financial Statements.

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

Consumer Banking

	Deposits		Consumer Lending		Total Consumer Banking		% Change	
(Dollars in millions)	2016	2015	2016	2015	2016	2015		
Net interest income (FTE basis)	\$10,701	\$9,635	\$10,589	\$10,793	\$21,290	\$20,428	4	%
Noninterest income:								
Card income	9	11	4,926	4,926	4,935	4,937	—	
Service charges	4,141	4,100	1	1	4,142	4,101	1	
Mortgage banking income	—	—	960	1,332	960	1,332	(28)
All other income	403	483	1	244	404	727	(44)
Total noninterest income	4,553	4,594	5,888	6,503	10,441	11,097	(6)
Total revenue, net of interest expense (FTE basis)	15,254	14,229	16,477	17,296	31,731	31,525	1	
Provision for credit losses	174	200	2,541	2,146	2,715	2,346	16	
Noninterest expense	9,678	9,856	7,975	8,860	17,653	18,716	(6)
Income before income taxes (FTE basis)	5,402	4,173	5,961	6,290	11,363	10,463	9	
Income tax expense (FTE basis)	1,992	1,521	2,198	2,293	4,190	3,814	10	
Net income	\$3,410	\$2,652	\$3,763	\$3,997	\$7,173	\$6,649	8	
Net interest yield (FTE basis)	1.79	% 1.75	% 4.37	% 4.70	% 3.38	% 3.52	%	
Return on average allocated capital	28	22	17	19	21	20		
Efficiency ratio (FTE basis)	63.44	69.27	48.41	51.23	55.63	59.37		

Balance Sheet

Average

Total loans and leases	\$4,809	\$4,713	\$240,999	\$227,719	\$245,808	\$232,432	6
Total earning assets ⁽¹⁾	598,043	549,600	242,445	229,579	629,990	580,095	9
Total assets ⁽¹⁾	624,592	576,569	254,287	242,707	668,381	620,192	8
Total deposits	592,417	544,685	7,237	8,191	599,654	552,876	8
Allocated capital	12,000	12,000	22,000	21,000	34,000	33,000	3

Year end

Total loans and leases	\$4,938	\$4,735	\$254,053	\$234,116	\$258,991	\$238,851	8
Total earning assets ⁽¹⁾	631,172	576,108	255,511	235,496	662,704	605,012	10
Total assets ⁽¹⁾	658,316	603,448	268,002	248,571	702,339	645,427	9
Total deposits	625,727	571,467	7,063	6,365	632,790	577,832	10

In segments and businesses where the total of liabilities and equity exceeds assets, we allocate assets from All

⁽¹⁾ 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 Consumer Banking.

Consumer Banking, which is comprised of Deposits and Consumer Lending, offers a diversified range of credit, banking and investment products and services to consumers and small businesses. Our customers and clients have access to a coast to coast network including financial centers in 33 states and the District of Columbia. Our network includes approximately 4,600 financial centers, 15,900 ATMs, nationwide call centers, and online and mobile platforms.

Consumer Banking Results

Net income for Consumer Banking increased \$524 million to \$7.2 billion in 2016 compared to 2015 primarily driven by lower noninterest expense and higher revenue, partially offset by higher provision for credit losses. Net interest income increased \$862 million to \$21.3 billion primarily due to the beneficial impact of an increase in investable assets as a result of higher deposits. Noninterest income decreased \$656 million to \$10.4 billion due to lower mortgage banking income and gains in 2015 on certain divestitures.

The provision for credit losses increased \$369 million to \$2.7 billion in 2016 primarily driven by a slower pace of improvement in the credit card portfolio. Noninterest expense decreased \$1.1 billion to \$17.7 billion driven by improved operating efficiencies and lower fraud costs, partially offset by higher FDIC expense.

The return on average allocated capital was 21 percent, up from 20 percent, reflecting higher net income. For additional information on capital allocations, see Business Segment Operations on page 29.

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 financial centers and ATMs.

Deposits includes the net impact of migrating customers and their related deposit and brokerage asset 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 - Net Migration Summary on page 34.

Net income for Deposits increased \$758 million to \$3.4 billion in 2016 driven by higher revenue and lower noninterest expense. Net interest income increased \$1.1 billion to \$10.7 billion primarily due to the beneficial impact of an increase in investable assets as a result of higher deposits. Noninterest income decreased \$41 million to \$4.6 billion due to gains in the prior year on certain divestitures.

The provision for credit losses decreased \$26 million to \$174 million. Noninterest expense decreased \$178 million to \$9.7 billion primarily driven by improved operating efficiencies, partially offset by higher FDIC expense.

Average deposits increased \$47.7 billion to \$592.4 billion in 2016 driven by a continuing customer shift to more liquid products in the low rate environment. Growth in checking, traditional savings and money market savings of \$53.8 billion was partially offset by a decline in time deposits of \$6.1 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 one bp to four bps.

Key Statistics – Deposits

	2016	2015
Total deposit spreads (excludes noninterest costs) ⁽¹⁾	1.65	% 1.62

Year end

Client brokerage assets (in millions)	\$ 144,696	\$ 122,721
Online banking active accounts (units in thousands)	33,811	31,674
Mobile banking active users (units in thousands)	21,648	18,705
Financial centers	4,579	4,726
ATMs	15,928	16,038

⁽¹⁾ Includes deposits held in Consumer Lending.

Client brokerage assets increased \$22.0 billion in 2016 driven by client flows and strong market performance. Mobile banking active users increased 2.9 million reflecting continuing changes in our customers' banking preferences. The number of financial centers declined 147 driven by changes in customer preferences to self-service options as we continue to optimize our consumer banking network and improve our cost-to-serve.

Consumer Lending

Consumer Lending offers products to consumers and small businesses across the U.S. The products offered include credit and debit cards, residential mortgages and home equity loans, and direct and indirect loans such as automotive, 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, late fees, cash advance fees, annual credit card fees, mortgage banking fee income and other miscellaneous fees. Consumer Lending products are available to our customers through our retail network, direct telephone, and online and mobile channels. Consumer Lending results also include the impact of servicing residential mortgages and home equity loans in the core portfolio, including loans held on the balance sheet of Consumer Lending and loans serviced for others. We classify consumer real estate loans as core or non-core based on loan and customer characteristics such as origination

date, product type, loan-to-value (LTV), Fair Isaac Corporation (FICO) score and delinquency status. Total owned loans in the core portfolio held in Consumer Lending increased \$10.6 billion to \$101.2 billion in 2016 primarily driven by higher residential mortgage balances, partially offset by a decline in home equity balances. For more information on the core and non-core portfolios, see Consumer Portfolio Credit Risk Management on page 56. Consumer Lending includes the net impact of migrating customers and their related loan balances between Consumer Lending and GWIM. For more information on the migration of customer balances to or from GWIM, see GWIM on page 33.

Net income for Consumer Lending decreased \$234 million to \$3.8 billion in 2016 driven by a decline in revenue and higher provision for credit losses, partially offset by lower noninterest expense. Net interest income decreased \$204 million to \$10.6 billion primarily driven by higher funding costs, partially offset by the impact of an increase in consumer auto lending balances. Noninterest income decreased \$615 million to \$5.9 billion driven by lower mortgage banking income and gains in 2015 on certain divestitures.

The provision for credit losses increased \$395 million to \$2.5 billion in 2016 primarily driven by a slower pace of improvement in the credit card portfolio. Noninterest expense decreased \$885 million to \$8.0 billion primarily driven by improved operating efficiencies and lower fraud costs due to the benefit of the Europay, MasterCard and Visa (EMV) chip implementation, as well as lower personnel expense.

Average loans increased \$13.3 billion to \$241.0 billion in 2016 primarily driven by increases in residential mortgages and consumer vehicle loans, partially offset by lower home equity loans.

Key Statistics – Consumer Lending

(Dollars in millions)	2016	2015
Total U.S. credit card ⁽¹⁾		
Gross interest yield	9.29	% 9.16 %
Risk-adjusted margin	9.04	9.31
New accounts (in thousands)	4,979	4,973
Purchase volumes	\$226,432	\$221,378
Debit card purchase volumes	\$285,612	\$277,695

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

During 2016, the total U.S. credit card risk-adjusted margin decreased 27 bps primarily driven by the impact of gains in 2015 on certain divestitures and a decrease in net interest margin, partially offset by an improvement in credit quality in the U.S. Card portfolio. Total U.S. credit card purchase volumes increased \$5.1 billion to \$226.4 billion and debit card purchase volumes increased \$7.9 billion to \$285.6 billion, reflecting higher levels of consumer spending. The increase in total U.S. credit card purchase volumes was partially offset by the impact of certain divestitures.

Mortgage Banking Income

Mortgage banking income is earned primarily in Consumer Banking and All Other. Total production income within mortgage banking income is comprised primarily of revenue from the fair value gains and losses recognized on our interest rate lock commitments (IRLCs) and loans held-for-sale (LHFS), the related secondary market execution, and costs related to representations and warranties made in the sales transactions along with other obligations incurred in the sales of mortgage loans. Servicing

income within mortgage banking income includes income earned in connection with servicing activities and MSR valuation adjustments, net of results from risk management activities used to hedge certain market risks of the MSRs. Servicing income for the core portfolio is recorded in Consumer Banking. Servicing income for the non-core portfolio, including hedge ineffectiveness on MSR hedges, is recorded in All Other. The costs associated with our servicing activities are included in noninterest expense.

The table below summarizes the components of mortgage banking income. Amounts for mortgage banking income in All Other are included in this Consumer Banking table to show the components of consolidated mortgage banking income.

Mortgage Banking Income

(Dollars in millions)	2016	2015
Consumer Banking mortgage banking income		
Total production income	\$663	\$950
Net servicing income		
Servicing fees	708	855
Amortization of expected cash flows ⁽¹⁾	(577)	(661)
Fair value changes of MSRs, net of risk management activities used to hedge certain market risks ⁽²⁾	166	188
Total net servicing income	297	382
Total Consumer Banking mortgage banking income	960	1,332
Other mortgage banking income		
Servicing fees	452	540
Amortization of expected cash flows ⁽¹⁾	(74)	(77)
Fair value changes of MSRs, net of risk management activities used to hedge certain market risks ⁽²⁾	546	426
Other	(31)	143
Total other mortgage banking income ⁽³⁾	893	1,032
Total consolidated mortgage banking income	\$1,853	\$2,364

⁽¹⁾ Represents the net change in fair value of the MSR asset due to the recognition of modeled cash flows.

Includes changes in fair value of MSRs due to changes in inputs and assumptions, net of risk management

⁽²⁾ activities, and gains (losses) on sales of MSRs. For additional information, see Note 23 – Mortgage Servicing Rights to the Consolidated Financial Statements.

⁽³⁾ Includes \$889 million and \$1.0 billion of mortgage banking income recorded in All Other for 2016 and 2015.

Total production income for Consumer Banking decreased \$287 million to \$663 million in 2016 due to a decrease in production volume to be sold, resulting from a decision to retain certain residential mortgage loans in Consumer Banking.

Servicing

The costs associated with servicing activities related to the residential mortgage and home equity loan portfolios, including owned loans and loans serviced for others (collectively, the mortgage serviced portfolio) are allocated to the business segment that owns the loans or MSRs or All Other.

Servicing activities include collecting cash for principal, interest and escrow payments from borrowers, disbursing customer draws for lines of credit, accounting for and remitting principal and interest payments to investors and escrow payments to third parties, and responding to customer inquiries. Our home retention efforts, including single point of contact resources, are also part of our servicing activities, along with supervision of foreclosures and property dispositions. Prior to foreclosure, we evaluate various workout options in an effort to help our customers avoid foreclosure.

Consumer Banking servicing income decreased \$85 million to \$297 million in 2016 driven by lower servicing fees, partially offset by lower amortization of expected cash flows due to a smaller servicing portfolio. Servicing fees declined \$147 million to \$708 million in 2016 reflecting the decline in the size of the servicing portfolio.

Mortgage Servicing Rights

At December 31, 2016, the core MSR portfolio, held within Consumer Lending, was \$2.1 billion compared to \$2.3 billion at December 31, 2015. The decrease was primarily driven by the amortization of expected cash flows, which exceeded new additions, as well as changes in fair value due to changes in inputs and assumptions. For more information on MSRs, see Note 23 – Mortgage Servicing Rights to the Consolidated Financial Statements.

Key Statistics

(Dollars in millions) 2016 2015

Loan production ⁽¹⁾:

Total ⁽²⁾:

First mortgage	\$64,153	\$56,930
----------------	----------	----------

Home equity	15,214	13,060
-------------	--------	--------

Consumer Banking:

First mortgage	\$44,510	\$40,878
----------------	----------	----------

Home equity	13,675	11,988
-------------	--------	--------

(1) The loan production amounts represent the unpaid principal balance of loans and in the case of home equity, the principal amount of the total line of credit.

(2) In addition to loan production in Consumer Banking, there is also first mortgage and home equity loan production in GWIM.

First mortgage loan originations in Consumer Banking and for the total Corporation increased \$3.6 billion and \$7.2 billion in 2016 compared to 2015 driven by improving housing trends and a lower rate environment.

Home equity production for the total Corporation increased \$2.2 billion in 2016 compared to 2015 due to a higher demand in the market based on improving housing trends, as well as improved financial center engagement with customers and more competitive pricing.

Global Wealth & Investment Management

(Dollars in millions)	2016	2015	% Change
Net interest income (FTE basis)	\$5,759	\$5,527	4 %
Noninterest income:			
Investment and brokerage services	10,316	10,792	(4)
All other income	1,575	1,715	(8)
Total noninterest income	11,891	12,507	(5)
Total revenue, net of interest expense (FTE basis)	17,650	18,034	(2)
Provision for credit losses	68	51	33
Noninterest expense	13,182	13,943	(5)
Income before income taxes (FTE basis)	4,400	4,040	9
Income tax expense (FTE basis)	1,629	1,473	11
Net income	\$2,771	\$2,567	8
Net interest yield (FTE basis)	2.09	% 2.13	%
Return on average allocated capital	21	21	
Efficiency ratio (FTE basis)	74.68	77.32	

Balance Sheet

Average Total loans and leases	\$142,429	\$132,499	7
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Total earning assets	275,800	259,020	6
Total assets	291,479	275,950	6
Total deposits	256,425	244,725	5
Allocated capital	13,000	12,000	8

Year end

Total loans and leases	\$ 148,179	\$ 139,039	7
Total earning assets	283,152	279,597	1
Total assets	298,932	296,271	1
Total deposits	262,530	260,893	1

GWIM consists of two primary businesses: Merrill Lynch Global Wealth Management (MLGWM) and U.S. Trust, Bank of America Private Wealth Management (U.S. Trust).

MLGWM's advisory business provides a high-touch client experience through a network of financial advisors focused on clients with over \$250,000 in total investable assets. MLGWM provides tailored solutions to meet our clients' needs through a full set of investment management, brokerage, banking and retirement products.

U.S. Trust, together with MLGWM's Private Banking & Investments Group, provides comprehensive wealth management solutions targeted to high net worth and ultra high net worth clients, as well as customized solutions to meet clients' wealth structuring, investment management, trust and banking needs, including specialty asset management services.

Client assets managed under advisory and/or discretion of GWIM are AUM and are typically held in diversified portfolios. The majority of client AUM have an investment strategy with a duration of greater than one year and are, therefore, considered long-term AUM. Fees earned on long-term AUM are calculated as a percentage of total AUM. The asset management fees charged to clients per year are dependent on various factors, but are generally driven by the breadth of the client's relationship and generally range from 50 to 150 bps on their total AUM. The net client long-term AUM flows represent the net change in clients' long-term AUM balances over a specified period of time, excluding market appreciation/depreciation and other adjustments.

Client assets under advisory and/or discretion of GWIM in which the investment strategy seeks current income, while maintaining liquidity and capital preservation, are considered liquidity AUM. The duration of these strategies is primarily less than one year. The change in AUM balances from the prior year is primarily the net client flows for liquidity AUM.

Net income for GWIM increased \$204 million to \$2.8 billion in 2016 compared to 2015 driven by a decrease in noninterest expense, partially offset by a decrease in revenue.

Net interest income increased \$232 million to \$5.8 billion driven by the impact of growth in loan and deposit balances. Noninterest income, which primarily includes investment and brokerage services income, decreased \$616 million to \$11.9 billion. The decline in noninterest income was driven by lower transactional revenue and decreased asset management fees primarily due to lower market valuations in 2016, partially offset by the impact of long-term AUM flows. Noninterest expense decreased \$761 million to \$13.2 billion primarily due to the expiration of advisor retention awards, lower revenue-related incentives and lower operating and support costs, partially offset by higher FDIC expense.

Return on average allocated capital was 21 percent for both 2016 and 2015.

Key Indicators and Metrics

(Dollars in millions, except as noted)	2016	2015
Revenue by Business		
Merrill Lynch Global Wealth Management	\$14,486	\$14,926
U.S. Trust	3,075	3,032
Other ⁽¹⁾	89	76
Total revenue, net of interest expense (FTE basis)	\$17,650	\$18,034
Client Balances by Business, at year end		
Merrill Lynch Global Wealth Management	\$2,102,175	\$1,986,502
U.S. Trust	406,392	388,604
Other ⁽¹⁾	—	82,929
Total client balances	\$2,508,567	\$2,458,035
Client Balances by Type, at year end		
Long-term assets under management	\$886,148	\$817,938
Liquidity assets under management ⁽¹⁾	—	82,925
Assets under management	886,148	900,863
Brokerage assets	1,085,826	1,040,938
Assets in custody	123,066	113,239
Deposits	262,530	260,893
Loans and leases ⁽²⁾	150,997	142,102
Total client balances	\$2,508,567	\$2,458,035
Assets Under Management Rollforward		
Assets under management, beginning of year	\$900,863	\$902,872
Net long-term client flows	38,572	34,441
Net liquidity client flows	(7,990)) 6,133
Market valuation/other ⁽¹⁾	(45,297)) (42,583)
Total assets under management, end of year	\$886,148	\$900,863
Associates, at year end ^(3, 4)		
Number of financial advisors	16,830	16,687
Total wealth advisors, including financial advisors	18,688	18,515
Total primary sales professionals, including financial advisors and wealth advisors	19,676	19,462
Merrill Lynch Global Wealth Management Metric ⁽⁴⁾		
Financial advisor productivity ⁽⁵⁾ (in thousands)	\$979	\$1,024

U.S. Trust Metric, at year end ⁽⁴⁾

Primary sales professionals	1,678	1,595
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Includes the results of BofA Global Capital Management, the cash management division of Bank of America, and certain administrative items. Also reflects the sale to a third party of approximately \$80 billion of BofA Global Capital Management's AUM during the three months ended June 30, 2016.

⁽²⁾ Includes margin receivables which are classified in customer and other receivables on the Consolidated Balance Sheet.

⁽³⁾ Includes financial advisors in the Consumer Banking segment of 2,201 and 2,187 at December 31, 2016 and 2015.

⁽⁴⁾ Associate headcount computation is based upon full-time equivalents.

(5) Financial advisor productivity is defined as MLGWM total revenue, excluding the allocation of certain asset and liability management (ALM) activities, divided by the total number of financial advisors (excluding financial advisors in the Consumer Banking segment).

Client balances increased \$50.5 billion, or two percent, to more than \$2.5 trillion at December 31, 2016, driven by market valuation increases and positive net flows, partially offset by the impact of the sale of BofA Global Capital Management's AUM.

The number of wealth advisors increased one percent, due to continued investment in the advisor development programs, competitive recruiting and near historically low advisor attrition levels.

In 2016, revenue from MLGWM of \$14.5 billion was down three percent driven by a decline in noninterest income due to lower transactional revenue and asset management fees primarily related to lower market valuations, partially offset by the impact of long-term AUM flows. Net interest income was up, primarily driven by growth in loan and deposit balances. U.S. Trust revenue of \$3.1 billion was up one percent primarily driven by higher net interest income due to higher loan and deposit balances.

Net Migration Summary

GWIM results are impacted by the net migration of clients and their corresponding deposit, loan and brokerage balances primarily to or from Consumer Banking, as presented in the table below. Migrations result from the movement of clients between business segments to better align with client needs.

Net Migration Summary ⁽¹⁾

(Dollars in millions)	2016	2015
Total deposits, net – from GWIM	\$(1,319)	\$(218)
Total loans, net – from GWIM	(7)	(97)
Total brokerage, net – from GWIM	(1,972)	(2,416)

⁽¹⁾ Migration occurs primarily between GWIM and Consumer Banking.

Global Banking

(Dollars in millions)	2016	2015	% Change
Net interest income (FTE basis)	\$9,942	\$9,244	8 %
Noninterest income:			
Service charges	3,094	2,914	6
Investment banking fees	2,884	3,110	(7)
All other income	2,510	2,353	7
Total noninterest income	8,488	8,377	1
Total revenue, net of interest expense (FTE basis)	18,430	17,621	5
Provision for credit losses	883	686	29
Noninterest expense	8,486	8,481	—
Income before income taxes (FTE basis)	9,061	8,454	7
Income tax expense (FTE basis)	3,341	3,114	7
Net income	\$5,720	\$5,340	7
Net interest yield (FTE basis)	2.86	% 2.90	%
Return on average allocated capital	15	15	
Efficiency ratio (FTE basis)	46.04	48.13	

Balance Sheet

Average	\$333,820	\$303,907	10
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Total loans and leases

Total earning assets	347,489	318,977	9
Total assets	396,705	369,001	8
Total deposits	304,101	294,733	3
Allocated capital	37,000	35,000	6

Year end

Total loans and leases	\$339,271	\$323,687	5
Total earning assets	356,241	334,766	6
Total assets	408,268	386,132	6
Total deposits	306,430	296,162	3

Global Banking, which includes Global Corporate Banking, Global Commercial Banking, Business Banking and Global Investment Banking, provides a wide range of lending-related products and services, integrated working capital management and treasury solutions, and underwriting and advisory services through our network of offices and client relationship teams. Our lending products and services include commercial loans, leases, commitment facilities, trade finance, real estate lending and asset-based lending. Our treasury solutions business includes treasury management, foreign exchange and short-term investing options. We also provide investment banking products to our clients such as debt and equity underwriting and distribution, and merger-related and other advisory services.

Underwriting debt and equity issuances, fixed-income and equity research, and certain market-based activities are executed through our global broker-dealer affiliates which are our primary dealers in several countries. Within Global Banking, Global Commercial Banking clients generally include middle-market companies, commercial real estate firms and not-for-profit companies. Global Corporate Banking clients generally include large global corporations, financial institutions and leasing clients. Business Banking clients include mid-sized U.S.-based businesses requiring customized and integrated financial advice and solutions.

Net income for Global Banking increased \$380 million to \$5.7 billion in 2016 compared to 2015 as higher revenue more than offset an increase in the provision for credit losses.

Revenue increased \$809 million to \$18.4 billion in 2016 compared to 2015 driven by higher net interest income, which increased \$698 million to \$9.9 billion driven by the impact of growth in loans and leases and higher deposits. Noninterest income increased \$111 million to \$8.5 billion primarily due to the impact from loans and the related loan hedging activities in the fair value option portfolio and higher treasury-related revenues, partially offset by lower investment banking fees.

The provision for credit losses increased \$197 million to \$883 million in 2016 driven by increases in energy-related reserves as well as loan growth. For additional information, see Commercial Portfolio Credit Risk Management – Industry Concentrations on page 71. Noninterest expense of \$8.5 billion remained relatively unchanged in 2016 as investments in client-facing professionals in Commercial and Business Banking, higher severance costs and an increase in FDIC expense were largely offset by lower operating and support costs.

The return on average allocated capital remained unchanged at 15 percent, as higher net income was partially offset by an increased capital allocation. For more information on capital allocated to the business segments, see Business Segment Operations on page 29.

Global Corporate, Global Commercial and Business Banking

Global Corporate, Global Commercial and Business Banking each include Business Lending and Global Transaction Services activities. Business Lending includes various lending-related products and services, and related hedging activities, including commercial loans, leases, commitment facilities, trade finance,

real estate lending and asset-based lending. Global Transaction Services includes deposits, treasury management, credit card, foreign exchange and short-term investment products.

The table below and following discussion presents a summary of the results, which exclude certain investment banking activities in Global Banking.

Global Corporate, Global Commercial and Business Banking

	Global Corporate Banking		Global Commercial Banking		Business Banking		Total	
(Dollars in millions)	2016	2015	2016	2015	2016	2015	2016	2015
Revenue								
Business Lending	\$4,285	\$3,981	\$4,140	\$3,968	\$376	\$352	\$8,801	\$8,301
Global Transaction Services	2,982	2,793	2,718	2,649	739	703	6,439	6,145
Total revenue, net of interest expense	\$7,267	\$6,774	\$6,858	\$6,617	\$1,115	\$1,055	\$15,240	\$14,446

Balance Sheet

Average

Total loans and leases	\$152,944	\$138,025	\$163,341	\$148,735	\$17,506	\$17,072	\$333,791	\$303,832
Total deposits	142,593	138,142	126,253	123,007	35,256	33,588	304,102	294,737

Year end

Total loans and leases	\$152,589	\$146,803	\$168,864	\$159,720	\$17,846	\$17,165	\$339,299	\$323,688
Total deposits	142,815	133,742	128,210	128,656	35,409	33,767	306,434	296,165

Business Lending revenue increased \$500 million in 2016 compared to 2015 driven by the impact of growth in loans and leases, as well as the impact from loans and the related loan hedging activities in the fair value option portfolio.

Global Transaction Services revenue increased \$294 million in 2016 compared to 2015 driven by growth in treasury-related revenue as well as higher net interest income driven by the beneficial impact of an increase in investable assets as a result of higher deposits.

Average loans and leases increased 10 percent in 2016 compared to 2015 driven by growth in the commercial and industrial, and leasing portfolios. Average deposits increased three percent due to continued portfolio growth with new and existing clients.

Global Investment Banking

Client teams and product specialists underwrite and distribute debt, equity and loan products, and provide advisory services and tailored risk management solutions. The economics of certain investment banking and underwriting activities are shared primarily between Global Banking and Global Markets under an internal revenue-sharing

arrangement. To provide a complete discussion of our consolidated investment banking fees, the following table presents total Corporation investment banking fees and the portion attributable to Global Banking.

Investment Banking Fees

	Global Banking		Total Corporation	
(Dollars in millions)	2016	2015	2016	2015
Products				
Advisory	\$1,156	\$1,354	\$1,269	\$1,503
Debt issuance	1,407	1,296	3,276	3,033
Equity issuance	321	460	864	1,236
Gross investment banking fees	2,884	3,110	5,409	5,772
Self-led deals	(49)	(57)	(168)	(200)
Total investment banking fees	\$2,835	\$3,053	\$5,241	\$5,572

Total Corporation investment banking fees of \$5.2 billion, excluding self-led deals, included within Global Banking and Global Markets, decreased six percent in 2016 compared to 2015 driven by lower equity issuance fees and advisory fees due to a decline in market fee pools.

Global Markets

(Dollars in millions)	2016	2015	% Change
Net interest income (FTE basis)	\$4,558	\$4,191	9 %
Noninterest income:			
Investment and brokerage services	2,102	2,221	(5)
Investment banking fees	2,296	2,401	(4)
Trading account profits	6,550	6,109	7
All other income	584	91	n/m
Total noninterest income	11,532	10,822	7
Total revenue, net of interest expense (FTE basis)	16,090	15,013	7
Provision for credit losses	31	99	(69)
Noninterest expense	10,170	11,374	(11)
Income before income taxes (FTE basis)	5,889	3,540	66
Income tax expense (FTE basis)	2,072	1,117	85
Net income	\$3,817	\$2,423	58
Return on average allocated capital	10	% 7	%
Efficiency ratio (FTE basis)	63.21	75.75	

Balance Sheet

Average

Trading-related
assets:

Trading account	\$ 185,135	\$ 195,650	(5)
securities			
Reverse repurchases	89,715	103,506	(13)
Securities borrowed	87,286	79,494	10
Derivative assets	50,769	54,519	(7)
Total trading-related assets ⁽¹⁾	412,905	433,169	(5)
Total loans and leases	69,641	63,443	10
Total earning assets ⁽¹⁾	423,579	430,468	(2)
Total assets	585,342	594,057	(1)
Total deposits	34,250	38,074	(10)
Allocated capital	37,000	35,000	6

Year end

Total trading-related assets ⁽¹⁾	\$ 380,562	\$ 373,926	2
Total loans and leases	72,743	73,208	(1)
Total earning assets ⁽¹⁾	397,023	384,046	3
Total assets	566,060	548,790	3
Total deposits	34,927	37,038	(6)

⁽¹⁾ Trading-related assets include derivative assets, which are considered non-earning assets.

n/m = not meaningful

Global Markets offers sales and trading services, including research, to institutional clients across fixed-income, credit, currency, commodity and equity businesses. Global Markets product coverage includes securities and derivative products in both the primary and secondary markets. Global Markets provides market-making, financing, securities clearing, settlement and custody services globally to our institutional investor clients in support of their investing and trading activities. We also work with our commercial and corporate clients to provide risk management products using interest rate, equity, credit, currency and commodity derivatives, foreign exchange, fixed-income and mortgage-related products. As a result of our market-making activities in these products, we may be required to manage risk in a broad range of financial products including government securities, equity and equity-linked securities, high-grade and high-yield corporate debt securities, syndicated loans, MBS, commodities and asset-backed securities (ABS). The economics of certain investment banking and underwriting activities are shared primarily between Global Markets and Global Banking under an internal revenue-sharing arrangement. Global Banking originates certain deal-related

transactions with our corporate and commercial clients that are executed and distributed by Global Markets. For information on investment banking fees on a consolidated basis, see page 36.

Net income for Global Markets increased \$1.4 billion to \$3.8 billion in 2016 compared to 2015. Net DVA losses were \$238 million compared to losses of \$786 million in 2015. Excluding net DVA, net income increased \$1.1 billion to \$4.0 billion in 2016 compared to 2015 primarily driven by higher sales and trading revenue and lower noninterest expense, partially offset by lower investment banking fees and investment and brokerage services revenue. Sales and trading revenue, excluding net DVA, increased \$638 million primarily due to a stronger performance globally across credit products led by mortgages and continued strength in rates products. The increase was partially offset by challenging credit market conditions in early 2016 as well as reduced client activity in equities, most notably in Asia, and a less favorable trading environment for equity derivatives. Noninterest expense decreased \$1.2 billion to \$10.2 billion primarily due to lower litigation expense and lower revenue-related expenses.

Average earning assets decreased \$6.9 billion to \$423.6 billion in 2016 primarily driven by a decrease in match book financing activity and a reduction in trading inventory, partially offset by higher loans and other customer financing. Year-end trading-related assets increased \$6.6 billion in 2016 primarily driven by higher securities borrowed or purchased under agreements to resell due to increased customer financing activity as well as higher trading account assets due to client demand.

The return on average allocated capital was 10 percent, up from seven percent, reflecting an increase in net income, partially offset by an increase in allocated capital.

Sales and Trading Revenue

Sales and trading revenue includes unrealized and realized gains and losses on trading and other assets, net interest income, and fees primarily from commissions on equity securities. Sales and trading revenue is segregated into fixed-income (government debt obligations, investment and non-investment grade corporate debt obligations, commercial MBS, residential mortgage-backed securities (RMBS), collateralized loan obligations (CLOs), interest rate and credit derivative contracts), currencies (interest rate and foreign exchange contracts), commodities (primarily futures, forwards, swaps and options) and equities (equity-linked derivatives and cash equity activity). The following table and related discussion present sales and trading revenue, substantially all of which is in Global Markets, with the remainder in Global Banking. In addition, the following table and related discussion present sales and trading revenue excluding the impact of net DVA, which is a non-GAAP financial measure. We believe the use of this non-GAAP financial measure provides additional useful information to assess the underlying performance of these businesses and to allow better comparison of period-to-period operating performance.

Sales and Trading Revenue ^(1, 2)

(Dollars in millions)	2016	2015
Sales and trading revenue		
Fixed-income, currencies and commodities	\$9,373	\$7,869
Equities	4,017	4,335
Total sales and trading revenue	\$13,390	\$12,204

Sales and trading revenue, excluding net DVA ⁽³⁾

Fixed-income, currencies and commodities	\$9,611	\$8,632
Equities	4,017	4,358
Total sales and trading revenue, excluding net DVA	\$13,628	\$12,990

(1) Includes FTE adjustments of \$184 million and \$182 million for 2016 and 2015. For more information on sales and trading revenue, see Note 2 – Derivatives to the Consolidated Financial Statements.

(2) Includes Global Banking sales and trading revenue of \$406 million and \$424 million for 2016 and 2015.

Fixed-income, currencies and commodities (FICC) and Equities sales and trading revenue, excluding net DVA, is a non-GAAP financial measure. FICC net DVA losses were \$238 million for 2016 compared to net DVA losses of \$763 million in 2015. Equities net DVA losses were \$0 for 2016 compared to net DVA losses of \$23 million in 2015.

The explanations for period-over-period changes in sales and trading, FICC and Equities revenue, as set forth below, would be the same if net DVA was included.

FICC revenue, excluding net DVA, increased \$979 million as rates products improved on increased customer flow, and mortgages recorded strong results. This was partially offset by a weaker performance in commodities, as lower volatility dampened client activity. Equities revenue, excluding net DVA, decreased \$341 million to \$4.0 billion primarily driven by lower levels of client activity, primarily in Asia, which benefited in 2015 from increased market volumes relating to stock markets rallies in the region, as well as weaker trading performance in derivatives. For more information on sales and trading revenue, see Note 2 – Derivatives to the Consolidated Financial Statements.

All Other

(Dollars in 2016 millions)	2015	% Change
Net interest income	\$447	(2)%
(FTE basis)		
Noninterest income:		
Card income	260	(27)
Mortgage banking income	1,022	(13)
Gains on sales of debt securities	1,126	(56)
All other loss	(1,204)	9
Total noninterest income	1,204	(79)
Total revenue, net of interest expense (FTE basis)	1,661	(58)
Provision for credit losses	(21)	n/m
Noninterest expense	5,220	5
Loss before income taxes (FTE basis)	(4,660)	32

held for interest rate or liquidity risk management purposes are presented on the balance sheet of All Other. For more information on our interest rate and liquidity risk management activities, see Liquidity Risk on

page 51 and Interest Rate Risk Management for the Banking Book on page 84. During 2016, residential mortgage loans held for ALM activities decreased \$8.5 billion to \$34.7 billion at December 31, 2016 primarily as a result of payoffs, paydowns and loan sales outpacing new volume. Non-core residential mortgage and home equity loans, which are principally run-off portfolios, including certain loans accounted for under the fair value option and MSR's pertaining to non-core loans serviced for others, are also held in All Other. During 2016, total non-core loans decreased \$15.7 billion to \$53.1 billion at December 31, 2016 due largely to payoffs and paydowns, as well as loan sales.

The net loss for All Other increased \$432 million to \$1.6 billion in 2016 primarily due to lower gains on the sale of debt securities, lower mortgage banking income, lower gains on sales of consumer real estate loans and an increase in noninterest expense, partially offset by an improvement in the provision for credit losses and a decrease of \$174 million in PPI costs.

Mortgage banking income decreased \$133 million primarily due to higher representations and warranties provision, partially offset by more favorable MSR results, net of the related hedge performance, which includes a net \$306 million increase in MSR fair value due to a revision of certain MSR valuation assumptions. Gains on the sales of loans, including nonperforming and other delinquent loans were \$232 million compared to gains of \$1.0 billion in 2015.

The benefit in the provision for credit losses improved \$79 million to a benefit of \$100 million in 2016 primarily driven by lower loan and lease balances from continued run-off of non-core consumer real estate loans. Noninterest expense increased \$240 million to \$5.5 billion driven by litigation expense.

The income tax benefit was \$3.1 billion in 2016 compared to a benefit of \$2.4 billion in 2015 with the increase driven by the

change in the pretax loss and net tax benefits related to various tax audit matters, partially offset by a \$348 million tax charge in 2016 related to the change in the U.K. corporate tax rate compared to a \$290 million charge in 2015. Both periods include income tax benefit adjustments to eliminate the FTE treatment of certain tax credits recorded in Global Banking.

Off-Balance Sheet Arrangements and Contractual Obligations

We have contractual obligations to make future payments on debt and lease agreements. Additionally, in the normal course of business, we enter into contractual arrangements whereby we commit to future purchases of products or services from unaffiliated parties. Purchase obligations are defined as obligations that are legally binding agreements whereby we agree to purchase products or services with a specific minimum quantity at a fixed, minimum or variable price over a specified period of time. Included in purchase obligations are vendor contracts, the most significant of which include communication services, processing services and software contracts. Debt, lease and other obligations are more fully discussed in Note 11 – Long-term Debt and Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

Other long-term liabilities include our contractual funding obligations related to the Qualified Pension Plan, Non-U.S. Pension Plans, Nonqualified and Other Pension Plans, and Postretirement Health and Life Plans (collectively, the Plans). Obligations to the Plans are based on the current and projected obligations of the Plans, performance of the Plans' assets, and any participant contributions, if applicable. During 2016 and 2015, we contributed \$256 million and \$234 million to the Plans, and we expect to make \$215 million of contributions during 2017. The Plans are more fully discussed in Note 17 – Employee Benefit Plans to the Consolidated Financial Statements.

We enter into commitments to extend credit such as loan commitments, standby letters of credit (SBLCs) and commercial letters of credit to meet the financing needs of our customers. For a summary of the total unfunded, or off-balance sheet, credit extension commitment amounts by expiration date, see Credit Extension Commitments in Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

Table 9 includes certain contractual obligations at December 31, 2016 and 2015.

Table 9 Contractual Obligations

	December 31, 2016				December 31 2015	
	(Dollars in millions)	Due in One Year or Less	Due After One Year Through Three Years	Due After Three Years Through Five Years	Due After Five Years	Total
Long-term debt	\$43,964	\$ 60,106	\$ 26,034	\$ 86,719	\$216,823	\$ 236,764
Operating lease obligations	2,324	3,877	2,908	4,511	13,620	13,681
Purchase obligations	2,089	2,019	604	1,030	5,742	5,350
Time deposits	65,112	5,961	3,369	502	74,944	73,974
Other long-term liabilities	1,991	837	648	1,091	4,567	4,311
Estimated interest	4,814	9,852	4,910	19,871	39,447	43,898

expense
on
long-term
debt and
time
deposits ⁽¹⁾

Total
contractual obligations \$120,294 \$ 82,652 \$ 38,473 \$ 113,724 \$355,143 \$ 377,978

Represents forecasted net interest expense on long-term debt and time deposits based on interest rates at

⁽¹⁾ December 31, 2016. Forecasts are based on the contractual maturity dates of each liability, and are net of derivative hedges, where applicable.

Representations and Warranties

We securitize first-lien residential mortgage loans generally in the form of RMBS guaranteed by the government-sponsored enterprises (GSEs), which include Freddie Mac (FHLMC) and Fannie Mae (FNMA), or by the Government National Mortgage Association (GNMA) in the case of Federal Housing Administration (FHA)-insured, U.S. Department of Veterans Affairs (VA)-guaranteed and Rural Housing Service-guaranteed mortgage loans, and sell pools of first-lien residential mortgage loans in the form of whole loans. In addition, in prior years, legacy companies and certain subsidiaries sold pools of first-lien residential mortgage loans and home equity loans as private-label securitizations or in the form of whole loans. In connection with these transactions, we or certain of our subsidiaries or legacy companies made various representations and warranties. Breaches of these representations and warranties have resulted in and may continue to result in the requirement to repurchase mortgage loans or to otherwise make whole or provide other remedies to investors, securitization trusts, guarantors, insurers or other parties (collectively, repurchases).

At December 31, 2016, we had \$18.3 billion of unresolved repurchase claims, predominately related to subprime and pay option first-lien loans and home equity loans, compared to \$18.4 billion at December 31, 2015. Outstanding repurchase claims remain unresolved primarily due to (1) the level of detail, support and analysis accompanying such claims, which impact overall claim quality and, therefore, claim resolution and (2) the lack of an established process to resolve disputes related to these claims.

In addition to unresolved repurchase claims, we have received notifications from sponsors of third-party securitizations with whom we engaged in whole-loan transactions indicating that we may have indemnity obligations with respect to loans for which we have not received a repurchase request. These outstanding notifications totaled \$1.3 billion and \$1.4 billion at December 31, 2016 and 2015.

The liability for representations and warranties and corporate guarantees is included in accrued expenses and other liabilities on the Consolidated Balance Sheet and the related provision is included in mortgage banking income in the Consolidated

Statement of Income. At December 31, 2016 and 2015, the liability for representations and warranties was \$2.3 billion and \$11.3 billion. The representations and warranties provision was \$106 million for 2016 compared to a benefit of \$39 million for 2015.

In addition, we currently estimate that the range of possible loss for representations and warranties exposures could be up to \$2 billion over existing accruals at December 31, 2016. The estimated range of possible loss represents a reasonably possible loss, but does not represent a probable loss, and is based on currently available information, significant judgment and a number of assumptions that are subject to change.

Future provisions and/or ranges of possible loss associated with obligations under representations and warranties may be significantly impacted if future experiences are different from historical experience or our understandings, interpretations or assumptions. Adverse developments, with respect to one or more of the assumptions underlying the liability for representations and warranties and the corresponding estimated range of possible loss, such as investors or trustees successfully challenging or avoiding the application of the relevant statute of limitations, could result in significant increases to future provisions and/or the estimated range of possible loss. For more information on representations and warranties, see Note 7 – Representations and Warranties Obligations and Corporate Guarantees to the Consolidated Financial Statements and, for more information related to the sensitivity of the assumptions used to estimate our liability for representations and warranties, see Complex Accounting Estimates – Representations and Warranties Liability on page 90.

Other Mortgage-related Matters

We continue to be subject to additional mortgage-related litigation and disputes, as well as governmental and regulatory scrutiny and investigations, related to our past and current origination, servicing, transfer of servicing and servicing rights, servicing compliance obligations, foreclosure activities, indemnification obligations, and mortgage insurance and captive reinsurance practices with mortgage insurers. The ongoing environment of additional regulation, increased regulatory compliance obligations, and enhanced regulatory enforcement, combined with ongoing uncertainty related to the continuing evolution of the regulatory environment, has resulted in increased operational and compliance costs and may limit our ability to continue providing certain products and services. For more information on management's estimate of the aggregate range of possible loss for certain litigation matters and on regulatory investigations, see Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

Managing Risk

Overview

Risk is inherent in all our business activities. Sound risk management enables us to serve our customers and deliver for our shareholders. If not managed well, risks can result in financial loss, regulatory sanctions and penalties, and damage to our reputation, each of which may adversely impact our ability to execute our business strategies. We take a comprehensive approach to risk management with a defined Risk Framework and an articulated Risk Appetite Statement which are approved annually by the Enterprise Risk Committee (ERC) and the Board.

The seven key types of risk faced by the Corporation are strategic, credit, market, liquidity, compliance, operational and reputational risks.

Strategic risk is the risk resulting from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments.

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations.

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities, or otherwise negatively impact earnings.

Liquidity risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support our businesses and customers with the appropriate funding sources under a range of economic conditions.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Corporation arising from the failure of the Corporation to comply with the requirements of applicable laws, rules, regulations and related self-regulatory organizations' standards and codes of conduct.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Reputational risk is the risk that negative perceptions of the Corporation's conduct or business practices may adversely impact its profitability or operations through an inability to establish new or maintain existing customer/client relationships or otherwise adversely impact relationships with key stakeholders, such as investors, regulators, employees and the community.

The following sections address in more detail the specific procedures, measures and analyses of the major categories of risk. This discussion of managing risk focuses on the current Risk Framework that, as part of its annual review process, was approved by the ERC and the Board.

As set forth in our Risk Framework, a culture of managing risk well is fundamental to our values and operating principles. It requires us to focus on risk in all activities and encourages the necessary mindset and behavior to enable effective risk management, and promotes sound risk-taking within our risk appetite. Sustaining a culture of managing risk well throughout the organization is critical to our success and is a clear expectation of our executive management team and the Board.

Our Risk Framework is the foundation for comprehensive management of the risks facing the Corporation. The Risk Framework sets forth clear roles, responsibilities and accountability for the management of risk and provides a blueprint for how the Board, through delegation of authority to committees and executive officers, establishes risk appetite and associated limits for our activities.

Executive management assesses, with Board oversight, the risk-adjusted returns of each business. Management reviews and approves the strategic and financial operating plans, as well as the capital plan and Risk Appetite Statement, and recommends them annually to the Board for approval. Our strategic plan takes into consideration return objectives and financial resources, which must align with risk capacity and risk appetite. Management sets financial objectives for each business by allocating capital and setting a target for return on capital for each business.

Capital

allocations and operating limits are regularly evaluated as part of our overall governance processes as the businesses and the economic environment in which we operate continue to evolve. For more information regarding capital allocations, see Business Segment Operations on page 29.

Our Risk Appetite Statement is how we maintain an acceptable risk profile by providing a common framework and a comparable set of measures for senior management and the Board to clearly indicate the level of risk we are willing to accept. Risk appetite is aligned with the strategic, capital and financial operating plans to maintain consistency with our strategy and financial resources. Our line of business strategies and risk appetite are also similarly aligned. For a more detailed discussion of our risk management activities, see the discussion below and pages 44 through 87.

Our overall capacity to take risk is limited; therefore, we prioritize the risks we take in order to maintain a strong and flexible financial position so we can withstand challenging economic conditions and take advantage of organic growth opportunities. Therefore, we set objectives and targets for capital and liquidity that are intended to permit us to continue to operate in a safe and sound manner, including during periods of stress.

Our lines of business operate with risk limits (which may include credit, market and/or operational limits, as applicable) that are based on the amount of capital, earnings or liquidity we are willing to put at risk to achieve our strategic objectives and business plans. Executive management is responsible for tracking and reporting performance measurements as well as any exceptions to guidelines or limits. The Board, and its committees when appropriate, oversees financial performance, execution of the strategic and financial operating plans, adherence to risk appetite limits and the adequacy of internal controls.

Risk Management Governance

The Risk Framework describes delegations of authority whereby the Board and its committees may delegate authority to management-level committees or executive officers. Such delegations may authorize certain decision-making and approval functions, which may be evidenced in, for example, committee charters, job descriptions, meeting minutes and resolutions.

The chart below illustrates the inter-relationship among the Board, Board committees and management committees that have the majority of risk oversight responsibilities for the Corporation.

(1) This presentation does not include committees for other legal entities.

(2) Reports to the CEO and CFO with oversight by the Audit Committee.

Board of Directors and Board Committees

The Board is comprised of 14 directors, all but one of whom are independent. The Board authorizes management to maintain an effective Risk Framework, and oversees compliance with safe and sound banking practices. In addition, the Board or its committees conduct inquiries of, and receive reports from management on risk-related matters to assess scope or resource limitations that could impede the ability of independent risk management (IRM) and/or Corporate Audit to execute its responsibilities. The Board committees discussed below have the principal responsibility for enterprise-wide oversight of our risk management activities. Through these activities, the Board and applicable committees are provided with information on our risk profile, and oversee executive management addressing key risks we face. Other Board committees as described below provide additional oversight of specific risks.

Each of the committees shown on the above chart regularly reports to the Board on risk-related matters within the committee's

responsibilities, which is intended to collectively provide the Board with integrated insight about our management of enterprise-wide risks.

Audit Committee

The Audit Committee oversees the qualifications, performance and independence of the Independent Registered Public Accounting Firm, the performance of our corporate audit function, the integrity of our consolidated financial statements, our compliance with legal and regulatory requirements, and makes inquiries of management or the Corporate General Auditor (CGA) to determine whether there are scope or resource limitations that impede the ability

of Corporate Audit to execute its responsibilities. The Audit Committee is also responsible for overseeing compliance risk pursuant to the New York Stock Exchange listing standards.

Enterprise Risk Committee

The ERC has primary responsibility for oversight of the Risk Framework and key risks we face. It approves the Risk Framework

and the Risk Appetite Statement and further recommends these documents to the Board for approval. The ERC oversees senior management's responsibilities for the identification, measurement, monitoring and control of key risks we face. The ERC may consult with other Board committees on risk-related matters.

Other Board Committees

Our Corporate Governance Committee oversees our Board's governance processes, identifies and reviews the qualifications of potential Board members, recommends nominees for election to our Board, recommends committee appointments for Board approval and reviews our stockholder engagement activities.

Our Compensation and Benefits Committee oversees establishing, maintaining and administering our compensation programs and employee benefit plans, including approving and recommending our Chief Executive Officer's (CEO) compensation to our Board for further approval by all independent directors, and reviewing and approving all of our executive officers' compensation.

Management Committees

Management committees may receive their authority from the Board, a Board committee, another management committee or from one or more executive officers. Our primary management-level risk committee is the Management Risk Committee (MRC). Subject to Board oversight, the MRC is responsible for management oversight of key risks we face. The MRC provides management oversight of our compliance and operational risk programs, balance sheet and capital management, funding activities and other liquidity activities, stress testing, trading activities, recovery and resolution planning, model risk, subsidiary governance and activities between member banks and their nonbank affiliates pursuant to Federal Reserve rules and regulations, among other things.

Lines of Defense

In addition to the role of Executive Officers in managing risk, we have clear ownership and accountability across the three lines of defense: Front Line Units (FLUs), IRM and Corporate Audit. We also have control functions outside of FLUs and IRM (e.g., Legal and Global Human Resources). The three lines of defense are integrated into our management-level governance structure. Each of these is described in more detail below.

Executive Officers

Executive officers lead various functions representing the functional roles. Authority for functional roles may be delegated to executive officers from the Board, Board committees or management-level committees. Executive officers, in turn, may further delegate responsibilities, as appropriate, to management-level committees, management routines or individuals. Executive officers review our activities for consistency with our Risk Framework, Risk Appetite Statement and applicable strategic, capital and financial operating plans, as well as applicable policies, standards, procedures and processes. Executive officers and other employees make decisions individually on a day-to-day basis, consistent with the authority they have been delegated. Executive officers and other employees may also serve on committees and participate in committee decisions.

Front Line Units

FLUs include the lines of business as well as the Global Technology and Operations Group, and are responsible for appropriately assessing and effectively managing all of the risks associated with their activities.

Three organizational units that include FLU activities and control function activities, but are not part of IRM are the Chief Financial Officer (CFO) Group, Global Marketing and Corporate Affairs (GM&CA) and the Chief Administrative Officer (CAO) Group.

Independent Risk Management

IRM is part of our control functions and includes Global Risk Management and Global Compliance. We have other control functions that are not part of IRM (other control functions may also provide oversight to FLU activities), including Legal, Global Human Resources and certain activities within the CFO Group, GM&CA and the CAO Group. IRM, led by the Chief Risk Officer (CRO), is responsible for independently assessing and overseeing risks within FLUs and other control functions. IRM establishes written enterprise policies and procedures that include concentration risk limits where appropriate. Such policies and procedures outline how aggregate risks are identified, measured, monitored and controlled.

The CRO has the authority and independence to develop and implement a meaningful risk management framework. The CRO has unrestricted access to the Board and reports directly to both the ERC and to the CEO. Global Risk

Management is organized into enterprise risk teams, FLU risk teams and control function risk teams that work collaboratively in executing their respective duties.

Within IRM, Global Compliance independently assesses compliance risk, and evaluates adherence to applicable laws, rules and regulations, including identifying compliance issues and risks, performing monitoring and testing, and reporting on the state of compliance activities across the Corporation. Additionally, Global Compliance works with FLUs and control functions so that day-to-day activities operate in a compliant manner.

Corporate Audit

Corporate Audit and the CGA maintain their independence from the FLUs, IRM and other control functions by reporting directly to the Audit Committee or the Board. The CGA administratively reports to the CEO. Corporate Audit provides independent assessment and validation through testing of key processes and controls across the Corporation. Corporate Audit includes Credit Review which periodically tests and examines credit portfolios and processes.

Risk Management Processes

The Risk Framework requires that strong risk management practices are integrated in key strategic, capital and financial planning processes and day-to-day business processes across the Corporation, with a goal of ensuring risks are appropriately considered, evaluated and responded to in a timely manner.

We employ a risk management process, referred to as Identify, Measure, Monitor and Control (IMMC), as part of our daily activities.

Identify – To be effectively managed, risks must be clearly defined and proactively identified. Proper risk identification focuses on recognizing and understanding key risks inherent in our business activities or key risks that may arise from external factors. Each employee is expected to identify and escalate

risks promptly. Risk identification is an ongoing process, incorporating input from FLUs and control functions, designed to be forward looking and capture relevant risk factors across all of our lines of business.

Measure – Once a risk is identified, it must be prioritized and accurately measured through a systematic risk quantification process including quantitative and qualitative components. Risk is measured at various levels including, but not limited to, risk type, FLU, legal entity and on an aggregate basis. This risk quantification process helps to capture changes in our risk profile due to changes in strategic direction, concentrations, portfolio quality and the overall economic environment. Senior management considers how risk exposures might evolve under a variety of stress scenarios.

Monitor – We monitor risk levels regularly to track adherence to risk appetite, policies, standards, procedures and processes. We also regularly update risk assessments and review risk exposures. Through our monitoring, we can determine our level of risk relative to limits and can take action in a timely manner. We also can determine when risk limits are breached and have processes to appropriately report and escalate exceptions. This includes requests for approval to managers and alerts to executive management, management-level committees or the Board (directly or through an appropriate committee).

Control – We establish and communicate risk limits and controls through policies, standards, procedures and processes that define the responsibilities and authority for risk-taking. The limits and controls can be adjusted by the Board or management when conditions or risk tolerances warrant. These limits may be absolute (e.g., loan amount, trading volume) or relative (e.g., percentage of loan book in higher-risk categories). Our lines of business are held accountable to perform within the established limits.

The formal processes used to manage risk represent a part of our overall risk management process. Corporate culture and the actions of our employees are also critical to effective risk management. Through our Code of Conduct, we set a high standard for our employees. The Code of Conduct provides a framework for all of our employees to conduct themselves with the highest integrity. We instill a strong and comprehensive culture of managing risk well through communications, training, policies, procedures and organizational roles and responsibilities. Additionally, we continue to strengthen the link between the employee performance management process and individual compensation to encourage employees to work toward enterprise-wide risk goals.

Corporation-wide Stress Testing

Integral to our Capital Planning, Financial Planning and Strategic Planning processes, we conduct capital scenario management and forecasting on a periodic basis to better understand balance sheet, earnings and capital sensitivities to certain economic and business scenarios, including economic and market conditions that are more severe than anticipated. These forecasts provide an understanding of the potential impacts from our risk profile on the balance sheet, earnings and capital, and serve as a key component of our capital and risk management practices. The intent of stress testing is to develop a comprehensive understanding of potential impacts of on- and off-balance sheet risks at the Corporation and how they impact financial resiliency.

Contingency Planning

We have developed and maintain contingency plans that are designed to prepare us in advance to respond in the event of potential adverse economic, financial or market stress. These contingency plans include our Capital Contingency Plan, Contingency Funding Plan and Recovery Plan, which provide monitoring, escalation, actions and routines designed to enable us to increase capital, access funding sources and reduce risk through consideration of potential options that include asset sales, business sales, capital or debt issuances, or other de-risking strategies. We also maintain a Resolution Plan to limit adverse systemic impacts that could be associated with a potential resolution of Bank of America.

Strategic Risk Management

Strategic risk is embedded in every business and is one of the major risk categories along with credit, market, liquidity, compliance, operational and reputational risks. This risk results from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments, in the geographic locations in which we operate, such as competitor actions, changing customer preferences, product obsolescence and technology developments. Our strategic plan is consistent with our risk appetite, capital plan and liquidity requirements, and

specifically addresses strategic risks.

On an annual basis, the Board reviews and approves the strategic plan, capital plan, financial operating plan and Risk Appetite Statement. With oversight by the Board, executive management directs the lines of business to execute our strategic plan consistent with our core operating principles and risk appetite. The executive management team monitors business performance throughout the year and provides the Board with regular progress reports on whether strategic objectives and timelines are being met, including reports on strategic risks and if additional or alternative actions need to be considered or implemented. The regular executive reviews focus on assessing forecasted earnings and returns on capital, the current risk profile, current capital and liquidity requirements, staffing levels and changes required to support the strategic plan, stress testing results, and other qualitative factors such as market growth rates and peer analysis.

Significant strategic actions, such as capital actions, material acquisitions or divestitures, and Resolution Plans are reviewed and approved by the Board. At the business level, processes are in place to discuss the strategic risk implications of new, expanded or modified businesses, products or services and other strategic initiatives, and to provide formal review and approval where required. With oversight by the Board and the ERC, executive management performs similar analyses throughout the year, and evaluates changes to the financial forecast or the risk, capital or liquidity positions as deemed appropriate to balance and optimize achieving the targeted risk appetite, shareholder returns and maintaining the targeted financial strength. Proprietary models are used to measure the capital requirements for credit, country, market, operational and strategic risks. The allocated capital assigned to each business is based on its unique risk profile. With oversight by the Board, executive management assesses the risk-adjusted returns of each business in approving strategic and financial operating plans. The businesses use allocated capital to define business strategies, and price products and transactions.

Capital Management

The Corporation manages its capital position so its capital is more than adequate to support its business activities and to maintain capital, risk and risk appetite commensurate with one another. Additionally, we seek to maintain safety and soundness at all times, even under adverse scenarios, take advantage of organic growth opportunities, meet obligations to creditors and counterparties, maintain ready access to financial markets, continue to serve as a credit intermediary, remain a source of strength for our subsidiaries, and satisfy current and future regulatory capital requirements. Capital management is integrated into our risk and governance processes, as capital is a key consideration in the development of our strategic plan, risk appetite and risk limits.

We conduct an Internal Capital Adequacy Assessment Process (ICAAP) on a periodic basis. The ICAAP is a forward-looking assessment of our projected capital needs and resources, incorporating earnings, balance sheet and risk forecasts under baseline and adverse economic and market conditions. We utilize periodic stress tests to assess the potential impacts to our balance sheet, earnings, regulatory capital and liquidity under a variety of stress scenarios. We perform qualitative risk assessments to identify and assess material risks not fully captured in our forecasts or stress tests. We assess the potential capital impacts of proposed changes to regulatory capital requirements. Management assesses ICAAP results and provides documented quarterly assessments of the adequacy of our capital guidelines and capital position to the Board or its committees.

We periodically review capital allocated to our businesses and allocate capital annually during the strategic and capital planning processes. For additional information, see Business Segment Operations on page 29.

CCAR and Capital Planning

The Federal Reserve requires BHCs to submit a capital plan and requests for capital actions on an annual basis, consistent with the rules governing the CCAR capital plan.

In April 2016, we submitted our 2016 CCAR capital plan and related supervisory stress tests. The 2016 CCAR capital plan included requests: (i) to repurchase \$5.0 billion of common stock

over four quarters beginning in the third quarter of 2016, (ii) to repurchase common stock to offset the dilution resulting from certain equity-based compensation awards, and (iii) to increase the quarterly common stock dividend from \$0.05 per share to \$0.075 per share. On June 29, 2016, following the Federal Reserve's non-objection to our 2016 CCAR capital plan, the Board authorized the common stock repurchase beginning July 1, 2016. Also, in addition to the previously announced repurchases associated with the 2016 CCAR capital plan, on January 13, 2017, we announced a plan to repurchase an additional \$1.8 billion of common stock during the first half of 2017, to which the Federal Reserve did not object. The common stock repurchase authorization includes both common stock and warrants.

During 2016, we repurchased approximately \$5.1 billion of common stock pursuant to the Board's authorization of our 2016 and 2015 CCAR capital plans and to offset equity-based compensation awards.

The timing and amount of common stock repurchases will be subject to various factors, including the Corporation's capital position, liquidity, financial performance and alternative uses of capital, stock trading price, and general market conditions, and may be suspended at any time. The common stock repurchases may be effected through open market purchases or privately negotiated transactions, including repurchase plans that satisfy the conditions of Rule 10b5-1 of the Securities Exchange Act of 1934. As a "well-capitalized" BHC, we may notify the Federal Reserve of our intention to make additional capital distributions not to exceed one percent of Tier 1 capital (0.25 percent of Tier 1 capital beginning April 1, 2017), and which were not contemplated in our capital plan, subject to the Federal Reserve's non-objection.

Regulatory Capital

As a financial services holding company, we are subject to regulatory capital rules issued by U.S. banking regulators including Basel 3, which includes certain transition provisions through January 1, 2019. The Corporation and its primary affiliated banking entity, BANA, are Basel 3 Advanced approaches institutions.

Basel 3 Overview

Basel 3 updated the composition of capital and established a Common equity tier 1 capital ratio. Common equity tier 1 capital primarily includes common stock, retained earnings and accumulated OCI, net of deductions and adjustments primarily related to goodwill, deferred tax assets, intangibles, MSRs and defined benefit pension assets. Under the Basel 3 regulatory capital transition provisions, certain deductions and adjustments to Common equity tier 1 capital are phased in through January 1, 2018. In 2016, under the transition provisions, 60 percent of these deductions and adjustments were recognized. Basel 3 also revised minimum capital ratios and buffer requirements, added a supplementary leverage ratio (SLR), and addressed the adequately capitalized minimum requirements under the Prompt Corrective Action (PCA) framework. Finally, Basel 3 established two methods of calculating risk-weighted assets, the Standardized approach and the Advanced approaches. The Standardized approach relies primarily on supervisory risk weights based on exposure type and the Advanced approaches determines risk weights based on internal models.

As an Advanced approaches institution, we are required to report regulatory risk-based capital ratios and risk-weighted assets under both the Standardized and Advanced approaches. The approach that yields the lower ratio is used to assess capital adequacy including under the PCA framework.

Minimum Capital Requirements

Minimum capital requirements and related buffers are being phased in from January 1, 2014 through January 1, 2019. Effective January 1, 2015, the PCA framework was also amended to reflect the requirements of Basel 3. The PCA framework establishes categories of capitalization, including “well capitalized,” based on regulatory ratio requirements. U.S. banking regulators are required to take certain mandatory actions depending on the category of capitalization, with no mandatory actions required for “well-capitalized” banking organizations, which included BANA at December 31, 2016.

On January 1, 2016, we became subject to a capital conservation buffer, a countercyclical capital buffer and a global systemically important bank (G-SIB) surcharge which will be phased in over a three-year period ending January 1, 2019. Once

fully phased in, the Corporation’s risk-based capital ratio requirements will include a capital conservation buffer greater than 2.5 percent, plus any applicable countercyclical capital buffer and a G-SIB surcharge in order to avoid restrictions on capital distributions and discretionary bonus payments. The buffers and surcharge must be composed solely of Common equity tier 1 capital. Under the phase-in provisions, we were required to maintain a capital conservation buffer greater than 0.625 percent plus a G-SIB surcharge of 0.75 percent in 2016. The countercyclical capital buffer is currently set at zero. We estimate that our fully phased-in G-SIB surcharge will be 2.5 percent. The G-SIB surcharge may differ from this estimate over time.

Supplementary Leverage Ratio

Basel 3 also requires Advanced approaches institutions to disclose an SLR. The numerator of the SLR is quarter-end Basel 3 Tier 1 capital. The denominator is total leverage exposure based on the daily average of the sum of on-balance sheet exposures less permitted Tier 1 deductions, as well as the simple average of certain off-balance sheet exposures, as of the end of each month in a quarter. Effective January 1, 2018, the Corporation will be required to maintain a minimum SLR of 3.0 percent, plus a leverage buffer of 2.0 percent in order to avoid certain restrictions on capital distributions and discretionary bonus payments. Insured depository institution subsidiaries of BHCs will be required to maintain a minimum 6.0 percent SLR to be considered “well capitalized” under the PCA framework.

Capital Composition and Ratios

Table 10 presents Bank of America Corporation’s transition and fully phased-in capital ratios and related information in accordance with Basel 3 Standardized and Advanced approaches as measured at December 31, 2016 and 2015. Fully phased-in estimates are non-GAAP financial measures that the Corporation considers to be useful measures in evaluating compliance with new regulatory capital requirements that are not yet effective. For reconciliations to GAAP financial measures, see Table 13. As of December 31, 2016 and 2015, the Corporation meets the definition of “well capitalized” under current regulatory requirements.

Table 10 Bank of America Corporation Regulatory Capital under Basel 3 ⁽¹⁾

(Dollars in millions)	December 31, 2016			Fully Phased-in		
	Standardized Approach	Advanced Approaches	Regulatory Minimum ^(2,3)	Standardized Approach	Advanced Approaches ⁽⁴⁾	Regulatory Minimum ⁽⁵⁾
Risk-based capital metrics:						
Common equity tier 1 capital	\$168,866	\$168,866		\$162,729	\$162,729	
Tier 1 capital	190,315	190,315		187,559	187,559	
Total capital ⁽⁶⁾	228,187	218,981		223,130	213,924	
Risk-weighted assets (in billions)	1,399	1,530		1,417	1,512	
Common equity tier 1 capital ratio	12.1	% 11.0	% 5.875	% 11.5	% 10.8	% 9.5
Tier 1 capital ratio	13.6	12.4	7.375	13.2	12.4	11.0
Total capital ratio	16.3	14.3	9.375	15.8	14.2	13.0
Leverage-based metrics:						
Adjusted quarterly average assets (in billions) ⁽⁷⁾	\$2,131	\$2,131		\$2,131	\$2,131	
Tier 1 leverage ratio	8.9	% 8.9	% 4.0	8.8	% 8.8	% 4.0
SLR leverage exposure					\$2,702	

(in
billions)

SLR 6.9 % 5.0

December 31, 2015

Risk-based
capital
metrics:

Common

equity tier 1 capital \$163,026 \$163,026 \$154,084 \$154,084

Tier 1 capital 180,778 180,778 175,814 175,814

Total capital (6) 220,676 210,912 211,167 201,403

Risk-weighted assets (in billions) 1,403 1,602 1,427 1,575

Common

equity tier 1 capital ratio 11.6 % 10.2 % 4.5 % 10.8 % 9.8 % 9.5 %

Tier 1 capital ratio 12.9 11.3 6.0 12.3 11.2 11.0

Total capital ratio 15.7 13.2 8.0 14.8 12.8 13.0

Leverage-based
metrics:

Adjusted quarterly average assets (in billions) (7) \$2,103 \$2,103 \$2,102 \$2,102

Tier 1 leverage ratio 8.6 % 8.6 % 4.0 8.4 % 8.4 % 4.0

SLR

leverage exposure (in billions) \$2,727

SLR 6.4 % 5.0

(1) As an Advanced approaches institution, we are required to report regulatory capital risk-weighted assets and ratios under both the Standardized and Advanced approaches. The approach that yields the lower ratio is to be used to

assess capital adequacy and was the Advanced approaches method at December 31, 2016 and 2015.

- (2) The December 31, 2016 amount includes a transition capital conservation buffer of 0.625 percent and a transition G-SIB surcharge of 0.75 percent. The 2016 countercyclical capital buffer is zero.
- (3) To be “well capitalized” under the current U.S. banking regulatory agency definitions, we must maintain a Total capital ratio of 10 percent or greater.
- Basel 3 fully phased-in Advanced approaches estimates assume approval by U.S. banking regulators of our internal
- (4) analytical models, including approval of the internal models methodology (IMM). As of December 31, 2016, we did not have regulatory approval of the IMM model.
- Fully phased-in regulatory minimums assume a capital conservation buffer of 2.5 percent and estimated G-SIB
- (5) surcharge of 2.5 percent. The estimated fully phased-in countercyclical capital buffer is zero. We will be subject to fully phased-in regulatory minimums on January 1, 2019. The fully phased-in SLR minimum assumes a leverage buffer of 2.0 percent and is applicable on January 1, 2018.
- (6) Total capital under the Advanced approaches differs from the Standardized approach due to differences in the amount permitted in Tier 2 capital related to the qualifying allowance for credit losses.
- (7) Reflects adjusted average total assets for the three months ended December 31, 2016 and 2015.

Common equity tier 1 capital under Basel 3 Advanced – Transition was \$168.9 billion at December 31, 2016, an increase of \$5.8 billion compared to December 31, 2015 driven by earnings, partially offset by dividends, common stock repurchases and the impact of certain transition provisions under the Basel 3 rules. During 2016, Total capital increased \$8.1 billion primarily

driven by the same factors that drove the increase in Common equity tier 1 capital as well as issuances of preferred stock and subordinated debt.

Risk-weighted assets decreased \$72 billion during 2016 to \$1,530 billion primarily due to lower market risk, and lower exposures and improved credit quality on legacy retail products.

Table 11 presents the capital composition as measured under Basel 3 – Transition at December 31, 2016 and 2015.

Table 11 Capital Composition under Basel 3 – Transition^(1, 2)

(Dollars in millions)	December 31	
	2016	2015
Total common shareholders' equity	\$241,620	\$233,932
Goodwill	(69,191)	(69,215)
Deferred tax assets arising from net operating loss and tax credit carryforwards	(4,976)	(3,434)
Adjustments for amounts recorded in accumulated OCI attributed to defined benefit postretirement plans	1,392	1,774
Net unrealized (gains) losses on debt and equity securities and net (gains) losses on derivatives recorded in accumulated OCI, net-of-tax	1,402	1,220
Intangibles, other than mortgage servicing rights and goodwill	(1,198)	(1,039)
DVA related to liabilities and derivatives	413	204
Other	(596)	(416)
Common equity tier 1 capital	168,866	163,026
Qualifying preferred stock, net of issuance cost	25,220	22,273
Deferred tax assets arising from net operating loss and tax credit carryforwards	(3,318)	(5,151)
Trust preferred securities	—	1,430
Defined benefit pension fund assets	(341)	(568)
DVA related to liabilities and derivatives under transition	276	307
Other	(388)	(539)
Total Tier 1 capital	190,315	180,778
Long-term debt qualifying as Tier 2 capital	23,365	22,579
Eligible credit reserves included in Tier 2 capital	3,035	3,116
Nonqualifying capital instruments subject to phase out from Tier 2 capital	2,271	4,448
Other	(5)	(9)
Total Basel 3 Capital	\$218,981	\$210,912

⁽¹⁾ See Table 10, footnote 1.

⁽²⁾ Deductions from and adjustments to regulatory capital subject to transition provisions under Basel 3 are generally recognized in 20 percent annual increments, and will be fully recognized as of January 1, 2018. Any assets that are a direct deduction from the computation of capital are excluded from risk-weighted assets and adjusted average total assets.

Table 12 presents the components of our risk-weighted assets as measured under Basel 3 – Transition at December 31, 2016 and 2015.

Table 12 Risk-weighted assets under Basel 3 – Transition

(Dollars in billions)	December 31			
	2016		2015	
	Standard Approach	Advanced Approaches	Standard Approach	Advanced Approaches
Credit risk	\$1,334	\$ 903	\$1,314	\$ 940
Market risk	65	63	89	86
Operational risk	n/a	500	n/a	500

Risks related to CVA	n/a	64	n/a	76
Total risk-weighted assets	\$1,399	\$ 1,530	\$1,403	\$ 1,602
n/a = not applicable				

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Table 13 presents a reconciliation of regulatory capital in accordance with Basel 3 Standardized – Transition to the Basel 3 Standardized approach fully phased-in estimates and Basel 3 Advanced approaches fully phased-in estimates at December 31, 2016 and 2015.

Table 13 Regulatory Capital
Reconciliations between
Basel 3 Transition to Fully
Phased-in ⁽¹⁾

	December 31	
(Dollars in millions)	2016	2015
Common equity tier 1 capital (transition)	\$168,866	\$163,026
Deferred tax assets arising from net operating loss and tax credit carryforwards phased in during transition	(3,318)	(5,151)
Accumulated OCI phased in during transition	(1,899)	(1,917)
Intangibles phased in during transition	(798)	(1,559)
Defined benefit pension fund assets phased in during transition	(341)	(568)
DVA related to liabilities and	276	307

derivatives		
phased in		
during		
transition		
Other		
adjustments		
and		
deductions	(57)	(54)
phased in		
during		
transition		
Common		
equity		
tier 1	162,729	154,084
capital		
(fully		
phased-in)		
Additional		
Tier 1	21,449	17,752
capital		
(transition)		
Deferred		
tax assets		
arising		
from net		
operating		
loss and	3,318	5,151
tax credit		
carryforwards		
phased		
out		
during		
transition		
Trust		
preferred		
securities		
phased	—	(1,430)
out		
during		
transition		
Defined		
benefit		
pension		
fund		
assets	341	568
phased		
out		
during		
transition		
DVA	(276)	(307)
related to		

liabilities		
and		
derivatives		
phased		
out		
during		
transition		
Other		
transition		
adjustments		
to	(2) (4
additional		
Tier 1		
capital		
Additional		
Tier 1		
capital	24,830	21,730
(fully		
phased-in)		
Tier 1		
capital	187,559	175,814
(fully		
phased-in)		
Tier 2		
capital	28,666	30,134
(transition)		
Nonqualifying		
capital		
instruments		
phased	(2,271) (4,448
out		
during		
transition		
Other		
adjustments		
to Tier 2	9,176	9,667
capital		
Tier 2		
capital	35,571	35,353
(fully		
phased-in)		
Basel 3		
Standardized		
approach		
Total	223,130	211,167
capital		
(fully		
phased-in)		
Change	(9,206) (9,764
in Tier 2		
qualifying		

allowance
for credit
losses
Basel 3
Advanced
approaches
Total \$213,924 \$201,403
capital
(fully
phased-in)

Risk-weighted
assets – As
reported
to Basel 3
(fully
phased-in)
Basel 3
Standardized
approach \$1,399,477 \$1,403,293
risk-weighted
assets as
reported

Changes
in
risk-weighted
assets 17,638 24,089
from
reported

to fully
phased-in
Basel 3
Standardized
approach
risk-weighted \$1,417,115 \$1,427,382
assets
(fully
phased-in)

Basel 3
Advanced
approaches \$1,529,903 \$1,602,373
risk-weighted
assets as
reported
Changes (18,113) (27,690)
in
risk-weighted
assets
from
reported

to fully
phased-in
Basel 3
Advanced
approaches
risk-weighted
assets \$1,511,790 \$1,574,683
(fully
phased-in)
(2)

(1) See Table 10, footnote 1.

Basel 3 fully phased-in Advanced approaches estimates assume approval by U.S. banking regulators of our internal

(2) analytical models, including approval of the IMM. As of December 31, 2016, we did not have regulatory approval for the IMM model.

Bank of America 2016 49

Bank of America, N.A. Regulatory Capital

Table 14 presents transition regulatory capital information for BANA in accordance with Basel 3 Standardized and Advanced approaches as measured at December 31, 2016 and 2015. As of December 31, 2016, BANA met the definition of “well capitalized” under the PCA framework.

Table 14 Bank of America, N.A. Regulatory Capital under Basel 3

(Dollars in millions)	December 31, 2016 Standardized Approach				Advanced Approaches			
	Ratio	Amount	Minimum Required ⁽¹⁾		Ratio	Amount	Minimum Required ⁽¹⁾	
Common equity tier 1 capital	12.7%	\$149,755	6.5	%	14.3%	\$149,755	6.5	%
Tier 1 capital	12.7	149,755	8.0		14.3	149,755	8.0	
Total capital	13.9	163,471	10.0		14.8	154,697	10.0	
Tier 1 leverage	9.3	149,755	5.0		9.3	149,755	5.0	
December 31, 2015								
Common equity tier 1 capital	12.2%	\$144,869	6.5	%	13.1%	\$144,869	6.5	%
Tier 1 capital	12.2	144,869	8.0		13.1	144,869	8.0	
Total capital	13.5	159,871	10.0		13.6	150,624	10.0	
Tier 1 leverage	9.2	144,869	5.0		9.2	144,869	5.0	

⁽¹⁾ Percent required to meet guidelines to be considered “well capitalized” under the PCA framework.

Regulatory Developments

Minimum Total Loss-Absorbing Capacity

On December 15, 2016, the Federal Reserve issued a final rule establishing external total loss-absorbing capacity (TLAC) requirements to improve the resolvability and resiliency of large, interconnected BHCs. The rule will be effective January 1, 2019 and U.S. G-SIBs will be required to maintain a minimum external TLAC. We estimate our minimum required external TLAC would be the greater of 22.5 percent of risk-weighted assets or 9.5 percent of SLR leverage exposure. In addition, U.S. G-SIBs must meet a minimum long-term debt requirement. Our minimum required long-term debt is estimated to be the greater of 8.5 percent of risk-weighted assets or 4.5 percent of SLR leverage exposure. The impact of the TLAC rule is not expected to be material to our results of operations. The Corporation issued \$11.6 billion of TLAC compliant debt in early 2017.

Revisions to Approaches for Measuring Risk-weighted Assets

The Basel Committee has several open proposals to revise key methodologies for measuring risk-weighted assets. The proposals include a standardized approach for credit risk, standardized approach for operational risk, revisions to the

credit valuation adjustment (CVA) risk framework and constraints on the use of internal models. The Basel Committee has also finalized a revised standardized model for counterparty credit risk, revisions to the securitization framework and its fundamental review of the trading book, which updates both modeled and standardized approaches for market risk measurement. These revisions are to be coupled with a proposed capital floor framework to limit the extent to which banks can reduce risk-weighted asset levels through the use of internal models, both at the input parameter and aggregate risk-weighted asset level. The Basel Committee expects to finalize the outstanding proposals in 2017. U.S. banking regulators may update the U.S. Basel 3 rules to incorporate the Basel Committee revisions.

Single-Counterparty Credit Limits

On March 4, 2016, the Federal Reserve issued a notice of proposed rulemaking (NPR) to establish Single-Counterparty Credit Limits (SCCL) for large U.S. BHCs. The SCCL rule is designed to complement and serve as a backstop to risk-based capital requirements to ensure that the maximum possible loss that a bank could incur due to a single counterparty's default would not endanger the bank's survival. Under the proposal, U.S. BHCs must calculate SCCL by dividing the net aggregate credit exposure to a given counterparty by a bank's eligible Tier 1 capital base, ensuring that exposure to G-SIBs and other nonbank systemically important financial institutions does not breach 15 percent and exposures to other counterparties do not breach 25 percent.

Capital Requirements for Swap Dealers

On December 2, 2016, the Commodity Futures Trading Commission issued an NPR to establish capital requirements for swap dealers and major swap participants that are not subject to existing U.S. prudential regulation. Under the proposal, applicable subsidiaries of the Corporation must meet capital requirements under one of two approaches. The first approach is a bank-based capital approach which requires that firms maintain Common equity tier 1 capital greater than or equal to the larger of 8.0 percent of the entity's RWA as calculated under Basel 3, or 8.0 percent of the margin of the entity's cleared and uncleared swaps, security-based swaps, futures and foreign futures positions. The second approach is based on net liquid assets and requires that a firm maintain net capital greater than or equal to 8.0 percent of the margin as described above. The proposal also includes liquidity and reporting requirements.

Broker-dealer Regulatory Capital and Securities Regulation

The Corporation's principal U.S. broker-dealer subsidiaries are Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S) and Merrill Lynch Professional Clearing Corp (MLPCC). MLPCC is a fully-guaranteed subsidiary of MLPF&S and provides clearing and settlement services. Both entities are subject to the net capital requirements of Securities and Exchange Commission (SEC) Rule 15c3-1. Both entities are also registered as futures commission

merchants and are subject to the Commodity Futures Trading Commission Regulation 1.17.

MLPF&S has elected to compute the minimum capital requirement in accordance with the Alternative Net Capital Requirement as permitted by SEC Rule 15c3-1. At December 31, 2016, MLPF&S's regulatory net capital as defined by Rule 15c3-1 was \$11.9 billion and exceeded the minimum requirement of \$1.8 billion by \$10.1 billion. MLPCC's net capital of \$2.8 billion exceeded the minimum requirement of \$481 million by \$2.3 billion.

In accordance with the Alternative Net Capital Requirements, MLPF&S is required to maintain tentative net capital in excess of \$1.0 billion, net capital in excess of \$500 million and notify the SEC in the event its tentative net capital is less than \$5.0 billion. At December 31, 2016, MLPF&S had tentative net capital and net capital in excess of the minimum and notification requirements.

Merrill Lynch International (MLI), a U.K. investment firm, is regulated by the Prudential Regulation Authority and the Financial Conduct Authority, and is subject to certain regulatory capital requirements. At December 31, 2016, MLI's capital resources were \$34.9 billion which exceeded the minimum requirement of \$14.8 billion.

Liquidity Risk

Funding and Liquidity Risk Management

Liquidity risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support our businesses and customers with the appropriate funding sources under a range of economic conditions. Our primary liquidity risk management objective is to meet all contractual and contingent financial obligations at all times, including during periods of stress. To achieve that objective, we analyze and monitor our liquidity risk under expected and stressed conditions, maintain liquidity and access to diverse funding sources, including our stable deposit base, and seek to align liquidity-related incentives and risks.

We define liquidity as readily available assets, limited to cash and high-quality, liquid, unencumbered securities that we can use to meet our contractual and contingent financial obligations as those obligations arise. We manage our liquidity position through line of business and ALM activities, as well as through our legal entity funding strategy, on both a forward and current (including intraday) basis under both expected and stressed conditions. We believe that a centralized approach to funding and liquidity management within Corporate Treasury enhances our ability to monitor liquidity requirements, maximizes access to funding sources, minimizes borrowing costs and facilitates timely responses to liquidity events.

The Board approves our liquidity policy and the ERC approves the contingency funding plan, including establishing liquidity risk tolerance levels. The MRC monitors our liquidity position and reviews the impact of strategic decisions on our liquidity. The MRC is responsible for overseeing liquidity risks and directing management to maintain exposures within the established tolerance levels. The MRC reviews and monitors our liquidity position, cash flow forecasts, stress testing scenarios and results, and reviews and approves certain liquidity risk limits. For additional information, see Managing Risk on page 41. Under this governance framework, we have developed certain funding and liquidity risk management practices which include: maintaining liquidity at the parent company and selected subsidiaries, including our bank subsidiaries and other regulated entities; determining what

amounts of liquidity are appropriate for these entities based on analysis of debt maturities and other potential cash outflows, including those that we may experience during stressed market conditions; diversifying funding sources, considering our asset profile and legal entity structure; and performing contingency planning.

Global Liquidity Sources and Other Unencumbered Assets

We maintain liquidity available to the Corporation, including the parent company and selected subsidiaries, in the form of cash and high-quality, liquid, unencumbered securities. Our liquidity buffer, referred to as Global Liquidity Sources (GLS), formerly Global Excess Liquidity Sources, is comprised of assets that are readily available to the parent company and selected subsidiaries, including holding company, bank and broker-dealer subsidiaries, even during stressed market conditions. Our cash is primarily on deposit with the Federal Reserve and, to a lesser extent, central banks outside of the U.S. We limit the composition of high-quality, liquid, unencumbered securities to U.S. government securities, U.S. agency securities, U.S. agency MBS and a select group of non-U.S. government and supranational securities. We believe we can quickly obtain cash for these securities, even in stressed conditions, through repurchase agreements or outright sales. We hold our GLS in legal entities that allow us to meet the liquidity requirements of our global businesses, and we consider the impact of potential regulatory, tax, legal and other

restrictions that could limit the transferability of funds among entities.

Pursuant to the Federal Reserve and FDIC request disclosed in our Current Report on Form 8-K dated April 13, 2016, we provided our Resolution Plan submission to those regulators on September 30, 2016. In connection with our resolution planning activities, in the third quarter of 2016, we entered into intercompany arrangements with certain key subsidiaries under which we transferred certain of our parent company assets, and agreed to transfer certain additional parent company assets, to NB Holdings, Inc., a wholly-owned holding company subsidiary (NB Holdings). The parent company is expected to continue to have access to the same flow of dividends, interest and other amounts of cash necessary to service its debt, pay dividends and perform other obligations as it would have had if it had not entered into these arrangements and transferred any assets.

In consideration for the transfer of assets, NB Holdings issued a subordinated note to the parent company in a principal amount equal to the value of the transferred assets. The aggregate principal amount of the note will increase by the amount of any future asset transfers. NB Holdings also provided the parent company with a committed line of credit that allows the parent company to draw funds necessary to service near-term cash needs. These arrangements support our preferred single point of entry resolution strategy, under which only the parent company would be resolved under the U.S. Bankruptcy Code. These arrangements include provisions to terminate the line of credit, forgive the subordinated note and require the parent company to transfer its remaining financial assets to NB Holdings if our projected liquidity resources deteriorate so severely that resolution of the parent company becomes imminent. Our GLS are substantially the same in composition to what qualifies as High Quality Liquid Assets (HQLA) under the final U.S. Liquidity Coverage Ratio (LCR) rules. For more information on the final LCR rules, see Liquidity Risk – Basel 3 Liquidity Standards on page 53.

Our GLS were \$499 billion and \$504 billion at December 31, 2016 and 2015, and were as shown in Table 15.

Global Table 15 Liquidity Sources				
	December 31	Average for Three Months Ended December 31 2016	2016	2015
(Dollars in billions)				
Parent company and NB Holdings	\$76	\$96	\$ 77	
Bank subsidiaries	372	361	389	
Other regulated entities	51	47	49	
Total Global Liquidity Sources	\$499	\$504	\$ 515	

As shown in Table 15, parent company and NB Holdings liquidity totaled \$76 billion and \$96 billion at December 31, 2016 and 2015. The decrease in parent company and NB Holdings liquidity was primarily due to the BNY Mellon settlement payment in the first quarter of 2016 and prepositioning liquidity to subsidiaries in connection with resolution planning. Typically, parent company and NB Holdings liquidity is in the form of cash deposited with BANA.

Liquidity held at our bank subsidiaries totaled \$372 billion and \$361 billion at December 31, 2016 and 2015. The increase in bank subsidiaries' liquidity was primarily due to deposit growth, partially offset by loan growth. Liquidity at bank subsidiaries excludes the cash deposited by the parent company and NB Holdings. Our bank subsidiaries can also generate incremental liquidity by pledging a range of unencumbered loans and securities to certain FHLBs and the Federal Reserve Discount Window. The cash we could have obtained by borrowing against this pool of specifically-identified eligible assets was \$310 billion and \$252 billion at December 31, 2016 and 2015. We have established operational procedures to enable us to borrow against these assets, including regularly monitoring our total pool of eligible loans and securities collateral. Eligibility is defined in guidelines from the FHLBs and the Federal Reserve and is subject to change at their discretion. Due to regulatory restrictions, liquidity generated by the bank subsidiaries can generally be used only to fund obligations within the bank subsidiaries and can only be transferred to the parent company or nonbank subsidiaries with prior regulatory approval.

Liquidity held at our other regulated entities, comprised primarily of broker-dealer subsidiaries, totaled \$51 billion and \$47 billion at December 31, 2016 and 2015. Our other regulated entities also held unencumbered investment-grade securities and equities that we believe could be used to generate additional liquidity. Liquidity held in an other regulated entity is primarily available to meet the obligations of that entity and transfers to the parent company or to any other subsidiary may be subject to prior regulatory approval due to regulatory restrictions and minimum requirements.

Table 16 presents the composition of GLS at December 31, 2016 and 2015.

Table 16 Global
Liquidity
Sources
Composition

	December 31	
(Dollars in billions)	2016	2015
Cash on deposit	\$ 106	\$ 119
U.S. Treasury securities	58	38
U.S. agency securities and mortgage-backed securities	318	327
Non-U.S. government and supranational securities	17	20
Total Global Liquidity Sources	\$ 499	\$ 504

Time-to-required Funding and Liquidity Stress Analysis

We use a variety of metrics to determine the appropriate amounts of liquidity to maintain at the parent company and our subsidiaries. One metric we use to evaluate the appropriate level of liquidity at the parent company and NB Holdings is “time-to-required funding (TTF).” This debt coverage measure indicates the number of months the parent company can continue to meet its unsecured contractual obligations as they come due using only the parent company and NB Holdings' liquidity sources without issuing any new debt or accessing any additional liquidity sources. We define unsecured contractual obligations for purposes of this metric as maturities of senior or subordinated debt issued or guaranteed by Bank of America Corporation. These include certain unsecured debt instruments, primarily structured liabilities, which we may be required to settle for cash prior to maturity. Prior to the third quarter of 2016, TTF incorporated only the liquidity of the parent company. During the third quarter of 2016, TTF was expanded to include the liquidity of NB Holdings, following changes in our liquidity management practices, initiated in connection with the Corporation's resolution planning activities, that include maintaining at NB Holdings certain liquidity previously held solely at the parent company. Our TTF was 35 months at December 31, 2016.

We also utilize liquidity stress analysis to assist us in determining the appropriate amounts of liquidity to maintain at the parent company and our subsidiaries. The liquidity stress testing process is an integral part of analyzing our potential contractual and contingent cash outflows. We evaluate the liquidity requirements under a range of scenarios with varying levels of severity and time horizons. The scenarios we consider and utilize incorporate market-wide and Corporation-specific events, including potential credit rating downgrades for the parent company and our subsidiaries, and more severe events including potential resolution scenarios. The scenarios are based on our historical experience, experience of distressed and failed financial institutions, regulatory guidance, and both expected and unexpected future events.

The types of potential contractual and contingent cash outflows we consider in our scenarios may include, but are not limited to, upcoming contractual maturities of unsecured debt and reductions in new debt issuance; diminished access to secured financing markets; potential deposit withdrawals; increased draws on loan commitments, liquidity facilities and letters of credit; additional collateral that counterparties could call if our credit ratings were downgraded; collateral and margin requirements arising from market value changes; and potential liquidity required to maintain businesses and finance customer activities. Changes in certain market factors, including, but not limited to, credit rating downgrades, could negatively impact potential contractual and contingent outflows and the related financial instruments, and in some cases these impacts could be material to our financial results.

We consider all sources of funds that we could access during each stress scenario and focus particularly on matching available sources with corresponding liquidity requirements by legal entity. We also use the stress modeling results to manage our asset and liability profile and establish limits and guidelines on certain funding sources and businesses.

Basel 3 Liquidity Standards

Basel 3 has two liquidity risk-related standards: the LCR and the Net Stable Funding Ratio (NSFR).

The LCR is calculated as the amount of a financial institution's unencumbered HQLA relative to the estimated net cash outflows the institution could encounter over a 30-day period of significant liquidity stress, expressed as a percentage. The LCR regulatory requirement of 100 percent as of January 1, 2017 is applicable to the Corporation on a consolidated basis and to our insured depository institutions. As of December 31, 2016, the consolidated Corporation and its insured depository institutions were above the 2017 LCR requirements. Our LCR may fluctuate from period to period due to normal business flows from customer activity. On December 19, 2016, the Federal Reserve published the final LCR public disclosure requirements. Effective April 1, 2017, the final rule requires us to disclose publicly, on a quarterly basis, quantitative information about our LCR calculation and a discussion of the factors that have a significant effect on our LCR.

In April 2016, U.S. banking regulators issued a proposal for an NSFR requirement applicable to U.S. financial institutions following the Basel Committee's final standard in 2014. The U.S. NSFR would apply to the Corporation on a consolidated basis and to our insured depository institutions beginning on January 1, 2018. We expect to meet the NSFR requirement within the regulatory timeline. The standard is intended to reduce funding risk over a longer time horizon. The NSFR is designed to ensure an appropriate amount of stable funding, generally capital and liabilities maturing beyond one year, given the mix of assets and off-balance sheet items.

Diversified Funding Sources

We fund our assets primarily with a mix of deposits and secured and unsecured liabilities through a centralized, globally coordinated funding approach diversified across products, programs, markets, currencies and investor groups. The primary benefits of our centralized funding approach include greater control, reduced funding costs, wider name recognition by investors and greater flexibility to meet the variable funding requirements of subsidiaries. Where regulations, time zone differences or other business considerations make parent

company funding impractical, certain other subsidiaries may issue their own debt.

We fund a substantial portion of our lending activities through our deposits, which were \$1.26 trillion and \$1.20 trillion at December 31, 2016 and 2015. Deposits are primarily generated by our Consumer Banking, GWIM and Global Banking segments. These deposits are diversified by clients, product type and geography, and the majority of our U.S. deposits are insured by the FDIC. We consider a substantial portion of our deposits to be a stable, low-cost and consistent source of funding. We believe this deposit funding is generally less sensitive to interest rate changes, market volatility or changes in our credit ratings than wholesale funding sources. Our lending activities may also be financed through secured borrowings, including credit card securitizations and securitizations with GSEs, the FHA and private-label investors, as well as FHLB loans.

Our trading activities in other regulated entities are primarily funded on a secured basis through securities lending and repurchase agreements and these amounts will vary based on customer activity and market conditions. We believe funding these activities in the secured financing markets is more cost-efficient and less sensitive to changes in our credit ratings than unsecured financing. Repurchase agreements are generally short-term and often overnight.

Disruptions in secured financing markets for financial institutions have occurred in prior market cycles which resulted in adverse changes in terms or significant reductions in the availability of such financing. We manage the liquidity

risks arising from secured funding by sourcing funding globally from a diverse group of counterparties, providing a range of securities collateral and pursuing longer durations, when appropriate. For more information on secured financing agreements, see Note 10 – Federal Funds Sold or Purchased, Securities Financing Agreements and Short-term Borrowings to the Consolidated Financial Statements.

We issue long-term unsecured debt in a variety of maturities and currencies to achieve cost-efficient funding and to maintain an appropriate maturity profile. While the cost and availability of unsecured funding may be negatively impacted by general market conditions or by matters specific to the financial services industry or the Corporation, we seek to mitigate refinancing risk by actively managing the amount of our borrowings that we anticipate will mature within any month or quarter.

During 2016, we issued \$35.6 billion of long-term debt, consisting of \$27.5 billion for Bank of America Corporation, \$1.0 billion for Bank of America, N.A. and \$7.1 billion of other debt.

Table 17 presents our long-term debt by major currency at December 31, 2016 and 2015.

Table 17 Long-term Debt by
Major Currency

	December 31	
(Dollars in millions)	2016	2015
U.S. Dollar	\$ 172,082	\$ 190,381
Euro	28,236	29,797
British Pound	6,588	7,080
Japanese Yen	3,919	3,099
Australian Dollar	2,900	2,534
Canadian Dollar	1,049	1,428
Other	2,049	2,445
Total long-term debt	\$216,823	\$236,764

Total long-term debt decreased \$19.9 billion, or eight percent, in 2016, primarily due to maturities outpacing issuances. We may, from time to time, purchase outstanding debt instruments in various transactions, depending on prevailing market conditions, liquidity and other factors. In addition, our other regulated entities may make markets in our debt instruments to provide liquidity for investors. For more information on long-term debt funding, see Note 11 – Long-term Debt to the Consolidated Financial Statements.

We use derivative transactions to manage the duration, interest rate and currency risks of our borrowings, considering the characteristics of the assets they are funding. For further details on our ALM activities, see Interest Rate Risk Management for the Banking Book on page 84.

We may also issue unsecured debt in the form of structured notes for client purposes, certain of which qualify as TLAC eligible debt. During 2016, we issued \$6.2 billion of structured notes, a majority of which were issued by Bank of America Corporation. Structured notes are debt obligations that pay investors returns linked to other debt or equity securities, indices, currencies or commodities. We typically hedge the returns we are obligated to pay on these liabilities with derivatives and/or investments in the underlying instruments, so that from a funding perspective, the cost is similar to our other unsecured long-term debt. We could be required to settle certain structured note obligations for cash or other securities prior to maturity under certain circumstances, which we consider for liquidity planning purposes. We believe, however, that a portion of such borrowings will remain outstanding beyond the earliest put or redemption date.

Substantially all of our senior and subordinated debt obligations contain no provisions that could trigger a requirement for an early repayment, require additional collateral support, result in changes to terms, accelerate maturity or create additional financial obligations upon an adverse change in our credit ratings, financial ratios, earnings, cash flows or stock price.

Contingency Planning

We maintain contingency funding plans that outline our potential responses to liquidity stress events at various levels of severity. These policies and plans are based on stress scenarios and include potential funding strategies and communication and notification procedures that we would implement in the event we experienced stressed liquidity conditions. We periodically review and test the contingency funding plans to validate efficacy and assess readiness. Our U.S. bank subsidiaries can access contingency funding through the Federal Reserve Discount Window. Certain non-U.S. subsidiaries have access to central bank facilities in the jurisdictions in which they operate. While we do not rely on these sources in our liquidity modeling, we maintain the policies, procedures and governance processes that would enable us to access these sources if necessary.

Credit Ratings

Our borrowing costs and ability to raise funds are 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. Thus, it is our objective to maintain high-quality credit ratings, and management maintains an active dialogue with the major rating agencies.

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, and they consider a number of factors, including our own financial strength, performance, prospects and operations as well as factors not under our control. The rating agencies could make adjustments to our ratings at any time, and they provide no assurances that they will maintain our ratings at current levels.

Other factors that influence our credit ratings include changes to the rating agencies' methodologies for our industry or certain security types; the rating agencies' assessment of the general operating environment for financial services companies; our relative positions in the markets in which we compete; our various risk exposures and risk management policies and activities; pending litigation and other contingencies or potential tail risks; our reputation; our liquidity position, diversity of funding sources and funding costs; the current and expected level and volatility of our earnings; our capital position and capital management practices; our corporate governance; the sovereign credit ratings of the U.S. government; current or future regulatory and legislative initiatives; and the agencies' views on whether the U.S. government would provide meaningful support to the Corporation or its subsidiaries in a crisis.

On January 24, 2017, Moody's Investors Services, Inc. (Moody's) improved its ratings outlook on the Corporation and its subsidiaries, including BANA, to positive from stable, based on the agency's view that there is an increased likelihood that the Corporation's profitability will strengthen on a sustainable basis over the next 12 to 18 months while the Corporation continues to adhere to its conservative risk profile, lowering its earnings volatility. The agency concurrently affirmed the current ratings of the Corporation and its subsidiaries, which have not changed since the conclusion of the agency's previous review of several global investment banking groups, including Bank of America, on May 28, 2015.

On December 16, 2016, Standard & Poor's Global Ratings (S&P) concluded its CreditWatch with positive implications for operating subsidiaries of four U.S. G-SIBs, including Bank of America. As a result, S&P upgraded the long-term senior debt ratings of BANA, MLPF&S, MLI and Bank of America Merrill Lynch International Limited (BAMLI) by one notch, to A+ from A. These ratings actions followed the Federal Reserve's publication of the TLAC final rule, which provided clarity on which debt instruments will count as external TLAC, and by extension, will also count under S&P's Additional Loss Absorbing Capacity (ALAC) framework. The ALAC framework details how a BHC's loss-absorbing debt and equity capital buffers may enable uplift to its operating subsidiaries' credit ratings. The Federal Reserve's decision to allow existing debt containing otherwise impermissible acceleration clauses to count as external TLAC improved the Corporation's ALAC calculation enough to warrant an additional notch of uplift under S&P's methodology. Following the upgrades, S&P revised the outlook for its ratings to stable on those four operating subsidiaries. The ratings of Bank of America Corporation, which does not receive any ratings uplift under S&P's ALAC framework, were not impacted by this ratings action and remain on stable outlook.

On December 13, 2016, Fitch Ratings (Fitch) completed its latest semi-annual review of 12 large, complex securities trading and universal banks, including Bank of America. The agency affirmed the long-term and short-term senior debt ratings of Bank of America Corporation and Bank of America, N.A., and maintained stable outlooks on those ratings. Fitch concurrently revised the

outlooks for two of Bank of America's material international operating subsidiaries, MLI and BAMLI, to stable from positive due to a delay in host country internal TLAC proposals.

Table 18 presents the current long-term/short-term senior debt ratings and outlooks expressed by the rating agencies.

Table 18 Senior Debt Ratings

	Moody's Investors Service			Standard & Poor's Global Ratings			Fitch Ratings		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Bank of America Corporation	Baa1	P-2	Positive	BBB+	A-2	Stable	A	F1	Stable
Bank of America, N.A.	A1	P-1	Positive	A+	A-1	Stable	A+	F1	Stable
Merrill Lynch, Pierce, Fenner & Smith	NR	NR	NR	A+	A-1	Stable	A+	F1	Stable
Merrill Lynch International	NR	NR	NR	A+	A-1	Stable	A	F1	Stable

NR = not rated

A reduction in certain of our credit ratings or the ratings of certain asset-backed securitizations may have a material adverse effect on our liquidity, potential loss of access to credit markets, the related cost of funds, our businesses and on certain trading revenues, particularly in those businesses where counterparty creditworthiness is critical. In addition, under the terms of certain OTC derivative contracts and other trading agreements, in the event of downgrades of our or our rated subsidiaries' credit ratings, the counterparties to those agreements may require us to provide additional collateral, or to terminate these contracts or agreements, which could cause us to sustain losses and/or adversely impact our liquidity. If the short-term credit ratings of our parent company, bank or broker-dealer subsidiaries were downgraded by one or more levels, the potential loss of access to short-term funding sources such as repo financing and the effect on our incremental cost of funds could be material.

While certain potential impacts are contractual and quantifiable, the full scope of the consequences of a credit rating downgrade to a financial institution is inherently uncertain, as it depends upon numerous dynamic, complex and inter-related factors and assumptions, including whether any downgrade of a company'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 on potential impacts of credit rating downgrades, see Liquidity Risk – Time-to-required Funding and Stress Modeling on page 52.

For information on the additional collateral and termination payments that could be required in connection with certain OTC derivative contracts and other trading agreements as a result of such a credit rating downgrade, see Note 2 – Derivatives to the Consolidated Financial Statements.

Common Stock Dividends

For a summary of our declared quarterly cash dividends on common stock during 2016 and through February 23, 2017, see Note 13 – Shareholders' Equity to the Consolidated Financial Statements.

Credit Risk Management

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations. Credit risk can also arise from operational failures that result in an erroneous advance, commitment or investment of funds. We define the credit exposure to a borrower or counterparty as the loss potential arising from all product classifications including loans and leases, deposit overdrafts, derivatives, assets held-for-sale and unfunded lending commitments which include loan commitments, letters of credit and financial guarantees. Derivative positions are recorded at fair value and assets held-for-sale are recorded at either fair value or the lower of cost or fair value. Certain loans and unfunded commitments are accounted for under the fair value option. Credit risk for categories of assets carried at fair value is not accounted for as part of the allowance for credit losses but as part of the fair value adjustments recorded in earnings. For derivative positions, our credit risk is measured as the net cost in the event the counterparties with contracts in which we are in a gain position fail to perform under the terms of those contracts. We use the current fair value to represent credit exposure without giving consideration to future mark-to-market changes. The credit risk amounts take into consideration the effects of legally enforceable master netting agreements and cash collateral. Our consumer and commercial credit extension and review procedures encompass funded and unfunded credit exposures. For more information on derivatives and credit extension commitments, see Note 2 – Derivatives and Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

We manage credit risk based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral, and other support given current events, conditions and expectations. We classify our portfolios as either consumer or commercial and monitor credit risk in each as discussed below.

We refine our underwriting and credit risk management practices as well as credit standards to meet the changing economic environment. To mitigate losses and enhance customer support in our consumer businesses, we have in place collection programs and loan modification and customer assistance infrastructures. We utilize a number of actions to mitigate losses in the commercial businesses including increasing the frequency and intensity of portfolio monitoring, hedging activity and our practice of transferring management of deteriorating commercial exposures to independent special asset officers as credits enter criticized categories.

For more information on our credit risk management activities, see Consumer Portfolio Credit Risk Management below, Commercial Portfolio Credit Risk Management on page 66, Non-U.S. Portfolio on page 74, Provision for Credit Losses on page 75, Allowance for Credit Losses on page 75, and Note 4 – Outstanding Loans and Leases and Note 5 – Allowance for Credit Losses to the Consolidated Financial Statements.

Consumer Portfolio Credit Risk Management

Credit risk management for the consumer portfolio begins with initial underwriting and continues throughout a borrower's credit cycle. Statistical techniques in conjunction with experiential judgment are used in all aspects of portfolio management including underwriting, product pricing, risk appetite, setting credit limits, and establishing operating processes and metrics to quantify and balance risks and returns. Statistical models are built using detailed behavioral information from external sources such as credit bureaus and/or internal historical experience. These models are a component of our consumer credit risk management process and are used in part to assist in making both new and ongoing credit decisions, as well as portfolio management strategies, including authorizations and line management, collection practices and strategies, and determination of the allowance for loan and lease losses and allocated capital for credit risk.

Consumer Credit Portfolio

Improvement in the U.S. unemployment rate and home prices continued during 2016 resulting in improved credit quality and lower credit losses across most major consumer portfolios compared to 2015. The 30 and 90 days or more past due balances

declined across nearly all consumer loan portfolios during 2016 as a result of improved delinquency trends.

Improved credit quality, continued loan balance run-off and sales across the consumer portfolio drove a \$1.2 billion decrease in the consumer allowance for loan and lease losses in 2016 to \$6.2 billion at December 31, 2016. For additional information, see Allowance for Credit Losses on page 75.

For more information on our accounting policies regarding delinquencies, nonperforming status, charge-offs and troubled debt restructurings (TDRs) for the consumer portfolio, see Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

In connection with an agreement to sell our non-U.S. consumer credit card business, this business, which includes \$9.2 billion of non-U.S. credit card loans and related allowance for loan and lease losses of \$243 million, was reclassified to assets of business held for sale on the Consolidated Balance Sheet as of December 31, 2016. In this section, all applicable amounts and ratios include these balances, unless otherwise noted.

Table 19 presents our outstanding consumer loans and leases, and the PCI loan portfolio. In addition to being included in the "Outstandings" columns in Table 19, PCI loans are also shown separately in the "Purchased Credit-impaired Loan Portfolio" columns. The impact of the PCI loan portfolio on certain credit statistics is reported where appropriate. For more information on PCI loans, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62 and Note 4 – Outstanding Loans and Leases to the Consolidated Financial Statements.

Table 19 Consumer Loans and Leases

	December 31		Purchased	
	Outstandings		Credit-impaired Loan Portfolio	
(Dollars in millions)	2016	2015	2016	2015
Residential mortgage ⁽¹⁾	\$191,797	\$187,911	\$10,127	\$12,066
Home equity	66,443	75,948	3,611	4,619
U.S. credit card	92,278	89,602	n/a	n/a
Non-U.S. credit card	9,214	9,975	n/a	n/a
Direct/Indirect consumer ⁽²⁾	94,089	88,795	n/a	n/a
Other consumer ⁽³⁾	2,499	2,067	n/a	n/a

Consumer loans excluding loans accounted for under the fair value option	456,320	454,298	13,738	16,685
Loans accounted for under the fair value option ⁽⁴⁾	1,051	1,871	n/a	n/a
Total consumer loans and leases ⁽⁵⁾	\$457,371	\$456,169	\$13,738	\$16,685

(1) Outstandings include pay option loans of \$1.8 billion and \$2.3 billion at December 31, 2016 and 2015. We no longer originate pay option loans.

(2) Outstandings include auto and specialty lending loans of \$48.9 billion and \$42.6 billion, unsecured consumer lending loans of \$585 million and \$886 million, U.S. securities-based lending loans of \$40.1 billion and \$39.8 billion, non-U.S. consumer loans of \$3.0 billion and \$3.9 billion, student loans of \$497 million and \$564 million and other consumer loans of \$1.1 billion and \$1.0 billion at December 31, 2016 and 2015.

(3) Outstandings include consumer finance loans of \$465 million and \$564 million, consumer leases of \$1.9 billion and \$1.4 billion and consumer overdrafts of \$157 million and \$146 million at December 31, 2016 and 2015.

(4) Consumer loans accounted for under the fair value option include residential mortgage loans of \$710 million and \$1.6 billion and home equity loans of \$341 million and \$250 million at December 31, 2016 and 2015. For more information on the fair value option, see Note 21 – Fair Value Option to the Consolidated Financial Statements.

(5) Includes \$9.2 billion of non-U.S. credit card loans, which are included in assets of business held for sale on the Consolidated Balance Sheet at December 31, 2016.

n/a = not applicable

Table 20 presents consumer nonperforming loans and accruing consumer loans past due 90 days or more. Nonperforming loans do not include past due consumer credit card loans, other unsecured loans and in general, consumer loans not secured by real estate (loans discharged in Chapter 7 bankruptcy are included) as these loans are typically charged off no later than the end of the month in which the loan becomes 180 days past due. Real estate-secured past due consumer loans that are insured by the FHA or individually insured under long-term standby agreements

with FNMA and FHLMC (collectively, the fully-insured loan portfolio) are reported as accruing as opposed to nonperforming since the principal repayment is insured. Fully-insured loans included in accruing past due 90 days or more are primarily from our repurchases of delinquent FHA loans pursuant to our servicing agreements with GNMA. Additionally, nonperforming loans and accruing balances past due 90 days or more do not include the PCI loan portfolio or loans accounted for under the fair value option even though the customer may be contractually past due.

Table 20 Consumer Credit Quality

	December 31		Accruing Past Due	
	Nonperforming		90 Days or More	
(Dollars in millions)	2016	2015	2016	2015
Residential mortgage ⁽¹⁾	\$3,056	\$4,803	\$4,793	\$7,150
Home equity	2,918	3,337	—	—
U.S. credit card	n/a	n/a	782	789
Non-U.S. credit card	n/a	n/a	66	76
Direct/Indirect consumer	28	24	34	39
Other consumer	2	1	4	3
Total ⁽²⁾	\$6,004	\$8,165	\$5,679	\$8,057
Consumer loans and leases as a percentage of outstanding consumer loans and leases ⁽²⁾	1.32	% 1.80	% 1.24	% 1.77
Consumer loans and leases as a percentage of outstanding loans and leases, excluding PCI and fully-insured loan portfolios ⁽²⁾	1.45	2.04	0.21	0.23

Residential mortgage loans accruing past due 90 days or more are fully-insured loans. At December 31, 2016 and ⁽¹⁾ 2015, residential mortgage included \$3.0 billion and \$4.3 billion of loans on which interest has been curtailed by the FHA, and therefore are no longer accruing interest, although principal is still insured, and \$1.8 billion and \$2.9 billion of loans on which interest was still accruing.

Balances exclude consumer loans accounted for under the fair value option. At December 31, 2016 and 2015, \$48 ⁽²⁾ million and \$293 million of loans accounted for under the fair value option were past due 90 days or more and not accruing interest.

n/a = not applicable

Table 21 presents net charge-offs and related ratios for consumer loans and leases.

Table 21 Consumer Net Charge-offs and Related Ratios

(Dollars in millions)	Net Charge-offs ⁽¹⁾		Net Charge-off Ratios ^(1, 2)	
	2016	2015	2016	2015

Residential mortgage	\$131	\$473	0.07%	0.24%
Home equity	405	636	0.57	0.79
U.S. credit card	2,269	2,314	2.58	2.62
Non-U.S. credit card	175	188	1.83	1.86
Direct/Indirect consumer	134	112	0.15	0.13
Other consumer	205	193	8.95	9.96
Total	\$3,319	\$3,916	0.74	0.84

(1) Net charge-offs exclude write-offs in the PCI loan portfolio. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62.

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

Net charge-off ratios, excluding the PCI and fully-insured loan portfolios, were 0.09 percent and 0.35 percent for residential mortgage, 0.60 percent and 0.84 percent for home equity and 0.82 percent and 0.99 percent for the total consumer portfolio for 2016 and 2015, respectively. These are the only product classifications that include PCI and fully-insured loans.

Net charge-offs, as shown in Tables 21 and 22, exclude write-offs in the PCI loan portfolio of \$144 million and \$634 million in

residential mortgage and \$196 million and \$174 million in home equity for 2016 and 2015. Net charge-off ratios including the PCI write-offs were 0.15 percent and 0.56 percent for residential mortgage and 0.84 percent and 1.00 percent for home equity in 2016 and 2015. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62.

Table 22 presents outstandings, nonperforming balances, net charge-offs, allowance for loan and lease losses and provision for loan and lease losses for the core and non-core portfolio within the consumer real estate portfolio. We categorize consumer real estate loans as core and non-core based on loan and customer characteristics such as origination date, product type, LTV, FICO score and delinquency status consistent with our current consumer and mortgage servicing strategy. Generally, loans that were originated after January 1, 2010, qualified under government-sponsored enterprise underwriting guidelines, or otherwise met our underwriting guidelines in place in 2015 are characterized as core loans. Loans held in legacy private-label securitizations, government-insured loans originated prior to 2010, loan products no longer originated, and loans originated prior to 2010 and classified as nonperforming or modified in a TDR prior to 2016

are generally characterized as non-core loans, and are principally run-off portfolios. Core loans as reported within Table 22 include loans held in the Consumer Banking and GWIM segments, as well as loans held for ALM activities in All Other. For more information on core and non-core loans, see Note 4 – Outstanding Loans and Leases to the Consolidated Financial Statements.

As shown in Table 22, outstanding core consumer real estate loans increased \$9.2 billion during 2016 driven by an increase of \$14.7 billion in residential mortgage, partially offset by a \$5.5 billion decrease in home equity. The increase in residential mortgage was primarily driven by originations outpacing prepayments in Consumer Banking and GWIM. The decrease in home equity was driven by paydowns outpacing new originations and draws on existing lines.

Table 22 Consumer Real Estate Portfolio ⁽¹⁾

	December 31		Nonperforming		Net Charge-offs	
	Outstandings				(2)	
(Dollars in millions)	2016	2015	2016	2015	2016	2015
Core portfolio						
Residential mortgage	\$156,497	\$141,795	\$1,274	\$1,825	\$(29)	\$101
Home equity	49,373	54,917	969	974	113	163
Total core portfolio	205,870	196,712	2,243	2,799	84	264
Non-core portfolio						
Residential mortgage	35,300	46,116	1,782	2,978	160	372
Home equity	17,070	21,031	1,949	2,363	292	473
Total non-core portfolio	52,370	67,147	3,731	5,341	452	845
Consumer real estate						

portfolio						
Residential mortgage	191,797	187,911	3,056	4,803	131	473
Home equity	66,443	75,948	2,918	3,337	405	636
Total						
consumer real estate portfolio	\$258,240	\$263,859	\$5,974	\$8,140	\$536	\$1,109

	December 31		Allowance for		Provision for	
			Loan		Loan	
			and Lease		and Lease	
			Losses		Losses	
	2016	2015	2016	2015	2016	2015
Core portfolio						
Residential mortgage	\$252	\$319	\$(98)	\$(17)		
Home equity	560	664	10	(33)		
Total	812	983	(88)	(50)		
Non-core portfolio						
Residential mortgage	760	1,181	(86)	(277)		
Home equity	1,178	1,750	(84)	257		
Total	1,938	2,931	(170)	(20)		
Consumer real estate portfolio						
Residential mortgage	1,012	1,500	(184)	(294)		
Home equity	1,738	2,414	(74)	224		
Total	\$2,750	\$3,914	\$(258)	\$(70)		

- Outstandings and nonperforming loans exclude loans accounted for under the fair value option. Consumer loans
- (1) accounted for under the fair value option include residential mortgage loans of \$710 million and \$1.6 billion and home equity loans of \$341 million and \$250 million at December 31, 2016 and 2015. For more information on the fair value option, see Note 21 – Fair Value Option to the Consolidated Financial Statements.
- (2) Net charge-offs exclude write-offs in the PCI loan portfolio. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62.

We believe that the presentation of information adjusted to exclude the impact of the PCI loan portfolio, the fully-insured loan portfolio and loans accounted for under the fair value option is more representative of the ongoing operations and credit quality of the business. As a result, in the following discussions of the residential mortgage and home equity portfolios, we provide information that excludes the impact of the PCI loan portfolio, the fully-insured loan portfolio and loans accounted for under the fair value option in certain credit quality statistics. We separately disclose information on the PCI loan portfolio on page 62.

Residential Mortgage

The residential mortgage portfolio makes up the largest percentage of our consumer loan portfolio at 42 percent of consumer loans and leases at December 31, 2016. Approximately 36 percent of the residential mortgage portfolio is in All Other and is comprised of originated loans, purchased loans used in our overall ALM activities, delinquent FHA loans repurchased pursuant to our servicing agreements with GNMA as well as loans repurchased related to our representations and warranties. Approximately 34 percent of the residential mortgage portfolio is

in GWIM and represents residential mortgages originated for the home purchase and refinancing needs of our wealth management clients and the remaining portion of the portfolio is primarily in Consumer Banking.

Outstanding balances in the residential mortgage portfolio, excluding loans accounted for under the fair value option, increased \$3.9 billion in 2016 as retention of new originations was partially offset by loan sales of \$6.6 billion and run-off. Loan sales primarily included \$3.1 billion of loans in consolidated agency residential mortgage securitization vehicles and \$1.9 billion of nonperforming and other delinquent loans.

At December 31, 2016 and 2015, the residential mortgage portfolio included \$28.7 billion and \$37.1 billion of outstanding fully-insured loans. On this portion of the residential mortgage portfolio, we are protected against principal loss as a result of either FHA insurance or long-term standby agreements that provide for the transfer of credit risk to FNMA and FHLMC. At December 31, 2016 and 2015, \$22.3 billion and \$33.4 billion had FHA

insurance with the remainder protected by long-term standby agreements. At December 31, 2016 and 2015, \$7.4 billion and \$11.2 billion of the FHA-insured loan population were repurchases of delinquent FHA loans pursuant to our servicing agreements with GNMA.

Table 23 presents certain residential mortgage key credit statistics on both a reported basis excluding loans accounted for under the fair value option, and excluding the PCI loan portfolio, our fully-insured loan portfolio and loans accounted for under the fair value option. Additionally, in the “Reported Basis” columns in the table below, accruing balances past due and nonperforming loans do not include the PCI loan portfolio, in accordance with our accounting policies, even though the customer may be contractually past due. As such, the following discussion presents the residential mortgage portfolio excluding the PCI loan portfolio, the fully-insured loan portfolio and loans accounted for under the fair value option. For more information on the PCI loan portfolio, see page 62.

Table 23 Residential Mortgage – Key Credit Statistics

	December 31		Excluding Purchased	
	Reported Basis ⁽¹⁾		Credit-impaired and Fully-insured Loans	
(Dollars in millions)	2016	2015	2016	2015
Outstanding	\$191,797	\$187,911	\$152,941	\$138,768
Accruing past due 30 days or more	8,232	11,423	1,835	1,568
Accruing past due 90 days or more	4,793	7,150	—	—
Nonperforming loans	3,056	4,803	3,056	4,803
Percent of portfolio				
Refreshed	5	% 7	% 3	% 5
LTV greater than 90				%

but less
than or
equal to
100

Refreshed

LTV 4 8 3 4

greater
than 100

Refreshed

FICO 9 13 4 6

below
620

2006 and

2007 13 17 12 17

vintages
(2)

Net

charge-off 0.07 0.24 0.09 0.35

ratio (3)

(1) Outstandings, accruing past due, nonperforming loans and percentages of portfolio exclude loans accounted for under the fair value option.

These vintages of loans account for \$931 million, or 31 percent, and \$1.6 billion, or 34 percent, of nonperforming

(2) residential mortgage loans at December 31, 2016 and 2015. Additionally, these vintages accounted for net recoveries of \$2 million in 2016 and net charge-offs of \$136 million in 2015.

(3) Net charge-off ratios are calculated as net charge-offs divided by average outstanding loans excluding loans accounted for under the fair value option.

Nonperforming residential mortgage loans decreased \$1.7 billion in 2016 as outflows, including sales of \$1.4 billion, outpaced new inflows. Of the nonperforming residential mortgage loans at December 31, 2016, \$1.0 billion, or 33 percent, were current on contractual payments. Accruing past due 30 days or more increased \$267 million due to the timing impact of a consumer real estate payment servicer conversion that occurred during the fourth quarter of 2016. Net charge-offs decreased \$342 million to \$131 million in 2016, compared to \$473 million in 2015. This decrease in net charge-offs was primarily driven by charge-offs related to the consumer relief portion of the settlement with the U.S. Department of Justice (DoJ) of \$402 million in 2015. Net charge-offs also included charge-offs of \$26 million related to nonperforming loan sales during 2016 compared to recoveries of \$127 million in 2015. Additionally, net charge-offs declined driven by favorable portfolio trends and decreased write-downs on loans greater than 180 days past due, which were written down to the estimated fair value of the collateral, less costs to sell, due in part to improvement in home prices and the U.S. economy.

Loans with a refreshed LTV greater than 100 percent represented three percent and four percent of the residential mortgage loan portfolio at December 31, 2016 and 2015. Of the

loans with a refreshed LTV greater than 100 percent, 98 percent were performing at both December 31, 2016 and 2015. Loans with a refreshed LTV greater than 100 percent reflect loans where the outstanding carrying value of the loan is greater than the most recent valuation of the property securing the loan. The majority of these loans have a refreshed LTV greater than 100 percent primarily due to home price deterioration since 2006, partially offset by subsequent appreciation.

Of the \$152.9 billion in total residential mortgage loans outstanding at December 31, 2016, as shown in Table 24, 37 percent were originated as interest-only loans. The outstanding balance of interest-only residential mortgage loans that have entered the amortization period was \$11.0 billion, or 19 percent, at December 31, 2016. Residential mortgage loans that have entered the amortization period generally have experienced a higher rate of early stage delinquencies and nonperforming status compared to the residential mortgage portfolio as a whole. At December 31, 2016, \$249 million, or two percent of outstanding interest-only residential mortgages that had entered the amortization period

were accruing past due 30 days or more compared to \$1.8 billion, or one percent for the entire residential mortgage portfolio. In addition, at December 31, 2016, \$448 million, or four percent of outstanding interest-only residential

mortgage loans that had entered the amortization period were nonperforming, of which \$233 million were contractually current, compared to \$3.1 billion, or two percent for the entire residential mortgage portfolio, of which \$1.0 billion were contractually current. Loans that have yet to enter the amortization period in our interest-only residential mortgage portfolio are primarily well-collateralized loans to our wealth management clients and have an interest-only period of three to ten years. More than 80 percent of these loans that have yet to enter the amortization period will not be required to make a fully-amortizing payment until 2019 or later.

Table 24 presents outstandings, nonperforming loans and net charge-offs by certain state concentrations for the residential

mortgage portfolio. The Los Angeles-Long Beach-Santa Ana Metropolitan Statistical Area (MSA) within California represented 15 percent and 14 percent of outstandings at December 31, 2016 and 2015. Loans within this MSA contributed net recoveries of \$13 million within the residential mortgage portfolio during 2016 and 2015. In the New York area, the New York-Northern New Jersey-Long Island MSA made up 12 percent and 11 percent of outstandings during 2016 and 2015. Loans within this MSA contributed net charge-offs of \$33 million and \$101 million within the residential mortgage portfolio during 2016 and 2015.

Table 24 Residential Mortgage State Concentrations

December 31		Nonperforming		Net	
Outstandings ⁽¹⁾		⁽¹⁾		Charge-offs	
				⁽²⁾	
(Dollars					
in					
millions)					
California	\$58,295	\$48,865	\$554	\$977	\$(70) \$(49)
New York ⁽³⁾	14,476	12,696	290	399	18 57
Florida ⁽³⁾	10,213	10,001	322	534	20 53
Texas	6,607	6,208	132	185	9 10
Massachusetts	5,844	4,799	77	118	3 8
Other U.S./Non-U.S.	58,006	56,199	1,681	2,590	151 394
Residential mortgage loans ⁽⁴⁾	\$152,941	\$138,768	\$3,056	\$4,803	\$131 \$473
Fully-insured loan portfolio	28,729	37,077			
Purchased credit-impaired residential mortgage loan portfolio ⁽⁵⁾	10,127	12,066			
Total residential mortgage	\$191,797	\$187,911			

loan
portfolio

- (1) Outstandings and nonperforming loans exclude loans accounted for under the fair value option.

Net charge-offs exclude \$144 million of write-offs in the residential mortgage PCI loan portfolio in 2016 compared to \$634 million in 2015. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62.

(3) In these states, foreclosure requires a court order following a legal proceeding (judicial states).

(4) Amounts exclude the PCI residential mortgage and fully-insured loan portfolios.

(5) At December 31, 2016 and 2015, 48 percent and 47 percent of PCI residential mortgage loans were in California. There were no other significant single state concentrations.

Home Equity

At December 31, 2016, the home equity portfolio made up 15 percent of the consumer portfolio and is comprised of home equity lines of credit (HELOCs), home equity loans and reverse mortgages.

At December 31, 2016, our HELOC portfolio had an outstanding balance of \$58.6 billion, or 88 percent of the total home equity portfolio compared to \$66.1 billion, or 87 percent, at December 31, 2015. HELOCs generally have an initial draw period of 10 years and the borrowers typically are only required to pay the interest due on the loans on a monthly basis. After the initial draw period ends, the loans generally convert to 15-year amortizing loans.

At December 31, 2016, our home equity loan portfolio had an outstanding balance of \$5.9 billion, or nine percent of the total home equity portfolio compared to \$7.9 billion, or 10 percent, at December 31, 2015. Home equity loans are almost all fixed-rate loans with amortizing payment terms of 10 to 30 years and of the \$5.9 billion at December 31, 2016, 56 percent have 25- to 30-year terms. At December 31, 2016, our reverse mortgage portfolio had an outstanding balance, excluding loans accounted for under the fair value option, of \$1.9 billion, or three percent of the total home equity portfolio compared to \$2.0 billion, or three percent, at December 31, 2015. We no longer originate reverse mortgages.

At December 31, 2016, approximately 67 percent of the home equity portfolio was in Consumer Banking, 26 percent was in All Other and the remainder of the portfolio was primarily in GWIM. Outstanding balances in the home equity portfolio, excluding loans accounted for under the fair value option, decreased \$9.5 billion in 2016 primarily due to paydowns and charge-offs outpacing new originations and draws on existing lines. Of the total home equity portfolio at December 31, 2016 and 2015, \$19.6 billion and \$20.3 billion, or 29 percent and 27 percent, were in first-lien positions (31 percent and 28 percent excluding the PCI home equity portfolio). At December 31, 2016, outstanding balances in the home equity portfolio that were in a second-lien or more junior-lien position and where we also held the first-lien loan totaled \$10.9 billion, or 17 percent of our total home equity portfolio excluding the PCI loan portfolio.

Unused HELOCs totaled \$47.2 billion and \$50.3 billion at December 31, 2016 and 2015. The decrease was primarily due to accounts reaching the end of their draw period, which automatically eliminates open line exposure, as well as customers choosing to close accounts. Both of these more than offset customer paydowns of principal balances and the impact of new production. The HELOC utilization rate was 55 percent and 57 percent at December 31, 2016 and 2015.

Table 25 presents certain home equity portfolio key credit statistics on both a reported basis excluding loans accounted for under the fair value option, and excluding the PCI loan portfolio and loans accounted for under the fair value option. Additionally, in the “Reported Basis” columns in the table below, accruing balances past due 30 days or more and nonperforming loans do

not include the PCI loan portfolio, in accordance with our accounting policies, even though the customer may be contractually past due. As such, the following discussion presents the home equity portfolio excluding the PCI loan portfolio and loans accounted for under the fair value option. For more information on the PCI loan portfolio, see page 62.

Table 25 Home Equity – Key Credit Statistics

	December 31		Excluding Purchased	
	Reported Basis ⁽¹⁾		Credit-impaired	
			Loans	
(Dollars in millions)	2016	2015	2016	2015
Outstanding	\$66,443	\$75,948	\$62,832	\$71,329
Accruing past due 30 days or more	566	613	566	613
Nonperforming loans ⁽²⁾	2,918	3,337	2,918	3,337
Percent of portfolio Refreshed CLTV greater than 90 but less than or equal to 100	5	% 6	% 4	% 6
Refreshed CLTV greater than 100	8	12	7	11
Refreshed FICO below 620	7	7	6	7
2006 and 2007 vintages	37	43	34	41

(3)

Net

charge-off 0.57 0.79 0.60 0.84

ratio ⁽⁴⁾

- (1) Outstandings, accruing past due, nonperforming loans and percentages of the portfolio exclude loans accounted for under the fair value option.
- (2) Accruing past due 30 days or more includes \$81 million and \$89 million and nonperforming loans include \$340 million and \$396 million of loans where we serviced the underlying first-lien at December 31, 2016 and 2015. These vintages of loans have higher refreshed combined LTV ratios and accounted for 50 percent and 45 percent of nonperforming home equity loans at December 31, 2016 and 2015, and 54 percent of net charge-offs in both 2016 and 2015.
- (3) nonperforming home equity loans at December 31, 2016 and 2015, and 54 percent of net charge-offs in both 2016 and 2015.
- (4) Net charge-off ratios are calculated as net charge-offs divided by average outstanding loans excluding loans accounted for under the fair value option.

Nonperforming outstanding balances in the home equity portfolio decreased \$419 million in 2016 as outflows, including sales of \$234 million, outpaced new inflows. Of the nonperforming home equity portfolio at December 31, 2016, \$1.5 billion, or 50 percent, were current on contractual payments. Nonperforming loans that are contractually current primarily consist of collateral-dependent TDRs, including those that have been discharged in Chapter 7 bankruptcy, junior-lien loans where the underlying first-lien is 90 days or more past due, as well as loans that have not yet demonstrated a sustained period of payment performance following a TDR. In addition, \$876 million, or 30 percent of nonperforming home equity loans, were 180 days or more past due and had been written down to the estimated fair value of the collateral, less costs to sell. Accruing loans that were 30 days or more past due decreased \$47 million in 2016.

In some cases, the junior-lien home equity outstanding balance that we hold is performing, but the underlying first-lien is not. For outstanding balances in the home equity portfolio on which we service the first-lien loan, we are able to track whether the first-lien loan is in default. For loans where the first-lien is serviced by a third party, we utilize credit bureau data to estimate the delinquency status of the first-lien. Given that the credit bureau database we use does not include a property address for the mortgages, we are unable to identify with certainty whether a reported delinquent first-lien mortgage pertains to the same property for which we hold a junior-lien loan. For certain loans, we utilize a third-party vendor to combine credit bureau and public record data to better link a junior-lien loan with the underlying first-lien mortgage. At December 31, 2016, we estimate that \$1.0 billion of current and \$149 million of 30 to 89 days past due junior-lien loans were behind a delinquent first-lien loan. We service the first-lien loans on \$190 million of these combined amounts, with the remaining \$980 million serviced by third parties. Of the \$1.2 billion of current to 89 days past due junior-lien loans, based on available credit bureau data and our own internal servicing data,

we estimate that approximately \$428 million had first-lien loans that were 90 days or more past due.

Net charge-offs decreased \$231 million to \$405 million in 2016, compared to \$636 million in 2015 driven by favorable portfolio trends due in part to improvement in home prices and the U.S. economy. Additionally, the decrease in net charge-offs was partly attributable to charge-offs of \$75 million related to the consumer relief portion of the settlement with the DoJ in 2015.

Outstanding balances with refreshed combined loan-to-value (CLTV) greater than 100 percent comprised seven percent and 11 percent of the home equity portfolio at December 31, 2016 and 2015. Outstanding balances in the home equity portfolio with a refreshed CLTV greater than 100 percent reflect loans where our loan and available line of credit combined with any outstanding senior liens against the property are equal to or greater than the most recent valuation of the property securing the loan. Depending on the value of the property, there may be collateral in excess of the first-lien that is available to reduce the severity of loss on the second-lien. Of those outstanding balances with a refreshed CLTV greater than 100 percent, 95 percent of the customers were current on their home equity loan and 91 percent of second-lien loans with a refreshed CLTV greater than 100 percent were current on both their second-lien and underlying first-lien loans at December 31, 2016.

Of the \$62.8 billion in total home equity portfolio outstandings at December 31, 2016, as shown in Table 26, 52 percent require interest-only payments. The outstanding balance of HELOCs that have entered the amortization

period was \$14.7 billion at December 31, 2016. The HELOCs that have entered the amortization period have experienced a higher percentage of early stage delinquencies and nonperforming status when compared to the HELOC portfolio as a whole. At December 31, 2016, \$295 million, or two percent of outstanding HELOCs that had entered the amortization period were accruing past due 30 days or more. In addition, at December 31, 2016, \$1.8 billion, or 12 percent of outstanding HELOCs that had entered the amortization period were

nonperforming, of which \$868 million were contractually current. Loans in our HELOC portfolio generally have an initial draw period of 10 years and 23 percent of these loans will enter the amortization period in 2017 and will be required to make fully-amortizing payments. We communicate to contractually current customers more than a year prior to the end of their draw period to inform them of the potential change to the payment structure before entering the amortization period, and provide payment options to customers prior to the end of the draw period.

Although we do not actively track how many of our home equity customers pay only the minimum amount due on their home equity loans and lines, we can infer some of this information through a review of our HELOC portfolio that we service and that is still in its revolving period (i.e., customers may draw on and repay their line of credit, but are generally only required to pay interest on a

monthly basis). During 2016, approximately 34 percent of these customers with an outstanding balance did not pay any principal on their HELOCs.

Table 26 presents outstandings, nonperforming balances and net charge-offs by certain state concentrations for the home equity portfolio. In the New York area, the New York-Northern New Jersey-Long Island MSA made up 13 percent of the outstanding home equity portfolio at both December 31, 2016 and 2015. Loans within this MSA contributed 17 percent and 13 percent of net charge-offs in 2016 and 2015 within the home equity portfolio. The Los Angeles-Long Beach-Santa Ana MSA within California made up 11 percent and 12 percent of the outstanding home equity portfolio in 2016 and 2015. Loans within this MSA contributed zero percent and two percent of net charge-offs in 2016 and 2015 within the home equity portfolio.

Table 26 Home Equity State Concentrations

	December 31		Nonperforming (1)		Net Charge-offs (2)	
	Outstandings (1)					
(Dollars in millions)	2016	2015	2016	2015	2016	2015
California	\$17,563	\$20,356	\$829	\$902	\$7	\$57
Florida (3)	7,319	8,474	442	518	76	128
New Jersey (3)	5,102	5,570	201	230	50	51
New York (3)	4,720	5,249	271	316	45	61
Massachusetts	3,078	3,378	100	115	12	17
Other U.S./Non-U.S.	25,050	28,302	1,075	1,256	215	322
Home equity loans (4)	\$62,832	\$71,329	\$2,918	\$3,337	\$405	\$636
Purchased credit-impaired home equity portfolio (5)	3,611	4,619				
Total home	\$66,443	\$75,948				

equity
loan
portfolio

(1) Outstandings and nonperforming loans exclude loans accounted for under the fair value option.

Net charge-offs exclude \$196 million of write-offs in the home equity PCI loan portfolio in 2016 compared to \$174 million in 2015. For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62.

(3) In these states, foreclosure requires a court order following a legal proceeding (judicial states).

(4) Amount excludes the PCI home equity portfolio.

(5) At both December 31, 2016 and 2015, 29 percent of PCI home equity loans were in California. There were no other significant single state concentrations.

Purchased Credit-impaired Loan Portfolio

Loans acquired with evidence of credit quality deterioration since origination and for which it is probable at purchase that we will be unable to collect all contractually required payments are accounted for under the accounting guidance for PCI loans. For more information on PCI loans, see Note 1 – Summary of Significant

Accounting Principles and Note 4 – Outstanding Loans and Leases to the Consolidated Financial Statements.

Table 27 presents the unpaid principal balance, carrying value, related valuation allowance and the net carrying value as a percentage of the unpaid principal balance for the PCI loan portfolio.

Table 27 Purchased Credit-impaired Loan Portfolio

December 31, 2016					
(Dollars in millions)	Unpaid Principal Balance	Gross Carrying Value	Related Valuation Allowance	Carrying Value Net of Valuation Allowance	Percent of Unpaid Principal Balance
Residential mortgage (1)	\$10,330	\$10,127	\$ 169	\$ 9,958	96.40 %
Home equity	3,689	3,611	250	3,361	91.11
Total purchased credit-impaired loan portfolio	\$14,019	\$13,738	\$ 419	\$ 13,319	95.01

December 31, 2015					
Residential mortgage	\$12,350	\$12,066	\$ 338	\$ 11,728	94.96 %
Home equity	4,650	4,619	466	4,153	89.31
Total purchased credit-impaired loan portfolio	\$17,000	\$16,685	\$ 804	\$ 15,881	93.42

Includes pay option loans with an unpaid principal balance of \$1.9 billion and a carrying value of \$1.8 billion at
(1) December 31, 2016. This includes \$1.6 billion of loans that were credit-impaired upon acquisition and \$226 million of loans that are 90 days or more past due. The total unpaid principal balance of pay option loans with accumulated negative amortization was \$303 million, including \$16 million of negative amortization. The total PCI unpaid principal balance decreased \$3.0 billion, or 18 percent, in 2016 primarily driven by payoffs, sales, paydowns

and write-offs. During 2016, we sold PCI loans with a carrying value of \$549 million compared to sales of \$1.4 billion in 2015.

Of the unpaid principal balance of \$14.0 billion at December 31, 2016, \$12.3 billion, or 88 percent, was current based on the contractual terms, \$949 million, or seven percent, was in early stage delinquency, and \$523 million was 180 days or more past due, including \$451 million of first-lien mortgages and \$72 million of home equity loans.

During 2016, we recorded a provision benefit of \$45 million for the PCI loan portfolio which included a benefit of \$25 million for residential mortgage and \$20 million for home equity. This compared to a total provision benefit of \$40 million in 2015. The provision benefit in 2016 was primarily driven by continued home price improvement and lower default estimates on second-lien loans.

The PCI valuation allowance declined \$385 million during 2016 due to write-offs in the PCI loan portfolio of \$144 million in residential mortgage and \$196 million in home equity, combined with a provision benefit of \$45 million. The PCI residential mortgage loan portfolio represented 74 percent of the total PCI loan portfolio at December 31, 2016. Those loans to borrowers with a refreshed FICO score below 620 represented 27 percent of the PCI residential mortgage loan portfolio at December 31, 2016. Loans with a refreshed LTV greater than 90 percent, after consideration of purchase accounting adjustments and the related valuation allowance, represented 23 percent of the PCI residential mortgage loan portfolio and 26 percent based on the unpaid principal balance at December 31, 2016. The PCI home equity portfolio represented 26 percent of the total PCI loan portfolio at December 31, 2016. Those loans with

a refreshed FICO score below 620 represented 15 percent of the PCI home equity portfolio at December 31, 2016. Loans with a refreshed CLTV greater than 90 percent, after consideration of purchase accounting adjustments and the related valuation allowance, represented 46 percent of the PCI home equity portfolio and 49 percent based on the unpaid principal balance at December 31, 2016.

U.S. Credit Card

At December 31, 2016, 96 percent of the U.S. credit card portfolio was managed in Consumer Banking with the remainder in GWIM. Outstandings in the U.S. credit card portfolio increased \$2.7 billion in 2016 as retail volumes outpaced payments. Net charge-offs decreased \$45 million to \$2.3 billion in 2016 due to improvements in delinquencies and bankruptcies as a result of an improved economic environment and the impact of higher credit quality originations. U.S. credit card loans 30 days or more past due and still accruing interest increased \$20 million from loan growth while loans 90 days or more past due and still accruing interest decreased \$7 million in 2016. Unused lines of credit for U.S. credit card totaled \$321.6 billion and \$312.5 billion at December 31, 2016 and 2015. The \$9.1 billion increase was driven by account growth and lines of credit increases.

Table 28 presents certain state concentrations for the U.S. credit card portfolio.

Table 28 U.S. Credit Card State Concentrations

	December 31		Accruing		Net	
	Outstandings		Past Due	90 Days or	Charge-offs	
			More			
(Dollars in millions)	2016	2015	2016	2015	2016	2015
California	\$14,251	\$13,658	\$115	\$115	\$360	\$358
Florida	7,864	7,420	85	81	245	244
Texas	7,037	6,620	65	58	164	157
New York	5,683	5,547	60	57	161	162
Washington	4,128	3,907	18	19	56	59

Other	53,315	52,450	439	459	1,283	1,334
U.S.						
Total						
U.S.						
credit	\$92,278	\$89,602	\$782	\$789	\$2,269	\$2,314
card						
portfolio						

Non-U.S. Credit Card

Outstandings in the non-U.S. credit card portfolio, which are recorded in All Other, decreased \$761 million in 2016 primarily driven by weakening of the British Pound against the U.S. Dollar. Net charge-offs decreased \$13 million to \$175 million in 2016 due to the same driver.

Unused lines of credit for non-U.S. credit card totaled \$24.4 billion and \$27.9 billion at December 31, 2016 and 2015. The \$3.5 billion decrease was driven by weakening of the British Pound against the U.S. Dollar, partially offset by account growth and increases in lines of credit.

On December 20, 2016, we entered into an agreement to sell our non-U.S. consumer credit card business to a third party. Subject to regulatory approval, this transaction is expected to close by mid-2017. For more information on the sale of our non-U.S.

consumer credit card business, see Recent Events on page 21 and Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

Direct/Indirect Consumer

At December 31, 2016, approximately 53 percent of the direct/indirect portfolio was included in Consumer Banking (consumer auto and specialty lending – automotive, marine, aircraft, recreational vehicle loans and consumer personal loans), and 47 percent was included in GWIM (principally securities-based lending loans).

Outstandings in the direct/indirect portfolio increased \$5.3 billion in 2016 primarily driven by the consumer auto loan portfolio.

Table 29 presents certain state concentrations for the direct/indirect consumer loan portfolio.

Table 29 Direct/Indirect State Concentrations

	December 31		Accruing		Net	
	Outstandings		Past Due 90 Days or More		Charge-offs	
(Dollars in millions)	2016	2015	2016	2015	2016	2015
California	\$11,300	\$10,735	\$3	\$3	\$13	\$8
Florida	9,418	8,835	3	3	29	20
Texas	9,406	8,514	5	4	21	17
New York	5,253	5,077	1	1	3	3
Georgia	3,255	2,869	4	4	9	7
Other U.S./Non-U.S.	55,457	52,765	18	24	59	57
Total direct/indirect loan portfolio	\$94,089	\$88,795	\$34	\$39	\$134	\$112

Other Consumer

At December 31, 2016, approximately 75 percent of the \$2.5 billion other consumer portfolio was consumer auto leases included in Consumer Banking. The remainder is primarily associated with certain consumer finance businesses that we previously exited.

Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity

Table 30 presents nonperforming consumer loans, leases and foreclosed properties activity during 2016 and 2015. For more information on nonperforming loans, see Note 1 – Summary of Significant Accounting Principles and Note 4 – Outstanding Loans and Leases to the Consolidated Financial Statements. During 2016, nonperforming consumer loans declined \$2.2 billion to \$6.0 billion primarily driven by loan sales of \$1.6 billion. Additionally, nonperforming loans declined as outflows outpaced new inflows.

The outstanding balance of a real estate-secured loan that is in excess of the estimated property value less costs to sell is charged off no later than the end of the month in which the loan becomes 180 days past due unless repayment of the loan is fully insured. At December 31, 2016, \$2.5 billion, or 40 percent of nonperforming consumer real estate loans and foreclosed properties had been written down to their estimated property value less costs to sell, including \$2.2 billion of nonperforming loans 180 days or more past due and \$363 million of foreclosed properties. In addition, at December 31, 2016, \$2.5 billion, or 39 percent of nonperforming consumer loans were modified and are now current after successful trial periods, or are current loans classified as nonperforming loans in accordance with applicable policies.

Foreclosed properties decreased \$81 million in 2016 as liquidations outpaced additions. PCI loans are excluded from nonperforming loans as these loans were written down to fair value at the acquisition date; however, once we acquire the underlying real estate upon foreclosure of the delinquent PCI loan, it is included in foreclosed properties.

PCI-related foreclosed properties decreased \$65 million in 2016. Not included in foreclosed properties at December 31, 2016 was \$1.2 billion of real estate that was acquired upon foreclosure of certain delinquent government-guaranteed loans (principally FHA-insured loans). We exclude these amounts from our nonperforming loans and foreclosed properties activity as we expect we will be reimbursed once the property is conveyed to the guarantor for principal and, up to certain limits, costs incurred during the foreclosure process and interest incurred

during the holding period.

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers experiencing financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. Nonperforming TDRs, excluding those modified loans in the PCI loan portfolio, are included in Table 30.

Nonperforming
Consumer Loans,
Table 30 Leases and
Foreclosed Properties
Activity ⁽¹⁾

(Dollars in millions)	2016	2015
Nonperforming loans and leases, January 1	\$8,165	\$10,819
Additions to nonperforming loans and leases:		
New nonperforming loans and leases	3,492	4,949
Reductions to nonperforming loans and leases:		
Paydowns and payoffs	(795)	(1,018)
Sales	(1,604)	(1,674)
Returns to performing status ⁽²⁾	(1,628)	(2,710)
Charge-offs	(1,277)	(1,769)
Transfers to foreclosed properties	(294)	(432)
Transfers to loans held-for-sale	(55)	—
Total net reductions to nonperforming loans and	(2,161)	(2,654)

(3)

leases			
Total			
nonperforming			
loans and 6,004	8,165		
leases,			
December 31 ⁽⁴⁾			
Foreclosed			
properties, 444	630		
January 1			
Additions			
to			
foreclosed			
properties:			
New			
foreclosed, 431	606		
properties			
⁽³⁾			
Reductions			
to			
foreclosed			
properties:			
Sales (443)	(686)		
Write-downs (69)	(106)		
Total net			
reductions			
to (81)	(186)		
foreclosed			
properties			
Total			
foreclosed			
properties, 363	444		
December			
31 ⁽⁵⁾			
Nonperforming			
consumer			
loans,			
leases			
and \$6,367	\$8,609		
foreclosed			
properties,			
December			
31			
Nonperforming 32g	% 1.80	%	
consumer			
loans and			
leases as			
a			
percentage			
of			
outstanding			
consumer			

loans and
leases ⁽⁶⁾
Nonperforming
consumer
loans,
leases
and
foreclosed
properties
as a
percentage
of 1.39 1.89
outstanding
consumer
loans,
leases
and
foreclosed
properties
(6)

(1) Balances do not include nonperforming LHFS of \$69 million and \$5 million and nonaccruing TDRs removed from the PCI loan portfolio prior to January 1, 2010 of \$27 million and \$38 million at December 31, 2016 and 2015 as well as loans accruing past due 90 days or more as presented in Table 20 and Note 4 – Outstanding Loans and Leases to the Consolidated Financial Statements.

(2) Consumer loans may be returned to performing status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

(3) New foreclosed properties represents transfers of nonperforming loans to foreclosed properties net of charge-offs taken during the first 90 days after transfer of a loan to foreclosed properties. New foreclosed properties also includes properties obtained upon foreclosure of delinquent PCI loans, properties repurchased due to representations and warranties exposure and properties acquired with newly consolidated subsidiaries.

(4) At December 31, 2016, 36 percent of nonperforming loans were 180 days or more past due.

(5) Foreclosed property balances do not include properties insured by certain government-guaranteed loans, principally FHA-insured loans, of \$1.2 billion and \$1.4 billion at December 31, 2016 and 2015.

(6) Outstanding consumer loans and leases exclude loans accounted for under the fair value option.

Our policy is to record any losses in the value of foreclosed properties as a reduction in the allowance for loan and lease losses during the first 90 days after transfer of a loan to foreclosed properties. Thereafter, further losses in value as well as gains and losses on sale are recorded in noninterest expense. New foreclosed properties included in Table 30 are net of \$73 million and \$162 million of charge-offs and write-offs of PCI loans in 2016 and 2015, recorded during the first 90 days after transfer.

We classify junior-lien home equity loans as nonperforming when the first-lien loan becomes 90 days past due even if the junior-lien loan is performing. At December 31, 2016 and 2015, \$428 million and \$484 million of such junior-lien home equity loans were included in nonperforming loans and leases.

Table 31 presents TDRs for the consumer real estate portfolio. Performing TDR balances are excluded from nonperforming loans and leases in Table 30.

Table 31 Consumer Real Estate Troubled Debt Restructurings

	December 31 2016		2015			
(Dollars in millions)	Total	Nonperforming	Performing	Total	Nonperforming	Performing
Residential mortgage (1, 2)	\$ 12,631	\$ 1,992	\$ 10,639	\$ 18,372	\$ 3,284	\$ 15,088
Home equity (3)	2,777	1,566	1,211	2,686	1,649	1,037
Total consumer real estate troubled debt restructurings	\$ 15,408	\$ 3,558	\$ 11,850	\$ 21,058	\$ 4,933	\$ 16,125

Residential mortgage TDRs deemed collateral dependent totaled \$3.5 billion and \$4.9 billion, and included \$1.6 billion and \$2.7 billion of loans classified as nonperforming and \$1.9 billion and \$2.2 billion of loans classified as performing at December 31, 2016 and 2015.

(2) Residential mortgage performing TDRs included \$5.3 billion and \$8.7 billion of loans that were fully-insured at December 31, 2016 and 2015.

Home equity TDRs deemed collateral dependent totaled \$1.6 billion and \$1.6 billion, and included \$1.3 billion and \$1.3 billion of loans classified as nonperforming and \$301 million and \$290 million of loans classified as performing at December 31, 2016 and 2015.

In addition to modifying consumer real estate loans, we work with customers who are experiencing financial difficulty by modifying credit card and other consumer loans. Credit card and other consumer loan modifications generally involve a reduction in the customer's interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months, all of which are considered TDRs (the renegotiated TDR portfolio). In addition, the accounts of non-U.S. credit card customers who do not qualify for a fixed payment plan may have their interest rates reduced, as required by certain local jurisdictions. These modifications, which are also TDRs, tend to experience higher payment default rates given that the borrowers may lack the ability to repay even with the interest rate reduction. In all cases, the customer's available line of credit is canceled.

Modifications of credit card and other consumer loans are made through renegotiation programs utilizing direct customer contact, but may also utilize external renegotiation programs. The renegotiated TDR portfolio is excluded in large part from Table 30 as substantially all of the loans remain on accrual status until either charged off or paid in full. At December 31, 2016 and 2015, our renegotiated TDR portfolio was \$610 million and \$779 million, of which \$493 million and \$635 million were current or less than 30 days past due under the modified terms. The decline in the renegotiated TDR portfolio was primarily driven by paydowns and charge-offs as well as lower program enrollments. For more information on the renegotiated TDR portfolio, see Note 4 – Outstanding Loans and Leases to the Consolidated Financial Statements.

Commercial Portfolio Credit Risk Management

Credit risk management for the commercial portfolio begins with an assessment of the credit risk profile of the borrower or counterparty based on an analysis of its financial position. As part of the overall credit risk assessment, our commercial credit exposures are assigned a risk rating and are subject to approval based on defined credit approval standards. Subsequent to loan origination, risk ratings are monitored on an ongoing basis, and if necessary,

adjusted to reflect changes in the financial condition, cash flow, risk profile or outlook of a borrower or counterparty. In making credit decisions, we consider risk rating, collateral, country, industry and single name concentration limits while also balancing these considerations with the total borrower or counterparty relationship. Our business and risk management personnel use a variety of tools to continuously monitor the ability of a borrower or counterparty to perform under its obligations. We use risk rating aggregations to measure and evaluate concentrations within

portfolios. In addition, risk ratings are a factor in determining the level of allocated capital and the allowance for credit losses.

As part of our ongoing risk mitigation initiatives, we attempt to work with clients experiencing financial difficulty to modify their loans to terms that better align with their current ability to pay. In situations where an economic concession has been granted to a borrower experiencing financial difficulty, we identify these loans as TDRs. For more information on our accounting policies regarding delinquencies, nonperforming status and net charge-offs for the commercial portfolio, see Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

Management of Commercial Credit Risk Concentrations

Commercial credit risk is evaluated and managed with the goal that concentrations of credit exposure do not result in undesirable levels of risk. We review, measure and manage concentrations of credit exposure by industry, product, geography, customer relationship and loan size. We also review, measure and manage commercial real estate loans by geographic location and property type. In addition, within our non-U.S. portfolio, we evaluate exposures by region and by country. Tables 36, 39, 44 and 45 summarize our concentrations. We also utilize syndications of exposure to third parties, loan sales, hedging and other risk mitigation techniques to manage the size and risk profile of the commercial credit portfolio. For more information on our industry concentrations, including our utilized exposure to the energy sector which was three percent and four percent of total commercial utilized exposure at December 31, 2016 and 2015, see Commercial Portfolio Credit Risk Management – Industry Concentrations on page 71 and Table 39. We account for certain large corporate loans and loan commitments, including issued but unfunded letters of credit which are considered utilized for credit risk management purposes, that exceed our single name credit risk concentration guidelines under the fair value option. Lending commitments, both funded and unfunded, are actively managed and monitored, and as appropriate, credit risk for these lending relationships may be mitigated through the use of credit derivatives, with our credit view and market perspectives determining the size and timing of the hedging activity. In addition, we purchase credit protection to cover the funded portion as well as the unfunded portion of certain other credit exposures. To lessen the cost of obtaining our desired credit protection levels, credit exposure may be added within an industry, borrower or counterparty group by selling protection. These credit derivatives do not meet the requirements for treatment as

accounting hedges. They are carried at fair value with changes in fair value recorded in other income (loss).

In addition, we are a member of various securities and derivative exchanges and clearinghouses, both in the U.S. and other countries. As a member, we may be required to pay a pro-rata share of the losses incurred by some of these organizations as a result of another member default and under other loss scenarios. For additional information, see Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

Commercial Credit Portfolio

During 2016, other than in the higher risk energy sub-sectors, credit quality among large corporate borrowers was strong. While we experienced some deterioration in the energy sector in 2016, oil prices have stabilized, which contributed to a modest improvement in energy-related exposure by year end. Credit quality of commercial real estate borrowers continued to be strong with conservative LTV ratios, stable market rents in most sectors and vacancy rates remaining low.

Outstanding commercial loans and leases increased \$17.7 billion during 2016 primarily in U.S. commercial. Nonperforming commercial loans and leases increased \$562 million during 2016. Nonperforming commercial loans and leases as a percentage of outstanding loans and leases, excluding loans accounted for under the fair value option, increased during 2016 to 0.38 percent from 0.28 percent at December 31, 2015. Reservable criticized balances increased \$424 million to \$16.3 billion during 2016 as a result of net downgrades outpacing paydowns, primarily in the energy sector. The increase in nonperforming loans was primarily due to energy and metals mining exposure. The allowance for loan and lease losses for the commercial portfolio increased \$409 million to \$5.3 billion at December 31, 2016. For additional information, see Allowance for Credit Losses on page 75.

Table 32 presents our commercial loans and leases portfolio, and related credit quality information at December 31, 2016 and 2015.

Table 32 Commercial Loans and Leases

	December 31				Accruing Past Due 90 Days or More	
	Outstandings		Nonperforming			
(Dollars in millions)	2016	2015	2016	2015	2016	2015
U.S. commercial	\$270,372	\$252,771	\$1,256	\$867	\$106	\$113
Commercial real estate ⁽¹⁾	57,355	57,199	72	93	7	3
Commercial lease financing	22,375	21,352	36	12	19	15
Non-U.S. commercial	89,397	91,549	279	158	5	1
	439,499	422,871	1,643	1,130	137	132
U.S. small business commercial ⁽²⁾	12,993	12,876	60	82	71	61
	452,492	435,747	1,703	1,212	208	193

Commercial
loans
excluding
loans
accounted
for under
the fair
value
option

Loans
accounted
for under
the fair
value
option ⁽³⁾

Total
commercial
loans and
leases

6,034 5,067 84 13 — —

\$458,526 \$440,814 \$1,787 \$1,225 \$208 \$193

(1) Includes U.S. commercial real estate loans of \$54.3 billion and \$53.6 billion and non-U.S. commercial real estate loans of \$3.1 billion and \$3.5 billion at December 31, 2016 and 2015.

(2) Includes card-related products.

Commercial loans accounted for under the fair value option include U.S. commercial loans of \$2.9 billion and \$2.3

(3) billion and non-U.S. commercial loans of \$3.1 billion and \$2.8 billion at December 31, 2016 and 2015. For more information on the fair value option, see Note 21 – Fair Value Option to the Consolidated Financial Statements.

Table 33 presents net charge-offs and related ratios for our commercial loans and leases for 2016 and 2015. The increase in net charge-offs of \$80 million in 2016 was primarily due to higher energy sector related losses.

Table 33 Commercial Net Charge-offs
and Related Ratios

	Net Charge-offs		Net Charge-off Ratios ⁽¹⁾			
(Dollars in millions)	2016	2015	2016	2015		
U.S. commercial	\$184	\$139	0.07	0.06	%	%
Commercial real estate	(31)	(5)	(0.05)	(0.01)		
Commercial lease	21	9	0.10	0.04		
financing						
Non-U.S. commercial	120	54	0.13	0.06		
	294	197	0.07	0.05		
U.S. small business commercial	208	225	1.60	1.71		
	\$502	\$422	0.11	0.10		

Total
commercial

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

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Table 34 presents commercial credit exposure by type for utilized, unfunded and total binding committed credit exposure. Commercial utilized credit exposure includes SBLCs and financial guarantees, bankers' acceptances and commercial letters of credit for which we are legally bound to advance funds under prescribed conditions during a specified time period and excludes exposure related to trading account assets. Although funds have not yet been advanced, these exposure types are considered utilized for credit risk management purposes.

Total commercial utilized credit exposure increased \$15.3 billion in 2016 primarily driven by growth in loans and leases. The utilization rate for loans and leases, SBLCs and financial guarantees, commercial letters of credit and bankers acceptances, in the aggregate, was 58 percent and 56 percent at December 31, 2016 and 2015.

Table 34 Commercial Credit Exposure by Type

	December 31		Commercial		Total Commercial	
	Commercial		Unfunded		Committed	
	Utilized ⁽¹⁾		Unfunded ^(2, 3, 4)			
(Dollars in millions)	2016	2015	2016	2015	2016	2015
Loans and leases ⁽⁵⁾	\$464,260	\$446,832	\$366,106	\$376,478	\$830,366	\$823,310
Derivative assets ⁽⁶⁾	42,512	49,990	—	—	42,512	49,990
Standby letters of credit and financial guarantees	33,135	33,236	660	690	33,795	33,926
Debt securities and other investments	26,244	21,709	5,474	4,173	31,718	25,882
Loans held-for-sale	6,510	5,456	3,824	1,203	10,334	6,659
Commercial letters of credit	1,464	1,725	112	390	1,576	2,115
Bankers' acceptances	395	298	13	—	408	298
Other	372	317	—	—	372	317
Total	\$574,892	\$559,563	\$376,189	\$382,934	\$951,081	\$942,497

Total commercial utilized exposure includes loans of \$6.0 billion and \$5.1 billion and issued letters of credit with a notional amount of \$284 million and \$290 million accounted for under the fair value option at December 31, 2016 and 2015.

(1) Total commercial unfunded exposure includes loan commitments accounted for under the fair value option with a notional amount of \$6.7 billion and \$10.6 billion at December 31, 2016 and 2015.

(2) Excludes unused business card lines which are not legally binding.

(3) Includes the notional amount of unfunded legally binding lending commitments net of amounts distributed (e.g. syndicated or participated) to other financial institutions. The distributed amounts were \$12.1 billion and \$14.3

billion at December 31, 2016 and 2015.

- (5) Includes credit risk exposure associated with assets under operating lease arrangements of \$5.7 billion and \$6.0 billion at December 31, 2016 and 2015.

Derivative assets are carried at fair value, reflect the effects of legally enforceable master netting agreements and have been reduced by cash collateral of \$43.3 billion and \$41.9 billion at December 31, 2016 and 2015. Not reflected in utilized and committed exposure is additional non-cash derivative collateral held of \$22.9 billion and \$23.3 billion at December 31, 2016 and 2015, which consists primarily of other marketable securities.

Table 35 presents commercial utilized reservable criticized exposure by loan type. Criticized exposure corresponds to the Special Mention, Substandard and Doubtful asset categories as defined by regulatory authorities. Total commercial utilized reservable criticized exposure increased \$424 million, or three

percent, in 2016 driven by downgrades, primarily related to our energy exposure, outpacing paydowns and upgrades. Approximately 76 percent and 78 percent of commercial utilized reservable criticized exposure was secured at December 31, 2016 and 2015.

Table 35 Commercial Utilized Reservable Criticized Exposure

	December 31			
	2016		2015	
(Dollars in millions)	Amount	Percent	Amount	Percent
	(1)	(2)	(1)	(2)
U.S. commercial	\$10,311	3.46 %	\$9,965	3.56 %
Commercial real estate	399	0.68	513	0.87
Commercial lease	810	3.62	708	3.31
financing				
Non-U.S. commercial	3,974	4.17	3,944	4.04
	15,494	3.27	15,130	3.30
U.S. small business commercial	826	6.36	766	5.95
Total commercial utilized reservable criticized exposure	\$16,320	3.35	\$15,896	3.38

- (1) Total commercial utilized reservable criticized exposure includes loans and leases of \$14.9 billion and \$14.5 billion and commercial letters of credit of \$1.4 billion at December 31, 2016 and 2015.

- (2) Percentages are calculated as commercial utilized reservable criticized exposure divided by total commercial utilized reservable exposure for each exposure category.

U.S. Commercial

At December 31, 2016, 72 percent of the U.S. commercial loan portfolio, excluding small business, was managed in Global Banking, 16 percent in Global Markets, 10 percent in GWIM (generally business-purpose loans for high net

worth clients) and the remainder primarily in Consumer Banking. U.S. commercial loans, excluding loans accounted for under the fair value option,

increased \$17.6 billion, or seven percent, during 2016 due to growth across all of the commercial businesses. Energy exposure largely drove increases in reservable criticized balances of \$346 million, or three percent, and nonperforming loans and leases of \$389 million, or 45 percent, during 2016, as well as increases in net charge-offs of \$45 million in 2016 compared to 2015.

Commercial Real Estate

Commercial real estate primarily includes commercial loans and leases secured by non-owner-occupied real estate and is dependent on the sale or lease of the real estate as the primary source of repayment. The portfolio remains diversified across property types and geographic regions. California represented the largest state concentration at 23 percent and 21 percent of the commercial real estate loans and leases portfolio at December 31, 2016 and 2015. The commercial real estate portfolio is predominantly managed in Global Banking and consists of loans made primarily to public and private developers, and commercial real estate firms. Outstanding loans remained relatively unchanged with new originations slightly outpacing paydowns during 2016.

During 2016, we continued to see low default rates and solid credit quality in both the residential and non-residential portfolios.

We use a number of proactive risk mitigation initiatives to reduce adversely rated exposure in the commercial real estate portfolio, including transfers of deteriorating exposures to management by independent special asset officers and the pursuit of loan restructurings or asset sales to achieve the best results for our customers and the Corporation. Nonperforming commercial real estate loans and foreclosed properties decreased \$22 million, or 20 percent, to \$86 million and reservable criticized balances decreased \$114 million, or 22 percent, to \$399 million at December 31, 2016. The decrease in reservable criticized balances was primarily due to loan resolutions and strong commercial real estate fundamentals in most sectors. Net recoveries were \$31 million and \$5 million in 2016 and 2015.

Table 36 presents outstanding commercial real estate loans by geographic region, based on the geographic location of the collateral, and by property type.

Outstanding
Table 36 Commercial Real
Estate Loans

	December 31	
(Dollars in millions)	2016	2015
By Geographic Region		
California	\$13,450	\$12,063
Northeast	10,329	10,292
Southwest	7,567	7,789
Southeast	5,630	6,066
Midwest	4,380	3,780
Florida	3,213	3,330
Northwest	2,430	2,327
Illinois	2,408	2,536
Midsouth	2,346	2,435
Non-U.S.	3,103	3,549
Other ⁽¹⁾	2,499	3,032
Total outstanding commercial real estate loans	\$57,355	\$57,199

By		
Property		
Type		
Non-residential		
Office	\$16,643	\$15,246
Multi-family	8,817	8,956
rental		
Shopping	8,794	8,594
centers/retail		
Hotels /	5,550	5,415
Motels		
Industrial		
/	5,357	5,501
Warehouse		
Multi-Use	2,822	3,003
Unsecured	1,730	2,056
Land and		
land	357	539
development		
Other	5,595	5,791
Total	55,665	55,101
non-residential		
Residential	1,690	2,098
Total		
outstanding		
commercial	\$15,355	\$57,199
real estate		
loans		

(1) Includes unsecured loans to real estate investment trusts and national home builders whose portfolios of properties span multiple geographic regions and properties in the states of Colorado, Utah, Hawaii, Wyoming and Montana. At December 31, 2016, total committed non-residential exposure was \$76.9 billion compared to \$81.0 billion at December 31, 2015, of which \$55.7 billion and \$55.1 billion were funded loans. Non-residential nonperforming loans and foreclosed properties decreased \$13 million, or 14 percent, to \$81 million at December 31, 2016 due to decreases across most property types. The non-residential nonperforming loans and foreclosed properties represented 0.14 percent and 0.17 percent of total non-residential loans and foreclosed properties at December 31, 2016 and 2015. Non-residential utilized reservable criticized exposure decreased \$105 million, or 21 percent, to \$397 million at December 31, 2016 compared to \$502 million at December 31, 2015, which represented 0.70 percent and 0.89 percent of non-

residential utilized reservable exposure. For the non-residential portfolio, net recoveries increased \$24 million to \$31 million in 2016 compared to 2015.

At December 31, 2016, total committed residential exposure was \$3.7 billion compared to \$4.1 billion at December 31, 2015, of which \$1.7 billion and \$2.1 billion were funded secured loans. The residential nonperforming loans and foreclosed properties decreased \$8 million, or 57 percent, and residential utilized reservable criticized exposure decreased \$8 million, or 73 percent, during 2016. The nonperforming loans, leases and foreclosed properties and the utilized reservable criticized ratios for the residential portfolio were 0.35 percent and 0.16 percent at

December 31, 2016 compared to 0.66 percent and 0.52 percent at December 31, 2015.

At December 31, 2016 and 2015, the commercial real estate loan portfolio included \$6.8 billion and \$7.6 billion of funded construction and land development loans that were originated to fund the construction and/or rehabilitation of commercial properties. Reservable criticized construction and land development loans totaled \$107 million and \$108 million, and nonperforming construction and land development loans and foreclosed properties totaled \$44 million at both December 31, 2016 and 2015. During a property's construction phase, interest income is typically paid from interest reserves that are established at the inception of the loan. As construction is completed and the property is put into service, these interest reserves are depleted and interest payments from operating cash flows begin. We do not recognize interest income on nonperforming loans regardless of the existence of an interest reserve.

Non-U.S. Commercial

At December 31, 2016, 77 percent of the non-U.S. commercial loan portfolio was managed in Global Banking and 23 percent in Global Markets. Outstanding loans, excluding loans accounted for under the fair value option, decreased \$2.2 billion in 2016 primarily due to payoffs. Net charge-offs increased \$66 million to \$120 million in 2016 primarily due to higher energy sector related losses in the first half of 2016. For more information on the non-U.S. commercial portfolio, see Non-U.S. Portfolio on page 74.

U.S. Small Business Commercial

The U.S. small business commercial loan portfolio is comprised of small business card loans and small business loans managed in Consumer Banking. Credit card-related products were 48 percent and 45 percent of the U.S. small business commercial portfolio at December 31, 2016 and 2015. Net charge-offs decreased \$17 million to \$208 million in 2016 primarily driven by portfolio improvement. Of the U.S. small business commercial net charge-offs, 86 percent and 81 percent were credit card-related products in 2016 and 2015.

Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity

Table 37 presents the nonperforming commercial loans, leases and foreclosed properties activity during 2016 and 2015. Nonperforming loans do not include loans accounted for under the fair value option. During 2016, nonperforming commercial loans and leases increased \$491 million to \$1.7 billion primarily due to energy and metals and mining exposure. Approximately 77 percent of commercial nonperforming loans, leases and foreclosed properties were secured and approximately 66 percent were contractually current. Commercial nonperforming loans were carried at approximately 88 percent of their unpaid principal balance before consideration of the allowance for loan and lease losses as the carrying value of these loans has been reduced to the estimated property value less costs to sell.

Table 37 Nonperforming
Commercial Loans,
Leases and
Foreclosed
Properties Activity
(1, 2)

(Dollars in	2016	2015
millions)		
Nonperforming loans and leases,	\$1,212	\$1,113
January 1		
Additions		
to		
nonperforming		
loans and		

leases:		
New		
nonperforming	2,330	1,367
loans and		
leases		
Advances	17	36
Reductions		
to		
nonperforming		
loans and		
leases:		
Paydowns	(824)	(491)
Sales	(318)	(108)
Returns		
to		
performing	(267)	(130)
status ⁽³⁾		
Charge-off	(434)	(362)
Transfers		
to		
foreclosed	(4)	(213)
properties		
⁽⁴⁾		
Transfers		
to loans	(9)	—
held-for-sale		
Total net		
additions		
to		
nonperforming	491	99
loans and		
leases		
Total		
nonperforming		
loans and	1,703	1,212
leases,		
December		
31		
Foreclosed		
properties,	15	67
January 1		
Additions		
to		
foreclosed		
properties:		
New		
foreclosed	24	207
properties		
⁽⁴⁾		
Reductions		
to		

foreclosed
 properties:
 Sales (25) (256)
 Write-downs (3)
 Total net
 reductions
 to (1) (52)
 foreclosed
 properties
 Total
 foreclosed
 properties, 14 15
 December
 31
 Nonperforming
 commercial
 loans,
 leases
 and \$1,717 \$1,227
 foreclosed
 properties,
 December
 31
 Nonperforming
 commercial
 loans and
 leases as
 a
 percentage 0.38 % 0.28 %
 of
 outstanding
 commercial
 loans and
 leases ⁽⁵⁾
 Nonperforming
 commercial
 loans,
 leases
 and
 foreclosed
 properties
 as a
 percentage 0.38 0.28
 of
 outstanding
 commercial
 loans,
 leases
 and
 foreclosed
 properties ⁽⁵⁾

- (1) Balances do not include nonperforming LHFS of \$195 million and \$220 million at December 31, 2016 and 2015.
- (2) Includes U.S. small business commercial activity. Small business card loans are excluded as they are not classified as nonperforming.
Commercial loans and leases may be returned to performing status when all principal and interest is current and
- (3) full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection. TDRs are generally classified as performing after a sustained period of demonstrated payment performance.
- (4) New foreclosed properties represents transfers of nonperforming loans to foreclosed properties net of charge-offs recorded during the first 90 days after transfer of a loan to foreclosed properties.
- (5) Outstanding commercial loans exclude loans accounted for under the fair value option.

Table 38 presents our commercial TDRs by product type and performing status. U.S. small business commercial TDRs are comprised of renegotiated small business card loans and small business loans. The renegotiated small business card loans are

not classified as nonperforming as they are charged off no later than the end of the month in which the loan becomes 180 days past due. For more information on TDRs, see Note 4 – Outstanding Loans and Leases to the Consolidated Financial Statements.

Table 38 Commercial Troubled Debt Restructurings

	December 31 2016			2015		
(Dollars in millions)	Total	Nonperforming	Performing	Total	Nonperforming	Performing
U.S. commercial	\$1,860	\$ 720	\$ 1,140	\$1,225	\$ 394	\$ 831
Commercial real estate	140	45	95	118	27	91
Commercial lease	4	2	2	—	—	—
financing						
Non-U.S. commercial	308	25	283	363	136	227
	2,312	792	1,520	1,706	557	1,149
U.S. small business commercial	15	2	13	29	10	19
Total commercial troubled debt restructurings	\$2,327	\$ 794	\$ 1,533	\$1,735	\$ 567	\$ 1,168

Industry Concentrations

Table 39 presents commercial committed and utilized credit exposure by industry and the total net credit default protection purchased to cover the funded and unfunded portions of certain credit exposures. Our commercial credit exposure is diversified across a broad range of industries. Total commercial committed credit exposure increased \$8.6 billion, or one percent, in 2016 to \$951.1 billion. Increases in commercial committed exposure were concentrated in healthcare equipment and services, telecommunication services, capital goods and consumer services, partially offset by lower exposure to technology hardware and equipment, banking, and food, beverage and tobacco.

Industry limits are used internally to manage industry concentrations and are based on committed exposures and capital usage that are allocated on an industry-by-industry basis. A risk management framework is in place to set and approve industry limits as well as to provide ongoing monitoring. The MRC overseas industry limit governance. Diversified financials, our largest industry concentration with committed exposure of \$124.5 billion, decreased \$3.9 billion, or three percent, in 2016. The decrease was primarily due to a reduction in bridge financing exposure and other commitments.

Real estate, our second largest industry concentration with committed exposure of \$83.7 billion, decreased \$4.0 billion, or five percent, in 2016. For more information on the commercial real estate and related portfolios, see Commercial Portfolio Credit Risk Management – Commercial Real Estate on page 69.

Our energy-related committed exposure decreased \$4.6 billion in 2016 to \$39.2 billion. Within the higher risk sub-sectors of exploration and production and oil field services, total committed exposure declined \$2.8 billion to \$15.3 billion at December 31, 2016, or 39 percent of total committed energy exposure. Total utilized exposure to these sub-sectors declined approximately \$1.7 billion to \$6.7 billion in 2016. Of the total \$5.7 billion of reservable utilized exposure to the higher risk sub-sectors, 56 percent was criticized at December 31, 2016. Energy sector net charge-offs increased \$141 million to \$241 million in 2016, and energy sector reservable criticized exposure increased \$910 million in 2016 to \$5.5 billion due to low oil prices which impacted the financial performance of energy clients. The energy allowance for credit losses increased \$382 million in 2016 to \$925 million primarily due to an increase in reserves for the higher risk sub-sectors.

Table 39 Commercial Credit Exposure by Industry ⁽¹⁾

	December 31 Commercial Utilized		Total Commercial Committed ⁽²⁾	
(Dollars in millions)	2016	2015	2016	2015
Diversified financials	\$81,156	\$79,496	\$124,535	\$128,436
Real estate ⁽³⁾	61,203	61,759	83,658	87,650
Retailing	41,630	37,675	68,507	63,975
Healthcare equipment and services	37,656	35,134	64,663	57,901
Capital goods	34,278	30,790	64,202	58,583
Government and public education	45,694	44,835	54,626	53,133
Banking	39,877	45,952	47,799	53,825
Materials	22,578	24,012	44,357	46,013
Consumer services	27,413	24,084	42,523	37,058
Energy	19,686	21,257	39,231	43,811
Food, beverage and tobacco	19,669	18,316	37,145	43,164
Commercial services and supplies	21,241	19,552	35,360	32,045
Transportation	19,805	19,369	27,483	27,371
Utilities	11,349	11,396	27,140	27,849
Media	13,419	12,833	27,116	24,194
Individuals and trusts	16,364	17,992	21,764	23,176
Software and services	7,991	6,617	19,790	18,362
Pharmaceuticals and biotechnology	5,539	6,302	18,910	16,472
Technology hardware	7,793	6,337	18,429	24,734

and equipment				
Telecommunication services	6,317	4,717	16,925	10,645
Insurance, including monolines	7,406	5,095	13,936	10,728
Automobiles and components	5,459	4,804	12,969	11,329
Consumer durables and apparel	6,042	6,053	11,460	11,165
Food and staples retailing	4,795	4,351	8,869	9,439
Religious and social organizations	4,423	4,526	6,252	5,929
Other	6,109	6,309	13,432	15,510
Total commercial credit exposure by industry	\$574,892	\$559,563	\$951,081	\$942,497
Net credit default protection purchased on total commitments ⁽⁴⁾			\$(3,477)	\$(6,677)

(1) Includes U.S. small business commercial exposure.

Includes the notional amount of unfunded legally binding lending commitments net of amounts distributed (e.g.,

(2) syndicated or participated) to other financial institutions. The distributed amounts were \$12.1 billion and \$14.3 billion at December 31, 2016 and 2015.

Industries are viewed from a variety of perspectives to best isolate the perceived risks. For purposes of this table,

(3) the real estate industry is defined based on the borrowers' or counterparties' primary business activity using operating cash flows and primary source of repayment as key factors.

(4) Represents net notional credit protection purchased. For additional information, see Commercial Portfolio Credit Risk Management – Risk Mitigation below.

Risk Mitigation

We purchase credit protection to cover the funded portion as well as the unfunded portion of certain credit exposures. To lower the cost of obtaining our desired credit protection levels, we may add credit exposure within an industry, borrower or counterparty group by selling protection.

At December 31, 2016 and 2015, net notional credit default protection purchased in our credit derivatives portfolio to hedge our funded and unfunded exposures for which we elected the fair value option, as well as certain other credit exposures, was \$3.5 billion and \$6.7 billion. We recorded net losses of \$438 million in 2016 compared to net gains of \$150 million in 2015 on these positions. The gains and losses on these instruments were offset by gains and losses on the related exposures. The Value-at-Risk (VaR) results for these exposures are included in the fair value option

portfolio information in Table 48. For additional information, see Trading Risk Management on page 80.

Tables 40 and 41 present the maturity profiles and the credit exposure debt ratings of the net credit default protection portfolio at December 31, 2016 and 2015.

Table 40 Net Credit
Default
Protection by
Maturity

	December 31	
	2016	2015
Less than or equal to one year	56 %	39 %
Greater than one year and less than or equal to five years	41	59
Greater than five years	3	2
Total net credit default protection	100 %	100 %

Table 41 Net Credit Default Protection by
Credit Exposure Debt Rating

	December 31			
	2016		2015	
(Dollars in millions) (1)	Net Notional	Percent of Total	Net Notional (1)	Percent of Total
Ratings (2, 3)				
A	\$(135)	3.9 %	\$(752)	11.3 %
BBB	(1,884)	54.2	(3,030)	45.4
BB	(871)	25.1	(2,090)	31.3
B	(477)	13.7	(634)	9.5
CCC and below	(81)	2.3	(139)	2.1
NR (4)	(29)	0.8	(32)	0.4
Total net credit default protection	\$(3,477)	100.0 %	\$(6,677)	100.0 %

(1) Represents net credit default protection purchased.

(2) Ratings are refreshed on a quarterly basis.

(3) Ratings of BBB- or higher are considered to meet the definition of investment grade.

(4) NR is comprised of index positions held and any names that have not been rated.

In addition to our net notional credit default protection purchased to cover the funded and unfunded portion of certain credit exposures, credit derivatives are used for market-making activities for clients and establishing positions intended to profit from directional or relative value changes. We execute the majority of our credit derivative trades in the OTC market with large, multinational financial institutions, including broker-dealers and,

to a lesser degree, with a variety of other investors. Because these transactions are executed in the OTC market, we are subject to settlement risk. We are also subject to credit risk in the event that these counterparties fail to perform under the terms of these contracts. In most cases, credit derivative transactions are executed on a daily margin basis.

Therefore, events such as a credit downgrade, depending on the ultimate rating level, or a breach of credit covenants would typically require an increase in the amount of collateral required by the counterparty, where applicable, and/or allow us to take additional protective measures such as early termination of all trades.

Table 42 presents the total contract/notional amount of credit derivatives outstanding and includes both purchased and written credit derivatives. The credit risk amounts are measured as net asset exposure by counterparty, taking into consideration all contracts with the counterparty. For more information on our written credit derivatives, see Note 2 – Derivatives to the Consolidated Financial Statements.

The credit risk amounts discussed above and presented in Table 42 take into consideration the effects of legally enforceable master netting agreements while amounts disclosed in Note 2 – Derivatives to the Consolidated Financial Statements are shown on a gross basis. Credit risk reflects the potential benefit from offsetting exposure to non-credit derivative products with the same counterparties that may be netted upon the occurrence of certain events, thereby reducing our overall exposure.

Table 42 Credit Derivatives

	December 31			
	2016		2015	
(Dollars in millions)	Contract/ Notional	Credit Risk	Contract/ Notional	Credit Risk
Purchased credit derivatives:				
Credit default swaps	\$603,979	\$2,732	\$928,300	\$3,677
Total return swaps/other	21,165	433	26,427	1,596
Total purchased credit derivatives	\$625,144	\$3,165	\$954,727	\$5,273
Written credit derivatives:				
Credit default swaps	\$614,355	n/a	\$924,143	n/a
Total return swaps/other	25,354	n/a	39,658	n/a
Total written credit derivatives	\$639,709	n/a	\$963,801	n/a

n/a = not applicable

Counterparty Credit Risk Valuation Adjustments

We record counterparty credit risk valuation adjustments on certain derivative assets, including our credit default protection purchased, in order to properly reflect the credit risk of the counterparty, as presented in Table 43. We calculate CVA based on a modeled expected exposure that incorporates current market risk factors including changes in market spreads and non-credit related market factors that affect the value of a derivative. The exposure also takes into consideration credit mitigants such as legally enforceable master netting agreements and collateral. For additional information, see Note 2 – Derivatives to the Consolidated Financial Statements.

We enter into risk management activities to offset market driven exposures. We often hedge the counterparty spread risk in CVA with credit default swaps (CDS). We hedge other market risks

in CVA primarily with currency and interest rate swaps. In certain instances, the net-of-hedge amounts in the table below move in the same direction as the gross amount or may move in the opposite direction. This movement is a consequence of the complex interaction of the risks being hedged resulting in limitations in the ability to perfectly hedge all of the market exposures at all times.

Table 43 Credit Valuation Gains and Losses

Gains (Losses)	2016	2015
----------------	------	------

(Dollars						
in	Gross	Hedge	Net	Gross	Hedge	Net
millions)						
Credit	\$374	\$(160)	\$214	\$255	\$(28)	\$227
valuation						

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Non-U.S. Portfolio

Our non-U.S. credit and trading portfolios are subject to country risk. We define country risk as the risk of loss from unfavorable economic and political conditions, currency fluctuations, social instability and changes in government policies. A risk management framework is in place to measure, monitor and manage non-U.S. risk and exposures. In addition to the direct risk of doing business in a country, we also are exposed to indirect country risks (e.g., related to the collateral received on secured financing transactions or related to client clearing activities). These indirect exposures are managed in the normal course of business through credit, market and operational risk governance, rather than through country risk governance.

Table 44 presents our 20 largest non-U.S. country exposures. These exposures accounted for 88 percent and 86 percent of our total non-U.S. exposure at December 31, 2016 and 2015. Net country exposure for these 20 countries increased \$6.5 billion in 2016 primarily driven by increases in Germany, and to a lesser extent Canada, France and Switzerland. On a product basis, the increase was driven by an increase in funded loans and loan equivalents in Germany and Canada, higher unfunded commitments in Germany and Switzerland, and an increase in securities in France and Canada.

Non-U.S. exposure is presented on an internal risk management basis and includes sovereign and non-sovereign credit exposure, securities and other investments issued by or domiciled in countries other than the U.S. The risk assignments by country can be adjusted for external guarantees and certain collateral types. Exposures that are subject to external guarantees are reported under the country of the guarantor. Exposures with tangible collateral are reflected in the country where the collateral is held. For securities received, other than cross-border resale agreements, outstandings are assigned to the domicile of the issuer of the securities.

Funded loans and loan equivalents include loans, leases, and other extensions of credit and funds, including letters of credit and due from placements, which have not been reduced by collateral, hedges or credit default protection. Funded loans and loan equivalents are reported net of charge-offs but prior to any allowance for loan and lease losses. Unfunded commitments are the undrawn portion of legally binding commitments related to loans and loan equivalents.

Net counterparty exposure includes the fair value of derivatives, including the counterparty risk associated with CDS, and secured financing transactions. Derivatives exposures are presented net of collateral, which is predominantly cash, pledged under legally enforceable master netting agreements. Secured financing transaction exposures are presented net of eligible cash or securities pledged as collateral.

Securities and other investments are carried at fair value and long securities exposures are netted against short exposures with the same underlying issuer to, but not below, zero (i.e., negative issuer exposures are reported as zero). Other investments include our GPI portfolio and strategic investments.

Net country exposure represents country exposure less hedges and credit default protection purchased, net of credit default protection sold. We hedge certain of our country exposures with credit default protection primarily in the form of single-name, as well as indexed and tranching CDS. The exposures associated with these hedges represent the amount that would be realized upon the isolated default of an individual issuer in the relevant country assuming a zero recovery rate for that individual issuer, and are calculated based on the CDS notional amount adjusted for any fair value receivable or payable. Changes in the assumption of an isolated default can produce different results in a particular tranche.

Table
44 Top 20 Non-U.S. Countries Exposure

(Dollars in millions)	Funded Loans and Loan Equivalents	Unfunded Loan Commitments	Net Counterparty Exposure	Securities/ Other Investments	Country Exposure at December 31 2016	Hedges and Credit Default Protection	Net Country Exposure at December 31 2016	Increase (Decrease) from December 31 2015
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United Kingdom	\$ 29,329	\$ 13,105	\$ 6,145	\$ 3,823	\$ 52,402	\$(4,669)	\$ 47,733	\$ (5,513)
Germany	13,202	8,648	1,979	2,579	26,408	(4,030)	22,378	8,974
Canada	6,722	7,159	2,023	3,803	19,707	(933)	18,774	4,042
Japan	12,065	652	2,448	1,597	16,762	(1,751)	15,011	647
Brazil	9,118	389	780	3,646	13,933	(267)	13,666	(1,984)
China	9,230	722	714	949	11,615	(730)	10,885	411
France	3,112	4,823	1,899	5,325	15,159	(4,465)	10,694	2,008
Switzerland	4,050	5,999	499	507	11,055	(1,409)	9,646	3,383
India	6,671	288	353	2,086	9,398	(170)	9,228	(1,126)
Australia	4,792	2,685	559	1,249	9,285	(362)	8,923	(622)
Hong Kong	6,425	156	441	520	7,542	(63)	7,479	(110)
Netherlands	3,537	2,496	559	2,296	8,888	(1,490)	7,398	(236)
South Korea	4,175	838	864	829	6,706	(600)	6,106	(752)
Singapore	2,633	199	699	1,937	5,468	(50)	5,418	689
Mexico	2,817	1,391	187	430	4,825	(341)	4,484	(570)
Italy	2,329	1,036	577	1,246	5,188	(1,101)	4,087	(1,221)
United Arab Emirates	2,104	139	570	27	2,840	(97)	2,743	(283)
Turkey	2,695	50	69	58	2,872	(182)	2,690	(450)
Spain	1,818	614	173	894	3,499	(953)	2,546	(517)
Taiwan	1,417	33	341	317	2,108	(27)	2,081	(294)
Total top 20 non-U.S. countries exposure	\$ 128,241	\$ 51,422	\$ 21,879	\$ 34,118	\$ 235,660	\$(23,690)	\$ 211,970	\$ 6,476

Strengthening of the U.S. Dollar, weak commodity prices, signs of slowing growth in China, a protracted recession in Brazil and recent political events in Turkey are driving risk aversion in emerging markets. At December 31, 2016, net exposure to China was \$10.9 billion, concentrated in large state-owned companies, subsidiaries of multinational corporations and commercial banks. At December 31, 2016, net exposure to Brazil was \$13.7 billion, concentrated in sovereign securities, oil and gas companies and commercial banks. At December 31, 2016, net exposure to Turkey was \$2.7 billion, concentrated in commercial banks.

The outlook for policy direction and therefore economic performance in the EU is uncertain as a consequence of reduced political cohesion and the lack of clarity following the U.K. Referendum to leave the EU. At December 31, 2016, net exposure to the U.K. was \$47.7 billion, concentrated in multinational corporations and sovereign clients. For additional information, see

Executive Summary – 2016 Economic and Business Environment on page 21.

Table 45 presents countries where total cross-border exposure exceeded one percent of our total assets. At December 31, 2016, the U.K. and France were the only countries where total cross-border exposure exceeded one percent of our total assets. At December 31, 2016, Germany had total cross-border exposure of \$18.4 billion representing 0.84 percent of our total assets. No other countries had total cross-border exposure that exceeded 0.75 percent of our total assets at December 31, 2016.

Cross-border exposure includes the components of Country Risk Exposure as detailed in Table 44 as well as the notional amount of cash loaned under secured financing agreements. Local exposure, defined as exposure booked in local offices of a respective country with clients in the same country, is excluded.

Table 45 Total Cross-border Exposure Exceeding One Percent of Total Assets

(Dollars in millions)	December 31	Public Sector	Banks	Private Sector	Cross-border Exposure	Exposure as a Percent of Total Assets
United Kingdom	2016	\$2,975	\$4,557	\$42,105	\$ 49,637	2.27 %
	2015	3,264	5,104	38,576	46,944	2.19
	2014	11	2,056	34,595	36,662	1.74
France	2016	4,956	1,205	23,193	29,354	1.34
	2015	3,343	1,766	17,099	22,208	1.04
	2014	4,479	2,631	14,368	21,478	1.02

Provision for Credit Losses

The provision for credit losses increased \$436 million to \$3.6 billion in 2016 compared to 2015. The provision for credit losses was \$224 million lower than net charge-offs for 2016, resulting in a reduction in the allowance for credit losses. This compared to a reduction of \$1.2 billion in the allowance for credit losses in 2015.

The provision for credit losses for the consumer portfolio increased \$360 million to \$2.6 billion in 2016 compared to 2015 due to a slower pace of credit quality improvement. Included in the provision is a benefit of \$45 million related to the PCI loan portfolio for 2016 compared to a benefit of \$40 million in 2015.

The provision for credit losses for the commercial portfolio, including unfunded lending commitments, increased \$76 million to \$1.0 billion in 2016 compared to 2015 driven by an increase in energy sector reserves in the first half of 2016 for the higher risk energy sub-sectors. While we experienced some deterioration in the energy sector in 2016, oil prices have stabilized which contributed to a modest improvement in energy-related exposure by year end.

Allowance for Credit Losses

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is comprised of two components. The first component covers nonperforming commercial loans and TDRs. The second component covers loans and leases on which there are incurred losses that are not yet individually identifiable, as well as incurred losses that may not be represented in the loss forecast models. We evaluate the adequacy of the allowance for loan and lease losses based on the total of these two components, each of which is described in more detail below. The allowance for loan and lease losses excludes

LHFS and loans accounted for under the fair value option as the fair value reflects a credit risk component.

The first component of the allowance for loan and lease losses covers both nonperforming commercial loans and all TDRs within the consumer and commercial portfolios. These loans are subject to impairment measurement based on the present value of projected future cash flows discounted at the loan's original effective interest rate, or in certain circumstances, impairment may also be based upon the collateral value or the loan's observable market price if available. Impairment measurement for the renegotiated consumer credit card, small business credit card and unsecured consumer TDR portfolios is based on the present value of projected cash flows discounted using the average portfolio contractual interest rate, excluding promotionally priced loans, in effect prior to restructuring. For purposes of computing this specific loss component of the allowance, larger impaired loans are evaluated individually and smaller impaired loans are evaluated as a pool using historical experience for the respective product types and risk ratings of the loans.

The second component of the allowance for loan and lease losses covers the remaining consumer and commercial loans and leases that have incurred losses that are not yet individually identifiable. The allowance for consumer and certain homogeneous commercial loan and lease products is based on aggregated portfolio evaluations, generally by product type. Loss forecast models are utilized that consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, economic trends and credit scores. Our consumer real estate loss forecast model estimates the portion of loans that will default based on individual loan attributes, the most significant of which are refreshed LTV or CLTV, and borrower credit score as well as vintage and geography, all of which are further broken down into

current delinquency status. Additionally, we incorporate the delinquency status of underlying first-lien loans on our junior-lien home equity portfolio in our allowance process. Incorporating refreshed LTV and CLTV into our probability of default allows us to factor the impact of changes in home prices into our allowance for loan and lease losses. These loss forecast models are updated on a quarterly basis to incorporate information reflecting the current economic environment. As of December 31, 2016, the loss forecast process resulted in reductions in the residential mortgage and home equity portfolios compared to December 31, 2015.

The allowance for commercial loan and lease losses is established by product type after analyzing historical loss experience, internal risk rating, current economic conditions, industry performance trends, geographic and obligor concentrations within each portfolio and any other pertinent information. The statistical models for commercial loans are generally updated annually and utilize our historical database of actual defaults and other data, including external default data. The loan risk ratings and composition of the commercial portfolios used to calculate the allowance are updated quarterly to incorporate the most recent data reflecting the current economic environment. For risk-rated commercial loans, we estimate the probability of default and the loss given default (LGD) based on our historical experience of defaults and credit losses. Factors considered when assessing the internal risk rating include the value of the underlying collateral, if applicable, the industry in which the obligor operates, the obligor's liquidity and other financial indicators, and other quantitative and qualitative factors relevant to the obligor's credit risk. As of December 31, 2016, the allowance increased for the U.S. commercial and non-U.S. commercial portfolios compared to December 31, 2015.

Also included within the second component of the allowance for loan and lease losses are reserves to cover losses that are incurred but, in our assessment, may not be adequately represented in the historical loss data used in the loss forecast models. For example, factors that we consider include, among others, changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and size of the portfolio, changes in portfolio concentrations, changes in the volume and severity of past due loans and nonaccrual loans, the effect of external factors such as competition, and legal and regulatory requirements. We also consider factors that are applicable to unique portfolio segments. For example, we consider the risk of uncertainty in our loss forecasting models related to junior-lien home equity loans that are current, but have first-lien loans that we do not service that are 30 days or more past due. In addition, we consider the increased risk of default associated with our interest-only loans that have yet to enter the amortization period. Further, we consider the inherent uncertainty in mathematical models that are built upon historical data.

During 2016, the factors that impacted the allowance for loan and lease losses included improvements in the credit quality of the portfolios driven by continuing improvements in the U.S. economy and labor markets, proactive credit risk management initiatives and the impact of high credit quality originations. Evidencing the improvements in the U.S. economy and labor markets are growth in consumer spending, downward unemployment trends and increases in home prices. In addition to these improvements, in the consumer portfolio, loan sales, returns to performing status, paydowns and charge-offs continued to outpace new nonaccrual loans. During 2016, the allowance for loan and lease losses in the commercial portfolio reflected

increased coverage for the energy sector due to low oil prices which impacted the financial performance of energy clients and contributed to an increase in reservable criticized balances. While we experienced some deterioration in the energy sector in 2016, oil prices have stabilized which contributed to a modest improvement in energy-related exposure by year end.

We monitor differences between estimated and actual incurred loan and lease losses. This monitoring process includes periodic assessments by senior management of loan and lease portfolios and the models used to estimate incurred losses in those portfolios.

Additions to, or reductions of, the allowance for loan and lease losses generally are recorded through charges or credits to the provision for credit losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan and lease losses. Recoveries of previously charged off amounts are credited to the allowance for loan and lease losses.

The allowance for loan and lease losses for the consumer portfolio, as presented in Table 47, was \$6.2 billion at December 31, 2016, a decrease of \$1.2 billion from December 31, 2015. The decrease was primarily in the home

equity and residential mortgage portfolios. Reductions in the residential mortgage and home equity portfolios were due to improved home prices, lower nonperforming loans and a decrease in consumer loan balances, as well as write-offs in our PCI loan portfolio.

The allowance related to the U.S. credit card and unsecured consumer lending portfolios at December 31, 2016 remained relatively unchanged and in line with the level of delinquencies compared to December 31, 2015. For example, in the U.S. credit card portfolio, accruing loans 30 days or more past due remained relatively unchanged at \$1.6 billion at December 31, 2016 (to 1.73 percent from 1.76 percent of outstanding U.S. credit card loans at December 31, 2015), while accruing loans 90 days or more past due decreased to \$782 million at December 31, 2016 from \$789 million (to 0.85 percent from 0.88 percent of outstanding U.S. credit card loans) at December 31, 2015. See Tables 20 and 21 for additional details on key credit statistics for the credit card and other unsecured consumer lending portfolios.

The allowance for loan and lease losses for the commercial portfolio, as presented in Table 47, was \$5.3 billion at December 31, 2016, an increase of \$409 million from December 31, 2015 driven by increased allowance coverage for the higher risk energy sub-sectors as a result of low oil prices. Commercial utilized reservable criticized exposure increased to \$16.3 billion at December 31, 2016 from \$15.9 billion (to 3.35 percent from 3.38 percent of total commercial utilized reservable exposure) at December 31, 2015, largely due to downgrades outpacing paydowns and upgrades in the energy portfolio. Nonperforming commercial loans increased to \$1.7 billion at December 31, 2016 from \$1.2 billion (to 0.38 percent from 0.28 percent of outstanding commercial loans excluding loans accounted for under the fair value option) at December 31, 2015 with the increase primarily in the energy and metals and mining sectors. Commercial loans and leases outstanding increased to \$458.5 billion at December 31, 2016 from \$440.8 billion at December 31, 2015. See Tables 32, 33 and 35 for additional details on key commercial credit statistics. The allowance for loan and lease losses as a percentage of total loans and leases outstanding was 1.26 percent at December 31, 2016 compared to 1.37 percent at December 31, 2015. The decrease in the ratio was primarily due to improved

credit quality in the consumer portfolios driven by improved economic conditions and write-offs in the PCI loan portfolio. The December 31, 2016 and 2015 ratios above include the PCI loan portfolio. Excluding the PCI loan portfolio, the allowance for loan and lease losses as a percentage of total loans and leases outstanding was 1.24 percent and 1.31 percent at December 31, 2016 and 2015.

Table 46 presents a rollforward of the allowance for credit losses, which includes the allowance for loan and lease losses and the reserve for unfunded lending commitments, for 2016 and 2015.

Table 46 Allowance for Credit Losses

(Dollars in millions)	2016	2015
Allowance for loan and lease losses, January 1	\$12,234	\$14,419
Loans and leases charged off		
Residential mortgage	(403)	(866)
Home equity	(752)	(975)
U.S. credit card	(2,691)	(2,738)
Non-U.S. credit card	(238)	(275)
Direct/Indirect consumer	(392)	(383)
Other consumer	(232)	(224)
Total consumer charge-offs	(4,708)	(5,461)
U.S. commercial ⁽¹⁾	(567)	(536)
Commercial real estate	(10)	(30)
Commercial lease financing	(30)	(19)
Non-U.S. commercial	(133)	(59)
Total commercial charge-offs	(740)	(644)
Total loans and leases charged off	(5,448)	(6,105)
Recoveries of loans and leases previously charged off		
Residential mortgage	272	393
Home equity	347	339
U.S. credit card	422	424
Non-U.S. credit card	63	87
Direct/Indirect consumer	258	271
Other consumer	27	31
Total consumer recoveries	1,389	1,545
U.S. commercial ⁽²⁾	175	172
Commercial real estate	41	35
Commercial lease financing	9	10
Non-U.S. commercial	13	5
Total commercial recoveries	238	222
Total recoveries of loans and leases previously charged off	1,627	1,767
Net charge-offs	(3,821)	(4,338)
Write-offs of PCI loans	(340)	(808)
Provision for loan and lease losses	3,581	3,043
Other ⁽³⁾	(174)	(82)
Allowance for loan and lease losses, December 31	11,480	12,234

Less: Allowance included in assets of business held for sale ⁽⁴⁾	(243) —
Total allowance for loan and lease losses, December 31	11,237	12,234
Reserve for unfunded lending commitments, January 1	646	528
Provision for unfunded lending commitments	16	118
Other ⁽³⁾	100	—
Reserve for unfunded lending commitments, December 31	762	646
Allowance for credit losses, December 31	\$ 11,999	\$ 12,880

⁽¹⁾ Includes U.S. small business commercial charge-offs of \$253 million and \$282 million in 2016 and 2015.

⁽²⁾ Includes U.S. small business commercial recoveries of \$45 million and \$57 million in 2016 and 2015.

⁽³⁾ Primarily represents the net impact of portfolio sales, consolidations and deconsolidations, foreign currency translation adjustments and certain other reclassifications.

⁽⁴⁾ Represents allowance related to the non-U.S. credit card loan portfolio, which is included in assets of business held for sale on the Consolidated Balance Sheet at December 31, 2016.

Table 46 Allowance for Credit Losses (continued)

(Dollars in millions)	2016	2015
Loan and allowance ratios ⁽⁵⁾ :		
Loans and leases outstanding at December 31 ⁽⁶⁾	\$908,812	\$890,045
Allowance for loan and lease losses as a percentage of total loans and leases outstanding at December 31 ⁽⁶⁾	1.26 %	1.37 %
Consumer allowance for loan and lease losses as a percentage of total consumer loans and leases outstanding at December 31 ⁽⁷⁾	1.36	1.63
Commercial allowance for loan and lease losses as a percentage of total commercial loans and leases outstanding at December 31 ⁽⁸⁾	1.16	1.11
Average loans and leases outstanding ⁽⁶⁾	\$892,255	\$869,065
Net charge-offs as a percentage of average loans and leases outstanding ^(6, 9)	0.43 %	0.50 %
Net charge-offs and PCI write-offs as a percentage of average loans and leases outstanding ⁽⁶⁾	0.47	0.59
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases at December 31 ^(6, 10)	149	130
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs ⁽⁹⁾	3.00	2.82
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs and PCI write-offs	2.76	2.38
Amounts included in allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases at December 31 ⁽¹¹⁾	\$3,951	\$4,518
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases, excluding the allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases at December 31 ^(6, 11)	98 %	82 %
Loan and allowance ratios excluding PCI loans and the related valuation allowance: ^(5, 12)		
Allowance for loan and lease losses as a percentage of total loans and leases outstanding at December 31 ⁽⁶⁾	1.24 %	1.31 %
Consumer allowance for loan and lease losses as a percentage of total consumer loans and leases outstanding at December 31 ⁽⁷⁾	1.31	1.50
Net charge-offs as a percentage of average loans and leases outstanding ⁽⁶⁾	0.44	0.51
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases at December 31 ^(6, 10)	144	122

Ratio of the allowance for loan and lease losses at December 31 to net charge-offs 2.89 2.64

Loan and allowance ratios include \$243 million of non-U.S. credit card allowance for loan and lease losses and \$9.2 billion of ending non-U.S. credit card loans, which are included in assets of business held for sale on the Consolidated Balance Sheet at December 31, 2016.

Outstanding loan and lease balances and ratios do not include loans accounted for under the fair value option of \$7.1 billion and \$6.9 billion at December 31, 2016 and 2015. Average loans accounted for under the fair value option were \$8.2 billion and \$7.7 billion in 2016 and 2015.

Excludes consumer loans accounted for under the fair value option of \$1.1 billion and \$1.9 billion at December 31, 2016 and 2015.

Excludes commercial loans accounted for under the fair value option of \$6.0 billion and \$5.1 billion at December 31, 2016 and 2015.

Net charge-offs exclude \$340 million and \$808 million of write-offs in the PCI loan portfolio in 2016 and 2015.

For more information on PCI write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 62.

For more information on our definition of nonperforming loans, see pages 64 and 70.

Primarily includes amounts allocated to U.S. credit card and unsecured consumer lending portfolios in Consumer Banking, PCI loans and the non-U.S. credit card portfolio in All Other.

For more information on the PCI loan portfolio and the valuation allowance for PCI loans, see Note 4 – Outstanding Loans and Leases and Note 5 – Allowance for Credit Losses to the Consolidated Financial Statements.

For reporting purposes, we allocate the allowance for credit losses across products as presented in Table 47.

Table 47 Allocation of the Allowance for Credit Losses by Product Type

(Dollars in millions)	December 31, 2016			December 31, 2015		
	Amount	Percent of Total	Percent of Loans and Leases Outstanding ⁽¹⁾	Amount	Percent of Total	Percent of Loans and Leases Outstanding ⁽¹⁾
Allowance for loan and lease losses						
Residential mortgage	\$1,012	8.82 %	0.53 %	\$1,500	12.26 %	0.80 %
Home equity	1,738	15.14	2.62	2,414	19.73	3.18
U.S. credit card	2,934	25.56	3.18	2,927	23.93	3.27
Non-U.S. credit card	243	2.12	2.64	274	2.24	2.75
Direct/Indirect consumer	244	2.13	0.26	223	1.82	0.25
Other consumer	51	0.44	2.01	47	0.38	2.27
Total consumer	6,222	54.21	1.36	7,385	60.36	1.63

U.S. commercial	3,326	28.97	1.17	2,964	24.23	1.12
Commercial real estate	920	8.01	1.60	967	7.90	1.69
Commercial lease financing	138	1.20	0.62	164	1.34	0.77
Non-U.S. commercial	874	7.61	0.98	754	6.17	0.82
Total commercial	5,125	45.79	1.16	4,849	39.64	1.11
Allowance for loan and lease losses ⁽⁴⁾	11,480	100.00%	1.26	12,234	100.00%	1.37
Less: Allowance included in assets of business held for sale ⁽⁵⁾	(243)			—		
Total allowance for loan and lease losses	11,237			12,234		
Reserve for unfunded lending commitments	762			646		
Allowance for credit losses	\$11,999			\$12,880		

- Ratios are calculated as allowance for loan and lease losses as a percentage of loans and leases outstanding excluding loans accounted for under the fair value option. Consumer loans accounted for under the fair value option included residential mortgage loans of \$710 million and \$1.6 billion and home equity loans of \$341 million and \$250 million at December 31, 2016 and 2015. Commercial loans accounted for under the fair value option included U.S. commercial loans of \$2.9 billion and \$2.3 billion and non-U.S. commercial loans of \$3.1 billion and \$2.8 billion at December 31, 2016 and 2015.
- (1) Includes allowance for loan and lease losses for U.S. small business commercial loans of \$416 million and \$507 million at December 31, 2016 and 2015.
- (2) Includes allowance for loan and lease losses for impaired commercial loans of \$273 million and \$217 million at December 31, 2016 and 2015.
- (3) Includes \$419 million and \$804 million of valuation allowance presented with the allowance for loan and lease losses related to PCI loans at December 31, 2016 and 2015.
- (4) Represents allowance for loan and lease losses related to the non-U.S. credit card loan portfolio, which is included in assets of business held for sale on the Consolidated Balance Sheet at December 31, 2016.

Reserve for Unfunded Lending Commitments

In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments such as letters of credit, financial guarantees, unfunded bankers' acceptances and binding loan commitments, excluding commitments accounted for under the fair value option. Unfunded lending commitments are subject to the same assessment as funded loans, including estimates of probability of default and LGD. Due to the nature of unfunded commitments, the estimate of probable losses must also consider utilization. To estimate the portion of these undrawn commitments that is likely to be drawn by a borrower at the time of estimated default, analyses of our historical experience are applied to the unfunded commitments to estimate the funded exposure at default (EAD). The expected loss for unfunded lending commitments is the product of the probability of default, the LGD and the EAD, adjusted for any qualitative factors including economic uncertainty and inherent imprecision in models.

The reserve for unfunded lending commitments was \$762 million at December 31, 2016, an increase of \$116 million from December 31, 2015. The increase was primarily attributable to increased coverage for the energy sector due to low oil prices which impacted the financial performance of energy clients.

Market Risk Management

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities, or otherwise negatively impact earnings. This risk is inherent in the financial instruments associated with our operations, primarily within our Global Markets segment. We are also exposed to these risks in other areas of the Corporation (e.g., our ALM activities). In the event of market stress, these risks could have a material impact on our results. For additional information, see Interest Rate Risk Management for the Banking Book on page 84.

Our traditional banking loan and deposit products are non-trading positions and are generally reported at amortized cost for assets or the amount owed for liabilities (historical cost). However, these positions are still subject to changes in economic value based on varying market conditions, with one of the primary risks being changes in the levels of interest rates. The risk of adverse changes in the economic value of our non-trading positions arising from changes in interest rates is managed through our ALM activities. We have elected to account for certain assets and liabilities under the fair value option.

Our trading positions are reported at fair value with changes reflected in income. Trading positions are subject to various changes in market-based risk factors. The majority of this risk is generated by our activities in the interest rate, foreign exchange, credit, equity and commodities markets. In addition, the values of assets and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility. We seek to manage these risk exposures by using a variety of techniques that encompass a broad range of financial instruments. The key risk management techniques are discussed in more detail in the Trading Risk Management section.

Global Risk Management is responsible for providing senior management with a clear and comprehensive understanding of the trading risks to which we are exposed. These responsibilities include ownership of market risk policy, developing and maintaining quantitative risk models, calculating aggregated risk measures, establishing and monitoring position limits consistent with risk appetite, conducting daily reviews and analysis of trading inventory,

approving material risk exposures and fulfilling regulatory requirements. Market risks that impact businesses outside of Global Markets are monitored and governed by their respective governance functions.

Quantitative risk models, such as VaR, are an essential component in evaluating the market risks within a portfolio. The Enterprise Model Risk Committee (EMRC), a subcommittee of the MRC, is responsible for providing management oversight and approval of model risk management and governance. The EMRC defines model risk standards, consistent with our risk framework and risk appetite, prevailing regulatory guidance and industry best practice. Models must meet certain validation criteria, including effective challenge of the model development process and a sufficient demonstration of developmental evidence incorporating a comparison of alternative theories and approaches. The EMRC oversees that model standards are consistent with model risk requirements and monitors the effective challenge in the model validation process across the Corporation. In addition, the relevant stakeholders must agree on any required actions or restrictions to the models and maintain a stringent monitoring process for continued compliance.

Interest Rate Risk

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to, loans, debt securities, certain trading-related assets and liabilities, deposits, borrowings and derivatives. Hedging instruments used to mitigate these risks include derivatives such as options, futures, forwards and swaps.

Foreign Exchange Risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in currencies other than the U.S. Dollar. The types of instruments exposed to this risk include investments in non-U.S. subsidiaries, foreign currency-denominated loans and securities, future cash flows in foreign currencies arising from foreign exchange transactions, foreign currency-denominated debt and various foreign exchange derivatives whose values fluctuate with changes in the level or volatility of currency exchange rates or non-U.S. interest rates. Hedging instruments used to mitigate this risk include foreign exchange options, currency swaps, futures, forwards, and foreign currency-denominated debt and deposits.

Mortgage Risk

Mortgage risk represents exposures to changes in the values of mortgage-related instruments. The values of these instruments are sensitive to prepayment rates, mortgage rates, agency debt ratings, default, market liquidity, government participation and interest rate volatility. Our exposure to these instruments takes several forms. First, we trade and engage in market-making activities in a variety of mortgage securities including whole loans, pass-through certificates, commercial mortgages and collateralized mortgage obligations including collateralized debt obligations (CDO) using mortgages as underlying collateral. Second, we originate a variety of MBS which involves the accumulation of mortgage-related loans in anticipation of eventual securitization. Third, we may hold positions in mortgage securities and residential mortgage loans as part of the ALM portfolio. Fourth, we create MSRs as part of our mortgage origination activities. For more information on MSRs, see Note 1 – Summary of Significant Accounting Principles and Note 23 – Mortgage Servicing Rights to

the Consolidated Financial Statements. Hedging instruments used to mitigate this risk include derivatives such as options, swaps, futures and forwards as well as securities including MBS and U.S. Treasury securities. For additional information, see Mortgage Banking Risk Management on page 86.

Equity Market Risk

Equity market risk represents exposures to securities that represent an ownership interest in a corporation in the form of domestic and foreign common stock or other equity-linked instruments. Instruments that would lead to this exposure include, but are not limited to, the following: common stock, exchange-traded funds, American Depositary Receipts, convertible bonds, listed equity options (puts and calls), OTC equity options, equity total return swaps, equity index futures and other equity derivative products. Hedging instruments used to mitigate this risk include options, futures, swaps, convertible bonds and cash positions.

Commodity Risk

Commodity risk represents exposures to instruments traded in the petroleum, natural gas, power and metals markets. These instruments consist primarily of futures, forwards, swaps and options. Hedging instruments used to mitigate this risk include options, futures and swaps in the same or similar commodity product, as well as cash positions.

Issuer Credit Risk

Issuer credit risk represents exposures to changes in the creditworthiness of individual issuers or groups of issuers. Our portfolio is exposed to issuer credit risk where the value of an asset may be adversely impacted by changes in the levels of credit spreads, by credit migration or by defaults. Hedging instruments used to mitigate this risk include bonds, CDS and other credit fixed-income instruments.

Market Liquidity Risk

Market liquidity risk represents the risk that the level of expected market activity changes dramatically and, in certain cases, may even cease. This exposes us to the risk that we will not be able to transact business and execute trades in an orderly manner which may impact our results. This impact could be further exacerbated if expected hedging or pricing correlations are compromised by disproportionate demand or lack of demand for certain instruments. We utilize various risk mitigating techniques as discussed in more detail in Trading Risk Management.

Trading Risk Management

To evaluate risk in our trading activities, we focus on the actual and potential volatility of revenues generated by individual positions as well as portfolios of positions. Various techniques and procedures are utilized to enable the most complete understanding of these risks. Quantitative measures of market risk are evaluated on a daily basis from a single position to the portfolio of the Corporation. These measures include sensitivities of positions to various market risk factors, such as the potential impact on revenue from a one basis point change in interest rates, and statistical measures utilizing both actual and hypothetical market moves, such as VaR and stress testing. Periods of extreme market stress influence the reliability of these techniques to varying degrees. Qualitative evaluations of market risk utilize the suite of quantitative risk measures while understanding each of their respective limitations. Additionally, risk managers

independently evaluate the risk of the portfolios under the current market environment and potential future environments.

VaR is a common statistic used to measure market risk as it allows the aggregation of market risk factors, including the effects of portfolio diversification. A VaR model simulates the value of a portfolio under a range of scenarios in order to generate a distribution of potential gains and losses. VaR represents the loss a portfolio is not expected to exceed more than a certain number of times per period, based on a specified holding period, confidence level and window of historical data. We use one VaR model consistently across the trading portfolios and it uses a historical simulation approach based on a three-year window of historical data. Our primary VaR statistic is equivalent to a 99 percent confidence level. This means that for a VaR with a one-day holding period, there should not be losses in excess of VaR, on average, 99 out of 100 trading days.

Within any VaR model, there are significant and numerous assumptions that will differ from company to company. The accuracy of a VaR model depends on the availability and quality of historical data for each of the risk factors in the portfolio. A VaR model may require additional modeling assumptions for new products that do not have the necessary historical market data or for less liquid positions for which accurate daily prices are not consistently

available. For positions with insufficient historical data for the VaR calculation, the process for establishing an appropriate proxy is based on fundamental and statistical analysis of the new product or less liquid position. This analysis identifies reasonable alternatives that replicate both the expected volatility and correlation to other market risk factors that the missing data would be expected to experience.

VaR may not be indicative of realized revenue volatility as changes in market conditions or in the composition of the portfolio can have a material impact on the results. In particular, the historical data used for the VaR calculation might indicate higher or lower levels of portfolio diversification than will be experienced. In order for the VaR model to reflect current market conditions, we update the historical data underlying our VaR model on a weekly basis, or more frequently during periods of market stress, and regularly review the assumptions underlying the model. A relatively minor portion of risks related to our trading positions is not included in VaR. These risks are reviewed as part of our ICAAP. For more information regarding ICAAP, see Capital Management on page 45.

Global Risk Management continually reviews, evaluates and enhances our VaR model so that it reflects the material risks in our trading portfolio. Changes to the VaR model are reviewed and approved prior to implementation and any material changes are reported to management through the appropriate management committees.

Trading limits on quantitative risk measures, including VaR, are independently set by Global Markets Risk Management and reviewed on a regular basis so they remain relevant and within our overall risk appetite for market risks. Trading limits are reviewed in the context of market liquidity, volatility and strategic business priorities. Trading limits are set at both a granular level to allow for extensive coverage of risks as well as at aggregated portfolios to account for correlations among risk factors. All trading limits are approved at least annually. Approved trading limits are stored and tracked in a centralized limits management system. Trading limit excesses are communicated to management for review. Certain quantitative market risk measures and corresponding limits have been identified as critical in the Corporation's Risk

Appetite Statement. These risk appetite limits are reported on a daily basis and are approved at least annually by the ERC and the Board.

In periods of market stress, Global Markets senior leadership communicates daily to discuss losses, key risk positions and any limit excesses. As a result of this process, the businesses may selectively reduce risk.

Table 48 presents the total market-based trading portfolio VaR which is the combination of the covered positions trading portfolio and the impact from less liquid trading exposures. Covered positions are defined by regulatory standards as trading assets and liabilities, both on- and off-balance sheet, that meet a defined set of specifications.

These specifications identify the most liquid trading positions which are intended to be held for a short-term horizon and where we are able to hedge the material risk elements in a two-way market. Positions in less liquid markets, or where there are restrictions on the ability to trade the positions, typically do not qualify as covered positions. Foreign exchange and commodity positions are always considered covered positions,

except for structural foreign currency positions that we choose to exclude with prior regulatory approval. In addition, Table 48 presents our fair value option portfolio, which includes substantially all of the funded and unfunded exposures for which we elect the fair value option, and their corresponding hedges. The fair value option portfolio combined with the total market-based trading portfolio VaR represents our total market-based portfolio VaR.

Additionally, market risk VaR for trading activities as presented in Table 48 differs from VaR used for regulatory capital calculations due to the holding period being used. The holding period for VaR used for regulatory capital calculations is 10 days, while for the market risk VaR presented below it is one day. Both measures utilize the same process and methodology.

The total market-based portfolio VaR results in Table 48 include market risk to which we are exposed from all business segments, excluding CVA and DVA. The majority of this portfolio is within the Global Markets segment. Table 48 presents year-end, average, high and low daily trading VaR for 2016 and 2015 using a 99 percent confidence level.

Table 48 Market Risk VaR for Trading Activities

(Dollars in millions)	2016				2015			
	Year End	Average	High ⁽¹⁾	Low ⁽¹⁾	Year End	Average	High ⁽¹⁾	Low ⁽¹⁾
Foreign exchange	\$8	\$ 9	\$ 16	\$ 5	\$10	\$ 10	\$ 42	\$ 5
Interest rate	11	19	30	10	17	25	42	14
Credit	25	30	37	25	32	35	46	27
Equity	19	18	30	11	18	16	33	9
Commodity	6	12	3	4	5	8	3	
Portfolio diversification	(39)	(46)	—	—	(36)	(46)	—	—
Total covered positions	28	36	50	24	45	45	66	26
trading portfolio Impact from less liquid exposures	6	5	—	—	3	8	—	—

Total market-based trading portfolio	34	41	58	28	48	53	74	31
Fair value option loans	14	23	40	12	35	26	36	17
Fair value option hedges	6	11	22	5	17	14	22	8
Fair value option portfolio diversification	(10)	(21)	—	—	(35)	(26)	—	—
Total fair value option portfolio	10	13	20	8	17	14	19	10
Portfolio diversification	(4)	(6)	—	—	(4)	(6)	—	—
Total market-based trading portfolio	\$40	\$ 48	\$ 70	\$ 32	\$61	\$ 61	\$ 85	\$ 41

The high and low for each portfolio may have occurred on different trading days than the high and low for the components. Therefore the impact from less liquid exposures and the amount of portfolio diversification, which is the difference between the total portfolio and the sum of the individual components, are not relevant. The average total market-based trading portfolio VaR decreased during 2016 primarily due to reduced exposure to the interest rate and credit markets.

The graph below presents the daily total market-based trading portfolio VaR for 2016, corresponding to the data in Table 48.

Additional VaR statistics produced within our single VaR model are provided in Table 49 at the same level of detail as in Table 48. Evaluating VaR with additional statistics allows for an increased understanding of the risks in the portfolio as the historical market

data used in the VaR calculation does not necessarily follow a predefined statistical distribution. Table 49 presents average trading VaR statistics at 99 percent and 95 percent confidence levels for 2016 and 2015.

Average Market Risk VaR for Trading				
Table 49 Activities – 99 percent and 95 percent VaR Statistics				
(Dollars in millions)	2016		2015	
	99 percent	95 percent	99 percent	95 percent
Foreign exchange	\$9	\$ 5	\$10	\$ 6
Interest rate	19	12	25	15
Credit	30	18	35	20
Equity	18	11	16	9
Commodity	6	3	5	3
Portfolio diversification	(46)	(30)	(46)	(31)
Total covered positions	36	19	45	22
trading portfolio Impact from less liquid exposures	5	3	8	3
Total market-based trading portfolio	41	22	53	25
Fair value option	23	13	26	15
loans Fair value option	11	8	14	9
hedges Fair value option	(21)	(13)	(26)	(16)

portfolio
diversification
Total fair
value
option 13 8 14 8
portfolio
Portfolio
diversification (6) (4) (6) (5)
Total
market-based \$48 \$ 26 \$61 \$ 28
portfolio
Backtesting

The accuracy of the VaR methodology is evaluated by backtesting, which compares the daily VaR results, utilizing a one-day holding period, against a comparable subset of trading revenue. A backtesting excess occurs when a trading loss exceeds the VaR for the corresponding day. These excesses are evaluated to understand the positions and market moves that produced the trading loss and to ensure that the VaR methodology accurately represents those losses. We expect the frequency of trading losses in excess of VaR to be in line with the confidence level of the VaR statistic being tested. For example, with a 99 percent confidence level, we expect one trading loss in excess of VaR every 100 days or between two to three trading losses in excess of VaR over the course of a year. The number of backtesting excesses observed can differ from the statistically expected number of excesses if the current level of market volatility is materially

different than the level of market volatility that existed during the three years of historical data used in the VaR calculation.

The trading revenue used for backtesting is defined by regulatory agencies in order to most closely align with the VaR component of the regulatory capital calculation. This revenue differs from total trading-related revenue in that it excludes revenue from trading activities that either do not generate market risk or the market risk cannot be included in VaR. Some examples of the types of revenue excluded for backtesting are fees, commissions, reserves, net interest income and intraday trading revenues.

We conduct daily backtesting on our portfolios, ranging from the total market-based portfolio to individual trading areas. Additionally, we conduct daily backtesting on the VaR results used for regulatory capital calculations as well as the VaR results for key legal entities, regions and risk factors. These results are reported to senior market risk management. Senior management regularly reviews and evaluates the results of these tests.

During 2016, there were no days in which there was a backtesting excess for our total market-based portfolio VaR, utilizing a one-day holding period.

Total Trading-related Revenue

Total trading-related revenue, excluding brokerage fees, and CVA, DVA and funding valuation adjustment (FVA) gains (losses), represents the total amount earned from trading positions, including market-based net interest income, which are taken in a diverse range of financial instruments and markets. Trading account assets and liabilities are reported at fair value. For more information on fair value, see Note 20 – Fair Value Measurements to the Consolidated Financial Statements. Trading-related revenue can be volatile and is largely driven by general market conditions and customer demand. Also, trading-related revenue is dependent

on the volume and type of transactions, the level of risk assumed, and the volatility of price and rate movements at any given time within the ever-changing market environment. Significant daily revenue by business is monitored and the primary drivers of these are reviewed.

The histogram below is a graphic depiction of trading volatility and illustrates the daily level of trading-related revenue for 2016 and 2015. During 2016, positive trading-related revenue was recorded for 99 percent of the trading days, of which 84 percent were daily trading gains of over \$25 million and the largest loss was \$24 million. This compares to 2015 where positive trading-related revenue was recorded for 98 percent of the trading days, of which 77 percent were daily trading gains of over \$25 million and the largest loss was \$22 million.

Trading Portfolio Stress Testing

Because the very nature of a VaR model suggests results can exceed our estimates and it is dependent on a limited historical window, we also stress test our portfolio using scenario analysis. This analysis estimates the change in the value of our trading portfolio that may result from abnormal market movements.

A set of scenarios, categorized as either historical or hypothetical, are computed daily for the overall trading portfolio and individual businesses. These scenarios include shocks to underlying market risk factors that may be well beyond the shocks found in the historical data used to calculate VaR. Historical scenarios simulate the impact of the market moves that occurred during a period of extended historical market stress. Generally, a multi-week period representing the most severe point during a crisis is selected for each historical scenario. Hypothetical

scenarios provide estimated portfolio impacts from potential future market stress events. Scenarios are reviewed and updated in response to changing positions and new economic or political information. In addition, new or ad hoc scenarios are developed to address specific potential market events or particular vulnerabilities in the portfolio. The stress tests are reviewed on a regular basis and the results are presented to senior management.

Stress testing for the trading portfolio is integrated with enterprise-wide stress testing and incorporated into the limits framework. The macroeconomic scenarios used for enterprise-wide stress testing purposes differ from the typical trading portfolio scenarios in that they have a longer time horizon and the results are forecasted over multiple periods for use in consolidated capital and liquidity planning. For additional information, see Managing Risk on page 44.

Interest Rate Risk Management for the Banking Book

The following discussion presents net interest income for banking book activities.

Interest rate risk represents the most significant market risk exposure to our banking book balance sheet. Interest rate risk is measured as the potential change in net interest income caused by movements in market interest rates.

Client-facing activities, primarily lending and deposit-taking, create interest rate sensitive positions on our balance sheet.

We prepare forward-looking forecasts of net interest income. The baseline forecast takes into consideration expected future business growth, ALM positioning and the direction of interest rate movements as implied by the market-based forward curve. We then measure and evaluate the impact that alternative interest rate scenarios have on the baseline forecast in order to assess interest rate sensitivity under varied conditions. The net interest income forecast is frequently updated for changing assumptions and differing outlooks based on economic trends, market conditions and business strategies. Thus, we continually monitor our balance sheet position in order to maintain an acceptable level of exposure to interest rate changes.

The interest rate scenarios that we analyze incorporate balance sheet assumptions such as loan and deposit growth and pricing, changes in funding mix, product repricing and maturity characteristics. Our overall goal is to manage interest rate risk so that movements in interest rates do not significantly adversely affect earnings and capital.

Table 50 presents the spot and 12-month forward rates used in our baseline forecasts at December 31, 2016 and 2015.

Table 50 Forward Rates

December 31, 2016				
	Federal Three-month		10-Year	
	Funds	LIBOR	Swap	
Spot rates	0.75 %	1.00 %	2.34 %	
12-month forward rates	1.25	1.51	2.49	
December 31, 2015				
Spot rates	0.50 %	0.61 %	2.19 %	
12-month forward rates	1.00	1.22	2.39	

Table 51 shows the pretax dollar impact to forecasted net interest income over the next 12 months from December 31, 2016 and 2015, resulting from instantaneous parallel and non-parallel shocks to the market-based forward curve.

Periodically we evaluate the scenarios presented so that they are meaningful in the context of the current rate environment.

During 2016, the asset sensitivity of our balance sheet decreased primarily driven by higher long-end rates. We continue to be asset sensitive to a parallel move in interest rates with the majority of that benefit coming from the short end of the yield curve. Additionally, higher interest rates impact the fair value of debt securities and, accordingly, for debt securities classified as AFS, may adversely affect accumulated OCI and thus capital levels under the Basel 3 capital rules. Under instantaneous upward parallel shifts, the near-term adverse impact to Basel 3 capital is reduced over time by offsetting positive impacts to net interest income. For more information on the transition provisions of Basel 3, see Capital Management – Regulatory Capital on page 45.

Table 51 Estimated Banking Book Net Interest Income Sensitivity

(Dollars in millions)				
	Short Rate	Long Rate	December 31	
Curve Change	(bps)	(bps)	2016	2015

Parallel

Shifts

+100 bps

instantaneous +100 +100 \$3,370 \$3,606

shift

-50 bps

instantaneous -50 -50 (2,900) (3,458)

shift

Flatteners

Short-end

instantaneous +100 — 2,473 2,418

change

Long-end

instantaneous -50 (961) (1,767)

change

Steeptenars

Short-end

instantaneous -50 — (1,918) (1,672)

change

Long-end

instantaneous +100 928 1,217

change

The sensitivity analysis in Table 51 assumes that we take no action in response to these rate shocks and does not assume any change in other macroeconomic variables normally correlated with changes in interest rates. As part of our ALM activities, we use securities, certain residential mortgages, and interest rate and foreign exchange derivatives in managing interest rate sensitivity.

The behavior of our deposit portfolio in the baseline forecast and in alternate interest rate scenarios is a key assumption in our projected estimates of net interest income. The sensitivity analysis in Table 51 assumes no change in deposit portfolio size or mix from the baseline forecast in alternate rate environments. In higher rate scenarios, any customer activity resulting in the replacement of low-cost or noninterest-bearing deposits with higher-yielding deposits or market-based funding would reduce our benefit in those scenarios.

Interest Rate and Foreign Exchange Derivative Contracts

Interest rate and foreign exchange derivative contracts are utilized in our ALM activities and serve as an efficient tool to manage our interest rate and foreign exchange risk. We use derivatives to hedge the variability in cash flows or changes in fair value on our balance sheet due to interest rate and foreign exchange components. For more information on our hedging activities, see Note 2 – Derivatives to the Consolidated Financial Statements.

Our interest rate contracts are generally non-leveraged generic interest rate and foreign exchange basis swaps, options, futures and forwards. In addition, we use foreign exchange contracts, including cross-currency interest rate swaps, foreign currency futures contracts, foreign currency forward contracts and options to mitigate the foreign exchange risk associated with foreign currency-denominated assets and liabilities.

Changes to the composition of our derivatives portfolio during 2016 reflect actions taken for interest rate and foreign exchange rate risk management. The decisions to reposition our derivatives portfolio are based on the current assessment of economic and financial conditions including the interest rate and foreign currency environments, balance sheet composition and trends, and the relative mix of our cash and derivative positions.

Table 52 presents derivatives utilized in our ALM activities including those designated as accounting and economic hedging instruments and shows the notional amount, fair value, weighted-average receive-fixed and pay-fixed rates, expected maturity and

average estimated durations of our open ALM derivatives at December 31, 2016 and 2015. These amounts do not include derivative hedges on our MSRs.

Table 52 Asset and Liability Management Interest Rate and Foreign Exchange Contracts

(Dollars in millions, average estimated duration in years) Receive-fixed interest rate swaps ⁽¹⁾ Notional amount Weighted-average fixed-rate Pay-fixed interest rate swaps ⁽¹⁾ Notional amount Weighted-average fixed-rate Same-currency basis ⁽²⁶⁾) swaps ⁽²⁾ Notional amount Foreign exchange basis ^(4,233)) swaps ^(1,3,4) Notional amount Option products ⁵ ⁽⁵⁾	December 31, 2016 Expected Maturity								Average Estimated Duration
	Fair Value	Total	2017	2018	2019	2020	2021	Thereafter	
	\$4,055								4.81
		\$118,603	\$21,453	\$25,788	\$10,283	\$7,515	\$5,307	\$48,257	
		2.83	% 3.64	% 2.81	% 2.31	% 2.07	% 3.18	% 2.67	%
	159								2.77
		\$22,400	\$1,527	\$9,168	\$2,072	\$7,975	\$213	\$1,445	
		1.37	% 1.84	% 1.47	% 0.97	% 1.08	% 1.00	% 2.45	%
		\$59,274	\$20,775	\$11,027	\$6,784	\$1,180	\$2,799	\$16,709	
		125,522	26,509	22,724	12,178	12,150	8,365	43,596	

Notional amount (6)	1,687	1,673	—	—	—	—	14		
Foreign exchange contracts (1, 4, 7)	3,180								
Notional amount (6)	(20,285)	(30,199)	197	1,961	(8)	881	6,883		
Futures and forward rate contracts	19								
Notional amount (6)	37,896	37,896	—	—	—	—	—		
Net ALM contracts	\$3,159								
	December 31, 2015 Expected Maturity								
(Dollars in millions, average estimated duration in years)	Fair Value	Total	2016	2017	2018	2019	2020	Thereafter	Average Estimated Duration
Receive-fixed interest rate swaps (1)	\$6,291								4.98
Notional amount		\$114,354	\$15,339	\$21,453	\$21,850	\$9,783	\$7,015	\$38,914	
Weighted-average fixed-rate		3.12	% 3.12	% 3.64	% 3.20	% 2.37	% 2.13	% 3.16	%
Pay-fixed interest rate swaps (1)	(81)								3.98
Notional amount		\$12,131	\$1,025	\$1,527	\$5,668	\$600	\$51	\$3,260	
Weighted-average fixed-rate		1.70	% 1.65	% 1.84	% 1.41	% 1.59	% 3.64	% 2.15	%
Same-currency basis swaps (2)	(70)								
Notional amount		\$75,224	\$15,692	\$20,833	\$11,026	\$6,786	\$1,180	\$19,707	

Foreign exchange basis swaps ^(1, 3, 4)	(3,968)						
Notional amount	144,446	25,762	27,441	19,319	12,226	10,572	49,126
Option products ^{57 (5)}							
Notional amount ⁽⁶⁾	752	737	—	—	—	—	15
Foreign exchange contracts ^{2,345 (1, 4, 7)}							
Notional amount ⁽⁶⁾	(25,405)	(36,504)	5,380	(2,228)	2,123	52	5,772
Futures and forward rate contracts ^(5)							
Notional amount ⁽⁶⁾	200	200	—	—	—	—	—
Net ALM contracts ^{\$4,569}							

Does not include basis adjustments on either fixed-rate debt issued by the Corporation or AFS debt securities, ⁽¹⁾ which are hedged using derivatives designated as fair value hedging instruments, that substantially offset the fair values of these derivatives.

At December 31, 2016 and 2015, the notional amount of same-currency basis swaps included \$59.3 billion and ⁽²⁾ \$75.2 billion in both foreign currency and U.S. Dollar-denominated basis swaps in which both sides of the swap are in the same currency.

⁽³⁾ Foreign exchange basis swaps consisted of cross-currency variable interest rate swaps used separately or in conjunction with receive-fixed interest rate swaps.

⁽⁴⁾ Does not include foreign currency translation adjustments on certain non-U.S. debt issued by the Corporation that substantially offset the fair values of these derivatives.

The notional amount of option products of \$1.7 billion at December 31, 2016 was comprised of \$1.7 billion in ⁽⁵⁾ foreign exchange options and \$14 million in purchased caps/floors. Option products of \$752 million at December 31, 2015 were comprised of \$737 million in foreign exchange options and \$15 million in purchased caps/floors.

⁽⁶⁾ Reflects the net of long and short positions. Amounts shown as negative reflect a net short position.

⁽⁷⁾ The notional amount of foreign exchange contracts of \$(20.3) billion at December 31, 2016 was comprised of \$21.5 billion in foreign currency-denominated and cross-currency receive-fixed swaps, \$(38.5) billion in net foreign currency forward rate contracts, \$(4.6) billion in foreign currency-denominated pay-fixed swaps and \$1.3 billion in net foreign currency futures contracts. Foreign exchange contracts of \$(25.4) billion at December 31, 2015 were comprised of \$21.3 billion in foreign currency-denominated and cross-currency receive-fixed swaps, \$(40.3) billion in net foreign currency forward rate contracts, \$(7.6) billion in foreign currency-denominated

pay-fixed swaps and \$1.2 billion in foreign currency futures contracts.

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We use interest rate derivative instruments to hedge the variability in the cash flows of our assets and liabilities and other forecasted transactions (collectively referred to as cash flow hedges). The net losses on both open and terminated cash flow hedge derivative instruments recorded in accumulated OCI were \$1.4 billion and \$1.7 billion, on a pretax basis, at December 31, 2016 and 2015. These net losses are expected to be reclassified into earnings in the same period as the hedged cash flows affect earnings and will decrease income or increase expense on the respective hedged cash flows. Assuming no change in open cash flow derivative hedge positions and no changes in prices or interest rates beyond what is implied in forward yield curves at December 31, 2016, the pretax net losses are expected to be reclassified into earnings as follows: \$205 million, or 14 percent within the next year, 47 percent in years two through five, and 28 percent in years six through ten, with the remaining 11 percent thereafter. For more information on derivatives designated as cash flow hedges, see Note 2 – Derivatives to the Consolidated Financial Statements. We hedge our net investment in non-U.S. operations determined to have functional currencies other than the U.S. Dollar using forward foreign exchange contracts that typically settle in less than 180 days, cross-currency basis swaps and foreign exchange options. We recorded net after-tax losses on derivatives in accumulated OCI associated with net investment hedges which were offset by gains on our net investments in consolidated non-U.S. entities at December 31, 2016.

Mortgage Banking Risk Management

We originate, fund and service mortgage loans, which subject us to credit, liquidity and interest rate risks, among others. We determine whether loans will be held-for-investment or held-for-sale at the time of commitment and manage credit and liquidity risks by selling or securitizing a portion of the loans we originate.

Interest rate risk and market risk can be substantial in the mortgage business. Fluctuations in interest rates drive consumer demand for new mortgages and the level of refinancing activity which, in turn, affects total origination and servicing income. Hedging the various sources of interest rate risk in mortgage banking is a complex process that requires complex modeling and ongoing monitoring. Typically, an increase in mortgage interest rates will lead to a decrease in mortgage originations and related fees. IRLCs and the related residential first mortgage LHFS are subject to interest rate risk between the date of the IRLC and the date the loans are sold to the secondary market, as an increase in mortgage interest rates typically leads to a decrease in the value of these instruments.

MSRs are nonfinancial assets created when the underlying mortgage loan is sold to investors and we retain the right to service the loan. Typically, an increase in mortgage rates will lead to an increase in the value of the MSRs driven by lower prepayment expectations. This increase in value from increases in mortgage rates is opposite of, and therefore offsets, the risk described for IRLCs and LHFS. Because the interest rate risks of these two hedged items offset, we combine them into one overall hedged item with one combined economic hedge portfolio.

To hedge these combined assets, we use certain derivatives such as interest rate options, interest rate swaps, forward sale commitments, eurodollar and U.S. Treasury futures, and mortgage TBAs, as well as other securities including agency MBS, principal-only and interest-only MBS and U.S. Treasury securities. During 2016 and 2015, we recorded gains in mortgage banking income

of \$366 million and \$360 million related to the change in fair value of the derivative contracts and other securities used to hedge the market risks of the MSRs, IRLCs and LHFS, net of gains and losses due to changes in fair value of these hedged items. For more information on MSRs, see Note 23 – Mortgage Servicing Rights to the Consolidated Financial Statements and for more information on mortgage banking income, see Consumer Banking on page 30.

Compliance Risk Management

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Corporation arising from the failure of the Corporation to comply with the requirements of applicable laws, rules, regulations and related self-regulatory organizations' standards and codes of conduct (collectively, applicable laws, rules and regulations). Global Compliance independently assesses compliance risk, and evaluates FLUs and control functions for adherence to applicable laws, rules and regulations, including identifying compliance issues and risks, performing monitoring and independent testing, and reporting on the state of compliance activities across the Corporation. Additionally, Global Compliance works with FLUs and control functions so that day-to-day activities operate in a compliant manner.

The Corporation's approach to the management of compliance risk is described in the Global Compliance – Enterprise Policy, which outlines the requirements of the Corporation's global compliance program, and defines roles and responsibilities of FLUs, IRM and Corporate Audit, the three lines of defense in managing compliance risk. The requirements work together to drive a comprehensive risk-based approach for the proactive identification, management and escalation of compliance risks throughout the Corporation. For more information on FLUs and control functions, see Managing Risk on page 41.

The Global Compliance – Enterprise Policy also sets the requirements for reporting compliance risk information to executive management as well as the Board or appropriate Board-level committees in support of Global Compliance's responsibility for conducting independent oversight of the Corporation's compliance risk management activities. The Board provides oversight of compliance risk through its Audit Committee and the ERC.

Operational Risk Management

The Corporation defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk may occur anywhere in the Corporation, including third-party business processes, and is not limited to operations functions. Effects may extend beyond financial losses and may result in reputational risk impacts. Operational risk includes legal risk. Successful operational risk management is particularly important to diversified financial services companies because of the nature, volume and complexity of the financial services business. Operational risk is a significant component in the calculation of total risk-weighted assets used in the Basel 3 capital calculation under the Advanced approaches. For more information on Basel 3 Advanced approaches, see Capital Management on page 45.

We approach operational risk management from two perspectives within the structure of the Corporation: (1) at the enterprise level to provide independent, integrated management of operational risk across the organization, and (2) at the business and control function levels to address operational risk in revenue

producing and non-revenue producing units. The Operational Risk Management Program addresses the overarching processes for identifying, measuring, monitoring and controlling operational risk, and reporting operational risk information to management and the Board. Our internal governance structure enhances the effectiveness of the Corporation's Operational Risk Management Program and is administered at the enterprise level through formal oversight by the Board, the ERC, the CRO and a variety of management committees and risk oversight groups aligned to the Corporation's overall risk governance framework and practices. Of these, the MRC oversees the Corporation's policies and processes for operational risk management. The MRC also serves as an escalation point for critical operational risk matters within the Corporation. The MRC reports operational risk activities to the ERC. The independent operational risk management teams oversee the businesses and control functions to monitor adherence to the Operational Risk Management Program and advise and challenge operational risk exposures.

Within the Global Risk Management organization, the Corporate Operational Risk team develops and guides the strategies, enterprise-wide policies, practices, controls and monitoring tools for assessing and managing operational risks across the organization. The Corporate Operational Risk team reports results to businesses, control functions, senior management, management committees, the ERC and the Board.

The FLUs and control functions are responsible for assessing, monitoring and managing all the risks within their units, including operational risks. In addition to enterprise risk management tools such as loss reporting, scenario analysis and Risk and Control Self Assessments (RCSAs), operational risk executives, working in conjunction with senior business executives, have developed key tools to help identify, measure, monitor and control risk in each business and control function. Examples of these include personnel management practices; data management, data quality controls and related processes; fraud management units; cybersecurity controls, processes and systems; transaction processing, monitoring and analysis; business recovery planning; and new product introduction processes. The FLUs and control functions are also responsible for consistently implementing and monitoring adherence to corporate practices.

Among the key tools in the risk management process are the RCSAs. The RCSA process, consistent with identification, measurement, monitoring and control, is one of our primary methods for capturing the identification and assessment of operational risk exposures, including inherent and residual operational risk ratings, and control effectiveness ratings. The end-to-end RCSA process incorporates risk identification and assessment of the control environment; monitoring, reporting and escalating risk; quality assurance and data validation; and integration with the risk appetite. Key operational risk indicators have been developed and are used to assist in identifying trends and issues on an enterprise, business and control function level. This results in a comprehensive risk management view that enables understanding of and action on operational risks and controls for our processes, products, activities and systems.

Independent review and challenge to the Corporation's overall operational risk management framework is performed by the Enterprise Independent Testing Team and reported through the operational risk governance committees and management routines.

Insurance maintained by the Corporation may mitigate the impact of operational losses. Certain insurance is purchased to

be in compliance with laws, regulations or legal requirements, and in conjunction with specific hedging strategies to reduce adverse financial impacts arising from operational losses.

Reputational Risk Management

Reputational risk is the risk that negative perceptions of the Corporation's conduct or business practices may adversely impact its profitability or operations through an inability to establish new or maintain existing customer/client relationships or otherwise impact relationships with key stakeholders, such as investors, regulators, employees and the community. Reputational risk may result from many of the Corporation's activities, including those related to the management of our strategic, operational, compliance and credit risks.

The Corporation manages reputational risk through established policies and controls in its businesses and risk management processes to mitigate reputational risks in a timely manner and through proactive monitoring and identification of potential reputational risk events. The Corporation has processes and procedures in place to respond to events that give rise to reputational risk, including educating individuals and organizations that influence public opinion, implementing external communication strategies to mitigate the risk, and informing key stakeholders of

potential reputational risks.

The Corporation's organization and governance structure provides oversight of reputational risks, and key risk indicators are reported regularly and directly to management and the ERC, which provides primary oversight of reputational risk. In addition, each FLU has a committee, which includes representatives from Compliance, Legal and Risk, that is responsible for the oversight of reputational risk. Such committees' oversight includes providing approval for business activities that present elevated levels of reputational risks.

Complex Accounting Estimates

Our significant accounting principles, as described in Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements, are essential in understanding the MD&A. Many of our significant accounting principles require complex judgments to estimate the values of assets and liabilities. We have procedures and processes in place to facilitate making these judgments.

The more judgmental estimates are summarized in the following discussion. We have identified and described the development of the variables most important in the estimation processes that involve mathematical models to derive the estimates. In many cases, there are numerous alternative judgments that could be used in the process of determining the inputs to the models. Where alternatives exist, we have used the factors that we believe represent the most reasonable value in developing the inputs. Actual performance that differs from our estimates of the key variables could impact our results of operations. Separate from the possible future impact to our results of operations from input and model variables, the value of our lending portfolio and market-sensitive assets and liabilities may change subsequent to the balance sheet date, often significantly, due to the nature and magnitude of future credit and market conditions. Such credit and market conditions may change quickly and in unforeseen ways and the resulting volatility could have a significant, negative effect on future operating results. These fluctuations would not be indicative of deficiencies in our models or inputs.

Allowance for Credit Losses

The allowance for credit losses, which includes the allowance for loan and lease losses and the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Corporation's loan portfolio excluding those loans accounted for under the fair value option. Our process for determining the allowance for credit losses is discussed in Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements. We evaluate our allowance at the portfolio segment level and our portfolio segments are Consumer Real Estate, Credit Card and Other Consumer, and Commercial. Due to the variability in the drivers of the assumptions used in this process, estimates of the portfolio's inherent risks and overall collectability change with changes in the economy, individual industries, countries, and borrowers' ability and willingness to repay their obligations. The degree to which any particular assumption affects the allowance for credit losses depends on the severity of the change and its relationship to the other assumptions.

Key judgments used in determining the allowance for credit losses include risk ratings for pools of commercial loans and leases, market and collateral values and discount rates for individually evaluated loans, product type classifications for consumer and commercial loans and leases, loss rates used for consumer and commercial loans and leases, adjustments made to address current events and conditions, considerations regarding domestic and global economic uncertainty, and overall credit conditions.

Our estimate for the allowance for loan and lease losses is sensitive to the loss rates and expected cash flows from our Consumer Real Estate and Credit Card and Other Consumer portfolio segments, as well as our U.S. small business commercial card portfolio within the Commercial portfolio segment. For each one-percent increase in the loss rates on loans collectively evaluated for impairment in our Consumer Real Estate portfolio segment, excluding PCI loans, coupled with a one-percent decrease in the discounted cash flows on those loans individually evaluated for impairment within this portfolio segment, the allowance for loan and lease losses at December 31, 2016 would have increased by \$51 million. PCI loans within our Consumer Real Estate portfolio segment are initially recorded at fair value. Applicable accounting guidance prohibits carry-over or creation of valuation allowances in the initial accounting. However, subsequent decreases in the expected cash flows from the date of acquisition result in a charge to the provision for credit losses and a corresponding increase to the allowance for loan and lease losses. We subject our PCI portfolio to stress scenarios to evaluate the potential impact given certain events. A one-percent decrease in the expected cash flows could result in a \$127 million impairment of the portfolio. For each one-percent increase in the loss rates on loans collectively evaluated for impairment within our Credit Card and Other Consumer portfolio segment and U.S. small business commercial card portfolio, coupled with a one-percent decrease in the expected cash flows on those loans individually evaluated for impairment within the Credit Card and Other Consumer portfolio segment and the U.S. small business commercial card portfolio, the allowance for loan and lease losses at December 31, 2016 would have increased by \$38 million.

Our allowance for loan and lease losses is sensitive to the risk ratings assigned to loans and leases within the Commercial portfolio segment (excluding the U.S. small business commercial card portfolio). Assuming a downgrade of one level in the internal

risk ratings for commercial loans and leases, except loans and leases already risk-rated Doubtful as defined by regulatory authorities, the allowance for loan and lease losses would have increased by \$2.8 billion at December 31, 2016.

The allowance for loan and lease losses as a percentage of total loans and leases at December 31, 2016 was 1.26 percent and these hypothetical increases in the allowance would raise the ratio to 1.60 percent.

These sensitivity analyses do not represent management's expectations of the deterioration in risk ratings or the increases in loss rates but are provided as hypothetical scenarios to assess the sensitivity of the allowance for loan and lease losses to changes in key inputs. We believe the risk ratings and loss severities currently in use are appropriate and that the probability of the alternative scenarios outlined above occurring within a short period of time is remote. The process of determining the level of the allowance for credit losses requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions. For more information on the Financial Accounting Standards Board's (FASB) proposed standard on accounting for credit losses, see Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements.

Fair Value of Financial Instruments

We are, under applicable accounting guidance, required to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value. We classify fair value measurements of financial instruments based on the three-level fair value hierarchy in the guidance. We carry trading account assets and liabilities, derivative assets and liabilities, AFS debt and equity securities, other debt securities, consumer MSRs and certain other assets at fair value. Also, we account for certain loans and loan commitments, LHFS, short-term borrowings, securities financing agreements, asset-backed secured financings, long-term deposits and long-term debt under the fair value option.

The fair values of assets and liabilities may include adjustments, such as market liquidity and credit quality, where appropriate. Valuations of products using models or other techniques are sensitive to assumptions used for the significant inputs. Where market data is available, the inputs used for valuation reflect that information as of our valuation date. Inputs to valuation models are considered unobservable if they are supported by little or no market activity. In periods of extreme volatility, lessened liquidity or in illiquid markets, there may be more variability in market pricing or a lack of market data to use in the valuation process. In keeping with the prudent application of estimates and management judgment in determining the fair value of assets and liabilities, we have in place various processes and controls that include: a model validation policy that requires review and approval of quantitative models used for deal pricing, financial statement fair value determination and risk quantification; a trading product valuation policy that requires verification of all traded product valuations; and a periodic review and substantiation of daily profit and loss reporting for all traded products. Primarily through validation controls, we utilize both broker and pricing service inputs which can and do include both market-observable and internally-modeled values and/or valuation inputs. Our reliance on this information is affected by our understanding of how the broker and/or pricing service develops

its data with a higher degree of reliance applied to those that are more directly observable and lesser reliance applied to those developed through their own internal modeling. Similarly, broker quotes that are executable are given a higher level of reliance than indicative broker quotes, which are not executable. These processes and controls are performed independently of the business. For additional information, see Note 20 – Fair Value Measurements and Note 21 – Fair Value Option to the Consolidated Financial Statements.

Level 3 Assets and Liabilities

Financial assets and liabilities, and MSRs where values are based on valuation techniques that require inputs that are both unobservable and are significant to the overall fair value measurement are classified as Level 3 under the fair value hierarchy established in applicable accounting guidance. Level 3 financial assets and liabilities include certain loans, MBS, ABS, CDOs, CLOs, structured liabilities and highly structured, complex or long-dated derivative contracts and MSRs. The fair value of these Level 3 financial assets and liabilities and MSRs is determined using pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value requires significant management judgment or estimation. Total recurring Level 3 assets were \$14.5 billion, or 0.66 percent of total assets, and total recurring Level 3 liabilities were \$7.2 billion, or 0.37 percent of total liabilities, at December 31, 2016 compared to \$18.1 billion or 0.84 percent and \$7.5 billion or 0.40 percent at December 31, 2015. Level 3 financial instruments may be hedged with derivatives classified as Level 1 or 2; therefore, gains or losses associated with Level 3 financial instruments may be offset by gains or losses associated with financial instruments classified in other levels of the fair value hierarchy. The Level 3 gains and losses recorded in earnings did not have a significant impact on our liquidity or capital. We conduct a review of our fair value hierarchy classifications on a quarterly basis. Transfers into or out of Level 3 are made if the significant inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable, respectively, in the current marketplace. These transfers are considered to be effective as of the beginning of the quarter in which they occur. For more information on the significant transfers into and out of Level 3 during 2016 and 2015, see Note 20 – Fair Value Measurements to the Consolidated Financial Statements.

Accrued Income Taxes and Deferred Tax Assets

Accrued income taxes, reported as a component of either other assets or accrued expenses and other liabilities on the Consolidated Balance Sheet, represent the net amount of current income taxes we expect to pay to or receive from various taxing jurisdictions attributable to our operations to date. We currently file income tax returns in more than 100 jurisdictions and consider many factors, including statutory, judicial and regulatory guidance, in estimating the appropriate accrued income taxes for each jurisdiction.

Net deferred tax assets, reported as a component of other assets on the Consolidated Balance Sheet, represent the net decrease in taxes expected to be paid in the future because of net operating loss (NOL) and tax credit carryforwards and because of future reversals of temporary differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements. NOL and tax credit carryforwards result

in reductions to future tax liabilities, and many of these attributes can expire if not utilized within certain periods. We consider the need for valuation allowances to reduce net deferred tax assets to the amounts that we estimate are more-likely-than-not to be realized.

Consistent with the applicable accounting guidance, we monitor relevant tax authorities and change our estimates of accrued income taxes and/or net deferred tax assets due to changes in income tax laws and their interpretation by the courts and regulatory authorities. These revisions of our estimates, which also may result from our income tax planning and from the resolution of income tax audit matters, may be material to our operating results for any given period.

See Note 19 – Income Taxes to the Consolidated Financial Statements for a table of significant tax attributes and additional information. For more information, see Item 1A. Risk Factors – Regulatory, Compliance and Legal.

Goodwill and Intangible Assets

Background

The nature of and accounting for goodwill and intangible assets are discussed in Note 1 – Summary of Significant Accounting Principles and Note 8 – Goodwill and Intangible Assets to the Consolidated Financial Statements.

Goodwill is reviewed for potential impairment at the reporting unit level on an annual basis, which for the Corporation

is as of June 30, and in interim periods if events or circumstances indicate a potential impairment. A reporting unit is an operating segment or one level below.

2016 Annual Goodwill Impairment Testing

Estimating the fair value of reporting units is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, the appropriate discount rates and an applicable control premium. We determined the fair values of the reporting units using a combination of valuation techniques consistent with the market approach and the income approach and also utilized independent valuation specialists.

The market approach we used estimates the fair value of the individual reporting units by incorporating any combination of the book capital, tangible capital and earnings multiples from comparable publicly-traded companies in industries similar to the reporting unit. The relative weight assigned to these multiples varies among the reporting units based on qualitative and quantitative characteristics, primarily the size and relative profitability of the reporting unit as compared to the comparable publicly-traded companies. Since the fair values determined under the market approach are representative of a noncontrolling interest, we added a control premium to arrive at the reporting units' estimated fair values on a controlling basis.

For purposes of the income approach, we calculated discounted cash flows by taking the net present value of estimated future cash flows and an appropriate terminal value. Our discounted cash flow analysis employs a capital asset pricing model in estimating the discount rate (i.e., cost of equity financing) for each reporting unit. The inputs to this model include the risk-free rate of return, beta, which is a measure of the level of non-diversifiable risk associated with comparable companies for each specific reporting unit, market equity risk premium and in certain cases an unsystematic (company-specific) risk factor. We use our internal forecasts to estimate future cash flows and actual results may differ from forecasted results.

We completed our annual goodwill impairment test as of June 30, 2016 for all of our reporting units that had goodwill. We also evaluated the non-U.S. consumer card business within All Other, as this business comprises substantially all of the goodwill included in All Other. To determine fair value, we utilized a combination of the market approach and the income approach. Under the market approach, we compared earnings and equity multiples of the individual reporting units to multiples of public companies comparable to the individual reporting units. The control premium used in the June 30, 2016 annual goodwill impairment test was 30 percent, based upon observed comparable premiums paid for change in control transactions for financial institutions, for all reporting units. Under the income approach, we updated our assumptions to reflect the current market environment. The discount rates used in the June 30, 2016 annual goodwill impairment test ranged from 8.9 percent to 12.7 percent depending on the relative risk of a reporting unit. Cumulative average growth rates developed by management for revenues and expenses in each reporting unit ranged from negative 3.2 percent to positive 5.9 percent.

Our market capitalization remained below our recorded book value during 2016. We do not believe that our current market capitalization reflects the aggregate fair value of our individual reporting units with assigned goodwill, as our market capitalization does not include consideration of individual reporting unit control premiums. Additionally, while the impact of recent regulatory changes has been considered in the reporting units' forecasts and valuations, overall regulatory and market uncertainties persist that we believe further impact our stock price.

Based on the results of step one of the annual goodwill impairment test, we determined that step two was not required for any of the reporting units as their fair value exceeded their carrying value indicating there was no impairment. In 2015, we completed our annual goodwill impairment test as of June 30, 2015 for all of our reporting units that had goodwill. Based on the results of step one of the annual goodwill impairment test, we determined that step two was not required for any of the reporting units as their fair value exceeded their carrying value indicating there was no impairment.

Representations and Warranties Liability

The methodology used to estimate the liability for obligations under representations and warranties related to transfers of residential mortgage loans is a function of the type of representations and warranties provided in the sales contract and considers a variety of factors. Depending upon the counterparty, these factors include actual defaults, estimated future defaults, historical loss experience, estimated home prices, other economic conditions, estimated probability that we will receive a repurchase request, number of payments made by the borrower prior to default and estimated probability that we will be required to repurchase a loan. It also considers other relevant facts and circumstances, such as bulk settlements and identity of the counterparty or type of counterparty, as appropriate. The estimate of the liability for obligations under representations and warranties is based upon currently available information, significant judgment, and a number of factors, including those set forth above, that are subject to change. Changes to any one of these factors could significantly impact the estimate of our liability.

The representations and warranties provision may vary significantly each period as the methodology used to estimate the expense continues to be refined based on the level and type of repurchase requests presented, defects identified, the latest experience gained on repurchase requests and other relevant facts and circumstances. The estimate of the liability for representations and warranties is sensitive to future defaults, loss severity and the net repurchase rate. An assumed simultaneous increase or decrease of 10 percent in estimated future defaults, loss severity and the net repurchase rate would result in an increase or decrease of approximately \$250 million in the representations and warranties liability as of December 31, 2016. These sensitivities are hypothetical and are intended to provide an indication of the impact of a significant change in these key assumptions on the representations and warranties liability. In reality, changes in one assumption may result in changes in other assumptions, which may or may not counteract the sensitivity.

For more information on representations and warranties exposure and the corresponding estimated range of possible loss, see Off-Balance Sheet Arrangements and Contractual Obligations – Representations and Warranties on page 40, as well as Note 7 – Representations and Warranties Obligations and Corporate Guarantees and Note 12 – Commitments and Contingencies to the Consolidated Financial Statements.

2015 Compared to 2014

The following discussion and analysis provide a comparison of our results of operations for 2015 and 2014. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes. Table 7 and Note 24 – Business Segment Information to the Consolidated Financial Statements contain financial data to supplement this discussion.

Overview

Net Income

Net income was \$15.8 billion, or \$1.31 per diluted share in 2015 compared to \$5.5 billion, or \$0.42 per diluted share in 2014. The increase in net income for 2015 compared to 2014 was primarily driven by a decrease of \$15.2 billion in litigation expense.

Net Interest Income

Net interest income decreased \$1.8 billion to \$39.0 billion in 2015 compared to 2014. The net interest yield decreased 11 bps to 2.14 percent in 2015. These declines were primarily driven by lower loan yields and consumer loan balances, as well as a charge of \$612 million in 2015 related to the redemption of certain trust preferred securities, partially offset by lower funding costs, higher trading-related net interest income, lower rates paid on deposits and commercial loan growth.

Noninterest Income

Noninterest income was \$44.0 billion in 2015, a decrease of \$1.1 billion compared to 2014, which was driven by the following factors:

Investment banking income decreased \$493 million driven by lower debt and equity issuance fees, partially offset by higher advisory fees.

Trading account profits increased \$164 million. Excluding DVA, trading account profits decreased \$330 million driven by declines in credit-related products reflecting lower client activity, partially offset by strong performance in equity derivatives, increased client activity in equities in the Asia-Pacific region, improvement in currencies on higher client flows and increased volatility.

Mortgage banking income increased \$801 million primarily due to a benefit for representations and warranties in 2015 compared to a provision in 2014, and to a lesser extent, improved MSR net-of-hedge performance and an increase in core production revenue, partially offset by a decline in servicing fees.

Other income decreased \$1.2 billion primarily due to DVA gains of \$407 million in 2014 compared to DVA losses of \$633 million in 2015 and an \$869 million decrease in equity investment income as 2014 included a gain on the sale of a portion of an equity investment and gains from an initial public offering (IPO) of an equity investment in Global Markets. These declines were partially offset by higher gains on asset sales and lower PPI costs in 2015.

Provision for Credit Losses

The provision for credit losses was \$3.2 billion in 2015, an increase of \$886 million compared to 2014. The provision for credit losses was \$1.2 billion lower than net charge-offs for 2015, resulting in a reduction in the allowance for credit losses. The provision for credit losses in 2014 included \$400 million of additional costs associated with the consumer relief portion of the settlement with the DoJ. Excluding these additional costs, the provision for credit losses in the consumer portfolio increased \$1.1 billion compared to 2014 due to a slower pace of portfolio improvement, and also due to a lower level of recoveries on nonperforming loan sales and other recoveries in 2015. The provision for credit losses for the commercial portfolio increased \$160 million in 2015 compared to 2014 driven by energy sector exposure.

Net charge-offs totaled \$4.3 billion, or 0.50 percent of average loans and leases in 2015 compared to \$4.4 billion, or 0.49 percent

in 2014. The decrease in net charge-offs was primarily due to credit quality improvement in the consumer portfolio, partially offset by higher net charge-offs in the commercial portfolio primarily due to lower net recoveries in commercial real estate and higher energy-related net charge-offs.

Noninterest Expense

Noninterest expense was \$57.7 billion in 2015, a decrease of \$17.9 billion compared to 2014, primarily driven by a decrease of \$15.2 billion in litigation expense as well as the following factors:

Personnel expense decreased \$919 million as we continue to streamline processes, reduce headcount and achieve cost savings.

Occupancy decreased \$167 million primarily due to our focus on reducing our rental footprint.

Professional fees decreased \$208 million due to lower default-related servicing expenses and legal fees.

Telecommunications expense decreased \$436 million due to efficiencies gained as we have simplified our operating model, including in-sourcing certain functions.

Other general operating expense decreased \$16.0 billion primarily due to a decrease of \$15.2 billion in litigation expense which was primarily related to previously disclosed legacy mortgage-related matters and other litigation charges in 2014.

Income Tax Expense

The income tax expense was \$6.2 billion on pretax income of \$22.1 billion in 2015 compared to income tax expense of \$2.4 billion on pretax income of \$8.0 billion in 2014. The effective tax rate for 2015 was 28.2 percent and was driven by our recurring tax preferences and tax benefits related to certain non-U.S. restructurings, partially offset by a \$290 million charge for the impact of the U.K. tax law changes.

The effective tax rate for 2014 was 30.7 percent and was driven by our recurring tax preference benefits, the resolution of several tax examinations and tax benefits from non-U.S. restructurings, partially offset by the non-deductible treatment of certain litigation charges.

Business Segment Operations

Consumer Banking

Consumer Banking recorded net income of \$6.6 billion in 2015 compared to \$6.3 billion in 2014 with the increase primarily driven by lower noninterest expense, lower provision for credit losses and higher noninterest income, partially offset by lower net interest income. Net interest income decreased \$362 million to \$20.4 billion in 2015 as the beneficial impact of an increase in investable assets as a result of higher deposit balances was more than offset by the impact of the allocation of ALM activities, higher funding costs, lower card yields and lower average card loan balances. Noninterest income increased \$59 million to \$11.1 billion in 2015 primarily driven by higher card income and the impact on revenue of certain divestitures, partially offset by lower mortgage banking income and service charges. The provision for credit losses decreased \$124 million to \$2.3 billion in 2015 driven by continued improvement in credit quality primarily related to our small business and credit card portfolios. Noninterest expense decreased \$674 million to \$18.7 billion in 2015 primarily driven by lower operating and personnel expenses, partially offset by higher fraud costs in advance of EMV chip implementation.

Global Wealth & Investment Management

GWIM recorded net income of \$2.6 billion in 2015 compared to \$2.9 billion in 2014 with the decrease driven by a decrease in revenue and increases in noninterest expense and the provision for credit losses. Net interest income decreased \$303 million to \$5.5 billion in 2015 due to the impact of the allocation of ALM activities, partially offset by the impact of loan and deposit growth. Noninterest income, primarily investment and brokerage services, decreased \$66 million to \$12.5 billion in 2015 driven by lower transactional revenue, partially offset by increased asset management fees due to the impact of long-term AUM flows and higher average market levels. Noninterest expense increased \$107 million to \$13.9 billion in 2015 primarily due to higher amortization of previously issued stock awards and investments in client-facing professionals, partially offset by lower revenue-related expenses.

Global Banking

Global Banking recorded net income of \$5.3 billion in 2015 compared to \$5.8 billion in 2014 with the decrease primarily driven by lower revenue and higher provision for credit losses, partially offset by lower noninterest expense. Revenue decreased \$645 million to \$17.6 billion in 2015 primarily due to lower net interest income. The decline in net interest income reflects the impact of the allocation of the ALM activities, including liquidity costs as well as loan spread compression, partially offset by loan growth. The provision for credit losses increased \$361 million to \$686 million in 2015 driven by energy exposure and loan growth. Noninterest expense decreased \$325 million to \$8.5 billion in 2015 primarily due to lower litigation expense and technology initiative costs.

Global Markets

Global Markets recorded net income of \$2.4 billion in 2015 compared to \$2.6 billion in 2014. Excluding net DVA, net income increased \$170 million to \$2.9 billion in 2015 primarily driven by lower noninterest expense and lower tax expense, partially offset by lower revenue. Revenue, excluding net DVA, decreased due to lower trading account profits from declines in credit-related businesses, lower investment banking fees and lower equity investment gains as 2014 included gains related to the IPO of an equity investment, partially offset by an increase in net interest income. Net DVA losses were \$786 million in 2015 compared to losses of \$240 million in 2014. Noninterest expense decreased \$615 million to \$11.4 billion in 2015 largely due to lower litigation expense and, to a lesser extent, lower revenue-related incentive compensation and support costs.

All Other

All Other recorded a net loss of \$1.1 billion in 2015 compared to a net loss of \$12.0 billion in 2014 with the improvement primarily driven by a \$15.2 billion decrease in litigation expense, which is included in noninterest expense, as well as an \$862 million increase in mortgage banking income, primarily due to lower representations and warranties provision. These were partially offset by a \$950 million decrease in net interest income primarily driven by a \$612 million charge in 2015 related to the discount on certain trust preferred securities.

Statistical
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Table I Average Balances and Interest Rates – FTE Basis

(Dollars in millions)	2016 Average Balance	Interest Income/ Expense	Yield/ Rate	2015 Average Balance	Interest Income/ Expense	Yield/ Rate	2014 Average Balance	Interest Income/ Expense	Yield/ Rate
Earning assets									
Interest-bearing deposits with the Federal Reserve, non-U.S. central banks and other banks	\$133,374	\$605	0.45 %	\$136,391	\$369	0.27 %	\$113,999	\$308	0.27 %
Time deposits placed and other short-term investments	9,026	140	1.55	9,556	146	1.53	11,032	170	1.54
Federal funds sold and securities borrowed or purchased under agreements to resell	216,161	1,118	0.52	211,471	988	0.47	222,483	1,039	0.47
Trading account assets	129,766	4,563	3.52	137,837	4,547	3.30	145,686	4,716	3.24
Debt securities ⁽¹⁾	418,289	9,263	2.23	390,849	9,233	2.38	351,437	9,051	2.57
Loans and leases ⁽²⁾ :									
Residential mortgage	188,250	6,488	3.45	201,366	6,967	3.46	237,270	8,462	3.57
Home equity	71,760	2,713	3.78	81,070	2,984	3.68	89,705	3,340	3.72
U.S. credit card	87,905	8,170	9.29	88,244	8,085	9.16	88,962	8,313	9.34
Non-U.S. credit card	9,527	926	9.72	10,104	1,051	10.40	11,511	1,200	10.42
Direct/Indirect consumer ⁽³⁾	91,853	2,296	2.50	84,585	2,040	2.41	82,409	2,099	2.55
Other consumer ⁽⁴⁾	2,295	75	3.26	1,938	56	2.86	2,029	139	6.86
Total consumer	451,590	20,668	4.58	467,307	21,183	4.53	511,886	23,553	4.60
U.S. commercial	276,887	8,101	2.93	248,354	6,883	2.77	230,172	6,630	2.88
Commercial real estate ⁽⁵⁾	57,547	1,773	3.08	52,136	1,521	2.92	47,525	1,432	3.01
Commercial lease financing	21,146	627	2.97	19,802	628	3.17	19,226	658	3.42
Non-U.S. commercial	93,263	2,337	2.51	89,188	2,008	2.25	89,894	2,196	2.44
Total commercial	448,843	12,838	2.86	409,480	11,040	2.70	386,817	10,916	2.82
Total loans and leases ⁽¹⁾	900,433	33,506	3.72	876,787	32,223	3.68	898,703	34,469	3.84
Other earning assets	59,775	2,762	4.62	62,040	2,890	4.66	66,128	2,812	4.25
Total earning assets ⁽⁶⁾	1,866,824	51,957	2.78	1,824,931	50,396	2.76	1,809,468	52,565	2.90
Cash and due from banks ⁽¹⁾	27,893			28,921			27,079		
Other assets, less allowance for loan and lease losses ⁽¹⁾	295,254			306,345			308,846		
Total assets	\$2,189,971			\$2,160,197			\$2,145,393		
Interest-bearing liabilities									
U.S. interest-bearing deposits:									
Savings	\$49,495	\$5	0.01 %	\$46,498	\$7	0.01 %	\$46,270	\$3	0.01 %
	589,737	294	0.05	543,133	273	0.05	518,893	316	0.06

NOW and money market
deposit accounts

Consumer CDs and IRAs	48,594	133	0.27	54,679	162	0.30	66,797	264	0.40
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Negotiable CDs, public funds and other deposits	32,889	160	0.49	29,976	95	0.32	31,507	108	0.34
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Total U.S. interest-bearing deposits	720,715	592	0.08	674,286	537	0.08	663,467	691	0.10
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Non-U.S. interest-bearing
deposits:

Banks located in non-U.S. countries	3,891	32	0.82	4,473	31	0.70	8,744	61	0.69
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Governments and official institutions	1,437	9	0.64	1,492	5	0.33	1,740	2	0.14
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Time, savings and other	59,183	382	0.65	54,767	288	0.53	60,729	326	0.54
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Total non-U.S. interest-bearing deposits	64,511	423	0.66	60,732	324	0.53	71,213	389	0.55
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Total interest-bearing deposits	785,226	1,015	0.13	735,018	861	0.12	734,680	1,080	0.15
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Federal funds purchased, securities loaned or sold under agreements to repurchase and short-term borrowings	213,258	2,350	1.10	246,295	2,387	0.97	257,678	2,579	1.00
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Trading account liabilities	72,779	1,018	1.40	76,772	1,343	1.75	87,152	1,576	1.81
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Long-term debt ⁽⁷⁾	228,617	5,578	2.44	240,059	5,958	2.48	253,607	5,700	2.25
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Total interest-bearing liabilities ⁽⁶⁾	1,299,880	9,961	0.77	1,298,144	10,549	0.81	1,333,117	10,935	0.82
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Noninterest-bearing
sources:

Noninterest-bearing deposits	437,335			420,842			389,527		
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Other liabilities	186,479			189,230			184,432		
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Shareholders' equity	266,277			251,981			238,317		
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Total liabilities and shareholders' equity	\$2,189,971			\$2,160,197			\$2,145,393		
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Net interest spread			2.01 %			1.95 %			2.08 %
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Impact of noninterest-bearing sources			0.24			0.24			0.22
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Net interest income/yield on earning assets		\$41,996	2.25 %		\$39,847	2.19 %		\$41,630	2.30 %
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(1) Includes assets of the Corporation's non-U.S. consumer credit card business, which are included in assets of business held for sale on the Consolidated Balance Sheet at December 31, 2016.

Nonperforming loans are included in the respective average loan balances. Income on these nonperforming loans is

(2) generally recognized on a cost recovery basis. PCI loans were recorded at fair value upon acquisition and accrete interest income over the estimated life of the loan.

(3) Includes non-U.S. consumer loans of \$3.4 billion, \$4.0 billion and \$4.4 billion in 2016, 2015 and 2014, respectively.

Includes consumer finance loans of \$514 million, \$619 million and \$1.1 billion; consumer leases of \$1.6 billion,

(4) \$1.2 billion and \$819 million, and consumer overdrafts of \$173 million, \$156 million and \$149 million in 2016, 2015 and 2014, respectively.

(5)

Includes U.S. commercial real estate loans of \$54.2 billion, \$49.0 billion and \$46.0 billion, and non-U.S. commercial real estate loans of \$3.4 billion, \$3.1 billion and \$1.6 billion in 2016, 2015 and 2014, respectively.

Interest income includes the impact of interest rate risk management contracts, which decreased interest income on the underlying assets by \$176 million, \$59 million and \$58 million in 2016, 2015 and 2014, respectively. Interest (6) expense includes the impact of interest rate risk management contracts, which decreased interest expense on the underlying liabilities by \$2.1 billion, \$2.4 billion and \$2.5 billion in 2016, 2015 and 2014, respectively. For additional information, see Interest Rate Risk Management for the Banking Book on page 84.

The yield on long-term debt excluding the \$612 million adjustment related to the redemption of certain trust (7) preferred securities was 2.23 percent for 2015. For more information, see Note 11 – Long-term Debt to the Consolidated Financial Statements. The yield on long-term debt excluding the adjustment is a non-GAAP financial measure.

Table II Analysis of Changes in Net Interest Income – FTE Basis

(Dollars in millions)	From 2015 to 2016			From 2014 to 2015		
	Due to Change in (1)			Due to Change in (1)		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Increase (decrease) in interest income						
Interest-bearing deposits with the Federal Reserve, non-U.S. central banks and other banks	\$(9)	\$245	\$236	\$60	\$1	\$61
Time deposits placed and other short-term investments	(8)	2	(6)	(23)	(1)	(24)
Federal funds sold and securities borrowed or purchased under agreements to resell	28	102	130	(45)	(6)	(51)
Trading account assets	(265)	281	16	(250)	81	(169)
Debt securities	722	(692)	30	994	(812)	182
Loans and leases:						
Residential mortgage	(454)	(25)	(479)	(1,273)	(222)	(1,495)
Home equity	(343)	72	(271)	(324)	(32)	(356)
U.S. credit card	(33)	118	85	(71)	(157)	(228)
Non-U.S. credit card	(60)	(65)	(125)	(147)	(2)	(149)
Direct/Indirect consumer	174	82	256	58	(117)	(59)
Other consumer	10	9	19	(6)	(77)	(83)
Total consumer			(515)			(2,370)
U.S. commercial	787	431	1,218	523	(270)	253
Commercial real estate	159	93	252	137	(48)	89
Commercial lease financing	42	(43)	(1)	19	(49)	(30)
Non-U.S. commercial	90	239	329	(20)	(168)	(188)
Total commercial			1,798			124
Total loans and leases			1,283			(2,246)
Other earning assets	(104)	(24)	(128)	(175)	253	78
Total interest income			\$1,561			\$(2,169)
Increase (decrease) in interest expense						
U.S. interest-bearing deposits:						
Savings	\$(2)	\$—	\$(2)	\$2	\$2	\$4
NOW and money market deposit accounts	22	(1)	21	10	(53)	(43)
Consumer CDs and IRAs	(16)	(13)	(29)	(45)	(57)	(102)
Negotiable CDs, public funds and other deposits	10	55	65	(6)	(7)	(13)
Total U.S. interest-bearing deposits			55			(154)
Non-U.S. interest-bearing deposits:						
Banks located in non-U.S. countries	(4)	5	1	(30)	—	(30)
Governments and official institutions	—	4	4	—	3	3
Time, savings and other	26	68	94	(30)	(8)	(38)
Total non-U.S. interest-bearing deposits			99			(65)
Total interest-bearing deposits			154			(219)
Federal funds purchased, securities loaned or sold under agreements to repurchase and short-term borrowings	(318)	281	(37)	(116)	(76)	(192)
Trading account liabilities	(69)	(256)	(325)	(186)	(47)	(233)
Long-term debt	(288)	(92)	(380)	(299)	557	258

Total interest expense	(588)	(386)
Net increase (decrease) in net interest income	\$2,149	\$(1,783)

The changes for each category of interest income and expense are divided between the portion of change
⁽¹⁾ attributable to the variance in volume and the portion of change attributable to the variance in rate for that
category. The unallocated change in rate or volume variance is allocated between the rate and volume variances.

Table III Preferred Stock Cash Dividend Summary ⁽¹⁾

Preferred Stock	December 31, 2016 Outstanding Notional Amount (in millions)	Declaration Date	Record Date	Payment Date	Per Annum Dividend Rate	Dividend Per Share
Series B ⁽²⁾	\$ 1	January 26, 2017	April 11, 2017	April 25, 2017	7.00	% \$1.75
		October 27, 2016	January 11, 2017	January 25, 2017	7.00	1.75
		July 27, 2016	October 11, 2016	October 25, 2016	7.00	1.75
		April 27, 2016	July 11, 2016	July 25, 2016	7.00	1.75
		January 21, 2016	April 11, 2016	April 25, 2016	7.00	1.75
Series D ⁽³⁾	\$ 654	January 9, 2017	February 28, 2017	March 14, 2017	6.204	% \$0.38775
		October 10, 2016	November 30, 2016	December 14, 2016	6.204	0.38775
		July 7, 2016	August 31, 2016	September 14, 2016	6.204	0.38775
		April 15, 2016	May 31, 2016	June 14, 2016	6.204	0.38775
		January 11, 2016	February 29, 2016	March 14, 2016	6.204	0.38775
Series E ⁽³⁾	\$ 317	January 9, 2017	January 31, 2017	February 15, 2017	Floating	\$0.25556
		October 10, 2016	October 31, 2016	November 15, 2016	Floating	0.25556
		July 7, 2016	July 29, 2016	August 15, 2016	Floating	0.25556
		April 15, 2016	April 29, 2016	May 16, 2016	Floating	0.25000
		January 11, 2016	January 29, 2016	February 16, 2016	Floating	0.25556
Series F	\$ 141	January 9, 2017	February 28, 2017	March 15, 2017	Floating	\$1,000.00
		October 10, 2016	November 30, 2016	December 15, 2016	Floating	1,011.11111
		July 7, 2016	August 31, 2016	September 15, 2016	Floating	1,022.22222
		April 15, 2016	May 31, 2016	June 15, 2016	Floating	1,022.22222
		January 11, 2016	February 29, 2016	March 15, 2016	Floating	1,011.11111
Series G	\$ 493	January 9, 2017	February 28, 2017	March 15, 2017	Adjustable	\$1,000.00
		October 10, 2016	November 30, 2016	December 15, 2016	Adjustable	1,011.11111
		July 7, 2016	August 31, 2016	September 15, 2016	Adjustable	1,022.22222
		April 15, 2016	May 31, 2016	June 15, 2016	Adjustable	1,022.22222
		January 11, 2016	February 29, 2016	March 15, 2016	Adjustable	1,011.11111

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Series I ⁽³⁾	\$ 365	January 9, 2017	March 15, 2017	April 3, 2017	6.625	%	\$0.4140625
		October 10, 2016	December 15, 2016	January 3, 2017	6.625		0.4140625
		July 7, 2016	September 15, 2016	October 3, 2016	6.625		0.4140625
		April 15, 2016	June 15, 2016	July 1, 2016	6.625		0.4140625
Series K ^(4, 5)	\$ 1,544	January 11, 2016	March 15, 2016	April 1, 2016	6.625		0.4140625
		January 9, 2017	January 15, 2017	January 30, 2017	Fixed-to-floating		\$40.00
		July 7, 2016	July 15, 2016	August 1, 2016	Fixed-to-floating		40.00
		January 11, 2016	January 15, 2016	February 1, 2016	Fixed-to-floating		40.00
Series L	\$ 3,080	December 16, 2016	January 1, 2017	January 30, 2017	7.25	%	\$ 18.125
		September 16, 2016	October 1, 2016	October 31, 2016	7.25		18.125
		June 17, 2016	July 1, 2016	August 1, 2016	7.25		18.125
		March 18, 2016	April 1, 2016	May 2, 2016	7.25		18.125
Series M ^(4, 5)	\$ 1,310	October 10, 2016	October 31, 2016	November 15, 2016	Fixed-to-floating		\$40.625
		April 15, 2016	April 30, 2016	May 16, 2016	Fixed-to-floating		40.625
Series T	\$ 5,000	January 26, 2017	March 26, 2017	April 10, 2017	6.00	%	\$ 1,500.00
		October 27, 2016	December 26, 2016	January 10, 2017	6.00		1,500.00
		July 27, 2016	September 25, 2016	October 11, 2016	6.00		1,500.00
		April 27, 2016	June 25, 2016	July 11, 2016	6.00		1,500.00
Series U ^(4, 5)	\$ 1,000	January 21, 2016	March 26, 2016	April 11, 2016	6.00		1,500.00
		October 10, 2016	November 15, 2016	December 1, 2016	Fixed-to-floating		\$26.00
Series V ^(4, 5)	\$ 1,500	April 15, 2016	May 15, 2016	June 1, 2016	Fixed-to-floating		26.00
		October 10, 2016	December 1, 2016	December 19, 2016	Fixed-to-floating		\$25.625
Series W ⁽³⁾	\$ 1,100	April 15, 2016	June 1, 2016	June 17, 2016	Fixed-to-floating		25.625
		January 9, 2017	February 15, 2017	March 9, 2017	6.625	%	\$0.4140625
		October 10, 2016	November 15, 2016	December 9, 2016	6.625		0.4140625
		July 7, 2016	August 15, 2016	September 9, 2016	6.625		0.4140625
Series X ^(4, 5)	\$ 2,000	April 15, 2016	May 15, 2016	June 9, 2016	6.625		0.4140625
		January 11, 2016	February 15, 2016	March 9, 2016	6.625		0.4140625
		January 9, 2017	February 15, 2017	March 6, 2017	Fixed-to-floating		\$31.25
		July 7, 2016	August 15, 2016	September 6, 2016	Fixed-to-floating		31.25
Series Y ⁽³⁾	\$ 1,100	January 11, 2016	February 15, 2016	March 7, 2016	Fixed-to-floating		31.25
		December 16, 2016	January 1, 2017	January 27, 2017	6.50	%	\$0.40625
		September 16, 2016	October 1, 2016	October 27, 2016	6.50		0.40625

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Series Z ^(4, 5) \$ 1,400	June 17, 2016	July 1, 2016	July 27, 2016	6.50	0.40625
	March 18, 2016	April 1, 2016	April 27, 2016	6.50	0.40625
	September 16, 2016	October 1, 2016	October 24, 2016	Fixed-to-floating	\$32.50
	March 18, 2016	April 1, 2016	April 25, 2016	Fixed-to-floating	32.50

For footnotes see next page.

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Table III Preferred Stock Cash Dividend Summary ⁽¹⁾ (continued)

Preferred Stock	December 31, 2016 Outstanding Notional Amount (in millions)	Declaration Date	Record Date	Payment Date	Per Annum Dividend Rate	Dividend Per Share
Series AA ^(4, 5)	\$ 1,900	January 9, 2017	March 1, 2017	March 17, 2017	Fixed-to-floating	\$30.50
		July 7, 2016	September 1, 2016	September 19, 2016	Fixed-to-floating	30.50
		January 11, 2016	March 1, 2016	March 17, 2016	Fixed-to-floating	30.50
Series CC ⁽³⁾	\$ 1,100	December 16, 2016	January 1, 2017	January 30, 2017	6.20	% \$0.3875
		September 16, 2016	October 1, 2016	October 31, 2016	6.20	0.3875
		June 17, 2016	July 1, 2016	July 29, 2016	6.20	0.3875
		March 18, 2016	April 1, 2016	April 29, 2016	6.20	0.3875
Series DD ^(4, 5)	\$ 1,000	January 9, 2017	February 15, 2017	March 10, 2017	Fixed-to-floating	\$31.50
		July 7, 2016	August 15, 2016	September 12, 2016	Fixed-to-floating	31.50
Series EE ⁽³⁾	\$ 900	December 16, 2016	January 1, 2017	January 25, 2017	6.00	% \$0.375
		September 16, 2016	October 1, 2016	October 25, 2016	6.00	0.375
		June 17, 2016	July 1, 2016	July 25, 2016	6.00	0.375
Series 1 ⁽⁶⁾	\$ 98	January 9, 2017	February 15, 2017	February 28, 2017	Floating	\$0.18750
		October 10, 2016	November 15, 2016	November 28, 2016	Floating	0.18750
		July 7, 2016	August 15, 2016	August 30, 2016	Floating	0.18750
		April 15, 2016	May 15, 2016	May 31, 2016	Floating	0.18750
		January 11, 2016	February 15, 2016	February 29, 2016	Floating	0.18750
Series 2 ⁽⁶⁾	\$ 299	January 9, 2017	February 15, 2017	February 28, 2017	Floating	\$0.19167
		October 10, 2016	November 15, 2016	November 28, 2016	Floating	0.19167
		July 7, 2016	August 15, 2016	August 30, 2016	Floating	0.19167
		April 15, 2016	May 15, 2016	May 31, 2016	Floating	0.18750
		January 11, 2016	February 15, 2016	February 29, 2016	Floating	0.19167
Series 3 ⁽⁶⁾	\$ 653	January 9, 2017	February 15, 2017	February 28, 2017	6.375	% \$0.3984375
		October 10, 2016	November 15, 2016	November 28, 2016	6.375	0.3984375

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		July 7, 2016	August 15, 2016	August 29, 2016	6.375	0.3984375
		April 15, 2016	May 15, 2016	May 31, 2016	6.375	0.3984375
		January 11, 2016	February 15, 2016	February 29, 2016	6.375	0.3984375
Series 4 ⁽⁶⁾	\$ 210	January 9, 2017	February 15, 2017	February 28, 2017	Floating	\$0.25556
		October 10, 2016	November 15, 2016	November 28, 2016	Floating	0.25556
		July 7, 2016	August 15, 2016	August 30, 2016	Floating	0.25556
		April 15, 2016	May 15, 2016	May 31, 2016	Floating	0.25000
		January 11, 2016	February 15, 2016	February 29, 2016	Floating	0.25556
Series 5 ⁽⁶⁾	\$ 422	January 9, 2017	February 1, 2017	February 21, 2017	Floating	\$0.25556
		October 10, 2016	November 1, 2016	November 21, 2016	Floating	0.25556
		July 7, 2016	August 1, 2016	August 22, 2016	Floating	0.25556
		April 15, 2016	May 1, 2016	May 23, 2016	Floating	0.25000
		January 11, 2016	February 1, 2016	February 22, 2016	Floating	0.25556

(1) Preferred stock cash dividend summary is as of February 23, 2017.

(2) Dividends are cumulative.

(3) Dividends per depositary share, each representing a 1/1,000th interest in a share of preferred stock.

(4) Initially pays dividends semi-annually.

(5) Dividends per depositary share, each representing a 1/25th interest in a share of preferred stock.

(6) Dividends per depositary share, each representing a 1/1,200th interest in a share of preferred stock.

Table IV Outstanding Loans and Leases

(Dollars in millions)	December 31				
	2016	2015	2014	2013	2012
Consumer					
Residential mortgage ⁽¹⁾	\$191,797	\$187,911	\$216,197	\$248,066	\$252,929
Home equity	66,443	75,948	85,725	93,672	108,140
U.S. credit card	92,278	89,602	91,879	92,338	94,835
Non-U.S. credit card	9,214	9,975	10,465	11,541	11,697
Direct/Indirect consumer ⁽²⁾	94,089	88,795	80,381	82,192	83,205
Other consumer ⁽³⁾	2,499	2,067	1,846	1,977	1,628
Total consumer loans excluding loans accounted for under the fair value option	456,320	454,298	486,493	529,786	552,434
Consumer loans accounted for under the fair value option ⁽⁴⁾	1,051	1,871	2,077	2,164	1,005
Total consumer	457,371	456,169	488,570	531,950	553,439
Commercial					
U.S. commercial ⁽⁵⁾	283,365	265,647	233,586	225,851	209,719
Commercial real estate ⁽⁶⁾	57,355	57,199	47,682	47,893	38,637
Commercial lease financing	22,375	21,352	19,579	25,199	23,843
Non-U.S. commercial	89,397	91,549	80,083	89,462	74,184
Total commercial loans excluding loans accounted for under the fair value option	452,492	435,747	380,930	388,405	346,383
Commercial loans accounted for under the fair value option ⁽⁴⁾	6,034	5,067	6,604	7,878	7,997
Total commercial	458,526	440,814	387,534	396,283	354,380
Less: Loans of business held for sale ⁽⁷⁾	(9,214)				