

BANK OF AMERICA CORP /DE/
Form 10-Q
May 07, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2010

or

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

EXCHANGE ACT OF 1934

For the transition period from to

Commission file number:

1-6523

Exact Name of Registrant as Specified in its Charter:

Bank of America Corporation

State or Other Jurisdiction of Incorporation or Organization:

Delaware

IRS Employer Identification Number:

56-0906609

Address of Principal Executive Offices:

Bank of America Corporate Center

100 N. Tryon Street

Charlotte, North Carolina 28255

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Registrant's telephone number, including area code:

(704) 386-5681

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

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

Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

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 Exchange Act Rule 12b-2).

Yes ☐ No ☐

On April 30, 2010, there were 10,032,945,667 shares of Bank of America Corporation Common Stock outstanding.

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Table of Contents**Part 1. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****Bank of America Corporation and Subsidiaries****Consolidated Statement of Income****Three Months Ended March 31**

(Dollars in millions, except per share information)	2010	2009
Interest income		
Interest and fees on loans and leases	\$ 13,475	\$ 13,349
Interest on debt securities	3,116	3,830
Federal funds sold and securities borrowed or purchased under agreements to resell	448	1,155
Trading account assets	1,743	2,428
Other interest income	1,097	1,394
Total interest income	19,879	22,156
Interest expense		
Deposits	1,122	2,543
Short-term borrowings	818	2,221
Trading account liabilities	660	579
Long-term debt	3,530	4,316
Total interest expense	6,130	9,659
Net interest income	13,749	12,497
Noninterest income		
Card income	1,976	2,865
Service charges	2,566	2,533
Investment and brokerage services	3,025	2,963
Investment banking income	1,240	1,055
Equity investment income	625	1,202
Trading account profits	5,236	5,201
Mortgage banking income	1,500	3,314
Insurance income	715	688
Gains on sales of debt securities	734	1,498
Other income	1,204	2,313
Other-than-temporary impairment losses on available-for-sale debt securities:		
Total other-than-temporary impairment losses	(1,819)	(714)
Less: Portion of other-than-temporary impairment losses recognized in other comprehensive income	1,218	343
Net impairment losses recognized in earnings on available-for-sale debt securities	(601)	(371)
Total noninterest income	18,220	23,261
Total revenue, net of interest expense	31,969	35,758
Provision for credit losses	9,805	13,380
Noninterest expense		
Personnel	9,158	8,768
Occupancy	1,172	1,128
Equipment	613	622
Marketing	487	521
Professional fees	517	405

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Amortization of intangibles	446	520
Data processing	648	648
Telecommunications	330	327
Other general operating	3,883	3,298
Merger and restructuring charges	521	765
Total noninterest expense	17,775	17,002
Income before income taxes	4,389	5,376
Income tax expense	1,207	1,129
Net income	\$ 3,182	\$ 4,247
Preferred stock dividends	348	1,433
Net income applicable to common shareholders	\$ 2,834	\$ 2,814
Per common share information		
Earnings	\$ 0.28	\$ 0.44
Diluted earnings	0.28	0.44
Dividends paid	0.01	0.01
Average common shares issued and outstanding (in thousands)	9,177,468	6,370,815
Average diluted common shares issued and outstanding (in thousands)	10,005,254	6,393,407

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries		
Consolidated Balance Sheet		
	March 31	December 31
(Dollars in millions)	2010	2009
Assets		
Cash and cash equivalents	\$ 144,794	\$ 121,339
Time deposits placed and other short-term investments	20,256	24,202
Federal funds sold and securities borrowed or purchased under agreements to resell (includes \$71,300 and \$57,775 measured at fair value and \$191,346 and \$189,844 pledged as collateral)	197,038	189,933
Trading account assets (includes \$39,131 and \$30,921 pledged as collateral)	206,018	182,206
Derivative assets	77,577	80,689
Debt securities:		
Available-for-sale (includes \$141,111 and \$122,708 pledged as collateral)	316,020	301,601
Held-to-maturity, at cost (fair value \$340 and \$9,684)	340	9,840
Total debt securities	316,360	311,441
Loans and leases (includes \$4,087 and \$4,936 measured at fair value and \$106,464 and \$118,113 pledged as collateral)	976,042	900,128
Allowance for loan and lease losses	(46,835)	(37,200)
Loans and leases, net of allowance	929,207	862,928
Premises and equipment, net	15,147	15,500
Mortgage servicing rights (includes \$18,842 and \$19,465 measured at fair value)	19,146	19,774
Goodwill	86,305	86,314
Intangible assets	11,548	12,026
Loans held-for-sale (includes \$25,387 and \$32,795 measured at fair value)	35,386	43,874
Customer and other receivables	83,636	81,996
Other assets (includes \$63,070 and \$55,909 measured at fair value)	196,282	191,077
Total assets	\$ 2,338,700	\$ 2,223,299
Assets of consolidated VIEs included in total assets above (substantially all pledged as collateral)		
Trading account assets	\$ 11,826	
Derivative assets	4,194	
Available-for-sale debt securities	12,074	
Loans and leases	129,432	
Allowance for loan and lease losses	(11,140)	
Loans and leases, net of allowance	118,292	
Loans held-for-sale	5,471	
All other assets	9,637	
Total assets of consolidated VIEs	\$ 161,494	

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries		
Consolidated Balance Sheet (continued)		
	March 31	December 31
(Dollars in millions)	2010	2009
Liabilities		
Deposits in domestic offices:		
Noninterest-bearing	\$ 255,470	\$ 269,615
Interest-bearing (includes \$1,717 and \$1,663 measured at fair value)	643,943	640,789
Deposits in foreign offices:		
Noninterest-bearing	5,614	5,489
Interest-bearing	71,075	75,718
Total deposits	976,102	991,611
Federal funds purchased and securities loaned or sold under agreements to repurchase (includes \$46,479 and \$37,325 measured at fair value)	270,601	255,185
Trading account liabilities	82,532	65,432
Derivative liabilities	46,927	43,728
Commercial paper and other short-term borrowings (includes \$7,021 and \$813 measured at fair value)	85,406	69,524
Accrued expenses and other liabilities (includes \$25,991 and \$19,015 measured at fair value and \$1,521 and \$1,487 of reserve for unfunded lending commitments)	135,656	127,854
Long-term debt (includes \$48,401 and \$45,451 measured at fair value)	511,653	438,521
Total liabilities	2,108,877	1,991,855
Commitments and contingencies (<i>Note 8 Securitizations and Other Variable Interest Entities and Note 11 Commitments and Contingencies</i>)		
Shareholders' equity		
Preferred stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 3,960,660 and 5,246,660 shares	17,964	37,208
Common stock and additional paid-in capital, \$0.01 par value; authorized 11,300,000,000 and 10,000,000,000 shares; issued and outstanding 10,032,001,150 and 8,650,243,926 shares	149,048	128,734
Retained earnings	67,811	71,233
Accumulated other comprehensive income (loss)	(4,929)	(5,619)
Other	(71)	(112)
Total shareholders' equity	229,823	231,444
Total liabilities and shareholders' equity	\$ 2,338,700	\$ 2,223,299
Liabilities of consolidated VIEs included in total liabilities above		
Commercial paper and other short-term borrowings (includes \$14,490 of non-recourse liabilities)	\$ 21,631	
Long-term debt (includes \$86,023 of non-recourse debt)	90,329	
All other liabilities (includes \$2,561 of non-recourse liabilities)	5,135	
Total liabilities of consolidated VIEs	\$ 117,095	

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries								
Consolidated Statement of Changes in Shareholders' Equity								
	Common Stock and Additional Paid-in			Accumulated Other Comprehensive Income (Loss)		Total Shareholders' Equity		Comprehensive Income (Loss)
(Dollars in millions, shares in thousands)	Preferred Stock	Capital Shares	Amount	Retained Earnings	Income (Loss)	Other	Equity	(Loss)
Balance, December 31, 2008	\$ 37,701	5,017,436	\$ 76,766	\$ 73,823	\$ (10,825)	\$ (413)	\$ 177,052	
Cumulative adjustment for accounting change								
Other-than-temporary impairments on debt securities				71	(71)		-	
Net income				4,247			4,247	\$ 4,247
Net change in available-for-sale debt and marketable equity securities					(811)		(811)	(811)
Net change in foreign currency translation adjustments					66		66	66
Net change in derivatives					412		412	412
Employee benefit plan adjustments					65		65	65
Dividends paid:								
Common				(64)			(64)	
Preferred				(1,033)			(1,033)	
Issuance of preferred stock and stock warrants	26,800		3,200				30,000	
Stock issued in acquisition	8,605	1,375,476	20,504				29,109	
Common stock issued under employee plans and related tax effects		8,038	394			108	502	
Other	171			(167)			4	
Balance, March 31, 2009	\$ 73,277	6,400,950	\$ 100,864	\$ 76,877	\$ (11,164)	\$ (305)	\$ 239,549	\$ 3,979
Balance, December 31, 2009	\$ 37,208	8,650,244	\$ 128,734	\$ 71,233	\$ (5,619)	\$ (112)	\$ 231,444	
Cumulative adjustment for accounting change								
Consolidation of certain variable interest entities				(6,154)	(116)		(6,270)	\$ (116)
Net income				3,182			3,182	3,182
Net change in available-for-sale debt and marketable equity securities					944		944	944
Net change in foreign currency translation adjustments					(43)		(43)	(43)
Net change in derivatives					(161)		(161)	(161)
Employee benefit plan adjustments					66		66	66
Dividends paid:								
Common				(102)			(102)	
Preferred				(348)			(348)	
Common stock issued under employee plans and related tax effects		95,757	1,070			36	1,106	
Common Equivalent Securities conversion	(19,244)	1,286,000	19,244				-	
Other						5	5	
Balance, March 31, 2010	\$ 17,964	10,032,001	\$ 149,048	\$ 67,811	\$ (4,929)	\$ (71)	\$ 229,823	\$ 3,872

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**Bank of America Corporation and Subsidiaries****Consolidated Statement of Cash Flows**

	Three Months Ended March 31	
(Dollars in millions)	2010	2009
Operating activities		
Net income	\$ 3,182	\$ 4,247
Reconciliation of net income to net cash provided by operating activities:		
Provision for credit losses	9,805	13,380
Gains on sales of debt securities	(734)	(1,498)
Depreciation and premises improvements amortization	566	578
Amortization of intangibles	446	520
Deferred income tax expense	736	486
Net decrease in trading and derivative instruments	6,770	27,049
Net decrease in other assets	5,723	28,304
Net increase (decrease) in accrued expenses and other liabilities	6,115	(10,870)
Other operating activities, net	(8,733)	(7,399)
Net cash provided by operating activities	23,876	54,797
Investing activities		
Net decrease in time deposits placed and other short-term investments	4,023	19,336
Net (increase) decrease in federal funds sold and securities borrowed or purchased under agreements to resell	(7,105)	68,072
Proceeds from sales of available-for-sale debt securities	35,022	53,309
Proceeds from paydowns and maturities of available-for-sale debt securities	18,690	13,871
Purchases of available-for-sale debt securities	(64,899)	(6,576)
Proceeds from maturities of held-to-maturity debt securities	-	280
Proceeds from sales of loans and leases	857	565
Other changes in loans and leases, net	12,990	(6,636)
Net purchases of premises and equipment	(213)	(531)
Proceeds from sales of foreclosed properties	751	417
Cash received upon acquisition, net	-	31,804
Cash received due to impact of adoption of new consolidation guidance	2,807	-
Other investing activities, net	2,884	2,700
Net cash provided by investing activities	5,807	176,611
Financing activities		
Net decrease in deposits	(15,509)	(27,596)
Net increase (decrease) in federal funds purchased and securities loaned or sold under agreements to repurchase	15,416	(71,444)
Net decrease in commercial paper and other short-term borrowings	(6,255)	(10,135)
Proceeds from issuance of long-term debt	23,280	24,246
Retirement of long-term debt	(22,750)	(34,711)
Proceeds from issuance of preferred stock	-	30,000
Cash dividends paid	(450)	(1,097)
Excess tax benefits of share-based payments	45	-
Other financing activities, net	(11)	11
Net cash used in financing activities	(6,234)	(90,726)
Effect of exchange rate changes on cash and cash equivalents	6	(79)
Net increase in cash and cash equivalents	23,455	140,603
Cash and cash equivalents at January 1	121,339	32,857
Cash and cash equivalents at March 31	\$ 144,794	\$173,460

During the three months ended March 31, 2009, the Corporation transferred credit card loans of \$8.5 billion and the related allowance for loan and lease losses of \$750 million in exchange for a \$7.8 billion held-to-maturity debt security that was issued by the Corporation's U.S. credit card securitization trust and retained by the Corporation.

The fair values of noncash assets acquired and liabilities assumed in the Merrill Lynch acquisition were \$619.0 billion and \$626.7 billion as of March 31, 2009.

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

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 Summary of Significant Accounting Principles

Bank of America Corporation and its subsidiaries (the Corporation), a financial holding company, provides a diverse range of financial services and products throughout the U.S. and in certain international markets. When used in this report, the meaning of the words the Corporation may refer to the Corporation individually, the Corporation and its subsidiaries, or certain of the Corporation's subsidiaries or affiliates. The Corporation conducts these activities through its banking and nonbanking subsidiaries. At March 31, 2010, the Corporation operated its banking activities primarily under two charters: Bank of America, National Association (Bank of America, N.A.) and FIA Card Services, N.A. In connection with certain acquisitions including Merrill Lynch & Co. Inc. (Merrill Lynch) and Countrywide Financial Corporation (Countrywide), the Corporation acquired banking subsidiaries that have been merged into Bank of America, N.A. with no impact on the Consolidated Financial Statements of the Corporation. On January 1, 2009, the Corporation acquired Merrill Lynch through its merger with a subsidiary of the Corporation in exchange for common and preferred stock with a value of \$29.1 billion.

Principles of Consolidation and Basis of Presentation

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

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

These unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in the Corporation's 2009 Annual Report on Form 10-K. The nature of the Corporation's business is such that the results of any interim period are not necessarily indicative of results for a full year. In the opinion of management, normal recurring adjustments necessary for a fair statement of the interim period results have been made. Certain prior period amounts have been reclassified to conform to current period presentation.

New Accounting Pronouncements

On January 1, 2010, the Corporation adopted new Financial Accounting Standards Board (FASB) accounting guidance on transfers of financial assets and consolidation of VIEs. This new accounting guidance revises sale accounting criteria for transfers of financial assets, including elimination of the concept of and accounting for qualifying special purpose entities (QSPEs), and significantly changes the criteria for consolidation of a VIE. The adoption of this new accounting guidance resulted in the consolidation of certain VIEs that previously were QSPEs.

and VIEs that were not recorded on the Corporation's Consolidated Balance Sheet prior to January 1, 2010. The adoption of this new accounting guidance resulted in a net incremental increase in assets of \$100.4 billion and a net increase in liabilities of \$106.7 billion. These amounts are net of retained interests in securitizations held on the Consolidated Balance Sheet at December 31, 2009 and a \$10.8 billion increase in the allowance for loan and lease losses. The Corporation recorded a \$6.2 billion charge, net of tax, to retained earnings on January 1, 2010 for the cumulative effect of the adoption of this new accounting guidance, which resulted principally from the increase in the allowance for loan and lease losses, and a \$116 million charge to accumulated other comprehensive income (OCI). Initial recording of these assets, related allowance and liabilities on the Corporation's Consolidated Balance Sheet had no impact at the date of adoption on consolidated results of operations.

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Application of the new consolidation guidance has been deferred indefinitely for certain investment funds managed on behalf of third parties if the Corporation does not have an obligation to fund losses that could potentially be significant to these funds. Application of the new consolidation guidance has also been deferred if the funds must comply with guidelines similar to those included in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. These funds, which include the cash funds managed within *Global Wealth & Investment Management (GWIM)*, will continue to be evaluated for consolidation in accordance with the prior guidance.

On January 1, 2010, the Corporation elected to early adopt, on a prospective basis new FASB accounting guidance stating that troubled debt restructuring (TDR) accounting cannot be applied to individual loans within purchased credit-impaired loan pools. The adoption of this guidance did not have a material impact on the Corporation's financial condition or results of operations.

On January 1, 2010, the Corporation adopted new FASB accounting guidance that requires disclosure of gross transfers into and out of Level 3 of the fair value hierarchy and adds a requirement to disclose significant transfers between Level 1 and Level 2 of the fair value hierarchy. The new accounting guidance also clarifies existing disclosure requirements regarding the level of disaggregation of fair value measurements and inputs, and valuation techniques. The enhanced disclosures required under this new guidance are included in *Note 14 Fair Value Measurements*.

In March 2010, the FASB issued new accounting guidance on embedded credit derivatives. This new accounting guidance clarifies the scope exception for embedded credit derivatives and defines which embedded credit derivatives should be evaluated for bifurcation and separate accounting. The adoption of this new accounting guidance in the third quarter of 2010 is not expected to have a material impact on the Corporation's financial position or results of operations.

Significant Accounting Policies

Securities Financing Agreements

Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase (securities financing agreements) are treated as collateralized financing transactions. These agreements are recorded at the amounts at which the securities were acquired or sold plus accrued interest, except for certain securities financing agreements that the Corporation accounts for under the fair value option. Changes in the value of securities financing agreements that are accounted for under the fair value option are recorded in other income. For more information on securities financing agreements that the Corporation accounts for under the fair value option, see *Note 14 Fair Value Measurements*.

The Corporation's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is generally valued daily and the Corporation may require counterparties to deposit additional collateral or may return collateral pledged when appropriate.

Substantially all securities financing agreements are transacted under master repurchase agreements which give the Corporation, in the event of default, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Corporation offsets securities financing agreements with the same counterparty on the Consolidated Balance Sheet where it has such a master agreement. In transactions where the Corporation acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes an asset on the Consolidated Balance Sheet at fair value, representing the securities received, and a liability for the same amount, representing the obligation to return those securities.

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At the end of certain quarterly periods during the three years ended December 31, 2009, the Corporation had recorded certain sales of agency mortgage-backed securities (MBS) which, based on a more recent internal review and interpretation, should have been recorded as secured borrowings. These periods and amounts were as follows: March 31, 2009 \$573 million; September 30, 2008 \$10.7 billion; December 31, 2007 \$1.8 billion; and March 31, 2007 \$4.5 billion. As the transferred securities were recorded at fair value in trading account assets, the change would have had no impact on consolidated results of operations. Had the sales been recorded as secured borrowings, trading account assets and federal funds purchased and securities loaned or sold under agreements to repurchase would have increased by the amount of the transactions, however, the increase in all cases was less than 0.7 percent of total assets or total liabilities. Accordingly, the Corporation believes that these transactions did not have a material impact on the Corporation's Consolidated Balance Sheet.

In repurchase transactions, typically, the termination date for a repurchase agreement is before the maturity date of the underlying security. However, in certain situations, the Corporation may enter into repurchase agreements where the termination date of the repurchase transaction is the same as the maturity date of the underlying security and these transactions are referred to as "repo-to-maturity" (RTM) transactions. The Corporation enters into RTM transactions only for high quality, very liquid securities such as U.S. Treasury securities or securities issued by government-sponsored entities. The Corporation accounts for RTM transactions as sales in accordance with GAAP, and accordingly, de-recognizes the securities from the balance sheet and recognizes a gain or loss in the Consolidated Statement of Income. At March 31, 2010 and December 31, 2009, the Corporation had outstanding RTM transactions of \$3.0 billion and \$6.5 billion that had been accounted for as sales.

Variable Interest Entities

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. Prior to 2010, the primary beneficiary was the entity that would absorb a majority of the economic risks and rewards of the VIE based on an analysis of projected probability-weighted cash flows. In accordance with the new accounting guidance on consolidation of VIEs and transfers of financial assets (new consolidation guidance) effective January 1, 2010, the Corporation is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. On a quarterly basis, the Corporation reassesses whether it has a controlling financial interest in and is the primary beneficiary of a VIE. The quarterly reassessment process considers whether the Corporation has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The reassessment also considers whether the Corporation has acquired or disposed of a financial interest that could be significant to the VIE, or whether an interest in the VIE has become significant or is no longer significant. The consolidation status of the VIEs with which the Corporation is involved may change as a result of such reassessments.

Retained interests in securitized assets are initially recorded at fair value. Prior to 2010, retained interests were initially recorded at an allocated cost basis in proportion to the relative fair values of the assets sold and interests retained. In addition, the Corporation may invest in debt securities issued by unconsolidated VIEs. Quoted market prices are primarily used to obtain fair values of these debt securities, which are recorded in available-for-sale (AFS) debt securities or trading account assets. Generally, quoted market prices for retained residual interests are not available, therefore, the Corporation estimates fair values based on the present value of the associated expected future cash flows. This may require management to estimate credit losses, prepayment speeds, forward interest yield curves, discount rates and other factors that impact the value of retained interests. Retained residual interests in unconsolidated securitization trusts are recorded in trading account assets or other assets with changes in fair value recorded in income. The Corporation may also purchase credit protection from unconsolidated VIEs in the form of credit default swaps or other derivatives, which are carried at fair value with changes in fair value recorded in income.

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On January 1, 2009, the Corporation acquired Merrill Lynch through its merger with a subsidiary of the Corporation in exchange for common and preferred stock with a value of \$29.1 billion. Under the terms of the merger agreement, Merrill Lynch common shareholders received 0.8595 of a share of Bank of America Corporation common stock in exchange for each share of Merrill Lynch common stock. In addition, Merrill Lynch non-convertible preferred shareholders received Bank of America Corporation preferred stock having substantially identical terms. Merrill Lynch convertible preferred stock remains outstanding and is convertible into Bank of America Corporation common stock at an equivalent exchange ratio.

The purchase price was allocated to the acquired assets and liabilities based on their estimated fair values at the Merrill Lynch acquisition date as summarized in the following table. Goodwill of \$5.1 billion was calculated as the purchase premium after adjusting for the fair value of net assets acquired and represents the value expected from the synergies created from combining the Merrill Lynch wealth management and corporate and investment banking businesses with the Corporation's capabilities in consumer and commercial banking as well as the economies of scale expected from combining the operations of the two companies. No goodwill is deductible for federal income tax purposes. The goodwill was allocated principally to the *GWIM* and *Global Banking & Markets (GBAM)* business segments.

Merrill Lynch Purchase Price Allocation

(Dollars in billions, except per share amounts)

Purchase price	
Merrill Lynch common shares exchanged (in millions)	1,600
Exchange ratio	0.8595
The Corporation's common shares issued (in millions)	1,375
Purchase price per share of the Corporation's common stock ⁽¹⁾	\$ 14.08
Total value of the Corporation's common stock and cash exchanged for fractional shares	\$ 19.4
Merrill Lynch preferred stock	8.6
Fair value of outstanding employee stock awards	1.1
Total purchase price	\$ 29.1
Allocation of the purchase price	
Merrill Lynch stockholders' equity	19.9
Merrill Lynch goodwill and intangible assets	(2.6)
Pre-tax adjustments to reflect acquired assets and liabilities at fair value:	
Derivatives and securities	(1.9)
Loans	(6.1)
Intangible assets ⁽²⁾	5.4
Other assets/liabilities	(0.8)
Long-term debt	16.0
Pre-tax total adjustments	12.6
Deferred income taxes	(5.9)
After-tax total adjustments	6.7
Fair value of net assets acquired	24.0
Goodwill resulting from the Merrill Lynch acquisition	\$ 5.1

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

⁽²⁾ Consists of trade name of \$1.5 billion and customer relationship and core deposit intangibles of \$3.9 billion. The amortization life is 10 years for the customer relationship and core deposit intangibles which are primarily amortized on a straight-line basis.

Countrywide

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

Table of Contents***Merger and Restructuring Charges and Reserves***

Merger and restructuring charges are recorded in the Consolidated Statement of Income and include incremental costs to integrate the operations of the Corporation and its recent acquisitions. These charges represent costs associated with these one-time activities and do not represent ongoing costs of the fully integrated combined organization. On January 1, 2009, the Corporation adopted new accounting guidance on business combinations, on a prospective basis, that requires that acquisition-related transaction and restructuring costs be charged to expense as incurred. Previously, these expenses were recorded as an adjustment to goodwill.

The following table presents severance and employee-related charges, systems integrations and related charges, and other merger-related charges.

(Dollars in millions)	Three Months Ended March 31	
	2010	2009
Severance and employee-related charges	\$ 151	\$ 491
Systems integrations and related charges	310	192
Other	60	82
Total merger and restructuring charges	\$ 521	\$ 765

For the three months ended March 31, 2010, merger and restructuring charges consisted of \$408 million related to the Merrill Lynch acquisition and \$113 million related to the Countrywide acquisition. For the three months ended March 31, 2009, merger and restructuring charges consisted primarily of \$513 million related to the Merrill Lynch acquisition and \$193 million related to the Countrywide acquisition.

For the three months ended March 31, 2010, \$408 million of merger-related charges for the Merrill Lynch acquisition included \$121 million for severance and other employee-related costs, \$238 million of system integration costs, and \$49 million of other merger-related costs.

The following table presents the changes in exit cost and restructuring reserves for the three months ended March 31, 2010 and 2009. Exit cost reserves were established in purchase accounting resulting in an increase in goodwill. Restructuring reserves are established by a charge to merger and restructuring charges, and the restructuring charges are included in the total merger and restructuring charges in the table above. Exit costs were not recorded in purchase accounting for the Merrill Lynch acquisition in accordance with new accounting guidance on business combinations which was effective January 1, 2009.

(Dollars in millions)	Exit Cost Reserves		Restructuring Reserves	
	2010	2009	2010	2009
Balance, January 1	\$ 112	\$ 523	\$ 403	\$ 86
Exit costs and restructuring charges:				
Merrill Lynch	n/a	n/a	106	382
Countrywide	-	-	30	60
Cash payments	(22)	(192)	(294)	(136)
Balance, March 31	\$ 90	\$ 331	\$ 245	\$ 392

n/a = not applicable

At December 31, 2009, there were \$112 million of exit cost reserves related principally to the Countrywide acquisition, including \$70 million for severance, relocation and other employee-related costs and \$42 million for contract terminations. Cash payments of \$22 million during the three months ended March 31, 2010 consisted of \$7 million in severance, relocation and other employee-related costs, and \$15 million in contract terminations. At March 31, 2010, exit cost reserves of \$90 million related principally to Countrywide.

At December 31, 2009, there were \$403 million of restructuring reserves related to the Merrill Lynch and Countrywide acquisitions for severance and other employee-related costs. For the three months ended March 31, 2010, \$136 million was added to the restructuring reserves related to severance and other employee-related costs primarily associated with the Merrill Lynch acquisition. Cash payments of \$294 million

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during the three months ended March 31, 2010 were all related to severance and other employee-related costs. Payments associated with the Countrywide and Merrill Lynch acquisitions will continue into 2011. At March 31, 2010, restructuring reserves of \$245 million consisted of \$169 million for Merrill Lynch and \$76 million for Countrywide.

Table of Contents**NOTE 3 Trading Account Assets and Liabilities**

The following table presents the components of trading account assets and liabilities at March 31, 2010 and December 31, 2009.

(Dollars in millions)	March 31 2010	December 31 2009
Trading account assets		
U.S. government and agency securities ⁽¹⁾	\$ 56,603	\$ 44,585
Corporate securities, trading loans and other	61,384	57,009
Equity securities	32,014	33,562
Foreign sovereign debt	35,817	28,143
Mortgage trading loans and asset-backed securities	20,200	18,907
Total trading account assets	\$ 206,018	\$ 182,206
Trading account liabilities		
U.S. government and agency securities	\$ 30,068	\$ 26,519
Equity securities	20,419	18,407
Foreign sovereign debt	21,619	12,897
Corporate securities and other	10,426	7,609
Total trading account liabilities	\$ 82,532	\$ 65,432

⁽¹⁾Includes \$28.2 billion and \$23.5 billion at March 31, 2010 and December 31, 2009 of government-sponsored enterprise (GSE) obligations.

Table of Contents**NOTE 4 Derivatives****Derivative Balances**

Derivatives are held for trading, as economic hedges, or as qualifying accounting hedges. The Corporation enters into derivatives to facilitate client transactions, for proprietary trading purposes and to manage risk exposures. For additional information on the Corporation's derivatives and hedging activities, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements of the Corporation's 2009 Annual Report on Form 10-K. The following table identifies derivative instruments included on the Corporation's Consolidated Balance Sheet in derivative assets and liabilities at March 31, 2010 and December 31, 2009. Balances are provided on a gross basis, prior to the application of counterparty and collateral netting. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements and have been reduced by the cash collateral applied.

	March 31, 2010						
	Gross Derivative Assets		Gross Derivative Liabilities				
	Contract/ Notional ⁽¹⁾	Trading Derivatives and Economic Hedges	Qualifying Accounting Hedges ⁽²⁾	Total	Trading Derivatives and Economic Hedges	Qualifying Accounting Hedges ⁽²⁾	Total
(Dollars in billions)							
Interest rate contracts							
Swaps	\$ 43,320.7	\$ 1,128.4	\$ 6.2	\$ 1,134.6	\$ 1,107.0	\$ 1.2	\$ 1,108.2
Futures and forwards	12,096.0	5.9	0.1	6.0	6.4	-	6.4
Written options	2,791.0	-	-	-	77.4	-	77.4
Purchased options	2,732.7	78.1	-	78.1	-	-	-
Foreign exchange contracts							
Swaps	646.7	21.6	5.8	27.4	26.0	1.7	27.7
Spot, futures and forwards	2,207.9	25.7	-	25.7	27.1	-	27.1
Written options	391.3	-	-	-	10.9	-	10.9
Purchased options	392.4	10.5	-	10.5	-	-	-
Equity contracts							
Swaps	72.3	7.6	-	7.6	7.5	-	7.5
Futures and forwards	95.7	3.1	-	3.1	2.3	-	2.3
Written options	430.9	-	-	-	23.3	0.4	23.7
Purchased options	391.4	24.5	-	24.5	-	-	-
Commodity contracts							
Swaps	101.4	8.8	0.2	9.0	8.4	-	8.4
Futures and forwards	435.0	10.2	-	10.2	9.4	-	9.4
Written options	65.1	-	-	-	4.8	-	4.8
Purchased options	60.0	4.5	-	4.5	-	-	-
Credit derivatives							
Purchased credit derivatives:							
Credit default swaps	2,525.8	88.1	-	88.1	38.7	-	38.7
Total return swaps/other	25.9	1.3	-	1.3	0.8	-	0.8
Written credit derivatives:							
Credit default swaps	2,534.1	37.7	-	37.7	82.4	-	82.4
Total return swaps/other	36.0	1.4	-	1.4	0.6	-	0.6
Gross derivative assets/liabilities		\$ 1,457.4	\$ 12.3	1,469.7	\$ 1,433.0	\$ 3.3	1,436.3
Less: Legally enforceable master netting agreements				(1,334.0)			(1,334.0)
Less: Cash collateral applied				(58.1)			(55.4)

Total derivative assets/liabilities	\$ 77.6	\$ 46.9
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⁽¹⁾ Represents the total contract/notional amount of the derivatives outstanding and includes both written and purchased credit derivatives.

⁽²⁾ Excludes \$4.1 billion of long-term debt designated as a hedge of foreign currency risk.

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	December 31, 2009						
	Gross Derivative Assets		Gross Derivative Liabilities				
	Trading Derivatives and		Trading Derivatives and				
	Economic Hedges		Economic Hedges				
	Qualifying Accounting Hedges (2)		Qualifying Accounting Hedges (2)				
(Dollars in billions)	Contract/Notional (1)	Economic Hedges	Qualifying Accounting Hedges (2)	Total	Economic Hedges	Qualifying Accounting Hedges (2)	Total
Interest rate contracts							
Swaps	\$ 45,261.5	\$ 1,121.3	\$ 5.6	\$ 1,126.9	\$ 1,105.0	\$ 0.8	\$ 1,105.8
Futures and forwards	11,842.1	7.1	-	7.1	6.1	-	6.1
Written options	2,865.5	-	-	-	84.1	-	84.1
Purchased options	2,626.7	84.1	-	84.1	-	-	-
Foreign exchange contracts							
Swaps	661.9	23.7	4.6	28.3	27.3	0.5	27.8
Spot, futures and forwards	1,750.8	24.6	0.3	24.9	25.6	0.1	25.7
Written options	383.6	-	-	-	13.0	-	13.0
Purchased options	355.3	12.7	-	12.7	-	-	-
Equity contracts							
Swaps	58.5	2.0	-	2.0	2.0	-	2.0
Futures and forwards	79.0	3.0	-	3.0	2.2	-	2.2
Written options	283.4	-	-	-	25.1	0.4	25.5
Purchased options	273.7	27.3	-	27.3	-	-	-
Commodity contracts							
Swaps	65.3	6.9	0.1	7.0	6.8	-	6.8
Futures and forwards	387.8	10.4	-	10.4	9.6	-	9.6
Written options	54.9	-	-	-	7.9	-	7.9
Purchased options	50.9	7.6	-	7.6	-	-	-
Credit derivatives							
Purchased credit derivatives:							
Credit default swaps	2,800.5	105.5	-	105.5	45.2	-	45.2
Total return swaps/other	21.7	1.5	-	1.5	0.4	-	0.4
Written credit derivatives:							
Credit default swaps	2,788.8	44.1	-	44.1	98.4	-	98.4
Total return swaps/other	33.1	1.8	-	1.8	1.1	-	1.1
Gross derivative assets/liabilities		\$ 1,483.6	\$ 10.6	1,494.2	\$ 1,459.8	\$ 1.8	1,461.6
Less: Legally enforceable master netting agreements				(1,355.1)			(1,355.1)
Less: Cash collateral applied				(58.4)			(62.8)
Total derivative assets/liabilities				\$ 80.7			\$ 43.7

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

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

ALM and Risk Management Derivatives

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

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options, futures and forwards, to minimize significant fluctuations in earnings that are caused by interest rate volatility. Interest rate contracts are used by the Corporation in the management of its interest rate risk position. The Corporation's goal is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect earnings. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities appreciate or depreciate in fair value. Gains or losses on the derivative instruments that are linked to the hedged fixed-rate assets and liabilities are expected to substantially offset this unrealized appreciation or depreciation.

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Interest rate and market risk can be substantial in the mortgage business. Market risk is the risk that values of mortgage assets or revenues will be adversely affected by changes in market conditions such as interest rate movements. To hedge interest rate risk in mortgage banking production income, the Corporation utilizes forward loan sale commitments and other derivative instruments including purchased options. The Corporation also utilizes derivatives such as interest rate options, interest rate swaps, forward settlement contracts and euro-dollar futures as economic hedges of the fair value of mortgage servicing rights (MSRs). For additional information on MSRs, see *Note 16 Mortgage Servicing Rights*.

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

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

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

Derivatives Designated as Accounting Hedges

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

The following table summarizes certain information related to the Corporation's derivatives designated as fair value hedges for the three months ended March 31, 2010 and 2009.

	Amounts Recognized in Income for the Three Months Ended					
	March 31, 2010			March 31, 2009		
(Dollars in millions)	Derivative	Hedged Item	Hedge Ineffectiveness	Derivative	Hedged Item	Hedge Ineffectiveness
Derivatives designated as fair value hedges						
Interest rate risk on long-term debt ⁽¹⁾	\$ 885	\$ (1,013)	\$ (128)	\$ (765)	\$ 636	\$ (129)
Interest rate and foreign currency risk on long-term debt ⁽¹⁾	(1,375)	1,251	(124)	(951)	1,009	58
Interest rate risk on available-for-sale securities ^(2, 3)	(30)	19	(11)	53	(81)	(28)
Commodity price risk on commodity inventory ⁽⁴⁾	57	(61)	(4)	56	(58)	(2)
Total	\$ (463)	\$ 196	\$ (267)	\$ (1,607)	\$ 1,506	\$ (101)

⁽¹⁾ Amounts are recorded in interest expense on long-term debt.

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(2) Amounts are recorded in interest income on AFS securities.

(3) Measurement of ineffectiveness in the three months ended March 31, 2010 and 2009 includes \$4 million and \$28 million of interest costs on short forward contracts. The Corporation considers this as part of the cost of hedging, and it is offset by the fixed coupon receipt on the AFS security that is recognized in interest income on securities.

(4) Amounts are recorded in trading account profits.

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The following table summarizes certain information related to the Corporation's derivatives designated as cash flow hedges and net investment hedges for the three months ended March 31, 2010 and 2009. During the next 12 months, net losses in accumulated OCI of approximately \$1.2 billion (\$739 million after-tax) on derivative instruments that qualify as cash flow hedges are expected to be reclassified into earnings. These net losses reclassified into earnings are expected to reduce net interest income related to the respective hedged items.

	Three Months Ended March 31					
	2010			2009		
	Amounts Recognized in OCI on Derivatives	Amounts Reclassified from OCI into Income	Hedge Ineffectiveness and Amount Excluded from Effectiveness Testing ⁽¹⁾	Amounts Recognized in OCI on Derivatives	Amounts Reclassified from OCI into Income	Hedge Ineffectiveness and Amount Excluded from Effectiveness Testing ⁽¹⁾
(Dollars in millions, amounts pre-tax)						
Derivatives designated as cash flow hedges						
Interest rate risk on variable rate portfolios ^(2,3,4)	\$ (502)	\$ (81)	\$ (13)	\$ 154	\$ (484)	\$ 4
Commodity price risk on forecasted purchases and sales	32	3	-	48	-	-
Price risk on restricted stock awards ⁽⁵⁾	144	11	-	n/a	n/a	n/a
Price risk on equity investments included in available-for-sale securities	6	-	-	(44)	-	-
Total	\$ (320)	\$ (67)	\$ (13)	\$ 158	\$ (484)	\$ 4
Net investment hedges						
Foreign exchange risk ⁽⁶⁾	\$ 978	\$ -	\$ (65)	\$ 1,016	\$ -	\$ (80)

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

⁽²⁾ Amounts reclassified from OCI increased interest income on assets by \$47 million and reduced interest income on assets by \$44 million, and increased interest expense on liabilities by \$128 million and \$440 million during the three months ended March 31, 2010 and 2009.

⁽³⁾ Hedge ineffectiveness of \$(1) million and \$4 million was recorded in interest income and \$(12) million and \$0 was recorded in interest expense during the three months ended March 31, 2010 and 2009.

⁽⁴⁾ Amounts reclassified from OCI exclude amounts related to derivative interest accruals which increased interest income by \$62 million and \$3 million for the three months ended March 31, 2010 and 2009.

⁽⁵⁾ Gains reclassified from OCI are recorded in personnel expense.

⁽⁶⁾ Amounts recognized in OCI on derivatives exclude gains of \$262 million and \$33 million related to long-term debt designated as a net investment hedge for the three months ended March 31, 2010 and 2009.

n/a = not applicable

The Corporation entered into total return swaps to hedge a portion of cash-settled restricted stock units (RSUs) granted to certain employees in the three months ended March 31, 2010 as part of their 2009 compensation. These cash-settled RSUs are accrued as liabilities over the vesting period and adjusted to fair value based on changes in the share price of the Corporation's common stock. The Corporation entered into the derivatives to minimize the change in the expense to the Corporation driven by fluctuations in the share price of the Corporation's common stock during the vesting period of the restricted stock units. Certain of these derivatives are designated as cash flow hedges of unrecognized non-vested awards with the changes in fair value of the hedge recorded in OCI and reclassified into income in the same period as the RSUs affect earnings. The remaining derivatives are accounted for as economic hedges and changes in fair value are recorded in personnel expense. For more information on restricted stock units, see *Note 13 Pension, Postretirement and Other Employee Plans*.

Table of Contents***Economic Hedges***

Derivatives designated as economic hedges are used by the Corporation to reduce certain risk exposures but are not accounted for as accounting hedges. The following table presents gains (losses) on these derivatives for the three months ended March 31, 2010 and 2009. These gains (losses) are largely offset by the income or expense that is recorded on the economically hedged item.

(Dollars in millions)	Three Months Ended March 31	
	2010	2009
Price risk on mortgage banking production income ^(1, 2)	\$ 1,356	\$ 2,157
Interest rate risk on mortgage banking servicing income ⁽¹⁾	798	150
Credit risk on loans ⁽³⁾	(56)	75
Interest rate and foreign currency risk on long-term debt and other foreign exchange transactions ⁽⁴⁾	(3,988)	(546)
Other ⁽⁴⁾	96	15
Total	\$ (1,794)	\$ 1,851

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

⁽²⁾ Includes gains on interest rate lock commitments related to the origination of mortgage loans that are held for sale, which are considered derivative instruments, of \$1.9 billion and \$2.5 billion for the three months ended March 31, 2010 and 2009.

⁽³⁾ Gains (losses) on these derivatives and bonds are recorded in other income, trading account profits and net interest income.

⁽⁴⁾ Gains (losses) on these derivatives are recorded in other income, trading account profits and personnel expense.

Sales and Trading Revenue

The Corporation enters into trading derivatives to facilitate client transactions, for proprietary trading purposes, and to manage risk exposures arising from trading assets and liabilities. It is the Corporation's policy to include these derivative instruments in its trading activities which include derivatives and non-derivative cash instruments. The resulting risk from these derivatives is managed on a portfolio basis as part of the Corporation's *GBAM* business segment. The related sales and trading revenue generated within *GBAM* is recorded on various income statement line items including trading account profits and net interest income as well as other revenue categories. However, the vast majority of income related to derivative instruments is recorded in trading account profits. The following table identifies the amounts in the income statement line items attributable to the Corporation's sales and trading revenue categorized by primary risk for the three months ended March 31, 2010 and 2009.

Three Months Ended March 31

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2010

2009

(Dollars in millions)	Trading Account Profits	Other Revenues ⁽¹⁾	Net Interest Income	Total	Trading Account Profits	Other Revenues ⁽¹⁾	Net Interest Income	Total
Interest rate risk	\$ 1,057	\$ 41	\$ 183	\$ 1,281	\$ 2,963	\$ 15	\$ 334	\$ 3,312
Foreign exchange risk	281	-	-	281	274	1	7	282
Equity risk	874	610	46	1,530	786	622	81	1,489
Credit risk	2,619	129	950	3,698	197	(1,104)	1,507	600
Other risk	224	8	(50)	182	683	(39)	(191)	453
Total sales and trading revenue	\$ 5,055	\$ 788	\$ 1,129	\$ 6,972	\$ 4,903	\$ (505)	\$ 1,738	\$ 6,136

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

Credit Derivatives

The Corporation enters into credit derivatives primarily to facilitate client transactions and to manage credit risk exposures. Credit derivatives derive value based on an underlying third party-referenced obligation or a portfolio of referenced obligations and generally require the Corporation as the seller of credit protection to make payments to a buyer upon the occurrence of a predefined credit event. Such credit events generally include bankruptcy of the referenced credit

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entity and failure to pay under the obligation, as well as acceleration of indebtedness and payment repudiation or moratorium. For credit derivatives based on a portfolio of referenced credits or credit indices, the Corporation may not be required to make payment until a specified amount of loss has occurred and/or may only be required to make payment up to a specified amount.

Credit derivative instruments in which the Corporation is the seller of credit protection and their expiration at March 31, 2010 and December 31, 2009 are summarized below. These instruments are classified as investment and non-investment grade based on the credit quality of the underlying reference obligation. The Corporation considers ratings of BBB- or higher as investment grade. Non-investment grade includes non-rated credit derivative instruments.

(Dollars in millions)	Less than One Year	One to Three Years	March 31, 2010 Carrying Value		Total
			Three to Five Years	Over Five Years	
Credit default swaps:					
Investment grade	\$ 353	\$ 5,887	\$ 8,295	\$ 25,256	\$ 39,791
Non-investment grade	1,141	8,056	9,883	23,552	42,632
Total	1,494	13,943	18,178	48,808	82,423
Total return swaps/other:					
Investment grade	-	26	33	32	91
Non-investment grade	1	192	38	253	484
Total	1	218	71	285	575
Total credit derivatives	\$ 1,495	\$ 14,161	\$ 18,249	\$ 49,093	\$ 82,998

(Dollars in millions)	Maximum Payout/Notional				
	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Credit default swaps:					
Investment grade	\$ 162,417	\$ 453,420	\$ 575,291	\$ 390,296	\$ 1,581,424
Non-investment grade	95,012	296,057	295,898	265,668	952,635
Total	257,429	749,477	871,189	655,964	2,534,059
Total return swaps/other:					
Investment grade	4	91	12,563	10,478	23,136
Non-investment grade	403	1,712	923	9,818	12,856
Total	407	1,803	13,486	20,296	35,992
Total credit derivatives	\$ 257,836	\$ 751,280	\$ 884,675	\$ 676,260	\$ 2,570,051

(Dollars in millions)	Less than One Year	One to Three Years	December 31, 2009 Carrying Value		Total
			Three to Five Years	Over Five Years	
Credit default swaps:					
Investment grade	\$ 454	\$ 5,795	\$ 5,831	\$ 24,586	\$ 36,666
Non-investment grade	1,342	14,012	16,081	30,274	61,709
Total	1,796	19,807	21,912	54,860	98,375
Total return swaps/other:					
Investment grade	1	20	5	540	566
Non-investment grade	-	194	3	291	488
Total	1	214	8	831	1,054
Total credit derivatives	\$ 1,797	\$ 20,021	\$ 21,920	\$ 55,691	\$ 99,429

Maximum Payout/Notional				
Credit default swaps:				

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Investment grade	\$ 147,501	\$ 411,258	\$ 596,103	\$ 335,526	\$ 1,490,388
Non-investment grade	123,907	417,834	399,896	356,735	1,298,372
Total	271,408	829,092	995,999	692,261	2,788,760
Total return swaps/other:					
Investment grade	31	60	1,081	8,087	9,259
Non-investment grade	2,035	1,280	2,183	18,352	23,850
Total	2,066	1,340	3,264	26,439	33,109
Total credit derivatives	\$ 273,474	\$ 830,432	\$ 999,263	\$ 718,700	\$ 2,821,869

The notional amount represents the maximum amount payable by the Corporation for most credit derivatives. However, the Corporation does not solely monitor its exposure to credit derivatives based on notional amount because this measure does not take into consideration the probability of occurrence. As such, the notional amount is not a reliable

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indicator of the Corporation's exposure to these contracts. Instead, a risk framework is used to define risk tolerances and establish limits to help ensure that certain credit risk-related losses occur within acceptable, predefined limits.

The Corporation economically hedges its market risk exposure to credit derivatives by entering into a variety of offsetting derivative contracts and security positions. For example, in certain instances, the Corporation may purchase credit protection with identical underlying referenced names to offset its exposure. The carrying value and notional amount of written credit derivatives for which the Corporation held purchased credit derivatives with identical underlying referenced names at March 31, 2010 was \$58.9 billion and \$1.8 trillion compared to \$79.4 billion and \$2.3 trillion at December 31, 2009.

Credit Risk Management of Derivatives and Credit-related Contingent Features

The Corporation executes the majority of its derivative contracts in the over-the-counter market with large, international financial institutions, including broker/dealers and, to a lesser degree, with a variety of non-financial companies. Substantially all of the 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 of the counterparty, where applicable, and/or allow the Corporation to take additional protective measures such as early termination of all trades. Further, as discussed above, the Corporation enters into legally enforceable master netting agreements which reduce risk by permitting the closeout and netting of transactions with the same counterparty upon the occurrence of certain events.

Substantially all of the Corporation's derivative contracts contain credit risk-related contingent features, primarily in the form of International Swaps and Derivatives Association, Inc. (ISDA) master agreements that enhance the creditworthiness of these instruments as compared to other obligations of the respective counterparty with whom the Corporation has transacted (e.g., other debt or equity). These contingent features may be for the benefit of the Corporation, as well as its counterparties with respect to changes in the Corporation's creditworthiness. At March 31, 2010 and December 31, 2009, the Corporation received cash and securities collateral of \$74.1 billion and \$74.6 billion, and posted cash and securities collateral of \$62.6 billion and \$69.1 billion in the normal course of business under derivative agreements.

In connection with certain over-the-counter derivatives contracts and other trading agreements, the Corporation could be required to provide additional collateral or to terminate transactions with certain counterparties in the event of a downgrade of the senior debt ratings of Bank of America Corporation and its subsidiaries. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount and/or the market value of the exposure. At March 31, 2010 and December 31, 2009, the amount of additional collateral and termination payments that would be required for such derivatives and trading agreements was approximately \$1.8 billion and \$2.1 billion if the long-term credit rating of Bank of America Corporation and its subsidiaries was incrementally downgraded by one level by all ratings agencies. At both March 31, 2010 and December 31, 2009, a second incremental one level downgrade by the ratings agencies would require approximately \$1.2 billion in additional collateral.

The Corporation records counterparty credit risk valuation adjustments on derivative assets in order to properly reflect the credit quality of the counterparty. These adjustments are necessary as the market quotes on derivatives do not fully reflect the credit risk of the counterparties to the derivative assets. The Corporation considers collateral and legally enforceable master netting agreements that mitigate its credit exposure to each counterparty in determining the counterparty credit risk valuation adjustment. All or a portion of these counterparty credit risk valuation adjustments can be reversed or otherwise adjusted in future periods due to changes in the value of the derivative contract, collateral and creditworthiness of the counterparty. During the three months ended March 31, 2010 and 2009, credit valuation gains (losses) of \$326 million and \$70 million (\$69 million and \$(41) million, net of hedges) for counterparty credit risk related to derivative assets were recognized in trading account profits. At March 31, 2010 and December 31, 2009, the cumulative counterparty credit risk valuation adjustment that was included in the derivative assets balance was \$7.4 billion and \$7.6 billion.

In addition, the fair value of the Corporation's or its subsidiaries' derivative liabilities is adjusted to reflect the impact of the Corporation's credit quality. During the three months ended March 31, 2010 and 2009, credit valuation gains of \$171 million and \$1.7 billion were recognized in trading account profits for changes in the Corporation's or its subsidiaries' credit risk. At March 31, 2010 and December 31, 2009, the Corporation's cumulative credit risk valuation adjustment that was included in the derivative liabilities balance was \$950 million and \$608 million.

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The following table presents the amortized cost, gross unrealized gains and losses in accumulated OCI, and fair value of AFS debt and marketable equity securities at March 31, 2010 and December 31, 2009.

	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
(Dollars in millions)	Cost	Gains	Losses	Value
Available-for-sale debt securities, March 31, 2010				
U.S. Treasury and agency securities	\$ 40,664	\$ 291	\$ (212)	\$ 40,743
Mortgage-backed securities:				
Agency	150,356	2,791	(578)	152,569
Agency collateralized mortgage obligations	43,403	320	(250)	43,473
Non-agency residential ⁽¹⁾	35,008	655	(2,685)	32,978
Non-agency commercial	6,971	947	(48)	7,870
Foreign securities	3,826	41	(744)	3,123
Corporate bonds	6,780	162	(85)	6,857
Other taxable securities ⁽²⁾	19,914	84	(539)	19,459
Total taxable securities	306,922	5,291	(5,141)	307,072
Tax-exempt securities	9,041	74	(167)	8,948
Total available-for-sale debt securities	\$ 315,963	\$ 5,365	\$ (5,308)	\$ 316,020
Available-for-sale marketable equity securities ⁽³⁾	\$ 2,937	\$ 3,679	\$ (42)	\$ 6,574
Available-for-sale debt securities, December 31, 2009				
U.S. Treasury and agency securities	\$ 22,648	\$ 414	\$ (37)	\$ 23,025
Mortgage-backed securities:				
Agency	164,677	2,415	(846)	166,246
Agency collateralized mortgage obligations	25,330	464	(13)	25,781
Non-agency residential ⁽¹⁾	37,940	1,191	(4,028)	35,103
Non-agency commercial	6,354	671	(116)	6,909
Foreign securities	4,732	61	(896)	3,897
Corporate bonds	6,136	182	(126)	6,192
Other taxable securities ⁽²⁾	25,469	260	(478)	25,251
Total taxable securities	293,286	5,658	(6,540)	292,404
Tax-exempt securities				