BANK OF AMERICA CORP /DE/
Form 10-Q
April 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2018
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number:
1-6523
Exact name of registrant as specified in its charter:
Bank of America Corporation
State or other jurisdiction of incorporation or organization:
Delaware
IRS Employer Identification No.:
56-0906609
Address of principal executive offices:
Bank of America Corporate Center
100 N. Tryon Street
Charlotte, North Carolina 28255
Registrant's telephone number, including area code:
(704) 386-5681
Former name, former address and former fiscal year, if changed since last report:
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No o
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 o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer o	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

On April 27, 2018, there were 10,139,354,414 shares of Bank of America Corporation Common Stock outstanding.

Bank of America Corporation and Subsidiaries
March 31, 2018
Form 10-Q
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Item 2. 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," "belie "continue" and other similar expressions or future or conditional verbs such as "will," "may," "might," "should," "would" and "could." Forward-looking statements represent the Corporation's current expectations, plans or forecasts of its future results, revenues, expenses, efficiency ratio, capital measures, strategy 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 our 2017 Annual Report on Form 10-K and in any of the Corporation's subsequent Securities and Exchange Commission filings: the Corporation's potential claims, damages, penalties, fines and reputational damage resulting from pending or future litigation, regulatory proceedings and enforcement actions, including inquiries into our retail sales practices, and the possibility that amounts may be in excess of the Corporation's recorded liability and estimated range of possible loss for litigation exposures; 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; the Corporation's ability to resolve representations and warranties repurchase and related claims, including claims brought by investors or trustees seeking to avoid the statute of limitations for repurchase claims; 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, currency exchange rates, economic conditions, trade policies and potential geopolitical instability; the impact on the Corporation's business, financial condition and results of operations of a potential higher interest rate environment; the possibility that future credit losses may be higher than currently expected due to changes in economic assumptions, customer behavior, adverse developments with respect to U.S. or global economic conditions and other uncertainties; the Corporation's ability to achieve its expense targets, net interest income expectations, 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, which may change; uncertainty regarding the content, timing and impact of regulatory capital and liquidity requirements; the potential impact of total loss-absorbing capacity requirements; potential adverse changes to our global systemically important bank surcharge; the potential impact of Federal Reserve actions on the Corporation's capital plans; the possible impact of the Corporation's failure to remediate a shortcoming identified by banking regulators in the Corporation's Resolution Plan; the effect of regulations, other guidance or additional information on our estimated impact of the Tax Cuts and Jobs Act; 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 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 cyber attacks; the impact on the Corporation's business, financial condition and results of operations from the planned exit of the United Kingdom from the European Union; and other similar matters.

Forward-looking statements speak only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

Notes to the Consolidated Financial Statements referred to in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) are incorporated by reference into the MD&A. Certain prior-period amounts have been reclassified to conform to current-period presentation. Throughout the MD&A, the Corporation uses certain acronyms and abbreviations which are defined in the Glossary.

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 March 31, 2018, the Corporation had approximately $2.3 trillion in assets and a headcount of approximately 208,000 employees. Headcount has remained relatively unchanged since December 31, 2017.

As of March 31, 2018, we served clients through operations across the United States, its territories and more than 35 countries. Our retail banking footprint covers approximately 85 percent of the U.S. population, and we serve approximately 47 million consumer and small business relationships with approximately 4,400 retail financial centers, approximately 16,000 ATMs, and leading digital banking platforms (www.bankofamerica.com) with approximately 36 million active users, including approximately 25 million active mobile users. We offer industry-leading support to approximately three million small business owners. Our wealth management businesses, with client balances of over $2.7 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.

First Quarter 2018 Economic and Business Environment

U.S. macroeconomic trends in the first quarter were characterized by moderate economic growth, low inflation and a strong labor market. Gross domestic product (GDP) growth for the first quarter of 2018 was moderate and lower than previously estimated, with actual GDP growth of 2.3 percent, well below the fourth quarter's 2.9 percent annualized pace. Notably, retail sales slowed in the first quarter compared to the fourth quarter. Nevertheless, economic fundamentals point to a second-quarter pickup. Consumer confidence remains near cyclical highs, which along with the robust labor market, point to the likelihood of a household spending rebound in the second quarter. Business investment in equipment and software accelerated over 2017. Both manufacturing and non-manufacturing investments are near their highs of the current economic expansion.

Housing activity showed some signs of growth during the first quarter, with continued solid price appreciation when compared to the fourth quarter of 2017. Selling rates are near year-ago levels with continued persistent supply shortages.

Labor market conditions remain strong. Nonfarm payroll growth has been volatile month-to-month but solid on a trend basis. Initial jobless claims are near historic lows. The unemployment rate was 4.1 percent at the end of the quarter, unchanged for six consecutive months, as strong employment gains have been met with solid increases in labor force growth. Wage growth, however, has been relatively muted.

Inflation strengthened in the first quarter, led by gains in apparel, health care and energy. The core Consumer Price Index increased at a three-percent annualized rate, the fastest quarterly rise of the current business expansion, although the less volatile year-on-year rate remained at 2.1 percent.

Equity markets increased substantially through the end of 2017 and into early 2018, with anticipation and enactment of corporate tax reform being the main catalysts, as well as a synchronous global economic expansion. However, equity volatility increased sharply in early February and periodically in March. The S&P 500 finished the first quarter down 1.2 percent from the year end. The 10-year Treasury yield finished the first quarter at 2.76 percent, up from 2.41 percent at the end of 2017. Although the Treasury yield curve steepened during the equity sell-off, the curve subsequently flattened back to levels that prevailed at the end of 2017. The U.S. dollar index trended lower through most of the first quarter.

The Federal Reserve raised its target Federal funds rate corridor to 1.5 to 1.75 percent, the sixth 25-basis point (bp) rate increase of the current cycle. Current Federal Reserve baseline forecasts suggest gradual rate increases will continue into 2018 against a backdrop of solid economic expansion and a tightening labor market. The Federal Open Market Committee also upgraded their economic forecasts, with somewhat faster GDP growth expected this year and in 2019, and a lower trough anticipated for the unemployment rate. Federal Reserve balance sheet normalization is continuing as initially scheduled.

International trade tensions escalated in the first quarter. The U.S. Administration announced plans for broad-based tariffs on steel and aluminum, although subsequently gave exemptions to various trading partners. The Administration also announced plans for tariffs on imports from China, and the Chinese government announced retaliatory measures. Full enactment of the tariffs remains subject to negotiation and further review by the Administration.

After posting its strongest annual GDP growth in 10 years in 2017, economic activity in the eurozone lost some momentum in the first quarter of the year. Despite the positive trend in growth, underlying inflationary pressures have remained dormant. In this context, the European Central Bank continued with the tapering of its quantitative easing program. The impact of the 2016 U.K. referendum vote in favor of leaving the European Union (EU) continues to weigh on the U.K. economy which, in line with the eurozone, has also showed some signs of slowing in the first three months of the year.

Supported by a very accommodative monetary policy stance and sustained growth in external demand, the Japanese economy has continued to expand with headline inflation reaching its highest level since 2015. Across emerging nations, economic activity was supported by China’s continued transition towards a more consumption-based growth model.

Recent Events

Capital Management

During the first quarter of 2018, we repurchased approximately $4.9 billion of common stock pursuant to the Board of Directors' (the Board) June 2017 repurchase authorization under our 2017 Comprehensive Capital Analysis and Review (CCAR) capital plan, including repurchases to offset equity-based compensation awards, and an additional share repurchase authorization in December 2017. For more information, see Capital Management on page 18.

Trust Preferred Securities Redemption

On April 30, 2018, the Corporation announced that it has submitted redemption notices for 11 series of trust preferred securities, which will result in the redemption of such trust

preferred securities, along with the trust common securities (held by the Corporation or its affiliates), on June 6, 2018. The Corporation has received all necessary approvals for these redemptions. Upon the redemption of the trust preferred securities and the extinguishment of the related junior subordinated notes issued by the Corporation, expected to occur in the second quarter of 2018, the Corporation will record a charge to other income and pretax income estimated to be approximately $800 million, subject to certain redemption price calculations at that time. For additional information, see the Corporation's Current Report on Form 8-K filed on April 30, 2018.

Selected Financial Data

Table 1 provides selected consolidated financial data for the three months ended March 31, 2018 and 2017, and at March 31, 2018 and December 31, 2017.

Table 1 Selected Financial Data

	Three Months Ended March 31			
(Dollars in millions, except per share information)	2018		2017	
Income statement				
Revenue, net of interest expense	$23,125		$ 22,248	
Net income	6,918		5,337	
Diluted earnings per common share	0.62		0.45	
Dividends paid per common share	0.12		0.075	
Performance ratios				
Return on average assets	1.21	%	0.97	%
Return on average common shareholders' equity	10.85		8.09	
Return on average tangible common shareholders' equity[(1)]	15.26		11.44	
Efficiency ratio	60.09		63.34	

	March 31 2018	December 31 2017
Balance sheet		
Total loans and leases	$934,078	$ 936,749
Total assets	2,328,478	2,281,234
Total deposits	1,328,664	1,309,545
Total common shareholders' equity	241,552	244,823
Total shareholders' equity	266,224	267,146

(1) Return on average tangible common shareholders' equity is a non-GAAP financial measure. For more information and a corresponding reconciliation to accounting principles generally accepted in the United States of America (GAAP) financial measures, see Non-GAAP Reconciliations on page 48.

Financial Highlights

Table 2 Summary Income Statement

(Dollars in millions)	Three Months Ended March 31 2018	2017
Net interest income	$11,608	$11,058
Noninterest income	11,517	11,190
Total revenue, net of interest expense	23,125	22,248
Provision for credit losses	834	835
Noninterest expense	13,897	14,093
Income before income taxes	8,394	7,320
Income tax expense	1,476	1,983
Net income	$6,918	$5,337
Preferred stock dividends	428	502
Net income applicable to common shareholders	$6,490	$4,835
Per common share information		
Earnings	$0.63	$0.48

Diluted earnings	0.62	0.45

Net income was $6.9 billion, or $0.62 per diluted share for the three months ended March 31, 2018 compared to $5.3 billion, or $0.45 per diluted share for the same period in 2017. The results for the three months ended March 31, 2018 compared to the same period in 2017 were driven by an increase in net interest income and noninterest income, and a decline in noninterest expense as well as lower income tax expense due to the impacts of the Tax Cuts and Jobs Act (the Tax Act). These impacts include a reduction in the federal tax rate to 21 percent from 35 percent, an increase in U.S. taxes related to our non-U.S. operations and the elimination of tax deductions for Federal Deposit Insurance Corporation (FDIC) premiums. These changes resulted in a net reduction to our estimated annual effective tax rate of approximately nine percentage points.

Total assets increased $47.2 billion from December 31, 2017 to $2.3 trillion at March 31, 2018 driven by higher cash and cash equivalents from seasonally higher deposits and an increase in securities borrowed or purchased under agreements to resell to support Global Markets client activity. These increases were partially offset by a decrease in debt securities due to lower reinvestment-related purchases as well as market value declines.

Total liabilities increased $48.2 billion from December 31, 2017 to $2.1 trillion at March 31, 2018 primarily driven by seasonally higher deposits and an increase in trading account liabilities from increased activity in Global Markets. Shareholders' equity decreased $922 million from December 31, 2017 primarily due to returns of capital to shareholders through common stock repurchases and common and preferred stock dividends, and market value declines on debt securities, largely offset by net income and issuances of preferred stock.

Net Interest Income

Net interest income increased $550 million to $11.6 billion for the three months ended March 31, 2018 compared to the same period in 2017, and the net interest yield increased one bp to 2.36 percent. These increases were primarily driven by the benefits from higher interest rates along with loan and deposit growth, partially offset by the sale of the non-U.S. consumer credit card business in the second quarter of 2017 and higher funding costs in Global Markets. For more information regarding interest rate risk management, see Interest Rate Risk Management for the Banking Book on page 45.

Noninterest Income

Table 3 Noninterest Income

	Three Months Ended March 31	
(Dollars in millions)	2018	2017
Card income	$1,457	$1,449
Service charges	1,921	1,918
Investment and brokerage services	3,664	3,417
Investment banking income	1,353	1,584
Trading account profits	2,699	2,331
Other income	423	491
Total noninterest income	$11,517	$11,190

Noninterest income increased $327 million to $11.5 billion for the three months ended March 31, 2018 compared to the same period in 2017. The following highlights the significant changes.

- Investment and brokerage services income increased $247 million primarily driven by higher market valuations and the impact of assets under management (AUM) flows, partially offset by the impact of changing market dynamics on transactional revenue and AUM pricing.
- Investment banking income decreased $231 million primarily due to declines in advisory fees and equity and debt issuance fees.
- Trading account profits increased $368 million primarily due to increased client activity and a strong trading performance in equity derivatives, partially offset by lower activity and less favorable markets in credit products.
- Other income decreased $68 million primarily due to lower equity investment gains.

Provision for Credit Losses

The provision for credit losses remained relatively unchanged for the three months ended March 31, 2018 compared to the same period in 2017 with continued improvement in the consumer real estate portfolio and the impact of the sale of the non-U.S. credit card business during the second quarter of 2017, largely offset by an increase in U.S. credit card due to portfolio seasoning and loan growth. For more information on the provision for credit losses, see Provision for Credit Losses on page 41.

Noninterest Expense

Table 4 Noninterest Expense

Three Months
Ended March 31

(Dollars in millions)	2018	2017
Personnel	$8,480	$8,475
Occupancy	1,014	1,000
Equipment	442	438
Marketing	345	332
Professional fees	381	456
Data processing	810	794
Telecommunications	183	191
Other general operating	2,242	2,407
Total noninterest expense	$13,897	$14,093

Noninterest expense decreased $196 million to $13.9 billion for the three months ended March 31, 2018 compared to the same period in 2017 driven by lower non-personnel costs, primarily litigation expense and professional fees.

Income Tax Expense

Table 5 Income Tax Expense

	Three Months Ended March 31	
(Dollars in millions)	2018	2017
Income before income taxes	$8,394	$7,320
Income tax expense	1,476	1,983
Effective tax rate	17.6 %	27.1 %

The effective tax rate for 2018 reflects the new 21 percent federal tax rate and the other provisions of the Tax Act. Further, the effective tax rates for the three months ended March 31, 2018 and 2017 were lower than the applicable federal and state statutory rates due to our recurring tax preference benefits and tax benefits related to stock-based compensation. We expect the effective tax rate for 2018 to be approximately 20 percent, absent unusual items.

Table 6 Selected Quarterly Financial Data

	2018 Quarter	2017 Quarters			
	Quarter				
(In millions, except per share information)	First	Fourth	Third	Second	First
Income statement					
Net interest income	$11,608	$11,462	$11,161	$10,986	$11,058
Noninterest income (1)	11,517	8,974	10,678	11,843	11,190
Total revenue, net of interest expense	23,125	20,436	21,839	22,829	22,248
Provision for credit losses	834	1,001	834	726	835
Noninterest expense	13,897	13,274	13,394	13,982	14,093
Income before income taxes	8,394	6,161	7,611	8,121	7,320
Income tax expense (1)	1,476	3,796	2,187	3,015	1,983
Net income (1)	6,918	2,365	5,424	5,106	5,337
Net income applicable to common shareholders	6,490	2,079	4,959	4,745	4,835
Average common shares issued and outstanding	10,322.4	10,470.7	10,197.9	10,013.5	10,099.6
Average diluted common shares issued and outstanding	10,472.7	10,621.8	10,746.7	10,834.8	10,919.7
Performance ratios					
Return on average assets	1.21 %	0.41 %	0.95 %	0.90 %	0.97 %
Four quarter trailing return on average assets (2)	0.86	0.80	0.91	0.89	0.88
Return on average common shareholders' equity	10.85	3.29	7.89	7.75	8.09
Return on average tangible common shareholders' equity(3)	15.26	4.56	10.98	10.87	11.44
Return on average shareholders' equity	10.57	3.43	7.88	7.56	8.09
Return on average tangible shareholders' equity (3)	14.37	4.62	10.59	10.23	11.01
Total ending equity to total ending assets	11.43	11.71	11.91	12.00	11.92
Total average equity to total average assets	11.41	11.87	12.03	11.94	12.00
Dividend payout	19.06	60.35	25.59	15.78	15.64
Per common share data					
Earnings	$0.63	$0.20	$0.49	$0.47	$0.48
Diluted earnings	0.62	0.20	0.46	0.44	0.45
Dividends paid	0.12	0.12	0.12	0.075	0.075
Book value	23.74	23.80	23.87	24.85	24.34
Tangible book value (3)	16.84	16.96	17.18	17.75	17.22
Market price per share of common stock					
Closing	$29.99	$29.52	$25.34	$24.26	$23.59
High closing	32.84	29.88	25.45	24.32	25.50
Low closing	29.17	25.45	22.89	22.23	22.05
Market capitalization	$305,176	$303,681	$264,992	$239,643	$235,291
Average balance sheet					
Total loans and leases	$931,915	$927,790	$918,129	$914,717	$914,144

Total assets	2,325,878	2,301,687	2,271,104	2,269,293	2,231,649
Total deposits	1,297,268	1,293,572	1,271,711	1,256,838	1,256,632
Long-term debt	229,603	227,644	227,309	224,019	221,468
Common shareholders' equity	242,713	250,838	249,214	245,756	242,480
Total shareholders' equity	265,480	273,162	273,238	270,977	267,700
Asset quality					
Allowance for credit losses (4)	$11,042	$11,170	$11,455	$11,632	$11,869
Nonperforming loans, leases and foreclosed properties (5)	6,694	6,758	6,869	7,127	7,637
Allowance for loan and lease losses as a percentage of total loans and leases outstanding (6, 7)	1.11 %	1.12 %	1.16 %	1.20 %	1.25 %
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases (5, 6)	161	161	163	160	156
Net charge-offs (7, 8)	$911	$1,237	$900	$908	$934
Annualized net charge-offs as a percentage of average loans and leases outstanding (6, 8)	0.40 %	0.53 %	0.39 %	0.40 %	0.42 %
Capital ratios at period end (9)					
Common equity tier 1 capital	11.3 %	11.5 %	11.9 %	11.5 %	11.0 %
Tier 1 capital	13.0	13.0	13.4	13.2	12.6
Total capital	14.8	14.8	15.1	15.0	14.3
Tier 1 leverage	8.4	8.6	8.9	8.8	8.8
Supplementary leverage ratio	6.8	n/a	n/a	n/a	n/a
Tangible equity (3)	8.7	8.9	9.1	9.2	9.1
Tangible common equity (3)	7.6	7.9	8.1	8.0	7.9

(1) Net income for the fourth quarter of 2017 included an estimated charge of $2.9 billion related to the Tax Act effects which consisted of $946 million in noninterest income and $1.9 billion in income tax expense.

(2) Calculated as total net income for four consecutive quarters divided by annualized average assets for four consecutive quarters.

(3) Tangible equity ratios and tangible book value per share of common stock are non-GAAP financial measures. For more information on these ratios, see Supplemental Financial Data on page 7, and for corresponding reconciliations to GAAP financial measures, see Non-GAAP Reconciliations on page 48.

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

(5) Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions from nonperforming loans, leases and foreclosed properties, see Consumer Portfolio Credit Risk Management – Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity on page 33 and corresponding Table 28, and Commercial Portfolio Credit Risk Management – Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity on page 37 and corresponding Table 35.

(6) Asset quality metrics for the first quarter of 2017 include $242 million of non-U.S. credit card allowance for loan and lease losses and $9.5 billion of non-U.S. credit card loans, which were included in assets of business held for sale on the Consolidated Balance Sheet at March 31, 2017. The Corporation sold its non-U.S. consumer credit card business in the second quarter of 2017.

(7) Net charge-offs exclude $35 million, $46 million, $73 million, $55 million and $33 million of write-offs in the purchased credit-impaired (PCI) loan portfolio in the first quarter of 2018, and in the fourth, third, second and first quarters of 2017, respectively. For more information, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 31.

(8) Includes net charge-offs of $31 million and $44 million on non-U.S. credit card loans in the second and first quarters of 2017, which were included in assets of business held for sale on the Consolidated Balance Sheet at March 31, 2017.

(9) Basel 3 transition provisions for regulatory capital adjustments and deductions were fully phased-in as of January 1, 2018. Prior periods are presented on a fully phased-in basis. For more information, see Capital Management on page 18.

n/a = not applicable

Supplemental Financial Data

In this Form 10-Q, 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 a 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 21 percent for 2018 (35 percent for all prior periods) 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., debit valuation adjustment (DVA) gains (losses)) which result in non-GAAP financial measures. We believe that the presentation of measures that exclude these items is useful because such measures 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 mortgage servicing rights (MSRs)), net of related deferred tax liabilities. These measures are used to evaluate our use of equity. In addition, profitability, relationship and investment models 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 6.

For more information on the reconciliation of these non-GAAP financial measures to GAAP financial measures, see Non-GAAP Reconciliations on page 48.

Table 7 Quarterly Average Balances and Interest Rates - FTE Basis

(Dollars in millions)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	First Quarter 2018			First Quarter 2017		
Earning assets						
Interest-bearing deposits with the Federal Reserve, non-U.S. central banks and other banks	$140,247	$422	1.22%	$123,921	$202	0.66%
Time deposits placed and other short-term investments	10,786	61	2.31	11,497	47	1.65
Federal funds sold and securities borrowed or purchased under agreements to resell (1)	248,320	622	1.02	216,402	356	0.67
Trading account assets	131,123	1,147	3.54	125,661	1,111	3.58
Debt securities	433,096	2,830	2.58	430,234	2,573	2.38
Loans and leases (2):						

Residential mortgage	204,830	1,782	3.48	193,627	1,661	3.44
Home equity	56,952	643	4.56	65,508	639	3.94
U.S. credit card	94,423	2,313	9.93	89,628	2,111	9.55
Non-U.S. credit card (3)	—	—	—	9,367	211	9.15
Direct/Indirect consumer (4)	92,478	701	3.07	93,291	608	2.65
Other consumer (5)	2,814	27	4.00	2,547	27	4.07
Total consumer	451,497	5,466	4.89	453,968	5,257	4.68
U.S. commercial	299,850	2,717	3.68	287,468	2,222	3.14
Non-U.S. commercial	99,504	738	3.01	92,821	595	2.60
Commercial real estate (6)	59,231	587	4.02	57,764	479	3.36
Commercial lease financing	21,833	175	3.20	22,123	231	4.17
Total commercial	480,418	4,217	3.56	460,176	3,527	3.11
Total loans and leases (3)	931,915	9,683	4.20	914,144	8,784	3.88
Other earning assets (1)	84,345	984	4.72	73,514	760	4.19
Total earning assets (1,7)	1,979,832	15,749	3.21	1,895,373	13,833	2.96
Cash and due from banks	26,275			27,196		
Other assets, less allowance for loan and lease losses	319,771			309,080		
	$2,325,878			$2,231,649		

Total assets						
Interest-bearing liabilities						
U.S. interest-bearing deposits:						
Savings	$54,747	$1	0.01%	$52,193	$1	0.01%
NOW and money market deposit accounts	659,033	406	0.25	617,749	74	0.05
Consumer CDs and IRAs	41,313	33	0.33	46,711	31	0.27
Negotiable CDs, public funds and other deposits	40,639	157	1.56	33,695	52	0.63
Total U.S. interest-bearing deposits	795,732	597	0.30	750,348	158	0.09
Non-U.S. interest-bearing deposits:						
Banks located in non-U.S. countries	2,243	9	1.67	2,616	5	0.76
Governments and official institutions	1,154	—	0.02	1,013	2	0.81
Time, savings and other	67,334	154	0.92	58,418	117	0.81
Total non-U.S. interest-bearing deposits	70,731	163	0.93	62,047	124	0.81
Total interest-bearing deposits	866,463	760	0.36	812,395	282	0.14

Federal funds purchased, securities loaned or sold under agreements to repurchase, short-term borrowings and other interest-bearing liabilities (1)	278,931	1,135	1.65	266,837	573	0.87
Trading account liabilities	55,362	357	2.62	38,731	264	2.76
Long-term debt	229,603	1,739	3.06	221,468	1,459	2.65
Total interest-bearing liabilities (1,7)	1,430,359	3,991	1.13	1,339,431	2,578	0.78
Noninterest-bearing sources:						
Noninterest-bearing deposits	430,805			444,237		
Other liabilities (1)	199,234			180,281		
Shareholders' equity	265,480			267,700		
Total liabilities and shareholders' equity	$2,325,878			$2,231,649		
Net interest spread			2.08%			2.18%
Impact of noninterest-bearing sources			0.31			0.21
Net interest income/yield on earning		$11,758	2.39%		$11,255	2.39%

assets

(1) Certain prior-period amounts have been reclassified to conform to current period presentation.

(2) Nonperforming loans are included in the respective average loan balances. Income on these nonperforming loans is generally recognized on a cost recovery basis. PCI loans are recorded at fair value upon acquisition and accrete interest income over the estimated life of the loan.

(3) Includes assets of the Corporation's non-U.S. consumer credit card business, which was sold during the second quarter of 2017.

(4) Includes non-U.S. consumer loans of $2.9 billion in both the first quarter of 2018 and 2017.

(5) Includes consumer finance loans of $0 and $454 million; consumer leases of $2.6 billion and $1.9 billion, and consumer overdrafts of $167 million and $170 million in the first quarter of 2018 and 2017, respectively.

(6) Includes U.S. commercial real estate loans of $55.3 billion and $54.7 billion, and non-U.S. commercial real estate loans of $3.9 billion and $3.1 billion in the first quarter of 2018 and 2017, respectively.

(7) Interest income includes the impact of interest rate risk management contracts, which decreased interest income on the underlying assets by $7 million and $17 million in the first quarter of 2018 and 2017. Interest expense includes the impact of interest rate risk management contracts, which decreased interest expense on the underlying liabilities by $204 million and $424 million in the first quarter of 2018 and 2017. For more information, see Interest Rate Risk Management for the Banking Book on page 45.

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. 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 17. The capital allocated to the business segments
is referred to as allocated capital. 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 more 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 period-end total assets, see Note 17 – Business Segment Information to the Consolidated Financial Statements.

Consumer Banking

	Deposits		Consumer Lending		Total Consumer Banking		
	Three Months Ended March 31						
(Dollars in millions)	2018	2017	2018	2017	2018	2017	% Change
Net interest income (FTE basis)	$3,741	$ 3,063	$2,769	$2,718	$6,510	$5,781	13 %
Noninterest income:							
Card income	2	2	1,277	1,222	1,279	1,224	4
Service charges	1,044	1,050	—	—	1,044	1,050	(1)
All other income	108	102	91	127	199	229	(13)
Total noninterest income	1,154	1,154	1,368	1,349	2,522	2,503	1
Total revenue, net of interest expense (FTE basis)	4,895	4,217	4,137	4,067	9,032	8,284	9
Provision for credit losses	41	55	894	783	935	838	12
Noninterest expense	2,651	2,527	1,829	1,883	4,480	4,410	2
Income before income taxes (FTE basis)	2,203	1,635	1,414	1,401	3,617	3,036	19
Income tax expense (FTE basis)	561	616	361	528	922	1,144	(19)

Net income	$1,642	$ 1,019	$1,053	$ 873	$2,695	$ 1,892	42
Effective tax rate (1)					25.5 %	37.7 %	
Net interest yield (FTE basis)	2.25 %	1.96 %	4.09 %	4.34 %	3.73	3.50	
Return on average allocated capital	55	34	17	14	30	21	
Efficiency ratio (FTE basis)	54.15	59.94	44.21	46.29	49.60	53.24	

Balance Sheet

	Three Months Ended March 31						
Average	2018	2017	2018	2017	2018	2017	% Change
Total loans and leases	$5,170	$ 4,979	$274,387	$ 252,966	$279,557	$ 257,945	8 %
Total earning assets (2)	673,641	634,704	274,748	254,066	707,754	668,865	6
Total assets (2)	701,418	661,769	285,864	265,783	746,647	707,647	6
Total deposits	668,983	629,337	5,368	6,257	674,351	635,594	6
Allocated capital	12,000	12,000	25,000	25,000	37,000	37,000	—

Period end	March 31 2018	December 31 2017	March 31 2018	December 31 2017	March 31 2018	December 31 2017	% Change
Total loans and leases	$5,111	$ 5,143	$273,944	$ 275,330	$279,055	$ 280,473	(1)%
Total earning assets (2)	700,420	675,485	274,977	275,742	735,247	709,832	4
Total assets (2)	728,063	703,330	286,343	287,390	774,256	749,325	3
Total deposits	695,514	670,802	5,974	5,728	701,488	676,530	4

(1) Estimated at the segment level only.

(2) In segments and businesses where the total of liabilities and equity exceeds assets, we allocate assets from All Other to match the segments' and businesses' liabilities and allocated shareholders' equity. As a result, total earning assets and total assets of the businesses may not equal total 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. For more information about Consumer Banking, including our Deposits and Consumer Lending businesses, see Business Segment Operations in the MD&A of the Corporation's 2017 Annual Report on Form 10-K.

Consumer Banking Results

Net income for Consumer Banking increased $803 million to $2.7 billion for the three months ended March 31, 2018 compared to the same period in 2017 primarily driven by higher pretax income, and lower tax expense. The impact of the reduction in the federal tax rate was somewhat offset by the elimination of tax deductions for FDIC premiums under the Tax Act. The increase in pretax income

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was driven by an increase in revenue partially offset by higher provision for credit losses and an increase in noninterest expense. Net interest income increased $729 million to $6.5 billion primarily due to the beneficial impact of an increase in investable assets as a result of higher deposits and higher interest rates, as well as pricing discipline and loan growth. Noninterest income increased $19 million to $2.5 billion driven by higher card income, partially offset by lower mortgage banking income.

The provision for credit losses increased $97 million to $935 million due to portfolio seasoning and loan growth in the U.S. credit card portfolio. Noninterest expense increased $70 million to $4.5 billion driven by investments in digital capabilities and business growth, including increased primary sales professionals, combined with investments in new financial centers and renovations, as well as higher personnel expense. These increases were largely offset by improved operating efficiencies and lower litigation expense.

The return on average allocated capital was 30 percent, up from 21 percent, driven by higher net income. For additional information on capital allocations, see Business Segment Operations on page 9.

Deposits and Consumer Lending include the net impact of migrating customers and their related deposit, brokerage asset and loan balances between Deposits, Consumer Lending and GWIM, as well as other client-managed business. For more information on the migration of customer balances to or from GWIM, see GWIM – Net Migration Summary on page 12.

Deposits

Net income for Deposits increased $623 million to $1.6 billion for the three months ended March 31, 2018 compared to the same period in 2017 driven by higher net interest income and lower income taxes, partially offset by higher noninterest expense. Net interest income increased $678 million to $3.7 billion primarily due to the beneficial impact of an increase in investable assets as a result of higher deposits, and pricing discipline. Noninterest income of $1.2 billion remained unchanged.

The provision for credit losses decreased $14 million to $41 million. Noninterest expense increased $124 million to $2.7 billion primarily driven by investments in digital capabilities and business growth, including increased primary sales professionals, combined with investments in new financial centers and renovations, as well as higher personnel expense.

Average deposits increased $39.6 billion to $669.0 billion driven by strong organic growth. Growth in checking, money market savings and traditional savings of $44.0 billion was partially offset by a decline in time deposits of $4.6 billion.

Key Statistics – Deposits

	Three Months Ended March 31	
	2018	2017
Total deposit spreads (excludes noninterest costs) [1]	2.00 %	1.67 %
Period End		
Client brokerage assets (in millions)	$182,110	$153,786
Active digital banking users (units in thousands) [2]	35,518	33,702
Active mobile banking users (units in thousands)	24,801	22,217
Financial centers	4,435	4,559
ATMs	16,011	15,939

(1) Includes deposits held in Consumer Lending.

(2) Digital users represents mobile and/or online users across consumer businesses; historical information has been reclassified primarily due to the sale of the Corporation's non-U.S. consumer credit card business in the second quarter of 2017.

Client brokerage assets increased $28.3 billion driven by strong client flows and market performance. Active mobile banking users increased 2.6 million reflecting continuing changes in our customers' banking preferences. The number of financial centers declined by a net 124 reflecting 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

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. For more information on the core and non-core portfolios, see Consumer Portfolio Credit Risk Management on page 25.

At March 31, 2018, total owned loans in the core portfolio held in Consumer Lending were $117.9 billion, an increase of $14.2 billion from March 31, 2017, primarily driven by higher residential mortgage balances, based on a decision to retain certain loans on the balance sheet, partially offset by a decline in home equity balances.

Net income for Consumer Lending increased $180 million to $1.1 billion for the three months ended March 31, 2018 compared to the same period in 2017 driven by lower income taxes, higher revenue and lower noninterest expense, partially offset by higher provision for credit losses. Net interest income increased $51 million to $2.8 billion primarily driven by the impact of an increase in loan balances. Noninterest income increased $19 million to $1.4 billion driven by higher card income, partially offset by lower mortgage banking income.

The provision for credit losses increased $111 million to $894 million due to portfolio seasoning and loan growth in the U.S. credit card portfolio. Noninterest expense decreased $54 million to $1.8 billion primarily driven by lower litigation expense and improved operating efficiencies.

Average loans increased $21.4 billion to $274.4 billion driven by increases in residential mortgages, as well as U.S credit card and consumer vehicle loans, partially offset by lower home equity loan balances.

Key Statistics – Consumer Lending

	Three Months Ended March 31	
(Dollars in millions)	2018	2017
Total U.S. credit card (1)		
Gross interest yield	9.93 %	9.55 %
Risk-adjusted margin	8.32	8.89
New accounts (in thousands)	1,194	1,184
Purchase volumes	$61,347	$55,321
Debit card purchase volumes	$76,052	$70,611

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

During the three months ended March 31, 2018, the total U.S. credit card risk-adjusted margin decreased 57 bps primarily driven by increased net charge-offs and higher credit card rewards costs.

Total U.S. credit card purchase volumes increased $6.0 billion to $61.3 billion, and debit card purchase volumes increased $5.4 billion to $76.1 billion, reflecting higher levels of consumer spending.

Key Statistics - Loan Production [1]

(Dollars in millions)	Three Months Ended March 31 2018	2017
Total [2]:		
First mortgage	$9,424	$11,442
Home equity	3,749	4,053
Consumer Banking:		
First mortgage	$5,964	$7,629
Home equity	3,345	3,667

(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 decreased $1.7 billion and $2.0 billion in the three months ended March 31, 2018 compared to the same period in 2017 primarily driven by the higher interest rate environment driving lower first-lien mortgage refinances.

Home equity production in Consumer Banking and for the total Corporation decreased $322 million and $304 mill