BANK OF AMERICA CORP /DE/
Form 10-Q
October 29, 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 September 30, 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 every Interactive Data File required to be submitted 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 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 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 October 26, 2018, there were 9,814,196,864 shares of Bank of America Corporation Common Stock outstanding.

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Part I. Financial Information

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, monolines, private-label and other investors, or other parties involved in securitizations; 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, including tariffs, 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 September 30, 2018, the Corporation had approximately $2.3 trillion in assets and a headcount of approximately 205,000 employees.

As of September 30, 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 67 million consumer and small business clients with approximately 4,400 retail financial centers, approximately 16,100 ATMs, and

leading digital banking platforms (www.bankofamerica.com) with more than 36 million active users, including nearly 26 million active mobile users. We offer industry-leading support to approximately three million small business owners. Our wealth management businesses, with client balances of approximately $2.8 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.

Recent Events

Capital Management

During the third quarter of 2018, we repurchased $5.0 billion of common stock pursuant to the Board of Directors' (the Board) 2018 repurchase authorization of approximately $20.6 billion announced on June 28, 2018. For additional information, see Capital Management on page 22. On July 26, 2018, the Board declared a quarterly common stock dividend of $0.15 per share, payable on September 28, 2018 to shareholders of record as of September 7, 2018. Additionally, on October 24, 2018, the Board declared a quarterly common stock dividend of $0.15 per share, payable on December 28, 2018 to shareholders of record as of December 7, 2018.

Financial Highlights

Table 1 Summary Income Statement and Selected Financial Data

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions, except per share information)	2018	2017	2018	2017
Income statement				
Net interest income	$11,870	$11,161	$35,128	$ 33,205
Noninterest income	10,907	10,678	33,383	33,711
Total revenue, net of interest expense	22,777	21,839	68,511	66,916
Provision for credit losses	716	834	2,377	2,395
Noninterest expense	13,067	13,394	40,248	41,469
Income before income taxes	8,994	7,611	25,886	23,052
Income tax expense	1,827	2,187	5,017	7,185
Net income	7,167	5,424	20,869	15,867
Preferred stock dividends	466	465	1,212	1,328
Net income applicable to common shareholders	$6,701	$4,959	$19,657	$ 14,539

Per common share information				
Earnings	$0.67	$0.49	$1.93	$1.44
Diluted earnings	0.66	0.46	1.91	1.36
Dividends paid	0.15	0.12	0.39	0.27
Performance ratios				
Return on average assets	1.23 %	0.95 %	1.20 %	0.94 %
Return on average common shareholders' equity	10.99	7.89	10.86	7.91
Return on average tangible common shareholders' equity[(1)]	15.48	10.98	15.30	11.10
Efficiency ratio	57.37	61.33	58.75	61.97

	September 30 2018	December 31 2017
Balance sheet		
Total loans and leases	$929,801	$936,749
Total assets	2,338,833	2,281,234
Total deposits	1,345,649	1,309,545
Total common shareholders' equity	239,832	244,823
Total shareholders' equity	262,158	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 52.

Net income was $7.2 billion and $20.9 billion, or $0.66 and $1.91 per diluted share for the three and nine months ended September 30, 2018 compared to $5.4 billion and $15.9 billion, or $0.46 and $1.36 per diluted share for the same periods in 2017. The improvement in net income for the three and nine months ended September 30, 2018 was driven by a decrease in income tax expense due to the impacts of the Tax Cuts and Jobs Act (the Tax Act), an increase in net interest income, higher noninterest income in the three-month period, lower provision for credit losses and a decline in noninterest expense, partially offset by a decline in noninterest income in the nine-month period. Impacts from the Tax Act include a reduction in the federal tax rate to 21 percent from 35 percent.

Total assets increased $57.6 billion from December 31, 2017 to $2.3 trillion at September 30, 2018 driven by higher cash and cash equivalents from liquidity management actions and an increase in securities borrowed or purchased under agreements to resell primarily due to short-term investments of cash largely resulting from deposit growth.

Total liabilities increased $62.6 billion from December 31, 2017 to $2.1 trillion at September 30, 2018 primarily driven by higher deposits due to organic growth and several large short-term

placements at the end of the quarter, increases in accrued expenses and other liabilities primarily due to trading-related payables, and higher trading account liabilities driven by client activity in Global Markets. Shareholders' equity decreased $5.0 billion from December 31, 2017 primarily due to returns of capital to shareholders through common stock repurchases and common and preferred stock dividends, market value declines in debt securities and the redemption of preferred stock, partially offset by net income and issuances of preferred stock.

Net Interest Income

Net interest income increased $709 million to $11.9 billion, and $1.9 billion to $35.1 billion for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The net interest yield increased eight basis points (bps) to 2.39 percent, and four bps to 2.36 percent for the same periods. These increases were primarily driven by higher interest rates as well as loan and deposit growth, partially offset by tightening spreads, and for the nine-month period, the impact of the sale of the non-U.S. consumer credit card business in the second quarter of 2017. For more information regarding interest rate risk management, see Interest Rate Risk Management for the Banking Book on page 49.

Noninterest Income

Table 2 Noninterest Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Card income	$1,470	$1,429	$4,469	$4,347
Service charges	1,961	1,968	5,836	5,863
Investment and brokerage services	3,494	3,437	10,616	10,314
Investment banking income	1,204	1,477	3,979	4,593
Trading account profits	1,893	1,837	6,907	6,124
Other income	885	530	1,576	2,470
Total noninterest income	$10,907	$10,678	$33,383	$33,711

Noninterest income increased $229 million to $10.9 billion, and decreased $328 million to $33.4 billion for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The following highlights the significant changes.

- Card income increased $41 million and $122 million primarily driven by an increase in credit and debit card spending, as well as increased late fees and annual fees, partially offset by higher rewards costs and lower cash advance fees, and for the nine-month period, the sale of the non-U.S. consumer credit card business.
- Investment and brokerage services income increased $57 million and $302 million primarily due to assets under management (AUM) flows and higher market valuations, partially offset by the impact of changing market dynamics

on transactional revenue, and AUM pricing.
Investment banking income decreased $273 million and $614 million primarily due to declines in leveraged finance and advisory fees, partially offset by an increase in equity underwriting fees.

Trading account profits increased $56 million for the three-month period primarily due to increased client activity in equity financing and derivatives, partially offset by weakness in rates products and municipal bonds, and increased $783 million for the nine-month period primarily due to increased client activity in equity financing and derivatives, and strong trading performance in equity derivatives and macro-related products, partially offset by weakness in credit products.
Other income increased $355 million for the three-month period primarily due to increased results from economic hedging activities, lower provision for representations and warranties and a gain on the sale of an equity investment. The $894 million decrease for the nine-month period also reflected a $729 million charge related to the redemption of certain trust preferred securities, partially offset by $656 million of gains on the sale of certain loans, primarily non-core. The nine-month period in 2017 included a $793 million pretax gain recognized in connection with the sale of the non-U.S. consumer credit card business.

Provision for Credit Losses

The provision for credit losses decreased $118 million to $716 million for the three months ended September 30, 2018 compared to the same period in 2017 primarily due to asset quality improvement in the commercial portfolio including energy exposures and a lower reserve build in the U.S. credit card portfolio. The provision for credit losses decreased $18 million to $2.4 billion for the nine months ended September 30, 2018

compared to the same period in 2017 primarily due to asset quality improvement in the commercial portfolio including energy exposures and the impact of the sale of the non-U.S. consumer credit card business during the second quarter of 2017, largely offset by portfolio seasoning and loan growth in the U.S. credit card portfolio and a slower pace of improvement in the consumer real estate portfolio. For more information on the provision for credit losses, see Provision for Credit Losses on page 44.

Noninterest Expense

Table 3 Noninterest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Personnel	$7,721	$7,811	$24,145	$24,326
Occupancy	1,015	999	3,051	3,000
Equipment	421	416	1,278	1,281
Marketing	421	461	1,161	1,235
Professional fees	439	476	1,219	1,417
Data processing	791	777	2,398	2,344
Telecommunications	173	170	522	538
Other general operating	2,086	2,284	6,474	7,328
Total noninterest expense	$13,067	$13,394	$40,248	$41,469

Noninterest expense decreased $327 million to $13.1 billion and $1.2 billion to $40.2 billion for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The decrease for both periods was primarily due to lower other general operating expense, primarily driven by a decline in litigation expense and, for the nine-month period, a $295 million impairment charge recognized in the second quarter of 2017 related to certain data centers. Personnel expense also declined for both periods.

Income Tax Expense

Table 4 Income Tax Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Income before income taxes	$8,994	$7,611	$25,886	$23,052
Income tax expense	1,827	2,187	5,017	7,185
Effective tax rate	20.3 %	28.7 %	19.4 %	31.2 %

The effective tax rates for the three and nine months ended September 30, 2018 reflect the 21 percent federal tax rate and the other provisions of the Tax Act, as well as the impact of our recurring tax preference benefits. The nine-month effective rate also included tax benefits related to stock-based compensation.

The effective tax rates for the three and nine months ended September 30, 2017 were driven by the impact of our recurring tax preference benefits. The nine-month effective tax rate also included a tax charge related to the sale of the non-U.S. consumer credit card business during the second quarter of 2017, partially offset by tax benefits related to stock-based compensation recognized earlier in the year.

We expect the effective tax rate for 2018 to be approximately 20 percent, absent unusual items.

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 Tables 5 and 6.

For more information on the reconciliation of these non-GAAP financial measures to GAAP financial measures, see Non-GAAP Reconciliations on page 52.

Table 5 Selected Quarterly Financial Data

	2018 Quarters			2017 Quarters	
(In millions, except per share information)	Third	Second	First	Fourth	Third
Income statement					
Net interest income	$11,870	$11,650	$11,608	$11,462	$11,161
Noninterest income (1)	10,907	10,959	11,517	8,974	10,678
Total revenue, net of interest expense	22,777	22,609	23,125	20,436	21,839
Provision for credit losses	716	827	834	1,001	834
Noninterest expense	13,067	13,284	13,897	13,274	13,394
Income before income taxes	8,994	8,498	8,394	6,161	7,611
Income tax expense (1)	1,827	1,714	1,476	3,796	2,187
Net income (1)	7,167	6,784	6,918	2,365	5,424
Net income applicable to common shareholders	6,701	6,466	6,490	2,079	4,959
Average common shares issued and outstanding	10,031.6	10,181.7	10,322.4	10,470.7	10,197.9
Average diluted common shares issued and outstanding	10,170.8	10,309.4	10,472.7	10,621.8	10,746.7
Performance ratios					
Return on average assets	1.23 %	1.17 %	1.21 %	0.41 %	0.95 %
Four quarter trailing return on average assets (2)	1.00	0.93	0.86	0.80	0.91
Return on average common shareholders' equity	10.99	10.75	10.85	3.29	7.89
Return on average tangible common shareholders' equity(3)	15.48	15.15	15.26	4.56	10.98
Return on average shareholders' equity	10.74	10.26	10.57	3.43	7.88
Return on average tangible shareholders' equity (3)	14.61	13.95	14.37	4.62	10.59
Total ending equity to total ending assets	11.21	11.53	11.43	11.71	11.91
Total average equity to total average assets	11.42	11.42	11.41	11.87	12.03
Dividend payout	22.35	18.83	19.06	60.35	25.59
Per common share data					
Earnings	$0.67	$0.64	$0.63	$0.20	$0.49
Diluted earnings	0.66	0.63	0.62	0.20	0.46
Dividends paid	0.15	0.12	0.12	0.12	0.12
Book value	24.33	24.07	23.74	23.80	23.87
Tangible book value (3)	17.23	17.07	16.84	16.96	17.18
Market price per share of common stock					
Closing	$29.46	$28.19	$29.99	$29.52	$25.34
High closing	31.80	31.22	32.84	29.88	25.45
Low closing	27.78	28.19	29.17	25.45	22.89
Market capitalization	$290,424	$282,259	$305,176	$303,681	$264,992
Average balance sheet					
Total loans and leases	$930,736	$934,818	$931,915	$927,790	$918,129
Total assets	2,317,829	2,322,678	2,325,878	2,301,687	2,271,104
Total deposits	1,316,345	1,300,659	1,297,268	1,293,572	1,271,711

Long-term debt	233,475		229,037		229,603		227,644		227,309	
Common shareholders’ equity	241,812		241,313		242,713		250,838		249,214	
Total shareholders’ equity	264,653		265,181		265,480		273,162		273,238	
Asset quality										
Allowance for credit losses (4)	$10,526		$10,837		$11,042		$11,170		$11,455	
Nonperforming loans, leases and foreclosed properties (5)	5,449		6,181		6,694		6,758		6,869	
Allowance for loan and lease losses as a percentage of total loans and leases outstanding (5)	1.05	%	1.08	%	1.11	%	1.12	%	1.16	%
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases (5)	189		170		161		161		163	
Net charge-offs (6)	$932		$996		$911		$1,237		$900	
Annualized net charge-offs as a percentage of average loans and leases outstanding (5, 6)	0.40	%	0.43	%	0.40	%	0.53	%	0.39	%
Capital ratios at period end (7)										
Common equity tier 1 capital	11.4	%	11.4	%	11.3	%	11.5	%	11.9	%
Tier 1 capital	12.9		13.0		13.0		13.0		13.4	
Total capital	14.7									