
Bank of America



Market Risk Disclosures

For the Quarterly Period Ended June 30, 2014

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Important Presentation Information

The Market Risk Disclosures of Bank of America Corporation (the “Corporation”) contained herein are required to be made publicly available pursuant to regulations adopted by the Board of Governors of the Federal Reserve System, the U.S. Department of the Treasury and the Federal Deposit Insurance Corporation titled “Risk-Based Capital Guidelines: Market Risk”, and effective January 1, 2013 (the “Market Risk Final Rule”), [12 C.F.R. Part 225, Appendix E].

The Corporation’s Market Risk Disclosures may include some financial information that has not been prepared under generally accepted accounting principles (“GAAP”). Certain information contained in the Market Risk Disclosures is prepared pursuant to instructions in the Market Risk Final Rule. The Corporation’s financial information prepared under GAAP is available in reports filed with the Securities and Exchange Commission (“SEC”) including its Annual Report on Form 10-K for the year ended December 31, 2013 and the most recently filed quarterly reports on Form 10-Q

Pursuant to the Market Risk Final Rule the Corporation is making the Market Risk Disclosures available on its website at <http://phx.corporate-ir.net/phoenix.zhtml?c=71595&p=irol-basel>.

Overview

Market risk is the risk that the values of the assets and liabilities or revenues of the Corporation will be adversely affected by changes in market conditions. This risk is inherent in the financial instruments associated with our operations. The majority of these operations and the associated risks are within our *Global Markets* segment. To a lesser extent, we are also exposed to these risks in other areas of the Corporation. In the event of market stress, these risks could have a material impact on the results of the Corporation.

Our traditional banking loan and deposit products are non-trading positions and are generally reported at amortized cost for assets or the amount owed for liabilities (historical cost). However, these positions are still subject to changes in economic value based on varying market conditions, with one of the primary risks being changes in the levels of interest rates. The risk of adverse changes in the economic value of our non-trading positions arising from changes in interest rates is managed through our Asset Liability Management (ALM) activities. For more information on the Corporation's ALM activities please see *Interest Rate Risk Management for Nontrading Activities* in the Corporation's report on Form 10-Q for the three and six months ended June 30, 2014. We have elected to account for certain assets and liabilities under the fair value option. For additional information on the fair value of certain financial assets and liabilities, see *Note 14 – Fair Value Measurements* to the Consolidated Financial Statements in the Corporation's report on Form 10-Q for the three and six months ended June 30, 2014.

Our trading positions are reported at fair value with changes reflected in income. Trading positions are subject to various changes in market-based risk factors. The majority of this risk is generated by our activities in the interest rate, foreign exchange, credit, equity and commodities markets. In addition, the values of assets and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility. We seek to manage these risk exposures by using a variety of techniques that encompass a broad range of financial instruments. The key risk management techniques are discussed in more detail in the Trading Risk Management section.

Global Markets Risk Management is an independent function within the Corporation that supports the Global Banking and Markets Risk Executive. The Global Markets Risk Committee (GMRC), chaired by the Global Markets Risk Executive, has been designated by the Asset Liability and Market Risk Committee (ALMRC) as the primary risk governance authority for *Global Markets*. The GMRC's focus is to take a forward-looking view of the primary credit, market and operational risks impacting *Global Markets* and prioritize those that need a proactive risk mitigation strategy.

Global Markets Risk Management is responsible for providing senior management with a clear and comprehensive understanding of the trading risks to which the Corporation is exposed. These responsibilities include the ownership of market risk policy, developing and maintaining quantitative risk models, calculating aggregated risk measures, establishing and monitoring position limits consistent with risk appetite, conducting daily reviews and analysis of trading inventory, approving material risk exposures and fulfilling regulatory requirements. Market risks that impact businesses outside of *Global Markets* are monitored and governed by their respective governance functions.

Quantitative risk models, such as Value-at-Risk (VaR), are an essential component in evaluating the market risks within a portfolio. The Enterprise Model Risk Committee (EMRC) reports to the ALMRC, and is responsible for providing management oversight and approval of model risk management and governance. The EMRC defines model risk standards, consistent with the Corporation's Risk Framework and risk appetite, prevailing regulatory guidance and industry best practice. Models must meet certain validation criteria, including effective challenge of the model development process and a sufficient demonstration of developmental evidence incorporating a comparison of alternative theories and approaches. The EMRC ensures that model standards are consistent with model risk requirements and monitors the effective challenge in the model validation process across the Corporation. In addition, the relevant stakeholders must agree on any required actions or restrictions to the models and maintain a stringent monitoring process to ensure continued compliance.

The bank regulatory agencies in the U.S. issued revised market risk capital guidelines (Market Risk Final Rule), which became effective on January 1, 2013. The Market Risk Final Rule introduced new measures of market risk including a charge related to stressed VaR, an incremental risk charge (IRC) and the comprehensive risk measure (CRM), as well as other technical modifications. The calculation of regulatory capital under the Market Risk Final Rule is determined through the use of multiple risk measures. These measures are then aggregated to arrive at the total market risk based component of the regulatory capital calculation, otherwise known as Market Risk – Risk Weighted Assets (RWA). For more information on the Corporation's Regulatory Capital, please see *Capital Management* in the Corporation's report on Form 10-Q for the three and six months ended June 30, 2014.

Table 1 presents the components of the total Market Risk RWA.

Table 1
Market Risk - Risk Weighted Assets

(Dollars in millions)	Three Months Ended					
	June 30, 2014		March 31, 2014		June 30, 2013	
	Capital	Risk-weighted Assets	Capital	Risk-weighted Assets	Capital	Risk-weighted Assets
Regulatory VaR 10-day holding period ¹ 60 day average	\$ 306	\$ 3,828	\$ 438	\$ 5,471	\$ 476	\$ 5,946
Stressed VaR 10-day holding period ¹ 60 day average	1,321	16,510	1,689	21,118	1,400	17,503
Incremental risk charge	596	7,445	418	5,220	546	6,829
a. Average modeled comprehensive risk measure	232	2,905	227	2,837	400	4,997
b. Surcharge/add-on (correlation and hedges)	1,088	13,605	1,212	15,156	1,177	14,708
Comprehensive risk measure	1,321	16,509	1,439	17,993	1,577	19,705
a. Standard specific risk charges Month-end	2,560	32,002	2,507	31,336	2,408	30,104
b. Securitization framework Month-end	1,905	23,809	1,675	20,935	1,735	21,685
Standard specific risk	4,465	55,811	4,182	52,271	4,143	51,789
Other charges ²	271	3,387	295	3,693	1,017	12,711
De minimis covered positions	21	266	27	338	5	65
Total	\$ 103,756	\$ 103,756	\$ 106,104	\$ 106,104	\$ 114,548	\$ 114,548

1. Multiplier of three is used to determine VaR and Stressed VaR Capital numbers.

2. Other charges are comprised of modeled specific risk and other modeled charges, as approved by the Regulators.

The decrease in market risk RWA for the three months ended June 30, 2014 compared to the three months ended March 31, 2014 is mainly attributable to \$6.2B decrease in VaR and Stressed VaR due to inventory reductions. This decrease is partially offset by \$3.5B increase in standard specific charges related to non correlation securitization positions.

The decrease in market risk RWA for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 is mainly attributable to \$9.3B decrease in 'Other charges' due to a reduction in other modeled charges following supervisory approval.

Trading Risk Management

To evaluate risk in our trading activities, we focus on the actual and potential volatility of revenues generated by individual positions as well as portfolios of positions. Various techniques and procedures are utilized to enable the most complete understanding of these risks. Quantitative measures of market risk are evaluated on a daily basis from a single position to the portfolio of the Corporation. These measures include sensitivities of positions to various market risk factors, such as the potential impact on revenue from a one basis point change in interest rates, and statistical measures utilizing both actual and hypothetical market moves, such as VaR and stress testing. Periods of extreme market stress influence the reliability of these techniques to varying degrees. Qualitative evaluations of market risk utilize the suite of quantitative risk measures while understanding each of their respective limitations. Additionally, risk managers independently evaluate the risk of the portfolios under the current market environment and potential future environments.

VaR

VaR is a common statistic used to measure market risk as it allows the aggregation of market risk factors, including the effects of portfolio diversification. A VaR model simulates the value of a portfolio under a range of scenarios in order to generate a distribution of potential gains and losses. VaR represents the loss a portfolio is not expected to exceed more than a certain number of times per period, based on a specified holding period, confidence level and window of historical data. We use one VaR model consistently across the trading portfolios of the Corporation. That model uses a historical simulation approach based on a three-year window of historical data. Our primary VaR statistic is equivalent to a 99 percent confidence level. This means that for a VaR with a one-day holding period, there should not be losses in excess of VaR, on average, 99 out of 100 trading days.

Within any VaR model, there are significant and numerous assumptions that will differ from company to company. The accuracy of a VaR model depends on the availability and quality of historical data for each of the risk factors in the portfolio. A VaR model may require additional modeling assumptions for new products that do not have the necessary historical market data or for less liquid positions for which accurate daily prices are not consistently available. For positions with insufficient historical data for the VaR calculation, the process for establishing an appropriate proxy is based on fundamental and statistical analysis of the new product or less liquid position.

This analysis identifies reasonable alternatives that replicate both the expected volatility and correlation to other market risk factors that the missing data would be expected to experience.

VaR may not be indicative of realized revenue volatility as changes in market conditions or in the composition of the portfolio can have a material impact on the results. In particular, the historical data used for the VaR calculation might indicate higher or lower levels of portfolio diversification than will be experienced. In order for the VaR model to reflect current market conditions, we update the historical data underlying our VaR model on a weekly basis, or more frequently during periods of market stress, and regularly review the assumptions underlying the model. A relatively minor portion of risks related to our trading positions are not included in VaR. These risks are reviewed as part of our Internal Capital Adequacy Assessment Process (ICAAP).

Global Markets Risk Management continually reviews, evaluates and enhances our VaR model so that it reflects the material risks in our trading portfolio. Changes to the VaR model are reviewed and approved prior to implementation and any material changes are reported to management through the appropriate governance committees.

The VaR statistic used for the regulatory capital calculation shown in Table 1 is defined by regulatory standards (“Regulatory VaR”) and it differs from the VaR statistic disclosed in the Corporation’s SEC disclosures (“Disclosure VaR”) due to differences in the population and holding period. Regulatory standards require that Regulatory VaR exclude counterparty credit valuation adjustments (“CVA”), which are adjustments to the mark-to-market value of our derivative exposures to reflect the impact of the credit quality of counterparties on our derivative assets. However, Regulatory VaR includes the corresponding hedges to the counterparty CVA. Disclosure VaR excludes both the counterparty CVA and the corresponding hedges. Disclosure VaR includes the modeled exposure designed to capture the potential market risk from commodity storage facilities and transport operating leases. However, Regulatory VaR excludes the derivative representation of this exposure. The holding period for Regulatory VaR is ten-days while for Disclosure VaR it is one-day. Both Regulatory VaR and Disclosure VaR utilize the same process and methodology.

Within Table 2, the VaR for each of the risk factors captures the expected loss with a 99 percent confidence level, similar to a stress scenario for each discrete risk factor. For example, the VaR for the interest rate risk factor identifies the potential loss the Corporation is not expected to exceed more than one out of every 100 days based on the previous three-years of historical data for just the interest rate risk in the Corporation’s portfolio. The historical days that generate these hypothetical losses might be different than the historical days that generate the hypothetical losses for the credit spread risk factor or for the Corporation’s total portfolio. The combination of the potentially different historical days that generate the hypothetical losses for each risk factor is what produces the diversification benefit across the portfolio. As a result, the sum of the VaRs by risk factor is greater than the total regulatory VaR.

The market risk across all business segments to which the Corporation is exposed is included in the total regulatory VaR results. The vast majority of this portfolio is within *Global Markets*. Table 2 presents the Regulatory VaR results by risk factors. The average regulatory VaR results are presented with both one-day and ten-day holding period. In addition, the period end, high and low Regulatory VaR as calculated with a ten-day holding period are included. The values shown in Table 2 include all trading days for the three months ended June 30, 2014 whereas the average Regulatory VaR used for the capital calculation is based on the 60 trading days ending June 30, 2014. Therefore the values used for the capital calculation in Table 1 can be different than the values presented in Table 2.

Table 2

Market Risk - Regulatory and Disclosure VaR

(Dollars in millions)	Three Months Ended June 30, 2014				
	Regulatory VaR				
	One-day Holding Period	10-day Holding Period			
	Average	Period End	Average	High ⁽¹⁾	Low ⁽¹⁾
Foreign exchange	\$ 19	\$ 30	\$ 39	\$ 65	\$ 25
Interest rate	38	78	91	130	59
Credit	43	215	184	264	148
Equities	16	9	22	73	5
Commodities	7	16	23	38	13
Portfolio diversification	(79)	(279)	(256)	-	-
Total market-based trading portfolio	\$ 44	\$ 69	\$ 103	\$ 135	\$ 69

1. The high and low for the total portfolio may have occurred during different trading days than the high and low for the individual components. Therefore the amount of portfolio diversification, which is the difference between the total portfolio and the sum of the individual components, is not relevant.

Trading limits on quantitative risk measures, including VaR, are monitored on a daily basis. These trading limits are independently set by Global Markets Risk Management and reviewed on a regular basis to ensure they remain relevant and within our overall risk appetite for market risks. Trading limits are reviewed in the context of market liquidity, volatility and strategic business priorities. Trading limits are set at both a granular level to ensure extensive coverage of risks as well as at aggregated portfolios to account for correlations among risk factors. All trading limits are approved at least annually and the ALMRC has given authority to the GMRC to approve changes to trading limits throughout the year. Approved trading limits are stored and tracked in a centralized limits management system. Trading limit excesses are communicated to management for review. Certain quantitative market risk measures and corresponding limits have been identified as critical in the Corporation's Risk Appetite Statement. These risk appetite limits are monitored on a daily basis and are approved at least annually by the Board of Directors. The market risk based risk appetite limits were not exceeded during the three months ended June 30, 2014.

In periods of market stress, the GMRC members communicate daily to discuss losses, key risk positions and any limit excesses. As a result of this process, the businesses may selectively reduce risk.

Backtesting

The accuracy of the VaR methodology is evaluated by backtesting, which compares the daily VaR results, utilizing a one-day holding period, against a comparable subset of trading revenue. A backtesting excess occurs when a trading loss exceeds the VaR for the corresponding day. These excesses are evaluated to understand the positions and market moves that produced the trading loss and to ensure that the VaR methodology accurately represents those losses. As our primary VaR statistic used for backtesting is based on a 99 percent confidence level and a one-day holding period, we expect one trading loss in excess of VaR every 100 days, or between two to three trading losses in excess of VaR over the course of a year. The number of backtesting excesses observed can differ from the statistically expected number of excesses if the current level of market volatility is materially different than the level of market volatility that existed during the three years of historical data used in the VaR calculation.

We conduct daily backtesting on our portfolios, ranging from the Total Regulatory VaR to individual trading areas. Additionally, we conduct daily backtesting on the VaR results for key legal entities, regions and risk factors. These results are reported to senior market risk management. Senior management, including the GMRC, regularly reviews and evaluates the results of these tests. The government agencies that regulate our operations also regularly review these results.

The trading revenue used for backtesting is defined by regulatory agencies in order to most closely align with the VaR component of the regulatory capital calculation. This revenue differs from total trading-related revenue in that it excludes revenue from trading activities that either do not generate market risk or the market risk cannot be included in VaR. Some examples of the types of revenue excluded for backtesting are fees, commissions, reserves, net interest income and intraday trading revenues. In addition, counterparty CVA is not included in the VaR component of the regulatory capital calculation and is therefore not included in the revenue used for backtesting of the Total Regulatory VaR results.

During the three months ended June 30, 2014, there were no days in which there was a backtesting excess for our Total Regulatory VaR results, utilizing a one day holding period.

Stressed VaR

Stressed VaR is a variation of VaR in which the historical window is not the previous three years but is calibrated to a continuous 12-month window that reflects a period of significant financial stress appropriate to the Corporation's current portfolio. Stressed VaR is calculated daily based on a 99 percent confidence level, a ten-day holding period and the same population of exposures as the Regulatory VaR. The Corporation utilizes a single model and process to calculate all Regulatory VaR, Stressed VaR and Disclosure VaR statistics.

Table 3 presents the Stressed VaR results. The average Stressed VaR calculated over a one-day holding period is shown in addition to the period end, average, high and low Stressed VaR calculated over a ten-day holding period. The values shown in Table 3 include all trading days for the three months ended June 30, 2014 whereas the average Regulatory Stressed VaR used for the capital calculation is based on the 60 trading days ending June 30, 2014. Therefore the values used for the capital calculation in Table 1 can be different than the values presented in Table 3.

Table 3

Market Risk - Stressed VaR

(Dollars in millions)	Three Months Ended June 30, 2014				
	One-day Holding Period	10-day Holding Period			
	Average	Period End	Average	High	Low
Total Regulatory Stressed VaR	\$ 93	\$ 324	\$ 442	\$ 577	\$ 324

Incremental Risk Charge

The Corporation's Incremental Risk Charge (IRC) model is one component of the regulatory capital calculation for market risk. The model is intended to capture the potential losses that non-securitized credit products in the trading portfolio might experience over a one-year period of financial stress from defaults, ratings migration and significant basis risk factors. To calculate the potential losses at the required 99.9 percent confidence level, the Corporation utilizes a Monte-Carlo simulation calibrated using relevant, available historical data for each risk factor in order to sample potential market scenarios. The model reflects the impact of concentrated risks, including issuer, sector, region and product basis risks, and assigns a higher potential loss to a concentrated portfolio than a more diversified portfolio with a similar credit profile. The model framework also captures the broad relationships between the different risk factors and is flexible enough to allow additional dependencies or risk factors to be incorporated in the future. The IRC model assumes a constant position and a liquidity horizon of one year.

Table 4 presents the period end, average, high and low IRC over the period. The IRC value used for the regulatory capital calculation is based on the higher of the period end value or the average value of the preceding 12 weeks.

Table 4

Market Risk - Incremental Risk Charge

(Dollars in millions)	Three Months Ended June 30, 2014			
	Period End	Average	High	Low
Total incremental risk charge	\$ 596	\$ 372	\$ 596	\$ 265

Comprehensive Risk Measure

The Corporation's Comprehensive Risk Measure (CRM) is another component of the regulatory capital calculation for market risk. The CRM is comprised of a modeled component and a surcharge for the eligible positions in the correlation trading portfolio, primarily tranches on index and bespoke portfolios, and their corresponding hedges.

The modeled component of the CRM takes into account all of the risk factors that materially impact the value of the positions within the correlation trading portfolio. The model captures the complexity of these positions including the non-linear nature of the trade valuations, particularly during periods of market stress, and the impact of the joint evolution of the risk factors. The modeled component of the CRM utilizes the same Monte-Carlo simulation framework as our IRC model with the additional risk factors required for the correlation products in order to calculate the potential losses at the required 99.9 percent confidence level. The modeled component of the CRM, like the IRC model, assumes a constant position and a liquidity horizon of one year.

The CRM surcharge is calculated using two components. The first is the assessment made using the Simplified Supervisory Formula Approach (SSFA). SSFA calculates capital on securitization exposures based on the amount and the level of subordination available as credit support to each exposure. The second component of the surcharge is the capital for hedges of the correlation portfolio which are calculated under the specific risk standard charge framework. The surcharge is equal to eight percent of the larger of the net longs or shorts of these aggregated components.

Table 5 presents the period end, average, high and low values for the CRM over the period. The CRM value used for the regulatory capital calculation is based on the higher of the period end value or the average value of the preceding 12 weeks.

Table 5

Market Risk - Comprehensive Risk Measure

(Dollars in millions)	Three Months Ended June 30, 2014			
	Period End	Average	High	Low
Total comprehensive risk measure	\$ 1,221	\$ 1,321	\$ 1,397	\$ 1,221

Table 6 presents the aggregate amount of correlation trading positions split between those that are included in the modeled component of the CRM and those that are subject to the securitization framework for the regulatory capital calculation. Hedges to the correlation trading positions that are included in the modeled component of CRM are considered part of the aggregate correlation trading positions and are included in Table 6. The values shown in the table are fair values.

Table 6

Market Risk - Correlation Trading Positions

(Dollars in millions)	June 30, 2014	
	Correlation Positions	Hedges
Positions subject to comprehensive risk measure	\$ 770	\$ 81
Positions subject to securitization framework	7	-
Total correlation trading positions	\$ 777	\$ 81

The Corporation conducted an analysis to assess the validity of the IRC and CRM models and respective methodologies. This analysis consisted of a comparison of alternative theories and approaches along with an understanding of the necessary assumptions and limitations of the models, as well as assessing the impact of stressing the calibrated parameters. This analysis was shared and discussed with the relevant regulatory agencies to ensure compliance with regulatory guidelines. The models are continually monitored to ensure that the implementation and applicability remain valid. We perform stress tests of these models on a regular basis. The calibration of these models is regularly reviewed. We incorporate relevant market data and changing market conditions on a regular basis. As with our other quantitative risk models, Stressed VaR, IRC and CRM models fall under the oversight of the EMRC and adhere to its independent analysis and on-going governance and standards policies.

Securitization Activity within the Trading Book

The main features that constitute a securitization exposure are as follows: credit risk of underlying exposures is transferred to third parties, credit risk associated with the underlying exposures has been split into at least two tranches with different levels of seniority, performance of the securitization exposures depends upon the performance of the underlying exposures and all or substantially all of the underlying exposures are financial exposures. Re-securitization is the process of repackaging existing securitization securities into new securities with credit enhanced tranches for investors.

The Corporation is involved in the securitization market through its business in providing financing solutions, market distribution strategies and market liquidity for our clients. Through the normal course of business we buy and sell securitization and re-securitization exposures across a number of asset classes such as residential real estate, commercial real estate, and consumer asset-backed securities. We are focused on making two-way markets and intermediating transfers of risk between clients. Finally, we continue to manage a legacy portfolio with the primary objective of managing the risk while reducing the exposures.

The risks we assume on securitization and re-securitization positions are driven by the structural features of the positions, performance of the underlying collateral and other market risk factors. In order to gauge these risks and fulfill the securitization due diligence requirements set forth in the Market Risk Final Rule, these factors are assessed prior to the purchase of each securitization position. This assessment is documented within three days of purchase and a reassessment is made on a quarterly basis.

Risk management closely monitors the securitization inventory and analyzes changes in positions, the composition of portfolios, trading activity and market risk factors to assess the overall level of market risk of securitizations and re-securitizations to which the Corporation is exposed. For the purpose of managing the Corporation's risk appetite in relation to securitization and re-securitizations, limits are established and tracked daily in the centralized limits management system. These limits range from granular measures such as fair value and the sensitivities to changes in market risk factors to aggregated portfolio measures such as VaR and stress testing results.

The modeling framework for securitization and re-securitization risk is based on a look-through approach to the underlying collateral level data. Models are used to project prepayment speeds, default rates and loss severity, which are key inputs in the valuation for both

government guaranteed and private label securities. These models incorporate market variables such as the level and volatility of interest rates and credit spreads, as well as macro-economic variables such as GDP, unemployment and housing prices. Models are back-tested periodically to measure the accuracy of the model forecasts against actual underlying collateral performance.

The Corporation manages and mitigates the risks inherent in securitization and re-securitization positions, including the use of offsetting positions and portfolio diversification. The use of offsetting positions includes the use of both macro and position level hedges to either reduce the exposure to certain risk factors or potential market stress events. In addition, the Corporation maintains a diversified portfolio across securitized product types to reduce the sensitivity to individual product types, issuers and servicers.

The standard specific risk portion of the regulatory capital calculation for securitized and re-securitized products is primarily based on the SSFA. The SSFA is used to assign a specific risk-weighting factor to each securitization or re-securitization position by taking into account factors such as the level of seniority of the position as well as the type and delinquency levels of its underlying exposures. Positions for which we are unable to collect recent data with respect to these inputs are assigned a maximum capital charge. For more information about securitizations, please refer to *Note 6 – Securitizations and Other Variable Interest Entities* in the Corporation’s report on Form 10-Q for the three and six months ended June 30, 2014.

Table 7 presents the aggregate amount of the trading book securitization positions by exposure type. The values shown reflect the Corporation’s view of the most meaningful representation of each corresponding exposure type. The values presented are fair value, except for derivatives referencing securitized products where bond-equivalent fair value is used. This table excludes the correlation trading positions that are defined as securitization positions, which are presented in Table 6.

Table 7

Market Risk - Trading Book Securitization Positions

(Dollars in millions)	June 30, 2014	
Residential real estate	\$	2,851
Commercial real estate		1,318
Consumer ABS		1,208
Loans to corporations		323
CDO		235
Total trading book securitization positions	\$	5,935

Trading Portfolio Stress Testing

Because the very nature of a VaR model suggests results can exceed our estimates and it is dependent on a limited historical window, we also stress test our portfolio using scenario analysis. This analysis estimates the change in value of our trading portfolio that may result from abnormal market movements.

A set of scenarios, categorized as either historical or hypothetical, are computed daily for the overall trading portfolio and individual businesses. These scenarios include shocks to underlying market risk factors that may be well beyond the shocks found in the historical data used to calculate VaR. Historical scenarios simulate the impact of the market moves that occurred during a period of extended historical market stress. Generally, a 10-business day window or longer representing the most severe point during a crisis is selected for each historical scenario. Hypothetical scenarios provide simulations of the estimated portfolio impact from potential future market stress events. Scenarios are reviewed and updated in response to changing positions and new economic or political information. In addition, new or adhoc scenarios are developed to address specific potential market events. For example, a stress test was conducted to estimate the impact of a significant increase in global interest rates and the corresponding impact across other asset classes. The stress tests are reviewed on a regular basis and the results are presented to senior management.

Stress testing for the trading portfolio is integrated with enterprise-wide stress testing and incorporated into the limits framework. A process is in place to promote consistency between the scenarios used for the trading portfolio and those used for enterprise-wide stress testing. The scenarios used for enterprise-wide stress testing purposes differ from the typical trading portfolio scenarios in that they have a longer time horizon and the results are forecasted over multiple periods for use in consolidated capital and liquidity planning. For more information on enterprise-wide stress testing, see *Managing Risk – Enterprise-wide Stress Testing* in the Corporation’s annual report on Form 10-K for the year ended December 31, 2013.