

Bank of America
2017 Dodd-Frank Act Annual Stress Test Results
Supervisory Severely Adverse Scenario
June 22, 2017



Bank of America Merrill Lynch U.S. Bank of America
America ynch Trust Merrill Lynch

Important Presentation Information

The 2017 Dodd-Frank Act Annual Stress Test Results Disclosure (the “Stress Test Results”) included herein has not been prepared under generally accepted accounting principles (“GAAP”). The Stress Test Results present certain projected financial measures for Bank of America Corporation (“Bank of America”, “BAC”, or “the Company”) and Bank of America, National Association (“BANA”) under the hypothetical economic and market scenario and assumptions described herein. The Stress Test Results are not forecasts of actual financial results for BAC and BANA. Investors in securities issued by Bank of America or BANA should not rely on the Stress Test Results as being indicative of expected future results.

Bank of America’s financial information, prepared under GAAP, is available in reports filed with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2016.

Amounts presented are rounded to the nearest significant digit, as indicated or stated. Immaterial differences arising from the effect of rounding are not adjusted.

The stress testing of financial institutions conducted by the Board of Governors of the Federal Reserve System (“FRB”) is based on models and methodologies developed or employed by the FRB. The FRB does not disclose all details of its models and methodologies. Therefore, Bank of America may not be able to explain certain variances between the FRB’s projections and Bank of America’s Stress Test Results included herein.

Bank of America's Capital Planning Process

The Company's capital planning process is a robust, proactive, forward-looking capital management exercise that identifies and measures risks and translates them into granular estimates of potential losses to assess capital adequacy over a planning horizon considering different economic and market environments. Centrally, the Independent Review and Challenge Committee is responsible for oversight, review and challenge of certain aspects of the process. The process is fully integrated with the Company's financial and risk management routines and is subject to well-established internal controls and governance. The Company establishes the following requirements for the capital planning process:

- Identify, measure and assess all material risks;
- Translate risk measures into estimates of potential losses over a range of scenarios and environments, including stress scenarios, and assess capital needs for risks not fully captured in stress testing results through a qualitative risk assessment;
- Define available capital resources and estimate sources and uses of capital over the same scenarios and environments;
- Aggregate the sources and uses of capital and assess capital adequacy relative to applicable capital targets, post-stress capital goals and capital management triggers;
- Establish and maintain a comprehensive capital policy and robust capital planning practices, including development and maintenance of a capital contingency plan;
- Develop and maintain internal controls and monitoring; and
- Establish and maintain effective oversight and governance to ensure the integrity of the capital planning process.

As a key component of the capital planning process, the Company-wide stress test brings together estimates of losses and capital resources to assess the capital needed to support BAC's business activities, risk profile and strategic plan, and to provide sufficient capital for the Company to remain safe and sound under adverse economic and market conditions.

Assumptions

- This document provides internal projections for BAC and BANA under the stressed macroeconomic and market conditions in the Supervisory Severely Adverse scenario as prescribed by the FRB and the Office of the Comptroller of the Currency (“OCC”) at <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20170203a5.pdf>.
- The Supervisory Severely Adverse scenario is characterized by a deep recession in the U.S. and a significant decline in global economic activity, and assumes the following key macroeconomic variables over a nine-quarter horizon:
 - Maximum quarterly (annualized) rate of real gross domestic product (“RGDP”) decline of 7.5%
 - Peak unemployment rate of 10.0%
 - Maximum home price index (“HPI”) decline of 25.0%
 - Maximum equity market decline of 49.7%
 - Trough U.S. 10-year Treasury yield of 0.8%
 - Trough U.S. 3-Month Treasury rate of 0.1%
- Severe instantaneous global market shocks are also applied to the trading book, private equity positions and counterparty exposures.
- Results presented herein include capital actions as specified under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“DFA”) stress testing rules. Specified capital action assumptions for BAC are itemized on page 21.
- Results comply with methodologies and instructions provided by the FRB for the 2017 Comprehensive Capital Analysis and Review and Dodd-Frank Act Stress Test.
- Results presented are estimates and may not reflect the actual impacts to Bank of America if such a hypothetical scenario were to occur. Importantly, in certain instances, methodologies required by the FRB and OCC differ from Bank of America’s internal practices; therefore, results may not reflect actions Bank of America would likely employ under such stressed conditions.
- The stress test is applied to on- and off-balance sheet exposures as of December 31, 2016. Instantaneous global market shocks are applied as of January 3, 2017 as prescribed by the FRB.
- Capital, risk-weighted assets (“RWA”) and capital ratios are calculated under the Basel 3 Standardized (“B3S”) approach. Values for Basel 3 are calculated in accordance with the transitional arrangements provided in the Basel 3 final rule.
- Income statement categories in this document conform to the FRB’s definition of Pre-Provision Net Revenue (“PPNR”), and classifications of revenue and expense items may differ from reporting under Bank of America’s public financial disclosures and preparation of financial statements under GAAP.

The background of the slide features a large, stylized, light beige 'B' logo, which is the primary branding element for Bank of America. The logo is composed of several thick, overlapping diagonal lines that form the shape of the letter. The text 'Bank of America Corporation' is positioned in the upper left quadrant of the slide, overlaid on the 'B' logo.

Bank of America Corporation

Supervisory Severely Adverse – BAC Results

- A \$49.8B cumulative pre-tax loss is projected over the specified nine-quarter horizon under the Supervisory Severely Adverse scenario.
- Significant items include loan and lease losses (\$32.9B), incremental build in allowance for loan and lease losses through provision expense (\$8.8B), trading and counterparty losses (\$14.3B), goodwill impairments (\$12.5B, which is capital neutral) and other losses (\$4.2B), partially offset by \$23.3B of PPNR.
- The hypothetical pre-tax losses in the scenario generate deferred tax assets (representing future deductions) that are generally disallowed for regulatory capital.
- RWA decline over the planning horizon as increases in market risk and counterparty exposures are more than offset by reductions in credit RWA as a result of reduced loan levels.
- Under B3S, the estimated lowest stress ratios over the nine-quarter horizon¹ for Common Equity Tier 1 Capital, Tier 1 Capital, Total Capital, Tier 1 Leverage and Supplementary Leverage Ratio are 8.2%, 10.0%, 13.2%, 6.9% and 5.4%, respectively.
- BAC maintains capital above required regulatory minimum ratios in the Supervisory Severely Adverse scenario. The required regulatory minimum ratios for Common Equity Tier 1 Capital, Tier 1 Capital, Total Capital, Tier 1 Leverage and Supplementary Leverage Ratio are 4.5%, 6.0%, 8.0%, 4.0% and 3.0% respectively.

¹ Supplementary Leverage Ratio projection horizon begins in projected quarter 1Q 2018.

Supervisory Severely Adverse – BAC Capital, Risk-Weighted Assets and Balance Sheet

Capital Ratios ¹	Actual Ratios at 12/31/16	Hypothetical Stressed Ratios at 3/31/19	Hypothetical Stressed Minimum Ratios ²
Common Equity Tier 1 Capital Ratio	12.1%	8.7%	8.2%
Tier 1 Capital Ratio	13.6%	10.5%	10.0%
Total Capital Ratio	16.3%	13.6%	13.2%
Tier 1 Leverage Ratio	8.9%	7.0%	6.9%
Supplementary Leverage Ratio ³	N/A	5.6%	5.4%

Capital/Risk-Weighted Assets \$ in billions	Actual Balances at 12/31/16	Balances at 3/31/19	Balances at Common Equity Tier 1 Capital Ratio Minimum
Common Equity Tier 1 Capital	\$168.9	\$117.1	\$111.4
Basel 3 Risk-Weighted Assets	1,399.5	1,350.2	1,351.5

Balance Sheet ⁴ \$ in billions	Actual Balances at 12/31/16	Balances at 3/31/19	Balances at Common Equity Tier 1 Capital Ratio Minimum
Total Assets	\$2,189.3	\$2,094.5	\$2,046.4
Deposits	1,262.4	1,321.9	1,282.8

Note: Hypothetical stressed results presented are BAC's internal projections for the scenario using the rules and conditions set forth by the FRB with capital actions for BAC as required under DFA stress testing rules. See "Capital Action Assumptions for Bank Holding Companies" on page 21.

¹ Capital, risk-weighted assets and capital ratios are calculated under the Basel 3 Standardized approach. Values for Basel 3 are calculated in accordance with the transitional arrangements provided in the Basel 3 final rule.

² Minimum hypothetical ratio during the specified nine-quarter horizon excluding Supplementary Leverage Ratio (see footnote 3).

³ Supplementary Leverage Ratio projection horizon begins in projected quarter 1Q 2018.

⁴ Projected balances for total assets and deposits are as reported in the FR Y-14A Summary Template for BAC.

Supervisory Severely Adverse – BAC Income Statement and Loan and Lease Losses

Net Income Before Taxes \$ in billions	Cumulative Hypothetical Results Over 9 Quarters	% of Average Assets ⁴
Pre-Provision Net Revenue ¹	\$23.3	1.1%
Less:		
Provision for Loan and Lease Losses	41.8	
Realized Losses on Securities (AFS/HTM)	0.3	
Trading and Counterparty Losses ²	14.3	
Goodwill Impairment	12.5	
Other Losses ³	4.2	
Net Income Before Taxes	(\$49.8)	-2.4%

Memo Items

Other Comprehensive Income ⁵	\$2.0	
<i>Other Effects on Capital</i>	<i>Actual Balance at 12/31/16</i>	<i>Hypothetical Stressed Balance at 3/31/19</i>
AOCI Included in Capital ⁶	(\$4.5)	(\$5.2)

Loan and Lease Losses \$ in billions	Cumulative Hypothetical Results Over 9 Quarters	Portfolio Loss Rates Over 9 Quarters ⁹
Estimated Loan Losses ⁷	\$32.9	3.8%
First Lien Mortgages, Domestic ⁸	3.4	1.8%
Junior Liens and HELOCs, Domestic ⁸	3.9	6.6%
Commercial and Industrial	7.9	3.5%
Commercial Real Estate	2.1	2.9%
Credit Cards	11.1	12.9%
Other Consumer	1.4	1.8%
Other Loans	3.3	2.0%

Note: Hypothetical stressed results presented are BAC's internal projections for the scenario using the rules and conditions set forth by the FRB.

¹ PPNR includes losses from operational risk events, mortgage put-back expenses, legal expenses and OREO costs. PPNR in this disclosure does not include projected changes in the fair value of loans held for sale and loans held for investment measured under the fair-value option.

² Trading and counterparty includes mark-to-market losses, changes in credit valuation adjustments and incremental default losses.

³ Other losses include projected change in the fair value of loans held for sale and loans held for investment measured under the fair-value option.

⁴ Calculated by dividing nine-quarter cumulative revenue or earnings by the average of the quarter ending balances over the specified nine-quarter horizon.

⁵ Other comprehensive income includes net unrealized losses/gains on (i) available-for-sale securities and on any held-to-maturity securities that have experienced other than temporary impairment, (ii) foreign currency translation adjustments, (iii) cash flow hedges, and (iv) net losses and prior service costs related to defined benefit pension and other postretirement employee benefit plans.

⁶ Certain aspects of AOCI are subject to transition arrangements for inclusion in projected regulatory capital.

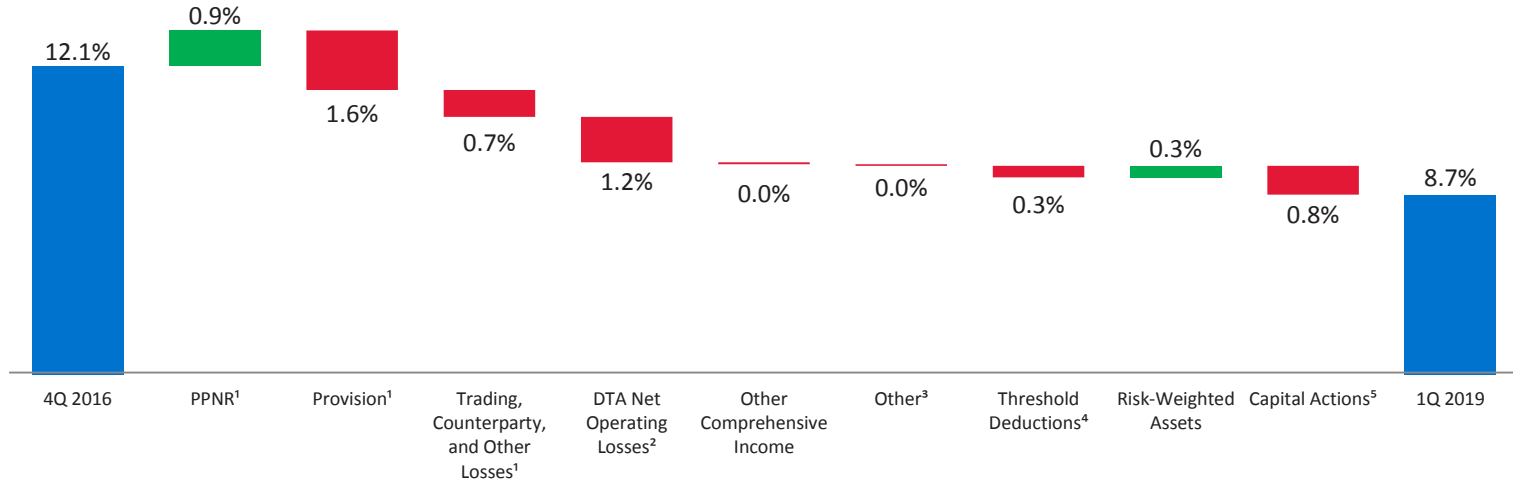
⁷ Commercial and industrial loans include small and medium enterprise loans and corporate cards. Other loans include international real estate loans.

⁸ For purposes of this disclosure, loan losses and loss rates are calculated to be consistent with the FRB's methodology, which includes impairments in the purchased credit-impaired portfolios as part of loan losses.

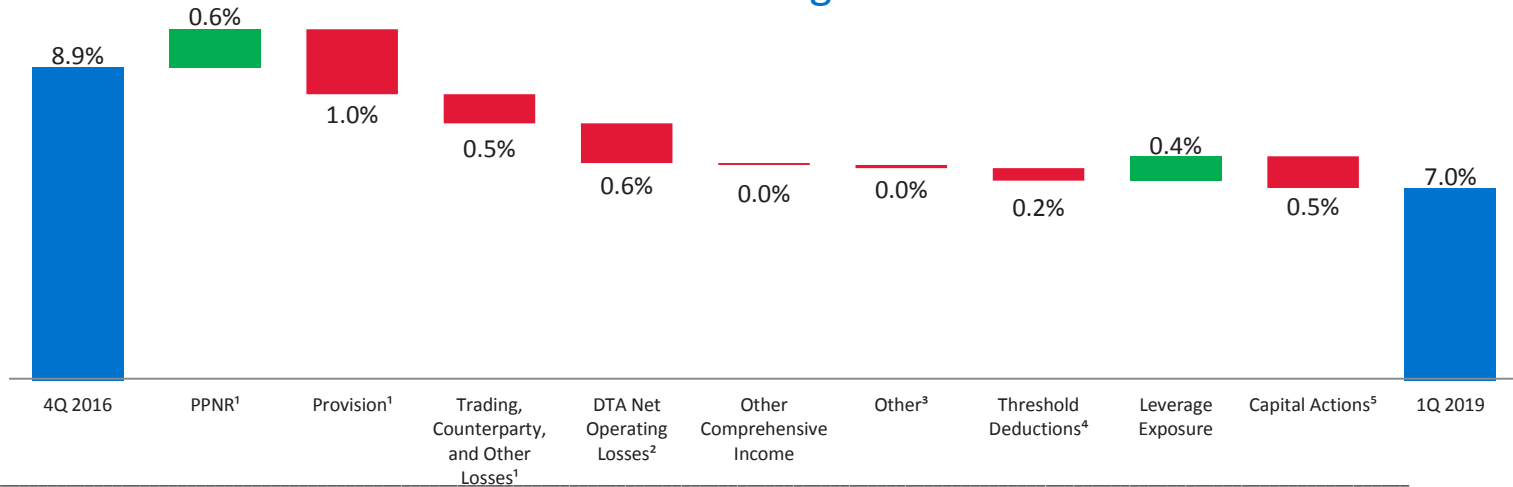
⁹ Calculated by dividing the nine-quarter cumulative loan and lease losses by the average of the accrual loan and lease balances for each portfolio over the same time period.

Supervisory Severely Adverse – BAC Regulatory Capital Ratio Drivers

Common Equity Tier 1 Capital Ratio



Tier 1 Leverage Ratio



¹ Items presented above reflected net of tax, as applicable.

² DTA Net Operating Losses represent additional tax loss and credit carryforward balances that relate to losses experienced in the scenario. These assets are disallowed for regulatory capital.

³ Other includes adjustments to capital for items such as: (i) intangibles, (ii) fair value option and other miscellaneous adjustments as applicable for the respective ratio.

⁴ Threshold Deductions primarily represent the portion of non-net operating loss DTAs that is disallowed for regulatory capital. These assets represent future deductions related to losses and expenses that are in the financial results but that are not yet deductible for tax purposes.

⁵ Capital actions reflective of DFA rules. See "Capital Action Assumptions for Bank Holding Companies" on page 21.

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Bank of America, National Association

Supervisory Severely Adverse – BANA Results

- Cumulative pre-tax income of \$2.8B is projected over the specified nine-quarter horizon under the Supervisory Severely Adverse scenario.
- Significant items include PPNR of \$51.5B partially offset by loan and lease losses (\$32.6B), incremental build in allowance for loan and lease losses through provision expense (\$8.7B), trading and counterparty losses (\$3.2B) and other losses (\$4.1B).
- RWA decline primarily driven by a reduction in credit RWA resulting from reduced loan demand consistent with the severely adverse macroeconomic conditions of the scenario.
- Under B3S, the estimated lowest stress ratios over the nine-quarter horizon¹ for Common Equity Tier 1 Capital, Tier 1 Capital, Total Capital, Tier 1 Leverage and Supplementary Leverage Ratio are 12.1%, 12.1%, 13.5%, 8.9% and 7.3%, respectively.

¹ Supplementary Leverage Ratio projection horizon begins in projected quarter 1Q 2018.

Supervisory Severely Adverse – BANA Capital, Risk-Weighted Assets and Balance Sheet

Capital Ratios ¹	Actual Ratios at 12/31/16	Hypothetical Stressed Ratios at 3/31/19	Hypothetical Stressed Minimum Ratios ²
Common Equity Tier 1 Capital Ratio	12.7%	13.9%	12.1%
Tier 1 Capital Ratio	12.7%	13.9%	12.1%
Total Capital Ratio	13.9%	15.3%	13.5%
Tier 1 Leverage Ratio	9.3%	9.9%	8.9%
Supplementary Leverage Ratio ³	N/A	7.9%	7.3%

Capital/Risk-Weighted Assets \$ in billions	Actual Balances at 12/31/16	Balances at 3/31/19	Balances at Common Equity Tier 1 Capital Ratio Minimum
Common Equity Tier 1 Capital	\$149.8	\$152.7	\$143.3
Basel 3 Risk-Weighted Assets	1,175.8	1,097.1	1,181.2

Balance Sheet ⁴ \$ in billions	Actual Balances at 12/31/16	Balances at 3/31/19	Balances at Common Equity Tier 1 Capital Ratio Minimum
Total Assets	\$1,677.5	\$1,632.9	\$1,657.9
Deposits	1,334.0	1,326.4	1,329.6

Note: Hypothetical stressed results presented are BANA's internal projections for the scenario using the rules and conditions set forth by the FRB and OCC.

¹ Capital, risk-weighted assets and capital ratios are calculated under the Basel 3 Standardized approach. Values for Basel 3 are calculated in accordance with the transitional arrangements provided in the Basel 3 final rule.

² Minimum hypothetical ratio during the specified nine-quarter horizon excluding Supplementary Leverage Ratio (see footnote 3).

³ Supplementary Leverage Ratio projection horizon begins in projected quarter 1Q 2018.

⁴ Projected balances for total assets and deposits are as reported in the DFAST-14A Summary Template for BANA.

Supervisory Severely Adverse – BANA Income Statement and Loan and Lease Losses

Net Income Before Taxes \$ in billions	Cumulative Hypothetical Results Over 9 Quarters	% of Average Assets ⁴
Pre-Provision Net Revenue ¹	\$51.5	3.1%
Less:		
Provision for Loan and Lease Losses	41.3	
Realized Losses on Securities (AFS/HTM)	0.2	
Trading and Counterparty Losses ²	3.2	
Goodwill Impairment	-	
Other Losses ³	4.1	
Net Income Before Taxes	\$2.8	0.2%
Memo Items		
Other Comprehensive Income ⁵	\$1.1	
<i>Other Effects on Capital</i>	<i>Actual Balance at 12/31/16</i>	<i>Hypothetical Stressed Balance at 3/31/19</i>
AOCI Included in Capital ⁶	(\$3.2)	(\$3.7)
Loan and Lease Losses \$ in billions	Cumulative Hypothetical Results Over 9 Quarters	Portfolio Loss Rates Over 9 Quarters ⁹
Estimated Loan Losses ⁷	\$32.6	4.0%
First Lien Mortgages, Domestic ⁸	3.1	1.8%
Junior Liens and HELOCs, Domestic ⁸	3.9	6.6%
Commercial and Industrial	7.8	3.5%
Commercial Real Estate	2.1	2.9%
Credit Cards	11.1	12.9%
Other Consumer	1.4	1.8%
Other Loans	3.3	2.4%

Note: Hypothetical stressed results presented are BANA's internal projections for the scenario using the rules and conditions set forth by the FRB and OCC.

¹ PPNR includes losses from operational risk events, mortgage put-back expenses, legal expenses and OREO costs. PPNR in this disclosure does not include projected changes in the fair value of loans held for sale and loans held for investment measured under the fair-value option.

² Trading and counterparty includes mark-to-market losses, changes in credit valuation adjustments and incremental default losses.

³ Other losses include projected change in the fair value of loans held for sale and loans held for investment measured under the fair-value option.

⁴ Calculated by dividing nine-quarter cumulative revenue or earnings by the average of the quarter ending balances over the specified nine-quarter horizon.

⁵ Other comprehensive income includes net unrealized losses/gains on (i) available-for-sale securities and on any held-to-maturity securities that have experienced other than temporary impairment, (ii) foreign currency translation adjustments, (iii) cash flow hedges, and (iv) net losses and prior service costs related to defined benefit pension and other postretirement employee benefit plans.

⁶ Certain aspects of AOCI are subject to transition arrangements for inclusion in projected regulatory capital.

⁷ Commercial and industrial loans include small and medium enterprise loans and corporate cards. Other loans include international real estate loans.

⁸ For purposes of this disclosure, loan losses and loss rates are calculated to be consistent with the FRB's methodology, which includes impairments in the purchased credit-impaired portfolios as part of loan losses.

⁹ Calculated by dividing the nine-quarter cumulative loan and lease losses by the average of the accrual loan and lease balances for each portfolio over the same time period.



Stress Test Methodologies

Credit Risk Methodologies

Credit Risk

The risk of loss arising from a borrower's or counterparty's future inability or failure to repay its contractual obligations is analyzed by product in the stress testing process. Each product is assessed for charge-offs and allowance using the relevant loss forecasting methodologies over a specified horizon. Quantitative and qualitative driven results are analyzed and adjustments may be made related to historical experience, portfolio characteristics and subject matter expertise. Credit risk and losses related to borrower default are projected in the income statement through provision for loan and lease losses.

Commercial Asset Quality

- The commercial portfolio includes commercial credit exposure across products including Commercial and Industrial (“C&I”) and Commercial Real Estate (“CRE”).
- Stress testing uses the same general approach and inputs as the baseline forecast. The C&I approach captures losses through stressed obligor ratings, increased defaults, and elevated loss given default; the CRE approach captures losses through deterioration in the underlying CRE collateral and collateral value.
- The level of stress is determined by incorporating a variety of macroeconomic variables, including, but not limited to, RGDP, equity market prices, corporate bond spreads, unemployment rates, HPI and the commercial real estate price index (“CREPI”).

Consumer Asset Quality

- The main consumer portfolios include Card Services (U.S. Card and Business Card) and Home Loans (First Mortgage and Home Equity).
- All consumer products use loan level probability of default and loss given default models, which include relevant loan level characteristics such as FICO and loan-to-value ratio, plus macro-economic assumptions relevant to each product such as HPI, unemployment rates, and interest rates.

Market and Counterparty Risk Methodologies

Market and Counterparty Risk

Hypothetical stress losses for the Supervisory Severely Adverse scenario are calculated by applying FRB-provided global market shocks to the relevant counterparty exposures, private equity positions, and on- and off-balance sheet positions in the trading portfolios.

Instantaneous Shocks / Trading and Counterparty Losses

- Market risk stress testing estimates and reports the impact to earnings under the prescribed instantaneous market disruption shocks.
- Shocks across the portfolio risk factors (including interest rates, currencies, equities, commodities and credit) are applied to company-wide trading and private equity and counterparty exposures as of January 3, 2017.
- Additional default risk beyond the market risk shocks in the trading portfolio is considered through an issuer incremental default risk calculation.
- Stress testing of the counterparty risk exposure is designed to assess the losses from the counterparty portfolio of changes in both market and credit risk conditions. The impact is measured by the change in mark-to-market value of the credit valuation adjustment after applying the stress scenario shocks. Additionally, at the consolidated level and for the BANA legal entity, the resulting impact of a default of a large counterparty post the application of these shocks is included.
- The trading and counterparty scenario P&L impact is included in the first quarter of the forecast period without recovery assumed in the remaining quarters.

Interest Rate Risk Methodologies

Interest Rate Risk

Interest rate risk represents the most significant market risk exposure to the banking book balance sheet and is measured as the exposure of the Company's earnings and capital to movements in interest rates. Client-facing activities, primarily lending and deposit-taking, create interest rate sensitive positions on the balance sheet.

Net Interest Income

- The Company's consolidated net interest income trajectory is reflected in the scenario as it relates to the interest income from loans, debt securities and other interest-earning assets in addition to the interest expense related to deposits, borrowings and other interest-bearing liabilities. This incorporates balance sheet assumptions such as loan and deposit balance movements and pricing, changes in funding mix, product re-pricing and maturity characteristics.
- The scenario captures the potential interest rate stresses to the consolidated balance sheet, net interest income and other activities that are sensitive to changes in interest rate levels and yield curves. For example, the scenario incorporates changes to interest rates that are applied across exposures and business activities, resulting in impacts to prepayments on mortgage-related assets and net interest income, among other items.

Capital

- In addition to net interest income, the other comprehensive income impact to the Asset-Liability Management available for sale ("AFS") securities portfolio and the valuation impact to the mortgage servicing rights portfolio are considered when evaluating interest rate risk. These items and the impact to the Company's DTA can affect the Company's capital ratios under Basel 3.

Operational Risk Methodologies

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people, systems or external events including external fraud is considered in each stress test. These risks are independently assessed for our businesses and operational loss event categories both for legal (e.g., litigation) and non-legal operational risks.

Non-legal Operational Loss

- Non-legal losses are included in the projections for each business and result in a reduction in PPNR. Four approaches are used – scenario analysis, projections based on the underlying economics of the business, statistical regression models, and simple historical averages – to arrive at stress losses under various scenarios.
- Non-legal losses are expected to increase across most of the businesses in stress scenarios given pressure on execution and potential business disruption. Fraud is also expected to increase in most businesses.

Litigation Expense

- Litigation expense is analyzed across the company in aggregate and on a case-by-case basis for significant matters. It is included as an increase to projected operational risk losses in the stress scenario, reflected as a reduction in PPNR.

Risk-Weighted Assets Methodologies

Credit Risk RWA

- Traditional Banking Book RWA projections are based on projected balance sheet exposures and the applicable risk weights as prescribed under the Basel 3 Standardized approach. The projections capture credit migration to non-performing assets, increases in past-due exposures and changes in Organization for Economic Co-operation and Development (“OECD”) country risk classifications.
- Securitization RWA projections are based on projected securitization exposures and applicable risk weights under the Simplified Supervisory Formula Approach (“SSFA”). The projections of the risk weights consider the impact of the stress scenario based on relevant scenario variables.

Counterparty Risk RWA

- Counterparty RWA projections are based on the projected underlying exposures given the stressed market conditions and credit risk migration and the applicable risk weights. The risk weights capture downgrades in OECD country risk classifications.

Market Risk RWA

- Market Risk RWA projections are based on models and approaches that link the RWA components (VaR / SVaR, Incremental Risk Charge, Comprehensive Risk Measure, Securitization Non-correlation and Standardized Specific Risk) directly or indirectly to the market variables such as changes in credit spreads and volatilities in the stress scenario. The RWA projections also incorporate the projected size of the trading portfolio and changes in OECD country risk classifications where appropriate.

Other Methodologies

Pre-Provision Net Revenue

- Net interest income is determined by forecasting asset and liability balances and the related interest income and expense over the specified nine-quarter horizon using the macroeconomic variables.
- Noninterest income and noninterest expense are determined on a business-by-business basis over the specified nine-quarter horizon using the macroeconomic variables that are relevant to each business. Stress losses related to operational risk events, including mortgage representation and warranties and legal costs, are included within PPNR.
- Personnel expense calculations using the FRB-prescribed methodology for the scenario do not incorporate personnel expense reductions in conjunction with the market and counterparty disruptions.

Provision for Loan and Lease Losses

- Charge-off projections are derived from the loss forecasting processes described under Credit Risk Methodologies. Loss forecasting models utilize the macroeconomic variables that are relevant and predictive for each portfolio (e.g., unemployment rates, RGDP, HPI, CREPI, Baa-30 yr).
- The allowance for loan and lease losses, and related reserve build or release, is projected for each quarter over the specified nine-quarter horizon by assessing the adequacy of the reserve under the macroeconomic conditions in the scenario.
- Stress test projections for charge-offs and allowance for loan and lease losses incorporate many of the same forecasting models and processes that BAC utilizes for ongoing risk management and financial forecasting.

Other Methodologies (continued)

Losses

- AFS and held to maturity (“HTM”) securities are assessed for other than temporary impairment which may result in realized losses over the specified nine-quarter horizon under the macroeconomic assumptions in the scenario.
- Goodwill impairment is assessed by reporting unit using the hypothetical stressed income statement results.
- Other losses excluding goodwill are primarily related to loans held under the fair value option and loans held for sale where projections are based on the macroeconomic assumptions in the scenario without reference to the global market shock.

Capital Action Assumptions for Bank Holding Companies

For stressed projections under the Dodd-Frank Act stress test rule, a bank holding company (“BHC”) must use the following assumptions regarding its capital actions over the planning horizon for the supervisory baseline scenario, the supervisory adverse scenario, and the supervisory severely adverse scenario:

- For the initial quarter of the planning horizon, the BHC must take into account its actual capital actions taken throughout the quarter.
- For each of the second through ninth quarters of the planning horizon, the BHC must include in the projections of capital
 - common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the initial quarter of the planning horizon and the preceding three calendar quarters) plus common stock dividends attributable to issuances related to expensed employee compensation or in connection with a planned merger or acquisition to the extent that the merger or acquisition is reflected in the BHC’s pro forma balance sheet estimates;
 - payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest or principal due on such instrument during the quarter;
 - an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and
 - an assumption of no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation or in connection with a planned merger or acquisition to the extent that the merger or acquisition is reflected in the BHC’s pro forma balance sheet estimates.

Bank of America



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