## Bank of America Tearsheet

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**BANK OF AMERICA CORPORATION** (Aa2/A+; S&P has a positive outlook)
**BANK OF AMERICA, N.A.** (Aa1/AA-; S&P has a positive outlook)

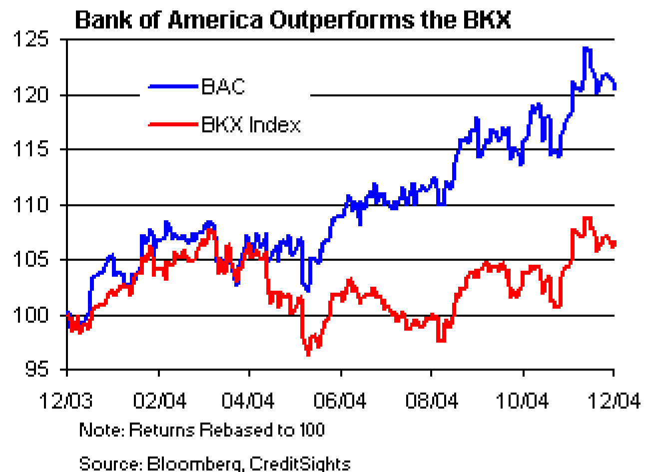
### CREDIT TRENDS

| Bank of America - Debt View and Valuation Metrics | | | Key Equity Indicators | |
|---|---|---|---|---|
| Total Debt | $86.5 B | @ 12/1/2004 | Market Cap. | $185.7 B |
| Rating Agency | Aa2/A+, S&P has a positive outlook | | LTM Revenues | $47.2 B |
| CreditSights Rating | AA- | | Revenue Growth* | 23.6% |
| | | | EPS Growth** | 9.7% |
| | | | Divd Yield | 3.91% |
| | | | P/E | 12.07x |
| | | | P/B | 1.91x |

| Credit Metrics | ROAE | Efficiency | NCO %* | Leverage |
|---|---|---|---|---|
| Actual (3Q04) | 15.6% | 54.94% | 0.57% | 5.92% |
| Forward Trend | Improving | Improving | Stable | Stable |

Source: Company Reports, Bloomberg, CreditSights
* Growth rates are quarter-over-quarter, NCO %= Net Charge-offs as a % of Avg. Loans
** EPS Growth is the Bloomberg consensus estimate of long-term growth

Following the addition of FleetBoston, Bank of America ranks as the "King of Core Deposits" in the U.S., with approximately 10% national deposit market share. The company also enjoys one of the most geographically diverse branch networks, with locations throughout the Northeast, California, Midwest, and the South. Looking into 2005, we think the major challenge for Bank of America lies in driving core revenue growth and bottom line earnings from the efficient utilization of this leading national deposit franchise. We consider BofA a core holding for fixed income investors, as it enjoys healthy profitability, an exceptional deposit franchise, good asset quality, and what we view as a strong core competency in asset-liability management.




We have said that our belief is that core deposit growth is really "code words" for asset/liability management (ALM), and we feel the bank has been a savvy practitioner of ALM given the vagaries of interest rates in 2004. That said, the company's 3Q04 results perhaps showed a chink in the ALM armor, as BofA's mortgage hedging gains were not enough to offset the MSR impairment.

| 5-Year Highlights | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Net Income | 10,810 | 9,249 | 6,792 | 7,517 | 7,882 |
| Return on Assets | 1.41% | 1.40% | 1.05% | 1.12% | 1.28% |
| Net Interest Margin | 3.36% | 3.75% | 3.68% | 3.22% | 3.47% |
| Efficiency Ratio | 52.2% | 52.6% | 55.5% | 54.4% | 55.3% |
| Tier 1 Capital Ratio | 7.85% | 8.22% | 8.30% | 7.50% | 7.35% |
| Net Charge-offs/Loans | 0.87% | 1.10% | 1.60% | 0.61% | 0.55% |
| Total Equity | 47,980 | 50,319 | 48,520 | 47,628 | 44,432 |
| Total Assets | 736,445 | 660,951 | 621,764 | 642,191 | 632,574 |

Note: ($ in millions) Source: Company Reports

Going into 2005, we think BofA's growth drivers will be predominantly derived from the consumer business, as the company is focused on ramping up its cross-sell results. Cross-selling would include credit cards, debit cards, home equity and home mortgages as the primary product sets. The full realization of cost savings from the FleetBoston integration and cross-selling to the New England customer base should also contribute to revenue growth. More economically dependent segments include commercial banking, which has not yet seen sustained loan growth, and BofA's investment banking unit, materializes, to which the company is making additional investments. Given a favorable economic backdrop, these could provide incremental support to the bottom line.

**Rating Agency Dynamics**

Overall, we see Bank of America as a solid double-A at the bank level and an AA- at the holding company. The key issue for the company continues to be positive earnings momentum given the lack of strong corporate loan demand. We suspect that expense saves and fee growth will be the key drivers in 4Q04 while loan growth appears to be a 2005 story. The integration of the Fleet franchise appears to be going smoothly.

Our ratings are one notch below those of Moody's, which has a Aa2 rating at the holding company. S&P, on the other hand, is one notch lower than us at A+. S&P has a positive outlook on Bank of America, which is assigned in October 2003 after the announcement of the Fleet acquisition. S&P stated that it could raise its rating for BoA if the company "can keep asset quality under control and successfully integrate Fleet." The S&P analyst also cited lingering "headline risk" (for instance, regarding the company's relationship with Parmalat) as a possible roadblock to an upgrade. Finally, S&P has cited pressure on BofA's tangible capital ratios as a concern. So, the timing of an upgrade could extend well into 2005, but we continue to believe the agency will recognize and reward the company's solid performance with a "low AA" rating.

**Key Themes**

**Integration Update: Accelerating The Schedule**

The company noted that cost savings from the Fleet merger were approximately $309 million, or about $0.05 for 3Q04. This compares to cost saving of about $206 million the previous quarter. So since the merger was completed, the company has realized cost savings of $515 million. BofA expects to realize total cost savings of $875 million for the current year and $1.8 billion for 2005.

With regards to re-branding, BofA remains on target, with over 620 branches completed to date. A total of 87,000 net new customer savings accounts were opened in the legacy Fleet franchise, up from only 42,000 the previous quarter and in the Northeast, 81,000 new consumer savings accounts were opened. Perhaps most importantly, "Cross-footprint" transaction volume has continued to increase. BofA noted that in the final week of September, its customers completed 25,000 cross-footprint transactions, of which 60% were done by legacy BofA customers at former Fleet branches.

**Loan Growth: Still Missing for 3Q04**

During its 3Q04 conference call, CFO Okun mentioned that loan growth was good in middle market as it was up 1% linked and 4% annualized. On the other hand, large corporate lending was basically quiet with no real signs of positive change. Within middle market, it sounds to us more like specialty and commercial real estate lending than classic middle market lending. CFO Okun noted that it has been releasing loan loss reserves in commercial and global corporate due to the anemic loan environment where new loans are hard to come by and old ones are paying down without increases on renewal.

**Consumer Banking Drivers**

In a review of its consumer banking effort, BofA stressed its mission to deliver a set of identical products and services to customers throughout the footprint. The company trains its salespeople to deliver a consistent message, or script, suggesting additional products to customers which fit a certain profile. In this way, BofA hopes to anticipate customer needs through data mining of its customer database. BofA's goal is to deliver a similar, positive experience for its customers whether they are in Boston or San Francisco.

In order to achieve growth, BofA is, like many other banks, focused on the core retail deposit account. The company feels this is the strongest product from which it can cross-sell other products such as home equity and credit cards. BofA is already the clear market leader, and estimates that it has a 14%+ market share of national deposits (when excluding branches of over $500 million in deposits). The company expects to end 2004 with $415 billion in total customer deposits, compared to $284 billion at year-end 2003 (+47%). Excluding Fleet, legacy BofA would be at approximately $323 billion (+14%). BofA serves 33 million households in 29 states and expects to add 2.2 million net new checking accounts in 2004.

BofA benefits from having a broad array of products with which to sell to its customers. BofA ranks as the 5th largest credit card issuer in the country and has been growing its receivables at a rapid clip. The return on managed assets for this business was 2.94% for 3Q04, second only to Citigroup. In terms of home equity, it is the 2nd largest lender in the country and hopes to overtake market leader JPMorgan Chase in 2005. BofA expects to generate about $56 billion in home equity production for 2004 (+47%). BofA will use best practices from Fleet, which had a well-honed home equity effort, across its footprint.

**First Mortgage Still a Challenge**

The only area of weakness which BofA acknowledged was its first mortgage effort. The company pledged to reduce the volatility of income in this business by improving servicing efficiency and delivering steadier origination volume by increasing the branch contribution rather than relying on wholesale volume. The company is committed to being in the mortgage business, as it says that the only other product which matches the retail deposit for a deepening the customer relationship is a mortgage.

In addition to its cross-sell efforts, BofA is continuing to grow organically by adding new branches. The company believes that no other organization can match its national presence and calculates that 76% of the U.S. population lives in its footprint.

**Recent Results**

| Quarterly Earnings Trends | 3Q04 | 2Q04 | 1Q04 | 4Q03 | 3Q03 |
|---|---|---|---|---|---|
| Net Interest Income | 7,665 | 7,581 | 5,801 | 5,586 | 5,304 |
| Securities Gains | 732 | 795 | 495 | 139 | 233 |
| Mortgage Income | -250 | 299 | 209 | 292 | 666 |
| Other Non-Interest Income | 5,145 | 5,141 | 3,508 | 4,043 | 3,773 |
| Total Non-Interest Income | 4,895 | 6,235 | 4,212 | 4,474 | 4,672 |
| Total Revenue | 12,560 | 13,816 | 10,013 | 10,060 | 9,976 |
| Operating Expenses | 6,994 | 7,201 | 5,417 | 5,282 | 5,070 |
| Loan Loss Provisions | 650 | 789 | 624 | 583 | 651 |
| Pre-Tax Income | 5,648 | 5,826 | 3,972 | 3,903 | 4,255 |
| Net Income | 3,764 | 3,849 | 2,681 | 2,726 | 2,922 |

Note: ($ in millions) Source: Company Reports

Bank of America reported 3Q04 EPS of $0.91, a penny ahead of the Street consensus. Reported earnings declined to $3.7 billion, down $85 million (-2%) on a linked quarter basis. However, when adjusted for reserve releases ($235 million or $0.04) and other adjustments to noninterest income and expenses ($104 million or $0.02), we believe that the company missed by a nickel.

Reported revenues declined to $12.5 billion, down $461 million (-3%) on a linked quarter basis. Adjusting for above-trend items, core revenues were flattish at $12.2 billion. Net interest income was flattish at $7.6 billion (up $85 million) and the net interest margin came in at 3.28% (down 1 bp). Interest income benefited from a higher level of investments coupled with solid consumer loan growth, which more than offset the negative impact of lower trading related net interest income. Bank of America's return on assets was 1.35% (down 5 bp), and its return on equity was 15.56% (down 107 bp). For more on BofA's 3Q04 results, see: **BofA: 3Q Core Misses – Merger Ahead, Core Behind**.

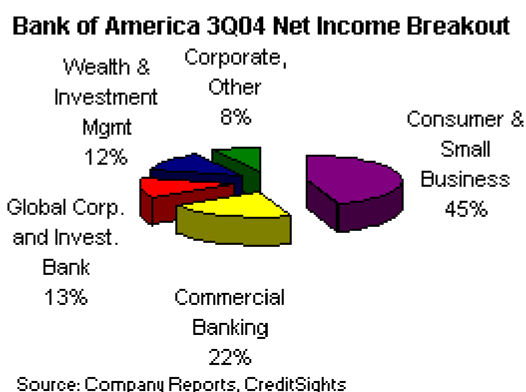
**Business Segments**

As part of the Fleet integration process, BofA reorganized its segment breakout. Specifically, the former Consumer and Commercial Banking segment has been split into a) Consumer and Small Business Banking and b) Commercial Banking. The other two operating segments are Wealth and Investment Management and Global Corporate and Investment Banking (GCIB).

The **Consumer and Small Business** segment contains the retail bank and remains the driver of results for the bank, delivering 56% of revenues and 67% of net income, before consolidation eliminations. This segment also includes total managed credit card receivables of $45.0 billion.

For 3Q04, the **Consumer and Small Business** segment delivered revenues of about $7 billion, and net income of $1.6 billion. Results in the segment were negatively impacted by a loss in mortgage banking income ($250 million), due to lower origination volume and a write down of mortgage servicing writes, as well a higher level of provisioning associated with credit card growth and the return of securitizations to the balance sheet. Mortgage banking results included production income of $70 million and servicing income of -$320 million. These negative items were partially offset by excellent account and deposit growth, strong fee generation, and loan growth in home equity and credit cards. The unit produced return on equity of 17% with an efficiency ratio of 50%

The **Commercial Banking** segment, which includes Middle Market Banking, Commercial Real Estate Banking, Leasing, Dealer Financial Services (auto, RV, and marine vehicle financing), registered revenues of $1.8 billion and net income of $824 million. The unit benefited from a release of provisions as credit quality continued to improve, and strength in middle market lending. On a sequential basis, average outstanding loans increased by about $1 billion. The unit delivered return on equity of 14% and an efficiency ratio of 34%.




The **Global Corporate and Investment Banking (GCIB)** segment caters to large U.S. and global corporate customers. Bank of America has solid market positions in loan syndications and debt underwriting, but has lower market share in equity underwriting and M&A. For 3Q04, **GCIB** revenues totaled $2 billion and net income reached $475 million. Sequentially results benefited from benefited from lower litigation expense. Investors will remember that last quarters results included a $300 million charge to settle Enron litigation. On a normalized, apples to apples basis, results the overall slowdown in market activity and decreased volatility. Investment banking income fell 21% and trading related revenues fell 41%. GCIB's return on equity was 17% and its efficiency ratio came in at 73%.

The **Wealth and Investment Management** segment is currently the smallest contributor to the bottom line, but appears to be an area of strategic focus for the firm. This segment includes Private Banking, Columbia Management Group, Banc of America Investments, and Premier Banking. BofA has $430 billion of asset under management, consisting largely of mutual funds, and client assets of $142 billion in client brokerage accounts (including Quick & Reilly). For 3Q04, **Wealth and Investment Management** recorded revenues of $1.5 billion and net income of $469 million. Results in this business segment benefit from growth in loans and deposits as well as the absence of a conforming accounting adjustment that was made in 2Q04. The positive trends were partially offset by the decline in the overall markets, lower brokerage volume and the absence of tax preparation fees. The segment's return on equity was 21% and its efficiency ratio was 54%.

**Corporate Other** includes the Latin American operations, Equity Investments (private equity), and Other, which is primarily responsible for corporate ALM management. Latin America includes Brazil, Argentina, and Chile, but excludes Mexico. Most of these assets were picked up in the Fleet deal. For 3Q04, **Corporate Other** had net income of $314 million, aided by gains on sale of securities ($614 million) and a negative loan loss provision ($114 million).

**Asset Quality**
Credit quality remained healthy as commercial and large corporate credits showed improvement while consumer held steady. On a combined basis, net charge-offs fell to $719, down $110 million (-13%) from 2Q04, and exceeded provisions by $69 million. Net charge-offs as a percentage of loans improved to 0.57% (down 10 bp). Nonperforming assets dropped to $2.8 billion, down $343 million (-11%), reflecting 0.55% of total loans and leases. The bank’s reserve to loan ratio came in at 1.70% and its reserve coverage of nonperforming loans was a comfortable 343%. During the conference call, the company noted that the consumer loan loss reserve would likely rise in-sync with loan growth.

**Capital Strategy**
BofA repurchased 40 million shares during 3Q04, which more than offset new issuance of 26 million shares related to stock option and incentive plans. Overall capital ratios were mixed during the quarter. BofA's Tier 1 capital ratio declined to 8.08% (down 12 bp), the total capital ratio fell to 11.70% (down 27 bp), however its average equity to average asset ratio improved to 8.68% (up

26 bp) sequentially. The leverage ratio rose to 5.92% (up 9 bp). Goodwill is high at 46% of total equity at 3Q04, mostly as a consequence of the Fleet deal.

**Interest Rate Posture—Mildly Liability Sensitive**

BofA measures interest rate risk by quantifying the estimated effect of rate movements on net interest income. At 3Q04, a +100 bp gradual shift in interest rates was predicted to decrease net interest income by 1.6%, reflecting a shift to being mildly liability sensitive (at 2Q04, the same shift would have increased net interest income by 0.4%). At 3Q04, the company estimated that a -100 bp shift in interest rates would increase net interest income by 0.9% (v. lowering it by 0.7% at 2Q04).

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