



# STANDISH



## Bank of America, N.A.

**RATING:** Q2  
**Other Ratings as of:** December 2008  
**Moody's:** Aaa  
**S & P:** AA-  
**Fitch:** AA-

**State of Domicile:** Charlotte, North Carolina  
**Holding Company:** Bank of America Corporation

**B**ank of America Corporation (BAC) is the second largest banking holding company in the United States as ranked by assets, with \$1.7 trillion. BAC has one of the largest retail footprints in the U.S., as a result of the 1998 merger between Bank of America and NationsBank, as well as the 2004 acquisition of Boston-based FleetBoston. BAC now operates 6,100 retail banking offices, 18,500 ATMs and serves 59 million domestic households and four million small businesses. BAC operates in 35 countries in Europe, Asia, North America, South America and the Middle East. The bulk of earnings and assets, however, are in the U.S., where BAC maintains the largest deposit market share in states such as California, Florida, Connecticut and New Jersey. BAC is almost at the federally regulated 10% market share ceiling for deposits, with \$509 billion in retail deposits at December 31, 2007. Unless regulations are changed, and there is no sign that legislative changes are imminent, BAC cannot acquire any deposits that would push it above the 10% limit, although the bank is allowed to grow organically above that.

BAC continues to make large strategic acquisitions. In 2005 BAC purchased a 9% stake in China Construction Bank and, in 2006, BAC closed on its acquisition of MBNA, making BAC the leading credit card issuer today in the US. In 2007 BAC purchased U.S. Trust Corporation, one of the largest US managers for high net worth clients. Also in 2007 BAC closed on its acquisition of Chicago-based LaSalle Bank from ABN AMRO. BAC closed in January 2008 on its purchase of Countrywide Financial, the largest US mortgage originator and servicer. BAC announced in September that it will acquire the investment bank Merrill Lynch in a stock purchase. The ability to merge the largest mortgage originator and investment bank into BAC will allow the company to leverage these mortgage and asset management operations into its existing business model and should turn BAC into a highly profitable company in the future.

In 2008, BAC received a total of \$35 billion in Troubled Asset Relief Program (TARP) funds from the US Treasury. BAC received \$25 billion allocated to it as well as the \$10 billion that was allocated to Merrill Lynch. BAC maintains that they did not need the capital, but they are using it to make loans and add liquidity to the financial markets.

BAC operates four business lines: 1) Global Consumer and Small Business, 2) Global Corporate and Investment Banking, 3) Global Wealth and Investment Management, and 4) All Other. Global Consumer and Small Business provide a range of products and services to individuals and small businesses; BAC is the country's leading Small Business Administration lender. Global Corporate and Investment Banking expanded in 2005

to include middle market lending. The group provides capital markets, advisory services, equity, fixed income and derivatives trading and sales, as well as traditional banking services to large corporate clients. Global Wealth and Investment Management offers investment and fiduciary banking and asset management services to institutional clients and high net worth individuals. For 2007, earnings were split as follows: Global Consumer and Small Business, 63%, Global Corporate and Investment Banking, 4% and Global Wealth and Investment Management, 14%. While BAC remains headquartered in Charlotte, the Global Wealth and Investment Management group is headquartered in Boston, and over the next several years BAC will be moving several units to New York, where it is constructing a new office tower in Manhattan.

For 2007, BAC's earnings reflected tough capital market conditions, with net income down 30% to \$15.2 billion as the Global Corporate and Investment Bank wrote down \$5.3 billion in CDO and subprime-related exposures. Higher loss provisions for consumer mortgage exposures, as well as higher reserves due to seasoning and deterioration in the small business portfolio, weighed negatively on Global Consumer and Small Business Banking results, with earnings there down 17% year over year. BAC's remaining subprime CDO exposure at year-end was \$8.2 billion, with \$3 billion of that in higher-risk CDO-squared exposure. Where BAC stands for the year-end valuation marks, we would expect to see further write-downs at the end of 2008. In addition to the CDO exposure, BAC has \$654 billion in consumer exposure, with 43% in residential mortgages, 17% in home equity and 22% in US credit cards. While these are largely prime-quality assets, the economic slowdown in 2008 will likely continue to pressure asset quality metrics for consumer loans.

BAC's profitability metrics are in line with large cap peers, although weak investment banking results hurt metrics for 2007. Tangible ROE for 2007 was 22.6%, down from 33.6% in 2007. Asset quality weakened in 2007, with managed net charge-offs up 7 bps to 1.34% quarter to quarter, with held charge-offs better at 0.91%. Home equity and home building were weak parts of the lending portfolio, with some deterioration in small business lending and credit cards as well. BAC added \$1.3 billion to its year-end reserves (provision in excess of charge-offs) to bolster reserves heading into what most expect will be a weaker 2008 economically.

Due to both lower earnings and asset growth, BAC's Tier 1 capital ratio fell notably at year-end from 8.64% at year-end 2006 to 6.87% at year-end 2007. Since year-end BAC issued \$12 billion in preferred stock which is expected to bring Tier 1 capital above the company's 8% target ratio.

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### Strengths:

- Dominating market share in a truly national footprint
- Large core deposit base that presents stable, low cost funding
- Resilient profitability from the retail and wealth management business

### Weaknesses:

- Having reached the deposit cap in the US, BAC must look at other initiatives for growth or acquisition (Countrywide, MBNA, US Trust as examples), raising integration risk.
- Sheer size and broad market exposure leaves firm exposed to all industry issues/problems

### Key Statistics — Bank of America, N.A.

(\$ millions)	2007	2006	2005	2004	2003	CAGR/ Average
Total Assets	1,715,746	1,459,737	1,291,803	1,110,457	617,962	21.0%
Equity	146,803	135,272	101,533	100,235	47,980	23.8%
Equity/Assets	8.56%	9.27%	7.86%	9.03%	6.67%	8.28%
Net Income	14,982	21,133	16,465	13,947	10,810	10.1%
Tier 1 Capital Ratio	6.87%	8.64%	8.25%	8.20%	7.85%	7.96%
Total Capital Ratio	11.02%	11.88%	11.08%	11.73%	11.87%	11.52%
Return on Average Assets	0.93%	1.53%	1.37%	1.52%	1.57%	1.39%
Return on Average Equity	10.77%	18.07%	16.35%	18.84%	22.01%	17.21%

Sources: Company reports and SEC filings.



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525 Market Street, 35th Floor · San Francisco, CA 94105

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