

# Bank of America<sup>®</sup>



## Investment Research Summary

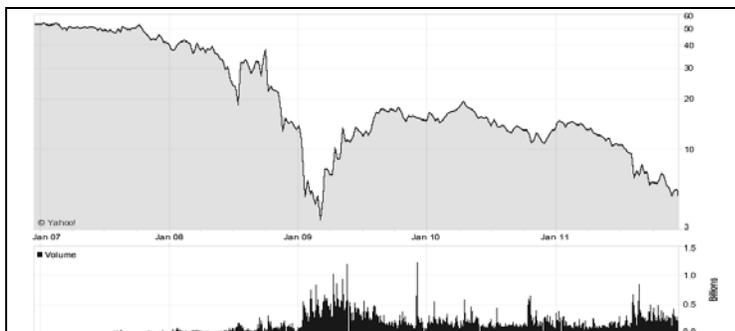
Priced December 14, 2011



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# Bank of America Corporation

<b>Symbol:</b>	<b>BAC</b>
<b>Exchange:</b>	<b>NYSE</b>
<b>Current Price:</b>	<b>\$5.23</b>
<b>Current Yield:</b>	<b>0.8%</b>
<b>Current Dividend:</b>	<b>\$0.04</b>
<b>Shares Outstanding (MM):</b>	<b>10,476</b>
<b>Major Shareholders:</b>	<b>Insiders own &lt;1%</b>
<b>Average Daily Trading Volume (MM):</b>	<b>271.7</b>
<b>52-Week Price Range:</b>	<b>\$15.31-\$5.03</b>
<b>Price/Earnings Ratio:</b>	<b>N/M</b>
<b>Stated Book Value Per Share:</b>	<b>\$20.80</b>



<b>Balance Sheet Data</b>			
(in millions)	09/30/11	2010	2009
Cash	\$ 82,865	\$ 108,427	\$ 121,339
Total Securities	350,725	338,054	311,441
<b>TOTAL ASSETS</b>	<b>2,219,628</b>	<b>2,264,909</b>	<b>\$ 2,230,232</b>
Total Deposits	\$ 1,041,353	\$ 1,010,430	\$ 991,611
Long Term Debt	398,965	448,431	438,521
Shareholders Equity	230,252	228,248	231,444
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 2,219,628</b>	<b>\$ 2,264,909</b>	<b>\$ 2,230,232</b>

<b>Catalysts/Highlights</b>
<ul style="list-style-type: none"> <li>• Profit comparisons to benefit from improved credit trends and cost reduction</li> <li>• BAC's capital ratios approaching historically high levels</li> <li>• Normalized EPS power of at least \$2 illustrates underlying strength of core businesses</li> </ul>

<b>P&amp;L Analysis</b>				
Fiscal Year Ending	(\$ in millions except per share items)			
December 31	2010	2009	2008	2007
Revenues	110,220	119,643	72,782	66,833
Net Income	(3,595)	(2,204)	2,556	14,800
Earnings Per Share	(0.37)	(0.29)	0.54	3.29
Dividends Per Share	0.04	0.04	2.24	2.40
Price Range	19.86-12.96	18.59-3.14	45.03-11.25	54.05-41.10

## INVESTMENT RATIONALE

Bank of America is the second largest U.S. financial institution, with \$2.2 trillion in assets and \$950 billion in deposits within the U.S. alone (12% market share). BAC shares continued to underperform in 2011, precipitously declining by 61%. Operating results have been negatively impacted by the extended economic/housing malaise, with core mortgage banking production revenue declining another 50% in 2011 through Q3. Continued interest rate pressures have also produced a hefty 63 bps YOY decline in net interest margin to 2.79% in Q3. However, the real albatross relates to bubble-era liabilities at BAC's consumer real estate segment, which continues to produce losses of stunning proportion. BAC has recorded a massive \$15.3 billion in representations and warranties provisions during 2011, including the proposed \$8.6 billion BNY Mellon Settlement which has met vigorous resistance from minority security holders. Additional headline-grabbing legal battles include BAC's healthy share of a purported \$19+ billion settlement related to foreclosure practices. Litigation-related expense (which does not even include actual legal service costs) is already \$3.8 billion YTD 3Q 2011 and counting. Unfortunately for BAC, the legacy of Ken Lewis and his disastrous Countrywide/Merrill acquisitions lives on.

In light of these headwinds as well as the approaching implementation of stringent Basel III regulations, BAC has fallen prey to heightened concerns over its capital adequacy. However, management has taken increasingly aggressive steps to tackle these concerns in recent months. BAC is divesting non-core businesses and assets including its Canadian and European credit card businesses, all but 1% of its stake in China Construction Bank, and its correspondent and reverse mortgage businesses. BAC also raised \$5.0 billion in capital through the sale of preferred stock to Berkshire Hathaway in September 2011. Most recently, BAC negotiated the conversion of an aggregate \$4 billion in outstanding preferred stock into common shares and senior notes, thereby boosting common equity and reducing interest/dividend costs. These moves have helped boost BAC's tier 1 common capital ratio (under Basel 1 guidelines) to 8.65% as of September 30, with post-3Q actions expected to add an additional 50+ basis points to this figure. Notably, CEO Moynihan recently confirmed his expectations that BAC can reach fully-phased in Basel III capital levels of 6.75% to 7% by the start of 2013.

The greatest risk we see for Bank of America shareholders is a renewed banking crisis and/or exceptionally cautious regulators forcing BAC to raise capital at distressed levels. However, we would note that BAC's tangible common equity ratio is now its highest in at least 15 years. Outside of the aforementioned issues, BAC's operating results also continue to show improvement. While a return to mid-teens ROEs should not be expected as we enter a new era in banking characterized by increased regulation and reduced leverage, BAC should still be able to earn its way out of capital issues in any reasonably cooperative environment. We believe BAC's normalized earnings power is upwards of \$2 per share using conservative estimates; BAC's \$1.0 trillion deposit base alone should be capable of generating operating income close to \$1 per share in a normalized interest rate environment, and the card services business has posted \$4.8 billion in net income (\$0.45 per share) YTD 3Q 2011. The Company's aggressive Project New BAC cost savings plan is also expected to generate \$5 billion in annual expense savings by 2014. Additional upside could come from a robust domestic housing/employment recovery or favorable litigation results. Looking on the bright side, NOL carry-forwards from BAC's recent struggles should also significantly reduce the Company's cash tax expenditures for many years to come.

While BAC still faces substantial headwinds from unwinding bubble-era assets and settling related litigation, the stock's current valuation seems to focus much more on near-term risks than long-term rewards. BAC shares currently trade at extremely depressed valuations of 0.25x book value, 0.40x tangible book value, and 2.6x our estimated normalized earnings power. Our \$13 estimate of intrinsic value assumes the stock can trade at 1.0x BAC's current tangible book value. This estimate implies return potential of well over 100% from the current valuation. We believe this estimate could prove to be conservative as operational performance continues to improve, and there is increased visibility regarding the firm's capital levels. Assuming BAC's progress satisfies regulatory requirements, some increased return of capital to shareholders would also seem likely during the coming years (an increase to the annual dividend of \$0.04 per share would be a likely option).