CreditSights

BofA @ Goldman: "Universal Bank" with U.S. Focus
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- BofA sees plenty of growth in the U.S.
- Opportunistic international expansion possible
- 2005 outlook: better loan growth vs. net interest income headwinds

Bank of America - Debt View and Valuation Metrics			**Key Equity Indicators**	
Total Debt	$86.3 B	@ 12/7/2004	Market Cap.	$185.2 B
Rating Agency	Aa2/A+, S&P has a positive outlook		LTM Revenues	$47.2 B
CreditSights Rating	AA-		Revenue Growth*	23.6%
CreditSights ST Rec.	Marketweight		EPS Growth**	9.6%
			Divd Yield	3.93%
			P/E	12.03x
			P/B	1.90x

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

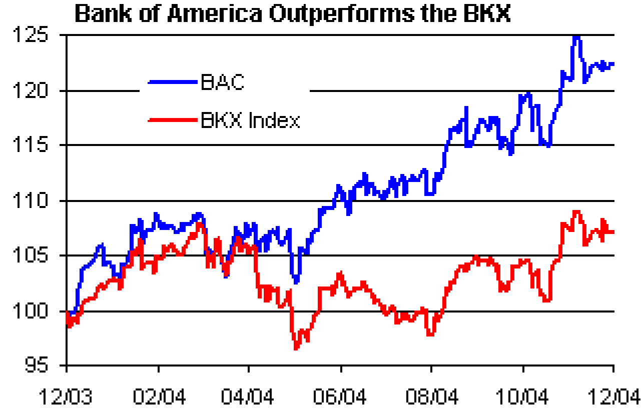
Valuation Benchmarks		**@ 12/7/04**	**6M Avg.**	**FV**	**Rich(-)/ Cheap (+)**
10Y	5.375s of 2014	60 bp	68 bp	61 bp	+1 bp

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

Bank of America presented at the Goldman Sachs Bank CEO Conference and was represented by CEO Kenneth Lewis. The presentation highlighted the company's growth opportunities for 2005. Management also discussed BofA's M&A opportunities both in the U.S. and abroad.

BofA did not spend much time discussing its asset/liability management strategy and positions like most of the other banksi n the conference. But as we noted in our recent report on asset/liability management (see Fifth Third's Asset/Liability Flame Out - Who's Next?), BofA seems to have been lessening its exposure to rising rates with its shorter duration swaps book. This tends to mitigate the banks exposures to convexity risk related to MBS and mortgage loans that are generated by its large origination platform. So we believe BofA's stock and bonds are less at risk to the volatility of the interest rate environment and should not show big charges related to its 4Q04 results to be released in January 2005.

Bank of America Outperforms the BKX



Note: Returns Rebased to 100

Source: Bloomberg, CreditSights

CEO Lewis characterized BofA as a "universal bank" in his comments, and the company is focused on growing its contribution from Global Corporate and Investment Banking (GCIB) and

Wealth & Asset Management (WAM) segments. That said, Lewis said he prefers to invest in these businesses rather than acquire.

CEO Lewis opened with a brief overview of BofA's consumer business, which accounts for approximately 50% of the company's income. CEO Lewis emphasized the broad reach of BofA's footprint, noting that the company had "leading market share in 16 of 20 most populous U.S. states." The strategy here seems clear: higher sales and standardized service throughout the footprint. Only 30% of "stores" are performing at excellent levels, so the goal is to learn what these branches are doing and implement best practices everywhere. Bringing legacy Fleet branches to BofA production provides low hanging fruit for improving profitability.

The company disputed that they are trying to get the U.S. deposit cap lifted. CEO Lewis said he believed BofA's franchise was unmatched and that repealing the deposit cap could give its competitors more room to merge. The company also derives nearly 95% of earnings from the U.S. and appears to want more global diversity of earnings rather than increasing its exposure to the U.S. economy.

Global Expansion Attractive, but No Clear Path
CEO Lewis highlighted BofAs strategic partnership with Mexican bank Banco Santander Serfin as the kind of deal they like and would be interested in "another one like that," possibly in Asia. Later, CEO Lewis commented that BofA would prefer investments looking for "low beta" countries with a strong legal infrastructure. CEO Lewis also commented that he prefers businesses that the company "become dominant" in, not just be "global for the sake of being global." **So, it seems that the company would like to expand beyond the U.S. but at this point has not settled on a clear strategic direction.** Lewis notes that one of BofA's core competencies is in executing M&A. But so far the company has only done deals in the U.S. and appears wary of buying banks abroad.

Middle Market: Signs of Life
The commercial bank performance is "accelerating" and has leads in several business lines, including treasury services, asset-based lending and leasing. This segment is more dependent on economic conditions, which appear to be picking up. **CEO Lewis noted that BofA is "now seeing a faster pick up in middle market" than they have seen in the past year. BofA now expects "higher loan growth in 2005 than in 2004."**

GCIB, Asset Management: Build Not Buy
BofA will continue to invest in the GCIB and Wealth & Asset Management. CEO Lewis said the company's goal was to be the "#1 fixed income platform by 2009." The company also wants to strengthen its presence in equities and add to international operations in Asia and Europe. CEO Lewis noted that the probability of an acquisition of an investment bank "like Merrill Lynch" was "very, very low." He cited the reason for this is that investment banks have changed to a more proprietary trading-based business model and that "cultural fit" would be extremely difficult.

As for Wealth Management, CEO Lewis downplayed his interest in acquiring asset management companies, saying that he has become "less enamored" with buying an asset manager. Though BofA might acquire in this area "at the right price", he said current opportunities in this area were "not compelling or strategic." **However, we wonder if CEO Lewis is just talking down his interest for the sake of a lower price. It seems to us that a meaningful asset management presence takes years to build and with the excess capital generated by BofA the temptation to consolidate assets and/or acquire a strong investment track record could be compelling.**

In the absence of large M&A deals in the pipeline, CEO Lewis emphasized that BofA would maintain its "shareholder friendly" capital strategy of returning cash to shareholders through steadily rising dividends and discretionary share repurchases.

Update on Fleet merger
CEO Lewis also provided an update on the Fleet merger, noting that the company had rebranded former Fleet branches in Boston yesterday and would complete rebranding in Rhode Island, New Hampshire, Maine and the rest of Massachusetts later in December. The general ledger and mortgage systems conversions have been completed and the company is on schedule to deliver the promised cost savings. Net new checking accounts have reached 130,000 and net new savings accounts 119,000, above initial projections.

2005 Outlook
BofA promised more specifics in January but did reveal a few aspects of its 2005 outlook. Deposit growth should slow, as consumers redirect excess cash to equity markets rather than parking balances in deposit accounts. A decline in escrow balances will also impact deposit growth. As a result, BofA predicts slower growth in net interest income for 2005, though not a contraction.

BofA projects a moderately good economy and a moderate rise in rates for 2005. The company expects "customer assets to rise," meaning more robust loan growth in 2005 when compared with 2004.

The mortgage volume levels for 4Q04 are roughly similar to 3Q04 levels, so early 2005 results should be roughly in line with current performance, excluding the negative impact of MSR amortization. The fast pace of growth in both home equity and credit card receivables should continue into 2005.

The company expects to deliver positive earnings momentum from "positive operating leverage." BofA's stated goal is an efficiency ratio below 50%, which CEO Lewis believes the company can deliver through expense discipline above and beyond what was promised in relation to the Fleet merger.

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