

# EXHIBIT 13

Company Name: Bank of America

Market Cap: 137,914.40

Bloomberg Estimates - EPS

Company Ticker: BAC US

Current PX: 13.675

Current Quarter: 0.297

Date: 2011-01-21

YTD Change(\$): +.335

Current Year: 1.308

Event Description: Q4 2010 Earnings Call

YTD Change(%): +2.511

Bloomberg Estimates - Sales

Current Quarter: 27072.563

Current Year: 107719.095

## Q4 2010 Earnings Call

### Company Participants

- Kevin Stitt, Investor Relations
- Brian T. Moynihan, President and Chief Executive Officer
- Charles H. Noski, Chief Financial Officer
- Kevin Still

### Other Participants

- Betsy Graseck
- Paul Miller
- John McDonald
- Matthew O'Connor
- Edward Najarian
- Christopher Kotowski
- Glenn Schorr
- Michael Mayo
- Meredith Whitney
- David Hilder

## MANAGEMENT DISCUSSION SECTION

### Operator

Welcome to today's teleconference. [Operator Instructions] And please note today's call is being recorded.

It's now my pleasure to turn the program over to Kevin Stitt. Please begin, sir.

### Kevin Stitt, Investor Relations

Good morning. Before Brian Moynihan and Chuck Noski begin their comments, let me remind you that this presentation does contain some forward-looking statements regarding both our financial condition and financial results, and that these statements involve certain risks that may cause actual results in the future to be different from our current expectations. These factors include, among other things, changes in economic conditions, changes in interest rates, competitive pressures within the financial services industry, and legislative or regulatory requirements that may affect our businesses. For additional factors, please see our press release and SEC documents.

Also joining us this morning will be Neil Cotty, our Chief Accounting Officer. And with that, let me turn it over to Brian.

### Brian T. Moynihan, President and Chief Executive Officer

Thanks, all of you, and good afternoon. We know this has been a busy week for all of you, and thank you for joining us on a Friday. Before Chuck takes you through the quarter, I was going to give you some perspectives and provide some thoughts about the economy and the priorities we have for 2011. I'll stay mostly with the key take-aways slide on slide

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4 and touch on a couple other slides and then turn it over to Chuck to begin on slide 9.

As we think about 2010, we came into the year with a focus on continuing to clean up on the issues left over from the crisis, while continue to driving the franchise forward, finishing the integration work of Merrill Lynch and Countrywide, and continuing to simplify our business model. During the year, we made progress on many of these items. In an area of credit, our improvement has been strong. Charge-offs have now improved for seven consecutive quarters, and yet there's still room to improve here. We continue to see improvements in delinquencies this quarter and over the last few quarters. The underwriting changes we made in 2008 across all the products, whether it's credit cards, home equity, or first mortgage, are performing better than we would have expected when we made those changes in those years. This ought to hold us in good stead as we move towards 2011 in terms of credit.

On the credit side, we released reserves this year of \$7 billion during 2010, and while we know this is not core earnings, it helped offset some of the costs of representations and warranties, about \$7 billion, and other litigation costs and other matters during the year. But even with that release, our reserve coverage ratio at 1.6 times annualized charge-offs is the highest this company has had in many, many years. We also identified the non-core loan portfolios and began to work those off out of the company. As we showed you, that was about \$130 billion at the start of the year; now it's down around \$100 billion. Now, the good news on the loan side is the franchise is driven forward as we're starting to see stability in the core loan balances that we want to carry forward for this company. We're even seeing some modest growth in some of the areas. Our utilization rates, for example, on our commercial area was stable in the fourth quarter from quarter three, and that bodies well for 2011.

As we think about capital, we ended the year with questions around it, especially given the fact that the new Basel rules are starting to emerge, along with the other changes, adopting Basel II and the Fed market risk rules, et cetera. We told you at the beginning of the year we needed to hit targets of 5.5% to 6% tangible common-equity ratios and 8.5% to 9% Tier 1 common ratios under Basel I by year end in order to have the capital to run this company. This represents the view that we have that the risk capital we need to run the company. We achieved both of those goals this year.

We also started early and made good progress in mitigating the changes that are going to come about in both capital and risk-weighted asset measures that will come with the new Basel rules. This gives us strong confidence that we have a clear path to meeting all these rules as they're adopted and staying above regulatory minimums during the next couple years as they come through. And even during that period, we'll have the ability to pay dividends and do stock buybacks over time as approved by our regulators.

During the year, we're also focused – our franchise. And what we mean by focus, we sold non-core positions in businesses, 20-some units overall, netting \$19 billion in proceeds, at the same time fulfilling the commitments of our TARP repayment and streamlining the franchise and focusing on the three core customer groups and the core products for them. In addition to that work, we redesigned our consumer account strategy to deal with the new regulations that came in in 2009 and 2010. As you've read in the press, we piloted our new account structure to mitigate the revenue loss from these regulations and still provide strong customer choice. By providing that choice and the changes we've made, we've seen dramatically lower attrition and complaints and account closure in our consumer businesses.

From the shareholders' side, our stock did underperform, and our returns on equity and returns on assets are not where we want them and continue to be affected by one-time events. But during the year, we did successfully grow our tangible value per share by 15%, and we look forward to driving that forward in the future.

By far the biggest legacy issue we continue to deal with is on the mortgage side. On pages 7 and 8 we highlight some of the changes, and Chuck will talk about some of the rep and warranty and put-back issues later, but let me summarize some of the key elements. As we entered the year 2010, a lot of the operational work was around the modification area and building up the teams to do the foreclosures. As we moved through the year, discussions around representation and warranty started to dominate the discussions. This year we took a total of \$7 billion of representation and warranty cost as offsets to revenue, and a significant portion of our litigation expense this year was also due to mortgage issues. We are pleased to put the GSEs behind us this quarter, as we announced on January 3rd. We'll continue to focus our efforts on protecting our shareholders with regard to these matters, the counterparties involved, and representation and warranty and put-back issues.

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When you think about modifications, our efforts continue to build. We did 285,000 modifications during 2010, including 76,000 during the fourth quarter alone, the most in the industry. We completed our review of the foreclosure practices. The process is working, and we've restarted the efforts cautiously. We'll continue to face regulatory and other scrutiny here, but the work is proceeding, and we're very focused on doing this right for all the parties involved.

During 2010 we also completed a milestone of \$2 billion of merger integration work, and next quarter we'll actually complete the final touches of the Merrill Lynch integration. And for the first time in many years, we'll have no integration work to do in this company. What that gives us the ability to do is turn that energy and focus to managing our efficiency in the company through simplification. Included in that will be taking our four deposit systems during 2011 and '12 to one deposit system and many other like activities. Our expense levels are not where we want them right now. They're higher because of debt collection and other costs related to legacy issues. But if you think about what we've been doing in managing expenses, we continue to invest in the franchise, while managing through the post-crisis issues.

To help you think about that, think of the head count in the company. During the year we've raised about – our head count's gone up about 3,000 people. We've dedicated almost 13,000 additional people to the mortgage issues and foreclosure, modifications, and collection areas. We've invested 2,000 people in growth areas, about half in the wealth management and other areas in the United States and about half outside the United States. That means the rest of the franchise in effect will be down about 10,000 to 12,000 people. So we continue to manage costs while we deal with the legacy issues and invest for growth, and that's how we'll continue to run the franchise during 2011.

While the work was going on and sort of reposition the balance sheet capital in the franchise, the core businesses continued to progress. First, our job is to drive the integration of this franchise to bring the combination, which can do better than any one of our business as a stand-alone business can do. If you look at the appendix slides 33 and 34, you can see some of the evidence of that.

Our card business turned to an operating profit this year from a \$5 billion loss last year. Our deposit performance, while challenged by the low interest rate environment and the regulatory changes, has improving customer scores. And our share in deposits continues to grow on a retail side even giving effect to our disciplined pricing strategies. Our deposits have now crossed \$1 trillion at Bank of America for the first time.

Our wealth management business has seen strong growth, both in assets under management flows, assets under management, deposits, and you're seeing loans stabilize in that business. We've made good progress in hiring financial advisors, wealth management bankers, and other client-facing teammates. The group has produced a solid profit, including record revenue in the fourth quarter of 2010 and still has lots of great opportunity ahead.

Our global commercial banking business, our middle market and small business banking business, recovered to strong earnings and returns this year as credit normalized and our market-leading positions showed their strength.

In our global banking and markets area, which would be large corporate investment banking and the trading and capital markets activity, we maintained our number two position in our investment banking business throughout the year. Our investment banking fees from third parties were the highest this quarter they'd been since we merged with Merrill.

Our sales and trading revenue team had a solid year, but we had varied results by quarter, going from a high of \$7 billion in revenue to a low of around \$3 billion. We're satisfied with the year in total, but we need to work on the ups and downs, and Chuck will take you through some of the details on that later on.

As we think about 2010, we made progress, we stabilized the balance sheet and capital, and you can see that on slide 6 and some of the statistics on the balance sheet – statistics given there. We did lose \$2 billion for the year 2010 and \$1 billion in the fourth quarter. Both of those numbers we are disappointed with. But with the year came large ins and outs, and they're all nearly driven by legacy issues, which we continue to put behind us: \$12 billion in after-tax goodwill impairments, \$7 billion in representation and warranty and put-back costs as a contra to revenue, \$3 billion in litigation expense nearly, \$2 billion in merger and restructuring charges, and other charges like that. And those of course were offset in part by the \$7 billion in reserve releases and \$3 billion in asset sales. We clearly need to continue

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to reduce the ins and outs and let the core franchise performance come through for you, our investors.

As we look to 2011, the priorities are clear. We're going to make progress at putting the mortgage operational issues behind us, meaning modifications, foreclosures, and related process improvements. On our representation and warranty and put-back area, we're going to continue to make progress only if we can do it on a basis consistent with our shareholder interest. But our best guess is this will take a longer period of time, perhaps a few years. We're going to drive the core customer businesses, integrating this powerful franchise and delivering to each customer. We're going to have to drive our expense management during the year, ensuring that we get the expenses out of here as we continue to recover on the mortgage and other credit-related cost. And importantly, we're going to deliver on the growth opportunities in our franchise, be it wealth management, the affluent customer base in the consumer area, the investment banking area, all – in the United States and abroad. And we'll continue to invest in those businesses as we did in 2010.

As we look to 2011, we see the economy continuing to recover. All the key metrics we see in our customer base that we monitor externally like you do, including the credit demand, consumer spending, especially spending among middle class and affluent clients, the debt burdens the households are carrying, the asset quality of portfolios, all those are pushing ahead. We still face, however, the realities of high and sticky unemployment in this country and a slow and stagnant recovery in housing and modest overall U.S. growth. In this context, we'll continue to drive towards delivering shareholder returns by continuing to grow our tangible value per share as we materialize on recovery in the franchise. We continue to believe we're in a position to modestly increase our common dividend in the back half of 2011, but of course we need our regulator's approval to do so.

So we still have a lot to do. But at the same time, we have the best franchise in the industry with number one or two positions in every product area and the largest customer client base in the industry. We can't and will not lose our focus on leveraging this franchise as the economy improves for you, our shareholders.

We have a clear strategy: to serve three customer groups with their core financial needs in the best way of any provider can do. We have a well-defined operating principle, which we've laid out for you to enable us to meet that strategy. And we continue to execute against it. 2010 was a year to repair the balance sheet, rebuild some of the capital ratios and reserve ratios and also tough but necessary decisions as we focused on cleaning up our legacy issues. But as the economy continues to improve and we continue to execute, I have every confidence the franchise will keep moving to the performance that it's capable of.

Finally, I want to thank our 290,000 associates for the tireless efforts they made during 2010, and I'll turn it over to Chuck starting on slide 9.

## Charles H. Noski, Chief Financial Officer

Thanks, Brian, and good morning, everyone.

As you can see on slide 9, we reported a net loss of \$0.16 per share for the quarter. Our results reflected the non-cash, non-tax deductible write-down of \$2 billion or \$0.20 per share of goodwill associated with our home loans and insurance business that we discussed on January 3rd. Excluding this goodwill impairment charge, earnings were approximately \$750 million or \$0.04 per share after preferred dividends. Results for the fourth quarter reflected the positive and negative impact of several items, which makes for a difficult comparison this quarter.

If you turn to slide 10, we've listed some of the larger items. Representations and warranties expense in the fourth quarter was \$4.1 billion, of which \$3 billion was associated with the GSE settlements we have previously described. The credit mark on structured liabilities under the Fair Value Option resulted in a negative adjustment of \$1.2 billion, reflecting a tightening of our credit spreads compared to a negative adjustment of \$190 million in the third quarter and is reported in other income.

Asset sales during the quarter included our partial ownership in BlackRock, reducing our ownership from 34% to 7%; the sale of our rights to participate in CCB's secondary offering; and the sale of a majority of the Global Securities



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Solutions business. We had \$872 million in security gains during the quarter. We've already touched on the goodwill impairment charge. Excluding fees paid to external legal service providers, litigation expense for the quarter was \$1.5 billion, primarily related to our consumer businesses, including the mortgage business. Merger-related and restructuring charges were \$370 million. Loan loss reserves were reduced by \$1.7 billion in the quarter versus \$1.8 billion in the third quarter. And finally, we had a tax benefit of \$2.4 billion, primarily reflecting the pre-tax loss before the goodwill impairment charges, the release of a capital loss carryover valuation allowance of about \$1.2 billion, and normal tax preference items.

Turning to slide 11, you can see that four of our business segments made money in the fourth quarter. Deposits lost money due to increased litigation costs this quarter and was also affected by the full impact of Reg E and continued low interest rates. Global Card Services benefited from improving credit quality and reported \$1.5 billion in net income. Global Wealth & Investment Management had a very good quarter, earning \$332 million due primarily to near-record quarterly revenue levels driven by market activity, strong long-term client flows, and a shift in the mix of assets towards higher-margin products. Home Loans & Insurance was significantly impacted by legacy costs, including the goodwill impairment charge, reps and warranties expense, and litigation costs. Our first mortgage banking business, however, excluding these costs, was profitable in the quarter. Global Commercial Banking earned more than \$1 billion this quarter, as credit quality continued to improve and has delivered stable revenue through the cycle, reflecting strong client retention. Global Banking & Markets showed continued solid results in investment and corporate banking, offset by a difficult trading environment in global markets.

Let's turn to net interest income on slide 12. Net interest income on an FTE basis was \$12.7 billion, essentially flat with the third quarter. The impact of low rates and lower consumer balances, excluding residential mortgages, were offset by positive hedge income of \$250 million, increased balances in the discretionary portfolio, and a reduction in long-term debt. Our average earning assets for the quarter were up \$20 billion, mainly due to growth in consumer loans and securities. Cash declined due to a shift in liquidity mix from cash to liquid securities, in addition to a net reduction in our outstanding debt. Consumer loans increased due to retained mortgage originations. Commercial loan demand stabilized in the quarter, and as we said earlier, average commercial loans excluding real estate were up 1% from the prior quarter. Although we were flat with third quarter, we expect net interest income to decline over the next couple of quarters. In the first quarter of 2011 in particular, we expect net interest income to drop from fourth quarter levels due to fewer days in the quarter, continued declines from our loan run-off portfolios, and an anticipated reduction in hedge results. We expect to see stabilization in net interest income sometime in the second half of the year. We're also on track to lower our long-term debt footprint by 15% to 20% by the end of 2011 relative to third quarter 2010 levels.

Slide 13 shows you that both average loans and deposits were up for the quarter. Deposits remains a good story of growth, as wealth management clients continue to do more business with us, and commercial customers continue to prefer to hold rather than invest cash.

On slide 14, you can see that period-end loans from the end of September were up approximately \$6.5 billion due to growth of almost \$17 billion, partially offset by net charge-offs and decreases in our run-off portfolios. We have a slide in the appendix that details our run-off portfolios for you. The \$17 billion increase in total loans was driven by residential mortgages, primarily FHA-insured originations as we use some excess liquidity, and C&I loans, offset by a slight decrease in commercial real estate.

Turning to slide 15, card revenue up 7% from third quarter results due to a 12% increase in interchange income. Increases in retail spending were 4% versus the prior quarter and 5% versus the prior year. These increases helped drive the increase in interchange income. And on a managed basis, card revenue was relatively flat from a year ago, despite the impact of the CARD Act.

On slide 16 we show service charges were down \$176 million from third quarter levels to \$2 billion, which is the number we targeted for you two quarters ago. The decrease was due to the approximately \$275 million impact of Reg E this quarter after becoming effective midway through the third quarter. So now that the full impact of Reg E is embedded in our results, you can use this quarter's results as a base going forward. Remember, though, that the full impact from both Reg E and the CARD Act wasn't reflected in quarterly results in service charges and card revenue for

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the first three quarters of 2010. Other regulatory impacts that will affect service charges in 2011 are the Durbin amendment, which is scheduled to occur in the last half of the year. We expect this would cost us approximately \$1 billion in revenue. We won't know the expected impact on debit card interchange, though, until late April, so we hope to update you on that during our first quarter earnings call. While we expect to mitigate some of the impact over time, we do expect the impact of mitigation efforts will be modest in 2011.

Mortgage banking revenue on slide 17 decreased from the third quarter as a result of higher reps and warranties expense, which includes the impact of the GSE agreements and additional accrued liabilities. MSR performance net of hedges was \$257 million this quarter, an increase of \$347 million compared to the loss last quarter. Although production volume in first mortgage at \$85 billion was up from the third quarter, production revenue was down due to lower lock volumes and production margins. The capitalization rate for the consumer mortgage MSR asset ended the quarter at 92 basis points versus 73 basis points in the third quarter. Given the direction of interest rates since Thanksgiving and the redeployment of some of our sales force to assist with our distressed customers, we forecast production levels will be lower over the near term.

Turning to slide 18, you can see the total reps and warranties expense in the quarter was \$4.1 billion, up \$3.3 billion from the prior quarter. Much of the increase was the result of our recent agreements with the GSEs. The liability we have accrued on the balance sheet increased approximately \$1 billion to \$5.4 billion, as the \$4.1 billion representations and warranties expense was partially offset by approximately \$3 billion in charge-offs and other activities.

As you can see, our unresolved repurchase requests totaled approximately \$10.7 billion at year-end. This amount includes \$1.7 billion of demands contained in a communication from private label securitization investors. We believe these investors do not have the contractual right to demand the repurchase of loans directly or the right to access loan files. The inclusion of these claims and the amounts reflected in the chart does not mean that we believe these claims have satisfied the contractual requirements that would permit them to direct a securitization trustee to take action, or that they are otherwise procedurally or substantively valid.

Outstanding claims were reduced by \$2.3 billion, driven by the resolution of \$8 billion of claims during the quarter, including \$4.9 billion as part of the GSE agreements. Monoline claims outstanding continue to grow as the monolines continues to submit claims, and they're generally unwilling to withdraw these claims, even when they've been given evidence refuting the claims. The increase in rescissions and approvals in the fourth quarter was substantially impacted by the agreements with the GSEs. We've included slides in the appendix that update the information we presented earlier this year on our GSE experience.

On slide 19, we've provided additional information around our experience with non-GSE counterparties, which would encompass whole loan sales and private label securitizations, including those where monolines have insured some or all of the debt. On slide 37 in the appendix we break down our non-GSE experience, much as we did for the GSEs. As you can see on slide 19, from 2004 through 2008, \$963 billion of loans were sold into private label securitizations or through whole loan sales, where we believe we have originator reps and warranties exposure. We broke out the originations for you by both legacy entity as well as product to give you a bit more clarity on the portfolio. Through December 31st, repurchase claims received on the 2004 to 2008 vintages totaled \$13.7 billion. \$6 billion in those claims have been resolved, and as you can see, resolution success and rescission rates are much higher with private investors versus the monolines. The losses on the resolved claims were approximately \$1.7 billion. Of the remaining outstanding claims, \$5.8 billion have been reviewed and declined for repurchase.

Moving to slide 20, of the \$963 billion of original principal balance, 22% have defaulted or are severely delinquent. 58% of defaulted or severely delinquent loans made at least 24 payments prior to default or delinquency. As we have indicated previously, in those instances where we have had meaningful and consistent repurchase experience with counterparties, such as the GSEs and certain monoline insurers, a liability for reps and warranties has been established for asserted and unasserted requests to repurchase current and future defaulted loans. With the exception of certain monoline insurers, we have not had meaningful and consistent repurchase experience with other non-GSE counterparties. We do evaluate all asserted claims received from all parties in establishing our liability.

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However, as we and others in our industry have noted, analysts and other market participants have developed their own estimates of possible exposure for Bank of America and other institutions. Although the non-GSE claims experience remains limited, we expect additional activity in this area going forward, and it is possible that further losses may occur.

We received a number of investor inquiries following our GSE announcement earlier this month regarding the extent of such possible non-GSE exposure. In addition, in connection with our planning process, we evaluated various possible alternative scenarios. We've developed a preliminary estimate of a possible loss range using a variety of judgmental assumptions. That estimate suggests a possible upper range of loss that could be up to \$7 billion to \$10 billion over existing accruals. As a reminder, there are significant legal and procedural hurdles that counterparties would need to overcome before we believe any of these amounts could become probable. We would expect resolution of these matters to be a protracted process, which could take years to conclude.

As you can see on slide 21, for example, there are substantial differences between the reps and warranties provided to GSEs and those provided in private label transactions. Until we have meaningful repurchase liability with these counterparties, we do not believe it is possible to determine that a loss is probable and accordingly to accrue for any such loss. As we have previously described to you, where we conclude that a valid breach of reps and warranties has occurred, we will act in a responsible manner. On the other hand, where we have concluded that a valid basis for repurchase does not exist, we will vigorously contest such claims and defend the interest of Bank of America and its shareholders.

Okay. Now back to earnings on slide 22. As I said earlier, our activity with wealth management clients resulted in revenue approaching record quarterly levels, which is where we generate the bulk of the investment and brokerage revenues. Investment and brokerage revenue was up \$155 million or 6% from the third quarter due to both higher asset management fees and brokerage income. Asset management fees were a record \$1.4 billion, and brokerage revenue was approximately \$1.5 billion. Total client balances grew \$69 billion to more than \$2.2 trillion during the quarter as a result of market activity and strong flows into deposits and long-term asset management products.

Sales and trading revenue on slide 23 of \$2.6 billion, which includes both net interest income and non-interest income, decreased approximately 43% from the third quarter, but was higher than last year by 17%. The decrease in sales and trading was partially from seasonal declines, but a few other factors stand out. We had a softer trading environment as rates backed up, negatively impacting some of our risk positions. This also caused clients to exit bond funds with money flowing into cash or equity funds, putting pressure on prices. We've experienced a significant tightening of credit spreads during the year and to a lesser extent during the fourth quarter. Certain sectors such as European debt experienced spread widening. We've also been focused on the impact of the new Basel capital rules and the impact to the amount of capital attracted to our markets business.

Over the last couple of quarters we've been focused on reducing the higher capital-intensive assets and as well our exposure to shorter term funding agreements. FICC was impacted the most from these items, decreasing 49% to \$1.8 billion with lower results in credit, rates, and commodities products. Equity revenue was down 19% to \$789 million from the third quarter as an increase in cash business commission revenue from in-flows was more than offset by a decline in market volatility and client flows impacting equity derivatives. We didn't have any major impact from legacy assets in the quarter, while we continue to reduce our exposure to auction rate securities, CMBS, and monolines.

In investment banking on slide 24, our overall fee ranking remained solid as we were ranked at a strong number two globally and number one in the U.S. Investment banking revenue increased 16% from the third quarter and was on par with the great fourth quarter from a year ago. Results were driven by increases in all areas, namely M&A, debt, and equity capital markets.

Let me say a couple things about expense levels on slide 25. Total expense excluding the goodwill impairment charges in the last two quarters increased \$2 billion from the third quarter. Expenses this quarter included higher litigation expenses, as I said earlier. Personnel expense compared to the third quarter is up approximately \$400 million, reflecting the build-out of strategic hires in certain businesses, including international, as well as certain severance and benefit-related expenses. High levels of head count and expense in home loans and insurance were related to default

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management staff and other loss mitigation activities in that business. Reiterating what Brian said earlier, our expense levels, excluding goodwill charges, are up from 2009 levels for several reasons including additional head count to address legacy mortgage issues. For 2011 we expect our expense levels to remain elevated as we work through these issues and continue to invest in the franchise.

Moving to asset quality trends on slide 26. As they did throughout most of the year, delinquencies excluding FHA loans, net charge-offs, and nonperforming assets, continued to improve.

On slide 27, improving credit performance in almost all portfolios drove the decrease in net charge-offs. Net charge-offs of \$6.8 billion decreased \$414 million compared to the third quarter. Consumer net charge-offs were down \$252 million, even with a \$330 million valuation adjustment on certain mortgage loans reflecting improvement in card and home equity. Commercial asset quality also improved, as net charge-offs dropped 15% from the prior quarter, with the biggest drivers being small business and commercial real estate. Reserve reductions included \$1.1 billion on U.S. card, along with releases in commercial real estate, small business, direct/indirect consumer, and commercial.

On our \$36 billion purchase credit-impaired consumer book, which is comprised of discontinued real estate, residential mortgages, and home equity, we increased the reserve \$828 million to reflect an adjusted outlook for home prices. Even with the decline in reserve levels, the ratio of allowance for loan losses to annualized net charge-off was essentially flat compared to the third quarter at roughly 1.6 times and is up from roughly 1.1 times a year ago.

In thinking about credit costs in 2011, we think provision expense should continue to edge down through the year as charge-offs continue to move lower, primarily in the consumer businesses. We expect loan loss reserve reductions will continue as long as portfolio performance and the economy continue to improve and our other credit metrics warrant lower reserves.

That concludes my prepared remarks for this morning. As you may know, we've scheduled March 8th to have our Investor Day in New York. So I look forward to seeing all of you there. And with that, let's open it up for questions.

## Q&A

### Operator

Thank you, sir. [Operator Instructions] And we'll take our first question from the site of Betsy Graseck with Morgan Stanley. Your line is open.

**<Q - Betsy Graseck>**: Hi. Good morning.

**<A - Charles H. Noski, Chief Financial Officer>**: Good morning, Betsy.

**<Q - Betsy Graseck>**: I wanted to talk a little bit about the tail risk on the mortgage and the cleanup that you mentioned, Brian, at the beginning of the call. You've indicated that you could range private label \$7 billion to \$10 billion based on your assumptions. Why not take a large reserve against that and kind of be done with it in the next quarter or two?

**<A - Brian T. Moynihan, President and Chief Executive Officer>**: Betsy, I want to be very clear for you and everyone on the line as to what the range is that we gave today. This is a possible range, not a probable range. It could be as low as zero theoretically up to a high end of the range that we think could be \$7 billion to \$10 billion based upon an array of different assumptions and judgments, none of which we've seen in evidence through current behavior, either in the portfolios or by the counterparties. So as I said, we really don't have a basis to make an accrual.

We had a lot of interest from investors asking us to help understand what we thought about a possible exposure in the future. And until we can meet the accounting criteria to judge this as probable, we really don't have a basis to make an accrual. And certainly we expect there will be additional provisions in future quarters. We don't think they're going to fall to zero. But we really don't have a basis. This is an array of alternative scenarios we did during our year-end planning process coming into the new year to try to size under various kinds of scenarios what might happen. But it

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Current Year: 107719.095

doesn't even begin to rise to the level of probability that would allow us to do any accounting. Nor do we, frankly, expect that we would lose that amount.

<Q - **Betsy Graseck**>: You do have some private label experience, though, right, that you've paid out on? Is that – what's the reason for why that experience that you've had so far isn't sufficient?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: Actually, Betsy, most of that other repurchase experience was with whole-loan investors. And that's rather episodic as it relates to private-label investors and securitizations. That has been extremely modest.

<Q - **Betsy Graseck**>: Okay. And the litigation reserve, or the litigation cost that you had in the quarter, should we take that as a run rate for the foreseeable future? Or is there any color you can give us as to expected volatility in that line?

<A - **Charles H. Noski, Chief Financial Officer**>: I think you should probably expect it will have some provisions there. There were both, as I mentioned, the provision in the quarter was in our consumer businesses, so it's more than just mortgage. And so there will be, you saw in the deposits business for the quarter that we reported a loss. Without the litigation provision associated with deposits, that business would have been profitable in the quarter. But I think it's hard to think about a run rate for litigation expenses. Again, those will be based on the facts and circumstances and the judgments of our attorneys each quarter about the status of our overall litigation portfolio, although certainly a disproportionate part of our litigation portfolio is in the former Countrywide space.

<Q - **Betsy Graseck**>: And then last, on FICC, in broad strokes, could you give us a sense as to how much of the FICC decline was due to either actively managing down due to Basel III, passively allowing things to roll off because it met Basel III, DVA, or just the market being difficult?

<A - **Charles H. Noski, Chief Financial Officer**>: I would say it would be largely the market being difficult and the lack of client flows. But certainly as we look to manage our balance sheet more effectively and think about the new capital rules, that has also had an impact.

<Q - **Betsy Graseck**>: Is there any DVA in there?

<A - **Charles H. Noski, Chief Financial Officer**>: No, I think that's in other income.

<Q - **Betsy Graseck**>: Okay. And you outlined how much that is?

<A - **Charles H. Noski, Chief Financial Officer**>: Yeah. Maybe a small amount, but most – the big adjustment is the Fair Value Option adjustment on the Merrill Lynch structured notes.

<Q - **Betsy Graseck**>: Okay. Thank you.

<A - **Kevin Still**>: Thanks, Betsy.

## Operator

We'll go next to the site of Paul Miller with FBR Capital Markets. Your line is open.

<Q - **Paul Miller**>: Yeah. I know – did you guys – have been giving out guidance on core pre-tax, pre-provision numbers? Because that's one of the numbers that we really like to look at, and I think numbers have tended to be all over the Street. Can you help us out a little bit on how we should be looking at those numbers?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: We have not given guidance on PPNR, and there's a couple reasons. But the main one is that with a credit card business, you can lead yourself to – and we talked about this a few earnings calls ago – you can lead yourself to a number. When we had \$30 billion, \$40 billion of credit card charge-offs, that the PPNR was fine, but you're always going to have a charge-off rate of some magnitude in there, and that then could lead to the conclusion that it will go to zero, and it won't, because the cost of goods sold in credit

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card is a part of credit card costs.

So I think Chuck gave you various, as he went through his presentation, various points of view about net interest income, and it would sort of continue down as the interest rate environment and we had a good hedge quarter on that, and that helped this quarter as it flattens and comes down. And it will flatten in the middle of next year and come back up. Expenses, I think we gave you some guidance. But in terms of PPNR, we struggle a little bit. I know that that's a number you track closely, but we struggle a little bit on how you guide people on it overall, but also importantly how it really plays into the context of a company that has a large credit card portfolio.

**<Q - Paul Miller>**: And just one really quick follow-up on Betsy's question is how much exposure do you have to the whole-loan sales in the private label? In other words, do you ever disclose how much you've sold out there? I think you disclosed last quarter what you've paid out on private label. I didn't see that disclosure this time around. I might have missed it.

**<A - Charles H. Noski, Chief Financial Officer>**: I think if you went looking in the appendix, probably your best sense of the non-GSE portfolio would be back on page 38, Paul. But I don't think we've cut back at all on the disclosure we've given you with respect to the performance of these individual portfolios and the actions with counterparties.

**<Q - Paul Miller>**: But I was just wondering, do you actually disclose how much you've sold in whole loans to private label? Because I know we get some insight in mortgage finance, we can get the overall private label exposure, but what's the exposure on the whole-loan side? Because that's what you've been paying out at this point, am I correct?

**<A - Charles H. Noski, Chief Financial Officer>**: We'll get you that. It's disclosed. Kevin – he can get you that.

**<A - Kevin Still>**: Yeah, we'll get you that, Paul. I don't think it's here in our slides today.

**<Q - Paul Miller>**: Okay, thanks a lot, gentlemen.

**<A - Kevin Still>**: Thank you, Paul.

## Operator

We'll go next to the site of John McDonald with Sanford Bernstein. Your line is open.

**<Q - John McDonald>**: Hi. Another clarification on the private label. Chuck, in the illustrative scenario of the \$7 billion to \$10 billion, when you say over existing accruals, just want to clarify, which existing accruals are you referring to? Is that litigation reserves or the rep and warranty reserve?

**<A - Charles H. Noski, Chief Financial Officer>**: It's both the rep and warranty reserves and the associated litigation reserves.

**<Q - John McDonald>**: Okay. So there's some contemplation of private label losses in both of those?

**<A - Charles H. Noski, Chief Financial Officer>**: We've really – frankly, it's the entire portfolio. So if you look back on slide, let's see, 38, which shows the original principal balance I talked about earlier of \$963 billion, how much remains unpaid and what we view as potentially at risk, our estimate contemplates that entire population, because we believe we pretty well have taken care of GSEs already. But primarily it's monolines, it's private label, it's whole loan sales, it's all of that.

**<Q - John McDonald>**: Okay. And where do the litigation reserves stand at year-end?

**<A - Charles H. Noski, Chief Financial Officer>**: John, we don't disclose the amount of our litigation reserves, the balances. We'll talk to you about provisions, but we're not going to share that.

**<Q - John McDonald>**: Okay. In terms of the SCAP tested, do you know if this upper range illustration that you gave today is what the Fed will accept as the adverse scenario outcome for that component of the SCAP?

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<A - **Charles H. Noski, Chief Financial Officer**>: John, certainly as one of the 19 banks that participated in the process, we provided a whole array of information to our regulator, but I think that's viewed as supervisory information. I don't think we can really comment.

<Q - **John McDonald**>: Okay. Could you give any more color on what kind of magnitude of a drop in NII we might look for in the first half of 2011? Or how much the hedge results helped in the fourth quarter?

<A - **Charles H. Noski, Chief Financial Officer**>: Yeah, I think I mentioned the hedge results in the fourth quarter was a benefit of about \$250 million. We'd love to continue that, but anticipating that we don't have that level of help in the first quarter of 2011 is probably a good guess.

<Q - **John McDonald**>: That all of that goes away?

<A - **Charles H. Noski, Chief Financial Officer**>: I think certainly a substantial part of it.

<Q - **John McDonald**>: Okay. And then also just on the expense that you talked about, what adjustments should we make to the fourth quarter expense level to get to a sense of what the run rate is going into '11? Could you help us with that, just kind of think about the expense run rate?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: Well, I think, John, I can give a perspective and Chuck can give you a perspective. I think there's -- as you think about the expense run rate and if you look at page 25, you can sort of see, you've got sort of two broad concepts. One is sort of the -- some of the one-time expenses, the extra litigation, higher-level litigation in the quarter and things like that, year-end cleanup, professional fees, and things that typically happen in the fourth quarter. So that's sort of one thing that you can neutralize. You can look over the quarters and smooth some of that out and think about that as a run rate question.

But the second is the retention of personnel to work on the bad credit and the mortgage, and that's what I tried to shape for you a little bit. So during 2010 we added 13,000 people dedicated -- we otherwise wouldn't need, but they're working to help -- dedicated to the task of helping on the mortgage cleanup. That's going to be elevated all through '11. It'll take us '11 and probably halfway through '12 before we sort of really get on the downward side of being able to get through all that work, and so those costs will stay in.

So as I think Chuck said overall, we don't think expenses are going to stay at these levels. And if they go up on comp or something like that, that's going to be revenue-related, which would be good news. But the core expense run rate is sort of there and then as we work through this year, and we'll be able to start to take it out as the mortgage activity in particular and other activities like that start to subside.

<A - **Kevin Stitt, Investor Relations**>: Yeah and, John, remember, there's a spike in first quarter from FAS 123, which is when we pay equity compensation, and some of that has to get recognized upfront, because of a some of the [inaudible].

<Q - **John McDonald**>: Okay. And last thing here, just back on the private label. Can you give an update on the status of discussions with the group that sent a letter in October, the Pimco/BlackRock group, is there a late January deadline for resolving that, and will we know when that's over?

<A - **Charles H. Noski, Chief Financial Officer**>: There's no real news on the discussions. And there was an extension that was filed that led to the end of January, and we continue to work to talk to people, but we haven't changed our posture. We're not doing anything that's not going to be in our shareholders' best interests, and -- but we always want to talk to everybody in the world to make sure we understand where they stand.

<Q - **John McDonald**>: Okay. Thank you.

<A - **Kevin Stitt, Investor Relations**>: Thanks, John.

**Operator**



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Current Year: 107719.095

We'll go next to the site of Matt O'Connor with Deutsche Bank. Your line is open.

<Q - **Matthew O'Connor**>: Hi, guys.

<A - **Charles H. Noski, Chief Financial Officer**>: Good morning, Matt.

<Q - **Matthew O'Connor**>: If I could circle back on the FICC revenues. And I guess just bigger picture, as we think about implementing all the changes for Basel III, what do you think the longer-term impact is versus a more normal run rate? And maybe I'll throw out there, maybe an annual level of FICC revenues are in the \$10 billion to \$12 billion range. Basel III would reduce that by 10%, 20%, or you think you can offset it over time? Just any thoughts on what the near- and longer-term impact could be?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: I would say that we have been taking out what we would – think of Basel III and Volcker and other things, we've been downsizing our – we took our prop business down and it's actually almost done; it'll be done early this year. But overall, the rest of the impact is relatively modest, and I would not put the fourth quarter into Basel III, those types of things. I think it was just a tougher quarter in terms of client activity and tougher quarter in terms of market. And it's not any one area. Across the board, we just had lower revenues, and the latter part of the summer nothing happened.

So I wouldn't be focused on that. I think we're still comfortable with the average type of run rates we talked about, \$4.5 billion, \$5 billion in total revenues on the sales trading platform that you can see if you look back, and we continue to size the business appropriately that way. Thomas made the changes there. So I wouldn't say that Basel III is going to affect us. We're going to run it tightly. We're going to run the balance sheet tightly. It's more because of the economics involved than anything else. In this quarter, I'd really chalk it up to sort of a malaise and a tougher market quarter.

<Q - **Matthew O'Connor**>: Okay. And sorry, the \$4.5 billion to \$5 billion of sales and trading, that's a quarterly level including both equities and fixed income?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: Yeah. That's total revenue in there and the capital markets activity. And it's going to bounce around. I mean, just look at the last four quarters, you can see a wide range. And so we – I think the ins and outs are a little more pronounced this year, especially because the one quarter was so high, but I think if you look at it over time, if we don't get that kind of run rate, we're going to have to resize the business because that's what's needed to produce the right returns.

<Q - **Matthew O'Connor**>: Okay. All right. That's helpful. And then just separately, I guess on the whole kind of broader foreclosure issue for the industry, I'm personally surprised that it's kind of lasted this long. It feels like there's a lot of incentive for everyone to figure out some sort of settlement and move on. I know when you're in discussions, it's hard to talk about these things publicly, but any color you can give on maybe timing of putting this issue behind the industry or maybe what needs to happen to get people at the table to hammer out an agreement here?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: I think it's hard to reflect on that. There's a lot of groups involved, and you've seen them talk in the press about what's going on, and we won't do that. What I will tell you, though, is we did a thorough review. We identified what we needed to do to make sure that we could erase from anybody's memory that there's any lack of the precision, integrity, discipline in the process. And we've then – we've restarted the process based on that. And we've dedicated lots of people, lots of work to make sure there'll be no question about it.

Resolving the types of things you're talking about will take some time, but the reality – the key is that we've actually done the work, completed it, brought in the outside review, brought in the inside review, and are back working on it and working through this very difficult situation for the borrowers. So I'd separate sort of the regulatory and other issues away from is the activity starting to progress. And the answer on that is yes.

<Q - **Matthew O'Connor**>: And then just lastly on the debit card, you're starting to have more banks come out publicly and say there's offsets. Or I think one bank said they think they can offset it 50%, one bank said 100%. One bank's claiming it's illegal. Just any updates, thoughts you have on that, in terms of how this plays out when all is said and done?



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Current Year: 107719.095

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: I think what we've said in the past still stands. Over time we have to mitigate all of it because we have to get the returns in the business back to what we need. But in the short term, the transition, and as Chuck said in his comments, it will be slower just because you lose the revenue instantaneously and it takes a while.

Now, the key thing that we've done, and you've seen it in the press report, is that we have restructured our account structure. And during the course of 2011 that is out in the pilot stage. It will ultimately roll through the entire customer base over the next three, four quarters. And that allows us to, we think, in a right way, recover the revenue that will then in '12 and '13 as that account structure goes through.

And so I think that'd be our statement sort of – that'd be our clarity on sort of timing. '11 is a transition year, '12 we start to recover, and it'll take a little time. And as interest rates rise, we have to remember that interest rates are a multitude of effect on that business. The low interest rate environment, the value of deposits, then the fee side over time. So if interest rate rise, we're going to have to have disciplined pricing in our structure, and Joe – the team has done that to gather back some of it there, too.

<A - **Charles H. Noski, Chief Financial Officer**>: Yeah, particularly with our scale.

<Q - **Matthew O'Connor**>: Okay, all right. Thank you very much.

<A - **Kevin Stitt, Investor Relations**>: Thank you.

## Operator

We'll go next to the site of Ed Najarian with ISI Group. Your line is open.

<Q - **Edward Najarian**>: Good morning, guys.

<A - **Kevin Stitt, Investor Relations**>: Good morning, Ed. How are you?

<Q - **Edward Najarian**>: My first question has to do with credit. I guess we saw obviously improvement in the charge-off ratio in NPAs, but 90-day delinquencies were flat, and we saw only pretty modest improvement in 30-plus-day delinquencies. So I'm wondering if you have any comments sort of on your outlook for the pace of credit quality improvement going forward? Looking at the delinquency trends, it seems like it's likely to slow down relative to prior quarters. Any comments there?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: Well, I think the pace has slowed in prior quarters only because in the grand scheme we've gone from I think \$12 billion-ish at the high point down to 6 in pure charge-offs now. But we continue to see the delinquencies improve. The entry levels, what's gone in, the roll rates are solid. What's come into the – in the card business. And especially if you look at the core portfolios that – if you've got the runoff portfolios and the non-runoff portfolios in some of these businesses even – you look at them, it's very solid. So we're encouraged on the consumer side in what we've seen in early-stage delinquencies in all the portfolios. But the pace of improvement will slow only because we had – quite honestly had a long way to come from.

And if you looked in the commercial, you could look at our criticized assets, you're seeing them start to come down. You're no longer seeing charge-offs, and that bodes well for future credit costs, obviously. So it's slower but it's relentless, and it'll continue to improve. And if you look at the vintages – what I was saying earlier – if you look at the vintages of the underwriting we did in '08, especially like halfway through '08, and now, we had a prediction for unemployment, things like that in card and mortgage and stuff. It has been worse than that; nobody would have predicted it right at the time. But our vintage is actually performing better than they would have predicted in a worse economic scenario. And so our confidence is as we move each quarter, this will continue to improve. But the pace will be slower just because we had a long way to come from.

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Current Year: 107719.095

**<Q - Edward Najarian>**: Okay. Thanks for that. And then secondarily, just going back to page 10 with all the one-timers. We add that all back and get sort of a \$0.17 core EPS level this quarter excluding all those one-timers. That annualizes to \$0.68. I guess the question would be given sort of that annualized core earnings run rate and knowing that we've got some revenue headwinds on the way – you talked about lower NII, and we know Durbin's on the way – is there any thought to launching somewhat of a more broad-based efficiency improvement initiative over – at least at some point over the next 12 months? I know you've talked about the idea that credit-related operating costs and those 13,000 people would come out over time. But is there a desire to try to launch something more substantial in terms of efficiency enhancement? Or would you say there's just too much going on within the company right now to get into some kind of a plan like that?

**<A - Brian T. Moynihan, President and Chief Executive Officer>**: A couple things. One is, so in all our businesses, we continue to manage it and reposition. So if you take our Global Banking & Markets business, the head count for the year is sort of flattish. But we have 1,000 more – 800 to 1,000 more people working outside the United States and reduced inside the United States and in Europe to fund that Asia growing, Latin America, places. So we continue to reposition people even within the context of head count being fairly flat. I'd say that it's absolutely something we will continue to focus on is expenses. We'll continue to focus on it across the company broadly.

And as we shape the company more normally, I gave you the one group in mortgage, but it's actually a broader group. That's just the additional people we put on in 2010. And then – so you got mortgage. You got in card business, we continue to get the dividend, as you see the delinquencies and costs come down there. And then you've got – even in the commercial area as we continue to collect and bring criticized assets down. And then overall we've got to bring the overhead in this company down. And the team – we're working on that, and we'll continue to embed that as we go through the next several quarters.

You are exactly right. We are still settling this company in. We got to make sure that we've got all the things settled in. And then so the timing of that is as we move through this year, we'll get more and more aggressive on that, but right now we have to be careful to make sure that we don't have any backwards movement in terms of some of the improvements in risk and controls and getting the mortgage foreclosures. So we're trying to balance that. But we know how to take out costs. We've done it many times before, and we'll continue to do that. And so what we really ought to do is get strong operating leverage as revenues do improve – and there's still some headwinds, we agree with you – but you've got trading revenue this quarter, it's down, and it'll come back up. And if it doesn't, we'll adjust that size of that platform to make up for it. But as revenues improve, the key is to continue to get the expenses to sort of stay in the flattish category even as revenues are coming back up, and that's what team's working on.

In some places like the retail area, and Joe – and the consumer brand system, we continue to downsize. I think we're down 250 branches. We'll continue to work on that as customer change takes place, so this is all over the area. But we are doing more broad-based work, and we'll continue to do that, but there is a balance here of just making sure that we keep the stability and the strength moving forward in the reality of where we are in the cycle and some of these collection and other issues.

**<Q - Edward Najarian>**: So maybe a more formal plan is more like a 2012 event than a 2011 event?

**<A - Brian T. Moynihan, President and Chief Executive Officer>**: Yeah, Ed, I wouldn't – maybe not clear out there, but we have a formal plan every month when we do our business reviews, so it's not as mysterious as letting it happen, we drive it.

**<Q - Edward Najarian>**: Okay. And then finally, you've alluded a couple of times on this – well, once on this call and then in a prior call – to potentially raising the dividend at some point in 2011. And I guess I'm wondering, A, like some other banks are willing to, are you willing to disclose what you think your Basel III based Tier 1 common ratio is? We'd be interested in that. And given that and your discussions with the regulators, what gives you confidence that you can raise the dividend be this year?

**<A - Brian T. Moynihan, President and Chief Executive Officer>**: On the Basel, what we have said is as each of the rules becomes effective at the end of this year II on market-based risk rules, and the end of next year III – at the day it

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Current Quarter: 27072.563

Current Year: 107719.095

becomes effective, we'll know implementation, timeframe, we would have 8% or better in Tier 1 common under the then-current rules. And so as you think about what we submit in these plans, you're submitting the standards of the current Basel I, and the levels that you have are in the things, and we exceed those, and then as we implement, we exceed it. And so we have confidence that what we've done with the balance sheet now – we manage the balance sheet – has produced a lot of capital improvement for the year, and you can see that on the slide earlier I mentioned in terms of Tier 1 improvement and things like that. So we put it in the plans; we'll let – the regulators are looking at them, as you know, with everybody else.

We did not contemplate something early this year. It's in the back half of the year. It'd be very modest. But the idea that it is consistent with the balance sheet, the operating earnings, the work we've done this year to build Tier 1 common and the Tier 1 common ratio from up 8.6% this quarter, we feel confident we got it. Now, we've still got to get through the approval, and this was a bigger issue for us three, four, five quarters ago, but we've cleaned up the balance sheet and restored the capital ratios to a point where it's pretty sizeable. And embedded in all that is all the operating statistics and adverse scenarios and everything you've heard about. So we feel confident that we've asked for it. We'll see what happens with the regulators, but it's because we've done a lot of hard work in 2010, selling businesses, repositioning the franchise, to get us there.

<Q - Edward Najarian>: And just – can you tell me one more time, the 8% by the end of '11, just what was that again?

<A - Brian T. Moynihan, President and Chief Executive Officer>: What we've said is that as each of the rules becomes effective, and remember there's more than just Basel III, there's Basel II – we go on the Basel II rules, the market-based risk rules, and then the Basel III. As each of them becomes effective, our Tier 1 common ratio, under the rules as they become effective, with no phase-in period, would be above 800 base points.

<Q - Edward Najarian>: Oh, I see. Okay, thank you. That's helpful.

## Operator

And we'll go next to the site of Chris Kotowski with Oppenheimer. Your line is open.

<Q - Christopher Kotowski>: Yeah, hi. I'm trying to navigate between page 20 and page 38, and when you put a number like \$7 billion to \$10 billion out there, it's just kind of natural to ask how did you come up with that? And so I'm wondering, is the concept behind it that your risk is primarily in the bucket that's less than 13 payments? And I mean, the 7 to 10 would be like about a quarter to a third of that amount there? Is that the guiding operating assumption behind the 7 to 10?

<A - Charles H. Noski, Chief Financial Officer>: Chris, unfortunately, the math is a bit more complex than that. So I don't know if I'll be able to answer you. Certainly, it would be reasonable to think that the fewer payments that get made before a loan goes into default would suggest a higher level of risk. I'd also refer you to page 21, because as we did our array of different scenarios and looked at a set of assumptions – and again, these were guesses because we don't have any experience, but if you look at some of the significant differences between GSE and private label reps and warranty rights, we tried to make different judgments around some of the criteria that you see on page 21 to try to get a sense of what – because those are important leverage points, materiality, causation, disclosure, the rights to actually make claim presentations and the like, these are all pretty significant hurdles, in our view. And you got to make some judgments about whether or not private label investors can aggregate and actually achieve and overcome those hurdles, and then you have to think about the performance and the characteristics of the portfolio on page 38.

<Q - Christopher Kotowski>: Okay. And then going back to page 18, if you look at the new claim trends in the lower left, I noticed that there's an uptick in the pre-'05 claims and then the '05 claims and the '06 claims. And so it's early kind of pre-crisis vintages that seem to be picking up. And is that – well, A, is that a trend? And B, is that driven by the private label on monoline claims, I assume?

final

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<A - **Charles H. Noski, Chief Financial Officer**>: Yeah. It's the private label claims that we have mentioned here. I'm not sure one quarter drives a trend, Chris. I think you need to appreciate, and certainly we've seen this with both the monolines and the GSEs, is that they don't follow – they don't tend to follow a chronological order. So you and I might think first they'll do pre-2005, then they do 2005 and then 2006 and 2007. That hasn't been our experience. We've had new claim submissions kind of all over the map, and so certainly it's something we're watching, but it's – this is certainly impacted in the quarter by the claims that are described in footnote 1 at the bottom of page 18.

<A - **Kevin Stitt, Investor Relations**>: Yeah. And, Chris, and in the commentary, too, the 1.9, that gives you some color as well.

<Q - **Christopher Kotowski**>: Okay. And then just a little nit – or a question. I noticed on the supplement, page 25, mortgage production revenue is up from \$70 billion to \$81 billion, but production income was down. Is there a story behind that?

<A - **Kevin Stitt, Investor Relations**>: Yeah. We – Chris, we book it when we lock the loan. And the production's driven by the funding. And that's just the difference. So production was up, but the actual lock loans were down.

<Q - **Christopher Kotowski**>: Okay.

<A - **Charles H. Noski, Chief Financial Officer**>: And margins as well.

<A - **Kevin Stitt, Investor Relations**>: Right. That's correct.

<A - **Charles H. Noski, Chief Financial Officer**>: As rates came up and we thought about how to be competitive. And, frankly, Chris, we're not driving for market share in this business. We're driving for solid risk management and good, profitable performance.

<Q - **Christopher Kotowski**>: Okay. Thank you.

<A - **Charles H. Noski, Chief Financial Officer**>: Thanks, Chris.

## Operator

We'll go next to the site of Glenn Schorr from Nomura. Your line is open.

<Q - **Glenn Schorr**>: Thanks very much. So I hear you on the production revenue being booked when you lock the loan. Can you give us an idea of how much of the pipeline you got through between late third quarter and early fourth quarter? I guess the industry in general is down about 40%, looking for first quarter. Is that in the ballpark of right?

<A - **Kevin Stitt, Investor Relations**>: We'll get back with you, Glenn. I don't – we don't have the number.

<Q - **Glenn Schorr**>: Okay. No worries. And then I notice that there's a high resi mortgages held on balance sheet. Is that a trend we expect to continue, or is that just a temporary – securitization marks aren't great, a little balance sheet growth, a little room as capital grows?

<A - **Charles H. Noski, Chief Financial Officer**>: I would say, Glenn, this is driven more by liquidity and the balance sheet management – interest rate risk management activities in our discretionary portfolio. So I'd not necessarily think – view that as a trend. I mean, we do look at our liquidity and rates and the like.

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: And if you look at 14, just in terms of the core activity, Glenn, that \$18 billion, which includes the resi stuff that's on the balance sheet would be a \$3.4 billion net increase if you just took the residential out of the whole discussion in a corner. So the core portfolio in consumer is stabilized, as we've said and continues to move forward. And residential is more discretionary as to what we do on a given day holding it, except in our private banking and other areas, where we hold those clients' loans because – and we've always done it.



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<Q - **Glenn Schorr**>: Okay. That makes sense. One more nitty-gritty, on the average balance sheet on 9 in the supplement. The yield on debt securities – first of all, the book went up and the yield went up a lot, all things considered, given the environment is up 36 basis points. I'm curious, is that just taking a little duration risk as you had a spike up in the '10 year?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: I – we can get back to you, but we're not taking any different duration risks than we've done all year, so I think it's probably just – we'll get back to you with the exact answer.

<Q - **Glenn Schorr**>: Okay. And I'm not sure if you have disclosed it, but have you ever disclosed the average duration on the securities portfolio?

<A - **Kevin Stitt, Investor Relations**>: I think we gave you a pretty broad description in the 10-K, Glenn, but I think from quarter to quarter we don't.

<Q - **Glenn Schorr**>: Okay.

<A - **Charles H. Noski, Chief Financial Officer**>: Our strategy during the year has been to keep it relatively – it's four, four and a half years?

<A - **Kevin Stitt, Investor Relations**>: Yeah, I think it's four to five years.

<Q - **Glenn Schorr**>: Okay. Appreciate that. And last one is, just a follow-up on your comments on the repricing efforts across the deposit franchise. You'd mentioned couple of states up-front and then over the next three to four quarters roll throughout the rest of the platform. What things, I mean, this might be a simple question, but what things will you monitor to know if it's working? Or is this charging ahead and plan being put in place? Or do you watch for leakage and things like that?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: We monitor the customer reactions to the price points and the various things. I would say that the philosophy of the account structure, the five or six core accounts, I don't think will change. It'll be what – the account balance minimums or the price point on a particular element. So as you think about it, think about it is a relentless push to get through and redo everything. The question of whether you pay \$9 a month if you want paper statements or \$8 a month is the kind of thing we'll test in that. So it's more the price points around the structure and the acceptance.

Now remember, one of those accounts in the new structure is this E account, which is 35% to 40% of the sales today has been in the market fully in all the states now for six months or eight months and is very well received, and especially among the obvious people you'd point to, I mean, the younger people and people who are particularly happy to use the stellar online platform we have, chat, text, the whole nine yards.

<Q - **Glenn Schorr**>: Great. I appreciate all the answers. Thanks.

<A - **Kevin Stitt, Investor Relations**>: Thanks, Glenn.

## Operator

We'll go next to the site of Mike Mayo with CLSA. Your line is open.

<Q - **Michael Mayo**>: Good morning.

<A - **Charles H. Noski, Chief Financial Officer**>: Good morning, Mike.

<Q - **Michael Mayo**>: The possible upper range of \$7 billion to \$10 billion, is that before or after tax?

<A - **Charles H. Noski, Chief Financial Officer**>: Before.

<Q - **Michael Mayo**>: So after tax would be maybe \$0.45 to \$0.65 hit to book value?



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<A - **Charles H. Noski, Chief Financial Officer**>: Well, our statutory tax rate including state taxes is, say, 37%.

<Q - **Michael Mayo**>: Okay. No, what I was referring – that's helpful, but so if we think about it on a book value basis, I mean, this might hurt – you have 10 billion shares, just take 37% of the \$7 billion to \$10 billion divided by 10 billion shares, it would be a hit of around \$0.45 to \$0.65 to book value to clean up the issue. I just want to make sure I understand what you're saying.

<A - **Charles H. Noski, Chief Financial Officer**>: Yeah. I think the thing to think about, Glenn, again, we think this is a possible range. We're trying to respond to some investor concerns about – given the broad range of estimates that are out there, we tried to bring some color to that. Again, we think this happens over a number of years in terms of the resolution of this, but, I mean, I'm not going to dispute your math given that it's a pre-tax number. It's after our accruals. We think it's going to occur over a number of years. We don't have a view as to where we will fall in that range. As we've said, it's probably more than zero. That's why we expect to have some level of future provisions. We'll have to see, and we just don't have enough experience in the portfolio to try to estimate any more precisely than that.

<Q - **Michael Mayo**>: Yeah. No. It's Mike, by the way.

<A - **Charles H. Noski, Chief Financial Officer**>: Yeah.

<Q - **Michael Mayo**>: And can you confirm that this is tax deductible?

<A - **Kevin Stitt, Investor Relations**>: Excuse me?

<Q - **Michael Mayo**>: Are these costs tax deductible?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: Yes.

<A - **Charles H. Noski, Chief Financial Officer**>: Yes.

<Q - **Michael Mayo**>: Okay. And then if you could elaborate on the statement, the fewer payments made before default, the higher level of risk. So in other words, you said 58% of the non-GSE loans that defaulted made at least 25 payments. I just would like to understand the significance of that a little more.

<A - **Charles H. Noski, Chief Financial Officer**>: All we're – the only comment is, and I mean, this is a very rough assessment, is that you would imagine to the extent that there are fewer and fewer payments between origination and default might suggest that those might be areas of particular risk when it comes to reps and warranties. I wouldn't read anything more into the statement than that, Mike.

<Q - **Michael Mayo**>: And then sticking to the same topic, Bank of York on their conference call, they said that this is likely to be resolved in the next few weeks, either it's settled, there's increased oversight – over you, I suppose – or that an extreme scenario of the servicer would be replaced. Do you agree with those scenarios, and what's the timeline?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: We haven't any idea what they said.

<Q - **Michael Mayo**>: Okay. And then separate topic, compensation was up 5% linked quarter, and you didn't highlight any one-time items on page 10. Is there anything unusual there or seasonal? It seemed like a big comp quarter given the revenues.

<A - **Charles H. Noski, Chief Financial Officer**>: Well, there was – remember, there was fourth quarter severance and some benefits adjustments across the whole associate population, just from an accounting standpoint.

In terms of the comp to revenue statistic that – for the investment banks that people like to focus on, we ended the year kind of in the mid-30s, I think, perhaps 37%.

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: And then, also the GWIM revenues were up quarter to quarter, and that drives it, too.

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<A - **Charles H. Noski, Chief Financial Officer**>: Yeah. And of course – remember, with GWIM, those are our financial advisors, they operate and get paid on a grid basis, and so as they have a more and more successful year during the year, they move to different measures in that grid that reward them for volume.

<Q - **Michael Mayo**>: And then last question, what was the actual loan utilization numbers third quarter to fourth quarter? And how much did the increase in loan syndications linked quarter contribute to your loan growth? And just a little more color behind your comment, Brian, that you thought things were kind of picking up some?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: I gave you the number for the middle market book, Mike, and it was around 31%, and it's stable third quarter and fourth quarter. In the large corporate book, you have the things that you could hold a loan and then sell it down and things like that. The middle market book, this just doesn't happen, because this is loans that size of the company from \$2 million in revenues up to \$1 billion. So it's more core activity. But if you separate all that out, what we're really seeing is in the November – October, November, December timeframe versus the last eight quarters, you were starting to see activity start to move forward and grow a little bit here and there, and we have real estate coming out some of these books and stuff.

So the activity is 31% stable, the activity in the core middle market, I don't think it's affected by that. That would be more on our large corporate book -- that would be in the GCIB segment under GBAM. And so this is just core activity, Mike. And believe me, it's not robust and growing at X percentage, it's stable and moving forward a little bit, which is better than it has been in a while.

<Q - **Michael Mayo**>: All right. Thank you.

<A - **Kevin Stitt, Investor Relations**>: Thank you.

## Operator

And our next question's from the site of Meredith Whitney from Meredith Whitney Advisory Group. Your line is open.

<Q - **Meredith Whitney**>: Good morning. If you'd indulge me in a few questions, please. My first is to Brian. As there is so much movement and so much really structural change in so many of your businesses, could you talk about your budgeting of talent and head count? So the last couple of years you've moved people into the collection efforts and the foreclosure restructuring modification efforts. As credit quality starts to improve, where do you move those people, as it looks like U.S. FICC is under a structural change, and so much of European FICC is under structural change, where do you move those people? Can you talk about that on a one-, two-, three-year outlook, please?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: So taking the basic businesses we operate outside the United States first, which would be the global wealth management business and the global corporate investment banking and the global markets business, in Asia, Latin America, and in Africa and EMEA, we have grown head count by 1,000 and overall head count's flat in our GCIB and GBAM, the global banking market space, to give you a sense. So I'd expect those trends to continue. So we're always adding new talent out of the business schools, and we hired a robust class of business schools and undergraduates that we always do, Meredith, but what we're doing is shifting the talent to where the bigger growth opportunity is, while still maintaining our leading presence in the United States in a lot of those categories. So that trend, I think, would continue.

And in the context of that, Tom has in the third quarter or late fourth quarter, went through a series of head count reductions overall. And then we're adding people back. If you think about our risk management organization, for example, we've had to also grow that outside the United States to help make sure we monitor the risk and manage that business well. When you go into GWIM, the answer is pretty clear that we want to grow our financial advisor count and our wealth management banker count and our private banker count, and we've done that by 500 to 600 people this year.

And you should expect that to continue. And I honestly would say that that growth rate this year was somewhat disappointing to me. I mean, not that from an expense budget, but from a growth of the franchise we'd expect that

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number to be stronger, and we've seen attritions at an all-time low, and our recruiting efforts are picking up, but we need to grow that, because our biggest opportunity inside the United States is around the wealth management space, even though we got \$4.3 billion of revenues, and the next nearest competitor might be \$1 billion below that.

If you look at commercial banking, stable. You look at the consumer business generally, we continue to manage down the head count in the card business as the credit's gotten better. In the deposits business I'd expect it to continue to come down, going to the question earlier about sort of structural change. And then at the mortgage, you're running 55,000 people, and I think the business three years out, assume this is all behind us type of thing, I think is a 30,000, 35,000 person business, and maybe in a very robust production higher than that. But it's a different size and it's just going to take us time to get through it. I think that covered each of the businesses.

<Q - Meredith Whitney>: Okay, great. Thank you. And then just a couple of cleanup questions. On the put-back work, which you've well detailed, what about the underwriter risk? So we have the GSE risk, we have the private label risk, the monoline risk, what about the underwriter risk? Can you comment on that and how you would reserve towards that?

<A - Charles H. Noski, Chief Financial Officer>: Yeah, we really don't see that as a significant risk, Meredith.

<Q - Meredith Whitney>: Okay. And then two more clarifications. On the – moving from a four deposit based system to a one deposit base system, what's the timetable there? And then I assume you need to run redundant systems, so it's more expensive to become ultimately less expensive?

<A - Brian T. Moynihan, President and Chief Executive Officer>: That would be the goal, is to go more expensive and less expensive, but also we have products that frankly aren't available in parts of our franchise. Just because of all the things that have been going on, we're now at the point we can actually do this. The planning is, it's part of the expenses in the latter part of the year, and the deposits business has been to start the work. It's an 18-month process, so it would occur in '11 and then in '12.

But there is absolutely an expense and a simplification value to this, but the real value is one of the four systems is a system we operate in a lot of franchises, and it works. And that's been going on for about two or three years, but the real value of all this is to actually give 100% of our customers, 100% of product capabilities with absolute flow, and that simplifies both our associates' life, our customers' life and also really unifies our franchise. So there's both the cost take-out value, but there's really an enhanced value in terms of each time we develop a consumer change we have to do it four times.

<Q - Meredith Whitney>: Okay. Got it. And the last question is, Chuck, you went through a comment on your reserves, and you mentioned you that you adjusted your home price assumptions. From what to what, please?

<A - Charles H. Noski, Chief Financial Officer>: I think we'll have to get back to you on that one, Meredith. It was kind of a year-end assessment as it related to certain of our real estate portfolios, but we can get back to you.

<Q - Meredith Whitney>: Oh, I meant your overall home price assumptions.

<A - Brian T. Moynihan, President and Chief Executive Officer>: [inaudible] adjustments and those types of adjustments are based on the same statistics you look at. We objectively tie them to [inaudible] and other metrics and then adjust. And then as those came out a little less than was expected in the last couple months, we've adjusted them down. So it's not some internal forecast. These are adjusting based on a – the outside forecast.

<A - Charles H. Noski, Chief Financial Officer>: I mean, we can get you the numbers.

<Q - Meredith Whitney>: Okay. I got them. All right. Thanks. See you soon.

<A - Charles H. Noski, Chief Financial Officer>: Thanks, Meredith.

<A - Kevin Stitt, Investor Relations>: One more question, thanks.

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## Operator

We'll take our final question from the site of David Hilder from Susquehanna. Your line is open.

<Q - **David Hilder**>: Good morning. Thanks very much. Just a question – you mentioned that there was some litigation expense in the deposit business, and I was just kind of wondering what would give rise to that, in that business?

<A - **Brian T. Moynihan, President and Chief Executive Officer**>: Yeah. The usual cases and stuff like that. So I think there's nothing in particular that we talk about externally, but we have a series of cases around all – that everybody has around activities in there, and this quarter we approved for part of it.

<Q - **David Hilder**>: Okay. Thanks very much.

## Charles H. Noski, Chief Financial Officer

Thank you.

## Kevin Stitt, Investor Relations

Thanks, everyone.

## Brian T. Moynihan, President and Chief Executive Officer

Thank you.

## Operator

And this concludes today's teleconference. Have a great day. You may disconnect at this time.

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