**Operator**

Good day, and welcome to today's program. [Operator Instructions] Please note this call is being recorded. [Operator Instructions] It is now my pleasure to turn the conference over to Mr. Kevin Stitt. Please go ahead, sir.

**Kevin Stitt**

Good morning. Before Brian Moynihan and Bruce Thompson 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. And for additional factors, please see our press release and SEC documents.

And with that, let me turn it over to Brian.

**Brian T. Moynihan**

Thanks, Kevin. Before Bruce begins, and good morning to everybody. Before Bruce begins his portion of the presentation on the slide, I thought I'd make a few comments about 2011 and what we are focused on for 2012. The last 2 years, we've been executing on a huge transformation here at Bank of America. After 6 large acquisitions in 6 years during the mid-2000s, then the economic crisis and its aftermath, we set on a course to simplify the company, to streamline the company, to reduce the size of the company, to lower our risk and build a fortress balance sheet. During that, we set goals to have 9% Basel I Tier 1 common and 6% tangible common at year-end 2011.

We set goals to reduce our non-core assets. We set goals to bring our credit risk down and to address the mortgage risk related to the Countrywide acquisition. At the same time, we also set goals to continue to invest in areas where our company can grow and has its competitive advantage. Areas like our Wealth Management area, areas like our Preferred Small Business areas, where we've added Preferred Bankers and Small Business Bankers, areas like our Commercial Corporate and Investment Banking areas, especially in large corporate investment banking outside the United States.

Along the way, we had to address the issues that came up in mortgage; the slow recovering economy, which isn't moving -- which is moving forward but not as fast as we all like; the European crisis, a muted interest rate outlook and the revenue loss to the new regulations that have been passed. These then result in our focus on cost, and we announced late -- early last fall our New BAC program and the goals that we had for it.

So as we think about 2011, we saw the following. First, on capital and liquidity. This quarter, our Tier 1 common equity ratio ended at 9.86%. Our tangible common equity ratio ended at 6.64%. In the case of each of these ratios, they are dramatic improvement from the beginning of the year. And we made these improvements while absorbing significant mortgage-related costs during the year.

We have ratios that are in line with our peers, and we expect further improvement due to continued work on our balance sheet we'll make during 2012. In addition, our liquidity is and remains at record levels even after the downgrades we experienced in the fall.

Moving from capital and liquidity to our core businesses. On Slide 3, you can see, we continue to do what we're here for. We simply serve our clients and customers and we do it very well.

Our core business activity continues to move forward. During 2011, we continue to grow our deposits and our investment assets for our corporate and personal customers. We originated 20% more in small business loans this year, in 2011, than we did in 2010. This met our internal goals we had for that unit, but importantly, also met our $1 billion incremental goal we committed to the White House and the Small Business Administration a few months back.

For our commercial clients and our corporate clients, we did what we're here to do. We provided more loans, more capital and more market access here in the U.S. and around the world. For example, in the fourth quarter, you can see strong growth in our loan balances in our corporate area.

And for our investor clients, we achieved the #1 Institutional Investor Overall Research ranking. Evidenced in the quality of ideas to match our capital to help them make their investments. In our Mortgage business, we continue to reshape our operations to focus solely on origination of mortgages for our customers and to do it well.

And importantly, we continue to help those who have difficulty making their payments in mortgages. We've now crossed over $1 million modified loans in our servicing portfolios. The third area we focus on, after capital liquidity and the core businesses, was costs. It's clear that we're going to grind forward with the recovery in this country. Our clients continue to push forward and we're seeing the activity continue to move forward, but a full recovery to what we would call normal may take some time. So with that in mind, we begin to focus on bringing our cost down across the company.

Our cost structure for Bank of America has 2 broad elements today. First, the cost we incur to deal with the mortgage issues. And second, the remaining cost to run the rest of the company for the benefit of our customers. Overall, cost were down from 2010 to 2011, and we expect substantial cost savings in 2012. This quarter, you can see that starting to take hold. We made significant progress towards our overall FTE reduction goals. Our period-end FTE is down about 7,000 people in the fourth quarter compared to the third quarter. This is over and above the 2,500 people we added in this quarter for our Legacy Asset Services. There's 2 things about this. One, this shows that our New BAC implementation has begun in earnest. And second, the good news is, that we expect that LAS is at and near its peak staffing.

The fourth area we've been concentrating on in 2011 was trading. Trading was strong in the first part of the year, but with the issues in Europe, the down -- U.S. downgrades, the downgrades of our company and changes in client risk appetite, results were weak in the second half, especially in the third quarter. However, during the fourth quarter, we partially recovered as Bruce will talk about later. Yet, we still reduced risk during the quarter to ensure we were well positioned to handle what might have come up. We still have work to do in trading, but the team got active this quarter as the quarter unfolded, and we saw a stronger results.

From a credit risk perspective, you can see that our charge-offs and cover ratios continued to improve. We ended the year with strong ratios. And we'll also end the year with $15.9 billion in rep and warranty liability reserves. We built significant litigation and other reserves in this area also. So the 4 areas of 2011 was all about raising capital and liquidity, driving the core businesses, managing the cost and risk management.

As we look at 2012, these seems the same. First on capital and liquidity. Bruce will talk to you later about our targets as we look forward, but the focus in this company is to continue to move through the 10% level in Basel I Tier 1 common and drive towards a Basel III implementation. Liquidity will remain high, even as we continue to reduce our long-term debt footprint. And the second area is cost. As I said earlier, we expect that operating cost at LAS are nearing peak. As we finished the foreclosure look back and we continue to reduce the delinquent units serviced by this group, we expect its cost to come down during 2012. Just for clarity, in this quarter, in the fourth quarter of 2011, LAS costs were $3.5 billion of our total cost, $1.5 billion of that was litigation in LAS. The remaining were operating costs.

For the rest of the company, we had expenses of about $16 billion in the fourth quarter, including $0.5 billion in goodwill write-downs. We expect to see in 2012 strong cost improvement consistent with our New BAC goals. Bruce will discuss these goals later.

New BAC is doing what we expected, and the Phase 2 evaluation is going well. As you know, headcount drives our costs. We saw a significant improvement in the fourth quarter, and we expect to see that as we move through 2012.

As we move to the core businesses in 2012, for 2012, we can now really focus on our retail strategy. In this quarter, you'll see the last part of the regulatory cost coming through, that's the Durbin interchange changes. We've now absorbed the Durbin, the Reg E, the CARD Act and all the changes that occurred over the last couple of years. The focus here in consumer is to balance our customer and shareholder return needs and to continue to work on our cost structure reducing branches as we've done this year.

We're also going to continue to meet our customers' change of behaviors through our innovative offerings especially to our 9-million plus mobile banking consumers. Trading continue to improve this quarter as I said, and we have sized our business at times and we look forward to continue to improve in 2012.

LAS and mortgage will continue to take work during 2012, which won't be different in 2011. But for the other businesses, we expect to generate strong core customer results. We also will continue to take advantage of the growth opportunities, garnering more customers and more depth in relationship with our consumers. That should continue to provide the good returns on capital that you see in those businesses this quarter.

As you think about risks for 2012, we expect to see continued improvement in credit risk, as these legacy portfolios that we've identified for you continue to run off. Those legacy portfolios are a drag on earnings, with much higher credit cost than the rest of the portfolio that we'll retain and drive as we go forward.

We also expect in 2012 to continue to manage through the mortgage issues, relying in part on our significant reserves we built in 2011. So as we look forward to 2012, the focus remains the same as the last 2 years: continue to drive capital and liquidity, continue to drive our core business growth where we have opportunities, continue to manage our cost well and continue to manage the legacy residual risk down.

As we think about 2012, we begin with a much stronger position, stronger capital and liquidity, stronger reserves and that continues to give us optimism about the prospects for our franchise. And with 2012, with much great progress having been made on some of these legacy issues and the transformation of the last couple of years, we can take all the energy and talent we used to drive that and dedicate it to help drive our company's success and we look forward to doing that.

With that, I'll turn it over to Bruce

**Bruce R. Thompson**

Great. Thanks, Brian, and good morning, everyone. I'm going to start my comments on Page 6 of the slide presentation. And as you all saw this morning, on an FTE basis, we reported net income of $2 billion or $0.15 a share during the fourth quarter of 2011. I'd like to bring your attention to several items in the quarter that had significant impacts on the income statement.

First, in November, we sold the majority of the balance of our CCB shares, generating a gain of $2.9 billion. In addition to that, we exchanged trust preferred securities into a combination of senior notes and common stock during the quarter, which generated a pretax gain of $1.2 billion. And lastly, we had gains on sales of debt securities of approximately $1.2 billion in the quarter.

Things that went against us through the income statement during the quarter. The tightening of our credit spreads generated a DVA loss of $474 million relating to our trading liabilities. As Brian referenced, we had a goodwill impairment charge of $581 million that we recognized during the quarter that related to a change in the estimated value of the European Card business, and that's reported in All Other.

During the quarter, we also had a credit mark on our structured liabilities under the fair value option that resulted in a negative mark of $814 million, as the result of our credit spreads tightening and that's reported in other income. As you think about that $814 million, keep in mind that whether positive or negative, it does not impact regulatory capital ratios but it does impact GAAP capital.

Lastly, from a litigation perspective, we had expense in the quarter of $1.8 billion, of which, $1.5 billion was mortgage related.

If you flip to Slide 7, there are a lot of numbers on this page, but I'd like to bring your attention to a couple of things. The first, as you look from year-end 2010 to year-end 2011, you see a continued transformation of our balance sheet, where all of the focus is moving to our core client activities. A couple of things to highlight. Total assets, and I'm speaking from third quarter to fourth quarter now, total assets for the quarter were down 4% or approximately $90 billion. From a risk-weighted asset perspective, risk-weighted assets were down 6% or $75 billion during the quarter.

If we move down to Tier 1 common equity. Tier 1 common equity during the quarter increased $9 billion to $126.7 billion. That increase in Tier 1 common, along with the reduction in risk-weighted assets, led to our Tier 1 common equity ratio increasing from 8.65% to 9.86%. And I'll go into that in a little bit more detail in a few minutes.

Tangible book value per common share was down 2%, reflecting the fact that we issued 400 million shares in the exchanges that I referenced with respect to trust preferred and preferred securities. You can see that 400 million shares in our outstanding common share change from the third quarter to the fourth quarter.

If you move to the bottom, our allowance for loan loss reserves came down $1.3 billion during the quarter as we released reserves. Importantly though, our allowance relative to annualized charge-offs improved from 1.7x to 2.1x at the end of the year. And lastly, our liability for representations and warranties remained relatively flat at approximately $16 billion.

If we move to Slide 8, I thought it was important to give you a walk-through of the drivers of the improvement in the Tier 1 common equity ratio. We start on the far left at 8.65%. As we've disclosed throughout the quarter, the preferred exchanges, the CCB sale of shares and the Canadian consumer card sale, in the aggregate, generated 60 basis points of Tier 1 common. Over and above that, 21 basis points coming from net income in change in deferred tax asset within the Global Markets business, about 18 basis points through reductions and market risk, change in loan balances and other asset sales were about 10 basis points. And you had a series of other things, both positives and negatives, that netted out to 12 basis points, which in the aggregate, increased the number to 9.86% at the end of the year.

Moving from capital to liquidity. If you flip to Slide 9, you can see that our Global Excess Liquidity Sources increased from $363 billion at the end of the third quarter to $378 billion at the end of the fourth quarter. As you think about those excess liquidity sources, recall that, that does not include approximately $189 billion in additional liquidity that's available to our banking entities by pledging assets to the home loan banks in the Fed discount window.

At the parent company, parent company liquidity was particularly strong at $125 billion, up $6 billion for the quarter. As you think about that increase, it's important to note that we accomplished that increase while reducing parent company debt by $17 billion during the fourth quarter. As a result of those changes, our time-to-required funding increased to 29 months at the end of the year, up from 27 months at the end of the third quarter.

That liquidity base, along with other funds that are available to us, will enable us to retire $60 billion of parent company unsecured debt that matures throughout 2012, about $24 billion of that is TLGP debt that will come due during the second quarter.

As you think about our issuance plans throughout 2012, from a plain vanilla debt perspective, you should expect us to be issuing less long-term debt in 2012 than we did in 2011.

And similar to where we were at the end of the third quarter, our parent company and broker-dealers have no short-term unsecured debt outstanding.

We move from liquidity to net interest income, turning to Slide 10. Net interest income was $11 billion during the fourth quarter, up $220 million from the third quarter. The increase was driven by lower asset hedge ineffectiveness, as well as less acceleration of amortization of premiums on securities.

On the positive side, contributions to net interest income from lower debt balances and rates paid on deposits were more than offset by portfolio repricing and reduction in consumer loan balances, including the sale of the Canadian Card business.

We'd ask you to keep in mind here that our asset liability management strategy is focused on managing interest rate risk across the entire corporation, which includes minimizing OCI exposure and managing the duration of our securities.

Moving to Slide 11, on Deposits. We highlight the results of our Deposits business. Earnings for the quarter were $141 million, a decrease from the third quarter, primarily driven by an increase in FDIC expense, which we would expect to come down going forward.

Average deposit balances decreased 1% compared to the third quarter, driven primarily by a decline in time deposits, which we had targeted to do during the quarter and we'll continue to do so.

During the quarter, rates paid on deposits declined from 25 basis points to 23 basis points. As we continue to focus on the cost and optimize our delivery network, you can see our branch count came down again during the quarter.

We have continued to expand our service for small business owners by hiring over 500 locally-based small business bankers during the year to provide convenient access to financial advice and solutions to our customers. We've also continued to increase our mobile banking customer base to 9.2 million customers, which is a 7% increase from the prior quarter and up 45% from a year ago.

If we turn to Slide 12, Cards Services earnings decreased from the third quarter to $1 billion, primarily due to the impact of the Durbin Amendment, which kicked in during the fourth quarter. Credit card purchase volumes did increase by 6% from a year ago after adjusting for portfolio divestitures and were up seasonally from the third quarter.

Within our U.S. Card business, new account growth was up more than 50% from the fourth quarter a year ago. Within Card Services, ending loans declined $1.6 billion from the third quarter due largely to portfolio divestitures and continued non-core portfolio runoff, that was partially offset by the increase in volume-related seasonal spend.

Credit quality within the Card business continues to improve. U.S. credit card losses improved for the ninth consecutive quarter, and our 30-plus day delinquency rate declined for the 11th consecutive quarter.

As you look at the Card business, I want to remind you that the International Card Business results were moved to All Other in the third quarter and prior-period results were adjusted accordingly.

Within Global Wealth and Investment Management on Slide 13. Earnings for the quarter of $249 million were down from the third quarter as lower market levels and activity drove lower revenue, and expenses were higher due to a few noisy items. Client balances were up 3.5% from the third quarter due to fourth quarter market levels, as well as AUM flows.

Long-term AUM flows were $4.5 billion during the fourth quarter, pretty much in line with what we saw during the third quarter. On the expense side, as I mentioned, there were several items including higher FDIC and litigation expenses, as well as other related losses and some severance costs that we saw during the quarter.

We added 214 Financial Advisors to the world's leading advisory force during the quarter, with total FA levels exceeding 17,300 at the end of the year. As we look forward, we would expect unit advisor growth in 2012 based on economic conditions, as well as absorbing the FA growth from 2011.

Net income in Commercial Banking on Slide 14 was flat at $1 billion since the third quarter. Commercial clients continued to increase liquidity positions, driving average deposit levels up $2.2 billion from the third quarter.

Average loans were flat as the reductions that we saw within our Commercial Real Estate area were offset by about $1.7 billion of loan growth within the C&I category. Asset quality continued to improve, net charge-offs were down $83 million, nonperforming assets were down $1 billion to $5.6 billion and our reservable utilized criticized exposure declined by 11% during the quarter.

If we switch to our Global Banking and Markets area on Slide 15, the results reflected increased sales and trading activity, excluding DVA, which I'll cover in greater detail in a minute.

Average loan and lease balances during the quarter increased $10.5 billion or 9%, primarily driven by growth in domestic and international corporate loans, as well as international trade finance. While deposit balances were down 5% versus the linked quarter, I would highlight that our ending deposits at the end of the year were up nicely as we saw good flows during the last half of the quarter.

If you turn to Slide 16, I'd ask you to look in the middle of the page, where we've drawn a red box around our sales and trading area. Sales and trading, excluding DVA, was at $1.9 billion or up 73% from what was a difficult third quarter, driven primarily by our Fixed Income Currency and Commodity area due to less volatility, a tightening spread environment and a reduction in the CVA, although these are still at relatively elevated levels. Within our FICC business excluding DVA, credit products, structured credit trading in rates and currencies drove much of the increase. In equities, once again, excluding DVA, results decreased by 16% primarily due to lower volumes in commission-related revenue.

We did record DVA losses as I highlighted upfront, of $474 million in the quarter, as our credit spreads tightened compared to gains of $1.7 billion that we saw during the third quarter. On the Investment Banking side, firm-wide Investment Banking fees, excluding self-led fees were $1 billion, up 8% from the third quarter of 2011. We would also note here that we maintained our #2 ranking globally in net investment banking fees, while gaining share during the year.

If we turn to Slide 17, Consumer Real Estate Services reported a loss of $1.5 billion, driven by continued elevated credit cost in the Home Equity portfolio, higher litigation cost and the cost of managing delinquent and defaulted loans in the servicing portfolio.

The Home Loans business within the CRES area had a slight profit for the quarter. First mortgage production of $22 billion was down from the third quarter due primarily to our exit from the correspondent channel, which we spoke of during the last quarter's earnings call.

As a result of this, core production income declined during -- relative to the third quarter of 2011. Results for the quarter did include $263 million in cost for reps and warrants primarily related to the GSEs, along with the $1.5 billion of litigation expense I touched on at the beginning of the presentation. Our MSR asset decreased by approximately $500 million during the quarter, driven by MSR sales and borrower payments and ended the quarter at $7.4 billion.

MSR results net of hedge were positive by approximately $1.2 billion in the fourth quarter. As we look at the cap rate on the MSR, we ended the period at 54 basis points versus 52 basis points in the third quarter.

On Slide 18, we show some comparisons of certain metrics in the Legacy Asset Servicing area on a linked quarter basis and compared to the prior year quarter, as we continue to work very hard to reduce delinquent loans and find homeowner solutions. As Brian referenced, we are either at or near the peak of staffing this area and we are making very good progress.

Total Legacy Asset Services first-lien servicing dropped 16% in the quarter, while 60-day plus delinquent loans dropped 8%. Much of the work done to sell MSRs has allowed the transfer of more than 510,000 loans serviced in the past quarter alone.

As we look at this page, it's obviously very important that we continue to shrink the activity that we have in the Legacy Asset Servicing area, so that we can, again, attacking the $2 billion of expenses that Brian alluded to at the beginning

On Slide 19, we show you the results of All Other which, recall, includes our Global Principal Investing business, the International Consumer Card business, strategic investments, our discretionary portfolio associated with interest rate protection and the discontinued real estate portfolio.

Items of note in the quarter in All Other, included $814 million related to the negative fair value adjustments on structured liabilities, the $581 million goodwill impairment charge related to European Card, $2.9 billion related to

CCB, $1.2 billion on the exchanges and $1.1 billion related to the sale of debt securities.

As we move and split to Slide 20. A lot of line items and data, but I would highlight a couple of things here. We did make very good progress across most categories of expense. If you start at the top line, you can see that our personnel expense did come down in the quarter, largely driven by a 7,000 reduction in FTE headcount from approximately 288,000 to 281,000. Those benefits were somewhat muted in the quarter due to higher default servicing cost and an increase in severance costs associated with the headcount reductions.

You can see in the majority of the other line items that we did continue to reduce costs, with several exceptions. The first, in other general operating expense, which increased $1.6 billion, that increase was due solely to an increase of $1.3 billion in litigation, as well as elevated FDIC expense, which we would expect to go down in 2012.

The other 2 items of note, the $581 million goodwill impairment for the European Consumer Card business and our professional fees, which tend to be seasonally high during the fourth quarter of the year.

We turn to Slide 21. Let me update you with where we are with respect to our New BAC program. We completed the initial planning related to Phase 1 in the third quarter of '11, and began the implementation during the fourth quarter. Under our original guidance, we have a goal of achieving approximately $5 billion in cost savings or about 18% of the expenses associated with the areas addressed.

We stated earlier that we were aiming for 20% of the $5 billion to be achieved during 2012. Based on the hard work done to date, we now believe we will exceed that 2012 goal.

Phase 2 evaluations for the areas outlined on Page 21 began late in 2011, and we would expect to complete that work in April. As we look at the expense base, it's similar to Phase 1, but we would expect lower cost savings given that the businesses tend to be more efficient already and have lower headcount. While the savings will be lower, we do think, however, that we will start being able to see some of those saves later this year, as the initiatives to achieve the savings aren't as inter-dependent as the consumer businesses.

So if we take a step-back and look at the lower headcount from the third quarter and combined that with New BAC, both Phase 1 and Phase 2, along with an improving mortgage environment, we believe we can realize substantial cost savings in the second half of this year. We're not going to identify a specific number on this call, but we'll update you as we move further into the year.

If we now move to credit trends that we saw during the quarter on Slide 22. You can see that overall consumer trends remained positive. Net charge-offs, 30-plus performing delinquencies and nonperforming assets all continued to fall. Net charge-offs in the credit card area declined more than any other portfolio due in part to recoveries recorded to the bulk sale of previously charged off U.K. credit card loans. Provision expense within consumer was $3.2 billion and included a $384 million reduction in reserves.

On Slide 23, you can see that residential mortgage in home equity 30- to 89-day performing delinquent loans, excluding our fully insured loans, were relatively flat with the third quarter. This was not unexpected as the fourth quarter has historically had slow collections.

On Slide 24, we show nonperforming asset trends for both our Residential Mortgage and Home Equity area. Total consumer real estate nonperformers trended down for the sixth quarter in a row. Residential Mortgage declined from the third quarter as charge-offs, pay downs and returns to performing status continue to outpace new nonaccrual loans. Home Equity loans did show a slight increase, as inflows outpaced charge-offs and returned to performing status.

The increase in NPAs was driven by growth in the greater than 180-day past due loans, while the less than 180-day past due loans remained flat as delinquency inflows remained relatively stable quarter-over-quarter. As you may recall, loans greater than 180 days past due have already been written down to their net realizable value.

Turning to overall commercial credit quality on Slide 25. The trends that we saw were very similar to what I referenced when I discussed the commercial bank. Including the provision for unfunded commitments, we recorded a benefit provision expense of $220 million that included a reserve reduction of $736 million. Both nonperforming assets and reservable criticized levels continued to decrease.

We flip to Slide 26. We've included a slide on Basel III that we included when we reported our second quarter earnings, and I would make a couple of points here. The first is, we continue to work very hard as we work toward and progressed towards Basel III at the end of 2012. You can see that significant progress in 2 different ways. The first, we had originally targeted getting our risk-weighted assets under Basel III down to $1.8 trillion by the end of 2012. We have updated that goal now to have risk-weighted assets down to $1.75 trillion. In addition to the reduction of risk-weighted assets based on the progress that we made during the quarter, we now expect our Tier 1 common equity ratio under Basel III at the end of 2012, on a fully phased-in basis, to be between 7.25% and 7.5%, up from our previous guidance of 6.75% to 7%.

Let me now wrap up by spending a few moments discussing our expectations for 2012. I won't go into a lot of detail as the economic landscape is somewhat uncertain, given the evolving events in Europe, the upcoming elections and the speed around the recovery in the housing markets.

In 2012, we believe net interest income will remain somewhat challenged and will be highly dependent on the rate environment. While we expect consumer loans to continue to run off, this should be somewhat mitigated by loan growth in our commercial businesses.

Additionally, we expect to benefit from continued reductions in the term debt footprint. Most of the line items in our earnings report, whether it be card income, service charges, investment or brokerage, tend to be very correlated with the economy. So if we see economic growth, we would expect that to translate into higher revenues.

At this point, Durbin is fully embedded in the fourth quarter results, so you have a solid base to work with there. Investment banking, we would expect the activities in 2012 to be fairly consistent with what we saw in 2011.

As Brian referenced at the beginning, we'd expect to see better results in sales and trading. But once again, those tend to be pretty correlated to global market conditions and the health of the recovery. Equity investment income, we'd expect to drop off considerably given the sale of the CCB shares that we have during 2011.

On the expense side, in the first quarter, we should start to see the positive impact of the fourth quarter headcount reduction and the impact from New BAC.

Our goal for the fourth quarter of this year is to have sustainable cost savings, which would include not only certain New BAC Phase I and Phase 2 benefits, but also lower expenses in LAS, the benefits of reduced merger charges, lower cost associated with businesses we've exited, as well as other expense reduction initiatives.

Credit quality should continue to improve over the next few quarters, but at somewhat of a slower pace, and we'd also expect to continue to see some reserve reductions.

Capital and capital ratios should continue to grow. What will drive that growth in 2012 will be mainly through earnings and to a lesser extent, RWA levels throughout the year. We expect that most sales of business units are essentially complete, although there will be some targeted areas -- some targeted activity within certain selected areas. We expect the effective tax rate to be around 30%, plus or minus, depending on any unusual items.

So in summary, as we enter 2012, we expect the economic headwinds and low interest rates to persist, while we continue to deal with legacy mortgage issues and ongoing regulatory changes. That being said, we enter 2012 with higher capital, liquidity and combined reserves for credit, representations and warranties and litigation than at any point in the company's history.

And with that, why don't we go ahead and open up the line for questions.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] We'll go first to Mike Mayo with CLSA.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

Can you talk about the commercial loan growth and how much is due to drawdown of existing credit lines versus expansion in new areas?

**Brian T. Moynihan**

Let me just hit a couple of points. One of the things we traditionally talked about, Mike, is our core middle market because people look at that as a market for what middle market companies are doing in the draw rate. It is relatively consistent, third quarter or fourth quarter, 32%, down 100 basis points from a year ago, I think, round numbers, and down maybe 800 or 900 basis points from where it would sit in a normalized economies. So middle market companies are consistently drawing but haven't moved. At the larger corporate area, we had some strong growth in the fourth quarter, I'll have Bruce touch on that. But from a broad economy, people are fairly stable and sitting there. Bruce, why don't you touch in the higher?

**Bruce R. Thompson**

Sure. If you look at, particularly, within the GBAM space, I would make a couple of observations. We saw a growth in both regular way corporate loans, as well as in the trade finance area, so the growth that we saw was fairly widespread. If you look at that growth by region, we saw some growth in the U.S. and Canada, and we also saw a very nice growth in both the Latin America, as well as the Asia-Pac region. In addition to that, we also saw some growth within our Mortgage area, within the Global Banking and Markets area. So not any one thing driving the growth. I'd say the one area that was probably the strongest was trade finance but it was fairly widespread throughout the business.

**Brian T. Moynihan**

Mike, just one last observation. If you think about the capital-markets driven activity in the higher grade stuff, it's been very strong and investment -- non-investment grade comes in and out freely on the markets. But I'd say, when I talk to sponsors and other people, they're ready to go and for deals, $4-billion, $5-billion transaction. There's a very strong demand to do them from the sponsor side. So I think if market stay stable, we could see some pretty good activity this year on that.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

Just one separate and last question. For new project BAC, are you cutting enough? I guess, if you look at results for last year, revenues reported were down $17 billion, expenses were down $3 billion. So a big gap between the decline in revenues and decline in expenses. And you can back out LAS and some other items, it's still seem to be a pretty big negative gap. So are you cutting as much as you need to? You have the structural project but perhaps more cutting for this cycle, is that needed?

**Brian T. Moynihan**

Well, as we're approaching the business, which are more cyclical, i.e., the trading businesses, investment banking. You've seen in the press that we've been, in advance, even doing the work in New BAC. We reduced headcount fairly significantly in some of those areas, where the opportunities weren't there and that's more adjusting that business cost 2 ways. One is the comp cost, you adjust down obviously; then secondly, the headcount. So that's been going on. I'd say, you need to be -- just to remind you and you know this, Mike, is that in the -- there's negative revenue, rep and warranty cost has actually negative revenues, so that has a fairly big impact. But as we look at it, we are driving towards the right cost structure for the right run rate of revenues for this company over time, we'll continue to drive at that. You could always say, "Can I go a little faster, go a little slower?" But we need to balance, especially in the broad consumer business. You need to have good customer service, strong customer relationships and we continue to invest in the growth areas, with getting the cost down. So example, on the branches, you've seen the numbers, we dropped to 5,700 from a high of 6,100. Our cost of operating our whole retail platform as a percent of deposits continues to work down. But we have to be careful to make sure the service quality as we do that is well-managed. So it's a balancing act. I question every day whether we get it exactly right, can it go a little faster, a little slower. But the areas are really market sensitive, we move pretty quickly on cost. The other areas, you have to be careful and reengineer the works so you make sure they can still do a great job for the customers.

**Operator**

We'll take our next question from John McDonald with Sanford Bernstein.

**John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division**

Bruce, I was wondering on net interest income. Was there still some level of after-hedge ineffectiveness and prepay amortization in the fourth quarter number? I know it was less than third but was there something in the fourth?

**Bruce R. Thompson**

There was, John. And I think if you look at the delta in net interest income, really, 4 main items I'll give you a little bit more detail on. We picked up $500 million of benefit during the quarter from less hedging effectiveness in prepays. We picked up $200 million of deposit based on lower debt footprint and our deposit pricing. On the negative side, we had about $200 million less because of the rates on our mortgage portfolio and about $200 million less due to the lower Consumer Card businesses, primarily credit card, which included the sale of Canadian Card that we didn't have in December. So if you take those for 4 items, that'll give you the bridge, the change in net interest income for the quarter.

**John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division**

And do you think that you can grow net interest income from that level of $11 billion in the fourth quarter going forward? What's going to be the drivers?

**Bruce R. Thompson**

I think, right now, if you look at what we've seen during the third and the fourth quarter, that that's reflective of the balance sheet and the rate structure today. And I think as you look forward, the only things that are going to change those numbers going forward are primarily a change in interest rates, and to the extent that we see a meaningful change in loan demand. But as we look into 2012, I think that the third and the fourth quarter should give you the best jumping off point realizing that there was still some hedging effectiveness in FAS 91 in us.

**John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division**

Okay. So that's a good run rate and from there, it depends on whether rates rise and when the loan growth picks up?

**Bruce R. Thompson**

That's correct.

**John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division**

Okay. Similarly, on expenses, when we look at the Page 20, lots of details there. I'm trying to just get a sense of what the run rate might be going into the first quarter. Taking up some of these specials, it looks like, maybe something similar last quarter, $17.2 billion to $17.4 billion, something like that. I know you don't want to get too specific. But can you give us any kind of sense of where you might be entering the year with the expense base. I know you don't want to get specific about your targets, but where are you going to start off?

**Bruce R. Thompson**

Yes. I mean, I think that if you look at the recent quarters, it bounces around a little bit based on GBAM revenues, GBAM performance, compensation and other things flowing through. As well as to the extent that there's severance or other things bouncing around. But I think $17 billion area without any kind of onetime or anything going through it, is probably the right starting point to think about, John.

**John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division**

Okay. And then from there, you expect to get the benefits in the second half from some of the LAS and the New BAC stuff, so that should improve later on in the year from that base?

**Brian T. Moynihan**

Yes. And, John, remember in that $17-billion type of number, we're not -- Bruce is not eliminating the $2 billion as sort of core LAS operating cost. So we expect to see that come down. And as I said in my comments, that come down in core run rate. But we have to do this right and that's where we keep engineering the change quarter by quarter by quarter. The headcount reduction this quarter was part of the startup.

**Bruce R. Thompson**

And, John, the only other thing I just want to make sure we highlight is, as we do each year in each first quarter, we have the vesting of the stock compensation expense during the first quarter. And recall that, that was about $1 billion during the first quarter of '11. So I just don't want you to be surprised when you see that in the first quarter of '12.

**John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division**

Okay. And you are including that when you said $17 billion?

**Bruce R. Thompson**

That's correct. I'm not including that in the $17 billion, that's correct.

**John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division**

Okay. Last thing for me just on the rep and warrant issue, Bruce. Where do we stand on the changing GSE behavior? Is it more predictable? What was the nature of request and denials that you got this quarter on the GSE front? And do you have a sense of how much of the GSE clients you've addressed?

**Bruce R. Thompson**

Yes. I think, if you go back and look at the disclosure we have back in the slide, I would say at this point, we highlighted it in the third quarter that there were some disagreements between the 2 parties, and I would say that there's really been no change in that perspective during the fourth. And you can see that the GSE unsolved balance went up a little bit during the quarter and quite frankly, that wasn't unexpected.

**Operator**

And we'll take our next question from Paul Miller with FBR Capital Markets.

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

The $1.5 million litigation expense this quarter, and I know you guys have been putting a lot of money away for litigation. But is this related to the AG settlement? Or is it just other various suits out there?

**Bruce R. Thompson**

What it relates to, it say there, there are 2 significant items that we had included. I'm not going to quantify them. You saw that we did have the fair lending settlement at legacy Countrywide prior to when Bank of America bought Countrywide, that went through during the quarter. In the second thing, you're correct. During the fourth quarter, while there's no DOJ-AG settlement, you read what we read and we adjusted our litigation expense, as well as our reserve levels to reflect the best that we could, our understanding of what the deal may be.

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

Okay. And second question is asset quality. Charge-offs dropped $1 billion in the quarter, which I thought was a very good number. Was there some internal change? Are you pushing loans more through? Or are you just working loans out better? I mean, is there anything, any color around that number?

**Bruce R. Thompson**

Two things. The first is, and I referenced is, recall, that we did settle during the quarter some of the loans in the U.K. that were written off. We did a little bit better than we could have expected, and that was about $300 million of the improvement. So we did have that onetime pop or onetime benefit. But I would say that across-the-board, on the consumer side, we adjusted the underwriting standards back in the fourth quarter of '08 and the first quarter of '09, and we're starting to see the benefits from those standards as the old stuff has flown through and the new stuff is becoming a greater percentage of the portfolio. And then on the commercial side, I would say across-the-board, credit quality within the commercial space continues to be very strong. And we continue to feel very good about commercial credit going forward. And the last thing I'd say is that, we've obviously reduced the size of the commercial real estate and clearly think we're on the other side of the commercial real estate charge-offs.

**Operator**

And we'll go next to Glenn Schorr with Nomura.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

A couple of quickies. You mentioned in the outlook commentary that you think you could beat the 20% achieved for Phase 1. I'm just curious, bigger than a breadbox, is that a lot more than the 20%, a little bit more than the 20% and maybe where you're seeing the acceleration of that?

**Brian T. Moynihan**

It was a constant focus, really, when it comes to accelerate anything we can that really isn't dependent on technology implementation. So when you look at the broad -- in 2012, we'll spend $0.75 billion to get the cost saves type of numbers, so we're trying to accelerate the non-technology-dependent, and that's the reference we gave you. So we're ahead of schedule, and we expect to stay ahead of schedule. And overall, the numbers will come in -- the goals we gave you.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Okay, that's fine. Curious on what you have baked in to both your credit loss assumptions and your reserves in terms of housing outlook. There's been some in the industry talking about it bottoming. There's economic data that's getting better. There's affordability metrics that are getting better, but you still have the stress inventory, the underwriting standards, and the securitization markets are kind of frozen. Just general thoughts on housing bottoming and how you're positioned?

**Bruce R. Thompson**

Sure, 2 things. The first on just credit across the company. What I would expect, and just to make sure that we're clear, we would expect charge-offs to continue to improve during 2012. And at the same time, you're probably likely to see reserve releases slow down. So from a net perspective, the jumping-off point at the fourth quarter is a pretty good jumping-off point as you think about credit for 2012. With respect to the housing piece of it, we look at and look out at macro markets and look at what the expectations are there as we look at forecasting and looking at residential real estate. Those basically show a flat market throughout 2012. And as we project through 2012, we don't really assume any significant move up or down. It's basically flat.

**Brian T. Moynihan**

From a pure activity [ph] standpoint, we continue to see -- when we get hold of our property, we continue to see to be able to move it in 60, 90 days, and the activity is moving through the markets as the foreclosure rework was done and any activity. So we don't try to outguess the market. We resort to the average, and we adjust it for the places we have more loans. But the reality is you continue to see the healing in the housing market every day in terms of the amount of activity, the amount of delinquencies in the process moving forward. And so I think it's still a lot of hard work, but you'll be seeing it move forward.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Appreciate that. Sticking with the housing theme, just curious if there's any update on the private label potential settlement and just maybe where are we in those conversations and maybe what's the next event, timing-wise.

**Bruce R. Thompson**

Really no change with anything that you see out there, which I think we're expecting to see by the end of February, the venue that the case will be decided. And basically, what you see out there is the same thing that we see, and our sense is we'll get [ph] a little bit better sense with where the venue is by the end of February.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

And is it Delaware versus New York? Is that the battle line?

**Brian T. Moynihan**

State versus federal.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

State and federal, sorry. They got bumped up. That's right.

**Brian T. Moynihan**

Yes, the decision's in the Second Circuit. Our expectation is somewhere in the next 45 days or so. They'll make a decision whether state and the federal court or go to state court.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Okay, last quickie is in the summary slide, you showed $5.6 billion of pretax pre-provision, but that's before a lot of all these one-timers. There's a lot of moving parts, but curious if you have a thought on what a clean jumping-off point is for pretax pre-provision going into '12 as we factor in your thoughts on expenses and we can make our own choices on the market.

**Brian T. Moynihan**

I mean, I think what I'd say is that the cleanest way to think about it is if you take the $5.6 billion and you adjust for the items that are down below, you get to a number that's in and around $4 billion. And as we look forward and as we look to build off of that $4 billion, you've obviously got a series of things that we'd look at going forward. We clearly would expect the trading and investment banking revenues to be better in 2012 than what we saw here. We've obviously got New BAC Phase 1 that's beginning to kick in during 2012. As we've talked about, New BAC 2 will kick in quicker than 1, probably towards the end of the year. You've got improvements towards the end of the year in the Legacy Asset Services cost, and then you've got any improvement that we see from the rate environment. So I think as you look at those numbers, that's probably the best jumping-off point, and we're obviously working hard to drive those improvements with the categories that I just went through.

**Operator**

And we'll go next to Betsy Graseck with Morgan Stanley.

**Betsy Graseck - Morgan Stanley, Research Division**

A couple of questions, one on the housing. In the past, you have given a P&L hit of a 1% or 5% decline in home prices. I realize that your outlook is for stable. But given some of the changes that you've done in your business and asset sales, et cetera, I'm wondering how that number is -- that P&L hit has changed?

**Bruce R. Thompson**

If we look at -- it hasn't changed that much, Betsy. Right now, we're looking at 1% hit, being about $450 million. That's comprised between $125 million and $150 million in our purchase credit impaired portfolio, about $200 million through reps and warrants and about $125 million through the property values that get refreshed each quarter would be the way I'd think about it.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. And then you also gave a data point here on the servicing book and 8% decline in delinquent loan service. Can you give us an update on what portion of the total servicing book is delinquent?

**Brian T. Moynihan**

If you -- we can get to that. It's in the detail. I'll have Lee call you with it.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. And then last on severance. Did you break out what the severance dollars were in the quarter?

**Bruce R. Thompson**

We did not, but I can give those to you. We had about $186 million of severance during the third quarter, and that jumped up to about $239 million during the fourth quarter.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. And that was split between the different business lines, or how would I segment that between the business lines?

**Bruce R. Thompson**

Split between the business lines. The most significant piece you're going to see there is within the Global Banking and Markets area.

**Operator**

We'll go next to Brennan Hawken with UBS.

**Brennan Hawken - UBS Investment Bank, Research Division**

So I was just hoping to get some more granular color on the improved Basel III guidance. Is the driver of that improvement there mostly the numerator improvement we saw this quarter? And can you give some color maybe on the contribution from an expansion in the RWA mitigation plan that you highlighted? Any chance for more detail there?

**Bruce R. Thompson**

Sure. I mean, I think if you think about -- and the way that I would think about it is that there a lot of pluses and minuses, but if you go to Page 7, where we show you the balance sheet data, we show you that Tier 1 common equity has gone up by about $9 billion during the quarter. And in addition to that, we've changed our guidance on the risk-weighted assets side by about $50 billion. So I think if you take those 2 changes, realize we would have had some increase in our common equity in our original numbers flowing through the income statement, that if you look at those 2 line items and think about that in the context of $1.75 trillion to $1.8 trillion, those are going to get you to about the 50 basis point increase in the guidance that we've given.

**Brennan Hawken - UBS Investment Bank, Research Division**

Okay. And then thinking about monoline exposure and the capital relief that we saw from another firm announcing a settlement, when you sort of back in the risk weights there, it implies maybe 600% to 700% risk weight for monoline exposure. Would that -- Is it right to think about that sort of a risk weight for you guys? Do you get a similar risk rate when you think about your monoline exposure? And is that exposure limited to the $1.9 billion that you disclosed in the last Q plus the $0.5 billion in CVA?

**Bruce R. Thompson**

I think I can't speak to it. I saw the Morgan Stanley disclosure, but I think you're referencing -- I can't speak to exactly how they're doing it. What I can say is that if you look in our supplemental package, we show a breakout of our monoline exposure. We did take a couple hundred million dollars in the quarter of hits through the banking and markets area for monoline exposure. And you can see at the end of the year, I believe back in the supplemental page, we show ourselves at about $1.3 billion of net exposure from a monoline perspective after CVA. And once again, we did take a couple hundred million dollars of expense during the fourth quarter.

**Brennan Hawken - UBS Investment Bank, Research Division**

But is it right to think about it a risk weight that would be in the neighborhood of 700% on that exposure for Basel III?

**Bruce R. Thompson**

Probably a little bit higher than that, quite frankly.

**Brian T. Moynihan**

But one thing is -- remember the difference between our capital base size-wise and other people's capital base is one of the different effects here. We're dealing with $120 billion of Tier 1 common, so it's just a different type of number.

**Brennan Hawken - UBS Investment Bank, Research Division**

Right. Proportionally different piece of the puzzle.

**Brian T. Moynihan**

Exactly.

**Operator**

We'll take our next question from Jefferson Harralson with KBW.

**Jefferson Harralson - Keefe, Bruyette, & Woods, Inc., Research Division**

I was going to follow up on that kind of line of thought. When you think about the total risk-weighted asset shrinking $172 billion year-over-year or $75 billion quarter-to-quarter, can you just talk about kind of what that is and what revenues are associated with that decline?

**Bruce R. Thompson**

Sure. Let's go to the fourth quarter. I think it's probably the best place to start. And if you start on Page 8, let's just go through the individual items to give you a sense. The preferred exchanges, while we put the shares out there, there'll be a nominal P&L effect by virtue of having lower interest expense and lower preferred dividends. The CCB sale during the fourth quarter as well as the one that we did in the third quarter, there've been some things written out there publicly about the impact that that's over $700 million of a loss of revenues that go through. And I think when you think about CCB, you have to think about the offset to that, which is, by virtue of doing that, there was over $14 billion of liquidity that came into the parent company that basically will offset, from an interest expense perspective, the loss in preferred dividends that we would have had through that business. You move over to Canadian Card, while the business clearly had PPNR associated with it, once you get down to the bottom line, from a net income perspective, the net income contribution of the Canadian Card business was nominal. You continue to move through the right-hand side of the page, net income and DTA is what it is. The reductions in market risk, as you think about those reductions in market risk and work through that, roughly 2/3 of that reduction in market risk were certain assets that were legacy and other securitization-type assets that we had targeted to sell that, from a net income perspective, didn't contribute that much. About 1/3 of the 21 -- or excuse me, 1/3 of the 18 basis points in market risk would have been VaR and other things that tend to ebb and flow with market activity. So to the extent that the markets get better in 2012, there could be 5 to 10 basis points that comes back on there. And quite frankly, we would welcome that because it would be suggestive of the markets getting better. You then move over to the asset sales and changes in loans on a net basis. The biggest piece of that is our runoff portfolio within the consumer businesses. And the contribution from that runoff portfolio, once again, is very nominal. And then lastly, you move over to 12 basis points of the other, some of that is mono-related, some of it's measurement-related. And I think some of it is just, quite frankly, us doing a better job as it relates to how we approach Basel I measurement, and there were some offsets on the other side. So as you go through this, the impact and to say that we're going to see any meaningful change in income based on what we did in the fourth quarter, we just don't see that. Recognizing that to the extent that the capital markets and the global markets come back, you may see a little bit of a bump up there. But other than that, these are good numbers, and there shouldn't be a significant revenue impact outside of what I just talked about.

**Brian T. Moynihan**

Just to make sure -- there's revenue impacts, but after charge-offs that lies before you, there's no bottom line. And that's the thing, I think, it's not been cleared to the people, and so hopefully, Bruce has clarified that one.

**Operator**

We'll go next to the side of Nancy Bush with NAB Research, LLC.

**Nancy A. Bush - NAB Research, LLC, Research Division**

The settlement with the AGs, which, once again, is rumored to be near, Brian, in your view, does this mark some -- if we get this, will this mark some kind of watershed event that will lead to sort of a quickening of the pace of the resolution of other issues out there?

**Brian T. Moynihan**

Well, I think in the work that's gone on to develop that settlement. You had the major servicers and then, obviously, the representatives of the Department of Justice, then the state AGs and HUD and others work together to come up with a package of programs that we believe will be very positive in pushing the situation forward. So I think you're right. In hindsight, we'll decide whether it's watershed or not years from now, but I think the intent of those programs is to actually help drive the recovery in housing and how to handle customers. So I think that, combined with all the other programs and the million modifications we've done, that combined with -- whether you agree housing is up or down, but the general stability and, frankly, the passage of time and working through it, I think these are good things. And that's why we wanted to -- we and the rest of the industry have been trying to work this out, really, to provide that catalyst to keep pushing the mortgage situation forward. So I think you're exactly right, Nancy.

**Nancy A. Bush - NAB Research, LLC, Research Division**

Well, then part B of that, if we get the settlement and things start to resolve, then does profitability at your company sort of go on some kind of stairstep move up? Is there going to be some dramatic move upward as the housing issues get worked out? I mean, are legacy costs going to come down that quickly, lessening of litigation reserves, et cetera, et cetera? I mean, is there going to be some point at which there is a big change in profitability of Bank of America?

**Brian T. Moynihan**

Well, I mean, if you just -- the question is how fast does it come through because just to implement the settlement and the work will take a series of months and quarters. But I think the theme is exactly right. If you think about the drag in 2011, we made a few billion dollars in the fourth quarter. We had a $1.5 billion loss in our Consumer Real Estate business. For the year, we made $1 billion plus, and we had substantial losses in the real estate business, as you can see. So if you take those losses out, the core run rate of the company is embedded and is running every quarter. The business we have there performing are driving profit. And this has been a huge, huge drag to this company, both from expense side and on the charge-off side and everything else. So it will come that way. I just caution you, Nancy, to realize that this a lot of work, a lot of people and a lot of -- particularly difficult because of what's involved and people and their homes and stuff that we got to work it right. So I'll just caution on the speed, but the principle is right.

**Nancy A. Bush - NAB Research, LLC, Research Division**

Okay. And just a question for you, Bruce. You mentioned a reduction in FDIC expenses in 2012. Can you quantify that or just give us some color about what the expenses were in 4Q and how they should step down?

**Bruce R. Thompson**

Yes. I would think about it as we got through the fourth quarter, there was a true-up, and as we go forward, we'd expect that expense to be down a couple hundred million dollars in the first quarter relative to the fourth quarter.

**Operator**

And we'll go next to Ed Najarian with ISI Group.

**Edward R. Najarian - ISI Group Inc., Research Division**

You talked about the LAS costs coming down. When you broke that $3.5 billion down into sort of $1.5 billion of litigation and $2 billion core, can you give us any sense of what you think sort of a long-term run rate or normalized level is for that $2 billion core? I know you're probably reluctant to talk about the timing of getting there, but when you do get there, maybe even few years away, what would be the right number to think about that $2 billion going to?

**Brian T. Moynihan**

So I think, Ed, to frame that, think about the 60-plus delinquent units and the progress we made this year and the progress we ultimately got to get to to get to more normalized level, that will take the next 6 to 8 quarters to get through that. But when you get down to that level, the number should be more in the $300 million a quarter versus $2 billion from the operating cost side. And so a reasonable amount to service those loans even under the heightened servicing duties that will be embedded in the way you service delinquent loans going forward is that kind of number. I just again say it's going to take us time to work through that. You see the progress we've made this year. You see the flows coming in slowing because -- on the whole servicing portfolio in terms of improving delinquency and then moving the stuff through the process. So I think that's what we should be looking for, from a $2 billion down to maybe a $300 million a quarter type of number.

**Edward R. Najarian - ISI Group Inc., Research Division**

Okay, that's helpful. And then second question would be on interest-bearing deposits. Unlike other banks, we saw pretty big step down in interest-bearing deposits. I know some of that was probably intentional CD runoff, but it really happened in most deposit categories. Any color on that? And in your mind, did that have anything to do with sort of the snafu around the charge related to debit cards that you then took back?

**Brian T. Moynihan**

Let's start from the broad strokes. We saw an elevated level of account closings in the quarter, elevated from last year fourth quarter, but frankly, by, I'd say, 20% versus last year fourth quarter '10 to '11. But from '09, it's actually still down in the fourth quarter of '11 versus fourth quarter of '09 by 20-odd percent. So you saw that, so there's no question, and that's way we pulled it back. And once we pulled it back, you saw that mitigate, and that will carry us in the first quarter. But from a deposit strategy, just remember overall a couple of things. One is if you look at our deposit pricing, we have been very conservative as rates have stayed low to make sure that we continue to bring that pricing down. In the retail world, we're down to 20-odd basis points, and if you look even in the high-net worth world, we're down in that pricing, and what we've made the decision was to have our customers seeing some of the short-term flows use the off-balance-sheet vehicles and things like that as opposed to on-balance-sheet. So that was a strategy also. There's a third part of this, which is our balance sheet financing construct with a $1 trillion-plus in deposits with the amount of equity we have, is that our banks are extremely liquid. And so taking wholesale-oriented deposits both domestically and internationally, we've been just cutting that back dramatically. So if you look in the fourth quarter, there's about a $20 billion deposit reduction that was engineered off of foreign time deposits and things like that, that overwhelms the good core activities in the businesses, really because we can't use liquidity in a sense at our bank level because liquidity is so strong, and as we're downsizing assets, we're creating more of it. It's a negative carry. So you can see our overall liquidity numbers timed to acquire funding is going up while reducing the aggregate amount of deposits from this more funding characteristics. So I'd say that yes, we had some impact from the $5 debit fee. That's why we made a decision to reverse it. Those impacts in the scheme of things will be manageable, but more importantly, the real deposit phenomena is we're seeing growth, and there's no question as we saw the second half of the quarter more stability around the market. The company, we saw a kick-up even on the corporate side. But the real engineering deposit has been both general rate conservatism, i.e. making sure we're making money for shareholders and doing the job for the customers, but more importantly, on the more wholesale stuff, sort of bringing it down, because, frankly, we can't put the money to work right now.

**Edward R. Najarian - ISI Group Inc., Research Division**

Okay, that's helpful. And then finally, about $21 billion of government-insured mortgages that are 90-days past due, I think the whole analyst community is wondering what the risk around the guarantees on that are. I know that question has been asked on a lot of calls to a lot of companies, and it's -- sort of everyone's answer is, well, they're guaranteed. Do you have any more color around that risk other than just sort of saying, well, we think the guarantees are there?

**Brian T. Moynihan**

I mean, I think the only thing I would say to that, I think is really just further support of that, that a fairly healthy chunk of the guarantees are from product that was purchased from correspondents. And when it's purchased from the correspondent, it's wrapped by the government guarantee at that point. So we feel very good about the fact that it's wrapped. That was the basis -- I mean, significant chunk of those, that the wrap was around it when we purchased it, and we clearly haven't seen anything that would suggest any differently.

**Edward R. Najarian - ISI Group Inc., Research Division**

You're not getting any feedback from the FHA or from any other kind of government entities that those guarantees could be at risk in conjunction with any kind of servicing issues that might be happening on those particular loans?

**Brian T. Moynihan**

No. We do continue to work through the servicing piece of that with the FHA to make sure that we're in conformance with their standards when we go through the foreclosure process, but that is separate and distinct from the fact that those mortgages have the FHA guarantee.

**Operator**

We'll take our next question from Matt O'Connor with Deutsche Bank.

**Matthew D. O'Connor - Deutsche Bank AG, Research Division**

If I could just follow up on the expenses, and you've given a lot of color in terms of the initiatives and the puts and takes. But as we think about the full year, I guess you've got $17 billion run rate, $1 billion of stock expense in 1Q. And then just how quickly does the $17 billion come down throughout the year? And obviously, the capital market is a wildcard, but maybe you can just help frame what expenses are going to look like for the rest of the year as well?

**Bruce R. Thompson**

I think you would expect to see more of it in the second half largely because the LAS piece, as you can see, that the rate of working it down comes through. And I think it's the severance cost and stuff that help offset sort of the incremental quarter-to-quarter move. But I'd say we've got plans of bringing it down over the course of the year. It's because of FAS, the 123R expense in the quarter. The reported number would not be much, but you'd see sort of that core run rate go down almost linked quarter, quarter to quarter, quarter to quarter, but it will be a little bit more backend-loaded just because the LAS piece takes us getting through. Remember that the foreclosure look back, which cost us $20 million a month or more in there, you've got some other things that you got to get through to get to the other side of it.

**Matthew D. O'Connor - Deutsche Bank AG, Research Division**

Okay. And just in terms of magnitude, any numbers you can put, like where you think you might be on a run rate basis by the end of 2012?

**Brian T. Moynihan**

Matt, I don't think we'd answer that one.

**Matthew D. O'Connor - Deutsche Bank AG, Research Division**

Okay. And then just separately, in the mortgage business, you had some MSR gains, I think about $1.2 billion or so. How much of that was from hedging? And then it seemed like that might have included gains on selling MSRs, which is -- I guess that helps in multiple ways. But if you could just split up the hedge gains versus the gain on sale?

**Bruce R. Thompson**

Yes. I'd say a couple of things that the -- if you think about the MSR, when we went into the fourth quarter, we continually look at and look to balance where interest rates are, where mortgage rates are and what declines in interest rates will do relative to mortgage prepays. And so with rates very low in the fourth quarter, we lightened up a little bit on the hedge ratio. Rates obviously went back up, and we benefited from that. The other thing I would say is that as we looked back and saw actual prepay speeds during the fourth quarter based on the interest rate assumptions that the prepayments were not coming in as quickly as we would have expected, and so we adjusted our models to reflect that. As you think about those 2 numbers, I'd think about the $1.2 billion being split about 50-50 between the 2.

**Matthew D. O'Connor - Deutsche Bank AG, Research Division**

Okay. And then I guess the sales of some MSRs is not meaningful in terms of...

**Bruce R. Thompson**

No. I mean if -- sometimes, you lose a few bucks, sometimes, you make a few bucks. But what we've seen is that the sales that have happened have been generally consistent with where we're marked. And obviously, the real benefit, and I go back to the slide that we show that we track the number of loans and delinquencies, the goal is to continue to shrink the LAS business as quickly as possible so we can get the expense. And that's really what the MSR sales accomplish, not so much any real gain.

**Matthew D. O'Connor - Deutsche Bank AG, Research Division**

Yes. And I guess taking that to the next level, you've exited or winding down the correspondent business, but obviously, you still have all the loans serviced and therefore, the MSR. Is there an opportunity to offload that portfolio, which will obviously help the Basel III capital by a decent amount?

**Bruce R. Thompson**

Yes, I would say across the board, we continue to be aggressive in looking to move the MSRs. I think if you look at -- we're starting to see more people bring these kind of packages to the market, so we feel good that we got out in front of this early and that we moved a significant amount of MSRs. And I think the other thing that you referenced to keep in mind is that we've reduced over the course of the last 6 months our MSR as we look forward to Basel III. It's down over $5 billion. It had been up around $12 billion or over $12 billion, and we're now in the mid-7s. So we're continuing to work that down. I don't think you should expect to see as much sale activity over the next couple of quarters as what we saw close in the fourth quarter because a lot of what closed in the fourth quarter were things that were signed up in the third.

**Matthew D. O'Connor - Deutsche Bank AG, Research Division**

Do you think it's possible -- I mean, a lot of the big banks are trying to reduce the MSRs because of the Basel III restrictions. I mean, are the policymakers sensitive that if all the big banks are getting out of MSRs, there's not really enough capacity absorbed at all and that could increase the cost of homeownership and mortgage rates and everything?

**Bruce R. Thompson**

I don't -- I mean, it's not appropriate for me to comment on what the policymakers are saying. I do think that the one thing that's interesting is that obviously, the large servicers have certain standards that are prescribed by the different bank regulators that we've signed up for as part of the consent decree. Obviously, a lot of these sales do go to people that are not subject to that same regulations scrutiny, and I think going forward, it will be interesting to see how that landscape evolves.

**Operator**

We'll go next to the side of Chris Kotowski with Oppenheimer & Co.

**Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division**

Yes, just in the supplement, looking at the segment disclosure for Global Banking and Markets. The allocated capital and economic capital is down like

30% to 40% year-over-year. Allocated capital, down from 47% to 33%, economic capital from 37% to 23%. And I guess 2-part question. Part 1 is somehow, that doesn't seem to sync with actual reduction in risk-weighted assets, yet that we've seen. And I mean, why is the capital going down so much more if the risk-weighted assets aren't kind of going down in tandem? And then secondly, I guess the question is if you look at the economic capital there of $23 billion, is that enough capital to run a world-class investment bank, given that JPMorgan allocate $40 billion and Morgan Stanley has $40 billion of tangible common and Goldman has $60 billion?

**Brian T. Moynihan**

I think you're now comparing a lot of different things because there's other operations that are supported, whether that's Goldman or Morgan Stanley. But we have a consistent methodology. As the legacy assets have gone out from an economic capital cost, that has been a very efficient, for lack of better term, reduction. The RWA may be under Basel I, may be 100% risk-weighted or things, but the economic -- we have an economic analysis that we look in the risk-embedded net. As you get the Basel II and III, those 2 things come in sync, as you know. So the equities come down. Let me be clear. If this unit wanted more capital, we'll give them more capital. I think Bruce was clear about that. And so there are -- whether it's their value at risk or whether it's their capital, this is really due to the opportunities and things going on. So there's drivers in the credit quality that's improved dramatically over the last 4 quarters in the unit. There's drivers from the legacy assets, think of things in there from the monoline positions we talked about, the auction rate notes we talked about, the CDO positions being liquidated and taken out. And then on top of that, there is the -- they've brought risk down because the opportunities aren't there to do it. We expect that risk, the good core risk, the risk we want to go back up. And as Bruce said, 5, 7 basis points of capital have been great because implied in that, we'd be making money as opposed to losing money on the trading side. And so don't think that this is a -- this is an outcome of a model that we run all the time and running consistently as opposed to a limit on our capital or anything like that.

**Bruce R. Thompson**

And I think the other thing I would say that if you look at the decrease, the one thing and we disclosed in the second quarter that I think you have to keep in mind is that the Bank of America merchant services business was moved from the GBAM business to the commercial business. At the time that it was moved, it was over $5 billion of value that's pure equity. So a significant piece, you're right, that came down was by virtue of a business being moved, not necessarily what was actually going on within the trading businesses.

**Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division**

Okay. And if, I guess, going -- well, both looking back over the past year and looking forward, if you look at the risk-weighted asset mitigation, can you break that up into how much of that is just getting rid of legacy assets that no longer support any current business purpose versus actually trimming back the capital lines to the various trading desks?

**Bruce R. Thompson**

I think I tried to address that when we spoke to the reductions in market risk during the fourth quarter, when we talked about 2/3 of it within the market risk being from getting rid of certain positions, including the securitization as well as some of the structured credit. So once again, I think about that market risk number being 2/3 stuff that we wanted to be done with and 1/3, there were less opportunities. And like I said, hopefully and so far, the first couple of weeks in January, we have seen more opportunities so that that number could come back, but 2/3 of that should be gone.

**Operator**

We'll take our next question from Matthew Burnell with Wells Fargo Securities.

**Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division**

I just wanted to follow up on Bruce's comments on the MSR, and I understand what you're saying about what appears to be an MSR hedge benefit in the quarter. I guess I'm just curious, in an interest rate declining environment, to write up the MSR seems a little counterintuitive, particularly given that a couple of your competitors and the more large competitors in the mortgage business didn't do that. And I guess as a follow-up on that, if you end up getting the AG settlement or the industry ends up getting the AG settlement that's rumored to be near, does that -- do you think that will require you and other industry participants to materially write down your MSRs from that specific event?

**Bruce R. Thompson**

Two things. We don't see the industry settlement affecting the MSRs. The second thing, with respect to the MSR valuation, I'd make a couple of points. The first is that while rates did decrease, the prepayment activity that we saw relative to expectations was less. The second thing I think you have the keep in mind is that our MSR went from 50 to 54 basis points during the quarter, which is significantly lower than all of our peers. And I think if you look at the remainder of our peers, generally, people either wrote it up or wrote it down within a 5 basis point window during the fourth quarter. So I think we were very consistent with what we saw. But importantly, as far as the capitalization rate, we're the lowest in the industry.

**Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division**

Okay. And then if I could, just a question on Europe. It looks like your exposure to the peripheral countries really didn't change very much quarter-over-quarter from your disclosure. I guess I'm just curious as to some of the recent trends that have occurred since the beginning of the year, if that made you feel a little bit more sanguine about what's going on in Europe and if that is flowing through your view of sales and trading and other opportunities for Bank of America this year?

**Bruce R. Thompson**

I think you asked an interesting question. And I think if you think about what we've talked about the last couple of quarters, that we moved fairly aggressively within the Global Banking and Markets area in 2010 to be positioned to where we wanted to be in Europe and, I think, got out ahead of it very early. But your point is exactly right, which is as we look at our company and our results, that the single largest thing or how we're affected by what goes on in Europe is the activity levels that we see within our Global Banking and Markets area here in the U.S. And your point, I think, is a good one, that obviously, November and December, given the volatility, were very difficult. The new issue markets slowed down, and it was tougher to trade. And as we've seen some of the programs and at least some of the resolution that's happened over the course of the last couple of weeks, if you look out at the fixed income markets, they've picked up significantly. The IPO backlog, if there's a market, it's significant. And if you look at the loan business, we're seeing good flows there. So we're only 2.5 weeks into the year, but clearly, some of what's happened in Europe and how people are feeling better there has manifested itself into stronger capital markets in sales and trading during the first part of this year.

**Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division**

And then just one final question. Could you update us on the status of the European Card portfolio sale and if you were to sell that, what your expectation is in terms of the Tier 1 common benefit?

**Bruce R. Thompson**

I think if you look at the aggregate of the portfolio, it's about $15 billion in risk-weighted assets. And the only thing I'd say at this point is that we continue to look good to go through the process. Outcomes are stating the obvious. We may do nothing. We could look at all of it or there could be a piece of it that goes. But as we go through this process, given the capital and liquidity that we have, we're going to make -- we're going to do what makes sense and just not sell something for the sake of selling it.

**Operator**

And we'll take our final question from Andrew Marquardt with Evercore Partners.

**Andrew Marquardt - Evercore Partners Inc., Research Division**

I want to ask about capital and the upcoming CCAR process. It seems like, based on your commentary, that this year will be focused on capital build and expense control, that is it safe to assume that, again, you will not be asking for any deployment for 2012?

**Brian T. Moynihan**

We'll be clear with you. We're not going to ask or make sure that we're well positioned with Basel III, so your assumption is correct.

**Andrew Marquardt - Evercore Partners Inc., Research Division**

Okay. And then in terms of the upping of your capital target on a Basel III basis by the end of this year, does that -- I mean, does that kind of show the confidence that you have in terms of not only earnings and the risk-weighted assets coming down, but that there's more room to go and that you can really show improved kind of a roadmap to being in Basel III compliance through this process as well so that there's no additional actions that might need to be taken?

**Bruce R. Thompson**

I'd say 2 things. I think increasing the guidance first is reflective of the work that we did this quarter and how we accelerated the capital build. And once again, if you go back to the balance sheet side, you can see that we increased our Basel I capital, our common equity, by $9 billion. You should assume that the Basel III number was very close to that. So I think the first thing is that the raise in the guidance in large part was reflective of how we accelerated the actions that we did during the fourth quarter. The second thing to your point, obviously, bringing down the amount of risk-weighted assets that we would think we have at the end of 2012 is reflective of your comment. And the third thing I would say is that we've had this capital team together now for the better part of the year, and I think I would say we're very pleased with how the team's working. And the more you get into this, the more you tend to find, and we're working very hard to drive that forward.

**Brian T. Moynihan**

I'd say the other thing, moving past '12 and beyond, you have to remember that BAC have been working for the last couple of years to think about as Basel III became clearer in '10 and in '11, and the SIFI and all the stuff became clear. We had to be thinking long term about how you keep positioning the company. If you think about the 3 major deducts from the numerator, the financial institution stakes, the MSR, the DTA, we've done a lot of work on 2 of those. And the DTA will come down as we earn, so there's leverage in that past '12 and out before the deducts become effective. There's leverage in that. And then if you look at the -- as Bruce ran through the denominator, the piece that, Andrew, that people have to keep in mind is that this doesn't stop in 12/31/'12. This -- the process goes on. There's portfolios like the runoff portfolio, and the credit book that was at a high at 120 is down round numbers now 90, runs about 4 billion, 5 billion a quarter will continue to run over that time period. There's things like the structured credit trading book. There are other ways to optimize beyond that. So what we're getting as we do the work that Bruce said and the work we've done the last couple of years is attacking the biggest things first, but there's a lot of, for lack of a better term, smaller things that you just keep working on, working on, a lot of which is not core to what we do day-to-day, and that's we've been pushing through. And so you should expect us to continue to manage this as we have and continue to drive it forward.

**Andrew Marquardt - Evercore Partners Inc., Research Division**

Got it. So it sounds like there are still some ticky-tack mitigation to go, but nothing major, and it sounds like one shouldn't be concerned about kind of a major kind of action in response to the CCAR stress test?

**Brian T. Moynihan**

Right.

**Kevin Stitt**

We have one more question, I think.

**Andrew Marquardt - Evercore Partners Inc., Research Division**

And then just separately, just to pile on to the many questions on expenses. I just want to be clear. So expense leverage, there is some this year, but obviously, top line is going to be more muted and mixed. Do you need to have the capital markets businesses recover before you get positive operating leverage this year? Or is there enough expense leverage to get there regardless?

**Brian T. Moynihan**

I think if you look in the last couple of quarters, if you break out the GBAM and you can see in the revenue, the corporate banking profit there is really fairly stable and moves along. And so we lost $400 million after-tax in that business this quarter. We need that business to come back, or we get to do more on expenses, so we've taken some expenses down. So I think that, that -- but coming back bit from just the third quarter, fourth quarter, taken out all DVAs, so the results recovered even in another difficult quarter. So coming back doesn't mean back to some level that it was at the high point in the first quarter of '10 or something like that. Coming back means $3.5 billion, $4 billion of revenue, and we start making money. That's a lot of leverage in the platform because effectively, between $2.5 billion and $2.75 billion, you are under pressure to make -- that's where you kind of breakeven, start making money as a practical sense on a pure trading side. So we need that, but if we don't get it, we have go to the other side, and that's what this new BAC II process is working on is what is sort of the right, for lack of better term, fixed cost structure, even though a lot of it's variable for comp, but what is the right fixed cost structure given what we see in the market conditions and opportunities. And so we moved early on just sort of the marginal get-it-down, get some people, get some expenses down, but then more fundamentally, how do we reset the base. And so -- but we do need that to get some of the positive operating leverage. The rest of the business, as you look at the consumer side and stuff, they've been ground down by the revenue changes, and now we got to grind -- move forward from there. But if you look at the business, whether it's Wealth Management, whether it's Global Commercial Banking, whether it's Card, you can see those business performing well, and they'll keep clicking along. It's really fixing mortgage, getting it back to profitability, getting trading back to profitability and start to build off of $150 million base in retail. One more question, I think, we have?

**Operator**

We'll take our final question from Moshe Orenbuch with Credit Suisse.

**Moshe Orenbuch - Crédit Suisse AG, Research Division**

Actually, part of what I was going to ask, Brian, was about the mitigation results post 2012 because that's something you have spoken about before. But, a, in terms of -- on the mortgage side, just going back to that for a second there, in the reps and warranties, you mentioned that no significant change or no unexpected change from the GSEs, but you did note a little bit of a build in the amount of kind of unprocessed claims, and yet you brought the reserve down. So what is it actually that you saw that allowed you to bring the reserve down? Was it kind of passage through more of the book? I mean, how should we think about that?

**Bruce R. Thompson**

Well, the only reason -- I mean, if you think about the reserve, the reason that the reserve comes down is that because to the extent that you saddle up and pay things that you believe that you've owed, it comes out of the reserve, and the reserve comes down. And I think the other thing I'd say is that, as we said, we have $250 million, $275 million of rep and warrant expense, so the reserve coming down was reflective of paying those things that were expected and accrued for. And then obviously, we had a couple of hundred million of expense over and above that.

**Brian T. Moynihan**

Moshe, remember this is a little different than other things you can think about in the P&L in a financial service company in that there's really a sealed book of 2004, '05, '06, '07, '08, originations that you're working against. And so the expectations as you -- we provided for all the activity you expect to see out of that whole pool, and then -- so you're going to work this reserve down every quarter because you're using it to pay for stuff that you calculate in your expectations. So it's different than credit or other stuff in that that's the expected outcome because it's a sealed book. When you look at originations from '09 forward to '10, the delinquencies in our portfolios, as Bruce said earlier, are much better than you would have expected when you're originating in '09. So at the end of the day, if the loan doesn't ever become delinquent, we don't talk it. This isn't a problem. The quality of the origination practice and stuff, the products themselves, et cetera, so this is really '04, '08, really '04, '07 quite frankly, sealed bid. And on the private label side, we didn't -- private label market stopped in '08. So you really are looking at a sealed group of loans, and that's why I'd expect the reserves to come down. And agreed, as there's more an impasse, we are consistently applying the standards of resolving. If people are more aggressive on what they put to us, there'll be more impasse, and we'll deal with it over time.

**Moshe Orenbuch - Crédit Suisse AG, Research Division**

Okay. And just a follow-up on the AG settlement. Obviously, one of the things you talked about was on principal reduction. How do you think about that as it relates to kind of current rate of charge-offs, the amount that's sitting in your reserve and the prospective charge-offs? How do you think a change there is going to impact those items?

**Brian T. Moynihan**

We've been doing principal reductions for a number of years now. And the thing is it has -- it's always based on a situation that the assessment is a net present value from the [indiscernible] is better than the alternative, which will be foreclosed and taken through for the investors. And so I think that is a clear determiner of what better value is. So if -- and that's the basis of how you make determination. So I think overall, as I said before, I think reaching a solution here, it would be positive. And as Nancy talked about earlier, it is a rational set of criteria to get to these issues.

**Bruce R. Thompson**

And I just want to be clear and I referenced it earlier, the reserves and where we are at year end with respect to the credit reserves within the mortgage business are reflective of our expectations from what we know now what comes out of the DOJ-AG settlement.