

# Case 23 Bank of America's Acquisition of Merrill Lynch

December 2008

On the afternoon of Monday, December 22, 2008, Ken Lewis, chairman and CEO of Bank of America Corporation, was preparing for a special meeting of Bank of America's board of directors, which would be held by telephone at 4 p.m.

The meeting was critical to the future of Bank of America and to the future careers of Lewis and his top management team. The meeting offered the board its final opportunity to pull the plug on its acquisition of Merrill Lynch & Company, which was to be consummated in ten days' time (January 1, 2009).

The acquisition, announced on September 15, 2008 (see Exhibit 1 for the press release), would create America's biggest financial services company in terms of total assets. It was the culmination of a succession of acquisitions that had transformed North Carolina National Bank first into NationsBank, then, after its 1998 acquisition of San Francisco-based BankAmerica, into Bank of America Corporation. Table 1 shows Bank of America's principal acquisitions.

Despite its size, little planning preceded the merger announcement. It came the same day that Lehman Brothers filed for Chapter 11 bankruptcy protection amidst growing fears that the global financial system was going into meltdown. Anticipating that Merrill Lynch might be the next major financial institution to fail, the acquisition was hastily brokered by the chairman of the Federal Reserve Board, Ben Bernanke, and the US Treasury Secretary, Hank Paulson. Announcing the merger, Bank of America's chairman and CEO, Ken Lewis, stated: "The fact that we could put this transaction together in less than 48 hours is a great statement on the strength of both our teams, but also on the great strategic fit which, from the instant that we talked about it, became clear that this transaction would make a lot of sense."

Others were less convinced that the transaction made sense. The biggest concern was that Bank of America was overpaying. The *Financial Times*' Lex column commented:

Even if Merrill is being taken out at a third of its 52-week high, it is, in the circumstances, hardly a steal at 1.8 times tangible book value and 12 times 2009 earnings.



## EXHIBIT 1

## The Merger Announcement: Extracts from the Press Release

CHARLOTTE (September 15, 2008)—Bank of America Corporation today announced it has agreed to acquire Merrill Lynch & Co., Inc. in a \$50 billion all-stock transaction that creates a company unrivalled in its breadth of financial services and global reach. "Acquiring one of the premier wealth management, capital markets, and advisory companies is a great opportunity for our shareholders," Bank of America Chairman and Chief Executive Officer Ken Lewis said. "Together, our companies are more valuable because of the synergies in our businesses." "Merrill Lynch is a great global franchise and I look forward to working with Ken Lewis and our senior management teams to create what will be the leading financial institution in the world with the combination of these two firms," said John Thain, chairman and CEO of Merrill Lynch.

Bank of America expects to achieve \$7 billion in pretax expense savings, fully realized by 2012. The acquisition is expected to be accretive to earnings by 2010.

The combined company would have leadership positions in retail brokerage and wealth management.

By adding Merrill Lynch's more than 16,000 financial advisers, Bank of America would have the largest brokerage in the world with more than 20,000 advisers and \$2.5 trillion in client assets.

The combination brings global scale in investment management, including an approximately 50% ownership in BlackRock, which has \$1.4 trillion in assets under management. Bank of America has \$589 billion in assets under management. Adding Merrill Lynch both enhances current strengths at Bank of America and creates new ones, particularly outside of the United States. Merrill Lynch adds strengths in global debt underwriting, global equities and global merger and acquisition advice. After the acquisition, Bank of America would be the number one underwriter of global high yield debt, the third largest underwriter of global equity and the ninth largest adviser on global mergers and acquisitions based on pro forma first half of 2008 results.

**Source:** <http://newsroom.bankofamerica.com/press-release/corporate-and-financial-news/bank-america-buys-merrill-lynch-creating-unique-financial>, accessed October 1, 2012. Reproduced with permission.

Mr. Thain's willingness to accept market realities has enabled Merrill shareholders to escape a total wipe-out. As Jamie Dimon noted after acquiring Bear Stearns, there is a difference between buying a house and buying a house that's on fire. While flames are licking at Merrill's outhouses, Mr. Thain has persuaded BofA's Ken Lewis there is still plenty of time to douse them. But until Mr. Lewis can prove that Merrill has suffered only cosmetic damage, he will struggle to get investors excited about promised savings worth \$7bn or 10% of the cost base. BofA's shares fell 15%, destroying \$23bn of value.

If the deal proceeds to plan, BofA would secure the Merrill brand and the largest retail broker network in the US, with a 17,000-strong herd of financial advisers as well as a leading investment bank and wealth management franchise. There are, though, two big dangers. First, much of the risk Merrill has "offloaded" in its vendor-financed sale of toxic securities could come back to haunt its new owner. Second, a culture war between two workforces remunerated according to different pay systems seems unavoidable.<sup>1</sup>



**TABLE 1** Bank of America's growth by acquisition

Year	Company acquired	Notes
1960	Security National Bank of Greensboro merges with American Commercial Bank of Charlotte	Merged bank named North Carolina National Bank (NCNB)
1982	First National Bank of Lake City (Florida)	First out-of-state acquisition by NCNB
1991	C&S/Sovren of Atlanta	NCNB changes its name to NationsBank
1993	MNC Financial of Maryland	
1998	BankAmerica Corporation of San Francisco	NationsBank renamed Bank of America
2004	Fleet Boston Financial Corporation	Expands into Northeast
2006	MBNA	Bank of America becomes largest US credit-card issuer
2007	US Trust	Bank of America becomes leading US private bank for wealthy individuals
2007	ABN AMRO North America	Major subsidiary: La Salle Bank Corp.
2008	Countrywide Financial	Bank of America becomes US's largest mortgage lender
2008	Merrill Lynch & Company, Inc.	September 15 bid to take effect January 1, 2009

Source: <http://about.bankofamerica.com/en-us/our-story/our-history-and-heritage.html>

During the final quarter of 2008, pessimism about the merger continued to grow. Bank of America's share price declined from \$29.55 on September 16, 2008 to \$13.53 on December 22. The main concern was Merrill's balance sheet. On October 16, Merrill reported a third-quarter loss of \$5.1 billion resulting mostly from a write-down in the value of its CDOs (collateralized debt obligations) and other real-estate related assets.

By mid-December it was becoming clear that Merrill's fourth-quarter results would be even worse. Bank of America's chief financial officer, Joe Price, estimated that Merrill Lynch's fourth-quarter losses had risen from \$9 billion to \$12 billion.

These revelations about the full horrors of Merrill's financial position removed any lingering doubts over whether Bank of America had overpaid for Merrill: current losses and future write-downs probably meant that Merrill Lynch was worth absolutely nothing. The issue for Lewis and the board was whether to invoke the "MAC clause" in the merger agreement, which allowed the merger to be called off in the event of a "materially adverse event" occurring.

There followed a flurry of communications between Lewis, Bernanke, Paulson, and officials at the US Treasury. After informing them of Bank of America's desire to exit the merger, Lewis became a target of sustained pressure from the Department of the Treasury in particular.

Paulson reminded Lewis of the risks to the entire US financial system that would result from Bank of America's rescinding of the merger agreement, risks that would inevitably have a major impact upon Bank of America itself. Paulson also indicated that, should Bank of America invoke the MAC clause, the US government would seek the removal of Bank of America's board and top management team. However, if Bank of America went ahead with the merger, the Treasury and Federal Reserve System would provide whatever assistance was needed by Bank of America to restore its capital and to protect it against the adverse impact of "toxic" Merrill Lynch assets.<sup>2</sup>

As Lewis got ready to speak to his fellow board members, he realized that he was faced with the most difficult decision of his entire career. If Bank of America



went ahead with the merger, Merrill's appalling financial situation would be a major drag on Bank of America's performance, would depress its share price, and would undoubtedly anger shareholders. However, beyond the short term, probably the next two to three years, he believed that shareholders would reap considerable benefit from the strategic advantages from creating one of the world's biggest universal banks. Rescinding the merger and leaving Merrill Lynch to its fate might also be the trigger for the financial calamity that President Bush had forewarned in his recognition that: "This sucker might go down!"<sup>3</sup>

The potential conflict between Lewis's moral obligations to his shareholders and to his country was further complicated by his legal duties. As chairman and CEO, Lewis was required to inform shareholders of company matters relevant to their interests. Although shareholders had on December 5 approved the acquisition of Merrill Lynch, this was without the new projections of Merrill's fourth-quarter losses. When Lewis had raised issues of disclosure with Bernanke and Paulson, he had been informed that such disclosure would not be conducive to the stability of the US financial system.<sup>4</sup>

### The Strategic Issues Arising from the Merger

The strategic arguments in favor of the merger were outlined in a joint press conference by the two CEOs (Ken Lewis and John Thain) made on September 15, 2008. Lewis saw Merrill Lynch as adding critical strengths to Bank of America in relation to both individual financial services and corporate financial services. Figure 1 shows two slides from their presentation.

In terms of individual financial services, Merrill Lynch's US-wide network of local offices and its army of financial advisers would represent a massive extension of Bank of America's existing brokerage and wealth-management services. In addition, Bank of America anticipated that the combination of the largest US wealth-management organization with one of America's biggest retail banks with presence in 31 states would offer considerable opportunity for offering a wider range of financial services to the clients of each.

Merrill Lynch's much bigger presence outside of the US would also offer Bank of America the opportunity to build a truly international wealth-management business.

In terms of Bank of America's corporate and investment banking, the merger would transform Bank of America from a provider of corporate banking services with comparatively small-scale investment banking activities into one of the world's leading investment banks. Not only was Merrill strongly positioned in all the world's major financial centers; it had also established a strong position in the emerging markets of Asia, Eastern Europe, Latin America, Africa, and the Middle East, most notably in the BRIC countries. Appendices 1 and 2 provide information on the businesses and performance of the two companies.

### The Costs and Benefits of Universal Banking

With the addition of Merrill Lynch, Bank of America would become one of the world's leading universal banks along with Citigroup and JPMorgan Chase—banks that had taken advantage of the repeal of the Glass-Steagall Act to combine commercial



**FIGURE 1** Extract from merger presentation by Ken Lewis and John Thain**Creating the Premier Financial Services Company in the World**

Ken Lewis  
Bank of America  
Chairman and CEO

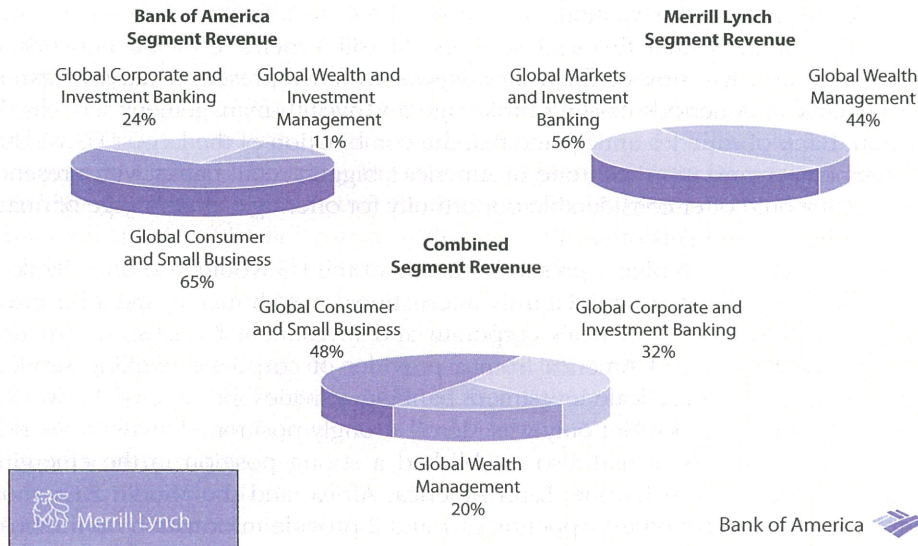
John Thain  
Merrill Lynch  
Chairman and CEO

**Strategic Rationale**

- Diversify business mix
- Significant enhancement to our investment banking capabilities
  - Creates leading positions in
    - Global Debt Underwriting
    - Global Equities
    - Global M&A Advisory
- Leadership position in retail brokerage and wealth management
  - 20,000 financial advisors (16,690 Merrill Lynch advisors)
  - \$2.5 trillion in client assets
- Brings global scale in investment management
  - 50% ownership stake in BlackRock with \$1.4 trillion in AUMs
  - Columbia funds have \$425 billion in AUMs (total BAC AUMs \$589 billion)

(AUM = Assets Under Management)

A Bank of America and Merrill combination yields a diverse business mix



and investment banking. This so-called universal banking model was common in Europe, where UBS, Deutsche Bank, Credit Suisse, BNP Paribas, Barclays, Royal Bank of Scotland, and UniCredit had long combined conventional banking services with capital market activities, corporate advisory services, market making, and proprietary trading.



The relative merits of diversification and specialization within banking services were a topic of debate and disagreement.

The case for universal banking was based upon the benefits, first, of risk spreading and, second, of synergies among different banking services:

- The risk-spreading benefits of universal banking became apparent during the financial crisis, when most US investment banks either failed or converted into bank holding companies. The stability of the universal banks was their ability to finance themselves through bank deposits rather than relying on wholesale money markets. Within retail banking, the casualties were among specialists such as Washington Mutual, Halifax Bank of Scotland, and Northern Rock. However, apart from 2008–2009, the stability benefits of diversification are less evident. Like other diversified companies, universal banks appear to suffer a “conglomerate discount.” Nor are their credit ratings superior to those of specialist banks.
- Synergies within universal banks related to economies of spreading the costs of IT and corporate services over multiple businesses and the benefits of cross-selling services to customers. At the retail level these included selling both banking services and wealth management products and services to the same consumers. For corporate clients it involved providing a wide range of banking, advisory, and corporate finance services. There were also believed to be vertical integration benefits from combining investment banking services—especially underwriting and securitization with a retail distribution network of banks and wealth management advisors.

However, as with risk spreading, the synergy benefits of investment banks tended to exist more in theory than in practice. Cross-selling had long been an elusive goal for financial service companies. It had inspired mergers between banks and insurance firms to create “bancassurance” companies. Yet, there were few companies that could point to major revenue gains from cross-selling financial services.

In terms of other economies of scope, the risk was that any such economies were offset by the added complexity created from integrating functions and establishing coordination among different financial service businesses. Cost-to-income ratios, a key measure of efficiency among financial service companies, tended to be higher in most universal banks than in more specialist institutions.

In principle, universal banks should also derive economies from their ability to use banking deposits to finance their underwriting, market making, and trading activities, thereby giving them greater independence from external capital markets. However, any such potential economies were limited by an ever-tightening regulatory framework that was designed to prevent cheap retail deposits being used to finance riskier investment-banking activities.

However, the greatest disadvantages of complexity relate to the effective management of universal banks. Professor Jordi Canals of IESE argued, “financial conglomerates involve additional problems related to risk management, conflicts of interest and capital allocation.”<sup>55</sup> In large universal banks, effective risk management is compromised by the increasing distance of top management from operational decision making. Conflicts of interest arise between individuals engaged in different activities and for different clients. While constraints on reallocating capital often result in a tolerance for underperforming business units.



Finally, this complexity affects the design of management systems—not least compensation systems—and the management of corporate culture. Economic commentator John Kay, observed:

Within every diversified retail bank, there is evidence of the fundamental tension between the cultures of trading and deal-making—buccaneering, entrepreneurial, grasping—and the conservative bureaucratic approach appropriate for retail banking. It is a conflict in which the investment bankers and traders generally come out on top.<sup>6</sup>

## Appendix 1: Bank of America Corporation: Business Activities and Performance (extracts from 10-K report for 2007)

### General

Bank of America Corporation (“Bank of America” or the “Corporation”) is a Delaware corporation, a bank holding company and a financial holding company under the Gramm-Leach-Bliley Act. Our principal executive offices are located in the Bank of America Corporate Center, Charlotte, North Carolina 28255.

Through our banking subsidiaries (the “Banks”) and various nonbanking subsidiaries throughout the US and in selected international markets, we provide a diversified range of banking and nonbanking financial services and products through three business segments: Global Consumer and Small Business Banking, Global Corporate and Investment Banking and Global Wealth and Investment Management. We currently operate in 32 states, the District of Columbia and more than 30 foreign countries. The Bank of America footprint covers more than 82% of the US population and 44% of the country’s wealthy households. In the US we serve approximately 59 million consumer and small business relationships with more than 6100 retail banking offices, more than 18,500 ATMs and approximately 24 million active online users. We have banking centers in 13 of the 15 fastest growing states and hold the top market share in six of those states . . .

As of December 31, 2007, there were approximately 210,000 full-time equivalent employees within Bank of America and our subsidiaries. Of these employees, 116,000 were employed within Global Consumer and Small Business Banking, 21,000 were employed within Global Corporate and Investment Banking and 14,000 were employed within Global Wealth and Investment Management . . .

### Selected Five Year Summary of Financial Data

(\$billion, except where indicated)	2007	2006	2005	2004	2003
<b>Income statement</b>					
Net interest income	34.4	34.6	30.7	28.0	20.5
Noninterest income	31.9	38.0	26.4	22.7	18.3
Total revenue, net of interest expense	66.3	72.6	57.2	50.7	38.8
Provision for credit losses	8.4	5.0	4.0	2.8	2.8
Noninterest expense, before merger and restructuring charges	36.6	34.8	28.3	26.4	20.2
Merger and restructuring charges	0.4	0.8	0.4	0.6	—



## Selected Five Year Summary of Financial Data

(\$billion, except where indicated)	2007	2006	2005	2004	2003
Income before income taxes	20.9	32.0	24.5	20.9	15.8
Income tax expense	5.9	10.8	8.0	7.0	5.0
Net income	15.0	21.1	16.5	13.9	10.8
<b>Performance ratios (%)</b>					
Return on average assets	0.94	1.44	1.30	1.34	1.44
Return on average common shareholders' equity	11.08	16.27	16.51	16.47	21.50
Return on average tangible shareholders' equity	22.25	32.80	30.19	28.93	27.84
Total ending equity to total ending assets	8.56	9.27	7.86	9.03	6.76
Total average equity to total average assets	8.53	8.90	7.86	8.12	6.69
Dividend payout	72.26	45.66	46.61	46.31	39.76
<b>Market price per share of common stock</b>					
Closing (\$)	41.26	53.39	46.15	46.99	40.22
High closing (\$)	54.05	54.90	47.08	47.44	41.77
Low closing (\$)	41.10	43.09	41.57	38.96	32.82
<b>Market capitalization</b>	183.1	238.0	184.6	190.1	115.9
<b>Average balance sheet</b>					
Total loans and leases	776.2	652.4	537.2	472.6	356.2
Total assets	1,602.1	1,466.7	1,269.9	1,044.6	749.1
Total deposits	717.2	673.0	632.4	551.6	406.2
Long-term debt	169.9	130.1	97.7	92.3	67.1
Total shareholders' equity	136.7	130.5	99.9	84.8	50.1
<b>Asset quality</b>					
Allowance for credit losses	12.1	9.4	8.4	9.0	6.6
Nonperforming assets measured at historical cost	5.9	1.9	1.6	2.5	3.0
Allowance for loan and lease losses as % of total loans and leases	1.33	1.28	1.40	1.65	1.66
Net charge-offs	6.5	4.5	4.6	3.1	3.1
Net charge-offs as % of average loans and leases	0.84	0.70	0.85	0.66	0.87
Nonperforming loans and leases as % of total loans and leases	0.64	0.25	0.26	0.42	0.77
Nonperforming assets as % of total loans, leases and foreclosed properties	0.68	0.26	0.28	0.47	0.81
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs	1.79	1.99	1.76	2.77	1.98
<b>Capital ratios (period end)</b>					
Risk-based capital:					
Tier 1	6.87	8.64	8.25	8.20	8.02
Total	11.02	11.88	11.08	11.73	12.05
Tier 1 Leverage	5.04	6.36	5.91	5.89	5.86



## GLOBAL CONSUMER AND SMALL BUSINESS BANKING

2007 (\$billion)	Total	Deposits	Card services	Consumer real estate	ALM <sup>a</sup> and other
Net interest income	28.8	9.4	16.6	2.3	0.5
Non-interest income:					
—Card income	10.2	2.1	8.0	0.0	—
—Service charges	6.0	6.0	—	0.0	—
—Mortgage banking income	1.3	—	—	1.3	—
—All other income	1.3	(0.0)	0.9	0.1	0.4
—Total non-interest income	18.9	8.2	9.0	1.4	0.4
Total revenue, net of interest expense	47.7	17.6	25.5	3.7	0.9
Provision for credit losses	12.9	0.3	11.3	1.0	0.3
Noninterest expense	20.1	9.1	8.3	2.0	0.6
Income (loss) before income taxes	14.7	8.2	5.9	0.6	(0.1)
Income tax expense	5.3	3.08	2.2	0.2	(0.2)
Net income	9.4	5.2	3.7	0.4	0.1
Net interest yield <sup>b</sup> (%)	8.15	2.97	7.87	2.04	n.m.
Return on average equity	14.94	33.61	8.43	9.00	n.m.
Efficiency ratio <sup>b</sup>	42.07	51.81	32.49	55.24	n.m.
Period end—total assets	443.0	358.6	257.0	133.3	n.m.

**Notes:**

n.m. = not meaningful.

<sup>a</sup>Asset and liability management.<sup>b</sup>The efficiency ratio measures the costs expended to generate a dollar of revenue; net interest yield evaluates how many basis points we are earning over the cost of funds.

The strategy for GCSBB is to attract, retain and deepen customer relationships. We achieve this strategy through our ability to offer a wide range of products and services through a franchise that stretches coast to coast through 32 states and the District of Columbia. We also provide credit-card products to customers in Canada, Ireland, Spain and the United Kingdom. In the US we serve approximately 59 million consumer and small-business relationships utilizing our network of 6149 banking centers, 18,753 domestic branded ATMs, and telephone and internet channels. Within GCSBB there are three primary businesses:

- *Deposits* provides a comprehensive range of products to consumers and small businesses. Our products include traditional savings accounts, money market savings accounts, CDs and IRAs, and noninterest and interest-bearing checking accounts. Debit card results are also included in Deposits.
- *Card Services* provides a broad offering of products, including US Consumer and Business Card, Unsecured Lending, and International Card. We offer a variety of cobranded and affinity credit-card products and have become the leading issuer of credit cards through endorsed marketing in the US and

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Europe. During 2007, Merchant Services was transferred to Treasury Services within GCIB.

- *Consumer Real Estate* generates revenue by providing an extensive line of consumer real estate products and services to customers nationwide. Consumer Real Estate products are available to our customers through a retail network of personal bankers located in 6149 banking centers, mortgage loan officers in nearly 200 locations and through a sales force offering our customers direct telephone and online access to our products. Consumer Real Estate products include fixed and adjustable rate loans for home purchase and refinancing needs, reverse mortgages, lines of credit and home equity loans. Mortgage products are either sold into the secondary mortgage market to investors while retaining the Bank of America customer relationships or are held on our balance sheet for ALM purposes . . . The Consumer Real Estate business includes the origination, fulfillment, sale and servicing of first mortgage loan products, reverse mortgage products and home equity products.

#### GLOBAL CORPORATE AND INVESTMENT BANKING

2007 (\$billion)	Total	Business lending	Capital market and advisory	Treasury services
Net interest income	11.2	5.0	2.8	3.8
Noninterest income:				
—Service charges	2.8	0.5	0.1	2.1
—Investment and brokerage services	0.9	0.0	0.9	0.1
—Investment banking income	2.5	—	2.5	—
—Trading account profits (loss)	(5.2)	(0.2)	(5.1)	0.1
—All other income	1.1	0.8	(1.0)	1.1
—Total noninterest income	2.2	1.2	(2.5)	3.3
Total revenue, net of interest expense	13.4	6.2	0.3	7.1
Provision for credit losses	0.7	0.6	—	0.0
Noninterest expense	11.9	2.2	5.6	3.9
Income (loss) before income taxes	0.8	3.4	(5.3)	3.3
Income tax expense	0.3	1.2	(2.0)	1.2
Net income (loss)	0.5	2.1	(3.4)	2.1
Net interest yield (%)	1.66	2.00	n.m.	2.79
Return on average equity (%)	1.19	13.12	(25.41)	26.31
Efficiency ratio	88.88	34.98	n.m.	54.02
Period end—total assets	776.1	305.5	413.1	180.4

**Note:**

n.m. = not meaningful.

Global Corporate and Investment Banking provides a wide range of financial services both to our issuer and investor clients, who range from business banking clients to large international corporate and institutional investor clients, using



a strategy to deliver value-added financial products and advisory solutions. Global Corporate and Investment Banking's products and services are delivered from three primary businesses: Business Lending, CMAS and Treasury Services are provided to our clients through a global team of client relationship managers and product partners. In addition, ALM/Other includes the results of ALM activities and other GCIB activities (such as commercial insurance business, which was sold in the fourth quarter of 2007). Our clients are supported through offices in 22 countries, which are divided into four distinct geographic regions: US and Canada; Asia; Europe, Middle East and Africa; and Latin America.

- *Business Lending* provides a wide range of lending-related products and services to our clients . . . Products include commercial and corporate bank loans and commitment facilities, which cover our business banking clients, middle market commercial clients and our large multinational corporate clients. Real-estate lending products are issued primarily to public and private developers, homebuilders and commercial real-estate firms. Leasing and asset-based lending products offer our clients innovative financing solutions. Products also include indirect consumer loans, which allow us to offer financing through automotive, marine, motorcycle and recreational vehicle dealerships. Business Lending also contains the results for the economic hedging of our risk to certain credit counterparties utilizing various risk mitigation tools.
- *Capital Markets and Advisory Services* provides financial products, advisory services and financing globally to our institutional investor clients in support of their investing and trading activities. We also work with our commercial and corporate issuer clients to provide debt and equity underwriting and distribution capabilities, merger-related advisory services and risk management solutions using interest rate, equity, credit, currency and commodity derivatives, foreign exchange, fixed income and mortgage-related products. The business may take positions in these products and participate in market-making activities dealing in government securities, equity and equity-linked securities, high-grade and high-yield corporate debt securities, commercial paper, mortgage-backed securities and ABS. Underwriting debt and equity, securities research and certain market-based activities are executed through Banc of America Securities, LLC, which is a primary dealer in the US.
- *Treasury Services* provides integrated working capital management and treasury solutions to clients worldwide through our network of proprietary offices and special clearing arrangements. Our clients include multinationals, middle-market companies, correspondent banks, commercial real estate firms and governments. Our products and services include treasury management, trade finance, foreign exchange, short-term credit facilities and short-term investing options. Net interest income is derived from interest-bearing and noninterest-bearing deposits, sweep investments, and other liability management products. Deposit products provide a relatively stable source of funding and liquidity. We earn net interest spread revenues from investing this liquidity in earning assets through client-facing lending activity and our ALM activities.

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**GLOBAL WEALTH AND INVESTMENT MANAGEMENT**

2007 (\$billion)	Total	US Trust	Columbia Management	Premier Banking and Investments
Net interest income	3.9	1.0	0.0	2.7
Noninterest income:				
—Investment and brokerage services	4.2	1.2	1.9	1.0
—All other income	(0.1)	0.1	(0.4)	0.1
—Total noninterest income	4.1	1.3	1.5	1.1
Total revenue, net of interest expense	7.9	2.3	1.5	3.8
Provision for credit losses	14	14	—	27
Noninterest expense	4.6	1.6	1.2	1.7
Income before income taxes	3.3	0.7	0.3	2.0
Income tax expense	1.2	0.3	0.1	0.7
Net income	2.1	0.5	0.2	1.3
Net interest yield (%)	3.06	2.69	n.m.	2.70
Return on average equity (%)	18.87	17.25	11.29	72.44
Efficiency ratio (%)	58.50	68.67	79.39	45.31
Period end—total assets	157.2	51.0	2.6	113.3

**Note:**

n.m. = not meaningful.

Global Wealth and Investment Management provides a wide offering of customized banking, investment and brokerage services tailored to meet the changing wealth management goals of our individual and institutional customer base. Our clients have access to a range of services offered through three primary businesses:

- *US Trust, Bank of America Private Wealth Management.* In July 2007, we completed the acquisition of US Trust Corporation for \$3.3 billion in cash combining it with The Private Bank and its ultra-wealthy extension, Family Wealth Advisors, to form US Trust. The results of the combined business were reported for periods beginning on July 1, 2007. Prior to July 1, 2007, the results solely reflect that of the former Private Bank. US Trust provides comprehensive wealth management solutions to wealthy and ultra-wealthy clients with investable assets of more than \$3 million. In addition, US Trust provides resources and customized solutions to meet clients' wealth structuring, investment management, trust and banking services as well as specialty asset management services (oil and gas, real estate, farm and ranch, timberland, private businesses and tax advisory). Clients also benefit from access to resources available through the Corporation including capital markets products, large and complex financing solutions and its extensive banking platform.
- *Columbia Management.* Columbia is an asset-management business serving the needs of institutional clients and individual customers. Columbia provides asset management products and services, including mutual funds and separate accounts. Columbia mutual fund offerings provide a broad array of investment strategies and products including equity, fixed income (taxable and nontaxable) and money market (taxable and nontaxable) funds. Columbia distributes its products and services directly to institutional clients



and distributes to individuals through US Trust, PB&I and nonproprietary channels including other brokerage firms.

- *Premier Banking and Investments.* Premier Banking and Investments includes Banc of America Investments, our full-service retail brokerage business and our Premier Banking channel. Premier Banking and Investments brings personalized banking and investment expertise through priority service with client-dedicated teams. It provides a high-touch client experience through a network of approximately 5600 client-facing associates to our affluent customers with a personal wealth profile that includes investable assets plus a mortgage that exceeds \$500,000 or at least \$100,000 of investable assets.

**Source:** 10-K report for 2007. Reproduced with permission.

## Appendix 2: Merrill Lynch & Co., Inc.: Business Activities and Performance (extracts from 10-K report for 2007)

### The Business

Merrill Lynch was formed in 1914 and became a publicly traded company on June 23, 1971. In 1973, we created the holding company, ML & Co., a Delaware corporation that, through its subsidiaries, is one of the world's leading capital markets, advisory and wealth management companies with offices in 40 countries and territories. In our Global Wealth Management ("GWM") business, we had total client assets in GWM accounts of approximately \$1.2 trillion at December 26, 2008. As an investment bank, we are a leading global trader and underwriter of securities and derivatives across a broad range of asset classes and we serve as a strategic advisor to corporations, governments, institutions and individuals worldwide. In addition, as of December 26, 2008, we owned approximately half of the economic interest of BlackRock, Inc. ("BlackRock"), one of the world's largest publicly traded investment management companies with approximately \$1.3 trillion in assets under management at the end of 2008 . . .

Our activities are conducted through two business segments: Global Markets and Investment Banking ("GMI") and GWM. In addition, we provide a variety of research services on a global basis.

### Global Markets and Investment Banking

The Global Markets division consists of the Fixed Income, Currencies and Commodities ("FICC") and Equity Markets sales and trading activities for investor clients and on a proprietary basis, while the Investment Banking division provides a wide range of origination and strategic advisory services for issuer clients. Global Markets makes a market in securities, derivatives, currencies, and other financial instruments to satisfy client demands. In addition, Global Markets engages in certain proprietary trading activities. Global Markets is a leader in the global distribution of fixed income, currency and energy commodity products and derivatives. Global Markets also has one of the largest equity-trading operations in the world and is a leader in the origination and distribution of equity and equity-related products. Further, Global Markets provides clients with financing, securities clearing, settlement and custody services and also engages in principal investing in a variety of asset classes and

Clients

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private equity investing. The Investment Banking division raises capital for its clients through underwritings and private placements of equity, debt and related securities and loan syndications. Investment Banking also offers advisory services to clients on strategic issues, valuation, mergers, acquisitions and restructurings.

## Global Wealth Management

Global Wealth Management, our full-service retail wealth management segment, provides brokerage, investment advisory and financial planning services, offering a broad range of both proprietary and third-party wealth management products and services globally to individuals, small- to mid-size businesses and employee benefit plans. Global Wealth Management comprises Global Private Client ("GPC") and Global Investment Management ("GIM").

Global Private Client provides a full range of wealth management products and services to assist clients in managing all aspects of their financial profile through the Total MerrillSM platform. Total MerrillSM is the platform for GPC's core strategy offering investment choices, brokerage, advice, planning and/or performance analysis to its clients. Global Private Client's offerings include commission and fee-based investment accounts, banking, cash management and credit services, including consumer and small business lending and Visa® cards; trust and generational planning; retirement services and insurance products.

Global Private Client services individuals and small- and middle-market corporations and institutions through approximately 16,090 financial advisors as of December 26, 2008.

Global Investment Management includes our interests in creating and managing wealth management products, including alternative investment products for clients. GIM also includes our share of net earnings from our ownership positions in other investment management companies, including BlackRock.

	GMI	GWM
Clients	Corporations, financial institutions, institutional investors, and governments	Individuals, small- to mid-size businesses, and employee benefit plans
Products and businesses	<b>Global Markets</b> (comprising Fixed Income, Currencies and Commodities ("FICC") and Equity Markets) Facilitates client transactions and makes markets in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands Provides clients with financing, securities clearing, settlement, and custody services. Engages in principal and private equity investing, including managing investment funds, and certain proprietary trading activities <b>Investment Banking</b> Provides a wide range of securities origination services for issuer clients, including underwriting and placement of public and private equity, debt and related securities, as well as lending and other financing activities for clients globally Advises clients on strategic issues, valuation, mergers, acquisitions and restructurings	<b>Global Private Client ("GPC")</b> Delivers products and services primarily through our Financial Advisors ("FAs") Commission fee-based investment accounts Banking, cash management, and credit services, including consumer and small business lending and Visa cards. Trust and generational planning. Retirement services. Insurance products <b>Global Investment Management ("GIM")</b> Creates and manages hedge funds and other alternative investment products for GPC clients Includes net earnings from our ownership positions in other investment management companies, including our investment in BlackRock



**RESULTS BY GEOGRAPHICAL AREA, 2008**

(\$billion)	2008	2007	2006
<b>Net revenues</b>			
Europe, Middle East and Africa	(2.39)	5.97	6.90
Pacific Rim	0.07	5.07	3.70
Latin America	1.24	1.40	1.01
Canada	0.16	0.43	0.39
Total non-US	(0.92)	12.87	11.99
United States	(11.67)	(1.62)	21.79
Total net revenues	(12.59)	11.25	33.78
<b>Pretax earnings from continuing operations</b>			
Europe, Middle East, and Africa	(6.74)	1.211	2.09
Pacific Rim	(2.56)	2.40	1.20
Latin America	0.34	0.63	0.36
Canada	0.0	0.24	0.18
Total non-US	(8.95)	4.48	3.83
United States	(32.88)	(17.31)	5.98
Total pretax earnings from continuing operations	(41.83)	(12.83)	9.810

**RESULTS BY BUSINESS SEGMENT**

(\$million)	GMI	GWM	MLIM	Corporate	Total
<b>2008</b>					
Noninterest revenues	(25.42)	10.46	—	(1.68)	(16.63)
Net revenues	(26.46)	12.78	—	1.09	(12.59)
Noninterest expenses	15.08	10.43	—	3.72	29.24
Pretax (loss)/earnings from continuing operations	(41.54)	2.35	—	(2.63)	(41.83)
Year-end total assets	568.87	97.85	—	0.83	667.54
<b>2007</b>					
Noninterest revenues	(4.95)	11.72	—	(1.07)	5.701
Net revenues	(2.67)	14.02	—	(0.10)	11.25
Noninterest expenses	13.68	10.39	—	0.01	24.08
Pretax (loss)/earnings from continuing operations	(16.35)	3.63	—	(0.12)	(12.83)
Year-end total assets	920.39	99.20	—	0.47	1,020.05

**Source:** 10-K report for 2007. Reproduced with permission.

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## Notes

1. "BofA/Merrill Lynch," *Financial Times* (September 16, 2008), <http://www.ft.com/cms/s/2/d285ebc8-82ff-11dd-907e-000077b07658.html#axzz1yzXSaW3l>. Reproduced by permission of the *Financial Times*.
2. See letter from Andrew M. Cuomo (State of New York Attorney General) to Christopher Dodd (Chair, Senate Banking Committee), Barney Frank (Chair, House Financial Services Committee), Mary Schapiro (Chair, SEC), and Elizabeth Warren (Chair, Congressional Oversight Panel), April 23, 2009, concerning "Bank of America-Merrill Lynch Merger Investigation," <http://online.wsj.com/public/resources/documents/BofAmergLetter-Cuomo4232009.pdf>, accessed July 20, 2015.
3. As discussion of the \$700 billion bailout package "disolved into a verbal brawl in the Cabinet Room of the White House," President Bush warned: "If money isn't loosened up, this sucker could go down," *New York Times* (September 26, 2008).
4. The facts regarding conversations between Lewis and US government officials are disputed. See: "Paulson Threatened Lewis," *Forbes* (July 15, 2009), <http://www.forbes.com/2009/07/15/paulson-lewis-fed-markets-equity-bank-america-bernanke.html>, accessed July 20, 2015.
5. J. Canals, "Universal Banks Need Careful Monitoring," *Financial Times* (October 19, 2008).
6. J. Kay, "Should We Have 'Narrow Banking'?" *Future of Finance: the LSE Report* (June 2, 2011), <http://www.johnkay.com/2011/06/02/should-we-have-narrow-banking>, accessed July 20, 2015.