A Progressive Digital Media business

COMPANY PROFILE

Bank of America Corp

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COMPANY OVERVIEW

Bank of America Corp (BoA) is a bank-holding company that offers a wide range of banking, asset management, investing, and other financial and risk management solutions through its subsidiaries. It offers deposit services, loans, credit and debit cards, certificate of deposits, and investment solutions. The company also provides services such as working capital management, investment banking, wealth management, treasury, market-making, financing, securities clearing, settlement, and custody services. The company caters to individuals, small and middle-market businesses , institutional investors, large corporations and governments. It operates across the Americas, Asia-Pacific, and EMEA. BoA is headquartered in Charlotte, North Carolina, the US.

The bank reported interest income of (US Dollars) US$57,579 million for the fiscal year ended December 2017 (FY2017), an increase of 12.8% over FY2016. The net interest income after loan loss provision of the bank was US$41,271 million in FY2017, compared to net interest income after loan loss provision of US$37,499 million in FY2016. In FY2017, the bank recorded a net margin of 31.7%, compared to a net margin of 34.9% in FY2016.

The bank reported interest income of US$16,369.0 million for the second quarter ended June 2018, an increase of 4.9% over the previous quarter.

KEY FACTS

Head Office	Bank of America Corp Bank of America Corporate Center 100 N Tryon St Bank Of America Corporate Center, Charlotte CHARLOTTE North Carolina CHARLOTTE North Carolina USA
Phone	1 704 3868486
Fax	1 302 6555049
Web Address	www.bankofamerica.com
Revenue / turnover (USD Mn)	100,264.0
Financial Year End	December
Employees	208,000
New York Stock Exchange Ticker	BAC

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SWOT ANALYSIS

Bank of America Corp (BoA) is a bank holding company. Streamlined structure, adequate capital and liquidity, and high quality of assets are its major strengths, even as lower than sector average net interest margin and cost efficiency could be areas of concern. Prolonged low interest rate environment, unfavorable regulatory changes, stiff competition and additional capital requirement norms could have an adverse effect on BoA's business, operating results and financial condition. However, investments in digital banking, corporate tax cuts in the US, positive outlook of wealth management and card and payment sectors, and emergence of Fintech could present ample growth opportunities to BoA.

Strength Streamlined Structure Adequate Capital Asset Quality Adequate Liquidity	**Weakness** Cost Efficiency Outstanding Shares Net Interest Margin
Opportunity Investments in Digital Banking Corporate Tax Cuts in the US Emergence of FinTech Growing Cards and Payments Channel: The US Growing Wealth Management Prospects: The US	**Threat** Prolonged Low-Interest-Rate Environment Regulatory Changes Competition Additional Capital Requirements

Strength

Streamlined Structure

BoA has become less complex and more organized than it was seven years ago. Since then, it has been consistently undertaking streamlining activities in order to efficiently cater to its core customer group. It has sold or divested about US$74 billion in non-core assets, which included equity interests in international wealth management, correspondent or wholesale lending, non-core credit card portfolios, ancillary mortgage, businesses, and proprietary trading. It eliminated add-on products, reduced punitive fees, and prioritized resources within GB and GM towards developing long-term relationships with key clients.

Adequate Capital

BoA has sound capital base ensuring capital adequacy to support its organic and inorganic growth with the secured and unsecured nature of its lending. Better capital management and moderate risk-weighted asset growth have enabled the company to strengthen its capital base. In FY2017, its total capital adequacy ratio, tier 1 capital ratio, and leverage ratio stood at 15.1%, 13.2%, and 8.6%, respectively; as

compared to 14.3%, 12.4%, and 8.9%, respectively, in FY2016. All the ratios were well above the fully-phased in Basel-III minimum requirements of 13%, 11%, and 4% respectively. The US banking sector averages were 14.57%, 13.19% and 9.62% respectively in FY2017.

Asset Quality

BoA continued to report high quality of assets in FY2017, which ensures interest income from outstanding loans and leases. During the year, the company's non-performing loans (NPLs) decreased 16.1% to US$6,470 million from US$7,707 million in the previous year, NPLs as a percentage of gross loans improved to 0.69% from 0.85% in the previous year. It was also better than the US banking sector average of 1.2% in FY2017. Net charge-offs to average loans were 0.44%, as compared to 0.43% in the previous year, which was better than the sector average of 0.5%. Due to improved quality of assets, the company's allowance for loan losses and leases (ALLLs) decreased 7.5% to US$10,393 million from US$11,237 million a year ago. ALLLs as a percentage of NPLs were 153.79%, as compared to 139% in the previous year. The sector average stood at 106.32% in FY2017.

Adequate Liquidity

BoA continues to enjoy adequate liquidity, which enables it to carry out day-to-day operations with ease. For the three months ended December 31, 2017, its global liquidity sources (GLS) amounted to US$522 million from US$515 million in the corresponding period in FY2016. Average liquidity held at bank subsidiaries was US$394 billion and US$389 billion, respectively, in the corresponding periods. GLS were majorly in compliance with what qualifies as high quality liquid assets under the final U.S. liquidity coverage ratio rules. The company's time-to-required funding (TTF), which is a measure to evaluate the appropriate level of liquidity at the parent company and NB Holdings. The measure indicates the number of months the parent company can continue to meet its unsecured contractual obligations while they are due, using only the parent company and NB Holdings' liquidity sources without issuing any new debt or accessing any additional liquidity sources. In FY2017, the company's TTF was 49 months, as compared to 35 months in FY2016.

Weakness

Cost Efficiency

Despite improvement, the company's cost efficiency continued to be lower than the sector average in FY2017. During the year, its efficiency ratio stood at 62.67%, as compared to 65.81% a year ago. It was substantially worse than the sector average of 57.94%. Apart from GM, all the other business segments reported improvement in their cost efficiency. The ratio represents noninterest expenses as a percentage of net revenue. During the year, the company's non-interest expenses decreased 0.6% to US$54,743 million from US$55,083 million in the previous year; whereas its net revenue grew 4.4% to US$87,352 million from US$83,701 million in FY2016.

Outstanding Shares

BoA's stock trades at a very low level when compared against its peers and industry in general. In order

to improve and replicate the record highs achieved in market capitalization and tangible book value per share, it has been consistently focusing on reducing its number of shares outstanding and undertaking share repurchase programs. As stock price is close to its book value, repurchasing from selling share holders creates long-term value for the remaining share holders.

Net Interest Margin

Despite improvement, BoA's fully-tax equivalent net interest margin (NIM) continued to be lower than the US banking sector average in FY2017. During the year, the NIM stood at 2.37%, as compared to 2.25% in the previous year. It was substantially lower than the sector average of 3.25%. NIM grew due to higher interest rates and loan and deposit growth, partially offset by the sale of the non-U.S. consumer credit card business in the second quarter of 2017. During the year, the company's net interest spread improved to 2.1% from 2.02% in the previous year, driven by higher increase in yield on average interest-earning assets than the increase in the cost of average interest-bearing liabilities. The company's yield on average interest-earning assets increased to 3.04% from 2.78%; whereas cost of interest-bearing liabilities grew to 0.94% from 0.76% in the previous year.

Opportunity

Investments in Digital Banking

BoA continued to invest in new digital capabilities, which enables it to make banking operations easier and cater to its customers with more ease and efficiency. Some of the investments include real-time P2P payments, introduction of artificial intelligence functionality, card-less ATMs, enhanced IVR capabilities to improve client experience , and deployment of over 3,500 digital ambassadors in financial centers. The bank also makes significant investments in cyber security, compliance, regulatory functions and replacement of enterprise platforms.

Corporate Tax Cuts in the US

Corporations across the US would benefit from the reduced corporate tax cut bill, which was signed into law in December 2017. Among them, financial services firms are expected to be among the biggest gainers as they pay some of the highest effective tax rates in the country. Banks could benefit from increase in borrowing by businesses. Along with increase in borrowing, higher interest rates will further boost banks' profit margins. Banks with overseas businesses would become more competitive, relative to their international counterparts in countries with lower corporate tax rates. The bill includes provisions related to repatriation of overseas cash, which could boost the US mergers and acquisitions that in turn would spur investment banking. The wealth management firms are also likely to witness substantial growth in their asset under management as the bill reduces tax rates for the wealthy. Most of the corporate America is likely to increase dividends and share buybacks that would further boost the US equity markets, in turn increasing the value of investments held by asset managers.

Emergence of FinTech

The bank could benefit from venturing into FinTech arena as it is fast changing the way banking is done

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and challenging the regulatory structure. FinTech innovations such as crowd-funding, mobile payments, distributed ledgers, peer-to-peer lending, and online marketplace lending are cost effective and giving tough competition to banking institutions. In response, banks are increasingly pursuing opportunities to establish FinTech capabilities through partnerships or strategic collaborations, venture funding, developing in-house capabilities, setting up business accelerators, and/or acquisitions. One of the prime examples, illustrating the FinTech focus, is the collective initiative of the world's leading 22 banks in developing blockchain-based international payments system in 2017. FinTech offers cost savings for banks facing margin pressures from low interest rates. They also have the potential to expand intermediation services to the underserved.

Growing Cards and Payments Channel: The US

The growing cards and payments channel in the US may provide growth opportunities for the company. According to in-house report, the number of cards in circulation in the country is projected to reach 1,622.8 million in 2021, including debit cards to 857.3 million, credit cards to 736.8 million, and charge cards to 28.7 million. The transaction value of the channel is forecasted to grow to US$8,771.5 billion in 2021, including debit cards to US$4,253.3 billion, credit cards to US$4,085.1 billion, and charge cards to US$433.1 billion. The growth could be driven by increasing mobile payments, rise in e-commerce, increase in penetration of contactless terminals, and migration to Europay, Mastercard and Visa standards.

Growing Wealth Management Prospects: The US

The growing wealthy population in the US may provide ample growth opportunities to private banking/wealth management providers. In FY2017, BoA reported substantial increase in its total AuMs, which grew 22% to US$1.1 trillion. According to in-house research, the population is projected to reach 204.4 million by 2020, including high net worth individuals (HNWIs) to 5.4 million and mass affluent to 199 million. The retail wealth of the population is forecasted to reach US$51,637.9 billion, including the wealth of HNWIs and mass affluent to US$19,331.2 billion and US$32,306.8 billion, respectively. The growth is expected to be driven by increasing retail savings and positive investments in the market on the back of optimistic economic forecast, corporate tax cuts, and focus on alternative investments.

Threat

Prolonged Low-Interest-Rate Environment

Prolonged low-interest-rate environment could pose significant challenges to a banking institution. According to an IMF research, lower interest rates may boost banks' earnings in the short-term. However, they adversely affect profitability in the steady state once they fall below a particular positive threshold. With flattened yield curves, if bank deposit rates cannot fall below zero, the profitability would be contracted further. In such a scenario, regional and deposit-funded banks are likely to be most adversely impacted. In order to enhance yield, larger banks would increase their risk exposures in other countries that offer higher returns and rely more on wholesale funding, whereas their smaller counterparts would take more interest rate risk by increasing the duration of bond portfolios. Prolonged challenging interest rate environment would result in consolidation of smaller banks.

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Regulatory Changes

Implementation and compliance of regulatory changes could render the company incur additional costs. In April 2016, the United States Department of Labor (DOL) issued the DOL Rule and related exemptions, which broaden the circumstances under which the company may be considered a fiduciary with respect to certain accounts that are subject to the Employee Retirement Income Security Act of 1974 (ERISA), and the prohibited transaction rules of section 4975 of the Code, including many employer-sponsored retirement plans and IRAs. The DOL also finalized certain prohibited transaction exemptions that allow investment advisors to receive compensation for providing investment advice under arrangements that would otherwise be prohibited due to conflicts of interest. The rule may increase the compliance costs for advisors and registered representatives. The advisors are required to act in the best favor of customers and disclose all commissions and fees to be disclosed to clients in terms of US$. It may eliminate several commissions. All advisors, agents, brokers, and financial planners will be bound to provide clients with a disclosure agreement, called a Best Interest Contract Exemption, in case of any conflict in interest.

Competition

BoA operates in a highly competitive financial services industry. It competes with other financial services providers such as credit unions, finance companies, mutual fund companies, savings and loan associations, mortgage banking companies and investment banks. It also faces stiff competition from nonbank institutions including brokerage houses. Some of the major competitors of the company include JPMorgan Chase & Co, Wells Fargo & Co, Citigroup, U.S. Bancorp, and PNC Financial, among others. Highly competitive market could adversely affect BoA’s profitability, if it fails to retain and attract clients and customers.

Additional Capital Requirements

The challenge on bank solvency, as a result of highly leveraged balance sheets, prompted a regulatory response, which recommended an increase in capital. Basel III norms by Basel Committee on Banking Supervision are intended to protect the global banking industry from financial meltdowns. The new norms require banks to hold more and better quality capital, carry more liquid assets, and limit leverage. The norms will not only ensure banks to hold more capital on hand, which will limit the amount of money they can lend, but also reduce the risk of insolvency given many loan defaults.

Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a multi-year phase-in capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets. The capital conservation buffer, once fully phased-in, increases the target minimum Tier 1 common equity ratio to 7%, minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. The buffer requirement began in January 2016 and the banks are required to fully phase-in the buffer by January 2019 to avoid limitations on capital distributions and certain discretionary incentive compensation payments. In addition, Basel III introduces a counter cyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. Such regulations would render financial services companies to incur high costs, and exert increased pressure on banks, which are

already in the process of improving their own governance processes.

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