



Bank Performance Analysis

FIN 425 Commercial Bank and Financial Institution Management

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Bank of America Performance Analysis

Introduction

In this paper, we analyze Bank of America Corporation. We decided to analyze Bank of America Corporation as our report because they are so big bank that many companies cannot operate without and we believe that Bank of America Corporation is running their operation solidly with a lot of customers and leading the commercial banking industry. Their main activities as a commercial bank are receiving a deposit from customers, issuing credit cards, issuing consumer, business, and car loans. Unlike investment bank where they make money by buying and trading stocks, Bank of America Corporation make money by interest paid from borrowers, and they also make money by customers who deposit money into the account bank take that money and let lend it to someone. The big commercial companies in the U.S. such as Bank of America, Chase, Citi, US Bank and Wells Fargo, hold a huge percentage of all U.S. customer deposit today, therefore it would be worth to evaluate what Bank of America is good at. In order to truly evaluate Bank of America, we use the CAMELS rating. For each category of CAMELS, we give a scale of 1 to 5 by comparing the similar size of commercial banks. A rating of 1 is the best performance and 5 is the worst performance.

History

Bank of America is the one of the largest banking and financial service corporation in the U.S. After Nations Bank acquired Bank America, the present Bank of America was formed in 1998. The banks headquarter is located in Charlotte, North Carolina, USA. The origin of Bank of America is Bank of Italy founded in 1904, San Francisco by Amadeo Peter Giannini (Bank of

America Corporation 2018). They eventually developed into the Bank of America and issued the first bank credit card named Bank Ameri Card in 1998 (Bank of America Corporation 2018). They have acquired many banks and developed themselves into a large financial institution with a market capitalization of \$309.15 billion. Significant acquisitions were Washington State Bank Seafirst Corporation in 1983, Security Pacific Corporation in 1991, FleetBoston Financial Corporation in 2004, MBNA Corporation in 2006, and U.S. Trust Corporation in 2007 (Bank of America Corporation 2018). As a result, by the early 21st century, they had more than 5500 banks branches in more than 20 states (Bank of America Corporation 2018). Currently, the Bank of America has a total workforce of 209,000 employees across all its global branches (Bank of America Corporation 2018).

SWOT Analysis

A SWOT analysis of the Bank of America entails an assessment of the strengths, opportunities, weaknesses, and threats as a financial institution. The analysis helps in the identification of internal and external factors that affect the company that enables it to avoid the negative influences and adopts the positive factors for growth. The following table is a summary of the company's SWOT as of the end of fiscal 2017.

Strengths	Weaknesses
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• Strategic acquisitions • Strong corporate brand and good market reputation • The large scale of operations both in the U.S and abroad • High quality and a wide range of services and products to customers. • Global network	• Low income from the foreign countries affects the business position. • High-interest rates on loans. • The WikiLeaks scandal of 2011 and 2010 damaged the bank's reputation and brand image. • Controversies over the consumer credit.
Opportunities	Threats
• Technological advancements in the financial sector. • The large scope of acquisition opportunities both in the domestic and foreign markets. • Growing market demand in the foreign countries. • The growing preference for paperless money through the use of online or internet banking and credit cards. • The stable economic environment in the U.S.	• Stiff competition from well-established banks in the country. • Changing regulatory environment characterized by the introduction of strict rules. • Changing economic conditions in the developing economies is a threat to the bank's stability.

Table 1: A summary of Bank of America SWOT analysis

Strengths

Bank of America has made strategic acquisitions in the financial sector over the past years that have supported its consistent growth and global networks. The acquisitions have also enabled the bank to enter into different segments of the industry. For instance, the acquisition of Merrill Lynch in 2008 saw the bank become the world's largest wealth manager. It has a strong corporate and product brand, a factor that has seen it develop a good global reputation. This is considered a strength as it helps the bank attract more customers, hence a stronger financial performance in the highly competitive market. Customer service is a key success factor in the banking industry. Bank of America prides itself on the provision of quality services and products that raises the customers' satisfaction. The good customer service helps in establishing strong relationships that support the corporate performance. The Bank of America has a large scale of operations both in the U.S. This is largely due to the strategic acquisitions and mergers. It has helped the bank create a wide global network.

Weaknesses

The strengths notwithstanding, Bank of America has some weaknesses that are likely to affect its performance and market stability. One of the major weaknesses of the bank is the low income from the foreign countries, which hurts its overall revenue (Makkar and Singh 2013). The bank has not established extensive operations in the foreign countries as compared to the U.S. The low revenue can be attributed to the high-interest rates that discourage borrowers from taking loans. This is also a weakness as customers will prefer alternative credit facilities for their borrowing needs. The bank has also suffered controversies over its consumer credit facilities, a

factor that has affected its position in the global financial market. Similarly, the WikiLeaks scandal of 2010 and 2011 affected the bank's reputation.

Opportunities

These are the factors in the global financial market that Bank of America can take advantage of in an attempt to improve its market position. Based on the analysis, the technological advancements in the banking sector provides an opportunity for the bank to remain innovative in the industry for a better performance. Additionally, the large scope of acquisition opportunities in the domestic and foreign markets provide an avenue for the Bank of America to grow its product and service offering alongside the global network. The stable economic environment in the U.S. is another opportunity that is available for Bank of America to expand its revenue and balance sheet size. Finally, there is a growing demand for paperless money transactions that has led to the increased usage of credit cards, online banking, and internet banking. To utilize these opportunities for its economic progress, the Bank of America needs to address the threats and weaknesses.

Threats

The global financial system has major participants with international recognition that pose a threat to the success of Bank of America. The presence of large banks such as the Citigroup, Inc., JP Morgan, Goldman Sachs, Morgan Stanley, and Wells Fargo poses a competitive force to the Bank of America. As such, it needs to capitalize on its strengths and opportunities while addressing the weaknesses to realize strong financial performance and gain a competitive advantage in the market (Makkar and Singh 2013).

CAMEL Analysis

The CAMEL rating is a regulatory rating system for financial banks to help in the supervision and assessment of the overall condition of the banks. The ratings depend on the ratio analysis as they relate to the earnings, liquidity, capital adequacy, asset quality, and the management. The framework relates to the Basel III concepts that address the leverage, minimum capital requirements, and liquidity.

Capital Adequacy Analysis

The capital adequacy ratios reflect the minimum amount of capital that a financial institution should maintain stability even during the times of financial distress (Dash and Das 2009). Besides, the capital should be sufficient to absorb the losses that a bank incurs and ensure it remains in business (Makkar and Singh 2013). Basel III defines the minimum capital requirements that banks should hold and are classified as Tier 1 and Tier 2 capital. Tier 1 represents the core capital that the banks should maintain while Tier 2 represents the buffer capital that banks use during the periods of financial crisis to stay stable. According to the Bank of America UBPR report, the total capital ratio was recorded at 15.36% in 2017 relative to the peer group average of 31.21% in the same year (Federal Deposit Insurance Corporation 2018). Previously, the bank reported a lower ratio of 14.81% in 2016, 13.64% in 2015, and 0% in 2014 (Federal Deposit Insurance Corporation 2018). For the past four years, the bank had a rising capital ratio trend, an indication of an improvement in the capital adequacy. Compared to the peer group, it had lower capital adequacy position in the industry. The following table and chart show a summary of the bank's Tier 1 leverage capital ratio for the five year period ending 2017.

Total Capital Ratio				
	2014	2015	2016	2017
Bank of America	0.00	13.64	14.81	15.36
Peer Group	17.00	20.42	22.35	31.21

Table 2: Bank of America Tier 1 leverage capital ratio

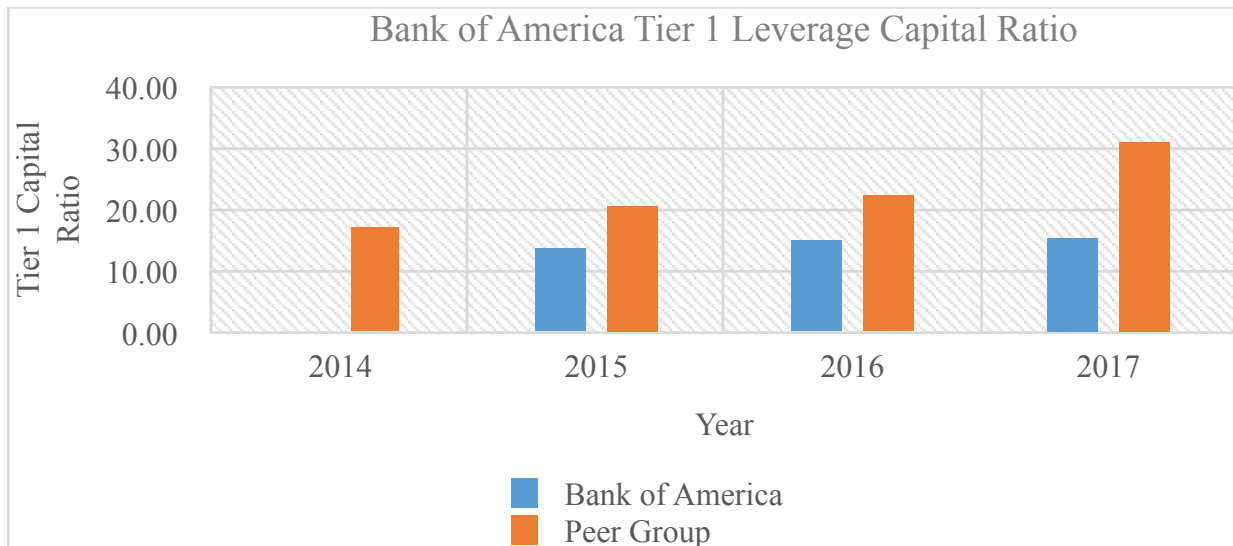


Figure 1: A comparison of Bank of America's Tier 1 capital ratio to the peer group (Source: UBPR report)

Although the bank is well capitalized to meet the capital requirements, its performance is below the industry averages (Dash and Das 2009). Therefore, on a scale of 1 to 5, the Bank of America minimum capital requirements has a score of 2, which implies that it has sufficient core and buffer capital to withstand harsh economic conditions.

Asset Quality Analysis

The asset quality of a bank under the CAMELS system is determined from the risk exposures that a bank has on its assets. These are assets that protect the banks during the period of financial distress. An example is the past unpaid loan or mortgages. Loans make the large share of banks' assets and failure to pay increases the risk exposures, which affect the overall bank stability. For the last five years, the bank has had increasing average total assets from \$1,429,924,750 in 2013 to \$1,703,665,750 in the current year (Federal Deposit Insurance Corporation 2018). The growth in average total assets is an indication of an improvement in the quality of assets due to the issue of loans to customers (Nazir 2010). The net loans and leases as a percentage are the best measure of asset quality for Bank of America.

Based on the UBPR report, the bank reported a ratio of 52.22% in 2017, a slight decline from the previous year's 5.86% (Federal Deposit Insurance Corporation 2018). Over the last five years, there has been a consistent decline in the ratio, an indication of a falling asset quality. Additionally, the ratios were less than the peer group, an indication that the bank had a lower performance compared to the industry peers. Since the ratio was more than 50%, Bank of America had relatively quality assets (Federal Deposit Insurance Corporation 2018). The company had a strong ability to manage its loans and leases that form part of the troubled assets. Therefore, using the scale, the asset quality for the bank is at 2, indicating its relatively high asset quality. The figure below reports the ratios that reflect the asset quality for the Bank of America over a period of five years.

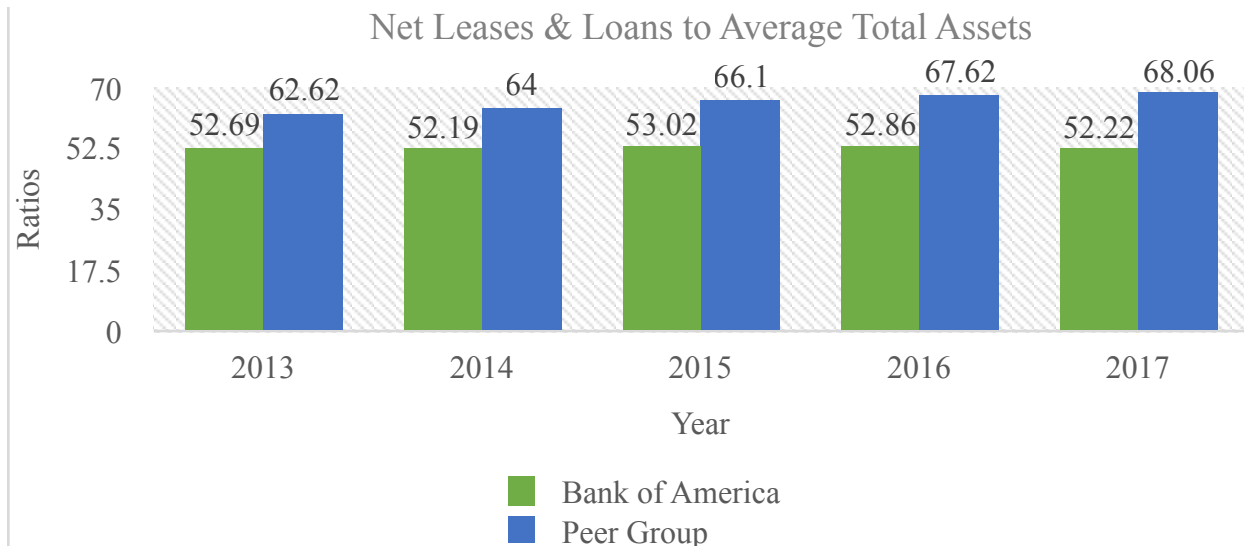


Figure 2: A comparison of Bank of America and peer group's net leases and loans to average total assets (Source: UBPR report)

Management Quality

The progress and success of a bank largely depend on the quality of its management as it determines the decisions that the bank takes in regard to stability (Makkar and Singh 2013). Different aspects of Bank of America explain the quality of its management. First, the bank has an effective senior management team and board of directors that make appropriate decisions that determine its future performance (Dash and Das 2009). The board is appropriately structured into both executive and independent directors. Besides, it has different committees that oversee various operations in the organization.

Secondly, the management quality is reflected in the return on assets (ROA) and return on equity ratios (ROE) relative to the industry averages. Based on the UBPR report, the Bank of America had an ROA and ROE of 0.74% and 6.83% (Bank of America 2018). The ratios were

relatively higher than the industry average over the period. Finally, the risk management strategies of a bank reflect the quality of its management. Bank of America, like any other commercial bank, has a large exposure to risks that threaten its stability (Stempel 2009). The bank's management has a set of standards and policies that assist in the management of the financial risk exposure in the market (Bank of America 2018). Therefore, since the ROE and ROA for the bank are slightly higher than the industry average, its management quality score is set at 1, an indication of the outstanding management team.

Earnings Analysis

The analysis of Bank of America's earnings entails an assessment of the ability to generate sufficient income to the investors. The level and trend of earnings by the bank determine the stability and ability to withstand financial distress (Stempel 2009). Different measures are used to evaluate the earnings of a bank. The net income is the most common approach to the evaluation of a company's earnings over time. The following table and chart show the bank's net earnings relative to the industry average for the period between 2013 and 2017.

	Net Income				
	2013	2014	2015	2016	2017
Bank of America	1.16	1.16	1.19	1.19	1.24
Peer Group	1.02	0.98	0.99	1.02	1.00

Table 3: Comparison of Bank of America's net income to the peer group (Source: UBPR report)

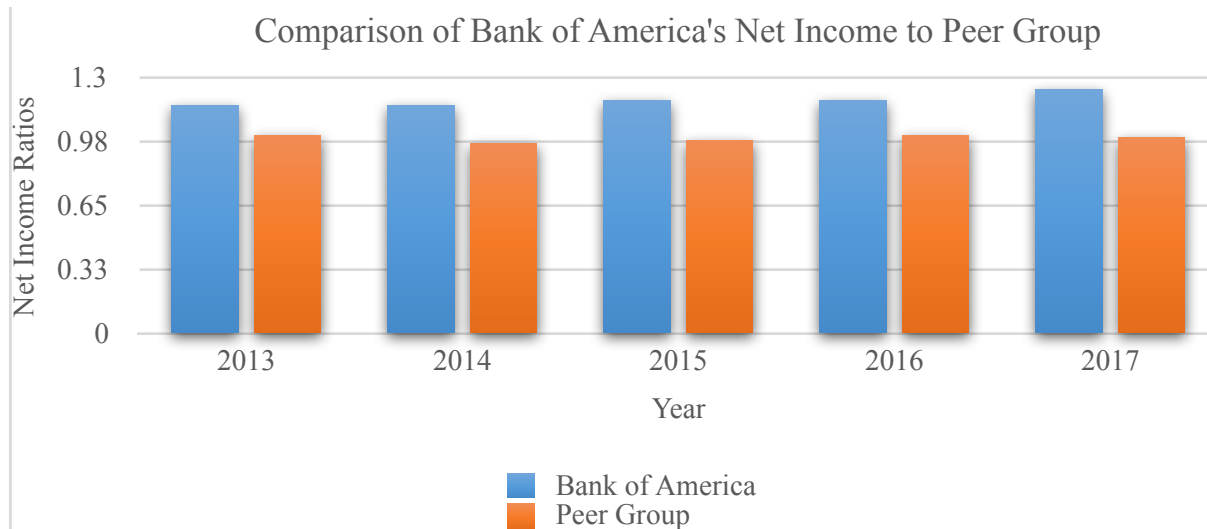


Figure 3: A comparison of Bank of America's net income ratio to the peer group for the period between 2013 and 2014 (Source: UBPR report).

Based on the data, the bank has a higher net income ratio compared to the industry average. Similarly, the ratio has been on a positive trend over the past five years. The high ratio indicates that the bank has high-quality earnings that assure of its stability in times of financial crisis (Bank of America Corporation 2018). The high and increasing net income also implies that the bank generates sufficient funds for its shareholders. Therefore, using a scale of 1 to 5, Bank of America has a high earnings quality measured at 1.

Liquidity Analysis

The liquidity assesses how fast bank assets can be converted to cash. The ratios reflect the ability of an organization to address its immediate financial needs. According to the UBPR report, the bank's liquidity is evaluated from the net loans and leases to assets over time. Currently, the bank has a ratio of 52.26% relative to the peer group average ratio of 68.59. In the previous year, the ratio was relatively higher at 52.41 against the industry's average of 67.94%

(Bank of America Corporation 2018). The analysis shows a consistent decline in the ratio, an indication of a falling liquidity position for the bank. The net core fund ratio was also lower than the peer group average over the period. It implies that the bank assets were not sufficiently liquid to address its immediate financial needs (Dash and Das 2009). Therefore, it has a lower liquidity rating of 3 under the CAMELS rating system. The bank is likely to be affected during the period of financial crisis and the managers need to adopt appropriate measures that will minimize the negative implications on the company's stability.

Sensitivity Analysis

A bank sensitivity is explained by the changes in the net interest margin due to the fluctuations in interest rates, credit, and loan structure stocks. These factors affect the net earnings of a bank, hence its stability. The interest rate and credit risks are the fundamental risks that explain the sensitivity of a bank (Bank of America Corporation 2018). For instance, a high credit risk exposure increases the chances of interest repayment default that affects the interest income over time. Similarly, the fluctuations in interest rates have a significant impact on the net interest margin (Stempel 2009). When there is a decline in the interest rates, the bank reports a lower interest income unlike when the interest rates are high.

Additionally, with high-interest rates, there is a decline in the demand for credit, which affects the overall interest margin and profitability. Bank of America diversifies its operations to other services such wealth management, especially after the acquisition of Merrill Lynch. The diversification strategy reduces the bank's sensitivity to interest rates and credit risks since it has alternative revenue sources (Dash and Das 2009). The large size and extensive global network

for the bank also support the low sensitivity of its net interest income to interest rates. Therefore, based on these factors, the Bank of America has a sensitivity rating of 1, which implies that its assets are less sensitive to the changes in interest rates and credit risks.

Conclusion

The CAMELS system is an effective approach to evaluating and rating a bank. Using the data from the bank's UBPR report, the Bank of America has a generally stable financial position and a financial crisis would have little impact on its stability. The bank adheres to the regulations on capital adequacy, liquidity requirements as provided under Basel III framework. The CAMELS ratings confirm this. The high capital adequacy, liquidity, and asset quality are signs that the bank would have sufficient assets and capital to survive a financial crisis. Although the bank's past has not been good, especially following the WikiLeaks scandal, it has positive prospects. The bank has high earnings, strong reputation in the market, and large global network that supports its financial growth in the competitive industry. Therefore, the Bank of America has a stable standing in the global financial system.

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