



Rating Action: Moody's upgrades Bank of America Corporation (senior debt to A1 from A2); outlook stable

03 May 2023

New York, May 03, 2023 – Moody's Investors Service ("Moody's") has upgraded the long-term debt and deposit ratings, counterparty risk ratings and counterparty risk assessments of Bank of America Corporation (BAC, senior debt to A1 from A2) and its rated subsidiaries, as well as the baseline credit assessment (BCA) of its principal bank subsidiary, Bank of America, N.A. (BANA, deposits to Aa1 from Aa2 and BCA to a2 from a3). Moody's has affirmed all Prime-1 short-term ratings for BAC and all its subsidiaries that have short-term ratings. The rating outlook for the long-term deposit ratings, issuer ratings, and senior unsecured debt ratings at BAC and its rated subsidiaries was changed to stable from ratings under review. The rating action concludes the review for upgrade of BAC's ratings that was initiated on 23 January 2023.

A complete list of affected ratings and entities can be found at the end of this press release.

RATINGS RATIONALE

Moody's said BAC's upgrade reflects its strengthened capital, improved earnings profile and its ongoing commitment to maintaining a restrained risk appetite. The upgrade also reflects Moody's expectation that BAC's liquidity and funding profile will remain strong, even as several bank failures and the unwind of unconventional monetary policies and a related reduction in deposits is creating challenging conditions for the US banking system. Moody's also expects BAC will maintain a more conservative risk appetite than that found at many of its peers, including a cautious approach to loan growth and strict limits on concentrations, making both the bank's earnings and capital more resilient to an economic downturn, as has been evidenced consistently in BAC's performance under the Federal Reserve's annual stress tests.

During 2022, BAC boosted its capital levels significantly in response to increases in its regulatory capital requirements. Moody's has concluded that the recent improvements in BAC's capital position are likely to be sustained over the medium term, driven by higher regulatory capital requirements as well as BAC's goal to operate with a standardized-approach common equity tier 1 (CET1) ratio of at least 50 basis points (bps) above its minimum regulatory requirement. Moody's also expects that as a result of the bank's restrained risk appetite, BAC's risk-weighted assets (RWA) under the more risk-sensitive advanced approach will remain well below its RWA under the standardized approach, resulting in a stronger advanced CET1 ratio (and also its ratio of tangible common equity (TCE) to advanced-approach RWA) that is at least 100 bps above its standardized CET1 ratio.

The rating agency noted that since the middle of 2022, BAC's earnings have benefited significantly from higher interest rates as the yields earned on assets have increased by more than the rates paid on customer deposits. This boost to BAC's net interest margin and net interest income more than offsets the earnings headwinds stemming from higher loan loss provisions, a decline in investment banking revenues, lower service charges, and modest deposit outflows. Moody's expects that a faster repricing of deposits will limit further upside from higher rates, and that the possibility of a US recession could lead to higher provisions for loan losses, putting greater pressure on earnings. Nonetheless, in light of the bank's strong core deposit franchise, including its significant proportion of consumer deposits (\$1.0 trillion or 54% of its total average deposits at 31 March 2023), and its focus on more stable and less price-sensitive transactional and operational deposits, Moody's expects BAC's deposit betas will remain below that of many of its peers, helping to support its profitability.

Moody's expects the Federal Reserve's ongoing unwind of unconventional monetary policies (i.e. quantitative tightening or QT) will lead to further deposit outflows from the US banking system, including at BAC. But between 2020 and 2022 BAC accumulated a substantial volume of liquid assets as its deposits grew much faster than loans. Because of this strong level of retained liquidity, even with anticipated deposit outflows, Moody's does not expect the bank will need to permanently increase its reliance on wholesale funding above the level it reported before the pandemic-driven deposit surge. And in light of BAC's strong core deposit franchise, Moody's expects that deposit outflows at BAC will be a more modest proportion of total deposits than for the US banking system as a whole. Furthermore, as evidenced during the first quarter of 2023, Moody's also believes that BAC and other large systemically important US banks will be beneficiaries of deposit outflows from other US banks, helping to partially offset some of the pressure from QT on BAC's own deposit base.

Moreover, considering BAC's conservative risk appetite, Moody's expects BAC's profitability will be resilient to most stress scenarios. While not expected, a shift in the Federal Reserve's monetary policy back towards lower interest rates would have a significant adverse impact on BAC's pre-tax, pre-provision income, much as it did in 2020 and 2021. Nonetheless, the bank benefits from a balanced and diversified business mix, helping to ensure that it is not overly reliant on any single business line and reducing the volatility of its earnings. BAC has also established a robust cost discipline over the past decade that has contributed to its resilient earnings.

Although a portion of BAC's sizeable volume of liquid assets has been invested in US government and agency mortgage-backed securities whose value has been negatively affected by higher interest rates, Moody's does not anticipate that BAC's capital will suffer any significant impairment from this. The securities BAC reports as available for sale (AFS) are almost entirely hedged, limiting the risk of loss should BAC decide to sell those. And while BAC also has relatively large unrealized losses on a portfolio of securities held-to-maturity (HTM), given the strength of BAC's core deposit franchise, the rating agency also expects BAC will be able to fund any deposit outflows using its cash and AFS securities, obviating the need to sell any of its HTM securities. Moody's views the HTM portfolio as an economic hedge for the bank's low-cost core deposit base; while the value of the HTM portfolio has declined, resulting in unrealized losses, the economic value of BAC's core deposit base has increased substantially over the past year, even though this increase in economic value is not recognized in financial reporting.

During its review Moody's also considered the increase over the past few years in BAC's holding company equity investments in subsidiaries relative to its shareholders' equity (i.e., its double leverage ratio). That increase occurred as the pandemic-driven surge in deposits led BAC's bank subsidiary to retain more capital. However, Moody's expects that BAC's double leverage will decline over the medium term as some of those surge deposits flow out. The rating agency also noted that BAC maintains significant levels of excess cash at the parent holding company inclusive of its intermediate holding company NB Holdings Corporation, which are a multiple of parent company debt maturities, interest, and dividends over the next twelve months, further limiting any incremental risk for BAC creditors from BAC's double leverage.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given this rating action, further positive rating pressure is unlikely in the near term. An upgrade would depend on BAC's ability to sustain a strong and stable performance with capital levels and profitability consistently above peer averages while also maintaining its conservative risk appetite, a superior track record of risk controls, consistency of management stewardship, and its strong liquidity and funding profile.

BAC's ratings could be downgraded if the bank suffers a sustained decline in profitability below 0.7% of tangible assets, experiences a significant deterioration in capital (TCE below 12.0% of advanced-approach RWA) or liquidity levels relative to peers and targets, exhibits a marked increase in risk appetite, or experiences a sizeable operational risk charge or control failure. In addition, BANA's subordinated and senior unsecured debt ratings could be downgraded should there be a sustained reduction in the volume of BAC's holding company debt that would reduce the loss absorption buffer at the holding company in the event of the bank's failure and thereby increase the potential

severity of loss for BANA's bondholders.

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

LIST OF AFFECTED RATINGS

Issuer: Bank of America Corporation

..Upgrades:

- LT Issuer Rating (Local Currency), Upgraded to A1 STA from A2 RUR
-Senior Unsecured Shelf (Local Currency), Upgraded to (P)A1 from (P)A2
-Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)A1 from (P)A2
-Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)A1 from (P)A2
-Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to A1 STA from A2 RUR
-Senior Unsecured Regular Bond/Debenture (Foreign Currency), Upgraded to A1 STA from A2 RUR
-Subordinate Shelf (Local Currency), Upgraded to (P)A3 from (P)Baa1
-Subordinate Medium-Term Note Program (Local Currency), Upgraded to (P)A3 from (P)Baa1
-Subordinate Medium-Term Note Program (Foreign Currency), Upgraded to (P)A3 from (P)Baa1
-Subordinate Regular Bond/Debenture (Local Currency), Upgraded to A3 from Baa1
-Subordinate Regular Bond/Debenture (Foreign Currency), Upgraded to A3 from Baa1
-Pref. Shelf Non-cumulative (Local Currency), Upgraded to (P)Baa2 from (P)Baa3
-Pref. Stock Non-cumulative (Local Currency), Upgraded to Baa2 (hyb) from Baa3 (hyb)
-Junior Subordinate Shelf (Local Currency), Upgraded to (P)Baa1 from (P)Baa2
-Junior Subordinated Regular Bond/Debenture (Local Currency), Upgraded to Baa1 (hyb) from Baa2 (hyb)

..Affirmations:

- Commercial Paper (Local Currency), Affirmed P-1

..Outlook Actions:

-Outlook, Changed To Stable From Rating Under Review

Issuer: B of A Issuance B.V. (Assumed by Merrill Lynch B.V.)

..Upgrades:

-Backed Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to A1 STA from A2 RUR

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: BAC Canada Finance Company

..Upgrades:

....Backed Subordinate Medium-Term Note Program (Local Currency), Upgraded to (P)A3 from (P)Baa1

....Backed Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)A1 from (P)A2

....Backed Senior Unsecured Shelf (Local Currency), Upgraded to (P)A1 from (P)A2

....Backed Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to A1 STA from A2 RUR

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

Issuer: BAC Capital Trust XIII

..Upgrades:

....Backed Pref. Stock Non-cumulative (Local Currency), Upgraded to Baa2 (hyb) from Baa3 (hyb)

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: BAC Capital Trust XIV

..Upgrades:

....Backed Pref. Stock Non-cumulative (Local Currency), Upgraded to Baa2 (hyb) from Baa3 (hyb)

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: BAC Capital Trust XV

..Upgrades:

....Pref. Stock (Local Currency), Upgraded to Baa1 (hyb) from Baa2 (hyb)

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: Bank of America, N.A.

..Upgrades:

.... Adjusted Baseline Credit Assessment, Upgraded to a2 from a3

.... Baseline Credit Assessment, Upgraded to a2 from a3

.... LT Counterparty Risk Assessment, Upgraded to Aa1(cr) from Aa2(cr)

.... LT Counterparty Risk Rating (Local Currency), Upgraded to Aa1 from Aa2

.... LT Counterparty Risk Rating (Foreign Currency), Upgraded to Aa1 from Aa2

.... LT Issuer Rating, Upgraded to Aa1 STA from Aa2 RUR

.... LT Bank Deposit (Local Currency), Upgraded to Aa1 STA from Aa2 RUR

....Senior Unsecured Bank Note Program (Local Currency), Upgraded to (P)Aa1 from (P)Aa2

....Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to Aa1 STA from Aa2 RUR

....Subordinate Bank Note Program (Local Currency), Upgraded to (P)Aa2 from (P)Aa3

....Subordinate Regular Bond/Debenture (Local Currency), Upgraded to Aa2 from Aa3

..Affirmations:

.... ST Counterparty Risk Assessment, Affirmed P-1(cr)

.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

.... ST Bank Deposit (Local Currency), Affirmed P-1

.... ST Bank Note Program (Local Currency), Affirmed (P)P-1

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

Issuer: Bank of America, N.A. (Sydney Branch)

..Upgrades:

.... LT Counterparty Risk Assessment, Upgraded to Aa1(cr) from Aa2(cr)

.... LT Counterparty Risk Rating (Foreign Currency), Upgraded to Aa1 from Aa2

.... LT Counterparty Risk Rating (Local Currency), Upgraded to Aa1 from Aa2

.... Subordinate Medium-Term Note Program (Foreign Currency), Upgraded to (P)Aa2 from (P)Aa3

.... Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Aa1 from (P)Aa2

..Affirmations:

.... ST Counterparty Risk Assessment, Affirmed P-1(cr)

... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

...Commercial Paper (Foreign Currency), Affirmed P-1

..Outlook Actions:

...Outlook, Changed To No Outlook From Rating Under Review

Issuer: Bank of America, N.A., London Branch

..Upgrades:

... LT Counterparty Risk Assessment, Upgraded to Aa1(cr) from Aa2(cr)

... LT Counterparty Risk Rating (Foreign Currency), Upgraded to Aa1 from Aa2

... LT Counterparty Risk Rating (Local Currency), Upgraded to Aa1 from Aa2

... LT Deposit Note/CD Program (Foreign Currency), Upgraded to (P)Aa1 from (P)Aa2

..Affirmations:

... ST Counterparty Risk Assessment, Affirmed P-1(cr)

... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1

... ST Counterparty Risk Rating (Local Currency), Affirmed P-1

... ST Deposit Note/CD Program (Foreign Currency), Affirmed (P)P-1

...Commercial Paper (Foreign Currency), Affirmed P-1

..Outlook Actions:

...Outlook, Changed To No Outlook From Rating Under Review

Issuer: BofA Finance LLC

..Upgrades:

...Backed Senior Unsecured Shelf (Local Currency), Upgraded to (P)A1 from (P)A2

...Backed Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)A1 from (P)A2

...Backed Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to A1 STA from A2 RUR

..Outlook Actions:

...Outlook, Changed To Stable From Rating Under Review

Issuer: FleetBoston Financial Corporation (Assumed by Bank of America Corporation)

..Upgrades:

....Subordinate Regular Bond/Debenture (Local Currency), Upgraded to A3 from Baa1

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: Merrill Lynch & Co., Inc. (Assumed by Bank of America Corporation)

..Upgrades:

....Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to A1 STA from A2 RUR

....Senior Unsecured Regular Bond/Debenture (Foreign Currency), Upgraded to A1 STA from A2 RUR

....Subordinate Regular Bond/Debenture (Local Currency), Upgraded to A3 from Baa1

....Subordinate Regular Bond/Debenture (Foreign Currency), Upgraded to A3 from Baa1

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: Merrill Lynch Credit Reinsurance Ltd.

..Upgrades:

.... LT Issuer Rating, Upgraded to A2 STA from A3 RUR

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

Issuer: Merrill Lynch International & Co. C.V.

..Upgrades:

....Backed Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)A1 from (P)A2

..Affirmations:

....Backed Other Short Term (Foreign Currency), Affirmed (P)P-1

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: Merrill Lynch Japan Finance GK

..Upgrades:

....Backed Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)A1 from (P)A2

..Affirmations:

....Backed Other Short Term (Local Currency), Affirmed (P)P-1

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

Issuer: Merrill Lynch Reinsurance Solutions Ltd.

..Upgrades:

.... LT Issuer Rating, Upgraded to A2 STA from A3 RUR

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

Issuer: Merrill Lynch S.A. (Assumed by Merrill Lynch B.V.)

..Upgrades:

....Backed Senior Unsecured Regular Bond/Debenture (Foreign Currency), Upgraded to A1 STA from A2 RUR

..Outlook Actions:

....Outlook, Changed To No Outlook From Rating Under Review

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