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BofA Securities 31st Annual Financials CEO Conference

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Participants

Host

Eric Lopez – BofA Securities, Head of EMEA Equity Research

Participants

Jim DeMare – Bank of America, Co-President

Q&A

Eric Lopez

Good afternoon, everyone. Thank you for being with us today. Jim DeMare will be with us today this afternoon. Thank you for coming to London. You're part of the – you're Co-President of President of Bank of America and part of the member of the company executive management team. Well, thank you for the conference first. This is your…

Jim DeMare

Great turnout. Thanks everybody for attending. Beautiful hotel.

Eric Lopez

Great hotel, lots of clients, amazing corporates today with us. So, thank you for that. Well, thank you, everyone. We'll go through a couple of questions, if that's okay. And if there's time at the end, we'll open for Q&A in the room. Let's start maybe with the macro backdrop. We have 70 million clients globally. We have a unique perspective on what customers do, businesses, investors. So, what are you seeing from those clients today? And what is that telling you about the health of – of course, the U.S. economy but also the global one.

Jim DeMare

Sure. I think in addition to the – maybe to level set because we have a lot of folks here that aren't in the U.S. and maybe don't have as much of a perspective on our franchise. You mentioned a couple of the stats. We cover 46,000 – we have 46,000 banking clients broadly defined. We have 4.2 million clients that are – which if we get the opportunity to talk about wealth we'll talk about that a little bit more, but 4.2 million consumer investment customers, if you will, that are part of the bank, but also not only using our traditional banking, you think about it but using us for their investing future as well.

And when you combine that with – we do about $500 trillion in payments a year. So thinking about that number and money circulating through the global economy, we do have the benefit of seeing a lot and not a plug for the Institute, but if you don't get the information from the Bank of America Institute, I would suggest that you give it a look.

And to that point on strength, interestingly, a few of these things are more well known today, but I think it is worthwhile. Yes, there's the high-level numbers of earnings growth, nominal GDP in the U.S., which is pushing 7% or close to 7%. Below the surface, I think the numbers are even more supportive of what we've been seeing and give some comfort in the near term anyway for continued growth.

There was a lot of talk last year or even coming into the spring about a K-shaped economy in the U.S., those not familiar with it, just thinking more that the upper end was doing better than the lower end. We think about it in terciles. And if you look at that data that we have on those groups, there are a lot of supportive information that show this – the growth in the economy is more diversified throughout the economy than it was perhaps a year ago. What do I mean by that? Take a look at the wage growth numbers that we show. If you look at wage growth on a 3-month rolling average, that lowest tercile is now at a rate that's above in terms of growth above the higher 2 sections. In addition to that, if you look at spending, which we just had some numbers out recently that we talked about, and that's through our debit card and our credit card information data that we see, discretionary spending across those wage groupings are also all growing. And they have been predominantly throughout the year.

The last thing I would say on that front, if you look at deposit balances for all those clients, they are elevated to what we've seen historically. So I think from a consumer perspective, you can see very supportive of a good environment. If you take a look at – one of the other ones that's probably not as familiar because I wasn't until recently when I was looking at something else, people don't know that the largest employer in the U.S. is small businesses, of which there's like 3.9 million. We touched about 3.4 million of them. And they're hiring – their desire to hire is at one of the highest levels that it's been in the near term and the optimism there is strong as well. So I think that gives you a little bit more depth beyond some of the government data that's available and some of the other information.

Eric Lopez

So you don't see any change in that macroeconomic backdrop?

Jim DeMare

We're not seeing any deterioration. It's continued strength. It may not be at the highest level that it's been over the last 12 months, but we do see continued strength.

Eric Lopez

What about outside America?

Jim DeMare

Outside America, I mean, our information is obviously considerably more corporate and commercial. We're seeing varying growth throughout. I mean, I think everybody here is a little bit more familiar with where we're seeing higher areas of growth, lower areas of growth. The other thing that I would say is that, obviously, with this rebuild of various supply chains as the world is taking a new form relative to where it was 5 years ago, a great deal of interest in being able to move that money around, which obviously we think is very supportive of our Global Payments business and our Global Banking franchise.

Eric Lopez

Shall we move to the more the short-term last week, our CEO, Brian provided guidance, at another conference. Wondering if you had any thoughts about the quarter?

Jim DeMare

Sure. I would say a couple of things. I think when Brian was the first to speak or he was the first to speak. I think expectations were high just based on the markets – when we talk about global markets, but the markets environment, that we had first half of the year, particularly in the second quarter. I think the enthusiasm kind of waned throughout that conference as more people spoke and it was clear it's not going to be as robust as it was in the second quarter of 2026, which was a lights out quarter, I think, by any measure. But I think it's important to take a step back and think about not all those businesses are alike across the street, much like we all do the analysis of how we're doing relative to peers.

And if you take a look at those -- the markets, these businesses, in particular, there are a lot of factors that drive different performance in a quarter. And we do see in most quarters, variation. What do I mean by that? Different products. Some firms are better in equities, some firms better in FICC and within FICC, you have macro products, thinking rates and FX and commodities. You think micro, you have mortgages, you have munis and other products. And sometimes not every firm is even in those products. So then you get into the geographic dispersity or diversity and it's a little bit more complicated.

In terms of the quarter-to-quarter analysis, I think the way we've always looked at it is obviously, we're striving to deliver the most for clients and for shareholders. But at the same time, quarter-to-quarter, you're going to have the noise. Take a look at where you are on a year-over-year basis. And I left the markets business a year ago, but when I took it over in the summer of 2020, and we started our, I would say, our growth plan, if you will, we were able to – my model at the time was to deliver growth regardless of what the market conditions were because we had room for market share growth. And we grew over 10% each year, and we watch every quarter, but we're also looking at trends that are a little longer than a quarter.

Similarly, with investment banking, deal timing, things move around within a quarter based on economic conditions, regulatory conditions and other. And so we had a bit of movement there. And then you also have to consider again sectors. We've talked about our desire to improve our tech banking team and to make investments in investment banking overall. I think the most recent stats to give you an idea, I think we've hired 34, 35 MDs so far this year. If you take a look at that dispersion within that, we've got 10 or 12 that are in industry groups in the U.S. It's 10 to 12 that we've hired internationally, predominantly here in London. And we focused on M&A as well. We have a handful of hires from there. And obviously, that doesn't add up to 34 or 35. But those are the key highlights there. And we're focused on growing those businesses. So, we remain as optimistic about the environment. We still find it to be a heavy investment environment, a heavy activity environment in the markets, and we remain constructive on that front.

Eric Lopez

We'll talk about our international franchise in a minute. Let's move away maybe from macro and discuss strategic direction for the bank. Can you talk about where you see the biggest opportunities for growth?

Jim DeMare

There's a few, and maybe I'll focus on – we brought it up in our investor conference last year, Investor Day last year. At times, it was worded specifically. At other times, it was more implied. But if you take a look at the opportunity set we have in broadening and deepening relationships is a big part of what we're focused on. Obviously, there's always new customers and new clients, and you think about that as your potential inputs for both for your business. But if you look at growth opportunities we have within businesses and growth opportunities across businesses, I think we've always been focused on it. I think it's a higher priority today. And as far as things that Dean and I in our role, and Brian asked us to overlook – take oversight of the businesses on a day-to-day basis is to help drive those synergies across and what do I mean by that? I think some of the easier ones to think about are within businesses, taking – if we stick with the consumer for a second, it's – I think we have 70% of our traditional banking clients have credit cards. So obviously, there's room. We can grow credit cards there.

If you take a look at – I mean it's pretty much across the board. You can look and for each of the businesses that we're in, there are opportunities to do more with those clients and things that were already or customers that were already executing on. If I flip it over and go to markets, we talked about it extensively at Investor Day. It was, we have opportunities to do more with the clients that we have relationships with today, and it could be in specific products within markets. And just like I highlighted one for a consumer, you can go across commercial banking, you can go across each sector, and you'll find that we're really good, but we can be better. And those are the opportunities that we think are going to drive better client value and are going to drive help drive shareholder value as well.

The cross business is another one that it seems obvious or it may not for some of you, but we turn around and look at it and say, okay, of the – I mentioned that number on consumer investments, which is a very unique business, not every firm has it if we think about our peers across the board globally. And the penetration of those clients that we have traditional consumer bank relationships with that we also have this consumer investment with is sometime – I think it's – I think we have 9 million, I think, is the number that we have that are using us for investments as well. And as you talked about, we had 70 million relationships. So, to give you an idea of the scale of what the opportunity set is that's one. And you can go literally across every business that we have, and you can turn around and find similar things.

Business Banking, typically a lot of what you think about in traditional banking services, that's another funnel for wealth, broadly defined in the wealth platform. And you can go on and on and on in each of these businesses that we have where we have capabilities and strengths domestically and internationally that you will find to be very favorable for the users or our clients and customers and then also just continue to drive value. I mean we kind of talk about it as an ecosystem, a flywheel, you can use whatever term you want. But if we have a good relationship with you, and we can demonstrate that there are other products and services that we can deliver that make you better, whether it's your personal life or whether it's helping your company operate better, that's what we're focused on.

Eric Lopez

And from your position, do you find those revenue synergies across more difficult to generate than the ones inside of business line?

Jim DeMare

Is that a trick question? I think like everything, it's all about execution. You need to set up your KPIs, you need to let people know that it's a priority. People – I think people want to do the best that they can and they usually have their set of objectives that they're focused on. So, Dean and I are trying to help expand that a little bit and show that this is as important as many other things that you as a business owner may be focused on. And in fact, it's not an acquisition of a client in that way. There's already a good experience, there's already business being done. You don't have to go sell a whole new experience. It's just more about, hey, we have these other capabilities. These 2 or 3 seem they could align with some of your objectives and let me tell you how we can do it.

Eric Lopez

And they know us.

Jim DeMare

Yes.

Eric Lopez

Since we're in London, let's focus on our International business or at least we're a small part of it.

Jim DeMare

A meaningful part.

Eric Lopez

A meaningful part – it was a key focus of the Investor Day last year in November. So, what do you see as the biggest opportunities for growth? And what do you need to do to capitalize on them?

Jim DeMare

Sure. So, reflecting back on Investor Day, I think we have more than a few people speak to the opportunities in International specifically. I was one of them. I had my markets hat on for the last time and spoke to the Markets business. But Wendy Stewart runs our Commercial Banking business, in addition to Matthew, who runs Corporate and Investment Banking and I think Bernie brought it all together for us as Head of International and tried to show and did show what the capabilities are and what this potentially means for growth just a reset for everybody, the numbers that were thrown out were a $4 billion increase in revenue, about $2 billion in pretax, and the expectation to deliver about 18% return on allocated capital, which is great.

So when you go down into each of these businesses, what is that? I just mentioned it briefly. But for Markets, it was – we have institutional clients that we could deepen the relationship with by meaning doing more of the products that we're engaged in and they're engaged in, but we don't seem to have a good piece of market share with them. That was the most straightforward.

When you flipped it to corporate clients, there was more opportunity. We've identified clients that we may not be doing business with today that we can be a value-add, and there's a relationship within Corporate Banking or Investment Banking that we just need to turn on the Markets business.

Commercial Banking – we talk about it a lot, but maybe not enough in this environment and being in this room, it may resonate a little bit more. But for domestic U.S. companies, and we are depending on the day, the largest commercial lender in the country and thinking about $50 million in sales up to about $3 billion in sales. A lot of those companies have either clients or production or suppliers in other parts of the world. And so a big opportunity for us is – we refer to as the foreign subsidiaries in doing business with them. Like I said before, if we have a good relationship with the kind of home operation, when they go to expand internationally, we want to be part of that discussion. So whether it's – not part of the discussion part of the execution, it's payments, it's FX hedging, it's rates, all of those things and deliver that between the Commercial Bank and the Corporate, excuse me, in the Investment Bank, and that flows similarly for clients that we have that are internationally that are as the world's supply chains are changing, and some of those businesses are opening up or expanding their operations in the U.S., we want to be part of that, whether that's Europe, Asia, South America. So you can see that there are a lot of synergies that may not seem obvious until you dig into it, but it's really across the board between Commercial Banking, Corporate and Investment Banking and Markets. And it's a priority.

Eric Lopez

You've touched on most businesses. One more maybe the Wealth Management business. As you look at the medium term, a 5-year view, what gives you confidence we can accelerate net asset growth? I mean we spoke about 4% to 5% growth. What are the drivers of that type of opportunity and to get there?

Jim DeMare

Sure. I guess a couple of things. First, just resetting again on what our wealth platform is or wealth capabilities that we offer. I mentioned we have the consumer investments business, which isn't a direct answer to your question, but I'm going to weave it in anyway, we have about $600 billion in assets there, consumer investments which we have a target for $1 trillion, which isn't part of that the wealth enabler that we're talking about. But it is an important part of how we think about this wealth continuum that we have and the capabilities of offering different degrees of high touch and low touch for investors depending on their needs.

Bringing it back to specifically Merrill, I think there are a handful of ways, and I think the team has done a pretty good job articulating them. But for the benefit of those that don't pay attention to it as much because we are a domestic wealth management business also like the Consumer business. The traditional place to start is with your financial advisers that provide that high-touch experience for their client. So, there are a couple of ways that you achieve that. One is through hiring. One is through training. Historically, I would say the last handful of years, maybe 3 to 5 years, the recruiting wasn't as high of a focus for us as it is today. I think the numbers through yesterday, we're going to be – if we forecast out for the rest of the year, we'll hire more FAs than we did last year. That's a positive. And the assets that are coming along with them are almost double – anticipated at almost double what – and again, these are – these are not hundreds of billions of numbers there are tens of billions. But to put some context on it, we're pleased with the progress that we've made there. We're continuing to hire people, market executives in those local areas where we need to upgrade or improve, and we're expecting to see good benefits from that.

The other part of it, which may not be – in the trainees, we have about 2,500 trainees that got come through each year. And you're going to obviously have not 100% retention, but we do see about 25% of the new business that we get tends to come out of the trainees. So existing plus new and then the power of really what we have beyond that is all these businesses that we talked about that provide a source and an opportunity to build out a wealth relationship, Small Business and Business Banking, Commercial Bank. It really touches everything.

And I think that we could probably – we will be focusing on more and probably continue to hear this be part of the regular conversation we have. There's also a part of the business, which isn't as clear because – candidly, 5 years ago, I'm embarrassed to say I didn't know as much about these aspects of the business as I do today – but we have 2 other powerful, I think, in this category, we have Employee Banking and Investments, which is really us having a relationship with the individuals of a company. So we may go to a company and say, we can offer these benefits to your employees for banking. We just announced – or Bank of New York announced and we announced, we did something with them a few months ago. I think it was second quarter.

But again, this is another source of opportunity for wealth and for our traditional consumer banking. Then we have the other, which is Workplace Benefits, which was more about relationships with corporations and managing their 401(k) businesses, as well as their employee equity plans. And those are – it's a little bit of – you don't see much written about it. In general, in the industry, there's a handful of people or companies that can offer both of those capabilities, and it's another source of contact and introductions with people that we can then provide additional investment in wealth services.

Eric Lopez

So a little bit like elsewhere in the organization, growth within the business and across.

Jim DeMare

Yes.

Eric Lopez

Well we spoke about the macro and most of our businesses. Maybe we should go towards more operational subjects. The company continues to deliver sustainable operating leverage, investment in growth, talent, tech. As you look across the business, how do you think about balancing expense discipline with investing in growth? And maybe a word in that context about our tech strategy.

Jim DeMare

Yes, sure. Well, the easy answer is growing revenues faster than expenses, right? That's the operating leverage, not to oversimplify, but within that, what's the construct in terms of how we think about investments and investments take a variety of forms. Tech is obviously a big part of that. And how do we think about tech in general does it make – does it help us execute better with customers and clients. And then second, how does that fit into keeping our competitiveness or competitive levels high. And so you'd say, well, that sounds pretty reasonable. I think you kind of would run your life that way, but then it turns into, okay, well, how do we prioritize within tech.

We have a large and important tech budget like most firms. And then we have to start to think about, okay, within that tech investment, what's important to us? How do we prioritize within tech? And there are things that there's no negotiation around. "Never down", we call it, which is you don't want to be in a situation where you go to use the bank and you can't access whatever it is that you're looking to access and whether that means customers or on the institutional side of the business, you got to do a transaction and you can't execute. Not to mention, it introduces risk within the businesses when you're trying to manage risk. So that's obviously a top priority. Cybersecurity, which has become even more pronounced as of late, given advancements in AI and a lot of the press that's been out there. So, you're always thinking about those 2 as kind of nonnegotiable but you have to also consider other things that are going to be important to you.

We spent a bunch of money over the last probably 7 years just broadly on the tech stack, operating it better data, cleaning up data, making data more usable by more people, mapping out processes which, at the time, I'm sure many people thought that why are we spending as much time internally doing that? Well, one, it creates a safer environment to operate from an operational perspective. Lo and behold, when you start to look at AI and introducing it into your work processes, it's a pretty good position to be in that you have your processes map because you should be able to accelerate AI when you want to. I mean those are the top. And then on the margin, you're always looking at how can we improve, where can we do it organic growth. We need tech for that. But I think those are the main.

We're always looking at it to be competitive and being aware of what is out there, but you have to do it within a cost-conscious framework. I always like to say, whatever your tech budget is, people will, without question, come back and say, well, that's not enough money for me to achieve what I want to achieve and like everything else, it's kind of like life. You have a budget, you have to operate, you need to think about it that way.

I almost left this off, which is probably number three, candidly, is thinking about things on a platform basis. So thinking about horizontals that we're operating on. It's very easy to become very siloed in your businesses and have tactical responses to demands that are being driven by the marketplace or just general improvements that you want to make or capabilities.

The real goal is to have these platforms, and I'm just using 80/20, but it has the 80% of the commonality in what you need to do in a platform and the customization that needs to be done for a different client group, customer group or something that risk may need or operations may need, but have that be the 20% differentiated. And in theory, and I believe in actuality, where we're speaking from the Markets business where we did a bunch of that, you get more for your dollar out of tech. So if I would take a step back for a second and erase 2 minutes and go back in, I would put the platform component as up there in the top 3.

Eric Lopez

Talking about the transversal aspect of our tech strategy and you discuss all the pillars of it. AI is probably one of them. We were as a firm early adopters – what – where do you see the strongest outcome? And how – what are the use cases you're exploring next?

Jim DeMare

We talk a lot about it and others have so I won't dwell on it. Erica for consumers and thinking more of small language model than large, the way we think about it today. But when you really look at it, it was a way of self-serve for customers. So you have a question, you have a problem. You don't necessarily need to speak with someone. And so when we reflect further on that, there are broader applications and I can share a couple of examples. But when we look at AI in general, I think one of the biggest risks to implementation of AI is people being fearful of it and thinking that's going to replace them – us. I shouldn't say them. And that's not unique to AI. It's apparent every time we try to use new technology, someone is always going to be resistant.

But at the same time, when we had – I think it's – we have it out to like 200,000 people now, which is – I don't know the exact number, but we have 90% or 95% of the people that we have working together, there's more familiarity with it, right? And so what's the benefit there? People get to use the technology, see it, understand it, hopefully be more comfortable, too. Then it's about general productivity. And how is it improving their life at work and how is it improving workflows and so on and so forth.

Second place where AI – third parties we're looking at a variety of providers out there to do to do different things for us where we think that there can be – there's a place for AI, increased automation, so on and so forth. A lot of the standard things that you hear about out there. I wouldn't say from that perspective, it's anything truly unique.

The last place is looking at things that are more complex and custom and unique to us and then working with internal and external to see if there are solutions where we can accelerate it. We were just talking this morning, there are a lot of questions around this particular question. I was asked more on how much longer it wasn't addressed to me. It was addressed Michael Hartnett, but how much longer or how long can the capex cycle go on for some of the larger companies that are spending large sums of money. And the question was really getting at is are we going to see returns quickly enough. I think that the most measurable place that most companies have articulated is around the tech organization itself, coding, and the advancements that are happening there and the numbers that are being thrown around are between

15% and 20%. Early on, people throw out like 40% to 50% numbers. I think most industries have jelled around more of a 15% to 20%. We see those numbers in terms of our productivity from the 19,000 or 20,000 people we have coding.

So that's clearly identifiable and then as we've applied Erica and Erica-like capabilities to more self-serve internally, we are seeing improvement. So historically, this kind of self-help was only external, now that it's internal, we're seeing considerable reduction in help desk calls for things that are pretty basic. I know that doesn't sound revolutionary, but that's where you're going to start to see or where we have already seen those benefits starting to come through the system. And then we have other places just in other products that we're offering out to people. We talked about payments, we have Cash Pro which is more of a commercial and corporate offering for treasurers to use. And there's an Erica that's part of that discussion now where people can kind of self-help and self-direct and operate more smoothly.

So, we think we're going to end up seeing the true results of this in the normal KPIs that we look at. I also think that probably in a few years' time, there's going to be a lot less talk about AI as a separate and differentiated, and it's just going to be part of a broader discussion on technology and how are you thinking about tech. But we are seeing it already in the areas that I mentioned, and I think that that's going to continue to accelerate.

I left off consuming a lot of information and data and being able to parse through it and summarize it, that's standard and doesn't really require a lot of discussion.

Eric Lopez

Fair enough. One last for me and maybe we'll have time for one question in the room. We constantly generate excess capital and have historically returned a lot to shareholders. How do you think about deploying excess capital? And obviously, waiting investing versus turning to shareholders?

Jim DeMare

It's constant and ongoing. I wouldn't say that there's an easy answer, but I think we have some principles that we operate by. First and foremost, we have to remain financially strong because if you're not financially strong, then you can't be there for people. So that's clearly a top priority for us, thinking about strengthen the balance sheet and liquidity and capital. So it goes without saying, but I'm saying it -- that is the top priority supporting the broader economy. I mean banks are – we're a large financial services company, obviously, but banking is a large part of it. And supporting the broader economy is important.

And then you get into a couple of the points I brought up earlier, which are what do we need to do for investment to improve the business that we're doing with people. For thinking about growth, not in any particular order, but these are top 5, but I would say financial strength would remain number one. The others are all important and potentially equally important, thinking about what do we need to invest to grow. And fifth, being the obvious dividends and share repurchases. So, thinking about that framework and then saying, well, how do we make the decision to go to return versus invest in the business, we want it to be marginally accretive on these targets that we have of 16% to 18%. So, from that perspective, I don't think it's surprising or complicated, but that's kind of the framework of our logic. And I think we've demonstrated the ability to do both. Increase dividends and continued share buybacks and growth.

Eric Lopez

Insightful as always. Thank you for your time. We have 4 minutes left. Maybe we can take a couple of questions from the room, if any? I think you've covered a lot. Thank you, Jim.

Jim DeMare

Thank you.

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