

Bank of America

Morgan Stanley US Financials, Payments & CRE  
Conference

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## Participants

Host

Betsy Graseck – Morgan Stanley

Participants

Brian Moynihan – Bank of America, Chair and CEO

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## Q&A

Betsy Graseck

Brian, 15 years as Bank of America's CEO, driving responsible growth and seeing the significant changes in the operating environment in the industry overall over the past 15 years, it's -- I'm thrilled to have you here to talk through how you see the current environment and the forward look.

So first off, can we talk a little bit about the current operating environment, given the considerable amount of policy uncertainty that we had at the beginning of the year and even running through to today. So let's start a little bit with the macro on the consumer. How are you seeing the consumer spending... deposits... overall health?

Brian Moynihan

So I think if you look across the consumer and you think about the 3 or 4 ways to think about how they're doing, what their confidence is to spend money, what's in their accounts, what's their credit posture, unemployment and things like that, the other piece, and you all have all the data on that.

But if you look at our customer base – and our Institute just put out some research – but if you look at it more broadly, in our customer base in the month of May, the consumers moved into the economy about 5% more than they moved in the month of May last year. And that's consistent with year-to-date, that's consistent with really what we saw happening earlier in the year and up from about a 4% rate in the first quarter, a little over 4% fourth quarter last year versus the fourth quarter a year before. So 4% moving up to 5%. And that's good. And so what that goes into moves around. And so with some of the debates about international flights, there's more on cruises. People are spending a lot on movies right now because the movies are good, but they move the money around. And across May year-to-date, that is about \$1.7 trillion of money movement into the economy. So the consumer is spending money, and that's a little counterintuitive to the different confidence studies, but those are more impacted by what I feel versus what I do. And that's what we always try to make sure: this is what the consumer is doing, what they're telling you they feel is a question for the future.

Credit quality is very strong. Charge-offs in the consumer credit area came back up over the last couple of years from the post-pandemic drop and now basically settled in a level very consistent. So we feel very good about that. And there's a lot of availability of credit. In other words, the loan-to-value on our home equity loan portfolio is about \$0.50 on the dollar. The home equity in homes is \$40-some trillion or something the other day. So there's a lot of borrowing power if the consumer needs to do it. They're not using a lot of it up right now, quite frankly. Our home equity balances came down or bumping along and not growing a lot. So there's borrowing capacity. They're employed, as you well know; the wage growth is strong. And even in our small business area, you can see the payrolls are okay and fine, not as strong as they were. A lot more uncertainty in small business and middle market than there is in the core consumer.

Betsy Graseck

Interesting. So -- but small business, how you feel small business is doing?

### Brian Moynihan

The loan growth has been solid, and we're careful on the credit. We know that business well. And so -- but I'd say that the thing more in the Middle Market and Business Banking, so \$1 million in revenue companies to \$2 billion, so big swath of the American economy. Their line usage, which was about 40% on average pre-pandemic, dropped down to about 34%, 35%, came up to about 36%, got up to about 37%, but it's leveled off again. And that reflects sort of them trying to think through, before they spend SOFR plus 300 basis points to fund a piece of equipment to increase their inventories, they got to think hard, about it and the tariffs add a complexity to it. As that shakes down, you'd expect them to feel better. When you go in the markets and talk to them, they're just trying to figure it out. And whether they are supporters of the -- or not supporters of the policy, they're just trying to figure it out to make their business plan as you move to the annual planning cycle for most businesses, we're like into it, you hear them saying, I'd like this to be figured out.

And so the good news is recently this morning, you're starting to see things drop in place that those companies can say, at least I can understand better what I should plan for in '26. And so they're very -- credit quality is strong. Their activity is solid. But if you said, show me the window to your heart, you'd say, why aren't you using your lines and buying more equipment stuff. And that's -- they're being careful on really for the last couple of years trying to figure this all out.

### Betsy Graseck

Okay. Let's switch to the corporates, the largest customers that you work with. What's the outlook there for investment given the headline volatility that we've had?

### Brian Moynihan

I think if you take out the sort of AI-infrastructure side of that equation, everybody else is just being careful, again, trying to figure out what the rules of game will be. And if they figure that out, then they'll take action. But again, making money, earnings growth of S&P and everything is very solid, maybe less than people hope. But -- so I think they feel good. They just -- the economy from third quarter to, say, third quarter is projected to slow down by almost 200 basis points.

So they reflect that in terms of that. So if you look at their headcount levels and stuff, all being managed carefully, what they talk about is them being very careful on expansion expenses and trying to figure out this new technology, which we can talk about. But overall, the situation is very stable right now, and it just needs clarity and I think it will come out.

### Betsy Graseck

Okay. Let's dig in a little bit on the consumer bank, and we'll go through each of the business lines. But starting with the consumer bank, you have a dominant retail banking franchise with a very strong national brand. I would expect that Bank of America is one of the most well-recognized consumer brands out there. Can you talk to what has been key in driving your deposit, your checking account growth? I think it's been something like 25 consecutive quarters of net new checking account growth.

### Brian Moynihan

Right. So if you look at it more broadly, we run the consumer business with 2 pieces, 2 thought process. That's because the customers are different. In the retail, which is the general consumer business, this is about checking. It's about start of savings, it's about the start of investment in Merrill Edge, and it's about a home loan and a credit card and an auto loan. And so you don't need to think about 8,000 other things.

And so the real question has been, how do you continue to drive growth in that business. And with -- that's like 70% of our consumers and about 30% of the balances round numbers. So think of that business as very much an expense-driven, automation play over many years, but you got to grow because in that base is a customer of the future. And so that's where Holly O'Neill and the team have been able to grow that for 25 consecutive quarters or whatever it is, net new checkings, but 1 million per year of net new checkings while

keeping the average balance per checking account overall in the business at \$9,000, which is 3x the industry average. So it's not like we're growing a bunch of accounts with no money. It's the primary account.

So over the last decade plus, they've gone from a 60% primary household in that book to 90%. The customer satisfaction has gone up from the 60s to the 80%. The satisfaction with the actual execution has gone up even higher than that. So that then bodes well because it has 2 purposes. One, to make money on the business that exists as it does today in the retail. But secondly, it is the catchment base on which is Bank of America, the branches and everything else.

When you go to the Preferred business, completely different. Now that people are cash flow positive, that's a different business, 30% of the customers, 75%, 80% of the balances. Merrill Edge is very important there, \$0.5 trillion up to now. We've got about 300,000, 400,000 customers again with \$100,000 average starting account, not \$3,000 for the Merrill Edge and investment side.

Checking account balances to get in there, you got to have \$25,000 of balances with us, gives you lots of rewards programs and again, growing organically. You put that together, we've outgrown the market every year. We've expanded a bunch of markets that we weren't in over the last 10 years. We put \$5 billion into the branch rehab and redo and expansion. We've taken the headcount from the start of 2010 of about 100,000 down to about 55,000. And that's where automation is applied. So this is not a new concept. I mean think about that. The base has gone from maybe 20-some million checking holders to 30-some million checking holders. The total balances and deposits, \$300-odd billion to \$950 billion. The execution volumes through the roof and the headcount has come down by 40,000. And that's just a constant reengineering.

So that business is very strong, grows well, gets net new customers. Retail serves the great customers they have, but also as a customer of the future, preferred higher-end customers, those customers then graduate into Merrill, Private Bank if they go that way. Otherwise, they serve them well. And then we've been adding things to it constantly. Erica, Life Plan – 7 million life plans, 20 million Erica users. The mobile usage is -- the penetration is very high. Automated statements, I mean, electronic statements, fraud protection, et cetera, all driving that so we can bring that efficiency down and then pass those savings to customers and that gets you an attrition rate that's in the low single digits overall and 99% plus in the Preferred business.

**Betsy Graseck**

Okay. 99% plus.

**Brian Moynihan**

In Preferred business.

**Betsy Graseck**

Yes. Okay. And so you're everywhere, you have the product set, you have the digital capabilities. What's the driver of growth in consumer from here?

**Brian Moynihan**

We basically take a bit of market share by expanding those markets where we aren't. So we didn't have a branch system in Pittsburgh or Minneapolis or Cleveland, Columbus and Cincinnati or Denver or Milwaukee or Lexington, et cetera, we've added there. And in the big markets, we have penetration, it's growing 2 ways. It's adding customers, but it's also adding incrementally to the wallet share, what we call a stair step: checking account, card, home loan, you just keep going up that stair step. And that's what we've been doing. So that penetration has led us to go from probably 40% credit card penetration of the core customer base to 60%, whatever it is today, and each of the business has that goal, even the other businesses.

**Betsy Graseck**

And I know card is something you focus on your depositor customers with. Would you ever think about using card as a way to attract new customers?

### Brian Moynihan

Well, we have done that, and we have a lot of card-only customers left over and they get -- we're out there generating cards, and it's not that we're turning people down if they come to us as a single brand, and we convert them. It's just the cost of acquisition is so different if you're working off your current people, your current customer base and that being one of the costs of being the card business.

And then the second thing is -- so the second thing is by using the combined rewards program that we have, a Preferred rewards program that rewards not only your card, but also rewards your deposit balances and the benefits go to your loans and other -- higher rates on deposits, et cetera, et cetera. What you're actually doing is the affinity brand that we're pushing hard is called Bank of America. And so we're trying to tie the customer in. So it's not only getting the product in; it's getting to be the first product out, the first card out of the wallet, so to speak.

So the balances grow more consistently. Other people might grow faster and come down. The credit quality stays very high. But if the economics, the ROA and stuff is very high, so everybody says, let's grow faster. But if you start to go away from that, we know that business, and it has a lot of volatility around it. The business that we had in 2005, '06, '07, leading up to the first last real recession we've had in this country -- because the other ones were spackled over by a lot of fiscal stimulus and stuff -- that cost us \$50 billion in charge-offs from 2009 to 2013 and '14. And we are the best in the business, understanding credit. We have automated models. They were written about publicly. We are way ahead in data and all this stuff, it's still cautious because you just unemployment. So we're trying to keep the risk parameters right because we know even looking at those books, the people or customers overall Bank of America fared much better.

### Betsy Graseck

Super. That was really helpful. And so the profit growth dynamic is clearly being toggled efficiently. Can we turn to wealth and just talk a little bit about the very broad-spectrum wealth channel that you have wealth business, I should say, across Merrill, the Private Bank as well as just your affluent offering as well. Can we talk a little bit about what you're doing to drive growth and profitability in wealth?

### Brian Moynihan

So the businesses we have that are dedicated to currently wealthy customers, Merrill and the Private Bank, \$4.5 trillion, \$4.6 trillion in assets for those clients. Last year, the net flows grew at an annualized rate of 4% plus. And that business is good. The thing about the business: high return on capital, low efficiency ratio because of the compensation methodologies. And so the team, Lindsay and Eric and Katy Knox and continue to work to push that profit margin back up to 30% in that business through just good engineering of the cost.

But what we call the continuum we have is from Merrill Edge to those businesses. And what we're trying to do with Merrill Edge is accumulate the investor of the future and the self-directed type investor of the current. But we're trying to grow that so that, that business, which was about \$200 billion 6, 7 years ago is now \$500 billion in assets and is growing at a pretty good clip. That's providing, again, the feeder of the future. So like Retail is to Preferred, Merrill Edge is to the wealth management businesses.

So we're trying to get people started investing, and that's that Life Plan -- 7 million plans have been -- the customer does it themselves. It's an artificial intelligence-driven financial planning module that they choose their goals and 7 million are loaded and active and people are putting their data in. So we -- that gives us a broad base.

Then you move to Merrill, and it's a relationship business in Private Bank. And then what we're doing in Merrill is the teams they've done a great job with the advisors and are now recruiting to fill out the offices in areas where we have capacity and developing not only trainees, but also doing some experienced recruiting, not a lot, but enough. And then that helps grow the business.

And then as you go to the Private Bank, they've added about 30% more private bankers over the last 4 or 5 years as there's been disruption in the market. We keep hiring, and Katy Knox and team keep driving that

out. Very profitable from a return on capital; efficiency lower than the average of Bank of America. But as the NII kicks in, which I'm sure you'll ask me about at some point, they get a big hit because it's a \$280 billion deposit base in that business. So it's as big as most banks in that business, not just to that business.

**Betsy Graseck**

Great. Okay. And what about driving growth through financial adviser acquisition? How important is that to you?

**Brian Moynihan**

Well, it's important. The economics of all this is always interesting. You get great discussions about it. But at the end of the day, we recruit people who see the value in our platform, and they'll come in and Lindsay and Eric and the team have done a good job of picking up advisers through the recruiting process and really understand what Bank of America, and Merrill Lynch importantly, can bring to that group. Katy has been able to add hers.

We have -- on the on the trainee process, we, like all people, continue to refine that process. And so the FSAs, which are in the branches, is a great fertile ground to graduate people to be FAs because they get securities license. They have a limited product set because of the nature of the investment need of the customer. But what they do is they can move out. So we have that to gain numbers of advisors and then we have the recruiting to gain numbers of advisors. But the #1 thing is to retain our advisors, and we're at a very good place right now in terms of retention.

**Betsy Graseck**

Okay. But it seems like there could be even better.

**Brian Moynihan**

Yes, there could be better. At the end of the day, in a business which is advisor-led, you really have 2 ways, both in the Private Bank, Merrill and also the commercial bank. You have 2 ways to grow the business, more advisors, more relationship managers and/or making them incrementally more efficient to handle more clients through automation. That is going on, too. But that takes a little longer to get that through the system.

**Betsy Graseck**

Got it. Okay. Great. Let's turn to capital markets, where clearly you've been investing in the markets business and you are the only firm to grow sales and trading revenue year-on-year for 12 consecutive quarters, which was impressive.

**Brian Moynihan**

I'll give you news flash, this one should be 13, I think.

**Betsy Graseck**

What? I'm sorry.

**Brian Moynihan**

This one should be 13. If we get it right.

**Betsy Graseck**

This should be 13.

**Brian Moynihan**

Well, it's not closed yet.

**Betsy Graseck**

Okay. Just want to make sure I heard that right. So where have you made the investments to generate that kind of result? And what's been most impactful there?

### Brian Moynihan

So when you think about it over the last chunk of time, after the financial crisis, you had the bones of everything you needed. You had -- you're in all the major trading areas, you had a great research team. You had the reach of the sales force and all that. We also had some interesting pieces that we had to get out because it became too much of the storage business in the legacy companies. So we did a lot of that. But the reality was we need to make more of a commitment of size: balance sheet capacity, capital capacity, and, frankly, expense capacity of that business, and we did that starting '16, '17, '18. And Jim DeMare and team have done a great job. So what you're now seeing the compounding effect of that.

That business this quarter, we expect to grow mid- to high single digits, 13th quarter in a row by rounding out the FICC platform by going with macro versus micro, all these areas, which are hard work. And then geographically, we spread it out. But if you think about what we really did is we -- Jim and the team put to use about \$300 billion of balance sheet, round numbers, on a GAAP basis over the last 3 or 4 years. They took more capital and have gotten the returns from 10% to 13%, 14%. They've also been able to deeper penetrate customers, and they dropped the breakeven point in the business by about \$1 billion, which is an interesting thing because that's through all the automation of the processes and capabilities, and as Jimmy calls it: cleaner, simple, better. And so that was important, '16, '17 to '19 because you're investing to run that business is \$900 million in technology investments a year.

So it's not for the faint of heart. And so your first \$900 million -- and by the way, a lot of that is just to be able to run the systems and reporting, all the venues and all the -- I think we report out 3 billion trades -- potential trades a day or something like that in that business to give you -- every single day, we have to report out 3 billion trades, not even execute trades, quotes -- 3 billion quotes, excuse me. And so they built that infrastructure, they drove it. And Jim and the team have done a good job. And as we work with our customers in that business, a lot of which are out in the audience here, they've done a good job of getting a broader representation of that customer, not only in the equities business over the fixed income business as alts become more important to all these groups, the private capital -- lending into those business, which we believe we can do in a very smart way to help them grow their business. The coordination with the distribution platform just because we've got the ability to help people be successful, they've done a great job.

### Betsy Graseck

What about the international side? 40% is coming -- of your revenues in Markets and Banking, I think, is coming from international. Is that right?

### Brian Moynihan

Yes. And that's the piece that surprises people because they think of Bank of America, the name and they never get off the point. But the reality is that 40% of the revenue in a concerted effort going on those same dimensions of time. And so you have corporate -- in the corporate investment banking area, you have #3 market share. Again, this is where you got to be consistent, because this quarter, investment banking, we think about \$1.2-ish billion not where we want it to be, but great prospects, great conversations, great going, but that's because we're operating all over the world.

And so the key is to think about the global investment -- the Corporate Investment Bank and the Global Markets business to be global businesses and drive that out. We talked about markets. Corporate Investment Banking, it's not only investment banking capabilities. It's also the corporate banking and the cash management, GPS, we call it, and we've been building and investing in that.

So the growth in that is still ahead of us, frankly. What we've done interesting lately is dropped the breakeven -- dropped the customer targets in some markets from the \$2.5 billion minimum revenue size we had down to \$1 billion because we feel more and more comfortable we can understand the credit, looking at firms that, frankly, are tied into the industries and stuff we cover heavily. So the auto industry is a global industry. The supplies have come from all over. That's why we're having this discussion and the tariffs and all this stuff. They come from all over the world. And so a midsized supplier in Europe is probably also



supplying in the U.S. and supplying. And so having that ability to help them across the world has been strong.

And so 40% of the revenue continue to expand. Bernie Mensah runs internationals in overlay as Matthew and Jimmy run the businesses, but Bernie helps with an overlay. Lots -- we have lots more to do if we think in Europe that we can gain even more share there. Asia is always going to sort of reflect the ebbs and flows of Asia and then U.S. is U.S.

**Betsy Graseck**

Okay. So just to make sure that we got the comments about the quarter, you mentioned markets revenues.

**Brian Moynihan**

Mid- to high single digit, 13 straight quarter of growth year-over-year. And then investment banking, about \$1.2 billion. We'll see where it ends up. But there's a lot of stuff in the pipeline that's getting bounced.

**Betsy Graseck**

And then while we're on quarterly commentary, maybe you could give us a sense on whether or not there's any updates on net interest income.

**Brian Moynihan**

Sure. So the broad structure was about 1.5 years ago, we said last year's second quarter would be the trough, and that's turned out to be true. And then as you march through each quarter and giving the guidance in the first quarter of this year, we have no change to that guidance. So that guidance -- just to reiterate, that guidance, we were at \$14.5 billion-ish in the first quarter. We said by the fourth quarter, that'd be \$15.5 billion to \$15.7 billion, and we feel good about that. And what we told you was we grow with a little more kick in the second half of the year, honestly, just because of some of the repricing on cash flow hedges and things that have come through this quarter and then are effective next quarter.

So \$1 billion of annual -- \$1 billion of quarterly NII pickup first quarter to fourth quarter, 6% to 7% growth of '25 over '24 and exiting at \$15.5 billion to \$15.7 billion and the stair steps are falling in place. So this will be another quarter of growth, which says last quarter was a trough, and we're growing off of that. And we feel very good about that.

**Betsy Graseck**

Excellent. And does the steeper curve help just generally speaking?

**Brian Moynihan**

It helps. But the thing is it's never a one hand clap. So if that's happening, there is loan growth, what you thought it would be, so you got to go around. But to hold us through all the different volatility, you think about -- we're all sitting in April, liberation day just passed, the world was coming to an end, and now it's not coming. So this is -- you have to take great care in being too far out there saying this is what's going to happen perfectly because it can bounce around.

But the good news is nothing has changed even though the rates have moved around, and you're covering up some general economic malaise from that time until now. It's a lot slower growth predicted, but we're still growing loans okay. We're still growing deposits okay, better on the H.8. data than the market, better than the economy. But we got to be careful about over-expecting that until we see the settlement. But it's based on the -- that time, it was, I think, 3 cuts and now there's 1, 2 depending on who got up this morning and put them in.

**Betsy Graseck**

Excellent. All right. Thank you. That's it for updates on the quarter, I believe, right? Yes, that's it. So I did want to turn the conversation towards what you're doing in payments. Clearly, you're a leader in payments. But you've also made some recent comments around stablecoin and some of the potential rule changes



coming. We've got the GENIUS Act working through Congress. So are there more crypto opportunities in your future? I would just like to understand how you're thinking about all that.

#### Brian Moynihan

Yes. So I think I'd focus on the stablecoin question. And so the end of the day, our Global Payment Services business sits behind the entire franchise. And so whether it's consumer wires, which you can do on your mobile app and are growing fast, whether it's commercial wires, which are huge and go out every day, that principal. Mark Monaco runs that GPS for us and Thong Nguyen. And they always work in a strategy on a holistic basis. And so at the end of the day, there's a new potential entrant into a payment system, which is a stablecoin, right?

So the theory is that if you were having dinner on a safari in Africa and you sat down, you could pay by using your credit card, your debit card, or you could also theoretically, at some point, pay by a stablecoin transaction. And so it's a currency. We have to have it. The industry has to have it. We've not been quite sure how big it will be, but we have to be ready because at the end of the day, if people use as a transactional account, we have to be ready to have those transactional deposits stay within our franchise basically or else you'll see a major migration of deposits outside the industry.

And so we're working with the industry, working individually. We have this pretty well understood what we do and how. But the problem before was it wasn't clear we are allowed to do it under the banking regulations, and there was a lot of mystery about that. If they get the GENIUS Act or the STABLE Act or anything like that passed, and then you get the markets infrastructure enablement piece, that clarity will allow us to figure out whether there's really a business proposition. At end of day, the customers need it, customers can make use if it happens.

Now if you're very carefully following the company, you have noticed that we just talked about the \$10 million real-time weekend movement of money and how well that's been received on the institutional side of the house as we keep dropping those limits down to have real time go on the weekend and stuff, you'll see more of the need for payment systems that operate off hours, so to speak, goes away because we've actually created a payment system that pays -- that goes off hours.

If the Fed goes to a wire service open many more hours a day, that would change the dynamics because then you could settle fairly small accounts. And so there's a complexity to this, but there's also stability of payment systems provided by the way it works today that we have to think through, but we'll be there.

#### Betsy Graseck

I've been a little confused about this because I thought Clearing House has real-time payments for easily a decade.

#### Brian Moynihan

It does. Well, I'd say that's probably a little strong. We developed it -- it's probably been out there for 4 years. 4 years. And that allows -- if somebody wants to wire \$10 million out on a weekend, they can do it. And so you have to be careful, because we're facing off. The industry is taking the risk of that being good on Monday. And so that's why we'll keep walking towards it.

The bigger and more important thing is really that the window for the closing is getting later and later because then you have multiple time zones covered in real time because the Fed buyer is real time. And also you have transactions can take place off hours. So if you want to buy a house and settle at 6:00 at night, if we can ever the deed -- the registry to take it, you can settle the house payment. Person wants to buy a car at the agency at 8:00 at night instead of -- I just watched this happen I bought a new car a year ago, people are handing people cash because they want to buy the car that night and you're like that's an odd thing.

But I think you can -- so you can take away a lot of demand for it. And so the place -- the cross-border, smaller balance e-commerce, that's where this gets -- or embedded in e-commerce, for lack of a better term, those are the places where it's a little more interesting. And we'll see it play out. And remember, by

the time we would -- if we sat here tomorrow, I would say, yesterday, \$3 trillion plus went out of the commercial bank, all automated overnight. \$200 million plus went out in cash out of the ATMs, 500,000 people walked in the branches, a lot of deposit checks, cash, all this idea that one payment system is going to take over the world very fast. In the numbers I gave you before on the total of \$1.7 trillion, only 20%, 25% is debit credit cards.

Checks are still 20% of the balances of consumer movement of money. And so it's not as simple as people think. It takes a long time to get people to change their behavior, and that's why they're great customers.

#### Betsy Graseck

Okay. So with that I would -- I think we're done with payments. I would like to understand how we're thinking about the other side of the operating leverage -- the expense side. And I think you guided 2025 full year expense growth to 2% to 3%, but with positive operating leverage.

So can you talk about how much investment is embedded in that. And if revenues are lighter, where the levers are to deliver that positive operating leverage?

#### Brian Moynihan

So if you put the historical context around this, we are -- we have a little bit of an issue that we are always taking expenses down nominally. And there was a time when we were at \$58 billion in expenses, and we said we'd be at \$53 billion 2 years out and people thought we were crazy, and we actually hit \$53 billion. But then we said, and this is part got lost because of what happened. And then we said it's got to start to grow because at some point, you sort of hit and you're going to start being unable to take out expenses at a faster rate than you need to invest for compensation for build-outs and stuff. So that was happening right in '19.

Again, this thing called the pandemic came and then hyperinflation came, et cetera. So you go through all that and you end up with an expense base now, which is \$68 billion, \$69 billion, whatever it was last year. And a lot of that was just a onetime adjustment around comp, frankly. And market levels generate comp, too. So what we've been able to do now is flat -- the headcount then because of all the stuff and regulatory and all the stuff and investments went from about 205,000, say, to 218,000. It's now down to 212,000 exclusive of the interns that just came in this week. And so we've gotten that to manage back down. So over the last 6, 8 quarters, we brought it down by 6,000, 7,000 people. And every quarter, it basically drifts off a little bit by applying technology.

So we feel good about the 2% to 3%. The parts that will adjust automatically will be if wealth management revenues are lower because market levels are lower, you'll see that come right through or if investment banking revenue is lower, we'll see adjustments on that side. But parts won't adjust as the 53,000 people in the branch system, will still get paid at the same level. And so we feel good about the 2% to 3%, but the basic concept is we'll grow the revenues faster in the economy, grow the expenses about half that rate. And the good news is we've been organically growing since like '16, '17 loans and deposits faster than the market, faster than the economy. And leave aside all the rigamarole in '20 and '21, we're now back to that level. And then so that you're seeing the operating leverage kick in. As the NII recovers, that's what kicks the operating leverage in. So the stat I gave you before is \$1 billion a quarter with no expenses attached to it from the first quarter to the fourth quarter. That's what kicks the operating leverage and frankly, the efficiency ratio back in.

#### Betsy Graseck

And AI clearly has been leveraged in the consumer, retail and wealth significantly. Can you talk about how there's legs to that into the rest of the organization?

#### Brian Moynihan

Well, so there's legs to it across the board. So we have -- AI is a natural extension of modeling and machine learning and things. We have 1,700 models or whatever it is; about 300 of them are AI models; about 30 or

50 of them operating today are generative AI models. We have proof of concepts on that many, that's why those models there about 1/3 of them are in operation now. But to make that all sounds like great statistic. We have -- you have 1,700 patents on AI and machine learning models and stuff like that.

But what's really going on. Erica, last quarter, 20 million people used it. And it's an AI -- generative AI language problem solver for you, bot, assistant, whatever you want to call it, 170 million times, 175 million times. So it's up and scale and operating. We took that and put it into the commercial GPS cash management business, 40% of all our customer interactions are handled by the Erica interface. We took that same model because we knew it was in control and how it would work and trained it for teammates to be able to interface with the technology organization for a change of passcode, break fix, I need a computer charge or whatever. Instantaneously half the calls went through Erica as opposed to person picking it up or person responding to an e-mail: I need X, Y or Z.

And so then we've taken this -- the capabilities into the markets business. So we have a generated report that takes all our market stuff and puts it easy for the sales traders in the morning instead of pulling up a bunch of different people. And it cites it out to all of them. So it's trained on our stuff. It's not -- it brings in new stories and stuff like that, but it's a very straightforward report, 2 or 3 pages that's going out every day.

We take it into the coding area, and we've got about 18,000 coders using it today. They're getting efficiency that we're seeing. There's 21 steps to start with ideation on code to implementation on code. 5 or 6 of them are susceptible to AI productivity enhancements. About 30%, 40% of the activities in those 5 steps, we're applying it. We're seeing about 1/3 of that to 1/2 of that potentially go away. And so we're just growing that to a system. That's new. That's literally over the last 6 months. So that -- we feel good about that.

So you're basically looking at all the places you can use this model to help you enhance the basic text-to-text translation or coding. And what text-to-text means is literally means I take a bunch of prospectuses today in SEC reports for investment bankers. And I then write a report, and I go edit that as opposed to: I pull them out and do it. 500 of those are written in the last few weeks. We just put that in for the investment banking team. So the analysts and juniors as we all call them, are now using that to produce information. It still takes people on top of it because it's still not perfectly accurate. It still takes people checking it. But on the other hand, it gets them a step forward. And so all these areas we really believe this.

Now why do we really believe it? We had 285,000 people on January 1, 2010. We peaked at 305,000 people on probably March of '11 or maybe March '12. We have 212,000 now. We know that technology applied by the customer and by the teammate is a powerful force. In that time, we probably spent \$1 billion, \$1.5 billion in technology code a year. We now do \$4 billion on new code. So we took a lot of that money and spend it to develop new code to create more efficiencies.

And so the business is bigger and bigger, but you can use technology to keep working at this. This just gives you a place to reach that you traditionally didn't have. And -- so -- but you got to be careful. You have to have your data set. Over the last 10 years, we've probably spent \$3 billion on getting our data more and more perfect for all these reports. We have to file all these feeds. We have to file all that stuff. But sometimes you got to get a return on luck, doing all that for regulatory and other reporting, some of which we would argue had great value, some maybe not so much. But having that done now allows us in our Salesforce application, which goes across all relationship businesses, all the data is scrubbed, for lack of a better term. You hear people say, "Oh my God, I got to go scrub my data," it's already been done because for a whole another reason. Therefore, they can pick up these new applications.

So as we look across it, we have small language models operating on premises, that's Erica. We have large language access models operating at third-party providers that we can use and test. And then you're going to see the major providers bring it through their products, right? They can't survive unless they bring it through the products. So with an SAP and Workday and Salesforce, and I'll let them speak to what they're doing, but we're going to be the beneficiary of that. And so if you noodle on all that, you can see our ability to continue to maintain this efficiency effectiveness and then figure out how to reinvest. And so the way we

run it is we have a centralized team that's driving through these proof of concepts, and then we're funding them centrally so they don't have to get caught and all this will take too much time, and we look at them every couple of weeks and implement.

**Betsy Graseck**

So tech budget goes up and headcount comes down.

**Brian Moynihan**

Well, even in the coding area, remember what I said, if you have 18,000 people and you're getting efficiency, then you can grow the tech output without growing the numbers of people doing it. That's what's different here. Your point it was pretty linear to get more code output you just had to add more -- leave aside the products and the different code languages and stuff. You just had to add more people. That code is broken a little bit now. But it's a human behavior change.

When you -- a big change is going to come when we implement basically the 365 package and everything, but you got to get humans to use it. This is the hard thing. We are developing training programs to make sure our team knows how to use these tools because that's going to be the value. It's not going to be by just putting them on the desktop.

**Betsy Graseck**

Okay. Well, we've identified opportunity for growth in the various businesses and the efficiencies that you're driving from investment spend in addition to other drivers.

**Brian Moynihan**

We said in the last call, expense was down \$500 million or \$600 million in the quarter, which basically means taking all this stuff, flat. And we're just bumping along at this level while we're making massive investments in the business. That's the dynamic, which is interesting. Before, we were just -- we were able to take out a lot of inefficient business. Now we're pretty effective and now we're able to put that expense base running where it is now, you're allowed to make major investments that are almost double what we made 5 years ago.

**Betsy Graseck**

And so as I think about the ROTCE and the direction of travel here looks like it's moving up from what we discussed. I did want to understand thoughts on the denominator a little bit. As we enter into the era of Michelle Bowman as Vice Chair of Supervision, what are you thinking about with regard to what is likely coming on regulation changes?

**Brian Moynihan**

Well, I think the Fed through various dialogues and speeches and even over the last 18 months has made it clear, Basel III will get finalized in some manner; exactly how, probably up to a little bit more debate now. Obviously, the G-SIB indexing is important to our industry. And it was embedded in the original stat. If you look at the original provisions, the footnotes talk about this ought to be indexed. The economy has doubled in size and hadn't been indexed at all. And there's the strange calculations are strange. So they've got to fix that. And it was proposed to fix it going forward, and I don't think that's the correct thinking, frankly, and we'll see what comes out. So that's helpful. So...

**Betsy Graseck**

What do you think would be correct?

**Brian Moynihan**

Correct just go back and index it, and maybe say I won't let you drop your capital today to do that. But let's get you on a logic course, which says we're going to index this thing consistently because what -- the inverse of what people were thinking about at the time was you don't want these large banks to become too

big, and you want to put a penalty on business or at least have more capital if the business fails, you can take care of it.

The mistake in that is if you constrain their size, you're forcing the stuff outside the system. And where it's going, you have no insight as to whether it's being done well or not so well. And so the idea of gating of fund withdrawals is akin to gating with deposit withdraws, right? Think of what would happen if we would have said you can't take your money out of a bank in the regional banking crisis.

I mean -- so I think there's -- people have to think through it. So it's had an effect which is exactly opposite from intended now is now it's allowing more and more unregular activity, which is regulated in the banks, but not regular elsewhere go on, and they got to think that through. And then they say, well, we want you to be there in times like the pandemic and help. We helped them pandemic, \$70 billion of borrow. We want you to be in regional crisis to help. Well, you got a constraint, which is if we grow the balance sheet to support a bunch of riskless treasury trading by all these colleagues, the SLR kicks in.

So they've got sort of -- the policy has flipped on its head now, which is how to allow my colleagues and I to make the economy run well. So you expect Basel III because we just got to put them behind us. You expect some money on SLR has been said. You expect something on G-SIB indexing. And then the other regulations will be helpful. But what that will mean is our capital -- it's not like we're going to say, let's peel off of that capital. We will then grow -- let that growth -- organic growth eat it up. But if you think about what we do today, we earn \$1, we pay out about 30% round numbers and dividends, and the rest goes to support the business growth or back to the shareholders. That was \$4.5 billion last quarter. That paradigm will keep taking place, which over time may not take down the nominal amount of capital, but as we grow the earnings around it, will help the ROTCE because right now, we're sitting on a chunk of capital.

**Betsy Graseck**

Well, and significant excess.

**Brian Moynihan**

Yes, that's right.

**Betsy Graseck**

Right.

**Brian Moynihan**

The simple way I try to explain it, which is if you had 10 factories to make sure it's nice and I said you can only use 6 of them. That's what all this adds up to be. And so we're making as much return on tangible common equity as other institutions are or more than most. And we're only getting to operate with 6 factories because we have to have the other 4 ready in case. And you're saying, is that the right balance? Originally, that was 7 and 2. Now it's 6 and 4. And you're saying you've doubled the excess unutilized capital in this industry for what? And that's what you're trying to say. You've got to think about this because it has a broader implication.

**Betsy Graseck**

And as a result, as we get these clarity on where they're going to go, how do you think about optimizing your capital structure? Like let's say we get a rule in the next year or 2?

**Brian Moynihan**

Because the stability of the operations and the platform and the risk of running the credit book the right blah, blah, blah, I think we're comfortable with the 50-basis point buffer or whatever the applicable requirement is. We used to say 100, but I think we feel now that the insight we have and the stress test we do every quarter, we can probably manage 50 better, especially if you keep the dividend at the 30% level because then it's really -- we were the only person during certain stresses in the pandemic that actually earned a dividend every quarter.

And so that's -- I think the only person, not -- and I think -- so we built this on the theory that that's what you want to be able to pull back if you had to let the capital not deteriorate by leaving it on the balance sheet. But -- and by having that kind of flexibility and that kind of insight and working the hell on the risk side, 50 basis points looks right. So whatever the -- hopefully, a smaller number than is today, CCAR gets straightened out, et cetera, but 50 basis points is what we think. So stay tuned. We'll see how the CCAR comes out at the end of the month. We'll see how these things fall in, but that's where we try to run. And we've done a lot of analysis and a lot of looks to say that, that volatility ought to be manageable.

**Betsy Graseck**

Excellent. Well, Brian, thank you so much for your thoughts and insights and direction and leadership of Bank of America. Thank you so much for joining us this morning.

**Brian Moynihan**

Thank you.

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