

Bank of America

BofA Securities Financial Services Conference

February 12, 2025

Participants

Host

Ebrahim Poonawala – BofA Global Research, Head of North American Banks Research

Participants

Brian Moynihan – Bank of America, Chair and CEO

Presentation

Ebrahim Poonawala

We will go ahead and get started. So good morning, everyone. Welcome again to Bank of America's 33rd Annual Financial Services Conference. I'm Ebrahim Poonawala, Head of North American Bank's research for BofA. I would like to take this opportunity to thank all the management teams and investors for their partnership that has helped make this conference a huge success.

As part of the conference, we are hosting over 300 institutional investors over 120 corporates to discuss with us their outlook for the U.S. economy and their own businesses. I would also like to thank my colleagues in research, Core Siegenthaler, who heads the coverage of diversified financials, asset managers and brokers and Josh Shanker, who heads Insurance Coverage for all the hard work and putting together a great event. So, thank you both. And I would also request you to save the date for our next year's conference, February 9 through 11, 2026. So, we look forward to seeing you next year.

Now none of this would be possible without the blessing of my next speaker. So, without further ado, I would like to welcome my big boss, our keynote speaker, Brian Moynihan, Chair and CEO of Bank of America.

Brian Moynihan

Before I get started, thank you to all the companies that have come and all the investors showing up and supporting our conference, and thank you to you and your colleagues for running a good show. So, thank you.

Q&A

Ebrahim Poonawala

I guess maybe just starting out, first of all, congratulations on 15 years as CEO earlier this year. If we think about the banking sector over this last 15 years, both for the bank, Bank of America, and the industry, if you don't mind spending a few minutes around the evolution that's taken place and where things stand today?

Brian Moynihan

I think about along 2, 3 dimensions. One is the dimension post-financial crisis of the recalibration of the industry both in the U.S. and on a global scale, and we can hit that quickly. The second is the impact of technology, which we're all talking about AI, but there has been a huge impact already in the industry and how it's impacted capabilities, headcount, everything else. And the third is the -- in our company, but a lot of it is the customer focus of the industry. We came through a product-driven industry for years and customer focus. But on the U.S., look, at the end of the day, if you think about where we were prior to the financial crisis, the belief was Europe was going to be bigger than the U.S., China was going to be bigger than the U.S. economy-wise, and therefore, the banks that emerged out of those systems will be bigger than the U.S.

And here we are 15, 17, 18 years later, the U.S. banks earn a lot more money. They're much better capitalized. Their liquidity requirements are high. They -- we took our lumps; we had some disappear. We absorbed some in our company and other companies and off we went. And the economy is also 1.5, 1.75x bigger. And the European economy is not -- maybe 1.2x or something like that. So that's the competitiveness of America. That's the resiliency of the system. Frankly, that's taking your lumps and getting on with it.

And then the safety and soundness and regulation that came out of a lot of that is an understanding of one key factor that we got to think about again, which was everybody should be under the same tent. So, in 2007 and '08, when we went to the Fed, there are participants there who weren't under the same tent. One of which was Merrill, one of which was GS, MS, et cetera, and Lehman. And a weekend later, we're all under the same tent. That changed the nature of how the regulation liquidity and requirements worked so you didn't have arbitrages. And we got to be careful going forward there.

The technology impact is really something else. And so, we all talk about what happens next, but when the management team took over the company in 2010, we had 285,000 people. We peaked at 305,000 people. Today, we have 213,000 people. We have more customers, more activity, whether it's in the trading business, whether it's in the wealth management business, whether it's the consumer business, all that activity is done with a lot less people. Now the people get paid more because of the nature of inflation plus just the job content. And that tells you what technology will do.

You went from -- Zelle wasn't around. Erica wasn't around. Mobile check deposit was still in its infancy, pick it. Cash pro wasn't around. You take all the stuff. It's all there now. And now the question is AI where you take it next when we talked about that. And so, then the third in our company is really becoming consumer focused on the consumer side, wealth management client focused, commercial client focused. We can get away from the products that we grow relationships, not products that allows you to grow with 4 or 5 pillars. So, Holly Oneill is here, who runs our consumer business with Aron Levine. They can grow along multiple dimensions as opposed to being -- I'm in a credit card business. I've got to go to credit cards, no matter what happens. That can tend to lead to interesting activity, let's say that.

Ebrahim Poonawala

And just on that, if you could double-click on the customer focus, like you hear that from all the banks that I speak to, bringing the entire bank to the customer, how well is the bank today in its current form equipped to do that with the various businesses talking to each other?

Brian Moynihan

Well, it's -- so first was to get all the products underneath the customer base, so as consumers, mass market consumers to wealthy consumers, whether small companies to large companies or whether it's investors, to get all the products underneath them and not have separate activities that happened. And then over the years, we've made great progress. We, at Bank of America, knit that together, so here in Miami Gene Schaefer the Market President. There's -- I met with the management team in the market yesterday, including the markets business which Seta has including the commercial banking business, the business banking business, et cetera. And they all work, and we keep track in 100 markets or so we serve of all the activity that moves beyond with the customers, but there are 2 elements. One is to actually think about in the Wealth Management businesses - Lindsay and Eric and Katy's obligation is to get the entire relationship, which means loans, trusts, asset management, brokerage activity, et cetera. So, they have a direct obligation.

Then their second obligation is to have their teammates in the market, like Miami refer their businesses across each other. And we've made great strides, 9.5 million pieces of business moved within the franchise that way last year. We expect to do more this year. One of Lee's other job, Lee McEntire's other jobs is he actually runs the infrastructure team behind this, and they do a great job. But that's a sophisticated understanding which plays off of that customer focus and it works.

Ebrahim Poonawala

I guess maybe switching gears to the macro outlook. You obviously had the inflation data this morning. But I think it feels like the Fed engineered the soft landing. But give us your view on what the economy looks like? Are there still areas that you worry about that are going to be under stress if rates remain elevated?

Brian Moynihan

The answer is yes, we're worried about a lot -- we always worry about a lot of things. But I think, look, if we look first at the various segments of customers and what we see, if you look at the consumer, as we came through last summer, the consumer started slowing down, and you can even see it in the confidence stuff that's reported out of Michigan and other things. And the spending started slowing down a little bit, not still 3.5%, which is fine. But because the -- well, the consumer being told rates are high, it's restricting our activity, et cetera, et cetera, et cetera. So, they all started reacting to that.

As you came into the fall in the first -- when the Fed first started to say, we're going to cut rates, not even a rate cut coming through, the consumer confidence started picking up the activity started to pick up. And so, in the fall, you get a pretty good equilibrium going 4%, 4.5% growth of customer money movement out of our accounts, 4 trillion plus a year going in the economy versus the year before.

And interesting enough, as you come through the first part of this year in the first 40 days, we're up about 5.5-6%, call it. That's a little stronger than that may be leading to some of the price pressures and demand side is higher. You got to be careful at the beginning of the year, there's stuff that runs through, that's more -- you have to deannualize. But even on the card data, which is more consistent, that's 5%, 6%. So, the consumer is in good shape and spending, which is good news for the economy, but we've got to be careful that they don't start spending at a level that drives prices up and the inflation comes back in.

When you look at in higher rates affect the consumer in some areas, card purchases. Obviously, the mortgage market affects it heavily. But you have to remember, if you think about a consumer, there's 60-odd million, 70 million mortgage loans outstanding. They're all locked in, that's that part. The rental market rates went up and that caused stress in some consumers in terms of making rent payments, but the mortgage, they're fixed and are locked in. And it's -- in some cases, even though it's a liability, it's the best asset the consumer has is a 2.5%, 3% loan for 25 more years, is a pretty good thing.

So that didn't affect them as much effect on cards, an effect on new mortgage production, new housing activity. When you go over credit cards, the rate structure is more driven by sort of people borrow and people don't. It's not as sensitive -- when you go to the place it affects most is small businesses and middle market companies. They use lines of credit. The basis went from 50 basis points to 5 plus. That is a lot more borrowing cost, and so they slowed down their borrowing.

They have yet -- they picked up a bit, but they have yet to pick up a lot. So, we're getting new customers to grow our commercial loan balances above the industry, et cetera. But if you actually look at the uses of the lines by the current customers, it's basically 36% on average across middle market, small business. Think of that as being 40 pre-pandemic. So, they're using lines a little bit less more because they're trying to figure everything out, more because the higher rate structure, you've got to be damn sure that you've got a good activity. You can't guess if it's costing you 7%, 8% to borrow. You can guess a little if it costs you 4% to borrow. And so that difference is. So that's the most effective place.

The capital markets, the activity is high. Spreads are tight, stuff's going on. Hopefully, the deregulation we'll see activity. But the real bites in that mid-size and you've seen the effect of it, and that's where the Fed has to be balanced, even though inflation is higher and holding rates higher, and our team had taken all the rate cuts off the table, your team had taken all the rate cuts off the table for the year, et cetera. They got to be careful that the real drag on the economy is still around that business segment and the cost of borrowing is still high nominally from what they're used to. They will get used to it. It's not that high in historical measures, but where it came for 15 years, it's higher.

Ebrahim Poonawala

Maybe that's a good segway into we have a new administration in D.C. There's a lot of optimism around what that could mean around tax policies, just deregulation across the economy when you talk to banks and what it means for their clients, how do you balance that versus rates probably staying elevated? We've seen a lot of headlines on tariffs over the last week. Do you think there's enough out there for businesses to pull the trigger on big Capex investments? Or are most of them still in wait and watch mode?

Brian Moynihan

Well, if you think about the Capex of the hyperscalers and all the people around that industry, that's through the roof. If you look at normal things, it's solid, and the consumer spending is a little stronger business investments solid. And so, we see that and how people are using it. Look, our customers if you came through last year in the small, medium-sized sort of backbone of America business, they were really confounded by the regulatory stuff. Rates bothered them, but the regulatory stuff bothered them.

As you watch it come forward now, they're a little more worried about labor capacity, which is an interesting question when you think about all these policies and how that's going to work, and that's where I think the administrations have going to stick it through what choices they want to make, but the reality is regulation was a big thing. So, I think your team sort of the research platform. And then just common sense in talking to customers, ends up in the same place.

If tariffs increase cost, if inflation stays a little higher, I can handle it if I get some benefits from deregulation to reinvest in it. So, there's a belief that the margin expansion of deregulation will come. Taxes won't go up. And therefore, they'll have a little bit to absorb it and pass some price through the customer, and that mix will work out. We'll see how that plays out, but that's going to be attention to the system for a little while here.

Ebrahim Poonawala

I guess, maybe bringing the topic of regulation to the banks. We've had this view, and you can tell me if I'm wrong, but we may be seeing a bit of a regime shift relative to the last 15 years to a more balanced, predictable regulatory backdrop. Would you agree with that view in terms of we are moving there? And if so, how quickly can the industry get some relief on some of these?

Brian Moynihan

You don't have to take your or my opinion, you can see it take place. So, what's happening with the Consumer Bureau in terms of stopping and putting some people in, that point of view. They have to figure out the chart of that agency. The OCC is now getting people in place to go work and the Fed Vice Chair for supervision has to be in. But if you think and the FDIC has moved. And so, if you think of all that, it appears the first step is let's stop everything and take stock, and then let's figure out what the right thing to go in the business. That is a classic reengineering effort, which is you stop everything, assess it and then you go to the next step. So, what's going on in these agencies instead of saying, okay, let's keep going business as usual, and let's then figure out what to do.

They're saying if we stop everything, it's sort of the Hippocratic Oath. First, we do no more harm. And then we'll figure out what should go forward. I think the challenge for our industry is we got to make sure stuff sticks to the ribs. In other words, we got to have the right regulation rightsized for different types of institutions, rightsized for common activity on common regulation. It got past the point when we all pushed even sued the Fed to change it. The idea is we believe it should come back, but we also believe it has to be effective. And that's where we got to make sure we get a balance because if you just keep swinging this pendulum back and forth, it's hard to operate a company.

And so, some of these rules and regulations got way past what the intended statutes were, and Congress Administration is going to use their authority, bring them back in line. And whether it's the capital rules, whether it's consumer compliance-type activity, consumer laws, rules regulation, whether it's AML, KYC, and changing thresholds to make that much more modernized, whether it's -- but remember, there was a back

past in '20 -- whatever '22 on AML. It was never implemented. So, some of the stuff they just got to go do what they're supposed to do.

Ebrahim Poonawala

And just I think...

Brian Moynihan

Look, at the end of the day, we need a well-capitalized, high-liquid, strong industry. If you go back and think about the financial crisis posed to what we did is we took our lumps, recapitalized our industry, got the set of rules and here we are with the best managed industry in the world, making money, serving its customers very well. Customers have access and capabilities that occur nowhere else. We support that multinational activity around the world, the capital markets, and it works if you get it right, but it takes some -- and we got past the point now we got to bring it back.

Ebrahim Poonawala

Got it. And just one quick follow-up on that. We saw the BPI, ABA sue the Federal Reserve on the stress test framework, just give us a sense of, I mean, it's unique for those of us who watch this industry for a long time to see a legal challenge to the Fed. What does win signify like? What does the industry expect to get out of this in terms of the transparency that we need from the Fed?

Brian Moynihan

At the end of the day, the stress test capability and what we all do in our companies, a very good thing. The odd thing is, why would we -- we have had the lowest loss on stress test for almost every year. The volatility around the answer would go, I think we were 230, then 270, then 250, then 320. Like it's just 4 straight years with basically the key driving assumptions in a small quarter. Unemployment goes from where it is to 10%. The real estate market was down by 30-odd percent. The stock market was down, 4 years in a row, the things don't change, but the outcome was very different. And what we're saying is, wait, that makes no logical sense.

Now if you look at it a couple of years ago, remember, we protested the expense base. Counter -- we have a bunch of our revenue in the wealth management business, driven by market levels. If markets go down, it should come down. They wouldn't let us change expense base. They assume that we had to play all the financial advisers the same money next year if the market was down 50%, and the revenue we're getting is down 25% here. Like no, it doesn't work that way. Same with the team's investment bank. If there's nothing going on, we pay people a lot less. If there's something going on, we pay them more. It's -- and it wouldn't let you change it. And so those types of things, I think -- the frustration was no matter how many times we talked about it, we couldn't get through.

The lawsuit was more of a technical issue to preserve rights. I wouldn't be over worked up about that. But the reality is even the Fed Chair yesterday and many times publicly, he said, we're going to keep working on this thing to get it right. And the transparency of the models and stuff, it's interesting to the broad part of America, the last thing I'd want to do if I weren't a banking system is have to go look at models about losses or something like that, they think of it. All we're saying is --sunshine is a great killer bacteria or whatever the word is he used. It's the same thing. You put those out there and people are going to say, "Wait, that doesn't look right. That expense base should come down." And then hopefully, you can get the things more accurate.

Ebrahim Poonawala

So, more sunshine?

Brian Moynihan

Yes.

Ebrahim Poonawala

Maybe just bringing it back to the bank. -- if you can -- we've talked about 200 points of positive operating leverage. It feels like there's an engine in place for that. Give us a sense of how you think about in your seat when you're listening to all these businesses, the need for investments versus where these savings are coming from?

Brian Moynihan

If you think about the 8 lines of business we have, plus the control structures, we think about where we put money. At the end of the day, the common theme is, and there's common platforms like our cash management, GPS, we call it business or our employee bank investments business or workplace benefits business, those big platforms and then the operational platform, technology platforms. If you think about those businesses, we have plenty of capital that doesn't really affect it. It's really the question where you're going to put the next dollar of incremental expense either for people expansion or for technology deployment.

And so, we invest \$4 billion plus in technology code a year. We're driving that across the businesses. And if the -- you get to the point of how much can you do more than how much can you spend? And so, team does a great job at did you about seeing the team. We have a given day, 35,000 to 50,000 coders out there coding stuff every week and we do several million lines of code in the systems change and stuff. So, they are driving that. And so that's really the question, where are you going to add people.

So, as we look across the company, we're adding people is in the consumer business, the people stay flat, but you're constantly taking people out of the sort of operations side and putting them into the customer relationship side. So, if you go across, we had 100,000 people in consumer in 2010. We have 50,000, 60,000 today. You had about 10,000 people actually relationship managers. Now you have 25. So, you're making this massive change, and you keep making that change happen. So even though headcount stays flat, that reengineering goes on.

If you think about it, in the financial advisers, we're adding financial advisers. You think about it in commercial bankers, we add commercial bankers, business bankers, but what we do is constantly take it out of their side. And that allows us to keep the expense base from 2016 now the same nominal amount of dollars spent, which is pretty amazing. And yet the activity is much different, and that was taking out work that goes away and plotting it in front end. So, it's really a question of who's got the need for technology investment. We invest a lot in the cash management platform, invest a lot in international country build-out, invest a lot in the market, new markets for consumer. We've got 9 more coming. We've gone into -- basically we have a pretty good coverage of those markets, 165 new branches coming out, redone branches even to current markets. You start adding all that up 5 billion in branches across time, 4 billion a year in technology initiatives, 12 billion in the overall technology spend. But it's just -- it's a lot of activity, but it's never a question of we have to make a choice, honestly, it's really who can get the stuff done in a rational time frame that has the impact.

Ebrahim Poonawala

I guess just talking about digitization, talk to us a little bit in terms of the customer journey, like we've increased adoption from the consumer on digital account openings, et cetera. Where does that stand in terms of digitization? And also, maybe tied to that AI comes up in every conversation when we're thinking about debt. How big of a needle mover you think AI could be?

Brian Moynihan

So, digitization we put out the statistics, half our sales or 58% are digital today, the 42% aren't, that's -- there's 4 million cards last year. So, think about that number. There are a million net new checking accounts and 3 or 4 million gross. So, think about just how much you can change. So, the mobile check deposit, nobody writes checks any more. That's not quite true, but there's a lot of checks go through, and they're deposited. So, it just has a lot of activity, the current what we think of.

What we see with the combination of models now with AI models versus machine learning models and things and models in the past is a step change. So, what we see in Erica is 20-odd million people using it a couple hundred million times a - 175 million, 180 million times whatever it was last quarter. All that activity would have gone through a call even if it was a VRU call answered by machine. So that's a big pickup and the ability for it to learn and get better. And so, we took that model, which was built first 10 years ago before people knew what a large language or small language model was. It was effectively a small language model; we had it built for us. We put it in Erica. That model is trained on our systems and our procedures is exclusive to our data has learned. And so, we can bring that model to other places. So that model is embedded in CashPro now. That model is embedded in Erica for employees, which if you go into our company website or Internet for the employees and you click on it, you can change your password and all these things. It took half the interfaces that would have gone through calls to a technology specialist to order your equipment to do this. It took half of them off in 2 months. And then we've got to get the rest of them off.

So, the ability of AI to move this thing to another place is that in our coding, if you think we have 35,000 programmers in the company broadly stated, another 15,000 working first outside the company. And you say we can save 10% to 15% with the coding techniques that we see through this AI-developed code, that's a pretty good kick. Now will we get to 20% or 30%, maybe, but I'm in for 10% or 15% to start. That's a pretty good number. And we can reinvest that all. So, we can do 10% to 15% more business delivery and stuff. So, we think it's very good. We've got 1,000 patents issued and applied for AI techniques, and we're pounding away at it. And it's just going to have another effect. But don't unlink it from this long-term movement from work content being digitized, work content being driven by machine, work content going away. The difference this is it can attack different types of work. And so, let's think of a group that analyzes a lot of text, reformats it and puts it out, maybe called the research function.

Ebrahim Poonawala

I know I felt you were going -- keep going.

Brian Moynihan

And think about that. That's the difference. It can do that kind of work, which then you can sit in front of, and we get a lot more efficiency behind it. So, when Candace and the team said we need more analysts to cover these great financial services companies, so the way you think can this save the 10% or 15%, 20% capacity need. That will make you smarter, faster, more intelligently to access more data. It still has to have somebody in front of it because it can come up with some interesting stuff. I was trying to get a mortgage amortization schedule. I pounded into it 3 times, I got kind of something you couldn't read finally just got a picture of the house, because it gave up and just stood. And so -- and that's not right or wrong, it's just still learning how to do this stuff, and I'm learning how to do the stuff with it.

So, I think those things -- so that's the major difference. Before, if you thought about the people we had in Tom Scrivener's operations group, you engineered that and you did. Erica saved calls going to Holly's call centers that -- this is now wait in the legal department of 1,000 people, can we make a 10%, 15%, 20% better? The finance teams, can you do the kind of reviews and examination, which make Alastair's team better? In the risk side, 8,000 people in risk, can you start to shave the growth rate of that for -- look, we've run model-driven AML, BSA analysis, it's a very sophisticated model, but this helps to be even more.

Ebrahim Poonawala

Okay. It sounds like a multi-year runway in terms of this productivity boost for us, for the industry.

Brian Moynihan

It may be a cliff. These things tend to take time. And then remember, companies that your other teammates cover like a Salesforce or something, all these guys are betting it in their capabilities. So, Marc Benioff with Agentforce that you're hearing a lot of talk about Workday, all the major providers saw Microsoft and you had 365, they have to embed this. So, the race will be, do you want a separate model or is the dessert

coming with the dinner, right, for Salesforce buy and they embed it. The interesting thing is when it comes that way, you already have all that verification of all the data and all the information, which makes it easier to implement. That's going to be a tension. Do you want a separate big model? Do you want a separate small model? Do you want to model embedded? And the real question is the data and information that feeds that model explainable, because at the end of the day, despite other industries, this industry already is liable for anything it does .

So, if I underwrite a loan, our company underwrites a loan turns you down for mortgage loan, we're liable. We can't say "oh, the machine made as mistake." So, the reality is we already have – we don't need new regulation. No matter how you make the decision, you're liable for the outcome, if it's wrong and discriminatory or whatever it is. And so, the ability to do it, but the care is you got to realize you're liable for it, therefore, you've got to put a lot more controls on it, probably than can go on if I'm just asking some questions to the public domain.

Ebrahim Poonawala

Got it. I guess maybe just switching to some of our businesses. When we think about the consumer bank, I think there was an interesting stat we disclosed about \$500 billion of investments coming from the consumer bank and on the investment side, just give us a sense of is the consumer bank set up from a digital technology standpoint, incentives that are in place to increase wallet share from our existing clients?

Brian Moynihan

No, that's the way it operates. So, we have a concept called the stair step. And if you think about the broad American consumer, the first step is the core transaction account. The second step is the first borrowing account, typically a card, maybe an auto, something else the third then is the investment, and you walk up that stair step, and you're just in a home loan and an investment. And so, you're walking up that stair step with the consumer. And we don't think we're successful until we get to the top stair, which is the 4 or 5 core needs of every consumer in America covered by our company. And we think our products and services are better than anybody else. And therefore, if a customer is not getting from us, we're not getting the deal. And then the preferred rewards program knits that together and gives better value in some of the other rewards programs that we have. So that's the basic core.

But if you think about -- just taking investments. The other thing is you have to think across time and what we call continuum. So, if you think about investments, what we do with Merrill Edge, which is in our consumer segment, is think about it as basically getting investors with our company that at an early stage. So, 300,000 plus new customers year-over-year, average investment balance in those accounts \$7,500,000. So, these aren't small, these are big accounts and people have it. But they're not at the point where they can have a new service, which is FA model or the private banking model. So, the idea is if you do this right, what you're doing is pulling a whole bunch of people in. You got 100 people come in the door by math, by statistics, 20 of them will become wealthy enough that the financial advisory model will work for them, 20%, 25%. The other 75% will invest their whole life, and we can do it digitally. You can execute completely digitally and with the portfolios built from Candace's team to Chris Hyzy's team, you can do automated rebalancing so MEGI, which is Merrill Guided Investing has now \$30 billion, \$40 billion and that is automatic rebalancing, starting from scratch 5 years ago, whatever it was, up to that level.

And so, more and more investors or money into that, very cost efficient for them from the investment side. And that's a great model. What that does over time, if you think about it, a 25-year-old person making the first investment thing. So, when the first job starts more money in and out, they start to say they have to put it to work. We open the Merrill Edge account. And then that person could be you in 20 years, with all the wealth that you have. And now you're a private banking customer and you follow that continuum.

So, our job is to cinch off the competition. The bank industry traditionally had a hole between consumer and private bank the traditional banking. We all started working on that with securities -- financial advisory platforms. We have Merrill, which is a whole different size, scale and scope, but still the principle is we got to catch everybody and keep them for their whole life and that continuum with the capabilities that are the

best in class for Merrill Edge, the best-in-class for Merrill and the private bank says, you never have to leave here and we can grow with you, look or if you don't have a kind of wealth or that kind of demand or that kind of customer deep, you stay with Merrill Edge. And it's a pretty unique system.

Ebrahim Poonawala

Okay. Makes sense. Maybe switching to another business, Global Banking and Markets. I think forever, there's sort of been a narrative where the bank would be doing a lot more in the markets business. We've made a lot of investments a few years ago in that business. Just talk to us how these investments panned out relative to your expectations? And is there more runway that you see to invest further?

Brian Moynihan

So, this is markets. So, the serving clients out here, with research ideas financing, et cetera, as opposed to corporate and investment banking, which we can talk about separately. So, the investments we made in this business were really around 3 dimensions. One was people, talent, and expanding here in South Florida. We set in the team to build out a team because a lot of people move down here as an example around the globe, et cetera. So, one is talent and the trading talent, et cetera. The second is technology. And the third is balance sheet and capital. And so, the business we are running, say, in mid-2015, '17 range, you're running, I don't know, \$600 billion on the balance sheet in a given day, now you run \$900 billion so you expand the balance sheet fairly dramatically. A lot of that around financing capabilities and things like that.

The talent we're in every trading venue in the world, and we keep adding the talent we need and doing that, and then technology. In the end of the day, across global corporate investment banking and markets about \$1 billion of technology code in a year, new code, new stuff. It takes that kind of investment. And so, to run those businesses and markets is a good chunk of that and getting the data lakes and the information, be able to report the \$3 billion quotes we have a day or whatever the number is out in order and be precisely right. It is a tough thing.

So, what's happened is, Jimmy and the team have done a great job building that -- getting all that done talent technology, et cetera. We expand the balance sheet. And now sitting -- he's moved, gained market share against everybody, and moved up into the fourth position so far and we're 3, 4, 1, it depends on the businesses and locations and stuff. But the idea is the constraint on Jimmy's growth is to make sure that we can get the customers to do more with us as opposed to whether he takes down another \$2 billion of capital was kind of meaningless or whether he has a built balance sheet, you have to be careful the GSIB calculations and all that technical stuff, but they do a great job, and we're pushing on them. And -- but you can't tell them just to grow, they have to grow and make money well.

And so, the best thing they've done is lower the breakeven for a quarter by \$1 billion a quarter. So, in other words, they dropped the level which we make money in the quarter. So we used to make money like 3 quarters and then you lose a little money in the fourth quarter when activities settle down or -- now it's basically, you make money every quarter and that range is over \$1 billion to \$0.5 billion or more or less, and that's pretty good, but that was by cost exercise or dropping the breakeven, it's like \$2.5 billion of revenue from \$3.5 billion in revenue.

Ebrahim Poonawala

Got it. I guess maybe just switching to the other part in terms of optimism around the rebound in the investment banking wallet, how would you characterize our franchise and our ability to actually gain market share?

Brian Moynihan

Well, we've been able to do that Matthew Koder and the team, Alex, Thomas on the investment banking side, Lisa Clyde. So, we continue to gain share. If we're sitting at 3, dog fight every quarter. But -- and so in the glass half full, the fees, \$1.6 billion a quarter you feel good about. And the glass half empty, that's still where we were in '19 and the size of transactions has gone up and the numbers of transaction trying to pick

up. So, we've got a lot of room ahead of us. That was going to take a different regulatory environment for M&A deals, especially. And so, those have been around a long time.

Even in this industry, clearly, but even in other industries, any deal, \$3 billion, \$4 billion or \$5 billion, the advice you gave the client, Jeff Peek is out there, the advice you had to give a client was you really got to be sure that you've got the antitrust possibility read right. And a client to look at you and say, you got to kidding me because they have lawyers to tell, and that was a reality. And so that's now probably changed, and you're seeing that go through. So, there's enthusiasm that a lot of conversations can allow for structural consolidation in the industries, not just our industry but across the board and ability to make those strategic buys. Now pricing and everything else has to come true. The stars have to align. But if all the stars align, it took you 2 years to get a deal done, not everybody had the staying power to do that.

And then in this industry, I think it will be much different especially -- not for us, we can't make any transactions because of the limit has been for 30-plus years in deposit size and stuff. So -- but for the broad industry, the capabilities of doing the deals are high. So, we feel good about that. So, pipeline is strong. The IPO pipeline is strong. We've got to make sure we get enough stability in the market for that IPO pipeline to pull through. The IPOs have traded up last year relative to the market, which had a strong year. The IPOs were up stronger. You've got to broaden out those IPOs a bit, but we see that. And we see the owners of those companies really want to get into market and willing to be pretty realistic about getting some liquidity versus top dollar. And so that ought to come through, but we just need a little stability.

You have the discussion about all these policy changes has to settle in for people to do it. So, we feel pretty good about it. So, the teams, they're doing everything we thought we'd do this quarter, and we'll see how plays out. It's still pretty early.

Ebrahim Poonawala

Got it. I guess maybe switching gears to the wealth management business. Talk to us in terms of when you think about the growth drivers for wealth and even the private bank and maybe spend some time on, you mentioned the integration like I talked to our FAs all the time, and it seems like they find it a competitive advantage to have the bank behind them when they're talking to their customers. Just talk about the power of that integration that the bank's achieved.

Brian Moynihan

So, I think there's a couple of ways that make it a little unique. So, when Merrill and Bank of America came together in the first day of '09, there was a lot of stuff going on out there for a while. But basically, if you looked at it sort of thoughtfully, you had a financial advisory platform and there's a thing of AI, which is the Bank of America piece that went in. You had a bunch of loans deposits with what was then called the premier business that went in. So, you end up with a much different business profile, more loans, more deposits, big wealth management business, a business that is still going through the change from brokerage activity to AUM activity, et cetera. But what you also had was Merrill had 600 offices. And about 1/3 or 1/2 of their offices were in places we didn't have retail banking. So, if you take Columbus, Ohio as an example, Merrill had a nice office there, a nice series of offices there, actually, but we had no brand structure.

So, the question we've been at over the last few years is as we build out in the cities over across America, one of the advantages we have is our digital capabilities and then the Merrill teams and some of the other businesses there that we can actually open up a lot of customer relationships quickly. And so that's sort of the things. Then on a given day, look, if at end of the day if you're providing holistic wealth management device to client and you only have a sliver of their relationship, you're either underserving them or they really don't trust you to the level that they say. So, the question is, you ought to be able to get everything. And so, some of that's more routine transaction accounts for the family and the kids and all that stuff. Some of it's very sophisticated, lending against other types of stuff that we have a great practice and some is very sophisticated in terms of estate planning and all the intricacies of all the different holdings and all different types of things because if you look at a customer, they're going to have pretax holdings, after-tax holdings,

trust holdings and this, you had to figure out how to do it. It's an integrated approach leads you to get more stuff.

In the backbone that sits behind the private bank at Merrill, whether it's the trust capabilities, whether it's lending capabilities, whether it's the just the stock execution capabilities, all that is all a common platform that everybody can bring. And as we watch it play out, \$280 billion in deposits, trying to think of loans in the Wealth Management business. And loans, I don't know, \$100 billion or so, whatever it is. And those are margin loans and art loans and what we call mortgage loans, it's a big banking business. It's a big wealth management business, and that's good because it has a lot of customers. And at the end of the day, you're serving the customers' full needs. And we're not asking a customer to accept some inferior service. We're an acceptance of the highest rate of consumer transaction banking capabilities, personal capabilities there is, where I accept the best trust company in the world. These are not like come we're going to give you something that's off brand and we're giving you the best there is. And so that capability over time, we're just seeing that happen. That means those customers are even more loyal, bring more to us, tell their friends, and that's all good stuff.

Ebrahim Poonawala

A couple more. One, just talk about international and Bernie's business. We've invested a fair amount internationally. Just where we are in that investment cycle, what the aspiration is?

Brian Moynihan

Yes. And so, we -- if you look across Bernie Mensah that has the international business, his job is to coordinate with Matthew and Jim and Mark Monaco and the TPS, Lisa Clyde, Alex, and Thomas, all the activities across the world. And Bernie's got -- you got to manage all the legal entities and make sure all that happens plus he's got to lead the customer interfaces, policy interfaces. So, he does a great job doing that. But if you think about Bank of America, at the end of the day, we serve global clients for their investors, where they're large companies across the world. And so, in the markets side, we've been -- we've pretty much been in all the major trading venues. Everything was fine. It was sort of building out capabilities, a little weaker in FX here, a little bit stronger here, to be able to do it. So, we've been doing all that.

In the banking business, it was more getting coverage evened out across -- even in investment banking across industries and across locales, and the team has been doing that. In the commercial banking business, the corporate banking business, it had a lot more to do with cash management than corporate banking. And so, we've been investing heavily in cash management. So, a fellow named Mark Monaco runs that business for us, and we put several hundred million dollars a year in building out capabilities. And that's where we're seeing a lot of market share. So, our global banking business has \$0.5 trillion plus of deposits. It's been growing much faster the industry, and that's largely due to those cash management capabilities on a global basis. So that -- now at the end of the day, Bank of America's global banking business, global corporate investment banking has more loans outside the United States than it does inside the United States, believe it or not. It's just the nature.

So, it's a big, it's \$130 billion of loans. It's a big business for us. And then Bernie's job is to make sure it all works and then the team has to execute one client at a time. Recently, we -- with the disruption that went on in Switzerland, we added some bankers to go build and our team there, so we doubled the size of the banking team pretty quickly in Switzerland to not only cover the larger clients better and with more breadth, but also beneath that to actually cover another size down of clients. And so, countries that we feel confident that we can understand it and our cash management capabilities are there that we can make money. We are now pushing into the U.K., Switzerland, Germany, we're going down a little bit in size of restriction in an effort to drive the business. And so -- it's -- they do a good job.

Yes. We don't look at it as international versus domestic, and that sometimes, it's hard to explain our take. We look at it as clients, who are global clients, we got to serve them everywhere. And the research team has to. If you're going to research, financial services, you've got to know the whole globe's financial services

outcome because people -- your clients are buying it. If you got to research auto, you've got to know the whole globe's auto production, et cetera. So, we have teammates that specialize in Chinese auto companies and German auto companies, the U.S. auto companies, put that all together, we have a read. So, I think it's -- these are global companies we have to follow, and we've done a good job.

Ebrahim Poonawala

One last one for me. Just talk to us about capital allocation and maybe even touch upon the dividend payout ratio for the big banks, 30% has been viewed as an implicit sort of cap around earnings payout. So, one, how do you think about the dividend payout? And then how do you think about excess capital funding the business versus buybacks?

Brian Moynihan

So, I think, number one, the -- whether these hold true forever, what they've held here in the past is if the dividend payout ratio stays below 30%, you don't have to cut it and you can go back and look at that research and do it. The second is if you have 6% tangible common equity, banks don't fail with that much tangible common equity. So, there's a sort of resolute, let's keep the balance sheet fortress and drive it. So, we've always done that.

Now how can you increase the dividend, you grow the earnings. And then secondly, you take share count down. So, the same 30% of an earnings number is a higher per share because of shares -- so you have that math going in your favor. So, we've increased the dividend 8% this year and it keeps moving forward. But by keeping it low when the pandemic hit and our earnings went from \$30 billion to \$17 billion, our dividend coverage is \$8 billion. It wasn't close, right? And so, you just -- that was never the question. And so, you always want to be able to keep that going forward. Then when you think about \$1 capital earned, our principal has always been about 30% out in dividends, the other 70%, first is there to grow the business and whatever they need. And then after that, the rest goes to share buyback.

The reality is we're sitting with extra capital. And the reality is if the math gets cleaned up, the GSIB indexing, things that make general sense, if you have a number calculated in 2012 and it's 2025, you might want to look at the calculation. We're not radicals here. We're saying the economy is growing a lot. We've kept our size and now we're presumably bigger. If that changes, then I think we'll have more to send back. Right now, we're sitting on the excess capital. So, the capital to grow demands are -- if you think about it, we put \$100 billion of loans, that's \$10 billion of capital. So that's not a big demand in the grand scheme of things. In markets, the capital is there. It's really the impact on some of the calculations. So, the amount of use of capital to grow the business is relatively straightforward, then the rest goes out.

And if we get relief that the 11.8-11.9 that we report today is \$25 billion more capital than the 11.9 we reported in 2019 to get the same calculation. That's what's been going on behind the calculation seeds. And so, we're saying if we can get that ironed out that why does it take that much more money to report that much stuff. It's all just RWA calculations and stuff that have been -- we're saying wait a second, the risk hasn't really changed. And so, if that happens, we should have more capital to either grow the business even further without having to ever retain more capital. But right now, we're basically -- we pay out the dividend and the rest of the capital goes back out in the market because, yeah, we grow about \$1 billion in capital, kept the quarter maybe more or less, and that's just funds, the incremental growth in the balance sheet.

Ebrahim Poonawala

We are out of time, I just wanted to see if there's any room -- if there's any question in the room, but if not, Brian, thank you so much. Thank you all for doing this.

Brian Moynihan

Thank you.

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