US Banks: Reading the Tea Leaves

Scratch that

Industry Overview

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Equity
United States
Banks

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Bipartisan pushback to Basel NPR opens door to changes

Bipartisan pushback to the “Basel End Game” proposal opens the door for changes or even for a potential withdrawal, as demanded by members of the House Financial Services Committee last week (see **Appendix A**). The proposed rules could push capital levels for the largest US banks +20-30%. This could: 1) place US banks at a significant competitive disadvantage vs foreign banks (subject to lighter requirements), 2) push financial activity to the lightly regulated non-banks (and to less stringent jurisdictions), 3) hurt credit availability to the US economy and liquidity in the financial markets. The current proposal ignores the significant duplication created vs. the existing regulatory framework and the de-risking actions undertaken by the US banks over the last decade. *See **Appendix B** for commentary from bank mgmt. teams on impact from Basel rules.*

Will deposit stability hold?

Several banks have recently talked about expectations for moderating funding cost pressures which are expected to lead to a degree of stabilization in net interest income (NII). However, with another Fed rate hike looming (market pricing-in 25bp increase in November) and $100bn/month in QT ongoing, the risks to 2024 NII outlooks remain skewed to the downside, in our opinion. Our investor conversations indicate a healthy dose of uncertainty tied to depositor behavior in a higher for longer rate backdrop and given the continued draw down in excess savings.

Self-help launched: Citigroup, Truist, PNC tease

We expect banks to prioritize expense actions over the coming months to defend 2024 EPS against declining NII by keeping expense growth in-check. RWA optimization also front and center with mgmt. teams focused on customer primacy and given the desire to boost capital / liquidity. While shares of Citigroup-C, Truist-TFC, PNC Financial-PNC reacted positively to messaging from mgmt. teams, we expect efficiency initiatives (balance sheet and opex) to be a buzzword when banks report 3Q23 results. *See **Appendix C** for mgmt. comments on expense actions.*

Buy the first Fed rate cut?

Upside risk to interest rates remains the most significant risk for bank EPS outlooks given the headwinds posed to growth/margins/credit quality from a higher for longer rate backdrop. Conversely, confirmation that the Fed is done could potentially serve as the clearing event that longer term investors (and we) have been waiting for to get more constructive. Obviously, the economic damage between now and then will be a significant factor in determining the severity of the coming credit cycle.

Stocks to watch: WFC, KEY, GS, C, WAL

Wells Fargo-WFC focus on exit NII/expenses as Street assesses 2024 outlook. KeyCorp-KEY NII tailwind in 2024 well understood, clarity on EPS (downside risk) due to RWA mitigation should help. Goldman Sachs-GS should benefit on IPO sentiment. Citigroup-C could garner interest if self-help from expense actions gets pulled forward, boosts confidence in achievability of mgmt’s 2024/25 targets. Western Alliance-WAL viewed as higher beta, but 15%+ ROTCE could be hard to ignore if no credit surprises.

Relevant research

Canadian Banks: Should the OSFI raise or lower the DSB? 15 September 2023

KeyCorp: CEO/CFO meeting takeaways: EPS power nearing inflection 13 September 2023

US Banks: Reading the Tea Leaves: Fragile 05 September 2023

US Banks: Talking Stocks: Solving the wrong problem? 04 September 2023

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Appendix A: Concerns voiced by members of Congress on Basel proposal

Ahead of a hearing in Congress last week entitled "Implementing Basel III: What's the Fed's Endgame?", members of the House Financial Services Committee—led by Chairman Patrick McHenry, sent a letter to Federal Reserve Vice, Federal Deposit Insurance Corporation (FDIC), and Acting Comptroller of the Currency. Committee Republicans demanded that the regulators withdraw the Basel III Endgame proposal due to its flawed scope, depth, motivation, and process.

Excerpts from the letter highlighting key objections by members of Congress:
"Over the past two months, your agencies have released numerous proposals that lack sound rationale and economic analysis. Your opaque approach raises serious questions about the long-term impact these actions will have on our financial system and economy more broadly. As currently drafted, these proposals will undermine core principles and risk models that serve as the foundation of our financial system.

"Republicans have raised concerns about your motives for such proposals from the start. Vice Chair Barr, your announcement that the Federal Reserve's (Fed's) Vice Chair for Supervision would conduct a 'holistic review of capital standards' was the first signal that politics would compete with data when it comes to supervising the financial system.

"The need for a 'holistic capital review' was unclear given the strong performance of banking institutions during the COVID-19 pandemic – a position later confirmed by the Fed's own stress tests. Despite repeated requests for information by Congress, details about the holistic review remain scarce. It wasn't until the release of the Vice Chair for Supervision's self-assessment of the Silicon Valley Bank (SVB) failure that the Fed's political motives were made clear.

"It appears your goal is to effectively rescind S. 2155, the bipartisan Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 through your recent underdeveloped Basel III Endgame proposal. The deficient proposal would massively raise capital requirements and has been appropriately met by opposition from members of the Federal Reserve Board and FDIC Board. Even Governors at the Federal Reserve who supported releasing the proposal for comment expressed deep reservations about its impact.

"The Basel III Endgame proposal is problematic in many regards, specifically in its scope, depth, motivation, and process:

"Given those fatal problems with your Basel III Endgame proposal, we urge that it be withdrawn. The proposal should be replaced with one based on sound, objective analysis supported by data, not one plagued by politics. It's critical that you engage with Congress and stakeholders, as well as the talented pool of analysts within your agencies and Boards. Your agencies could then arrive at justifiable regulatory changes that address immediate problems and adhere to your missions of promoting safety, soundness, and stability in the financial system."

Appendix B: Excerpts of recent bank management comments on potential impact of Basel end game proposal

Exhibit 1: JP Morgan (JPM)
2023 Barclays Conference

JPM
But we take it the way it is, based on what we think today it's 30% more RWA. I don't know where they came with their 19%. I just I'm missing that. And it's 25% more capital. And, you know, we will be forced to optimize in a million different ways. And the NPR probably won't be all the way there. But every single thing was put in the outlier.
I mean, we are buying back stock at a lower level. That can continue all the way to the end of 2024 and we can meet our new capital requirements. So, it will be less than we might otherwise have done. But right now I'd rather wait and see. I'm also quite cautious in case you didn't get it about the environment, more cautious than other people. I think there is more potential odds of a accident of some sort than other people think.
I look at this major issue about we've gone from, in America, in 1996, 7,300 public companies to something like 4,500 today. So it should have gone from 7,300 to 14,000, with the growth – the economy growth. Private equity has gone from 1,000 to 10,000. Why is that? Are we better off by having less transparent private markets than public markets? So I think there's a whole bunch of strategic issues they should have asked, thought, analyzed, shared some of the cost benefits, shared some of their thinking about all that kind of stuff.I also think that the short run, like the next couple of years is very different than you look at the long run. I think if American banks have to hold 30% more than competitors around the world, that is a huge negative over long period of time. It may not be a negative over a short period of time because of the positions we've all built up. But basically, it means -- what it should mean is I'm going to have -- certain things should not be held in the banking system. That's what it means. Almost all loans are bad. Just let's face it, almost all loans are bad. And the other thing we have to look at is, what does it mean for the consumer, like small businesses, mortgages, middle market loans, and it will cost more in credit.

Source: Company websites, Bloomberg

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Exhibit 2: Bank of America (BAC)
2023 Barclays Conference

BAC
We've seen the popular press, say, the big G-SIB banks to be up about 20% or so. And we think that's a reasonable starting point for the mix of our business. Now that, of course, assumes that there is no changes to the current rules.
If you took our Q2 RWAs and just and just close to up by 20%, you're going to get to a number like \$1.95 trillion that would imply we're going to need \$195 billion of CET1. And we ended Q2 at \$190 billion. So, it gives you an idea of our gap and we've been adding pretty significant clip of CET1 each quarter. So, we should be able to get there in a quarter or two.
Question: So, a lot in there. So, maybe buyback on hold for the back half of this year and then you kind of rethink next year to get to where you want to be? Answer: What we said at Q2 that we were going to prioritize right now just on capital build because we wanted to see the final rules come out and then we wanted to see how this might all impact. I think based on where we are, we may have a little more flexibility there, as we go into the fourth quarter and as we get into next year (00:30:48) finalizing some of the stuff and we'll give an updated earnings on how we're thinking about.
And by businesses in America, who are the ones who ultimately going to pay for this. First, I mean, we've talked about this before, but there's a significant amount of double counting (00:31:22) in the markets trading RWAs and in the operational risk RWAs, at least as it sets up relative to the stress capital buffer test. So, that's a significant point of difference, I suppose in point of view, so we'll see how that goes. I'd say third, if those are two, third would be G-SIB inflation. Now that's one of those things where it was always anticipated that along the way, Basel 3 endgame we might have a place where the G-SIB numbers stop inflating based on nominal and start to be adjusted for the size of the economy, that would be meaningful, that's a meaningful thing to the very large banks and at some point it's appropriate that finish. Product, I think we're still left of the product by products. We will look after and we'll evaluate, so mortgage has a higher RWA to it. So we'll do some pricing actions we have to take. We have to look at balance sheet loans. We have to look at the appropriate. We have to evaluate that at a different higher capital level, unused credit card lines, other one is a capital charge there, so how does that impact our strategy, where do we go.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 3: Wells Fargo & Co. (WFC)
2023 Barclays Conference

WFC
And so at this point, the industry average I think is about 20%, like whereby it around there may be slightly under -- slightly about 20%. And so that's what we'd expect if nothing changed in the rules.

Exhibit 3: Wells Fargo & Co. (WFC)

2023 Barclays Conference

WFC
So you -- if you took our second-quarter standardized RWAs and it's kind of up 20%, we're already there in terms of minimum plus buffers. We're slightly above that, right. And so the question just is for us nothing changed the question just as how much of a buffer do we want to have and when do we want to build that. And then what mitigation actions, so we want to take to offset where it is.
And we have been buying back stock this quarter. It's at a slower pace than what we saw in the first-half. And as we go, we'll -- given what I've said in terms of where our position is and what we would expect coming from the changes, we should -- we will continue to have the ability to buy-back stock and we'll make decisions on exact pacing as we go each quarter. But we feel really good about our ability to give -- continue to distribute capital back through buybacks and we'll decide how fast based on all the other factors that go into that each quarter.
There's also a number of things as you sort of look at the underlying details of it that we're hopeful as people go through it that there's just some common-sense changes that got made, right. And so I know others have talked about some of these as well, you look at the way investments that people make into renewables is treated 400% risk-rate, it just doesn't seem like it's calibrated to the risk that's there and the priorities that are there. You can look at how private investment-grade like companies that are private is treated relative to public companies. And so there are a number of things that I think will engage with the agencies on to help show the impact of these things might have in terms of the incentives that might have as you look at each of the portfolios. But as you would expect, there'll be a number of things that we can do and others can do to offset some of the increase that will be there. And then -- but we're hopeful that some of -- there'll be some changes that get made that offset a little bit of the increase that it seems like it's embedded.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 4: Morgan Stanley (MS)

2023 Barclays Conference

MS
We have a pretty good track record of working through new capital rules. And so we were prepared for a whole bunch of outcomes and we were carrying a fair amount of excess capital coming into that announcement. What that means and with all have got around really fluid, the transition, the timing, what the final rule is. But as written and fully phased in, our initial estimates are that our capital will be approximately in and around the regulatory requirement at the end of the phased-in process.
Yes, I don't think it's going to -- it's not changing the strategic trajectory of Morgan Stanley, but the rules, as proposed, the initial proposal is very negative for a U.S. consumer, U.S. economy. It's pretty clear. It's been commented on that it will raise credit expenses and probably credit accessibility out there. I think the other element that you're hearing is it's incredibly inconsistent with the process we've been going over for the last decade around CCAR, extreme severely stressed scenarios where if you think back over the last several years, the banks proved to be very, very capitalized. I think it's also inconsistent with the real world. So the last decade, the banks, the large banks, all dramatically raised their capital bases and all played a really important role around the strength and stability of the global economy in real tasks, right? Pandemic, inflation, and rates, and then this spring around some of the mid-sized banks, the financial and liquidity is real direct stepping up out of the large banks. That's a bit clearly something that we're focused on

Source: Company websites, Bloomberg

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Exhibit 5: Toronto-Dominion Bank (TD)

2023 Barclays Conference

TD
Yes. There's nothing underway, what is explicit as the Basel III endgame rules presently. But as you as you can imagine regulators around the world tend to converge over time. So certainly, sort of Canadian [indiscernible] some of these proposals, they will assess whether it's appropriate for the Canadian market or not. I would say with regard to the endgame rules itself, I think we find ourselves with more than sufficient capital buffers to be able to step into whatever proposed regime it takes place. And that I think that gives us a degree of flexibility. The fact that we're global G-SIB means that on some of the TLAC and other recovery that related measures have been introduced, announced by the FDIC, that we're already ahead of that curve as well. And I think that's a huge advantage. And liquidity, while nothing's formally coming out of liquidity, I think likewise, given our – given what we talked about, also do you think – where I think – we find ourselves. So I think what we're most focused about is regardless of what the final combination is presented. I think it's important for us to be in a position to continue to serve our clients and to be able to grow our franchise.
I think there are some areas in the endgame rules that do create some pause, some of the increased capital requirements for mortgages. But from a policy standpoint, it's historically been an area that both government regulators accept and wanted to support. I think that's an area that we want to take extreme, that there isn't anything that we might and [indiscernible] mortgage lending in the country. I think likewise in some of the other areas, access to consumer credit, we don't want to increase capital such that certain segments might find themselves not having access to credit. But, you know, distinctly there's some elements of the proposal that I think will merit a harder look. But on balance, I would say I'm not surprised by the proposal that being presented. I think they reflect, regulators wanting to make sure that they whether industry for, what might be the next set of concerns.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 6: Goldman Sachs Group Inc (GS)
2023 Barclays Conference

GS
I know a number of other people here have commented on impact as put forward for us these rules if they went in place as put forward would increase our capital by slightly more than 25% Slightly more than 25%. But I'd also highlight, as you know, when we were actually talking before, you know, the industry has been very nimble at adapting to the rule set. And so, you know, as the rule set comes forward, as it evolves, you know, the industry will adapt and the markets will adapt. I think the question we really have to answer, is this good for the system? Is this good for US competitiveness? Are we doing the right thing? Is this enhancing safety and soundness? More capital does not necessarily enhance safety and soundness versus creating other friction.
Yeah. So, you know, with respect to capital, we view ourselves as stewards of the capital that's granted to us at all times. And through this transition, we certainly feel we have an enormous responsibility to continue to steward that capital. We've been very committed to capital return and making capital return more consistent. It's one of the reasons why we've tripled our dividend over the course of the period of time from 2019 to now, and we just raised our dividend by another 10%. So we continue to be committed to that, that consistent capital return. You know, obviously, at this moment in time, we said at the end of the second quarter and the third quarter, we would increase our buybacks from second quarter levels. As we move forward from here, we will continue to do buybacks but at a lower level given the uncertainty, and we'll obviously evaluate and be nimble and flexible and see as we learn more as we go forward from here.
Yeah. So -- I mean it's a big rule proposal. I'd say the most significant change to the regulatory -- the regulatory rules since the financial crisis and Dodd-Frank. If you go back to Dodd-Frank, I think it's important to recognize that coming out of Dodd-Frank, the largest financial institutions materially increase the capital, I think 2X plus, materially increase their liquidity, materially decrease their leverage. The largest financial institutions go through a rigorous stress test every year. The largest financial institutions also have been through some real-world stress tests over the course of the last five years and have performed well and have really been very steak and very constructive at difficult times. And -- so I think the large financial institutions are in very good shape. So you have to -- I think when you look at this, you have to ask the question what are we trying to do? What are we trying to accomplish? And if the answer to that is to make the system more safe and sound, it's not clear that more capital is the best answer to that and there are tradeoffs. And so is this the best way to do it I think is a reasonable question. So I then think you've got to step back and say, okay, that's a complex question to answer, but what do we know based on looking at the proposal? Well, there are three things that I believe based on the proposal that would absolutely be true if it went into place. The first is the cost of credit would go up for big companies all the way down to small businesses. The second is that the US competitiveness in capital markets would decrease. And the third is that more activity would be pushed out-of-the regulated part of the banking system into the unregulator-to-shadow system.

Source: Company websites, Bloomberg

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Exhibit 7: Citigroup Inc (C)
2023 Barclays Conference

C
Q: So I guess, any -- in terms of kind of RWA inflation, any kind of thoughts in terms of that number would look like today, understanding that things will change between now and then? A: Again, I would say -- what I would say to that, Jason, is, again, a lot of the analyst work out there would suggest, again, somewhere around a 16% to 20% impact on capital. We'd probably be inside of that range, again, just based on the way the world looks for us today but notwithstanding the work that we would do against whatever the proposal ultimately looks like.
Q: And then as you think about the new proposal against that 11% to 12% RoTCE target we talked about earlier, does this have a -- how does this kind of factor into that? A: Our target remains 11% to 12%. We will take whatever the final proposal looks like and get to work against it.
And importantly, I should take this opportunity to mention that Jane and I have been talking about looking at buybacks on a quarter-by-quarter basis. We expect to do a modest level of buybacks this quarter here in the third quarter, again contributing to our objective of returning capital to shareholders, but doing so in a responsible way in light of the regulatory environment that we're facing.
I think that there is a unfortunate difference in the way it's structured between how US banks will be treated versus international peers. I think the timeline for implementation is inconsistent with what we've seen in the past. When I look at, you know, some of the underlying components of it, one that jumps out is operational risk, not only the magnitude of it, but there are certain aspects over that are duplicative with the SCB. And so, you're kind of getting hit multiple times for operational risk. There are elements of it that are inconsistent with the Basel standards. So the Basel standards kind of call for, you know, a flat onetime internal loss multiple -- multiplier and, you know, this allows for a floor, therefore, suggesting you could have even more upside to that. So there are a lot of components to it. We intend to be very vocal as we advocate our position, as it relates to this. But here's another important thing to keep in mind on this, Jason, which is we will be vocal, we will be advocates for our position on this likely with peers in the industry.

Source: Company websites, Bloomberg

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Exhibit 8: US Bancorp (USB)
2023 Barclays Conference

USB
They added about 20 basis points. So, our expectation right now is to get to about 9.7% by the end of 2023. And then, back to end of 2024, on a fully-loaded [indiscernible] (00:11:10), we still expect to be 8.5% to 9%. So, that's consistent. And that's a function of both the earnings accretion, which is 25 basis points a quarter. It gets to 25 basis points once we have the [ph] full take-outs (00:11:21), which we continue to expect. The second thing is the RWA optimization, and the third component is just normal [indiscernible] (00:11:30). So, 8.5% to 9% still is our expectation [indiscernible] (00:11:36) at the end of 2024. That would be the earliest that we would go to Category II. We continue to work with the regulators on our balance sheet in terms of our risk metrics and so forth. And the second thing is the activity around the new Basel III endgame, which is changing the game a bit in terms of the transition period, so.
Yeah. We're largely compliant with the long-term debt proposal as it's constructed to-date. There may be $1 billion or $2 billion that we have to do over a three-, four-year transition period, plus some nominal buffer that we'll have to determine, but we feel it's a non-issue. I mean, if you think about our issuance, we tend to issue $8 billion to $10 billion a year. So, in terms of getting in compliance with this rule, it's going to be seamless to our balance sheet.
But that's our expectation and that's consistent. John will talk about the impact of the Basel III endgame, but it is high-single digits for us as we think about it. And I'm looking at the chart here, so it's fairly consistent with the expectation of 5% to 10%. So, high-single digits is what the impact is for us.
Yeah. So, the Basel III, as I said, is high-single digits impact to us. As currently constructed, I expect commentary and changes over that for the consequences we talked about.
Well, one of the things we have to finalize is the – around new Basel III endgame proposal and what those end targets will be. And once we have more clarity around that, we will strive for a capital ratio that's appropriate in this environment. And then, go back to those priorities about reinvestment in the business, dividends, and buybacks in that order.
Yeah. I think the impact is as – the focus of our comment letter and many banks, I'm certain, will be not so much the impact to the bank, which is going to result in some increase in capital, which is manageable, but the increase and the impacts to customers and communities and small businesses. That's what we're going to focus. In those targeted areas. Yeah. So, it does have an impact on mortgages that are put on the balance sheet. For us, it's not hugely material because the quality of the mortgage that we put on the balance sheet are such that it's basically neutral from RWA standpoint. However, I will say that the impacts on higher loan-to-value mortgages will have an impact on the communities, the low and moderate income communities that, I think, is going to be certainly part of our comment letter and many comment letters because we have a number of special programs, they're not huge, they're not material, but they're impactful to those communities. And those are the areas that we're commenting on and focused on. And the other one I mentioned is the card side. So, unutilized credit lines will now get an RWA calculation of 10%. So, the natural tendency for the industry will be to maybe lower the [ph] credit availability (00:33:48), which is also impactful to those individuals, as well as impactful to the credit scores. So, those are the [ph] comment (00:33:55) areas that we'll comment on in our Basel [ph] response (00:33:58). Another area, since we're on that topic, is – renewable energy is another area of topic that we would – will comment on. So, going from the equity investment related to renewable energies could go from 100% to 400%, which is hugely impactful. We think counters to some of the things that administratively the US is trying to accomplish. So, all those things, the surcharge just in general relative to the credit book and the things that Andy talked about in terms of credit cards, it all adds up and it does impact clients quite a bit. And those are the things that we'll be discussing.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 9: PNC Financial Services Group (PNC)
2023 Barclays Conference

PNC
Q: So, the buy side thinks up 15% to 20% and you think it's more flat up to 5%? A: Yeah. So, in simple form, if we mark to market today to the best of our knowledge and we're digging through some of the details, we'd go from a 9.5% print at the – under the old Basel to a 7.5% print. And so, a 2-point drop, inside of the 2-point drop, it's probably 1.6% and change (00:04:05) from AOCI and the rest is a mix between the syn bucket and a little bit of op risk up, offset by the credit risk down. So, it's not a huge deal. I mean, the basic proposal, I guess, there's a lot of things you could tweak at the margin, I think
Yes, so, so many ways to answer that. We've operated call it between 8.25% And as a target, we've kind of always never gotten down to our target. We're sitting at 9.5% today. By the way, with the phase-ins on this thing, we'll be over 9%, our best expectation absent a lot of buybacks the whole way through the phase-in period. Our presumption here is that we'll have to run at somewhat higher capital, haven't figured that out yet, at least for the near term, both because of rating agency reaction and also just uncertainty in the market. Theoretically, we could actually run lower just because they put the opera's capital in pre-stress test or draw down all else equal should be somewhat less. We're not going to do that, but practically you could, I think. So, we're in a period of time right now where I think you, because of the uncertainties that still exist, you build capital. We're in a position where we don't have to change a thing in terms of our operating model to comply with these rules, which is a good place to be.
Look, we'll play it through, but I guess, I would just say if you're -- if you were adding assets to your balance sheet simply because you had excess cash, that was probably a mistake, and now you're trying to subtract them. We've always kind of focused on client-based assets, and we're in businesses we like to be in, and yes, we can, we continue to grow. I mean, just give you an example. Indirect auto, a lot of people have been getting out of indirect auto. Prices got really tight in indirect auto, so our balance has declined for the better part of a year. Everybody gets out, spreads go mile wide, and we're in there and making money. So, I don't -- we don't have to nor do I want to mess with anything that we're doing. We chose the businesses on our balance sheet carefully.
So, first of all, it's part of the, it's one of the few parts of the proposal that I agree with. I mean, is it tailored exactly, right? Is it set up exactly, right? I don't know. But we clearly saw in some of the failures that went through FDIC, this lack of debt impacted and increased the loss to the DIV fund. We're at a place right now where we're just under $2 billion short, which is kind of a rounding error for us. So, we'll be compliant in the first quarter of next year at the holding company. The bank level will take perhaps a year longer, simply as we [ph] paper bank notes from the bank to the holding company, so they have longer maturities and also as we take some of the bank level debt down and replace it with holdco debt. But by and large, we're there and I think you've heard us talk about the actual amount of debt we'll have being compliant with this is below what we had as a total percentage of our liabilities pre-COVID. So in the ordinary course, we would run with wholesale liabilities that would be in excess of this amount. So nothing from -- ranges put all that into perspective. We issued $10 billion plus out of the holdco so far this year. So it's fine, it landed about where we thought.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 10: Truist Financial Corp (TFC)
2023 Barclays Conference

TFC
Going forward, our capital allocation practices are just going to be more targeted as we focus on our core clients, deemphasize businesses with lower return profiles and allow some of our recent acquisitions to mature. As an example, during the second quarter, we sold our $5 billion student loan portfolio at a net [ph]carrying value. This business is non-core, was in run-off (technical difficulty) and generated loan spreads that are less attractive than we (technical difficulty) banking business. We also made the decision to discontinue certain trading -- market-making activities in our fixed-income sales and trading businesses that had unattractive ROE and of get with a minimal impact to (technical difficulty). We think there are some more opportunities like those to further simplify our organization and drive efficiencies and improved results. As we look further into the future, based on our preliminary assessment of the proposed Basel III Endgame results, we feel confident about our ability to increase our capital. Lastly, Truist has more than 200 basis points from the additional capital flexibility given the residual 80% ownership stake in Truist Insurance business which is a business that continues to perform extraordinarily well (technical difficulty) the 9% organic growth (technical difficulty). We continue to evaluate (technical difficulty) strategic options with (technical difficulty) Truist Insurance Holdings, with the objective of creating long-term shareholder value for Truist.
Truist is well-capitalized and has significant momentum to generating capital to respond to the evolving economic and regulatory environment. We continue to build capital and expect to achieve a CET1 ratio of approximately 10% by year end through a combination of organic capital generation and disciplined management of risk-weighted assets. The anticipated trajectory for our CET1 ratio at the end of the year (technical difficulty) headwinds from the pending (technical difficulty)
Well, it's wait and see and being sensitive to what market conditions are and how people view time then. The good news is, if we consider sort of phase-in period, we consider our organic growth of capital, and we look at all that, we're in good shape, but that's all an element of time. If time compresses or changes or if other elements come in or we have an economic change or a global change in some perspective, then we've got the financial flexibility to move quickly and move appreciably.
Yeah, I think the most important thing to think through is it's not one thing. It's a lot of the variables. So, securities portfolio is one of the variables, Basel III Endgame capital, phase-in periods, are they really phase-in periods or does investor community bring it current? Consolidation in the insurance business. So what is its requirements? Are there big dilutive capital needs that are there? So I never want to center it around one thing, because sometimes that decision can be maybe too easy or too hard. It's actually just a portfolio of all those considerations that come into that.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 11: Bank Of New York Mellon Corp (BK)
2023 Barclays Conference

BK
So, for BNY Mellon, it's manageable for us, yes?...The big impact for us is $30 billion of operational risk RWA inflation to the advance ratio. So that's where we are. Look, objectively speaking, I sit here and I kind of see BNY Mellon having spent north of $1 billion over the last few years in improving the resiliency of the enterprise and reducing operational risk. And we have Basel III endgame, which tells us our capital rules have to go up in this space.
Yeah, so we'll set about optimizing. We have some offset on the credit side and I think our ROTCE is in like the north of the 20s, because we're a capital-light business model. I don't think these rules will meaningfully change that outlook. And we will adapt and innovate from that.
And then, I think on buybacks, we've been consistent about – we guided on buybacks at the beginning of the year to 100% of buybacks. And that is still in our in our plan and executing that strategy...But I think the message I'd like to leave everybody with here is it's manageable for us. It won't cause us to reprioritize businesses or change our buyback approach or everything like that. It's – while I don't agree with a lot of it, it's – we can take it up
So on a kind of macro level, I kind of disagree with this, but we will advocate alongside everybody else on what's going to be an interesting Q4, but I think the message I'd like to leave everybody with here is it's manageable for us, it won't cause us to reprioritize businesses or change our buyback approach or everything like that. But I don't agree with a lot of it. It's -- like, we can take it, I think.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 12: State Street Corp (STT)
2023 Barclays Conference

STT
Operational risk will be the big addition. Credit risk will be -- will come down some of the drag on securities finance, right, where we (inaudible) treasuries, which never made a lot of sense, will be -- we'll see a positive offset. There's still a little bit of work to be done in the nuances, how does lending to regulated public mutual funds come through in the risk-weighted asset calculation.
Buyback is on track. If you recall, we had an authorization of $4.5 billion for the year. We did another $1 billion this quarter, which we're pleased to have returned for shareholders in the form of buybacks.
And we continue to expect a fulsome buyback in the fourth quarter as well. So, we can continue our dividend, a good amount of buyback and still accrete over time for the Basel III end game.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 13: M&T Bank Corp (MTB)
2023 Barclays Conference

MTB
So what I would tell you is, obviously there's a lot of data we're pulling trying to analyze that. From a high-level perspective, we definitely see our risk-weighted assets credit perspective coming down. We might actually see because of our conservative underwriting, both resi mortgage and CRE, RWAs come down because of the LTVs that we have on origination are below that threshold, which is a positive for us.. If you look at it from an operational risk perspective, where the increase of RWA is coming from. It's very fortuitous that we decided to sell our insurance business last year. We're able to exit that and doesn't make a lot of money one way or the other. So that was a great decision. If you look at what we sold earlier this year with CMC here again I think that was another really sound decision. So, our gut feel is while it's the greater of standardized or Basel III, we might possibly be governed by standardized, -- maybe a little bit in Basel III, but we don't think it's a big difference.
Third and foremost, core buyback is core to our capital strategy and we will buy back shares. Capital is not going anywhere. But right now, we have a huge advantage by our strong liquidity and strong capital position. We want to continue to exercise that until we're sure that we're through understanding the capital implications as well as any stress in the marketplace. We're still not (28:32) back to normal, about 100%.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 14: Fifth Third Bancorp (FITB)
2023 Barclays Conference

FITB
We've taken other balance sheet management actions as part of our RWA diet exercise, which we have previously discussed, including deemphasizing certain corporate banking relationships, trimming origination volumes in select consumer channels, and exiting small non-core lending businesses. This exercise represents a modest 3% of RWA. We will complete it before the end of this year and expect to return to loan growth next year.
In terms of what it means for Fifth Third, the impact is very manageable. Our number is roughly [indiscernible] (26:11). The audience is correct. It's halfway between 1 and 2 is the RWA diet. And that impact does not impact us until July of 2028 in that last step up of the phase-in. So, plenty of time to manage through the RWA impact.
As we look ahead, we will continue building capital and liquidity in the anticipation of the rule changes. We expect to accrete 25 plus basis points of CET1 per quarter until the capital rules are finalized and until we can establish new targets. We also expect to have approximately $15 billion in cash to be compliant with the Category I full LCR by the end of this month. We also expect to issue around $5 billion to $6 billion in additional long-term debt over the next several years to satisfy regulatory requirements.
We're running the balance sheet and we model the balance sheet at about an 8.5% CET1. We have a 50 basis point buffer that got us to our prior target of 9%. So you throw in, call it, 50 basis points for RWA [indiscernible] (31:31) five years down the [indiscernible] (31:32) the AOCI, AFS call it 125 basis points five years down the road. You're in that 10.5-ish area, but then that gets reset down because of the denominator effect of all of this. So, a lot of it comes down to how the environment plays out, how the rate environment plays out. Because our AOCI numbers are static rates, we could do better than that, we could do worse than that. So, we need to see what the final rules are. But we're in – we'll be getting to that ballpark pretty quickly, I think, of where we need to be.
While capital objectives remain unchanged, we continue to balance three capital priorities: continuing to build capital at an accelerated pace; supporting a strong dividend; and supporting clients to drive organic growth. And as we mentioned in July, we will continue to pause on share repurchases until new capital targets are established.
But beyond that, as Jamie said, we're preparing to implement the proposed rules as they stand today. The playbook here is the same as it was, frankly, the last time that the capital regime was revised, right? So, operating deposits matter, right. They always have matter. We just went through a 14- or 15-year period where their importance was masked in part by the rate environment and the abundance of liquidity that was out there. High fees to revenue matters and keeping your overheads as a percentage of assets down matters. So when we think strategically about the way we're focused on growing the business, continued net new, highquality organic relationship generation, a continued focus on fee diversification, that particular emphasis on wealth management, treasury management and the capital markets categories and ongoing discipline on expenses, with this focus on trying to self-fund our investments year on year on year.
We're hopeful that there will be a bipartisan consensus that emerges on the capital rules attached to the housing industry. I spend a fair amount of time out in our markets. I have yet to meet anybody who believes that housing is too affordable right now. And when you look at the impact of the interaction between the proposed capital rules and the liquidity rules and the way that the industry will respond with regard to how it approaches buying mortgage-backed securities. It just doesn't appear to me to be constructive or in tune with what we're saying publicly about the importance of housing affordability, about promoting homeownership and segments of the population who historically haven't been homeowners and otherwise.
So we just think, from a public policy perspective, it's a flawed rule, but our comment letter will address that problem in the letter. So, we will just manage through it. And if you can't beat them, join them and shorten our [indiscernible] (28:49).

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 15: Huntington Bancshares Inc (HBAN)
2023 Barclays Conference

HBAN
With that being said, if you analyze what's in there, I think for the industry, what we've seen is expectations of anywhere between 5% and 15% higher RWAs across the industry. I would expect Huntington to be at the lower end of that spectrum and the kind of mid-single-digit increase in RWA -- almost no impact on the fundamental review of the trading book and the kind of market impact relatively small exposure there, fairly de minimis for us on RWA impact. Operational risk, that's where the most substantive increase will be on the credit risk side, probably likely to be neutral to maybe slightly higher or potentially slightly lower. But net-net, I think sort of mid-single digits is what we're expecting. If I take a step back, our approach here has been to drive capital inclusive of the AOCI up to that 9% level by the end of '24, which would put us in our estimation, very well ahead and ready to deal with the RWA Basel III-driven requirements that would presumably come after that without much difficulty. So I think that's the plan we've got at this point, fairly well (technical difficulty), and we'll be able to deal with it as we get forward at that point. On TLAC, we're pleased to see the proposed rule would grandfather in bank level issued unsecured debt for the initial period of implementation, which would reduce the overall new issuance load that the industry would have to make for us, we've assumed that our modeling would indicate a relatively small incremental holdco debt required and really not a substantive economic impact relative to the next alternative funding.
On capital, we continue to drive CET1 reported to the level of 10% by the end of this year at the top of our target operating.
On the capital front, we are executing on our plan to drive capital higher and prepare for new requirements. Our common equity Tier 1 adjusted to include AOCI net of cash flow hedges on loans, was 8.12% at the quarter end. This benefits from the significant hedging program we had put in place earlier in the cycle to protect capital and OCI uprate moves compared to our peer set, our adjusted CET1 is top quartile. We shared in earnings, our plan to drive adjusted CET1 to be at or above 9% by the end of 2024. We are still assessing the potential impacts of Basel III and other new regulatory impacts to capital. However our forecast for 9% plus level for CET1 inclusive of AOCI by the end of 2024, puts us in a strong relative position.
But our operating posture at this point is to have no share repurchases through the end of 2024. And the path to drive capital higher is both organic capital generation and to some degree at the margin balance sheet optimization, if efficient opportunities can be developed there. And then as we get into 2025, likely at that point get back into a more normalized capital distribution model, that could include share repurchases as well, depending on where the world is and where the final adjudication of these new capital requirements might be at that point as well.
It is far out there in time for us. But I would tell you as well that the requirements for Category 3, it's a pretty substantive step from Category 4, and it's one of the things that some of the technological capabilities that take some lead time to build. So -- and the other thing I would say is that the regulatory expectations and the whole tailoring concept is clearly in some discussion right now. So I think that the kind of capabilities will be indicative of Category 3 are becoming more and more expectations for Category 4 as well. So certainly, that's -- we're on the long-term road map to build those kind of capabilities. I think when and if we would cross that threshold, we would be ready.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 16: Citizens Financial Group (CFG)
2023 Barclays Conference

CFG
So if we get to the first slide here, I'll start off with some overarching comments. You know, we're navigating extremely well against all of the headwinds and uncertainties in the macro and regulatory backdrop. We have a track record of strong execution and excellent capabilities built since the IPO, and therefore, we're poised to deliver strong returns through a challenging environment. This will rely on a strong defensive foundation. Key components of this include one of the highest CET1 ratios in the peer group, liquidity levels well above requirements and growing. Regarding balance sheet optimization, this slide illustrates the relatively rapid rundown of the $13.7 billion book by about $9.2 billion by the end of 2025. And on page 13, we indicate where we plan to redeploy this $9.2 billion. About half of this will go to building cash and securities, with the remainder used to reduce funding and support organic loan growth. In summary, this strategy strengthens liquidity and has already been a source of $3 billion of term funding ABS issuance year-to-date. It builds capital by reducing RWAs and it's accretive to NIM, EPS and ROTCE.
Taken together, we are well positioned to broadly meet minimum regulatory capital requirements, even on a fully phased-in basis around the end of the year. And we expect to return to our recent CET1 operating range of approximately 9.5% to 10%, even before the likely beginning of the phase-in period, which includes fully phasedin impacts and excludes the impact of share repurchases. On slide 10, continuing on the theme of proposed regulations, some key points to offer about the long-term debt requirements. We estimate the need to grow our holding company long-term debt by approximately $4.3 billion to comply with these rules. We expect to accomplish this programmatically over the phase-in period and we'll be opportunistic along the way. The impact appears to be manageable, equating to approximately 1% to 2% of EPS, assuming a reduction in other high cost funding.
I mean, as it relates to buybacks, we've been able to be supportive of modest buybacks. And we see that continuing. We'll be measured. We're going to continue to interpret and analyze the regulations as they come through. But I still think that we can achieve capital objectives [ph] as we return (00:23:37) getting back to our normal operating ranges by the sort of [indiscernible] (00:23:41) compliant on a phased-in basis as you get towards the end of the – as you get to the [indiscernible] (00:23:49). That's a pretty good outcome that we're trying to kind to [ph] turn up.
Yeah. I mean, I think it doesn't have a huge impact. I mean, we've come in to this cycle. We've run the bank at a higher level of capital than many and most of our peers. And I think that we're well positioned for the regulatory sort of proposals that are out there. And on the capital side, that's pretty well down middle of the fairway in terms of the way we've been operating. We've been monitoring external developments, looking at where we could deploy capital. I mean, top of our list is, of course, allocating to our dividend and supporting organic loan growth and RWA deployment, where we see deep relationships that we can deploy and commit to.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 17: Keycorp (KEY)
2023 Barclays Conference

KEY
also want to comment a bit on the Basel III endgame. We continue to be proactive on the balance sheet [ph] optimization (04:06) and capital allocation perspective. We are well-positioned to build capital and reduce riskweighted assets. We will reduce risk-weighted assets by approximately $10 billion during fiscal year 12/31/2023. We will continue to prioritize full relationships and exit non-relationship business and non-strategic assets. And so, we took out $200 million in the first quarter. And what we're going about the business of doing that I mentioned from my prepared remarks is we'll take out more expenses. And what we're focused on is not just cutting by 5%, but figuring out those businesses that we don't think make sense in the new kind of Basel III endgame. It won't be necessarily whole businesses, but it will be activities within those businesses. Well, I mean, obviously, one of the things that came out in the NPR is time is our friend, right? And that's really, really important. As we think about capital and what we need to do, there's nothing that we need to do that is inorganic in order to hit all the capital measures that we need to hit. And so, we actually feel good about where we stand with respect to the capital build between now, and either July of 2025 or July of 2028 how do we look at it....There's puts and takes, but obviously, the op risk piece is brand-new, it's going to add for everybody's. I do think what is reflected in the MPR is very consistent with the way we talk about our credit profile. So 50-plus-percent, C&I is investment-grade, that'll get some RWA value in the new outlook. Our CRE portfolio similarly, it's an LTV stratification, not just 100%. Most of that there, as you know, 60% or lower, so we've got some real benefit there. There's some other portfolios that sort of go in either direction. But I think net-net, the credit quality is largely offsetting the addition of the [indiscernible] (24:32) piece. Yeah. So I mean, we're still sorting through some of it, which is at times overly complicated. But I think generally speaking, we're kind of looking in the less-than-$5-billion range of additional debt, and again, sort of fine-tuning those numbers. But it's not – we saw some things that were as low as $1 billion, some as high as $10 billion, just given what was grandfathered and what wasn't, that we think we're in that range but towards the lower end of that range.
Sure. Well, thank you for the question. And obviously, the premise of the question is that RWAs are dropping significantly at a greater [ph] pace (06:49) than our loans. And so, it's really – there's really a few things. One is we've gone through our portfolio, and a lot of our – a significant amount of our portfolio has unused lines, Jason. And to the extent you're exiting credits that don't make sense from an earnings perspective and you have unused lines, that gives you an opportunity to do so. While I'm on that point, we have literally ripped through our portfolio and any business that's not returning [ph] our hurdle (07:20) levels, and obviously the number of businesses that are returning [ph] at our hurdle (07:24) levels just went up given that the amount of capital has gone up and the cost of capital has gone up, we're exiting those businesses. And then to some extent, there's also – as we looked at our portfolio, there were opportunities for us to re-class RWAs both on an idiosyncratic basis and on a portfolio basis, which leads me to the second part of your question, Jason, is there a huge impact with respect to earnings as we go forward? The answer is there's some impact. But for example, if you're looking at whether it's re-class or whether you're exiting unused line fees, then there's absolutely zero impact. So in each instance, we're exiting a business that we don't think gives us the return that we want. In some cases, the [indiscernible] (08:16).
Yeah. So to kind of get to sort of the headline here, I think in 2024, our expenses will be roughly flat and that will include both a lot of expense cuts and investment, because I'm a believer that you can't ever put yourself in a position where you're not investing.
Well, I will say this, it came out about how we thought it would. I mean, I think it had been telegraphed very clearly. There are certainly some things in there that I would say are positives. There's things in there that as – that I think as an industry, I think we have some concerns about. To your specific question around RWAs, I'm going to ask Clark to answer that because we've done a ton of modeling. And, Clark, how would you respond to that?

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 18: First Horizon Corp (FHN)
2023 Barclays Conference

FHN
We're not seeing, Jason, a lot of impact from those proposals today. We -- our expectation is that as time passes, the borrower will continue to get raised and we'll continue to be asked to show preparedness for becoming a $100 billion organization. I think inherent in some of the proposals that were made last week by Cherry Roomberg [ph] that maybe some of this information will be provided, supplied by organizations, our size range. But today, we're not seeing a tremendous amount of pressure. We do think that the cost of becoming a $100 billion organization is significant. If you take out tailoring and you turn on all of the daily reporting, the lifting wheels, all the things that go with being essentially a GC or north of $100 billion untailored world. You're probably talking $50 million to $100 million in incremental annual cost. And as I've tried to point out back in the fall -- excuse me, back in the spring -- time really flies -- back in the spring of this year when we did our Investor Day, that we have the ability to treat water, if necessary. And we're not going to inadvertently trip across $100 billion threshold. We think we have the ability to moderate our balance sheet, improve the profitability of our balance sheet and stay well back of crossing that threshold on an accidental basis.
I think, One, there's a bit of uncertainty under Basel 3 rules as we proposed in the U.S., what it means in terms of capital. And I don't think they drive with the additional capital on operating risk where it hasn't grown a lot of capital in the past. I think they're going to draw a lot more capital. It's going to change the economics of it. But more importantly, we don't think that there is anything that we have to own that is essential to our product set that we don't have today. We think through partnerships and through buying, leasing the product from other providers. We can provide best-in-class asset or product capabilities for our customers. And so we don't see that as a place to spend a lot of capital right now.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 19: Comerica Inc (CMA)
2023 Barclays Conference

CMA
Although, we remain below the $100 billion asset threshold, and we believe it is prudent to assess the rules once finalized and understand expectations for our ability to demonstrate compliance. In the meantime, we expect to continue to accrete capital above our target and (inaudible) confident in our capacity to support our customers' needs. Slide 13 highlights our differentiated value proposition. As a Leading Bank for business with compelling Wealth Management and Retail capabilities, we have a unique business mix. Tenured bankers maintain long-term, long-standing customer relationships with our consistent service and underwriting providing stability to our customers as they navigate business cycles. We often hear from our customers that we were there for them when it mattered.
Our capital position remains a source of strength as shown on Slide 12. As our CET1 increased further above our 10% target through the second quarter. Tangible common equity decline, as moving in the long end of the curve, increased our unrealized losses within AOCI. Adjusted to exclude AOCI, our second quarter tangible common equity ratio was in the top quartile of our peer group.
Despite a healthy cushion above our strategic capital targets and regulatory minimums, share repurchases is remain paused as we await further clarity on final rules that may impact capital.
But, I think right now, really kind of across the industry, we're probably in a little bit of a pause and we'll get some clarity going forward. And for the reasons that you mentioned, I mean, what is the regulatory environment, even there's some positive comments have been made, really can deals get approved. Capital the unrealized losses in this portfolio is AOCI. Can capital be raised? And there's economic uncertainty around credit.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 20: Zions Bancorp (ZION)
2023 Barclays Conference

ZION
Well, it will. We expect it will have probably four to five years before it actually will kick in for us. So, others will – it'll be phased in. For us the phase in will actually be [indiscernible] (00:21:14) it'll be more abrupt but sort of the same ultimate time table sort of. I mean, we're probably [ph] that little (00:21:23) further. But yeah, I mean, we will start to prepare for that. Preparation of it entails [indiscernible] (00:21:33) right data, definitions, et cetera, to meet the requirements. That's where a lot of the kind of internal heavy lifting happens and I think it's going to be manageable. I mean, it's there will be – yeah, a big project work effort around it, but doable. I mean, a lot of the work we've been doing on core systems replacement, I think is actually going to be helpful because we've – it's forced us to clean up a lot of – kind of clean the house and the closets for you before you convert some of these big core systems, deposit systems, et cetera. And so I think that lays the groundwork for a lot of what's going to be needed. I mean, the impact on the capital side we think it will be incremental primarily probably on the operational capital piece. I'm not sure that – I mean, we'll have to see the final proposal and finish the math. But I don't – our notion at the moment is that it's not going to be [ph] particularly punitive (00:22:42) given the construct of our balance sheet. The operational piece will – that'll be a new element but we've managed through it. The debt piece is going to be that's just [ph] the tax on size (00:23:00) and I think we're fixing a wrong problem but that's for another day [indiscernible] (00:23:07)
Yeah, I mean, I think I don't agree with the premise of it and for the following reason. What comes with $100 billion now is going to be this new capital regime and a long term debt requirement fundamentally, I mean, the resolution planning thing is I don't think that's a huge deal. I mean, it's doable once you develop [indiscernible] (00:24:12) amazing amount of things going on all the time. I mean, once you get the template there, you can keep refreshing it. But the capital and the debt pieces are fundamentally going to be variable costs. And so let's take that debt piece, it becomes for most banks, constraint will be 6% of risk-weighted assets. So if you're $100 billion – let's just make it easy, if you've got $100 billion of risk-weighted assets, you're going to have $6 billion of debt. If you double your size you're going to have $12 billion. And so I'm not sure, I think of economies of scale, I think of fixed costs that you can spread over a larger base. This is a variable cost. And the same with the capital charge. That means you have even the operational piece of it, I mean [ph] even if you (00:25:09) double the size of the business and fundamentally your capital is going to double. And so, I just don't think that this – I mean, there may be other arguments though, as we talked about before I'm not sure, I'm not persuaded [ph] they're all (00:25:25) that real. But I don't see in the capital and the debt piece and economies of scale argument [ph] because of (00:25:38) variable fundamentally variable costs.
So, we're going to have to do some additional math to really understand kind of [ph] when the (00:33:31) the NPR is finalized and we understand the new rulebook. But from [indiscernible] (00:33:40) of what we see so far, we think we'll be in pretty good shape kind of four years from now on when it actually becomes effective for us.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 21: Associated Banc-Corp (ASB)
2023 Barclays Conference

ASB
Well I mean I think any time there is a crisis or many crisis, you kind of have to double-click and make sure that, that there is an appropriate approach to business, whether that is an increase in view of liquidity. Our liquidity has already increased, and that is a decrease in the risk measurement in my view. So, there already have been impacts from that, that we felt as a company, as an industry. My understanding, there is a significant focus over -- be over $100 billion banks, but that's not necessarily a bad thing because with that becomes more certainty, and the market needs, I think more certainty in what is happening. Will there be a trickle effect to the banks under $100 billion? There certainly could be, and nobody wants to get surprised at this point. But I believe we entered this, this time with maybe a little more regulatory scrutiny. I don't think it materially changes our expense base. I think we enter in a good place from an operational risk standpoint, and from a credit risk standpoint. So the foundation, start point is good for us. I think the fundamentals are good for us. We will be proactive in addressing what increased risks might be, and the first one of those was liquidity, and we've addressed that in a significant way.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Appendix C: Excerpts from recent bank management comments on expense management

Exhibit 22: JP Morgan (JPM)
2023 Barclays Conference

JPM
I think what we've guided to before is still where we are today. But I also caution people here we are – our company is not afraid about spending more if we think it is good for the long-term shareholder.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 23: Bank of America (BAC)
2023 Barclays Conference

BAC
Well, we quantified it at the time by saying we wanted to just keep going with that trajectory. We were looking for $15.8 billion this quarter. We're looking for $15.6 billion next quarter. The key to that trajectory for us is headcount, and if we went back to January, February, we were running head count at the time, right around 218,000. We talked about the fact we wanted to end this quarter right around 213,000. I think we're in good shape for that that should set us up well for the $15.8 billion, then we think we just got to keep grinding away at the expense base in Q4. We still feel good about the $15.6 billion number. So no change there.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 24: Wells Fargo & Co. (WFC)
2023 Barclays Conference

WFC
But we continue to believe we've got a lot more to do to make the company as efficient as it should be. As you said, we've brought head count down close to 40,000 heads over the last couple of years. I think it's been down every quarter since the third quarter of 2020. Now, I'm not suggesting it's going to be down every quarter forever, right. But I do think that there's more to do, and you'll see that come through the head count number. And it really just is business by business, group by group, making sure we come in every day, every quarter and have a plan to continue to incrementally get better and better.
Some of that affects the head count and the people that we have, and some of it is – are things like real estate, where we had too much real estate before COVID. And so, we've been methodically sort of working through that portfolio over the last few years, and we still have more to do there. And I think the thing that we talked about at earnings that was a little different over the last – than the last few quarters is that attrition really slowed. And so, in that – that really happened probably October, November of last year, where we really saw a noticeable change in attrition rates. And it's really across the board. There really isn't a – any area that got impacted more than others.
And so, that's why you see us having to use severance more than what we've had to do over the last couple of years. And I think it's just how do we get – how do we continually get the run rate down and – to a place that we're more comfortable. And I think we've got a lot more to do across most of the company. And what's most important is that we embed this discipline and mindset and process in sort of how we just manage the place every day, right. It shouldn't be a program. It shouldn't be a one-time thing. It needs just to be how we sort of – how we manage at all levels of the company, and I think we've been doing a good job pushing that down into the organization. But still some more to do there as well.
Well, some of it's been going – a lot of it's been going into the risk and regulatory work that we've been doing. So, that continues to be the place. It's our highest priority and we're going to continue to spend whatever we got to do to put that stuff behind us. And if there are things that we can do to move that work faster and it costs more money, we're going to do it and those are decisions we make all the time. Aside for that, we've been investing now consistently for a few years in digital capabilities, marketing, people, sale, like all of the things that – across each of the businesses.
Yeah. You look at our Investment Banking business, we've been hiring into that business in some key positions in coverage and products over the last couple of years, and I think that momentum will continue to build on itself. Doing the same thing in the Commercial Bank. Some of that's technology. We've launched a new portal for our Commercial Bank clients at the end of last year called Vantage. That's part of it. Part of it is making sure we got the right coverage and people in all the markets to go after the opportunity. We're doing the same thing in the Wealth business in each of the underlying areas. And so, I think we've got to continue to just do that in a methodical way.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 25: Royal Bank Of Canada (RY)
2023 Barclays Conference

RY
I think we've been very focused on where we've been improving productivity, where we've been improving efficiency. When you look at where we've been spending, a lot of the growth has actually come out of the US. And when we look at Canada, for Canada, across all of our businesses, including wholesale, which obviously has a higher efficiency ratio, we're sub-50%.
The focus for 2024 is on positive operating leverage and we feel that we've bent the curve as it relates to the cost increases. As we've communicated for the fourth quarter, we are looking for that to be in the mid-single digits from a year-over-year growth trajectory and we're going to continue to focus on.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 26: Toronto-Dominion Bank (TD)
2023 Barclays Conference

TD
I mean, those things, they might seem like bread and butter, but they go to driving greater efficiency and greater quality, hardening of the actual infrastructure for the bank, which we think is really, really important. Corporate real estate, reality is, our lives have changed. Hybrid is a reality and we do sit on a corporate real estate footprint that's larger than what we need. So, rationalizing that will create some degree of savings for optimization. Notwithstanding that we've talked about potentially adding stores at times of being very disciplined in looking at our store network and pruning, where appropriate, to make sure that our stores are optimally positioned to be able to serve our clients critically important.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 27: Citigroup Inc (C)
2023 Barclays Conference

C
So the changes that we announced this morning are the most consequential changes to how Citi will be organized and run that we've made in almost 20 years. When I became CEO, we began immediately with refreshing our strategy and laying out the new vision for the firm in order to transform Citi into a simpler bank and to unlock the full value potential and to deliver higher returns in the medium term. And as part of that Investor Day, I had a very clear-eyed assessment of exactly where we stood versus our peers, but also the issues that have held us back over the years. And Mark and I and the management team committed to addressing those issues.
And then in terms of Mexico, we have the IPO. The separation is on track for this time next year. And then the IPO in 2025, I'm delighted with how that's progressing. It's quite a complicated separation and it's as close to clockwork as one could wish for. All of this means, from the simplification on the business side, we're now tackling, as we said we would, the stranded costs and the organizational simplification. And as you can see, this really was the catalyst. We had to get those consumer franchises out in order to put the changes that I just laid out together.
So Jane has referenced Investor Day a couple of times now. If you're looking back on our earnings calls, we talked about org simplification as one of the drivers of the expense journey that we're. We talked about the transformation and how those investments that we've been making start to actually first morph from consultants and planning to technology and efficiencies and reduction in our infrastructure costs over that medium term. We talked about the exits that Jane just referenced. And again, by the end of the year, we'll be out of 9 of the 14. Through the medium term, we'll be out of the costs associated with the exits, including the stranded cost. That will be a second important contributor to burning the -- to bending the curve and getting to that 60% operating efficiency. And then this third, but important step around org simplification is the other component to that. So, the question that continues to come up is how will you actually reduce your expenses? How will you bend the curve? It's these three drivers that contribute significantly to that? But they were foreshadowed. And I would point that out again because I've talked about expenses for the full year at roughly $54 billion. I'm not changing that guidance. So, we have factored in the important steps that we're having to take over the coming months, as you pointed out, Jane, into how we are planning to deliver expenses for the year. I've talked about bending the curve in quarter three and quarter four of next year, showing a reduction in expenses, the absolute dollar amounts. That's not going to change. We're still going to ensure that that reduction in expenses occurs. And this is -- this also feeds to that 60% operating efficiency that plays out in 2025, 2026, which is the end of that medium term. How does that happen? Jane has mentioned it a number of times now. If you really think about what we're talking about, there are -- in these layers in the organization, there are people who have responsibilities that are tied to that old organizational structure, that are tied to having an ICG segment, a PBWM segment having the three regions that we have. We won't have those anymore. And so as a result, that work goes away. Those responsibilities go away, those people will have to go away, and it will again facilitate effective execution, but it will also simplify the organization and bring our cost down. And the same is true for all of the functions, including finance. As we think about the way we've set ourselves up, we've aligned with that management structure. We've aligned with that regional construct. That changes, that all goes away as we execute and implement this. What we've been doing as a management team is working through what that means in this first step of this third bucket, which really means that EMT, the executive management team level and one level beneath that. The next couple of months are around drilling into the deeper layers of our organization in order to drive that cost out to box and dimension that cost and drive it out of the organization over the next couple of quarters.
On the expense line, we're looking at expenses to probably be up a bit from last quarter, but pretty much in line with the consensus.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 28: Bank Of Montreal (BMO)
2023 Barclays Conference

BMO
I'm very confident that we will generate positive operating leverage next year. And, we have been very transparent about the impact of Bank of the West. But we are also not shying away from establishing an expense discipline at what I would call this distinction is disappearing quite fast, but the old legacy BMO. So we are making that commitment because we have to make sure we still have a long-term efficiency ratio target to get to mid-50s.
But in terms of the positive operating leverage for the year, I feel very confident about it.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 29: US Bancorp (USB)
2023 Barclays Conference

USB
On expenses, we will be in line with our expense guidance that we provided for the full year.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 30: PNC Financial Services Group (PNC)
2023 Barclays Conference

PNC
And so, we upped our guide on continuous improvement from $400 million to $450 million. And, by the way, you'll see some of that in our expense numbers this quarter. In addition, you should expect to see us probably in the third quarter call give you some details on a more structural program that will have a direct impact to the 2024 expenses.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 31: Truist Financial Corp (TFC)
2023 Barclays Conference

TFC
Look, structure alone does not drive performance, we understand that. But it does create this platform to realize more significant cost savings. Secondly, we're also aggressively cutting cost. We expect to achieve at least $750 million of gross cost saves over the next 12 to 18 months, allowing us to reduce the rate of expense growth significantly in 2024, and maybe more importantly, beyond. While many of these cost saves will be achieved through near-term personnel-related reductions, they're also a manifestation of our organizational desire to achieve executional excellence, and we consistently look for ways to improve our efficiency over the longer-term, including that through automation and other investments in technology.
As mentioned, our simplified leadership structure is also the basis, the foundation from which we can realize significant, sustainable cost cuts as you'll see on slide 7...As part of our strategy to improve our financial performance, we've identified $750 million of gross cost saves that will be achieved over the next 12 to 18 months. The overall cost saves will include $300 million from reduction in force, $250 million from organizational alignment and simplification, and $200 million from tech expense reduction. As part of the cost save program, we'll experience reductions in force over the next three quarters due to spans and layers, consolidation of redundant functions, restructuring select businesses, and geographic simplification. Other cost saves initiatives include aggressively managing third-party spend, further reducing our corporate real estate footprint, and rationalizing tech spend, among others...One-time cost associated with these cost save programs are expected to range somewhere in the 25% to 30% of gross cost savings. We've been hard at work developing this cost plan and we're working with a leading consulting firm to help us execute and accelerate certain aspects of our work. The effort is well underway, and we're committed to a sense of urgency and accountability...So moving to slide 8 where we quantify the impacts of these initiatives on our rate of expense growth. Although September is appreciably earlier than we would typically discuss expense guidance for the following year, our cost save program will help us manage adjusted expense growth of 0 to 1% in 2024, which is net of our natural expense growth driven by inflation and other investments that we've made. There's also substantial improvement from the rate of expense growth expected for the full year this year, in 2023. Many of the savings will occur relatively quickly due to lower FTE count, while other areas of our plan will be achieved throughout the course of next year and beyond...Going forward, our goal as a company is to offset natural expense growth and inflation in 2024 and beyond. Cost cutting is one of the several levers.
So in closing, I am highly confident in the initiatives we discussed today will significantly improve our financial performance. First, as I mentioned, we're simplifying Truist. That will help drive executional excellence, center our resources to be client-focused in support of our long-term strategy, and create a platform for realizing more significant cost savings. Second, we've specifically identified $750 million of cost savings that will be achieved over the next 12 to 18 months that will reduce the rate of expense growth significantly in 2024 and beyond.
So, this year, for example, we had a lot of cost associated with some of the increases we've done in minimum wage. We had a lot of – it's lot more cost as a company and as an industry and sort of a regulatory response, getting ourselves prepared sort of for Basel Endgame, with all the things that are going to come along with that. And that was a little too sequentially. And I think what we ended up seeing is spikes and valleys in things like expenses versus a more smooth path.
Yeah, I mean, so think about also, so it's a net expense growth for next year, but we also have great momentum. So think about our insurance business, for example, sort of growing single-digit. Well, that has a real direct correlation to expense growth. That's a highly correlated, really efficient business, but has a direct sort of compensation components go with that (23:20). We're also anticipating a recovery in our investment banking business. Those have direct costs. So this is overcoming those costs, those costs that come with all the things that are related to inflation, that come with the investments that we have to make to make sure that we're keeping up with a bank our size and the things that we have to do. So it is a net component...And just that sort of goes to the other part. So what we're doing is taking the chassis and sort of rationalizing the chassis to the business that we have. I think because we have all this technology spend, teammate investment, that's the one bulk already. So I don't see the bounce back in 2025 that we look back and say, oh my gosh, you sort of forgot all these things. This is part of creating that rationalization in that infrastructure

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 32: Canada Imperial Bank of Commerce (CM)
2023 Barclays Conference

CM
And we said at Investor Day, it means we should keep our expenses around mid-single digits, but we can dial it up and down from there, depending on the top line growth and so that we can get the right offering. So in order to do that, we had to do a few things . We talked at Investor Day about having taken out CAD 1 billion of cost through efficiency programs over the last five, six years, which would have been in the neighborhood of CAD 150 million a year. And we said we can continue on that pace, which would have been a little bit over 1% of our expenses. We've been pushing harder on that.
We've been building our capabilities in terms of, you know, automation capabilities, technology investment that we've been making, rationalization of applications starting to leverage, things like AI, going across the board to reduce our costs and creating that in a way we're now on track to actually get towards 2% a year efficiency.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 33: Bank Of New York Mellon Corp (BK)
2023 Barclays Conference

BK
We heard from the market that expenses were a challenge for us, and we listened and we communicated to the market in January that we're going to halve the growth rates of last year ex FX which was 8% to 4%. So, we're framing from the top down and how we kind of run, how we do it day in and day out. And the bottoms-up approach predates me a little bit, but we have a project in the institution called Project Catalyst, where we went out to all our employees and asked for their ideas on what they would like to see investment dollars put to work, in terms of automation, digitizing, and cleaning up the manual process, et cetera, generally tactical stuff. And we had 1,500 ideas back. We prioritized them, put money to work, and we meet every month. And I watch those expenses leave the door of the company. And that top-down and bottoms-up, executing on tactical stuff has allowed us – and we're outperforming those trends. And so, we started the year at 4%, I think at Q2, in July, I said we were outperforming this. And as we head into closing out this quarter, we're working very hard to get that number to closer to 3%. And I feel very good about where the team is at and what we're doing and about our ability to hit 3%.
So, the way I think, I'm starting this year's budget season with what I communicated with the executive committee. I'm committed to delivering positive operating leverage for the firm for the medium term. And I think it's fair to say we will do it this year, and I'm very determined to do it next year in terms of how I'm going to set up the budget. And they know that.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 34: State Street Corp (STT)
2023 Barclays Conference

STT
We continue to be highly focused on flattening expenses. And our previously announced hiring freeze is in full force with only limited exceptions (00:24:24) for sales and several other requirements.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 35: M&T Bank Corp (MTB)
2023 Barclays Conference

MTB
And from an expense perspective, I think we're pretty good stewards. From an expense perspective, we will continue to be good stewards next year and we'll have probably modest growth, if any growth, on the expense side there. But we haven't really done our 2024 planning yet, we're just starting that cycle right now. And will probably give you more of an update either late this year or early next year on our earnings call.
When you look at going from the middle part to the higher part, you're talking about really $20 million or $30 million, which is pretty small off of a $5 billion noninterest expense base. If there's any changes that happened versus our last forecast, and you have to remember, I'm getting new to the forecast, we're putting in more reductive (19:41) processes on how we forecast and all that, but maybe a little bit higher on prod (19:48) than what we originally thought.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 36: Fifth Third Bancorp (FITB)
2023 Barclays Conference

FITB
And then, every category on the income statement will be at the better end of the guide. So, NII is better; fees are better; expenses are better.
Expense is down 1% to 2%.
I like where consensus is for next year on expenses. My one caveat on the third quarter is, the NQDC will create a little bit of noise on that number. But other than that, you guys look through that as well. But yeah, absolutely. Our goal and what you should expect from Fifth Third is – for 2024 is, lining up pretty nicely with where consensus is.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 37: Huntington Bancshares Inc (HBAN)
2023 Barclays Conference

HBAN
We increased the size of our ongoing branch optimization program, streamlined operations within our segments to realign them and executed a voluntary retirement program. The result of these actions has been a low level of underlying expense growth of approximately 4% year-over-year excluding Capstone and Torana, one of the lowest growth rates in the peer group.
Expenses, we now see coming in at around 2% to core underlying level, plus the $50 million from Capstone and Torana and the $30 million from the 2 basis points higher 2023 FDIC run rate assessment costs. For the third quarter, we see total expenses between $1,075 million, $1,085 million.
And so, we set up a series of proactive actions. And I think that's what's allowing us to keep the expense growth at that low level of 2%.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 38: Citizens Financial Group (CFG)
2023 Barclays Conference

CFG
We have lots of opportunity on the expense side.So TOP 9 is going to be a big driver of what we do in 2024. And we've done nine (00:26:04). You can bet that there'll be a TOP 10 potentially on the horizon. But we see a lot on the expense side. This – the investments that we're making from a strategic perspective, we think, are large contributors to the outperformance over time. And so I think we're sticking to that medium-term outlook, which has some flexibility to it, but we (00:26:25) will be conducive to that kind of objective.
When we look at TOP 9, we're excited about TOP 9. We've got all of the traditional components, which include organizational simplification, third-party spend, those kinds of things that we tend to do quite well. But there's a lot of new opportunities on the horizon, different ways to use automation tool to migrate from manual processes to automated processes. And then of course, the big category of gen AI. We've got a number of interesting use cases that we are exploring and maybe along (00:38:00) to get into next year. So stay tuned on TOP 9 and we're feeling good about that.
So TOP 9 is going to be a big driver of what we do in 2024. And we've done nine (00:26:04). You can bet that there'll be a TOP 10 potentially on the horizon. But we see a lot on the expense side. This – the investments that we're making from a strategic perspective, we think, are large contributors to the outperformance over time. And so I think we're sticking to that medium-term outlook, which has some flexibility to it, but we (00:26:25) will be conducive to that kind of objective.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 39: Keycorp (KEY)
2023 Barclays Conference

KEY
Earlier this year, we successfully completed a company-wide initiative to reduce our annual expense run rate by $200 million, which in our instance is 4% of our annual spend. We will further reduce expenses in the second half of 2023, accelerate our plans to streamline and simplify our businesses, and position Key for success in the future environment in a post-Basel III environment.
I think you could assume that it's mostly smaller hobbies, but when you go about the business of reducing expenses, one of the best ways to reduce expenses is to stop doing things, and like indirect auto, which we exited in 2024 (sic) [2020] we had about $4.4 billion of exposure. That's a nice opportunity to eliminate the expenses in the front, middle, and back office. So, more to come on that as we work through the balance of the year, Jason.
So to kind of get to sort of the headline here, I think in 2024, our expenses will be roughly flat and that will include both a lot of expense cuts and investment, because I'm a believer that you can't ever put yourself in a position where you're not investing. And so, we took out $200 million in the first quarter. And what we're going about the business of doing that I mentioned from my prepared remarks is we'll take out more expenses. And what we're focused on is not just cutting by 5%, but figuring out those businesses that we don't think make sense in the new kind of Basel III endgame. It won't be necessarily whole businesses, but it will be activities within those businesses.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 40: First Horizon Corp (FHN)
2023 Barclays Conference

FHN
And I feel very, very good about what we did over the course of that year, proving out our ability to execute on the promises of the IBERIABANK merger. We hit our cost savings.
We're going to invest something like $75 million to $100 million of the merger termination fee in technology. And it's really to do a couple of things: One is because we were in integration mode first for a year-and-a-half, two years with IBERIABANK-First Horizon and then with TD, there were some remedial things that we have to get caught up on. We're on version 3 and we ought to be on version 6 or whatever it happens to be. We've got to update or replace our general ledger system. So, some of those infrastructure things that we'll have to accelerate and get caught up.
And then hopefully we're going to use it as an opportunity to sort of not just try to catch up linearly but to move to a place where we've got at least parity or table stakes in the competitive landscape. So that will start – that money is being spent today. Most of that work will be completed by the end of next year. It will roll into our expense base gradually over that period of time. But it's – we think a really good investment to catch up on the remedial stuff but also position us for strategic advantage in the longer-term.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 41: Comerica Inc (CMA)
2023 Barclays Conference

CMA
We do expect these pressures to continue and may see third quarter expenses slightly over our previous outlook.
For the full year, we are in the process of re-evaluating where we see expenses going and what levers we may have to offset some of these headwinds while balancing the need to strategically invest for the future.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Exhibit 42: Zions Bancorp (ZION)
2023 Barclays Conference

ZION
Well, we've been trimming head count. I expect it will start into the year – a lot of this is actually in place as we speak. We'll come into the new year with about – at about 3% reduction from where we were in the first quarter.
And so, I look at our spend I mean, many of you who follow us know that we have been spending quite a lot to replacing core systems. But beyond that – a lot of what we – a lot of the spend is really dealing with just really strengthening and fortifying the operational resilience of the organization.
And a lot of that's driven by a regulatory agenda which I think you're seeing around the industry. And it's not something you can kind of just say, hey, we'll put that off. That's not an option. So that's driving some of the spending pressure, I think, with us and in the industry.

Source: Company websites, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 43: Associated Banc-Corp (ASB)
2023 Barclays Conference

ASB
And then secondly, expense management. That has been a focus for us since I arrived with the initiatives we launched at the beginning, end of every year going into the next fiscal year. We have cut the spend. And so that we control our expenses while continuing to drive our revenue number for this year. We've given guidance of 4% to 6% on expenses, but as we clearly saw pressure on earnings, we'd back that down to 3% to 4% growth for 2023.
So, we feel like we are big enough to compete. We've spent significantly in this space. We've offset some of that expense with some branch actions that we've taken on the consolidation front and you kind of have to meet the customer where they want to do business.
So when I think about expenses, I think do we have the ability to grow revenue and do we have the ability to create positive operating leverage? So going into 2024, we've managed expenses well will be in the 3% to 4% range coming down from that 4% to 6%. And the challenge for the leadership team is where do we not where do we invest? We've been working on that for the last 60 days and we expect that we'll start to talk more about that this year with Phase 2 of our strategies. And then typically we get guidance for 2024 in January.

Source: BofA Global Research, Factset

BofA GLOBAL RESEARCH

Disclosures

Important Disclosures

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R1]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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