TRANSCRIPT

Citi First Quarter 2024 Earnings Call
April 12, 2024

Host
Jennifer Landis, Head of Citi Investor Relations

Speakers
Jane Fraser, Citi Chief Executive Officer
Mark Mason, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello and welcome to Citi's First Quarter 2024 Earnings Call. Today's call will be hosted by Jenn Landis, Head of Citi Investor Relations. We ask that you please hold all questions until the completion of the formal remarks at which time you will be given instructions for the question-and-answer session. Also, as a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time.

Ms. Landis, you may begin.

JENNIFER LANDIS: Thank you, operator. Good morning and thank you all for joining our first quarter 2024 earnings call. I am joined today by our Chief Executive Officer, Jane Fraser, and our Chief Financial Officer, Mark Mason.

I'd like to remind you that today's presentation, which is available for download on our website, citigroup.com, may contain forward-looking statements which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these statements due to a variety of factors, including those described in our earnings materials as well as in our SEC filings.

And with that, I'll turn it over to Jane.

JANE FRASER: Thank you, Jenn, and good morning to everyone. Today I am going to touch on the macroeconomic environment before I update you on the progress we are making and then I'll discuss the quarter.

While global economic performance was surprisingly desynchronized last year, the overall story has been consistent of late: one of economic resiliency supported by tight labor markets and the consumer. Growth this year looks poised to slow in many markets. And conditions are generally disinflationary - you are already seeing some central banks in the emerging markets starting to cut rates.

In the U.S., a soft landing is viewed as increasingly likely. But we continue to see a tale of two Europes with Germany hurt by the weak demand for goods while southern European countries such as Spain and Greece benefit from stronger demand in services.

In Asia, Japan is joining India as a bright spot and China's economy has gained some more traction, although its property market remains a concern.

Amidst all these dynamics, we continue to focus on executing against our strategy and delivering the best of Citi to all our stakeholders. I said 2024 will be a pivotal year for us as we put our business and organizational simplification largely behind us and we focus on two main priorities: the Transformation and the performance of our businesses and the firm.

Last month marked the end to the organizational simplification we announced in September. The result is a cleaner, simpler management structure that fully aligns to and facilitates our strategy. We are now more client-centric. We're already seeing faster decision making and a nimbler organization at work. We have clear lines of accountability, starting with my management team, fewer layers, increased spans of control, and frankly much less bureaucracy and needless complexity.

This will all help us run the company more efficiently, it will enhance our clients' experience, and improve our agility and ability to execute. And while reducing expenses wasn't the primary driver of the program, more roles were ultimately impacted than the 5,000 we discussed in January.

We also took a number of other steps to sharpen our business focus and improve returns by right placing businesses to better capture synergies; exiting certain businesses in Markets that just didn't fit with our strategy; and right sizing the workforce in Wealth.

As a result of all these combined steps, which include the simplification, we are eliminating approximately 7,000 positions which will generate $1.5 billion of annualized run-rate expense saves. The combination of these actions and the measures we are taking to eliminate our remaining stranded costs will drive $2 to $2.5 billion in cumulative annualized run-rate saves in the medium term.

We are keeping a close eye on the execution of these efforts and overall resourcing to ensure we safeguard our commitment to the Transformation. As you know, given its magnitude and scale, the Transformation is a multi-year effort to address issues that have spanned over two decades.

We have made steady progress as we retire multiple legacy platforms, streamline end-to-end processes, and strengthen our risk and control environment. All of which are necessary, not only to meet the expectations of our regulators, but also to serve our clients more effectively.

A transformation of this magnitude is never linear. So while we have made good progress in many areas, there are a few where we are intensifying our efforts, such as automating certain regulatory processes and the data related to regulatory reporting. We are committed to getting these right and will look to self-fund the necessary investments to do so.

Turning to the quarter, we had a good start to a pivotal year. We reported net income of approximately $3.4 billion, EPS of $1.58 and an RoTCE of 7.6% on over $21 billion of revenues. Our revenues were up over 3% year-over-year, excluding divestitures, which was primarily the billion-dollar gain from the India consumer sale last year. Our expenses were slightly down quarter-over-quarter, excluding the FDIC special assessments.

Services continues to perform well and generate very attractive returns. Revenue was up 8% for the quarter as both businesses won new mandates and deepened relationships with existing clients.

Fees were up a pleasing 10% for Services year over year, driven by the investments we have made across our product offering, platforms and client experience. In Securities Services, we took share again this quarter. And in TTS, cross-border activity continued to outpace global GDP growth, and commercial card spend remained robust. We look forward to diving deeper into these two businesses at our Investor Presentation on Services in June.

Markets bounced back from a tough final quarter in '23. While revenues were down 7% as lower volatility impacted Rates and Currencies, that was off a very strong first quarter last year. We saw good client activity in Equities and in Spread Products, where both new issuance and securitization activity were particularly robust. We fully integrated our Financing and Securitization capabilities within our Markets business and we started to see the benefits of having a unified spread product offering for our clients.

The rebound in Banking gained speed during the quarter, led by near-record levels of investment grade debt issuance as improved market conditions enabled issuers to pull forward activity. And after a bit of a slow start, ECM picked up in the second half of the quarter, notably in convertibles.

Our strong performance in both DCM and ECM drove Investment Banking revenue growth of 35% and overall Banking revenue growth of 49%. While M&A revenues are still low across the street, I was pleased that we participated in some of the significant deals announced in the quarter, such as Diamondback's merger with Endeavor Energy and Catalent's merger with Nova Holdings.

We are cautiously optimistic that we could see a measured reopening of the IPO market in the second quarter in light of improved market valuations. Corporate sentiment is quite positive, especially in the U.S., and our clients around the world have very sound balance sheets. We very much look forward to welcoming Vis Raghavan to Citi to lead our Banking franchise in early June. Like other new top talent who have joined the firm, he will inject fresh thinking to help us achieve our firm's full potential.

In Wealth, while revenues were down in the quarter, we grew fees and gathered an estimated $22 billion of net new assets over the past 12 months. As you have seen, Andy continues to form his team and is focused on three areas: first, rationalizing the expense base, second, turning on the growth engine by focusing on investment revenues, and third, enhancing our platforms and capabilities to elevate the client experience. Now these won't happen overnight, but getting these things right will help us get more than our fair share of the $5 trillion of assets that our clients have "away from us" and that will help us get our returns to where they need to be in this business in the medium term.

USPB had double-digit revenue growth for the sixth straight quarter. We feel good about our position and our resiliency as a prime, lend-centric issuer and are seeing positive momentum across proprietary card and partner card businesses. Healthy spend growth persists in Branded Cards, primarily driven by our more affluent customers. Across both portfolios, increased demand for credit continues to drive strong growth in interest-earning balances. And while they are only a small part of our portfolio, we are keeping an eye on the customers in the lower FICO bands.

We also continue to see strong engagement in digital payment offerings such as Citi Pay, a point-of-sale lending product which is easily integrated into merchants' checkout processes. And we are driving more value from our Retail Branches as well as getting the expense base right to increase returns there.

Our balance sheet is strong across the board, an intentional result of our high-quality assets, robust capital and liquidity positions, and rigorous risk management. During the first quarter, we returned $1.5 billion in capital to our common shareholders, including $500 million through share buybacks. Our CET1 ratio ticked up to a preliminary 13.5% and we grew our Tangible Book Value per share to $86.67.

We have a great franchise around the world, with great clients who are served by great colleagues. I am pleased with where we are, and I'm excited about where we are going. With the organizational simplification behind us, and a good quarter under our belt, we have started this critical year on the right foot. While there will be bumps in the road, no doubt, we will continue to execute with discipline and we are committed to reaching our medium-term targets.

With that, I'd like to turn it over to Mark and then we will both be delighted, as always, to take your questions. Thank you.

MARK MASON: Thanks, Jane and good morning, everyone. I am going to start with the firmwide financial results, focusing on year-over-year comparisons for the first quarter unless I indicate otherwise, and then spend a little more time on the businesses.

On slide 6, we show financial results for the full firm. In the first quarter, we reported net income of approximately $3.4 billion, EPS of $1.58 and an RoTCE of 7.6% on $21.1 billion of revenues. Total revenues were down 2% on a reported basis. Excluding divestiture-related impacts, largely consisting of the $1 billion gain from the sale of the India consumer business in the prior year, revenues were up more than 3%, driven by growth across Banking, USPB and Services, partially offset by declines in Markets and Wealth. Expenses were $14.2 billion, up 7%, on a reported basis. Excluding divestiture-related impacts and the incremental FDIC special assessment, expenses were up 5%. Cost of credit was approximately $2.4 billion, primarily driven by higher Card net credit losses, which were partially offset by ACL releases in Wealth, Banking and Legacy Franchises. At the end of the quarter, we had nearly $22 billion in total reserves with a reserve-to-funded loans ratio of approximately 2.8%.

On slide 7, we show the expense trend over the past five quarters. We reported expenses of $14.2 billion, which included the incremental FDIC special assessment of roughly $250 million. Also included in this number are $225 million of restructuring charges largely related to the organizational simplification. In total, we've incurred approximately $1 billion of restructuring costs over the last two quarters. As part of these actions, we expect approximately $1.5 billion of annualized run-rate saves over the medium term related to a headcount reduction of approximately 7,000. In addition to the restructuring, we took approximately $260 million of repositioning costs largely related to our efficiency efforts across the firm, including the reduction of stranded costs associated with the consumer divestitures. The expected savings from these actions will allow us to continue to fund additional investments in the Transformation this year. And relative to the prior year, the remainder of the expense growth was largely driven by inflation and volume-related expenses, partially offset by productivity savings. In the remainder of the year, we expect a more normalized level of repositioning, which is already embedded in our guidance. Therefore, you can expect our quarterly expense trend to go down from here in line with our $53.5-$53.8 billion ex-FDIC expense guidance.

On slide 8, we show net interest income, deposits, and loans, where I'll speak to sequential variances. In the first quarter, net interest income decreased by $317 million, largely driven by Markets, which resulted in a 4 basis point decrease in net interest margin. Excluding Markets, net interest income was relatively flat. Average loans were up $4 billion, primarily driven by Loans in Spread Products in Markets, as well as Card and Mortgage loans in US Personal Banking, partially offset by declines in Services. And average deposits were up nearly $7 billion, primarily driven by Services, as we continue to grow high-quality operating deposits.

On slide 9, we show key consumer and corporate credit metrics. This quarter, we adjusted our FICO distribution to be more aligned with industry reporting practices and now show our FICO mix using a 660 threshold. Across Branded Cards and Retail Services, approximately 85% of our card loans are to consumers with FICO scores of 660 or higher. And we remain well reserved with a reserve-to-funded loan ratio of 8.2% for our total card portfolio. In our Corporate portfolio, the majority of our exposure is investment grade, which is reflected in our low level of non-accrual loans at 0.5% of total corporate loans. As a reminder, our loan loss reserves incorporate a scenario-weighted average unemployment rate of approximately 5%, which includes a downside scenario unemployment rate of close to 7%. As such, we feel very comfortable with the nearly $22 billion of reserves we have in the current environment.

Turning to slide 10, I'd like to take a moment to highlight the strength of our balance sheet, capital and liquidity. We maintain a very strong $2.4 trillion high-quality balance sheet, which increased 1% sequentially. Despite this increase, we were able to decrease our risk-weighted assets reflecting our continued optimization efforts and focus on capital efficiency. Our balance sheet is a reflection of our risk appetite, strategy and diversified business model. The foundation of our funding is a $1.3 trillion deposit base, which is well diversified across regions, industries, customers and account types. The majority of our deposits, $812 billion, are corporate and span 90 countries. Most of our corporate deposits reside in operating accounts that are crucial to how our clients fund their daily operations around the world. In most cases, we are fully integrated in our clients' systems and help them efficiently manage their operations through our 3 integrated services – payments & collections, liquidity management and working capital solutions. All of which greatly increase the stickiness of these deposits. The majority of our remaining deposits, about $423 billion, are well diversified across the Private Bank, Citigold, Retail and Wealth at Work, as well as across regions and products. Now turning to the asset side, over the last several years, we have maintained a strong risk appetite framework and have been very deliberate about how we deploy our deposits and other liabilities into high-quality assets. This starts with our $675 billion loan portfolio which is well diversified across consumer and corporate loans. And the duration of the total portfolio is approximately 1.2 years. About one-third of our balance sheet is held in cash and high-quality, short-duration investment securities that contribute to our nearly $1 trillion of available liquidity resources. And for the quarter, we had an LCR of 117%. So to wrap it up, we are active and deliberate in the management of our balance sheet, which is reflected in our high-quality assets and strong capital and liquidity position.

On slide 11, we show the sequential CET1 walk to provide more detail on the drivers this quarter. First, we generated $3.1 billion of net income to common shareholders, which added 27 basis points. Second, we returned $1.5 billion in the form of common dividends and share repurchases, which drove a reduction of about 13 basis points. Third, we saw an increase in our disallowed DTA, which resulted in a 10 basis point decrease. And finally, the remaining 6 basis point benefit was largely driven by a reduction in RWA. We ended the quarter with a preliminary 13.5% CET1 capital ratio, approximately 120 basis points, or over $13 billion, above our regulatory capital requirement of 12.3%. That said, our capital requirement does not yet reflect our simplification efforts, the benefits of our Transformation or the full execution of our strategy, all of which we expect to bring down capital requirements over time.

So now turning to slide 12. Before I get into the businesses, let me remind you that in the fourth quarter, we implemented a revenue sharing arrangement within Banking, and between Banking, Services and Markets to reflect the benefit the businesses get from our relationship-based lending. The impact of revenue sharing is included in the “All other” line for each business in our Financial Supplement. In Services, revenues were up 8% this quarter, driven by continued momentum across both TTS and Securities Services. Net interest income increased 6%, driven by higher deposit and trade loan spreads. Non-interest revenue increased 14%, largely driven by continued strength across underlying fee drivers. In TTS, cross-border volumes increased 9%, USD clearing volumes increased 3% and commercial card spend volumes increased 5%, all of which was driven by strong corporate client activity. In Securities Services, our preliminary assets under custody and administration increased 11%, benefiting from higher market valuations, as well as new client onboarding. The growth in both businesses is a direct result of our continued investments in product innovation, the client experience and platform modernization to gain share across all client segments. TTS continues to maintain its number one position with Large Corporate and FI clients and see good momentum in the commercial client segment. And we continue to gain share in Securities Services. Expenses increased 11%, largely driven by continued investments in technology and product innovation. Cost of credit was $64 million as net credit losses remain low. Net income was approximately $1.5 billion. Average loans were up 4%, primarily driven by strong demand for working capital loans in TTS. Average deposits were down 3% as the impact of quantitative tightening more than offset new client acquisitions and deepening with existing clients. However, it is worth noting that we continue to see good operating deposit inflow. And Services continues to deliver a high RoTCE of 24.1% for the quarter.

On slide 13, we show the results for Markets for the first quarter. Markets revenues were down 7% as lower Fixed Income revenues more than offset growth in Equities. Fixed Income revenues decreased 10%, driven by Rates and Currencies, which were down 21%, on the back of lower volatility and a strong quarter in the prior year. This was partially offset by strength in Spread Products and Other Fixed Income, which was up 26% driven by an increase in client activity, particularly in asset-backed lending. And we continued to see good underlying momentum in Equities, with revenues up 5%, driven by growth across cash trading and equity derivatives. And we continued to make progress in prime with balances up more than 10%. Expenses increased 7%, largely driven by the absence of a legal reserve release last year. Cost of credit was $200 million, primarily driven by macroeconomic assumptions related to loans in Spread Products that impacted reserves. Net income was approximately $1.4 billion. Average loans increased 8%, primarily driven by asset-backed lending in Spread Products due to an improvement in market activity. Average trading assets increased 4% sequentially, largely driven by seasonally stronger activity in the first quarter. Markets delivered an RoTCE of 10.4% for the quarter.

On slide 14, we show the results for Banking for the first quarter. Banking revenues increased 49%, driven by growth in Investment banking and Corporate Lending and lower losses on loan hedges. As I previously mentioned, Corporate Lending results include the impact of revenue sharing from Investment Banking, Services and Markets. Investment Banking revenues increased 35%, driven by DCM and ECM as improved market sentiment led to an increase in issuance activity, particularly Investment Grade, which is running at near-record levels. Advisory revenues declined given the low level of announced merger activity last year. However, in the quarter we participated in the pickup in announced M&A across sectors, including those where we've been investing such as Technology and Healthcare. Corporate Lending revenues, excluding mark-to-market on loan hedges, increased 34%, largely driven by higher revenue share. We generated positive operating leverage this quarter as expenses decreased 4%, driven by actions taken to right size the expense base. Cost of credit was a benefit of $129 million, primarily driven by changes in portfolio composition. The NCL rate was 0.3% of average loans, and we ended the quarter with a reserve-to-funded loan ratio of 1.5%. Net income was approximately $536 million. Average loans decreased 6% as we maintained strict discipline around capital efficiency, as we optimize Corporate loan balances. RoTCE was 9.9% for the quarter, reflecting a rebound in activity, reserve releases and continued expense discipline.

On slide 15, we show the results for Wealth for the first quarter. Wealth revenues decreased 4%, driven by a 13% decrease in NII from lower deposit spreads and higher mortgage funding costs, partially offset by higher investment fee revenues. We're seeing good momentum in non-interest revenue, which was up 11%, as we benefited from higher investment assets across regions, driven by increased client activity as well as market valuations. Expenses were up 3%, driven by technology investments focused on risk and controls, as well as platform enhancements, partially offset by the initial benefits of expense reductions as we continue to right size the workforce. Cost of credit was a benefit of $170 million, driven by a reserve release of approximately $200 million primarily related to a change in estimate as we enhanced our data related to margin lending collateral. Net income was $150 million. End-of-period client balances increased 6%, driven by higher client investment assets. Average loans were flat, as we continued to optimize capital usage. Average deposits decreased 1%, largely reflecting lower deposits in the Private Bank and Wealth at Work and the continued shift of deposits to higher-yielding investments on Citi's platform, which more than offset the transfer of relationships and the associated deposits from USPB. Client investment assets were up 12%, driven by net new investment asset flows and the benefit of higher market valuations. RoTCE was 4.6% for the quarter. Looking ahead, we're going to improve the returns of our Wealth business by executing on our three foundational priorities. As Jane mentioned, this will take time but over the medium to longer-term, we view this as a greater- than-20% return business.

On slide 16, we show the results for US Personal Banking for the first quarter. US Personal Banking revenues increased 10%, driven by NII growth of 8% and lower partner payments. Branded Cards revenues increased 7%, driven by interest-earning balance growth of 10% as payment rates continue to moderate. And we continue to see healthy growth in spend volumes up 4%, primarily driven by our more affluent customers. Retail Services revenues increased 18%, primarily driven by lower partner payments due to higher net credit losses, as well as interest-earning balance growth of 9%. Retail Banking revenues increased 1%, driven by higher deposit spreads, loan growth and improved mortgage margins. Expenses were roughly flat due to lower compensation costs, including repositioning, offset by higher volume-related expenses. Cost of credit of approximately $2.2 billion increased 34%, largely driven by higher NCLs of $1.9 billion as card loan vintages that were originated over the last few years were delayed in their maturation due to the unprecedented levels of government stimulus during the pandemic and are now maturing. In Branded Cards, the NCL rate came in at 3.65%, in line with our expectations. In Retail Services, the NCL rate of 6.32% was slightly above the high end of our guidance range for the full year and will likely remain above the range in the second quarter, reflecting historical seasonality patterns. However, given the persistent inflation, higher interest rates and continued sales pressure at our partners, we now expect to be closer to the high end of the full year NCL guidance range for Retail Services. This expectation, along with the continued mix shift from transactors to revolvers across both portfolios, led to an ACL build of approximately $340 million. Net income decreased to $347 million. Average deposits decreased 10%, as the transfer of relationships and the associated deposits to our Wealth business more than offset the underlying growth. RoTCE for the quarter was 5.5%. We recognize that this business is facing a number of headwinds from a regulatory perspective and from higher credit costs given where we are in the credit cycle, both of which are putting pressure on returns for the quarter and for the full year 2024. However, this doesn't impact our longer-term view of the business – we feel good about our position as a prime, lend-centric issuer. We will continue to take mitigating actions to manage through the headwinds, lap the credit cycle, and drive more value from Retail Banking and Retail Services while improving the overall operating efficiency of the business – all of which will ultimately result in a higher returning business over the medium term.

On slide 17, we show results for All Other on a managed basis, which includes Corporate Other and Legacy Franchises and excludes divestiture-related items. Revenues decreased 9%, primarily driven by closed exits and wind-downs, as well as higher funding costs, partially offset by higher revenue in Mexico. And expenses increased 18%, primarily driven by the incremental FDIC special assessment and restructuring charges, partially offset by lower expenses from the wind-down and exit markets.

Slide 18 shows our full year 2024 outlook and medium-term guidance, both of which remain unchanged. We have accomplished a lot over the past few years and have made substantial progress on simplifying our business and organizational structure. The year is off to a good start as we are laser focused on executing the Transformation and enhancing the business performance. These two priorities will not only enable us to be a more efficient, agile company, but a client-centric one that brings together the best of Citi to drive revenue growth and improve returns. And we are on the path to reach our 11-12% return target over the medium-term.

With that, Jane and I will be happy to take your questions.

QUESTION AND ANSWER

OPERATOR: Our first question will come from Mike Mayo with Wells Fargo. Your line is open. Please go ahead.

MIKE MAYO: Hi. Well, you just finished your seventh month of your org simplification and you said 7,000 positions go away, with $1.5 billion of expense savings. So that's very concrete, but more generally, after 20, 30, 40 years of matrix structure down to five lines of business, you're reporting these differently, you're talking about them differently, but the question that I think a lot of people have is, are you simply reporting these lines of business differently, or are you actually running them differently? Thanks.

JANE FRASER: Thank you, Mike, for the question. The simplification that we've just gone through, it is what we said it is. It is the most consequential set of changes, not only to the organization model that we have but how we run the bank. It's aligned the structure with the strategy. It's simplified the bank. It's eliminated needless complexity. It's created greater transparency into the five businesses and their performance as you can see. It's increased accountability. And very simply, it's just easier for our people to focus on our clients, but also getting things done and the execution that we have ahead of us.

So maybe if I try and bring this a bit more alive, the first thing we did was we elevated the five businesses and that eliminated the ICG and PBWM layer, and we brought all the elements that the businesses needed to run end-to-end under the direct management of those five business heads, an example being operations. It's enabled transparency, greater accountability, and this end-to-end and total P&L focus, so focus on the bottom line and the returns driving growth, expense discipline, etcetera.

We also right-placed businesses to align with the strategy, so Banking all being under one umbrella, the Investment Bank, the Corporate Bank, Commercial Bank, really helping us drive synergies there. Putting F&S and Securitization into Markets, so that we have a unified spread product there, also beginning to see the benefits of that this quarter.

So that's an example in the businesses, but I do want to highlight a couple of other areas around this change.

So, by eliminating the regional layer and putting in a far slimmer, lighter management structure in place in the geographies, that's enabled us to make sure that our countries are focused on client delivery and legal entity management, and we've eliminated the whole shadow geographic P&L. We've eliminated a large number of committees in the geographies, and this is where a lot of the functional and management roles were streamlined and eliminated through the last seven months. And we also broke the regions into smaller, lighter clusters, and that allows us to much better capture the big changes in trade flows and financial flows, etcetera we're seeing around the world. It's just much nimbler.

The third piece, we created the client organization. So that organization makes sure that our core capabilities and disciplines are being applied firm-wide to drive revenue synergies. And then the governance has got a lot easier, it took up a lot of time, and we've given much clearer mandates and we've more than halved the number of committees. That's 200 committees-plus that we've eliminated in the firm, either by consolidating them or eliminating them.

The spans and layers, if you exclude me, 98% of the firm now operates within eight layers. That is a much, much faster decision-making, it's much quicker to get execution done. It also means that you can very quickly get close to where the engine room of the firm is. We've got clearer accountabilities. We've eliminated most co-heads. We've reduced matrix reporting. We've got the producer to non-producer ratio improved. So all of this really means, as I've said, a clearer deck, so we can be laser-focused on business performance in those five businesses and the Transformation.

It already feels different. Around my table, I'm much closer to the businesses and the clients. It makes it much easier for Mark and I and the rest of the team to run the bank like an operator versus the head of a holding company. You don't have to go through these aggregated layers to get things done.

And we're done, as we said we would be at this point, we're wrapping up the final consultation periods. Not an easy few months for the organization. We've had to say goodbye to some very good people. We've put a lot of change through the organization. And now, as we close the chapter on this, we look forward to being back in BAU mode again, continuing to drive improvements and simplification and processes and the like, but now the focus is going to be really getting the full benefit from all the changes we've made in business and organization and moving forward.

OPERATOR: Our next question is from Glenn Schorr at Evercore. Your line is open. Please go ahead.

GLENN SCHORR: Thanks very much. So I think it shows how much you've helped us see the simpler organization. I think people have totally bought into the expense story, so a lot of credit to you guys. I think where I, personally, and others still have questions on is on the revenue side and getting to those 4% to 5% medium-term targets.

So, could you take us just conceptually where we're going to – where you think you'll drive that growth from, from this baseline where we're at now? And if you want, you can totally use my second question in there and tell us what good things you're doing inside the Investment Banking line.

JANE FRASER: You snuck that one in, Glenn. So I'll kick off with some of this, pass it to Mark and then I'll come back to Banking. So look, we are laser-focused on the growth and improving the returns of these businesses to where they should and will be in the medium term, and it's not just the growth story, but let me anchor it in those medium-term return targets.

In Services, we want to continue around the mid-20s in RoTCE. Banking should be getting to around 15%. Markets 10% to 13%, so we'd like to see it at the higher end of that range. USPB getting that back to the mid-teens and then moving on to the high-teens in the medium term. And then lastly, as Andy and Mark have talked about, getting Wealth to a 15% to 20% return in the medium term, but the goal is to the mid-20s in the longer-term here.

And we're confident that our strategy is going to drive the revenue growth of 4% to 5% CAGR in the medium term and that's a combination of maintaining our leadership in certain businesses, gaining share in others. We have good client growth. Look at our win rate, for example, in TTS at over 80%. We've got our Commercial Bank also bringing in new clients in the mid-market and helping them accelerate their growth and success around the world.

But, Mark, let me pass it over to you.

MARK MASON: Sure. And good morning, Glenn, and we appreciate the acknowledgment around the expenses. As you know, we've been quite focused on that and working hard to ensure that we deliver on what we say we're going to do there.

I'd point – on the revenue line, I'd first point to, if you look back, since Investor Day, we've in fact been able to deliver on the guidance that we've given for the medium term, so that 4% to 5% top line growth. And, yes, it was a different rate environment, but that growth that we delivered over the past couple of years has been a mix of both revenue and underlying business strength.

As you think about the guidance we talked about for this year, we talked about the NII ex-Markets being down modestly. And so what that means is that the momentum and the growth that we expect is going to come from the non-interest revenue. And I think this quarter is a good example of where and how that's likely to play through, so the revenue top line being up 3-plus percent, but when you look through each of the businesses, and if you look on each of the pages where we disclose the revenue, you can see the underlying NIR growth in the bottom left hand corner of each of those pages, that's coming through as well. So Services up 14% with growth in both TTS, between cross-border, clearing, commercial cards, but also – and Securities Services, right, with the growth that we're seeing from continued momentum in assets under custody. We expect that trend to continue with existing clients and new clients as well as how we do more with our commercial market – commercial middle market business, excuse me. So NIR growth there.

The Investment Banking piece is the other driver of fees. We're seeing that wallet start to rebound. We're part of that rebound. The announced transactions, we're part of those in sectors that we've been investing in. We're bringing in new talent to help us realize and experience that.

And even in Wealth, where we're not pleased with the top line performance this quarter of down 4%. When you look through that, we do have good underlying NIR[1] growth in the quarter in Wealth and that's up 11% year-over-year and it's in the area that Andy and the team is leaning in on which is investments and not just in one region, but across all the regions.

And then finally, the USPB piece which is showing good NIR[1] growth as well, so the long and short of it is that the 4% growth that's implied in $80 billion to $81 billion is going to be continued momentum, largely in fees, helping us to deliver for our clients and make continued progress towards that medium-term target.

JANE FRASER: So let me pick up, I'm sure Jenn Landis will give us the evil eye for sneaking in a second question there, Glenn, but let me pick up on Banking and what's going on there. So we have a very clear strategy that we've been executing over the last couple of years, really to lay the foundation for growth in Banking.

North America is our key priority. It's the biggest contributor to the global IB wallet. Tech, healthcare and industrials are likely to constitute over 50% of the fee wallet going forward. So we have better aligned our resources to position the franchise for this. Defending areas of traditional strength in industrials and the like, energy, whilst investing in high-growth sectors such as healthcare and technology with some strong talent.

Financial sponsors are sitting on $3 trillion of estimated fire power, which they are incentivized to deploy, so they're likely to be between 20% to 30% of global Investment Banking fees. We've great relationships with this community, we've built that over years and decades. You're going to see us more active in the LevFin space, in the right situations for our key clients, and we'll continue to ensure we're well-positioned and active around this important opportunity.

You'll likely see us seeking to remain competitive in the private capital asset class. That's going to be an important source of liquidity for many clients and the middle market will be fertile hunting ground for corporates and private equity and our Investment Bank and Commercial Bank are going to be closely coordinated to harvest the deal flow around the world.

And indeed, the new org structure that I was just talking about really enables us to drive a more joined-up, client-centric, strategic coverage across Corporate, Commercial and Investment Banking. So over and above the wallet recovery, Mark and I are going to be very laser-focused on ensuring that we're driving revenue growth from a more holistic focus on the wallet share across flow and episodic activity.

Vis Raghavan is the right person to take over at this important moment for our Banking franchise, the momentum that we've been generating with the foundations we've been laying. Now, the intention here from him is to accelerate that. He will focus on increasing our performance intensity, driving productivity and disciplined growth, and he will keep us firmly on the path towards delivering on our commitments, fundamentally improving the operating margin, generating high returns and that all-important fee revenue.

OPERATOR: Our next question is from Betsy Graseck at Morgan Stanley. Your line is open. Please go ahead.

BETSY GRASECK: Hi. Good morning – or yes, we're almost pinging into the afternoon here.

JANE FRASER: Hi, Betsy.

MARK MASON: Great to hear you, Betsy.

BETSY GRASECK: I guess a couple of questions. Well, so I know we talked through the Institutional Securities business already on moving that expense ratio a little bit. Could we dig in a little bit on the Wealth side, because the expense ratio there is running a little higher, and so, it'd be useful just to understand the pace or speed or timeframe when we should expect to see that start to inflect.

JANE FRASER: Yes, absolutely. And some of it, just as a reminder, the actions that we've been taking on org simplification and that Andy has also been taking in the Wealth business. We will work through notice periods in the coming weeks. And so, you'll start – you'll see the impact coming through in our head count numbers, and in Wealth, in the expense base next quarter. Look, as Mark said in his opening and Andy has been talking about, this should be a – sort of up to a 30% pre-tax margin business.

Andy is focused on rationalizing the expense base. He's also, as Mark said, turning on the growth engine. He's enhancing our platforms and capabilities to elevate the client experience. The heart of the opportunity for us lies with our existing clients. They are an extraordinary client base, but they're underpenetrated. So, a lot of the operating efficiency is frankly going to be – is going to come on the revenue side here. That said, Andy's taken a number of pretty decisive moves this quarter on the expense side.

Mark, let me toss it over to you.

MARK MASON: Yes. I mean, look, I think that the quarter expenses that you see of growth of 3% is not yet reflective of the work that Andy has been steadfast at. There is still some investment in there in technology and in the platform that's important. But I think coming out of the first quarter, you'll start to see some of the reduction in expenses that's a by-product of that work. And the work has been across the entire expense base in the Wealth business. So, that includes non-client-facing roles and support staff. It includes looking at the productivity of existing bankers and advisors, and those kind of reductions will start to play out in the subsequent quarters.

I do want to point out, as Jane mentioned, this is a growth business for us. And so, you can see on some of the metrics on page 15 in the bottom left, some of those good signs of investment momentum. And I highlight that because as the expenses come down from some of those efficiencies, there will be a need for us to continue to invest and replenish low-performing or low-producing bankers and advisors with resources that actually can generate the revenues we expect and take advantage of the client opportunity that's in front of us.

So, long-winded way of saying there's some operating efficiency upside for us for sure. It's a combination of the top line and the expense work playing through the balance of the quarters and the year here.

OPERATOR: Our next question is from Jim Mitchell at Seaport Global. Your line is open. Please go ahead.

JIM MITCHELL: Okay. Good morning. Jane and Mark, I very much appreciate the comments on your growth opportunities and driving growth. But revenues are often dictated by the macro that is a little bit out of your control. So, can you talk a little bit about the flexibility on the expenses? You have a range in 2026 of $51 billion to $53 billion. So, if revenues are coming in below the targets, is it, I guess, A, fair to assume you'd be at the very low-end of that range or is – and I think there is some revenue growth built in there. So, is there some flexibility to the downside to try to get to your targets in a tougher revenue environment? Thanks.

MARK MASON: Yeah. Look, the top line growth, as you've heard us say, is a CAGR of 4% to 5%. We've put that target out there of $51 billion to $53 billion as a range of what we're working towards. We've given you a good sense of how we expect to get there with the $2 billion to $2.5 billion reduction by then. We've already signaled $1.5 billion that's in front of us.

The reality is that if there's softness in revenues, that's why we have a range, obviously, the volume-related expenses would come down with any softness in revenue. And depending on the drivers of why that revenue is softening, we'd look at the investments that we're making across the business and make sure that those are appropriately calibrated for where we are in the cycle and what we're seeing on the top line.

With that said, we've got to continue to invest in the Transformation. We're not going to compromise that. That's going to be something that we have to spend on to ensure we continue to get right. But that's kind of how the dynamic works. There's a top – we've got a mix of businesses that I think we've demonstrated resiliency around if you think about the past couple of years, and we expect for those to continue to drive some top line momentum. But we've got levers in case they don't.

OPERATOR: Our next question is from Ebrahim Poonawala at Bank of America. Your line is open. Please go ahead.

EBRAHIM POONAWALA: Thank you. I guess just one question, Mark, around capital. So, you talked about $13 billion over the reg minimum. Like you could easily be doing 2x the buyback you did in one quarter, if not more. I know you don't like to talk about out-quarters, but give us a sense of the case this quarter. Should we expect the pace of buybacks to increase? And if you could provide additional color as we think about the rest of the year would be greatly appreciated. Thank you.

MARK MASON: Sure. Look, you know and I've said it repeatedly, Jane has said it repeatedly, given where we trade, we think buying back is smart and we'd like to do as much as we possibly can and as much as makes sense in light of the uncertainty that's out there. We have run at about 13.5% this quarter. That does give us capacity above the 13.3%. But it's important to keep in mind that there's client demand that will continue to evolve. We want to make sure we can support the clients that want to do business with us, whether that be in Markets or other parts of the franchise.

And then, there's still uncertainty out there about how the capital regulation evolves. The good news is we are hearing kind of favorable things about how the Basel III Endgame proposal could evolve, but that hasn't happened yet. It's not finalized. It's not in place yet. And so, we want to see how that continues to play out. We're obviously in the midst of a CCAR process. We want to see how that evolves, and we'll continue to take the buyback decision on a quarter-by-quarter basis. But we recognize that there's an opportunity there, and we'll get after it just as soon as it makes good sense for us.

OPERATOR: Our next question is from Erika Najarian at UBS. Please unmute your line and ask your question.

ERIKA NAJARIAN: Hi. Good afternoon. So, clearly, the theme of this that's emerging on the Q&A is a healthy skepticism about the revenue targets in line with the – in light of the expense declines, which is not really us analysts, we're sort of a little bit parroting what we're hearing from long-only investors that haven't yet jumped into the stock. So, to that end, I guess I'm going to ask Ebrahim's question differently, and then ask a question about card late fees.

How are you balancing – clearly, your valuation would demand that the buybacks be ramped up from $500 million. But growing revenues at a 4% to 5% CAGR would mean potentially some capital plowed back into the business. I guess how are you balancing that, especially given that the demand for buyback is louder at Citi than any other money center peer? And could you give us a sense of what card late fees are and how that would impact the $80 billion to $81 billion for the year if we do get an earlier implementation than October?

MARK MASON: Yeah. Thank you, Erika. On the first part of the question, I'd just remind you and everyone else that we're playing for the long-term here, right. So, we have set some medium-term targets. Obviously, Jane has recasted the vision and the strategy. I think we're making very good progress against that, but we're playing for the long-term. And what that means is that we have to continue to invest in the franchise.

It's why I've given you a range around the expenses, at least in part. It's why I've continued to stress the importance of protecting the Transformation and risk and control spend. And it's why I started the answer to Ebrahim's question by saying that we want to be sure that we can match the client demand out there, where the returns to do so makes sense. And so, we are having to balance kind of the use of capital and other resources against that longer term strategic objective and utilize it where it makes sense and generates good returns against the idea of returning that to shareholders.

And so, we'll continue to do that. It's an everyday assessment. It's an everyday discussion with the teams. Frankly, it's why things like the revenue sharing has been put in place to intensify the discussion around the clients that we're using balance sheet with and ensuring that we're driving broader revenues across the platform. And so, that's kind of how we're operating in terms of making that trade-off on a regular basis, in addition to obviously the broader regulatory environment that we're in.

In terms of the second part of your question around late fees, we haven't disclosed kind of the dollar amount of the late fees. What I would say is that we did and have factored that into the $80 billion to $81 billion. And the only thing I'd add to that is it did kind of – it's being implemented a bit earlier than what we had assumed. But again, it's inside of the range of the guidance that I've given you for top line revenue for the year.

JANE FRASER: I'd also, just as a reminder, 85% of our two card portfolios are prime, and in CRS, where you tend to see some of the lower income households, we do have that – the economics of the fee change will be shared with our partners in CRS. So, we want our customers to pay on time. We have a number of mechanisms to do so. But in terms of the economics, I think we, along with the rest of the industry, will be putting in mitigating actions over time, some of which we've already begun to implement.

MARK MASON: Good add, thank you.

OPERATOR: Our next question is from John McDonald at Autonomous Research. Your line is open. Please go ahead.

JOHN MCDONALD: Thanks. Mark, I was hoping you'd give a little more color on how you're feeling about the credit card charge-offs. You maintained the outlook for the year. You mentioned the higher end on Retail Services. Do you still feel like you'll see a peak this year? And what kind of metrics are you looking at in terms of delinquency formation and seasoning to inform that view that you might see the peak in card charge-offs this year?

MARK MASON: Yeah. Thanks, John. We have obviously continued to manage this portfolio very actively. We've seen continued top line growth. We've seen continued average interest-earning balance growth. We've talked about how we expect for the cost of credit to normalize, and we've seen that continue to happen. The range that we've given on Branded Cards, we're inside of that range. When you look at the spend across the portfolios, the spend is really happening with the affluent customers more so than anything else. And so, we're watching the lower income customer profile – or customers that we have. But again, as Jane mentioned, we tend to skew to the higher end to begin with.

Where we're really seeing the pressure is where I mentioned in terms of Retail Services. And so, there, the current NCLs are higher than the high-end of the full year range that I've given. But if you look back, that is not inconsistent with seasonality that we've seen in the past in that portfolio, where the first two quarters are higher than the back half of the year, in part because of coming out of the holiday season and how losses tend to mature or materialize through that process.

And so, I'd expect to not only see them be higher than the average range in Q1, but also in Q2 before coming down. And then, I still expect that in 2025, you tend to see them further normalize and come down a bit off of these ranges. But look, the reality is that we continue to watch it, and the factors that are out there that are important include how unemployment evolves, what happens with inflation, what happens with interest rates, and those will be important factors as to how the loss rates continue to evolve over time.

I think the final point I'd make and I mentioned it in the prepared remarks is that we have to remember that the loss rates in both portfolios reflect kind of multiple vintages maturing at the same time. And you'll recall, and this is an industry dynamic, through the COVID pandemic period, losses were at an all-time low, payment rates at all-time highs, supported by government stimulus.

And now coming out of that, we're seeing the COVID vintages mature, albeit at a lagged pace from what would be normal, and we're seeing the incremental acquisitions that we've done start to mature at their normal pace. And so, these loss rates are exacerbated by that impact and that's an important factor we can't lose sight of. But the bottom line is that we're watching it. The macro factors matter. We feel good about the quality mix that we have, and we'll kind of see how things evolve from here.

JOHN MCDONALD: Okay and on the Branded side, you still expect kind of the peak-ish? Are you still inside of the range for the full year and expect 2025, you could move lower on the Branded charge-offs?

MARK MASON: Yes, I still kind of expect that trend line of peaking and then kind of moving a bit lower in Branded.

OPERATOR: Our next question is from Ken Usdin at Jefferies. Your line is open. Please go ahead.

KEN USDIN: Great. Thanks. Can I follow up on the card line of thinking and just ask you, Mark, to talk a little bit about just cost of credit? We did still see some card related build this quarter even with the comments you just made and seasonal softer loan growth So, just from a bigger picture perspective, how do you think, continue to think about reserve builds from here and how that informs your outlook for cost of credit?

MARK MASON: Yeah, sure. Look, I think that when I think about the reserve builds, I think it's the same factors that come into play. So, obviously, the view on the macro is important. And right now, if you think about some of the key macro factors that impact the cards portfolio, the unemployment assumptions weighted is about 5%, the downside is about 7% kind of weighted over the period. And so, how that evolves will be an important factor. How HPI evolves would be an important consideration here for this portfolio, but also what happens with volumes becomes a factor on reserve builds and how important or how much they increase or decrease.

And then the final piece is mix, and it's kind of related to that revolver point. As we see the mix evolve from transactors to revolvers, that's going to play into how much of a reserve from a lifetime point of view we have to continue to build. And so, it's why I mentioned on John's question the importance of looking at the interest rates, looking at what's happening with inflation, watching the lower income customer base, because all of those things combined with how we think about the scenarios and the weighting will be a factor on the reserves.

But I will say, Ken, as I sit here and think about what we have in the quarter, I feel very good about the reserve levels. The 8.2% for combined kind of ACL-to-loan ratio feels right for the mix of this portfolio and we'll continue to watch it.

KEN USDIN: Okay. And a separate question on TTS. That NII related to TTS has been remarkable with rising rates. This quarter, granted there was a lesser day and there could be currency stuff in there, the first quarter that it stepped back, I'm just wondering like where is that in its asset liability sensitivity, the TTS NII, and what are your thoughts about that piece of the NII puzzle going forward? Thanks.

MARK MASON: Sure, yeah. I mean, I think I'd say a couple things. We do have kind of some Argentina playing through the NII line. I will say that the best way to think about it is kind of the underlying beta activity. And we have seen, this is the corporate client, it is an institutional client. We have seen betas, particularly in the US, at kind of normalized or terminal levels and playing a bit through that. We are seeing betas outside of the US continue to increase as it relates to the TTS client base.

But all of that again is inside of the range that we've talked about. I don't expect to see kind of year-over-year growth on the NII line anywhere close to kind of what we've seen in prior years, prior quarters, just in light of kind of how the rate environment's evolved, and in light of kind of quantitative tightening and the impact on deposit levels. The last point I'd make on this is, we will continue to drive and see growth as it relates to the operating deposits, and that will be an important tailwind that kind of plays through.

OPERATOR: Our next question is from Vivek Juneja at JPMorgan. Your line is open. Please go ahead.

VIVEK JUNEJA: Hi. Thank you. Jane, Mark, just a question maybe on Argentina, you've shown $100 million in NII. Total net income benefit of $500 million after-tax, so probably implying about $500 million, $600 million of non-interest income benefit. Which line item – sorry, which segment did that come through, and is that sustainable?

MARK MASON: Yeah, look, there's a mix obviously of things that are driving that net income, including a tax impact on the heels of last year Argentina devaluation activity that's in that line. But the short answer is that if you think about the nature of the business that we do in Argentina, it is a big part of our institutional client relationships. And the primary activities include some of the TTS-type of activities that we've talked about, so liquidity management, payments, custody within the Services business. And so, you'd see a good portion of the activity in Argentina playing through the Services business, some of it in Markets as well, but again, the majority of the activity in Services.

OPERATOR: Our next question is from Scott Siefers at Piper Sandler. Your line is open. Please go ahead.

SCOTT SIEFERS: Hey, everyone. Thanks for taking the question. Mark, I think you touched on at least a component of this a couple questions ago, but maybe just broadly an update on your rate positioning. I guess I only ask, because it looks like we might be starting to diverge in terms of global rate trajectories, if we potentially go lower in Europe, but higher here for a while. In the aggregate, do these kind of complicate your management or make you feel better or worse about the overall NII momentum for the company?

MARK MASON: Yeah, let me try and take it in, in two pieces, I guess. So one is, if I think about how the rate implieds have evolved from the 3 to 6 to now something a little bit north of 1 in the context of what I expect for our performance, it doesn't have a material impact on the guidance that I've given of $80 billion to $81 billion.

And in part, that's because as I think about the timing for the planned cuts, which was generally back-loaded, as well as some of the other factors that play through. So, you know, Argentina just announced a policy rate reduction yesterday or a couple of days ago. If rates are a bit higher for longer, we'll watch how the betas continue to evolve. I mentioned earlier, the late fees for the cards business happened a bit sooner. Late fees are actually booked in our NII line. And so, those factors put me in a place where I feel like there will certainly be puts and takes around how that rate curve evolves, and therefore I'm very comfortable kind of leaving the guidance where it is.

To answer your broader question, in terms of kind of how we are positioned, I'd point you to the 10-K that we have that's out. And in that 10-K, we offer as we have before a number of IRE scenarios for plus or minus 100 basis points and what it means for our business. And if you look at it, you'll see that for the aggregate firm, for Citi, US dollar and non-US dollar, that we're asset-sensitive. So, as rates increase, we should see an increase in our NII performance.

But if you look at the breakdown and that's about – I think it was about $1.4 billion or something in terms of the impact of that move. But if you look at the breakdown, what the breakdown will show is that for US dollar, at this point we're neutral. So, if rates were to go up, rates were to go down, no material impact as it relates to our revenue.

For the non-US dollar, we're still quite asset-sensitive, right? And so, that should give you some sense for – and we recognize the limitations with IRE, it assumes 100 basis point parallel shift across the curve to a static balance sheet, etcetera, but that should give you some sense for the implications of the rate curve moves as it relates to our book of business.

OPERATOR: Our next question is from Gerard Cassidy at RBC Capital Markets. Your line is open. Please go ahead.

GERARD CASSIDY: Hi, Mark. Hi, Jane. Mark, can you share with us, there's been obviously a lot of conversation around the credit card charge-offs and the credit quality there. If we could shift over to the corporate side, which obviously is very strong, we have seen spreads narrow in the markets on high-yield corporate debt, leverage debt, etcetera. It's very robust out there, but around the global geopolitical risk, do you think the spreads would be widening? Can you guys share with us what you're seeing on the corporate side in terms of competition? Are underwriting standards getting a little bit weaker now as people are trying to grow their books, what are you seeing on that front?

MARK MASON: So, look, we're still seeing good demand for corporate credit. And what I'd say is that we've been very disciplined about where we want to play on the risk profile here. We've been very disciplined in terms of the investment-grade large multinationals that we serve. And that hasn't shifted from an underwriting point of view. We have seen spaces like private credit pick up quite a bit, and that I think will continue to evolve.

I think importantly, as we think about our Corporate Lending activity, you'll note that actually we've been very disciplined about how we want to deploy balance sheet. And part of that again is a by-product of the revenue sharing that we've implemented, where there's been healthy debate and discussion around the names that we want to continue to serve, and whether they're positioned to take advantage of the broader platform that we have.

And so, I think the space will continue to evolve. I think there's been good, healthy demand, despite continued strong balance sheets and part of that demand has been because of where rates are likely to go and continue to evolve. And I think we're well-positioned to be thoughtful about that, but Jane, you may want to add a couple points to it.

JANE FRASER: Yeah, look, around the world, the corporate client base and our Commercial Banking mid-market client base have very healthy balance sheets and we're also seeing market access gradually opening up as well, which is also helpful for – to the quality issuers across all asset classes. We're seeing both the issuers taking advantage as well as the investors. The deals are well over-subscribed. So, that's also been beneficial as corporates think about their financing needs.

The other piece I'd just pop out there as well is the recent large M&A announcements in multiple industries is a sign of rising confidence from CEOs and boards and active discussions are increasing, as supportive capital markets create confidence, as people think about larger strategic transactions. This is going to feed acquisition finance, bridge financing and some of the higher-margin capital markets and lending activity as well.

So, as we look forward, I think it's recognizing the shift in some of the drivers from company just investing, refinancing, looking at where they can diversify their capital raising in different quarters. But I'd just close by saying I couldn't agree with you more about geopolitical risks and fragility. I think the market's too benign in its risk pricing on some of these factors.

OPERATOR: Our next question is from Matt O'Connor at Deutsche Bank. Your line is open. Please go ahead.

MATT O'CONNOR: Hi. In your prepared remarks, you talked about intensifying certain efforts regarding regulatory processes and data on slide 4 here and was just wondering if you could elaborate on I guess what you're doing or trying to do differently on that front and if there's any meaningful financial impact. Thank you.

JANE FRASER: Yeah, look. I think, Matt, as we've talked about many times, the Transformation is our top priority, it will be for the next few years. It is foundational for our future success, both in terms of delivering the strategy and the medium-term financial path and we've been making significant investments behind it, as well as not only on the consent order, but also making sure we've got this modern efficient infrastructure.

And we're currently deep into a very large body of work, upgrading our data architecture, automating manual controls and processes, consolidating fragmented tech platforms, and all of these help enhance our business performance more broadly, not just the risk and control in the medium term.

And as I've said though, there are a few areas where we are intensifying our efforts, such as the automation of certain regulatory processes and data remediation, particularly related to regulatory reporting. We're committed to getting these right. The org changes will help us with execution and making sure that we have the impetus and everything that we need behind it, the investments that we need. We keep a close eye on execution, making sure we've got the right level of resourcing and expertise and we'll invest what we need to do to make sure that we address these different concerns.

I can't go into much more detail in terms of CSI obviously, but something of this magnitude you'd expect us to have some areas where we have good progress and others where we need to intensify efforts.

MARK MASON: Yeah, I mean I think that's exactly right, but you'd also expect that in this type of environment, and on the heels of the regional bank stress last year that we're looking at stress scenarios, we're enhancing our CCAR processes, we're enhancing our resolution to recovery processes. All of those things just to kind of make sure that we're shoring up capabilities and you'd expect that across the industry quite frankly.

OPERATOR: Our next question is from Saul Martinez at HSBC. Your line is open. Please go ahead.

SAUL MARTINEZ: Hi. Good afternoon. I'll change tacks a little bit here, but I'm curious if there's any update on the Mexican IPO and more specifically, I'm kind of curious how set in stone the IPO process is. You will have a new administration and even if it's a candidate from the same party, she may have a less confrontational view of the private sector, perhaps be more allowing of a local bank to extract value from buying a bank. I guess if the facts on the ground were to change, would you be open to a sale potentially being back on the table, because it does seem like this is a situation where a private market valuation could be higher and even materially higher than the public market valuation.

JANE FRASER: The guiding principle that we have and we've had all along is making sure that we make a decision here that is in the best interest of our shareholders and makes the most sense for them. We are – we never say never, but we are very focused on the IPO path here. We believe it is the right one for our shareholders. We're well on track in the path in Mexico. We're very pleased to bring Ignacio Deschamps in as the Banamex Chairman to help guide the IPO process. We announced the management teams for the two banks earlier this quarter. We're far down the path of the technological separation of both banks, and then the full legal separation in the second half of the year.

Obviously, the election Is coming up fairly shortly, but we're not anticipating that we would be deviating from the IPO path. That is the path that we are on at the moment. I'll never say never but we do believe that this is the right one, but we'll keep an eye on what's happening in Mexico as we always do.

OPERATOR: Our next question is from Chris Kotowski at Oppenheimer. Please go ahead.

CHRIS KOTOWSKI: Good afternoon, thanks. Just a quick one for Mark. Previously, you had talked about "bending the cost curve" between the third and the fourth quarter of this year, and on this call I thought I heard you say it's basically bent, that second quarter should be down and we should be sequentially lower from here, so did it just happen six months earlier or is there still some other bending that comes late this year?

MARK MASON: I'll take it. I'll take that.

JANE FRASER: I wanted that one.

MARK MASON: No. I mean I'll take the win. A downward trajectory from here through the end of the year, in-line with the guidance of $53.5 billion to $53.8 billion and so yes.

OPERATOR: Our next question is from Steven Chubak at Wolfe Research. Your line is open. Please go ahead.

STEVEN CHUBAK: Hey, Jane. Hey, Mark. Did want to ask on DFAST and SCB just recognizing this will be the last opportunity before the results come out. The macro scenario, Fed assumptions look quite similar to last year but just given the significant transformation that's underway, repositioning actions, which admittedly depressed earnings last year, want to get a sense as to whether there are any idio-factors that could result in greater SCB volatility in the coming exam and just broader thoughts on longer-term trajectory for the SCB, just given the org simplification efforts that are underway.

MARK MASON: Yeah, Steven the first part of your question is just impossible to answer to be candid with you, right. I mean it's – we obviously have an internal based scenario we've run. We have a severely adverse scenario that we've run. We've provided a balance sheet as part of the submission, but ultimately, the regulators have to run through their models, the information that we've provided and that informs what happens with the stress capital buffer, and we don't have as much transparency to that as we'd like and so really hard to call at this stage.

The second part of your question I think is spot-on and I kind of alluded to in my prepared remarks in that we have the medium-term targets that we've set and we're still in the midst of kind of the execution of our strategy, the evolution of the business mix and the business model. The mix towards more consistent, predictable and repeatable revenue streams that would impact PPNR, the simplification which obviously plays through an expense base that'll be lower when we get to that medium-term period.

So all of those things, the divestitures and kind of what that means and how that might impact the G-SIB score and the like and the freeing up of capital which we've already freed up $6 billion or so, and so all of those things have kind of yet to have been factored in and we believe will be beneficial to the SCB over the medium-term.

OPERATOR: Our next question is from Mike Mayo at Wells Fargo. Your line is open. Please go ahead.

MIKE MAYO: Hi. A follow-up, Mark, you said TTS, you said we will have growth in operational deposits, and I was just wondering what gives you such confidence that you will, or is that accelerating or the same pace or what?

MARK MASON: We have seen growth in the quarter, in operating deposits. The confidence comes from the focus that we've had with our existing clients as well as the growth we've seen with new clients, doing more with existing in more countries, more deeply penetrating the commercial middle-market space, and so we've been very thoughtfully focused on deposits that obviously give us the most value and also, provide the most stickiness as it relates to that relationship and so yes, the confidence is rooted in what we're seeing in the way of underlying operating deposit growth including inside this quarter.

JANE FRASER: It's also a lot of the investments that we've been making, fuel a lot of the growth we've got. We have a market- leading product innovations and those continue to drive good returns, good growth. If it's Citi Token Services, Citi Payment Express, 24/7 Clearing, all of these different elements really mean that this business is utterly invaluable and indispensable to our clients and the stickiness of the deposits, the operating deposits comes with that, so we feel good about that growth. And you'll hear more about this as well, Mike, in the Investor Day in mid-June which will be I think we hope will be very helpful to everyone so you really get your arms around how this business operates, makes money, and see why we call it a crown jewel.

OPERATOR: Our next question is from Vivek Juneja at JPMorgan. Your line is open. Please go ahead.

VIVEK JUNEJA: Hi. Mark, completely different topic, because I think I understood your answer to be just – from my previous question to be the tax benefits so we'll leave it at that. If it's different then I need to go down that path, but the question I signed on to ask was, you talked about the percentage of revolvers increasing from transactors in the private-label and the retail partner cards. What is that percentage and how does it compare with what it was pre-pandemic?

MARK MASON: Yeah, I don't – we haven't broken down the transactor versus revolver mix, and so I'm not going to get into that. I will say that the revolver levels are at least back to where they were pre-pandemic and leave it at that, but we are seeing kind of continued revolver activity which you'd expect kind of given the way the cycle has evolved and given payment rates have started to moderate and the stimulus has kind of unwound, and so all of that is kind of consistent with expectations but obviously, is a factor in reserve levels as I mentioned earlier.

OPERATOR: Our final question is from Betsy Graseck at Morgan Stanley. Your line is open. Please go ahead.

BETSY GRASECK: Oh, hi, thanks so much. I just wanted to make sure of one thing on the expenses. I know in the past you've talked about the fact that 1Q will be a little elevated with the restructuring. And you showed that was the $225 million in the quarter, and then when we look to 2Q, we should – should we still be expecting a step-down in 2Q? And is that step-down just the elimination of the $225 million or is there some restructuring that we're likely to see in 2Q as well? In other words, should I just fade sequentially 2Q, 3Q, 4Q to hit your annual number or is there a bigger step-down in 2Q that I should still be expecting here? Thanks.

MARK MASON: Sure. I think you should just fade it, to answer your question very directly, but I'd also point out that in Q1, if you really look through to it, it has the $250 million of FDIC charge in it, and so when you back that out, we effectively are coming in lower than what we had guided right. Despite that I'm telling you the same – I'm making the same point, which is you can expect a downward trend from here through to the end of the year and while there won't be additional restructuring charge, there will be the normal BAU activity around repositioning that plays through, so hopefully that answers your question, Betsy. The guidance still holds, and the downward trend is what we are managing towards, as we kind of play out the balance of the year.

OPERATOR: There are no further questions. I will turn the call over to Jenn Landis for closing remarks.

JENNIFER LANDIS: Thank you, all, for joining us. If you have any follow-up questions, please call us and we look forward to talking to you. Thank you very much.

OPERATOR: This concludes Citi's First Quarter 2024 Earnings Call. You may now disconnect.

Footnote

[1] Correction made to replace reference to "NII" (net interest income) with "NIR" (non-interest revenue)

Certain statements in this transcript are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. These statements are not guarantees of future results or occurrences. Actual results and capital and other financial condition may differ materially from those included in these statements due to a variety of factors. These factors include, among others: Citi's ability to achieve its objectives, including expense savings, from its transformation, strategic and other initiatives, which include management and operating model changes and other actions, as well as the divestiture of Citi's consumer, small business and middle-market operations in Mexico, which involves significant execution uncertainty and complexity and may result in higher than expected expenses, certain losses or other negative financial or strategic impacts; a potential U.S. federal government shutdown and the resulting impacts; continued elevated interest rates and the impacts on macroeconomic conditions, customer and client behavior, as well as Citi's funding costs; potential reductions in benchmark interest rates and the resulting impacts on net interest income; potential recessions in the U.S., Europe and other regions or countries; revisions to the U.S. Basel III rules, including the recently issued notice of proposed rulemaking, known as the Basel III Endgame, related to the U.S. regulatory capital framework, and other proposed changes in regulatory capital rules; continued elevated levels of inflation and its impacts; potential increased regulatory requirements and costs; the various uncertainties and impacts related to or resulting from Russia's war in Ukraine and escalating conflict in the Middle East; impacts from any potential additional currency devaluations in Argentina; and the precautionary statements included in this transcript. These factors also consist of those contained in Citigroup's filings with the U.S. Securities and Exchange Commission, including without limitation the "Risk Factors" section of Citigroup's 2023 Form 10-K. Any forward-looking statements made by or on behalf of Citigroup speak only as to the date they are made, and Citi does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made.

This transcript does not constitute an offer to sell, nor a solicitation of an offer to buy, any securities, which will be made only by a prospectus.

