Q&A | Closing Comments - Jane Fraser | March 2, 2022

Jenn Landis:

Welcome back everyone. We are now going to start Q and A. As a reminder, please use the Zoom link if you would like to ask a question and raise your hand on Zoom. With that, I think we'll open it up for questions. Operator.

Moderator:

Thank you. Good afternoon. Welcome to the Q and A portion of the 2022 City Investor Day. For those of you not asking a question, you should stay in the webcast for the best viewing experience. For those of you that will be asking a question in the interactive Zoom meeting, you should have your webcast turned off by now. We will be using the raise hand feature to queue up the questions. For each question, we will announce both the upcoming and the subsequent questioner to better prepare each analyst for their spot in the queue. When called upon, you can unmute yourself and proceed with your question. First question is going to go to Glen Shore from Evercore ISI, which will be followed by Mike Mayo from Wells Fargo. Glen, go ahead please.

Glenn Schorr:

Hello. Thanks very much. Appreciate it. Okay, so I like all the numbers. I appreciate the walk through. The 22 expense guide, first, a point of clarification, I think on slide 17, one part said up five or 6% ex. Asia, divestitures in one part said up seven or eight. So, I just want to clarify the five or six versus seven or eight.

Mark Mason:

Yep. Good morning or good afternoon Glenn. It's Mark here. Let me just clarify, you're right. On page 17, we show the up five to 6% excluding the divestiture impacts in 2022. Only those that are in 2022. Then the seven to 8% reflects the exclusion of the divestiture impacts both in 2022 and those that we incurred in 2021, right? So, we had the Korea verb in 2021. So, that explains the difference in the two.

Glenn Schorr:

Okay. I appreciate that. Furthering that question, if we look through, I love slide 32 that it has the medium term walk by P and L, it has expenses as additive to your RoTCE build at 20 to 70 basis points. So, it's as simple as saying that means after the buildup and expenses in '22 and probably '23, all the expenses going into the transformation or the operating leverage will kick in, and you think '24 and beyond expenses will be below 2021? I hope I'm not putting too many words in your mouth.

Mark Mason:

That's too many words. We do expect to see benefits in the expense level, in the medium term. That's what that reflects. If you look at the stack bar that we showed on the prior pages, on page 23, you see the expense levels starting to tick down in that medium term, and that's some of the contribution that you see to the returns. It won't be as low as the '21 number. Those would be words that you were putting into my mouth.

Glenn Schorr:

Okay. So, it's an operating leverage thing, not an absolute dollar thing. Either way, I think people would be cool with it. Maybe just one last one. It looks like, same slide, you were incorporating seven rate hikes across '22 and '23, which is what it is. I'm curious on the six to 7% loan growth. How much of that is coming from cards versus say, leverage finance and ICG and things like that you talked about?

Mark Mason:

Yeah, I can try and pull this specific breakdown. What I'd say is that we are looking for the rebound in card loan volumes, that's both on the heels of the overall recovery, but the fact that we've been investing marketing dollars in acquisition of new card customers. So, there'll be a fair amount of contribution from both the cards, as well as on the ICG side, in the way of trade loans and other lending activity that we do there. Anand or Paco, I don't know if you want to add anything specific to either those portfolios, but it is a contribution from both Glenn.

Jane Fraser:

No, I think they're both saying you got that one right, Mark.

Mark Mason:

Okay.

Jane Fraser:

Well done big guy. Thank you.

Mark Mason:

Thank you.

Moderator:

Next question is going to come from Mike Mayo from Wells Fargo security, and that will be followed by Erika Najarian from UBS. Mike, you may proceed.

Mike Mayo:

Hey, my first question is for Mark and then for Jane. Mark, when you look at the total transformation costs, I guess, going from two billion, up to three, three and a half billion this year, when all said and done, does this get close to 10 billion? Back to the prior question, putting words in your mouth, should these transformation costs peak in 2022?

Mark Mason:

Yeah. So, first of all, good afternoon, Mike. You know what I'd say is, look, we've been very transparent with you as we've dimensioned these expenses and cost and investments that we're making. So, I've given you an outlook for 2022. I'm not going to give transformation guidance beyond that. You know this Mike, I mean, others have been through this, and I'd like to avoid mistakes that others have made in trying to give guidance prematurely on such an important initiative that's a multi-year journey. So, 2022, three to three and a half, in that medium term, as I've talked to starting to see some of those benefits play out, and some of those efficiencies come through, and as we get closer to each of the quarters ahead of us in the year ahead of us, I'll give you more detail and guidance on how we see that evolving.

But, that's where we are at this stage.

Mike Mayo:

Then for Jane, the big question is why is this time different? I mean, this is not exactly Citi's first investor day when we've heard targets and transformations and more spending and RoTCE targets. I do appreciate that you used the words failed and underperformed more than I've ever heard at Citi. It sounds like you said you're not being defensive. So, why is this time going to be different than all the other investor days that we've been through or all the other management presentations literally since 1998. Thanks.

Jane Fraser:

Always great to see you, Mike, and thank you so much for dressing up for the occasion. In terms of our plan, what you also heard today were words like conviction and confidence. We have a very credible strategy and plan, and one you've heard from the whole management team. We've spent a year putting a lot of work and effort in to make sure it will indeed be something that we have high conviction that we will deliver. If you break it down, we have some terrific businesses you heard about today, and we are making a number of smart, targeted investments and bets into businesses, such as TTS, into our Wealth franchise, into Commercial Bank. And those ones I particularly like because they're ones where we can see a very clear growth path for them. They're high return, they've got good growth prospects, but also they're ones that we don't have to ...

We can leverage our existing platforms in ICG, in particular, and parts of our consumer franchise against. So, this is a well thought through strategy, which we have tremendous conviction behind. But the second piece, as I said in my opening, we put a lot of thought into the root causes as to what it was that had held us back from fulfilling our full potential in the past. We've put together an execution plan and a plan to tackle those issues head on from the transformation program, addressing the consent orders, simplifying the bank, improving our operations, and addressing our culture.

You bring all of those different pieces together and I have a team assembled who've been picked because of their expertise, fresh perspectives, and because of their drive and determination. We will deliver Mike.

Mike Mayo:

Just one quick follow up. I thought I was dressed as a tech analyst in the spirit of the day. If you can just explain the gateway that TTS and services is to the rest of ICG. I think that's underappreciated and misunderstood since that's now the first financial data that you're disclosing.

Jane Fraser:

Yeah. I will pass that one to Paco in a moment, but I think what you heard loud and clear today, TTS and our global network and the Services' strategy is the crown jewel of Citi. It sits at the heart of the global network. It's not just a product platform. It also incorporates the people that we have on the ground, the knowledge that we have, the relationships we have and decades of experience, as well as the technology, the data, and the client relationships. So, let me pass it to Paco, just to go over where he sees this being this critical gateway, but you've got some pretty interesting data that we've provided you today to show you why we're so excited about TTS and Services.

Paco, my friend over to you.

Paco Ybarra:

Thank you, Jane. So Mike, as you've heard us saying, in Services, we try to help our clients become more efficient and the Services business links those clients operationally to us, they create a very deep relationship, a very connected relationship. Once we are together, we tend to be together for a very long time, and that's a relationship that can be built and used across all the activities that we have in ICG. Beyond that, there is also a product connection, a platform connection.

Security Services, for instance, is very connected to execution. We are in a very good position to grow our Securities business in part, because we have one of the largest execution engines in the industry, and also in TTS, we can do things in cross border payments that would be almost impossible for us to do if we even have the best FX business that you can find to partner with. So, there is the client connection and the fact that we build a very strong relationship with the client that is then leveraged across the ICG, but it's also the product connection that we have tried to describe in the presentation.

Mike Mayo:

Thank you.

Moderator:

Next question is going to go to Erika Najarian from UBS, and that'll be followed by Ebrahim Poonawala from Bank of America. Erika, you may proceed.

Erika Najarian:

Hi everybody. Thank you for a refreshed, realistic tone on the outlook today. Jane, this first question is for you and Karen. We completely appreciate that the remediation process of the regulators is an inherently confidential process. That being said, what are the mile markers that we need to look at in terms of measuring your progress and remediation that you could share with us publicly? If you could give us a sense of what the next steps are since you submitted the plan in 3T21.

Also if you can, at all, give us a sense of how much more work is to be done until you could say, all right, the big changes, the tall trees are cut and behind us.

Jane Fraser:

Oh, well, Erika, lovely to see you, and thank you so much for joining. When we look at the consent orders in the context of the broader transformation, we've talked about this being the firm's number one priority, and it's something that affects not only the safety and soundness and the risk and control environment, but also the investments that we're making in the operations and the changes in the culture that we're making. So, I see them being inherently linked together, benefiting not only our regulatory responsibilities, but also those for our shareholders and for our clients. As you say, there is confidential supervisory information. So, we are limited in what we can talk about. We submitted the plan in September last year, we've had a lot of very constructive, I would say, very helpful dialogue with our regulators. We are incorporating their feedback into our plan as we go.

This will be a multi-year program, but it's one that we are now firmly down the execution path in. Something that I spent a lot of my days involved in that we put a lot of time into looking really maniacally at the details of what's working, how the investments going, where is it we've got the right technology investments, what are the resources that are needed? It's got attention from the whole management team. Our board is constantly challenging us as to making sure that we are making the progress that should be expected. We will provide you a few more metrics on our execution in the proxy and these are in line with some of the ones the board is using to hold us to account, and the streets should hold us to account as well.

Erika Najarian:

Got it. My second question is on the longer term vision for Citi. You laid out a medium term ROTCE path, and Mark said something striking that you do have the operating deposit accounts for most of your clients on the corporate side. That said, in Anand's presentation, it did stick out to me that you had 117 billion of U.S. sort of personal non Wealth deposits. I'm wondering, as you think about that natural funding gap to peers, what is your long-term vision in terms of deposit taking, retail deposit taking, checking account growth in U.S. personal banking?

Jane Fraser:

Yeah. So, Mark, why don't we pass this one over to Anand, who has certainly been living this one, but you will have also seen, Erika, today as we are talking about it, the very strong deposit gathering capabilities that we also have in Wealth management and in TTS. So, we are benefited by the luxury of multiple different engines here on deposit gathering, but Anand, do you want to talk specifically on the U.S. front?

Anand Selva:

Thank you, Jane. Hi, Erika, from a U.S. perspective, as I had said in my presentation, we are refocusing our retail bank to maximize the value there. As you see in the last three years, we've grown our deposits 35% versus a declining trend, 2016 to 2018. We are able to do that by bringing more productivity from our branches and growing our digital capabilities. So, as we look ahead, the way we look at retail bank is three folds. It's a powerful feeder to our wealth business. We saw that 70% of our affluent customers in the Wealth business was a quite a retail bank. It's a great source of funding for our payments and lending business.

More importantly, what we are trying to do is we are trying to get more value from our retail network. So, more lending mortgages, small business, personal installment loans, and that's what we'll build. And our digital capabilities. We have grown digital deposits, 20 billion, three X over the last three years. We feel good about the capabilities that we already have, and we continue to build on those. So, from that perspective, that's how we are thinking of retail bank, a good, powerful driver of the two growth priorities that we have. It's wealth and payments and lending, and compliment that with our digital capabilities.

Mark Mason:

Erika, this is Mark. Good afternoon, and thanks again for joining. The only thing I'd add to Anand's comment is one, as you know, this is a relationship business for us, both on the Retail Banking side, as well as in our services TTS business. So, that drives the primary engagement that we'll have. We've taken in a good amount of deposits over the past number of years. As the strategy would suggest, we'll continue to grow that rapidly, recognizing that it allow us for us to broaden the relationship with those clients.

But, it also allows for us to look at how our bank is funded, how the bank entity is funded. As we've done through this recent period of increased deposits, we'll continue to manage the balance sheet in an active way and take down wholesale funding where we can do that and replace it with lower funding alternatives, like deposits from the Retail Bank or from TTS, et cetera. So, the two go together and as

Anand suggested in terms of the relationship element of it, but also the funding advantage of having good momentum in deposit growth on the heels of investments that we've made and the like.

Erika Najarian:

Got it. Just a follow up to this and then I'll let Ebrahim ask his questions.

I think, Jane, the deposit engine that you have in TTS, and what's coming in Wealth Management is well appreciated by the street. I think the question really is born out of these deposits are thought of as probably more rate sensitive in a rising US rate environment, and clearly relative to your money center peers, your US deposit franchise is not in a similar scale, so I think that's what the genesis of the question is coming from. Any response to that? And then I'll take myself out of the queue.

Jane Fraser:

Look, I think it's important, as you heard from Anand today, to look at what it is we are in retail banking in the US and what it is we are not. And our strategy there is to use the assets that we have to make targeted investments. But let's be clear, we are not going to be a nationwide branch-based retail bank. So we are making the most of the assets that we do have. We think they're valuable, both in terms of feeding into the wealth franchise, as well as, as a source of low-cost funding. We've got a lot of confidence behind our digital strategy and the relationships that will grow, but I don't, for one second, think we're going to be something we are not going to be in Retail Banking in the US. We're very confident with what we're going to be and focus on maximizing that.

Erika Najarian:

Thank you.

Moderator:

Now, we'll move on to Ebrahim Poonawala from Bank of America. After that, we're going to move to Betsy Graseck at Morgan Stanley. Ebrahim, You may proceed.

Ebrahim Poonawala:

Thank you. I guess the first question, Jane, for you around you started the day talking about driving the culture of excellence, bringing in the best top talent to Citi. One of the criticisms we've heard just that for a little bit for us is when you look through your direct reports, yes, they're new in their roles, but they've been at Citi for a long, long time. On average, about 10 years. Give us your perspective on why Citi doesn't need a ton of external talent in terms of your direct reports, and this is no disrespect to folks who are in that Citi, but give us a perspective of why these are the right people and why Citi doesn't need that external talent to move forward?

Jane Fraser:

Ebrahim, you touched on one of the very first questions, when I was announced as CEO, that I spent a lot of time on because I know the team around my table, and more importantly, no offense to them sitting here, the two downs, are all two, three levels down are absolutely critical for the transformation we have. We have a refresh strategy. We have a transformation to execute, and I needed to make sure that I had the right team around the table and in those engine rooms.

So, for me in my experience, and I've had a number of transformations, our mortgage business, private bank, Mexico, over the years, you want a combination of external and internal talent. And so we've brought in some really world class, external talent, both in the technology and in the business arena, as well as risk and controls, from our top peers and our top technology firms, as we talked about. They're bringing a fresh perspective to the place. They're also bringing an expertise in areas that we were underscaled in such as data, and they're incredibly valuable.

At the same time, in my experience, you want to have the great talent and the change agents. And I specifically looked for change agents to bring around to the seats that you saw us highlighting today. Individuals who have a breadth and depth of experience. Citi as a global firm, we need people with experience across different geographies, across different businesses to help drive the silo breaking that we're doing and the delivery of the whole firm to our client base, and it's the combination of the two.

The point, though, of one of the question I'm hearing is around change agents. Let me give you an example. Ernesto Torres Cantu, who runs Latin America, he grew up his entire career at Banamex. I sat down in front of him, went down to Mexico and said, "Ernesto, we're going to sell the consumer franchise in Mexico, and I want you to work out how. I think it's in the best interest of the bank." He blinked for 90 seconds, and then he said, "Okay, I agree. I think it is in the right interest of the bank," and he has gone about the last few months making sure that we will execute this with excellence, so it's that combination.

And deep down into the second and third layers, it's extraordinary the amount of talent that we've brought in. I'm excited by them, but it's the power of the combination. And I believe that I have a team that is going to execute with excellence and get this job done.

Ebrahim Poonawala:

That's helpful perspective. And another question, maybe this one for Anand around just going back to the experience in the US for online only banks has been, they've been attracting deposits by paying up. So give us a sense. You spend enough time in Asia. We've seen a lot of online neobanks come in North America and go back to Europe over the last few years. So one, give us a sense of can you actually develop a high-quality relationship with a digital-first strategy in the US as the US consumer there? Because if I recall correctly, you mentioned you expect 30% of deposit growth coming from digital and immediately you think about digital it feels like you'll be the top rate payer to get those deposits. So we would love any perspective there on in terms of what you're seeing globally, why some of these new banks failed in the US and how Citi can learn from their mistakes?

Jane Fraser:

I will pass over to Anand, but I'd say that many of these online-only banks would be very envious of the customer base that we have and the assets we have, but I might be biased. Anand.

Anand Selva:

Thank you, Jane. Hi, Ebrahim. If you look at the last three years, as I said, we grew deposits 35%, 20% of the growth came from digital. And so when we look forward, we are saying that 20% is going to now be 30% of growth coming from digital. So the way I look at digital, it's complementing our strategy around the six urban centers, so we have a majority of our deposit today coming from our six urban centers. That's where we have our established network, and we are complementing that nicely with our digital deposits.

There are two or three things with digital. One, is it gives us national access. Secondly, we have a large cards customer base. As you've seen, the $20 billion of digital deposits, 40% of that came from our cards customer base. To Jane's point, we have 70 million card customers, so lots to work on for us internally.

And third, as we are building these in a plug-and-play model where we can plug and play with partners, so as we are expanding. As we saw with the American Airlines, we started with the credit card, we expanded to lending, now we are bringing banking. So for the way we look at digital is just not pure play organic, put out our online banking out there. It is basically using our assets that we have with our network, with our partners, and also our customers that we already have. So, that's how we look at digital from our perspective.

Ebrahim Poonawala:

Thank you.

Moderator:

Next question's going to come from Betsy Graseck at Morgan Stanley. And after that, we're going to move to John McDonald from Autonomous. Betsy, you may proceed.

Betsy Graseck:

Thanks so much. Thanks so much for hosting this. I really appreciate all the detail and insights that I have heard. Hi, can you hear me?

Jane Fraser:

Oh, we can now, Betsy. Nice to see you, by the way.

Betsy Graseck:

All right. Thanks so much for all the detail today and the insights. Some of these business lines, we've been looking for some of this kind of detail for a while, so really appreciate the effort to pull it all together for us. Jane, I'll just start off with a question for you, and it's around the goals on revenue growth. When I look at those revenue growth goals, they do look a little punchy, especially relative to what you've generated in the past few years. But I understand the amount of focus and investment that you're looking to deliver that with.

The question I have is how much of the revenue growth goals are a function of rates rising? And if rates don't rise, would that change how you're thinking about either the rev growth goals or the ROTC goals? You know, the question embedded in there is do expenses flex with revenues to hit those ROTC goals, or should we expect the ROTC goals will move in line with revenues? So, a little bit of color there would be helpful. Thanks.

Jane Fraser:

Even if I take a big step back for one moment, one of our big goals was to be able to, after a year's worth of work on the strategy, really make sure that everyone understands the strategy that lies behind. Therefore, the drivers, the metrics we're going to be providing you and that you're going to be holding us to account for, and then how that translates into financial outcomes.

So really the question on the revenue growth is one of when, not if, and that is the flexibility that, frankly, we've provided. I talked about the fact that we've incorporated the fact there are things we can control, and there are some things we can't control. Rates is one of them, and I'll pass to Mark to talk a little bit about what the rate composition is in there. But I have a high degree of conviction around our ability to reach the targets that we've laid out in the medium-term, and then the ambitions that we will to drive further than that in the future. But it's a question of when, not if, Betsy.

Mark, do you want to talk a little bit more on the financial side?

Mark Mason:

Sure, thank you. And good afternoon, Betsy. It was good to see you. Jane, I think you kind of teed this up very nicely. We're obviously in an abnormally low-rate environment, and as we've all been looking at the forward curves, we certainly have been trying to digest those as we constructed our plan in this multi-year forecast. And so what's embedded in here is seven rate hikes, five of which are in 2022 and another two in 2023 with kind of a terminal rate, if you will, that's about 2%.

And as I walk through the slides, interest rates and their impact account for about 20% to 25% of the revenue growth in that medium-term forecast or guidance that I've provided. So that gives you some sense for that, Betsy. The balance of comes from the investments that we've talked about, particularly in the growth businesses, but also in the targeted share game businesses, as well as the recovery and consumer that I referenced.

In terms of the other part of your question, the other thing that we tried to break down was just to give you a sense for the sizeable buckets in our expense base. And I'd say that's somewhere close to 20%, 25% of our expenses that are volume related, if you will. So, whether the revenue growth comes in the period that we've articulated or a bit later, to Jane's point, around not if, but when, there'll obviously be a natural movement in the expense base associated with the revenue shortfall, if that were to play out as a result rates or anything else.

So, hopefully that gives you some sense. We've obviously sensitized this to get very comfortable, both with the revenue trajectory that we have, but also the expense forecast. And importantly, the ability to get to that 11% to 12% in three to five years, and so we feel very good about that. Not withstanding, obviously, a macro environment that we've got to play through.

Betsy Graseck:

And then, Mark, if you could also give us some sense on that corporate other line impact on ROTCE. I know we got the segment outlook when we put it all together for shareholders that we have to think about that corporate other line as well. How should we be thinking about that?

Mark Mason:

There are a couple places that I reference it in the presentation. One place I reference it is on the capital slide where I talk about over the medium-term, our intent on how we'll be managing allocated capital to the different parts of the business. And there you'll see two buckets. One, the corporate. The other, legacy franchises. And both are important because arguably that's where unproductive capital is residing, at least temporarily.

And the way to think about that is that, over time, we're going to continue to bring that down, and so there's some $11 billion or so associated with the divestiture businesses that we've talked about before, about seven with the Asia countries, consumer countries, and another four with the Mexico consumer business. And then there's a portion associated with our disallowed DTA, about nine and a half, call it, rounding to 10 or so. And then, given we ended the year with a higher CET1 ratio, there's some excess there as well.

So the way to think about it, Betsy, is that over the course of the next period of time and beyond the medium-term, we're going to continue to work that down through both exits as well as utilization of that disallowed DTA over that period of time.

Betsy Graseck:

Okay, that's helpful. Thank you. And then just lastly, the white labeling of global banking for FinTechs was very interesting, and I'm wondering how big ... Well, two things. One, what's the business model there for you, and how large could that become for you as a revenue growth driver?

Jane Fraser:

I'll pass that to Paco in just a moment. It is one, as you heard, that we're excited about. It's not just for FinTechs in TTS, as you heard Shahmir talking about, but we're also seeing this opportunity across financial services institutions worldwide. You had Stuart referencing it, you have Paco referencing it. But Paco, tell Betsy why you're so excited by this one.

Paco Ybarra:

Yeah, there is a general opportunity, Betsy, with financial institutions of providing banking as a service for them to deliver that to their own clients. And there are areas where that is happening already. It's happening in FX, for instance, and it's happening in payments, as well in cross border payments, as you heard from Shahmir. So we already have a significant business there, but we think that's just the beginning. I mean, it could happen with other markets products. It would definitely happen with security services with other parts of TTS. And we identified as we think about the strategy for our services business, financial institutions that are already a very large part of our business are a very clear opportunity for us because very point.

Betsy Graseck:

Thank you.

Moderator:

Now ,we'll move to John McDonald from Autonomous. And after that, we're going to go to Steve Chubak from Wolfe. John, you may proceed.

John McDonald:

Hi. Good afternoon, Jane.

Jane Fraser:

Hey there, John.

John McDonald:

Wanted to ask you, there's obviously some terrible things going on in the world right now. We all have a lot of humanitarian concerns for what's going on and the people affected. But I did want to ask you financially, how you think about your exposure to Russia and Eastern Europe on the balance sheet and in the global markets businesses and how you'll be thinking about managing through that?

Jane Fraser:

I will absolutely cover that, but let me just take a step back to what you said at the very beginning. It's been horrific watching what's going on in Ukraine. We have over 200 people on the ground, Citi family, in Ukraine who are braving through the horrors that they're facing. I could not be more proud of them because every single day through this war, they have been operating our bank and making sure that we're operating on the ground so that we are able to serve our clients there, the multinationals, and we are helping them with payroll. We're helping them make sure that the supply chains are coming through and the humanitarian aid that so many countries are providing to Ukraine is able to get through the country, despite everything.

They are quite exceptional in their drive of what they're wanting to do for the country and for the bank and for our clients. Our primary priority, though, is their health and safety, and we've been helping those that are trying to get across the border into Poland, giving them safe accommodation there. We've given them advances on their payroll, emergency supplies, medical availability, and as much as support as we possibly can. But as members of the Citi family, our hearts are absolutely with them at the moment.

When we then turn to Russia, I think it's helpful, just a bit of context and I'll pass it to Mark to go through a bit more detail on the exposure. We opened our doors in Russia in the 1990s when Russia opened up. Our client base there, aside from our consumer franchise that we announced a while ago that we intend to exit, is primarily American and European and a few Asia multinationals operating on the ground in Russia.

I think, similar to what you heard from Paco, our exposure in Russia is 0.3%. That's 0.3% of our asset base is our exposure in Russia. This is, as you can imagine, when I say that a lot of our priority is on our people and trying to serve our clients, there is in the grand scheme for a G20 country, this is not a huge exposure. It's one way managing very carefully, and I'll pass to Mark to give you some more of the details about.

Mark Mason:

Thanks, Jane, and good afternoon, John. It's good to see you. Thanks for joining us today. Well, I guess I'd start by saying, as Jane suggested, this is a very fluid situation, and one that we've been managing very closely, as a management team for all the reasons that Jane mentioned.

On Monday, I think it was, we put out our 10K and we gave some additional disclosure around our exposure in Russia. We pointed to the $5.4 billion that Jane referenced of country exposure in the form of ICG and consumer loans and securities there. When you look through that, the net investment exposure's about a billion dollars, actually a little bit less than a billion dollars, so 930, somewhere around that, in terms of that net investment exposure in country.

There are other exposures that we have to the Central Bank and other third-party institutions there. There are reverse repo assets that we have, and as well as cross border exposures from Russian entities outside of Russia. When you add all of those things up, as it's reported in the K, it gets to about a 9.8 billion number, as of December 31st of last year. I said, we've been working this, we've been managing that very proactively to bring that number down.

We've also hedged that net investment exposure of the less than a billion I referenced earlier against foreign currency depreciation or the prospect of that. We've been working very closely with our risk management team to run various scenarios as to what that exposure could mean under different stress type of scenarios. We've run those numbers to ensure that we have a view on that.

I'd say looking at a severe stress scenario, that number on the high end could be a little less than half of that exposure, but it could also be a lot less than that, just depending on how the situation evolves, and we'll continue to monitor it. As appropriate, we'll obviously share and information accordingly.

John McDonald:

Mark, if I could ask a follow-up for you on the outlook for 2022, two quick items here. In terms of the Market's revenues, it looks like you're expecting revenues to be down 10% in the first quarter, year over year, but flat for the full year. Just talk about what gets better throughout the year. What else might be better than that assumption?

John McDonald:

Then second on the buybacks for this year, after the first quarter, our share of buybacks maybe for this year, or is it just you're going to do some, and you're not sure how much? If you could give us a little color on that, it'd be helpful.

Mark Mason:

Sure. I'm going to let Paco touch on the Markets piece. You captured it right in terms of there are components of it that are just the comps year over year, but we did see activity in the first quarter that's probably worth mentioning. But Paco, why don't you touch on the market piece and then I'll come back and touch on the capital question.

Paco Ybarra:

I think the first quarter numbers are influenced by the very strong first quarter that we and the industry had last year. That drop is not necessarily surprising to us, and I think over the rest of the year, we expect equities to continue to be lower than last year, because it had an extraordinary year last year. But we predict fixed income to better than this year, in part associated to the interest rate movements as well.

Mark Mason:

John, in terms of your question regarding capital actions through the balance of the year, so we've obviously given guidance for the first quarter, both in the way of what the dividends are, but I spoke last quarter about levels that are comparable to what we saw at the end of 2021. As I think about the balance of the year, there are a couple of things that come into play, some of which are certainly controllables or things you get your arms around a lot easier, like the prospect of our earnings forecast. We feel very good. We've got a strong earnings-generating engine in the firm across the franchise. Feel good about that in the balance of the year.

Similarly, we can certainly talk to the utilization of the disallowed DTA, which obviously creates capacity as well. I think that then you get into things that are a little bit harder to put specificity around in terms of both timing, and to some extent the magnitude of the impact. So, think about the exits that we have, not just the ones that are announced or close to closing.

We know those. Those are in the appendix of the deck, but think about the Mexico consumer business that we are working diligently to get done. You would've heard me mention at the last earnings announcement that for our Mexico consumer franchise, there's a currency translation adjustment that's associated with that transaction depending on how it's structured and the form it takes. That would result in a P&L impact that's signing that gets neutralized at closing, and the number I gave was some number less than, than 3 billion, roughly 2.8 billion or so of an impact.

If you think about that, John, if we are on a path, and we get a structured deal that's signed, that's a P&L impact that has a temporary impact on my capacity that gets resolved, when it closes. So, that's one factor that we're factoring in to how we think about the planning and the prospect of the timing there.

The other factors, Russia, I just mentioned that, a lot of unknowns around that. We're trying to dimension what stress might look like, and we have to see how sanctions and many other things evolve and what that could mean, could mean nothing. But we have to see, we have to watch that.

The third is, as it relates to the stress test that we do every year and the stress testing process is underway now. You've heard from others and probably no surprise to hear from us, that as we think about it this year, the scenarios, not the severity of the scenarios, not significantly different from last year. But we all seen reserve levels come down as we've all gone through a period of releases over the past year or so.

What does that mean in the way of stress capital buffer and therefore impact on what we have to hold, what others have to hold? When I think about all of those factors, they are part of the capital planning that we're doing with some being easier to get your mind and arms around, the others being unknowns. For that reason, I haven't gotten into the specificity of what we plan to do in quarters two through quarters four.

Mark Mason:

We obviously have a plan that we have in place, and I'll share that as it makes sense to do so, but I do want to lean back on the principle that hopefully came across as a theme through all of our presentations, which is the intent here is to not only optimize and improve the return on the capital that we have, but to return any excess that we have to shareholders as soon as practical. That would certainly include 2022, as well.

John McDonald:

Thanks.

Moderator:

Thanks everyone. We still have a queue of eight first time questioners. If we could keep it to a single question and a short follow up, that would be terrific. Next question's going to be from Steve Chubak from Wolfe Research, and that'll be followed by Ken Usdin from Jefferies. Steve, you may proceed.

Steve Chubak:

Thanks very much. Well, Jane, appreciate your comment on the Russia-Ukraine conflict and wishing the best to your employees on the ground.

Jane Fraser:

Thank you.

Steve Chubak:

So, wanted to start off with just a follow-up on the topic of geopolitical risk in the planned business sales, to what extent does the recent volatility in emerging markets impact pending or future business sales? Is there any risk of deal break with those that have already been signed? As we think about the modeling of the runoff segment, how should we think about stranded costing capital once you complete the sales or wind down all those legacy franchises?

Jane Fraser:

I'll pass over to Mark around some of the details around it. Overall, I don't see a lot of geopolitical risks to the sales. Obviously, the situation in Russia is very fluid, a British understatement there. It's too early to tell exactly what that means in terms of our sales process.

In the other geographies, where we've got the signed deals, I think we are feeling very confident, pleased with the progress we made, both in signing, but also in the progress of making and getting those towards legal day two. I'm sitting comfortably on that respect.

I'll turn to Mark, but stranded costs, capital and the legacy franchises and things, both he and I have had a lot of experience on, both in holdings for him in the old days, and then for myself in LatAm, when we've been selling pieces.

We know how to take stranded cost out, and we also know how to simplify management structures afterwards. Part of that simpler, modern, more efficient organization we talk to is using the divestitures to make sure that we can simplify the organization, and not only get stranded costs reduced, but also get additional efficiencies from a simpler structure.

But Mr. Mason, any greater words of wisdom, sir?

Mark Mason:

Let's see. Thank you, Steven and good afternoon. I guess I'd say a couple things first on the divestitures and the impact of the capital that gets freed up. We put a schedule in the back of my deck that gives you a sense for the timing we expect for some of these transactions to close. As Jane mentioned, those are, those are on track, knock wood. We feel very good about that.

As that capital gets freed up, frankly, it's got to get factored into the conversation or the comments that I just made in response to John's question. Obviously, we have all of those factors to consider. We've got obviously build to a higher CET one ratio at the end of this year because of the pending surcharge.

But again, all with an eye towards, over time, being able to manage back down to what we think is the more prudent level of capital in terms of CET1, and therefore, returning excess that we don't need to invest in the franchise to shareholders. Over time, that remains the objective as it relates to anything that gets freed up from the divestitures.

In terms of stranding, in terms of-

Jane Fraser:

I see. Go ahead, Mark.

Mark Mason:

Sorry. Did you want to say something there?

Jane Fraser:

Just going in, an absolute imperative for us is making sure that we can return excess capital to our shareholders. It's one of the major motivations we have here.

Mark Mason:

Absolutely, absolutely. In terms of the stranded cost, as Jay mentions, we've got a lot of experience at this. When we look at the stranded cost associated with these divestitures, I'd start with the total cost base, which is probably 6.8 billion, rounded to seven.

Our prior experience would suggest that about 20 to 30% of that ends up being stranded if you do nothing, if you do nothing. Jane and I are very, very focused, along with the rest of the management team, of driving out that 20 to 30% out of the organization.

We think that, as we look at the strategy that Jane and the team has taken you through, that's what actually gives us some confidence and conviction that we can do that, because having refreshed our strategy, reorganized the firm. That's going to give us opportunities to simplify, to make the place flatter and leaner. I see coming out of that medium term window, a real opportunity to get the balance of that out of the organization.

Steve Chubak:

Well, thank you both for that color, just for a quick follow up on the IBM trading outlook, Mark, in your presentation, you included medium term revenue growth targets. It was mid-single digit growth in markets, low singles in IB, following, using your words, unprecedented levels of activity in '21, how are you handicapping normalization headwinds? Or said differently, what are you assuming for the growth in the IBM trading fee pools versus that '21 baseline as part of those medium-term growth goals?

Mark Mason:

I'm not sure I understood your question, Steven. I talked about in my presentation, the outlook for revenue growth for each of those parts of the business. For markets, mid-single digits in that medium term, that is in that three to five year window for banking, low single digits. That's on the heels of seeing normalization in the near term, call it '22, perhaps part of '23.

But then seeing the rebound in that medium term window from those levels based on a couple of things, one, the investments that we're making in parts of the banking franchise. You've heard about some of the key sectors in investment banking that we want to continue to build out our talent in that are converging, etc., etc., as well as, as Paco spent a lot of time talking about, how we continue to optimize and increase the revenue that we associated with RWA in parts of the markets business, which will result in, I think, both returns, but also upside in revenue.

Then the final piece that I'd mention are the linkages. A big part of what we talk about in our strategy here is how we're able to take advantage of the breadth of our offer with our client base. The combination of those things is how I think about the upside from normalization in markets, given thebanking, given the robust client activity we've seen recently, but Paco anything you'd want to add to that?

Paco Ybarra:

Yes, if you look at how we have a thorough plan in there, we have assumed a very significant correction in banking and inequities in 2022, which seems to be happening as we speak. But it's the logical follow up from extraordinary years, not so much in fixed income. In fixed income, that correction happened in 2021, in fact, versus extraordinary 2020.

The combination of markets is more balanced and we expect a correction in banking. Then we see that after that correction growth comes back, and that's what's consistent with the numbers that you have seen in the plan.

Steve Chubak:

Great color. Thanks so much for taking my questions.

Moderator:

The person's going to be Ken Usdin from Jefferies. That's going to be followed by Vivek Juneja from JP Morgan. Ken, please proceed.

Ken Usdin:

Great. Thanks. Hi, Jane and Mark. Appreciate the time today and all the color. Just a question back on the RoTCE targets, when you think about 8.9%. Mark said ex-reserve release this year. We know that there's a couple of high ROE businesses going away and some negative operating leverage to deal with in the interim. So, I'm just trying to understand, Jane, you said you're very confident in getting inside that 11, 12 window in three to five years. What's the trade offs of perhaps, going a little lower and a little sooner in terms of giving people a path to something in between to knock down a knock down a wall a little earlier, as opposed to something that could take up to five years to get inside the range, as you said.

Jane Fraser:

As we talked about, we'll give you guidance on an annual basis. The world is quite an uncertain place at the moment and we think that is prudent and wise. And we've been very clear, we want to make sure that we have a credible plan that we're able to give you progress and demonstrate that. I think most importantly, we're giving you the KPIs to show you if the strategy is working and what's not ... The same KPIs I'm going to be managing the businesses and my leadership team with to make sure that we are delivering the value along the way. It's been very important. The strategy drives the financial outcomes.

And look, as Mark talked about and I've talked about, we know that we need to earn the credibility. The proof will be in the pudding and we'll give you the markers along the way and show you the progress. I am very convinced, as you can tell, we will deliver the medium term targets. We have high conviction that in the longer term that we'll be delivering higher than that. But I've heard everyone loud and clear. We are focused on delivering those medium term targets to you and making progress and building our credibility along the way. Proof's in the pudding. We appreciate that, Ken.

Ken Usdin:

Yeah. And a follow up just for Mark. Mark, you said normalization of cost of credit over the near term, getting to a 1% over in that three to five year window. Can you help us understand? You said normalization, I think for this year as well, what's happening with credit? What do you see starting to move if anything? And if you could just juxtapose commercial versus consumer on your way to that longer term 1%. Thank you.

Mark Mason:

Yeah, sure. I'd say a couple things and we should probably put some of the broader macro environmental things aside that James spoke to in terms of Russia and the like in the comments here, because again, that situation is moving real time and as we get more color on that, we'll factor that in. I think Ken, there are a couple of things to think about here and I think in many ways they're largely on the heels of positive news in the way of a recovery.

So, we aren't seeing any negative trends, if you will, as it relates to our consumer portfolio, our cards portfolio, or on the corporate side as it relates to credits and exposures that we have there. So, the risk appetite and framework that we've had in place for a number of years now has held up nicely through this recent crisis and seems to be managing towards the soft landing that we would've all hoped for there when you look at that and you've seen that through reserve releases that have played out.

So, most of what I'm referencing when I talk about that normalization really has to do with the growth that we expect in our loan portfolio, both on the consumer and the corporate side. And so as we start to pick up momentum in terms of loan volumes, we'll build cost of credit associated with that. And that will obviously build into the reserve levels.

I think the second component to it is just as on the consumer side, in particular, as we see payment rate start to normalize and existing card customers start to build balances and some of the excess liquidity that's been out in the market start to get utilized, we would expect normal net credit losses to play out on the consumer side of the house in our cards portfolio. And that's to the tune of 2.5% to 3% in terms of NCLs that we would expect in the US cards business versus levels that we've seen in the past. So, those are the components of the normalization that I'm referencing.

Ken Usdin:

Thanks very much.

Jenn Landis:

We only have a few minutes left, so if you guys could limit your questions to one, that would be great.

Moderator:

Next questions from Vivek Juneja from JP Morgan, that'll be fine, Chris. Kontowski from Oppenheimer.

Vivek:

Thanks for taking my question. Jen, I'll pick one. Maybe for Anand, what do you expect to do differently in deposits this time? You've had a top three card customer base for decades. That's not new. You said 40% of your deposits are from card customers. So other than price, what is going to be different this time?

Jane Fraser:

Anand, I'm on and in the interest of time, I'll, I'll save a preamble.

Anand Selva:

Thank you, Jane. What we've done in the last three years, as I'd explained, we've been building out digital capabilities. So, that's basically the ability to open retail accounts and then get digital deposits, one thing. But more importantly, what we are doing right now and what we like to do is to build a relationship with the customer. So, we started off by building the digital deposits and that picked up the $20 billion over the last three years.

We are now adding to that, the digital lending pieces that we just talked about on the lending side. Then Jim talked about the city self-invest, which is the wealth piece. So, all of these are digitally coming together and that's what we want to build this time around. So, we have the customer base. And like I said, we want to grow digital deposits, but we want to grow it responsibly and we want to make sure it makes economic sense. But then if you start building a value proposition that deepens customer across products and that's where you're going to get the bigger play. So, that's how we are thinking about digital. Just not a pure deposit play only.

Vivek:

Thank you.

Moderator:

Next question, Chris Kotowski from Oppenheimer. After that'll be Gerard Cassidy from RBC. Chris, you may proceed.

Chris Kotowski:

Yeah. Thank you. Just a quick point of clarification from Mark. You said that under stress, your loss exposure in Russia could be roughly half that exposure. Are you referring to the 930 million country exposure or to the 9.8 billion gross exposure?

Mark Mason:

To be clear, that was a severe stress scenario. And I was referring to the higher number under severe stress. Less than half.

Chris Kotowski:

Okay.

Jane Fraser:

That's the absolute worst case, right?

Chris Kotowski:

Yeah.

Jane Fraser:

Yep.

Mark Mason:

I think it's more likely to be a lot less than that. A lot less than that.

Chris Kotowski:

Okay. My primary question was as a veteran of the 2017 investor day, where you set out a ROTCE target of 10% by 2020, you've kind of made that, and now 11 to 12, a couple years from now, obviously it's a long time. And it just struck me as you were talking that the issue with Citi doesn't seem to be frailty anymore. It's just that your returns are low and you cited numbers like 83% of your consumers are prime and 82% of your investment grade corporate is investment grade, that you're under penetrated in leveraged finance.

It seems to me like your wholesale business are in a lot of less risky, less returned businesses. And you've taken the strategic approach that you want to grow the kind of higher ROE businesses. And I'm curious, was there a way to throttle back on some of these lower return businesses too. Obviously they're very balance sheet intensive and they seem like low risk, slow return assets to keep on a balance sheet. Is that why we kind of have this somewhat uninspiring 11 to 12% intermediate term goal?

Jane Fraser:

So, in what you've heard today is we talked about our mix, that we started looking at a somewhat disadvantaged mix at the beginning of the day, Chris, and talking about what do we do about that from an organic perspective? And so the first piece is where are the areas that we are looking to grow in where we feel we've got a strong, competitive position and opportunity to grow, which are the higher returning parts of business in TTS. Wealth, Commercial Bank is example. Banking's obviously also another area that we see the potential for high return growth over time.

For the other businesses that we talked about, which are scaled, as you heard from Paco and you heard from Anand, it's making sure that we are pivoting to realize synergies across the franchise. We believe that there are parts of business we can focus more on the higher returning components of the wallet, and we are going to be and are being extremely disciplined around capital allocation. One example of that is exiting the consumer franchises in Asia that were lower return. Other examples of that is what Paco is doing with our great team of Kerry and Andy in markets in making sure that we rely the synergies across the business and in terms of pivoting the capital allocation to the higher return parts of the wallet there.

So, this is going to take time to achieve this as we are being very transparent around. But I think we've got a very clear path to realizing far more potential here. And we're just taking this step by step. How do we get to the medium-term ROTCE targets and then how do we then move to something with higher ambition? But we are doing this one step at a time and making sure that we deliver on what we're saying we're going to do.

Chris Kotowski:

Thank you.

Moderator:

And the final question of the day is going to go to Gerard Cassidy with RBC. Gerard?

Jane Fraser:

Gerard, unfortunately, you're on mute.

Gerard Cassidy:

How about now? Is that-

Jane Fraser:

Oh, perfect. We left the best for last, what can we say?

Gerard Cassidy:

Well, you're very kind to say that, thank you. Mark showed a very interesting table, which you guys put together about the underperformance that Citi has had from 2017 through 2021. We also heard from your colleagues today and Mark and you both emphasized how interconnected your five business groups will be going forward.

Jane, since your numbers from the past suggest maybe it hasn't worked that well, but how do you get this interconnection or the collaboration between the different groups to work? How do you incentivize them? How are you going to instill in them the importance of this collaboration to drive your numbers that you've set out for us for the next three to five years?

Jane Fraser:

Gerard, it's such a great question because it also gets to the transformation, the cultural change that is required to unleash the synergies. When we started doing the strategy refresh work, one of the things we said the bank has to be simpler and we have to be focused on fewer businesses that do connect well together. And I think focus is wonderful in that, in that it does make it easier to make sure that these different dimensions can be delivered. Oh, just one second while I take some tea?

My husband would say I've been talking too much. In terms of the how do we get this to work, some of it's in wealth. We brought them all together into a single business to be able to deliver, and then ensure the connectivity occurs. Another is going to be through performance management, the metrics we laid out. I'm going to be measuring Jim on what's he doing in terms of the referrals from the commercial bank to the private bank and to the wealth franchise.

We're going to be looking at what's happening from the elevator, from the commercial bank up to the corporate bank, how well is that doing? We're going to be measuring and managing, what are we doing to get the linkages between banking to help markets by originating more of the strategic solution financing plays, not just M and A and equities in DCM.

So, it will be through a combination of incentives, performance management, it's a culture change that we're driving within the bank, and it's also by the operating reviews. Now that we've turned from strategy to execution, we're very focused on the different operational measurement management reviews. What's working, what's not working. And so, this is one of the ones that's front and center. It's the one I'm very excited about and as you see it working, you'll know that Citi is changing.

Gerard Cassidy:

Thank you.

Jane Fraser:

Thank you. Well, I think that was the last question. So, thank you very much for your thoughtful questions. I know we packed a lot in today and I want to thank you for being so engaged along the way here.

Jane Fraser:

To me today was about providing clarity. We wanted you to clearly understand our vision, understand our strategy, and how we built it. We wanted you to clearly understand how we're tackling. What's held us back in the past in terms of our operations, our risk and controls, and our culture. We wanted you to clearly understand our targets and how we will achieve them. And at the same time, we also wanted you to see the clarity and the conviction our entire management team has on our strategy, on the value of our network, and on how our five interconnected businesses will deliver for our shareholders.

I've been at Citi for 17 years. I love this firm. I'm passionate about it. And so is everyone you heard from today. You probably saw that for yourselves. And I think you also saw something else. Our determination to get the job done so we can significantly increase value for our shareholders for the long term. We know we have something to prove, and we welcome the opportunity to do it. We know it won't be easy. We know it will take time.

I'm holding this team accountable and I know you're holding me accountable. I am confident we are on the right path, and I'm looking forward to showing the progress that we are going to make along the way. So, thank you again and enjoy the rest of your day. Thank you.