TRANSCRIPT

Citi Second Quarter 2021 Earnings Review

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Host
Elizabeth Lynn, Head of Investor Relations

Speakers
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Mark Mason, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello and welcome to Citi's Second Quarter 2021 Earnings Review with Chief Executive Officer Jane Fraser and Chief Financial Officer Mark Mason. Today's call will be hosted by Elizabeth Lynn, 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. Lynn, you may begin.

ELIZABETH LYNN: Thank you, operator. Good morning and thank you all for joining us. 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 expectation and are subject to uncertainty and changes in circumstances. Actual results, capital and other financial conditions may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings including, without limitation, the "Risk Factors" section of our 2020 Form 10-K.

Before we get started, I'd also like to welcome our incoming Head of IR, Jennifer Landis, who will be joining Citi next month and hosting this call beginning in October. As I leave the seat to assume a new role within Citi, I'd like to thank you all for your partnership and support over the past few years.

With that said, let me turn it over to Jane.

JANE FRASER: Thank you, Liz, and good morning to everyone. I'm delighted to join you again today and first, I'm going to discuss the results of my first full quarter as CEO and then update you on the progress against our strategic priorities.

For the quarter, we reported $6.2 billion in net income or $2.85 per share. We continue to benefit from an improving macro environment as evidenced by another significant release of our allowances for credit losses. Indeed, the pace of the macro recovery is exceeding earlier expectations across the globe and with it comes growing consumer and corporate confidence, and this also came through loud and clear in my conversations with clients over the course of the week I just spent in London.

Now, clearly, we have to remain mindful of the unevenness in that global recovery due to continued contagion and challenges in vaccine distribution in several parts of the world, but we are optimistic about the momentum ahead and as a result, we deliberately accelerated some of our investments.

In our Institutional businesses, we saw the expected normalization of fixed income trading compared to the striking volatility of Q2 last year. And our Equities franchise had a particularly strong quarter. Looking forward, we do expect the volatile markets to be higher than pre-COVID levels.

Performance in our Investment Banking franchise remained healthy with good momentum in M&A and a very solid pipeline ahead for the rest of the year. We saw very good progress in our strategies to increase fee revenues with double-digit growth in our ICG fee revenues and specifically over 20% year-over-year fee growth in Treasury and Trade Solutions, in Securities Services and in the Private Bank.

Now, TTS is the backbone of the unique global network we deliver for our clients and while the business continues to be impacted by low rates, we particularly like how we are positioned here from a market share perspective as the post-pandemic recovery takes shape.

In Consumer Banking, while our loan book and revenues were impacted by the elevated payment rates in Cards, spending is well above pre-COVID levels now with a 38% increase in global purchase sales year-over-year. We expect this to translate into loan growth in the second half of the year. And we continue to have good momentum in both deposit growth and AUMs across our Consumer franchises.

In the US, as we discussed, we're investing in our home market as demonstrated by the well-received launch of our innovative Custom Cash Card in June. Internationally, the picture for our Consumer businesses diverges. So while there is still the softness in the Mexican economy, in Asia, loan growth returned and that's despite new COVID outbreaks.

Turning to capital, for the first two quarters of 2021, we returned close to $7 billion to our shareholders, which was the maximum amount permitted under the Federal Reserve's rules. Going forward, we're committed to returning any excess capital over and above the amount necessary to invest in our franchise. So, while our stress capital buffer increased to 3% as a result of the Fed's recent stress test, that won't impact the Common Equity Tier 1 target we've been managing to of approximately 11.5%. We ended the quarter at 11.9% on a standardized basis and have excess capital to return to our shareholders through a healthy dividend and ongoing stock repurchase program. Lastly, our tangible book value per share increased to $77.87, up over 9% from a year ago.

Now, let's turn to three of our strategic priorities: strategy, transformation and talent. I'm very pleased with the progress we've made on our strategy refresh. We have moved swiftly to begin the sales process for the 13 Consumer markets we plan to exit in Asia and EMEA. The first round of this was very encouraging and competitive, which isn't a surprise, because these are terrific businesses for the right owners.

In those regions, we're off to a running start in our Wealth strategy. We're making significant strategic investments in product capabilities, technology and talent and have already seen this in increased client acquisition. We continue to do thorough and rigorous work to refresh our strategy across our Consumer Institutional businesses, guided by the four principles I outlined to you earlier in the year: being clinical, being focused, and ensuring both connectivity and simplification. Our overarching goal is to increase the returns we generate and close the gap with our peers by investing in the franchises that will drive the most growth – the three most notable of which are TTS, Wealth and Commercial Banking. And I'm very confident in the growth and return prospects these connected franchises will afford us.

As we have done so far, we will share our decisions with you as we make them on the strategy. And we are also looking forward to presenting our plans to you more comprehensively during an Investor Day, which we intend to hold in the first quarter of next year. We're going to put our entire vision for the firm in front of you, so you can then hold us accountable for executing against it.

As we discussed in the call last quarter, we're also working very hard and diligently on our transformation. This is a significant, it's also an exciting body of work and we're working closely with our regulators to meet their expectations and we intend to submit our plans to them this quarter.

Now, while addressing the consent orders is an intense focus of the transformation, our work here goes well beyond the orders themselves. We've set out to modernize our bank. We want to achieve nothing less than excellence and this means investing in our risk and control environment but also in the infrastructure we need to serve our clients in an increasingly digital world.

So let me give you an example in TTS. These investments will improve the scalability of our platform. Automation will drive efficiency and client experience, and investments in data will enhance revenues. And the investments we're making will help position us to retain our leading position as the preeminent global corporate bank.

And that leads me finally to talent, where we have made material progress over the last few months. I'm delighted with the caliber of talent we have been attracting to the firm to grow our businesses and support our transformation. We've enhanced our existing ranks with best-in-market hires in data, risk, strategy and controls as well as in the front lines of Wealth, the Commercial Bank and BCMA in particular.

We continue to invest in a culture of excellence and our own people, providing them with new leadership and growth opportunities, and it's this combination of new perspectives and our existing high caliber talent pool that will enable us to take the firm forward with excellence, urgency and accountability.

Now, before I turn it over to Mark, I would like to thank Liz Lynn for her great work leading our investor relation efforts over the past several years. And as you know and as she mentioned, she is going to be our finance lead for BCMA where we all know that she is going to do a wonderful job.

With that, Mark will go through our presentation and then we'll both be happy to take your questions.

MARK MASON: Thank you, Jane, and good morning, everyone. Starting on slide 3, Citigroup reported second quarter net income of $6.2 billion, EPS of $2.85, and a 15.2% RoTCE. Revenues declined 12% from the prior year, reflecting a normalization in Fixed Income Markets along with lower card loans in Consumer as well as the impact of lower interest rates.

Expenses were up 7% year-over-year. In constant dollars, expenses were up 4%, reflecting a normalization relative to the low print last year, along with continued investments in our transformation as well as other strategic investments, partially offset by productivity savings. Credit performance remained strong with net credit losses of $1.3 billion, more than offset by an ACL release of $2.4 billion, reflecting portfolio improvements as well as the continued improvement in our macroeconomic outlook.

In constant dollars, end of period loans declined 3% year-over-year, reflecting higher repayment rates across Institutional and Consumer, although I would note that we are starting to see some pockets of loan growth emerge, and for the first time in over a year, loans were up sequentially. Deposits grew modestly, up 4% year-over-year, reflecting continued engagement with our Consumer and Corporate clients.

Looking at the first half of 2021, total revenues declined 9% year-over-year and 10% in constant dollars, mainly driven by the normalization in Fixed Income Markets and lower card balances in Consumer, although we did see strong fee revenue growth across Consumer and in ICG, excluding Fixed Income Markets. Total expenses were up 6% on a reported basis and 3% in constant dollars, midway through the year. I'll talk more about our outlook for the remainder of the year in a moment.

Cost of credit was a benefit of roughly $3 billion as we released over $6 billion in reserves. And we delivered roughly $14 billion in net income and an RoTCE of 17.6%.

Finally, as Jane noted earlier, we returned roughly $7 billion in capital so far this year. And we remain committed to continuing to invest in our franchise as well as returning any excess capital to shareholders given the flexibility provided by the SCB framework.

Turning now to each business. Slide 4 shows the results for the Institutional Clients Group. For the quarter, ICG delivered EBIT of $4.9 billion, up significantly from last year. Revenues decreased 14%, driven mainly by the decline in Fixed Income Markets. Expenses increased 4% and were up 2% in constant dollars as investments in transformation along with other strategic investments were mostly offset by lower incentive compensation and efficiency savings. Credit costs were down considerably given a roughly $900 million ACL release as well as lower net credit losses, and ICG delivered a 16.4% return on allocated capital.

Slide 5 shows revenues for the Institutional Clients Group in more detail. Product revenues were down 17% in the second quarter, primarily reflecting a comparison to a strong prior year period, particularly in Fixed Income Markets. However, we are continuing to see robust client engagement and strong underlying growth in our fee businesses across the franchise, including TTS, Investment Banking, Securities Services, Commercial Banking and the Private Bank. And excluding the markets related component, non-interest revenues were up 24% this quarter and we are confident in our outlook for continued strong fee growth in the back half of the year.

Looking at the results in greater detail, on the Banking side, revenues decreased 1%. In Treasury and Trade Solutions, significant growth in fee revenues of roughly 25% reflecting solid client engagement as well as growth in trade were more than offset by the impact of lower interest rates, with revenues down 1%. We're continuing to see momentum across our Payments business with 13% growth in cross-border flows and 10% growth in clearing volumes over the past year, as well as the early days of a recovery in Commercial Cards. And as of the end of the quarter, TTS loans grew roughly 5%, reflecting increasing client demand and improving macroeconomic conditions.

Investment Banking revenues were up 1% as higher M&A and equity underwriting revenues were largely offset by a decline in debt underwriting. While the overall DCM wallet was up in the second quarter, all the growth was in non-investment grade, which did not benefit our results given our skew to investment grade.

But looking at results versus a more normal year, revenues were up 38% versus the second quarter of 2019 with strong growth across all products. Private Bank revenues grew 4% driven by higher fees and lending volumes, reflecting momentum with both new and existing clients, partially offset by the impact of lower interest rates.

Corporate Lending revenues were down 15%, primarily driven by lower volumes. Total Markets and Securities Services revenues decreased 30% from last year. Fixed Income revenues decreased 43%, reflecting a comparison to a strong prior year period in both rates and spread products. However, we remained engaged with our clients with steady growth in both corporate and investor client revenues relative to the historical average.

Equities revenues were up 37% versus last year, primarily driven by good performance in both derivatives and prime finance, reflecting robust client activity and favorable market conditions. In Securities Services, revenues were up 9% on a reported basis and 5% in constant dollars. Here we saw a strong growth in fee revenues with both new and existing clients, driven by growth in assets under custody and settlement volumes, partially offset by lower spreads.

Finally, looking at first half results in ICG, we've seen a strong contribution from Investment Banking as well as good results in the Private Bank and Securities Services, which helped to offset the expected normalization in Fixed Income Markets. I would also note that Equity Markets revenues are up over 30%.

Turning now to the results for Global Consumer Banking in constant dollars on slide 6. For the quarter, GCB delivered EBIT of $2.4 billion, up significantly from last year. Revenues declined 10% as continued strong deposit growth, albeit with lower spreads and momentum in investment management, were more than offset by lower card balances across all three regions.

In Cards, while we are encouraged by the continued improvement in consumer spending, with purchase sales up close to 40% versus last year and almost 20% versus last quarter, we are still seeing the impact of high payment rates on revenues. Expenses increased 7%, reflecting continued investments in our transformation as well as other strategic investments, along with an acceleration in marketing and higher volume related costs from the low point a year ago, partially offset by efficiency savings.

Credit remains healthy and credit costs decreased significantly, driven by the $1.4 billion ACL reserve release and lower net credit losses. And GCB delivered a 20.8% return on allocated capital. Finally, looking at results for the first half of the year, we've seen steady improvement in our drivers, which gives us confidence in our outlook as we move into the back half of the year.

Slide 7 shows the results for North America Consumer in more detail. Second quarter revenues were down 11% from last year, primarily driven by lower Cards revenues, but better than the 15% decline last quarter on a year-over-year basis. Revenues declined in both Branded Cards and Retail Services by 12% and 14%, respectively, reflecting continued headwinds from higher payment rates as consumers have continued to use liquidity from stimulus and other relief programs to pay down debt, driving lower loans and a shift in mix towards transactor balances. This is creating pressure on our net interest revenues, but it's also benefiting our delinquency and loss trends. However, we are continuing to see a recovery in sales activity, with purchase sales now above pre-pandemic levels led by discretionary spend, including travel and dining.

In Branded Cards, total purchase sales were up 40% versus last year, and importantly, up 11% versus the second quarter of 2019. And in Retail Services, purchase sales also grew versus both second quarter 2019 and 2020. So, the good news is that we're continuing to see the recovery in spend and we're also returning to pre-COVID acquisition levels. Looking ahead, we expect the growth in purchase sales to translate into loan growth by the end of the year, as stimulus moderates and consumers return to more normal payment patterns.

Turning to Retail Banking, revenues were down 7% year-over-year reflecting pressure from lower deposit spreads and lower mortgage revenues. That said, we are continuing to see good momentum as we grow and deepen our retail bank relationships as well as improve the quality and stickiness of these relationships. Average deposits were up 18%, including 24% growth in checking. And the number of Citigold households increased by 16%, contributing to a 23% increase in AUMs.

On slide 8, we show results for International Consumer Banking in constant dollars. Revenues declined 6% year- over-year in the second quarter with an 11% decline in Latin America and a 3% decline in Asia. Looking at International Consumer overall, we are seeing good momentum in investment management with 15% growth in assets under management, primarily driven by Asia. And the numbers are meaningfully higher if you look specifically at the four international wealth hubs.

Average deposit growth remains strong at 8%, albeit at lower deposit spreads. And similar to the US, we saw a 26% increase in purchase sales year-over-year, but Cards loan growth remained a challenge this quarter, with average card loans down 8% due to elevated payment rates.

Slide 9 provides additional detail on Global Consumer credit trends. In the US, both NCL and delinquency rates remain favorable driven by the significant amount of customer liquidity due to stimulus and other relief programs. Given the delinquency trends we're seeing today, we do not expect credit deterioration in the US portfolio in 2021. And the ultimate timing and level of losses as we look into next year will depend on whether or not the stimulus results in a permanent benefit. And as expected, credit losses and delinquency rates trended downward in both Mexico and Asia, following a peak in the first quarter of 2021. So, overall, we're seeing a rebound in activity along with a consumer who is in a very healthy financial position, suggesting good momentum as we move into the back half of the year.

Slide 10 shows the results for Corporate/Other. Revenues were down slightly in dollar terms as episodic gains this quarter were more than offset by previously disclosed one-time items in the prior year. Expenses were up slightly in dollar terms, mainly reflecting the impact of FX. And similar to last quarter, we have further allocated costs to the businesses related to investments in infrastructure, risk and controls. As we mentioned previously, this change had no impact to EBIT at the Citi level. However, we have re-cast prior periods to enable better comparability of results.

Credit costs declined year-over-year driven by a release this quarter compared to a build in the prior year. Finally, EBIT was breakeven this quarter. Looking ahead, we would expect a quarterly pre-tax loss in the range of $200 million to $300 million for the remainder of 2021.

Slide 11 shows our net interest revenue and margin trends as well as non-interest revenues on a reported basis. We've also provided net interest revenues in constant dollars on slide 19 in the appendix for a comparison to prior periods.

In the second quarter, net interest revenue of $10.2 billion declined $880 million year-over-year, reflecting lower loan balances and the impact of lower rates. Sequentially, net interest revenue continued to stabilize as the extra day in the quarter was offset by lower Cards revenues. And net interest margin declined 3 basis points, driven by lower Cards NIR and modest growth in the balance sheet due to deposits, partially offset by the increase in Markets NIR in the quarter.

Turning to non-interest revenues on the bottom of the slide, in the second quarter, non-NIR declined $1.4 billion driven by normalization in Fixed Income Markets. However, outside of Markets, we did see strong broad-based fee growth of over $600 million across GCB and ICG. And for the past two quarters, we've seen these fee revenues return to pre-pandemic levels of roughly $4.4 billion per quarter, pointing to a somewhat faster-than-expected recovery.

Looking at these results midway through the year, we are comfortable with our prior outlook and continue to expect total Citi revenues to be down in the mid-single digit range on a full year basis, although the composition is likely to be somewhat different, which I will talk more about in a moment.

On slide 12, we show our key capital metrics, which remain strong and stable again this quarter, allowing us to support clients and return capital to shareholders. Our CET1 Capital ratio increased to 11.9% as net income was mostly offset by buybacks and dividends. During the quarter, Citi returned a total of $4.1 billion to common shareholders in the form of $1.1 billion in dividends and share repurchases of $3 billion. Our Supplementary Leverage Ratio was 5.9%, a decline from the prior quarter, largely driven by the expiration of a temporary SLR relief. And our tangible book value per share grew by 9% to $77.87, driven by net income.

Before we move on to Q&A, let me spend a few minutes on our outlook for 2021. On the top line, for total Citigroup, we still expect revenues to be down mid-single digits on a reported basis, but as I mentioned, the composition is likely to be somewhat different than we originally anticipated. Year-to-date, we've seen stronger than expected growth in non-interest revenues. And we do expect the strength in fee growth to continue in the back half of the year, driven primarily by ICG. Meanwhile, for net interest revenues, we expect continued stabilization in the back half. And we should start to see some loan growth by the end of the year.

So while net interest revenues are down roughly $2.2 billion year-to-date, just outside our original outlook for the full year, assuming this base case holds, we do not expect a significant further decline in net interest revenues from here on a full year basis. So, again, in aggregate, for total Citigroup, we still expect revenues to be down mid-single digits.

On the expense side, based on our latest work on the strategic refresh, we've made the decision to further accelerate certain strategic investments, in part in reaction to what is shaping up to be a faster than expected recovery. As a result, we now expect total Citigroup expenses to be up mid-single digits. These are strategic investments that we are making to strengthen our franchise and drive long-term growth.

For example, we've accelerated investments where we believe there are significant opportunities for growth, including holistically across Wealth and the Commercial Bank. We've also doubled down on our existing strengths in businesses like TTS, Securities Services and the Investment Banking business.

Finally, given the faster recovery we are seeing today, we are accelerating investments in areas like cards marketing to capture this upside. All of these investments will have significant benefits over time.

Meanwhile, expenses related directly to the transformation, which we had expected to drive the 2% to 3% increase in total Citi expenses this year, are coming in largely as expected. These investments include the work around the consent order as well as the broader work to modernize the bank, which will improve our risk and control environment as well as allow us to better meet the needs of our customers and clients through an improved operating environment, leading to faster decision-making, better efficiency and improved client experience. And I'd point out that the mix of this spend is 30% technology and 70% non-tech related investments.

Finally, this outlook includes the realization of productivity savings as a by-product of the investments we've been making over the past few years. And to be clear, we will continue, as we have done in the past, to look for ways to operate as efficiently as possible during this investment period.

And one additional note. We could also see some episodic impacts this year related to the market exits we are pursuing. And as I've mentioned previously, we will be very transparent about the impact of these actions on our financials. So, in summary, we feel good about the investments that we are making and firmly believe these investments will position us well to close our return gap to peers over time.

Before we get started with questions, also want to take a moment to thank Liz Lynn for her time as the Head of Citi Investor Relations. Liz has been with the Citi IR team since 2013 and has led the group since 2019. I know that she has built strong relationships with all of you and has been a key part of my team since I was named CFO a little over two years ago. She will be moving on to be the Chief Financial Officer for our Investment Banking business. And as Liz mentioned, Jenn Landis will be joining us in August as our new Head of Investor Relations. I hope you will all join me in congratulating Liz on her new role and welcoming Jenn to Citi at our next earnings call.

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

QUESTION AND ANSWER

OPERATOR: Your first question is from the line of John McDonald with Autonomous Research. Please go ahead with your questions.

JOHN MCDONALD: Hi. Good morning. Mark, thanks for the comments at the end there about the expense outlook and the revision to your outlook for this year. Just wondering if you could just unpack that a little bit more. You're not the only bank that's been kind of raising expense guidance. So I was wondering how much of this might be inflationary due to the cost of doing business as a big bank here and how much is Citi specific? And does the run rate that you're expecting to be at on expenses in the back half of this year feel like that's the run rate you'd go into next year with or are there things that are elevated this year? Thank you.

MARK MASON: Yeah. Good morning, John. Thanks for the question. Look, I start by saying and repeating a little bit of what I said in my remarks, which is that we are taking a very deliberate decision on how we manage the franchise, right?

And so what I spoke to was Jane and I along with the leadership team are going through a very thoughtful strategy refresh. And as we go through that, we are identifying, particularly given the pace of the recovery, some real strategic opportunities to invest in the franchise. And we don't want to – we're not going to miss this window of opportunity. You've heard me mention that before. And it's in parts of the franchise that will undoubtedly grow and are high returning. So when we talk about TTS, we talk about the Commercial Banking business, we talk about Wealth, those are businesses that have strong growth prospects and have returns that are north of 20% in a normal environment. And so like I said, we're jumping at that.

On the transformation side, I've been very clear and consistent that we expected that to drive the 2% to 3% increase year-over-year. That's coming in largely as expected and again, the right thing to do, and important thing to do to modernize this bank. Inflation, of course, is going to be a factor, particularly as we look at labor and the competition for talent but again, that's – we deal with that on a regular basis and we continue to look for productivity and efficiency savings that largely tend to offset that.

In terms of 2022, I'm not going to give any guidance on that. But again, this is, I think, an important period of time as we come out of this to ensure we're putting money to work in a smart fashion that prepares the firm for the future.

OPERATOR: Your next question will come from Jim Mitchell with Seaport Research.

MARK MASON: Good morning.

JIM MITCHELL: Maybe the first question – hey, good morning. Maybe first question on Branded Cards in North America. Average balances were pretty flat, but there was a little pressure on spread. Can you just maybe clear that up? Is that just sort of greater user rate activity or does that bounce back? How do we think about the revenue trajectory there and the spread compression we saw this quarter?

MARK MASON: Yeah. So, again, the dynamic on Cards revenues, Branded Cards in particular in North America which were down 12%, is largely driven by what we're seeing in the way of loan balances. And if you look at average interest earning balances, our average interest earning balances for Branded Cards are down about 11%.

Now, the good news is, as we've said, purchase sale activity is up meaningfully year-over-year and relative to the prior quarter, but it's really those payment rates are remaining quite high, quite elevated. The good news is that plays through in the form of a benefit as it relates to cost of credit, lower losses than expected, and now lower reserves as we see releases. But it's really that dynamic of payment rates high, lower loan volumes - average interest earning in particular - that is putting pressure on that top line.

JIM MITCHELL: All right. That's helpful for the clarification on the transactor balances. And then maybe just more broadly on the Wealth business, you guys put out a press release saying you made some significant investments in new hires in Asia Wealth with a pretty substantial and aggressive target to grow head count. Where do you stand on that build-out? And are you making similar investments in other markets?

JANE FRASER: Yes. Look, I think as we said, we're pretty excited about the Wealth opportunity for us because we have all the different pieces to be successful here: the brand, the client relationships, the platform, the Commercial Banking franchise. And we're already a sizable player. We're number three in Asia, for example, where a lot of the growth is coming from.

The opportunity for us is pulling all of the pieces together into a single integrated offering across the full spectrum of clients and so we've been investing in that platform, the technology. You'll have seen the announcement yesterday in the US about a self-directed digital offering there. We've been expanding and growing talent in the front line as well and are very pleased as well with the investment product revenue growth which is where from a mix point of view we see the greatest upside for us.

So early days in the execution of this, but I think pleasing progress as we pull this together into this single integrated offering, invest behind it and you'll see the benefits in terms of growth as well as obviously return and revenue mix going forward for the bank.

MARK MASON: Yeah. Jane, only thing I would add to that, we are already seeing good performance in the quarter, right? So Private Bank revenues up 4%, continued strong growth in client assets up 26%

including AUMs that were up 29% and deposit strength, et cetera. And as Jane mentioned, even as we invest in strengthening the platform, we just announced yesterday that we were launching the self-directed investment digital offering which, again, is targeted towards US Consumer and Wealth Management clients. And so good progress while we invest and position ourselves to capture further opportunity here.

OPERATOR: Your next question comes from Ken Usdin with Jefferies. Please proceed.

KEN USDIN: Thanks. Good morning, Jane and Mark.

MARK MASON: Good morning.

KEN USDIN: Wanted to ask you a little bit just on capital. When we got the SCB results, you had indicated a dividend of at least $0.51 and implied that you'd be buying back stock, but just wondering if you could help us just flush that out a little bit more in terms of how we should be thinking about the type of capital return or any increases that you might consider on the dividend from here? And how to put that into context with prospective changes in the SCB and your minimums?

MARK MASON: Sure. Look, the first thing I'd say is that as you can tell through the second quarter, we bought back as much as the regulatory rules would allow for in the way of the average four quarters of net income. And so we continue to be very excited about the prospect of continued capital return.

As it relates to the SCB and the recent results, as you know, we have a target of approximately 11.5% from a CET1 ratio point of view. The target includes an estimate for the stress capital buffer that's somewhere between 2.5% and 3%. Up until this recent set of results, the prior couple had been at the 2.5%. The 3% will go into effect at the end of the third quarter. And more importantly, we will actively manage the drivers that impact that stress capital buffer. That is to say, PPNR as well as the balance sheet, risk weighted assets, and we intend to do so with an eye towards how we bring that stress capital buffer back down.

As we think about capital actions, as you know, with the SCB in place, we have the flexibility to take those decisions in a given quarter in line with the reg minimums and we intend to do that. Given where the stock trades, it makes a lot of sense for us to be buying back shares and so we'll continue to skew towards that. And as of right now, our dividend is going to remain at the 51%, but as I mentioned, we will continue to look at that quarter-to-quarter, given the flexibility from the SCB.

JANE FRASER: And the only piece I'd add in is as we're doing this work on the strategy and the plans going forward, both Mark and I have a high degree of confidence around the capital generating capability of the franchise and look forward to returning excess capital to you over and above what we'll be doing to invest and close that return gap with our peers.

OPERATOR: Your next question will come from Matt O'Connor with Deutsche Bank.

MATT O'CONNOR: Good morning. I just wanted to follow up on the dividend commentary. I understand the preference to buy back stock and you're very explicit about wanting to do that below tangible book, so that makes sense. But I guess just kind of signaling the market, keeping a stable dividend, is there like a message there about the underlying earnings power or limited ability to increase the dividend? Because I'd think you'd want to at least top it up by a couple of pennies, just to kind of signal a positive trend, because it doesn't take that much capital to do that. So maybe you can elaborate a little bit on the dividend, again specifically on should we read into implied underlying earnings power? Are there any limits on increasing the dividend? Thank you.

MARK MASON: Yeah. Let me be very clear. There's no underlying message there at all. It's as I stated in terms of where the stock is trading and it making sense to do buybacks. Our dividend yield is quite comparable to that of peers at close to 3%. And so – and there's no constraint on our ability to take capital actions. And we don't have any concerns about the earning power of the franchise.

And in fact, many of the areas, as I mentioned earlier and as Jane has mentioned, we know are going to contribute to continued strength in our earnings power. So, well capitalized. We feel good about our earnings power and no concerns or no underlying message to the capital actions and direction of them that we spoke to. And again, we have the flexibility given the stress capital buffer as we go quarter-to-quarter to adjust as we see fit in the best interest of our investors.

OPERATOR: Your next question will come from Steven Chubak with Wolfe Research. Hello, Steven, your line is open.

STEVEN CHUBAK: Mark, I was hoping to unpack just some of the NII guidance. I think there was just a little bit of confusion how it should be interpreted. So, it sounds like we're down $2.2 billion year-to-date and that the full year we shouldn't see any incremental declines from there. So that would imply about $10.5 billion NII run rate in the back half. I just want to make sure that's the right way to interpret the remarks.

MARK MASON: Yeah. So, look, again, we do see kind of the NIR stabilizing and you see some of that particularly ex-markets but also in total on the page. Again, the guidance for total revenue is unchanged at down mid-single digits. You're right, as of the half, we're at down $2.2 billion as relates to net interest revenues. Look, the markets component of that can often be hard to predict, but what I'm suggesting is that any offset or any further pressure there will be offset likely in the fee momentum that we expect to see given the strength coming through this quarter.

OPERATOR: Your next question will come from Betsy Graseck with Morgan Stanley.

MARK MASON: Hey, Betsy. Good morning.

BETSY GRASECK: Oh, hey. Thanks. Okay. I did have a question for Jane and you, Mark. The question has to do with how you're thinking about the importance of scale in the business refresh, I guess, I could call it that you're doing? And Jane, really, maybe you could help us understand how important scale is in what you're looking to execute here? I ask because many times I get questions from investors around what is Citi doing on the pieces of the business that don't have as much scale as the standout areas like Global, Fixed or Treasury Services or Mexico.

JANE FRASER: Yes. First of all, scale is clearly very, very important here, particularly in a more digital world and as you point out, Betsy, TTS, for example, has – we're moving $4 trillion of volume a day around the world and we've got a number of franchises that have material scale and we only expect them to be growing and this is where the transformation program will be very helpful in ensuring the scalability of our platforms.

We made the decision on Asia Pac and EMEA to exit the 13 markets where we didn't believe that we would be able to achieve the scale needed to compete in those very local part of the business so that we can focus our firepower in those areas where we're either ensuring we retain a leading market position or in other areas where we want to be investing to attain the scale that we think is going to be needed going forward. US Consumer is an obvious example of that.

So I think as we – you'll hear from us going forward, more and more focus around what are our plans for those businesses for retaining the leading positions in this, aided by the transformation program, or in the areas where we'll be investing to attain greater scale and as I say, US Consumer is the obvious one. There are pockets in Commercial Bank we're excited by. Securities Services is one where we think it is very readily attainable, particularly given our pre and post trade capabilities and part of that scale, finally, will come from the linkages between our businesses as we create more connectivity. That will also provide us scale, so collectively the different franchises we have will be competitively advantaged and not just individually strong.

OPERATOR: Your next question will come from Ebrahim Poonawala with Bank of America. Please proceed.

EBRAHIM POONAWALA: Good morning, Jane and Mark.

MARK MASON: Good morning.

EBRAHIM POONAWALA: Just a follow-up – understand you're being deliberately in strategy leading up to, I guess, the Investor Day you mentioned next – first quarter next year. But as we think about just the investment spend and the expense outlook, handicap, Mark, if you could, the risk that we could see a little bit of an expense creep as you dig further deeper into this, both in terms of your guidance for mid-single digit expense growth this year and as we think about just the duration of that investment cycle over the next few years.

MARK MASON: Yeah. Look, again, this is something that we control, right? So, again, I want to reiterate that we are making very deliberate decisions around the opportunities that we see across the franchise. And it's the right thing to do, right? So we're going to continue to do that.

In terms of kind of risk to it, I don't think there are any surprises here, right? If revenues come in meaningfully different, there's a certain component of our expense base that's tied to revenues and so that would obviously move around. But aside from those volume-related expenses, transaction, compensation, et cetera, you should expect what I've guided towards in terms of the very deliberate decisions to put the money to work in this fashion and we're going to continue to do that. If we see more investment opportunities in 2021 or 2022, we're going to go after them because, again, we know that we can deliver on the benefits and the returns that are associated with putting that money to work.

OPERATOR: Your next question will come from Gerard Cassidy with RBC.

GERARD CASSIDY: Thank you. Good morning, Mark. Good morning, Jane.

MARK MASON: Good morning.

JANE FRASER: Good morning.

GERARD CASSIDY: Mark, you said something interesting about the Investment Banking business revenues. I think you said that they were 39% or 38% higher than 2019. I'm checking my notes here. So your business is still nicely above the 2019 levels and we came through a period up until the pandemic that you're well aware of that it was somewhat challenging, the growth in Investment Banking and Trading businesses. As you look forward when you talk to your people in Investment Banking and in Global Markets, where do they see this? Because there seems to be an elevated amount of business due to what we just came through in the last 18 months. Do they think it's sustainable or do we get back to a 2019? What are those guys telling you about the next 12 to 24 months in those businesses?

MARK MASON: Yeah. I'd start by saying we continue to have very, very good dialogue with our clients across the franchise and specifically in Investment Banking. And if you think about it, many businesses, many companies across industries are really having to take a look at their business model and think about how they want to transform their businesses coming out of this pandemic. Everything from how to think about digitization, how to think about going direct to consumers, what the pandemic means for supply chains, how people work remotely, how they manage their liquidity levels, what to do with that excess liquidity. Should they be buying or what? And so we're part of that dialogue, which is incredibly representative, I think – it represents strongly the franchise that we have.

The general view from our clients is optimistic in terms of the go-forward environment. Yes, there's some things to kind of manage to, but there's a general level of optimism. And so what I represented relative to

2019 is while we are seeing normalization, we're normalizing at a higher level than where we ended in 2019 and we'd expect continued momentum and we'd expect to continue to take share over time.

Jane, anything you want to add to that?

JANE FRASER: Yeah. Mark, I think you covered it very well. There's a high level of client engagement with us at the moment really around the world and a lot of demand. We're seeing in addition to the Investment Banking side, this shift to e- commerce with clients needing our TTS services, our cross-border flows. We're seeing this translating into demand in trade starting to pick up nicely.

The Commercial Banking side is another area that we're seeing a lot of new demand coming through from clients both from strategic activity with our investment bank as well as their own expansion globally that we're supporting them through our Treasury Services and the like.

So I think there's a general sense of optimism. We have a fabulous pipeline. One never wants to jinx these things, but we really have a fabulous pipeline heading into the second half of the year around the world and it does give you a good sense of confidence of continued momentum.

OPERATOR: Your next question will come from Mike Mayo with Wells Fargo Securities.

MIKE MAYO: Hi. I'm going to ask my question here and then re-queue. The real question is just on capital. I mean, you're not blind to the fact that your tangible book value is $78 and your stock price is $68. So, we should probably be selling your desk chairs and your silverware and anything you can to buy back your stock, I would think. So, along those lines, the first question is when you're looking at these sales of assets, 13 Consumer markets, do you expect to have a gain on those or a loss on those relative to where they're marked currently?

MARK MASON: Yeah. So, look, I mean, I think I'd tell you, Mike, that we, as Jane mentioned, we've seen strong interest from buyers as it relates to those assets. And there's no surprise, just given we think those are good businesses, just not of scale as Jane mentioned for us. We've got to run that process through and see what that results in and I'll continue to be transparent with you as to where gains and losses or how it flows through our financials, but I'm not going to sit here and tell you whether it's gains or losses or what it means specifically for those 13 markets.

What I will tell you is that as capital is freed up from those transactions, we'll continue to make very deliberate decisions around what to do with that capital, first, looking at growth opportunities that can deliver returns above our cost of capital, and then looking towards how we can return as much of it to shareholders as it makes sense in the form of buybacks, dividends, et cetera. And we've been disciplined about that to date and we're going to continue to be disciplined about that.

MIKE MAYO: So, to clarify, if I got this right, your CET1 ratio is 11.9% and your return on capital above 11.5%. So, if you were to quantify the dollar amount of that, how much would that mean in potential buybacks at this point and then I assume that would not include any capital freed up from any sale? So, you could have potential to buy back a lot of stock if you were willing and able, is that correct?

MARK MASON: A little bit over $4 billion of excess capital between the 11.5% and the 11.9% and so that's what that equates to.

OPERATOR: Your next and final question will come from Vivek Juneja with JPMorgan. Please proceed.

VIVEK JUNEJA: Hi. Thanks for taking my questions. A couple.

MARK MASON: Good morning.

VIVEK JUNEJA: Good morning. Mark, any comments on promotional trends that you're seeing in card pricing, given everybody is back focusing on the business? You mentioned marketing spend, but can you talk a little about what you're seeing in promotional pricing in that?

MARK MASON: Yeah. I guess, what I'd say is simply that as expenses would suggest and as we stated, we are legging back into bringing on new card customers. And so – and what we're seeing is that our acquisitions are largely at pre- COVID, pre-crisis or pre-pandemic levels and, frankly, we're seeing normal behaviors as those card customers come on. And as has always been the case, it's going to be a mix in terms of the acquisition strategy, but thus far, we're seeing normal behaviors, if you will.

And look, the new account acquisitions skewed towards Branded Cards and they're in products that are less reliant on the 0% offers and products like Flex Pay and Flex Loan, which will generate interest immediately as those balances grow.

OPERATOR: We do have one more question in queue from Mike Mayo with Wells Fargo Securities.

MIKE MAYO: Hi. An unrelated question. Just, Jane, as you think about the technology approach, doing it yourself through Citigroup and pairing up with partners, what's the status of the relationship with Google and Google Plex and your desire to use third-parties to gather new customers at lower initial cost, but maybe not as much lifetime value? If you think of that trade-off, what's your current thinking today? And we haven't heard much about the Google relationship despite some initial headlines. Thanks.

JANE FRASER: Yeah, hey there, Mike. Excellent question. The partnership with big tech is an important part of our disrupter strategy in the US as we're looking at both how do we enhance value propositions to customers, the customer base itself, and then these new ecosystems that are evolving. And I think there's no question that COVID has accelerated the embedded finance model in the US, just think of the travel ecosystem, think of home improvement ecosystems. The benefit we've got is that for us, it's not a new space to us. We've been very much engaged with partners in Asia, Grab, Paytm, and WeBank as well as our traditional partners.

What we find with these partnerships is that we learn a lot because it's still early days in the development of these new ecosystems. We learn a lot about marketing, about user experiences, around the tech stacks. It's certainly enables us to tap into next generation customer bases, but also importantly, it goes beyond consumer. And so if we look on the corporate side, our partnership with Stripe, the work that we're doing in TTS with Project Spring of enabling payments is a core piece, particularly as wholesale and retail kind of collapses some of these payment chains into one.

So with Google Plex and several other tech partnerships that we have in the States and elsewhere in the world, we're very deliberately going about creating a broad suite of APIs and partner integration capabilities so that we're able to integrate other partners into our offerings, develop more innovative solutions without necessarily having to build it or buy it all ourselves. And Citi Plex with Google is an example of that. We are actively testing features with our own employees at the moment. We'll be finalizing dates. We'll share that with you when available. But it's one of many different partnerships that we have and an important partner for us, but far from the only one here in the States to help us disrupt and grow going forward.

OPERATOR: We do have a follow-up question from Vivek Juneja with JPMorgan.

VIVEK JUNEJA: Hi. Sorry. But I kind of have a second question and that's on capital. Given that you're headed towards a higher GSIB bucket, Mark, Jane, what you're all thinking in terms of that, in terms of not just capital targets, anything you can do about that, because I know that's a year – a little over a year away from going into effect, but obviously, you're thinking about target capital, we'll have to keep in mind what's coming down the pipe for you.

MARK MASON: Sure. And look, as you know, with all of the liquidity in the market, many of us have seen pressure on our GSIB score. That certainly has been the case for us and it wouldn't go into effect, the higher GSIB score of 3.5% until the beginning of 2023. And we look at the entire capital stack holistically, the 11.5% target in our case, which is well above reg minimums, but certainly does consider that in it. And there are elements of that, as I mentioned earlier, that we can influence and control.

So the stress capital buffer is part of that, and I talked earlier about our ability to influence those levers without having full understanding of the Fed models, we know we can influence PPNR, we know we can influence the balance sheet and how it gets allocated and ultimately, what stress losses come out of it.

And so we will continue to manage that. We will still have a buffer obviously, even with a higher GSIB score. And as you know, regulators continue to talk about capital as being at about the right levels in the system and they'll continue to look at drivers that influence the stack as well, including GSIB and balance sheet size, et cetera, and we'll see how that evolves. But again, we feel good about where we are. We're well capitalized. We have a good sense for the drivers going forward that will create capital capacity for us and we intend to, again, invest that where it makes sense and return that otherwise to our shareholders.

OPERATOR: I would now like to turn the call back over to Elizabeth Lynn for closing remarks.

ELIZABETH LYNN: Thank you all for joining today's call. Please feel free to reach out to us in IR with any follow-up questions and thank you again and have a nice day.

OPERATOR: This concludes the Citi second quarter 2021 earnings review. Thank you for participating. You may now disconnect.