Citi Third Quarter 2021 Earnings Review
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Host
Jennifer Landis, Head of Investor Relations

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

PRESENTATION

OPERATOR: Operator: Hello, and welcome to Citi's Third Quarter 2021 Earnings Review with the Chief Executive Officer, Jane Fraser; and Chief Financial Officer, Mark Mason. Today's call will be hosted by Jenn Landis, Head of Citi Investor Relations. We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. Also, as a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time.

Mrs. Landis, you may begin.

JENNIFER LANDIS: 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 may differ materially from these statements due to a variety of factors, including those described in our SEC filings.

Before we get started, I'd like to thank Liz Lynn for being such an incredible partner during these last few months. I really enjoyed getting to know the entire Citi team, and I'm honored to be the next Head of Investor Relations, and I look forward to working with you all.

With that, I will turn it over to Jane.

JANE FRASER: So thank you, Jenn, and good morning, everyone. I'm delighted to join you today. So let's kick off the call with what we're seeing from a macro perspective and the tremendous engagement we continue to experience with clients before I give you an update on our results and priorities.

Certainly, the recovery from the pandemic continues to drive corporate and consumer confidence. I particularly like the robust pipelines we see through the rest of the year and beyond. Corporate client sentiment remains very positive, with healthy cash flows and liquidity driving M&A activity and deleveraging. And consumer balance sheets remain unusually strong on the back of the increasing consumer net worth during the pandemic.

Now all that said, growth has come off the boil a tad. We are watching three things very closely: the slowdown in China and its impact on global growth; inflation and supply constraints in labor, materials, and energy; and finally, what happens next with the US debt ceiling negotiations. These are also the issues which repeatedly surface in our conversations with clients.

So, turning to the quarter. We reported net income of $4.6 billion and EPS of $2.15. Embedded in these results is a pre-tax loss related to the sale of our Australia consumer business, which Mark's going to provide the details on. Excluding this transaction, our third quarter revenues would have been up 3% over last year, and our EPS would have been $2.44.

In the Institutional Clients Group, we grew revenues by 4% year-over-year, as we continue to see strong client engagement, with momentum in Investment Banking, Equity Markets and Securities Services, more than offsetting the 16% decline in Fixed Income Markets. I'm very proud to tell you that it was Citi's best M&A quarter and the second best Investment Banking quarter in a decade. And lending in the ICG grew

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again this quarter, albeit modestly. We also had a very strong quarter in Equity Markets with revenues up 40% year-over-year. So despite that normalization in Fixed Income versus the pretty extraordinary performance of 2020, overall markets revenues were only down 5%, and they were up 11% versus the third quarter of 2019.

We continue to successfully execute on our strategy to grow fee revenue across the ICG businesses. For example, while TTS continues to be impacted by interest rate headwinds, our fees this quarter were the highest in a decade. You can also see how our global network uniquely positions us to help our clients navigate the supply chain challenges so many of them are facing, a dynamic that we expect to persist for the near future.

Similarly, we drove double-digit fee revenue growth in Securities Services and the Private Bank, as client assets under custody and assets under management continued their vigorous growth trajectory.

In Global Consumer Banking, healthy consumer balance sheets and persistently elevated payment rates did mean that loan growth remained under pressure. The other key drivers are a bit more encouraging, however. U.S. Branded Cards purchase sales are well above 2019 levels, and acquisitions across Branded Cards, Mexico, and the Asia hubs are also all now at or above pre-COVID levels. Similarly, we continue to benefit from double-digit growth in deposits and assets under management across the franchise.

Let me briefly touch on our US retail strategy. Now, our digital strategy and investments are starting to pay dividends. Digital deposits stand at $19 billion, having grown 26% in the last year. And we see more than two- thirds of our digital deposit balances coming from customers outside of our branch footprint, with about half of those deposits from our cardholders who did not previously have a retail relationship with us.

Now, obviously, we were disappointed by Google's decision to discontinue Google Plex, but we learned a lot through the effort, and the vast majority of the investments will be leveraged for our proprietary efforts and future partnerships.

So all in all, we ended the quarter with a common equity Tier 1 capital ratio of 11.7% on a standardized basis, and our tangible book value per share increased to $79.07, up over 10% from a year ago. So far this year, we've returned close to $11 billion to shareholders through a healthy dividend and share repurchases. We remain committed to returning excess capital over and above the amount necessary to invest in our franchise and to maintain our safety and soundness.

So overall, I'm quite pleased with these results given the environment we're operating in. And while we have much work ahead, we're seeing the results of the previous investments that we have made.

Now, I'd like to update you on our strategic priorities. Turning to slide 3, we've included a page that clearly lays out our top priorities and some of the actions we've taken to date against them. And we're going to share this page with you each quarter to ensure you're up-to-date on where we are and the milestones and progress along the way.

And as you can see, we've been hard at work acting against the priorities I've laid out: the transformation, the strategy refresh and our culture and talent. Now, clearly, the transformation is our number one priority right now.

And key to that transformation is our safety and soundness and addressing the consent orders by modernizing our risk and control environment.

During the quarter, we submitted our plans to our regulators and continue to have a constructive dialogue with them as we pivot now firmly towards execution. We're already well underway in the investment in our risk and control environment, and we are really bringing a culture of excellence to this effort, and we are moving with urgency.

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We also continued to make progress refreshing our strategy. In addition to announcing the sale of our consumer business in Australia, we're deep in the second round of bids for the remaining exit markets. We've begun the work on how these exits will enable us to simplify our operations in Asia and eliminate stranded costs. And we're really looking forward to bringing all the strategy work together for you on Investor Day and presenting our vision for the firm.

And as Mark's going to touch on, we've begun executing on many of the decisions that we've already made, including in TTS, Wealth and Commercial Banking, with investments in front office hires, as well as enhanced digital product and service offerings. And we're already starting to see the impact of these investments emerge through key drivers across these businesses.

And finally, turning to culture and talent. We continue to attract high-caliber external talent whilst driving towards our diversity goals, ensuring clear accountability and breaking down the silos that have historically impeded our progress as a company. It's a new Citi, and all of this work has one overarching goal: to responsibly narrow the returns gap with our peers. We will update you with the metrics and milestones that we'll use to hold ourselves accountable so you can hold us accountable to them as well.

And with that, let me turn it over to Mark to go through our performance in more detail, and then we will both be delighted to take your questions.

MARK MASON: Thank you, Jane, and good morning, everyone. Starting on slide 4. As Jane mentioned, Citigroup reported third quarter net income of $4.6 billion, EPS of $2.15 and an RoTCE of 11% on $17.2 billion of revenues. Embedded in these results is a pre-tax loss of $680 million related to the sale of our Australia consumer business. Excluding this item, EPS would have been $2.44 with an RoTCE of 12.5%. As a reminder, while we received a premium to book on the sale of the business, we did incur a pre-tax loss primarily related to the currency translation adjustment that has built up over time and is already included in our capital. Upon closing, the capital impact of this loss will be largely neutralized, and we will release approximately $800 million of capital allocated to the business.

Revenues declined 1% from the prior year. Excluding the loss on sale, revenues would have been up 3%, largely driven by Investment Banking fees, as well as strong growth in Equity Markets and Securities Services. Expenses were up 5% year-over-year, and constant dollars expenses were up 4% in the quarter. On a year-to-date basis, our expenses have grown by 5% with two main drivers: investments in the transformation, including the six programs to address the consent orders, which drove about 3% of the growth so far this year; and business-led investments which focus on our front office expansion in the Investment Bank, Wealth and Securities Services and investments to improve our client experience and digitize our network.

So far this year, we added over 500 bankers, advisors and other front office support in Wealth, including the Private Bank, and the Consumer Wealth businesses, and 200 corporate and investment bankers globally in high- growth areas, including senior hires across tech, healthcare, fintech, and private equity coverage.

In our services businesses, TTS and Securities Services, we continue to improve client experience and digital capabilities, which is enabling us to capture significant new mandates. In consumer, these investments include development and marketing for new offerings like the Custom Cash card and installment lending, as well as investments in our mobile and digital user experience. In addition, there were also increases in volume and revenue-related expenses, as well as business-as-usual expenses which were largely offset by efficiency savings. As a reminder, we will continue to analyze our expenses to look for opportunities to self-fund investments.

And now turning to credit. Credit performance remains strong, with net credit losses of just under $1 billion, more than offset by an ACL release of $1.2 billion, largely reflecting continued improvement in portfolio

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quality. In constant dollars, end-of-period loans were down 1% year-over-year, reflecting the impact of the Australia exit. Excluding this impact, loans would have been up 1% year-over-year, driven by active client engagement in TTS, Private Bank and Markets.
End-of-period deposits were up 6% year-over-year, reflecting continued engagement with our consumer and corporate clients, as well as continued momentum in client acquisition and deepening across both corporate clients and consumers. Finally, as Jane noted earlier, we returned roughly $11 billion in capital so far this year, and while we remain committed to continuing to invest in our franchise, we will continue to return excess capital to shareholders.

Turning now to each business. Slide 5 shows the results for the Institutional Clients Group. Revenues increased 4% year-over-year and sequentially, mainly driven by Investment Banking, Equity Markets and Securities Services. Expenses increased 9%, with about half of the increase driven by transformation and the other half driven by business-led investments and higher revenue-related costs, partially offset by efficiency savings. Credit costs were largely benign in the quarter, as minimum net credit losses were more than offset by an ACL reserve release. This resulted in net income of $3.4 billion, which grew 21% in the quarter and 60% on a year-to-date basis. And ICG delivered an RoTCE of 14.5% for the quarter and 18.8% year-to-date.

Slide 6 shows revenues for the Institutional Clients Group in more detail. On the Banking side, revenues were up 11%. In Treasury and Trade Solutions, continued growth in fee revenues of 20% year-over-year, the highest quarter for fees in a decade, reflected solid client engagement and client acquisition, as well as a recovery in commercial card revenues. However, all of this was more than offset by the impact of lower deposit spreads, driving total revenues down 4%.

We're continuing to see momentum across our payment business, with 15% growth in cross-border flows and 10% growth in clearings transactions over the past year. As of quarter-end, TTS loans grew 15%, mainly in trade loans where our technology investments in supply chain and deep local knowledge are enabling us to meet our clients' needs across the globe. Investment Banking revenues were up 39% year-over-year, largely driven by M&A, as we continue to see the benefits from our front office investments, which positioned us well to take advantage of increased deal activity. As Jane mentioned, this was the second best quarter for Investment Banking revenues and the best quarter for M&A in a decade.

Private Bank revenues grew 4%, driven by growth in assets under management, loans and deposits, reflecting momentum with new and existing clients. This quarter, we added almost 200 bankers, investment counselors and other front office support, and onboarded over 200 new clients. Our investments in talent continue to drive growth, which bodes well for our overall strategy in Wealth.

Corporate Lending revenues were up 17%, primarily driven by lower cost of funds and a modest gain on sale, partially offset by lower loan volumes. Total Markets and Securities Services revenues decreased 4% from last year. Fixed Income revenues decreased 16%, reflecting the continued normalization in market activity across rates and spread products. However, we saw strong activity with our corporate clients, engaging with them in foreign exchange products to support their global operations and hedging solutions to assist with their risk mitigation efforts.

Equity Markets revenues were up 40%, our second best quarter in a decade, driven by cash equities, derivatives and prime finance, reflecting solid client activity and favorable market conditions. This is another business where we see our investments in talent and technology paying off.

In Securities Services, revenues were up 10%. Here we saw strong growth in fee revenues as the investments that we've been making in our platform and product capabilities enabled us to grow revenue with both new and existing clients, partially offset by lower deposit spreads.

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Finally, looking at year-to-date results in ICG, we've seen a strong contribution from Investment Banking and Equity Markets, as well as solid results in the Private Bank and Securities Services, which help to offset the expected normalization in Fixed Income Markets.

Turning now to the results for Global Consumer Banking in constant dollars on slide 7. Revenues declined 14% and 5% excluding the loss on sale, as solid deposit growth and momentum in investment management were more than offset by lower card balances and lower deposit spreads. Expenses increased 5%, with about half driven by transformation and the remainder driven by business-led investments and volume-related expenses, partially offset by efficiency savings.

Cost of credit was a modest benefit this quarter, as a roughly $1 billion ACL reserve release more than offset net credit losses. This resulted in net income of $1.3 billion, which grew 44%. And GCB delivered a 15% RoTCE and a 21.5% RoTCE excluding the loss on sale.

Finally, looking at year-to-date results, we've seen steady improvement in our drivers over the course of the year, with purchase sales up 5% relative to 2019 and acquisitions nearing pre-COVID levels globally. And the business delivered 22.4% RoTCE excluding the loss on sale.

Slide 8 shows the results for North America Consumer in more detail. Total third quarter revenues were down 4% from last year as we continue to see headwinds from higher payment rates and deposit spreads. That said, we are encouraged by the trends we are seeing in both Cards and Retail Banking. In Branded Cards and Retail Services, purchase sales were up versus the prior year by 24% and 14%, respectively, with both above 2019 levels.

And in Retail Banking, average deposits and within that, checking deposits, were both up 14%. AUMs were up 16%, and Citigold households were up 13% this quarter. We're also making progress on our US digital strategy. US digital deposits grew 26% compared to the prior year. And installment loan balances, including our Flex Loan and Flex Pay products have also grown substantially, up 22% compared to the prior year, and over 80% of these loans are originated digitally.

On slide 9, we show results for our international consumer banking in constant dollars. Revenues declined 30% year-over-year in the third quarter. Excluding the loss on sale, revenues declined 5%, with a 7% decline in Latin America and a 4% decline in Asia. Looking at international consumer overall, we're seeing good momentum in investment management, with 10% growth in assets under management, primarily driven by Asia, and the growth is meaningfully higher if you look specifically at the four international wealth hubs. Purchase sales grew 8% versus the prior year, and average deposits grew 3%, albeit at lower deposit spreads.

Slide 10 provides additional detail on Global Consumer credit trends. Credit remains favorable again this quarter across all regions. And given the delinquency trends we're seeing today, we do not expect credit deterioration in the US portfolio in 2021.

Slide 11 shows the results for Corporate/Other. Revenues increased by over $300 million, driven by higher net revenue from the investment portfolio. Expenses declined by $300 million due to the absence of the civil money penalty which we incurred in the third quarter of last year, offset by an increase in expenses related to the transformation. Credit costs were still a benefit in the quarter but reflect the lower ACL release in the legacy portfolio relative to last year. Finally, EBT was a loss of $330 million.

Slide 12 shows our net interest revenue and margin trends, as well as noninterest revenues on a reported basis. In the third quarter, net interest revenue of $10.4 billion declined roughly $100 million year-over-year, reflecting lower loan balances and the impact of lower rates. On a year-to-date basis, net interest revenue declined by roughly $2.3 billion.

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Turning to noninterest revenues on the bottom of the slide, in the third quarter, non-NIR declined by approximately $50 million year-over-year, driven by the impact from the loss on the sale of the Australia consumer business. Excluding the loss, noninterest revenues would have grown by over $600 million or 9%, driven by strong growth in fees in ICG.

On slide 13, we show our key capital metrics. Our CET1 capital ratio ticked down to 11.7%. During the quarter, Citi returned a total of $4 billion to common shareholders in the form of $1 billion in dividends and share repurchases of $3 billion. Our supplementary leverage ratio was largely unchanged at 5.8%. And our tangible book value per share grew by 10% year-over-year to $79.07, driven by net income.

Before we move to Q&A, let me touch briefly on our outlook for 2021. On the top line, for total Citigroup, we still expect revenues to be down in the mid-single-digit range on a reported basis, excluding any divestiture-related impacts. On the expense side, we continue to expect full-year expenses to be up in the mid-single-digit range, excluding any divestiture-related impacts, as we continue to transform our risk and control environment and invest in our businesses. And we will continue to look for ways to partially self-fund these investments over time.

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 MASON: Good Morning.

JOHN MCDONALD: Mark, I wanted to ask about the net interest income. It seems like overall it came in a little bit better than you might have expected when you spoke at the Barclays Conference in September. Can you give us a little more color on what drove the improvement in the core ex-Markets NII this quarter and how that makes you feel about the setup for NII growing from here.

MARK MASON: Sure. Good morning, John. When we look at, it's on page 12, we came in at about $10.4 billion. I think there were a couple factors that play through here. One were the treasury investments that we've been making contributed to that as we put some of the excess liquidity that we have to work. The second, I mentioned earlier that we saw some loan growth in cards sequentially, Branded Cards in particular, up 3%. But also, within that, we saw some of the late fees and balcon fees in cards kind of play through. As you know, there's an extra day in the quarter. And so, the combination of those things contributed to the tick-up here that we've seen. In terms of kind of the balance of the year, that all feeds into the guidance that I've given for total revenues. And that really hasn't changed. But we continue to look to invest in the Cards portfolio through new acquisitions with the long-term perspective of how we grow loans over time there.

JOHN MCDONALD: Okay. And just as a follow-up, on capital returns, while your total return is very healthy, it doesn't look like it increased much from the $4 billion that you did in the second quarter despite the Fed lifting its restrictions. Is this something you're being conservative on, given a lot of change going on at the company right now? Or as you free up capital from the business exits, your stock is trading at a low valuation, how are you thinking about allocating that freed-up capital between investing in the business and returning it to shareholders?

MARK MASON: Yeah, sure. So, look, our philosophy really has not changed on this in terms of you've heard me say a number of times that as we generate income, as we utilize our DTA over time, as capital gets released from the transactions that we do, we want to ensure that we're able to serve our clients. We

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want to ensure that we can invest in the business. And then anything in excess of that, we want to return to shareholders. So that perspective has not changed.

Obviously, the SCB allows for us to take those decisions in the given quarter based on what we're seeing in terms of our expected performance and based on all of the other factors I mentioned, including the capital release in SA-CCR and things of that sort. And so, we'll continue to take those decisions with that philosophy in mind, which is how do we return any excess we have to shareholders over time.

JOHN MCDONALD: Okay. Thank you.

OPERATOR: Your next question will come from Glenn Schorr with Evercore.

GLENN SCHORR: Hi. Two interesting things – wonder if we'd get your quick comments on perspective. One was, you became the first custodian to receive regulatory approval in onshore custody business in China. I wonder if you could frame perspective on how material that opportunity is. And then the same kind of thing on your plans to enter the Australian Buy Now, Pay Later market and what that means for not just Australia but more globally, how you're viewing that in connection with the rest of your consumer business. Thanks so much

JANE FRASER: Thanks, Glenn. So, why don't I take that one. In terms of our operations and business in China, I'd say, we've been in that country for 100 years. We understand the dynamics in the local market well. We're currently serving a very large number of investors in that market, 70% of the Fortune 500 corporates in China, how they operate on the ground and gain access to China's capital markets. And we're looking at – we're very happy to have custody license in China. It will also help support our operations in Hong Kong, and it's part of the growth of our Securities Services strategy that we've got. You've seen the benefits starting to flow through in this quarter's results from some of those previous investments. And this is just another one of the investments that we're making in that business that we like a lot and we think we're well positioned in.

And in terms of Buy Now, Pay Later, I think this is one where obviously we're divesting our operations in Asia on that front, but we've certainly taken – we've taken the learnings from our operations throughout the Asian region, particularly been applying them to the US over the last few years. So, we've certainly not been sitting still in the US. We've been building out our personal lending platform since 2019. And that's part of our broader digitization strategy in US consumer.

We've been seeing very strong growth in our Flex portfolios, both as we leverage some of our existing partnerships such as American Airlines and we work to expand with new partners in POS. And one of the areas I'm particularly excited about is the partnering that we're doing with the largest e-commerce player, Amazon, on point-of-sale lending for our cards customers. And those capabilities are and will be leveraged with many additional partners and channels in the States and into Mexico. And finally, we've been expanding our product suite by developing off-card lending capabilities. And I think, as you've heard from Mark, our payments on installment loans to existing card customers, 88% of those total sales are in digital channels.

So as we look at all of this, I would say, clearly, there's a trend towards multiple different formats of how a customer can and wants to pay, and we're really on the front foot of this and making some strong progress on the back of the investments that we've been making over the last few years, and we'll continue to do so.

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

BETSY GRASECK: Hi. Good Morning.

MARK MASON: Good Morning.

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BETSY GRASECK: Wanted to understand a little bit more about what you think you can do in the US cards business. I know we just spoke a little bit about some of the things that you have been executing on, but when I look at the card business, while it's up on a year-on-year basis, it is trending a bit below some of the peers in terms of growth rates. And then you've got the retail partner card program which has some opportunities there to, in my opinion, get a little bit of a refresh to be as dynamic as some of your best-in-class peers. So wondering how you're thinking about that.

And as well on the deposit side in the US with Google now – partnership not going forward, what are you thinking about with regard to leveraging your mobile app across the US in a way that might not be understood well by the investor community? Because it seems like you've got a great app and it's just under-penetrating your opportunity set with your brand.

MARK MASON: Thanks, Betsy. Betsy, why don't I get started and Jane may want to jump in. And I'll start with kind of your comments related to cards. And so, look, as I mentioned in my prepared remarks, particularly when you look at US Branded Cards, we did start to see a tick-up there as it relates to loan balances. The loans were up about 1% year-over-year. They were up about 3% quarter-over-quarter. What I think is really important here is the market re-entry because as you're seeing, purchase sales are up but payment rates are still quite high. And we've got to see how stimulus and liquidity plays out over time.

And so, what we're focused on is how we're re-entering into the market. And we're doing that both through our Custom Cash launch, which is helping to drive new acquisitions. In fact, our new acquisition volumes are back to 2019 levels. Over half of those acquisitions are in proprietary cards. We're being thoughtful about that. So over the last five years, we've been shortening our promotional periods and adding higher fees for balance transfers and targeting a lower mix of promotional balances. And those things, as you know, will feed future average interest earning balances, as our experience is that roughly half of those balances ultimately convert to revolving over time. So, that's an important step.

The second thing that I'll mention is, just to reiterate what Jane pointed out, which is we're thinking about lending more broadly. And we're driving growth on card lending products like Flex Pay and Flex Loan. And those don't have promotional periods associated with them, and they start to generate interest from day one. And so, we're keenly focused on this. We're obviously a big player here. It's obviously an important part of our portfolio and generates healthy returns. But we need to be positioned to capture growth as the economy continues to recover and behavior normalizes, and we need to be prepared if behavior doesn't normalize as quickly as we'd like with things like broader lending products.

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

JIM MITCHELL: Hey. Good morning. My question maybe just focused a little on rates. I think we're so focused on US rates, but given your global exposure, we've seen rate hikes in Mexico, Brazil, now we're contemplating rate hikes soon in the UK. How do we think about your rate sensitivity to the rest of the world? And do you see some benefits coming up over the next few quarters on the NII side?

MARK MASON: Yeah. Look, I mean, we have seen a number of rate hikes and then the talk of rate hikes here in the US. As you look at kind of our IRE that we report, we're not that sensitive to the short end or long end. But that said, rate increases are beneficial for us. And so, we are – we've got a lot of liquidity that's available for us to invest as we see rates increase but, also, have enough dry powder to ensure that we're taking advantage of client demand as that starts to return as well. But for our firm, as you pointed out, the global impact to rates is quite important and increases internationally help to fuel our performance in parts of the franchise like TTS and elsewhere.

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

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KEN USDIN: Hey. Good morning. Mark, thanks for your update on just the reiterated cost guide for this year. And I know probably too early to talk about next year, but can you just help us understand just the moving parts underneath incentive comp transformation and what we should be thinking about in terms of just run rate costs from here. If we can even stay away from just kind of like what next year growth looks like. But any color, the question is coming up a lot for sure across the large bank group in terms of acquired investments versus other things going on at the bank. Thanks.

MARK MASON: Yeah, sure. So, look, let me start by saying, as I pointed out in prepared remarks, our expenses in aggregate are on guidance, so to speak, both as it relates to the transformation expected spend which year-to-date is up 3%, as well as our total expenses which are up 5% year-to-date, again consistent with the guidance. As I think about this, those are two very important categories of spend. As Jane has pointed out, transformation is our top priority and we're going to spend what's necessary to get that done. And we need to ensure that we're investing long term across the franchise. And so, we're going to continue to do that.

But I would also highlight that expenses is something that we control, right? So, we are very deliberate about the spend that you're seeing. And in fact, I'm scrubbing, we are scrubbing every single expense line that we have, right, to ensure that the dollars that we're putting to work are being put to work in an optimal fashion, that they're necessary dollars to be spent. And in doing that, we're also looking for productivity and efficiency opportunities. And in fact, we've seen that play through the expense levels that you see today.

If you look at – if we – as we look at our expenses, we've generated somewhere between $300 million and $400 million a quarter in efficiencies through 2021, right? So expense management is something that we're very disciplined about, we're very deliberate about, and we handle that in a very controlled fashion, recognizing the priorities that we pointed out.

I'm not going to give you guidance for 2022. I will tell you that our guidance hasn't changed for the balance of 2021. We're obviously in the middle of our budget season, right? And as we firm that up and finalize that, we'll share that with you and our investors more broadly.

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

MIKE MAYO: Hi. My question is for Jane. Jane, you said on this call it's a new Citigroup. And I'm just referring to the 8-K from August where it announced a bonus scheme for top executives. Apparently, that will be broadened out to many more. And so, we as shareholders and those who represent shareholders, we see this bonus scheme before we see the targets. So, I guess my question is, do you have the targets? And if so, can you reveal those? Although I suspect that won't be until March 2nd. Or do you not have targets yet or what's happening? Because either way, it doesn't feel good for us investors. Thanks.

JANE FRASER: Oh. Well, Mike, I'm actually really glad you brought this up, as we obviously saw your note the other day. If you bear with me for a minute, let's just take a step back and start with our compensation philosophy because I think it's really important for our shareholders to understand this. So the compensation of the management team is designed to be performance based. It's aligned with the interest of our shareholders most importantly. So, first, any of the deferred awards we have downside built in, and we clearly saw this last year in the PSU performance, which paid out only 28% of its target. And then secondly, the annual process holds management accountable for our results, as we also saw last year with meaningful comp reductions resulting from the consent orders.

So then, if we then turn to the transformation program. As I said in the opening, there isn't anything that's more important than the successful execution of the program. It's our number one priority. We want to make sure the bank is modernized in its risk and control environment and it will also benefit our shareholders in terms of the performance of the bank. The board and I hold the senior leaders driving that transformation accountable for its successful execution. I'm certainly driving this program with urgency. And I also need to retain key talent because it's a pretty tight talent market right now, as we all know. And we need to do this

so that we can hit the milestones and to deliver with excellence. So to hold people accountable and drive the outcomes, we need both carrots and we need sticks.

And to your question, we're going to put in rigorous metrics to determine if the rewards get paid out at all and, if so, what percentage will be paid out. And we laid out the criteria in the 8-K, and the final metrics will be ones that reflect input from the board, from myself, and the other stakeholders involved. And we'll make – and those were obviously disclosed in the proxy, et cetera. So you'll see them. So as you can see, I think, the main message from me is there will be consequences if we fall short of what is expected, just as there were last year for the management and the leaders of the program. I'm accountable. My team is accountable. And very simply, we must and we will deliver.

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

EBRAHIM POONAWALA: Good morning. I just wanted to, Jane, go back to, you mentioned disappointment at Google Plex pulling out. Just talk to us in terms of, did you view that as a critical client acquisition tool? And given that that's not moving forward, does that put some urgency in terms of other partnerships that you may strike to improve sort of the deposit gathering efforts?

JANE FRASER: Yes. As I – obviously, as I said in the opening, we were disappointed in their decision. But it is just one part of our digital strategy. We certainly didn't have all the eggs in that basket, as we've been talking about for a few quarters now. And what I am pleased is the strength of the digital engagement that we are seeing across the US, it's lagged other geographies around the world across the industry on this dimension, and also the growth in sticky digital deposits that we're seeing in the US.

The piece I like is we deliberately invested in very reusable capabilities for future partnerships and existing ones that we have, as well as our own proprietary efforts. So if I can try and make that comment a bit alive. We've added 80 APIs, which really make it very easy to operate with partners. We've developed a whole suite of embedded services that are ready to deploy. That's things like real-time digital alerts, partner branded communications. And probably most importantly, maybe this is the geek in me, we put together new tech stacks and we've learned a lot about doing this. But it's very valuable for what we're doing right now and for partnerships going forward.

So at the end of the day, I think all the things that we've been doing, both in some of the work with Google but also with partnerships around the world, is going to further our digitization strategy in US consumer, continue helping us grow and drive the returns here. And, I would say, we're always feeling urgency in improving the performance, the growth and returns in consumer franchises. Thank you.

OPERATOR: Your next question is from the line of Matt O'Connor with Deutsche Bank.

MATT O'CONNOR: Good Morning.

MARK MASON: Good Morning.

JANE FRASER: Hey there, Matt.

MATT O'CONNOR: So you submitted a plan to the regulators this quarter. Can you just give us a sense of when you expect to hear back from them and then what kind of things you'll be able to communicate to all of us. I know there's always limited abilities in what you can discuss about the regulatory stuff. But what are some of the data points that you're looking for internally and what – and when do you think you can share?

JANE FRASER: Yes. I mean, I think, as you heard from me, this is our number one priority. I think it's for the benefit of all of our stakeholders that we get this done with excellence and we get this done right. And as we said, we submitted our plan in the third quarter. I'm personally very proud of it. It is a multiyear plan. As Mark said, it comprises six major programs, and it will position us to operate with excellence in the years

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ahead in a digital world. And in particular, it provides very clear target stakes for our risk and controls and for our core operating model elements.

As we've said, we've now firmly pivoted to executing that plan. And I have to say, we have a very constructive and frankly a really helpful dialogue that's been ongoing with our regulators. So, it's not as if you submit and then you haven't spoken. This has been very constructive all the way through.

In terms of execution, we're kind of going full steam ahead here. I'm really pleased with the caliber of talent we've brought in from inside and outside of the firm, as Mark talked about, so we can ensure that we're executing with excellence. Some of the areas are new hires in data. And I think, importantly, we're putting as much effort on culture as on modernization. Karen Peetz and her team are ensuring we have the capabilities and rigorous governance, so we're executing in a very disciplined way. We deliver the outcomes from the investments we're making.

We put in a new accountability framework. And I have to say, our board is certainly holding us firmly and regularly to account. So, we'll be sharing more details obviously at Investor Day and as we go through this, but I think the main message from me is we pivoted to execution and we're getting on with this.

OPERATOR: Your next question is from the line of Vivek Juneja with JP Morgan.

VIVEK JUNEJA: Hi, Jane. Just wanted to clarify on this compensation 8-K that you talked about. You obviously have – you've always had bonuses for short-term and you've had long-term incentive comp that you always paid your executives, similar to everybody else. So the transformation project seems to be over and above that. Shouldn't that be part of what long-term compensation and incentive awards are meant for? I'm trying to understand what the logic behind adding an additional payment here is, because that's what management has already been partly compensated for, which is longer-term moves and changes in performance.

JANE FRASER: Look, I think it's exactly as I – well, first of all, thank you. Thank you, Vivek. I think as I said earlier in answer to Mike's questions, we want to drive the program with urgency. We need to retain key talent, and it is a very tight talent market, as you know. And I want to make sure that the – that there's no question from anyone involved in these – in the programs that this is their number one priority for the bank to execute this with excellence. But there are both carrots and sticks here, and those come through the individual program and the individual assessments that everyone participates in every year, as well as in this piece. So, I think this is fully aligned with the shareholders' interest. You want to have management really incented to deliver this with excellence but equally with all the downsides if we fail to do so. And the program is designed to do just that.

OPERATOR: Your next question if from the line of Andrew Lim with Société Générale.

ANDREW LIM: Hi. Good Morning.

MARK MASON: Hi.

ANDREW LIM: Thanks for taking my question. So it's a bit of a technical one. Wondering if you could give a bit of a color on the SA-CCR implementation for the CET1 ratio in terms of the quantum of the impacts and the timing of the implementation. Thanks.

MARK MASON: Sure. Thank you. So, look, we're working towards the mandatory compliance date, which will be January of 2022. We've not adopted SA-CCR early and we don't plan to. Obviously, the impact can range from impacting risk-weighted assets to impacting one's G-SIB score. But like I said, we're working through that now. I'm not prepared to share that with you, but it is a factor in how we're doing our planning. And we'll share that when we adopt it at a later date.

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

GERARD CASSIDY: Good morning, Jane. How are you?

JANE FRASER: Hey.

GERARD CASSIDY: Can you guys share with us, in looking at your Global Consumer Banking business in North America in your supplement, I think it's page 8, you guys gave us a nice breakdown between the Retail Banking, Citi-Branded Cards and Citi Retail Services. And I noticed that in Retail Banking, there was a loss in the quarter. And can you just give us some color on what's maybe driving that and just the outlook for that part of the business. Thank you.

MARK MASON: Yeah. On the Retail Banking performance, the drag there is in part the higher expenses from the transformation spend that's playing through and impacting income there.

GERARD CASSIDY: Thank you.

OPERATOR: Your next question is from the line of Mike Mayo with Wells Fargo Securities.

MIKE MAYO: Hi. Just wanted to follow up again, a follow-up to my other question and as Vivek expressed. Jane and Mark, you've mentioned that you have to serve regulators, number one. I think that's clear to everybody on this call. And then you mentioned serving stakeholders. But I think the question really gets to what's being done for shareholders? And shareholders have been left behind at Citigroup over almost any timeframe. And, Mark, maybe I might disagree with the philosophy a little bit and your philosophy set is first serve clients, then invest in the business, then you do buybacks. Why should you have any change in your philosophy is because the discount to book value is just getting greater and greater. Your discount versus peer has increased. Citi has worst-in-class returns, adjusted efficiency and stock market valuation. So why not a little change in that philosophy to more buybacks versus investing if you have such a great opportunity with your share price?

So what can you do from a symbolic nature, like, everyone gets paid in stock? Or what can you do about the capital freed up from the sale of Australia and use all that to buy back stock? Or what can you do to show that, obviously regulators matter, stakeholders matter, but what can you do to show that shareholders also matter given such the underperformance of the share price? And then, since you're only giving one question at a time, just a little bit more follow-up on your US consumer strategy as far as digital deposits, cross-selling to credit cards, point of sale with Amazon, a little bit more on that. Thank you.

JANE FRASER: Okay. Mike, it's Jane, let – obviously. Let me kick this one off. Unequivocally, our shareholders are incredibly important to us. And when we look at where we're trading and the underperformance around that, it is something that we are determined in the strategy refresh, in the transformation work we're doing, and in the culture and talent work we're doing to address this. We're going to do what is necessary to narrow the gap with our peers. We're going to ensure we have the right business mix and strategies to drive up the returns, and you're starting to see where that is – where we're headed to with that from the different decisions we've already announced. And obviously, it will all come together on Investor Day.

But secondly, we're also going to do it by running the bank better. And we've laid out on page 3 of the presentation what are the different priorities so that our investors realize the value that we think lies in Citi and what we are going to be doing to unlock that for their benefit. And I think it – I hope it's pretty clear in terms of the framework that we're using and the principles around that.

And in terms of, as Mark said, from a – not only unlocking the value that we see in Citi, which I really do think is pretty tremendous and I'm quite excited about, it's also then what will we do with our excess capital. You've heard me say, given where we trade, so disappointingly below book, obviously, share repurchases

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make sense for our shareholders. We also do have a healthy dividend yield, but that's an important part of the mix. But there's no question around the attractiveness for shareholder relatively of the stock buybacks.

And we will certainly be returning excess capital to our shareholders and be very mindful of the bar that is required for investment internally. And you've seen that with the decisions that we've made on the exits in Asia on consumer and some of the other moves, that we will exit the businesses we think are lower returning and reinvest where appropriate. But we'll return that to shareholders. And I can see my CFO is champing at the bit here to jump in as well.

MARK MASON: Yeah. Thanks. And I just – I think you answered it very well, I'll just add a couple of quick things. One, that when we invest in the business towards clients or more broadly in the business, we're doing it where returns are above our cost of capital. So we're making smart decisions about how to redeploy that capital to ensure that we're narrowing that gap to peers.

The second thing I'd point out is that in the first couple of quarters of the year, we've maxed out the capital return that was available for us to deliver before the SCB came into play, and that is because our shareholders are so important. And then the third, as Jane mentioned, is that we have a skew towards buybacks, again, just given where the stock is trading and given where our dividend yield is. So thank you for the question.

OPERATOR: Your final question is from the line of Steven Chubak with Wolfe Research.

STEVEN CHUBAK: Hey. Thanks for squeezing me in here. Good morning, Jane and Mark. Jane, I was hoping to just ask on the wealth management opportunity. This is an area where we have great competitive intensity. You have a large – many large peers have been investing heavily in this space for years. And I know you're going to cover some of this at Investor Day and provide more detail, but just at a high level, I was hoping you could speak to what differentiates Citi's value prop from some of the peers in the space, whether you have the technology or infrastructure in place to support some of your growth ambitions. And then just lastly, whether you can engage in M&A or is that precluded under the consent order if you were to look to expand into that arena inorganically.

JANE FRASER: Yeah. Thank you so much, Steven. So, I'm pretty pleased around our opportunities here because we have all the pieces to be very successful. We have a strong brand in – amongst the affluent, not just here in the states off our Retail Banking franchise, we've got a very – we've got a pretty heavily affluent base, but around the world and when you go into Asia, in particular, this is the aspirational wealth management brand on the ground there.

We've also got real breadth of client relationships, and this is where the connectivity points also become important in those four principles that we laid out for the strategy refresh. We have commercial banking operations in 30 geographies around the world that have been operating for many years now. This is the engine of wealth creation in the world, and we have the relationship with the owners already.

so the synergies that we will be able to generate by much more closely connecting them will be very important. Similarly, the elevator from the affluent client base in our consumer franchise, all the way up to the ultra-high net worth in the Private Bank is obviously a natural area to build out that we haven't really invested in that elevator and thinking of it that way.

We have a great – we have some great platforms. Our Institutional Clients business around the world means that we've got top two platforms for our private banking clients, in particular, to take advantage of, but it's also ones that our consumer clients have as well. So the opportunity here is to bring all these different pieces together into a single integrated offering across the full spectrum of clients in the US and in the global offshore wealth centers.

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And I would also point the fact that we're already the top three player in Asia. It's not as if we don't have scale and that this is a start-up business here. And we're already seeing that this is coming into fruition quickly. We obviously announced the focus on Wealth at the beginning of the year. We've already acquired 21,500 new-to- bank clients in Asia so far this year, that we've added over 500 bankers, advisors and other front office support year-to-date. We've done one of the biggest tech releases for Wealth in the third quarter of this year, with over 70-plus features going live on the back of the digital platform we launched last quarter.

So, I think the fact that we've got all these different pieces, we're putting them all together, is really giving us momentum and accelerating the opportunity for us. And this is a trend. The Wealth trend is going to be one that is one of those unstoppable trends, particularly in Asia in the years ahead. We'll look at acquisitions at the moment. Obviously, it's more focused around what are digital capabilities, what are other things to enhance the value propositions and the technological side. And those aren't just acquisitions, it's partnerships and the like that we've been investing in so that we really serve the wealthy clients across the full spectrum of their needs rather than just narrowly as some of the other players are in just the sort of investment products. We've got the benefit across the board.

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

JENNIFER LANDIS: Thank you all for joining today's call. Please feel free to reach out to IR with any follow-up questions. Have a great day. Thank you.

OPERATOR: This concludes Citi third quarter's earnings call. You may now disconnect.

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