TRANSCRIPT

Citi Fourth Quarter 2021 Earnings Review
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Host
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Speakers
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Mark Mason, Citi Chief Financial Officer

PRESENTATION

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

Ms. Landis, you may begin.

JENNIFER LANDIS: Thank you, operator. Good morning, and thank you all for joining 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.

With that, I'll turn it over to Jane.

JANE FRASER: Thanks, Jenn, and Happy New Year, everyone. I am delighted to join you again today. Well, we've been busy, and we have a lot to talk about today. I'm going to start with an update on our strategy refresh. Then, I'll share my thoughts on our fourth quarter, and end on all the progress that we've made against our major priorities.

As you saw earlier this week, we announced that we intend to focus our franchise in Mexico solely on our Institutional and Wealth Management businesses, and therefore, to exit the consumer, small business, and middle-market banking operations there. This was not a decision we took lightly. We took a clinical look at our franchise in Mexico, and we drew the hard conclusion that the non-institutional businesses do not fit our new strategic direction. Now, to be clear, these are terrific, they're scaled, high-returning franchises, but our strategic goal is to invest in businesses that are fully aligned with our core strengths and to simplify our firm.

As we did the work, it was also clear that there continues to be a tremendous opportunity for our Institutional Clients Group in Mexico. Citi is Mexico's leading institutional bank. We've served corporate clients and investors there for almost a century, and that isn't going to change. Mexico has a bright future, and we are committed to playing an important role in building it. We expect Mexico will be a major recipient of global investment and trade flows in the years ahead. Therefore, we plan to maintain a significant, locally-licensed bank there and invest to capture growth in a core and high-returning hub of our institutional network.

This won't be a simple transaction. We have spent the last several months working through how to get the best results for our shareholders and be true to our local stakeholders. We will begin the separation process immediately and expect to begin the sales process in the spring, and of course, there will be an opportunity to return excess capital from the transaction to our shareholders. This is our final decision in terms of market exits as we conclude our strategy refresh and approach Investor Day.

I'm really looking forward to talking to you about the future Citi on March 2. Today, we are going to talk you through the changes we are making to align our organization and financial reporting with our refresh strategy. These changes will also allow us to reduce structural complexity and its associated costs. Amongst other things, this is going to help make Citi easier for our investors to understand. You'll be able to see and assess more simply the core businesses that make up Citi going forward.

First, we are creating a new Personal Banking and Wealth Management segment which will be run by Anand Selva. This will consist of two distinct reporting units, our US Personal Banking businesses and our Global Wealth Management business which is going to include the Private Bank. Second, on the institutional side of the house, which will continue to be run by Paco Ybarra, we will begin reporting under three units, services, banking, and markets. Services will include Treasury and Trade Solutions and Security Services, and this reflects just how important we believe these businesses are to Citi's future.

Finally, we will create a new segment, Legacy Franchises, which will house all the businesses we intend to exit. We're going to begin reporting our financials along these segments and reporting units no later than the second quarter to ensure you have the information you need to measure our progress and hold us accountable, and we really look forward to sharing our strategy and plans for how these businesses will work together and deliver for our shareholders on Investor Day in March.

Now, turning to earnings, we had a decent end to 2021. As you can see on slide 2, we closed out the quarter with net income of $3.2 billion and EPS of $1.46. That includes a $1.2 billion hit to EBIT primarily related to the winddown of our Korean consumer business. Excluding those impacts, our net income would be $4.2 billion with an EPS of $1.99. Our net income for the full year of $22 billion reflects an improved credit environment and we had a resulting RoTCE of 13.4%.

In ICG, we had another strong quarter in Investment Banking and gained share for the year in M&A, and we continued to make significant investments in talent and we see a very solid pipeline of transactions ahead of us.

Now, while we could have had a better balanced performance in Fixed Income in the quarter, equities finished 2021 up 25% for the year. The rebound TTS is seeing in trade flows and cash volumes wasn't quite enough to offset the current rate environment, but it bodes well for 2022. Indeed, we think the cycle has turned for this business and it is poised to benefit as monetary policy changes and growth accelerates. You've heard Mark and I talk about improving the revenue mix of our Institutional businesses as a priority, and it's yielding results with another quarter of strong momentum in fee growth across products.

Lots of our consumer businesses are still weathering COVID disruptive impact on customer behavior. In the US, strong purchase sales continued to be offset by elevated payment rates, but we did see loans increase in Branded Cards this quarter. Deposits and AUM continued to grow, with digital deposits up nearly 20% for the full year. For the year, we returned nearly $12 billion in capital to our shareholders and we grew our tangible book value per share by 7% to $79.16. We ended the year with a CET1 ratio of 12.2% on a standardized basis as we built the capital needed to absorb the impact of SA-CCR.

Now, keep in mind that regulatory change didn't take effect until January 1. While this caused us to temporarily pause our stock buybacks, we will resume buybacks this quarter now that that impact has been addressed.

Finally, as slide 3 shows, we are executing and delivering against our priorities, a strategy refresh, the transformation, and our culture, and we are doing so with a real sense of urgency. First, on the strategy, we are laser-focused on swiftly and successfully implementing the strategic decisions we made over the past year to improve returns to our investors. We have signed deals in six of the Asia consumer markets, including the agreement to sell four markets that we announced yesterday. This means that within eight months of making the decision to exit these 13 businesses, we have a clear path in a majority of them and we are well into the process in the remaining markets.

In Korea, we were decisive in determining the best path for our shareholders was the wind down our consumer operations and were able to get most of that charge behind us this quarter. Another area where we haven't wasted any time is Wealth Management, where we grew our ranks by a net 800 advisors, relationship managers, and others over the course of the year. They helped us add about 750 Private Bank clients and 45,000 Citigold clients in 2021.

In what we've known as US Personal Banking, we're seeing good uptake of new products such as the Custom Cash Card and we've been building out digital platforms to capture opportunities in Installment Lending. And in addition to the progress we're seeing in TTS, we've also been building out our Security Services platform. We couldn't be more pleased to deepen our relationship with BlackRock by becoming the largest custodian with their iShares ETF.

Second priority, we continue to execute on our transformation agenda in order to demonstrably strengthen our risk and controls as well as modernize our bank for a digital world. This work, it's foundational to everything we want to achieve. We are enhancing our operating model to improve long-term efficiency and our service to clients. As it relates to the consent orders, we are deep into execution mode. We continue to be in constructive dialogue with our regulators as we get their feedback and incorporate it into our ongoing execution and project plans.

Third, and relatedly, we are building a culture that expects excellence and demands accountability. We're driving this effort in a variety of ways, including a more robust performance management process at this past year end, shifting the mix of compensation to better align with shareholders' interests, and various culture-changing initiatives.

A culture of excellence also means creating a record of achievement that our people can be proud of. One area that our people take particular pride in is our ESG efforts. Later this month, we will share with you our plan to reach net zero by 2050, a commitment I made on my first day as CEO, 10 months ago. And of course, we are going to do all this with a singular focus on our clients as we help them navigate COVID. We certainly hope Omicron is the final disruptive phase of this pandemic, but there are also quite a few other issues to navigate, whether macroeconomic such as inflation or geopolitical such as tensions with Russia. We have seen the resilience and the importance of Citi as we supported our clients through uncharted waters and we will be with them in the next chapter as well.

So now, I'd like to turn it over to Mark, and then we would be delighted to take your questions.

MARK MASON: Thanks, Jane, and good morning, everyone. We have a lot to cover on today's call. I'm going to start by walking you through the financial reporting changes we plan on making in more detail. Then, I'm going to walk you through the 2021 financial impact from the 13 Asia market exits, as well as Mexico, and changes we are making to our financial disclosure, and then finally, the quarterly results.

As part of our strategy refresh, we've started to make changes to better align with our vision and strategy. We've refreshed our earnings presentation and included additional metrics and key drivers for the ICG businesses. Our goal is to simplify our financial reporting to make it much easier for our investors to understand our performance and our key assets.

Turning to slide 4, we lay out the details of the changes in financial reporting that Jane mentioned. First, we intend to move the consumer, small business, and middle-market banking operations of Citibanamex and the 13 Asia consumer exits under a new segment called Legacy Franchises. This will allow you to better understand the financials of the remaining company that will exist post these exits. We've experienced managing businesses being divested and are putting a dedicated team in place to manage the new segment. This will free up the management teams of the go-forward businesses to fully focus on executing on the firm's strategy.

Second, we are reorganizing our reporting units to help you better understand the financials of our businesses and the value they bring to Citi. Starting with ICG, we will move TTS and Security Services to a reporting unit called Services. These businesses are foundational for us as they have a unique position given their global footprint and full suite product offering. Markets will therefore no longer include Security Services and instead will only include equity and fixed income markets.

And lastly, on ICG, banking will only include advisory, equity underwriting, debt underwriting and corporate lending. The Global Consumer Bank, GCB, will be renamed Personal Banking and Wealth Management, PBWM. The Private Bank will move from ICG to PBWM.

As a reminder, we announced in January of last year that we created a single wealth management organization under Citi Global Wealth now called Global Wealth Management, which is a distinct reporting unit. The creation of this unit unifies the wealth management teams creating a single integrated platform serving clients across the wealth continuum from the affluent segment to the ultra-high net worth clients.

North America Consumer will but renamed to US Personal Banking and will remain a reporting unit under PBWM. This unit will continue to include Branded Cards, Retail Services, and Retail Banking. We plan on providing the financials for the new reporting units on this page under the ICG and PBWM segments starting no later than the second quarter earnings. And our Investor Day will be a natural opportunity to bring together all the work over the past year and lay out our medium-term vision and strategy for the firm.

Slide 5 shows the contribution of the Citibanamex businesses that we plan to exit as well as the contribution from the 13 Asia markets. Hopefully, this gives you a better sense of the financial results for the combined exits, and in the appendix on page 18, we have more detail on the 13 Asia exit markets and the deals that we've announced to date.

Turning to Mexico, as Jane mentioned, we remain committed to Mexico and will continue to serve our Institutional and Private Bank clients there. That said, upon very careful consideration and analysis, we decided that we are no longer the optimal owner for the businesses that we're exiting. The Mexico consumer and small business banking operations included in the intended exit represents the entirety of the Latin America Global Consumer Banking unit and the Mexico middle-market banking business that is currently included in Citi's Institutional Clients Group segment.

On the left side of the page, we show key figures for 2020 and 2021 for the businesses we intend to exit in Mexico. In 2021, the businesses contributed $4.7 billion of revenue and $1.1 billion of net income. The businesses in total had $20 billion of loans, $31 billion of deposits, and approximately $4 billion of allocated TCE.

Again, we do not yet have a transaction and are pursuing multiple divestiture paths, so the ultimate financial impact of a transaction is not yet known. We will keep you updated on our progress as we run a thoughtful process that takes into consideration what is in the best interest of our shareholders as well as our clients and employees in Mexico.

In addition to the opportunity to return additional capital to shareholders, these divestitures will also allow us to simplify the management and organizational structure across the firm.

Now turning to slide 6, as we've gone through our strategy refresh and simplification, we've been reviewing our disclosure and terminology and have decided that now is the right time to more closely align with our peers.

First, revenue that we previously referred to as Net Interest Revenue will now be called Net Interest Income, and revenue that we previously referred to as Non-NIR will now be called Non-Interest Revenue.

Second, as you can see on the page, we've revised how we account for insurance paid on our deposits, including FDIC and foreign deposit insurance. We have previously accounted for the deposit insurance as a contra revenue in Net Interest Income. However, beginning this quarter, we will report it as an expense and remove it from Net Interest Income. And as a reminder, this change is earnings neutral.

We've made this change to make it easier for you to compare us to our peers and we have revised prior years to reflect the same reporting treatment to assist with comparability for 2019 to 2021, and the rest of the presentation will also reflect these two changes.

On slide 7, we show financial results for the full firm. As Jane mentioned earlier, in the fourth quarter, we reported net income of $3.2 billion and an EPS of $1.46 and RoTCE of 7.4% on $17 billion of revenues. Embedded in these results are costs of approximately $1.2 billion primarily related to the voluntary retirement program we offered in conjunction with the wind-down of our Korea consumer business as well as some additional Asia exit impacts which I will collectively refer to as the Asia divestiture impacts going forward. Excluding these impacts, EPS would have been $1.99 with an RoTCE of approximately 10%.

In the quarter, total revenues increased by 1% from last year as strength in Non-Interest Revenue driven by ICG, specifically TTS, Security Services, and Investment Banking was mostly offset by lower Net Interest Income across GCB and ICG. Our results include expenses of $13.5 billion, an increase of 18% versus the prior year. Excluding the Asia divestiture cost, expenses would have increased by 8%.

Increased expenses were largely driven by investments in our transformation, business-led investments, and higher revenue-related expenses partially offset by productivity savings. Cost of credit was a net benefit in the quarter, primarily driven by an ACL release of approximately $1.4 billion related to the improved macro backdrop and continued improvement in portfolio quality.

Now turning to the full year, our revenues were down 5% driven by the normalization in markets, as well as elevated payment rates in consumer, somewhat offset by strong Non-Interest Revenue growth across ICG and in particular, in Investment Banking, TTS, and Security Services. Our full year expenses were up 9%, but excluding Asia divestiture costs, our expenses were up 6%.

Also for the full year, we generated RoTCE of 13% and 14% excluding Asia-related divestiture impacts. As a reminder, we had a benefit of close to $9 billion in ACL releases for the full year.

On slide 8, we show an expense walk for the full year with the key underlying drivers. In 2021, excluding Asia divestiture impacts, expenses were up 6%, in line with previous guidance. Looking forward, we recognize that we have a lot more work to do. The divestitures provide an opportunity to simplify our management and organizational structure. We're also taking a hard look at our structural expenses with an eye towards operating as efficiently and soundly as possible and self-funding investments. We have a lot more to say about this at our Investor Day.

On slide 9, we show Net Interest Income, deposits, and loans. In the fourth quarter, Net Interest Income increased by approximately $130 million on a sequential basis driven by North America Consumer. Sequentially, net interest margin remained relatively stable. On a year-over-year basis, Net Interest Income was flat. Also on a year-overyear basis, average deposits grew in the quarter as we continued to deepen relationships with our institutional clients as well as our consumer clients, particularly in North America. Average loans were roughly flat year-overyear as growth in the ICG was offset by a decline in GCB.

As the probability of higher rates has increased over the last few quarters, let me make a few comments regarding the potential impact from higher rates. In our 10-Q, we disclosed interest rate sensitivity assuming a parallel shift and a run-off balance sheet. This is different from our peers methodology which tends to assume a static balance sheet. Assuming a static balance sheet and a 100-basis point parallel shift, we would expect Citi's total Net Interest Income across all currencies to increase by over three times more than what was disclosed in our third quarter 10-Q, or roughly $2.5 billion to $3 billion of Net Interest Income.

On slide 10, we show our summary balance sheet and key capital and liquidity metrics. We maintain a very strong balance sheet. Of our $2.3 trillion balance sheet, about 25% or $530 billion consistent of HQLA, and we maintain total liquidity resources of approximately $960 billion, and we continued to optimize our balance sheet deploying excess liquidity into securities as we took advantage of opportunities in the market, as well as reducing our shortterm and long-term debt sequentially and year-over-year.

On the loan side, corporate loans represent approximately 60% of total loans, with loans to corporates outside of the US representing approximately 30% of total loans. And as we've mentioned in the past, about 80% of our total corporate loans are investment grade.

From a capital perspective, we ended the year with a CET1 ratio of approximately 12.2% as we prepared to adopt SA-CCR on January 1. Having adopted SA-CCR and maintained our capital ratio target, we're resuming buybacks this quarter to similar levels to what you saw in the second and third quarter of 2021.

As we look into the remainder of the year, there are a number of variables with respect to capital. These include regulatory headwinds that are impacting us along with the rest of the industry such as elevated GSIB surcharges, as well as the timing and impact from the divestitures of the 13 Asia exits and Mexico.

In light of this, you should expect us to manage to a CET1 ratio closer to 12% by the end of the year due to the expected GSIB surcharge increase at the beginning of 2023. That said, we remain focused on all aspects of capital with the goal of maintaining a CET1 ratio of 11.5%. And as you know, under the SEB framework, we can assess on a quarter-by-quarter basis the right level of buybacks and we will continue to do so throughout the year with a goal of returning excess capital to shareholders.

On slide 11, we show the results for our Institutional Clients Group for the fourth quarter. Revenues increased 4% year-over-year driven by Investment Banking, Private Bank, and Security Services fees, partially offset by a decline in markets. Expenses increased 10% year-over-year driven by transformation, business-led investments, and revenue-related expenses partially offset by productivity savings.

Cost of credit was a net benefit of approximately $300 million as net credit losses were more than offset by an ACL release. And we continue to see strong credit performance with net credit losses declining on a year-overyear basis and nonaccrual loans down sequentially and year-over-year. This resulted in net income of $2.5 billion, down approximately 22% from the prior year largely driven by the higher expenses and a smaller ACL release versus the prior year. And ICG delivered a 10.8% RoTCE for the quarter.

We also saw 5% growth in both loans and deposits on a year-over-year basis as we continue to see good momentum and deepening of existing client relationships and new client acquisitions. As for the full year, ICG delivered approximately $16 billion of net income on $44 billion of revenue with an RoTCE of roughly 17%.

On slide 12, we show revenue performance by business and key drivers for our ICG business for the fourth quarter. Treasury and Trade Solution revenues were slightly down versus the prior year driven by continued headwinds from rates offset by 18% growth in fees. In fact, our highest fee quarter ever, and revenue did increase sequentially driven by both Net Interest Income and strong fee growth.

We continue to see strong underlying drivers in TTS on a year-over-year basis that indicate continued strong client activity. Since this is the first time we're showing key metrics that demonstrate this momentum, I want to briefly walk you through each one and what it represents.

US dollar clearing transactions are up 4% which reflect the clearing and settlement activity of commercial and treasury flows for financial institutions. Cross-border flows were up 15%. These flows represent our global payment flows where we provide cross-border solutions for our clients that are fully integrated across our TTS and Markets business in over 145 currencies, and importantly, this client activity drives recurring fee revenues and generates significant operating deposits.

Commercial Card volumes, which reflect travel, purchase, and virtual card activity across all clients are up 48%. Again, these metrics are indicators of client activity and fees, and on a combined basis drive approximately 50% of total TTS fee revenue.

Investment Banking revenues are up 43% year-over-year driven by growth across products including record advisory performance, the best advisory quarter we've had in over a decade.

Private Bank revenues were up 6% year-over-year as we continue to see strong momentum in new client acquisitions. Overall markets revenues were down 17% versus last year, and while there were different dynamics that played through Fixed Income and Equity Markets performance, the performance is against a very strong quarter last year. Fixed Income Markets revenues were down 20% year-over-year. While we had solid growth in FX and commodities, this was more than offset by a decline in rates and spread products.

Equity Markets revenues were down 3% year-over-year as continued growth in prime finance balances and structured activities was offset by a decline in cash. Security Services revenues grew 5% year-over-year as fees grew 11% driven by higher settlement volumes and higher assets under custody partially offset by interest rate headwinds.

Now turning to slide 13, here we show the results for our Global Consumer Banking business for the fourth quarter in constant dollars. Revenues declined 6% year-over-year driven by lower revenues across regions. Expenses were up 34% year-over-year driven by the Asia divestiture cost. Excluding these costs, expenses were up 9% driven by transformation and business-led investments partially offset by productivity savings.

Cost of credit was a $105 million benefit this quarter as an ACL release more than offset net credit losses. The NCL rate for the quarter was 1.2%, a decline of 61 basis points year-over-year and 20 basis points sequentially. We released over $900 million of ACL this quarter related to continued improvement in our economic outlook and portfolio quality, partially offset by volume growth. This resulted in a net income decline of 42% and an RoTCE of 8%. Excluding the Asia divestitures impact, net income would have grown 44% and resulted in an RoTCE of 20%.

As for the full year, GCB delivered $6 billion of net income on $27 billion of revenues with an RoTCE of 17%, and 22% excluding Asia divestiture impacts.

On slide 14, we show GCB revenues by product as well as key business drivers and metrics for the fourth quarter. Branded Cards revenues declined 3% year-over-year on higher payment rates and portfolio mix. We're seeing encouraging underlying drivers with new accounts up 43%, card sales volumes up 24%, and average loans up 3%. In fact, the fourth quarter acquisitions exceeded the same quarter in 2019 by 2%, the first quarter to do so since the onset of the pandemic.

Retail Services revenues declined 10% year-over-year driven by a 2% decline in Net Interest Income due to elevated payment rates as well as by higher partner payments driven by improved credit performance. But despite this, we are seeing positive underlying drivers with account acquisitions up 6% and spend up 16% on a year-over-year basis.

While we're encouraged by these underlying drivers in both cards businesses, payment rates do remain stubbornly high, impacting our loan growth and revenue growth in both cards businesses.

Retail Banking revenues declined 6% year-over-year driven by lower deposit spreads as well as lower mortgage revenue. However, underlying drivers remain strong with deposits up 13%, Citigold household up 9%, and assets under management up 8% year-over-year as we continued to execute on our North America retail strategy with a focus on our Global Wealth unit.

Asia revenues declined 7% year-over-year largely driven by rate headwinds and higher payment rates. Performance in the wealth hubs exceeded that of the overall region with deposit growth of 12%, AUM growth of 13%, and 16% growth in Citigold and CPC clients.

Latin America revenues declined 3% year-over-year mainly due to lower loan volumes in both retail and cards.

On slide 15, we show results for Corporate/Other for the fourth quarter. Revenues increased year-over-year largely driven by higher net revenue from the investment portfolio. Expenses are down year-over-year largely due to the wind-down of legacy assets. Cost of credit was benign.

At this point, we typically give a full year outlook. However, since we have our Investor Day coming up on March 2, we plan on bringing everything together at that point to talk about 2022 in the full context of our strategy and medium-term performance expectations.

As part of our strategy refresh, our goal is to be as simple and transparent as possible, and I hope you like the new earnings presentation and we will continue to evolve it going forward. And 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.

JOHN MCDONALD: Good morning. Mark, thanks for all the detail there, and Jane for the strategic update. Mark, I wanted to ask if you could just go over the restatement of the Net Interest Income sensitivity. Just want to make sure we caught that. What's the difference that's driving the new presentation there, and just what are the key drivers for your Net Interest Income outlook this year? You don't have to give a number, but kind of when you think about trading. And then core NII and card growth, maybe some of the thoughts there. Thanks.

MARK MASON: Sure. Thank you, and good morning, John. So on slide 9 is where I kind of covered that. You'll recall, John, that historically, we have looked in our disclosure at a run-off balance sheet, and that obviously has deposits running off as they term out. It has loans running off as they mature. Others take an approach where they look at a static balance sheet, and so we've run the analysis around assuming a static balance sheet and assuming 100 basis point parallel shift in a rising rate environment, obviously across all currencies. We obviously have a mix of US dollar and foreign currencies as well. And when we run that analysis now assuming the balance sheet is static, that is the deposit levels, loan levels, et cetera, that delivers three times more than what we disclosed in the Q in the third quarter. So that's the $2.5 billion to $3 billion of Net Interest Income.

So obviously retaining or assuming that the deposit levels stay the same allow us to generate more Net Interest Income, and that's a major driver in the number range or the range that I provided.

In terms of the forward look, I'm not going to give you guidance as you mentioned, but I think there are a couple things that are important to keep in mind that we're looking at for 2022. One is the drivers that we mentioned earlier. So a lot of the underlying drivers in our franchise look very strong and are driving healthy fee revenue growth, and I would expect with an outlook for positive GDP that that's going to continue to play to our advantage in 2022.

The second thing I'd point out is the assumptions around interest rate hikes in 2022. As many as three or four, depending on the economist view that you listen to, and that obviously is going to play to our favor as well when you think about the number of accrual businesses that we have whether it's our TTS franchise or our Private Bank, et cetera, et cetera. So those are important factors that impact the top line and that we expect to help contribute to some growth coming out of 2022.

I mentioned the loan growth on the Branded Cards portfolio. For cards, it's really going to be about payment rates and how they taper off, hopefully taper off. They've been stubbornly high through all of 2021, so hopefully we start to see some of that taper off and we get a little bit of growth in average interest-earning balances in the back half of the year, but those are important factors that need to play through into 2022.

JOHN MCDONALD: Okay. Great. And then just as a follow-up, as you're managing capital, you mentioned you'll return to some level of buybacks this quarter. And you've got a lot of capital that you expect to free up in transactions that haven't happened yet, so I guess how are you kind of thinking about that future capital as something that you'll deploy as you get it as part of your long-term thinking but you're not planning on using that throughout this year, I assume?

MARK MASON: Yeah, so obviously, we look at capital planning with a, in the context of our strategy and our ability to actually deploy that capital, but to return as much excess capital as we can to our shareholders. And so as we think about the divestitures which are underway as that capital frees up, we're going to factor that into the capital plan for the year and the quarter and where we can, we're going to return that to shareholders. So a number of deals are scheduled to close in 2022. That will be part of our plan, and we'll be looking forward to taking those actions in the outer part of the year.

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

MIKE MAYO: Thank you for the new presentation. But the biggest question that I and I think many investors have is, when all is said and done, who is Citigroup? What's the most simple statement you can give on who and what Citigroup represents?

JANE FRASER: Oh, I love that question. So I would say that our vision for Citi is to be the preeminent bank for institutions with cross-border needs. We'll be a leader in – global leader in wealth, a major player in consumer payments and lending in the home market, and that is Citi and our vision for it. It's a simpler firm, more focused, it's much better connected, it's certainly simpler to operate, characterized by a culture of excellence and accountability, and I think as I hope we've shown today one that should be easier for everybody to understand and fully aligned with our shareholders' interests.

MIKE MAYO: And along those lines, you're freeing up, what, about $11 billion of capital now, and intentions, Mark, I always hear you say you're going to invest in the business, you're going to do supply for growth and then you're going to buy back stock, but in terms of a stock price that's this low, I mean, the stock price relative to the financial index is one of the all-time lows. Wouldn't you move buybacks up in the priority order? Or what else can you do or say to show that shareholders matter?

Jane, I mean, you've done so much on the E side. You've certainly done a lot on the S side, but the G in ESG when it relates to shareholders, shareholders have been left back for so long, just seeing what else you might be able to do or say as it relates to recognizing shareholders and their desire to have a stock price that does better.

JANE FRASER: Our shareholders are an enormous priority for us, and, Mike, I know we need to make the bank for shareholderaligned and friendly, and we are doing so. So let me give you four examples.

Our strategy will generate, and we will return excess capital to shareholders, and as you say, given where the stock is trading, it makes buybacks highly attractive.

Second, we're taking the structural and strategic decisions to put the bank in the best position to drive shareholder value, and you can see, we're executing, and we are delivering with urgency and we're very driven to get the valuation in a far higher place than it is today.

Third, we're changing many elements of the financial reporting so it's easier for our shareholders to understand the bank and we're going to be as transparent as possible so you can measure our progress and results, and I think the structure that Mark laid out and I gave the high-level on will make that job much easier.

And then finally, and a topic I know you've been quite vocal around, we are also making changes to compensation. So more of our senior business leaders will be on the PSUs for this coming year. We've moved to 100% deferred stock versus a mix of stock and cash in the geographies that we're permitted to do so, and we're increasing the importance of returns in determining performance evaluations. There is a myriad of paths and lots of different actions that we're taking because our shareholders matter to us, and we want to get our valuation up to one that we think realizes its full potential.

OPERATOR: Your next question is from the line of Betsy Graseck with Morgan Stanley..

BETSY GRASECK: Hi. Okay. So a couple of questions. One, just thinking through the walk from where you are today in CET1 till the
end of the year when you mentioned you'd be ending the year at 12%, you have some businesses that are exiting, which should reduce RWAs I would think, but then you've got debt buybacks as well coming through, and at the same time, I would expect that you'd probably want to grow your RWAs. I know your RWAs were down 5% Q2 and maybe that was a part of the reason why FICC was a little light, so could you help me understand just how we should think about that trajectory and the drivers of that CET1 change because it will have some impact on how we're thinking about the rev growth in the Markets business.

MARK MASON: Yeah, good question. So we are looking at, obviously, how we continue to invest in the franchise, particularly where there are areas of growth. At the same time, ensure that we're delivering buybacks for return to shareholders.

As I look at the CET1 ratio, we're ending the year at about 12.2%. As you know, SACR kicks in or has kicked in on January 1. We're ending, therefore, on January 1 at roughly around where our target is, and over the course of the year, we'll be able to absorb growth in the businesses where there's a need to do that while continuing to identify offsets to both SA-CCR, but also low-returning assets that we may have and ridding ourselves of those and generating income as well as the capital from the divestitures that we will be able to close throughout the course of the year.

And so as we look at that plan, the start of the year, which is close to our target, towards the end of 2022, we will have to build that back up to about 12% in order to absorb the GSIB headwind assuming there's no relief provided to that, which then kicks in at the beginning of 2023. And so through the course of the year, we'll utilize through RWA, we'll free up capital and return capital to shareholders, we'll generate more earnings, but at the end of the year we'll need to kind of end on the higher end or towards that 12%.

BETSY GRASECK: Do you have a sense as to how much the benefit to like GSIB or SCB should be from all the divestitures you're doing? I was actually thinking when I saw the Mexico news this week that maybe that was one of the reasons why you decided to exit the Mexico consumer businesses as potentially the pickup that you'd get since you mentioned, it makes you a simpler company and that should feed into SCB, I would think.

MARK MASON: Yeah, it's not a major driver as to the decision, as Jane has kind of framed out, but it does factor into the points that you've raised. So from a GSIB point of view, there's, I don't know, $31 billion or so of deposits that are tied to our Mexico consumer business. That would drive about 10 basis points or so, or 10 points I should say on the GSIB score. The total for the divestitures that we've earmarked, it's about $85 billion in deposits, and so you can do the math that we'd get some benefit from that.

You're right and we – I don't have numbers that I would share at this point in part because the fed has to run their analysis, but you're right from a CCAR point of view when you think about the stress capital buffer there's an impact to PPNR, but more importantly to stress losses that will play through as well.

As you know that impact as well as the deposit impact won't really come into play until we've closed on these transactions, but it certainly is a factor to how we think about the longer-term capital planning, and it certainly is something that I'm going to talk more about at Investor Day on March 2.

BETSY GRASECK: Okay. Thanks. And the low-returning assets that you were talking about exiting, is that like – that's basically something like rates in the Fixed Income business and should we expect some impact there, or again, I'm just trying to tie together the 5% decline in RWAs and the comment that Fixed Income business was a little light this quarter.

MARK MASON: Yeah. I'm not looking to be specific on where the low-returning assets we're getting out, but we're certainly looking at our markets franchise to see where those low-returning assets exist as well as to see where their client relationships that are single product and don't necessarily link across the franchise, and so this is something that Jane and I, along with Paco are keenly focused on. We realize that while we've seen growth in markets and in FICC, it has come with growth in the balance sheet, and we want to make sure that we're optimizing the use of the capital.

OPERATOR: Your next question is from the line of Erika Najarian with UBS.

ERIKA NAJARIAN: Yes, hi. Good morning. My first question is for Mark, please, and by the way, thank you so much for this new way of disclosing financials. I think this will be very helpful, and the NII sensitivity as well.

I know we're going to get a lot more detail in March, but as we think about the expense base that was remaining post the exits you've identified, could you help us get a sense of how much more growth would there be left in the remediation-related expenses? How aggressive do you plan to be in terms of investment spend in 2022, and do you think you've identified enough inefficient expenses within the franchise to help fund some of those – both initiatives?

MARK MASON: Yeah. Great question. You know, I'm not going to give guidance on 2022, but let me try and frame out how we're thinking about it, because I think it is important.

Both Jane and I recognize that we've got – there's a lot of static we're getting. Excuse me. So in terms of the expenses, we obviously have a large expense base. We've seen growth play out this year, but I think there's some real opportunities over time to attack the expense base and that's exactly what we intend to do. So if you think about the divestitures, I'll start there for a second.

There's some $6.8 billion of expenses tied to divestitures. As those divestitures get closed out, some of that will naturally go away. The balance of that, which tends to be referred to as stranded costs, we're already putting in place a team to focus on attacking and driving out that stranded costs.

The second point that I'll bring up around this is the transformation. The transformation has driven 3 percentage points of growth this year. I do expect that there's more growth associated with that, particularly since we're still doing more hiring. There's more tech spend that will be required. But the transformation over time will deliver efficiencies, will reduce the manual touchpoints, will drive straight through processing, and therefore, will allow for us to bring our expenses down.

And the final piece that I'll mention is the strategy, and so Jane mentioned in our strategy a focus on core businesses, and that's going to allow for us to look at the organizational structure and identify more simplification opportunities in the way we manage and run the firm.

We do about $300 million to $400 million of productivity savings a quarter. That's not enough. We think there's more opportunity for efficiencies than that, and it's those opportunities that we're going to chase down in order to fund some of this investment spend that we expect in the next couple of years. More on that at Investor Day.

ERIKA NAJARIAN: Thank you for framing that. Jane, this next question is for you. When you responded to Mike's question about your vision of Citi, you led with your vision of Citi as the world's corporate bank, if I could rephrase. How is your vision of Citi, what does it include in terms of your funding base? There's a lot of conversation particularly in the beginning of a rising rate environment about the natural gap that you have to your largest US peers with regards to your naturally higher rate deposits, right? And so how do you envision your funding base evolving over time, and do you have any interest in significantly building out your US retail deposit franchise?

JANE FRASER: So, Erika, we've got a pretty diverse funding base. When we look at it from the Institutional side, we've got the number-one TTS franchise globally and that has material funding from our cash management and dominant position in cash management there. Our wealth franchise both from the ultra-high net worth down to the affluent clients is also a source of material and very attractive deposits and funding for us.

Obviously, we're making the exits on the international consumer banking front, and we've been focused in the retail bank in the US in driving digital deposit growth and continuing to make sure that that business generates a stable, low-cost funding for the firm here in the US and we'll expect to continue growing that going forward.

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

MIKE MAYO: Hi. That was sooner than I expected. Just to follow-up on the compensation changes, yes, that's good news that people are paid in stock instead of just cash and stock, but you had the new bonus arrangement. I did not think that was finalized, but as part of the new bonus arrangement based on the next three-year financial targets, is that still all cash, or is that cash and stock, or is that stock?

JANE FRASER: I'm assuming you're referring to the transformation award. Is that correct, Mike?

MIKE MAYO: Yes.

JANE FRASER: Yeah, so that one, while it's paid in cash for the first two pieces, the last 50% is pegged to our three-year stock performance and we felt that that was the appropriate balance here.

As we said, transformation is our highest priority. We need to successfully address the concerns raised and that's 100% in our shareholders' interest. One of the pieces that's important in that is that we need to have collective accountability to succeed in addressing these concerns, it's a shift in our culture, and this award is one that is therefore dependent upon shared success versus individual incentives here.

So it's an important part of delivering, and of course if we fail to deliver the outcomes of the transformation and are not successful in the execution, there will be no award.

MIKE MAYO: And when will we find – I guess we'll find out about those targets at Investor Day, so answering that question. As it relates to PSUs, how much was given in cash before and how many people will this apply to versus where it was before?

JANE FRASER: The PSUs are given to the executive management team and now we're extending that to the broader operating team which includes the leaders of our major businesses, and you'll see that information delivered in the proxy when we issue that in March. So you'll get all of that information at roughly the same time.

OPERATOR: Your next question is from the line of Ken Usdin with Jefferies.

KEN USDIN: Hi. Thanks a lot. Good morning. Mark, I was wondering if you could just talk a little bit about the card business in aggregate. Definitely starting to see a little bit of that balance, but I wonder if you could touch on, number one, like just how you're expecting that balance trajectory to go. Number two, spend versus lend and how much you're seeing in that, and then, three, just the losses are obviously just amazingly low and how would you anticipate card normalization. Thanks.

MARK MASON: Yeah, sure. So as I've mentioned before, I mean, when you look at what's going on with cards, across the board we are seeing increases in spend volume. So Branded Cards spend volume is up 24%. Retail Services spend volumes up 16%, so very healthy spend volume. People are using our cards, which is a good thing.

In terms of the liquidity that's still out there in the market, even though savings rates have started to normalize there's still a significant amount of liquidity that's out there in the market, and that's showing up in payment rates in both Branded Cards and Retail Services and frankly in some of the international card businesses as well. And that has not subsided, and so we did start to see growth in Branded Cards loans, average loans are up 3% Branded Cards, the end-of-period loans were up 5%.

What matters a lot when you come out of a crisis like this is how you reinvest, and so we've spent a lot of time focused on targeting new customers and driving new account acquisitions. Our new account acquisitions are up 43% in Branded Cards, and we've been also driving that just generally across the board in Retail Services as well. So getting a very good response in terms of new accounts coming onboard.

We've also been focused on how we drive installment lending activity, just kind of to broaden the lending that we're doing with this customer base, and we've seen significant growth in our Flex Loan, Flex Pay products as we've targeted customers who have historically been transactors to really move them on to that product. So very good growth there. In fact in 2021, we've not only gotten the growth just in aggregate but if I look at kind of installment lending, we've gotten 90% of the total installment sales are in digital sales, which is another kind of low-cost acquisition approach that we've taken. So good underlying indicators there, but again, it's not until payment rates start to subside. We would expect, hope, that that would start to show up towards the back half of 2022.

In terms of the losses which was the other part of your question, very low loss levels. You heard me mention the delinquency rates earlier. When I look at the loss rates earlier, when I look at delinquency trend there's really nothing to focus on there. They remain quite low, and we don't see any signs or any areas of concern, I would say, but I would imagine those two would start to normalize as payment rates start to come down.

KEN USDIN: Great. Mark, thanks. And then just a follow-up, you mentioned the strongest quarter in advisory in a while. I was just wondering if you could just comment broadly on Investment Banking pipelines across the product groups. Thanks a lot.

MARK MASON: Yeah, the Investment Banking pipeline looks very strong. We ended the year with significant growth in advisory up 146% year-over-year, well above the wallet. We've grown share there. ECM was up about 16%, again above the wallet and really, that reflecting some of the fees coming from SPAC activity, so very good growth.

EMEA and North America are both up year-over-year due to continued momentum in M&A, so we feel very good about it. We think the pipeline still looks very strong. We think the investments that we've made in bringing on bankers in some of the sectors we needed to beef up, sectors such as healthcare, technology, sponsors group, those investments are certainly starting to pay off, so we feel good about it.

OPERATOR: Your next question is from the line of Glenn Schorr with Evercore.

GLENN SCHORR: Yeah. All righty. All righty. So, I think we have a good long-term process in motion and measured in more than one year, but what do you think of the sort of – it feels like returns have to go down before they go up. I know you have the overall goal to close the gap to peers, but between the capital that gets freed up, the GSIB buffer in the denominator, the capital markets partially normalizing some stranded expenses on sold franchises and then continuing to execute on the transformations, is it okay and is it normal, I think it's partially in our models that we go down first and then rise up?

MARK MASON: Yeah, so thank you, Glenn. So look, if you look at 2021 with a 13.4% RoTCE and reserve releases that get close to $9 billion, I'd have to say yes, right? Because those reserve releases drive a considerable amount of that. Now, it's important to compare that to 2020 where we had the opposite effect because we were building meaningful reserves, but as we look at the forward look, which we'll take you through in more detail, as Jane mentioned, we're focused on core parts of the franchise that show the opportunity for growth and the promise for higher returns, and that's where our energies are going to be focused and we think that's what's going to help to drive improved returns over time.

GLENN SCHORR: Fair enough. The reserve releases have a big impact. Okay. And then in terms of that growth, I think a couple of questions dance around this, so you could be short, but given your answer to what Citi is and wants to be in terms of premier franchise in all those industries, or business lines, I should say, how do you balance that you're doing what's right for stockholders in the near-term, drive stock return versus making sure you invest for the future, because each one of those is super competitive, each one of them has competitors as early as today, or as recent as today spending a ton of money to compete in those spaces, how do you balance that, invest for the long-term would be great versus improve the stock short-term?

MARK MASON: Yeah. So let me start, and then Jane feel free to add in if you'd like. So the first thing I think it's important to remember is the focus that we're trying to put on these core franchises that drive returns over time. So we're prioritizing how we're going to allocate our resources and our investments in part through the divestiture activity.

The second thing I'd say is that we are investing in the franchise for the long-term, right, as opposed to trying to hit some short-term metric, and so that does involve us putting that money to work where there is client demand and where it leverages the competitive advantages that we have developed. And so that is the way we approach this with again an eye towards ensuring that we're clear and transparent with our investors and that if there's excess that we're returning that to our shareholders so they're not just sitting on the sidelines and not generating returns that they would expect of us.

JANE FRASER: Right. I'd also just jump in when you look at the different businesses that we are investing in, as Mark said, they're high-returning ones. So our Services businesses are much capital lighter, high-return. Wealth Management, the same, and I think the opportunities that we've been seeing to continually increase share in Investment Banking, another high-returning business. So that will certainly be helping us over time on that mix that you're talking about. And not everything needs an enormous investment. If I look at wealth, for example, you put the different pieces together that we've already got and we're putting them into a single integrated business and proposition, it's not things that we're starting from scratch, so a lot of this is incremental.

OPERATOR: Ladies and gentlemen, please limit your questions to one question and one follow-up. Your next question is from the line of Vivek Juneja with JPMorgan.

VIVEK JUNEJA: Hello, Jane and Mark. A quick one firstly. Now that you're exiting Mexico, Singapore and Hong Kong were not part of the exits when you announced the exit from the 13 markets in the consumer business. Are you going to stay on with the consumer business in those markets, or meaning a traditional consumer business as you've had for years, or is that going to change?

JANE FRASER: No, we find that the franchises we have in Singapore and Hong Kong just given the nature of them are really naturally tied to the wealth franchise that we are building and investing in there of our existing very strong platform, as you say. So we expect to continue to provide the range of different services and capabilities that we have because they are so complementary and help support our wealth business in two of the most major wealth hubs in the world.

VIVEK JUNEJA: Okay. Great. And a follow-up question, if I may have. The NII change, Mark, that you made, what deposit beta are you assuming there? And how much of the change is coming from US net interest income versus the rest of the currencies?

MARK MASON: Yeah, so we haven't shared our deposit betas, but as you would imagine, the betas tend to be higher on the institutional side than on the retail side. And so that's that piece. And I'm sorry, the second part of your question was what? Vivek?

VIVEK JUNEJA: Okay. The second part was how much of the change in net interest income from the interest rate sensitivity change, Mark that you're making...how much is the US net interest income versus the rest of the currencies?

MARK MASON: The increase is roughly skewed towards the international, so I'd say of a $3 billion increase, I'd say about two-thirds/one-third international.

VIVEK JUNEJA: That's where you were assuming more of the balance sheet run-off?

MARK MASON: Yes.

OPERATOR: Your next question is from the line of Charles Peabody with Portales.

CHARLES PEABODY: Yeah. A question regarding the regulatory and political risk to share buybacks, and I ask that because earlier this week in the Powell renomination hearings, when you listen to the last two minutes of that testimony, Sherrod Brown went on a rail against buybacks in the banking industry. And then last year I think President Biden had two speeches in which he spoke out against buybacks. So I'm trying to understand, is there – I mean, a transaction tax isn't going to stop you guys from doing buybacks, but are there other things being discussed out there other than just moral suasion to discourage buybacks?

JANE FRASER: Yeah. We're going to do the right thing for our shareholders, and right now, particularly given where the stock's trading, buybacks are a very, very important and probably top of the stack for us action that we take, so no, we're very clear in terms of the importance of giving our shareholders back our excess capital.

CHARLES PEABODY: No, I understand that you want to. I'm just trying to understand what the risk to your desires are from the regulatory or political side.

JANE FRASER: I don't believe there is one. We're extremely well-capitalized. I think we've heard it consistently from Washington. The confidence in the capitalization of the banks both coming into and coming out of the pandemic, and we're not overly concerned on that front.

MARK MASON: We'll obviously adhere to regulatory guidelines as they exist or however they evolve, but that's exactly right.

CHARLES PEABODY: All right. And then as a follow-up just on that subject, assuming these regulators – just getting into their seats, they're probably not going to be able to do anything this year on buybacks, but I'm assuming that they'll try and do something on buybacks next year. So you want to do as much buyback short-term as you can and you've talked about getting back to like a $3 billion pace here in the first quarter. How sustainable is that $3 billion pace?

MARK MASON: Yeah. So look, I mean, first of all with the SCB framework, we take decisions on the capital actions on a quarterby- quarter basis. Obviously, there's another CCAR run that we'll all go through that will determine at least part of the capital stack, and then obviously, there's the GSIB that's coming into play. So we factor all of those things in. In our case, as we develop the capital plan, we also will take a look at the divestitures and in some instances the divestitures will generate TCE for us to return to shareholders. There may be other impacts from divestitures that are temporary in nature that need to be factored in, but it's part of an entire annual capital planning process that we go through that factors all of those things in.

OPERATOR: Your next question is from the line of Gerard Cassidy with RBC.

GERARD CASSIDY: Can you guys share with us, when you think about the strategy refresh that is underway, are we 75% complete, 80% complete? Mark, you alluded to maybe some of the Markets businesses that may not have the returns you want, there could be some area, but were you there, and by the Investor Day, can we assume that it will be completed?

JANE FRASER: In terms of the timeline to this one, this particular exercise is drawing to a close in terms of what I call the big step back as a new CEO. So we said this is the last major structural decision that we're taking in Mexico. We're now focused on pulling together everything from Investor Day and that's where the new reporting structure, I think, that we've announced today is also a very important foundation for that. So I'm confident that we've made the right big structural decisions and that we're looking forward to Investor Day laying out the vision, the strategies, and the plan for going forward.

MARK MASON: Yeah. And let me be clear, Gerard, just in case I wasn't. I'm not suggesting we're exiting parts of our Markets business. That is not what I'm suggesting at all. What I am suggesting is that as we would always do, we're constantly looking for opportunities to optimize the way we use our balance sheet, capital, RWA, et cetera, and where we identify the need to rid ourselves of low-returning assets that we have, we do that, all right. And so with rule changes like SA-CCR and the like, either pricing will adjust or we'll have to take a hard look at some of those assets to see if it still makes sense, and that's more of what I meant than ever suggesting we were exiting part of the Markets business.

GERARD CASSIDY: And just as a quick follow-up, obviously some of the businesses you're committed to, TTS, the investment banking area, you guys clearly are players there, you have economies of scale. When you look at the other businesses that you're committed to stay in, where is the heavy lifting going to come from where you really got to step it up to get those economies of scale, similar to the ones that are quite obvious.

JANE FRASER: Yeah, you're right. We have a number of businesses that are already extremely scaled in both markets. If we look at TTS, we are moving $4 trillion of volume daily there, so those are ones where the investments are much more around digitization, around data. And in terms of where are we looking at getting more to – of increasing our scale, commercial bank is obviously one where we have a commercial banking presence in 30 different markets around the world and they're very focused on the same target market I talked about in the vision, which are those mid-market companies with global needs or multi-market needs. And then the other areas in terms of wealth where we've already begun, as you can see from our earlier remarks building out our frontline scale on the back of the platforms and other investments that we're making.

MARK MASON: And to your point, Jane, commercial bank this year, huge opportunity to leverage more of the TTS offering that we have. We're already seeing diversification in the commercial bank in terms of CMO and other markets products, and the revenue this year was up 12% year-over-year. And similar strength in acquisition of new clients in wealth, but those are two key areas, I agree.

OPERATOR: Your next question is from the line of Ebrahim Poonawala with Bank of America.

EBRAHIM POONAWALA: Good afternoon. Just quick couple of follow-ups. Mark, on the capital return, I just wanted to make sure. When we think about the $3 billion pace you're going to get back to in 1Q, moving forward, is there more upside risk with that $3 billion, or could that be actually lower? I just want to make sure we have that right in terms of expectations.

MARK MASON: Yeah. I'm not giving expectations for the quarter-by-quarter capital buyback decisions, in part because as I mentioned, with the new SCB rule, we're able to look at it on a quarterly basis, so I'm not giving guidance beyond that. We'll talk more about the capital plan on March 2 broadly, right?

EBRAHIM POONAWALA: And just I guess going back, Jane, on US retail, I think the question is, is there something more meaningful that we should expect at the Investor Day? And it's fine if you want to hold it till then, because if I recall correctly, you were a partner with Google, that didn't play out. The big question that investors have is, is there a better definition to the US retail franchise. And I'm just wondering will we get that at March Investor Day, or there's nothing radical that you have in store at least in the near-term as far as US retail is concerned.

JANE FRASER: You'll be certainly hearing directly from Anand who is responsible for that business on Investor Day and he'll lay out all of our US Personal Banking strategy of what we're looking at both from our top two cards franchise and our plan – what we're doing in Personal Lending as well as what we're doing in wealth and then obviously the retail bank and the supporting role it is playing for those two core drivers of growth for us in the States. So, yes.

OPERATOR: Your next question is from the line of Jim Mitchell with Seaport Research.

JIM MITCHELL: Hey, good afternoon. Mark, maybe on just the expenses, I appreciate all of the moving parts with the divestitures and you're not going to give us the full year expense guidance number, but can you help on the jumping-off point at the first quarter? We had compensation was up about $1 billion quarter-over-quarter. How much of that was just sort of the comp changes, or is that a good run rate to think about, so if you could just help us just the jumping-off point for first quarter would be helpful.

MARK MASON: Yeah, you know what, I'm not going to be able to give you kind of more guidance on that. I mean, what I would say is, again, you got a couple things that played through 2021 that will be important factors in 2022. One, the hiring that we've done we're going to get a full year impact of that, at least for part of that in 2022, so that's going to play out. Some of the – if you think about the mix for the transformation spend, which is a mix of both hires, third-party spend, as well as technology, that mix will start to shift over time away from third-party for sure and towards the others, and so we're going to have some of that dynamic start to play out in 2022.

In terms of the comp specifically in the fourth quarter, we obviously tie the comp performance for the full year is tied to revenues, and so as we would expect to see some forward growth based on the drivers, I mentioned earlier, we would expect to see comp related to that play out over the course of 2022. But I'd rather not get into the specifics here given that we're going to give you a better sense for it in early March.

JIM MITCHELL: Okay. Just maybe as a follow-up on that, just so I understand the sequential drivers, so you're saying it's mostly incentive comp or was that more new hires, or both? Just from 3Q to 4Q change.

MARK MASON: Yeah, in 3Q to 4Q, you've got both hires as well as incentive comp.

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

MATT O'CONNOR: Hi. I just wanted to follow up, you had said the sale of Mexico wouldn't be an easy transaction and was just hoping you could elaborate on that. And then just related, you talked about the capital that's allocated to the business being freed up, but any kind of initial thoughts on whether the transaction, the exit of the business will generate a gain or loss as we think about the combined or total capital impact. Thank you.

JANE FRASER: Why don't I kick that off, and Mark jump in. As I said, it won't be a simple transaction because we separate the bank into the Institutional business from the businesses that we're exiting, and that's something that we kicked off yesterday, that process. And then we'll be looking to go to the market in the spring and to be active with buyers, potential buyers in a few months' time.

So it's more just the complexity of separating the bank. We've got good plans behind this. And as I said in my remarks, these are terrific, these are scaled, these are great franchises, and there's obviously a lot of speculation in the press which is too early to comment on, but we do think this is a jewel for someone. It's just not for us.

MARK MASON: Yeah. I agree, and I think it's premature to speculate on structure of the deal and things of that sort. You're right, we do have about $4 billion of TCE allocated to the business. The other layer of complexity is around the CTA, and you've heard us spend some time on that when we talked about the Australia sale and I introduced it as a complexity because there's an accounting treatment associated with the CTA that happens at signing that is separate from the capital implication that happens at closing. So with a CTA, the capital impact flows through AOCI, but it's neutral once the deal is closed, and in Mexico, the consumer business would have a DTA of a little bit less than $3 billion or so, and so that's another factor that's involved with the transaction.

JANE FRASER: A CTA, not a DTA.

MARK MASON: Did I say DTA?

JANE FRASER: Yeah.

MARK MASON: I'm sorry, CTA. Currency translation adjustment.

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

STEVEN CHUBAK: Well, actually even before asking my question, I just wanted to echo some of the earlier remarks. The new presentation, the additional detail, it's really helpful, so appreciate the new disclosure.

MARK MASON: Thank you.

STEVEN CHUBAK: Mark, I'm going to ask, well, I guess technically one question, but it's really a three-parter. You might need to grab a pen and paper. But I wanted to just unpack some of the comments you made on the NII sensitivity and reporting differences versus peers. You noted there more than three times increase in NII assuming a static balance sheet, but there's still a lot of investors that just question your rate sensitivity profile given the fairly modest NII growth that we saw in the last cycle. And first question, just wanted to start by asking given your heavier institutional deposit gearing, wouldn't it be reasonable for us to expect that your deposit run-off would actually be greater than peers?

Two, does the NII guidance contemplate liability sensitivity in the Markets business, and could you help us size that potential drag? And then just lastly, it's more of a catch-all. Any idiosyncratic factors that you could speak to that would support a better NII outcome or higher rate benefit versus what we saw in the last cycle?

MARK MASON: Yeah, sure. So look, we provided the sensitivity because we think comparability is important here, and you can see the magnitude of that difference is pretty sizable. There's still going to be a difference between us and peers, but that difference narrows when you put it on a comparable basis. We do have a skew towards institutional clients and they do carry a higher beta associated with them, but we also have a skew towards international currencies and we make good spreads there as well.

In terms of the impact through markets, the impact – I think the markets impact can come in any number of ways. I think rate moves and other uncertainty and volatility in the market can drive broader markets revenues which we would potentially see depending on how investors have to reposition their books.

In terms of the last part of your question, I don't think there's anything else that I would point to. I mean, obviously with the excess liquidity that we've seen and been carrying in the market, we've been putting that to work in investments. We've increased our investment portfolio by some $70 billion. We expanded the duration to about 2.85 years and we still have significant dry powder to put to work with either client demand or in an increasing rate environment which we expect.

STEVEN CHUBAK: That's great color, Mark. Thanks so much for accommodating the multi-part question.

OPERATOR: Your next question is from the line of Jeff Harte with Piper Sandler.

JEFF HARTE: Hey, I'm sorry, I just thought I've taken myself out of the queue. My questions have been answered, and you all must be getting tired, so I'm done. Thanks.

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

MIKE MAYO: Hey. One more question. What's the hardest part of the culture to change?

JANE FRASER: Probably it's been breaking down some of the silos, and that the point on the principles we laid out, Mike, of connected is really a key piece of it. We've rolled out some new leadership principles last year and it's very much around how do we get the firm very well-connected and really realize the full synergies. So breaking some of those old habits, I would say. The new structure is certainly helping us at the different initiatives we're taking.

MIKE MAYO: And how long do you think that will take, because you're breaking down a culture that's been ingrained for quite some time?

JANE FRASER: Yeah, I would say I'm really happy with the progress. We've been – one of the first things I did was laid the firm to on our culture out when I took over, and we've got a terrific team of people being working at this for years. So I'm very happy with the progress we make. I think everyone's clear, we want the culture to be one of accountability, of excellence, and acting with urgency, and part of that is well underway. But it'll take a little bit longer.

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 fourth quarter's earnings call. You may now disconnect.

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