TRANSCRIPT

Citi Second Quarter 2022 Fixed Income Review

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Host
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Speakers
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PRESENTATION

OPERATOR: Hello and welcome to Citi's second quarter 2022 Fixed Income investor review with Chief Financial Officer Mark Mason and Treasurer, Michael Verdeschi. Today's call will be hosted by Peter Demoise, Head of Fixed Income and ESG 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.

Mr. Demoise, you may begin.

PETER DEMOISE: Thank you, operator. 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 expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these statements due to a variety of factors including those described in our SEC filings.

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

MICHAEL VERDESCHI: Thank you, Peter and good morning everyone. On today's call, I will cover a number of topics. First, I'll briefly discuss our second quarter 2022 operating results which we feel good about, especially given the operating environment. Second, I will cover recent balance sheet trends including our robust liquidity and capital position. Third, I'll share some thoughts on what our issuance activity might look like over the near-term. And then Mark and I would be happy to take your questions.

But before I discuss the highlights of the quarter in more detail, I do want to spend a moment reflecting on the current macro and geopolitical environment which remains complex and uncertain. US consumer and corporate balance sheets remain healthy, but the risk of a recession, particularly abroad, has increased.

That said, we feel very good about our balance sheet—with strong capital, liquidity, and ample reserves—all of which position us well to weather any number of economic scenarios, continue to serve our clients, and execute on the strategy we laid out at Investor Day.

With that, let's turn our attention to Citi's operating results. Slide 3 covers some of the highlights from the quarter. We executed on our strategy, with revenues up 11% year-over-year, which benefited from higher rates and continued strong client engagement, especially across Markets and Services. We increased deposits, maintained robust liquidity, and grew our capital base, positioning us well to meet our increased SCB and GSIB requirements in the coming quarters, which I'll talk more about in a moment.

Slide 4 outlines our second quarter results in more detail. In the second quarter, we reported net income of $4.5 billion and an RoTCE of 11.2% on $19.6 billion of revenue. Net income was up sequentially on strong growth in net interest income. But down year-over-year largely driven by the absence of a large ACL release in the prior year period.

On slide 5, we show key capital and liquidity metrics and our average balance sheet. We saw both advanced and standardized risk-weighted assets come down both year-over-year and sequentially as we continued to optimize RWA. We ended the quarter with a standardized CET1 ratio of approximately 11.9%, which is approximately 50 basis points higher than the first quarter, and about 140 basis points above our current regulatory requirement of 10.5%.

Going forward, we expect our regulatory requirement to increase to 11.5% in October 2022 to account for the increase in our Stress Capital Buffer. In January 2023, our regulatory requirement will increase to 12% as a result of an increase in our GSIB surcharge. The combination of earnings generation, closing of divestitures and continued RWA optimization will be important tools as we manage toward this higher CET1 requirement.

On the bottom left, you can see that we continue to maintain strong liquidity levels — with $531 billion of average High-Quality Liquid Assets — or 22% of Citi's average total assets — supporting a healthy LCR. Total assets increased 2% percent year-over-year on higher trading-related assets, reflecting a continuation of strong client engagement.

Slide 6 presents trends in our loan portfolio over the past five quarters. Total average Citigroup loans decreased 2% year-over-year, as growth in PBWM and ICG was more than offset by a decline in Legacy Franchises. In PBWM, average loans increased 4% year-over-year, largely driven by growth in Branded Cards and Retail Services. In ICG, average loans increased 3% year-over-year, largely driven by growth in trade finance. And as expected, Legacy Franchise loans continued to decline, largely driven by the reclassification of loans to held-for-sale.

Turning to slide 7, we show trends in average deposits over the past five quarters. Total average Citigroup deposits were relatively flat year-over-year as growth in PBWM and ICG was offset by declines in Legacy Franchises and Corp/Other. In PBWM, average deposits increased 6% year-over-year, driven by growth across Retail and Wealth. In ICG, average deposits increased 1% year-over-year, driven by the deepening of existing client relationships and new client acquisitions. And despite the industry pressure from quantitative tightening, we remain very focused on growing operating deposits and expect modest deposit growth for the full year.

On slide 8, we provide an update of our LCR metric and drivers. Our average LCR remained relatively stable at 115%.

Now, let me cover our parent benchmark debt issuance program on slide 9. So far this year, we have issued roughly $20 billion. And we were pleased to issue an affordable housing bond, and we continue to diversify the syndicate group in our debt issuance across underrepresented groups. Going forward, we'll continue to maintain the flexibility to issue a mix of tenors, currencies, and structures as we prudently manage the liquidity profile of the firm and support our clients.

On slide 10 we show the composition of our long-term debt outstanding. Our total long-term debt on an end-of-period basis decreased by approximately $8 billion to roughly $257 billion. This decrease reflects the optimization of funding in the bank as we continue to maintain robust deposit levels.

On slide 11 let me cover our issuance, maturity, and redemption expectations. As you can see in the middle of the slide, we have issued $20 billion of benchmark debt so far this year. At this point, we estimate that we could potentially issue up to an additional $10 billion over the second half of this year, depending on how our needs and opportunities evolve. So this would translate into approximately $20 to $30 billion of issuance for the full year 2022.

Moving to our last slide, let me summarize several key points. The franchise continues to perform well through this period of macroeconomic and geopolitical uncertainty. We remain committed to the strategy outlined at Investor Day and are seeing it play out in our results. We earned over $4.5 billion of net income in the second quarter.

We maintained a strong capital position with a standardized CET1 Capital ratio of 11.9%, an SLR of 5.6% percent and a surplus above our TLAC requirement.

We also maintained a strong liquidity position with an average LCR of 115% percent, over $960 billion of available liquidity resources and we are comfortably in compliance with the NSFR rule, which became effective last year.

Before we move on to Q&A, let me touch briefly on LIBOR. As you may know, federal legislation was signed into law earlier this year that provides a solution for legacy LIBOR instruments. Importantly, we expect the legislation to apply to all of Citi's outstanding USD LIBOR-based securities without appropriate fallbacks. We are obviously pleased with the industry solution that this outcome provides and look forward to seeing the final rule.

And with that Mark and I will be happy to answer your questions.

QUESTION AND ANSWER

OPERATOR: Thank you. Our first question will come from Scott Cavanagh with APG. Your line is now open.

SCOTT CAVANAGH: Good morning, guys, and thanks once again for the call. A couple of questions for you. First of all on the funding guidance, could you just walk us through the potential uptick of $10 billion for the remainder of the year? And then I've got another question.

MICHAEL VERDESCHI: Sure. Good morning, Scott. Thanks for the question. Maybe I'll just start with how we were thinking about the first half, and then I'll address your question about the up to $10 billion of issuance.

For the first half, there were a number of factors. We've had an evolving macro backdrop with quite a bit of volatility in the markets, and with market conditions being uncertain and our needs evolving, we aim to issue more than we had originally planned. And in addition, on the back of that volatility came good client engagement. So really, the first half was about a combination of need, but also being opportunistic in accessing markets in the first half.

When I think about the second half, a lot of those same items are on our minds. So, when I think about the ongoing volatility, we're leaving ourselves the flexibility to meet our needs but also to continue to be opportunistic. I mentioned that client engagement aspect. That will remain an important driver in what our needs are and how they play out over the course of the year.

But also in addition, when I look out at 2023, we do have another $10 billion maturing in that year. So, really it's about leaving ourselves flexibility, I would say, in an evolving and certainly uncertain market environment.

SCOTT CAVANAGH: Thanks for the color. Then just switching gears over here to credit card, could you guys give us your thoughts on the pending bill that was – the Wall Street Journal article and the Bloomberg article noted today and yesterday? And then on asset quality for credit card, could you just walk us what you're seeing globally and then domestically what you're seeing in between retail and branded?

MARK MASON: Let me kind of start and just in terms of the overall performance that we've seen, particularly in the cards portfolio. We've been very pleased with the progress that we've made in the quarter there. As you know, we've been investing particularly in marketing and acquisitions across both the branded cards and retail services portfolio, and we've seen that play out in good new acquisition momentum. We saw average interest-earning balances play out through the quarter, particularly on the branded cards side, and so we're starting to see that loan growth that drives top line momentum a bit earlier than I've talked about in the past. So in the second quarter, and we expect that to continue in the back half of the year.

As we look at the underlying performance, particularly in this environment where there is a fair amount of uncertainty for all the reasons mentioned before, we're not seeing any particular concerns around the credit quality in the cards portfolios. The losses, if you look at our loss rates, remain very low and probably half the levels of what I would have talked about would be in a – what we would see in a normal part of the cycle, so continued good performance there.

When I look at – through the portfolio across FICO scores and the like – no particular areas of concern. For new acquisitions, maybe a little bit of an uptick in terms of slight delinquencies in the new acquisitions with the low FICO scores, but nothing abnormal or that would raise alarm there.

And then even when I look at the activity, purchase sales remains very strong through both portfolios, and payment rates remain quite strong as well. And so, as I think about that, I feel very good about the performance there and about the ability to manage the risk.

And the first part of your question again? Scott?

SCOTT CAVANAGH: Sorry, I just wanted to go into depth on what details you could provide us on the pending bill, talking about the card networks, that's being contemplated in the Senate.

MARK MASON: Yeah, we're still obviously looking through that and working through that as a management team, so I don't have any additional color to provide on that at this point in time. We've obviously seen what's out there in terms of credit card networks and merchant fees and the like, and we'll continue to kind of work with partners to assess that.

OPERATOR: Thank you. Our next question will come from Peter Troisi with Barclays. Your line is now open.

PETER TROISI: Hi, good morning, just another question on funding. Just wondering how actively you're using the ABS market for overall funding needs? And maybe if you can give us a sense for how much of the benchmark issuance that you show on the slides last year and in the first half, related to ABS.

MICHAEL VERDESCHI: Hi, Peter. Good morning. We've not been active in that market. In fact, over the past year, we've allowed that to run down to some degree. And I think that's been a broader theme with our bank funding levers. Obviously, we've seen, and the industry has seen, good deposit growth over recent years, and so that really has meant that we've brought down a lot of that bank funding lever.

So – but that being said – as we think about quantitative tightening and how that is already underway and the pace picking up later this year, depending on how our balance sheet evolves, obviously we still expect as we've talked about modest deposit growth, but you could see us begin to leg in and normalize our overall funding profile. Obviously, much and most really coming from deposits, but of course, taking advantage of some of that low-cost funding that may come in some of those bank levers, things like FHLB or even in the asset-backed space that you mentioned.

But in this past year, no, we've not utilized that.

PETER TROISI: Okay, thanks for that. And the FHLB funding and the ABS you just walked through, is that contemplated in the zero to $10 billion of potentially incremental issuance for the rest of the year?

MICHAEL VERDESCHI: Again, that $10 billion is really meant to provide us flexibility, and again, we'll see how our balance sheet needs evolve in addition to remaining opportunistic. So, yes, that could apply to both the parent benchmark as well as opportunities that we may see in the bank.

OPERATOR: Thank you. Our next question will come from Jesse Rosenthal with CreditSights. Your line is now open.

JESSE ROSENTHAL: Good morning, guys. Thanks for the call, as always. I've got a quick question on the preferreds. So, you have about $3.5 billion coming callable over the next year. I think they're all floating-rate LIBOR. There's a couple with pretty hefty back ends. I'm just wondering how you're thinking about potential refinance opportunities in this type of market, and basically, is there more of a willingness on the part of the issuer to extend, even if the coupons resetting are fairly high, just based on where the forward curve is showing and not wanting to lock in a new non-call five at relatively high rates? And any color on how you're thinking about the prefs in this market would be helpful.

MICHAEL VERDESCHI: Hi. Good morning, Jesse. So, we've talked about this in the past, how we think about press and the upcoming calls. And I don't think our thinking has really evolved on this from the perspective of as these calls are coming due, we're going to be looking at that call date and looking in the medium-term as well and evaluating our need for that capital.

And then, of course, if we do in fact need that capital, we're going to look at the economics associated with leaving that security outstanding versus calling it and replacing it in the marketplace. And you asked a question about the fixed rate. Really, yes, that would be a factor of course. We're going to be looking at the credit component as well, spreads, and so we will look at that overall economic trade-off between calling it versus leaving it outstanding.

OPERATOR: Thank you. Our next question will come from Robert Smalley with UBS. Your line is now open.

ROBERT SMALLEY: Hi, good morning, and thanks for doing the call. I have two topics. First, following up on some of the financing questions, could we step back for a second and do – or could you give us some bottom-up type of color on how you came to the up to $10 billion number? What specifically will this be funding? Where do you see some variances there? What informed you to come to the $10 billion number, specifically piece-by-piece? That's the first part of my question.

And also, were there any other impacts – deposit beta impacts or impacts from security portfolios switching from AFS to held-to-maturity – that reduced any available liquidity? That's my first question. more to come as we continue to close out – and sign and close out some of the remaining deals.

MICHAEL VERDESCHI: Hi, there. So, let me start with that last part of that question. And so, when we think about the securities portfolio and the use of AFS versus HTM, that is really a focus on ensuring that we're optimizing that securities portfolio and being mindful of the OCI at-risk. And I'll remind you, that AFS portfolio, the valuation changes does impact that CET1. And so, changes in that valuation of AFS does impact that CET1 ratio and can cause volatility. Obviously, the selection in HTM is meant to minimize that volatility.

But importantly, these are very – the vast majority is going to be Treasuries and Agency MBS. Those are very liquid securities, and so we retain the option, of course, to finance those and access the repo markets. So, it doesn't really change our funding profile, in that you can still access those markets. Now, keep in mind that these securities predominantly are held in the bank where we have an enormous amount of deposit funding. But again, that is not a driver of how we think about the issuance.

Just getting to that $10 billion number, again, when I think about what we issued in that first half, $20 billion, and as I mentioned as I think about providing flexibility, 2023 we have $10 billion maturing, and again, that becomes one consideration. But also, we want the flexibility to be opportunistic. And look, we're going to have to see how our balance sheet evolves and how our client engagement evolves.
So I would say there wasn't any precise breakdown of that number, other than us providing ourselves flexibility. We're trying to do our best to give you some sense in terms of the guidance. But again, it's hard

to that with any level of precision, especially in an environment that is evolving and has certainly a high amount of volatility in the market.

MARK MASON: I think your last point, Mike, is particularly key. This is an uncertain evolving environment. We've got a very strong balance sheet that we feel very good about. We want to make sure that we maintain flexibility to support our clients as their needs evolve, and to maintain that strength in the balance sheet that we have today. And so we're being completely transparent with how we're thinking about it, and we'll continue to do that in the coming quarters, and you'll see the actions that we take accordingly inside of this range.

ROBERT SMALLEY: Okay, that helps. And then as a follow-up, and maybe it's more of the same question, but when I look at the SLR, you're comfortable at 5.6%. Do you see gross balance sheet growth decreasing, increasing, or staying the same through the rest of this year and into next year, or can we even tell at this point? And I know you answered a question on prefs earlier, but if we see that number start to drift down to 5.3%, will we see some preferred issuance?

MICHAEL VERDESCHI: I think over the remainder of the year, as we've talked about, we would still expect to see modest deposit growth. We're still looking at spending in cards as well as loan growth more generally, so we would expect the balance sheet to continue to grow.

But in terms of that leverage, again, we're comfortable where we are. We don't think that growth is really going to pressure that leverage ratio. That being said, if we did need to, we would come to the market for that, but that really hasn't been a factor for us. It hasn't been binding. But to answer your question, we are expecting that balance sheet to grow.

MARK MASON: Consistent with our client demands, consistent with the strategy we talked about at Investor Day that over time delivers improved returns, which is what we're here to do.

OPERATOR: Thank you. Our next question will come from Kevin Maloney with BlackRock. Your line is now open.

KEVIN MALONEY: Thanks for taking my question. Mike, on deposits, you mentioned that you expect them to grow moderately for the rest of the year, and clearly, they were down from 1Q modestly. And just thinking about where you think that growth is going to come from, TTS business is clearly market-driven, but if you could give us any color, that would be great.

MICHAEL VERDESCHI: So, Kevin, again, our thoughts are on the full year basis probably that you do see that growth. Look, I think there's a number of things. Obviously, our strategy in the businesses that we're operating in, that we believe that the relationship-based nature of those activities mean that, especially as you see a quantitative tightening unfolding, that perhaps those deposits that are less relationship-driven are the areas that could be impacted by that quantitative tightening. But again, just given our strategy and the relationship-based nature of those deposits, really do factor into our thinking about how those deposits will evolve over time.

MARK MASON: If you think about our ICG business, right, where we talk a lot about our TTS franchise, the multinational clients, the middle market commercial clients that we're serving there, that is about their operating accounts, and continuing to work with them to bring them the breadth of the franchise while growing the deposits that represent their operating account activity is part of where we expect to see continued momentum.

If you think about the PBWM business where we've talked about the importance of wealth, we've talked about the importance of small business activity, the nature of those high-end consumers that we're covering, again, by bringing on new advisors, by bringing on new accounts into that wealth business, we expect to see continued momentum there. So while quantitative tightening will certainly come with some pressure, as we look through the portfolio with the quality deposits that we're looking to grow, we expect to see continued growth come through.

KEVIN MALONEY: Great, thank you. As a follow-up question, on page 16, you had a nice table dictating or suggesting the net interest income walk for the second half of this year. And just – well, I'm wondering how you think you're going to – well, this is actually last year, but how do you think it's going to grow in the forthcoming second half of this year? Is it really driven by rates or driven by market growth, meaning balance sheet growth?

MARK MASON: So again, I'll start that and, Mike, feel free to chime in. So what we look to do here, and I mentioned it on the earnings call, was to really give a little bit of guidance as to the total revenue that we've been talking about since Investor Day, but to break that down for the investor community into NII guidance. And so here I've tried to put or we tried to put what the first half looked like juxtaposed against the prior year, and then specifically speak to what we were expecting in the second half, excluding markets, given how hard it is to forecast markets and certainly a breakout of markets.

That's going to be a combination of both the interest rate environment that we are managing through and continuing to see rate hikes play through there, and some of the volume growth that we've seen over the course of the year already continuing to contribute in the back half of the year. And as you heard me mention earlier, in parts of the business like cards, for example, where we started to see some of that average interest-earning balance growth come to play in the second quarter – we still expect that to play out in the back half of the year as well. And so, factors like that will be important contributors to the NII growth of the $1.8 billion that I mentioned here.

OPERATOR: Thank you. Our next question will come from Arnold Kakuda with Bloomberg Intelligence. Your line is now open.

ARNOLD KAKUDA: Thanks, guys. I think you guys have won Q2 earnings this period. What really helped is strength in trading, particularly fixed income. But is it fair to say that kind of that strength in fixed income and trading, that may be part of the factor in terms of why maybe issuance might need to pick up again in the second half of the year? Trading continuing to be positive in a volatile environment, but that's heavily funded with debt. So is that – if we can hone in kind of on this $10 billion of potential actual issuance – could you say that could be a reason why you kind of upped, potentially upped the guidance range on that?

MICHAEL VERDESCHI: Yeah, so look, it's really any number of factors when we think about that client engagement. And certainly, what we issued out of the parent, that's going to be in our nonbank activities as we thought about it. So, certainly some of that nonbank funding, there's multiple sources. There's going to be, of course, repo financing. One of the complements to our funding profile in the nonbank are the client notes as well, but of course, we'll issue our benchmark there, too.

So that volatility, of course, this environment has played well through the capabilities in our markets business. And we'll just have to see how the second half plays out and how our funding needs evolve and how we best optimize that funding profile to meet those needs.

ARNOLD KAKUDA: Okay, great. Thanks, that's helpful. Switching gear to CET1 levels and your targets, obviously next few quarters higher CET1 requirements, 150 basis points and all on SCB and G-SIB, and that's what's caused you to raise your target to 13%.

It was interesting to see that you – I could see that kind of all rolling back in the midterm. So, is it fair to say that kind of the planned asset sales or exits over the next, I guess, one to two, three years, that's going to help you kind of get the balance sheet – kind of get that down a little bit and focus more on wealth management, more steady revenues – those things could help impact your G-SIB and SCB let's say by 2024, 2025? Is that fair to say?

MARK MASON: Look, I think there are a number of factors. So obviously in the quarter, we built up our CET1 from the prior quarter to the 11.9%. You're right, we do have some headwinds in the way of the SCB and the G-SIB score, and frankly, I think the industry saw those headwinds as well play out with some of the results from DFAST.

As we think about our business, there are a couple of things that I think allow for us to build up to that and then contribute to what we think of as a medium-term level. So the buildup obviously would include the earnings generation that we expect to continue to see play out in the balance of the year and going forward. Obviously, the DTA and utilization of that is an important contributor. You're absolutely right, the divestitures, which we've started to see benefits from even in this prior quarter with the closing of the Australia deal are important contributors to that as well.

The AOCI that pulls back to par is an important factor. So, there are a number of factors that allow for us to build up. And then as you rightfully pointed out, at our Investor Day, we talked about a strategy that over time, shifts the mix of our portfolio and the mix of what contributes to our earnings profile to a more steady, predictable earnings stream. And that becomes an important factor as you think about what goes into the DFAST analysis and establishing a more durable PPNR, and therefore, an improved SCB over time.

So, a number of factors build up to that. The divestiture is certainly one important factor in terms of the leveling-off over time both in the way of SCB but also in the way of G-SIB score to some extent.

OPERATOR: Thank you. Our next question will come from Brian Monteleone with Vanguard. Your line is now open.

BRIAN MONTELEONE: Hey, good morning. Mark, on the earnings call when you were talking about transformation, you mentioned the continued build-out of infrastructure to enhance your stress testing capabilities. Can you go into some more detail about where you are on that, the additional capabilities that will be available and kind of what's still left to do?

MARK MASON: Sure. So, look, as you would imagine, the transformation includes a range of investments across our operations, some in finance, some certainly in risk and risk management and controls, et cetera, et cetera. And what I was referencing was around how we've been improving our stress testing capabilities, really across the firm.

And if you take, for example, if you take a look at kind of counterparty credit risk and stress testing around that, that's one area where we've made investments into the platform that allows for us to run multiple stress shocks against the 3 million-plus derivative trades that we have and all of the securities financing products that we have, to allow for us to see how a shock might impact the valuation or the revaluation of those exposures and positions that we have.

And so, this – the capability in the system allows for us to look at up to 4,000 risk factors and to run these scenarios on a daily basis – again, positioning us and the entire management team to understand what the impact could be and ensure that we're appropriately managing and starving off some of that risk as necessary.

So, that's just one example of counterparty credit risk that we've – and one platform tied to that that we've been investing in. And as you would expect in this type of environment, having those types of capabilities is critically important, right, and so we're very pleased with that progress and know that there's more to come there.

BRIAN MONTELEONE: Great, thanks. And as a follow-up, could you give a little more detail in terms of the RWA optimization that was done in the quarter? Specific, decisions that came out of it? And then I know you guys have talked about more to do there, but any kind of guide in terms of order of magnitude of what's left to do?

MARK MASON: Sure. And I think it's important that we – that I give some or remind everyone of the context for this a bit, right? And so, when we talked about again at Investor Day, one of the important elements of how we are managing the business is how we optimize the balance sheet, and in particular in the case of markets, how we optimize the risk-weighted assets.

And that is with an eye towards how do we improve the returns of the firm over time and get to those medium-term targets that we talked about of 11% to 12%. And that involved the ICG at a 14% to 16% and the PBWM business at a 16% to 18%. And this RWA optimization in markets, as a proxy for returns, we've asked markets to look at how do you improve your revenue to RWA. So we know a target that we want to get to for returns in that business, we've translated that into a tool that they can use in order to ensure that we're optimizing, and that is a revenue-to-RWA metric that they're using.

And they've actually been making very good progress against that, as they look across clients, as they look across products, and identify opportunities where that metric is lower than what the target is, they're constantly working through how do we either improve that by getting these clients to do more business with us across the franchise, or how do we take a decision to exit that particular product with that particular client where there isn't an opportunity to do that, in order to drive optimization.

So specific examples in the case of markets, in equities, rates, commodities, those are products where we saw improvement in or optimization of that RWA. And it ranged from everything like requesting more collateral from clients to considering higher initial margin posting and the like, as well as I mentioned, in some instances deciding to trade away or somewhere else in depending on how low that metric was and the opportunity we did or did not see.

OPERATOR: Thank you. Our next question will come from David Jiang with PGIM. Your line is now open.

DAVID JIANG: Hi, guys. Just a question on the RWAs again. I know you called out the RWA optimization from, I guess, from Australia sale. Do you have – can you give a sense of what that is for all the businesses that you plan to exit – in terms of what's been allocated there? And I think you mentioned in the earnings call that the numerator impact from that is $3.5 billion, right?

MARK MASON: Yeah, so there are multiple points there. So, one is the RWA optimization I was just speaking about was really related to markets in particular and how we're kind of managing it broadly. You rightfully point out that with the exits, those exits contribute to us having more capital and to some extent, therefore, helping to improve our CET1 ratio and over time affording us that capital that we can return to shareholders.

What I described on the earnings call was that for the deals that we have in the balance of the year and expect to close in the balance of the year, or for the total for 2022, we're looking at about $3.5 billion in terms of that capital impact that we would expect, of which Australia was about roughly $1.4 billion or so that we would have realized last quarter.

And the mix, when I look at the impact of that for Australia to that CET1 ratio was about 50:50, so 12 basis points, six of those basis points coming from an RWA capital impact, and the other six of those basis points in the case of Australia coming from other items including the CTA benefit that flowed through at closing. So roughly a 50:50 impact for Australia.

I haven't given and don't really want to break out what that mix looks like for the balance of the deals that we're going to close this year. But as I think you've witnessed, we've been very transparent as those closings have happened, and you can expect for us to continue to do that.

So $3.5 billion for the year, $1.4 billion or so for Australia thus far, the balance comes in in the back half of 2022 for that $3.5 billion.

DAVID JIANG: Got you. Thanks, Mark. The second question I have is on the funding plan, the zero to $10 billion. Is that mostly driven by kind of the market volatility that we've seen thus far, or is there any part of that that's kind of pre-funding for next year kind of pulling forward? I'm just trying to break out what caused the additional issuance need.

MICHAEL VERDESCHI: Sure. Again, and as we've said, it's up to $10 billion, so think of that range as zero to $10 billion, and it's simply a reflection of giving ourselves flexibility. We're trying to provide some guidance around that, but it could be a function of volatility. It could just be a function of client needs as well as getting out in front of future issuance. So this is really us just providing ourselves flexibility.

DAVID JIANG: Got it thank you.

OPERATOR: The next question will come from Ryan Butkus with Lord Abbett. Your line is now open.

RYAN BUTKUS: Hi, thanks again for the call today. I was just curious. There used to be a regulatory landscape update slide in the past fixed income presentations. And I know a lot of the proposed rules and so forth were fully implemented, but some of the materials are probably integrated within the slides now, but I'd be curious to get your take, since this is always a useful industry-type call, of any particular regulatory items that are more in focus or more pending for the team that is becoming more in depth for a need to consider this year. Thank you.

MARK MASON: Ryan, first of all, I'm impressed that you recall kind of how the presentations have evolved, so thank you for that. Look, there are both things that are current and things that are on the come. And I'll start and, Mike, feel free to add.

But I'd start with just kind of the broad sentiment as to how I think about capital and the regulatory environment that we're managing through, which is, there has been this sentiment out there that there's about the right amount of capital for the industry that's out there. And that was a sentiment a couple of years ago, and I still subscribe to that. And I'm hopeful that as the regulatory environment continues to evolve that that perspective is maintained.

And what that means is that for some of the regulation that's still out there pending, that it is looked at and viewed in a holistic way. So that is to say, as new things are incorporated, things that might exist today are reconsidered, so that in aggregate, the amount of capital that banks are required to hold is about the same. And keep in mind that it's come up over the past couple of years. And so there are certainly things out there, FRTB and so on and so forth, that are on the come in a couple of years. But that is my perspective, and I'm hopeful that that continues to be kind of a regulatory perspective around how capital is treated.

Now, we obviously just saw a pretty significant increase in the SCBs across the industry. That's been volatile. I think that that has to be, frankly, looked at and considered because certainly challenging to manage with that degree of volatility in a stress capital buffer. We have the G-SIB score that has gone up with the significant amount of liquidity that's come into the industry over the past couple of years, so G-SIB scores for a number of banks are expected to increase. There's never really been a recalibration of how we look at balance sheets and the G-SIB score. I hope that that is considered in the context of, again, that holistic view.

So I'll stop there and, Mike, I don't know if there's anything you want to add or not, but that's certainly some of my high-level thinking on it.

MICHAEL VERDESCHI: No, I would just echo that. It's how the whole US regulatory capital framework works together and as it evolves over time. I think all those measures should be contemplated, whether it's the Basel IV, G-SIB, or even the SLR, how they work in unison is important.

RYAN BUTKUS: Thank you again.

OPERATOR: Thank you. Our next question will come from Mark Kehoe with MacKay Shields. Your line is now open.

MARK KEHOE: Hey, good morning. Thank you for the call. Just two questions. The first one maybe on RWA optimization in the markets. Is that optimization coming apace in the second half of the year or more a 2023 event? And could it lead to kind of tightening financial conditions for some of your clients? And then a follow-up. Thank you.

MARK MASON: Yeah, sure. So, look, I think optimization – RWA optimization is something that we are – we continually do, right? So, it's not something that is going to stop in the second half. When we talked about it at Investor Day, we talked about it in the context of a regular mining of the business, if you will, and looking at it through both the client and the product lens.

We're obviously building our CET1. We're in our capital building mode, and so that's going to require that we look across the entire franchise, to make sure that how we're using the balance sheet and how we're using RWA is in a way that leverages the franchise and what it has to offer to clients, but also allows for us to build to that return profile that we have. So, I would expect that we will continue to do it in the second half of 2022 and through 2023.

What it does require as it relates to clients, because we are here to serve clients, right, but it does require that we're working with those clients to ensure that they are, in fact, the core and strategic clients that we are best positioned to serve. And what that means is that we are able to bring to bear the full breadth of our franchise as opposed to just one product. And I think that is how clients get the best from us and I think that allows for us to ensure that we're growing with them and generating the returns that our shareholders expect.

MARK KEHOE: Great. Listen, you've been outstanding citizens communicating your issuance needs over the last near decade. Just wondering now, when you think, like for example, some on the buy side here we feel almost run over in terms of issuance this year. Is the way to kind of rebuild trust kind of to focus on the issuance in 2023 – you mentioned $23 billion. Could that number actually increase as QT takes hold and you receive more deposit outflows, or should we kind of look towards 2023 and go, there's less issuance in 2023 versus 2022? Thank you.

MICHAEL VERDESCHI Mark, what I would say at this point, again, we try to provide some sense of guidance every year. I think at this point what we're trying to do is give you some sense of how we think about the back end of this year and the various things that we're contemplating. Again, as I said, client needs evolving but also looking at that 2023.

What we actually do beyond this year will be a function, of course, as we come together as a firm and build our plans for 2023 and how the balance sheet may evolve at that point. Too early to tell exactly what that guidance will entail at that point, but as always, it will be a combination of things, looking at the maturities as well as what the broader needs are based on our client needs.

OPERATOR: Thank you. Our next question will come from Jesse Rosenthal with CreditSights. Your line is now open. Jesse, your line is open. Please make sure your phone is not on mute.

JESSE ROSENTHAL: Yeah, sorry about that. A quick one for me, following up on the issuance in parent funding question, something that we've definitely heard a lot of questions on from the fixed-income investor base. But for the one-year pref call option, how do you guys think about the trade-off between the loss in that final year and what is looking like fairly cheap funding on the reset spreads, just given where rates have run? And then on top of that, especially in an environment like this, folding in the particular areas of business growth that you're seeing, i.e., those non-bank lines that demand whole growth financing.

MICHAEL VERDESCHI: Jesse, so you're right. On those calls, TLAC is a big driver of that decision, but no different than anything else that we may contemplate calling. We are going to look at the overall economics, as you point out. What you contemplate at that point is simply a source of funding. And so, while you lose that – some of that TLAC benefit – it is still a funding source, and so, yes, we will look at the need for that funding in that part of the curve and what a replacement cost may look like. And again, as all things, it will be a function of the interest rate component as well as the credit spread.

And the question of the interest rate component comes up a lot. When we issue when we think in terms of the fixed interest rate, we obviously have many different tools that we can utilize to manage our interest rate risk profile. And it's obviously the asset and liability side of the balance sheet, but it's also use of derivatives. So, sometimes that interest rate component isn't the key driver. It may, in fact, be the spread because of some of those other tools that we utilize.

But you're right. It does turn into a cost of funding decision once you begin to lose that TLAC value.

JESSE ROSENTHAL: Okay, thanks for that.

OPERATOR: Thank you. There are no further questions. I would now like to turn the call back over to Peter Demoise for closing remarks.

PETER DEMOISE: Thanks, everyone. If you have any follow-up questions, please reach out to IR. Have a great day, and thank you.

OPERATOR: Thank you. This concludes the Citi Second Quarter 2022 Fixed Income Investor Review Call. You may now disconnect. Have a great day.

