



Host

Jennifer Landis, Head of Citi Investor Relations

Speakers

Jane Fraser, Citi Chief Executive Officer

Mark Mason, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Second Quarter 2023 Earnings Review with the Chief Executive Officer, Jane Fraser; and Chief Financial Officer, Mark Mason. Today's call will be hosted by Jenn Landis, Head of Citi Investor Relations. We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. Also, as a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time.

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 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 earnings materials as well as in our SEC filings.

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

JANE FRASER: Thank you, Jenn, and good morning to everyone. **While this quarter wasn't as eventful as the first quarter, it was not without its moments.**

The global economy continues to be remarkably resilient, although the macro backdrop differs across key markets. While the bulk of the tightening is behind us, central banks are responding vigorously to inflation **and have made it clear that the cycle of hikes isn't over.**

In the U.S., the tight labor market keeps pushing the timing of this elusive recession later into this year or 2024, with the robust demand for services providing a backstop for the economy.

The Eurozone has also exceeded expectations; however, most countries are facing pressure from labor and **energy costs, challenging the region's longer-term competitiveness.**

China is the biggest disappointment, as growth decelerated after an initial post-reopening pop. I was there **last month, and let's just say few on the ground expect China to be as strong a driver of global growth this year as some had hoped.**

So bottom line, globally we continue to see the same quite challenging macro-economic conditions that **we saw in the first quarter. From Citi's perspective, we continue to see the benefits of our diversified business model and strong balance sheet.** We remain laser focused on executing our strategy and simplifying and modernizing our bank. Despite the turbulence and macro backdrop of the first half, we are on track with the plan we laid out at Investor Day and remained committed to our strategy and medium-term ROTCE target.

Today we reported net income of \$2.9 billion and an EPS of \$1.33. Our revenues ex-divestitures are



relatively flat to last year and we remain on track to meet our revenue guidance of \$78-79 billion for the year. We are also on track to meet the expense guidance for the year. And, consistent with the plan we shared with you at our Investor Day, we are pursuing cost saving opportunities to help offset the significant investments in our Transformation.

In Services, TTS continues to deliver, with revenues up a healthy 15%. This was driven by both net interest income and non-interest revenue as we win fee-generating mandates with new clients and deepen our relationships with existing large corporate and commercial clients. We are proud of our number one ranking for large institutional clients¹. And this week, we announced our latest innovation, Citi Direct Commercial Banking, a digital platform to help our growing commercial clients tap into our global network.

Securities Services revenues were also up 15%, driven by higher interest rates across currencies. We are really pleased with execution in this business as we continue to bring in new assets under custody and administration, which are up by approximately \$2.4 trillion in the last year. And we have gained 100 basis points in share year-over-year as a result of the investments we have been making².

Markets revenues were down 13%, compared to an exceptionally strong second quarter last year. From early April, clients stood on the sidelines as the debt ceiling played out and we continued to experience very low levels of volatility throughout the quarter. Despite this, our corporate client flows remained strong, and we achieved our medium-term revenue-to-RWA target again this quarter.

In Banking, the momentum in investment grade debt has spread into other DCM products. But the long-awaited rebound in Investment Banking has yet to materialize, and it was a disappointing quarter in terms of both the wallet and our own performance with Investment Banking revenues down 24%. We continue to right-size the business to the environment whilst making investments in selected areas such as Technology and Healthcare.

In the U.S., taken together our cards businesses had double-digit revenue growth aided by customer engagement and the continued normalization in payment rates. In Branded Cards, spend is still strong in travel and entertainment, and acquisitions remain pretty healthy. This is a great franchise, and we have launched a raft of new innovations from transforming our ThankYou rewards platform to our enhanced value proposition for the premium card with our longtime partner, American Airlines.

Credit normalization is happening faster in Retail Services, given the **profile of the portfolio**. And overall, I'd say we are seeing a more cautious consumer but not necessarily a recessionary one.

Wealth revenues were down 5% as the business continues to be negatively impacted by the deposit mix shift, particularly in the Private Bank, and by lower investment revenues. However, we have seen activity pick up a bit in Asia for two quarters with growing net new assets. Referrals from the U.S. retail bank are increasing, and globally, new client acquisition in the Private Bank and Wealth at Work has grown significantly on the back of our investments in our network of client advisors and bankers.

Turning to expenses, they were elevated this quarter, as we expected. This includes the additional repositioning actions we took to right size certain businesses and functions in light of the current environment. Year-to-date, severance is about \$450 million, including \$200 million in the quarter.

Separate to repositioning, we remain committed to bending our expense curve by the end of 2024 through three significant efforts.

First, we continue to make investments in our Transformation and other risk and control initiatives which are necessary to modernize our infrastructure, automate our controls, as well as improve the client experience. As we said before, we will start to see the more material benefits of these investments over the

¹Coalition Greenwich 1Q23 Competitor Analysis results. Results are based upon Citi's internal product taxonomy and Citi internal revenues. Peer Group includes BAC, BARC, BNP, DB, HSBC, JPM, SG, SCB, and WFC. Institutional/ICG Client includes Corporates with Turnover >1.5bn and all Financial Institutions.

²Coalition Greenwich 1Q23 Competitor Analysis results. Results are based upon Citi's internal product taxonomy and Citi internal revenues. Market share is calculated using Citi internal revenue and Coalition Greenwich's Industry Revenue Pools.



medium-term.

Second, as part of our simplification efforts, we expect to close the sales of our remaining two Asia consumer franchises by year-end, and we plan to restart the exit process in Poland. As you can see on the slide, we made excellent progress this quarter in the consumer businesses we are winding down, aided by material asset sales, and we are now attacking stranded costs and closing out the TSAs in the markets we have already exited.

You saw our determination to execute when we decided to IPO Banamex after exploring a sale. We should complete the process of separating the two businesses next year in preparation for the IPO and I am pleased with the progress on the ground – we are about to begin acceptance testing on the new systems for the retained businesses.

All this means that by year end, considering how far the divestures and winddowns have progressed, Legacy Franchises will have materially reduced its exposures and primarily be down to Mexico, Poland, Korea and the elimination of the remaining stranded costs. As such, as we move through the second half of the year, we will be in a position to focus on the third leg of bringing down our expense base through a leaner organizational model. Together, these three efforts are why we have confidence in saying that we will start to bend the curve on an absolute basis by the end of 2024 and continue to bring down expenses over the medium-term.

Let me end with capital. **You won't be shocked to hear that we were disappointed with the increase to our Stress Capital Buffer.** We have engaged in active dialogue with the Fed to better understand the differences between our model and theirs in terms of Non-Interest Revenue.

And the industry awaits further clarity on capital requirements and importantly their implementation timing from the holistic review the Fed has undertaken and the expected Basel III Endgame NPR. There is still uncertainty as to what the final rules will be and we, like the rest of the industry, will need to work through the implications.

The exit of fourteen international consumer markets, coupled with the results of our transformation investments and change in business mix, will help reduce our capital ratios. In addition, we have other levers to pull over time, such as capital allocation, DTA utilization, our GSIB score and our management buffer of 100 basis points.

We are committed to returning capital to our shareholders, as you saw with our decisions to repurchase \$1 billion in common stock and increase the dividend. We ended the second quarter with a CET 1 ratio at 13.3%, 100 basis points above our upcoming requirement, after returning a total of \$2 billion in capital. And we grew our Tangible Book Value per share to \$85.34. Given the environment, we will continue to look at our level of capital return on a quarter-to-quarter basis.

Overall, we are pleased with the progress we have made but there remains a lot to do. We will continue to update you on the progress we are making every quarter.

With that, I would like to turn it over to Mark and then we would be delighted, as always, to take your questions.

MARK MASON: Thanks, Jane and good morning everyone. I am going to start with the Firmwide financial results, focusing on year-over-year comparisons for the second quarter unless I indicate otherwise, and spend a little more time on expenses and capital. Then I will turn to the results of each segment.



On slide 4, we show financial results for the full firm. In the second quarter, we reported net income of approximately \$2.9 billion and an EPS of \$1.33 and an RoTCE of 6.4% on \$19.4 billion of revenues. Embedded in these results are after-tax divestiture-related impacts of approximately \$(92) million. Excluding these items, EPS was \$1.37 with an RoTCE of 6.6%. In the quarter, total revenues decreased by 1% both on a reported basis and excluding divestiture-related impacts, as strength across Services, U.S. Personal Banking and revenue from the investment portfolio, was more than offset by declines in Markets, Investment Banking and Wealth, as well as the revenue reduction from the closed exits and wind-downs.

Our results include expenses of \$13.6 billion, up 9% both on a reported basis and excluding divestiture-related costs.

Cost of credit was approximately \$1.8 billion, primarily driven by the continued normalization in Cards net credit losses and ACL builds, largely related to growth in card balances.

Our effective tax rate this quarter was 27%, primarily driven by the geographic mix of our pre-tax earnings in the quarter. Excluding current quarter divestiture-related impacts, our effective tax rate was 26%.

At the end of the quarter, we had over \$20 billion in total reserves with a reserve-to-funded loans ratio of approximately 2.7%. And through the first half of 2023, we reported an RoTCE of 8.7%.

On Slide 5, we show the quarter-over-quarter and year-over-year expense variance for the second quarter. Expenses were up 9%, driven by a number of factors, including investments in risk and controls, business-led and enterprise-led investments, volume growth and macro factors, including inflation, as well as severance, and all of this was partially offset by productivity savings and expense reductions from the exits and wind-downs

Severance in the quarter was approximately \$200 million, and \$450 million year-to-date, as we took further actions across Investment Banking, Markets and the Functions.

We are investing in the execution of our Transformation and continue to see a shift in our investments from third-party consulting to technology and full-time employees. And as we said last quarter, our Transformation and technology investments span across the following themes: Platform and process simplification, security and infrastructure modernization, client experience enhancements and data improvements.

And across these themes, technology spend was \$3 billion in the quarter, up 13% primarily driven by “change the bank” spend.

Despite the higher expense base sequentially, we remain in line with our full year guidance of roughly \$54 billion, excluding divestiture-related impacts and the FDIC special assessment.

On slide 6, we show net interest income, deposits, and loans where I’ll speak to sequential variances. In the second quarter, net interest income increased by approximately \$550 million, largely driven by dividends.

The increase in net interest income ex-Markets was largely driven by higher rates and cards growth, partially offset by the mix shift that we have seen to higher rate deposit products within PBWM.

Average loans were flat as growth in PBWM was offset by the wind-down markets and a decline in ICG, as we continue to optimize the loan portfolio including a further reduction in subscription credit facilities.

Average deposits were down 2%, largely driven by TTS as we saw some non-operational outflow as expected in light of quantitative tightening. However, underlying this, we did see strong growth in operating accounts



as we continue to win new clients and deepen with existing ones. And our net interest margin increased 7 basis points.

On Slide 7, we show key consumer and corporate credit metrics. We are well reserved for the current environment with over \$20 billion of total reserves. Our reserves-to-funded loans ratio is approximately 2.7%. And within that, U.S. Cards is 7.9%.

In PBWM, 44% of our lending exposures are in US cards and of that exposure, 80% is to customers with FICOs of 680 or higher. And NCL rates are still below pre-COVID levels and are normalizing in line with our expectations. The remaining 56% of our PBWM lending exposure is largely in Wealth, predominantly in mortgages and margin lending.

In our ICG portfolio, of our total exposure, approximately 85% is investment grade. Of the international exposure, approximately 90% is investment grade or exposure to multinational clients or their subsidiaries. And corporate non-accrual loans remain low at about 44 basis points of total loans.

As you can see on the page, we break out our Commercial Real Estate lending exposures across ICG and PBWM which totals \$66 billion, of which 90% is investment grade.

So, while the macro and geopolitical environment remains uncertain, we feel very good about our asset quality, exposures and reserve levels—and we continuously review and stress the portfolio under a range of scenarios.

On Slide 8, we show our summary balance sheet and key capital and liquidity metrics. We maintain a very strong \$2.4 trillion balance sheet which is funded in part by a well-diversified \$1.3 trillion deposit base across regions, industries, customers and account types which is deployed into high-quality, diversified assets. Our balance sheet reflects our strategy and well diversified business model. We leverage our unique assets and capabilities to serve corporates, financial institutions, investors, and individuals with global needs.

The majority of our deposits, \$818 billion, are institutional and operational in nature and span across 90 countries. These institutional deposits are complemented by \$427 billion of US Retail consumer and global wealth deposits as you can see on the bottom right side of the page.

We have approximately \$584 billion of HQLA and approximately \$661 billion of loans and we maintain total liquidity resources of just under \$1 trillion. Our LCR was relatively stable at 119% and our net stable funding ratio was greater than 100%. We ended the quarter with a 13.3% CET1 ratio. And our tangible book value per share was \$85.34, up 6% from a year ago.

On Slide 9, we show a sequential CET1 walk to provide more detail on the drivers this quarter. Starting from the end of the first quarter. First, we generated \$2.6 billion of net income to common which added 22 basis points. Second, we returned \$2.0 billion in the form of common dividends and share repurchases, which drove a reduction of about 18 basis points. And finally, the remaining 14 basis point decrease was primarily driven by RWA growth as we continued to grow card balances, partially offset by optimizing RWA in Markets and Corporate Lending.

We ended the quarter with a 13.3% CET1 capital ratio, which includes a 100 basis point internal management buffer. We expect our regulatory capital requirement to be 12.3% in October of 2023, which incorporates the increase in our Stress Capital Buffer from 4% to the preliminary SCB of 4.3% we announced a couple weeks ago. And we will continue our dialogue with the Fed to better understand the differences between their modeled results and ours, specifically in non-interest revenue.

That said, our strategy is designed to further diversify our business mix to have a more consistent,



predictable and repeatable revenue stream, as well as reduce risk and simplify our firm by exiting 14 international consumer markets. The strategy and the simplification coupled with the benefits of our transformation investments will allow us to improve RWA and capital over time. The continued optimization of our balance sheet should not only help SCB but reduce RWA. This will offset some of the anticipated headwinds in capital requirements and RWA. And we will continue to reassess how and where we deploy capital and evaluate the appropriate level of our management buffer over time.

On Slide 10, we show the results for our Institutional Clients Group for the second quarter. Revenues were down 9% this quarter, as growth in Services was more than offset by Markets and Banking. Expenses increased 13%, primarily driven by continued investments in TTS and risk and controls, as well as approximately \$120 million of severance in Investment Banking and Markets, partially offset by productivity savings.

Cost of credit was \$58 million, as net credit losses were partially offset by an ACL release. This resulted in net income of approximately \$2.2 billion, down 45%, primarily driven by lower revenues and higher expenses. ICG delivered an RoTCE of 9.2% for the quarter and 11.4% through the first half of 2023.

Average loans were down 6% reflecting discipline around our strategy and returns. Average deposits were up 1% as we continued to acquire new clients and deepen relationships with existing ones.

On Slide 11, we show revenue performance by business and the key drivers we laid out at Investor Day. In Treasury and Trade Solutions, revenues were up 15%, driven by 18% growth in net interest income and 8% in non-interest revenue. **It's also worth noting that TTS revenues were up 20% on an ex-FX basis.** We continue to see healthy underlying drivers in TTS that indicate consistently strong client activity with, U.S. Dollar Clearing Volumes up 6%, both in the quarter and through the first half of 2023, Cross-border flows up 11%, outpacing global GDP growth, both in the quarter and through the first half of 2023, and commercial card volumes up roughly 15%, led by spend in travel. In fact, similar to the last few quarters, client wins are up approximately 41% across all client segments. These include marquee transactions where we are serving as **the client's primary operating bank.**

In Securities Services, revenues were also up 15%, driven by higher net interest income across currencies. We are pleased with the progress in Securities Services as we continue to onboard assets under custody and administration, which are up approximately 11% or \$2.4 trillion dollars. And we feel very good about the pipeline of new deals in Securities Services. As a reminder, the Services businesses are central to our strategy and are two of our higher-returning businesses with strong synergies across the firm.

Markets revenues were down 13%, driven by both Fixed Income and Equities, relative to an exceptional quarter last year coupled with low volatility this quarter. Fixed Income revenues were down 13%, as strength in our Rates franchise was more than offset by a decline in Currencies and Commodities. Equities revenues were down 10%, primarily reflecting a decline in Equity Derivatives. But consistent with our strategy, we continued to grow Prime balances, driven by client wins. Corporate client flows remained strong and stable and we continued to make solid progress on our revenue-to-RWA target. And finally, Banking revenues, excluding gains and losses on loan hedges, were down 22%, driven by Investment Banking, as heightened macro uncertainty continued to impact client activity, as well as lower revenues in Corporate Lending. While we continue to have a strong pipeline and are seeing green shoots of activity, we recognize there is more work to do in ECM and M&A. That said, we believe the investments we have made in Healthcare and Technology coverage will benefit us over time.

So overall, while the market environment remains challenging and there is more work to be done, we are making progress against our strategy in ICG.

Now turning to Slide 12, we show the results for our Personal Banking & Wealth Management business.



Revenues were up 6%, driven by net interest income growth of 7%, partially offset by a 6% decline in non-interest revenue, driven by lower investment product revenues in Wealth. Expenses were up 5%, predominantly driven by risk and control investments.

Cost of credit was \$1.6 billion, driven by higher net credit losses as we continue to see normalization in our card portfolios and a reserve build of \$335 million, primarily driven by card balance growth.

Average loans increased 7% driven by cards, mortgages and installment lending. Average deposits decreased 1%, largely reflecting our Wealth clients putting cash to work in fixed income investments on our platform. And PBWM delivered an RoTCE of 5.5%, both for this quarter and through the first half of 2023, largely reflecting the challenging environment for Wealth and higher credit costs.

On Slide 13, we show PBWM revenues by product as well as key business drivers and metrics. Branded Cards revenues were up 8%, primarily driven by higher net interest income. We continue to see strong underlying drivers with new account acquisitions up 6%, card spend volumes up 4% and average loans up 14%. Retail Services revenues were up 27%, driven by higher net interest income and lower partner payments. For both Card portfolios, we continue to see payment rates decline, and that combined with the investments we have been making contributed to growth in interest-earning balances of 17% in Branded Cards and 12% in Retail Services.

Retail Banking revenues decreased 9%, reflecting the transfer of relationships and the associated deposits to our Wealth business. In fact, consistent with our strategy, we continued to leverage our retail network to drive 25,000 Wealth referrals year-to-date through May, up 18% YoY.

Wealth revenues were down 5%, driven by continued investment fee headwinds and higher deposit costs, particularly in the Private Bank. However, Wealth at Work revenues were up over 30%, driven by strong lending results, primarily in mortgages. Client advisors were down 1%, reflecting the re-pacing of strategic hiring. And new client acquisitions were up nearly 40% in the Private Bank and approximately 60% in Wealth-at-Work in the second quarter. **While there's clearly more work to do in wealth, we are seeing good momentum in underlying drivers.**

On Slide 14, we show results for Legacy Franchises. Revenues were down 1%, as the benefit of higher rates and volumes in Mexico was more than offset by the reductions from closed consumer exits and wind-downs. It is worth noting that **Mexico's revenues were up 22%, and 10% ex-FX**. Expenses decreased 2%, primarily driven by closed consumer exits and wind-downs. Excluding divestiture-related impacts, expenses decreased 8%.

On Slide 15, we show results for Corporate Other for the second quarter. Revenues increased, largely driven by higher net revenue from the investment portfolio. Expenses also increased, driven by inflation and severance.

On slide 16, I'll briefly touch on our third quarter and full year 2023 outlook. We are maintaining our full-year revenue guidance of \$78 - \$79 billion, excluding 2023 divestiture-related impacts, although the mix has shifted somewhat. We are increasing our net interest income guidance from \$45 billion to slightly above \$46 billion for the full year excluding Markets, offset by lower non-interest revenue, largely driven by Investment Banking and Wealth.

We are also maintaining our expense guidance of roughly \$54 billion, excluding 2023 divestiture-related impacts and the FDIC special assessment. Net credit losses in Cards should continue to normalize in the remainder of the year, with both portfolios reaching normalized levels by year-end. And we now expect the full-year tax rate to be approximately 25%, excluding discrete items and divestiture-related impacts.

As it relates to the third quarter, we expect continued momentum with clients, including fees, and benefits



from US and non-US rates on NII. We also anticipate a sequential increase in expenses, driven by continued investments in Transformation and risk and controls. Net credit losses in Cards should continue to normalize in line with expectations. And our effective tax rate for the quarter should be approximately 25%, excluding discrete items and divestiture-related impacts.

And as it relates to buybacks, we will continue to make that decision on a quarter-by-quarter basis.

Before we move to Q&A, I'd like to end with a few points. We continue to execute on the strategy to simplify our firm, improve our revenue mix and bring both expenses and capital down over time. We are seeing solid momentum in the underlying drivers of the majority of our businesses. And as we said at Investor Day, the financial path will not be linear, but we remain focused on achieving our medium-term RoTCE target.

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

QUESTION AND ANSWER

OPERATOR: Our first question will come from Glenn Schorr with Evercore.

GLENN SCHORR: So, I'm very curious on the whole revenue to RWA topic, especially with some of the changes coming in. So maybe you could give a little more color on -- let's take, for instance, the further reduction in subscription credit facilities. I think I read somewhere that was like an \$80 billion book down to \$20 billion. You can correct that if that's wrong. But just usually, those things are big important clients that have relationship lending, things attached to them. So, I'm curious on how you balance the capital benefit, the clear capital benefit, versus client impact and how you think about that? Are there other blocks of business that are in motion right now?

MARK MASON: Thanks Glenn and good morning, and thanks for the question. Look, a couple of points on that. One is we've been very focused on the revenue to RWA metric in our Markets business in the ICG more broadly as well. And we've made considerable progress on that. And that's important because how we use the balance sheet and ensuring that we're optimizing the use of the balance sheet contributes to how we improve returns over time.

You're right to point out the subscription facility, credit facility, lending that we do. We brought that down pretty significantly. The numbers you highlight are a lot higher than the portfolio. But what's important here is that as we look at that, we look at a couple of things. So, one, the nature of relationship and whether clients are taking advantage of the breadth of what we have to offer. Two, the profitability and returns associated with the product to the extent that it is in a broader relationship, and where those returns are low, subpar, and the prospect for doing more has proven to be fruitless, we take it down. And that's what we've done with a large part of that book, just as we juxtapose it against other opportunities to use balance sheet where clients are taking advantage of the broader franchise and therefore, are generating higher returns.

And we're going to continue to do that. We've done that to drive the revenue to RWA metric. We've done it selectively on pieces of the portfolio like SCF. We've also looked at our broader corporate lending portfolio and where those promises for higher relationship returns aren't manifesting themselves, we've not renewed those loans. And as we think about pending regulatory changes, proactively making these efforts becomes critically important. When I look back on the activity that we've done over the past couple of years, we've reduced RWA by approximately \$120 billion over the last 2 years, and about 75% of that is predominantly driven by balance sheet optimization and looking at client activity that has low margin business. And so, this is important for us to do and to keep doing.

GLENN SCHORR: I appreciate that, Mark. Maybe just a quick follow-up. On NII, I asked this last quarter too. And your first half annualized ex-Markets is running about \$1.5 billion ahead of the guide. Is that just



unpredictable nature all the moving parts, trying to be conservative or anything else in the back half that you're thinking about?

MARK MASON: Thanks, Glenn. We did take guidance up to slightly above \$46 billion from the \$45 billion. I guess there are a couple of things, **and that's** ex-Markets, of course. There are a couple of things to think about in terms of headwinds and tailwinds that play through there. One is you've heard me mention before that we've reached terminal betas in the U.S. Two, deposit volumes and the shift mix as we see consumers kind of move into higher-returning type, higher-yielding type products. And three, really the wind-downs and the exits and the reduction that they will play out in terms of NII. So those are kind of 3 headwinds as we think about the forecast and the balance of year. There are obviously some potential tailwinds that play to the other side, including rate movements in non-U.S. dollar as well as Card volume growth. And as we look at those headwinds and tailwinds, our current read is to take it up, but \$46 billion or slightly above that feels like the right level in the context of total revenues at \$78 billion to \$79 billion.

OPERATOR: And our next question comes from Jim Mitchell with Seaport Global Securities.

JIM MITCHELL: Maybe just getting on the expense side. You're keeping Mexico until 2025 now at the earliest. So that will be on the books longer. How do we think about that bend the curve discussion? And maybe specifically, you can help us think about bending the curve for the non-legacy businesses. Do we start to see is the fourth quarter just a slowing or quarterly decline? Is it a year-over-year kind of a discussion? I just want to make sure I understand the whole bend the curve notion and how to think about that.

MARK MASON: Thank you. Let me take that. I'd say a couple of things. So, one, I'd reiterate the expense guidance that we've given for the full year. So that's the roughly \$54 billion ex-divestitures, or the impact of divestitures, ex-any impact from FDIC special assessment. Two, as we think about bending the curve, I look into 2024 and we're looking to bring the absolute expense dollars down from Q3 to Q4. So that bending of the curve will occur. It will occur despite having Mexico still part of the franchise. And obviously still having Mexico impacts the magnitude of the bend, but it will bend Q3 to Q4.

And then beyond that and through the medium term, we will see the curve continue to bend. Again, Mexico impacts the magnitude of the bend, but we're very, very focused on bringing our costs down and bending that curve. And you've heard us reference the aspects or the elements of our business that help contribute to that, not the least of which are the exits, one of which is Mexico, and you referenced the timing there, but also the benefits from investments that we've been making in transformation and risk controls and shifting from manual processes to technology-enabled ones.

And then the final one is around simplifying our organization. And you heard in Jane's prepared remarks, as we continue to make progress on these exits, it opens up the opportunity for us to lean more heavily into that simplification. So, we are focused on not only the guidance, but the bending of the curve as you point out and looking forward to delivering that and taking actions to ensure we do.

JIM MITCHELL: So just as a follow-up, is the way to think about sort of 2025 and beyond as you get through a lot the automation on the sort of the non-legacy businesses and start to get much more efficient there. Is there an absolute expense decline story in the core business? Or is that more that you need the top line growth to get the improved returns?

MARK MASON: Again, it's going to be a combination of continuing to bend the curve and bring our expenses down. Obviously, we've given you guidance on operating efficiency of less than 60%, which will be some of that top line growth, but it's the combination of the two.

OPERATOR: And our next question comes from Betsy Graseck with Morgan Stanley.



BETSY GRASECK: I just wanted to confirm on the CET1. You know you have the 100-basis point buffer on top of regulatory minimums. So that would suggest that the 13.3% that you got this quarter is in-line with where you're planning on holding it going forward, is that fair?

MARK MASON: So, you're right, we hit 13.3% this quarter, down a tad bit from the 13.4% last quarter. Effective October 1, the 4.3% SCB comes into play. And so that would equate to, assuming the 100-basis point management buffer, a 12.3% regulatory requirement and a 13.3% kind of target that we would manage to.

I'd highlight a couple of things that I'm sure are obvious to you, Betsy. One is this is the stress capital buffer for the 12-month period starting October 1. And two is the strategy that we've described and talked about and have started to execute against is intentionally designed to help morph the business towards a more steady, predictable, consistent stream of revenues, fee revenue growth as well bring our expenses down over time, and exit these markets, and those things should contribute to reducing our stress capital buffer over time and improving our returns. But the answer to your question very directly is, yes, the 13.3% would reflect where we'd be targeting as of October 1 for now.

BETSY GRASECK: And since you mentioned you're evaluating buybacks quarter-by-quarter. I guess the question here is, how should I think about that relative to, we get Basel endgame coming out soon because clearly, when you're at 13.3% against the new reg cap SCB, you know it signals a bigger opportunity for buybacks over the coming quarters. So how should I think about that?

JANE FRASER: I think that consistent with what we've been talking about, there's a lot of uncertainty out there about the new capital requirements, both in terms of the nature of them and the timing of implementation. I think the industry is expecting to get more clarity about that with the comment period that will be coming up.

Plus, it's a fairly uncertain macroeconomic environment at the moment, so both Mark and I feel it's prudent to continue making that assessment until some of this uncertainty is clarified as to what precisely **we'll** do. You should take confidence that we're at the levels, including the management buffer that we expect to be for the rest of the year. We've proven a good case of being able to build capital that's for sure over the last 2 years. And you take comfort as well we increased the dividend, we had \$2 billion of capital returned last quarter, so our intentions are clear to return capital where we can, but also to be prudent in how we do so, given environment and current regulatory uncertainty.

OPERATOR: Our next question comes from Mike Mayo with Wells Fargo.

MIKE MAYO: One negative question, one positive question. So, on the negative side, you talked about bending the cost curve, but I think second quarter year-over-year, it's bending the wrong way, and 6 quarters from now, you're saying it should bend the other way. So, what are we not seeing in the financials that gives you such confidence? Because it seems, based on this quarter's results, a little bit more of a trust me story. And on the positive side, TTS, continued double-digit growth, you continue to invest more in that business, how are you monetizing greater money in motion among your multinational and other clients?

JANE FRASER: Thanks Mike, I'll kick it off and then send it back to Mark. In terms of the expense side, I think we've been very transparent about the arc of our investment spend related both to the transformation and beyond. We'll continue to give you that transparency, Mike. Note last year, we hit our expense guidance. This year, we're on track for the guidance of roughly the \$54 billion, ex-FDIC and divestitures and looking forward, we continue to guide what are the 3 levers that will drive the reduction in the expense curve starting at the end of '24. It's from exits and I think you've got a clear sense around the progress that we have been making on the divestitures.



And therefore, we're pivoting, as we talked about, to focus now on really tackling the stranded expenses as we close off the final couple of sales there in Asia in the next few months. We'll realize the benefits from our investments in transformation and controls over the medium term. We'll also have the benefit of the remediation work getting done and expenses going away from that. And then the third one will be simplifying the organization, as we talked about. So, we'll continue to walk you, step by step, what are the different actions we're taking, what are we doing, and hopefully we are building up that track record of doing what we will say we are going to do every quarter. Mark, anything to add?

MARK MASON: **The only thing I'd add** on the expense side, and then you may want to touch on the TTS, but the only add on the expense side is, we are taking repositioning charges, Mike. I mean we're not sitting still as we go through this uncertain period of time where wallets across certain parts of the industry are under significant pressure. And in taking those repositioning charges, there are going to be expense reductions that ultimately play out over the next 12-month period. So that's the other factor in addition to what Jane mentioned in the way of exits and benefits from the transformation that will play into the cost base over the next 12 months.

JANE FRASER: And then on TTS, I think we all share your enthusiasm for this business in terms of the growth potential that we've been realizing and expect to continue, albeit converging now to the medium-term guidance over the next few quarters where we see it's a high to medium single-digit growth going forward. It's a very high-returning business and some of the indicators of how we're monetizing those relationships. We're seeing it both in terms of new client wins, they were up 41% this quarter. We have a sustained win-loss ratio of 80% on the new deals across different client segments. We're also seeing growth that's starting to really kick in from our commercial bank and the expansion of clients in the middle market around the world as we grow out that franchise.

And we've got some very good fee-growth, which as Mark points out, and I point out all the time, we're very focused around, so cross-border up 11% U.S. dollar clearing up 6%, commercial cards up 15%, etc.. And we continue to invest in the business as well, so to make sure that 80%-win ratio continues. So, first bank to launch 24/7, 365 dollar clearing, U.S. dollar clearing. We've got the instant payments platform we just launched for e-commerce clients. We have Payments Express that is now live in the U.S., on track for 5 markets by the year-end. So, it's a story of innovation, **it's a story of investment**, it's got great returns. It's a good growth story, and it just, it keeps on going.

And I don't want to diminish Securities Services in there either. It's another business that's, similarly, continuing to see significant client wins, up 65% versus last year as well. And a lot of our strategy there has been focused on gaining share with the asset managers in North America. Couple of years ago, we're down at 2.6% share. We're up about 4.3%. Our target is about 5.5% there in 2025 in that key growth area. I know there's a lot to like here too.

OPERATOR: And our next question comes from Erika Najarian with UBS.

ERIKA NAJARIAN: So, I apologize having to ask the expense question again, but I think it's just very important because there's really two potential long-only investment thesis on Citi, right? One is the buyback given your tangible book values at \$85 and the and the stock at \$46 other is the spending the curve on expenses. So let me just ask Jim's question another way. In looking back to 2017, and I'm just looking at 2017 because I can break out legacy and core that way. And fast forward to 2022, you produced revenues ex Legacy Franchises about \$61 billion in 2017 and about \$67 billion in 2022. The associated expenses, again, without Legacy Franchises was about \$34.5 billion in 2017 versus \$43.5 billion 2022, so you're surpassing the revenue uplift during that period by \$3 billion.

I guess the question is, you have so much certainty about the timing of this expense and I'm wondering how much of this \$9 billion can go away? We understand that there's a lot of opportunity for reinvestment in the



core business, but I think all of us are struggling to really understand that magnitude. And I think that the investor base in the market fully understands the Legacy Franchise story and how the exits will take time. But I think they're most interested in the core business and how much of that can come out.

MARK MASON: Yes, sure. Look, no need to apologize for asking the question again, it's an important topic. I'd say a couple of things. So, one is that we can certainly look back in time, but I would highlight that we're here because we needed to have invested more in our franchise. And so undoubtedly, there's going to be an increase in our expense base that reflects the underinvestment from the past and in shoring up safety and soundness and actually moving towards a more automated operational, more modernized operations and infrastructure. So, there's certainly going to be that.

With that said, with those investments come efficiencies. So, with the move from manual to automation over time, those types of investments will yield benefits in our cost structure. And that's part of what is going to bend the curve over that medium-term period. The other thing that I'd highlight is, obviously, with the Legacy Franchises, there's \$7 billion of expense associated with those, and that will come down. But because of the Mexico transaction, we're going to be stuck with that a little bit longer given the IPO process. It doesn't put a big dent in our ability to bring stranded costs down and by the way, it does come with top line revenues and historically has been accretive to our profitability and returns.

And so, I'm not going to give you kind of new guidance on where our expenses will end up. But what I will point you to is not only the \$54 billion this year, roughly \$54 billion this year, not only the bending of the curve in the third and fourth quarter or the third to the fourth quarter next year. But we've given guidance on top line growth, revenue of 5% call it CAGR through that medium-term period, and we've given you kind of operating efficiency targets that we've said as well, and we intend to deliver on those things that reflect the bending of that curve through all of those drivers that we've mentioned.

So, I hope that helps, Erika. I appreciate the focus on both capital and expenses. We are equally focused on it and know just how important it is to achieving those targets. We're not only kind of doing the things that we've highlighted in that strategy articulation, but we're also being responsive to the current environment that we're in. We think that aids in our ability to deliver the targets and the bending of the curve, and we know there's an additional opportunity that Jane has referenced to the simplification of the organization as we make -- what I would argue is considerable progress on the exits towards the end of this year. And all of those things will be important to ensuring we get to that lower cost base, which we will do.

JANE FRASER: And it's a laser micro focus from us to make sure that we have the plans in place and the execution to be able to achieve it. This is something we're extremely hands-on around and making sure that, **it's** going to get done on each of the different drivers that Mark talked about.

ERIKA NAJARIAN: And just a follow-up on that. I guess, you guys have been you guys have been pretty clear on the timing, and pretty clear on why the curve will bend. I guess I'm wondering, is it just a timing issue that you're not giving us the sort of the dollar numbers that could go away from the transformation? Is it just a timing issue? Or are you still at a point where you don't know how much of that you would need to reinvest to arrive at that 5% revenue CAGR?

MARK MASON: Sorry, your question was around expenses or the revenue?

ERIKA NAJARIAN: Expenses. So, we get loud and clear why the curve will bend. We get loud and clear when the curve will bend, right? And there's clearly just expenses there that are catch-up expenses that are transformational expenses to everything that Jane talked about. And that message has been loud and clear. And I'm wondering if you haven't told us what could come out of those expenses because it's just a timing issue, it's July 14th versus 4Q'24? Or have you not yet made decisions in terms of how you may allocate those expenses in terms of do you need some of those expenses that could come out to grow your revenue base to



that 5% CAGR versus having it fall to the bottom line? Sorry, that's the question.

MARK MASON: Yes. So, I'd say a couple of things. So, one, Erika, is obviously, with that revenue CAGR will be volume-related expenses that play out. But we're also focused, obviously, on the non-volume-related expenses and not giving you a precise number because the magnitude of that bend, right, is a factor, right? So obviously, Mexico, for example, as I mentioned earlier, impacts the magnitude of the bend, right? And we're going to, and have, in fact, when you look at our expense base even for the quarter, we've spent money in Mexico to drive that top line 22% revenue growth, 10% ex-FX.

And so, there are going to be nuances in the running of the business in a way that ensures we're maximizing shareholder value that impacts the magnitude of the bending of that that expense curve. Investments that I've got to continue to make in in TTS order to maintain that #1 position and that that competitive advantage we have. And so those things will impact that magnitude of the bend. We've been, I think, very transparent as we get into each year, giving you concrete numbers. What I'm telling you is the curve will bend. And as we get closer to 2024, we'll give you more direction on the magnitude for that year and beyond.

OPERATOR: Our next question comes from Steven Chubak with Wolfe Research.

STEVEN CHUBAK: Wanted to ask a question on capital. Just given the recent increase in your SCB, I was hoping to better understand why the 11.5% to 12% remains the appropriate long-term objective in your mind? And as we prepare for Basel III endgame, think through the capital benefit from future asset sales, can you speak to whether that will translate into operational risk capital relief specifically as it's less clear whether those benefits will accrete even as those asset sales are consummated?

JANE FRASER: I'll kick it off, Mark, and then pass it to you. So we're confident we're going to meet 11% to 12% RoTCE target over the medium term. The core drivers of how we get there remains unchanged.

One, it's the revenues that we expect to grow by 4% to 5% CAGR as we continue to execute on the strategy. On expenses, it's the clear path to bend the curve by the end 2024, bringing those expenses down over the medium term. And third and importantly, it's continuing to optimize our balance sheet, including improving RWA and capital efficiency. And as we referenced earlier in the prepared remarks, different drivers in that, that are helpful, exiting 14 international consumer markets, changing our business mix. And I'd also note that the transformation has benefits not only for our efficiency, but it will also support RWA and capital optimization.

That said, there's uncertainty around the future capital requirements in the industry and importantly, the timing of their implementation. We like everyone again to have to work through those implications once we know what they are. But as we said, keep in mind, we've got some other levers to pull over time, capital allocation, DTA allocation and utilization, our G-SIB score and our management buffer of 100 basis points. So that's where you hear the confidence from us around the path to executing and that remaining consistent. But Mark, why don't I hand over to you just around consumer market sales and operational RWA relief.

MARK MASON: Sure. And again, I think that if you look at the transactions that we've closed to date, they've generated or freed up about \$4.6 billion of capital the two that remain to be closed and the balance of year will generate another \$1.2 billion or so. That will be important to our capital base. I think that we obviously have to see the proposal as it comes out and the NPR. And we'll have a window to respond to that. We're hopeful that the regulators hear our response and views on it as it comes out. There's clearly going to be reference to increases in RWA and operational risk implications potentially as part of that. I do think that exiting, without having seen the proposal, and without obviously knowing how those rules might evolve. I do believe that the exiting of these 14 markets does play towards not only reducing our SCB in stress scenarios or as it comes out of stress analysis and tests, but also should play through helping to reduce risk-weighted assets and potentially operational risk as well. But we have to see what the proposal looks like and go



through that. And I think what's important here is that whenever it comes out, whatever it looks like, as we dissect it and go through it, we'll figure out how to manage through it, right, whether that be through exiting certain products, seeking price adjustments as it relates to customers, clients and the markets or continuing to optimize RWAs and we have been doing very proactively, we'll figure out how to manage.

JANE FRASER: And I feel compelled to jump in here as well because as the spring and the recent test results showed the large U.S. banks are not only in a strong capital position, but we've been able to play an important stabilizing role for the system as a whole. It's a role that we take very seriously. And we certainly hope that as the details of the capital frameworks get unveiled, this is fully taken into consideration, including the impact on U.S. competitiveness, and we need a level playing field with Europe, not a gold-plated one, and we share the concern that higher capital levels will undoubtedly increase the cost of capital for medium- and smaller-sized enterprises and consumers in particular and will drive more activity to non-regulated and lesser capitalized players that isn't in the system's interest. And we hope that that's fully taken into consideration here because we will take actions on businesses, and we will take pricing actions as will the entire industry.

MARK MASON: Really important point.

STEVEN CHUBAK: Thanks for that perspective, Jane, very well said. Just one quick follow-up for me. PBWM fee income trends, given the lower partner payments, I mean clearly the Wealth fee trends would suggest that they were quite subdued in the quarter. And I just wanted to understand your outlook over the near medium term what drove some of the weakness this quarter? Is it something that you expect will likely persist, especially given some of the market tailwinds that we've been seeing, would have expected to see a little bit more resiliency in Wealth fee income in particular.

MARK MASON: Yes. Look, I think as we mentioned, Wealth was down about 5%. It's really hard to talk the rebound in Wealth in the midst of such an uncertain environment and the one that we're in, it's hard to disconnect those macro factors like rates, inflation, the prospect of a recession from what we're seeing in Wealth. And I think there are two dynamics that have played out. One has been the shift from our customers, from customers more broadly into higher-yielding products from out of deposits. And the other has been the fee revenue from an investment management fee point of view, and as you might think about it, it is a higher rate environment. There are opportunities for clients to earn more. And not until there's greater certainty in the broader macro factors will I think we start to see some real momentum tick up there.

Now with that said, and a couple of things worth reiterating, which is we're seeing very strong referral momentum from the Retail Banking business up through wealth continuum, if you will. So, we've had about 25,000 referrals May year-to-date from our retail branches into our broader Wealth business, that's a good thing. We've seen the number of clients that we've onboarded tick up pretty meaningfully, both in the Private Bank and more broadly across Wealth. That's a good thing. Those are things that that position us well for when greater certainty does play out and these clients start to put monies back to work in the broader investment platform and offering that we have.

OPERATOR: And our next question comes from Ebrahim Poonawala with Bank of America.

EBRAHIM POONAWALA: Just one quick question, Mark, for you. On the consumer cards book, you gave some metrics. One, remind us of what you reserved for in terms of unemployment rate, macro, and if we do see a worsening in the markets, does that necessarily mean that we'll see big ratcheting up of credit reserves from where you already are? Just some color around that would be helpful.

MARK MASON: Sorry, just the last part of your question, I'm sorry, if we do see what?

EBRAHIM POONAWALA: Yes. So, one, like where are you in terms of your unemployment rate assumption? And if the unemployment outlook worsens, let's say, over the next 6 to 12 months, does that mean that you



are already reserved? Or will we see another big pickup in provisioning as a result of that?

MARK MASON: Got it. Thank you. Look, our current reserves, as you know, as we think about CECL, we've got 3 different scenarios, we've got a base case in upside, a downside. Our current reserves are based on the mix of those 3 macroeconomic scenarios. It reflects about a 5.1% unemployment rate on a weighted basis over the 8 quarters, and it's roughly flat to what it was last quarter. What that means is, obviously, our downside scenario has unemployment that's much higher than that, closer to 7% or call it 6.8% or so. But that's kind of how we've thought about unemployment.

As we think about the reserves each quarter, obviously, we take a look at the macroeconomic factors and how they're evolving. Our base case today assumes a mild recession and reserves in the future will consider how are weighting towards downside, upside and baseline may morph subject to our outlook and volumes. Those are the 2 factors that influence whether we're increasing reserves or not.

I would point out though that in addition to unemployment and because has been as stubborn as it has been, if you will, we also look at debt service coverage ratio as an important factor as we think about our consumers, as we think about their balance sheet, as we think about the risk that they may or may not be facing. So unemployment is an important factor, but we've flexed our thinking in light of the environment and in light of how behaviors have been shifting, and that's an important factor in how we think about our reserves as well. I feel very good about the level of our reserves. You heard us mention earlier, we've got \$20 billion of reserves, we're well reserved across the portfolio, but those are all important elements to it.

EBRAHIM POONAWALA: That's helpful. And just one very simplistic question. When you talk to some of your largest shareholders, those who are optimistic think you can hit your RoTCE target medium term by 2025. Is that a realistic expectation given I appreciate Basel changes, you answered like 10 questions on expenses. But should we expect the groundwork through '24 that we hit that medium-term target in 'w25 or just your degree of confidence.

MARK MASON: Yes. Again, the thing I'd point out and Jane, feel free to chime in here, is that what we talked about was getting to our medium-term returns, 11% to 12% and the medium term is '25 to '26, right? So it's not just '25, just to be clear. And we do continue to feel very confident around our ability to do that. You heard us mention the levers that we think will contribute to that. Obviously, capital is important and how that evolves, and we continue to kind of work to optimize the balance sheet while serving our clients effectively and importantly, growing the strong businesses that we have that are high returning as well.

OPERATOR: And our next question comes from Matt O'Connor from Deutsche Bank.

MATT O'CONNOR: You have mentioned continued normalization of credit card in the back half of the year. And just wondering, you've got the normalized loss rates on Slide 22. Are you still thinking you'll hit those, I think, exiting this year or early next year. And then I think at one point, you said they might go a little bit above that before they kind of come back to a normal level? And is that still the case?

MARK MASON: Thanks for the question. The answer is yes. We still expect for both portfolios to hit those normal levels sometime at the end of the year, the normal level, as you pointed out, on the page for both Branded as well as for Retail Services. We would expect, again, subject to how and when this mild recession kind of plays out, we would expect that they would tick higher than that before getting back inside of that range.

But again, all of this is tied into how we've calculated our reserves, the delinquencies that we're seeing, the mix of the portfolio, which again skews towards your higher FICO scores and the customer behaviors that we're seeing, which play through not only that cost of credit line, but also plays through the growth that we referenced earlier in the top line. But short answer is yes, that's still our thinking.



JANE FRASER: And as Mark said, I think we feel good about our positioning as a prime, but also a strong credit proposition that we have. We're seeing stronger demand for the credit-led products such as value cards, bulk on installment loans as well the service-led engagement for the more prime customers. And so that's also going to be a valuable factor driving growth and profitability as well.

MATT O'CONNOR: And then the follow-up, and this is not really Citi-specific, but for the card industry, a lot of the banks that are in card. Everyone is talking about kind of getting to normalized levels, just call it in the near term here next couple of quarters. And I guess, just thoughts on getting this normalized level of losses when unemployment is all-time low, wages are growing. Obviously, there's inflationary pressures, but it's just a little surprising, again, not to Citi-specific, but it's a little surprising that we're getting to this normalized state when things seem like they're pretty good.

JANE FRASER: Yes, I think well, also normalized state back in 2019 was also pretty good. So, you're not hearing any alarm bells ringing from Mark or myself at all here on the U.S. consumer, I think we see the U.S. consumer as resilient, we've talked about them being cautious but they're not recessionary. And we are seeing more pressure on the lower FICOs. We don't have a large number of that in our portfolio, but that is where we're seeing more of the normalization happening on the payment rates, for example, and other behaviors in there. So, it's quite localized, but I don't think we should be overly concerned here about the health of the U.S. consumer.

And as Mark said, we're in a very unusual environment. Higher inflation, these rate levels and a strong labor market. And under those conditions, it's the debt service ratio, as he said, that is, we think, is a more useful leading indicator that we keep a close eye on.

MARK MASON: Just remember, it's a return to normal.

OPERATOR: And our next question comes from Gerard Cassidy with RBC.

GERARD CASSIDY: Mark, can you share with us, in your financial supplement, obviously, you give us good details on your credit picture and we're talking about credit right now. The nonaccrual loans have been flat as a pancake for the last 12 months for you folks and the industry as well. And this is in light of the Fed funds rates, as we all know, have been up over 500 basis points. Can you guys share with us why we haven't seen more, this is mostly corporate of course, but everybody has been hanging in there very well in view of the fact that rates have gone up so much. What are your customers telling you or are you seeing that has enabled them to remain very healthy in light of a 500-basis point increase in interest rates?

MARK MASON: I think I'd point to a couple of things, Gerard. One is, remember, we focus on the large multinational, largely investment-grade quality names. And so that's one important factor when you think about our ICG and corporate exposure there. The second thing I'd point out is we have to remember that many of these companies had and still have very strong balance sheets and that they've managed that through the COVID and pandemic situation and that has positioned them well.

I think the third thing is that and you've heard us mention how we're proactively managing the prospect of a recession. And I think when I talk to other CFOs, I know that when Jane talks to other CEOs, they too are looking at their expense line. They too are looking at the efficiency of their organizations and opportunity to increase that efficiency in light of a potential slowdown or recessionary environment. And then the final point is, I think a lot of firms have been that were proactive in the low-rate environment, in shoring up that balance sheet strength.

Now with that said, you've heard us also mention the prospect of a rebound in capital market activities, and that has to happen at some point. But sticking to your point around credit, I really think it's those factors that you see play through in not only our very low NAL, but also our very low credit losses, credit cost that you've



seen in our business.

GERARD CASSIDY: And then as a follow-up, when you think about what we've seen with the Fed's tightening over the last 12 months, banks like your own have positioned the balance sheet accordingly and I know the Bank Analysts Association of Boston, Michael [Verdeschi] did a good job explaining how you guys manage the balance sheet. And when you look at it going forward, do you think changes are coming because the Fed if they end in Fed funds rate increase as we get to a terminal rate, how are you guys positioned the balance sheet, do you think going forward?

MARK MASON: Look, we're constantly actively managing the balance sheet in light of not only our client needs, but also how we see the broader macro environment evolving and changing. And as you know, and I know you've seen and we've talked about before, we share in our Qs, our view on our estimate for interest rate exposure and what happens with 100 basis points swing in rates in one direction or another across the curve across currencies. You've seen that shift over the last number of quarters to last quarter where that estimate for IRE was about \$1.7 billion or so, but heavily skewed towards non-U.S. dollar rates and currencies.

And I think as we think about the view on how rates will evolve, you'll see a continued shift there. I think that that when we look to print this quarter, number will probably come down a bit in terms of interest rate exposure and skew even more towards non-U.S. dollar currencies in light of where rates are in those markets and the U.S. dollar will likely be somewhat neutral in light of that curve currently looks like. But again, something we actively manage, first with an eye towards what client demand and needs are likely to be for use of our liquidity but also with a view for how the macro environment might evolve and what we're hearing from central banks around the world.

OPERATOR: And our next question comes from Mike Mayo with Wells Fargo.

MIKE MAYO: I meant to follow up earlier on the bending of the cost curve, but if you were to put different initiatives in terms of how far along you are maybe like your exits might be in the eighth inning, and your transformation might be in the sixth inning, and your remediation in the fifth inning, the simplification in the first inning or second inning. Are those numbers correct? How would you put those numbers? And in terms of bending the cost curve, where are you further along and where are you just getting started?

MARK MASON: Well, Mike, you know I love you, but I'm not going to play that game. What I will say is that we clearly have work that we're doing as it relates to the exits, but making very good progress on that, not just on the closing of the exits but also on putting a dent in the stranded costs associated with those exits that we have closed.

And so, as Jane mentioned in her prepared remarks, by the time we get to end of the year, ex-Mexico, we would have made a considerable amount of progress on there, and that creates an opportunity to do more around the simplification of the organization and so that simplification is obviously in an earlier inning, call it, the exits in a later inning.

I think that the transformation spend investments and those things, look we are squarely into execution, as you've heard us mention before. And as I've mentioned, the expense base around that is going to continue to morph from spend that we've made around third-party consultants and that helped in the crafting of the plan towards technology, towards people that are critically involved in the execution of it and then a downward trajectory towards the benefits we get from that technology and reduced operational expense. And so, it's a multi-year journey, we've talked about that. We've got a number of years to continue to execute against it. But what's important is we know what we have to do, both in how we're investing that money and as it relates to being disciplined about our cost structure and bending the curve. And again, that's what we're going to do.



MIKE MAYO: And one more attempt, can you remind us how many people are working on the transformation remediation and how much that's costing you?

MARK MASON: Yes, **again we've got**, I think the number I shared was somewhere around 13,000 people or so that are broadly working on the efforts here. We haven't gotten into specific costs; you know it's in the total number. But what I would say again is that we're clear on what we've got to deliver and execute against and we're managing that cost very tightly. We're constantly looking at opportunities to deliver on those transformation deliverables, more efficiently, leveraging technology, leveraging AI in some instances. And so we're not just taking those execution plans as they were crafted and delivering against them. But we're looking for efficiencies and even the execution plans as they're constructed today. And that's important for us to keep doing.

OPERATOR: And our next question comes from Ken Usdin with Jefferies.

KEN USDIN: I know this is going long here. Just a quick one, just, Mark, just wanted to get your sense on the sentiment around client activity in both the Markets group and what the pipelines are looking like in Investment Banking and the feel for that? Thanks.

JANE FRASER: Look, I'll jump in here. Corporates are pretty cautious. They've got another Fed hike in the offing, tensions in China and the West, OPEC and all, and a general sense of more limited growth. But I think clients have been trying to understand and get their arms around both the macro and the market outlook for a while. I think they now seem to accept the current environment is new normal and are beginning to position themselves globally.

So globally, we're seeing less anxiety around funding as most large corps are biting the bullet and paying higher rates to take advantage of issuance windows, balance sheet is getting reinforced, we certainly don't see a large cap credit prices on the horizon. And on the IB side, it remains, the pipeline is robust. There's a lot of pent-up demand for M&A but it's hard to predict when that pipeline will unlock. ECM had tangible momentum over Q1, and we're also seeing sponsor lev fin showing signs of improvement, but both of those are from a very, very low base.

And on the investor side, most of the investors stayed on the sidelines in Q2. The debt ceiling was a bigger topic than economic news was, and then it was a very low vol environment. We saw a bit of a pickup at the beginning with the light bump in volatility in the last few days, but I wouldn't call that a trend yet.

OPERATOR: And our next question comes from Charles Peabody with Portales.

CHARLES PEABODY: A question about your Markets related net interest income. And before I ask the question, I do appreciate that you run those businesses on a holistic basis and that NII is probably more of a residual outcome. But a couple of questions related to Markets-related NII. First is, you had a pretty nice jump up in the second quarter versus the first quarter. And I just wanted to understand, is that largely related to seasonal dividend issues?

And then secondly, you have a positive NII outcome, where a lot of your money center in brethren will have a negative NII outcome for Markets and I was just wondering what the difference is? Is it the outsized FICC business relative to Equities? Or is it the international? Or is it how you hedge? What's the difference on that? So those are the 2 questions.

MARK MASON: Thanks for the question, and thanks for the acknowledgment that we do manage our Markets revenues in total, so I appreciate that. What I would say in terms of the Markets NII is, you've captured it right, which is the dynamic that's playing out between first quarter and second quarter is, in fact, dividend season. And again, given the globality of our franchise, the dividend is not just a dividend in any one



region, but dividend in multiple regions playing out over the course of the first and second quarter.

I can't speak to the peers at this particular stage. But what I would say is that you know that our book skews more so than peers to corporates, and that's important. And we obviously have a very, very strong FICC business more broadly as well. So dividend season, major driver here in that increase.

CHARLES PEABODY: Okay. And just as a follow-up, is there any sort of directional guidance you can give on Markets related to NII? I mean does it mean to the extent second quarter was bolstered by dividend, it comes down in the third quarter, but then does it go back up in the fourth quarter? So would the second half be kind of equivalent to the first half?

MARK MASON: Charles, I really appreciate the attempt there. But I'm not going to give any further guidance on the breakout of the NII, I will reiterate the ex-Markets NII increase, by the way, to plus \$46 billion but thanks for question. I appreciate that.

OPERATOR: And our next question comes from Vivek Juneja with JP Morgan.

VIVEK JUNEJA: Couple of questions. Number one, so capital, Jane and Mark, going back to that, should we expect that given what you've mentioned, given everything going on in the regulatory environment, ratio you're at currently, it should grow in anticipation of what may come or likely to come with all the regulatory stuff? Or are you going to try and keep that closer to the 13.3%?

JANE FRASER: I think we're going to see exactly what the framework is that comes out and then the implementation time frame for it and then look at making adjustments to plan, also hoping that the comment period is taken seriously and the different considerations I talked about earlier are taken into effect. Then we'll work through what are adjustments we make, pricing capital reallocation, etc., the playbook that you would expect the same one that we've done with SA-CCR and we've done with a number of other pieces. And we would also hope to see our SCB in a different place for the same reasons we talked about earlier Vivek, because there's a lot of volatility in that SCB dependent on the scenario that comes out every year. And I would say, given the shifts we're making in the business model, we'd expect to see that one come down.

MARK MASON: The only thing I'd add is again, the CET1 ratio of the 13.3% as of October 1, would be a 12.3% **reg required level and 100 basis points of the management buffer. So that would be what we'd be held to as of October 1.** As Jane mentioned, the NPR as it comes out, we'll take a look at that and see if there are implications on the CET1 stack, but more likely implications on the risk-weighted assets, right? And what's really important there aside from the very important points Jane made in terms of considering broader factors is the timing of the implementation of whatever that final rule includes and obviously, the more timing for implementation, the more of an ability it gets for the industry to think about how to absorb the implications there.

VIVEK JUNEJA: But I'm presuming you want to go sooner rather than later because the market is going to expect that rather than take a full 3 years or whatever the Fed might give you.

MARK MASON: You know what, I'm really interested at this point in seeing the proposal, and then we'll have a chance to kind of, to really react as an industry and as a firm.

VIVEK JUNEJA: Completely unrelated, if I may. Noninterest-bearing deposits, what are you seeing given you're very heavily corporate driven. When I look at your point-to-point because you don't give a full average balance sheet, it's only interest-bearing related. But the noninterest-bearing is only available on a period end. If I look at that, there was a big drop in the U.S. this quarter. Anything unusual? Is that accelerating? What are you seeing amongst your clients, people still waking up? And what have you factored into your NII



guidance for that?

MARK MASON: Well, again, I think the point I'd make here is that we continue to see clients shift from kind of noninterest-bearing deposits and into both interest-bearing and CDs and other higher-yielding products in light of the rate environment that we're in. And I would expect us to continue to see those types of shifts subject to how rates continue to evolve. And again, on the corporate side, we've seen in the U.S. clients have reached kind of those terminal, that terminal level, terminal betas, I should say, outside of the U.S. rate hikes, I think, are still in the future, as Jane alluded to, and the terminal betas have not quite yet been reached. But in terms of the noninterest-bearing, we are seeing that dynamic play out.

OPERATOR: Thank you. This does conclude Citi's Second Quarter 2023 Earnings Review Call. You may now disconnect at any time.

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