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Host
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Speakers
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Mark Mason, Citi Chief Financial Officer

PRESENTATION

JASON GOLDBERG: Thank you, everyone, for your patience. Our Global Financial Services Conference would not be complete without having Citigroup here. With us I am very pleased to have Jane Fraser, Chief Executive Officer, and Mark Mason, Chief Financial Officer. So, Mark, Jane, thank you for being here today.

MARK MASON: Thank you.

JANE FRASER: Good morning everyone.

JASON GOLDBERG: Jane, maybe start with you. Big announcement this morning. Maybe you could just walk us through some of the changes you're making and how this fits into the plan you presented at the 2022 Investor Day.

JANE FRASER: So the changes that we announced this morning are the most consequential changes to how Citi will be organized and run that we've made in almost 20 years. When I became CEO, we began immediately with refreshing our strategy and laying out the new vision for the firm in order to transform Citi into a simpler bank and to unlock the full value potential and to deliver high returns in the medium-term. And as part of that Investor Day, I had a very clear-eyed assessment of exactly where we stood versus our peers, but also of the issues that have held us back over the years. And Mark and I and the management team committed to addressing those issues.

Over the last two years, we have taken bold and decisive action to transform the bank, and we have done so under a very swift timetable. And along the way, there were various headwinds for the industry, geopolitical, some of them regulatory framework, others in terms of the macro environment. And we adapted to those changes, and we did not deviate from the path that we laid out. So, when we had our Investor Day two years ago, we laid out the vision. We laid out a detailed strategy for the bank. But I also stated our intention to simplify the organization once we had got most of the consumer divestures executed because that was then going to enable us to do this. And so today's announcement is, indeed, about putting that next step, big next step in place and initiating it, which is to, not only put the organization model that best fits our strategy in place, it's also about running the bank differently and about driving clearer accountability for doing so.

So if we turn to the actual changes with that as the context, if we narrow it down just to the core set of changes that we announced today, the first one shouldn't be a surprise to anybody, which is elevating the five core businesses, so Services, Markets, Banking, Wealth and the US Personal Bank, up to the center and thereby eliminating the ICG and the PBWM layer. So that means those five businesses, the leaders will report directly to me, they will be our five reporting units that we will report fourth quarter earnings end of this year, that's how we will be reporting for the bank. And what this move enables me to do is not only flatten the organization, but it also enables me to be much more directly involved in making sure that those businesses are performing and that we're realizing the synergies from across them. And as part of this, we're also just going to move the Legacy Franchise into the Other Corp business line and that way, you'll just have the simplicity and the clarity of the five reporting businesses. But as you'll hear from Mark, I suspect shortly, we will continue to provide you all the transparency and clarity we do today on the performance of the Legacy Franchise as it winds down. So that's the first move, is elevating those five core businesses so we can manage them much more directly and have the center, as I've talked about, as more of an operator, rather than sort of a holding company model.

The second change we're making is consolidating the three regions that we've got into one more streamlined, simpler international group. And if you think about it, when we formed our regional organization many, many years ago, it was a very different bank, it was a universal bank in every single country. We just don’t need that type of heavy management structure and local governance and processes. So what we are doing is not only lining everything up to a single international head, who will report to me rather than the three regions, but we're also streamlining the geographic organization and taking out quite a lot of the different complexities that we just don't need to manage the bank anymore. We're also going to line up our international and our Banking organization because again, instead of being a universal bank in each country, both the Banking organization and international is really just serving the same client base, which are our multinational clients. And so they can therefore get under a single integrated management structure, which also simplifies the running of the place.

Third, we're going to centralize our client capabilities under a Chief Client Officer who will also report to me, and that will enable us to both ensure that we're having the delivery of One Citi to all of our clients consistently everywhere around the world. But it also means that we'll be able to drive that client focus and generate the revenues. So that role is another one that is helping manage the bank more horizontally and delivering the revenue synergies that you hear us every quarter talking about how important this is as part of the model through, say, a simpler, focused and connected bank. The synergies are important.

And the final piece is as a result of these three changes, particularly the first two of eliminating the layers and consolidating the regions and simplifying the geographic mandate, we're able to align our functional structure to the structure of the rest of the bank and then really streamline and slim down our functions. And what we see with that is also areas where we've got utilities in different parts of the bank that we’re able to aggregate, bring up to the center, and get full scale economies from as well. So it's a material set of changes that all fit together. We've announced today the first set of them, which is my management team, and we are announcing the management changes the level below and the structural changes below that. Over the next few weeks in a very orderly and paced manner, we will be cascading this all the way through the organization. So by the time we get to fourth quarter earnings, we will be not only reporting along the five reporting segments for you, but we will also be able to detail exactly what are the saves that come from this and also give you some of the proof points of the other metrics that I'm sure you want to know about how the organization actually is simpler in terms of the number of layers we've taken out, what the span of control changes have been and the other simplification actions of eliminating committees and various other pieces. And the goal here is so that our people are focused on delivering results and that it's a much simpler job for them to be able to do so.

We have taken hard, consequential, tough decisions here. They are not going to be universally popular within our bank. It's going to make some of our people very uncomfortable. I am absolutely fine with that. I am confident that our strongest performers are going to be fully supportive of these moves, and it is absolutely the right thing to do for our shareholders. So this is the right time to make this next step and we are fully leaning into it.

JASON GOLDBERG: Jane I guess simplifying the structure makes a lot of sense, just maybe tell us a bit more how this helps you kind of run the company more efficiently.

JANE FRASER: Yes. So, I think everyone can recognize that the management structure that we put in place almost two decades ago was for a very complicated and very different bank. Universal bank in different geographies, we had 50 consumer franchises, an insurance division, hedge funds, private equity, a myriad of different businesses. Mark knows this all too well as he was responsible for dismantling it. But we didn't change the management structure.

So this is putting in place both the organization model that fits with the bank that we are today and the strategy that we have. It's a flatter and a much simpler one. And it is changing the way we run the bank. It is providing greater clarity of accountability, it's eliminating a lot of complexity, but it's changing the way that we run the institution. So as we think about some of the different actions, we got some of them up on the slide, I think of it fairly simply, about how does it make it easier for me to run Citi? We're eliminating multiple management layers. You can see the ones that we're doing today and then we'll continue cascading down the organization as we flatten it out. We have more layers than we need. We're going to significantly eliminate a lot of the duplicative and excessive governance and management processes that we've got, that we don't need given the strategy and the more focused business model.

And that's a particular impact in the geographies. I will give you a couple of examples. Just the announcement we made today, 35 committees have gone. That’s a lot of people's time because it's collapsing these layers that we don't need. Another example, when you're no longer running consumer franchises in all these different countries, we don't need to have financial planning and analysis doing heavily detailed local country plans. So you can eliminate those activities and slim them down. So it is a much lighter way of running the institution in line with the strategy that we've laid out.

It brings clients a lot closer to the center and it brings also the center much closer to the businesses. And what the changes that we announced today in the two layers beneath me really enable the five business heads, and indeed the function heads, to run their businesses end to end much more easily. And what they may not enjoy so much is that it also enables me to make sure that I'm holding them accountable for doing so with real excellence on that. And I have a lot of transparency into what that is because I'm getting engaged with that directly as well as the synergies.

So, all of this, at the end of the day, it's increasing on accountability in the organization. We're getting rid of most of the co-heads in the organization, for example, in the first two layers, and we're eliminating a lot of the dual reporting, so there’s single accountability within the organization. This also gives me more transparency and most importantly, it really enables our people to focus on delivering on results, on the performance of the businesses and on execution.

And I'd be very remiss if I didn't also say it makes the transformation easier. We're really lifting a lot of the load on the governance so we focus on the execution of the transformation, and that makes the many stakeholders who are involved in the transformation and keeping an eye on it happy, myself included. So it doesn't disrupt the transformation, this makes it easier.

JASON GOLDBERG: I guess, Jane, can you maybe talk about…

JANE FRASER: I don't know what I'm going to do with all my free time, Jason?

JASON GOLDBERG: Well, you mentioned the new business heads a couple of times. Maybe just talk about, some of them are familiar to us, some others not so much, so maybe just talk about that a little bit.

JANE FRASER: Yeah, well I think Mark and I are pretty excited about the caliber and also the spirit of the people that we have around the table. So, if we just run through a few of them and then there's a couple that aren't on the page that I'll mention. Shahmir [Khaliq], I think many of you had a chance to get to know Shahmir. He's had a pretty remarkable career all over the world with Citi and in different businesses, particularly Securities Services, technologies operation and now in TTS. We've named him Head of Services. He'll work very closely with Okan [Pekin], who runs Securities Services today, two jewels in the crown for Citi. And I think someone who's got a proven track record of being the best in the industry, I'm delighted to have him directly at my table.

Andy Morton, Head of Markets, a very well-respected leader in the industry and amongst our most demanding of clients. Andy's had a strong career throughout Markets in Fixed Income at Citi, and before that, at a couple of other institutions. What I particularly appreciate that Andy's done the last couple of years running Markets, he has maintained our leadership position in critical franchises and advanced some, think about FX, many of our FICC franchises. But he's also really driven the discipline around capital allocation, revenue to RWA. You've seen that in our numbers.

You will have seen in the announcement, we are going to be conducting an external, and looking internally as well but primarily external, search for the new Head of Banking, so that sits in charge of the Investment Bank, the Corporate Bank, and the Commercial Bank of Citi, all of them sitting under one organization, so we can deliver to our clients the right way. Peter Babej, who is our Head of Asia, and came from investment banking, is going to be running this in the interim and working closely to make the linkages work with the international franchise.

Andy Sieg, I am delighted he will be joining us in two weeks. And I, again, his excitement about joining Citi is really a statement as well around the potential that we see for the Wealth business going forward. And we're very confident that he is going to be able to really drive the scaling up and realizing that full potential.

Gonzalo Luchetti has run our consumer franchise in the US for a couple of years now. He's had a career in Asia, in Latin America, very digitally savvy and very knowledgeable from his years in Asia, has been bringing that and making his mark in driving, particularly the success we've been having in our Cards franchises, many of the innovations there.

And Titi Cole, who joined us about three years ago after a long career at Bank of America and Wells, continues running the Legacy Franchises and very proud of the progress that she has made very rapidly in the exits and the wind downs that we've been doing there.

I would also just like to mention a couple of the people who are key members of the management team that aren't on the screen. Anand Selva is our COO. He will now focus solely on that role with both Andy coming on board and Gonzalo reporting directly to me, and we will expanding his role over the time. He's our strongest operator and executor and is really doing a tremendous job in advancing the execution of the transformation. David Livingstone will be our Chief Client Officer, long career in banking, but also in our international organization. And finally, we've also got Ernesto Torres Cantu, who will be running the streamlining of the international organization. This is someone I very much trust. He is someone who is an engineer. He will streamline and then he will keep it streamlined because that's always the piece you want to make sure the costs don't stop creeping back in and the complexity comes back in. So those are many of the key management team and Mark will probably hit me if I didn't mention Mark as the CFO. You're quite good.

MARK MASON: Thank you, thank you.

JASON GOLDBERG: Okay, Jane at Investor Day, you kind of laid out a three phase plan, phase one laying the foundation, phase two, kind of a medium-term 11% to 12% RoTCE target, phase three kind of longer-term Citi. But maybe, I understand you're still in phase one on your path forward, but maybe just kind of highlight what some of your biggest accomplishments are.

JANE FRASER: I think we've got a lot done and accomplished in the last two years and they have been being bold and necessary decisions that we've taken, actions we've taken, and I think we've tried to be as transparent as possible, step by step, showing you the progress, delivering and doing what we said we would do. From the strategic point of view, I think the most important thing was for Investor Day, laying out a very clear vision for the firm and then detailing out the strategy to get there and giving you the proof points as investors to show where we're making progress and how that is going along the way. We've been making selective investments in the businesses that have high growth and high returns, so Services and Cards, in our Commercial Bank, a wonderful growth opportunity for us with mid-market clients with cross-border needs, also in Wealth and in the key, and the more attractive Banking verticals that we've been building up our capabilities there.

You can see we're very pleased with the progress, particularly we're well ahead of plan in Services, we're ahead of where we thought in Cards and also in the Commercial Banking side. As I mentioned when I talked about Andy, I think we're very pleased, indeed, at Markets, at how he has been optimizing that business, whilst retaining the leadership positions in the parts of the business that you want to be a leader in, which are important to our clients and to improving the returns. And we've also been clear in Banking and in Wealth that we've been disappointed with some of, either the market conditions and our performance, we've taken actions in those and we're positioned, and making sure we're well positioned, for the turn in the cycle as that comes, which I suspect we'll talk about it in a minute or two. So I'm pleased on the strategy execution.

I'm very proud on the simplification that we've done. We've now closed, with Taiwan last month, which is the second biggest of the divestitures, we closed eight of the divestitures. We've one left now for Asia, and then those will be completed in the fourth quarter of this year. Similarly with the wind downs, they've gone faster than expected. We're being pretty aggressive with asset sales as well. So between Korea, it's been a lot faster than we thought, which is terrific. The same with China, Russia all going very well. And then in terms of Mexico, we have the IPO, the separation is on track for this time next year and then the IPO in 2025. I'm delighted with how that's progressing. It's quite a complicated separation and it's as close to clockwork as one could wish for. All of this means from the simplification on the business side, we're now tackling, as we said we would, the stranded costs and the organizational simplification. And as you can see, this really was the catalyst, we had to get those consumer franchises out in order to put the changes that I just laid out together. And it's ahead of where we thought it would be, so the org simplification we've been able to advance by several months because of the speed of execution here.

Transformation, we're well into the execution of the detailed plans, we're beginning to start seeing some of the benefits coming through of the improvements in our risk of controls and in the modernization of our infrastructure. As you all know, this is a journey, but we're well in the midst of it at the moment.

And then finally, importantly, is obviously culture and talent. We put in place and started making the cultural changes that were necessary, more of a focus on our shareholders, greater accountability, a focus around excellence, breaking down the silos, driving in more transparency into the businesses. We've been, I think, very successful in attracting some excellent talent from outside the firm consistently, we will continue doing so, as well as developing and growing our own leaders inside the firm. And we've made a number of changes to make sure that our talent is incented in your interests and focused on delivering, and these changes are all important parts of it. So we've still got some things to close out, as you can see from the list, get them over the finishing line for phase one. Other pieces, just continuing doing what we're doing. Transformation, heads down, get on with it, disciplined execution. And then we're looking forward to moving into phase two before too long.

JASON GOLDBERG: Very helpful overview, Jane. Maybe, let me get some numbers. Maybe just walk through just how this helps reduce expenses over the medium term?

JANE FRASER: Yeah, look I've spent some of the time talking about, particularly from a CEO seat, you know, how this changes, how we will run the bank, and how it simplifies the bank. Obviously, a very important element of this is from simplification comes also efficiency and expense saves from the various sections.

MARK MASON: So, over to me.

JANE FRASER: So, I'll pass it over to Mark to run through that. And as I said, you'll have a lot more detail in fourth quarter earnings after we've done the work of as we go cascading through the organization in a very orderly and paced manner.

MARK MASON: And that's an important point. Thank you, Jane. First thing I'd say, Jason, is that this is a significant change for the organization. The simplification, enabling effective execution are two by-products of the re-org that Jane just announced, which is really, really important. The entire executive management team is excited about this and rearing to go in terms of the execution around it. I point that out in part because I also want to say that it's been foreshadowed.

So Jane has referenced Investor Day a couple of times now, if you listen back on our earnings calls, we've talked about org simplification as one of the drivers of the expense journey that we're on. We talked about the transformation and how those investments that we've been making start to actually first morph from consultants and planning to technology and efficiencies and reduction in our infrastructure costs over that medium term. We talked about the exits that Jane just referenced. And again, by the end of the year, we'll be out of nine of the fourteen. Through the medium term, we'll be out of the costs associated with the exits and including the stranded cost that will be a second important contributor to bending the curve and getting to that 60% operating efficiency. And then, this third but important step around org simplification is the other component to that. So the question that continues to come up is how will you actually reduce your expenses? How will you bend the curve? It's these three drivers that contribute significantly to that. But they were foreshadowed. And I point that out again because I've talked about expenses for the full year at roughly $54 billion, I'm not changing that guidance. And so, we factored in the important steps that we're having to take over the coming months, as you pointed out, Jane, into how we are planning to deliver expenses for the year. I've talked about bending the curve in quarter three and quarter four of next year, showing a reduction in expenses, the absolute dollar amounts. That's not going to change. We're still going to ensure that reduction in expenses occurs. And this also feeds to that 60% operating efficiency that plays out in 2025, 2026, which is the end of that medium term.

How does that happen? Jane has mentioned it a number of times now. If you really think about what we're talking about, there are, in these layers in the organization, there are people who have responsibilities that are tied to that old organization structure, that are tied to having an ICG segment, a PBWM segment, having the three regions that we had, we won't have those anymore. And so as a result, that work goes away. Those responsibilities go away, those people will have to go away, and it will again facilitate effective execution but it will also simplify the organization and bring our cost down. And the same is true for all of the functions, including finance, as we think about the way we've set ourselves up, we've aligned with that management structure, we've aligned with that regional construct. That changes, that all goes away as we execute and implement this. What we've been doing as a management team is working through what that means in this first step of this third bucket, which really means that EMT, the executive management team level, and one level beneath that. The next couple of months are around drilling into the deeper layers of our organization in order to drive that cost out, to box and dimension that cost and drive it out of the organization over the next couple of quarters.

JASON GOLDBERG: And then in the medium term, you also talked about 11% to 12% RoTCE target, is kind of this embedded in that?

MARK MASON: It is. Yes, it is. So that was an important, again, as we thought about and constructed Investor Day and we set our target of 11% to 12% RoTCE in the medium term, when we thought about the expense base, those three buckets were the components of that, including the org simplification. And so, if you think about again what's going to drive those returns, it's the top line growth, you've heard me talk about 4% to 5% CAGR over that period of time. This, by the way, helps to facilitate the ability to deliver on that revenue growth, to capture those synergies, by moving these core businesses to the center, we better enable that, right, so this is a contributor on the top line.

The transformation piece, again, we talked about the benefits there, but it's also a contributor to that expense base for all the reasons that I've mentioned already. We'll continue to focus on optimization of capital, there are obviously some regulatory headwinds that are out there. But despite that, we continue to make progress on revenue to RWA. We continue to find additional mitigating actions. The divestitures that we've done to date have generated $4.6 billion of capital already. Those become important factors to being able to achieve this return. And importantly, you know, I should take this opportunity to mention that Jane and I have been talking about looking at buybacks on a quarter-by-quarter basis, we expect to do a modest level of buybacks this quarter here in the third quarter, again, contributing to our objective of returning capital to shareholders, but doing so in a responsible way in light of the regulatory environment that we're facing.

JASON GOLDBERG: Got it. If we could just put up the first ARS slide so we get the data. So, Mark, you can't do a big strategic announcement and get away from me asking you about third quarter guidance. So maybe, just kind of, we got like, call it, 7, 8 minutes left. So we can kind of run through kind of what are you seeing in the quarter, Markets, Banking, any other updates?

MARK MASON: Sure, sure. So look in the quarter, if I think about our Markets business on the FICC side, we're seeing good performance in the quarter, particularly when you think about that juxtaposed against a strong quarter last year where we had good FX performance and good volatility in the broader environment. Equities, we're seeing good Equity Cash performance that's offset a bit by Equity Derivatives. So, Jason, when I take that together, for Markets we're looking at up low single digits. When I think about our Investment Banking business, we're seeing good capital markets activity, particularly in DCM. Obviously wallets are still under pressure there, but juxtaposed against last year from a year-over-year basis, I'd expect to see us flat to up a bit year-over-year. And so, you know, I think that there are couple of weeks left to the quarter, so we'll have to see how those play out. But that's kind of the read as I sit here today on the top line.

On the expense line, we're looking at expenses to probably be up a bit from last quarter, but pretty much in line with the consensus, so call it $13.7 billion or so. Again, on the heels of the investments that we've made kind of playing through that. Cost of credit, seeing no big outliers, continued normalization on the consumer side, benign cost of credit or NCLs on the corporate side, nothing really to highlight, but I'd say again, roughly in line with consensus, so call it $1.9 billion or so, as it relates to that. So that's kind of what the quarter's looking like.

My full year guidance, not changing. Top line, $78 to $79 billion, ex-divestitures. NII ex-markets, $46 billion plus, kind of what I've been guiding, maybe a little bit more than $46 billion, so on that line. And again, the full year on the expenses still roughly $54 billion.

JANE FRASER: We're very focused on delivering what we said we would do.

JASON GOLDBERG: Maybe throw up the next ARS question. Basel III, can't get through the conference without talking about it. Maybe just kind of give us your initial reactions to the proposal.

MARK MASON: Initial reaction, well, I know you have a number of peers here speak to it. Look, one it's a complicated proposal, it's over 1,000 pages. We were hopeful for a more holistic review and view on capital, I don't think we got that, at all. I think a couple of things are clear. One, I think it's certainly going to have an impact if the proposal is implemented as is on capital requirements across the industry, a significant impact. I think that impact will ultimately manifest itself in hurting consumers and companies. I think that there is an unfortunate difference in the way it's structured between how US banks will be treated versus international peers. I think the timeline for implementation is inconsistent with what we've seen in the past. When I look at, you know, some of the underlying components of it, one that jumps out is operational risk, not only the magnitude of it, but there are certain aspects of it that are duplicative with the SCB, and so you're kind of getting hit multiple times for operational risk. There are elements of it that are inconsistent with the Basel standards. So the Basel standards kind of call for, you know, a flat, one-time internal loss multiplier and, you know, this allows for a floor, therefore suggesting you could have even more upside to that. So there are a lot of components to it.

We intend to be very vocal as we advocate our position, as it relates to this. But here's another important thing to keep in mind on this, Jason, which is we will be vocal, we will be advocates for our position on this likely with peers in the industry. And the magnitude of it, we've read and analysts have put out is somewhere in the range of, call it 20% on capital, kind of depending on the category of the bank, 19%, 20%. What our analysis doesn't factor in is the impact of that that advocacy. It doesn't factor in mitigants that we might be able to put in place to offset whatever the final rule ultimately turns out to be. And for us, it doesn't factor in how our strategy evolves. So remember, you know, our strategy is in part with those divestitures about trying to put a dent in the G-SIB score, trying to impact the SCB, trying to change the mix of our revenues and our earnings to something that is more repeatable and predictable and consistent. And those will be important elements of how we execute on whatever the proposal is to ensure that we still deliver on the return targets that we've set.

JANE FRASER: So frustrating.

JASON GOLDBERG: So I guess, in terms of kind of RWA inflation, any kind of thoughts in terms of, you know, what that number would look like today, understanding that things will change between now and then?

MARK MASON: Again, what I would say to that, Jason, is again, a lot of the analyst work out there would suggest, again, somewhere around a 16% to 20% impact on capital. We'd probably be inside of that, inside of that range. Again, just based on the way the world looks for us today, but notwithstanding the work that we would do against whatever the proposal ultimately looks like.

JASON GOLDBERG: And then as you think about the new proposal against that 11% to 12% RoTCE target we talked about earlier, how is this kind of factor into that?

MARK MASON: Our target remains 11% to 12%, we will take whatever the final proposal looks like and get to work against it.

JANE FRASER: You've seen us adapt to a whole range of different headwinds in the last couple of years. We'll do what we need to do to adapt.

MARK MASON: SA-CCR.

JANE FRASER: We'll focus on what we've committed to our shareholders.

JASON GOLDBERG: And then just lastly, you mentioned you did modest buybacks in 2Q, talked about modest buybacks in 3Q. How should we think about that going forward? Given where your valuation is, it seems like a good deal.

MARK MASON: Look we returned $2 billion or so in the second quarter, $1 billion of buybacks. We'll do modest buybacks again as I mentioned this quarter. We know where the stock's trading. Obviously, we want to do as much in buybacks as we possibly can while ensuring that we're investing in the franchise for growth and improved returns. And we're going to look at it on a quarter-by-quarter basis. And that should make sense that we are going to look at it on a quarter-by-quarter basis, given the conversation we just had around Basel and some of the moving pieces there. But this is an important focal point for Jane, the entire management team and the Board, because we know how important it is to our shareholders and it just makes good financial, economic sense to be buying back where we can.

JANE FRASER: And we weigh that very, very clearly every time we are looking at an investment decision. The bar is very high on any investment we are making within the institution because of where we are trading right now and the opportunity cost of that capital. And we are crystal clear about that trade off when we make those decisions, so we are doing them very responsibly as you would expect us to.

JASON GOLDBERG: Great. On that note, please join me in thanking Jane and Mark for their time today.