

**Host**

Gerard Cassidy, RBC Capital Markets Large Cap Bank Analyst

Speaker

Mark Mason, Citi Chief Financial Officer

PRESENTATION

GERARD CASSIDY: Good afternoon, everybody. Thank you for joining us for our next fireside chat with Citigroup, which really doesn't need much of an introduction, but we do like to just point out some of the data on these companies that are with us today. Also, we have of course, Mark Mason, the Chief Financial Officer of Citigroup. Well, Citigroup's got assets now about \$2.4 trillion, a market cap of over \$101 billion, and it's a value stock trading at, as you know, a discount to book, 56% of book and 64% of tangible book, and about 8 times next year's earnings.

Now, Mark has been the CFO since February of 2019. He joined Citi back in 2001. So he's a seasoned veteran, of course, of Citigroup and had many roles within Citigroup over the years and has worked his way up to being CFO. So, Mark, thank you so much for coming.

MARK MASON: Thanks Gerard it's great to be here with you. It's been a long time since we've been able to do this in person.

GERARD CASSIDY: Yes, it has. So thank you, three years ago, but thank you. Maybe what we'd like to do, a year ago you folks held your Investor Day and maybe you can talk to us from your perspective, give us a breakdown on how Citi has fared since that time against the goals that you set?

MARK MASON: Yeah, sure. It's a year ago, almost to the day. It was March 2nd that we had our Investor Day, and at that point in time, Jane articulated a vision for Citi to be the preeminent banking partner for clients with global cross-border needs, right? And in the articulation of that vision, we talked about a strategy that included five interconnected businesses, our Personal Banking and Wealth Management Business, two, the Markets business, the Banking business, and our Services business, which has TTS, as well as Securities Services.

And so fast forward, here we are a year later, and a lot has transpired over the course of the past year. At that point in time, we were maybe a week into the Ukraine-Russia war. Our estimate for fed funds rate at the end of 2022 was 1.5%. So, we've seen a whole lot kind of take place over the course of the year. And I think what 2022 has proven for us is that our strategy is resilient, that we in fact have a diversified set of businesses that are indeed interconnected.

And I would look at 2022 and say we had a very good year performance in the context of everything that took place. If you look at that, if you look at 2022 and the top-line performance for our core underlying segment, so the ICG and PBWM, we had 5% top-line growth, right? Some of it was rate driven, but a lot of it was not, a lot of it was good client activity and engagement. And when you look through there, similar signs, our TTS business, the core of our global network, the part of the business that really connects our clients around the world, we grew that business 32%. Our Securities Services business that covers off the investor client base, 15%. These are rapidly growing, high-margin, high-returning businesses that we've been able to continue to get momentum out of. And despite the pressures we saw in Investment Banking, where wallets were down 60%, or even in Wealth Management, in light of everything going on with equity markets, despite that, our Markets momentum in Fixed Income offset a lot of that drag. So again, speaking to the resilience of the franchise, the diversification of the portfolio.

And the final point I'd make on this, because in part 2022, and to a large extent 2023, is about building or rebuilding credibility and trust with our investors. And so what really, really matters with our investors, right? And so, what really, really matters is whether we're able to deliver on what we say we're going to do. And



what we talked about in 2022 was top-line performance, excluding the impact from divestitures, of low-single digits. We achieved that. We talked about expense growth of 7-8%, it's a lot, but we have to invest in the franchise and improving the operations. We achieved that. We talked about building capital for some of the exit headwinds that are in front of us, a 13% CET1 in June of 2023. We got there at the end of the year. And so, when I look at 2022 through that lens, I feel like we've made good progress against the strategy that we talked about at Investor Day.

GERARD CASSIDY: Great. And in that lens, what's interesting, you're in a unique position to give us a view maybe on the global economy. Most of the banks don't have, obviously, the global footprint you folks have. What are you seeing around the globe? The China reopening that we're hearing about. What's your sense of what's going on?

MARK MASON: Yeah. And again, when you think about the past couple of years, we've been – the world has been dealing with a great amount of uncertainty, right? And you can pick your macro factor, but we've all been talking lately about inflation, right? And what inflation means for the prospect of higher rates for longer. And I think based on what we've heard yesterday from Chair Powell, it's likely that that's going to be the case, right?

And, in fact, if you look back over prior times where countries have dealt with such high levels of inflation, I think it's probably hard to find an instance where you didn't have to experience some type of reduction in output in order to tame that. So we know that the Fed is going to be very resolute about continuing to adjust rates in order to bring inflation down to 2%. We're likely to see some type of mild recession, we think it will likely be mild, in the back half of the year. Europe, I think to a large extent is already – is too experiencing high levels of inflation, but was probably spared a bit with a milder winter, but it's still dealing with the energy situation and crisis there.

To your point, China looks like it's opening up, and look, China is large and is meaningful to the world in many ways. And so that market opening back up will likely help to stabilize things a little bit, certainly in Asia and likely have an impact more broadly.

So we see continued uncertainty. But more important than that, as we look at Citi, we're prepared for however this plays out, right? We run stress tests all the time. We have, I think, a very high-quality book when it comes to our exposures. We're very well reserved and so we're prepared for however the scenario plays out. And again, the diversification of the businesses and clients that we serve I think position us to manage through it.

GERARD CASSIDY: Next question really has to do with what has transpired to your point over the last 12 months. We all know the fed funds rate has gone up much more than any of us thought, as you just pointed out, at the beginning of 2022. And what's fascinating is I don't know what your thoughts are, but this cycle hasn't had the same kind of consequences that other cycles have had when we've seen rates go up that fast. So, when you kind of think about this cycle, what has surprised you that – and then we're not out of it...

MARK MASON: Yeah, we're not.

GERARD CASSIDY: But if anything, what have been the surprises?

MARK MASON: I mean, look, a lot of what we've all experienced to some extent has been somewhat of a surprise, starting with the pandemic, right, and certainly the supply chains, supply demand dynamics that played out from that, and so on and so forth. So there are lots of surprises there. I think what we're seeing here is a combination of central banks being able to react swiftly, we're seeing clients and consumers being able to withstand some of these pressures with very strong balance sheets. We're seeing the banking institutions and the banking industry in a much stronger position than 10 years ago, right? I look at our, I mentioned our capital already, our CET1 ratio we're at 13%, the liquidity resources we have nearly \$1



trillion, right? So, the banks are in a much stronger place, safer, sounder and able to be part of the solution, kind of, as we manage through the uncertainty here. And I think those have been important factors. But again, I feel very good about how we're positioned, in particular, and our ability to serve our clients as they continue to manage through the uncertainty.

GERARD CASSIDY: Speaking of interest rates, maybe we could talk a little bit about what's going on in this quarter. And you look at your net interest income, obviously the industry and yourselves have benefited from the nice move in rates. How is it trending so far this quarter? What are some of the impacts from this rate environment on that?

MARK MASON: Yes, so I gave guidance at fourth quarter earnings of about \$45 billion for 2023 excluding Markets for NII, and I'm not changing the guidance at this stage. We are seeing, as everyone else is, the likelihood that rates come in higher than what was expected and that should play to some upside for us but there's puts and takes through all of this, right? So we also saw towards the end of last year, particularly in the US, corporate betas kind of reached their terminal levels, right? And so that means we're going to have to pass on, the industry is likely to pass on rate increases as they continue to play through.

In our case, we have a mix of US dollar and non-US dollar, right? And so, we think there's more upside as rates continue to increase for non-US dollars. And so, for example, when we look at our interest rate exposure and the disclosure we put out in the 10-K, we show for a 100 basis point move, parallel shift, about a \$1.8 billion or so increase in NII related to that, about 90% of that would be non-US dollar related, right, so that kind of gives you a sense for the mix and kind of the betas that are underneath that. And so, and then there's a little bit of an offset too as well. So, we have rate increase, we have the impact of betas kind of reaching their higher levels and that dynamic playing out. In the US market for consumers, you have a dynamic where consumers are shifting from out of kind of noninterest-bearing deposits into interest-bearing deposits and CDs and the like, so you have that dynamic somewhat offsetting the increase in rates.

And then you have the Legacy, in our case, the Legacy businesses, so as we exit certain markets and countries that we've already declared, we're making great progress on that, that's going to be a drag on NII. That NII is going to go away with that sale. And so, that dynamic again suggests, puts and takes that are likely to play out. But again, no change to the guidance.

GERARD CASSIDY: You've guided mid-single digit revenue growth earlier in the fourth, when you released your fourth quarter results, maybe you can share with us what's going on in Markets this quarter? And then, separately of course the Investment Banking business.

MARK MASON: Sure, yes. So in Markets, I think you have to kind of think back to 2022, just for a second for the year-over-year comparison. And it wasn't again until late February when we had kind of the Ukraine-Russia war break out. And so, we had a very strong year in Markets last year. As I think about the way the quarter is playing out, the consensus view at this point has us down in the high-single digits and I would expect, I think that's probably a reasonable estimate for where we're likely to end up for the quarter.

GERARD CASSIDY: Year-over-year?

MARK MASON: Year-over-year, recognizing there are a couple of weeks left to the quarter.

GERARD CASSIDY: Right, right. When you think about the Investment Banking, you mentioned earlier the wallet in 2022 was down a bunch.

MARK MASON: Yeah, yeah. We all remember that.

GERARD CASSIDY: Can you share with us what you're seeing in the trends today for Investment Banking? Any signs of light yet and green shoots as they used to call them?



MARK MASON: Yeah, we did and I did talk about it at earnings the idea of a rebound playing out, sometime in 2023. I would say a lot of this, and you know this Gerard, a lot of this depends on kind of how the geopolitical and macro environment kind of plays out, right? And the trajectory of the rebound is really going to depend on that to some extent.

When I look at the quarter, the green shoots I'm seeing are more so in the debt capital markets space, right? And to some extent, that plays to our favor, particularly because I'm seeing it in the investment grade segment of debt capital markets, which is good. And as clients start to see some conviction around the direction of rates, probably in the conversations that have been going on the past couple of days. And so, when I look at how things are likely to trend for us, I'd say the wallet quarter-to-date is probably down 40%, and we're likely to be consistent with the wallet, maybe a little bit softer than that, or better than that I should say, given the DCM, debt capital markets momentum that I mentioned earlier.

GERARD CASSIDY: And the 40% is year-over-year?

MARK MASON: Year-over-year. That's a quarter-to-date number we'll see how it trends in the balance. And the pipeline and the conversations and dialogue with clients is still very rich, very strong.

GERARD CASSIDY: When you talk to the investment bankers at Citi, how do they convince equity companies that private equity firms may own that remember valuations back in 2021 being extraordinarily high and things have come down, how hard is it to convince them to go public? Any thoughts on that?

MARK MASON: Again, I mean, again, at some point these companies will come to market, right? And I think that the conversation now is around everything going on around the world, right? It's again, the geopolitical environment, it's the macro environment, the uncertainty around inflation, the direction rates are going in, the dynamic we're seeing with unemployment. So there is still a lot of uncertainty that makes it hard to get the momentum and that activity that we'd all like to see in the way of a rebound. But again, I think that over the balance of the year, we'll start to see some of that pick up. What's important now is that we're staying engaged with clients. We're recognizing that at some point they're going to want to come to market one way or another, equity capital markets, debt capital, M&A activity, and we've been investing in parts of the Investment Banking platform in sectors where we've needed to kind of really strengthen our presence and I think that's going to bode well for us as the environment turns.

GERARD CASSIDY: One of the messages that we've heard from the banks is, credit quality is really strong. And maybe I don't know, I mean you guys are one of the biggest credit card issuers in the world. What trends are you guys seeing both in your Branded Cards and the Retail Cards, anything to call out?

MARK MASON: Yeah. So, I'd say a couple of things. So we continue to see average interest-earning balances growing and that's a good thing, this is on the heels, by the way, of having invested in new acquisitions from a Cards point of view. So that average interest-earning balance, that's going to drive loan growth, that's going to drive NII, which is good. We're seeing payment rates start to taper a bit. So again, you'd expect that to help with the loan growth. We are starting to see a pickup in NCLs, net credit losses, particularly in the lower FICO score segment. And so, we do expect loss rates to start to normalize, they're still well below pre-COVID levels, but we are starting to see that normalization take place. But again, we tend to play on the higher end of the customer base in both Branded, as well as Retail Services.

GERARD CASSIDY: Correct, yeah. And speaking of just credit, when you think about CECL and it's the life of loan losses as we all know, what are some of the economic assumptions that you guys are using for CECL? It seems like, and I know you don't have to use Moody's, you have your own economics team, but each quarter last year and the economy got worse. But this quarter, so far, and it's only through February, it's kind of benign. And so, what are you guys thinking?

MARK MASON: Well look, we're still running, we're going to run analysis for CECL through the end of the quarter, as you would imagine. But I think I'd say a couple of things. First, I'd start with the fact that we've



got about \$19 billion of reserves, not just for consumer, but our entire portfolio. So about 2.6% in terms of a reserve-to-funded loan ratio, that's a healthy percentage of reserve, right? So we're well prepared for how this plays out.

As you know, when we do our CECL analysis, we've got multiple scenarios. So we've got a base case, we've got an upside, we've got a downside scenario. The base case includes kind of a mild recession, implicit in it and when we run for CECL purposes, the weighted average of those three scenarios, we would be, we're looking at an unemployment rate over the eight-quarter period of about 5%. So you've got, that's kind of in your average in terms of what we're assuming there. We've increased our disclosure in the K to provide some sense for how does one sensitize that, right? And what we show in the K this quarter is what a 100% downside scenario would suggest, as compared to the weighted average that we've used in this case in the fourth quarter. And so in that scenario, that 100% assumes basically a 6.9% unemployment rate and about 2.4% in terms of contraction in US GDP, so a significantly worse downside relative to the average. And that would equate to about a little bit over \$4 billion, I think was \$4.2 billion of additional reserves in that hypothetical scenario, right, of 100% weighted towards downside. So that gives you a little bit of a sense to the sensitivity.

But again, to your point, when I look at what we have in, what we had in the fourth quarter in the way of cost of credit and think about the way things are trending in the first quarter, I would expect our cost of credit to be – we had, by the way, we had \$1.8 billion or so in Q4, somewhere around there, I'd expect it to be about that to slightly up in the first quarter of 2023.

GERARD CASSIDY: And that 100%, hypothetical, but it shows the capacity of what you guys can handle.

MARK MASON: And that's why I highlighted what it means for unemployment, right, and relative to kind of what we see today, significant change in that. And then that \$4.2 billion doesn't assume any adjustments to management adjustments that we have and the like, right? So we're very well reserved, feel very good about that. And remember that I mentioned the quality of the book on the consumer side. On the corporate side, we're 80% investment grade and internationally, we're of a similar level, if not higher, in terms of the grading for our exposures with multinationals or their subsidiaries, right? So, a high-quality book.

GERARD CASSIDY: Got it, good. When you look at the full year 2023, you were very clear on the guidance for revenue and you gave it earlier in the year and I think it was \$78-79 billion. Well, a couple of things, what are the big drivers? And any update on that number?

MARK MASON: Yeah. So no, I don't have any change to the guidance for the full year, \$78-79 billion on the top line. The expense is about \$54 billion is what I said. I'd point to a couple of things for 2023. One, a very important year, right? A very important year because remember what I said earlier, that 2022 we delivered on some of the things we said we were going to do, and that for us, this is about building credibility with our investors, right? So again, another year to put proof points on the board that we can deliver on the top-line performance, on the expenses that we're targeting for the year.

In terms of what I'm focused on in trying to achieve that, it's execution, execution, execution, right? And it's execution of the strategy, those five interconnected businesses, being able to take advantage of the competitive position we have in Treasury and Trade Solutions. That means doing more with the existing customers that we have, the large multinationals around the world, we're all contemplating what their supply chains need to look like and thinking about how they want to move cash around the world and the FX needs that they have, so more deeply penetrating their wallets. We're trying to grow in our commercial middle market segment. This is a client segment that is well-equipped to use the existing offering that we have from a Treasury and Trade Solutions point of view that, frankly, is untapped for us. And we're getting after that in earnest. There's opportunities, obviously, for our Securities Services business that grew 15% last year. We brought on \$1.2 trillion in assets under custody. As the market turns, there's upside there with existing and new clients.



Obviously, with Wealth, was a tough year last year. But one thing we continued to do was build out our investment advisors and bring on new clients in that space. So, again, as the market turns, expect to see some momentum there and then Cards and the recovery I already spoke to. So, there are a number of things that are involved in the execution of the business strategy. That's one. The second thing is the continued execution of transformation and building out and overhauling our operations, right? And this is a year where we're going to push towards making sure we continue to see some outcomes on that. It's not about designing and planning, this is about execution as we go through 2023.

Exiting the markets, so we did five, we exited, closed five transactions, five countries in 2022. We just closed two more last week, India and Vietnam. We've got a couple more in the queue for this year, making good progress. So that continued execution is important, not just because it frees up capital for us, but it also creates a simplification opportunity for how we think about the entire organization and the org design there, right? So execution, execution, execution and I'd be remiss if I didn't say, the continued focus on expenses. So we're going to be disciplined about how we spend this increase and equally disciplined around where the productivity opportunities are, both in the year and in the coming years, to ensure that we're on pace for this 11-12% ROTCE.

And then capital, right? And to capital, we've got to wait a little bit and see how the CCAR results play out. But we're keenly focused on continuing to optimize capital, think about the work we've been doing in Markets.

GERARD CASSIDY: Sure. You know it's interesting, one of your really strong products is Treasury Services, of course, and we always think of you as the global large corporate. But your middle market comment is really interesting, is that going to start here in the States or where do you think about the potential growth there?

MARK MASON: Actually, we've got – so we've got a footprint globally there, right? We've got a presence in multiple countries around the world, we've been bringing on front-end, this is really about building out the front-end in many ways, right? Because again, we've got the products, we've got the platform that we're able to leverage with TTS, right? This is about bringing on bankers that cover this client segment and can bring the breadth of Citi to bear, and we're punching well under our weight in terms of share. But again, we feel like we've got lots of upside there. And we saw really strong growth last year in that segment.

GERARD CASSIDY: When you think about the CET 1 ratio of 13%, which is so much greater than where it was to your point and for the industry as well. Is that the comfortable range or do you think just based on all the regulatory changes we're hearing about, will it have to gravitate higher? Or what's your thinking about it? Especially as you de-risk the balance sheets and your RWAs come down.

MARK MASON: Yeah. I think you hit the nail right on the head, right? So at Investor Day, we talked about, in the medium term getting closer to an 11.5-12% in terms of a CET1 level and that feeling about the right level. We've been working very hard to ensure that we're optimizing the balance sheet where makes to do that, make a lot of progress in Markets last year on that, have absorbed a number of headwinds already like SA-CCR and things of that sort. There are some things, as you know that are still under consideration from a regulatory point of view in terms of capital, Basel IV, FRTB and the like, and we'll have to see how those things play out and what they mean for the industry.

And therefore, how one has to adjust, right? And adjustments can come in any number of ways in terms of how we prioritize products, how we prioritize clients, how we think about pricing. If we end up in a situation where we're holding more capital for certain products or clients, and so there's a bit of a have to wait and see on some of those regulatory changes or requirements. But we still believe that the industry has about the right amount of capital, right? And it's a lot more than it was three, four, five years ago and really, in order for us to play the role that we should be playing in ensuring that markets stay open and we're able to facilitate client activity and the like. I think we all need to be mindful of that.



GERARD CASSIDY: Well, absolutely. When you look at your ROTCE targets, medium-term targets, what are some of the real drivers? I mean, when you look at your different business segments, what's going to drive those 11-12% type of targets?

MARK MASON: Yeah. So again, that's our medium-term target, it's a multi-year journey in getting there. There are some clear, high-returning businesses, I think, in our platform, in our business, and one is obviously Treasury and Trade Solutions. Like I said, rapidly growing, high-returning Securities Services, Wealth Management, when it gets kind of in a normal part of the cycle. Our Cards portfolio, Branded Cards in particular, high-returning part of the franchise. And many of these businesses are interconnected. That commercial banking business, high-returning part of the franchise. So, that top-line growth is going to be fueled by a number of those businesses. It will also be subject to the recovery in the markets a bit and then I would expect for that to play out. But top-line growth is going to be key.

Getting to the target will require continued discipline on expense management and we've got, and I want to be clear on that, that means both continuing to invest because that investment brings both top-line performance to support that growth and maintain our competitive position. But that investment also improves our operations and over time reduces our structural cost, right? So think about all of the manual activity that goes on in large banks and institutions and being able to automate that, right? That takes out a whole lot of inefficiency in that cost structure. So, maintaining that investment so that we can get to the improved levels of costs and expense is really, really important.

And what our 11-12% calls for, is us getting to an operating efficiency of less than 60% and positive operating leverage and so we're on that journey. This is about building credibility, so proof points, doing what we've said we were going to do, demonstrating how these businesses are interconnected, and in fact, that their key performance indicators suggest that we're on the right path. And I believe that as we continue to do that, we'll see the price-to-book value and that multiple improve, right? And our stock price improve as well.

GERARD CASSIDY: Absolutely. And we've run out of time but I want to go over a little bit, the last wrap-up question is, how has the senior management team embraced, since the Investor Day, obviously, you and Jane, talk to your guys all the time, is there a esprit de corps, what's going on?

MARK MASON: This is a great question. So all week this week, we brought together our top 200 or so client leaders.

GERARD CASSIDY: And we took you away from that?

MARK MASON: Yes, well it just ended, ended at noon so I had time, right?

But the top 200 leaders around the world. We had them together at 388, and we talked about the importance of driving client excellence. That was the whole theme for the last couple days, we had clients in, we had investors in, we had partners in, and we talked about the importance of delivering the firm holistically to those clients, right? And we talked about the importance of hitting these objectives that we've set for ourselves, in order to continue to build credibility with our investors. The entire group was fully engaged. I think the group left incredibly charged to go and execute on the vision and the strategy that Jane has put together for the firm.

GERARD CASSIDY: That's great. Well Mark, thank you so much for joining us. We really appreciate having you here.

MARK MASON: Thank you Gerard, great to see you.



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