



Banking and Markets – Paco Ybarra

Paco Ybarra:

Thank you, Tasnim and Shamir.

I will now talk about our third strategic initiative, driving value in ICG's core profit engines, banking and markets.

Strategically, we think of these businesses together. They deal respectively in the primary and secondary sides of capital markets, and they come together to provide solutions in episodic situations. They require each other and they reinforce each other.

We will see that in banking and markets, we have scale today. And with that, we produce high revenues and solid returns.

What drives our plans for these businesses is the conviction that we can improve from our current position in a returns accredited way.

I will start with banking first. This is a \$6.6 billion global underwriting and advisory business with a diversified clientele, consistently strong globally and highly profitable. We have a strong market position across all elements of our banking [transfix].

In recent times, we have improved our shares in M&A and ECM. We have suffered somewhat in our DCM franchise because of our conservative approach to the leverage finance market. Overall, we have kept up with a very strong performance of the market.

This is where we sit today.

With this market position, while not the largest, we have critical mass and we're relevant to our clients, capable of providing competitive offerings across all asset classes. And we're producing very solid returns.

So, where do we go from here?

The basic message is that we want to give positive momentum and gain shares by making judicious targeted investments.

We have three key strategic priorities. The first one is to keep investing in talent and to redirect our coverage to key growth sectors. The second one is to recalibrate our franchise in recognition of the significant shift toward private capital. Sponsors and high growth private companies are going to be big drivers of the banking world. The third one is making sure that as we grow our banking business, that we capture the cross-sell opportunities offered by our larger ICG franchise and by the growth in our commercial bank.

Starting with talent and coverage alignment, our critical goal is to add franchise-impacting talent to our team, and to direct that talent and our homerun talent toward the critical growth sectors.

On the left, you will see the strategic investments we have made in our senior talent in recent years. In doing that, we operate in a very competitive environment for talent. This has required us to be especially nimble as we navigate losses in talent while seeking to add strategic hires.

We continue to seek talent that has significant franchise impact versus merely growing numbers. But we're decisive when the opportunity appears. And we're happy with the caliber of the talent that we have been able to bring in.

On the right side of this slide, you can see the importance for us to invest in growth sectors, where we're still underweight versus our top competitors.

To do that, apart from building our talent, we have to ensure that it's directed at the right opportunities. That is why we have redrawn our long-established industry sectors to reflect what we believe is driving change in the economy: digital disruption, health and wellness convergence, sustainability revolution, and energy transition. We're trying to give our bankers the right perimeter so that they can be most helpful as our clients adapt and try to take advantage of those changes.

You can see in this slide, the four super sectors that we have created.

So, we have brought talent in, shifted talent internally, and we'll continue to do so whenever the opportunity arises to focus our banking resources on growth and returns.

Our second strategic priority is to recalibrate our franchise in recognition of this significant shift toward private capital.

As you can see on the left part of this slide, our share with the sponsors is disproportionately small and particularly our share of the leverage finance wallet. This should be an area of natural strength for us given our footprint and our strength in financing and securitization and private debt. But our share has deteriorated and impacted our overall DCM share over the last few years because of a very conservative risk stance versus the leverage finance market.

Recapturing share in leverage finance and capitalizing on the private asset opportunity will require us to increase our capital allocation to these sectors. We believe we can do that while retaining a prudent approach to risk and staying within our risk appetite.

The third pillar is making sure that as we grow our banking business, we capture the opportunity offered by our large ICG franchise and by Citi more broadly.

Starting with commercial bank as has been noted, our clients already have a significant banking wallet, and we already have a sizable business with them. These days, you don't have to wait long for a company to generate banking wallet in its life cycle. As our commercial bank business grows globally, our banking business will grow with it. And this will be a differentiating feature of our franchise.

Furthermore, as some of our commercial bank clients grow into very large companies, the fact that we will have been with them from the beginning will give us a privileged position for the future. To capture this opportunity, we have aligned our banking strategy with our commercial bank.

As we grow our banking business with our traditional large corporate clients, we will also enjoy significant cross-opportunities. For instance, episodic derivatives of risk management transactions around events or sourcing of private capital that may be necessary for those events to happen. There may also be custody and agency opportunities around this. And [TTS] may be critical in situations where companies are significantly changing their operating model.

Realizing these cross-sell opportunities is the natural mandate of our very strong corporate bank.

In conclusion, connecting with the rest of ICG and wealth can provide a multiplier of the growth in investment banking revenues. And we are determined to capture it.

So, through these three priorities that I just discussed, we believe we have a very good opportunity to grow our revenue and our share in banking.

Let me now move on to markets.

In our first slide, we take a broad look at our markets business.

Let me highlight a few things. First, we note the size of this business, \$18 billion of revenue in 2021, a very significant part of ICG. Secondly, we have a strong competitive position in the industry, ranking second in fixed income and fifth in equities, a significant improvement in recent years. Our franchise has a diversified client base with particularly strong relationships with corporates, a concentration that is unique in the industry and one that drives the stability of our performance. We have solid returns and efficiency given a still-evolving, complex and rather punitive regulatory capital regime.

As we will discuss, managing capital intelligently has been essential to running a strong markets business.

Finally, in recent years, we have become more client oriented. And so our revenues are more correlated to activity than to market direction and therefore more stable.

So, where do we go from here in markets?

Our general direction is to increase our relevance to our clients and our profitability. Of course, we want to retain our leading position and growth share with this opportunity to do so, but only while keeping a close eye on returns.

How are we going to do that?

Our number one goal is to continuously improve the productivity of the capital that we deploy as we adapt to changes in the regulatory framework and in the market environment. Our second goal is to direct our attention and resources toward higher margin businesses. And thirdly, we must constantly make our core flow businesses more efficient via automation and digital solutions.

Let me spend a few moments on each one of these.

First is capital management. This is a very complex topic. I will try to give you a sense of the challenge and what we're doing about it.

In this analysis, we used the ratio of revenue to risk-weighted assets as a proxy for capital intensity. To help you connect these two returns, all else equal, a 10 basis point change in this ratio corresponds to a 60 to 70 basis point change in returns. So, 4.5 to 5.5 in this ratio is a significant range in returns. Getting toward the upper end is critical for the business.

What drives that capital intensity?

On the left side of this slide, we have tried to collapse a complex set of variables into four key drivers. The first one is regulatory changes, especially to the definition that is binding for us at a particular time. Another is market variables, such as [spray] ratings or implied volatility, which are used in some calculations and have a significant impact on capital. The third driver is business performance, which naturally affects returns. And finally, capital efficiency actions, which are adjustments in our types of business activity.

The left column shows what happened to each of those drivers during the COVID crisis. And the right shows what we expect going forward. Regulatory changes and market circumstances are

something we will have to live with and adjust to. Obviously, we can control our business performance and we will talk about that in the coming couple of slides.

What can we do other than that? What is in our hands?

We can change or reprise activity, sometimes with help from the market. We can develop hedging and distribution capabilities and we can improve our data and analytic capabilities, which allow for more intelligent decision making and more accurate calculations. We have been doing this for some time, but we have to adjust to new changes and we have to become better at it.

The second thing that we have to do in the markets business is to continue to direct our attention and resources to higher margin business.

You will not be surprised to find that these activities are interconnected with other ICG priorities as well. One is to increase our business with the sponsors and private capital asset managers. We have referred to the extraordinary growth in private capital in recent years. You can see it on the left part of this slide.

As in the case of banking, this creates huge opportunities for our markets business and in particular for our leading financing and securitization business. As you can see on the right part of this slide, our diversified balance sheet makes for that business.

Here, we lay out our third goal for our market business, which is to transform our flow businesses.

These activities are very important to our clients, but always subject to intense margin pressure, so we need to be constantly improving our efficiency.

Here, we use our FX business as an illustration of what we're experiencing to some extent across all asset classes. As you see in the graph, voice FX, saw over the years a deterioration of margins, which ultimately forced changes allowing scale players to significantly recover those margins.

How did that happen?

It took two steps. Of course, the first one was electrification, getting computers to do more of the job. The second was a change in approach from a focus on the transactional moment to one of solving the end-to-end needs of our clients, pre-, AT and post-trade, with the transaction happening automatically and embedded in the client's own operational processes.

It is, in a way, the convergence of markets and services as we try to illustrate on the right side of this slide.

We will retain our relevance in flow, but we're very aware of how automation and connectivity will transform these activities into something akin to what our services businesses are today.

So, that is our direction of travel. Our aim is to retain our leading position in fixed income, improve our share in equities, and increase our returns.

As we conclude the ICG presentation, I just want to recap. We have described our strategy and touched on our three core priorities: heavily investing in our services platforms, building our global commercial bank, and continuing to improve relevance and returns in our already strong banking and markets franchises.

So, what will this all mean for our revenues and returns?

As the ICG team executes against these priorities we have just discussed, these are the key metrics we plan to use to assess and direct our efforts. And importantly, we'll be sharing these outcomes with you to similarly gauge our progress. Mark will elaborate on these and provide visibility into drivers of the rest of Citi.

Together, progress against these business metrics underpins the financial performance we plan to deliver.

Thank you for your time this morning. I hope we were able to provide you with additional insight into the nature of our ICG business, our strategy for the future.

I have been fortunate to lead various businesses here at Citi, sometimes through challenging periods. That experience has given me confidence in the resilience of our franchise and belief in its potential. And I don't think the opportunity has ever been better for us.

Next, you will hear from our personal banking and wealth management business. I will see you at the end of the program for Q&A.

Thank you. Anand, over to you.