TRANSCRIPT

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Host
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Speaker
Mark Mason, Chief Financial Officer

PRESENTATION

RICHARD RAMSDEN: Okay. So good morning everybody. I'm delighted to welcome our next speaker, who is Mark Mason from Citigroup. Mark has been at Citigroup for 23 years. He took over as CFO back in February 2019. He has been a regular attendee at this conference. It's great to have you back.

MARK MASON: Great to see you, Richard.

RICHARD RAMSDEN: So why don't we start off with a broad discussion about the macroenvironment? And look, I know there's a lot of different moving pieces, but you do have a unique global footprint. So maybe you could talk about your view on the U.S. economy heading into next year, talk about what you're thinking about the global economy and maybe augment the answer a little bit with what you're hearing from clients, what you're seeing in terms of consumer and corporate behavior.

MARK MASON: Yeah, sure. There's a lot there and a lot going on. I think what we see is that the global economy is proven to be quite resilient. I think it's kind of hard to deny that amidst a whole host of uncertainty that's persisted for a long time. And when you look at the pieces, the U.S. has been particularly strong and resilient. And you look at both the consumer and the corporate balance sheets remain quite strong. You look at Europe, you know, Europe is a bit fragmented. I think we worry about the long-term competitiveness. You know, as it relates to Europe, depending on where you are in Germany, for example. And in other parts of the region, when we look at China, China's starting to show some sense of a stabilization or rebound, if you will, from a cyclical bottom. We were a little bit about kind of the property and real estate dynamic that's there, just industrywide, not anything that's unique to Citi. And that's been helped a little bit by the stimulus that's going on there.

And then there's some bright spots like India, Brazil, Mexico, et cetera, Japan that show some promise, kind of as we go into 2025 and beyond. But particularly in the U.S., we've noticed, and I think most have, a shift from political uncertainty to policy uncertainty, right. And there are a whole host of policies that are kind of up for consideration, everything from taxes, and that may have a lag impact depending on how that evolves, to regulation, and kind of how that evolves for the financial sector, but also more broadly to tariffs and what that means for inflation potentially, and what that means for competitiveness, to immigration and the legalization of that and how that evolves. So a lot of policy discussion and considerations is what we are hearing about as we talk to clients, as we kind of move into 2025. But again, I would highlight that the activity we're seeing in the U.S., the interest in increased foreign direct investment, the capital markets activity more broadly, a lot of that's being driven by U.S. investors and U.S. corporate clients. And so, I think the general sentiment is one towards pro- growth as we kind of go into 2025 from a corporate point of view.

On the consumer side, you know, I look at again, I think the consumer has held up pretty nicely. When I look at the holiday spend in our cards portfolio on the Branded Cards side between Thanksgiving and Cyber Monday, spend was up in the mid-single digits year-over-year. And if you look at kind of newly acquired cards since last year as part of that population, it was up even higher than that. And then on the Retail Services side, now, that's going to be driven a lot by the retail partners that we have and the activities that they've seen in their stores. That was still down year-over-year, call it 2% or 3%, but improvements since kind of the pre-Thanksgiving levels that we saw from a spend point of view.

So again, I think resilient corporate client, resilient consumer client and a lot of people kind of looking to see how those types of policy issues evolve over the next number of months, quarters, et cetera.

RICHARD RAMSDEN: Okay, great. So let's talk about Citigroup and maybe we can start off with talking about the progress that you're making on the transformation. You know, in particular, efforts to address data governance, data quality related to regulatory reporting. Perhaps you can just tell us where you've got to and just give us an update around those.

MARK MASON: Yeah, this is an important one, Richard. I mean, we've been talking about the transformation for a couple of years now. And I think it's important to remember where we came from as a firm. And this is a firm that was built in many ways off of numerous acquisitions over the years. And as we look back, the systems, the operations, the technologies were never fully integrated. And certainly not to the full extent that they could have been. And that makes what's in front of us as it relates to this transformation and even taller order, right. And so we have been, as you know, working at not just what's expected of us from the consent order, but a broader operational overhaul across the entire company and that is, as we've said, a multiyear journey. That is one where I think we've made some good progress. But as everyone would have seen, there are other areas where we're not as far along as we'd like.

The regulators have spoken to, at least one regulator, has spoken to both the progress, but also the fact that we're not as far as we'd like to be on data and regulatory reporting. And on that specifically, to the heart of your question, the data is a very broad heading. And I think it's important to point out that as I think about customer data and client data and financial reporting data, I feel very comfortable with that. But the data that we're speaking about is particularly related to regulatory reporting, which is a different use case, a different purpose, if you will. The level of granularity may vary. The nature of the information, or how the information needs to be presented, will vary. And so what the work we need to do is largely around how do we improve the timeliness and accuracy as it relates to regulatory reporting. And there are thousands of regulatory reports that we all have to adhere to.

The second point I'd make on that is that I don't think it's something that is unique to Citi. I think the focus on the need to improve data as it relates to regulatory reporting is an industry dynamic too, and it is a standard that continues to evolve even as we manage through our transformation, and that adds an additional layer of complexity that we can't lose sight of. Since the summer where we got some feedback as it relates to that, we've been working very hard on taking a step back and kind of looking at our approach to data for regulatory reporting and we're making some changes in that approach. And one very easy, quick example is that we're going from an approach that was product driven in terms of how we look at improving our data, how we look at the capture of our data, how we look at the controls around that data, to one that is report driven.

So since the ask here is around how do we improve the output of those reports, ensuring that the intake of the critical data elements is done with a lens towards what's required on that report is an important pivot. And so we're making good progress on that. More broadly, we continue to make progress on our stress testing. We continue to make progress on our risk controls. We continue to make progress on many of the platforms that support payments and markets, et cetera. And so, the transformation investments that we've been making more broadly continue to show progress as well.

RICHARD RAMSDEN: Okay, great. So maybe before we talk a little bit about strategy and next year, you can give us an update in terms of what you're seeing in the quarter in terms of both investment banking, markets and anything else you think we should be aware of?

MARK MASON: Yeah, sure. So a couple of things. The first thing I'd say is that as we kind of wrap up the year and there's still a number of weeks left to the quarter, I continue to feel very good about the guidance that we've given for 2024 the $80 billion to $81 billion. And I think we're likely, knock wood on something, we're likely to be on the on the high-end of that range. So that feels very good. As I look at the expenses, the guidance was $53.5 billion to $53.8 billion ex. the FDIC, I said already we're likely to be on the high-end of that. That is still where I am as it relates to that. And we're still working to figure out if we can cover the civil money penalty, but no change as it relates to the expense guidance. By the way, that is with lots of puts and takes that have happened through the course of the year, including the need to increase the spending on transformation and on risk and controls. But we've been very disciplined in managing the aggregate expense pool that we have in terms of looking for additional productivity opportunities to offset some of those increases that we saw through the year.

As it relates to the quarter specifically and the business activity, I think I said NII ex-Markets was likely to be flat sequentially. I said that at third quarter earnings. That's still the case. As I look at Banking, investment banking fees, those are likely to be up, call it, 25% to 30% year-over-year, continued strength in ECM, DCM and in M&A. So looking very solid there as we continue to gain share there. And then Markets, the Markets business, we continue to see good momentum in equities, particularly prime balances. I'd see Markets up in the high teens year-over-year. And then the final piece is cost of credit. And cost of credit, I think we're looking at somewhere around again, couple of weeks left and we've got to run CECL analysis, with somewhere around $2.6 billion or so is where I suspect we'll end up from a cost of credit point of view.

RICHARD RAMSDEN: Okay, great. So you just announced the renewal and expansion of the relationship with American Airlines. Maybe you can tell us about the strategic value of that relationship and just give us a sense of the financial impacts of that agreement.

MARK MASON: Yeah, this was an important announcement. And I would say another important announcement. We announced, obviously, the Apollo Partnership a number of weeks ago. Remember, our cards, we are the second largest card issuer in the United States. We've got about $160 billion or so of loans. We've got 70 million card customers. We've got 40 or so retail partners in that Retail Services part of the franchise. And American Airlines is an important co-brand partner for us. We've had a relationship with them for over 37 years. And what we announced last week, similar to what we've done with other co-brand partners, is we spent a lot of time, in fact, two years with them looking at how we might strengthen and enhance the relationship that we have as partners. And we announced that enhancement. That enhancement includes a couple of things. One, it includes that we're going to purchase the Barclays portfolio in 2026, bringing the entire co-brand partnership into Citi. That is an incredible opportunity from an acquisition point of view for us, for American Airlines, and we're excited about that.

The second thing is that we're going to work together to figure out how we can further enhance the value proposition for their customers and for our customers as well. Leveraging the rewards programs from both of the partners that we have at work here. And so we think that's an opportunity as well. And the way I look at this is this part of the business is both a growth and high returning business through the cycle. And so any opportunity we have to work with a partner like American Airlines to figure out how we can grow spend with those customers, I think, is an opportunity that's ultimately accretive to our returns. The last point I'd make on the partnership at least, is that American Airlines is a partner with us, not only as it relates to cards, but also they are Banking client, they are Markets client, they are Services client. So these are the types of clients that we talk about that can benefit from the full breadth of what we offer as a franchise. And one example of that is that last week, we also announced a fuel line for them as part of this broader strategic arrangement.

So again, through our Services business, providing them a fuel line which was part of how we strengthen that relationship further. In terms of the financial impact, I don't expect the financial impact in 2024. I don't expect anything of size in 2025. In 2026, there'll be some modest impact in terms of kind of bringing on the portfolio from Barclays. That'll come with reserves. There'll be revenues and some costs associated with the expansion of the partnership. But I don't expect a significant impact to the bottom line or to the returns in 2026. And then over time, that'll be accretive to returns.

RICHARD RAMSDEN: Okay, great. So more broadly on your card portfolio, I think it's fair to say that it's performed in line with your expectations, which I think you set up this time last year. Maybe you can just update us on what you're seeing in terms of recent credit performance, maybe talk a bit about the key drivers of each portfolio at this point in the credit cycle. And then kind of if you zoom out and look across your entire credit book, other things that you're monitoring more closely today than, say, 6 or 12 months ago.

MARK MASON: Sure. I think I'd start by saying I don't see anything that's kind of outside of the expectations that we've had, you know, going through the year and certainly what I would have referenced at the third quarter earnings. So no particular surprises as it relates to that. As you said, the Branded Cards portfolio and the NCL rates are performing in line with the guidance that I gave, you know, as high as, you know, 3.5% to 4.0% or so. So in line with that guidance, no particular changes or concerns there. You all will remember the compounding effect that I referenced before in terms of having vintage years for new customers kind of coming on during COVID that delayed kind of losses. And so you kind of have that compounding effect across both portfolios but inside of the range that I've given.

Similarly, on the Retail Services side, trending according to what I would have expected, likely to be on the high-end of that range, so 6.25% was the high-end from NCL rate point of view. I'd expect that to to play out in the fourth quarter. I think there you've got to keep in mind the denominator and we have seen kind of, you know, in the retail space, we've seen some slowing there and so that's going to have a denominator effect as it relates to the rate, but not changing the expectations that I have. So generally in line there. As I look at delinquencies, delinquencies are continuing to stabilize. Again, along the lines of what I would expect when I look at the 30+ delinquency rate. It's stabilizing, as I said last quarter. And that's a good sign, a good indicator. That's one of the things we look at. We look at payment rates. We look at minimum payment rates across our different customer sets. We look at unemployment. That's a big factor as it relates to how delinquencies and losses are likely to evolve.

But remember, we play generally on the higher end of the FICO spectrum, the income spectrum. And I'm not seeing anything that is of particular concern or I should say, you know, anything that's unexpected in terms of how this is evolving. In terms of the broader portfolio, we continue to watch it and watch the sectors and the different exposures we have around the world there. I feel very good about the reserve levels that we have. I'm not seeing any particular areas of worry there either.

RICHARD RAMSDEN: Okay. So maybe we can segue and talk a little bit about revenue, so maybe we can start off with NII, you know, I think NIII ex-Markets is also held up pretty well this year, certainly come in above the expectation that we had at this point last year. Can you talk a little bit about the puts and takes and how you expect the factors to play out through 2025? And maybe talk particularly about the Services business where I think there is this a view that this business is somewhat more asset sensitive.

MARK MASON: Yeah, you know, so the year has played out a little bit better than we expected from an NII ex-Markets point of view. I think when we started the year, I said I'd expect it to be modestly down. We've seen some improvement since then. I think there are a number of drivers, one in USPB, the card loan balances have come in nicely and we had talked about average interest earning balances, growing and loans, I think for cards are up 8% or so year to date. So good momentum, a bit stronger than we originally expected, that's one factor that played through. In terms of deposits, while deposits in aggregate are kind of flat to slightly down, we continue to grow operating deposits, so that's helped from a volume point of view as well. And that plays a little bit to your Services question. We didn't see late fees kind of come into play as we were originally forecasting. Now you know, the jury's out in terms of timing and when and if that happens or not, but we were expecting that in 2024, and that frankly would have been less of an impact than a lot of people were forecasting for us, but that is certainly a factor there. And then the third piece were obviously the rate cuts, and so those are some of your puts and takes that kind of play through, you know, in 2024, but again, we're going to be better than what we originally forecasted from an NII ex-Markets point of view.

As I think about 2025, I think there are couple of factors here. So again, I think volume will be a factor, both loan and deposit volume, and we're in the middle, I have to caveat a little bit, we're in the middle of plan now and I meet with the Board tomorrow, and so we'll give a more fulsome update at the fourth quarter earnings in January. But I think volume will be a factor for sure. I think to some extent as well the securities portfolio that we have, about $500 billion from securities point of view, the reinvestment of securities as they mature will still be at a higher rate given when they were put on. And so that will be a tailwind that that plays out for us. Late fees and how that factors in will be an important consideration, and we're running scenarios around that. And then pricing, how we're able to reprice as rates decline with our clients is the other component. So those are important aspects to it. But I do think NII [ex-Markets] will be a contributing factor to 2025.

RICHARD RAMSDEN: Okay, great. And then you mentioned deposits. We've had a couple of rate cuts. Maybe we're going to get another one in December. You know, what have you seen in terms of deposit flows? What's happened in terms of deposit pricing? And maybe you can kind of put it in some sort of context relative to your expectations and maybe in terms of what it means for deposit betas, you know, as we head into next year.

MARK MASON: Yeah. So broad brush statement, we obviously pay a lot of attention to anything that we put on our balance sheet right, particularly as it relates to, or particularly as we get into the fourth quarter and as we're all thinking about G-SIB and the implications of that. So that's an important kind of headline as it relates to the question. But I think the other component is, if you think about our Services business and TTS in particular, it’s more than just a deposit taking business, right, and so we are focused on working with these multinationals around how we help them with their operational cash management needs and broader solutions for the operations of their enterprises. And that's important because it impacts how we think about pricing across the Board for the products and services that we provide for them, or to them. We're not seeing anything abnormal as it relates to the pricing discussions that we're having with clients as rates come down. You'd expect for an institutional client base for them to be a bit more rate sensitive. Those discussions are normal betas are kind of acting as we would expect for them to act really nothing to point to there.

As I think about the Wealth business that we have, the high beta type products like CD's and money markets, we've gone ahead and kind of repriced those, that's easy. The rest of that dialogue is a relationship-based dialogue, as you'd expect with ultra-high net worth clients and wealthy clients. But again, not seeing anything abnormal there. I would expect to see normal seasonality if you think about Wealth at Work and other things that kind of play through, you know, the end of the year.

And the same is largely true, although a different client set on the Retail Banking side. So those high beta products, CD's and money markets, we've repriced those and we look broadly across the portfolio to see where it makes sense to do that. So Richard, no real surprises or abnormalities that I'd point to. Things are largely behaving as we would expect. Obviously, how rates continue to evolve will be an important factor. The number of cuts, the frequency of them and the magnitude of them will all be important factors.

RICHARD RAMSDEN: Okay. So then on non-interest revenue, again, you've seen good momentum in non-interest revenue this year. Can you talk a little bit about some of those drivers in each of the businesses? And then again, talk broadly about how we should think about those going forward into next year?

MARK MASON: Yeah, look, I think this is an important factor as well because we've talked a lot about as our strategy continues, or as we continue to execute on our strategy, that mix in revenue is changing and having a larger contribution from fee revenues. And we have been seeing that across the entire portfolio, right, and so, you know, when you look at kind of the Services revenues, we've had significant growth in the quarter and year to date, when you look at kind of the drivers underneath that, you know, clearing, you know, was up 6%, cross-border volumes were up 8%, commercial spend up 6%, all contributing to that NIR that we see in Services, the TTS business. On Securities Services, we saw assets under custody up 22%. These are important fee revenue generating businesses for us.

The Banking business, as we've seen the wallet recover, we've gained share that's up 45% in terms of year to date fee revenues from that. And particularly, we're seeing strength in areas like health and technology where we've made investments in bringing on new talent and we're seeing that materialize. So good momentum across the franchise.

Wealth, an area we've been talking about for some time now, and a pivot towards investment revenue. So we saw good, you know, mid-teen growth as it relates to investments in you know, in the Wealth business.

And then USPB is really a function of partner payments, but even that's been a contributor here. So we're very pleased with the progress from an NIR point of view.

We think there's more upside as we go into, you know, 2025 and beyond there.

RICHARD RAMSDEN: Okay. So, you know, I know you mentioned that you're meeting with the Board, I think you said tomorrow.

MARK MASON: Today and tomorrow.

RICHARD RAMSDEN: Today and tomorrow. And you're going to give us a more fulsome update early next year. But maybe you can give us just a better understanding of the building blocks on both revenues and expenses as we think about 2025, as it currently stands. And then on expenses, in particular, maybe talk a little bit about how we should think about the expense trajectory and the operating efficiency improvement potential as we head beyond 2025.

MARK MASON: Yes, sure. So I guess a couple of things. So one, as I think about 2025, it's a little bit of what I started to touch on already. So you look at the top line for revenue point of view, you look at NII, I think NII ex-Markets will be similar drivers, so I expect to see continued volume growth both as it relates to loans and a bit as it relates to deposits, that should contribute to NII. I expect to see some benefits from my securities portfolio and the reinvestment associated with that playing through. There are some tailwinds depending on kind of how the late fees evolves. And then on the NIR side of it, again, I'd expect to see continued share gains in my Banking business, and I'd expect to see those underlying drivers which are, tied to the growth in large multinationals and to some extent our middle market clients, as we look to penetrate that client segment to contribute to the Services part of the equation there. And so, you know, and even if you think about some of the things I mentioned in terms of some of the policy considerations that are out there, tariffs and the like, I mean if I think about our client set we're part of that dialogue and any shifts they've got to make as it relates to trade, we're at the table with them around that and therefore stand to actually not only provide them a solution, but to also benefit. So those are some of the drivers of the top line.

As I think about the expenses. We've talked about this a little bit in the past, but you've got a couple of factors. We've got the benefits from kind of org. simplification that continue to play through this year, the continued benefits from stranded costs coming off. We start to see a little bit of benefit from the transformation investments that we've been making, so those are all kind of tailwinds. And then we've got some headwinds that we've got to be mindful of, right, continued investment in the transformation, in risk and control, in data and technology. There's no doubt that we're going to have to continue to make those types of investments. There's going to be some business led investments that I'm going to want to make. And then we have volume, right? And because I'm going to have some top line momentum, we've got to obviously fund that. And so I think those are the puts and takes. I do expect positive operating leverage as we, you know, play through 2025 and beyond. And, you know, the operating efficiency, you know, target that we've set of ultimately getting to less than 60% is still where we're eyeing.

RICHARD RAMSDEN: Okay. So let's talk about capital. I think in the third quarter, you were repurchasing stock and I think you said that you were taking buybacks, or looking at buybacks on a quarter by quarter basis. I think at the time, there was some confusion given that you didn't give a level for the quarter. And I think some thought there were restrictions related to the enforcement action in July. So can you speak to that? And do you have an update in terms of buyback activity for this quarter? And then again, as we think longer term, what do you need to see to accelerate the pace of buybacks, just given how much uncertainty there is around the regulatory environment? And ultimately, what is going to happen to the capital requirements for the industry but also for Citigroup?

MARK MASON: Okay. Yes, sure. So the first thing in terms of your point around, you know, the regulatory issues in July and there are no constraints as it relates to the capital actions, you know, from Citi around buybacks or dividends or anything that came out of that. The CMP that we got back in July was around CBNA the entity, the bank entity, and you know, what it could do as it relates to the parent company, but not a parent company constraint, but a CBNA bank question or issue. And that was largely around resourcing, so how do we ensure that we're providing the resourcing to support the transformation and the consent order commitments that we have. So it was really a resourcing review plan that we had to that we had to adhere to, not a capital constraint as it relates to buybacks or dividends from the parent, Citi. I want to be clear on that.

As it relates to the quarter, we've been saying we'll take it quarter by quarter, so that was a consistent remark that we made. Thus far in the quarter we've done $500 million of buybacks, I've got a target in the quarter to get to $1 billion, so that's what we're focused on this quarter.

How do I think about it more broadly? It's the factors we've talked about before right. And maybe there's some hope of getting some clarity on them in the coming months and quarters. But you've got obviously Basel III Endgame that's out there. And there's been some evolution on the thinking, you know, around that, but nothing's been finalized yet. So we'd like to see how that plays out. There are a series of discussions going on around CCAR, DFAST, and you know how that possibly evolves, clarity on that I think is important. I just spent a lot of time talking about growth opportunities in front of the franchise. I want to make sure that I've got balance sheet and dry powder to fund those, particularly those that are return accretive for the firm. But those are the important factors that I think we'll hopefully get some clarity on, you know, in the coming months and quarters. And that helps to inform, how we how we continue to kind of move towards, increased capital actions or buybacks. You know, it's not lost on me where we trade relative to peers, and so buybacks are high on my list in terms of, as we get clarity, pursuing the opportunity to increase that number.

RICHARD RAMSDEN: Okay. So I think we've got a couple of minutes left, so maybe we can just you know wrap up with, you know, your priorities as we head into 2025. And then I think, linked to that look, you have made, you know, as you've talked about, a lot of progress in simplifying the firm between the divestitures and some of the organizational changes. What are the main points you think that investors really should focus on in terms of your current positioning and the value proposition that you offer, that you can offer shareholders today?

MARK MASON: So, look, the first thing is that that I hope people recognize the progress that we have made. So we, you know, we've been talking about top line growth of 4% to 5%, and if you look at since Investor Day, where we were as of 2023, we're at 4% top line growth. And you heard me talk about, the full year 2024 guidance here and likely to be on the top end of the range. And so, between revenue and the expenses, we've been trying to demonstrate not only discipline, but to give you all proof points of delivering what we've said we are going to do and to managing, you know, the execution of the strategy in an effective way.

So where else do you see that? You see that in the positive operating leverage across all five segments, you know, last quarter. So starting to gain momentum pretty much across what I would say is a diversified, balanced franchise. You see that in exiting nine of the 14 countries very swiftly and freeing up capital in doing that. You see that in continued progress against the Mexico separation and readying for the IPO there. So there's a lot of, I think, significant progress that we've made. We brought a new leadership, in Wealth, in Banking, in technology. They brought in leadership that's starting to deliver. On the top line, we announced the Apollo transaction to expand what we can offer to our clients and to do so in a smart and balance sheet efficient way. Even in parts of our business like USPB, we've been creative and thoughtful with American Airlines.

So we are working this strategy that I think in many ways differentiates us from peers as it relates to that top line. And we are incredibly focused on the transformation and continued execution there. And I think in a lot of ways, what we're looking for and what we're prioritizing in 2025 is consistent with what we talked about in 2024, right, which is how do we ensure continued focus on execution of transformation and how do we improve performance? And I think 2025 will be another year of progress as it relates to both of those things.

RICHARD RAMSDEN: Okay. I think with that, we're out of time. So, Mark, thank you very much for joining us and hopefully see you going next year. Thank you.

MARK MASON: Thank you.

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