TRANSCRIPT

Citi First Quarter 2023 Earnings Review
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Host
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Speakers
Jane Fraser, Citi Chief Executive Officer
Mark Mason, Citi Chief Financial Officer

PRESENTATION

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

Ms. Landis, you may begin.

JENNIFER LANDIS: Thank you, operator. Good morning and thank you all for joining us. I'd like to remind you that today's presentation, which is available for download on our website, citigroup.com, may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these statements due to a variety of factors, including those described in our SEC filings.

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

JANE FRASER: Thank you, Jenn, hello to everyone joining us today. Well, 2023 is shaping up to be another interesting year, given the tumultuous events of the last few weeks. I am going to share some observations, and then we'll turn to what was a good quarter.

First, our banking system as a whole is very strong. While a small handful of institutions still have challenges to overcome, the U.S. financial system remains unmatched globally. And I feel confident saying that as someone who has worked in many different systems around the world.

The U.S. system comprises a healthy mix of community banks, regional banks and global banks including Citi. We all have important but different roles to play, serving different clients with different needs and on different scales. I would also point to the rapid response by state, federal and international regulators that helped reinforce confidence in the system at a critical juncture.

I am pleased that Citi has been a source of stability for the financial system and a source of strength for our clients. **That's not an accident.**

We are in a position to play this role because our strategy is delivering a simpler, more focused bank. We benefit from a diversified earnings base and resilient business model. This is reinforced by our robust balance sheet management, liquidity position and strong risk management frameworks. We are disciplined in how we run the firm, from client selection to capital planning.

And it is also thanks to our people. I want to express my pride in our colleagues around the world who have worked tirelessly last month to serve clients as they turned to Citi as a port in the storm.

Recent events have shown that prudent asset and liability management is absolutely paramount. While

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Mark is going to walk you through our approach and our focus on interest rate risk, liquidity, and capital, I do want to mention a few things.

In terms of assets, our loans are high-quality and short-duration. We have highly-liquid investment securities and a significant amount of cash. We have over $1 trillion of available liquidity resources, including $584 billion of HQLA and an LCR of 120%. And we maintain a diverse set of funding sources, including over $1.3 trillion of deposits across corporates, consumers, industries, and regions, many of which are operational in nature.

The cornerstone is our institutional deposit base, which comprises about 60% of our deposits. Most of these deposits are particularly sticky because they sit in operating accounts that are fully integrated into how our multinational clients run their businesses around the world – from their payrolls to their supply chains to their cash and liquidity management. 80% of these deposits are with clients who use all three of our integrated services- payments & collections, liquidity management and working capital solutions.

The data that we aggregate from these deposits and their related flows is fundamental to how our clients manage their efficiency, risk and compliance. This greatly increases our deposit stickiness. And that is also why nearly 80% of these deposits are from client relationships that are 15 years old or more.

Finally, we operate a strong risk framework that looks at both asset and liability concentrations across client segment, industry, and region, and we are confident in the size and nature of our exposures given our rigorous stress testing. We also diligently manage counterparty risk, which is critical given the interconnectedness of financial institutions.

We are in a strong position to navigate whatever environment we face – which is particularly relevant given the degree of uncertainty today.

The Fed continues to use rate policy to battle inflation, which has been more than stubborn in services, even as we see signs of cooling in labor and manufacturing. We expect the recent events to be disinflationary and credit to contract. We believe it is now more likely that the U.S. will enter into a shallow recession later this year. That could be exacerbated in depth and duration in a more severe "credit crunch." But right now, the biggest unknown is the impact on terminal short-term US interest rates and, of course, how the debt ceiling plays out.

In Europe, the ECB is on a similar, but more difficult, quest to tame inflation. They have had some help from lower-than-expected energy prices and the outlook continues to be a bit brighter. However, the war in Ukraine sadly shows no sign of ending and Europe faces more structural challenges such as the need for increased defense spending, higher energy costs and fiscal burdens that will make efforts to dampen inflation and stimulate growth more difficult.

In Asia, the reopening of China is adding to the momentum in the region although the Chinese consumer has been slower to rebound than expected. I saw many green shoots firsthand talking to our clients and our bankers in my various trips to India, Japan, and Hong Kong this year. We have to keep a close eye on geopolitics as the US-China relationship becomes increasingly strained and is fragmenting economic blocs. We see this translate into shifts in flows and heightened cross-border volume across TTS and our global network.

Now, turning to how we performed during the quarter… We reported net income of $4.6 billion and an EPS of $2.19. We had good revenue growth of 6% ex-divestitures and both revenue and expenses were in line with our guidance. Our ROTCE of nearly 11% benefitted from the closing of the sales of our consumer businesses in India and Vietnam and would have been over 9% without those gains.

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Let me highlight our operating performance in each of our five core businesses.

In Services, TTS continued to go from strength to strength, with revenues up 31%. Non-interest revenue was up 11% quarter-on-quarter-on the back of increased cross-border activity and good performance in commercial cards due to the rebound of corporate travel. Securities Services wasn't too shabby either, up 23% as we executed on new mandates, onboarded new AUC and benefitted from higher rates.
Within Markets, our Fixed Income revenues were up 4% from a year ago. We benefitted from excellent performance in Rates and continued engagement from our corporate clients. The first quarter of 2022 was no slouch, as you may recall, but this quarter was our third-best in a decade. Equities was weaker however - down markedly in both derivatives and cash, but still had revenues north of $1 billion.

Banking was down again, but there were signs of the beginning of a rebound, including increased activity in the investment grade debt market.

In US Personal Banking, our cards businesses gained momentum as all drivers continue to normalize to pre-COVID levels. Branded Cards and Retail Services saw revenues up 18% and 24% respectively. Retail Banking saw some growth as we continue to see good momentum in mortgages and installment lending and also experienced a significant increase in digital deposits.

We did see a notable softening in consumer spending growth over the course of the quarter. Travel and entertainment continued to grow in March, but essentials were flat, and almost all other spend categories were down. Savings rates are below historic averages. While the upper quintiles of household income still have roughly a trillion dollars in excess savings, the savings of the lower quintiles have been significantly drawn down. So we are keeping a diligent eye on the lower FICO bands as economic growth and services spend slow.

Finally, we remain confident about the prospects of our Wealth business. Despite the challenging headwinds, growth in Citigold accounts, client acquisition and client advisors were all solid and we expect these drivers to flow through to revenue later this year and beyond. We also saw the early signs of a long-awaited Asian recovery.

We built credit reserves this quarter on the back of growth in revolving balances in cards and poorer macro-outlooks. NCLs continued to normalize in Consumer while the health of our corporate base was evident in another quarter of very low NCLs.

Finally, we continue to generate capital through our earnings. With our CET1 ratio now at 13.4%, we have room to absorb the temporary, upfront impact should we sign a deal for Mexico. As you know, we continue to pursue a dual path here. And we are committed to increasing the amount of capital we return to our shareholders over time.

As you can see from slide three, in addition to good operating performance from our businesses and, despite everything else going on in the industry, we got a lot done this quarter as we implement the strategy that we shared with you at Investor Day.

We closed the sales of our consumer businesses in India and Vietnam. Indonesia and Taiwan are next on the list to close later in the year. Our Asian consumer sales will then be complete, and we are intensifying our efforts to eliminate stranded costs and simplify our organizational structure.

We made some significant leadership announcements. I am delighted that Andy Sieg will join Citi at my table as the new head of Wealth Management. Andy is a widely respected leader in this space and comes to us after running an $18 billion business with $2.8 trillion in client balances. He is the latest and the most visible example of the excellent talent we have attracted over the last couple of years.

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With Karen Peetz retiring, we named Anand Selva as our Chief Operating Officer and asked him to take on running our enterprise-wide Transformation program in addition to his current responsibilities. Anand has been at Citi for over three decades and has a strong track record of delivering results.

In terms of our Transformation, we are completely focused on executing our plans to address the consent orders and improve our risk and control environment. Mark will walk you through specific examples of how we are modernizing our infrastructure, simplifying processes, and improving data quality. Importantly, these efforts will improve the client experience and help us deliver Citi's full capabilities to them.

To wrap up… It's one year after our Investor Day and I am proud of the progress we have made and our relentless focus on delivering. Our strategy is clear. Our business model is resilient and diversified. Our balance sheet is strong. We are making good progress on execution. Amidst considerable turmoil, we are delivering on our guidance and our commitments. Our team is determined to continue delivering with excellence.

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

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

On slide 4, we show financial results for the full firm. In the first quarter, we reported net income of approximately $4.6 billion and an EPS of $2.19 and a RoTCE of nearly 11% on $21.4 billion of revenues. Embedded in these results are pre-tax divestiture-related impacts of approximately $950 million, largely driven by the gain on sale of the India consumer business. Excluding these items, EPS was $1.86 with an RoTCE of over 9%. In the quarter, total revenues increased by 12% on a reported basis and increased 6% excluding divestiture-related impacts as strength across Services, Fixed Income and .S Personal Banking was partially offset by declines in Investment Banking, Equity Markets and Wealth, as well as the revenue reduction from the closed exits and wind-downs.

Our results include expenses of $13.3 billion, an increase of 1% versus the prior year. Excluding divesture-related costs in the prior year, expenses increased by 5% largely driven by the transformation, other risk & control investments and inflation, partially offset by productivity savings and the expense reductions from the exits and wind-downs.

Cost of credit was approximately $2.0 billion, primarily driven by the continued normalization in Card net credit losses and ACL and other provision builds of approximately $700 million, largely related to a deterioration in macroeconomic assumptions and growth in card revolving balances.

At the end of the quarter, we had nearly $20 billion in total reserves with a reserve-to-funded loans ratio of approximately 2.7%.

On Slide 5, we show an expense walk for the first quarter, with the key underlying drivers. Transformation investments drove ~1% of the growth largely in the data, finance and risk and control programs. And 4% of the increase is driven by structural, largely in the form of compensation and benefits including the full-year impact of the people we hired last year as well as those we hired in the first quarter.

Embedded in this structural bucket are a few key items. First, other risk and control investments that are enterprise wide and in the businesses make up about 2% of the total expense increase. Second, the impact

of additional front and back-office hires. Third, inflation and severance costs. All of this was partially offset by productivity savings as well as the benefit from foreign exchange translation and the expense reduction from the exits and across the firm, technology-related expenses grew 12%.

We recognize these investments have driven a significant increase in expenses, but they are crucial to modernize the firm, address the consent orders and position Citi for success in the years to come.

Now turning to slide 6, I'd like to spend a few minutes giving you some tangible examples of what we are investing in and the benefits we will see over time.

In many cases, these investments will simplify our processes and platforms. For example, we are retiring and consolidating 20 cash equities platforms to one single modern platform, eliminating costs over time. And we have consolidated 11 platforms to one global sanctions-screening platform, reducing false alerts, improving the client experience and eliminating costs.

We are also modernizing our infrastructure and the security of our data and information by enhancing cyber security through the use of AI and improving the security of our infrastructure and devices, leading to fewer operating losses. And we are leveraging industry-leading cloud-based solutions to modernize and streamline the connectivity between our front office systems and the general ledger, eliminating manual processes and operating costs over time.

We are driving the strategy by investing in the client experience both in terms of our technology interface and innovative new products. We launched our cloud-based instant payments platform for eCommerce clients in TTS. We are also deploying CitiDirect Commercial Banking, our mobile and digital interface for Commercial clients so they too can open accounts and access all products and services across ICG in the same way our Large Corporate clients do. And finally, we are investing in data to create advanced decision making, client targeting, and risk management capabilities which has allowed us to enhance our returns through greater RWA efficiency. And we expect many of these investments to generate efficiencies that will allow us to self-fund future investments over time.

On slide 7, we show net interest income, deposits, and loans where I'll speak to sequential variances. In the first quarter, net interest income increased by approximately $80 million, largely driven by interest-earning balances in cards. Average loans were up slightly as growth in PBWM was largely offset by a decline in ICG. Average deposits were also up slightly, driven by growth in both PBWM and ICG. And our net interest margin increased 2 basis points.

On Slide 8, we show key consumer and corporate credit metrics. We are well reserved for the current environment with nearly $20 billion of reserves. Our reserves-to-funded loans ratio is approximately 2.7%. And within that, US Cards is 8.1%. In PBWM, 44% of our lending exposures are in US cards and of that exposure, nearly 80% is to customers with FICOs of 680 or higher.

And NCL rates, while reflecting some typical seasonality this quarter, are still below pre-COVID levels and are normalizing in line with our expectations. The remaining 56% of our PBWM lending exposure is largely in Wealth and predominantly mortgages and margin lending. In our ICG portfolio, of our total exposure, approximately 85% is investment grade. Of the international exposure, approximately 90% is investment grade or exposure to multinational clients or their subsidiaries. And corporate non-accrual loans remain low at about 40 basis points of total loans.

As you can see on the page, we break out our Commercial Real Estate lending exposures across ICG and PBWM which total $66 billion, of which 90% is investment grade. So, while the macro and geopolitical environment remains uncertain, we feel very good about our asset quality, exposures and reserve levels—and we continuously review and stress the portfolio under a range of scenarios.

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On Slide 9, we show our summary balance sheet and key capital and liquidity metrics. We've added a few additional metrics to the page to provide additional transparency into how we manage the balance sheet. We maintain a very strong $2.5 trillion balance sheet which is funded in part by a well-diversified $1.3 trillion deposit base across regions, industries, customers and account types which is deployed into high-quality, diversified assets.

Our balance sheet is a reflection of our strategy and well diversified business model. We leverage our unique assets and capabilities to serve corporates, financial institutions, investors, and individuals with global needs. First, the majority of our deposits, $819 billion, are institutional, and span 90 countries. And the majority of these institutional deposits tend to be interest rate sensitive – so when rates go up, we reprice the deposits accordingly, but that reprice takes into account the overall client relationship as well as the level of rates.

But despite this interest rate sensitivity, these deposits tend to be stable as they are tied to the operational services we provide. And these institutional deposits are complemented by $437 billion of US Retail consumer and global wealth deposits as you can see on the bottom right side of the page. These deposits are well diversified across the Private Bank, Citigold, Retail and Wealth at Work as well as across regions and products, with 75% of US Citigold clients and approximately 50% of ultra-high net worth clients having been with Citi for more than 10 years. Our wealth deposits tend to also be interest rate sensitive, but this usually results in our customers moving to higher-yielding investment and deposit products.

Now turning to the asset side, at a high-level, you can think about our deposits being largely deployed in three asset buckets – loans, investment securities and cash – which complement the interest rate sensitivity and liquidity value of our liabilities. And this deployment is also linked to our strategy – we use our resources to lend and transact with our clients in ways that deepen the relationship and drive returns for our shareholders while maintaining strong liquidity and capital.

Our $652 billion loan portfolio is well diversified across consumer and corporate loans. And the duration of the total portfolio is approximately 1.3 years as the majority of these loans are variable-rate. About 35% of our balance sheet is in cash and investment securities which contribute to our $1 trillion of available liquidity resources. And at the end of the quarter, we had an LCR of 120%, which means we have roughly $100 billion of HQLA in excess of the amount required by the rule to cover stressed outflows. And you can see the details of this on page 27 in the appendix. But just as important as the quantum of liquidity is the composition and duration of that liquidity.

And our $513 billion investment portfolio consists largely of highly liquid US Treasury, Agency and other sovereign bonds, and is split evenly between available-for-sale and held-to-maturity, where we've maintained a short duration of less than three years so we could benefit from higher interest rates.

And we actively and prudently manage our assets and liabilities by considering a range of possible stress scenarios and how they might impact interest rate risk, liquidity, and capital.

So, in summary, our assets and liabilities are aligned across interest rate sensitivity, liquidity value and duration, and reflect the diversified business model and execution of our strategy.

On Slide 10, we show a sequential CET1 walk to provide more detail on the drivers this quarter. Walking from the end of fourth quarter. First, we generated $4.3 billion of net income to common which added 38 basis points. Second, we returned $1.0 billion in the form of common dividends, which drove a reduction of about 9 basis points. Third, impact on AOCI through our AFS investment portfolio drove a 7 basis point increase. And finally, the remaining 4 basis point increase was largely driven by the RWA benefit from closing our consumer exits.

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We ended the quarter with a 13.4% CET1 capital ratio, approximately 40 basis points higher than last quarter, and this includes a 100 basis point internal management buffer.

And as it relates to buybacks, we did not buy back any stock this quarter and we will continue to make that decision on a quarter-by-quarter basis.

On Slide 11, we show the results for our Institutional Clients Group for the first quarter. Revenues were up 1% this quarter, largely driven by Services and Fixed income, mostly offset by Investment Banking and Equities. Expenses increased 4%, driven by transformation, other risk and control investments and volume-related expenses, partially offset by FX translation and productivity savings.

Cost of credit was a $72 million benefit, as an ACL release more than offset net credit losses. This resulted in net income of approximately $3.3 billion, up 23%, driven by the lower cost of credit and higher revenues, partially offset by higher expenses. ICG delivered a 13.8% RoTCE for the quarter.

And average loans were down 2% reflecting discipline around our strategy and returns. Average deposits were up 3% as we continued to acquire new clients and deepen relationships with existing ones. And sequentially, average deposits were up 1%. And on an end of period basis, ICG deposits were down 3% sequentially, driven by seasonality as our clients tend to make tax payments in the first quarter.

On Slide 12, we show revenue performance by business and the key drivers we laid out at Investor Day. In Treasury and Trade Solutions, revenues were up 31%, driven by 41% growth in net interest income and 13% in NIR, with growth across all client segments. We continue to see healthy underlying drivers in TTS that indicate consistently strong client activity with US Dollar Clearing Volumes up 6%, reflecting continued SWIFT share gains. Cross-border flows up 10%, outpacing global GDP growth. Commercial card volumes up roughly 40%, led by spend in travel.

So, while the rate environment drove about 60% of the growth this quarter, business actions drove the remaining 40%, as we continued to deepen relationships with existing clients and win new clients. In fact, client wins are up approximately 50%, across all segments. These include marquee transactions where we are serving as the client's primary operating bank.

In Securities Services, revenues grew 23% as net interest income grew 94%, driven by higher interest rates across currencies, partially offset by a 6% decrease in non-interest revenue due to the impact of market valuations. We are pleased with the execution in Securities Services as we continue to onboard assets under custody and administration from significant client wins and we feel very good about the pipeline of new deals. As a reminder, the Services businesses are central to our strategy and are two of our higher-returning businesses with strong linkages across the firm.

Markets revenues were down 4% as growth in Fixed Income was more than offset by Equities. Fixed Income revenues were up 4%, relative to a very strong quarter last year, as strength in our Rates franchise was partially offset by a decline in FX and Commodities. Equities revenues were down 25%, also relative to a strong quarter last year, primarily reflecting reduced client activity in Cash and Equity Derivatives. Corporate client flows remained strong and stable and we continued to make solid progress on our revenue-to-RWA target

And finally, Banking revenues, excluding gains and losses on loan hedges, were down 21%, driven by Investment Banking, as heightened macro uncertainty and volatility continued to impact client activity. Having said that, we do see revenue growth sequentially largely driven by the investment grade market opening up.

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So overall, while the market environment remains challenging, we feel good about the progress we are making in ICG.

Now turning to Slide 13, we show the results for our Personal Banking & Wealth Management business. Revenues were up 9%, driven by net interest income growth of 10%, partially offset by a 1% decline in non-interest revenue, driven by lower investment product revenues in Wealth.

Expenses were also up 9%, predominantly driven by investments in transformation and other risk and control initiatives.

Cost of credit was $1.6 billion, driven by higher net credit losses as we continue to see normalization in our card portfolios and a reserve build of approximately $500 million, largely driven by a deterioration in macroeconomic assumptions and card revolving balance growth.

Average loans increased 7% driven by cards, mortgages and installment lending. Average deposits decreased 3%, largely reflecting our Wealth clients putting cash to work in fixed income investments on our platform. And PBWM delivered an RoTCE of 5.5%, largely driven by higher credit costs.

On Slide 14, we show PBWM revenues by product as well as key business drivers and metrics. Branded Cards revenues were up 18%, driven by higher net interest income. We continue to see strong underlying drivers with new account acquisitions up 17%, card spend volumes up 9% and average loans up 15%. Retail Services revenues were up 24%, also driven by higher net interest income.

For both Card portfolios, we continue to see payment rates decline, and that combined with the investments we have been making contributed to growth in interest-earning balances of 18% in Branded Cards and 11% in Retail Services.

Retail Banking revenues were up 3%, primarily driven by higher mortgage revenue and strong growth in personal installment lending, partially offset by the impact of the transfer of relationships and the associated deposits to our Wealth business. In fact, consistent with the strategy, we continued to leverage our retail network to drive over 13,000 Wealth referrals in the first quarter.

Wealth revenues were down 9%, driven by continued investment fee headwinds and higher deposit costs particularly in the Private Bank. However, we did see notable improvement in revenues in Asia which were up approximately 20% on a sequential basis.

Client advisors were up 3%. And we are seeing net new investment inflows and strong new client acquisitions across our Wealth business, with new clients in the Private Bank and Wealth at Work up 62% and 81%, respectively.

While the environment continues to remain challenging for Wealth, we are seeing strong underlying business drivers as we execute against our strategy.

On Slide 15, we show results for Legacy Franchises. Revenues grew 48%, driven by a gain on the sale of our consumer business in India, partially offset by the wind-downs and closed consumer exits. Expenses decreased 24%, largely driven by the absence of a goodwill impairment we had in the prior year as well as the impact of the wind-downs and closed consumer exits.

On Slide 16, we show results for Corporate Other for the first quarter. Revenues increased, largely driven by higher net revenue from the investment portfolio. Expenses increased, driven by transformation and other risk and control investments, partially offset by a reduction in consulting fees.

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Before we move to Q&A, I'd like to end with a few key points. Despite recent events and the economic uncertainty that remains, our full-year outlook for revenue and expenses remains unchanged.

We have a very strong balance sheet with a diversified set of assets and funding sources with ample capital and liquidity, which positions us well to serve clients and navigate any number of scenarios. We are seeing solid momentum in the underlying drivers of the majority of our businesses and continue to execute on our strategy.

The financial path will not be linear, but we are confident we can achieve our medium-term targets in a variety of scenarios. **And finally, I'm incredibly proud of how our firm and our employees have continued to** help our clients navigate the recent environment and support the health of the overall banking system

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

QUESTION AND ANSWER

OPERATOR: Our first question will come from Glenn Schorr with Evercore. Your line is now open.

GLENN SCHORR: Hi, thank you, a simple one. I appreciate the many, many moving parts, but your first quarter NII and revenue production was great, and if you just annualize it, you're handily ahead of your full year guide. So I'm just curious on how you're thinking about maintaining the guide but running ahead of schedule.

MARK MASON: Yeah, thanks, Glenn, and good morning. Appreciate the question. Look, we did have a very solid first quarter, but as Jane mentioned in her prepared remarks, there are a number of things that are still out there in the global macro environment that are uncertain and unclear, including, frankly, as we contemplate the direction of rates and what's required to tame inflation, let alone the uncertainty that we've seen in parts of the sector here through the quarter.

And so when I think about that and I think about how frankly betas have evolved and the likelihood of a recession in the back half of the year, which we have built into our outlook, I remain comfortable with the guidance that we've set here. And when you think about where that comes from, the strength in TTS, the strength in Securities Services, both benefiting from the rate hikes we saw last year, but also deepening relationships with new and existing clients, the Card momentum, which is really about seeing more revolving activity as payment rates start to slow, and the recovery in Investment Banking and Wealth is not as swift as we would like and so we have to see how that plays out too.

So when I put those things together, there's certainly some puts and takes that speaks to the diversification of our business model, but it leaves me in a place where I'm comfortable with the guidance that we've set, and if that changes, we'll certainly update you, but that's where we are.

GLENN SCHORR: I appreciate that. Maybe if I could follow-up on your comments, the previous ones on TTS and Securities Services. I try to learn from all my mistakes, I make a lot of them, but in 2008 we thought housing prices couldn't go down much, and then they went down a lot, and we all adapt. The same thing in March, thought deposits couldn't leave a bank so quickly, but they did.

So, slide 25 and 26 people should look at because they're great and they show the stability of your deposit franchise, but I'm curious if history can change at all. Meaning right now, those are cash and operating deposits that clients keep with you and they need you, and you're fully integrated, but do you have client concentrations we should know about or are you thinking about any big changes that can happen in terms of client behavior relative to the past in terms of what they keep at any given bank? I know it's a tough one.

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JANE FRASER: Glenn, I'll kick it off and pass it over to Mark. I feel very comfortable about how very well-diversified our deposit base is across different countries, industries, clients, and currencies. It's extremely strong in that respect, and as you say, the majority of the Institutional deposits are integrated into the operating accounts all around the world to enable the clients to run their day-to-day operations, the payroll, the working capital, the supplier financing, et cetera.

And I think what's changed in the more digital world is frankly these have become even stickier because the amount of data, the extent of integration into the technology platforms and systems of the clients and the value that we extract and present back to the clients from the combination of our FX trade, cash, et cetera, flows, is incredibly important in driving their efficiency, their risk management, and their financial performance as well. So both the extent of that diversification and the increasing stickiness versus history is something that we're certainly not complacent about, but I think is why you see from the pages we've put into the deck as well including in the back on just the consistency of this base.

Mark, what would you add?

MARK MASON: I think that's exactly right, Jane, and Glenn, I'm glad you pointed out pages 25 and 26 which clearly lay out that diversification but also the scale and stability of those deposits over an extended period of time.

The only thing I'd add additional to that would be obviously we're in an environment where there's quantitative tightening that's occurring. That's going to have a broad industry impact as we've started to see already, but we're also in an environment where rates are increasing. We'll see how that plays out through the balance of the year. That has an impact on betas, but we shouldn't mistake price-sensitivity or interest rate sensitivity with the stickiness of the deposits. And so we've obviously talked about betas increasing particularly in our TTS portfolio, more so in the US. It obviously will continue to increase outside of the US, but we'll work the relationship that we have with those clients and the breadth of services that we bring to influence and impact pricing, and more importantly, because of the operating nature of them, we do see them as very stable.

OPERATOR: Thank you. Our next question will come from Mike Mayo with Wells Fargo Securities. Your line is open.

MIKE MAYO: Hi, Jane, I challenged you a couple earnings calls ago about the complexity created by being in so many countries, and you said TTS was your crown jewel, and here it's up almost one-third year-over-year, so, so far so good since your Investor Day.

Can you talk about for the fee growth? I mean, we kind of understand the NII growth, but the fee growth is double-digits also, so I guess that's money in motion and I think you described this as the world's largest wholesale global payments system. What's happening to give you double-digit top line growth there?

JANE FRASER: Oh, thank you, Mike, and a great question. I think one of the numbers I'm almost more happy about than the stellar revenue growth was the fee growth quarter-over-quarter here because obviously, we've been benefiting in TTS from the rates environment but we've also been benefiting from the drivers behind the franchise. And the fee revenues are coming from multiple different products and different offerings that we have here, and we're typically looking and have consistently looked at growing our fee revenue as a percentage of the underlying growth in TTS.

It got masked a bit when the rates environment was growing so much, but the different areas there around the world are making a big difference to the strength of our earnings and the quality of our earnings in these

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areas.

MIKE MAYO: Okay. And then as it relates to rates generally, what is it, like, over 90% of your rate sensitivity is outside the US, and so shouldn't you be benefiting more than you originally thought given some of these rate hikes? And I guess, Mark, are you just sandbagging a little bit? I get the uncertainties and the IB backlog pushed out, and, no I mean, we want you to have a reasonable bar to jump over and I'm just wondering if you set the bar high enough for yourself for this year.

MARK MASON: Yeah, so again, I think that there is certainly more opportunity in terms of how rates move and capturing NII as you pointed out outside of the US. We articulate our interest rate exposure for a parallel shift and that mix at the end of last year was the 90/10 that you mentioned for non-US. As I sit here in March, it probably is going to skew a little bit less non-US and a little bit more towards the US, and you'll see that in the 10-Q.

With that said, I mentioned earlier, there's still a bit of uncertainty in terms of how rates continue to evolve here in the US. We'll see how betas evolve. We've reached terminal betas in the US with our clients kind of at the end of last year, and so we'll see kind of what happens in terms of pricing through the balance of 2023.

Betas are not quite at terminal levels outside of the US, and so we'll see the pacing of that, again, in light of how the interest rate curve may be evolving and frankly in light of how we've seen the broader sector turmoil play out. That could in fact play to our benefit. But we are also, again, in an environment where there's quantitative tightening that is still at play.

And then the final point I'd make, Mike, that often people forget is that in that NII is Legacy NII, and so as we continue with our wind-downs, our divestitures, et cetera, that's going to be a headwind that we will have to deal with.

OPERATOR: Thank you. Our next question will come from Betsy Graseck with Morgan Stanley. Your line is open.

BETSY GRASECK: Hi, good morning. I know during the prepared remarks you talked a bit about Andy Sieg coming on board, and I just wanted to understand how to think about the outlook for what you're doing with Wealth, not only in the US but the non-US locations, and also try to understand how much capital you think you could apply to that business relative to what you have today. Thanks.

JANE FRASER: Hey there Betsy. So, we're obviously delighted that Andy is joining as our new Global Head of Wealth around my table, and he's a tremendous leader with a great track record driving growth. He's got deep product and digital expertise; a proven people leader and we'll certainly be taking full advantage of his expertise and experience in the US.

We're not shifting our strategy in Wealth. His mandate is consistent with the strategy we laid out at Investor Day. We see a lot of potential of growth in Asia as we fill in the coverage across the full wealth spectrum there. We'll be scaling up in the US by building out the investment offering and cross-selling into our existing and new clients across the country. We see tremendous potential of growth in our Private Bank and the family office franchise really around the world, and there's a lot of synergies to be realized as we point out in the different KPIs and drivers between the other four core businesses in terms of referrals and other business that we're able to generate across the franchise.

So the core of the strategy will not be changing with him coming on board. Mark, what else would you add in?

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MARK MASON: The only thing I'd add is that, we are, I think, well-positioned for as the market recovers and it plays towards Wealth. When you look at kind of the client advisors, as you know, we've been investing in bringing on new client advisors. We've been increasing the number of new clients that we've been onboarding as well. We've invested in some of the investment products that we have, and so I feel like we are positioning ourselves for when this turns.

And as it relates to your question regarding capital, this in a normal cycle is a very healthy returning business, and as the market turns and as we recover, we would look to deploy capital appropriate with the growth and return prospects that we see in front of us.

It's also not as much of a capital-intensive business as other businesses, and so I think you've got to keep both of those things in mind.

OPERATOR: Thank you. Our next question will come from Erika Najarian with UBS. Your line is open.

ERIKA NAJARIAN: Hi. Good morning. And I think it's remarkable that your first two questions were essentially saying that your revenues are too conservative, so that's very notable for a Citi call.

My first question is a follow-up to Betsy. I think everybody were certainly impressed, Jane, at the Andy Sieg hire, and clearly, he was running a much larger business than what Citi has today. And this is sort of a tricky question. Clearly, you're still working through some of the transformation. There's still a consent order, but given your strength as a global player, could Citi participate in perhaps inorganic opportunities that could be out there, having a result perhaps of the liquidity crisis that we saw that could potentially enhance your Wealth Management footprint more quickly?

JANE FRASER: We see plenty of potential for organic growth potential, and I think that's really where we're going to be focusing, Erika, because I look at the Private Bank and the family office, there is so much wealth creation supplemented by our Commercial Banking relationships with a lot of the enterprises and the owners of those enterprises who are really generating the new industry champions in country after country, and we're extremely well-positioned to capture that.

I don't see an inorganic play that would actually help us on it. We also benefit because we don't have our own proprietary products and a sales force pushing those proprietary products. We're an open architecture, and therefore, we're a very desirable partner for many of our key partners on the Institutional side of the business to be able to provide very interesting value propositions, investment opportunities and the like to our clients around the world.

And finally, we can see certainly areas in interesting digital plays, different partnerships, areas like that that are of interest. So I'll never say never in the longer-run. I'm sure if something very attractive comes up, we'll be very interested and looking at it, but it's not something right now that I think makes sense, given where we're focused. Actually almost independent of the consent orders, I think what we're looking at doing right now is getting this organic play right and then we'll see from there.

MARK MASON: I think it's pretty telling that we have 13,000 referrals from our Retail Bank to the Wealth space or to our Wealth business, and there's a lot of embedded opportunity and it really speaks to the integrated model that we've been talking about.

JANE FRASER: And I think the other bit I'd also just point to is I think one of the things we do benefit from is that we aren't constrained by being dominated by a brokerage model in a particular way of doing Wealth, so part of the mandate for Andy and the ones that we've been working on to date is really looking at what is modern Wealth Management and making sure that we are really well-positioned that way, because I do think that will be more of the way of the future.

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OPERATOR: Thank you. Our next question will come from Jim Mitchell with Seaport Global. Your line is open.

JIM MITCHELL: Hey, good morning. Maybe just a question on capital. Appreciate the fact that the potential sale of the Mexico franchise would be a negative impact, but you're sitting at a pretty comfortable cushion now above your target. Obviously your expected future retained earnings growth should be more than an offset, so how do we think about, how are you thinking about the timing of restarting buybacks with your stock as cheap as it is?

MARK MASON: Yeah, thanks, Jim, and good morning. As you point out, we grew capital pretty sizably this quarter, up to 13.4% from a CET1 ratio point of view and up significantly from a year ago, some 200 basis points or so. And a good portion of that, a significant portion of that, was really net income earnings generation, which is important.

Look, the way we think about it is that 13.4%, we certainly have well-above what's required from a regulatory point of view and it includes our internal management buffer of about 100 basis points. But as we've said in the past, there is certainly the Mexico transaction and that would be a temporary drag to CET1 at signing, the difference between signing and closing if it were a sale to take place. And then there are a couple of other factors that are out there as well.

So think about the Basel III end game that's out there and the capital requirements that could come out of that. Think about the CCAR DFAST that has been submitted and currently under review, and what that might mean for stress capital buffers, and also think about just where we are in the broader economy and broader global macro environment that we're playing in and needing to see how that kind of evolves. And so when I think about all of those factors, we're in a place where we will continue to take it quarter-by-quarter, but I'd end by saying our bias is kind of where yours is, which is given where we're trading, all things being equal, we'd like to be buying back shares, but we have to be responsible about that and the timing of that.

JANE FRASER: I think we'll have more clarity fairly soon around a number of the factors, so we'll be able to give you better clarity on timing before too long.

JIM MITCHELL: Yeah, all fair. And then maybe as a follow-up, just, you mentioned increased macro assumptions embedded in reserves. Where are you now on the macro assumptions in the reserve book?

MARK MASON: So in terms of the reserve, again, remember we have a couple of different scenarios that we run when we calculate the CECL reserves. Our current reserves are based on those three macroeconomic scenarios. It reflects a 5.1% or so unemployment rate on a weighted basis over eight quarters, so that's relatively flat versus last quarter.

The other point worth mentioning is that in this particular calculation for the quarter, we did skew a little bit more towards the downside in terms of the probability weighting than last quarter, in light of the macro environment and the combination of that as well as some normalization in the portfolio including an increase in revolver activity contributed to the increase in reserves we saw.

But to answer your question, unemployment at about 5.1% for the weighted basis over the eight quarters.

OPERATOR: Our next question will come from Steven Chubak with Wolfe Research. Your line is open.

STEVEN CHUBAK: Hey, good morning. So I wanted to start off with a question just on the IB and trading outlook. On the trading side, just given some of the recent macro shocks, have you seen any evidence of bad volatility and are you still confident that you can sustain that mid-single-digit growth target? And just on the Investment Banking side, I wanted to see if there's any evidence of green shoots. It's been a challenging

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backdrop, as you noted, Mark, but I was hoping you could offer some color just across some of the different product lines, across M&A, ECM, DCM.

MARK MASON: Why don't I start, and then, Jane, feel free to jump in. Look, we saw better performance in the quarter in Markets than when I talked at the conference earlier in the quarter. And really that played through in our Fixed Income business which was up about 4% year-over-year driven largely by strength in Rates and we saw rate volatility in the back end of the quarter and we were well-positioned to take advantage of that and serve clients and that aided getting us to down 4% in aggregate across Markets.

What we talked about for the full year is kind of relatively flat performance, and I still think that based on what we see today and subject to how the macro continues to evolve that we'll be able to deliver on that. But as you know, volatility in many instances plays to the favor of Markets businesses, and so there's a bit of an unknown as to how that evolves. But I feel confident in the guidance that we've given thus far on that.

JANE FRASER: Yeah, I'd jump in before you turn to Banking as well. I think one of the differences with our franchise compared to some others is that we are the go-to bank for corporates, and that provides a highly attractive but pretty steady flow of activity. This is obviously in the volatile markets we've been seeing is from our perspective very good volatility because we're able to support our clients in rates, FX, commodity hedging, and it makes our risk flows much more diversified than our competitors particularly in volatile markets like this. We're not taking positions. This is really attractive client flow business right at the heart of the global network.

The other piece that I think is important in the mix here too is just the partnership with TTS, cross-border payments, these other elements and cornerstone of the FX franchise, so there's some pieces here of the volatility that one doesn't usually think of this as being so client-heavy, but that's what's differentiating on the Citi franchise.

Mark, back to you.

MARK MASON: No, thank you, I think that's exactly right in terms of the corporate client base there. Look, in Investment Banking, obviously the wallets were down meaningfully last year. We saw some good performance in debt capital markets this quarter, up 66% versus the prior quarter, particularly as we saw activity in the investment grade names, which is an area of strength for us for sure, and I think there was a bit of momentum behind a bit more clarity on the direction of rates, and so we'll see how that continues to evolve and play out.

The other thing I'd add is that we continue to have very good dialogue with clients as they manage through the environment and try to anticipate what the balance of the year looks like, and at some point, it's clear that clients are going to need to get back into the markets, but that trajectory is going to largely depend on the geopolitical and macro environment and how we all manage and navigate that uncertainty.

So very engaged, healthy pipeline, but subject to how the environment continues to evolve.

STEVEN CHUBAK: That's great. And for my follow-up, just on PBWM fee income trends, I'm not going to ask you about the broader Wealth strategy, but we're big fans of Andy here, so congrats on the hire. The one thing I did want to get a better sense of is how much of the sequential improvement that we saw in fees is a function of just partner payments being higher as credit continues to normalize, and how we should be thinking about the trajectory in fees within PBWM over the remainder of this year?

MARK MASON: I think there are a couple of things to kind of keep in mind in terms of PBWM fees, and I think part of it is that PBWM is a combination of both the Cards business as well as the Wealth business, and a good amount of the pressure that we've seen in fees and that is still subject to how the environment

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evolves is in the Wealth space, because we continue to see fee pressure on investment activity and revenues there, and we'll have to see how the market valuations move on some of the assets that we manage on behalf of clients and what momentum it drives in terms of more investment activity. So I think that's a big part of the drag in fees.

The upside that we've seen in fees in Banking and Cards, again, I think will be subject to how activity and volume evolves across our Cards business. We do expect revolving levels to continue, but purchase sales while they're up year-over-year, when we look at kind of the latter months of the quarter, the growth has been slowing, and has been quite concentrated in travel and entertainment. So we'll have to see how some of that volume activity evolves, and that'll be a factor to keep in mind.

OPERATOR: Thank you. Our next question will come from Ebrahim Poonawala from Bank of America. Your line is open.

EBRAHIM POONAWALA: Hey, good afternoon. Just a couple of quick questions. One, in terms of the Banamex sale, I think, Jane, you mentioned that maybe we might hear something relatively soon and you still are pursuing the dual track process. One, if you do decide to go the IPO route, does that change the accounting dynamics, Mark, with regards to taking that hit early on if given just the time it might take to go through an IPO. And the outlook for the Mexican economy, the banks continue to be robust. Is that impacting or influencing how you're thinking about the value that you should get from this transaction?

JANE FRASER: So, we're in a very active dialogue right now in Mexico, so neither Mark nor I are going to comment in a lot of detail there. As you say, we're continuing to pursue a dual path, both a sale and an IPO, so we'll have an exit strategy either way, and we'll take the path that is in the best interest of our shareholders.

So we've got an enormous body of work going on in Mexico to separate out the Institutional business. I'm pleased with the progress they're making. I think we're seeing, when we look at the performance of our Mexican franchise, a lot of the really strong performance is happening in our ICG business where Mexico is such a beneficiary of the supply chain dynamics that are happening around the world, and its location is obviously very beneficial given the proximity to the US as well. So I think a lot of the dynamic and the big benefits here coming in the institutional franchise that we're keeping within Citi as a core part of our business.

So the current Mexican economy doesn't really have so much of an impact on our current decision-making. The principle is we will take the path that is in the best interest of our shareholders.

MARK MASON: Yeah, and just to put some numbers to that, for the quarter, Mexico was up 16% revenue year-over-year. Quarter-over-quarter up 5%, cards growth, deposit growth, so performing well I would say.

And in terms of the latter part of your question, Jane's exactly right. Everything we're doing is positioning us for both a private sale and/or an IPO, and we'll choose the path that's best for shareholders. An IPO would take longer. It would likely take longer as we would want a set of full audited financials, et cetera. I would say that in terms of what the implications would be from an accounting point of view, CTA accounting is different for an IPO so we would not recognize that CTA through the P&L in an IPO. We wouldn't have at signing that impact that is different from that closing and so that would not be an issue.

The impact would be a matter of how much we IPO-ed at that time, so a lot of moving pieces there. We would need to figure out if we ended up down that path, but hopefully that gives you some sense of the scenarios there.

But I'd end with just one final point that Jane has made already, which is that the outcome that we choose

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will be the best outcome for our shareholders, our clients, and employees.

JANE FRASER: And that will be an exit.

OPERATOR: Thank you. Our next question will come from Matt O'Connor with Deutsche Bank. Your line is open.

MATT O'CONNOR: Hello. You guys have talked about bending the curve on costs I think in the latter part of 2024, and I wanted to see if that's still the case. And I guess maybe just some clarification on what bending the curve means. Is that slowing expense growth, absolute drop, any kind of clarity on that, and costs in general kind of medium-term would be helpful. Thank you.

MARK MASON: Thank, Matt. To answer your question very directly, yes, it is still the case. We are going to bend the curve, as I mentioned, towards the end of 2024. It does mean an absolute dollar reduction in expenses.

MATT O'CONNOR: Okay. That's helpful. And then, I think in the past you've kind of insinuated that's like the start of hopefully a more material drop in costs beyond, obviously this is far away, but just any additional color there too. Thank you.

MARK MASON: Yeah, look, again, look, the expense base is a key area of focus for us, right? We recognize that expenses have been growing. They've been growing because we've been investing in the franchise both transformation-wise as well as business-led growth to support the competitive advantages that we have in many of our franchises, but we're managing that very actively and very deliberately, and that means that we're looking to ensure that we're spending the money in the right way in the right places and that we're going to yield the benefits that we expect from that over time. And that was all factored into the targets that we set at our Investor Day for the medium-term, and what that requires is that we start bending the curve in 2024 as I stated and that we end in that medium-term at a place where we have an operating efficiency of about 60% and we're positioned to have returns that are in that 11% to 12% RoTCE point of view.

There are a couple of factors that are going to contribute to lowering that expense base. One, the divestitures that we've been talking about, right. The second is the benefits from the transformation and other investments that I've just referenced. And the third is further organizational and management simplification efforts that we have underway that are enabled by the idea that we're exiting 14 consumer countries. And so those three factors, if you will, become very important to ensure that we get to that lower cost structure and that we're able to deliver on the broader commitments that we're making with regards to returns.

OPERATOR: Thank you. Our next question will come from Gerard Cassidy with RBC Capital Markets. Your line is open.

GERARD CASSIDY: Thank you. Hi, Jane. Hi, Mark. A couple questions. Jane, maybe starting with you first, or Mark, both of you can answer it. In view of what the disruptions we've seen in the banking system in the month of March with what went on with the regional banks here in the US and obviously the large investment bank over in Switzerland, do you guys see changes coming, or what changes do you see coming in terms of regulatory whether it's more capital, more liquidity, and it may not be directed at a company like yours because you're a global SIFI already and it might be more regionally orientated in the United States. And as part of this question, Jane, can you guys give us some color on the deposit you and your peers made into First Republic? What was the thinking behind that as well?

JANE FRASER: Sure. Thank you for the question, Gerard. Well, I'd say that we hope that there will be a thoughtful and targeted approach to any changes in the regulatory and capital framework and that they

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address the root causes of what actually happened here, and what happened is a combination of macro impacts from the sharp, rapid rate increases and some idiosyncratic situations, namely a lack of proper asset and liability management at a small handful of banks.

We don't see these issues as pervasive throughout the broader banking industry, but the events certainly highlight the importance of prudent asset and liability management. We still believe that there is plenty of capital amongst the large banks, and if capital requirements were to increase for the large banks by the regulators it would exacerbate any credit tightening that might go on.

And related to that, what continues to keep me most awake at night is the quantity and quality of activity in the shadow banking industry. It does not benefit from the same regulatory frameworks and protections for participants, and I, amongst others, fear that more activity getting driven into it, if the banking capital requirements increase, will be to the detriment of system strength and stability. So we hope that this approach will be thoughtful and targeted to where the issues actually were.

As I said in my opening comments, we thought that the regulators both at the local and national and the international level were swift and effective in making sure that they tackled the issues that were in front and we were absolutely delighted that the large banks acted as a source of strength.

And let's just step back for a minute. In the face of tremendous market uncertainty, 11 of the largest US banks were able to come together to inject $30 billion of deposits into First Republic in a little over one day, and that speaks volumes for our capital and balance sheet positions, and I think the responsibility of large institutions in recognizing that we also play an important role here in helping stabilize situations like this. We thought it was very important to help buy some time and also demonstrate our confidence in the overall US banking system. So, I hope that gives you a bit of a flavor.

GERARD CASSIDY: No, very, very insightful. Very good. Thank you. And then as a follow-up question, I noticed in your Card, I think it was slide 8, you give us the prime, 80% of the portfolio is prime, which is FICO scores greater than 680. I don't know if you would agree with this statement, but we're hearing that there was some FICO score inflation as a result of the pandemic. A lot of consumers saw their FICO scores go up, and I've seen numbers as high as 70 points, that may be on the high side, but can you guys, do you agree with that, and if you do, would you then expect the 700 FICO score customer at some point to behave like a 650 score customer?

JANE FRASER: I think the short answer is no, but let me let Mark answer that one.

MARK MASON: I think what's really important here, Gerard, is kind of what we're seeing in the way of the performance of the portfolio. So again, I've heard that sentiment regarding FICO score inflation. We feel very confident in how we've assessed our customers and what it means to have 80% of our customers prime and greater than 680. I think importantly, what we're seeing is we're seeing payment rates start to slow. We're seeing average interest-earning balances start to increase. We're seeing NCL rates increase, but particularly driven by the lower FICO score customers across the portfolio which is where you would expect to start to see that drag occur, and the NCL rates that we're seeing are still well below what we would see in a normal cycle and they're in line with what we've been forecasting for performance. So there are no surprises that we're seeing in terms of how that curve is evolving. We'd expect that it will get back to those normal levels towards the beginning of next year. It will likely play through those normal levels a bit before tapering.

But my point here is that we understand our customers, the portfolio, and how it reacts to the environment enough to forecast that out, and so far, that's been performing in line with that forecast and those estimates. And importantly, we continue to stress it to make sure we're not missing anything and importantly, we carry a sizable reserve, as you know, as part of that $20 billion.

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JANE FRASER: I'd also add that we don't just rely on FICO scores for assessing the credit of our customers and our portfolio. There's a tremendous amount of data that we draw upon that goes well, well beyond that, and that's also, as you can imagine, something that gives a lot more confidence is it's not just prior history, it's a wealth of data that is used.

OPERATOR: Thank you. Our next question will come from Vivek Juneja with JPMorgan. Your line is open.

VIVEK JUNEJA: Thank you. Thanks for taking my questions, Mark and Jane. Mark, I want to go to your revenue, I hear you, you're keeping the revenue guidance unchanged. What is in your revenue assumption, just want to unpeel that onion a little bit. What's in your revenue assumption for rates, US and internationally, and what is going on with deposit betas particularly following the inflows you've seen recently in the US with the crisis?

MARK MASON: Yeah, so, I guess a couple things. One, in terms of the rates that we've assumed, in the balance of the year, we've kind of assumed that rates would flatten out after this quarter, after this second quarter and then trend down a bit towards the end of the year. Down a bit to something like 4.50% or so, so we may have one rate increase and then flat and then down to about 4.50%. That could change, but candidly, if it changes a little bit here or there, it's unlikely to have a meaningful impact in 2023. That's likely to have more of an impact in 2024. So we can debate that curve, but that's kind of what we have thus far in our outlook. **And that's US rates.**

The second point I'd make is around non-US rates. We're assuming, I don't have specifics in front of me in terms of the rate curves around the globe, but we are assuming continued rate increases there. Not of a significant magnitude, but some assumptions there depending on where we're talking about.

The beta assumptions that we have built in are for betas to continue to increase outside of the US, but again, they run lower than the US in general for our multinational clients. We expect that we will see in the PBWM Retail Banking, or the PBWM client segment space that clients are likely to move towards either higher-yielding deposit products or investment products, and so we've factored those things into how we think about the outlook. And could that change or evolve? Absolutely. But that's kind of what's behind what we've assumed here.

VIVEK JUNEJA: And just as a clarification, with the inflows you've seen recently in deposits with the crisis, this is in the US, obviously, are the betas tempering a little bit, how much those are going up? Is that slowing down, or not any change so far?

MARK MASON: So a couple things I mentioned. So one, we did see inflows in the quarter associated with some of the sector turmoil. We've looked at kind of deposit levels from call it March 7th, March 8th through close to the end of March, and we certainly did see an uptick, call it probably a little bit under $30 billion or so of inflows in that period of time, with a good portion of that in our CCB, our Commercial Middle-Market client base.

It's too soon to tell kind of how betas evolve, but we do think that a good portion of those deposits will likely be sticky. I think what's important here is that part of our strategy here is in fact growing operating deposits with our large multinational clients and our middle-market clients, and so we're going to continue to be focused on that.

What's a little bit unclear is how the rate environment continues to evolve and what that means for how betas actually evolve, and we'll have to kind of wait and see. It's too soon to tell as it relates to that.

OPERATOR: Thank you. Our next question will come from Ken Usdin with Jefferies. Your line is open.

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KEN USDIN: Thanks. Hey, Mark, just a follow-up on the credit. So you mentioned obviously that you moved your part of your CECL adjustment a little bit in your weightings, and you had previously talked about getting towards normalized card losses, I think you'd said by around the end of the year. So can you just given the changes that we're seeing ahead of us and definitely saw some normalization happen this quarter, can you just, are you still on line for that getting to that 3-3.5% and 5-5.5% in the respective card businesses by around year-end this year?

MARK MASON: Yeah, year-end, early next year, yes. We're still kind of on track, on trend for that. Again, I'd expect that they pick up a little bit after that before they start tapering down. But the answer to your question, Ken, is yes. That's still the timeline, fourth quarter, early 2024 reaching those normalized levels.

KEN USDIN: Okay, cool. And then one more just follow-up. End-of-period deposits down 3%, you mentioned the taxes. Are the taxes, is the tax impact felt across the business? When I look at the deposits page, there are a lot of ins and there are a lot of outs on an end-of-period basis, and just trying to get a sense of like what areas might have been impacted by that tax seasonality and where there was just some of the other pieces that you've already talked through in terms of inflows, outflows, and everything else in between.

MARK MASON: Yeah, it's a good question. So, again, when you look at our deposits on an average basis, you see on page 26 that they tick up a little bit. If you look at it on an end of period basis, they're down about 3%, and essentially, intra-quarter, particularly in March as I mentioned earlier, we did see a sizable increase in flows. With that said, if you remember in the fourth quarter, we saw a nice run-up in deposits, and then we have the seasonality point that I referenced in my prepared remarks where we have both operational payments from our large TTS clients as well as tax payments with our TTS clients, also with Wealth clients to some extent kind of playing through the end-of-period deposits. And again, that for the most part is normal operating payments that we'd expect to see at this time of year.

JANE FRASER: So no surprises in what happened.

OPERATOR: Thank you. Our last question will come from Mike Mayo with Wells Fargo Securities. Your line is open.

MIKE MAYO: Hi. Just one clarification on that last answer. You said you had intra-quarter flows. Did you gain more deposits in the month of March, and was that in the US?

MARK MASON: Yes, that's what I was talking about, Mike, in terms of those flows. They did come largely in the US in the month of March, call it March 8th through kind of the end of March. They were overshadowed by these normal payments that I referenced, and we did, we still see good activity kind of even as we came through March and into early parts of April.

JANE FRASER: And that was both in the Institutional business that we saw the inflows as well as in PBWM.

MARK MASON: Yes, in Wealth.

MIKE MAYO: And if you define deposits this way, I mean, if I'm oversimplifying, correct me, but, look, you have 5,000 multinationals you really target for payments, Capital Markets and Banking. Those companies have a lot of deposits, a lot of Services. That's the stickiness and that's where you said 80% of your clients in TTS have been with you for over 15 years.

What if the deposits for those 5,000 multinationals, and I know I'm asking you to slice and dice in a little bit different way, but even just a general sense, because the reason I'm asking this is because I think there's

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a disconnect between showing percent of uninsured deposits as a measure of stickiness, and I don't think that's valid, and you've showed higher deposits even though you have a big percentage of uninsured deposits or maybe that doesn't matter as much as some front pages of newspapers are suggesting, so if you could address that.

MARK MASON: Yeah, thanks, Mike. Look, I'd tell you to turn to page 26 in the earnings presentation. We've broken down the deposits for each of the businesses that we have, and at the bottom, you see the TTS deposits, and this is where the 5,000 or so large multinational client deposits reside, and you can see the stability, as well as the steady growth in those deposits over time. And to your point, these are largely operational deposits that these clients have with us, and we shouldn't mistake rate sensitivity or betas with stickiness, right, and it's because these deposits tend to be quite sticky with us, as you can see here.

Now, they're price-sensitive in the sense that as rates go up, we often have to reprice those. But remember, the relationships we have with these clients are broader than just deposit relationships, and that's what gives us the opportunity to adjust pricing accordingly with our deposits both in the US and outside of the US. And so the other page, in your own time you can look at it is the page prior to that which again speaks to the diversification of the portfolio but it also speaks to the length of time that many of these clients have been with us and have grown with us, and so nearly 80% of our deposits are from clients that have a greater than 15 year relationship with us, and that says a lot. And so anyway, those are the two points I'd make. Hopefully that addresses your question around the stickiness.

JANE FRASER: Yeah, I often say it takes a root canal to extract us from the operations of our clients just because of exactly what we're talking about here, and that's also we see it even with the mid-market clients that are a growing portion here as well because we're helping them expand internationally, and that stickiness comes through and the LCR of 120% is a very high-quality LCR ratio.

OPERATOR: Thank you. And there are no further questions at this time. I will now turn the call over to Jenn Landis for closing remarks.

JENNIFER LANDIS: Thank you everyone for joining us today. If you have any follow-up questions, please reach out to IR. Thank you.

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

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