



Commercial Bank as a Growth Engine – Tasnim Ghiawadwala

Tasnim Ghiawadwala:

Welcome back everybody. It is my great pleasure to speak with you today. My name is Tasnim Ghiawadwala and I run the Commercial Bank, which we call CCB. I recently returned to Citi after a three year stint at another bank. But prior to that, I was at Citi for 21 years, doing a variety of roles in investment banking, in corporate banking, and of course, commercial banking. In fact, my last role at Citi was running the EMIR Commercial Bank. So it's a business that I know, that I love, and I was very excited to return to lead.

As Jane and Paco have already indicated, the Commercial Bank is one of the key growth drivers for Citi. And I'm going to talk about where that growth is going to come from and how we're going to capture it. Let me start by talking about the business that we have in front of us today. We make revenues of \$2.7 billion, and we've been growing this business very quietly, and I would say, very conscientiously over the last 10 or so years. We have 1300 bankers that serve 14,000 clients across more than 60 countries.

We serve two core client segments. The first we call emerging corporates, which we define as companies with sales between \$10 million and \$100 million. The second segment we call mid-corporates, which are companies with sales between \$100 million all the way up to \$3 billion. Together, these segments represent a very large and wide target market. I always feel that when you've got such a large target market, the one thing that you must do as a bank is to answer the question, "Why Citi for clients?"

Because if you are able to answer that, then you are going to be able to have longer and deeper relationships with clients, which is what we all want. At the core of CCBs value proposition or the "Why Citi?" are three elements. The first is access to our ICG infrastructure. I am able to offer my clients all the same capabilities that ICG developed for the largest companies in the world. Just to pick a few examples that Shahmir talked about, like being able to offer notional pooling in 60 countries, to this segment of clients, it's really different. To be able to offer 140 payment currencies again, to this segment of clients, is really, really different. So when I go and see my clients and tell them that they will have access to the same products and solutions as a Fortune 500 company, I just love to see their eyes light up. It's for this reason that we do not need to lead with lending. This is unlike a typical commercial bank that tends to lead with lending and the term commercial banking and commercial lending are used interchangeably.

The second element of our value proposition, and you've heard it throughout the morning, is our globality. Citi has an enviable, near hundred country footprint, and we can provide this segment of clients access to this network, which again is totally unique. Other banks try to emulate what we do

through correspondent banking arrangements, but this is usually a very difficult client experience and doesn't compare to what we do.

The third part of our value proposition is that we can connect our clients to other parts of Citi. Having these multiple touch points, be it in wealth, in banking, in markets or TTS means we're able to look at clients through multiple lenses and bring clients closer to product experts, so they get the best advice quickly. Now we serve clients in a wide range of industry sectors through bankers that are increasingly industry specialized. And within these sectors, we target those clients with high transaction volumes, complexity and global flows. That's when the "Why Citi?" starts to make sense for clients. The combination of these three elements, our platform, our globality, and our ability to connect clients totally differentiates us from other banks, especially local and regional banks.

We've been scaling this business to reach \$2.7 billion in revenue supported by solid growth in our drivers. In the last five years, despite the pandemic and very low interest rates, we still achieved an average revenue growth of 7%, which we're really proud of. We're also able to produce very strong returns for Citi. Last year was a knockout year for us, where we achieved 37% ROTCE. Now, if you normalize that across the last five years, we still achieved an average of 25% ROTCE. I feel confident that as we continue growing, we should be able to maintain our strong returns.

Our risk model shown on the bottom right chart has remained resilient because we take a disciplined approach to our target market. Our credit losses average at around 46 basis points over the last five years. Again, all of this against a backdrop of the pandemic and the worst economic headwinds that our generation has seen.

Let's look at how our value proposition plays out in the numbers. The top left chart labeled "Product Mix" shows how the mix has shifted over the last five years. In 2017, 27% of our revenues were driven by lending. Whereas last year, lending revenues accounted for only 22%. What that shows is that as we embed the value proposition with our clients, revenues associated with solutions that have higher margins like FX and CMO are growing in their importance. The top right chart shows a similar story, but looks at the average revenue per client. Every single year we are increasing and deepening the relationships we have with our clients, evidenced by the growing revenue per client.

Moving to the bottom two charts, again, show the value proposition in action. The cross-border chart on the bottom left shows that 48% of our revenues come from clients who operate cross-border with us. This emphasizes the importance of our global footprint. The bottom right chart shows is just one example of a focus we decided to take five years ago. We created a sub-segment of clients that have a digital business model or are disruptors. And today over 20% of our global revenues come from digital clients, which is just amazing, and talks to the quantity and the quality of solutions we are delivering to these types of clients.

The best part of my job is meeting clients. And with commercial clients, the owners, they have such a passion for their business, and they all have a fascinating story to tell. There is nothing more rewarding than a client acknowledging the part that you played in their journey.

So let me introduce you to our client, Flywire, a digital payments company. Flywire, essentially built their business over the last 12 years on Citi's global infrastructure.

Emily Watson:

Our business was launched in 2009 with one simple idea of making cross-border tuition payments simpler and easier. Now over 12 years later, we've publicly listed and have over 600 employees in 12 offices around the world. Citi has been with us since 2009 when we opened our first bank account. Our

founder walked to into Citi's offices and luckily got a meeting with Stephanie, who's been with us every step of the way.

Stephanie Epkins:

I think the impressive thing is that Citi is able to open that one account, but then when the time comes and you need to access public debt, private debt, any of the things that we do in the corporate investment bank, we have those capabilities too. I view my job as to bring the globe and bring Citi to my clients.

Emily Watson:

We leveraged Citi products like low value payment processing, wires, foreign exchange, to offer a seamless end to end experience for the payer of a transaction, but also our client who's ultimately receiving those funds. One of the things we love about working with Citi is that through a single access point, working with Stephanie, we are able to immediately get access anywhere Citi has a local presence. Poland, Brazil, Vietnam, I mean, pretty much any market you can imagine.

Tasnim Ghiawadwala:

We are thrilled to support these types of clients and enable their progress. Commercial bank clients like Flywire are not only attractive to Citi because of the results we're achieving, they're attractive for Citi because they transact across all of our product lines and traverse across segments from wealth to banking. We fit neatly into the Citi infrastructure and utilize the common product platforms. This means we benefit greatly from the innovation and the investments that our product partners are making. From a Citi perspective, by scaling CCB, we're simply generating more volume for our existing pipes, capitalizing on both our past and future investments. That's got to be a good thing for the firm.

Another reason why this client segment is so attractive for Citi is because of the adjacency it has to other client segments, in particular wealth and banking. With wealth, we're establishing a robust partnership because we see personal wealth inextricably linked to business wealth. Around 90% of our clients are privately owned, so there's an enormous potential for us to work together and ensure we're looking at both sides of the client relationship. Because when you look at both sides of a relationship, you are able to come up with far better solutions for the clients.

Our adjacency to banking is also valuable because we act as an escalator. Because when our clients grow, we're able to move with them. As Paco mentioned, we are there for each corporate milestone for our clients and we ensure they get the right experts advising them on the breadth of possibilities they should be considering. Commercial clients may also be suppliers or distributors of our large corporate clients, so we're able to serve the entire supply chain using our innovative solutions. I want to emphasize how easy it is to scale this business. The base infrastructure like product and technology platforms or country footprint, it's already there. So our focus is on expanding our client base. We are, however, investing in client experience and I will touch on what we are doing there a little bit later.

This is a great business with a good foundation. You're probably wondering how we're going to grow further. We will grow by leaning into three trends. The first, and it's been a recurring theme today, is the unprecedented speed at which clients are going global. Many are born global, but there are others that are going global at breakneck speed, and that's really good news for us. Today, we're able to support clients in around 60% of the countries Citi is in. By the end of this year, we expect to get close to 100%.

The second trend I see is that clients are more sophisticated than ever. Gone are the days when a banker could show up to a client and wow them with basic banking product. Clients are very knowledgeable and have high expectations. They're easily able to differentiate commodity banking product, which becomes a price negotiation versus real tailored solutions that help our clients serve their clients better. Being away from Citi over the last three years, I realized just how much we take our capabilities for granted. We assume that other banks have similar capabilities, but they just don't.

What I need to do is ensure that bankers know that, and that's why we're investing in our talent. Our bankers need to be strong and not only deliver industry expertise, but go one step further and deliver industry specific solutions that really add value for our clients. We want to ensure that each and every one of our bankers is trained in the power of the solutions and tools available to them. It's not just about the competency of our bankers. It's also the mindset that Jane talked about to deliver the full power of Citi.

The third trend I see, and it's another recurring theme, is the speed at which clients are accelerating their own digital capabilities. I saw many clients, particularly in the last two years of the pandemic, pivot their business model entirely. For example, going from brick and mortar to fully online. That plays very well to Citi's strengths and to the value proposition we've been discussing. The investments we're making in our digital services will ensure that when clients want to interact with us, they're getting the best client experience and can connect with us seamlessly as well.

As we mobilize around these trends, we'll be well positioned to capture more of the commercial bank wallet. The global wallet is around \$500 billion. So it's enormous. Now, because we take a selective approach to our target market, we're focusing our efforts on about 30% of that and that 30% we call the addressable wallet, which is around \$150 billion. Which is still very large. We currently have a 2% market share of this addressable wallet. Therefore, the runway for us to grow is really, really long. We have decided to prioritize several specific opportunities.

The first we'll focus on is developed markets. And one of our key priorities is the U.S., where we are seriously underpenetrated. We are going to be stepping up our efforts considerably here. Another is the UK. We launched the commercial bank in the UK only three years ago, and in such a short period of time, the UK has become the largest country in our EMIR CCB business. Thirdly, we're expanding in Western Europe where we are just getting started. And in the last 12 months, we've launched in seven additional Western European markets, and our deal pipelines are beginning to build. But what delights me the most is the strength of our brand in the new markets we enter. There are no clients that refuse to meet us and each client that we call upon wants to hear from us.

Another priority are large developing markets, where we already have a presence. In countries like China, India, or Brazil, the sheer size of these economies means that there's a huge opportunity for us to grow our client base. These are big economies where a lot of the GDP is driven by global flows, and we want our share of that. And finally, we will continue to deepen the relationships with our existing clients. We've already got 14,000 clients in the Commercial Bank and whilst we're doing well with them, I don't want to be complacent as there are many more things we can be doing with these clients, either through enhanced solutions or by working with wealth and banking.

Over the last two years, we've onboarded 1700 clients and produced more than half a billion of incremental revenue from these new clients. That's what makes me really confident about our value proposition. Our goal is to double our market share in the addressable wallet to 4%. And if we are able to achieve all of that, we would generate over \$3 billion of incremental revenue for Citi.

An enabler to capture this growth is client experience. And we have several areas of investments. The first is for our bankers who are such a key part of the client experience. As I mentioned already, we're going to continue to develop our bankers and invest in their skills. But on top of that,

we're going to hire a further 400 bankers over the next three years to increase our capacity in the markets that we want to grow.

Secondly, we're investing in a digital portal to provide a single way for clients to access Citi's products and solution. We want to make the way into Citi as easy as possible for clients to execute their everyday tasks, whether it's an FX transaction or making a payment or managing their loans. The portal will also make onboarding clients and other self-service tasks easy.

The last great differentiator for Citi is the host to host connectivity and the level of automation that we can facilitate. I think Shahmir has already explained it very well. We are going to be exposing all of these capabilities to this set of clients. So with a combination of investments in our bankers and our digital tools, I feel we are in pole position to back ourselves and accelerate our growth.

Let me conclude and summarize. We have successfully grown our business over the last several years and proven both our business model and our value proposition is attractive for clients. Our business has stayed resilient despite some of the worst economic cycles and still produced very strong returns for Citi. Our focus now is to drive and scale this business up. We will achieve scale by accelerating our investments in developed markets and large developing markets, leveraging the ICG infrastructure. The marginal cost to do that is fairly small and we can produce strong returns and revenue growth on the back of that.

We will focus on deepening client relationships through investment in our bankers and our digital channels. And we'll provide them multiple touch points into the rest of Citi for our clients. My priority now is to unleash the power of Citi to this client segment. And if we do all of this right, we should drive growth for Citi and double our market share to 4%. As I said at the beginning, what we have at Citi is something unique. My recent time away from Citi has just strengthened my conviction even more. This may be a business that you've not heard much about in the past, but I hope that this gives you a flavor of our ambition and our future potential. Thank you, and now I would like to hand it back to Paco.