TRANSCRIPT

Citi Second Quarter 2024 Earnings Call

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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 Second Quarter 2024 Earnings Call. 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 our second quarter 2024 earnings call. I am joined today by our Chief Executive Officer, Jane Fraser, and our Chief Financial Officer, Mark Mason.

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 earnings materials as well as in our SEC filings.

And with that, I'll turn it over to Jane.

JANE FRASER: Thank you, Jenn, and good morning to everyone. Before I discuss the results of the quarter, let me first address the regulatory actions by the Federal Reserve and the Office of the Comptroller of the Currency which were announced on Wednesday. These actions pertain to the consent orders we entered into with both agencies in 2020 and those orders covered four primary areas: risk management, data governance, controls and compliance. Addressing these areas is the primary goal of our Transformation, our number one priority. It is a multi-year effort to modernize our infrastructure, unify disparate tech platforms and automate processes and controls. This week's actions focused primarily on data quality management. We have been public this year about the fact that we were behind in this particular area and that we had increased our investment as a result. The regulatory actions consisted of two civil money penalties and, under the amended consent order with the OCC, a new process designed to ensure we are allocating sufficient resources to meet our remediation milestones, called the Resource Review Plan. We are currently developing the Plan for submission to the OCC.

By way of background, while the Federal Reserve is the primary regulator for Citigroup, our bank holding company, the OCC is the primary regulator for Citibank, N.A. or CBNA, which is our largest banking vehicle with approximately 70% of our assets. The amended consent order with the OCC allows CBNA, to continue paying to Citigroup, at a minimum, the dividends necessary for debt service, preferred dividends, and other non-discretionary obligations. While we are developing and seeking OCC consent for our Resource Review Plan, dividend amounts above that would require the OCC's non-objection. These dividends are intercompany payments that are made from CBNA ultimately to the parent, Citigroup. They should not be confused with the common dividends Citigroup pays to its shareholders. Indeed, there is no restriction on Citigroup's ability to pay common dividends to shareholders, nor is there a restriction to buying back shares. And let me be very clear, even with the investments needed for our Transformation, Citigroup has more than sufficient resources to also invest in our businesses, and make the planned return of capital to our shareholders. We will increase our dividend from 53 to 56 cents a share, as we announced in late June, and will resume modest buybacks this quarter.

While these actions were not entirely unexpected to us, it is no doubt disappointing for our investors and our people. We completely understand that. At the same time, we are confident in our ability to get these specific areas where they need to be, as we have been able to do in other areas of the Transformation. And we are pleased that it was acknowledged on Wednesday that we have made meaningful progress in executing our Transformation, and simplifying our firm. A multi-year undertaking such as this was never going to be linear. The investments we have been making are starting to come together to reduce risk, improve controls and deliver tangible outcomes. The tech investments we have made are making a difference. We have reduced the time it takes to book loans; automated controls for our traders to reduce errors; moved risk analytics to a cloud-based infrastructure; and increased the resiliency of our platforms to reduce downtime. The changes to our organization and our culture are making a difference. We have eliminated managerial constructs and layers whilst empowering our leaders. We introduced new tools to better manage human capital needs. Our focus on culture has increased accountability and attracted great new talent such as Vis Raghavan, Tim Ryan and Andy Sieg. You have my and the entire management team's commitment that we will address any area of the consent order where we are behind by putting the necessary resources and focus behind it. We will get this work where it needs to be, as we have with the execution of our strategy and the simplification of our organization.

Now, turning to what was another good quarter, our results show the relentless focus we have in executing our strategy as we continue to drive towards our medium-term return targets. We reported net income of $3.2 billion with an earnings per share of $1.52 and an ROTCE of 7.2%. Revenues were up 4% overall, as well as up in each of our five core businesses, where all but one had positive operating leverage. Expenses were down 2% year-over-year. The steps we are taking to simplify our organization, right-size businesses such as Markets and Wealth, and reduce stranded costs are beginning to take hold, even as we increase investment in our Transformation. Over the medium term, we expect these simplification and stranded cost actions to drive the $2 to $2.5 billion in annual run-rate saves. Services grew 3% driven by solid fee growth, which we have prioritized. TTS saw increased activity in cross border payments and in commercial cards. Securities Services was up 10%, with new client onboardings, deepening with existing clients, and market valuations helping increase our assets under custody by a preliminary 9%. At our recent Services Investor Day, we very much enjoyed the opportunity to talk to you in-depth about how we are going to continue to grow this high-returning business. And we are very pleased that people are starting to recognize why we describe it as our crown jewel.

Overall, Markets had a strong finish to the quarter leading to better performance than we had anticipated. Fixed Income was slightly down year-on-year due to lower FX and Rates, but we had good issuance and loan growth in Financing & Securitization, an area which generates attractive returns. Equities was up 37%, driven by strong performance in derivatives which includes a gain on the Visa B exchange offer.

Banking was up 38% as the wallet rebound gained some momentum and we again grew share. Our clients continued to access the debt capital markets with investment grade issuance near record levels. Equity issuance increased, particularly in convertibles, as companies wait for a fuller opening of the IPO window. Investment Banking fees were up 63% versus the prior year. We have seen some healthy volumes associated with announced deals year to date, particularly in Natural Resources and Technology. Combined with a strong pipeline, advisory activity looks promising as we think about the rest of the year and into next year.

Wealth is starting to improve. Growth in client investment assets drove stronger Investment revenue, especially in Citigold, and was up a preliminary 15%. Our focus on rationalizing the expense base is starting to pay off, with expenses down 4%. Andy and his team continue to attract top talent from the industry as they focus on our investments business and on enhancing the client experience.

U.S. Personal Banking saw revenue growth of 6%, with all three businesses again contributing to the topline. There was good revolving balance and loan growth in both branded cards and retail services. We continue to see differentiation in the credit segments with the lower income customers seeing pressure. Retail Banking benefitted from higher mortgage loans and improved deposit spreads, while delivering strong referrals to Wealth. Overall, while we saw operating margin expansion, our poor returns were pressured by the combination of credit seasonality and the normalization of certain vintages. We certainly expect USPB's returns to improve from here.

The recent stress tests again showcased the strength of our balance sheet. Our CET1 ratio now stands at 13.6%, and we expect our regulatory capital requirement to decrease to 12.1% as of October 1st given the reduction of our stress capital buffer. Our tangible book value per share grew to $87.53. During the quarter, we returned $1 billion in capital to our common shareholders, and we are increasing our dividend by 6%. We expect to buyback $1 billion in common shares this quarter and we will continue to assess the level of buybacks on a quarterly basis, particularly given the uncertainty around the Basel III endgame.

Looking at the macro environment as we enter the second half of the year, the U.S. is still the world's most structurally sound economy. After a break in progress, inflation now appears back on a downward trajectory. Services spending has remained on an upward trend although there are clear signs of a softening labor market and the tightening of the consumer budget. And of course, you might have heard there is an election in November. In Europe, while rate cuts have begun, the region's lack of competitiveness continues to be a drag on growth. In Asia, China is growing moderately, albeit with government stimulus, and their pivot to high-tech manufacturing is being challenged by tariffs on EVs and semi-conductors. Despite this uncertainty, as you saw at our Services Investor Day, when we went through our performance over the last two years, our business model can produce good results in a variety of macro environments. And there is plenty of upside for us across our five businesses.

We have made an incredible amount of progress in simplification- both strategically and organizationally. We have completed most of the exits of our international consumer markets. We streamlined our organization to catalyze agility and faster decision making. We are modernizing our infrastructure to improve our client service and automating processes to strengthen controls. We are on a deliberate path. We will continue to execute our Transformation and our strategy so we can meet our medium-term targets and then continue to further improve our returns over time. 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: Thanks, Jane and good morning, everyone. I am going to start with the firmwide financial results, focusing on year-over-year comparisons for the second quarter unless I indicate otherwise, and then spend a little more time on the businesses.

On slide 6, we show financial results for the full firm. For the quarter, we reported net income of approximately $3.2 billion, EPS of $1.52 and an RoTCE of 7.2% on $20.1 billion of revenues. Total revenues were up 4%, driven by growth across all businesses as well as an approximate $400 million gain related to the Visa B exchange offer. A significant portion of this gain is reflected in Equity Markets, with the remainder reflected in All Other. Expenses were $13.4 billion, down 2%, and 6% on a sequential basis. The combination of revenue growth and expense decline drove positive operating leverage for the firm and the majority of our businesses. Cost of credit was $2.5 billion, primarily driven by higher Card net credit losses, which were partially offset by ACL releases in all businesses except USPB, where we built for loan growth. At the end of the quarter, we had nearly $22 billion in total reserves with a reserve-to-funded loans ratio of approximately 2.7%.

On slide 7, we show the expense trend over the past five quarters. This quarter we reported expenses of

$13.4 billion, down 2%, and 6% sequentially, which includes the $136 million civil money penalties imposed by the Fed and OCC earlier this week. The decrease in expenses was primarily driven by savings associated with our organizational simplification, stranded cost reductions, and lower repositioning costs, partially offset by continued investment in Transformation and the Fed and the OCC penalties. As we said over the past few months, we will continue to invest in the Transformation and technology to modernize our operations and risk and control infrastructure. We expect these investments to offset some of our saves and headcount reduction going forward. However, based on what we now know today, we will likely be at the higher end of the expense guidance range, excluding the FDIC special assessment and the civil money penalties. With that said, we will, of course, look for opportunities to absorb the CMP.

Before going into the balance sheet and the business results for the quarter, I'd like to also give more color on the Transformation and address what the Fed and OCC announced Wednesday. We have made good progress on our Transformation in certain areas over the last few years, and I want to highlight some of those areas before discussing the announcement. First, Wholesale Credit and Loan operations, where we implemented a consistent end to end operating model and consolidated multiple systems with enhanced technology. This has not only reduced risk but enhanced operating efficiency and the client experience. We have also made improvements in risk and compliance as we enhanced our risk assessments and technology capabilities to increase automation for monitoring. And in Data, while there is a lot more to do, we have stood up a data governance process and streamlined our data architecture to ultimately facilitate straight through processing. Overall, we have improved risk management, and consolidated and upgraded systems and platforms to improve our resiliency. These efforts represent meaningful examples of how we are making progress against our Transformation milestones. That said, we have fallen short in data quality management particularly related to regulatory reporting, which we have acknowledged publicly since the beginning of the year. As such, we have begun to put additional investments and resources in place to not only address data quality management related to regulatory reporting and data governance, but also related to stress testing capabilities, including DFAST and Resolution Recovery. We also re-prioritized our efforts to ensure we are focused on data that impacts these reports first. We take this feedback from our regulators very seriously and we are committed to allocating all the resources necessary to meet their expectations.

Now turning back to the quarterly results. On slide 9, we show net interest income, deposits, and loans where I'll speak to sequential variances. In the second quarter, net interest income was roughly flat. Excluding Markets, net interest income was down 3%, largely driven by the impact of foreign exchange translation, seasonally lower revolving card balances and lower interest rates in Argentina, partially offset by higher deposit spreads in Wealth. Average loans were roughly flat, as growth in Cards and Mexico Consumer was largely offset by slight declines across businesses. And average deposits decreased by 1%, largely driven by seasonal outflows and transfers to investments in Wealth as well as non-operational outflows in TTS.

On slide 10, we show key consumer and corporate credit metrics, which reflect our disciplined risk appetite framework. Across our card portfolios, approximately 86% of our card loans are to consumers with FICO scores of 660 or higher. And while we continue to see an overall resilient US consumer, we also continue to see a divergence in performance and behavior across FICO and income bands. When we look across our consumer clients, only the highest income quartile has more savings than they did at the beginning of 2019. And it is the over 740 FICO customers that are driving the spend growth and maintaining high payment rates. Lower FICO band customers are seeing sharper drops in payment rates and borrowing more as they are more acutely impacted by high inflation and interest rates. That said, as we will discuss later, we are seeing signs of stabilization in delinquency performance across our cards portfolios. And we have taken this all into account in our reserving and we remain well reserved with a reserve-to-funded loan ratio of 8.1% for our total card portfolio. Our Corporate portfolio is largely investment grade, at approximately 82% as of the second quarter. And we saw a nearly $500 million sequential decrease in corporate non-accrual loans, largely driven by upgrades and repayments. Additionally, this quarter we saw an improvement in our macro assumptions driven by HPI, oil prices and equity market valuations. And our credit loss reserves continue to incorporate a scenario-weighted average unemployment rate of nearly 5%, and a downside scenario unemployment rate of nearly 7%. As such, we feel very comfortable with the nearly $22 billion of reserves that we have in the current environment.

Turning to slide 11, I'd like to take a moment to highlight the strength of our balance sheet, capital and liquidity. It is this strength that allows us to support clients through periods of uncertainty and volatility. Our balance sheet is a reflection of our risk appetite, strategy and diversified business model. Our $1.3 trillion deposit base is well diversified across regions, industries, customers and account types. The majority of our deposits are corporate, at $807 billion, and span 90 countries. And as you heard at the Services ID, most of these deposits are held in operating accounts that are crucial to how our clients fund their daily operations around the world, making them operational in nature and therefore very stable. The majority of our remaining deposits, about $404 billion, are well diversified across the Private Bank, Citigold, Retail and Wealth at Work offerings, as well as across regions and products. Of our total deposits, 68% are US dollar denominated with the remainder spanning over 60 currencies. Our asset mix also reflects our strong risk appetite framework. Our $688 billion loan portfolio is well diversified across consumer and corporate loans. And about one-third of our balance sheet is held in cash and high-quality, short duration investment securities that contribute to our approximately $900 billion of available liquidity resources. We continue to feel very good about the strength of our balance sheet and the quality of our assets and liabilities, which position us to be a source of strength for the industry and, importantly, for our clients.

On slide 12, we show a sequential walk to provide more detail on the drivers of our CET1 ratio this quarter. We ended the quarter with a preliminary 13.6% CET1 capital ratio, approximately 130 basis points, or approximately $15 billion, above our current regulatory capital requirement of 12.3%. We expect our regulatory capital requirement to decrease to 12.1% as of October 1st, which incorporates the reduction in our Stress Capital Buffer from 4.3% to the indicative SCB of 4.1% we announced a couple weeks ago. We were pleased to see the improvement in our DFAST results, and the corresponding reduction in our SCB. That said, even with the reduction, our capital requirement does not yet fully reflect our simplification efforts, the benefits of our transformation or the full execution of our strategy, all of which we expect to reduce our capital requirements over time. And as a reminder, we announced an increase to our common dividend from $0.53 per share to $0.56 per share following the SCB results. And as Jane mentioned earlier, we plan on doing $1 billion of buybacks this quarter.

So now turning to slide 13. Before I get into the businesses, as a reminder, in the fourth quarter of last year, we implemented a revenue sharing arrangement within Banking, and between Banking, Services and Markets to reflect the benefit the businesses get from our relationship-based lending. The impact of revenue sharing is included in the "All other" line for each business in our Financial Supplement. In Services, revenues were up 3% this quarter, reflecting continued underlying momentum across both TTS and Securities Services. Net interest income was down 1%, largely driven by lower earnings on our net investment in Argentina, partially offset by the benefit of higher U.S. and Non-US interest rates relative to the prior-year period. Non-interest revenue increased 11%, driven by continued strength across underlying fee drivers, as well as a smaller impact from currency devaluation in Argentina. The underlying growth in both businesses is a result of our continued investments in product innovation, client experience and platform modernization that we highlighted during our Services Investor Day last month. Expenses increased 9%, largely driven by an Argentina-related transaction tax expense, a legal settlement expense and continued investments in product innovation and technology. Cost of credit was a benefit of $27 million, driven by an ACL release in the quarter. Average loans were up 3%, primarily driven by continued demand for export and agency finance, particularly in Asia, as well as working capital loans to corporate and commercial clients in Latin America and Asia. Average deposits were down 1%, driven by non-operating deposit outflows. At the same time, we continue to see good operating deposit inflows. Net income was approximately $1.5 billion. And Services continues to deliver a high RoTCE, coming in at 23.8% for the quarter.

On slide 14, we show the results for Markets for the second quarter. Markets revenues were up 6%. Fixed Income revenues decreased 3%, driven by Rates and Currencies, which were down 11% on the back of lower volatility and tighter spreads. This was partially offset by strength in Spread Products and Other Fixed Income, which was up 20% primarily driven by continued loan growth and higher securitization and underwriting fees. In addition to a benefit from the Visa B exchange offer, we continued to see good underlying momentum in Equities, primarily driven by Equity Derivatives. And we continued to make progress in prime with balances up approximately 18%. Expenses decreased 1%, driven by productivity savings, partially offset by higher volume-related expenses. Cost of credit was a benefit of $11 million, as an ACL release more than offset net credit losses. Average loans increased 11%, largely driven by asset-backed lending in Spread Products. Average trading assets increased 12%, largely driven by client demand for Treasuries and mortgage-backed securities. Markets generated positive operating leverage and delivered net income of approximately $1.4 billion with an RoTCE of 10.7% for the quarter.

On slide 15, we show the results for Banking for the second quarter. Banking revenues increased 38%, driven by growth in Investment banking and Corporate Lending. Investment Banking revenues increased 60%, driven by strength across Capital Markets and Advisory, given favorable market conditions. DCM continued to benefit from strong issuance activity, mainly in Investment Grade, as issuers continued to de-risk funding plans in advance of what could be a more volatile second half in the context of a number of important global elections as well as the macro environment. In ECM, excluding China A-shares, we're seeing a pickup in IPO activity, led by the US, as well as continued convertible issuance, as issuers take advantage of strong equity market performance and expectations for rates to be higher for longer. And in Advisory, we are seeing revenues from the relatively low announced activity in 2023 coming to fruition as those transactions close. Both year-to-date and in the quarter, we gained share across DCM, ECM and Advisory, particularly in Technology where we've been investing. Corporate Lending revenues, excluding mark-to-market on loan hedges, increased 7%, largely driven by higher revenue share. We generated positive operating leverage again this quarter as expenses decreased 10%, primarily driven by actions taken to right size the expense base. Cost of credit was a benefit of $32 million, driven by an ACL release reflecting an improvement in the macroeconomic outlook, partially offset by net credit losses. Average loans decreased 4% as we maintained strict discipline around returns combined with lower overall demand for credit. Net income was $406 million and RoTCE was 7.5% for the quarter.

On slide 16, we show the results for Wealth for the second quarter. Wealth revenues increased 2%, driven by a 13% increase in NIR from higher investment fee revenues, partially offset by a 4% decrease in NII from higher mortgage funding costs. We continue to see good momentum in non-interest revenue as we benefited from double-digit client investment asset growth, both in North America and internationally, driven by net new client investment assets as well as market valuations. Expenses were down 4%, driven by the initial benefits of expense reductions as we right size the workforce and expense base. Cost of credit was a benefit of $9 million, as an ACL release more than offset net credit losses. Preliminary end-of-period client balances increased 9%, driven by higher client investment assets as well as higher deposits. Average loans were flat, as we continued to optimize capital usage. Average deposits increased 2%, largely reflecting the transfer of relationships and the associated deposits from USPB, partially offset by a shift in deposits to higher-yielding investments on Citi's platform. Client investment assets were up 15%, driven by net new investment asset flows and the benefit of higher market valuations. Wealth generated positive operating leverage this quarter and delivered Net income of $210 million with an RoTCE of 6.4% for the quarter.

On slide 17, we show the results for US Personal Banking for the second quarter. US Personal Banking revenues increased 6%, driven by NII growth of 5% and lower partner payments. Branded Cards revenues increased 8%, driven by interest-earning balance growth of 9% as payment rates continue to moderate. And we continue to see growth in spend volumes up 3%, primarily driven by customers with FICO scores of 740 or higher. Retail Services revenues increased 6%, primarily driven by lower payments from Citi to our partners due to higher net credit losses. And interest-earning balances grew 8%. Retail Banking revenues increased 3%, driven by higher deposit spreads, as well as mortgage and installment loan growth. USPB also generated positive operating leverage this quarter, with expenses down 2%, driven by lower technology and compensation costs, partially offset by higher volume-related expenses. Cost of credit increased to $2.3 billion, largely driven by higher NCLs of $1.9 billion and an ACL build of approximately $400 million reflecting volume growth in the quarter. But let me remind you of the three things driving our NCLs this quarter. First, card loan vintages that were originated over the last few years are all maturing at the same time. These vintages were delayed in their maturation due to the unprecedented levels of government stimulus during the pandemic. Second, we continue to see seasonally higher NCLs in the second quarter. Third, certain pockets of customers continue to be impacted by persistent inflation and high interest rates resulting in higher losses. However, across both portfolios we are seeing signs of stabilization in delinquency performance, but we will continue to watch the impact of persistent inflation and high interest rates as the year progresses. Despite these factors we still expect Branded Cards to be in the 3.5% to 4.0% NCL range for the full year and Retail services to be at the high end of the range of 5.75% to 6.25%. Average deposits decreased 18%, as the transfer of relationships and the associated deposits to our Wealth business more than offset the underlying growth. Net income was $121 million and RoTCE for the quarter was 1.9%. As we've said before, we will continue to take actions to manage through regulatory headwinds, lap the credit cycle and grow revenue while improving the overall operating efficiency of the business to ultimately get to a high-teens return over the medium term.

On slide 18, we show results for All Other on a managed basis, which includes Corporate Other and Legacy Franchises and excludes divestiture-related items. Revenues decreased 22%, primarily driven by the closed exits and wind-downs and higher funding costs, partially offset by growth in Mexico as well as the impact from the Visa B exchange offer. And expenses decreased 7%, primarily driven by closed exits and wind-downs.

Slide 19 shows our full year 2024 outlook and medium-term guidance, both of which remain unchanged. We continue to remain laser focused on executing on our transformation and enhancing the businesses performance. And while we recognize there is a lot more to do on Transformation, we are pleased with the progress we are making towards our 2024 and Medium-term targets and remain committed to these targets. With that, Jane and I will be happy to take your questions.

QUESTION AND ANSWER

OPERATOR: Our first question will come from Mike Mayo with Wells Fargo. Your line is now open. Please go ahead.

MIKE MAYO: Hi. Could you elaborate more on the amended consent order, Jane? You said it was disappointing to have gotten that this week. It's almost four years into the consent order. And a little bit why it hasn't been resolved and what's on, that's the loss column and maybe a little bit more on the win column too. I mean, you have what 12,000 people thrown at the problem. Billions of dollars. Is it not enough people? Is it not enough money? Do you need to look at it in a different way? Are you not talking the same language?

I mean, you have John Dugan as your lead independent director, ex head of the OCC, and it seems like you got your report card. I guess you passed overall. They went out of their way to say some nice things, but it looks like you got failing grades in data and regulatory management. So, you're confident it's going to be resolved, but it's already been four years and it hasn't been resolved. So what is it going to take from here and how can you resolve the regulatory concerns while continuing or serving shareholders better? And then in the win column, since it's so nebulous this back office, what are you achieving? You mentioned some items, but if you could put more meat on those bones. Thanks.

JANE FRASER: Yes. Thank you, Mike. That's a few different parts to that, so let's start by just taking a step back. Our transformation is addressing decades of under-investment in large parts of Citi's infrastructure and in our risk and control environment. And when you unpack that, those areas where we had an absence of enforced enterprise-wide standards and governance, we've had a siloed organization that's prevented scale, a culture where a lot of groups were allowed to solve problem – the same problem in different ways, fragmented tech platforms, manual processes and controls, and a weak first line of defense, too few subject matter experts. So, this is a massive body of work that goes well beyond the consent order and this is not old Citi putting in Band-Aids. This is Citi tackling the root issues head on. It's a multiyear undertaking as we've talked about and you saw the statement by one of our regulators this week, we have made meaningful progress on our transformation and on our simplification.

Mark?

MARK MASON: Yeah, and so as Jane says, the progress that we've made, it spans multiple parts of the consent order and transformation work. Remember, that consent order and transformation work includes risk, it includes controls, it includes compliance, it includes data and data related to the regulatory reporting, and we've got evidence and proof points of progress against all of those things.

JANE FRASER: Thank you, Mark. So transforming, to answer your question about how do we fix it and serve our investors at the same time. Transforming Citi will drive benefits for our shareholders, our clients, and our regulators. This is not mutually exclusive. At the beginning of the year, we honed in on two priorities, the transformation and improving our business performance, and we're able to do so because we've largely cleared the decks. We have a clear focus strategy, we've executed the divestitures, we've got a much simpler organization, so we can focus on these two priorities and we are able to do both.

You can see that in our results again this quarter, multiple, solid proof points on the execution of the strategy and we know what we need to do on both fronts. We have plans in place on the transformation and on the strategy and we're executing against them. We have been and we will be transparent when we have issues and how we're addressing them.

MARK MASON: And just to add a couple of data points to that, Mike. You've heard us mention some of these before, but we've retired platforms. We've reduced the number of data centers. Platforms are down some 300. We've moved from 39 corporate loan platforms down to south of 20. We've got 20 cash equities execution platforms down to 1; we've reduced the 6 reporting ledgers down to 1; 11 sanctions platforms down to 1. So, we've been making considerable progress over the past couple of years.

With that said, there's a lot more work to be done around the data regulatory reporting work. If you think about Citi, we've got 11,000 global total reg reports, right. So, we've got to make sure that the data that's going into those reports is the quality of the data that we want it to be, but more importantly, that we're doing it efficiently, that it doesn't take thousands of people to reconcile that information and so this is an end-to-end process in the way we're approaching it.

One example is the 2052a liquidity report that we have. It has 750,000 lines of data and that data is, it's important again that we're efficiently collecting it from multiple systems with standards and governance that ensures it's of the quality that we want it to be without again having to have manual activity supporting it.

OPERATOR: The next question is from Glenn Schorr at Evercore. Your line is now open. Please go ahead.

GLENN SCHORR: Hi. Thank you. So, Mark, I heard your comments on credit this year. I'm talking the US Personal Banking. I heard your comments for credit the rest of this year and I think in a position that you're very conservatively reserved. But right now, you put up a 3% margin and credit costs are almost half of what revenues are in this space. I guess, my question is this: As we roll forward, in a slowing economy with likely a little bit lower – some rate cuts, how does the P&L evolve? How does it improve from here? Because can we be expecting credit costs to come in, in a slowing economy? I'm just trying to figure out the path forward because it could be impactful if USPB obviously marches to where you need it to be.

MARK MASON: Yeah, look, like I said, we do think that there is certainly upside to USPB. We're looking for that upside in the medium-term targets that we've set for ourselves. You've got to remember that when you look at the quarter and you look at the half, frankly, that we're still in a period where we're seeing the normalization of the cost of credit. And as I mentioned in the prepared remarks, you have kind of a compounding effect of multiple vintages now maturing at the same time that's playing through the P&L. That's not just true for us, that's true for others as well. And so we'd expect and we are – we do believe we're seeing some signs of a cresting when you look at delinquencies now and so we would expect that those losses start to normalize and loss rates start to come down as we go towards the medium term.

At the same time, we're investing in the business and we're looking to see continued growth in volume and on the top line. And the combination of those things, as we drive towards the medium term, will help us to deliver both the top line growth and certainly improve returns from where we sit today and in line with what we've guided to.

So, it's a combination of top line performance from volume and obviously the environment plays into that, but we feel like we've got a reasonable assumption around top line growth there, cost of credit normalizing, continued discipline on the expense line, allowing for us to get improved returns across that USPB business.

GLENN SCHORR: Okay. Appreciate all that. One quickie on DCM. You had amazingly good performance. There's been plenty of conversation about pull forward this year on just refi driving like three-quarters of the activity. Could you just help us think through the second half when thinking about DCM just to make sure that we don't like start modelling this into perpetuity?

JANE FRASER: Look, I think when we think about the back half of 2024, we're going to see a different mix of activity in Banking. We do still expect demand to be quite strong across our capital market products because you've got a wall of maturing debt securities coming up in the second half that carry on for a couple of years. But, we did see some clients accelerating issuances into the first half getting ahead of potential market volatility. So, if you put it all together, I think we expect the rate environment and the financing markets to continue to be accommodative as well as to continue deal making with M&A being a bit larger in the overall mix, although some of the regulatory elements have put a damper on part of that.

MARK MASON: Yeah. Only thing I'd add to that is, look, the wallet for the year is obviously going to depend on a couple things, so, one, the return of a more normalized IPO market, two, the direction and volatility of interest rates, the ongoing global conflicts that we're all kind of seeing and witnessing, and then finally, as Jane mentioned in her remarks, the elections and what those outcomes look like, not just in the US, but abroad. And so there are a number of factors there that will play to the wallet. But as we said, we believe we're well-positioned to be there to serve our clients and to do so in a way that makes good economic sense.

OPERATOR: The next question is from Jim Mitchell at Seaport Global. Your line is now open. Please go ahead.

JIM MITCHELL: Hey. Good morning. Just, Mark, maybe on NII, down almost 4% year-over-year. Seems a little bit more than the guidance was down modestly for the year. So, can you discuss sort of the puts and takes this quarter and how we should think about the quarterly trajectory for the rest of the year?

MARK MASON: Yeah. So, I'd say a couple things. So, one, as I mentioned, in the quarter and you see it on slide 9, ex-Markets, we're down about 3%. That's largely driven by some FX translation that played through, but also some seasonally lower revolving card balances and then lower interest rates in Argentina. And what that is in Argentina, we have capital there, the policy rate was adjusted downward and as that happened, we obviously earned less on that capital that flows through the NII line.

As I think about the back half of the year and the guidance we have of modestly down, there are a couple of puts and takes to keep in mind. So, one is going to be rates, right, so as I think about the higher yield that we can earn on reinvestment, that'll be a tailwind that plays through from an NII point of view.

The second would be volume growth, particularly in our card loans portfolio and we do expect to see continued volume growth across certainly the Branded portfolio and so that'll be another tailwind for us on the NII line.

In terms of the headwinds, you've got the lower NII earned in Argentina from rates, that'll continue to play through. We've got assumed higher average betas in 2024, specifically on the non-US side. We still have in our forecast the impact of CFPB late fees, so assuming that that goes into effect for this year, that will have an impact and it's in the forecast, and then the impact of lost NII from the exits that we have. And so, the combination of those things will probably mean that NII in the back half of the year is a little bit higher than the first half, but again, consistent with the guidance that we gave of modestly down.

JIM MITCHELL: That's helpful. And maybe just quickly, kind of a similar question on expenses. Better-than-expected this quarter, but there was no restructuring or repositioning charges. I think to get to the high end of your range, you'd have to be up a little bit in the back half from 2Q run rate. Is that because you expect more repositioning, restructuring in the second half or maybe just talk through expense trajectory from here?

MARK MASON: Yeah, so that's right. When I talk about it at the first quarter, I talked about kind of a downward trend for each of the quarters after Q1. The second quarter came in a bit lower than we were expecting. I'm sticking with the guidance and it does mean that the back half of the year will likely come in – will come in higher than the second quarter. That's a combination of a couple of things, including the pace of hiring and investment that we will do in the transformation work that has to be done. It also includes repositioning charges that we might take or need to take as we continue to work through our businesses across the firm and the franchise and then the second quarter did or – yeah, the second quarter did have a one-time or so and some delayed spending that will pick up in the third and fourth quarter around advertising and marketing and some of the other line items. So, yes, the third and fourth quarter, the back half will be higher than the second quarter, but consistent with the guidance that I've given.

OPERATOR: The next question is from Erika Najarian at UBS. Your line is now open. Please go ahead.

ERIKA NAJARIAN: Hi. I had two questions and I'll ask the first one on expenses first since it's a good follow-up to the previous. Mark, just to clarify. Let's just say, take the highest end of your range at $53.8 billion. Just trying to think about how consensus will move. So, we take that $53.8 billion and then add the $285 million of FDIC expenses year-to-date so far and add the civil money penalties of $136 million, so that gets us to $54.2 billion for the year and any other repositioning charges in the second half of the year would already be included in the $53.8 billion?

MARK MASON: So, yes. The answer to the last part of your question is yes. So in the range that I've given, $53.5 billion to $53.8 billion, that includes our estimate for the full year of repositioning and any restructuring charges. That range excludes the FDIC Special Assessment that we saw earlier in the year and it excludes the CMP of $136 million.

ERIKA NAJARIAN: Got it. And my second question is for Jane and I'm sure you're getting tired of the question on capital return. So, you're buying back $1 billion, you plan to buy back $1 billion this quarter. It looks like you didn't buy back any in the second quarter. And I'm asking this question in this context because consensus has a buyback of nearly $1 billion in the fourth quarter and staying at this rate for the first half of next year and ramping higher. And I guess, is the $1 billion number a catch-up pace because you didn't buy back any in the second quarter? And I fully appreciate that you also have the Banamex IPO coming, which is different from peers that are also waiting for Basel clarification. But I'm just wondering, do we need to wait for that Banamex IPO for the company to feel comfortable moving away from that quarter-to-quarter guidance? And also, of course, I just want to readdress the beginning of the question when I asked specifically about the pace.

JANE FRASER: Okay. So, we are not going to be giving guidance going forward around our buybacks. We are going to continue to give quarterly and make it a quarterly determination as to the level. And a lot of that is to do with the uncertainty about the forthcoming regulatory changes. I think we were delighted to see a slight reduction in our Stress Capital Buffer, reflecting the financial strength and resiliency of our business model and also good to see the benefits of our strategy playing out. But with the regulatory changes uncertain, that's one of the major factors for us to continue with the quarterly guidance.

MARK MASON: Yeah, that's right. And on the first part of your question, Erika, I'd say, look, we were in discussions with our regulators and we made a prudent call as it relates to buybacks in the quarter for Q2. So, Q3, as we talked about, would be at $1 billion and that should not be necessarily viewed as a run rate level. As Jane mentioned, we'll take it quarter by quarter from here.

OPERATOR: The next question is from Gerard Cassidy with RBC. Your line is now open. Please go ahead.

GERARD CASSIDY: Thank you, Hi Jane, Hi Mark. Mark, regarding the comments you made about the higher credit losses, the three factors that you gave us, can you also talk about, if this was a factor at all for you folks, was there any FICO score inflation back during the pandemic that might be playing into these kind of credit losses? And as part of the credit card question, you mentioned the CFPB, the fees that you have factored in, the lower fees – you factored that into your forward-look. Where do we stand on that? Do you guys have any color on that as well?

MARK MASON: Yeah, so, on the first part of the question, look, we all kind of have talked about in the past, the prospect of FICO inflation back during the COVID period of time. We've been very focused on ensuring that acquisitions that we've made have been appropriately kind of analyzed in the underwriting of that to get comfortable with the quality of new customers that we've been bringing on. In light of the environment, we have looked at moving towards higher FICO scores for new account acquisitions. But as I think about what we're seeing now, there is that dichotomy that I mentioned where we have the higher FICO score customers that are driving the spend growth and that frankly have still continued strong balances and savings and it's really the lower FICO band customers, where we're seeing the sharper drop in payment rates and more borrowing. And so, the FICO inflation has effectively kind of fizzled out when we look at the mix and dynamic of the customer portfolio that we have at this point.

And in terms of the CFPB late fees, well, I don't have an update on that. Like I said, we've built in an assumption in our forecast. But in terms of the timing, I don't have a formal update on the certainty of it.

OPERATOR: The next question is from Ken Usdin at Jefferies. Your line is now open. Please go ahead.

KEN USDIN: Hey, thanks, good morning. Hey, Mark. Talking about the NII outlook and the fact that now we've got a little bit of a discrepancy starting between US rates, maybe higher for longer, and then the beginnings of some of the non-US curve starting to, at least put fourth their first cut. I know we've got that good chart that you have in the Qs about the relative contributions. Can you just help us understand a little bit of like just generally how you're thinking through that discrepancy and how that informs the difference between US-related NII and non-US-related NII as you go forward?

MARK MASON: Yeah, thank you. So look, I think that as we look at it, out through the – certainly through the medium term, we expect to see continued NII growth at obviously a modest level, certainly lower than what we've seen historically and that's in large part because or in part I should say because of how we've been managing the balance sheet and that has allowed for us to reinvest as securities have rolled off and earn a higher yield on them relative to what we were earning, in some instances, they were five-year terms on some of these investments. And so we still think there's some upside from a reinvestment point of view.

The point you make around kind of non-US dollar or US rates kind of coming off, that'll play through a little bit as we think about the beta increases that we're expecting outside of the US. And so, we've assumed that we have higher betas pick up outside of the US. If rates kind of come off in a more substantive way, then we could see kind of a little less NII pressure than we're forecasting there. But net-net, as I think about the combination of volume growth that we're expecting between loans and deposits over that medium term, the higher yield we can earn on our assets, combined with the pricing capabilities that we have across the portfolio, offsetting some of that beta, we believe we'll have continued NII growth.

As I think about what I often point to in terms of the IRE analysis and you have to remember that that is a shock to the current balance sheet and it assumes that the full curve is moving simultaneously, cross currencies. And in that case, the 100 basis point parallel shift downward would be a negative $1.6 billion, with about $1.3 billion coming from non-US dollar. But again, that does assume that all of those currencies come down at the same time and doesn't account for the rebalancing of the balance sheet and things that I mentioned like the reinvestment higher yields that we'd be able to earn.

KEN USDIN: Got it. Okay. And just one follow-up on the OCC amendment and that's specifically related to the Resource Review Plan. Do you have a line of sight on how long that'll take you guys to finish because it seems like – and is that what we should be thinking about in terms of just understanding like what the side of what you need to get done in terms of the other language that's written in the order?

JANE FRASER: So, Ken, look, the Resource Review Plan is just that. It's a plan to ensure that we have sufficient resources allocated towards achieving a timely and sustainable compliance to the order. Essentially if an area is delayed or looking as if it could be, we'll determine what additional resourcing, if any, is required to get back on track and then we'll share that with the OCC in a more formalized way than we do today and we obviously review this pretty constantly ourselves.

We're already working on the plan. After it's finalized with the OCC it will be confidential supervisory information that we can't disclose. So, we won't be able to tell you that the plan is, what the nature of the plan is going to be, but it won't be much more complicated than what we talked about. And we're expecting to get it, we're not expecting this to take long.

OPERATOR: The next question is from Betsy Graseck with Morgan Stanley. Your line is now open. Please go ahead.

BETSY GRASECK: Hi good afternoon. So, I know we talked a lot about expenses. I just have one kind of overarching question here, which is on how we should think about the path of expenses between now and the medium term, as we have come quite a long way in the simplification process. Maybe if you could give us a sense as to how far along simplification impact on expenses we are? And overlapping with the regulatory requirements, do these net out or are we skewed a little bit more towards regulatory requirements being a bit heavier than what's left on simplification from here? Thanks.

MARK MASON: So, thank you, Betsy. I guess I'd say a couple things. So, I think we said it in the past. So, the target for the medium term, we think 2026 is somewhere around $51 billion to $53 billion of expenses. As we've said, we'll have about $1.5 billion in savings related to the restructuring that we've done and another $500 million to $1 billion related to net expense reductions from eliminating the stranded costs as well as additional productivity over that medium-term period. And so, we've made, I think, very good headway, as Jane has mentioned, in the org simplification and the restructuring charges associated with that. Those saves will have started to generate. Some of those saves in the early part of that, meaning this year, will likely be offset by continued investment that we're making in areas of the business like transformation, but also in business-led or driven growth. And you should expect in terms of the trend that we would have a downward trend towards 2026 in achieving that range.

JANE FRASER: And I just want to reiterate, we remain confident that we will meet our 11% to 12% RoTCE target over the medium term. And we've got the, we have the ability to manage the different elements we've been talking about today, making sure that we're investing sufficient resources into the transformation so we can be on track with that, as well as in our businesses, as well as the return of capital to our shareholders. So, we feel confident around that and good about it, we can manage this.

MARK MASON: Yeah, I think that's a great point, Jane. Look, the reality is, as was pointed out earlier, we spent about $3 billion last year, a little bit under that, on the transformation-related work. And the plan has called for us to spend a little bit more than that this year. And frankly, in the first half of the year, as we work through the transformation work and some of the things that Jane and I have mentioned earlier in the year that we've been focused on, like data and data related to regulatory reporting, we've had to spend more than we had planned for in the first half, right, and we've done that and we funded that.

We've been able to find productivity opportunities that allow for us to still stay within the guidance that we've given for the full year. So, we are managing this entire expense base, right, so not – the whole $53 billion plus of it, we are actively managing that with an eye towards what's required from a transformation point of view to keep it on track, to accelerate in areas where we're behind and to shore up areas where we're tracking in accordance to what the order requires and where are the other inefficiencies that can allow for us to free up the expense base? And so, things like the work that Andy Sieg has done with the finance team around that expense base and finding efficiencies there are opportunities that we've been able to tease out of the business. Things that we have done in parts of USPB and that we have continued to get after in parts of Banking, which you see in the down 10% this quarter are areas where we've been keenly focused on, where are there duplicative roles, where are there inefficient processes that we can actually drive greater efficiency out of. So, longwinded way of saying, we understand the expense guidance that we've given, we also understand and stress the importance of funding the transformation with what's required and we're doing both.

BETSY GRASECK: Okay. Great. Thank you very much. Appreciate that.

OPERATOR: The next question is from Vivek Juneja with JPMorgan. Your line is now open. Please go ahead.

VIVEK JUNEJA: Hi. Let me just clarify this, Mark and Jane, just to make sure that we all have it right. The $53.5 billion to $53.8 billion does not include anything thus far on what you think you may need to spend on the Resource Review Plan, meaning what additional resources you would have to put to fix the consent order. Am I right there?

JANE FRASER: No, you're not right. So, I think as you've heard us talk about, Vivek, for a while now, that we knew the areas that we were behind in elements of our transformation program and that we began addressing those and making the investments. Some of that's in people. Some of that is in technology spend. It's using different tools and capabilities to get areas addressed earlier and we began that earlier in the year and you saw that acknowledged as well by our regulators who pointed to the fact that we've already begun addressing the areas that we're behind.

Mark?

MARK MASON: That's right, Jane, and what you have heard is that despite having to spend more, some $250 million or so more, we're not changing the guidance, right. And so, we have, as Jane mentioned, we have worked on areas already that we've needed to and we have looked for ways to absorb that and are doing so within our guidance.

VIVEK JUNEJA: Okay. So, going forward, even though this plan is still to be sort of put together and approved by the regulators, we should not expect any change to this expense guidance?

MARK MASON: Look, the plan, the Resource Review Plan, as Jane mentioned, is what we're working through now with the regulators. That will be a process for demonstrating to them that we are spending and allocating the appropriate resources to accomplishing the commitments that we have. Appropriate resources can range from people to technology to enhancing our processes and ensuring better execution.

If you think about what that will entail, it will entail areas where we are delayed or behind as we identify those areas, being able to tease out the root cause of any delay and ensure that we've got proper funding allocated to get it back on track and that's me framing out how I think about what something like this might look like. And so, what we're saying is that if we identify issues in the quarters to come, that we haven't identified already, that's the process we're going to apply to those issues. And as you've heard us say repeatedly, we're going to spend whatever is necessary to then get those things back on track. And as we've done thus far this year, we're going to look for opportunities to absorb those headwinds. I hope that's clear.

OPERATOR: The next question is from Matt O'Connor with Deutsche Bank. Your line is now open. Please go ahead.

MATT O'CONNOR: Hi. Apologies if I missed it in the opening remarks, but what drove the decline in credit card revenues from 1Q to 2Q? Looks like they were down about 6% in aggregate even though average loans went up, spending went up. What was the driver of that?

MARK MASON: Credit card revenues, seasonality.

JANE FRASER: Yeah, seasonality.

MARK MASON: Seasonality playing through there sequentially. Yeah.

JANE FRASER: I think if you look year-over-year, you'll be able to see a pretty common trend there. The consumer is slowing in some of the, in the spend, as Mark had referred to, Matt. And a lot of the spending and the growth areas we are seeing and underlying numbers is being driven by the affluent customer.

MARK MASON: Yeah. I think there's also the dynamic on the CRS of the reward or across the portfolio of rewards playing through from one quarter to the other, so the combination of those things are playing through the revenue line there.

JANE FRASER: But nothing that's particularly worrying us, Matt.

MATT O'CONNOR: Okay. And then just separately on the very early kind of part of the prepared remarks, you talked about the dividends being capped in terms of what could be upstream from the bank to the holding company because of the OCC that came out this week. For all intents and purposes, like does that impact how you run the company or subsidiary or impact liquidity or capital? I understood the comment, no change to dividends or buybacks at the holding company, but is there any impact from that that we would notice on the outside? Thank you.

JANE FRASER: Look, let's be clear, this action does not impact our ability to return capital to our shareholders. The dividends that are referenced are just intercompany payments from CBNA to the parent. So, first of all, don't confuse what a dividend is here. We will, it's not going to impact how we run the company, the subsidiary, the capital, the liquidity at all and the dividends are not capped.

MARK MASON: Yeah, I think, Jane, that's right. And I think let's not lose sight of the purpose of the orders that are there and the purpose of the orders that are there are to ensure that we're funding and allocating the effort appropriately, right.

So, the regulators want essentially the same thing we want, right, is for us to get this done, right, and so that is the primary objective. The reference to the dividending from out of CBNA up to the parent is certainly referenced there between now and establishing that Resource Review Plan. But as Jane mentions, that does not constrain the parent from doing the things that it will need to do. And as opposed to, it's not a cap. What it is, is that anything above the debt service of the parent or the preferred dividends and other nondiscretionary obligations would require a non-objection from the OCC.

JANE FRASER: Until the Resource Plan is agreed and as you'll have seen, the Resource Plan needs to be submitted within 30 days, and as I indicated, we're working on that one and not anticipating that to be a problem.

OPERATOR: The next question is from Saul Martinez with HSBC. Your line is now open. Please go ahead.

SAUL MARTINEZ: Hi. Good afternoon. Thanks for taking my question. Just, I guess I just want to follow up on the latter question. I just want to be very clear. So, what you're saying is that the requirement that CBNA receive a non-objection before dividending upstream to the parent, that does not impact how you think about your capital flexibility, how you think about – it doesn't restrict you in any way and shouldn't impact, for example, your ability to benefit from, for example, a Basel Endgame rule that is softened or some of the benefits, Mark, that you talked about in terms of simplification. So, you don't see this impacting your ongoing level of capital flexibility and your ability to repurchase stock going forward if some of these things actually do play out?

MARK MASON: No.

SAUL MARTINEZ: You don't? Right. Okay.

MARK MASON: No, I don't. Right.

SAUL MARTINEZ: Fair enough. That was as clear as can be.

MARK MASON: Thank you.

SAUL MARTINEZ: Second question on, I just want to follow up on USPB. I still – I get the point that you're seeing a normalization in losses in Cards. But even if I adjust for reserve builds, your RoTCE is still single digits. I would think even at these NCL levels, your Cards business is pretty profitable. You're a scale player, you're above sort of pre-pandemic levels, but not – I don't know if I, it doesn't seem like it's that much higher by a dramatic amount. It would seem to imply that the Retail Bank is a huge drag on profitability, even – maybe even losing money, I don't know. But can you just talk about what you can do to sort of improve the Retail Bank profitability and just give anymore color that you can in terms of the path to get to that high-teen RoTCE you talked about?

JANE FRASER: Yeah, let me kick off there, and let's say, look, clearly, we're very focused on improving the returns in USPB to get us to the high-teens level over the medium term and you've seen us generating healthy positive operating leverage this quarter. We've had a number of quarters of good revenue growth. And as Mark said, we're at the low point of the credit cycle and we knew this year, we would see the pressure on returns from the elevated NCLs and some of the industry headwinds we've talked about. But as the NCL rates approach steady state levels and the mitigating actions that all of us have been putting in place against the industry headwinds, as those take hold, we expect the returns will improve and support the firm-wide medium-term targets.

In the Retail Bank, we're continuing to focus on growing share in our six core markets and we're doing that, leveraging our physical and digital assets. It plays an important role in enabling the wealth continuum and the growth that we're looking at in our Wealth franchise. We're continuing to improve our operating efficiency, being very disciplined in expense management and managing carefully the branch and digital productivity of the Retail Bank network. But we're at the high point of the credit cycle. It's driving the low point for USPB, and as I said in my remarks, we're expecting to see those returns improve from here.

OPERATOR: The next question is from Steven Chubak with Wolfe Research. Your line is now open. Please go ahead.

STEVEN CHUBAK: Hi. Good afternoon. So, Mark, I have a fairly technical question on DTA utilization and specifically the NOLs. The deduction is still fairly significant at $12 billion. It roughly equates to about 10% of your market cap. And the good news here, I suppose, is that it should come back into capital over time, but we've seen very little utilization over the past two years despite the firm being profitable. And so wanted to better understand this, what's constraining your ability to utilize those DTAs and are there catalysts on the horizon that could help accelerate that utilization beyond organic earnings generation?

MARK MASON: Yes. Thank you. So, I'm going to give you a very simple answer to a very complicated question. It really comes down to driving US income, right. And so, we are focused on not just all of the things that we've mentioned, but driving higher income in the US. That allows for us to utilize the disallowed DTA. We saw some of that in the quarter and we expect to see more of it as we move through the medium term, but that is the major driver of that utilization.

JANE FRASER: And we have many of our business heads very much focused around that opportunity as well. So, winning in the US is a very important leg, for example, of the strategy that Vis is refreshing. Similarly, we see opportunities from the Commercial Bank. We see it in Wealth. We see it in, obviously in US Personal Banking and in Services. So, we're very, we're focused from a business strategy point of view on this, not just from the financial side.

STEVEN CHUBAK: Thank you, both, for that color. Maybe just a quick follow-up just on the Retail Services business. We are seeing some evidence that your competitors in this space have been more aggressive leading with price in an effort to win some new mandates. And was hoping you could just speak to what you're seeing across the competitor set and your appetite or willingness to potentially offer better economics in response to increased competition from some of your peers.

JANE FRASER: I think you'll be delighted to hear that we're very focused on returns rather than just on revenues. So, when we enter into discussions with a partner who may be a new RFP for their portfolio or looking at new ones such as the one we just agreed with Dillard's, it's all about the returns and the profile of the business rather than the revenue side of things. And it's a shift probably from some other ways in the past, but I'm very pleased with how disciplined the team is being around this and we're seeing the benefits of it.

MARK MASON: Yeah. And that may be different from what you hear and see from other players in the space. But as Jane mentioned, we're keenly focused on ensuring that, yes, we have a good partnership, but that we're generating an appropriate return. That's part of achieving our medium-term targets. And as you know, since you brought up Retail cards, I mean, when we think about how CECL works and the reserves you have to establish for these partnerships, we're establishing full, lifetime reserves that's on the balance sheet where ultimately we end up splitting those through the partner sharing economics. So, it's another important consideration as we think about expanding and taking on these relationships and renegotiating partnerships to making sure that returns make good sense for us.

JANE FRASER: Yeah. And Mark and I have no problem saying no to revenue that doesn't come at the right returns and being very disciplined around that.

OPERATOR: The next question is from Vivek Juneja with JPMorgan. Your line is now open. Please go ahead.

VIVEK JUNEJA: Hi. Sorry, just to follow up on this whole consent order stuff, Jane. What do you think this does in terms of timing, how much longer for you to sort of get this past you? Are you talking couple of years? Is it now longer by a year? Any sense of that? Any sense of helping us think through that?

JANE FRASER: Look, in terms of the consent order and the areas we've had delays, there are four areas to the consent order. It's risk management, it's data governance, it's around compliance and it's around control. As we've said, we were falling behind in certain areas related to data and we've been investing to address the areas that we were behind. We also saw an increase in the scope related to regulatory reporting, so we added some more bodies of work there and we're well underway. So, we are not expecting this to extend the original expectations that we have on when we will complete the body of work for the consent order.

We have a target state for the different areas of it. We have the plan to achieve those target states. We'll make the investments necessary to ensure that we do so. We'll try and get this done as quickly, but as robustly as possible and we're doing this by making strategic fixes and investments rather than, what I would call, the old Citi way, which is a series of Band-Aids that remediate, but don't actually fix the underlying issue and that way, we are delivering for our shareholders as well as our regulators and our clients because we're putting in strategic solutions that will benefit all, but I'm not expecting this to change the timeframes.

VIVEK JUNEJA: Thank you.

OPERATOR: The final question comes from the line of Mike Mayo with Wells Fargo. Your line is now open. Please go ahead.

MIKE MAYO: Hi. Just two clarifications. So, this is a very high-profile amendment to the consent order. And I think what I hear you saying that if you can confirm, your risk compliance and controls are getting passing grade. It's really the data and as it relates to the data, you're talking about 11,000 regulatory reports, some which had 750,000 lines of data. Is that really the scope of what you need to fix? Because people see this externally and say, hey, you're failing in terms of overall controls and resiliency. But I think I hear you saying it's really more about just the data and the regulatory reporting, which is important, but more of a slice of a broader picture. Is that correct?

JANE FRASER: Yeah, Mike, maybe I just – maybe I – you're asking a great and it's an important question, so maybe I try and explain what the data elements because it's an area that Mark and I have pointed to. So, first of all, we use data all over the firm. We use it to deliver 72 million customer statements every month. Our corporate clients, as you heard about at our Services Investor Day, access account data real-time across multiple countries on CitiDirect. And we're moving $5 trillion roughly per day for those clients around the world. We trade billions of dollars in a millisecond on our trading platforms. We can see our liquidity positions real-time around the world. This can only be done if you've got pretty pristine data and highly automated ecosystems.

So, but what is the transformation doing? What it is doing is simplifying how data moves through the firm and it's about upgrading the management and governance over those flows. And as I've said, we're doing a strategic overhaul of large parts of our infrastructure, so what are we doing?

We're making sure we're capturing data accurately using smart tools and automation. We'll often talk about this smart system, makes sure there's no errors when we book a trade. We've seen our error rate down 85% as a result of it. We're housing our upstream data in two standardized repositories, they're the golden sources, an in-person data hub which you've heard me talk about a few times and they're a golden source now for all of the downstream data use, populating the thousands of regulatory reports Mark talked about and other areas. And what a single repository means is that the data models, the data quality rules, the controls you put in place that govern and manage that data, they all sit in one place rather than being distributed all over the firm as they have been historically.

Mark's been investing in building a standardized reporting infrastructure. You've heard us talk about a single full suite reporting ledger versus the six or so reporting ledgers that we had in the past. And we're delivering all of this through consolidated systems, through the automation and streamlining of data flows, so instead of being in multiple pipes, the flows go through single pipes. So, it's a, sorry to get a bit plumber on you for a moment, but I think it is important to understand what it is because it's a lot of work. It's a strategic overhaul. It's not a series of tactical fixes.

Where we're behind, as we do the work on data, we identify specific issues we need to fix as we execute the plan that we have in place. There's some more areas to address than we knew back when we did the plan and we've also accelerated the work on improving the accuracy of our regulatory reports and we increased the scope of this work as well. It's more comprehensive than originally planned.

So, what we're doing, we're adding resources and data experts. We're learning from best practices and we're using some great AI and other data tools that are helping to identify anomalies in data and data flows much more quickly. We're also, to some of the culture side, we're learning from pilots how do we accelerate broader deployment at scale across the firm in a consistent enterprise-wide manner. So, all of these things in the data side are going to enable us to leapfrog competitors, more revenue opportunities, better client service, fewer buffers, drive more efficiencies and hope at the end – the end goal here is it becomes a competitive advantage for the firm. That is the data plan.

Clearly, there's a very important element of it related to the consent orders. We're behind in a few areas. We're investing. We've already begun that investment, as Mark and I've talked about, to get it done. We'll get it done.

MIKE MAYO: Yeah, just to say real short follow-up to that. So you're doing all this great stuff, but you still fell short, just in like one sentence, despite doing all of this great stuff that you described, the regulator still said you didn't get it done. Why, after doing all that, didn't you get it done in the eyes of the regulators and why will it be fixed now? Just like a one sentence explanation for that if you have it.

JANE FRASER: I always said that a transformation of this magnitude over multiple years would not be linear. We have many steps forward. We have setbacks. We adjust, we learn from them, we move forward and we get back on track.

MARK MASON: And Mike, if I could just put one number into context because you played back the 11,000, which was a number of global regulatory reports across the landscape here. There are probably 15 to 30 that are core US reports that are pivotal to our US regulators and a lot of what we're discussing here is about ensuring that we're prioritizing the data that impacts those 15 to 30 reports as we work through this.

OPERATOR: There are no further questions. I will now turn the call over to Jenn Landis for closing remarks.

JENNIFER LANDIS: Thank you all for joining us. Please let us know if you have any follow-up questions. Thank you.

OPERATOR: This concludes Citi's Second Quarter 2024 Earnings Call. You may now disconnect.

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