



TTS as the Core - Shahmir Khaliq

Shahmir Khaliq:

Thank you, Paco. My name is Shahmir Khaliq and I am responsible for Citi's Treasury and Trade Solutions business.

I've been at Citi for almost 30 years, working in a variety of roles. Over the last couple of years, I've been part of the TTS management team, initially running Operations and Technology, and then overseeing the entire business starting this past year.

Prior to TTS, I ran the Direct Custody and Clearing business, and before that the Investor Services business in North America. I have also had leadership experience in banking, in country management, and cluster management in Europe. In all my time at Citi, I've been privileged to manage and grow a number of Citi's franchises across our global network.

A very warm welcome to you all, and thank you so much for joining us today.

TTS is an extremely important part of Citi's business. We historically have not put a big spotlight on TTS, but in many ways, TTS is the reason why we can call ourselves the world's most global bank. And it's going to be a very important part of our future. I want to spend the next 20 minutes walking you through what we do in TTS, how it truly distinguishes us from our peers, and how we're investing in the business to keep it growing and delivering excellence for clients.

Let's begin with a quick overview of the business. TTS enables clients to go global and help simplify the business of managing their treasuries, payments and commerce on a day-to-day basis. We are a business that generated more than \$9 billion of revenue in 2021, of which fees were \$3.5 billion. Our average deposits total \$664 billion in 2021. And TTS generated an ROTCE of 21% with an operating efficiency of 55%.

Our client base is broad and diverse. 18,000 clients operating across 95 countries, covering more than 90% of the Fortune 500 companies. Large corporate, public sector, and financial institutions represent almost 90% of our total revenue. The remaining revenues come from mid-market clients, which we have identified as a significant growth opportunity for us, and we will talk a little bit later about how we're going to build up opposition in this segment.

The one thing I should note, our business is diversified and entirely global. There is no regional revenue concentration, and 75% of total TTS revenues are generated by large institutional clients that engage TTS in at least five countries across our network.

In the next couple of slides, I will walk you through building blocks for TTS, along with our financial profile.

So TTS. TTS entails three integrated solution pillars: payments, liquidity management, and working capital solutions. We therefore are in the business of opening accounts, allowing clients to pay their suppliers and employees, collect money from their customers, manage their liquidity and working finance and finance supply chains. You can imagine how valuable all of these services have become for our clients. As the world continues to get smaller and more complex, an increasing number of companies expand beyond their current footprint. In fact, these days companies - many, many companies - are born global.

In most cases, we are the front door to Citi for large institutional clients, where we have nearly 10% market share. Our clients typically come to TTS first to open an account and build out their business models regionally or globally. This is particularly relevant and important for the clients we service in high growth e-commerce and digital sectors. All combined, it means TTS is an important generator of deposits and fee revenues for Citi. We represent nearly 50% of the bank's total deposit base and have significant fee income, which represents about 35% to 40% of our top line.

In addition, in almost all cases, our clients will engage with other parts of our franchise, such as FX, where our cross-border payment solution is fully integrated, advisory or capital market activities, including capital raising and hedging solutions.

Now, let me talk about the core capabilities that allow TTS to be successful for our clients. Our capabilities span the three solution pillars that I talked about earlier. With our on-the-ground presence in 95 countries and direct connectivity in almost every major clearing system, we have the largest proprietary payment network in the industry. This network connects into almost 270 value transfer systems worldwide, which is the last mile of our payment network. A payment that settles within the Citi network has the added benefit of richer data, payment tracking, and visibility, creating a superior client experience.

As we expand our network to include alternate payment methods, like mobile wallets and local instant payment schemes, we are enabling our clients to make payments as if there are no borders, currencies, or constraints. This network also naturally protects our clients against external market disruptions.

In terms of liquidity management, virtual accounts, notional pooling and cash concentration are key tools to help treasurers simplify their operating models around cash and operational maintenance. And we continue to expand our offering to additional markets.

We are also investing in our trade finance capabilities, which have become especially relevant during the pandemic, as clients move swiftly to reconfigure supply chains and manage working capital cycles. All of these capabilities come together through our industry-leading award-winning digital platforms, which include CitiDirect, which serves 90 countries across more than 140 currencies.

We also have our Citi Connect platform, which operates our APIs, host-to-host, file-to-file client connectivity, processing trillions of dollars of aggregate payments around the globe each year. These platforms allow us to provide data and analytics while connecting digitally into our clients' enterprise systems, thereby enabling long-lasting and recurring relationships. As a final point, we believe this network, created over decades, is almost impossible to recreate.

Now, let's spend some time reviewing TSS's financial profile over the last few years, starting with revenues. We have seen the resilience of the business throughout this low interest rate environment of the last several years. Indeed, if you exclude the impact of rates, our revenues have grown 25% since 2017. Fees have been an important contributor to this growth. Excluding commercial cards, which were clearly impacted by COVID travel but are bouncing back very strongly, fees have grown 28% since 2017 to \$3.5 billion. A significant driver has been the growth of our cross-border

business, driven by both clearing and cross-border payment volumes, including FX. With revenues in increasing almost 36% over the same period, from \$1.1 to \$1.6 billion.

Staying at the top of the slide, as you can see, TTS has a diverse revenue mix across liquidity management, payments and our trade business. Our deposit base has grown almost 45% since 2017.

Net interest income remained flat despite a significant reduction in rates over the last four years. We expect that as the rate environment normalizes, in addition to fees, rates should also drive revenues over the coming months.

We continue to manage our trade loan book very actively to ensure appropriate returns and capital usage. While overall average book has been managed close to a flat at \$65 billion, our clients are increasingly coming to us for supplier and receivable finance solutions, which have been growing at a 12% CAGR since 2017, and now represent almost half of our trade book. In short, the TTS business has been resilient and growing across the core drivers that we measure and is positioned very well.

Competition. The transaction services industry is a competitive space populated by banks and a growing number of fintechs. As I mentioned earlier, we are the market leader in the institutional segment with almost double the revenues of our next closest competitor. That segment represents \$100 billion wallet, which continues to grow. While we have considerable heft in the large institutional client space, we plan to replicate that in the mid-market segment, as clients look to go global and grow their business says cross-border.

In addition to banks, fintechs are a growing segment of competitors. As you can see on the page, fintechs generally tend to focus in specific verticals across the full value chain. But where Citi focuses is on structuring solutions that serve our clients end-to-end across the globe in an integrated fashion.

As a final point, I would add that our industry is unique. Not only do we compete with banks and fintechs, but they're also some of our biggest clients and partners. And I will talk about our business model covering fintechs and e-commerce companies very shortly.

As we work with our clients to develop solutions, our ability to win is grounded in the following five key attributes. First, our length of trusted relationships. Second, our integrated offering across payments, financing, and the broader institutional product sector that you heard about offered across our global network. Third, our teams of talented professionals on the ground with unmatched local knowledge. Then our experience and credibility with local market infrastructures and regulators. And lastly, having fintechs as both clients and partners have truly helped drive Citi's product offering to be truly best-in-class.

Now it's easy to put that on a piece of paper, but let me elaborate with a couple of examples. First, a large international energy company awarded us the mandate to manage their consumer digital collections in several European countries. The incumbent was a fintech company, but we won due to our deep relationship with this client and the strength of our product offering. Including not just collections, but also liquidity, financing, and analytics.

Another recent example is our provision of banking as a service to a large north American bank. We won the mandate with this client over multiple fintech competitors to make cross-border payments in 140 countries using APIs to create a fully digital 24/7 payment experience for their retail consumers.

Now, I could give you more examples, but I thought we would share a video perspective of one of our largest clients and their experience with Citi and TTS.

Ruth Porat:

At Alphabet and Google, we're always focused on our mission to organize the world's information and make it universally accessible and useful. And inevitably that brings a lot of complexity. We're operating new and often emerging markets. We're navigating various regulatory and operating environments on a daily basis. Citi helps ensure that our payments around the world are reliably flowing at the right time and in the right currency.

Scott Damassa:

Citi being connected to the world's financial clearing systems enables Google to get their products and organizing information out around the world.

Ruth Porat:

Citi was a really critical partner when we upgraded and established our global liquidity and in-house banking architecture a couple of years ago. And the expertise at Citi, the knowledge of industry best practices has really helped us implement a new structure that has streamlined our operations and resulted in more efficient working capital and cash management.

The experience and global reach at Citi enables conversations that really sharpen our thinking and how we go about the execution opportunities, which we value greatly.

Shahmir Khaliq:

A big thank you to Ms. Porat from Alphabet Google for sharing her thoughts with us today.

As we look to the future of TTS, we anticipate growth will come from existing clients and capitalizing on emerging opportunities. As I've said, we have almost 10% market share in the institutional client space. These are large and sophisticated clients who continue to grow their business, and we continue to acquire new clients. As a result, we expect to increase our wallet share by 50 to 75 basis points in the medium term.

We believe that we're in a great position to win, as we continue to strengthen our coverage and service model, continue to build more connectivity across ICG, and frankly expand our banking as a service model, particularly for fintechs and payment intermediary clients. We also see new opportunities to grow our client in the mid-size corporates, marketplaces and fintechs that serve small and mid-size businesses, or SMBs, as they are known. We believe that many of these clients will become global at a faster pace and will be faced with the same cross-border needs in exactly the same way our institutional clients do.

Over the past three years, we have grown more than 15% CAGR in the number of clients in the marketplace and SMB segment. We will continue our successful partnership with Citi's corporate bank and match TSS capabilities to emerging mid-size corporates via our commercial bank. We expect that such a strategy should allow us to increase our current 0.5% wallet share in the mid-market space by at least 50% in the medium term.

To continue our growth trajectory, we're focused on investing capital and resources in five critical pillars. As a reference point, before I talk about those pillars, our tech budget for 2022 is approximately a billion dollars, which is an increase of almost 40% versus 2020.

First, we keep investing in the right set of integrated solutions, including rolling them out in key geographic locations. There are clear synergies between our payment, liquidity management and working capital products, which allow us to serve our client needs end-to-end.

Second, we believe client experience is an absolute must win battle for us. For example, while we've recently won Coalition Greenwich's 2021 Digital Banking Award for the 16th consecutive, we

continue to roll out our reimagined next generation platform and expect to have it completed in the next 18 to 24 months.

Innovation, this is critical to our commitment to choices and payment ubiquity. It is why we are actively involved in efforts around the globe, engaging with central banks on commercial bank digital currencies, or CBDCs. In addition, we're developing proof of concepts in digital assets, including tokenization of deposits and on and off-ramp capabilities in order to provide network interoperability for fiat currencies and digital money. TTS is also continuing its push to connect with all major global, regional and domestic wallets around the globe.

Fourth, tech platforms. We continue investing in our infrastructure to make it far more scalable, nimble, frictionless, and resilient. This is critical, especially in a world where instant payments, 24/7 B2C and C2B are absolutely mission critical and key for our clients.

Lastly, and probably most importantly, talent. We have hired several seniors in the organization over the last few years, and we've promoted a number of Citi high potentials into leadership roles, while also adding senior outside talent with complimentary skills. We feel pretty good with how we are positioned today, and as we look forward, we will continue to add forward-thinking competency to our talent bench.

I would like to spend some time focusing on one particular segment and trend, e-commerce. Global retail e-commerce has exploded during the pandemic. As the go-to bank for e-commerce and fintech around the globe, we have been a strong beneficiary of this growth.

As I mentioned earlier, we continue to invest in solutions that are required by e-commerce companies across the entire integrated product spectrum. In 2021, we generated close to a billion dollars in revenue, servicing 250 of the world's just e-commerce companies and around 200 of the largest fintechs. For both e-commerce and fintech companies, our fees grew at double-digit CAGR over the last four years. Our aspiration is to build on this trajectory, given how we see the industry and our pipeline evolving. We have also built out a new global e-commerce solutions coverage team at Citi with presence across all the major hubs and further strengthened our existing fintech coverage team.

In summary, we believe TTS is well positioned to continue to lead in the 21st century. We will continue to drive share with our existing clients, while also adding to our momentum in the e-commerce and mid-market space. We continue to invest in technology and talent to maintain and grow our leadership in the industry. That should result in sustained growth in fees, loans, and deposits, thereby generating high single-digit growth in our top line while maintaining an ROTCE above 20%.

Thank you once again for your time. Now we will go to a short break. And when we come back, you will hear from Tasnim Ghiawadwala, our Commercial Bank Head. Thank you.