TRANSCRIPT

Citi Second Quarter 2025 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 2025 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 2025 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 a very good morning to everyone. This morning, we reported another very good quarter with net income of $4 billion and earnings per share of $1.96 with an RoTCE of 8.7%. Revenues were up 8%, and three of our five businesses had record second quarter revenues. We again had positive operating leverage at each business and the group level.

We continue to demonstrate that our strong performance is sustainable through different environments. In April, I had said that we were ready to lean in despite the lack of clarity of that moment and indeed we have. We are executing our strategy with discipline and intensity. We are improving the performance and returns of each of our businesses, whilst advancing their strategic positions and share. And we are making significant progress on our transformation.

Turning to our five businesses. Services continues to show why this high-return business – with 23% RoTCE for the quarter- is our crown jewel. Revenue was up 8%, with robust growth in both loans and deposits. Underlying fee drivers such as cross-border activity and U.S. dollar clearing grew nicely and we grew our AUCA to over $28 trillion.

Markets revenues were up 16% - the best second quarter since 2020. In Fixed Income, the flows we saw in Rates and Currencies were particularly strong, backed by client momentum, including hedging activity, as well as improved monetization. Equities had the best second quarter ever as our Prime Balances hit a record.

With sentiment improving significantly as the quarter progressed, Banking revenues were up 18%. We continue to be at the center of some of the most significant transactions including serving as the exclusive advisor to Boeing on the $11 billon sale of Jeppesen and as lead advisor to Nippon Steel on their $15 billion acquisition of U.S. Steel. Halfway through the year, we have been involved in seven of the top ten investment banking fee events.

In addition to sustained momentum in M&A, we continue to take share in leveraged finance and with sponsors, a priority area. We also took share in Equity Capital Markets, with convertibles fueling a strong quarter.

Wealth delivered a pre-tax margin of 29% as revenues were up 20%, with each line of business growing significantly, and non-interest revenue up 17%. Whilst we have had 9% organic growth over the last year in net new investment assets, we did see inflows slow this quarter as clients were cautious amidst macro uncertainty. We are confident we will see a pick-up here as markets have recovered.

In USPB, we grew revenues by 6%, as we continued to focus on product innovation, digital capabilities and the customer experience. We saw significant growth in Branded Cards whilst Retail Services was pressured by lower sales activity at our partners. And we continue to feel good about the quality and mix of our portfolio as well as our healthy level of reserves. And Retail Banking had a very good quarter underpinned by improving deposit spreads.

During the quarter, we returned over $3 billion in capital to our common shareholders, which includes $2 billion in share repurchases. On a year-to-date basis, we repurchased $3.75 billion of shares as part of our $20 billion repurchase plan. We ended the quarter at a Common Equity Tier 1 Capital ratio of 13.5%, 140 basis points above our current regulatory requirement.

We were pleased with the results of our recent stress test. We are well positioned to continue to increase the return of capital to our shareholders through buybacks, which is a priority for us, as well as an increased dividend of sixty cents per share, beginning in the third quarter.

The results of the recent stress test also show how we have derisked the company by implementing a more-focused business model which includes divesting our international consumer businesses, with Poland, our last remaining sale, expected to close next year.

I am particularly pleased that the momentum across our franchise includes the transformation as well. The investments we have made are improving our risk and control environment. Many of our programs are at or near target state, and we are making good progress in the remaining areas.

We continue to focus on streamlining processes and platforms and driving automation to reduce manual touchpoints. We are also increasingly deploying AI tools to support these efforts in areas such as data quality, and we remain on track with our data plan. And, as all of this work progresses, we are confident that our transformation expenses will start to decrease next year.

But transformation is hardly the only recipient of investment. We continue to make investments that enhance the competitiveness of our businesses.

For example, we aim to deliver the benefits of advancements in stablecoin and digital assets to our clients in a safe and sound manner by modernizing our own infrastructure and improving efficiency, transparency and interoperability for our clients.

As the leading global bank in this space, we are laser-focused on innovations which enable clients to access real-time 24/7 payments, clearing and settlement across borders and across currencies. Citi Token Services, our leading digital asset solution, is now live in four major markets with more to come and has processed billions of dollars of transactions since its launch.

In Markets, investments in our trading platforms have allowed us to handle record volumes with ease. In Wealth, our partnership with iCapital will provide an end-to-end solution for our alternative investment offerings.

As you saw with the American Airlines extension and the refreshed Costco Anywhere Visa Card, we are investing in our cards portfolio to deliver more value for our cardholders. And later this quarter, we will introduce a new proprietary premium credit card, Citi Strata Elite, to our rewards family of products to expand our offerings for affluent customers.

In terms of investing in talent, our momentum and value proposition continue to attract great leaders across the firm, as you have seen recently in Banking and Wealth. Just as importantly we are giving our talent the tools and resources to compete and to win.

Now let's turn to the environment. Well, it has proven to be more resilient than most of us anticipated. But we aren't dropping our guard as we begin the second half of the year. We expect to see goods prices to start ticking up over the summer as tariffs take effect, and we have seen pauses in cap ex and hiring amongst our client base.

All of that said, the strength of the U.S. economy, driven by the American entrepreneur and a healthy consumer, has certainly been exceeding expectations of late. As I have been speaking to CEOs, I have yet again been impressed with the adaptability of our private sector, aided by the depth and breadth of the American capital markets.

I believe our results over the past year will help you see why we have been so confident in our trajectory. Our people have been performing with excellence in an unpredictable macro environment, and I am so proud of them.

The need for what we can uniquely provide for clients remains in high demand, and we will continue to deliver for them through our 'One Citi' approach through the second half of the year and beyond. Our Wealth business is now starting to truly benefit from not only our Retail Bank but our global network. By aligning client coverage and deploying credit more strategically, we're deepening relationships with asset managers and private markets clients across Services, Markets, Banking and Wealth. Importantly, we are gaining share of mind as well as share of wallet.

We will remain relentlessly focused on execution. As I have said, next year's 10-11% RoTCE target is a waypoint, it's not a destination. The actions we have taken have set up Citi to succeed long term, drive returns above that level and continue to create value for shareholders.

With that, I will turn it over to Mark and then we would be happy 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 unless I indicate otherwise, and then review the performance of our businesses in greater detail.

On slide 6, we show financial results for the full firm. This quarter we reported net income of $4.0 billion, EPS of $1.96 and an RoTCE of 8.7% on $21.7 billion of revenues, generating positive operating leverage for the firm and each of our five businesses. Total revenues were up 8%, driven by growth in each of our businesses partially offset by a decline in All Other. Net interest income excluding Markets, which you can see on the bottom left side of the slide, was up 7%, driven by Services, USPB and Wealth, partially offset by a decline in Corporate/Other. Non-interest revenue excluding Markets were up 1%, as better results in Banking and Wealth were offset by declines in Legacy Franchises and USPB. And total Markets revenues were up 16%.

Expenses of $13.6 billion, were up 2%. Cost of credit was $2.9 billion, primarily consisting of net credit losses in U.S. cards as well as a firmwide net ACL build, driven by Services, Banking and Legacy Franchises.

Looking at the firm on a year-to-date basis. Total revenues were up 5%, driven by growth in each of our five businesses partially offset by a decline in All Other. And expenses were down 1%. As we generated positive operating leverage for the firm and each of our five businesses and reported an RoTCE of 8.9%.

On slide 7, we show the expense trend over the past five quarters. The expense increase this quarter was driven by higher compensation and benefits, largely offset by lower tax and deposit insurance costs as well as the absence of civil money penalties in the prior year. The increase in compensation and benefits was driven by higher severance, primarily related to the realignment of our technology workforce, volume and other-revenue related expenses, and investments in transformation and technology, with productivity and stranded cost reduction partially offsetting continued growth in the businesses. As we've said in the past, we are very focused on bringing down our expense base through reduction of stranded costs and productivity savings. Both of which allow us to self-fund our additional investments in transformation, technology and the businesses.

On slide 8, we show key consumer and corporate credit metrics. At the end of the quarter, we had $23.7 billion in total reserves with a reserve-to-funded loans ratio of 2.7%. Approximately 85% of our card portfolio is to consumers with FICO scores of 660 or higher, and our reserve to funded loan ratio in the card portfolio was 8.0%. And it is worth noting that we are seeing an improvement in our card credit trends. Looking at the right-hand side of the slide, you can see that approximately 80% of our Corporate exposure is investment grade including international exposure of which approximately 90% is either investment grade or exposure to multinationals and their subsidiaries. And on the bottom right side of the slide, you can see that our Corporate non-accrual loans increased in the quarter, resulting from idiosyncratic downgrades, but remain low. We feel good about the high-quality nature of our portfolios, which reflect our risk appetite framework and our focus on using the balance sheet in the context of the overall client relationship.

Turning to capital and balance sheet on slide 9, where I will speak to sequential variances. Our $2.6 trillion balance sheet increased 2%, with growth in cash and loans, partially offset by lower trading-related assets. End-of-period loans increased 3% primarily driven by Markets and USPB. Our $1.4 trillion deposit base remains well-diversified and increased 3%, driven by Services. We reported a 115% average LCR and maintained over $1 trillion of available liquidity resources. We ended the quarter with a preliminary 13.5% CET1 Capital ratio, which incorporates a 100 basis point management buffer and is 140 basis points above our current regulatory capital requirement of 12.1%. As we announced earlier this month, under the current Stress Capital Buffer framework for the Standardized Approach we would expect our regulatory capital requirement to decrease from 12.1% to 11.6%, which incorporates the expected reduction in our SCB from 4.1% to 3.6%.

That being said, we await the finalization of the Federal Reserve's proposed rulemaking to reduce variability in the SCB, which includes averaging results from the previous two consecutive years and modifying the annual effective date from October 1 to January 1. If the averaging were to be implemented as the proposal is written, we expect our SCB to be 3.8%. And as a reminder, we announced an increase to our quarterly common dividend to sixty cents per share following the SCB results, effective in the third quarter. Overall, we were pleased to see the improvement in our DFAST results and the corresponding reduction in our SCB for the second consecutive year. Even with these reductions, we remain very focused on efficient utilization of both Standardized and Advanced RWA.

Turning to the businesses on slide 10, we show the results for Services in the second quarter. Revenues were up 8%, driven by growth across both TTS and Securities Services. NII increased 13%, driven by an increase in average deposit and loan balances, as well as higher deposit spreads, partially offset by lower loan spreads. NIR was down 1%, as continued growth in fees was more than offset by higher lending revenue share.

We continued to see strong activity and engagement with corporate clients and momentum across most underlying fee drivers, including cross border transactions, assets under custody and administration and U.S. dollar clearing, with total fee revenue up 6%, which we've included on the bottom left side of the slide.

Expenses declined 2%, driven by the absence of tax- and legal-related expenses in the prior year, largely offset by higher compensation and benefits, including severance, as well as technology costs. We continue to make investments in our platform and products to win new clients and deepen with existing clients.

Cost of credit was $353 million, driven by a net ACL build of $333 million, primarily related to transfer risk associated with our clients' activities in Russia. Average loans increased 15% driven by continued demand for trade loans globally as our clients expand their operations and suppliers. Average deposits increased 7%, with growth across both International and North America largely driven by an increase in operating deposits. Services generated positive operating leverage for the fourth consecutive quarter and delivered net income of $1.4 billion with an RoTCE of 23.3% in the quarter and 24.7% year-to-date.

Turning to Markets on slide 11. Revenues were up 16%, driven by growth across both Fixed Income and Equities. Fixed Income revenues increased 20%, with Rates and Currencies up 27%, reflecting increased client activity and monetization across both corporates and financial institutions. Spread Products and Other Fixed Income was up 3%, driven by higher financing activity and loan growth partially offset by lower Credit Trading.

Equities revenues were up 6%. Excluding the impact of the Visa B exchange offer in the prior year, Equities revenues were up over 35% with solid growth across all products, driven by momentum in Prime Services with record balances up approximately 27%, as well as higher client activity and volumes in Cash Equities, and strong monetization of market activity in Derivatives. Expenses increased 6%, largely driven by higher volume and other revenue-related expenses. Cost of credit was $108 million, driven by a net ACL build of $100 million due to changes in portfolio composition, including exposure growth. Average loans increased 14%, driven by financing activity in Spread Products. Markets generated positive operating leverage for the fifth consecutive quarter and delivered net income of $1.7 billion with an RoTCE of 13.8% in the quarter and 14.0% year-to-date.

Turning to Banking on slide 12. Revenues were up 18%, driven by growth in Corporate Lending and Investment Banking partially offset by the impact of mark-to-market on loan hedges. Investment Banking fees increased 13%, with growth in M&A and ECM partially offset by a decline in DCM. M&A was up 52% with gains across a multitude of sectors and with financial sponsors. ECM was up 25% with strength in convertibles and IPOs as markets stabilized late in the quarter. And while DCM was down 12%, as our investment grade volumes decreased, versus very strong performance in the prior year, we continued to gain share in Leveraged Finance.

Corporate Lending revenues, excluding mark-to-market on loan hedges, increased 31% primarily driven by the impact of higher lending revenue share. Expenses were up 1%, as higher volume and other revenue-related expenses and continued business investments were primarily offset by benefits of our prior actions to right-size the workforce and expense base. Cost of credit was $173 million, which included a net ACL build of $157 million, primarily driven by changes in portfolio composition, including sequential growth in lending. Banking generated positive operating leverage for the sixth consecutive quarter and delivered net income of $463 million with an RoTCE of 9.0% in the quarter and 9.8% year-to-date.

Turning to Wealth on slide 13. Revenues were up 20%, with growth across Citigold, the Private Bank and Wealth at Work. NII, which you can see on the bottom left side of the slide, increased 22%, driven by higher deposit spreads partially offset by lower mortgage spreads and lower deposit balances. NIR increased 17%, driven by an $80 million gain on the sale of our Alternatives fund platform to iCapital, as well as higher investment fee revenues, as we grew client investment assets by 17%. Expenses were up 1%, as higher volume and other revenue-related expenses, episodic items and severance were primarily offset by benefits from continued actions to right-size the expense base and lower deposit insurance costs. End-of-period client balances continued to grow, up 9%. Average loans declined 1%, as we continue to be strategic in deploying the balance sheet to support growth in client investment assets. Average deposits declined 3%, driven by taxes and other operating outflows as well as a shift from deposits to higher-yielding investments on our platform, partially offset by client transfers from USPB, reflecting our ability to support clients as their wealth and investment needs evolve. Wealth had a pre-tax margin of 29%, generated positive operating leverage for the fifth consecutive quarter and delivered net income of $494 million with an RoTCE of 16.1% in the quarter and 12.8% year-to-date.

Turning to U.S. Personal Banking on slide 14. Revenues were up 6%, driven by growth in Branded Cards and Retail Banking, partially offset by a decline in Retail Services. Branded Cards revenues increased 11%, driven by net interest margin expansion and growth in interest-earning balances, which were up 7%. We continue to see growth in spend volume, which was up 4%. Retail Banking revenues increased 16%, driven by the impact of higher deposit spreads. And Retail Services revenues declined 5%, largely driven by higher partner payments due to lower net credit losses. Expenses were up 1%. Cost of credit was $1.9 billion, driven by net credit losses in cards. Average deposits declined 3%, as net new deposits were more than offset by client transfers to Wealth that I mentioned earlier. USPB generated positive operating leverage for the eleventh consecutive quarter and delivered net income of $649 million with an RoTCE of 11.1% in the quarter and 12.0% year-to-date.

Turning to slide 15, we show results for All Other on a managed basis, which includes Corporate/Other and Legacy Franchises and excludes divestiture-related items. Revenues declined 14%, with declines across both Corporate/Other and Legacy Franchises. The decline in Corporate/Other was driven by lower NII resulting from actions we have taken over the past few quarters to reduce the asset sensitivity of the firm in a declining rate environment. Legacy Franchises was driven by the impact of Mexican peso depreciation, expiration of TSAs in our closed exit markets and continued reduction from our wind-down markets, largely offset by underlying growth in Banamex. Expenses increased 8%, with growth in Corporate/Other, which included higher severance, largely offset by lower expenses in Legacy Franchises. And cost of credit was $374 million, largely consisting of net credit losses of $256 million, driven by consumer loans in Banamex.

Turning to the full year 2025 outlook on slide 16. Given the strong performance in the first half of the year, we now expect to be at the higher end of our full year revenue range, around $84 billion, with net interest income, excluding Markets, up closer to 4%. As it relates to expenses, as a reminder, both the level of revenue and the mix of revenue inform and impact our expense base, which we expect to be around $53.4 billion this year. However, if revenues were to come in above $84 billion, we would expect expenses to come in higher as well, commensurate with the increase in revenues.

And as a reminder, currency fluctuations may impact both revenue and expenses in the balance of the year but tend to be roughly neutral to earnings. In terms of credit, given the improvement we have seen in both delinquency and net credit loss rates in both our cards portfolios, we expect net credit losses to be within the range of 3.5% to 4% for Branded Cards and 5.75% to 6.25% for Retail Services. And the ACL will continue to be a function of the macroeconomic environment and business volumes.

Now turning to capital, we remain committed to repurchasing shares each quarter under our $20 billion share repurchase program and expect to buy back at least $4 billion this quarter. That said, going forward you should not expect us to provide precise buyback guidance on a quarterly basis. As we take a step back, the performance in the quarter, and so far, this year, represents significant progress towards our goal of improved firmwide and business performance. We are proud of what we have accomplished, and we are well on our way to delivering the full power of our franchise. We remain steadfast and focused on executing on our transformation, achieving our RoTCE target of 10 to 11% next year and further improving returns over time.

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

OPERATOR: Our first question will come from Jim Mitchell with Seaport Global Securities. Your line is now open. Please go ahead.

JIM MITCHELL: Oh hey, good morning, Jane and Mark. So, Jane, you've talked about next year's 10% to 11% RoTCE target as a way point, you've said that a few times now, so, I know you're not going to give any hard targets for 2027, but can you give us a sense of what you think the long-term return profile could look like, roughly, and what you see as the key drivers to higher returns beyond 2026?

JANE FRASER: Yeah, I would be delighted to do so. And you're right, I'm not going to be giving a target at this juncture. I feel very confident about our path forward. I think you can see this quarter, the firm is firing on all cylinders. We have the confidence of the right strategy. We're uniquely positioned to support our cross-border clients. And Mark and I both feel very pleased about how it's all coming together, both within and across the five businesses. We brought this simpler, yet diversified business model, we're in a strong financial position, we feel very good about the leadership team, and we've got those hard and strategic decisions behind us so we can be on the front foot.

So, I feel confident, first of all, about the target for next year. But as I've said, the 10% to 11% target, it's this way point. It's not the destination. And we're managing the firm for the longer term with a good trajectory. And there are three drivers of higher long-term returns: revenues, expenses and capital. Mark, I'll take revenues. I'll hand to you on the expense and capital front.

So, on the revenue growth, you've seen us grow very steadily over the past few years in a, let's call them, a variety of different macro environments. This quarter is a strong continuation of that. As I'm looking forward, Banking, we've talked about continued share growth, I think we're very pleased with the M&A front, the pipeline is excellent. And the associated revenues around rate activity on the episodic front, I think, the linkage between Banking and Markets there is particularly pleasing.

With Services, we will just continue growing with new clients and with existing clients. We pointed to very strong new client wins this quarter, a lot of new suppliers we've been bringing on, but also the new product innovations. I'm sure we'll talk about digital assets at some point on this call. So, I feel very good about the crown jewel continuing to deliver.

In Wealth, we've got great investments runway, and just huge upside. You can tell the excitement from Andy and the team from our existing clients, the famous $5 trillion, as well as the opportunity with the new opportunity with the new wealth creators, we're very much that private bank for the progress makers in the world.

In Markets, great quarter. But Equities, I think the piece I like here is that we've now got that second leg to the strength that we have in derivatives, which is in prime. That platform is scaled, we're continuing to invest in it. It's got very high return, marginal return that comes with the growth. So, we expect to see us continue there. And volatility is going to – I suspect, to be a feature, not a bug, of the new world order, and we will benefit from that. And again, in Markets, the private market space, as capital market evolves, is an area our financing business is very well positioned. Again, strong connectivity with Banking here for us to continue to grow, take share, and help participate in, not to mention FX options.

And then finally U.S. Personal Banking, we've got a wonderful relationship with American Airlines. We've got a very exciting 2026 lined up. And you've seen us with new product innovations this year with the Strata Elite coming out later in the quarter. Retail Banking, again, really hitting its stride now and feeding both Wealth, but also the broader NAM franchise. So, I feel good on the revenue side. But, Mark, let me pass to you.

MARK MASON: Yeah. So, key point, obviously, revenue momentum. Another key point is continued expense discipline. And I think you've seen that through the first half and obviously the targets we've set for 2025. But that continues in 2026 and beyond. The drivers there are likely to be continued reduction in severance. We talked about 2025 having a sizable severance estimate in our forecast. The transformation expenses, which are going up in 2025, will trend down over time. The stranded costs, which have been coming down, we've brought stranded costs down by about $3 billion. There's still about $1.2 billion left. That will trend down over the next couple of years. And then continued productivity, some of which will be enabled by AI that Jane mentioned earlier.

So, those are a number of the drivers that we think will contribute to the continued expense discipline. And I use discipline intentionally because in order to capture that revenue momentum that we've seen in the first half and that Jane outlined as drivers of the forward-look, it's going to require continued investment. And so, part of our responsibility is going to be driving efficiencies while making investments that allow for us to play for the longer-term returns and better serve our clients. So, revenue momentum, expense discipline, and then finally capital and continuing to be efficient about how we use our risk-weighted assets and capital. And you heard me mention earlier us increasing our buybacks to $4 billion, at least $4 billion in the quarter, and we'll continue to be good stewards of our capital as we manage through 2026 and beyond.

JIM MITCHELL: Okay. Well, that's a very fulsome response. I appreciate it.

MARK MASON: You didn't have another question, Jim, did you?

JIM MITCHELL: Well, I did have one little follow-up on the revenue forecast for this year, the guidance. I appreciate going to the higher end. But I guess if I look at first half, $43.3 billion, to get to $84 billion, you're dropping $2.5 billion in the back half. I think last year, you kind of fell half that. So, is there something we should be thinking about? Is it just being cautious? There is seasonality, I know, in Markets. Just trying to think through why the big step-down in the second half, given the momentum.

MARK MASON: Sure. I'll keep it brief. Look, I think we did have a very strong first half. There was obviously a great deal of uncertainty and volatility that we managed through and helped our clients manage through. The second half does seasonally tend to be softer than the first half. We're certainly estimating that as we think about the $84 billion in the high end of that range that we've moved you to. That would include a Markets second half that is down generally consistent with what we've seen historically versus the first half. Obviously, if there's increased volatility and repositioning that investor clients want to take on the heels of that, we'll see how that plays out, but that's an important factor that's playing through in the $84 billion.

And then on the NII ex-Markets part, we do expect to see continued loan growth and operating deposit growth play through in a rate environment that is probably with fewer cuts than we expected originally. But the short of it is that we have factored in some normal seasonality in the second half juxtaposed against the first that's driving us to the high end of the range.

OPERATOR: Our next question comes from the line of come from Erika Najarian with UBS. Your line is now open. Please go ahead.

ERIKA NAJARIAN: Yes. Hi. Good morning. My first question is on capital. Mark, I appreciate that you're moving away from the quarterly buyback guide. I'm wondering. Two questions. One, is 13.1% still at the right level in terms of the year-end target as we think about regulatory reform and SCB relief? And additionally, you're operating in a 140-basis point buffer. As we think about a regulatory reform construct that's supposed to reduce volatility in the capital minimum, when do you think is the right time to readdress that buffer?

MARK MASON: Sure. So, look, in terms of the target for the end of the year, I think it's important, as I said in the prepared remarks, to acknowledge that, one, we've seen our SCB come down in the most recent DFAST results for now a second year in a row. With that said, there's still some uncertainty as to what the SCB will ultimately be, the reduction will be, depending on whether it's an average of the last two years or not, as well as the timing for it, so whether that will be the normal or historical October 1 date or whether that will move to January 1. And both of those factors impact the answer to your question in terms of whether there's – whether the 13.1% is still the year-end target or whether it's something different from that.

And so, until we get clarity on that, we are continuing down the path of returning as much capital as we originally had planned for when I set that target. And as we get clarity, we will adjust accordingly. But I think importantly, what you see is us pulling forward buybacks as much as we can as early as we can, while obviously being responsible about it and taking advantage of the fact that we're still trading below book value, and it makes sense to do that. So, that's how I think about the 13.1%. What I will say is, regardless of the outcome of averaging or the start of the new SCB level, it does afford us more flexibility in the way of how much capital we have to buy back or redeploy, and we'll continue to kind of assess that.

In terms of the management buffer, we look at that on a regular basis, as I've told you in the past. It's an internal management buffer, it's sized in part with how we think about volatility in RWA, in AOCI, as well as variability in the SCB. We're pleased with the direction and tone that we're hearing from D.C. in terms of looking at capital in a more holistic way. And as we continue to get clarity on that, we'll continue to assess how much of a management buffer is required. In the meantime, we're still running it at the 100 basis points.

ERIKA NAJARIAN: And my second question is, I know how important it is to work on lifting that 2020 OCC consent order. And I'm wondering as we think about some of the costs associated with transformation, is there a way to size if the consent – when the consent order is lifted, what expenses that could be freed up to reallocate to the rest of the company? And I know you've talked about this with investors in the past, and you had another peer that had talked about freeing up expenses as consent orders were resolved. I'm wondering if you could just give us a little bit more clarity here.

MARK MASON: Well, first, I'd say, as Jane said in her prepared remarks, we're pleased with the progress that we're making around the transformation work. And there are a number of aspects of that that are at their target state, which is a – which I think is a very, very positive sign. I think I've said before that we've spent – last year, we spent about $3 billion investing in the transformation work and that I expected that we'd have a meaningful increase in that spend in 2025. We are seeing that increase. But I do expect that, as we go into 2026 and beyond and as programs are completed and validated and proven to be sustainable and vetted by the regulators, that we will start to start to see that spend come down in 2026 and beyond. And we'll also to see some of the benefits from those investments help to reduce our underlying operating costs.

And the final point I'd make is that we're not just looking at these investment dollars without teasing out opportunities to extract efficiencies from them. And what I mean by that is, when we talk about applying AI tools to the work that we do on a day-to-day basis, that includes the work that we have to do in executing against our transformation and remediating the consent order concerns. And so, there, too, are efficiencies and how we go about doing that, again, all of which will help to drive down cost in 2026 and beyond.

JANE FRASER: I'd just reemphasize, you don't need to wait for a consent order to be lifted to bring the expense down. You get the work done, you go into sustainability, you hand the work over the regulators, and then they make a determination. So, don't just think this only happens when orders are lifted.

OPERATOR: Our next question comes from Ebrahim Poonawala with Bank of America. Your line is now open, please go ahead.

EBRAHIM POONAWALA: Hey, good morning. I guess just wanted to follow up, Mark, on the capital question. Just talk to us as we think about, and I appreciate what you just said, but when we think about the binding constraint from Standardized to Advanced, how we should think about it? And are there actions, we saw in SRT trade that, I think, executed in June, just what are the avenues to optimize the capital stack so that Advanced doesn't become a binding constraint for Citi? Any perspective would be helpful there. Thanks.

MARK MASON: Yeah. I think the first thing I'd say is that, today, our Standardized CET1 is our binding constraint. The second thing I'd point to is that you've seen us be very disciplined over the past couple of years at managing our risk-weighted assets on a Standardized basis and optimizing the use of them, particularly in areas like Markets to ensure that we're getting the best return for the deployment of those risk-weighted assets.

And that is also true for how we think about Advanced. As the gap between the two narrows, we're equally focused on how do we ensure that we're using risk-weighted assets on both a Standardized and Advanced basis as efficiently as we can. And so, we're mindful of how tight they're running. Standardized is still the binding constraint. But as we look at the businesses and activities that we do, we're making sure that we drive for that greater efficiency from those two metrics.

But there are multiple reasons why there's a difference between Standardized and Advanced RWA. They have to do with how each framework treats certain credit portfolios, whether it be consumer or wholesale. Standardized tends to be more punitive to the mortgage book. Advanced is more punitive to international wholesale exposures. And so, we're mindful of those things as we drive towards kind of the efficient use. But we're also mindful that the regulatory landscape continues to evolve. And who knows, Advanced under Basel III was supposed to be down a path of retirement. We want to be thoughtful about how we manage the two metrics so that we aren't compromising the strategy for a metric that may be temporary. Again, pleased with the tone in D.C. in terms of looking at things holistically, and looking forward to some speedy advancement as it relates to the outcome of their reviews.

EBRAHIM POONAWALA: Helpful. And I guess, I think Jane alluded to this, on stablecoins, there is a lot of focus on how stablecoins could be used for treasury management, global liquidity management. If you could double-click on that in terms of how you're already using these internally? And do you view disruption risk to Services revenues tied to increased adoption of stablecoins? Thank you.

JANE FRASER: Yeah. Look, digital assets are the next evolution in the broader digitization of payments, financing and liquidity. I view it just as we were seeing a change with fintechs a few years ago. Ultimately, what we what we care about is what our clients want and how do meet that need. What our clients want is multi-asset, multibank, cross-border, always-on solutions provided in a safe and sound manner with as many of the complexities sold for them. That's like a compliance accounting, reporting, et cetera. And that's what we do. We are the global leaders enabling clients to move money cross-border, and digital asset solutions complement our existing product suite. So, we're well-advanced in developing our digital asset capabilities.

You've heard me talk a lot about Citi Token Services and a slew of other innovations. What they do is they let us modernize our own business where needed. They grow new revenue streams for us and also allow us to acquire new clients. So, when I look at the stablecoin side, so four main areas that we're exploring, reserve management for stablecoins, the on- and off-ramps from cash and coin backwards and forwards. We are looking at the issuance of a Citi stablecoin. But probably most importantly is the tokenized deposit space where we're very active, and then also providing custodial solutions for crypto assets. So, this is a good opportunity for us.

OPERATOR: Our next question comes from Mike Mayo with Wells Fargo. Your line is now open, please go ahead.

MIKE MAYO: Hi. Just one specific question on the transformation costs. What were they for the second quarter? I'm just trying to get a run rate and where those go to?

MARK MASON: Yeah. I didn't, I haven't broken them out here for the second quarter, Mike. What I will say is what I said already, which was we had $3 billion last year. We're increasing that meaningfully in the year, and we obviously saw some of that increase play through the first and second quarter and expect to see a bit more of it in the third and fourth before trending down in 2026.

MIKE MAYO: Okay. And the stranded costs, you said you have just $1.2 billion left of those?

MARK MASON: Yeah. The proxy, if you look at the All Other page in the bottom right-hand side, it gives you a little bit of a proxy for that. The second quarter expenses, look at closed or signed markets, about $100 million. The wind-down, sale and other is about $200 million. So, call it $300 million a quarter that we have that we're continuing to push and drive out of the place. It's probably a little bit once a Banamex or Mexico deal is signed, but the good proxy is about $300 million that we're still working to drive out.

MIKE MAYO: All right. And then separately, maybe this is for Jane. I guess, what I'm thinking, not the consent order, but when the amended portion of the amended consent order comes off, and I know you can't answer that directly. But what is it you're trying to show to regulators to help show them that the amended portion of the consent order no longer needs to be there? I mean, when you look at the substance, the org simplification is done. The exits are mostly done. The modernization, you've made progress in the two decades since stuff didn't happen. The management restructuring done to five lines of business. And you said the data plan is on track, or as I guess it wasn't necessarily on track before. So, what does it take to get that amended portion taken off, or what are you trying to show regulators?

JANE FRASER: Well, I would say that we're focused on making sure that we can close the consent orders, not just the amended portion. The amended portion is a, what it says, it's a resource review plan to make sure that we've got the resources that are required to, for the progress that we're making and for the completion of the work. And I would just take the opportunity, Mike, just to reinforce that I feel very good about the progress we've made and our trajectory. We are now at or mostly at Citi's target state for the majority of the programs. You can see that in the scorecard we laid out, the important areas like end-to-end risk management life cycle, compliance risk management. We've got a new forecasting engine for the reso requirements.

Once you're in the target state, you then have to ensure the programs run sustainably, they deliver the desired reduction. That takes a bit of time before we then hand them over to the regulatory review process. And on data, we're early in remediation work following the step back we took last year. But I'm very pleased with the progress this year. We're seeing good momentum. And I'm very excited about the work we're doing, enhancing the controls. Driving a lot of automation and AI is definitely starting to help us remediate it.

So, essentially, I want to see each of the different programs in target states, delivering what they're meant to be delivering, and then that they would then move to their closure process. But we're pleased with the risk reduction. We're pleased with where we're headed. It's all going the right way.

OPERATOR: Our next question will come from the line of Betsy Graseck with Morgan Stanley. Your line is now open, please go ahead.

BETSY GRASECK: Thanks so much. Just one question on Banamex. Mark, I think you mentioned just now when Banamex is signed. Maybe we could get an update as to where things stand there.

JANE FRASER: Look, there's nothing new to update you on. We continue to be on track with the preparation for the IPO. The team is focused on finalizing the audited financial statements for later this quarter. You can imagine there's a lot of regulatory filings to be done. Our goal is to do everything in our control to be in a position to IPO by the year-end. But obviously, the timing there depends on market conditions and regulatory approvals, which could well take us into 2026, as I talked about.

And the other very important piece, we're focused on improving Banamex's business performance. And I'm pleased that we're capturing share. We're outpacing growth in the market. The consumer business is growing at double-digits. So, all of this is headed in a good way, but there's no – nothing to update you on there. We're focused on what we told you we would do.

BETSY GRASECK: And is there a bogey with regard to like what a market is open means?

JANE FRASER: No. I mean no different to any other IPO. So, no. No bogey there.

MARK MASON: We obviously have a valuable asset, and we want to maximize shareholder value as we think about exiting it, but there's no specific bogey to it.

JANE FRASER: We'll do this at the right time.

OPERATOR: Our next question comes from John McDonald with Truist Securities. Your line is now open, please go ahead.

JOHN MCDONALD: Hi, good morning, I wanted to ask about credit cards. You noticed some nice improvement in the credit quality trends in cards and then a better outlook for the second half losses. Could you drill down a little bit, Mark, on what you saw in terms of delinquencies and roll rates in the second quarter? And whether that improvement you're talking about, is that driven by macro factors or some seasoning factors in your portfolio?

MARK MASON: Yeah, sure, good morning, John. Look, I think, when you look at the performance in the quarter, we're very pleased, first of all, with USPB performance in aggregate, very pleased with Branded Cards, you see good purchase or spend volume tick up there. Importantly, you're seeing good average interest-earning balance growth there as well. Payment rates are kind of in line with expectations, as are the loss rates that you can, see, kind of flushed out a little bit more on page 21 of the deck. And in fact, you see those kind of loss rates kind of ticking down a little bit quarter-to-quarter, and you see the 90 days past due that we showed ticking down as well.

And what I'd highlight is that is largely consistent with kind of pre-COVID seasonality in terms that delinquency behavior. And so, that gives us some confidence on where losses are likely to trend, all things being equal. When we look at kind of the nature of the spend, it's in line with kind of where we would expect. We are seeing continued increase in spend, but it tends to be towards the more affluent customers. And you know we skew towards the higher FICO score. It's in essentials. There is some in dining and entertainment, less in travel. And so, a discerning consumer, I think, in good health given the uncertainty in the current environment, we are watching things in addition to delinquencies and NCLs. We're looking at, obviously, the impact of tariffs, the path of interest rates, consumer spending and how that's evolving, labor markets, et cetera. But net-net is kind of what I alluded to earlier, which is good trends in some of these key indicators, giving us confidence on the NCL guidance range.

JOHN MCDONALD: Okay. Thanks. And just a follow-up on expenses. Appreciate the earlier comments on the cost trends and opportunities. As you look into next year, Mark, are you still thinking about that kind of sub-$52.6 billion as a goal for next year? And is that also a level we should view as waypoint with further opportunities?

MARK MASON: Yeah. Look, I still think of that as the target for next year, as I've said before. I would take a step back for a second and just, I'm focused, we're focused on the 10% to 11%, and then improving our returns beyond that, right? And the expenses are obviously a key component to that. But I highlight that because what you see in the half and in the quarter is very strong momentum on the top line. When Jane talked about 2026 and beyond, she talked about continued momentum on that top line. And I would just highlight that we're not going to miss an opportunity for that to be sustainable by not investing in the franchise, right?

So, as we get into 2026, if there are opportunities for us to be investing to drive more sustainable growth on the top line, capture more synergies across these businesses, we're going to be doing that. And we're doing that, by the way, in 2025, too, and funding a lot of it out of the productivity savings that we're able to generate. But you're seeing that in talent we're bringing in in Wealth, talent we're bringing in in Banking. Those investments are what has allowed for us to really drive this 8% you saw in the quarter and the 5% you see year-to-date. So, a long-winded way of saying, yes, that's the target as I think about 2026. But I'm really trying to make sure we get good momentum out of our returns. And that, as Jane says, is something that continues to improve even as we come out of 2026.

OPERATOR: Our next question comes from Glenn Schorr with Evercore ISI. Your line is now open, please go ahead.

GLENN SCHORR: Thanks. It's a good segue to a question I had on the progress you made in Investment Banking and Markets. The couple of things I heard over the last couple of quarters, but definitely today, are big growth in prime broker services, investments in leveraged finance, progress in converts. All that is good use of balance sheet, but they do use balance sheet. I'm cool with that. So, I guess I'm more asking on the go-forward basis. Are there key hires that go along with that and client wins we don't get details on? And then is there an opportunity to add good return on RWA balance sheet commitment further? Because I think there was some pulling back over the last couple of years as you needed to. And now, I hear that being let out, and I feel like sometimes that might be – I don't want to call it easy, but easier to drive some share gains by letting out a little bit more rope. So, I was just looking to get a color on that. Thanks.

JANE FRASER: Yeah. Thanks, Glenn. Look, we believe there is very good opportunity to add in a number of areas, good returning RWA, and further balance sheet commitments. And I won't go through the answer I gave on the first question because I was running through a lot of different areas because there's a multitude of it. But we're being – I think Vis has put real discipline into how we look at allocating balance sheet. All of our business heads get together and they decide collectively, for example, on the deployment of the corporate loan book, and we're, if we're leaning in on lending, making sure we get the full share of wallet, not just hitting return target from it. And that's been an area that's got good discipline.

Prime has got a lot of upside and a lot more way to go in terms of adding the volumes onto the platform that we've got that's scaled. And then I look in the private capital space and the financing business, another area with high marginal returns. Some of the mortgage book, not a huge growth area for us, but another one that's got good opportunity. And then we've got to love our proprietary card business. So, there's a multitude of different places that we see that we expect to be deploying capital with high returns, whilst continuing the discipline we've got, which is also taking capital away from some of the areas that have been either at low returns or that are commoditizing. And I'm very proud of the team. They've done an excellent job on that. We'll continue doing more of the same.

GLENN SCHORR: That's great. I have one more follow-up. Within Services, you talked about lower loan spreads. But in general, I think everybody's got a lot more capital thanks to earnings and de-reg. And so, just more of a broad question across all the businesses, what are you expecting in terms of loan yields with all this excess capital and what I would call limited demand still?

MARK MASON: Yeah. Look, we are seeing continued loan growth across the portfolio. So, we've seen it, as you mentioned, in Services, in trade loans. And those are really on the heels of our clients looking at different trading corridors and wanting to bring on additional suppliers in preparation for what could be on the other side of trade policy. So, that was good loan growth in the quarter, I would say, at good yields, although there is some spread compression there. The USPB card portfolio had good loan growth again with average interest-earning balances that's contributing to improved returns, and so feel good about that.

Our Markets business, particularly in spreads, we expect to see continued growth, particularly in private credit, and that's largely driven by asset-backed financing and a bit of commercial real estate. And so, we're seeing it, the growth, we expect to see and are seeing it kind of across many of those segments. As rates continue to – as rates come down, that will obviously impact the funding cost of those assets, but we feel good about the yields that we're getting on them. As you know, we are kind of looking at the investments that we have at corporate. And as those mature, we're redeploying those into higher-yielding assets, whether they be loans or frankly even you get a better yield on some of the investments in cash. And so, those are a number of the drivers that we have in place that are contributing to NIM improvement as we manage through the environment that we're in.

OPERATOR: Our next question comes from Ken Usdin with Autonomous Research. Your line is now open, please go ahead.

KEN USDIN: Hi. How are you? Good afternoon. First question, just, Mark, you talked about the good trends on the credit losses side. And you talked about, at the last conference, having a few hundred million of build and that ended up being $600 million-plus. Given that you're one of the best reserved banks already, was that just more of a catch-up related to the kind of post April 2? Because you had mentioned before that like cost of credit could be one of the things could inhibit a path to 10%. So, I just want to understand like how caught up are we now? And how are you thinking about that as we look ahead? Thanks.

MARK MASON: Sure. So, look, I'd break it down a couple of ways. So one, I do feel very good about our reserve levels, $23.7 billion, 2.7% reserve-to-loan ratio. When we look at the cost of credit in the quarter, we're looking at, we have $2.9 billion that we booked in the quarter, total cost of credit. When you break that down, the NCLs is the largest part of that, and the NCLs were about $2.2 billion in the quarter. That's largely related to the cards portfolios that we have. But those loss rates, as I mentioned, are inside of the range, which is a good thing. And then we have an ACL build that's about $600 million. And so, none of the net build in the quarter is associated with the cards or consumer portfolio.

The $600 million can be broken down into two buckets, largely. One is the transfer risk in Russia. And so, think about this as being, we still have reduced operations in Russia. We still have dividends that come in that we have on behalf of our clients. We're unable to pay those dividends out given U.S. law. And as such, we have to hold a reserve around those dividends that we have on behalf of our clients, so as our role as custodian. And so, about half of what we built in the quarter was associated with, largely associated with having to establish the reserve for the unremittable dividends that we have there.

The other half is tied to the corporate portfolio changes. And so, there, you can see both in Markets, where we had an increase in loans and financing and securitization, as well as in Banking, where we saw a quarter-over-quarter in volume; as well as some idiosyncratic names in both were the drivers of the other portion of the ACL build. So, consumer ACL, flat, build largely on the corporate side related to those two drivers. But take a step back, we continue to feel very good about health of the consumer at this stage, reserve levels that we have, and about the quality of our corporate book that we also have in the aggregate reserve level.

KEN USDIN: Okay. Got it. Just second question, just in the TTS business, we talked about like Citi sitting in the middle of all the activity. It's a smaller line, but the fees in Treasury and Trade [Solutions] were a little softer. I'm just wondering like just now that we know more about things that we're seeing around the world, like any changes to just client engagement, potentially for the better, if not for the worse? And just how it feels in terms of like global activity that flows through that business? Thanks.

JANE FRASER: Yeah. We've been very proactively helping clients navigate the macro and the geopolitical uncertainty, and that's what's been driving the strong growth this quarter. Cross-border transaction value up 9% year-over-year. The U.S. dollar clearing volumes up 6%. The only areas that have been a little softer on that front was the commercial card just being flat year-over-year, and that was due to lower government spend and a little bit of the macro uncertainty. So, on fee front, I think we're feeling pretty good about this one.

And if I look at, for example, the demand for trade loans, we onboarded almost 2,000 new suppliers this past quarter. We grew new wins by 24% year-over-year as corporates have been building up inventory to limit unforeseen disruptions. And we've also been very active in the different digital asset innovations I was talking about earlier. So, it's been busy. And the operating deposit growth, I don't want to sniff at that either because that drove some strong deposit levels. Average deposits are up 7% year-over-year, as clients were building up cash buffers and keeping more working capital on hand. So, kind of firing, as I say, on all cylinders here as well as elsewhere, given the environment. Mark, anything you'd add?

MARK MASON: The only thing I'd add, Ken, I appreciate the comment in terms of, or the question, I should say. But if you look at page 10, one of the things I tried to highlight is that the non-interest revenue includes the revenue sharing that occurs. And so, the total fee revenue, which we break out on the left-hand side, was actually up 6%. And I know Services is obviously both TTS and Securities Services. But I can tell you that that up 6% includes fee momentum on the TTS side as well as Securities Services. So, don't be misled by the down 1% here or even what's in the supplement. The underlying fee growth is aligned with the strength we're seeing in those key performance indicators that Jane mentioned earlier.

OPERATOR: Our next question comes from Christopher McGratty with Keefe, Bruyette & Woods. Your line is now open. Please go ahead

CHRISTOPHER MCGRATTY: Great. Thanks for the question. Just going back to the buyback comment for a minute, if I could, the at least $4 billion, how would you attribute that? Is that more Citi-specific given the momentum you're expressing on the call today, or really greater clarity on the regulatory environment?

MARK MASON: Well, look, I mean, I am very, I feel very good about the performance that we have as a firm in the quarter, in the half. You can see just how much net income we generate in the quarter on slide 9, on the left-hand side. I feel good about the prospect for continuing to generate earnings momentum in the balance of the year. And that gives us confidence around the buyback levels that we have both in the third quarter that I referenced, but also in the $20 billion share repurchase program that we talked about earlier in the year. And so, our performance is certainly a factor and an important factor in our confidence on the buybacks.

Now, obviously, the direction in tone, as I've said a couple of times, on what we're hearing around a holistic view and look at capital is important for us and important for the industry. And as I mentioned earlier, the direction that the SCB is going does give, will likely afford us some flexibility. But this is the right path for us in terms of as many buybacks or as much in buybacks as we can do early in the year given where we're trading, and we feel very good about doing that.

JANE FRASER: I second that.

MARK MASON: Thank you.

CHRISTOPHER MCGRATTY: And then my follow-up, the 10% to 11% return on [tangible common] equity for next year, presumably, that had some degree of deregulatory benefit in there. Is what we know today versus maybe six months ago, does that give you, I guess, greater confidence that either the level or the timing might be sooner or better than initial expectations? Thanks.

MARK MASON: The timing for, sorry?

CHRISTOPHER MCGRATTY: Just the level of Ro[TC]E or the timing to get to the 10% to 11%. Thanks.

MARK MASON: No, look, I think the – you've heard us talk about the 10% to 11% for some time now, and that really has been rooted in what we knew then, frankly, in terms of the strength of the franchise and recognizing that there was uncertainty around how capital levels would evolve. And so, I can't, I don't think the takeaway is that the 10% to 11% is supported by known changes in the capital regime. I think it is, like I said, more aligned with where we, the strength we see in the underlying franchise.

OPERATOR: Your next question comes from Gerard Cassidy with RBC Capital Markets. Your line is now open, please go ahead.

GERARD CASSIDY: Hi, Jane. Hi, Mark.

JANE FRASER: Hey there, Gerard.

GERARD CASSIDY: Jane, you talked about the trends in NNIA in Wealth management, the organic growth over the last 12 months, the high-single digits. There was weakness in the second quarter, market conditions as you pointed out. Did you see it toward the end of the quarter as the markets came back, were there different flow characteristics, let's say, in the month of June versus April? And I know July is only two-weeks old, but any color on it in the first couple of weeks?

JANE FRASER: Yeah. We saw positive momentum in May and June as clients became more proactive, and that underlay the comment I made as the markets have been recovering. And some of the initial surprise that everything that was happening, clients settled down. I think they're still being conservative. There's still a sense of let's wait and see, but we'll be poised to support them when they're ready to be active.

GERARD CASSIDY: Very good. And, Mark, maybe you can remind us, when you guys allocate your capital, the tangible common equity-based segment, you break it out for us, I think, slide 23. Markets is at $50.4 billion versus $54 million a year ago. Can you share with us again why you guys have been able to lower that allocation?

MARK MASON: Yeah. Again, this is on the heels of some very good work in Markets in terms of optimizing use of risk-weighted assets and generating higher revenue for use of balance sheet, and that obviously contributed to more steady, solid performance in both earnings as well as returns that we've seen. And as we look at this once a year in terms of how we disclose it, there was certainly an opportunity there to – in light of their contribution to stress losses to bring down what we allocated to the Markets business.

I would highlight that, if you look across that page, I think it’s page 19 in the deck, you actually see that most of the businesses had a reduction in allocated TCE on the heels of improved performance that we saw coming out of 2024. And so, that's the approach that we take. Obviously, the ideal scenario is that we are bringing down the capital requirements in aggregate at the firm level through returning that to shareholders or ensuring that we're earning higher returns on it. But the businesses have been performing well, and it has shown up in their allocated TCE, while supporting continued growth that they expect in 2025.

OPERATOR: Our next question comes from Matt O'Connor with Deutsche Bank. Your line is now open, please go ahead.

MATT O’CONNOR: Hi. Just wanted to ask on expenses, back half of the year. The full year guide implies costs coming down. Obviously, you had quite high severance this quarter. So, just want to get a sense of what you're assuming for kind of severance the rest of the year. And I think you said some of the kind of transformation costs are going up. Any other puts and takes to flag?

MARK MASON: In terms of your question on [severance], I think I'd given guidance that we had roughly $600 million or so in our forecast for the full year of 2025. When I look at where we are through the second quarter, we're probably at $500 million of that $600 million. So, you can envision in the second half a meaningful reduction in the amount of severance that we're assuming in the balance of the year. And then as you would imagine that severance is in place for employees that are leaving. And so, we would also see the benefit from reduction in compensation associated with that start to play out in the back of the year as well.

And then, obviously, I mentioned earlier stranded costs, productivity, those are all other drivers that contribute to the downward trend. Obviously, revenue, to the extent that this is year-over-year revenue growth, we'd expect it to be volume and revenue-related expenses associated with that, and any transformation or other hiring that we do would be the offset. But the downward trajectory, those are the drivers that get us to the full year estimate that we've been talking about at $53.4 billion.

MATT O'CONNOR: Okay. That's helpful. And then just on the severance, I think you had a placeholder for a few hundred million next year. But are you kind of getting after it a little bit sooner than you had thought and it might be less, or you still have a placeholder for few a hundred million next year as of now?

MARK MASON: Yeah, I'm not changing my guidance on next year at this point, but we feel good about the path we're on for the balance of 2025 and feel good about that 10% to 11% as we go into next year. And we'll deal with kind of where there's opportunity to do something different as we kind of get into next year.

OPERATOR: Our next question comes from Steven Alexopoulos with TD Cowen. Your line is now open, please go ahead.

STEVEN ALEXOPOULOS: Hi, everybody. This is actually for Jane. Jane, I want to go back to your response to Ebrahim's earlier question, stablecoins were a good opportunity for Citi, I don't know if you caught CNBC yesterday, but Circle's CEO was on. He made the comment that no one sends an email cross-border, right? It implies that the stablecoin companies are coming after cross-border. So, the questions are, how much of the total company's revenue is cross-border? And do you have an appetite to proactively disrupt yourself in a way to get ahead of these new entrants coming into the business?

JANE FRASER: Oh, I can't wait to answer this question. So, if you keep in mind, right now, stablecoin, about 88% of all stablecoin transactions are used to settle crypto trades. It's only 6%, which is payments. And in a traditional offering, if you are moving from cash to stablecoin and back to cash, right now, you're incurring as much as a 7% transaction cost. I mean that's just – that's prohibitive.

So, this is where Citi Token Services is so exciting because it enables the client to move from physical fiat to the digital and back again without incurring that transaction cost. So, a client can move cash across their regional and global hubs for say, from New York to Hong Kong and the U.K. and back again on us instantaneously, 24/7, cross-border. And we also absorb all of the complexities that you have to do if you're working with stablecoin and moving back to fiat, such as the accounting, the AML, et cetera, et cetera.

So, truly, as I mentioned, we've been already moving billions in transaction volume in this year on Citi Token Services. But ours is the superior offering here, particularly for our corporate clients. And if anything, what's holding us back at the moment is it's our clients' readiness to operate in as well because we're ready. We're doing it, and we're going to keep on innovating. We're just going to keep building these capabilities out into the payments, financing, liquidity and other spaces. And we'll do it in a safe sound manner because trust is also important.

STEVEN ALEXOPOULOS: I appreciate that color. For my follow-up, so I fully get the value of the token to your clients. And I asked Jamie this question this morning on the JPMorgan call. But when I think about the advantage you have, you have the last-mile relationship. So, you're in the pole position right now. But when we think about the value of, let's say, Circle Payment Network does over time, they need to build a network. You already have one. They need to build one. But they'll connect everybody that uses different banks. And if you got together with Bank of America and JPMorgan and others, you could very quickly create a network that can almost be impenetrable by these newer entrants. And what – this is the perplexity to me. Like, what is holding the banks up today from joining together, the same way you did from Zelle, and you'll block off these new entrants entirely? Because to me, that's what needs to happen for all the benefits you talked about to stay in your ecosystem.

JANE FRASER: So, this is one of the reasons we really welcome the administration's willingness to allow banks to participate in the digital asset space more easily. This is where the GENIUS Act is also something that we are enthusiastic about, particularly because it gives a level playing field as well. Up until now, it has been hard for us to participate in the level playing field as you talked about. And I go back to, I think, your point, but also the point I made earlier, what do clients want? They want multi-asset, multibank, cross-border, always-on solutions in payments, financing and liquidity. We shall do that, and we shall do that in a safe and sound manner. There'll be areas we'll cooperate with other banks. But to do what I just said, we don't need another bank. We're the global leader in this, and we'll absorb all of those complexities, the compliance reporting, accounting, AML for the client. To your point, I think we have the killer app here.

OPERATOR: Our final question comes from Saul Martinez with HSBC. Your line is now open, please go ahead.

SAUL MARTINEZ: Hi. Thanks for squeezing me in. Just one question for me. I wanted to ask about USPB. Good momentum there, the 11% RoTCE, the direction of travel is positive there. But it's still pretty low given the mix of businesses that you're in, largely cards. You would think that the RoTCE should be higher. And so, can you just remind me what your goal is there? How quickly you can get there? And what is still an impediment to you delivering that kind of return? Do you have transformation costs in there? Is the Retail Banking business a drag? What's sort of making you under-earn still in this business?

JANE FRASER: Yes. So, our goal is mid-teens then high-teens on the RoTCE target for this business. We are very committed to both the cards business as well as the retail bank. And I'll talk a little bit about the retail bank quickly in a minute as well. But we have a path to higher returns from revenue in terms of also improving expenses, as you say, that we have elevated expenses because of the transformation. And we've also got the path on capital there. So, I'm feeling, I feel very good about the strategy in cards. We're a prime credit-led card issuer. We've got a very diverse portfolio, sizable proprietary portfolio that we're growing, and we've got some real marquee slate of partner clients.

We will continue growing our revenue by expanding and refreshing the product suite. You've just seen what we've announced. We've also invested a lot in the digital capabilities, incentivizing cardholders to do more. And we've had 11 quarters now, I think it is, with positive operating leverage. I think you're just going to see us keep delivering about that in an improved credit environment, we hope. And that's what we're seeing going forward.

The other area is we're investing a lot in AI. And that is going to deliver efficiency as well as service benefits. I'm pretty excited about what we see there. And I don't want to forget the retail bank strategy because it is the front door to Citi in the States. While we've only got 650 branches, our six core markets have a third of the high net worth households in the States. It makes the retail bank a very important feeder for Wealth. We have the highest deposits per branch as well. And so, this is not just a low-cost funding option for us. But I'm really positive to have seen the good growth on the retail bank there.

So, I think you just see us steadily moving forward towards that target. Next year, we've got the benefit of the Barclays portfolio coming on board as well. So, I'm nicely, I think you can tell, nicely confident about the path we're on, the direction of travel, and meeting those returns.

SAUL MARTINEZ: That's great. Thank you very much.

OPERATOR: There are no further questions at this time. I'll now turn the call over to Jenn Landis for closing remarks.

JENNIFER LANDIS: Thank you everyone for joining us. Please reach out if you have any follow-up questions.

JANE FRASER: Thanks, everyone. Thank you.

MARK MASON: Thank you.

OPERATOR: This concludes the Citi Second Quarter 2025 Earnings Call. You may now disconnect.

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