Host
Guy Moszkowski, CFA, Bank of America Equity Research Analyst

Speakers
Manuel Medina Mora, Citi Chairman of the Global Consumer Banking Council

PRESENTATION

GUY MOSZKOWSKI: Good morning again. For the next little while, let's drill down on Citigroup's Global Consumer Bank with Manuel Medina Mora, who is CEO of Global Consumer for the Americas, which includes Latin America and Mexico as well as North America, and also, importantly, Manuel is Chairman of the Global Consumer Banking Council, which gives him primary oversight of the bank's global consumer strategy. Also joining Manuel today is John Gerspach, Citigroup's Chief Financial Officer.

As many of you know, Manuel was CEO of Banamex, which was Mexico's largest bank at the time of its acquisition by Citi nearly a decade ago, and he brings to Citi nearly four decades of banking experience in one of the world's largest emerging markets. Global consumer is obviously a key part of the ongoing business of Citi, which has been branded Citicorp, and also includes the corporate and investment banking operations and the unique and highly profitable Global Transaction Services business. Now that the legacy businesses and portfolios of Citi Holdings, the runoff and for sale businesses, have been significantly de-risked, we believe that investors are refocusing on the growth potential of the core businesses. And I believe that this is the first time that Manuel is going to share his in-depth strategy for global consumer with investors. With that, let me turn over the podium to Manuel Medina Mora.

MANUEL MEDINA MORA: Good morning to all of you, and let me start by thanking Guy for the invitation. Actually I was in this conference a long time ago in my previous life, probably 12 years ago, when Banamex was still independent and not part of Citi. And as we were remembering, at that time, the conference used to be at The Pierre. I think the changes in many things had happened, quite really in the last few years.

Today, what I would like to cover with you is our consumer banking business at Citicorp, and let me make it in three parts. First, let's discuss our business, Citi's Consumer Banking franchise, including financial trends by region. Secondly, I will briefly describe what we see being the size of the opportunity in this area. And finally, we will share with you some of the highlights of our strategy to address this opportunity in the different markets.

Let me start by looking at the business in Citi today. The consumer business is not only an integral part of Citi, on its own, it's also one of the largest consumer banking businesses in the world. We have, as you know, an unparalleled global network serving about 60 million clients in 40 different countries and territories. Our retail bank operates more than 4,600 branches, with more than $300 billion in deposits. We are the #1 card issuer internationally. And in total, we have retail and card loans of about $225 billion. We also manage about $125 billion of assets under management within the consumer franchise, this is not counting what we manage on the private bank. And we are well diversified, with roughly half of our revenues from each – from the U.S. and international markets.

Our retail and card business are also roughly evenly split by revenues. This was not the case a few years ago, but given the expansion that we have had, especially in our international retail business, they are about the same size now.

It is a global business. We divide this in four regions in the world: North America, Latin America, EMEA (that comprises Europe, Middle East, and Africa), and Asia Pacific. The regional components of our business, of course, cover the most important developed as well as emerging markets. But we believe we are uniquely positioned to benefit from the emerging markets' growth while we still have a substantial position in key markets, as I said, like North America. Our deposits, loans, and revenues are nearly evenly split between the U.S. and the international franchise. However, Asia Pacific and Latin America have generated the vast majority of our net income in the last 12 months, as these economies have recovered at a much faster pace.

Throughout the financial crisis, and even with the significant losses that we had to face, especially in North America, and to some extent, in Europe, this business had remained always profitable every year throughout the crisis. It went down from about $6 billion on an annualized basis, trailing 12 months, at the beginning of 2008, to a low of $2 billion positive. But we are now recovering from the difficult environments of 2008 and 2009, and for the last 6 quarters, we have improved on a trailing 12 month basis – improved constantly our net income.

Over the last 12 months, we have generated close to $4 billion in net income after tax – about 27% of Citicorp's total earnings. Globally, the recovery in net income has been driven by improving credit trends, particularly in Asia Pacific and Latin America, as these economies have emerged from the recession and returned to the high growth path that they were showing before the crisis.

We believe that in the near term, we have two distinct and significant opportunities. The first, internationally. Both revenues and net income should grow as emerging market economies continue to recover more quickly, generating greater loan demand and sustained credit improvement. And second, in the U.S., net income should recover as the credit cycle improves, and we benefit from a more focused business model with better execution.

The different pace of the recovery across regions is quite evident in our credit and loan trends. Let me show you. Net credit losses peaked first in Asia Pacific. The peak was on the second quarter of last year, 2009, and have shown a positive trend now for 5 quarters. A quarter later, Latin America followed. So the peak in that region was net credit losses in the third quarter of last year. Then, in the 4th quarter, you see also the highest point in EMEA. And finally, North America appears to have peaked in the 2nd quarter of this year.

Our diversification, of course, allows us to improve on our net credit losses before some of our peers in the U.S., because improvement was first felt on emerging markets. Our net credit losses, as you know, have come down in the last year, September-September, from 5.7% to less than 4.6% for the overall book. Regional differences also drive our loan trends. In North America, our loans continue to decline – very much in line with the industry – driven in part by the deleveraging of the consumers and households in the U.S. By contrast, in international markets, the economic recovery is generating significant loan growth. In the third quarter of 2010, average international loans grew 11% year on year.

Let me turn now to the opportunity that we see in this business. And first, let's look at the world, because if we do not understand how we see the world, probably we cannot explain why we have crafted the strategy that we have crafted for Citi's Consumer Banking business. In the next few years, the structural economic shift that is going to happen is going to drive very different GDP growth rates in the emerging versus the developed markets. In this chart, of course, you have on the vertical axis the public debt to GDP, as a percentage of GDP – the higher, the worse. And on the horizontal axis, you have the average

GDP growth, estimated by the Economist Intelligence Unit, for the next four years. In nearly all the cases, the developed markets – the advanced economies – have the highest ratio of public debt to GDP, implying that financial constraints in those economies are likely to create slower economic growth for a protracted period of time.

By contrast, higher-growth emerging markets are currently in much better financial condition, creating an ideal environment for economic expansion, and therefore financial system expansion. In consumer banking, these higher-growth markets are also where we see today our highest returns, a very powerful combination. Higher growth and high returns. These global shifts promise to significantly reshape our industry – the banking industry – over the next decade.

So if we now try to see how this is going to work – the gray area and the green area – on our business, let's look how the global consumer banking opportunity actually looks to us. We estimate that the total consumer revenue pool, including retail banking, cards, small businesses, and the commercial banking market, will grow from nearly $2 trillion to $2.3 trillion by 2013, on a compound annual growth rate of 6%. But emerging markets are expected to lead the growth with a compound annual growth rate of 10% for the next 3 years. Emerging markets currently represent about 30% of the consumer banking revenue pool, but are expected to generate 55% of the growth of the revenue pool in the next 3 years. The U.S. is the single largest consumer banking market today and currently represents one third of the total revenue pool. However, growth rates in the U.S. are expected to be significantly lower in the next few years, at a 5% compound annual growth rate over the next three years.

It is important, though, to notice that in the near term, profits in the U.S. are expected to benefit from the normalization of the credit cycle, and from a consistent improvement on the cost of credit. So this is how the world is changing as reflected in the consumer banking opportunity. And let's turn now to where this opportunity is going to be presented. You have heard that only 20 countries on the emerging market world concentrate about 80% of the opportunity. Only 20 countries. We believe that the opportunity is even more localized than that. Let me show you the review.

In both emerging markets and developed markets, we believe our revenue opportunity is concentrated in the major cities. On average, within emerging markets, an even higher percentage of national GDP is concentrated in the metropolitan areas, in the top cities, as you can see in the chart in this left part of the slide. These emerging market cities are growing and include a significant share of rising middle class. So GDP and wealth are much more concentrated in emerging markets because of the urbanization trend. In fact, China, Brazil, India, Mexico, Russia, and South Korea all rank among the top ten countries in the world by metropolitan areas GDP. Moreover, we believe that the characteristics and financial needs of urban customers across these markets are quite similar, enabling us to serve each market with a consistent product offering.

We have worked to develop carefully what we believe will be the most attractive top cities in the world in the next 5-10 years. Today, our top 150 priority cities, those selected by Citi represent approximately 30% of the global GDP. This, we believe, is bound to grow in the next 5-10 years. So it's much more than countries. This is about cities. Within the top 150, 16 major U.S. cities are included. 18 cities in the rest of the developed world, and 116 big metropolitan areas are in emerging markets. So over 50% of the total GDP of these 150 cities is in emerging markets. Today, we are already in 120 of these top 150 cities. That is, we have a consumer presence in 80% of what we believe will be the most attractive markets in the global consumer banking business.

Let me turn now to our strategy, which probably can be summarized in four basic principles. The first one, we are following and developing the customer-centric business model. You have heard several times our CEO, Vikram Pandit refer to this. This is the essence of the strategy of Citi for the future, the customer-centric business. Our goal is to deepen customer relationships and share of wallet by delivering an integrated product offering, and improve customer service – extremely important. This required us to break down product silos, which existed in some of our markets, particularly in the U.S., and to focus on our client needs as a primary business driver.

Secondly, we will also focus on markets where we have a competitive advantage. What do I mean by that? Doing retail banking for the emerging affluent and affluent segments in the world's top cities. A broader approach in cards, where we serve consumers on a nationwide basis – in the U.S. and internationally. A broader approach as well in deep footprint geographies where we will maintain and deepen our presence in markets such as Mexico, Poland, Korea, Taiwan, and Central America where we have, throughout the years, acquired major banking franchises. And finally, within our footprint, we will continue to serve small business and local commercial clients with our unique global transaction capabilities worldwide.

Third, we will invest to strengthen our capabilities for organic growth. This is a significant change from the past. Growing our physical branch network, as well as alternative and digital channels, improving our technology infrastructure to create efficiencies, focusing on product innovation and meeting the needs of each customer segment – and therefore enabling a much better value proposition by segment – investing in our brand equity and marketing, and attracting and developing the best people. Finally, we will leverage our unique global footprint to deliver the best of our products and services around the world.

As we have discussed, we will focus on serving our customers based on the needs and characteristics of each segment. In most markets, and if you look at the pyramid, and you have, of course, on the left hand side, companies and corporations, and on the right hand side, individuals, households, and the different segments that we look at, the consumer banking strategy focuses basically on the blue segments. In most markets, our retail banking franchise will focus on deepening our relationship with emerging affluent and affluent customers, of course, including high net worth in key cities.

Affluent and high net worth customers are globally-minded individuals who expect differentiated customer service. These customers for Citi represent about 60% of our deposits, and the vast majority of our investment revenues, assets under management fees. We serve these clients throughout the world, with the exception of the U.S., that is coming, through what we call Citigold, which is our premier consumer banking platform. That, we will bring to the U.S. after the success that we have had in Latin America and Asia Pacific.

We will follow a broader approach in cards and in our deep footprint markets. Customers in the emerging affluent and mass market segments add, of course, much more focus on transactional needs, and one simple axis to financial solutions. These customers drive the majority of our lending and card revenues. They represent over 20% of deposits, and more than half of our total loans. And finally, in the commercial segment, we serve companies in our footprint who value our global transactions capability. For example, trade and supply chain finance, linked to our large corporations, and this is one of the synergies that we have between our institutional bank and our consumer bank. We can also increase our retail penetration through these companies' owners and employees, and this strategy of tapping retail customers through corporate relationships has shown great results in markets like Mexico, Russia, India, and Brazil.

Our unique advantage is that we already have a significant presence in many of the world's key markets, and our presence goes back many decades, or even more than a century in some cases. For example, we have operated under the Citi banner in markets such as India, Singapore, and Hong Kong for more than 100 years. We have also been in Latin America for over a century. We are not starting from scratch. This is one of the greatest values of the Citi franchise, and it's a unique platform from which to grow organically, benefiting from the growth in emerging markets. As I highlighted earlier, in cards we have the number one position internationally, with a 10% share of the card business in emerging markets. In Mexico, for instance, we have a 33% share of the card purchase sales, and in India we have a 22% share.

We also already serve a significant portion of the affluent segment in key cities around the world. The chart on the right shows the percentage of affluent customers in each city with at least one Citi product, including both cards and retail banking. This data shows that a target approach can be very powerful in serving the affluent segment, as evidenced by our strong presence in U.S. cities as well as markets like Seoul, Bogotá, Singapore, or Dubai.

Let me now focus on the U.S. franchise for a moment. Our strategy in North America is no different than our strategy for international markets. In retail banking, we will focus our growth in the emergent affluent and affluent segments in major cities – exactly in line with our global consumer banking strategy. And we will have a leading nationwide card business exactly in line with what we do outside of the U.S. Importantly, in the U.S. we have a broad base of clients, of customers. One of every six households in the U.S. has at least one Citi product, most probably a card. And we tend to attract much more of the emerging affluent and the affluent segments. If you look, for example, at the affluent segments, one in every four U.S. households, affluent households, has at least one Citi product. And in New York, of course, we reach close to 40% of the affluent market with one or more products.

These clients, of course, have a high propensity to save and invest. This explains why we have, on a nationwide basis, a 1.5 ratio, 1.5 to 1 versus our top three peers in deposits per branch. Historically, we have under-invested in North America in the consumer business and operated a franchise as a series of product silos, not as we do in Asia Pacific or Latin America as one bank, as an integrated consumer banking organization. So we clearly have an opportunity in the U.S. for better execution, and for organic growth – different from acquisitions of entities or credit card or mortgage portfolios as in the recent past.

So first and foremost, we will be following a customer-centric approach, breaking down product silos and focusing on customer needs by segments – deepening relationships. To do this, we need first – and we understand that very clearly – to improve significantly the customer experience in any one of our channels, any way they reach us. And we are renewing our investment spending in the key drivers for organic growth: talent, marketing, technology, and in general infrastructure. And we have attracted significant new talent in the business. You are aware that both Cece Stewart and Jud Linville are taking the top responsibilities in consumer banking and cards, respectively.

Turning to our North America branded card business. We are a top three card issuer in the U.S., which provides a significant scale to our global operations. North America serves as an innovation center for our global card franchise, and we are, of course, seeking to leverage the best of our global network in terms of technology and new product innovation. And we are using these strengths to address two very distinct segments of the market.

First, the affluent segment, which is largely comprised of transactors who use their card regularly, but do not necessarily use credit. And we know that these customers value exceptional service and rewards programs and expect ubiquitous access to payment options around the world.

Second, the top mass market segment, which is largely comprised of borrowers. And these customers want simple and transparent access to credit with a choice of solutions to meet their needs. While the U.S. card industry remains in transition, the market is starting to stabilize, and we have begun investing again for growth in this market. Internationally, we had a highly diversified franchise, with Asia and Latin America generating the majority of the $17 billion in revenues over the last 12 months. International markets also generate our highest returns on the consumer business, with an adjusted return on assets of 1.7% on a trailing 12 month basis. This is not the future. This is the last 12 months.

We are positioned to benefit from emerging market growth, because approximately 90% of our international revenues are generated in emerging markets. Our brand outside of the U.S. is quite strong – they're aspirational brands within the emerging affluent and affluent segments all over the world. Our target segments of affluent and emerging affluent customers are growing disproportionately in these regions. As the emerging markets grow, the emergence of the middle class is very powerful, and with that, what we've seen as the main trends with the emergence of middle classes – increasing consumption and demand for wealth management products. That's exactly where we are positioned.

While our branch network is limited in many countries, we leverage our marketing and alternative distribution channels to maximize our share of consumers and brand awareness. Let me show you an example. Singapore, that's a very good example of how we move beyond branches to achieve higher market share and brand awareness. Despite having only 7% share of banking branches in Singapore, we are able to reach 16% of the total customers in the market and 22% of the affluent segment. Brand awareness is much higher. Last measurement: 66%.

Part of our success in that country, as in many in Asia Pacific and Latin America, is due to an improved customer experience and a strong set of products catering to the affluent segment through, as I said before, what we call Citigold. So we are able to punch significantly above the weight of our physical distribution platform by using marketing and advertising, technology, online banking, mobile banking, and partnerships.

In Singapore, for example, the best case is a Singaporean mass rapid transit, where we have built a presence in each of the stations while gaining access to millions of commuters. So the combination of alternative distribution channels and marketing, we have been able in the emerging markets to achieve a strong presence in markets without the need to build a large physical branch network. We will now show you a very brief video of the new generation of branches that we call "Smart Branch". This is the example on which we started in Tokyo, Japan and represents the cutting edge in functionality and customer experience.

[Video 00:37:45 – 00:39:47]

MANUEL MEDINA MORA: We are using our experience in this branch to customize similar locations around the world. Last week we inaugurated another one in the busiest district in Hong Kong. And in mid-December, please visit our new Union Square branch in Manhattan, where much of the same technology will be, for the first time, displayed in the U.S.

The new branches are one example of what we can do with the right technology in place. One of our most important goals is to update and simplify our global technology platform, and with that, all our operations, with the objective of having most of our accounts in all regions on a common platform by 2013. The new platform developed, initially based on the design that we have in Mexico, then moved to Asia Pacific, and it was really enhanced and developed as a full system, has a 360 view of our customer relationships, achieves consistency in our customer experience across channels and geographies, simplifies our operations and improves, of course, our time to market with new innovations.

Significant progress has been achieved so far with full implementation of the core platform in Southeast Asia by now. The U.S. will follow next year, then Brazil, and the other countries in Latin America, and the countries in North Asia and EMEA. We have also by now achieved a common internet platform in more than 30 countries, and we have implemented mobile banking applications in Asia, Mexico, and the U.S. And we are aiming, by the end of next year, to have a single global solution across the main markets in which we operate in both internet and mobile banking.

Citi, different from the past, is planning to invest and spend between $3 and 4 billion incrementally over the next 3 years. These investments – and this is in the consumer area – these investments will be directed toward increases in affluent customer acquisition and retention, building new capabilities to improve the customer experience, such as a common technology platform, and internet and mobile banking, and increasing our footprint in these strategic geographies – the top 150 cities which are the priority for us. We expect to fund these investments through expense reengineering and credit improvement.

Citi's in a unique position, we believe, to leverage the best of our business around the world. The global consumer banking council was established just a few months ago to ensure that our best talents from across the four regions are working in partnerships. As the chairman of the global consumer banking council, it is my responsibility to make sure that we are working together, communicating and thinking as one Citi. And our number of key responsibilities includes, of course, refining our global consumer banking strategy, selecting and deploying the best practices around the world – because the 40 countries in which we are, are 40 engines of innovation for Citi. Prioritizing investments and making sure that the next dollar goes to the best opportunity around the world. Attracting and developing talent. And most importantly, executing the strategy that we have described for you today.

In summary, Citi's Consumer Banking business is uniquely positioned to benefit from emerging markets growth and the globalization of financial services. We are also restructuring our North America business with a commitment to better execution. We are focused on markets and segments where we have a competitive advantage. We are well positioned for organic growth, and we are leveraging our worldwide capabilities and best practices. Yes, we believe we are uniquely positioned to benefit from the emerging markets growth, from the rise of the emerging affluent and affluent customer base, and from the growth of the top cities in the world – the key trends of the next decade. I'm confident in our strategy, and that we have the right people and process to place a consistent result and deliver a consistent result. With a clear strategy – a much more focused strategy – and a discipline execution, you can deliver consistent results. This is our franchise, our strategy, and our plan for the future, and now, John Gerspach, our CFO and myself, will be glad to take any questions that you might have.

GUY MOSZKOWSKI: Actually, unfortunately, we have reached exactly the end of our timeframe in this room. However, Manuel and John will be doing a breakout session that's open to anybody who'd like to join us just across the hall here in the Manhattan Suite, past the elevators. They'll be available for about 30 minutes there, and I'll come with them. We need to clear out of this room now in order to be able to set it up for lunch, but Manhattan Suite.

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