



HOST

John McDonald, Bernstein Analyst

SPEAKER

Mike Corbat, Citi CEO

PRESENTATION

JOHN MCDONALD: Okay. Thanks, everyone. We'd like to get started. I'm very happy to have Citigroup returning. We have CEO, Mike Corbat, joining us again this year. Mike, thanks for coming back.

MIKE CORBAT: John, thanks for having me.

JOHN MCDONALD: Maybe give a little bit of sense, Mike, of a strategic report card. Obviously, 2016 started out roughly, from a financial standpoint, due to challenging market conditions in January and February and the need to build energy reserves. But, if you look back, since last year, when you were here, from a strategic execution perspective, what have you accomplished, and what are your priorities for the rest of 2016?

MIKE CORBAT: Sure. If you look at – as we think about – and hopefully, our shareholders think about 2015, it was a pivotal year for us. A pivotal year in what we would describe as a number of important things happening. One is earning a little over \$17 billion of net income was our best year since 2006. We'll talk more about it, but in a company that's radically reshaped itself since then.

The result we got on CCAR and the beginning of very meaningful – the start of meaningful return of capital. If you look at what we were able to do around some of the ambitions and goals and targets that we set out, three years or four years ago, we talked about quality and consistency of earnings. We talked about getting holdings to breakeven. We talked about the utilization of DTA – stopping the creation of DTA and the utilization, and I think, the quite ambitious statement at the time of becoming an indisputably strong and stable company. All of those around what we believe are the renormalization of our company, those things that had made us look different to put us on that path. And if you look at the things that we talked about, we, in fact, did.

And in addition to that, we laid out three financial targets back at that time at the end of 2012, the beginning of 2013, around a return on asset target, around an efficiency ratio and a return on tangible common equity. And we largely hit those targets when you think about what we did in spite of an environment that was even more challenging than when we put those out, a return on asset of 94 basis points in our 90 basis points to 110 basis points range; an efficiency ratio in the mid-50s, of 57%, amongst our peer groups, best in industry; and a return on tangible common equity of 10%. We got to 9.2%, and we got to 9.2% in spite of the wrong result in 2014 in terms of CCAR. So, the things that we laid out, I feel good about and proud about that we, in fact, delivered on.

As you turn to 2016, as you described 2016, it didn't start easy. If you go back – and as we were going into the year and thought about what 2016 would look like; and we talked about the fourth quarter, we talked about a rate rise in December, which we got; we thought about three to four rate rises throughout 2016. We had \$50 oil. You fast-forward to the second week of January, and people were saying their next rate move is not up, it's down. Oil was at \$30. And, in particular, the trading environment had changed pretty markedly. We've obviously seen that continue to evolve and improve.

We then went on in the quarter and had a first quarter, where we posted about \$3.5 billion of net income, about \$1.10 a share. We then went on to get the important news from the combination of the Fed and the FDIC, around both institutions coming back, saying that we had no deficiencies in our resolution plan. And



you've seen this continue to take actions against capacity and making sure our business is rightsized versus the opportunities that we see going forward.

JOHN MCDONALD: Great. So, when you took over as CEO, it's proved to be helpful for you to have set those goals, to level set investor expectations and hold your management team accountable. You mentioned you got to kind of a low to mid end of those in 2015, and the environment sure didn't help you last year. Is it time to set a new set of targets? Are you worried about the environment when you do that? What's the kind of internal debate about when you think about, hey, should we stick two year targets out there, again, hold ourselves to something and let investors know what we're thinking?

MIKE CORBAT: Well, we reiterated the targets that we had, and I think those targets today remain important. And when you look at the environment that has, in some cases, not only continued, but in some cases, deteriorated, those targets, from an industry, not from a Citi perspective, remain fairly challenging targets that are out there. Importantly, one of the things that we're very focused on is the transition around metrics that are more refined of where we're taking the company. And what I mean by that is this combination of what we call return on and return of capital.

Part of this normalization process of the company, Citi Holdings used to be 40% of our GAAP assets, now 4%, gone. DTA building, \$55 billion – \$56 billion, we've now utilized \$7, \$8 billion of that, and we're using it, and we'll continue to use it. Big capital generation, more quality and consistency of earnings. And so, we're trying to really get to the point where we've got the right metrics to pinpoint that. So, we've left those targets in place that we put in place a few years ago around efficiency, around return on tangible common equity and return on assets. John gave some guidance in terms of what we thought for the year around those. And we'll continue to evolve those targets as we go forward.

When you think about, as an example, return on asset, when we put that out there, that was really focused around what we saw as a fairly inefficient balance sheet. If you look at what we've done in the four years since we've put that out there, we had return on assets in the low 60 basis points. Last year, we got that up to 94 basis points.

Some of these metrics, when you push them beyond a point, they don't necessarily serve. And as we know, as an example, a metric like return on assets, is if you take it at that, it can be a dumb metric, meaning, it's not really measuring risk. And so, as we think about where we're trying to take the institution, as an example, CCARs are binding constraint in capital, how do we build that in? We like to get a little bit more guidance in terms of where that's going to end, but my guess is we're going to have some targets that are based on some of those types of things.

JOHN MCDONALD: Fair point on the ROA, in terms of risk weighting and measuring risk. In the metric's defense, you should look good on it relative to peers in the sense that your business mix is weighted a bit more towards cards and international, both of which are more profitable on ROA standpoint. So, over time...

MIKE CORBAT: But the other side of that is – and we can talk a bit about it, is we run a big of-scale rates business. Probably, one of our bigger franchises, and so while very accretive in terms of CCAR, not necessarily accretive in terms of ROA.

JOHN MCDONALD: Fair enough. In terms of efficiency ratio, you've done a lot on that front, you've done a lot on the expense front. Is there more you can do on the expense front, or is this a point here where you need revenues to drive the efficiency ratio lower? And I'm talking about the next couple of years.

MIKE CORBAT: Listen, I think that as a company and as an industry, we're never going to be done on the expense front. I think, the combination of the introduction of what's going on from a digital perspective is going to continue to give us opportunities, and you've just got to imagine that there's going to be competitive pressures. And when you look at what we've been able to do in terms of the simplification of our company,



there's more that we can be doing in taking advantage of the of-scale nature of the way we come to work. Digital, broadly defined, is probably going to be a big part of that, so more to do.

JOHN MCDONALD: And then coming back to the near term, what's your outlook for the second quarter? It feels like the market environment has gotten better. Can you give us a little bit of an updated thought on that?

MIKE CORBAT: Sure. So, if we speak to the second quarter on a quarter-on-quarter basis, I would say, that net income, roughly flat. So, that's – let's start at the headline and work our way down from there. In there, you're going to probably see trading, up slightly quarter-over-quarter. You will see an investment bank, up slightly quarter-over-quarter. And as you think about the other pieces that are in there, we look at Corporate/Other, probably down a bit based on some one-timers that were in there.

Consumer, down slightly but down on the back of the lack of a one-time gain we had in our retail services of a portfolio. And then you factor in a reduction in terms of repositioning and cost of credit in there. And it comes out to where we said, because again, we've been telling everybody from a Holdings perspective, basically Holdings breakeven. And, again, in the first quarter, we had some gains.

So, if you think of qualitatively, we've taken Corporate/Other one-time gains, we've taken Holdings one-time gains, and within Citicorp we've replaced those. So, qualitatively, I think, a bit better, even though net income largely flat.

JOHN MCDONALD: Net income for the whole Citigroup?

MIKE CORBAT: Citigroup.

JOHN MCDONALD: Top of the house?

MIKE CORBAT: Top of the house.

JOHN MCDONALD: Similar – same with first quarter. Okay. Switching gears a little bit to the U.S. bankcard or branded credit card business. You've obviously made the decision to invest and grow that business. And, again, it looks very competitive to us. What's attractive about the U.S. branded card space to Citigroup?

MIKE CORBAT: When we talk about businesses, where we have scale and potential competitive advantage, as we are today – we have been, for a while, the largest cards issuer in the world. We've got about 135 million credit cards outstanding. We've got receivables of about \$130 billion, and that's before we get the addition – June 20, that's Costco coming online. And within that business, we've got a – we think of a very good mix between co-brand and proprietary.

And so, proprietary gives you better margins, co-brand gives you the ability, the scale, the access to clients and terrific partners, the ability to create sticky incentives. And we've got some great partners, whether it's American Airlines, or whether it's Costco. And when you get that balance, we think it's quite powerful.

JOHN MCDONALD: In the rewards transactor space, you've got the 2% cashback, gotten a lot of attention from customers and investors. Again, it looks like a very competitive product. If you're earning 2% interchange and you're giving 2% rewards, does that mean you need folks to revolve to make profit on this product?

MIKE CORBAT: Well, to back up and just talk about our portfolio, if you go back and look at a few years ago, we had a significant hole in our portfolio around having the lack of a cashback card. August 2014 or so, we introduced Double Cashback. And if you look at what we've done there, largely, digitally acquired. We're not paying the big bounties and the big upfronts to get those in. And so, cost of acquisition is quite competitive.



And I would say, at this point, based on our expectations, we've exceeded most or all of our metrics in terms of what we've been able to do with that card. In some cases, we're in the phase right now where that card is transitioning from some of the low-interest rates at inception to higher interest rates, and we're managing that transition carefully – or we're watching it carefully. But I would say that everything we expected from the card, we're getting a bit more. But, again, it's – the card's not quite two years old yet, but pleased with it so far.

JOHN MCDONALD: How would you characterize the type of customer you're attracting with that card, is it someone who's got an occasional revolve but a high spend? If you had to characterize...

MIKE CORBAT: Part of the beauty of media today in being able to digitally acquire, you can much more target specific audiences. So, you can imagine in that card, we're very much trying to target the spend and revolve client as opposed to the transactor. And so those are the markets, those are the segments that we're targeting. And again, I think, we're having good success on that.

JOHN MCDONALD: And you define that as getting some early spend and some early revolve? What are the signposts we should be looking for to that?

MIKE CORBAT: I think one is getting the card's outstanding. Starting to get the transactions on the card and building the revolve. And we look in terms of that progression. The progression is very natural, very logical, and the revolve is building on it.

JOHN MCDONALD: Got it. And how would you characterize your strategy in the co-brand space? You mentioned you've got some attractive partners, Costco, American Airlines.

MIKE CORBAT: Well, we've tried to be involved with partners that we think are industry leaders that have strong brands, brand appeal, have sticky customer client bases, and can offer rewards and incentives that create repetition and value in the product. And we think that between American and Costco, we've got two of those companies that are very strong, in addition to a larger portfolio and a diversification to the portfolio between airlines, between hotels, between merchants. And so we've built, we think, a good portfolio, balanced portfolio in the round that complements our proprietary products.

JOHN MCDONALD: And do you expect to see kind of net receivables growth start to pick up? I think you and John have talked about a one-year to two-year kind of timeframe for seeing the revenue benefits of the card investments you're making.

MIKE CORBAT: Yeah. So, we've seen cards outstanding going up, we've seen purchase sales going up, we've seen revolve going up, and now we're starting to see revenue going up. So, again, that logical progression, and we should expect to see that – or you all should expect to see that as we go forward from here.

JOHN MCDONALD: So outside of cards, what are some of the other growth drivers for your Global Consumer business?

MIKE CORBAT: We've seen a strategy, where we've really tried to become very focused on the markets that we believe we can strongly compete and win in. So, if you go back four years or five years, we were in 41 consumer markets around the globe. Today, we're in 19. And when you think about really where our consumer businesses are focused, it's really in Mexico, it's in the U.S., and it's in Asia, with some small presences in EMEA.

And if you look at the combination of Mexico and Asia, very strong brands in those places, good strong demographics across those, and we think products that are well-seated and well-received in those markets. Asia, candidly, has been a little bit tougher in some of the countries because of some of the rate caps or



some of the other regulation that's come in. We're probably at the point of starting to lap some of those pressures and expect to see growth coming back probably in the second half of the year.

JOHN MCDONALD: Now, what's your vision for Citi's Retail Banking franchise and strategy in the U.S.?

MIKE CORBAT: In the U.S., well, we have a strategy where you've seen us really focus and concentrate our Consumer franchise in six key markets across the U.S. And you've seen us reworking our branch footprint. New York is a great example of one of those places, in terms of the smart branches, in terms of the hubs, and wealth centers that we've put in, as well as our branch, the rationalization of our branch footprint. You should also expect a big push to digital, big push to mobile, as part of the franchise.

And when you think about that, it really changes the way you interact in a couple of ways, one, product use, et cetera, but also middle office and back office, and the way you service, and you actually communicate with those customers changes a fair bit. And you should expect to see us pushing, not just in the U.S. but around the globe on that format.

JOHN MCDONALD: In terms of Consumer Banking outside the U.S., are you finished rationalizing your footprint and presence there?

MIKE CORBAT: Well, I talked about that we've gone from 41 countries to 19 countries in terms of Consumer. I would say, we're largely there that there's nothing today that jumps out that doesn't necessarily make sense. But again, it's an evolving world. We have investments going on in parts of the world, and it's incumbent upon those businesses to make sure that those investments make sense and that they deliver on them. But we think the footprint today is largely where we want to be.

JOHN MCDONALD: So, tying that together with the cards and the aspects of Global Consumer, I think you talked about a recovery in the second half of Global Consumer revenues. Just putting that together, what are the combined drivers of that? And do you still feel good about that?

MIKE CORBAT: So, a couple of big drivers of that are going to be what we've talked about in terms of cards, U.S. cards in the second half, also, what we've talked a bit about in terms of Asia and some of the growth that we see coming, not just in cards, but across the franchise there, as well as Mexico. So, if you look across our franchise, we see growth potential in all three of our big regions and across a number of our products.

JOHN MCDONALD: Okay. So, switch gears to the investment bank or the Institutional Clients Group for Citi. It's been a challenging and volatile revenue environment for investment banks. As you think about where to cut back and trim in the investment bank and where to invest, how do you wrestle with kind of what's temporary cyclical factors and what are structural permanent factors?

MIKE CORBAT: A lot of conversation on cyclical versus secular. And as you think, so off the top, you would say that a lot of this regulation is much more secular than cyclical. And I think we've done a good job as a company of onboarding that – and not just onboarding it, but actually being prepared and ahead of it. And whether it's been SLR or different capital regimes, et cetera, you've seen us really there or ahead of some of the implementations of those along the way.

Clearly, from a markets perspective, challenging environment. The combination of slower growth, the combination of lower rates, longer – the combination of lack of trending investor sentiment. And so, you've seen us address them a couple of ways. One is from a capacity perspective, we've gone at that. And you've seen us, and clearly, as shareholders, you've been with us in terms of some of the repositioning we've changed to make sure we're rightsized towards those environments.

We're actually quite fortunate vis-à-vis some of our competition, because we talked about some of the businesses that we're in and the fact that we are CCAR-constrained as opposed to some of our competition,



as an example, being leverage constrained. And so, when your leverage constrained, it makes it hard to lend, it makes it hard to run a repo book, it makes it hard to be in the rates business. And so, we've actually had some advantages in different parts of the world. And I think you've seen it in the strength of our rates and currencies business, where we've been very clearly taking share, and we've been really taking share on a global basis. So, continuing to take advantage of that backdrop.

JOHN MCDONALD: Any strategic gaps in the fixed income franchise that you're investing in?

MIKE CORBAT: Well, I would say – I would reclass it. I would state the answer to your question slightly different. But we're investing across parts of our fixed income franchise. So, again, if you think of investments, and we think of investments broadly defined, we've got – when you look at our supplemental leverage ratio of 7.4%, we clearly have capacity. So, we're smart, and where we're thinking we can get paid. We're investing balance sheet in the business.

If you look at our TTS business and what we've been able to do there – systems, balance sheet, et cetera. We have continued both on treasury and on the trade side to take share there, away from fixed income. One of the areas that we've been focused on is the equity side.

JOHN MCDONALD: Yup.

MIKE CORBAT: And when you think of equities, people say, gee, maybe tough part of the cycle or what gives you confidence to go after equities at this point in time? We're clearly punching below our way. And if we look at top players in the equity space today, somewhere between 12% and 14% market shares. We have a 6% market share, by the way, up from four and change a few years ago. But to us, there's no reason why we shouldn't have the ability to punch at the 7%, 8%, 9% market share. We're not saying, today, we're going for number one or two, but we've got the footprint. We've got the resources. We've got the client relationships, and so, how do we take our franchise and convert against those.

So, it's going to take us a little bit of time, and the investments are not outsized. But we think we can take advantage of those relationships and what we have to get more out of our equity's franchise. And when you go back and compare us on a quarterly basis and look at some of our gaps, our equity business is one of those gaps vis-à-vis the competition that we think we should have the ability to fill.

JOHN MCDONALD: And just back to the near term – I'm not sure if you wanted to get more specific, but what has done better in the markets businesses in the second quarter? Obviously, it's been more fixed income than equities. Can you share any more detail in terms of what's gotten better. And I don't know, if you want to give any numbers in terms of market revenues compares – comparables from quarter-to-quarter or year-over-year or anything like that.

MIKE CORBAT: Well, I think when you look at versus the first quarter, just touching on a couple of things quickly is, one is, the strength of our rates and currencies franchise continues. You've seen a more active in our participation in the DCM calendar, so on the Investment Banking side, things continue to improve there. And I think on the TTS side, we continue to see not just in markets, but across the corporate banking space, rationalization of counterparties, consolidation of counterparties, and we've – I think been well-positioned to be recipients of good parts of that business.

JOHN MCDONALD: What are the differentiating characteristics of your emerging markets businesses, and why you find those so attractive?

MIKE CORBAT: Well, I would describe it in a couple of ways. One, very clearly, and it's across Consumer and Institutional, is our customer client base. Multinationals, top tier corporates, who have either regional or global ambitions, global investors, affluent, mass affluent consumers. And so, when you think about a franchise that operates in the places we operate, so on the Institutional side, a little over 100 countries, our nearest competitor is back in the 70s and drops down. We're not competing against the local bank to do



that. So, we're not forced into that local pricing war, right? We've got the ability to deliver the network. We've got the ability to deliver regional or global pricing power. And we've got the ability to deliver something that's more unique.

If you think of – from an institutional investor perspective, same thing. The relationships we have aren't on a local basis, aren't on a country basis, they're on a global basis. And again, when you think of what's going on from a consumer perspective, and our target, and our brand around affluent, mass affluent, we've got the ability to distinguish, so we're not in those markets competing simply on price. We're competing much more in value proposition and what we have to offer and the uniqueness of what we have to offer. And, again, I think that's benefited.

The piece off of that if you think about – then the network, and we talked a bit about our transaction service business is the pipes that go with that and the things that come of that. So, if you think of our transaction service business and how that dovetails with our currencies business, as an example.

So they're natural complements together, as our clients are moving monies through our pipes, the world's largest system of proprietary payments pipe. There's natural frictions that occur. And in this example, around currencies where that acts as a feeder and a complement to the things that we're doing in our foreign exchange business. And not many other people or any other people have a system like that.

JOHN MCDONALD: Great. Shift gears a little bit to the idea of optimizing the capital base, returning capital. These are key elements of the thesis on Citigroup's stock over the next few years. And obviously, you can't get too specific with Citicorp coming up. But in broader strokes, how do you feel about the progress you've made in your capital planning and understanding the Fed's process over the last few years? And how do you think over the next couple of years about your ability to return capital?

MIKE CORBAT: Well, while there's separate processes, I would first point to the progress and the results that we got in terms of resolution. We would have said a few years ago that eight banks were going to go in. Only one was going to come out with no deficiencies. What are the odds it was Citi? You probably would have been skeptical.

JOHN MCDONALD: Yeah.

MIKE CORBAT: And we got to that point. And I think I use that as an illustration, because I think it points to the approach that we've taken. It certainly resonates with us, we believe resonates with the Fed and the other regulators is the continuum of the way we go at the process. And the continuum is our budget process goes into our capital planning process. All of that feeds into our stress analysis and what does recovery look like, and in the event you've got to go beyond recovery, what does resolution look like.

And so, there's a continuum, and it's embedded across the institution. And so far, that served us well. We clearly are hoping and believe that we submitted a high-quality request or proposal this year. And we're going to continue on, because we know the bar continues to raise. But when you have that structure and you push yourself, it tends to move together, that the progress you make tends to feed the pieces along the way.

JOHN MCDONALD: Can you talk a little bit about the goals you're trying to balance as you did your submission this year and what some of your longer-term ambitions are?

MIKE CORBAT: So, we completely understand and get that a big part of the investment thesis in Citi today is around capital return. And we've got, in some ways, almost a unique ability to generate, in particular, regulatory capital. It was a combination of earnings, less so today, holdings runoff, and DTA utilization. And if you go back over the last three years and look at what we've done, we've generated an excess of \$50 billion of regulatory capital.



So, in spite of the success we had last year, the last four quarters of returning \$6.8 billion of capital, of retiring 100 million shares, again, last four quarters, that doesn't cut it, because if we can't, within a reasonable timeframe, get the institution to returning all of our excess generated capital, we have a denominator problem.

And so, when we go back and talk about the goals we laid out – quality and consistency, strong – indisputably strong and stable, those are all things that lead to your ability to return that capital, in us, our board, the Fed and others have in confidence in our ability to give that capital back. And so we're very, very focused on getting our capital and capital return to the point where we're returning, with the assumption that we're not going to be using all of it, which I don't believe we will. Anything that takes us away from what we can put together and be accretive for you organically, we need to return.

JOHN MCDONALD: And philosophically, does management and the board feel it's important to have a balance between dividends and buybacks as you do plan?

MIKE CORBAT: Clearly, when you look at where we're trading today on tangible book, the math is very strong in accretion around buyback. But we also understand that around the stability of the stock, the way a stock trades, the types of owners in the stock, dividend is important. So, from an expectations perspective, we're going to continue to walk the dividend up, but trying to find that right balance. And as long as the stock trades at a discount or significant discount, we want to try and remain aggressive in terms of stock buyback, but with that balance.

JOHN MCDONALD: And how do you view the risk of GSIB buckets being incorporated into CCAR?

MIKE CORBAT: Well, based on – well, one is our expectation is that in some form – and we've been public about it, in some form, it was highly likely that it would be. We probably – or many of you just probably all read similar headlines this morning of an interview that Governor Tarullo gave that the Fed is very likely moving that way of some inclusion. He talked about that, and he also talked about what we've mentioned before is the introduction of some pieces that might be reduced or go away some offsets to that. So, it sounds like – and we all read the same story. It sounds like that if there – if he's out there talking about it, it's probably not that far away. So, probably shortly after CCAR, we start to get some guidance on that. So, again, as we've talked about, things we've talked about potentially prepared for, and we'll all wait and see what that is.

JOHN MCDONALD: One of the things you can control to some extent is your GSIB surcharge or bucket that you're in. You've done a good job reducing that systemic footprint the way the Fed measures it. Do you have more ability to do that? Does it get to the point, where you have to weigh that against business concerns, and how do you look that?

MIKE CORBAT: One is we did work hard to get there and to level set in the 3% bucket. We're in the 3% bucket but where has publicly noted that the upper end of that 3% bucket and obviously work and continue to do the things appropriate with that. But we'll make some decisions along the way from a business perspective as to whether or not it's worth the strain and constraints on the organization to be there or what we should do or not. But again, we've done the work to be there and obviously continue to do the work.

JOHN MCDONALD: So, the question that's come up in a couple of these cards and it's come up in the questions for all of your large competitors today, as the Fed keeps raising the capital level bar, is there a point, a breakeven point, when you say, well, we have to reconsider the business model and more radical steps to reduce our footprint and reduce this GSIB charge, if breaking up the company is the tag line. But just more creative corporate actions to reconsider the business model. Is there a point where that becomes a discussion? And do you have these discussions regularly as a management team and board anyway?

MIKE CORBAT: Well, you could imagine we do, because if you look at what we've done over the past several years, a radical restructuring of the company. So, when we talk about being simpler, stronger, safer,



smaller, all of those things go back to this. And so, whether it's the 20-plus Consumer exits, the work we've done in terms of the optimization of the balance sheet capital, business selection, where we've made – so, we're having those strategic discussions all the time as management and at the board, and we're weighing those tradeoffs.

If you look at the institution today, a couple of things you need to keep in mind around is – one is that we are the stewards of about \$46 billion or \$47 billion of our shareholders' capital in the form of DTA. About \$30 billion of that is disallowed from our capital ratios today. And so, as you start to do these things, what are the ramifications around that DTA? And it's meaningful. It's a meaningful amount of capital and has meaningful consequences in terms of how we think about the company.

If you think about synergies, and we've talked broadly in the neighborhood of \$10 billion worth of synergies. An example I would give there, we talked about our rates business. Our rates business operates and has the ability to continue to grow and take share and be accretive from a CCAR perspective, because we have capacity from a leverage ratio. The capacity of that leverage ratio, some of that comes from the fact that we run a consumer business that's unlevered, and we can borrow that leverage to put against our rates business.

And for our competition who don't have that combination, they don't have that advantage. So, as you start to separate, you've got to think about some of those consequences, and then you think of a risk – from a risk management perspective, our ability to operate in these markets around the world and have the ability to be locally funded. So, we're not managing cross border, we're not managing those risks. We've got local deposits supporting local assets. And as you start to take those things apart, you've got to be cognizant of that. But again, we're always looking at it. You've seen us continue to optimize the model, and as capital rules and regs go forward, we'll continue to – we're absolutely committed to continue to do that.

JOHN MCDONALD: Okay. A couple of other questions on the card here. Do you feel like you've improved the consistency and visibility of your earnings? I don't think the question is referring to that fact that you said earnings are going to be the same in second quarter as the first. And then over the longer-time horizon, the visibility, predictability of your financial results, what things could you point to where that's improved?

MIKE CORBAT: If you look at our company today and compare it, so I gave the soundbite when I started that 2015 was our best year since 2006. 2006, we were a very different company. We were an insurance company, an asset manager, a retail broker, hedge funds, private equity. Today, we're a bank. And within our bank, we've got a broker dealer, and we service institutional clients, and we've got a consumer business. Full stop. That's who we are.

And if you actually look at the mix of our revenues, pretty evenly split between Consumer and Institutional. And if you look at our Institutional business, a predominance of the earnings in our Institutional businesses are those earnings away from trading and continuing to grow. John talked about the last quarter in terms of what we've been able to achieve in our more annuity-like businesses in terms of growth. So, very different earnings base and very different company, very different risk profile from where we were.

And, again, we think that goes back to the quality, and consistency, and indisputably strong and stable, and our ability to deliver on the things that we've said in terms of income. And importantly, the stability of that income to give everybody confidence to take capital distribution up as quickly as practical, and as practically as possible.

JOHN MCDONALD: When you think about things, businesses you don't have, I think every bank that spoke has talked about asset management, wealth management and the attractiveness of that business. Is that something – folks are asking if you'd like to scale up, and over time – obviously, you used to be in it, you got smaller. How do you look at that business over time?



MIKE CORBAT: Well, we are – if you look at some of the areas that we've talked about and we continue to invest in, we think we can continue to upsize and scale our TTS business. We think, both on the Consumer Banking side as well as on the Private Banking side, we can continue to grow those businesses, so – and you've seen us where assets have made sense in the case of Best Buy, in the case of Costco, and some of these others where these portfolios make sense. We're open for business around those things that we think are accretive, but we're focused really on organic growth in those areas. And those would be a couple that we'll continue to invest in.

JOHN MCDONALD: Are you earning your cost of capital today in the investment bank? Are you seeing ROE expand over the next few years? Is that your outlook in terms of the investment bank? Obviously, tough to predict quarter-to-quarter, but...

MIKE CORBAT: So, there's a great debate in terms of how we should think about our cost of capital. And I go back to talking about this \$30 billion of disallowed DTA. That's not capital that we actually have to put to work. So, if you actually look at, as an example, we returned a 9.2% RoTCE last year, in 2015. If I take that – not the \$47 billion of DTA, but I just take the \$30 billion of DTA that's disallowed, and normalize for that, we earn somewhere around 11.3%. And you can take us and compare us on an apples-to-apples basis with the industry at 11.3% return, that's, amongst our competitors, pretty good.

And so, part of the investment thesis and the way we think to approach things is there's employable capital, and there's capital that we're the stewards of that we need to get back. And on employable capital, we feel that we can earn our cost of capital against that and above that. And we've talked about through the cycle and in a reasonably normalized environment to go to, as we described, 14% - mid-teens return for our institution, return on tangible common equity. And in there, we're not saying we need massive rate increases or terrific tailwinds. We'd need a little bit of help from the Fed. We'd need a low-single-digit economy. And cost of credit largely will stay where it is today. And we've got a – we think we've got a path there.

JOHN MCDONALD: Also, as your mix continues to evolve to some of the higher ROE businesses, where you're investing, I guess, it's another driver as well, right...

MIKE CORBAT: Correct.

JOHN MCDONALD: ...your card business growing and some of the other more profitable capital markets businesses.

MIKE CORBAT: Listen, and capital-friendly business.

JOHN MCDONALD: Yeah. What do you say to the investor concern that the profitability on Costco is too low and that competition on products like Double Cashback and the economics are being given away too generously to consumers?

MIKE CORBAT: Well, we've talked about our portfolio. We haven't gone to an individual product or co-brand segment, but we've talked about and guided everybody that, we think, through the cycle, with the investments we're making, the expectation should be for our cards portfolio to return somewhere around 225, 235 basis points of ROA. And if you go back and look over time at those types of returns, those are pretty good returns in those portfolios.

And by the way, if you think about those are the returns that we're speaking to, the competition around generating those types of returns is probably pretty strong, which says that the investments we're making are necessary. And if we're not going to do these things, somebody else is going to be taking that space and that share from us.

JOHN MCDONALD: You also have a big presence in private label cards or Retail Partner Cards. Do you like this business, and what's your strategy for growing here?



MIKE CORBAT: We do – I do like it. And so, if you go back in history, actually, at a point in time, retail services or partner cards was actually in Citi Holdings. And we made the decision, which I felt strongly that it was actually something that should come back into the go-forward part of the business. And if you think about the value proposition in the retail partnership space, it's really hinged on a couple of – a few things. One is strong partners that have terrific brands. Second is that they've got stickiness or the ability around rewards programs to drive spend in their stores or on their products through the cards. And the third piece is, is we can offer financing against those.

And when you think of today, in an environment where credit's probably gotten tougher, if you go back and you think about the impact of Card Act and Durbin, and what that's done in terms of available credit, having credit available on those cards is quite valuable. And around the things that we've done – and again, when you look at the efficiency ratios of the cards business and that business, you look at your business to run of-scale, and you look at the quality of the partners and the spend that we can drive to those programs. And by the way, on a CCAR basis, they're good businesses.

JOHN MCDONALD: So, one thing folks don't ask you a lot is about the other side of M&A, are you interested in buying anything? It's been a while, and you've done a lot of divesting and getting out of things. But you do have excess capital, some of it might be trapped depending on the Fed's appetite to let you return it. Are there opportunities to use that excess capital, offensively and in inorganic ways, whether its card portfolios or other opportunities?

MIKE CORBAT: I would say, in terms of any of the bigger institutions doing something big, I don't think there's much appetite out of the Fed. So, we don't – and I don't think the industry wastes much time playing three dimensional chess around those types of things. But we are very focused in terms of what we can do organically and what we can grow organically. And on the occasion, when something inorganic, as you said, Best Buy, Costco, other things that we've done that we think are in strategy with what we're doing, we're wide open to those.

JOHN MCDONALD: So, think Costco-type of portfolio purchase.

MIKE CORBAT: Again, I think in the – if we look in the card space, in the co-brands and partners space today, it's probably not a lot we see in the near-term horizon. And I'm very mindful that I don't want the institution out thinking about those. I really want the institution focused on day-to-day and the organic growth and leave some of that to John, myself, and a few others we'll do that.

JOHN MCDONALD: Right. Right.

MIKE CORBAT: We'll do that.

JOHN MCDONALD: And might not had been the reconsider in the business model that Tarullo mentioned in his quotes. And just from a public perspective, getting bigger is not something on the agenda?

MIKE CORBAT: Yes.

JOHN MCDONALD: Yeah. Okay. Can you give your thoughts on credit quality? The environment still feels very benign. Where are you watching for risks over the next year or two on the credit quality front?

MIKE CORBAT: Sure. So, if you think about our two areas, on the Consumer side of things, credit remains largely benign. We don't see anything out there today in terms of NCL rates. We don't see anything in terms of the early buckets that causes us pause today. And I think, as we've talked about, every time we think credit's gotten as good as it get, it continues to stay good.



So, Consumer side, I'd say, intact with what the story has recently been. And again, when you think about the demographic we're serving there, the mass affluent, the affluent, just the general nature of the customer we're serving, I think very much illustrates that.

On the Institutional side of things, I talked about, from a second quarter perspective, some benefit around cost of credit. And John gave some guidance for the year in the energy space of about \$1.4 billion based on energy, somewhere around \$48 today. To be determined between now and the earnings call, we would probably back that off to about \$1.2 billion, about a reduction of \$200 million, but again, away from that space, credit remains largely good.

JOHN MCDONALD: Is that benefit in the second quarter energy-driven relative to the first that you're talking about...

MIKE CORBAT: Yeah. So, in those numbers, you would – you'd see some of that flow through.

JOHN MCDONALD: Okay. Mike, can give us your thoughts on your positioning, you mentioned it a bit in terms of digital banking, mobile, how you're positioning, and how you're spending money to be competitive and differentiate Citi in that space?

MIKE CORBAT: So, when you look at our branch footprint, today, we operate about 2,700 branches around the world. So, when you compare us either against local banks abroad or domestic banks here in the U.S., that footprint is not necessarily what some of our competition has. So, digital is very important to us in terms of the acquisition and servicing of clients. And so, if you look at what we've been doing in terms of Consumer Banking and consolidation around the things that we've done, digital plays a big part of that.

I talked a bit about what's going on as an example in the Double Cashback and that digital acquisition, i.e. much cheaper acquisition, has played a prominent role, and I think that goes across other parts of our business. But it also plays a very important role in terms of middle office and back office, in terms of the way we're interacting with our clients from a service perspective and the things that we can do, ranging from – going from, in essence, customer-assisted humans, to automation, to voice recognition, smart banking and all the developments there. So, we think it's an integral part of the future. And as we talked about our ability to want to increase customer service and continue to try and bend that cost curve in the business.

JOHN MCDONALD: So, last question as we wrap up here. Your stocks have been trading below tangible book value for some time now. What do you think it is that drives that, and what do you tell the board and your team, if this is what we need to do over the next few years to get the stock trading at book, above book?

MIKE CORBAT: So, there's a few things that are there. One, is when you look today, emerging markets is probably out of favor, and in some ways, irrationally so. When you look at – what continues to go on in the world and while growth rates have come down, the emerging markets continue to grow somewhere twice the growth rate of the developed markets. If you look at what's happened, and we talked about from a credit perspective, we haven't seen a lot of the fallout that people expected. A lot of these emerging market economies today are very different. They've got floating-rate exchange regimes. They've got large amounts of foreign reserves. They've got domestic capital markets. And there's a resiliency in those markets that there wasn't necessarily years ago.

I think there's some history there around the company and a question of we haven't necessarily been great risk managers in the past. And I think it's going to take us proving, through some events and some cycles, that we know how to manage the place. And if you look at some of the things that we've gone through between Argentina, Venezuelan devaluations; challenges in the Middle East; things going on in terms of going back to Europe, Russia, et cetera, touch wood, we've managed those well. And we feel we've got the



institution appropriately sized. We are in the risk-taking business. When things happen, we will lose money like any lending institution, but it can't be outsized, and we've got to prove that.

Third piece is really around DTA and capital return. And while we've made, and I hope, built credibility in our ability to stop creating and to utilize DTA, I think, people are waiting to see, well, can you actually return it, right? And I think that'll be an important step. And, really, what we're focused around this normalization of the company is changing the mindset from people saying, we don't ascribe any value to this today to – it's simply an annuity discounted at the cost of capital. And if you start to run the combinations of earnings and DTA utilization and capital return, and you start to run what those numbers look like and on a per share basis what that is, that's not a \$45 stock.

JOHN MCDONALD: Great. We'll leave it at that. Mike, thanks so much. Appreciate it.

MIKE CORBAT: Thank you very much.

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