TRANSCRIPT

Citi 2017 Investor Day
Financial Overview and Q&A
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PRESENTATION

JOHN GERSPACH: Thanks Mike and good morning everyone. Thank you all for joining us. Before I go into all the details, I'd like to start with a few key messages, including the returns we believe we can achieve over the next few years and longer term.

2017 is an important starting point. First, as Mike described, we were pleased with the last month's CCAR result, demonstrating that we are firmly on the path to optimizing our capital position. And we remain committed to achieving an efficiency ratio of 58% this year through a combination of revenue growth and expense discipline, with continued improvements thereafter into the low-50% range.

In 2018, we believe we can achieve a 10% return on our tangible common equity, excluding the impact of disallowed DTA, up from a 9.2% comparable return over the last 12 months. And we believe we can continue to increase our capital return to over $20 billion in the 2018 CCAR cycle, assuming neutral OCI movements and subject of course to regulatory approval.

This combination of improved earnings power and capital optimization should drive the return on our total TCE to a level in the range of 10% for 2019 and with another capital return of greater than $20 billion in the 2019 CCAR cycle, we believe we can drive our CET1 ratio to our target level of 11.5% by the end of that year.

So, as we go into 2020, we'd be operating at our target CET1 level. That year, we believe we can drive another 100 basis points of improvement in returns to roughly 11% on our total TCE. This would equate to a 13% return on our TCE excluding the impact of the disallowed DTA, or, in other words, a 13% return on the capital deployed in our operating businesses in 2020. Of course, we'd still have a gap to our long-term RoTCE goal, but in this scenario, we would have grown net income in the high single-digit range through 2020, and we would have returned over $60 billion of capital through buybacks and dividends, driving annual EPS growth into the high-teens range. I'll go into more detail now, particularly as we look at the drivers over the next few years, but I wanted you to have that framework in mind as we go through the day.

On slide 3, we show a snapshot of our recent financial results. Over the last 12 months, we delivered an efficiency ratio of 59% on revenues of over $70 billion, and an expense base of just over $41 billion. And cost of credit has remained benign, with $7 billion of provisions on a $645 billion loan portfolio. This speaks to the high quality of our credit exposures.

On the Institutional side, for example, over 80% of our exposures are rated investment-grade, and, consistent with this quality, we've seen an average annual loss rate of just 5 basis points over the last five years. And in Consumer, we've maintained our credit discipline with a stable NCL rate of roughly 220 basis points in the most recent quarter. In total, we generated over $15 billion of net income for return on assets of 84 basis points and an RoTCE of 7.8%. We returned over $12 billion of capital to our shareholders, in the form of buybacks and dividends, equating to an 86% payout ratio. And, despite this capital return, we grew our CET1 ratio by roughly 50 basis points to 13%.

These results are comparable on average to our peers. Our efficiency ratio at 59% is at, or better, than each of our peer institutions. Our ROA remains somewhat below the group. Our growth in tangible book value per share is fairly comparable. We exceeded our nearest banking peers in payout ratio at 86% and we are poised to continue leading the way over the next 12 months with a capital return plan equal to nearly 130% of consensus income expectations. We've generated these results while operating above every one of our regulatory requirements. So, we are clearly playing from a position of strength giving us the capacity to support our clients without facing external capital or liquidity constraints.

You can see our relative capital strength on slide 6. At a 13% CET1 ratio, versus a current regulatory requirement of just 10%, we operate with the highest amount of CET1 capital in excess of regulatory minimums versus any of those peers that are constrained by CET1. Both Goldman Sachs and Morgan Stanley also enjoy strong CET1 ratios but, given the nature of their business models, they are bound more tightly by the Supplementary Leverage Ratio where we have ample capacity at 7.2%.

So our regulatory capital position is among the strongest in the group. And, on top of that, we also carry $28 billion of additional TCE to support our disallowed DTA. This $28 billion represents the amount of DTA that is deducted when calculating our CET1 capital under the Basel III rules. Because this capital doesn't count towards our regulatory requirements, it can't be deployed in our businesses and therefore does not earn a return. Now, this is in contrast to most of our peers, for whom tangible common equity and CET1 capital are largely synonymous.

On slide 7, we show the impact of this non-productive capital on our returns. As I noted earlier, we earned a 7.8% Return on Tangible Common Equity over the last 12 months. Now if you exclude the TCE supporting disallowed DTA, you can see the RoTCE increases to 9.2% and then, if you adjust the CET1 capital to reflect a more normalized ratio of 11.5%, those same returns increased to 10.5%. Now, this is not to say that we are satisfied with a 10%-plus underlying return. We believe, we will do much better going forward and we'll spend a lot of time today on the drivers to improve our earnings power. This simply serves to level set the conversation by quantifying the structural components of our RoTCE and showing our returns on a basis that is more comparable to our peers.

The path from here is actually very straightforward centering on two themes. Our first execution priority is capital optimization: bringing our CET1 ratio down to that 11.5% target level, continuing to utilize the DTA in the amount of around $2 billion per year and returning to our shareholders any capital above the amount we need to invest in the franchise. We believe these actions would add roughly a 120 basis points to our returns by 2020.

Our second key theme is to improve returns on the capital deployed in our operating businesses: generating consistent high-quality earnings in line with our strategy and target client segments. We're investing to grow higher return franchises, while maintaining our expense and credit discipline and we believe this can drive roughly 220 basis points of additional RoTCE improvement between now and 2020. So, by 2020, we expect to earn a return of roughly 11% on our total TCE. The basis point drag from disallowed DTA is likely to remain at around 150 to 180 basis points in the medium-term as we shrink our total TCE. And therefore the underlying return on our operating businesses, excluding the impact of the disallowed DTA, would be in the range of 13%.

Beyond 2020, we would continue to utilize the DTA and return the related capital to shareholders, eventually eliminating this drag altogether, although it will take some time. And we believe we can deliver an additional 100 basis points of business improvement driven by continued earnings growth and a mix shift towards consumer as that segment grows at a somewhat faster pace than our Institutional business. This would bring us to our longer-term RoTCE target of 14%.

On slide 10, we show the individual building blocks of getting to this 14% RoTCE target. In Consumer, this assumes we improved from an RoTCE of 12.8% over the last 12 months to a level of 20% or greater. Our institutional business, operating today at an RoTCE of 13.1%, would need to deliver 14%-plus returns. And we would need to reduce the underlying capital allocated to Corporate/Other to around $15 billion, mostly driven by the continued wind-down of legacy assets. This would bring the return on the capital deployed on our operating businesses to 14%.

Of course, we also need to address our non-productive capital. As I noted earlier, we have $28 billion in TCE supporting the disallowed DTA which goes to zero over time as we continue to utilize the assets and return the related capital. And we also assume the return of roughly $18 billion of capital that we have in hand today in excess of our target CET1 ratio of 11.5%. Together, this non-productive capital represents roughly 25% of our total TCE.

Now you may have noticed that our TCE allocations have changed from our prior disclosures with slightly less capital allocated to Corporate/Other and somewhat more to the Institutional business. We introduced our prior TCE allocation framework in early 2014. At that time, advanced approach risk-weighted assets was the primary driver with additional capital allocated to those businesses that employed a disproportionate amount of leveraged exposure. Since then, the operating environment has evolved with the introduction of the GSIB surcharge and with CCAR emerging as our current binding constraint. The new methodology is a multivariable framework that better reflects these factors.

Starting on slide 12, I'd like to spend a little more time on our first execution priority, optimizing our capital base or in other words, addressing the denominator issue in our RoTCE calculation. As I laid out at the beginning, our goal is to optimize our CET1 capital ratio from 13% today down to 11.5% by the end of 2019 which will require us to return all the capital we generate on an annual basis, plus our existing surplus of about $18 billion. So, in addition to the $19 billion of capital return, we just received approval for, this will require us to return over $20 billion of capital, as part of the 2018 and 2019 CCAR cycles as well, assuming, of course, neutral OCI movements.

I think you'll agree that speaking about this level of capital return feels more feasible today, given the consistent progress that we've made over the last three CCAR cycles. Since 2014, we've increased our annual capital return from just over $1 billion to nearly $19 billion and this includes an increase in our quarterly dividend from $0.01 to $0.32 per share resulting in a nearly 2% yield on our tangible book value per share.

While this year's capital return represents continued progress, it still only begins to address the significant capital we hold above our target CET1 ratio and, before we move on, I want to address how we came to that target level of 11.5%. In our construct, we assume the adoption of a stress capital buffer, or SCB, the framework as described by former Fed Governor Tarullo, last fall. And then the target really has four components to it. First is our regulatory minimum requirement of 4.5% which is unchanged from the current framework. Second is our GSIB surcharge which we believe we can maintain at 3% over the medium-term. Third is our stress capital buffer, which we conservatively estimate at roughly 3%. And finally, we apply a 100 basis point management buffer to account for variability in both the OCI and the newly introduced SCB.

This gets us to the target CET1 capital ratio of 11.5%, which gives us a 150 basis points of surplus, or roughly $18 billion of capital on a base of $1.2 trillion of risk weighted assets. This $18 billion represents existing CET1 regulatory capital that, in theory, could be distributed today to our shareholders through the CCAR process. But, as I described earlier, we also have a large pool of capital that can be distributed over time as we utilize our DTA. As of last quarter, we had $28 billion of deferred tax assets that were disallowed, or in other words, this amount was deducted from book capital when calculating our CET1 regulatory capital. As we utilize the DTA through ongoing earnings, this disallowed portion shrinks and creates additional capacity for capital return.

On the left side of the slide, you can see that we've reduced the amount of TCE supporting disallowed DTA by roughly $15 billion since 2012 and we believe we can utilize about $2 billion of DTA on an annual basis going forward. This should give us the ability to return capital to our shareholders each year at a level that exceeds our net income while still maintaining an appropriate CET1 capital ratio.

Now capital optimization is an important returns driver for us but we believe earnings growth will be even more powerful over the medium-term. As I noted earlier, we believe we can drive over 200 basis points of RoTCE through earnings improvement between now and 2020. And here, you can see the drivers by business. This includes not only the earnings growth we expect from each business, but also the impact of any additional capital needed to achieve that growth as we reinvest in the franchise.

Roughly two-thirds of the RoTCE improvement is expected to be generated in the Consumer business split among U.S. Retail – including the benefit of higher interest rates – U.S. Cards and the International franchise. A third is expected from the Institutional franchise driven by continued wallet share gains in areas such as Equities and Investment Banking, while maintaining our leadership in TTS and Fixed Income, with the benefit from interest rates here as well.

And finally, Corporate/Other is assumed to be broadly neutral going forward. Now Corporate/Other has operated at breakeven over the past year, including the benefit of some one-time gains on asset sales. And we expect to largely offset the absence of those gains over the medium-term by optimizing our overall infrastructure cost.

Starting on slide 16, let me spend more time on how we expect to achieve these results. Starting with our Consumer franchise, we see good opportunities to accelerate growth in our key regions – the U.S., Mexico and Asia – where we have a high relative market share, competitive strength, and a deep history. Within these markets, we're investing to grow higher-return businesses, most notably Cards and Wealth Management, with a consistent focus on high-quality consumer segments.

We continue to enhance our digital capabilities across the franchise to deliver a more convenient and differentiated customer experience. Over time, we should drive efficiency benefits by further rationalizing and repositioning our branch network and expanding digital channels to better acquire, service and engage with our customers. And of course, we also expect some tailwinds from higher interest rates.

In total, we expect these levers to drive consumer revenue growth in the range of 4% plus or minus through 2020, while we reduce the efficiency ratio to below 50%, grow our earnings and improve the return on allocated TCE to roughly 19%. We're already seeing progress with revenues growing by 4% over the last 12 months. Some of that growth was inorganic with the acquisition of the Costco portfolio, but we're also seeing stronger underlying business growth and we're still in the early stages of interest rate normalization. So, we have line of sight to achieving higher sustainable revenue growth and positive operating leverage as Stephen and Jud will describe later this morning.

Turning to the Institutional side, our strategy starts with our target clients: the world's largest multinational corporations and investors who truly value our global capabilities. Our goal is to deepen these existing relationships, serving our clients' needs with more products in more markets as they grow and transact around the world.

We're leveraging our scale advantages and the power of our global network in businesses like Treasury and Trade Solutions, Fixed Income and Securities Services. And we're focused on gaining wallet share in areas such as Equities and Investment Banking, all while maintaining our expense discipline.

The combination of wallet share gains, market growth and some benefit from rates, is expected to drive revenue growth in the range of 4% plus or minus through 2020, while the efficiency ratio improves to the low 50% range, earnings also improve and the RoTCE grows to 14%.

Now we're fairly close to this target RoTCE today, but any improvement can have a sizable impact on our earnings power, given the $80-plus billion of capital allocated to the ICG. In fact, we believe ICG can generate over $2.5 billion in additional pre-tax earnings over the next few years. And you'll hear more about this from Jamie later today.

For the remainder of our operations in Corporate/Other and supporting our overall infrastructure, the return story is driven more by simplification and optimization. These infrastructure initiatives include further reducing our real estate footprint as we consolidate sites and increase the density of our work environment, continuing to automate labor-intensive processes for better effectiveness and efficiency, and moving more of our computing resources to more efficient cloud-based platforms.

Turning to slide 17, we show the current composition of our returns by major business lines and how we see this evolving as we approach our target RoTCE of 14%. The size of the circles indicate the income contribution from each business. The lighter blue are Consumer businesses and the darker blue are Institutional. As you can see on the left side of the slide, today the majority of our businesses are operating above a 10% RoTCE, with several large-scale franchises already contributing attractive returns. In the future, we plan to grow and continue to optimize these already attractive franchises, while improving the scale and profitability of those businesses that currently fall below their potential.

On slide 18, we show more detail on how this earnings improvement should come together in total, driven by revenue growth, positive operating leverage and continued balance sheet discipline. We expect revenue growth in the range of 3%, driven by higher net interest revenue and fee growth partially offset by the continued wind down of legacy assets in Corporate/Other.

Growth in net interest revenue includes the impact of higher interest rates but, as noted on this slide, it does not rely heavily on Fed actions that have not yet occurred. So we are levered to additional rate hikes in the future but we feel good about the fact that most of our expected revenue growth is essentially in our control. We'll support this growth with ongoing investments in the franchise, but we'll seek to create our own capacity for this investment through ongoing efficiency savings, which I'll discuss more in a moment.

This combination of higher revenues and expense discipline is expected to generate considerable operating leverage as we go forward, driving an improvement in our efficiency ratio to the low 50% range by 2020. We do expect to give back some of this improvement in higher credit costs, as our loan portfolios grow and season and in additional capital to support growth. However, with ongoing balance sheet discipline, we should more than cover these headwinds with higher net income, delivering an improvement on returns of over 200 basis points.

One piece of the revenue story, of course, is higher interest rates. On slide 19, we show the expected growth in net interest revenues from rate actions that have already happened, as well as the incremental impact from rate actions we expect to occur in the near future. Mainly, one more rate hike at the end of this year, and then one again in each subsequent year. Including these expected future rate actions, from our current base, we should see roughly $2.1 billion of incremental net interest revenues by 2020.

Now we're using changes in U.S. Fed fund as our primary scenario driver in this analysis, as the majority of our total rate sensitivity is driven by U.S. rates and virtually all of our sensitivity is related to the short-end of the curve. Of course, we would also benefit from higher long-term rates, and from rate actions that occur outside the U.S., but Fed funds is our most significant driver.

Another important part of the equation is being able to create the capacity for ongoing reinvestment in the franchise. On slide 20, we describe our main efficiency levers, which we believe can drive roughly $2.5 billion of annual savings by 2020 across technology initiatives, digital, our location strategy and organizational simplification. These initiatives include, first, the continued adoption of advanced technology from cloud to artificial intelligence to big data analytics.

To put this opportunity into perspective, we expect to have 200-plus use cases of robotics fully up and running by the end of this year, relative to the 1,000 employees devoted to running these processes today. And these numbers are expected to increase and grow in the years ahead as we're only in the early stages of firm-wide adoption. The adoption of cloud to-date has enabled us to remove over 1,200 legacy servers and we expect to continue to migrate to a more mobile work environment with the elimination of over 80,000 physical desktops by 2020. Overall, we expect the combination of robotics, cloud and the migration to mobile, to be worth well over $1 billion in expense saves by 2020.

Next, the transformation of our banking model through a focus on digital to not only improve the client experience but also to improve efficiency. Ultimately, we expect to see our cost to serve decline by over 20% in our consumer business, with the volume of analog transactions such as physical calls and paper statements and payments reduced by over a third by 2020.

Third, moving resources away from high-cost location and honing our global real estate footprint. As Mike said earlier, we've reduced our global real estate footprint by 25% or 17 million square feet since 2013 and we plan to reduce it again by 25% by 2020. And finally, the simplification of our management structure as we continue to streamline our business.

These savings create the capacity to invest in the areas we decided are must wins and absolutely critical to our future. Mike covered some of these already and this is by no means an exhaustive list, but by business, on the Consumer side, we're investing in digital across all our products and regions, as we continue to launch new capabilities to meet client needs.

In Cards, we remain focused on offering the best possible products and services to our clients, while leveraging big data to improve the effectiveness of our marketing and retention efforts. In the U.S. and Asia, we'll continue to build out our Wealth Management franchise, while transforming our network for a better mix of physical and digital distribution. And of course, we'll continue our multi-year investment plan to upgrade infrastructure, capture share and improve efficiency in Mexico.

On the Institutional side, we'll continue to invest to extend our leadership and drive innovation in our TTS franchise which also helps contribute to our strength in Fixed Income. We're investing in our equity's platform to grow scale and improve returns in that franchise where we're already seeing early signs of progress with our rank increasing to number seven. And we continue to attract talent to grow wallet share with our target clients in investment banking.

Finally, at an enterprise level, we're focused on using technology to enhance our data quality, improve productivity and keep pace with the evolving security landscape. Together, we expect these initiatives to accelerate our revenue growth by deepening our client relationships while improving the efficiency with which we come to market.

So, mapping out our expected trajectory on slide 23, the key takeaway is that we have multiple return drivers and that the path forward is largely in our control. As I noted earlier, we remain committed to achieving a 10% return excluding the TCE supporting disallowed DTA in 2018. With continued earnings improvement and capital return, this should grow to 10% return on our total TCE in 2019, and by the end of that year, we expect to achieve our target CET1 ratio of 11.5%.

In 2020, we expect the RoTCE to further improve to roughly 11%, according to a 13% return on the capital deployed in our operating businesses. And while we would still have a material drag from the DTA at this point, in this scenario, we would have grown net income by roughly 5% to 10% on an annual basis through 2020, and we would have returned over $60 billion of capital, driving EPS growth into the high teens.

On slide 24, we show the components for this potential EPS growth over the medium-term. At a compound annual growth rate of 15% to 20%, our current EPS of $5 per share would go to nearly $9 per share by

2020. We would expect about half of this growth to be driven by share buybacks. Layering in business performance, this takes the illustrative EPS growth to the mid-teens range, and then if we incorporate the benefit of expected future rate actions, you get the high-teens range. Of course, these numbers will likely vary depending upon the price at which we are buying back shares, the operating environment and the actual timing of future rate actions, but it shows how powerful this combination can be.

Another way of thinking about our potential is to apply a sum-of-the-parts valuation to our expected capital base in 2020. We've done this before in conference presentations as a way of looking at our current valuation and here we're simply applying the same framework to our expected future capital base at the end of 2020. As I noted earlier, we expect to operate at our target CET1 capital ratio of 11.5% by the end of 2019. So, we would no longer have surplus regulatory capital in 2020. But we would expect to grow the amount of capital deployed in our operating businesses. In this example, we grow our operating capital to roughly $145 billion while improving our return on that capital to 13%. We apply a 1.3 times multiple to that capital, which is likely conservative based upon where peers are trading today, and depending upon the price at which we're able to buy back shares, this could equate to roughly $94 in value per share at the end of 2020.

In addition, we would still expect to hold tangible common equity to support disallowed DTA. Here we assume that's roughly $21 billion. Assuming we utilize the DTA at around $2 billion per year and return the related capital to our shareholders over time, this equates to another $6 of value per share. Together, this valuation of roughly $100 per share, represents clear and significant upside from where we trade today. And, while this is just an example, with many moving pieces, if we deliver the earnings growth we believe we can achieve over the medium term, this valuation would be supported by reasonable multiples at roughly 10 times forward EPS and 1 time our assumed book value per share.

DTA is a small piece of this illustrative valuation, but I should note that the amount of DTA and the timeline for utilization would likely change in the event of tax reform. Many, if not all, aspects of tax reform remain uncertain but what we do know is that our total TCE would decline given an expected write-down of a portion of our DTA, and our net income, and therefore our operating returns, would improve with a lower tax rate. Of course, the DTA write-down would create headlines, but given that most of the DTA is already disallowed when calculating our CET1 capital, the write-down should not have a material impact on our regulatory capital. And therefore, it should not affect our ability to deliver on the capital return goals I stated earlier, namely to return over $20 billion of capital in each of the next two CCAR cycles.

To conclude, I want to leave you with a few key thoughts. Our path to improved RoTCE is twofold; focused on the return on capital deployed in the businesses, as well as the return of capital generated through both earnings and DTA utilization. We're working to grow the franchise, while maintaining discipline around our strategy, expenses and risk appetite. We believe most of this path is within our control. And we're committed to achieving both our longer-term RoTCE target of 14% as well as our intermediate milestones along the way. We believe that what we're presenting today is a credible, realistic path to higher returns without relying on outsized market growth or rate assumptions and without a heavy reliance on any single market or business. While the path shows significant earnings improvement in the aggregate, it actually represents multiple growth engines coming together and with multiple efficiency and return levers. This gives us the flexibility to adapt in the event that the environment or other factors pose on anticipated challenges and we're committed to demonstrating consistent, steady improvement in returns going forward.

Before we go deep into the businesses, Mike and I are happy to take a few questions. I'd like Susan to join us on stage to start the Q&A. Thank you.

QUESTION AND ANSWER

SUSAN KENDALL: Great. We've got about 15 minutes now for Q&A. But I will just ask, if you have a question that we know is going to be answered in the subsequent business reviews that we kindly hold it till the end of the day. You've got a microphone with a paddle at each one of the tables with your table number on it, please raise the paddle if you'd like to ask a question. And when I call on you, please stand up, introduce yourself, and state the name of your firm as well.

STEVE WHARTON: Hi. Steve Wharton, JPMorgan. Hi.

MIKE CORBAT: Hey, Steve.

JOHN GERSPACH: Steve Wharton, JPMorgan.

STEVE WHARTON: Yes. That was actually excellent I thought. So, congratulations.

JOHN GERSPACH: Well, thank you.

STEVEN WHARTON: The thing that really struck me is in the Global Consumer Business, you're forecasting 4% revenue growth, 5%, I guess, constant currency, but the operating leverage assumption is pretty high in terms of the translation between the revenue and the net income and that also includes the normalization of the credit factor. So can you talk specifically about what you're kind of baking in there in terms of expense growth and what gives you so much confidence that you can drive that much operating leverage, particularly in that business over the next few years?

JOHN GERSPACH: Yeah. Actually, Stephen is going to spend a lot of time in his presentation going through that. But what I think you have seen in the business over the last 12 months, the last 18 months, is that type of expense discipline, where we've been able to hold expenses fairly flat as we've continued to rationalize the branches, drive more to digital. So, Stephen will expand on those themes during his presentation.

SUSAN KENDALL: Table 23.

CHRIS KOTOWSKI: Yeah. Good morning. Chris Kotowski from Oppenheimer. Question for John. Recognizing there are always differences between tech books and GAAP books and that you have a lot of income overseas. All that said, $2 billion a year in DTA utilization seems really small. I mean, that you've been earning $15 billion after-tax, it's been $24 billion pre-tax figure, half of that is U.S. You'd think that the DTA utilization would be $3 to $5 billion a year, why is that so small?

JOHN GERSPACH: Well, that's the way the tax calculations work, Chris. When you think about it, we do have to pay current tax, so it's not that every dollar of our U.S. income is immediately offset by DTA. There is an aspect of current tax and we do have to pay the tax in all of the foreign lands in which we operate – foreign countries in which we operate. So it isn't just as simple as saying, take your total pre-tax earnings and multiply by whatever your effective tax rate is and the rest comes off – and everything comes off to DTA. It's a little bit more involved with that, and we'd be happy to spend a deeper dive to go into it, but $2 billion is basically what we think that you should expect going forward.

MIKE CORBAT: If we go back from the historic perspective last four years roughly $9 billion, first half of this year about $800 million....

JOHN GERSPACH: $900 million from earnings.

MIKE CORBAT: $900 million in the first half of the year, so roughly around that $2 billion mark.

SUSAN KENDALL: 21.

GLENN SCHORR: Hi, Glenn Schorr from Evercore ISI. I think on slide 18, John, of your presentation, it showed net interest income, or net interest revenue, being 260 of the 380 basis point improvement in the RoTCE. You mentioned that you're not taking in lots of rate hikes going forward, but I am curious if you can give us even just qualitatively what you're thinking about both deposits beta and commercial loan re-pricing in that context because it's a big chunk of the overall improvement. Thanks.

JOHN GERSPACH: Yeah. If you think about the way our revenue picture runs today, I think what you will see is, the revenues today for the firm as a whole are roughly two-thirds net interest revenue, one-third fees and others. So we were certainly, as you would expect, highly leveraged towards net interest revenue, and therefore do benefit from higher rates. Obviously, as we've been modeling it, we expect it to have lower betas in the beginning of the rate hike cycle, which I think we've all seen. And then as those rate hikes increase, we would expect betas to increase as well, and those increased betas, both in Consumer, as well as in our Corporate book, are all baked into the targets that we've laid out to you on those slides.

SUSAN KENDALL: 33.

BETSY GRASECK: Hi. Betsy Graseck, Morgan Stanley. I love the paddles, it's like we're on auction or something. I wanted to just get a sense from you on your views regarding the geographies that you're managing. I didn't see that much from a geographical perspective. So I thought maybe you could spend a little bit of time talking about where you're looking to put the most investment dollars in and expecting the most return, but also when you think about Banamex or your Korean institution or your efforts in India, which geographies do you see are going to be driving some of the best returns for you in this outlook that you presented?

MIKE CORBAT: Sure. Thank you, Betsy. So from a consumer side, I think we've been very clear in terms of what we see for the path for Mexico, and I think you've seen it in terms of our five consecutive quarters of year-over-year revenue growth in our Mexican Consumer franchise where we believe, and Stephen will get into it, we can have our Mexican team, our Latin team, which you're talking about it, a bit later, but we've got the ability we believe to grow that franchise at multiples of domestic growth rates, based on our levels of penetration and based on what we see as the demographics there.

You will also see that across our Consumer franchise what we're going to talk about in terms of the U.S. and U.S. Consumer and what we can do there is pretty powerful. From an Institutional side, what you've seen and what Jamie will lay out, and he will go into it in detail is, really there is no magic in terms of where we choose to come to work. We simply follow and we're ready to assist our clients where they want to be.

And so, if you look, interestingly, we've had nice growth rates out of the EMEA region in terms of some of the disruption that's been there, while probably at a slower pace given our renormalization we think that growth rates continue to be reasonable there. Here in the U.S., in terms of our Institutional business, and again, as you look across Treasury and Trade Solutions, as you look across rates and currencies, as you look across Investment Banking and Equities, those are largely developed market gains that we think we've got the ability to take advantage of.

So, again, like the plan that John laid out, there is no big bet on any one geography having to really come through. And if we went down that path, we feel very good about the position in Mexico against that.

SUSAN KENDALL: 16.

SAUL MARTINEZ: Hi. Saul Martinez of UBS. Congratulations on the event and relatedly on the progress you've made. I guess, sort of a follow-up just as you look more broadly, John and Mike, on the assumption that underlie the guidance that you gave for 2020, where do you feel like there is the most upside? Where do you feel like you can outperform versus those expectations and maybe if you can talk a little bit about where you feel there may be some risk, where maybe you stretched the assumptions a little bit?

MIKE CORBAT: As John laid out, we don't have what I would describe as bold assumptions in terms of projected rate hikes going forward. So clearly, if we got some momentum into the U.S. economy and rate hikes not just in the U.S. but around the world were to accelerate, that would be a clear benefit.

Growth rates, as we look at the economies of the world today, again, we're not forecasting any big changes to GDP in there, and if we got the growth in terms of GDP, it would probably not only manifest itself in terms of rates, inflation, some other things that might be viewed as positive, but business activity could pick up from that. Do you want to add anything to that?

JOHN GERSPACH: No. I think you've actually got it. The keyword that we tried to build into the plan is one of balance. And so, it's balanced as far as Mike talked about before, with no one geography really bearing the brunt of the improvement and it's the same thing with products. So when we took a look at the assumptions, we didn't bake in heroic assumptions and improvements in GDP. We've got the U.S. growing at 2.3% GDP. I think in 2020, we've got it at 2.5%. We've got a very similar growth pattern for Mexico. Mexico is currently, Saul, I guess, it's 1.7%, 1.8%. And during the course of the plan, we have it growing up to 2.3% to 2.5%. So we could get a positive surprise out of Mexico if it actually does better and actually fulfills the potential that we all think it has, but that's not baked into the plan. So we think it's fairly well balanced.

MIKE CORBAT: I think the other piece, Saul, that I would call out is in our plan, we don't cite or build for significant regulatory change. So, we're not looking for changes of law, we're not looking for repeals. Our plan probably or does incorporate that there's probably not a lot of new regulation coming forward from today and we'll get some harmonization, but we're not necessarily – we're not really counting on any windfalls there.

In terms of the other side of your question around those vulnerabilities, obviously, it would be the other side of this that while we've tried to be reasonable, if we were to get surprises in terms of a slowdown in the U.S. economy or a stall or a tougher path to a harder landing in terms of China, those kinds of things clearly would not just impact us, they would obviously impact the broader markets. Things where – for whatever reasons, volatility activity just go abnormally low and there is not opportunities and there is not events for our customers to trade and to position their portfolios or deal flows or those types of things which are difficult. But, again, as you look in there, I think the power of what we're describing here is the multiple levers of, as John talks about, kind of GDP-like growth between now and 2020, reasonable expense assumptions, cost of credit and capital return. And when you add all those together in the event of events along the way, we believe we've got some levers to pull that can offset some of those surprises.

SUSAN KENDALL: 12.

JIM MITCHELL: Hi. Jim Mitchell from Buckingham Research

JOHN GERSPACH: Hey, Jim.

JIM MITCHELL: Hey. John, question for you. You are assuming the SCB is implemented and therefore carrying about 150 basis points above your current regulatory minimum, if that were not to be implemented, would you think that that would free up some additional capital versus your current plan, number one. I guess, secondly, as a follow-up on regulation, obviously that's not embedded in here. Is there anything, aspect of potential reform out there that you think that you'd have a big impact whether expenses, revenue or capital? Thanks.

JOHN GERSPACH: Yeah. From a SCB point of view, we have made that assumption that they implement it. And we actually like the plan that Governor Tarullo laid out. I thought it was a well thought out approach. So, we'll see where it goes from here. But if SCB were not implemented, that 50 basis points could be, therefore, something that we would look at as a target. Mike and I have been talking about a target ratio of somewhere between 11% to 11.5%. And we feel good about just setting it at 11.5%, and using that 50 basis points to cover the SCB.

At some point in time we will likely, if the regulations stay as they are, also need to move above that 3% GSIB charge. If everything stays where it is, once you get past 2020, we're going to be hard-pressed to maintain our 3% GSIB, so that 50 basis points could go there as well. So we feel pretty good about that.

From a regulatory point of view, Mike already mentioned, there's really nothing in the plan that assumes anything heroic as far as pullback from regulatory assumptions, and we don't have anything baked in there for anything new but I don't want to challenge regulatory authorities to think of something that they could add in. But we don't see anything that on the horizon right now that would cause us to say, okay, this could really hurt us.

MIKE CORBAT: And on the positive side, Jim, the things that are being talked about today, we would be supporters of, so, as an example, cleanup of Volcker. And so again, we're fine with Volcker, we don't need Volcker to go away. We'd love to do one and not three to five attestations around that. Obviously, I think for us, and for a number of the institutions, our binding constraint is CCAR. We'd love more clarity, more transparency in there and as we get some of that transparency, hopefully we can continue to make business model refinements that allow us to further optimize our capital base in a positive way.

JOHN GERSPACH: But none of that is built in for the numbers that you've seen.

JIM MITCHELL: Okay. Thanks.

SUSAN KENDALL: I think that's all the time we have now for Q&A. There will be more time for questions with Mike, John, and the rest of the team at the end of the day. For those of you participating by webcast, we're going to take a half hour break here in the room, and the webcast will resume at 10:45. Thanks.

MIKE CORBAT: Thank you.

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