Morgan Stanley Financials Conference 2011
February 2, 2011

Host
Betsy Graseck, Morgan Stanley

Speakers
Francesco Vanni d'Archirafi, Citi CEO Global Transaction Services
John Gerspach, Citi Chief Financial Officer

PRESENTATION

BETSY GRASECK: Okay, thanks, everybody, for joining us. I am pleased to introduce Francesco Vanni d'Archirafi who is Citi's CEO of Global Transaction Services. Francesco has been with Citi for almost 30 years and has held various positions in corporate banking, investment banking and transaction services in Europe, Latin America and the U.S. He has also spent two years running GTS and prior to that, he was Global Head of Treasury and Trade Solutions within GTS. As a reminder, Citi's Global Transaction Services business provides cash management, trade finance, custody and fund services for clients worldwide. We think the business is underappreciated as it gets little attention yet it generates $10 billion in annual revenue and contributes about 15% of core Citicorp revenues and 25% of earnings. With that, I would like to turn it over to Francesco.

FRANCESCO VANNI D'ARCHIRAFI: Thank you, Betsy and good morning, everyone. I am glad you are here and managed the weather. Today, I will discuss Citi's Global Transaction Services business, or GTS.

On slide 2, here is a quick snapshot of GTS by the numbers. We are a global provider of transaction services to the largest multinational corporations, financial institutions and public sector around the globe.

We move over $3 trillion worth of payments and securities each day in 135 currencies. We have the largest proprietary network of any financial institution on the ground in nearly 100 countries. We have been investing around $1 billion a year on technology to remain relevant to our clients and our franchise is recognized with number one industry rankings for cash management, corporate cards, trade finance and security services. We have been ranked as the number one global cash management bank by Global Finance Magazine for nine consecutive years and as the number one cash management bank in Latin America, for example, for three years.

Slide 3 shows our key product lines. Treasury and Trade Solutions generated $7.3 billion of revenues last year across cash management and trade. We provide a full range of working capital solutions, commercial cards, liquidity and investment solutions and information services to our clients. We also facilitate trade flows -- processing, servicing and financing trade around the globe.

Securities and Fund Services had $2.8 billion of revenue last year providing a full array of processing and back-office support for investors, intermediaries and issuers.

Slide 4 shows our financial results. GTS is a highly scalable, asset-lite business that continues to attract new clients and build volumes throughout the financial crisis. In fact, during this time, we became even more relevant to our clients who needed to optimize working capital and cash flows in a very uncertain environment.

Over the past four years, we have grown revenues and net income by an annual rate of 13% and 23%, respectively. While top-line growth has been slow for the past two years, as a result of the low interest rate environment in G3 currencies, we have steadily grown our client volumes to offset the impact of spread compression. Average deposits have grown at an annual rate of 15% over the last four years and trade assets, as another example, have more than doubled in the last two years driven mostly by emerging markets growth.

Slide 5 shows GTS as a percentage of Citicorp. While we represent only 15% of revenues, GTS contributed 25% of Citicorp earnings and 45% of year-end deposits for 2010. GTS is also highly diversified by product and region. As I mentioned earlier, Treasury and Trade Solutions contributed over 70% of GTS revenues in 2010.

While the majority was cash management, we are seeing high trade revenue growth driven by emerging market trade flows. Securities and Fund Services represents over 25% of revenues. By region, 75% of revenues were generated outside of North America, and roughly half of our revenue was from emerging markets.

Slide 6 shows some of the economic and regional trends driving our results. GTS is a business that intermediates commercial and capital market flows and the financial flows on the back of those flows around the globe. These flows are driven by economic growth, as well as the pace of trade and capital market activity. You can think of GTS as a leveraged bet on globalization.

Across every major metric, flow drivers are increasing and importantly becoming more global in nature as emerging market growth outpaces developed countries' growth. These flows translate into an estimated $250 billion opportunity for us. Treasury and Trade Solutions represents the largest piece at over $200 billion and it is a highly fragmented market. Citi has a number one position in TTS with less than a 5% global marketshare. Securities and Fund Services represents an over $40 billion market opportunity and we are the number four player.

Citi is uniquely positioned to serve multinational clients around the globe. Our core competitive advantage is our global network with proprietary operations and banking licenses in nearly 100 countries. This allows us better control of delivery, more transparency for our clients, more visibility on their flows and more control. And as our clients become more global and therefore more complex, we can take them into more markets than any other financial institution.

For the global clients, we are the local bank and for the local emerging clients, we are their global bank. Not only do we have operations around the globe, but we have also been in these markets for a long time, and over a century in some cases, giving us unparalleled local market knowledge.

For example, we have operated in markets such as India, Singapore and Hong Kong for more than 100 years and we have also been in Latin America for a century. In each country, we provide the expertise of a local market player with the scale and capabilities of a global franchise.

We have also been investing around $1 billion a year to remain at the forefront of product innovation, service and infrastructure. Basically, we provide feature and functionality-rich services to our clients. We connect the globe for our clients with global integrated technology platforms. For our multinational clients, this means being able to view and manage their global resources on a real-time basis.

The interface and capabilities are the same if you are sitting in New York, in London, in Mumbai, in Sao Paulo or in Nairobi. And finally, we have built long-standing relationships with our clients growing along with them to provide multiple solutions around the globe.

Slide 8 shows our global operations. We operate, as I said, a proprietary network in nearly 100 countries and serve clients in 140 countries. We have a significant presence in every region around the globe, which is a unique competitive advantage versus our peers with strength in one or two regions.

This is particularly true as a growing percentage of flows are emerging-market-to-emerging-market requiring cross-regional capabilities outside of developed markets. Think about China to Africa flows, Brazil to Africa flows and Asia to Latin America flows.

Slide 9 shows the extent of our market leadership. Country presence on the left shows the size of the proprietary network of Citi versus our peers. We are larger by nearly 50% versus our next competitor. In fact, several of our competitors and peers use Citi as a subcustodian in markets where they have no local presence. We also gather more deposits versus our peers at $333 billion of average deposits for 2010.

The next slide highlights some very interesting facts. For example, we are the world's largest user of SWIFT with a 7% marketshare. Nearly one in three cross-border securities transactions are backed by our global infrastructure. We handle approximately 90% of the U.S. Federal Government cross-border payments in 180 countries.

We also manage the industry's largest rebate program for a major U.S. telecom provider issuing over a million prepaid cards per month. We distribute payroll and provide critical services to the U.N. peacekeeping missions in the very hot spots around the globe. We help connect a major energy company supply chain across 63 countries and we are one of the two banks managing the Hong Kong government's procurement program through our purchasing card solutions. And we pay every month one million U.K. pensioners that reside outside of the U.K. their pensions.

Now let me focus on Treasury and Trade Solutions. Slide 12 describes that business, which had $7.3 billion of revenue in 2010, as I said. For corporate clients, we provide the backbone of their working capital and cash management operations. We serve 99% of the Fortune 100 companies and 93% of the Fortune Global 500. We also have more than 1,000 leading corporate clients in the emerging markets, the emerging champions of the future.

For other financial institutions, we provide the infrastructure and expertise to operate in local markets around the globe. We serve over 80% of the top 500 banks globally and two-thirds of leading asset managers. And finally, for the public sector, we bring these private market solutions to governments seeking to improve efficiency and transparency and control.

There is an enormous demand for greater visibility, transparency and control over the financial flows. We currently have 700 public sector clients in 120 countries and we are very focused on growing in the public sector space.

On slide 13, a few words on our strategy in TTS. First, we continue to expand our product capabilities around the globe. We have the most comprehensive liquidity management network in the industry. For example, last year we expanded local currency commercial cards to 59 countries and cash management cross-border sweeps to 50 countries. We are constantly working to improve our clients' cash flows and working capital efficiency, which made us a critical partner in navigating the recent financial crisis for our clients.

We are also keenly aware of the challenges that our clients will face in the future as their business becomes more global and therefore more complex. Increasing globalization and digitalization will continue to transform the payments industry. In particular, the merging of the mobile technology with financial services will increase in importance, and with that, the need to securely identify counterparties, share information and transact in new ways.

We are innovating and working with partners outside the traditional financial services industry to lead our clients through these changes.

In turn, on slide 15, on SFS, which had, as I said, $2.8 billion of revenues in 2010. For investors, we provide global custody, sec lending, fund administration and middle office support in 94 countries worldwide.

Our clients include a broad array of asset managers, mutual funds, pension funds, banks, hedge funds and insurers. We also provide direct custody and clearing services to intermediaries in 59 markets with the industry's most global, as I said before, proprietary network. And we support issuers with trust and depository receipt services in over 70 countries worldwide.

On slide 16, our unique advantage in SFS is our ability to support our clients in markets around the globe. And as I said, we operate our network in 59 countries and provide services to clients in nearly 100 countries also in SFS.

We provide an end-to-end solution that integrates electronic execution and order routing with clearing and settlement and custody and asset servicing. Importantly, we help our clients manage and simplify complexity, linking these markets and products with the integrated information and analytical tools, as well as on the ground stuff with unparalleled local market expertise.

Turning to slide 18, we think we are very well positioned for the future. As we discussed earlier, economic drivers continue to show growth globally, particularly in the emerging markets. We are uniquely positioned to serve clients in these regions around the world given our long-standing local market presence and integrated global platforms.

The total GTS market space is highly fragmented and we believe we can continue to gain share from existing and from new clients. Growth from existing relationships will come as our clients become more global and complex requiring more services in more places around the world.

We will also provide services to new clients such as the public sector, including city administrations as governments seek to become more efficient and transparent and start adopting some of the private sector best practices. And finally, we will continue to invest in new product innovation and technology to stay relevant to our clients.

As shown on slide 19, our target market of multinational clients is growing with an increasing portion domiciled in the emerging markets. 435 clients currently use Citi's global network in 21 or more countries and over 60 of our most important clients use us in more than 50 countries.

Slide 20 shows our clients and revenue mix. While we will continue to serve those clients who need us around the globe, our focus today is on a smaller, more profitable client base with complex global needs. As shown in this slide, our top 3,000 clients generate over 90% of our GTS revenues. Not surprisingly, they represent long-standing relationships when we provide not only multiple GTS services, but also, with few exceptions, other Citi solutions.

The other important point is that the wallet capture on the 13% of the clients that represent 90% of the revenues is estimated at 14%. So we think also there is growth potential with our existing top 3,000 clients. And we believe that the next 2,000 clients have potential for significant wallet share penetration in a similar way as the first 3,000 clients.

Slide 21, an example of how this relationship, in this case, with a major global energy company works. Over a six year time span, we grew from a cash management assignment in this country to a multiple product relationship with services across both TTS and SFS in every region around the globe and the colors represent regions. And this is only the GTS cut of this client relationship.

This requires a very intense relationship dialogue with multiple buying centers and to give you an idea, in 2006, on average, there were 13 buying centers in our clients and today, there are around 25 for every one of our clients.

Slide 22 highlights the public sector opportunity and in particular our Citi for Cities strategy. As I mentioned earlier, the public sector represents a growing client opportunity for us as government and city administrators seek or need to become more efficient.

Urbanization trends on one side, mostly in the emerging markets and the economic environment in the developed markets have created a complex and growing burden on city administrators. And we think that Citi is uniquely positioned to provide cash management and payments infrastructure to growing cities or challenged cities around the globe and most importantly, their entire supply chain ecosystem.

We can also leverage our capital markets in consumer businesses to address the full range of city needs, capital markets at the top of the pyramid and the consumer bank at the bottom of the pyramid.

Slide 23, in summary, GTS is a large-scale global provider of transaction services. We think we have unique competitive advantages, including, as I said many times, the largest proprietary network of any financial institution and a long-standing local presence in all the countries where we see growth in the future.

We are very well-positioned to capture growth in global payments, in trade and capital market flows. And we are committed to investing in the franchise to remain at the forefront for our clients. Thank you for listening and I think we have a few minutes for questions.

BETSY GRASECK: Super. Thank you, Francesco. I don't know if there is anybody in the audience that has a question. Raise your hand. I will kick it off. Okay, over here.

SPEAKER 1: Could you talk about how an extended period of steep yield curve would impact your profitability?

FRANCESCO VANNI D'ARCHIRAFI: Extended period of yield curve? John can help me, but we run -- we don't have interest rate risk in this business. So the interest rate risk is given to Treasury and therefore rates are important because, for example, when spreads are so low in the G3 currencies, it is very hard to generate spread with your balances and with your asset side of the balance sheet. But having said that, because we are so diversified, I would think we match a global yield curve, but we are at least in the business perfectly hedged.

JOHN GERSPACH: Yes, the way to think about this business, we count on this business to be a supplier of funds to the firm. So Francesco, actually as interest rates move up, his deposits become more valuable to the Corporation. And so over a period of time then, we work out transfer pricing with the business that equate to roughly, for his core deposits, will pay him based upon a five-year – think of it in terms of a five-year caterpillar.

FRANCESCO VANNI D'ARCHIRAFI: Yes, which matches the statistical tenor of our liabilities. That is why I say we run a matched book in the business. So that is how we do it. Now in the emerging markets, which is 50% of our business, I mean rates are going in the other direction very quickly and so it's really the composition of what happens to the G3 currencies, what happens to the emerging market currencies and what happens in the countries where we have a bigger marketshare. So it is very hard to answer. But generally speaking, we are in the servicing business and not in the business of playing the yield curve.

BETSY GRASECK: Francesco, one of the things that separates you from some of the pure play competitors in the U.S. is the subcustodian franchise that you have. Could you just speak to how you leverage that in the context of the overall organization because one of the questions I get is, gee, that seems like a much more expensive business model. Is that right or not?

FRANCESCO VANNI D'ARCHIRAFI: But that is the model of Citi. We have a domestic banking license and we have operations and technology in a lot of countries and therefore, we own our own factory. I frankly say the biggest competitors of other parts of Citi are the biggest clients of our services business. Why? Because we do something which is very easy to say, it is very hard to do. We provide transparency; we provide visibility on the flows and financial assets; and we provide real-time information so that our clients can make decisions at the center.

So during the volatile markets we have had in the last two or three years, we have become even more relevant because, as we switch off from us, you have to go to multiple providers and then it becomes a nightmare to manage your service providers. Does that answer your question?

BETSY GRASECK: Okay, yes. Question over here.

SPEAKER 2: Good morning. If you were a freestanding company, how much free cash flow would you generate and would you grow faster as a freestanding company?

FRANCESCO VANNI D'ARCHIRAFI: If I were -- sorry, I missed that –

BETSY GRASECK: A freestanding –

JOHN GERSPACH: If you were a freestanding company, Francesco, which you are not –

FRANCESCO VANNI D'ARCHIRAFI: I think, first of all, my point of view -- the reason we are successful, and I will answer your question in a second, the reason we are successful because we bank from a services point of view the relationships of Citi. And so it is really very hard to say we can do everything we say without everything else that Citi does.

For our clients, we do -- we manage their cash. We manage their commercial flows. We manage their financial assets. But we also use our balance sheet with our clients. We help them in risk mitigations. We issue paper for them in the market, etc., etc., etc. And that is managed on a holistic way in our banking organization. We have people that are experts in servicing our clients from a transaction services point of view that work with the bankers to make sure we continue to capture the wallet share of opportunity I explained.

So I would say it is very hard to stay separated. Now you have seen our margins, which are very healthy, and our returns are also very healthy and I would say that even the net income we generate on our top line, we basically spend $1 billion more or less in cash, in capital expenditures technology. I mean so that is the number I would focus. And because we have been growing that, the asset side of the balance sheet because some of this is capitalized, it is probably -- it is still growing and therefore the P&L impact is -- I have never done the number, but it would probably be $700 to $800. So the extra cash flow is probably around –

JOHN GERSPACH: Actually –

FRANCESCO VANNI D'ARCHIRAFI: (multiple speakers) it's immaterial in the spirit of –

JOHN GERSPACH: It's actually very difficult to separate out what Francesco would look like as a separate company because he is so integrated. His services are so integrated into the way we service our clients around the world. And so how much of his business comes because of the fact that we have got an extensive balance sheet and therefore can offer lending, how much of his business comes about because of our FX and fixed income capabilities. We don't try to break it out like that. We provide the numbers based upon management reporting, but trying to equate them to a standalone company would be difficult.

FRANCESCO VANNI D'ARCHIRAFI: So that is the first part of the question. The second is that the cash flow and the P&L given that condition is very similar because the difference is a couple of hundred million dollars on the size of the P&L.

SPEAKER 3: When short rates rise, what kind of (inaudible) could we see to the bottom line as far as operating leverage?

FRANCESCO VANNI D'ARCHIRAFI: I think on the -- if rates rise short term generally, because half of our revenues is spread, we should be able to have a little bit more upside. But it is very hard to generalize because your rates are raising for example in China, in India, etc. So it is the combination of the two, the rates on the G3 currencies and the rest of the world. And I would say and I would say, and you can see the results, the combination is very healthy. I mean diversification really pays to produce a stable earnings stream for the business.

BETSY GRASECK: Okay, with that, join me in thanking Francesco for his presentation. Francesco and John will be moving up to Kennedy 1 for the breakout. Thank you.

FRANCESCO VANNI D'ARCHIRAFI: Thank you.