TRANSCRIPT

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PRESENTATION

GUY MOSZKOWSKI: Good morning and welcome to day two of our annual BofA Merrill Lynch Banking and Financial Services Conference. It's my pleasure to introduce once again, Manuel Medina-Mora, recently named Chief Executive Officer of Citi Global Consumer Banking. Prior to that, Manuel headed up consumer banking for the Americas and also was responsible for Global Consumer Strategy, the blueprint of which he shared with us at our conference last year. Citi's global footprint is to us the truly defining and distinguishing characteristic of the company. For all of the risk issues that it's still working to put behind it, I think we have to give Citi credit for prescience in terms of reorienting away from a focus on the more mature market of the U.S. and especially Western Europe, in favor of the emerging, growth markets from around the world. One area where investors have long been frustrated has been the balance of expense or investment in the International Consumer Business, with the revenue growth that it generates. This has been manifested in what has often been negative operating leverage. Lately the company has acknowledged the concern and indicated that the balance of expense and revenue growth would improve and we did see positive operating leverage a bit ahead of schedule in the Asian Consumer Business in the third quarter and the company has pledged to expand that to Latin America in the fourth and to work to that goal in North America by late next year.

Manuel brings many years of banking experience, running Banamex, which for the last 10 years has been Citi's largest emerging markets unit, so he's clearly well prepared for his expanded role. And with that, let me turn the podium over to Manuel Medina-Mora. Thank you.

MANUEL MEDINA-MORA: Thank you very much. Thank you, Guy. And it's a pleasure to be back at the Bank of America Merrill Lynch Conference, one year later. I was invited to talk a year ago, as Guy mentioned, about the consumer banking business, and at that time we centered our presentation on two topics: the blueprint of our strategy, and then how we were planning to start the turnaround in North America – in the North America consumer banking business of Citi. This time I would like to focus more on where our consumer banking franchise is today, our results on key drivers and financial metrics; share with you how we are investing in our strategy, in a multi-channel distribution, innovations, technology, talent and marketing; and how we are building a global model that should allow us to be more effective and more efficient as we move forward.

On a standalone basis, our consumer bank would rank among the largest in the world. We serve over 60 million customers in 40 countries through more than 4,600 branches, with over $300 billion in deposits. We are the number one credit card issue in the world. Our total consumer loan portfolio is more than $230 billion. When we add next year, early next year, the retail partner cards business, which today is in Holdings, and we move it back to Citicorp, our portfolio will be above $275 billion. And we represent a quite significant part of Citicorp. About 24% of its assets, 40 % of its deposits and also 40% of the last 12 months' net income for the whole of Citicorp.

Our consumer business is divided in four regions: North America, Latin America, Asia, and what we call EMEA – Europe, Middle East and Africa, which in the case of the consumer banking business, is centered in Central and Eastern European countries since we don’t have any presence in Corp in Western Europe. As you can see, almost 80% of our branch network is outside of the U.S. Our assets, deposits, revenues and net income are well distributed among the three key regions – North America, Asia, and Latin America. Importantly, outside the U.S., our business is predominately in emerging markets. Over half of our assets, revenues, and net income, are in emerging markets. This is the position on the consumer banking business. This footprint provides unique growth opportunities, as Asia Pacific and Latin America in particular, continue to enjoy substantial economic growth, even in today's environment.

Let's now review our recent results. Our global footprint provides the benefit of diversification. In the most recent cycle, for example, net credit losses peak at different points in each of our four regions. First, happens in Asia in the second quarter of 2009; one quarter later in Latin America; then EMEA; and finally, in the second quarter of 2010, in North America. In the last year, 12 months to the third quarter, the net credit loss ratio of the four regions combined have continued to decline. Now, if you look closely at this total consumer net credit losses ratio, it peaks at roughly 6% in the second quarter of 2009, and declined fairly consistently thereafter; even while North America continued to climb to a peak of 8% in 2010. That's the power of diversification. That's the power of the global footprint.

International credit trends have largely normalized. As you can see in the shallow area, the last 12 months, they have continued to come down. And we also expect NCL ratios to improve moderately in the U.S., especially in North America cards. Now, if you look at the right-hand side of the chart, of the slide, you will see some of our key drivers: international loans and North America and U.S. loans. This is a picture that we were actually looking at a year ago. Look at what has happened in the last 12 months. A very strong growth in the international front, which actually is expanding at about 11% in dollar terms, and even in the U.S. we have managed to get to stabilization first and then to some growth: 4% year-on-year. When you look at our demand deposit account balances, you will see that since the crisis, they have shown continuous improvement and an upward trend all the time, both internationally and in North America. And that has been the case in the last 12 months. We are expanding demand deposits – the transactional accounts of consumers and commercial banking clients at about 11% year-on-year in the U.S., and 10 % internationally - quite strong growth in our key drivers.

Let's look now at our earnings. And for that, I would like to look at the last 12 months pre-tax earnings, but I'm going to exclude the loan loss reserve build ups or releases. So in the recent past, in the line, you don’t see the benefit of the releases of reserves for loan losses. The lower credit cost and the underlying business growth are driving significant earnings improvements. Again, on the left-hand side is a chart similar to the one that we were looking at a year ago in this same conference. Look at what has happened in the last 12 months. So, a year ago, on a trailing 12 month basis, we were generating a little bit less than $4 billion in pre-tax income, excluding reserve releases - what we call core EBIT in Citi. Over the last 12 months, we generated %5.5 billion in core EBIT. That is a 40% improvement, year-on-year, on pre-tax earnings excluding reserve releases.

When I stood here a year ago, net income was improving in total, earnings were improving in total, but North America continued to lag the international businesses, as you could see, on the right-hand side of the slide. Today, both segments are improving, with significant pre-tax earnings growth - again, even before the benefit of loan loss reserve releases. Over the last 12 months, core EBIT grew 23% for the international business to over $4.3 billion, while North America more than doubled to over $1.1 billion.

As we grow our business, it is important that we remain disciplined with a consistent execution of our strategy. And on this slide, I will try to summarize for you the basic elements of the strategy - that we went in through a longer explanation last year.

First, we are following a customer-centric business model. In most international markets, we are successfully executing this strategy. It's reflected, as you'll see later, in strong brand health and our customer satisfaction scores. In North America, this focus on customer relationships, as opposed to product silos, is central to our turnaround.

Second, we focus on markets and segments where we have a competitive advantage, including:

retail banking for the emerging affluent and affluent segments in the world's top cities - the 150 cities that will be the top cities 6 years from now. We are already in more than 120 of those cities around the world; a broader approach in Cards, where we serve clients on a nation-wide basis, because the business lends itself to that type of geographical coverage; and of course, in deep footprint geographies, like Mexico, Poland, Korea, Taiwan and Central America; and finally, within our footprint, we will continue to serve and expand commercial banking clients with our unique, global capabilities.

Third, we will continue to invest for organic growth. Year-to-date, we have invested, and I'll tell you a little bit more about this, $1.5 billion in our consumer banking business, which I'll discuss, as I said, in more detail.

And finally, we will leverage our unique global scale and footprint. Early this month, as Guy said, our CEO Vikram Pandit invited me to take the newly created role of CEO of Global Consumer Banking, with line management responsibility for executing our consumer strategy in all the regions of the world, on a consistent basis. Our goal of course, is to leverage our global scale for a local market advantage. In order to fully realize our potential, we must execute on a global business model, with one global operating platform and a consistent management process - a disciplined management process, which will include, of course, cost management.

Executing this strategy is critical to capturing the opportunity. While growth expectations have slowed for all markets, the biggest source of decline has been, of course, in developed economies as heavy public sector there threatens the fragile economic recovery in these countries. Even within developed economies, the U.S., of course, is the one that has the brightest future.

But emerging markets, in contrast, are in a significantly stronger fiscal position and are expected to grow at a nearly 6% compound annual growth rate through 2015, led by China and India, while at the same time, developed markets are expected to grow less than 2% per year. Citi, therefore, is well positioned to benefit from faster growing markets.

On the right, we show the top 15 emerging markets, ranked by consumer banking revenue pools as they are estimated for 2014. Together these 15 countries account for 70% of the consumer banking opportunity in emerging markets. Citi already operates in 14 of the top 15 markets and, in most cases, we have been in those countries for several decades or longer. So, we know the markets; we have the network; we've been there for years. In Russia, for example, as some of our competitors have recently exited the market, we remain profitable, and actually we have grown revenues substantially in the recent past.

The strength of our consumer banking franchise is reaching around the world. It is evident in some of the key metrics that we follow on a monthly basis in terms of our brand health in our key markets and in terms of customer satisfaction. This is the key to actually succeed in the consumer banking arena.

On the left, we show you unaided brand awareness, including very strong scores across emerging markets in Asia and in Latin America. This is against all banks, including of course, the local banks. Net promoter score is the metric that we use now, consistently over the 40 countries in which we are present, to measure customer satisfaction. This is a very powerful metric. It actually summarizes the level of satisfaction of your clients and we are showing here net promoter score for several markets and for three businesses: credit cards, retail bank, and wealth management, which is especially important for the emerging affluent and affluent segments. As you can see, we scored number one or number two, highest NPS in these countries in this business, in those 15 emerging markets. Again, this is against all global banks and all local banks.

Our international business is both diversified and quite profitable. On the left-hand side of this slide, you can see the diversification of our revenues and I would say even that the size of Mexico and Brazil is due in part to the higher yields that we have on the loans that we generate in Latin America. It is also important to notice that we generate very attractive returns on our international consumer business, as shown on the right-hand side. Over the last 12 months, the international business generated a total return on assets - again adjusted to exclude reserve releases, so this is a much more conservative measure - a return on assets, adjusted for reserve releases of 1.6%. This contrasts of course, with the current returns of less than 1% in North America, where we are still recovering the whole industry from economic and regulatory headwinds, particularly in credit cards.

Let me take some time to discuss our U.S. franchise, and I'll do it very quickly. Our strategy in North America is not different than our international businesses. In retail banking, we are focused on the major cities, on the top cities, and we have a leading, nation-wide card business. Our turnaround in the U.S. is focused on better execution, better management talent, and breaking down product silos, which have historically affected our performance. While we have a strong market share on our target segments, less than 40% of our banking customers also have a Citi card or a Citi mortgage - low-hanging fruits. We have made progress this year, of course, in optimizing our business mix with strong growth in demand deposit accounts - which actually forge a primary relationship with our clients - and an increase in year-to-date loan originations. We just started to ramp up our investments in North America to expand and improve our multi-channel strategy, to add bankers and sales forces to our expanding client base.

We have successfully completed, in North America, phase one, the whole front-end of Rainbow, our global IT platform, which is the core of our operating model. And, of course, we expect that with this, we will improve in the next couple of years, both our efficiency and the customer experience for our clients.

Turning to North America branded cards, we are a top three issuer in the U.S., and including retail partner cards, we are the number two issuer in the U.S. by loans. We continue to see positive momentum in the branded cards, with significant growth in pre-tax income year-to-date - and again, before the benefit of reserve releases. We ramped up our card investments this year, and the initial results are promising. New accounts were up 35% sequentially in the third quarter, and we have grown both total accounts and end-of-period loans in the past two quarters.

When I was here last year, we had just started to ramp up our investments in Asia and Latin America. Today, as you can see in this slide, we are investing across the franchise, most recently, as I said, also in North America. Year-to-date, we have invested $1.5 billion, with over $1.1 billion in revenue generating initiatives. Roughly $700 million is related to marketing and card campaigns all over the world, including new card acquisitions, card usage initiatives and loyalty and rewards programs. And roughly $300 million is related to retail distribution and the expansion of retail sales forces. In total, for example, in the first 9 months, we have opened 65 new branches, with the majority being in Asia Pacific and in Latin America. We also continue to hire new Citigold bankers and new commercial bankers to serve, as I said, our expanding customer base.

Let me mention briefly some of our most recent innovations around the world. We are leveraging of course, our global footprint to offer a value proposition to what we call global clients – globally minded clients all over the world. And this value proposition includes global view of accounts, electronic transfer of funds from an online device of course, and multi-national investment capabilities, just to mention some. In cards, we have introduced several new products, including an enhanced Thank You rewards program in the U.S., and new, award-winning Premier Miles card in several markets, new products focused on female consumers in Latin America, and our Simplicity Card, which provides customers with a simple way to manage their personal finances - the latest launch in the U.S. We have also launched a new Merchant Loyalty Program in EMEA.
In digital banking, we redesigned completely our online banking platform and is now being rolled out globally. In Mexico, where we were the first to launch mobile banking, we are now joining forces with America Movil, the leading mobile company in Latin America, to pioneer the mWallet concept in the Latin American region. And Citi is also the lead bank in Google Wallet, offering the latest smartphone Tap and Pay technology.

We are also investing to grow our Smart Banking locations, which now total 108 branches across 11 markets - 11 countries in Asia and the U.S. These branches feature our most advanced technology including media walls, interactive touch screens, “face-to-face” phone banking and video conferencing facilities. They come in all shapes and sizes, depending on the location, but let me show you two. Last year we opened one in Hong Kong. That is quite something. It's called the Mong Kok District. For those of you that know Hong Kong, you know that this is one of the busiest areas in the world – a 23,000 square foot location. This flagship not only serves a tremendous number of customers, but also increases our brand awareness in the region and creates an anchor for additional smaller branch Banking Kiosks and ATMs. So far, our branch walk-ins are nearly 4x Citi's average in Hong Kong and the number of products sold is 10x the average.

We brought this concept near home, to Union Square, New York. We opened just at the end of last year a 9,700 square foot location, and we are starting to see the same experience that we saw in Mong Kok, in Hong Kong. The number of walk-in transactions are 2.5x only 10 months after opening than what we actually observed in all other branches in North America, and the products sold, as you can see, are 4x the number of products that we have.

Of course, we are using all our knowledge and expertise derived from these openings to improve and ride the experience curve on implementing new, Smart Bank branches.

Last year, I discussed one of our most important projects here: updating and simplifying our global IT platform. Three years ago, two years ago, we had 40 different IT platforms. We are moving rapidly and decisively to have one, global platform. And think about the efficiency that that can bring, and the simplification on our operations. Our goal is to have all the regions on a common system by 2014.

The core platform is what we call Rainbow - a 360° view of clients, a very advanced technology that allows all type of interfaces with, of course, positions of the branches, but also mobile, internet, any channel. We have by now implemented it in several countries in Southeast Asia, and the first phase, as I mentioned, in North America. And we are working on the implementation in North Asia, Latin America, and EMEA. Brazil will be next year, Mexico the following, and this is where the biggest markets are. By 2014, we will have close to 90% of our operations running on the same platform. We are already beginning to see a positive impact on our business, both in terms of customer satisfaction and efficiencies. Once implemented it will allow us the possibility of a seamless, consistent customer experience across channels and across markets. And we expect to improve operating efficiency and time-to-market with new products.

As you have seen, we are improving our financial results, executing and investing in the strategy that we presented to you a year ago. Equally important, we are leveraging our globality. We have shown some examples today, from building a single technological platform to transferring our Smart Banking Expertise across regions. It is a very positive trend, but not enough. We should go a step further, unleashing what we call "the Power of One” - a simple, yet powerful concept which establishes: a single consumer banking business model. One that allows us to serve our clients with consistent experience and the best available technology in branches, internet or mobile; one, single operating model, with a global IT platform that will allow us to leverage our scale and attain better levels of operating efficiency; and a single, cost management approach, consistently improving our expense base to allow us to free resources to continue to invest; finally, one governance process to optimally allocate our key resources - talent, capital and investments for the best returns.

In conclusion, we believe we are uniquely positioned to benefit from emerging markets growth and the globalization of financial services, as no other bank in the world, in the consumer banking space. We have focus and we continue to be focused on restructuring and better execution in our North America consumer banking business, based on a customer-centric approach. We will be adding retail partner cards to our North America group early next year.

Our strategies focus on markets and segments where we have a competitive advantage. We are investing for organic growth, and as Guy said, we are already started to show positive operating leverage in Asia Pacific for the third quarter of this year. We expect the same in Latin America in the fourth quarter of this year. And at end of 2012, it will be the turn of North America to start showing positive operating leverage from the investments that we have undertaken.

And finally, we are leveraging our global capabilities and best practices. Citi is a unique place to benefit from emerging market growth and the recovery of the U.S. This is our franchise, our strategy, and our results year-to-date. John Gerspach, our CFO and I will be glad to take any questions that you might have.

GUY MOSZKOWSKI: Thanks Manuel. Why don't I start off by maybe asking both of you - people on the sell side, like me, and investors have all been focused on this whole operating leverage thing for such a long time. Guilty as charged. And at the same time, we certainly want to make sure that the stuff that you're eliminating is inefficiency, as opposed to investment for growth. What was the process that you went through in order to make sure that what you were eliminating was the waste, as opposed to the real growth spending?

MANUEL MEDINA-MORA: We are doing actually two things, Guy, and working on the two dimensions at the same time. First of all: expense management. And expense management is more than expense management. It should be cost management because it also includes defining what is the right level, number of people that you need in any operation. So we look at head count as well. So that's what we call expense management, and that should yield results in the short term. The second one is through reengineering. And even more than that, business transformation. For that we have the possibility of doing it, now that we are moving to a global platform, operating platform, based on a unique IT platform for the core systems, for internet, for mobile. Everything is going to become global, and if you have one system, this is the power of one. You can actually save a lot of money from having different software groups in different countries developing and adjusting systems. You have to have, of course, a very robust global governance system; we have created that over the last year through the Global Consumer Council. So both expense management and reengineering.

Now, the key question is: what is there for our people? How do we actually motivate them to actually focus on expense management and reengineering? By basically promising that any savings that we have from our current cost base will be reinvested in revenue generating opportunities. So, it's creating the discipline within the company and changing the culture so that all are motivated to really go and do their best in terms of operating efficiency and business transformation, so that they can have more resources to continue to invest in what they deem to be revenue generating activities. Those projects, those initiatives, are, of course, considered at the global level. This is the one governance process, because we want to make sure that Citi invests in those opportunities that offer the best returns on Basel III, going forward, quite clearly, and generate the best earning role for our shareholders.

JOHN GERSPACH: And the same process that Manuel describes for consumer, we extend to the entire firm. You know, our approach is, every business is expected to generate somewhere between 3-5% efficiency saves in their expense base every year and we bake that into the budget. And to the extent that they are able to deliver those efficiency saves, there's more dollars to invest. Now, recognizing coming out of '08, '09 where we had significantly cut back, and part of what drove the negative operating leverage that you saw during the latter part of 2010 and the early part of 2011, we decided to reinvest in advance of generating all those expense saves. So if you look at some of the material that we've put out, his year, through the third quarter, for the full firm we would have had incremental investment spending of about $2.8 billion, which has been about half paid by those efficiency saves. So we've already taken out about $1.4 billion of the expense base through the third quarter of this year, full firm. So we've been in a mode of invest first, get the expense saves, and see where the revenue comes. Now that we've made the initial investment dollars, we'll move much more on to the scenario that Manuel laid out, where in the future it will be more how much you do you save becomes how much of investment dollars we actually have for the firm and that's what's generating then that move back towards that positive operating leverage.

GUY MOSZKOWSKI: Right. Thanks John. Questions from the floor? This one right here.

SPEAKER 1: A very interesting presentation. I appreciate it very much.

MANUEL MEDINA-MORA: Thank you.

SPEAKER 1: The two branches that you brought up, Union Square and Mong Kok in Hong Kong, those are clearly kind of central islands around which there will be much smaller branches in time. I'm very curious to hear more about what's the mix of capital labor in that branch, compared to your traditional branch. Do the savings tend to come in the implementation of the productivity of that main branch, or do you expect more savings out of the satellite branches because of what the main branch enables them to do? And then, this is a bit long as a question, but, years ago, under John Reed, Citi made a huge bet about automation and the ATM.

MANUEL MEDINA-MORA: That's right.

SPEAKER 1: And it was innovative and it was far-sighted and arguably, it was wrong and disadvantaged Citi as a deposit gatherer for quite some time. You all seem to be poised to make another bet. I'm not entirely sure how much of it is about just brand, and how much of it is about systems, presumably, to some degree, both. What research has led you to believe that this equally forward thinking bet is a correct one?

MANUEL MEDINA-MORA: Okay, great questions. On the first one, how do we derive operating efficiency from the Smart Branches? You have to look at both sides. We actually derive savings and we actually enhance revenues. So, at the end of the day, we measure this by the cost to income ratio. On the cost, we use less tellers, of course, and we tend to have only very, I mean, few tellers, but only one or two very well trained people that can actually direct clients to what they need. And you're right; one of the key components is what we call the Sky Branch. That is, if you go into one of these Smart branches, you can actually access online, in front of you, on a screen, you see the representative or a Citi advisor who will be able to solve any problem; who will be able to understand your needs; to give you advice in terms of investments; or anything that you need. Those representatives will have in display your basic relationship with Citi, every word, where they are located. Doesn't need to be in the branch. So it becomes a very powerful interaction point. And you have more capital investments in relation to the traditional branch; less labor costs going forward, because you are centralizing everything, especially with Sky Branches. So what we found is that these branches, when well designed and well positioned in locations, can break even and can reach payback sooner than traditional branches. They are very good. They look like a MAC store. And so people like that. The new generations interact here. We have a working bench in which they become actually the ones that fill all the forms. No teller has to do that anymore. It is very well designed; it is really very well engineered from the point of view of process.

The other side, we are attracting more customers as walk-ins to that branch. We are selling more products, and so revenues do go much more quickly than in a traditional branch in relation to your investment.

Your second question, that's a very important question and that actually, as you said, refers back to something that was in the DNA of Citi; investing in technology; trying to lead by technology. What is different this time is that we are looking at several initiatives, some by our own, some with potential partners, like Google, or American Movil, in which we discuss, "Why don't we work on this?" They respect a lot the technology that we have. They actually are fascinated by our global reach. No other bank in the world has the consumer base in 40 countries that we can offer, so that becomes quite appealing to the Googles. And American Movil, for example, is in 19 countries in Latin America, but we are in 24. No other bank is in 24 countries in Latin America, so for American Movil, we were the perfect partners.

And the technology that we are launching is rigorously tested. We have a lab in Singapore in which we follow, very closely, how clients react to new technology. We will have a similar lab in Latin America. So before rolling out and making big investments, when we come with something new - and for example, I believe next year you will see the new generation of ATMs from Citi - we follow very closely whether they are effective on engaging clients to do more business with us. And this is what we are paying attention to.

On the other hand, we have several bets, not just one. That is of course, a basic concept; you diversify your bets when you are talking about new technology.

GUY MOSZKOWSKI: Manuel, I think we're out of time in this room. For those of you who'd like to stay with us, we have the penthouse suite down at the other end of the hall here, and we're going to do Q&A session with Manuel for a little while.

MANUEL MEDIANA MORA: Thank you very much Guy.