TRANSCRIPT

Sanford C. Bernstein Strategic Decisions Conference
May 29, 2013

Speakers
John McDonald, Sanford C. Bernstein Analyst
Michael Corbat, Citigroup Chief Executive Officer

JOHN MCDONALD: Good afternoon. Thanks, everyone, for joining us. My name's John McDonald, and I'm the analyst following the large-cap bank sector at Sanford Bernstein. We're very happy to have Citigroup joining us today, with CEO, Mike Corbat. We'll be using the fireside chat format. You can participate by filling out question cards, and they'll be passed along up to me, and we'll get through as many as we can. So, Mike, thanks very much for joining us today, very happy to have you. I guess, as an opener, you've been in the CEO seat for about seven months now. Maybe you could kind of give us a quick overview of what your key priorities have been since taking over?

MICHAEL CORBAT: Sure. Well, great. Good afternoon, and thank you, John, for having me here today.

When I got into the job, I talked about really being near-term focused on three things. One, at the time I got in, it was in some ways a fortuitous time to get into the job, and that was really in the fall, in October, in the middle of budget season. And that really enabled me to get into the business reviews very quickly, I think, at an important time of year, and to work that to our budget for the year, as well as our three-year strategic plan, which I'll come back and touch on.

Second piece was around really wanting to get a functioning management team in place, and said it'd probably take us 90 days or so. And by the first of the year, early in the first week of the year, we had that announced.

And the third piece, very obviously, was around our capital submission, our CCAR, and wanting to make sure that we ran the right process, and then obviously wanting to get to the right result. And so, our scenarios came out on November 15th, and we made our submission on January 7th. And in March, the Fed came back with no object to the plan.

JOHN MCDONALD: And you said early on that you believe Citigroup strategy was broadly the right one. What have you done differently that you hope the market gradually picks up on?

MICHAEL CORBAT: So, when I got into the job, I talked about the fact that I felt that our strategy was the right one. And the things that we really have identified ourselves around are three of the big global secular themes, or trends that are out there.

One is around the concept of globalization, the second is around urbanization, and the third around digitization. Those things, a company that comes to work every day in 100 countries around our institutional network, a company that comes to work in approaching 150 cities in our urban-based consumer strategy, and the third piece around digital - and that's just not around the way customers and clients are communicating - but the way that they're transacting, the way we're interacting with them from everything from client service through the product offerings that we have. So, those felt, and continue to feel right.

But, we operate, as we see the environment today, in a challenging economic environment, an uneven environment - China at one end, 7.5%-7.7% growth, Europe in recession. That unevenness, and I think the stinginess of some of these economic recoveries, are going to be around for a while. So, for us, what's really important in a business model where you come to work in all these places every day is that you come to work, and that you are a good allocator, as I like to call it, a maniacal allocator of our resources.

And what we can't do in this environment is come to work and spread the peanutbutter. We've got to think about all of our finite resources. And whether that's people, capital, balance sheet, risk, investment spend, that we've got to be really good allocators of those and make sure, on behalf of our clients, customers and our shareholders, that we're putting those in the right place. And we all know that when you don't do that right, you sub-optimize. You often get adversely selected in that process. And again, very important. So, we've been very focused on being good allocators.

Second piece of that is -- and that's really around the management of our core business -- second piece around that is the management of our legacy business, and really two key things we're focused on in that part of the business, or in that part of the balance sheet. One is the continued run-down, management, reduction of earnings drag from Citi Holdings, and the second piece is around beginning to utilize our DTA and to make sure we can do those.

And so, I think, early on, we've got our country bucketing and prioritization done. We've got our plan of action around Holdings and, in the first quarter, we've started to use a bit, but a lot more to do in terms of DTA.

JOHN MCDONALD: Just back in March of this year, you set out some financial targets for 2015. Can you describe the process that went into setting those goals?

MICHAEL CORBAT: Yes. One thing I think we felt was important that, as we got some of these legacy pieces, one was to try and provide as much transparency to our stakeholders, to our shareholders, as possible, and that we felt it was important for us to go out with some public goals by which our shareholders could hold us accountable for what it is we needed to do. And in there, we set three. We said that one is that at the Citigroup level -- and again, very mindful that our shareholders don't own Corp or Holdings, they own group -- and at the group level, by the end of 2015, we would strive to achieve a return on assets of between 90 and 110 basis points. From a return on tangible common equity perspective, we want to get that north of 10%. And from an efficiency ratio on the Citicorp side, really the go-forward part of the business, we want that to be in the mid-50s.

And so, again, three things that you're going to see us speak to every quarter, three things that are public, three things that you can begin to hold us accountable for.

JOHN MCDONALD: And how would you characterize the degree of difficulty in getting there? Is it challenging but doable? And what kind of economic environment are you assuming in shooting for those kind of goals?

MICHAEL CORBAT: I think that the three goals certainly all have some challenge and some stretch in them in terms of a challenging environment, but we think they are achievable. And when we set the plan, and when we set those targets, we didn't build into those numbers the need for a rise in interest rates, for a big inorganic piece to go away in Holdings. We did have to build in some capital return, and so the ROTCEs are dependent upon that, but again in the scheme of things, at the time and still today, we think those were the right numbers.

JOHN MCDONALD: And on the DTA front for the non-tax expert, how would you describe the conditions that would cause you to start consuming the DTA more regularly?

MICHAEL CORBAT: Well, we started in the first quarter, and I think those were good conditions to start consuming it. To give people a little bit of background, we, in the midst of the financial crisis, generated about a $55 billion deferred tax asset. That deferred tax asset gets utilized mainly by U.S. taxable earnings being generated.

And so, we've got a couple things. We've got part of our company that generates those U.S. taxable earnings, but to date we've also had part of our company that destroys our ability to use those in

Holdings. So, if you look last year, our DTA actually increased in spite of the fact that part of our company utilized $3 billion of DTA.

What we managed to start to do in the first quarter was actually to start to limit some of the inhibitors or detractors from our ability to do that, and actually got the good part of the equation to overcome the negative. We need to continue to do that. And one of the things we've said that's very important on that is to continue to manage down the drag on Holdings, the thing that actually works against, or adds to DTA. And so, we're very focused on that.

JOHN MCDONALD: That's really the main detractor, right? The kind of negative drag from Holdings?

MICHAEL CORBAT: It is.

JOHN MCDONALD: And that -- speaking of that, that's really going to be driven by improvement in housing in the U.S., is that fair? And what is the Citi view on housing and where we are on the recovery, and how that might work through your income statement?

MICHAEL CORBAT: Sure. So Citi Holdings is the non-core piece of our portfolio. At the end of the first quarter, it ended at right about $149 billion in assets. Of the $149 billion, about 60%, or just under $90 billion, $86 billion of those assets were in U.S. mortgages, a combination of first and seconds. And so, John, as you say, we are dependent, or looking towards housing improvement having a positive effect.

We've tried to manage that portfolio in a few ways. One is that people often ask the question, why don't you just go sell what's there? We view that most buyers that would come forward, or any buyers we've certainly seen, would give us a price that doesn't make sense.

In general, they have a higher cost of funding, they have a higher cost of capital, they have a higher -- or assign a higher probability of loss to the portfolio. And so, simply to destroy that capital and to give those earnings away doesn't make sense. So, what we've tried to do is work the portfolio quite hard. And really, what you've seen us doing is actually being very focused on managing selling the delinquent and the loans in foreclosure, because those loans in particular are exponentially more expensive to service than your current portfolio.

If you sell your current portfolio, you're giving away earnings; you're giving away scale of your servicing platform. If you sell your underperforming or non-performing -- those are your high-cost loans -- you get to remove the tail risk from those. You get to strip out a lot of costs, and lot of high foreclosure costs, et cetera, and so we've been really very focused on doing that.

But, as housing recovers, it manifests itself in a couple of ways, that obviously our delinquencies and our NCLs (Net Credit Losses) go down. As we're ultimately moving towards the disposition of property, our terminal values are higher. And so, it really manifests itself through in several ways.

JOHN MCDONALD: Seems like we started to see that inflection the last two quarters. Citi's -- in North America mortgage, credit metrics lagged a little bit in terms of the improvement, but the last two quarters, it really seems like your delinquencies and charge-offs had made a turn and you did start to release some of the reserves in the first quarter. Is that what you are looking for, that inflection?

MICHAEL CORBAT: Yes, that -- we've looked and wanted to be very balanced in terms of our approach to the recovery of the U.S. economy, and housing in particular, and we did start to see that. Again, I think that, while we say everybody, or all the big banks in essence have a Holdings, we're the only ones who have really broken it out, and we've got this runoff portfolio. So, it's very hard to compare the characteristics of our portfolio with others, because the others are simply embedded in their normal course, or their go-forward business.

But, a few things, we've been aggressive in terms of selling our delinquent loans, and I think you've seen some of that benefit coming through. But we have also seen the improvement in terms of some of the things we mentioned, that we've seen our terminal values in terms of foreclosure sales, with housing prices rising, and we've also seen the early entrants into the delinquency buckets coming down, so an absolute improvement.

JOHN MCDONALD: And it does seem like you have some room to run with $7.5 billion of reserves for a $85 billion, $90 billion portfolio. Ultimately, those reserves won't be needed as that portfolio runs down. Is that fair?

MICHAEL CORBAT: It's fair. It is a runoff portfolio, so it's our ambition to use all of those reserves and reserve releases. What we said last quarter is that we covered about 60% of our NCLs with reserve releases. I think that's a methodology we want to continue to go forward on, and as -- hopefully as things improve, we'll have the ability to raise that number.

JOHN MCDONALD: In addition to the credit costs, you've also had in Holdings the legal foreclosure related items. What's your sense in terms of where we stand on some of the litigation, mortgage put-backs and the cyclically elevated expenses that you've had in Holdings?

MICHAEL CORBAT: As we said last year, we think environmentally these costs are going to stay high for a while. We announced yesterday that we put another one of those behind us. And so, we're continuing to work against those, but we think that the legal environment is going to stay heightened for a while. But again, we're working through those.

I think some of the good news around this, or some of the realities is we're not as big as some others. And so, they're getting to the point on the list now, where we're on the list and they are engaging us, because you can't always control your own timing in terms of how and what way you'd like to settle these things. And so, I think we're making progress, but we've got more to do.

JOHN MCDONALD: And you were referring to yesterday. There was a settlement with the FHFA over some mortgage securities?

MICHAEL CORBAT: Yes.

JOHN MCDONALD: Okay. And is that something that would -- I guess you would have announced if it'd had a material impact on your financial results?

MICHAEL CORBAT: Yes, correct. We came out with the announcement. We didn't make any statement in terms of the financials, that we are comfortable from a reserving perspective.

JOHN MCDONALD: Okay, great. So between the credit costs, kind of the legal and episodic costs, we should hope to see a gradual grinding down of this kind of drag of Citi Holdings, which has been about a $1 billion a quarter and started to come down in the first quarter. So, is that how investors should think about it? Over time this will just kind of grind down and start to eventually become, hopefully, immaterial to Citigroup as a whole?

MICHAEL CORBAT: Yes, hopefully the combination, as you've mentioned, of improving or reduction in NCLs, in that improvement our ability to continue to release reserves, and over time as we get some of these legal issues behind us, that should come down.

JOHN MCDONALD: Yeah. And then, just circling back to the DTA, as that drag of U.S. profitability slows and your total US profits increase, what is the benefit or the impact of starting to utilize the DTA? How does that help Citigroup and investors?

MICHAEL CORBAT: Well, the DTA does a few things. As you know, the DTA doesn't have any earnings on it, but it, in essence, consumes book capital as a drag on your regulatory capital. So, as we have the ability to use our DTA, we've got the ability to, in essence, generate excess capital.

JOHN MCDONALD: So, basically that will add to your regulatory capital. For $1 of earnings, you could generate more than $1 of regulatory capital as that starts to kick in as a kicker. In terms of -- we've had fundamental cyclical costs. You also announced when, I guess shortly after taking over, a restructuring. Where do we stand on realizing the benefits from that activity?

MICHAEL CORBAT: So, as part of one of the things I spoke about, John, in the early goals when I sat down with the team and started doing the budget reviews. It was good to get face-to-face and really explore those businesses we were going to invest in, in those places, and also understand businesses that probably weren't structured appropriately for the next phase of their evolution or the environment. And out of that came a series of actions that we wanted to take, and we took those in the fourth quarter in the form of a restructuring.

In that restructuring, we talked about that, in 2013, we would have the ability to recognize about $900 million of expense savings, and in 2014 we'd have the ability to recognize about $1.2 billion of expense savings. Based on those actions happening, being announced in the fourth quarter and many of the actions being taken in the first quarter, you didn't see any of that flow through really in the first quarter. You're going to start to see it in the second quarter, and you'll see that continue to build. And as of today, we feel, against the commitment or against the numbers that we put out there of $900 million, this year we're on track.

JOHN MCDONALD: Okay. I think you've also said that you feel that, for now, the major restructuring is complete and you'd like to see efficiency be a kind of business as usual practice at Citigroup. And maybe you can talk a little bit about that and what you're doing to instill that into the culture.

MICHAEL CORBAT: So, one of the things that we're focused on trying to do is get away from some of the episodic things in terms of business management, in terms of waiting for once a year, once every 18 months, to really have a discussion or to make decisions around businesses in terms of how we want to manage them. We really want to drive the mentality, the culture, and the disciplines into the business so that, in relative real-time, they make decisions, they're incentivized to make those decisions.

So, really what we've tried to do is start to empower businesses to think that way, to get them away from this episodic mentality of things, and I think you've started to see some of those things. You saw a couple weeks ago, week and a half or so ago, we announced the sale of our Credicard, a non-Citi branded mass credit card in Brazil who just doesn't fit who we are -- not a bad business, probably a great business for Itau, but not who we are.

And more of those type things where we continue in real-time to make investments, which you don't hear as much about, because those are done more quietly behind the scenes, but to also be managing the businesses and the structures in an ongoing way. And I think, as part of that, it was part of the reason, John, of wanting to push towards an efficiency ratio, right, the balance between expense management and between revenue and the trade-offs between the two. And I think, historically, we've probably been an industry that has been much more revenue focused and finding your way to expenses later in the waterfall.

JOHN MCDONALD: Just trying to get the line of business managers to think about both of those levers and optimizing them as opposed to driving towards a specific dollar expense target, or something like that?

MICHAEL CORBAT: Correct. Correct.

JOHN MCDONALD: So, we've talked a bit about the cyclical items that hopefully have become somewhat of a tailwind for you. Turning to the core business a bit, you look at Citicorp, what do you see as the big growth drivers if you think about from a product perspective and a regional perspective?

MICHAEL CORBAT: So, I think, in this environment that we've talked about, low interest rates, slower growth economies, growth is certainly stingier than it's been. But, if you go back and you look at our numbers in terms of loan growth, deposit growth, CTS deposit growth, Latin America, Asia, all very high single digits, in all those cases outpacing the underlying fundamentals of the growth of those economies.

And so, again, what we're really focused on in our institutional business is our core of multinational clients as they move around the world and make sure that we're there to do what they need to do, and in many cases uniquely and becoming more uniquely on the ground and continuing to really continue to drive our consumer strategy towards that urban-based strategy where we think the demographics really fit who we are as a company. And again, we've tried to be cautious in this environment of not over-stretching the businesses in terms of going out and having them seek new or different forms of revenue, but really focused around who we are, where we think the growth is, but in this environment with a real mindset towards operating efficiency and expense management.

JOHN MCDONALD: It looks like Citicorp actually achieved its efficiency targets in the first quarter thanks to strong revenues in Securities and Banking. How does the environment feel right now for capital markets this quarter, and what's your outlook for the rest of the year?

MICHAEL CORBAT: I would say that we've got a bit of cyclicality being built in, where it seems like the first quarter tends to be the best quarter of the year, and then things taper down from there. If you remember last year, last year was somewhat of a more hindered quarter in terms of struggles in Europe and a real lack of volume--.

JOHN MCDONALD: --As we got into May and June last year.

MICHAEL CORBAT: As we got into May, things really slowed. We're not seeing that. So, I think, clearly, what you'll see is the cyclicality from the second quarter being less than the first quarter, but I don't think you'll see that big drop-off that we saw, the same kind of drop-off that we saw last year.

I think, in terms of the rest of the year, a few things. One is that our business model is structured in a great way, in a very good and unique way around quantitative easing. Our 70 trading desks around the world in some ways are uniquely positioned there between central banks, financial institutions, corporations, investors and consumers.

And our trading desks on the fixed income side, whether it's rates, whether it's foreign exchange, or whether it's credit, I think have done a terrific job, a world-class job in terms of trading those flows. I think, as long as QE remains in its form, you'll see us continue to perform, outperform in those sectors.

As that starts to pull back and we see volumes, we expect volumes shifts, but that's probably going to happen as a function of rates rising. When rates rise, I think you start to see some of our Transaction Service and depository businesses kick in, probably start to see equities come back a bit more.

So, hard with the crystal ball to say right now really where these economies are, and a lot of these, whether it's Japan, whether it's Europe, and even in the U.S., a lot of these markets are being largely technically driven right now.

JOHN MCDONALD: Yes. I guess, for the non-banking specialists, it's sometimes hard to differentiate between the securities units of different investment banks and money center banks. You just pointed to a few things, but what else would you say are the major items that distinguish Citi's Securities and Banking unit?

MICHAEL CORBAT: When you look at our business model, again going back to this fact that we come to work on the institutional side in 100 countries, we've got 70 trading desks, and the fact that we come to work with a Transaction Service business and we're managing cash movements and foreign exchange movements around the world, that's a terrific place from which to start and leverage a corporate relationship. And so, from that relationship, we're involved in trading, we're involved in capital markets, we're involved in lending, we're involved in the underwriting and the advisory.

Second piece that probably makes us a bit different is the inherent, less volatile, or more stable types of revenues that come out of those. So it's not just the trading piece. There's a big -- I don't want to call it annuity piece, but there's a big piece that is normal course of business, day in, day out, operations around the movement of money and the conversion of foreign exchange that has a lot more stability to it. And so, when you look at ours, you should expect revenues to be a bit more global. When you look at ours, we should have a core component that tends to be much more stable.

JOHN MCDONALD: I know you get the question. We often get asked the question at Bernstein whether Citi's international franchise is spread too thin, good results in one area can be neutralized by difficult environment elsewhere and “diversification becomes worsification”, however you want to phrase it. How do you guard against that and make sure that you've got the right balance between the number of countries you're in and your size and your presence in each one?

MICHAEL CORBAT: I think a lot of it -- in March we announced that we were going to take our 100 countries and we were going to go through a management exercise in terms of bucketing. And so that, as we looked at the world, I think was very clear in this world being uneven, going to be challenging, that we can’t come to work the same way in all the places where we come to work. And that, I think I very much saw, learned, and lived that in terms of my time running Europe, Middle East and Africa, and it's a process that we really started there.

So, we took a group of our countries and we looked at the demographics around GDP and population and consumer versus institutional wallet, acquisitiveness, inbound desirability for multinationals coming in, the outbound ability to create emerging champions, and broke our countries really into four buckets; those where we saw the ability to invest and then grow at the right levels, those countries where we actually felt there was growth but we had probably more than adequate resources today and where we would optimize and then grow, those countries where we had the right presence, right footprint, right mix of businesses, stay the course, and those businesses that, for now, we didn't really see the opportunity to be deploying the resources that we had, and those were optimize and restructure.

And so, we've taken all of our countries. We've put them in there. We've created transparency around that so that the people running the countries, the people interacting there, understand what the go-to-work mentality is. And so, where you get in trouble is when you try and say, "Let's grow," and you force it across a big institution, and people actually don't have the ability to go grow in a way that is within the real remit of what the firm wants to do, and they start doing different things.

And for me, it's very much etched on me, having spent three and a half years in Citi Holdings and selling a bunch of those things where a bit of that mentality drove people to do things that weren't core to the firm. And in the end, while they can be reasonable economic investment sometimes, they're distracters, and they leave you vulnerable to risk that you don't want to be vulnerable to.

JOHN MCDONALD: So, it sounds like you've made the decisions about where those areas are. You've pretty much cleaned up, or you're still in the process of finishing some of that?

MICHAEL CORBAT: Well, I think in general, I think that we've got the first round completed. The countries are all in. We're doing our business reviews. We're doing our planning based on those. But, I think it's important for them to understand, and for everybody to understand, that this is dynamic, that as the economies continue to evolve and change, as demographics change, we've got to be mindful. This isn't a one-and-done exercise, this is something that at a minimum, once a year we need to re-review probably as part of budget. But, I think, as we go through our quarterly, or as I go through with John, our CFO, and other our quarterly business reviews, something we talk about all the time in terms of do we have these businesses in the right places, are we making investments in the right places, are we rethinking or restructuring things, and so constant state of dialogue.

JOHN MCDONALD: It seems that in this regulatory environment, and really in the macro environment, it'd be difficult for a competitor to duplicate what you have as a franchise. That might be getting even tougher in today's world. What are your thoughts on that?

MICHAEL CORBAT: I think that that's very much the case, that if you look at today, you never say never. But, it wasn't that long ago when we would sit in rooms and think about, from a strategic perspective, what some of the competition would be doing and what threats were to our business model and the uniqueness of our footprint. Today, I think it's very difficult, and probably fairly hard to believe, that either U.S., European, or maybe any other regulators in the world are going to go out and overtly condone big banks getting bigger, and so the ability for those mergers to come together are challenged.

Second way people can attack our model is organically. They can go out, they can put a flag in a country, they can put the bricks and mortar on the ground. But, then you've got the cost of that, and in a lower interest rate, lower loan growth environment, your time to break even and your time to profitability is all that much further out.

So as we look at -- and it's why we're so focused around making sure that we're good, maniacal allocators of our resources, we want to keep those barriers to entry as high and as long as we can.

JOHN MCDONALD: And how do you view the world today? We've got QE going on in many different places. Any particular areas you point to is worrisome or exciting to you?

MICHAEL CORBAT: Well, I think, from a worrisome perspective, and again, having spent time there, Europe continues to be a worry for me. That, again, I think that Mr. Draghi has done a masterful, some might describe brilliant, job in terms of putting the safety net under Europe. And amazingly, here we are a year later, and no talk of breakup really whatsoever.

But, at the same time, we can still see fundamentally what's happening to those economies, right? We still have economies in recession. We're still destroying jobs in Spain. And today, I don't see the fundamental spark or path for Europe out of where they -- really out of where they are. I'm not a fatalist, but I don't see the fundamental path.

I think, from an Asia perspective, it's a reset of growth expectations. I was recently -- I went over and spent some time in Asia, and I very much firsthand wanted to witness firsthand this transition from investment-led, export-driven to domestic-focus, consumer-driven in China, and I wanted to see. And I have to say that I actually walked away probably more positive than I arrived around China's ability to manage that transition and to be able, as they've spoken to, to drive this 7.5% growth over the intermediate and longer-term.

I think when we look at the U.S., a couple things we see. Very clearly, when you look at the recovery, the consumer is recovering. But the consumer is recovering probably in not as full a way as we would like to see. And what we mean by that is, when you look at consumer confidence, it's probably largely driven by two things - one, largest investment housing, what's happening in terms of housing prices. And very clearly, as the numbers showed this week, we're seeing a recovery, some place is better than others, but housing is recovering, and people are feeling better about that.

I think on the job side, things have been much stingier. So how do I feel about my job, my ability to keep my job, if I don't have a job, my ability to get it? And we've seen that piece be slower. And I think what we really want to see is we want to see that jobs piece become more robust and have the ability to start to remove some of this QE to really see where equilibrium is in housing and get a sense of without these things or without the stimulus, without the QE really what the natural state of the economy is, but I think that's probably still a bit of a ways off. But again, I think very positively we're making some progress.

JOHN MCDONALD: Great. Maybe you could give us your thoughts now on the too-big-to-fail debate, where do you think this is headed with Basel III Dodd-Frank? Do you think these actions will be given a chance to work in terms of the Basel III and Dodd-Frank reforms? And do you feel like you have a sense of where your ultimate capital requirements will end up?

MICHAEL CORBAT: We do think it's got to be given the chance to work, but we do think Dodd-Frank ends too-big-to-fail. We can talk more about that. From a capital perspective, there's two things that at this point we're really focused on, or things we'd really like to see happen. One is give us clarity, because we still don't have clarity. We know, from a G-SIFI perspective, we've got 9.5% Basel III in terms of where we need to run the firm, but we also need a buffer. And we don't know how to set that buffer, because we don't know, in the event of stress, if we go below 9.5%, do we have several months by which to get back up above 9.5%, or is there some much more punitive action?

And so, hopefully by year-end, we'll start to get some sense on that, and what we've talked about is by year-end, if we can hit our plan, we should have our Basel III at or above 10%, which I think for right now feels like the right place, with a lack of guidance where we are to probably run the firm.

The second very important piece, not just for us but the industry, is around harmonization of regulation. We've got a lot of issues around the globe, and in many cases, very understandably, by our regulators trying to be attacked, but we're taking different approaches. We're taking different approaches in Europe versus the U.S. We've got different approaches just from within Europe. We've got a number of regulators around the world who, away from how they're thinking about their own markets, haven't really come out in terms of a broader perspective of how they're going to think about either the inbound banks or their banks going outbound, so harmonization really around that.

JOHN MCDONALD: In terms of the CCAR, that's obviously a big governor of what you can do in terms of capital return. As you mentioned, you expect to get to above 10% on the Tier 1 Common by the end of the year. Your results in this year's CCAR were very different than last year. This year, your results in the stress scenario almost mirrored exactly what the Fed did, so you've obviously synced up, it seems like, and understood what they're driving at. How did you get that to sync up, and what does that mean for how you'll make a request next year after being pretty conservative, it seems like, in this year's request?

MICHAEL CORBAT: Well, I think this year, as we've stated, our objective really was to do a couple things. One is to get to the right result, which was a no objection and for a modest capital return, which we did. And the second piece was, from a process perspective, to run a good and credible process. And I think, as oftentimes people think or hear about CCAR, they think CCAR starts on November 15, when you get your scenarios and ends on January 7 when you make your submission. I think it's very important to understand that the way CCAR's really built is it's got to be -- to be credible, it's got to be built into the way you think about model forecast, risk-manage the firm.

From your PPNR models to the various risk models that you're running, your ability to forecast all those things are credible, or all those things are important in terms of your credibility of what you submit. And I think what we saw this year, and I think you're going to continue to see the emphasis as we go forward, is a shift or a balancing between the qualitative -- or really last year being much more of a quantitative exercise to this year really being much more of a balance between the qualitative and the quantitative and the quality of the work you do.

So, to your point, we spent -- the team spent an immense amount of time working through our models, model validation. The regulators, the Fed was terrific in terms of its willingness to engage with us on those things. We got -- as you said, we actually got, relatively speaking, tight results. In there, you've got to go through and understand that there are some hits and misses, but, all in all, a pretty good result. But, this is one of those things that's got to become normal course of business, and that we started again before the process even ended in terms of really wanting to continue to prepare and learn from our lessons for next year.

JOHN MCDONALD: And I guess the key question, I can see it coming in on some of the questions I've gotten already, we're at times an impatient bunch, investors, collectively we are. Given that you're going to have perhaps maybe the highest capital ratios going into next year, do you think there's a cap on a year-over-year how much you can increase if your -- you've got some banks paying out 60%, 70% of their earnings already, and you guys maybe about 10% this year. Do we know yet whether you can make a big leap like that, or if it needs to a multiyear process of returning or moving up to those kind of levels?

MICHAEL CORBAT: I think -- again, I think it goes back, that it's not just about the numbers. It's about the sanctity, the belief, the credibility of the process you run. And so, I won't speak for others, but, from a Citi perspective, we've talked about and the things that we want to stand for is the quality and consistency of earnings, because when you think from a regulatory perspective, your predictability and your consistency and the quality of those earnings drive a mentality in terms of the preface or the way you come into a capital discussion. From our perspective, we've gone through a big restructuring, right? We've sold 50 operating businesses. We've said $600 billion of assets. We've done a lot of things to restructure the company.

I think, realistically, we've got to continue to show our ability. So, great, we had a first quarter. We've got to continue to show quality and consistency of our earnings, and then at that point we'll start to reflect on what we think the right capital return is. But I think, in terms of this year, it's very early.

JOHN MCDONALD: Okay. Two things that have come up here in the questions, just longer-term, what kind of philosophy will you have, or might you have, in the mix of capital return between dividends and buybacks, and how will you think about that?

MICHAEL CORBAT: Sure. I think there's always a balance, that we understand that certain investors need to have a dividend, or of a dividend of a certain amount, to be shareholders. Corporate Finance 101 says, if your stock is trading below book or meaningfully below book, you should probably move or weigh heavily towards buyback versus dividend. And so I think, as the stock price continues to evolve, we'll continue to morph and adjust that strategy.

JOHN MCDONALD: One of the questions here is also is there anything about your geographic distribution that could affect the capital return and how that plays out over the next couple of years? Do you worry about that?

MICHAEL CORBAT: I think that probably the biggest thing as you asked the question, John, is really around our ability to utilize DTA, right? And that again, going back, our ability to utilize that DTA and to free up that capital is not exclusively, but it's largely a U.S. earnings based event. And so, the concept or the consequence of low interest rates in the U.S. dampen our ability to earn here. If we could get rates up 100 basis point or so, it would just add that much more to our ability to earn here and to be able to utilize and to go through more DTA.

JOHN MCDONALD: There's a couple of questions that's a theme that you just touched on in here about rising rates, how much do you worry about volatility? You might like the destination, but how about the journey? And how do you protect against any -- some of the risks there, and how is Citi broadly positioned for rising rates?

MICHAEL CORBAT: I think as we said, and we spoke about in our disclosure, that if we got a parallel shift of interest rates and rates rose 100 basis points or so, it would add about a $1 billion to our net interest revenue. So, again, I think structurally we're positioned well against rising rates, and you can see it that, quietly behind the scenes, some of the investments, per se, that we've been making is we've continued to grow deposits in our Consumer and our Transaction Service franchise. In this type of rate environment, you don't get the earnings on them, and you've got all the underlying expense of bringing those deposits in and processing them. But, as rates come back, those in some ways act as a good counterbalance to rising rates.

JOHN MCDONALD: One area of regulatory reform we didn't talk about is some of the major market-based regulation, derivatives, clearing, and Volcker have -- do you have the ability to quantify that at all and what that could have in terms of an impact on the businesses?

MICHAEL CORBAT: We don't. We've obviously done a lot of work around it. We've taken, I think, some very prescriptive actions against things that we felt we've had enough clarity to do. But, until they're finalized, it's tough to say. But, I think a couple things important about Citi is, one from a Volcker perspective, we've never had a heavy reliance at all in terms of proprietary trading, right, that our business, again, is around this network and really around customer-client flows.

Second piece is, is through Holdings, you've seen us exit certain businesses, so the advisory, or the capital advisory businesses that are very heavy consumers of Basel capital under the standards or prohibited by Volcker. And then, I think, from a derivatives perspective, we've done the work, and maybe some of you've heard us talk about it, but we think probably around 90% of the derivatives that sit on our books we think actually have the ability to sit on an exchange or some form of uniform clearing. And so, as we look through it, there's nothing today that we see as model-changing or earth shocking, but we've got to get to a final point in these rules, but nothing overly concerning.

JOHN MCDONALD: We did touch on this earlier, I think it's probably worth repeating. There's a number of questions in here, a lot of interest in your emerging markets franchises. So, maybe, just again, what you see as your competitive advantages in some of the emerging markets, any that you are particularly growing in or worried about, and whether you are seeing some recovery there?

MICHAEL CORBAT: Sure. So, when you look at our business model, and again, the 100 places on the institutional side, the 35 to 40 on the consumer side of things, many of those are emerging market based. And again, around the uniqueness of our model, our ability to lead -- follow a company, global multinationals as they go around the world. We talked about some of the barriers to entry. And so, as you look at what's going on, that in many ways what we have done is we've rebalanced the Company.

We went into the crisis, $2.4 trillion of assets, a much heavier skew towards the developed markets, U.S., U.S. subprime, Europe, Europe consumer, in Japan, full-fledged brokerage operation. Really, what you saw Citi Holdings do was really de-emphasize parts of the U.S., in particular subprime, subprime consumer. You saw us exit our consumer franchises in Europe. You saw us exit the retail brokerage space in Japan, amongst many other things around those. We shrunk the Company to $1.9 trillion of assets, we've rebalanced today. So, much more emphasis towards what we saw as the secular growth emerging economies, and again, we think some uniqueness in that.

From a consumer perspective, really what we've been doing is continuing to push our footprint to our areas of strength, and that's this urban-based strategy, that it's very difficult for us in whatever country to compete with the local bank in the hillsides of their country. But, on an urban-based strategy around our ability to come to market with ubiquitous products, products that have the same look, touch, and feel around to be able to offer that experience, and then to be able to make sure, from a middle and back office perspective, we're providing that support, that gives us a different kind of scale, and I think a scale that's got the ability, as we build this out, to be well rewarded for.

JOHN MCDONALD: Great. Well, thank you very much, Mike. We appreciate your time, and we hope to see you back next year. Thanks very much.

MICHAEL CORBAT: Thank you very much. Thank you, everybody.

Certain statements in this document are "forward-looking statements" within the meaning of the rules and regulations of the U.S. Securities and Exchange Commission. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from those included in these statements due to a variety of factors, including the precautionary statements included in this document and those contained in Citigroup's filings with the U.S. Securities and Exchange Commission, including without limitation the "Risk Factors" section of Citigroup's 2012 Annual Report on Form 10-K.