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Speakers
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Mike Corbat, Citigroup Chief Executive Officer

JOHN MCDONALD: Good morning. Thanks for joining us today. I am John McDonald. I follow the large cap banks here at Sanford Bernstein. We're very happy to have Citigroup this morning. Mike Corbat returning this year. Mike is the CEO of Citigroup. He's been in the job a year-and-half as the CEO. Mike, thanks for joining us again today.

MIKE CORBAT: Thank you, John. It's great to be back here.

JOHN MCDONALD: I thought we'd start off and ask you for a little bit of a report card. How would you size up your performance in the last year and a half as CEO? Let's just start on the positive side. What would you kind of tick off as the key accomplishments?

MIKE CORBAT: I think when I got into the job, we looked at a few things we needed to be focused on. And one of the first actions we took was to announce a fairly sizable restructuring. And in that restructuring we wanted to capture a fair amount of expense saves, and we committed to getting about $900 million of operating expenses out of 2013, and trying to get that up to a run rate of about $1.2 billion in 2014 and beyond. And I am very pleased to say that we accomplished that.

We thought we had some work to do, and that we saw the world as being a challenging place. And I think, again, we saw in this morning's GDP numbers, it remains a challenging place. And as a company that comes to work in 100 countries, we can't come to work in those places in all the same way.

So we wanted to go in, and we did what we called our country bucketing, where we assigned different headings or different strategies to each of our country buckets: “Invest to Grow” all the way down through “Optimize”. And I think you have seen some of the actions we have taken in terms of some consumer exits and other things that we've done there and where we've made our investments.

We also put in place score carding for our managers, so that we could speak the common language. We could be focused on the same things. We introduced our financial targets, ROA, efficiency ratio for Citicorp and the ROTCE targets.

And in the course of the year, we earned $13.7 billion. Kind of taking one timers and everything aside, that was a 15% increase, almost a 15% increase year-on-year. We said we wanted to use DTA – we used about $2.5 billion of DTA. We said we wanted to continue to get some of the legal headwinds behind us and we made good progress.

So, from that side, pleased but not satisfied, more work to do and the environment remains challenging.

JOHN MCDONALD: What about some of the shortfalls and challenges you had in the last year-and-half?

MIKE CORBAT: Well I think clearly, I'd put at the top of the list, the disappointment of CCAR, that clearly for the people in this room and all of us who are shareholders, a big part of our story is capital return. And I think that was an unfortunate setback and one that we're very focused on making sure we get it to the right place in terms of our next submission. So, we made some changes to the people. We made some changes to the process and are committed to getting that to the right place.

JOHN MCDONALD: And then, what are your key priorities when we think about the rest of this year and 2015, how would you rank the priorities you have?

MIKE CORBAT: Well I think CCAR is at the top of the list and I think it will stay at the top of the list. I think that we've got a number of things underway in terms of our pathway to our targets. And, again, in a challenging revenue environment, you've got to keep the expense focus. And, again, what we've tried to do, and I think our introduction of the efficiency ratio has been pretty effective in terms of really trying to force our managers to be engaged on a daily basis.

So, traditionally what you've seen out of banks, or you've seen out of Wall Street firms is this episodic series of restructurings and resizings based on volumes. What we've tried to do is build that into their metrics and have them, in fact, focused on that as part of their normal operating business.

What that's done is on a quarterly basis, it's raised our repositioning charges, but we've had a little bit less volatility in there. And I think what you've seen and as we've put out some of the real gains that we've gotten in terms of efficiency out of countries and out of our products, so that remains a focus.

And then obviously some of the work we are doing from both the consumer and the institutional perspective. On the consumer side, our focus on systems and the unification of our consumer bank from a confederation of individual consumer banks into a global consumer bank, work that we did over a decade ago on the institutional side and has served us well. And I think a continued push together of what we're calling trying to get more adjacencies out of our institutional clients and out of our institutional products.

JOHN MCDONALD: Great. Let's drill a little bit into CCAR, obviously a lot of investor interest in that, what's your understanding of why your 2014 capital request was rejected even though you had a large quantitative cushion to the CCAR minimum?

MIKE CORBAT: Yeah, I think you're right in pointing out that there are two aspects to your CCAR submission and the Fed's response. One is, the quantitative piece and on the quantitative piece, we had significant capital returning capabilities by the Feds own numbers in their most severe case about $24 billion of capital above the minimum in the most stressed scenario. And then there is the qualitative piece.

And it was the qualitative piece that the Fed objected to. And I would say that while our regulatory interaction is confidential, what I would say is that the Fed's early response publically around what they saw as our challenges, I think have been very consistent and that is that across the work streams, while none of those work streams in itself was failing or was of poor quality, when they took the work streams and put them together and viewed the institution as systemically important as we are, they thought our qualitative submission should have been higher.

JOHN MCDONALD: And to be clear, these are work streams around a CCAR process, not your business, or how you run the business, you've kind of said this is not a business model issue, it's a how-you-do-the-stress-test issue. I guess could you just share with us how sure are you that that's the case and why do you have that sense? Is that based on discussions that you've had?

MIKE CORBAT: Yeah. So, as you can imagine, we've had many discussions and I think one thing that's important, and we've talked about this before, is that the Fed very much would like and expects and it is the way we approach it, that CCAR has to be embedded in the way you think about and run your businesses all the way from your PPNR, your pre-provision net revenue, to your NIM, all the way through your risk models needs to be embedded in your businesses. And again we think we've got some work to do on modeling we think we've got some work to do on process, the things we need to do there. But it's not about – it's not a statement about the business model.

JOHN MCDONALD: And could you give us a sense of how involved the process is in terms of the number of people dedicated to it or do you have any sense of what it might cost you, the process that you're going to go through?

MIKE CORBAT: Well we have it, so, as you can imagine from the CCAR perspective, it's we've got a number of people that it is their full time job, and then as you can imagine from CCAR that it's measuring financials, it's measuring risk that we're pulling people in from those functions to participate as part of these. So, by the time we finish it's well into the thousands of people that get involved in terms of our CCAR process and submission.

JOHN MCDONALD: And was it your understanding that there were just some misunderstandings in communications in terms of what you – they wanted you to do last year, as well as fix some additional things this year? Could you just talk about that? The Fed had said there were some things that were mentioned previously.

MIKE CORBAT: I think, as in any institution, you're in dialog with the Fed and the Fed and as well as other regulators not only in the U.S. but around the world are coming back and citing things that you need to be working on. We have those things. We're aware of those things. We're in dialog with those things. And again I think at the end of the day, the onus is on us to make sure that the communication is right and that we're getting the right things done.

JOHN MCDONALD: And you made a decision to spend this year getting it right and creating what you call an industrial strength CCAR process, and just kind of what was your thought process in waiting out the year as opposed to trying to get something done this year?

MIKE CORBAT: Well, a couple of things we did is, when you look at our stock, our stock has, we believe, a significant capital return component in terms of valuation and future valuation. So it's something we have to get right. So first thing we did is we took one of our most seasoned executives, Gene McQuade, who ran our Citibank, our largest legal regulated entity and Gene was on the verge of retiring and we asked him to stay. And we said, I'd like you stay but not only stay, but I want this to be the only thing you do. So, Gene has no other responsibilities in the firm other than CCAR.

I think second thing, from Gene's pedigree, is in running a large regulated legal entity, Citibank, that really interacts or is really ingrained in many parts of the institution, Gene is used to working both in a direct and indirect basis to be able to get things done.

CCAR is a process where you've got to go into all kinds of portals of the firm to pull information to co-op people, to corral people, to get the right things. And we thought Gene was the right person to do that.

From a timing perspective, we made the decision that rather than going for the quick fix and a late year submission, let's use that time to really get things right and rather than use some Band-Aids to get some quick fixes, let's – again you quoted the words I've used, but let's create industrial strength solutions that are clearly not only sustainable, but things that we can continue to build and grow upon. Because, I think as the Fed has been very clear as far they said, that they're going to continue to raise the bar along the way, and I think that we need to be in a position with our systems and our procedures and policies and processes, to make sure that we can continue to, not only go over, but clear that bar in a meaningful way.

JOHN MCDONALD: Yeah, the return over time is worth getting it right next year or this year.

MIKE CORBAT: Absolutely.

JOHN MCDONALD: So, again, with that in mind, that you're going to take a year, it's obviously early to be talking about next March, but I've already heard from a number of investors, I'm sure you have too, that they don't want just a safe path next year, they want a meaningful return that's befitting of the quantitative cushion you have.

So, I guess in other words, if you do get the qualitative aspects fixed which you're dedicating resources to Gene's team in the year, is there any reason that you think you couldn't make a request that would again match the quantitative aspects?

MIKE CORBAT: Well I'll answer it, John, the way I answer it when everybody asks. And, that is that clearly, right now, we're focused on getting CCAR right. We've got – still got three quarters of a year ahead of us, half a year ahead of us. Let's see what the year brings, let's get to the right place in terms of our submission of CCAR and then we'll make the choice or the decision in terms of what the right amount and the right mix is. But, again, we understand, based on our capital generating capabilities, very strong capital generating capabilities, we've got to get to a point where we can have meaningful capital return over time.

JOHN MCDONALD: Fair enough. In terms of capital targets, late last year, I believe, you decided to target a Basel III Tier 1 common of 9.5%, and this was after the global committee kind of lowered your G-SIFI. And, I guess what are the factors that you think led to that lowering of the G-SIFI buffer and what led you to kind of target the 9.5% level?

MIKE CORBAT: Well, the way they go out of this, it's a peer group comparison around a whole series of metrics, and I think as they looked at our institution and a couple of others, they moved us down 50 basis points in terms of what they felt our SIFI surcharge should be, it took us to 9%.

We then looked in terms of what buffer we should run above that. We, kind of looking at a few things, kind of based on volatility, based on AFS volatility, et cetera, came up with a 50 basis point cushion, still yet to fully be decided because we don't know the final rules around some of the liquidity regimes, et cetera, that might influence that.

We also think the 9.5% fits well, when you look at our formulas, against our supplemental leverage ratio, so 5% at the holding company and we think the balance of those two fits us well. But again we'll see where that takes us over time, but we feel comfortable there.

JOHN MCDONALD: Okay. Switching gears a bit, talking about your 2015 financial targets, you laid those out in March of 2013. So I guess what was the process you went through and how are you thinking about the progress so far of these targets and what's needed to get there next year?

MIKE CORBAT: So we felt it was important that we could put some visible public guideposts out for people by which to judge our progress against. And we put three targets out a year ago in March, one was an ROA and being a large financial institution with a $1.9 trillion balance sheet, we wanted to show people in a fairly simple metric that everyone could calculate our progress and what we were earning on our assets.

Second one we put out was an efficiency ratio and again what I wanted to do in there is just take the primary focus away from just expenses and expense cutting to the balance between expenses and revenues. And I'll come back and touch on that.

And the third piece was a return on tangible common equity target. We put out an intermediate target of 10%. Going back to CCAR, we said that there was some amount of capital return required in order to be able to hit that target. We've come out and said that given we didn't get the ability to return and we were very public with what our ask was for this year. We said that, that target is going to be delayed in terms of there.

In terms of the ROA target, it's 90 to 110 basis points for Citigroup, and from an efficiency perspective we've said it's a mid-50s for Citicorp, the combination of our ICG and our consumer businesses. And we feel like and we continue to show progress against those targets on the path to 2015.

JOHN MCDONALD: What do you think are the key drivers in getting there? I mean depending on the given quarter we look at, you could be at 75, 80 today, so getting to – on a ROA basis, so getting to 90 to 110. Is it lower legal costs? Repositioning costs? Or just kind of how much of it's dependent on revenue growth? Can you talk a little bit about that?

MIKE CORBAT: So when we laid the targets out, we said that we weren't basing these targets based on a major move up in terms of interest rates or in terms of revenues, we said we're factoring in low single digit revenue growth, I think that's proven, so far, to be very much the case.

JOHN MCDONALD: We might be hoping for that.

MIKE CORBAT: We might be hoping for that. We've said that in terms of our priorities, one of those was to continue to take Holdings, to move to take Holdings to breakeven by 2015. And I think we've made progress in that and what you've seen is we've largely got Holdings to breakeven today on an operating basis, meaning that kind of the biggest drag in Holdings today continues to be the historic legal cost associated with that and I think by 2015 we believe we can start to get some of those down.

Continued expense improvement, continued balanced sheet optimization that one of the things we've said is that from a balance sheet, and again, no one has told this, but we've made our own decision not to grow our balance sheet and believe that through the combination of Holdings run off as well as what I would describe as some lazy assets in the world we can get more out of our balance sheet. Obviously, the whole time being very mindful of risk, but we think there is more we can generate from our own balance sheet without having to grow it.

JOHN MCDONALD: The restructuring costs have been elevated as John has described them. Do you think those should tail down as you've gotten through the bulk of the early part of restructuring and you still have some probably but should those tail down as we go through 2014 and 2015?

MIKE CORBAT: I think we have got a bit more work to do. I think John has been very public in terms of talking about right now our restructuring that we've launched and are going through in Korea in terms of – in particular getting our consumer business to the right place there that really matches our strategy, and we've been going through a fairly large transformation of our consumer business, as I described.

One, under Walter Wriston and John Reed that was put together as really a confederation of individually country-run consumer banks to really being a global consumer bank. Over the past 12 months to 18 months you've seen us exit six or seven products and countries from a consumer perspective where we didn't see the path to scale or we didn't see the path to our return targets where we thought those ventures would be accretive to our shareholders and we're continuing to do some work in there and last year we announced, I think, a fairly sizeable shift or restructuring in the way we think about our transaction service business, our global transaction service business, where in essence we took away an entire layer of management and reporting and really tried to take those businesses and more directly align them.

So when you think of a very important business to us is our treasury service business. We're one of the largest, if not the largest movers of cash in the world today. We move over $3 trillion a day of cash around the world through our closed pipes. When you think of that business, its synergies aren't really with the fund administration business, much more aligned with foreign exchange. So by taking those things down and getting them aligned. We think we can get more out of that on the fund administration and securities fund services, custody and clearing, much more aligned with the markets businesses.

So we took out a whole layer of management, a big layer of expense, have integrated those and so I think you'll again try to get that mentality in this environment and our business managers of managing your businesses every day. Let's not wait for the episodic point in time where we're going to take a restructuring charge and do a one-off.

JOHN MCDONALD: Any broad sense of where we are on that kind of unification in the consumer in terms of platforms and ops and then the GTS restructuring? I mean are we mid-innings or later innings, just a broad characterization of how far along are you on these projects?

MIKE CORBAT: Yeah, I think on the consumer side of things, certainly from a management, from a mentality, from the way we come to work approach, we're there. I think right now what we are really focused on is on the installment of the systems.

The systems are built. We've talked about Rainbow. We've chosen, very consciously, to have the rollout of Rainbow really be sequential or be over time as opposed to doing a big bang. It's quite a large undertaking. And we think it's better to roll it out over time, and that's what we've been doing.

And so, I think we're along the way but it probably won't be till 2016 or so, that we probably late 2016 or so, that we probably finish that and feel like we are at the right place. But in many countries today, we are up and running. And we are starting to see the tangible benefits of those things and from a mentality perspective, we are running it that way.

And I think on the institutional side, and I am sure we'll get to it, the challenges today in terms of what's the right size to be in this environment and the whole cyclical, secular argument, and where we are. But again, what we haven't done and we talked about – John talked about the numbers at our last quarterly announcement, is that without putting hiring freezes, without doing a lot of things, our businesses have managed themselves from the day I arrived, at about 263,000 employees to the end of the first quarter at 248,000 employees. We've done it in a quiet way. We've tried to do it in a responsible way with our people. But we're keeping the pressure on our businesses to making sure that they've got themselves structured properly for the environment.

JOHN MCDONALD: Yeah. On that note, what is your take on the softness in trading? I mean, John, mentioned at a conference earlier this week, like other big banks you're seeing a soft trading environment for sales and trading revenues. So, what's your take on kind of the low volatility aspect versus maybe some structural impact from new regulations?

MIKE CORBAT: I would describe the regulation as secular. I would describe low interest rates as cyclical and I would describe volatility as cyclical. In fact, I think I can make a fairly strong argument that I think over time we're actually going to see heightened volatility. If you look at the consequences of the regulation of smaller bank and broker dealer balance sheets, if you look at the continued AUM growth in terms of all types of money managers in the world, the bank and broker balance sheets aren't going to be there to be that shock absorber in the markets. In fact they're going to have to be the shock absorber, so I can actually argue that there's probably more volatility.

I think today, what we see is the combination of low rates, the combination of lack of conviction in terms of direction, some world events going on, I think we've got people pulled back from the market. I don't see those things as being permanent. And in fact what you see and probably some in the room feel this, is that we've come into this year probably unlike many years in the past where people have had pretty strong first and second quarters, and we've had a handful of years or a few years here where second half of the year certainly last year, post May 22, we saw a lot of the buy side go into defensive mode. We find ourselves heading into June and people still have years to make. So I think we're going to continue to see a push when those opportunities arise. I think those volumes have the ability to and the volatility has to come, has the ability to come back in a reasonable way.

JOHN MCDONALD: And has this low volatility, low volume affected you in any particular segments more than others, as you think about the trading business whether it's FX rates, credit, commodities, one way or the other?

MIKE CORBAT: I think we've talked about that it's probably – and I don't think we're alone here that it has probably hit the industry harder in terms of both rates and foreign exchange, and probably in particular on the advanced markets side of things.

JOHN MCDONALD: So some of the kind of non-banking specialists often have difficulty, as does everyone, differentiating between the securities units at the various investment banks and money center banks. What are the distinguishing characteristics of Citi's franchise in trading and investment banking?

MIKE CORBAT: Well, I think starting on the banking side of things, I'd actually go broader than investment banking. I mentioned the unique network we have, that our corporate relationships really grow out of this unique network, our presence in 100 countries and our ability through a closed payment loop system to actually help corporations manage their movements of cash around the world. And again, people can put cash into our system, and we can move it and they can know.

We've made big investments in terms of technology in dashboards. They can see where it is, they can see the currencies. We know sources and uses and in this day of heightened anti-money laundering, know your customer, et cetera, we think we're well positioned to take advantage of that. Off of that comes foreign exchange, comes borrowing, comes advisory, comes debt financing, comes all of those. And that's a combination of corporations and governments.

On the market side of things we have trading desks in over 80 countries, I think 82 countries in the world. And that, I think, is also unique. And again I think today our businesses really, really all of them, and not many people can say this, our businesses are of scale, and the challenge in the business today is if you are not of scale it's very difficult to get scale. Meaning that, the regulators aren't going to allow you to buy your way to get to scale, because they are not letting big banks or brokerages get bigger.

And if you want to go build it in this environment, in this lower volatility, lower interest rate environment, it's – your time to recovery of that investment is difficult. I think what you've seen is you've seen market participants reacting to the acknowledgement of lack of scale and making adjustments to their business model. And that I think we're fortunate that really most, if not all of our businesses are at that point of being able to have that.

JOHN MCDONALD: As a reminder, there are some cards that are going around and you can fill out questions along the way and I'll pretend that I'm asking them, actually I'll get through as many of them as I can. So, feel free to hand those up.

Mike, on the, again on the global side, you mentioned 82 countries gives you a unique view of what's happening. How do you feel about the world more broadly? And maybe talk about some of the markets that you feel better about the countries, regions and where you're a little more cautious?

MIKE CORBAT: So, I think as you look at the world today, the world is, I think, clearly in a – is in the stage of recovery despite this morning's numbers. We'll get growth in the developed markets this year, somewhere around 2%. We'll get growth in the emerging markets somewhere around 4.5%, that's probably, when you look historically, about as tight as those two have been and from a global growth perspective coming in around 3%, that is a historically low number. But I think the world is getting better.

And I think when we look at the U.S. starting right at home here, we said coming out of the crisis that it was important that we get a consumer led recovery, we had QE. We had to get a floor into housing prices. We've seen not only the floor but we've seen some recovery. I think the important next leg of the recovery here needs to come on the corporate side and I think we've started to see some signs of that with some companies starting to reinvest and invest into CapEx. I think you've seen interest and confidence resume in terms of M&A and I think you've seen some interesting reactions there that in my 31 years I haven't necessarily seen much of and that is in today's age, the markets rewarding not only the company being acquired in terms of the stock going up, but we're actually seeing the acquiring company, the stock trading up and that people are looking for growth and growth to date as top line growth has been stingy and I think people want to see companies reinvesting back in and I think that acts along with shale and the other things as a pretty important catalyst towards the resurgence of U.S. growth.

I think a part of that if you were at all constructive in terms of the U.S., I think over the intermediate and longer-term you've got to be very constructive in terms of Mexico, because when we think of Mexico and a significant role that Mexico has played towards the U.S., it's obviously been on the labor side of things. And if you look at what's happened over the last five or six years from a unit labor perspective – unit labor cost perspective, Mexico is probably as competitive as any country in the world in terms of unit labor and when we draw the map in terms of shale gas, we often tend to stop at the U.S. border, but we know that gas goes down into Mexico and when you look at some of the reforms that the President is pushing through there, one of the big ones being energy, we think there's going to be a push towards the harvesting of that and we think the combination of a well-priced labor force and energy makes Mexico a pretty competitive global economy and obviously a terrific partner for the U.S.

I think Latin America is bit of a mixed tale. With the continued volatility and challenge of governments in Venezuela and we'll be transitioning in Argentina and we've gone through some devaluations and some challenges, but you have got some real bright spots. You've got, as an example, Panama today, predicted to grow at about 6.2%, 6.3% probably second only in the world to China. A week or so ago I was down and then John, last week was in Colombia, again, going through an election cycle, but economy growing solidly at 4%. You look at what's going on in Peru, underwhelmed by Brazil but stable. And so I think you've got a mixed picture.

Europe recovering, long slow recovery, probably still has some fragility to it, but getting better and I think Asia doing okay – I think some questions around China and kind of where China is headed and can China really achieve its 6.2%, 6.3% growth and some of the vulnerabilities in terms of the amount of credit in particular in the shadow banking systems there. But the world, in spite of some of these things out there, feels like it's healing.

JOHN MCDONALD: And you've mentioned that for you Korea has been a drag and you have a big presence there. Do you feel like that's stabilized and perhaps ready to turn a corner?

MIKE CORBAT: Yeah if you look at the challenge of Korea, I think for the industry and for us hasn't necessarily been the economy. The economy is probably going to grow 3% this year. In the scheme of the world that's okay. The challenge has been their change of some of the regulations and those regulations have affected the consumer business.

So our institutional business has performed very well and the challenges on raised caps and other things that they've introduced from a regulatory perspective, which has obviously dramatically compressed those margins. And what we've done is we've announced that we're shrinking and closing and really again reiterating our strategy all over the world is really moving towards urban Korea, moving towards the higher credit quality segment of the Korea consumer market, which is consistent with the way we are doing things everywhere in the world. And candidly we've got to get those costs out and we're well along in that process today and feel like in the second half of the year we'll start to show some real visible progress towards that.

JOHN MCDONALD: Okay, good. And regarding the Mexican fraud, how comfortable are you that that's been contained and limited to the issues that you've disclosed and talked about?

MIKE CORBAT: Well, when we discovered the fraud, we went into what we described as a rapid review, where we went and reviewed about 1,100 of these facilities, all 1,100 facilities that we have around the world. Those 1,100 facilities have about $14 billion of outstanding receivables financing around the world, and we went through those and got ourselves comfortable away from this one supplier, the Pemex supplier program that all those, the guidelines, the polices, the way they were being initiated, were proper. So we're comfortable that it is contained to this situation.

JOHN MCDONALD: What are the lessons learned from this, and should investors view this as evidence, hey, this company is too big to manage, to diverse, to complicated, some of those questions that I am sure you get asked?

MIKE CORBAT: So if you look at our reaction to this, what we've said is that we were going to hold people accountable not only for their actions, but their inactions. And actually what we saw here and when I was down in Mexico a few weeks ago, we terminated about a dozen people as part of this, it was probably more the inactions that there were tell tales along the way that people should have escalated, and they didn't. And I think in this, the lesson is that we need to continue to instill that comfort and that motivation of escalation in our people as they see things that, to be comfortable to raise them up to their supervisors or raise them to compliance or raise them to audit: that doesn't look right, doesn't feel like, would somebody go take a look at this.

JOHN MCDONALD: So, wrapping up on the global front, how do you think the stock ultimately gets credit for some of the global assets and the global diversification? It seems like sometimes the market worries you are too diversified globally, the stock kind of sells off on emerging market concerns and you don't seem to outperform when EM does better, is it just over time and kind of seeing that the businesses perform well over different environments?

MIKE CORBAT: Well, I think that there's a couple of things I'd touch on is that, one is that, away from us, away from the financial services industry, the world is only becoming more global. And our job is to service our customers and clients around the world and our responsibility based on the franchise we have, the unique franchise we have, is to really in a positive way exploit that for both. What we've seen in many instances is our competitors pulling back not only in some cases from products, but in cases geography. And going back to my earlier point is that our franchise in many ways is only becoming more unique. And that the bright side of regulation in this is that it's created barriers to entry and barriers to replication, that people don't have the ability.

So, our responsibility is to make sure that in this world, that's only becoming more global that we're there and we're properly sized. We're were not too big and were not too small, but we've got the adequate resources on the ground to support our customers and clients as they move around the world.

Second thing, we've got to make sure that we can do is we can show that from a risk management perspective, we can manage our firm. And that Citi is not “worsification”, it truly is “diversification”. And I think that takes time to prove. But I think we've shown through a number of things so far and whether it's been a series of Venezuela or Argentina or Egyptian or European crises, we've managed ourselves pretty well and managed to stay in an outsized way out of harm's way. We've got to remain very focused on that.

And then I think we've got to prove that value over time, right. And we've said that we want to be focused on continuing to maximize our earnings out of our Citicorp businesses or our core go-forward businesses. We want to continue to utilize our DTA and again over the last couple of years, over the last – actually the trailing 12 months, we've actually used $3.5 billion of DTA, and it wasn't that long ago where people were questioning, could we use it. And just last quarter, we actually utilized about $1.1 billion of that, and that throws off, obviously, a significant amount of capital, as we utilize that and we continue to take Holdings towards breakeven and I think again on an operating basis, we've made significant progress. We've got some more legal issues and challenging legal environment that we've got to get behind us, but I think we've shown progress on those and I think we need to stay on that path.

JOHN MCDONALD: Yes. A couple of questions to shift gears to Holdings, the mortgage, credit environment improved dramatically. You still have a sizable amount of loan loss reserves allocated to Holdings in the North American mortgage portfolio. Do those go away over time? Are there some issues that are keeping you cautious about releasing them too quickly right now? How do you see that playing out?

MIKE CORBAT: So as you know, we finished the first quarter with Holdings at about $114 billion, down from $700 billion not that long ago. Of the remaining portfolio today, of that $114 billion, about $71 billion of that is mortgages, the combination of first and second mortgages that are in there, fairly evenly split. We've got about $4.6 billion of reserves at the end of the first quarter against that portfolio and what you've seen us doing in that portfolio is largely releasing reserves that largely map against our charge offs.

We also last year, I think sold about $6 billion of that portfolio, largely focused on the nonperforming side of things, because again in the sales what we're trying to accomplish is three things. One is we're trying to get rid of risk, second, we're trying to get rid of embedded costs that are there and obviously third we're going for the asset reduction and capital release that's associated there. And as prices present themselves we're going to continue to take advantage of that.

I think what we've seen in this environment today is when we look at, we're constantly looking at the value of those mortgages and what the market is willing to pay for those mortgages. We've said, get any place close to what we think the value of those mortgages are and we're happy to sell it. But we're not going to sell them at a distressed price and take a capital hit if it doesn't make sense for our shareholders.

So, we're going to continue to work that and as those opportunities present themselves, we'll continue to sell, but we're not in a mode or a mentality of doing any kind of fire sale against those.

JOHN MCDONALD: Even though you have lots of capital to use against it you just don't think it's economical?

MIKE CORBAT: Yeah. But our objective of capital is not to – in my opinion we'll only use that capital to get rid of something in a hurry. My objective over time is to maximize that capital and give that capital back to our shareholders.

JOHN MCDONALD: You recently did a securitization of some of the OneMain assets and how is that helpful, what does that do for you in the long run getting rid of some of these assets?

MIKE CORBAT: So OneMain today is our largest operating business in Citi Holdings. It is a U.S. based, of scale, about 1,200 branches, sub-prime personal loan, consumer lending business – really in some ways unique and it is kind of the last big business so to speak we've had. We have had the opportunity to sell it. We didn't think the prices for the business were right. So being sub-prime not kind of fitting the Citi model in spite of the fact that it's a terrific business, it's not a business that in the long-term we'll be in. We've started preparing that business for exit or sale in some form I'll touch on.

And so as you mentioned the first quarter this year, we did $760 million financing to start to establish arm's length funding for that entity. And I think as we get later into this year, we're going to start to explore what those exit options may be. As you saw us do in Primerica and you saw us do in some other things, we're open to – could be anything from a private equity sale, it could be an IPO, it could be a combination of the two. And so we're leaving that open. But again, we think the business has a lot of value and we're aiming to try and harvest that sometime late this year, early next year if the markets are right.

JOHN MCDONALD: One of the issues I would assume is that it generates a good amount of earnings for you and you already have a lot of capital.

MIKE CORBAT: Yeah.

JOHN MCDONALD: So maybe that affects the time line for you to do it? Or you're appetite for doing it?

MIKE CORBAT: Well, there is – I think there's a couple of things. One is, being a U.S. business and generating U.S. earnings it's a business that obviously pairs off well against DTA utilization. And again it is a good earning business, so we want to make sure that we get paid proper value for it.

JOHN MCDONALD: So Holdings is virtually running at a breakeven. If you take out the legal costs, you basically are running at breakeven. Maybe could you just kind of give us a sense of what's left on the legal front to deal with? You've got a Gibbs & Bruns settlement on some of your private label securitizations done. You settled a number of government issues in the past, last year and early this year. So what's left in terms of big ticket items?

MIKE CORBAT: So as always we can't – we don't disclose things at a granular level in terms of what's going on, but you mentioned some things on the mortgage side. And I think you can look at what's going on in the industry and you can extrapolate where we are there and feel we probably got another issue or two at Holdings that we've got to get behind us. And again as we've said before, the challenge of that is we don't get to pick the timing. We've got to wait until the agencies and the enforcement bureaus and so forth are wanting to engage with us and then we obviously want to engage and get those to a place. But again, we've worked hard to try and get those to places in a pretty tough environment that, all things considered, have been pretty reasonable. And we're going to continue on that path to try and get some of this stuff. We'd love to get this stuff behind us this year.

JOHN MCDONALD: Great. A couple of questions, the theme that runs through the questions, this came up with yesterday with Bank of America too. Just can you talk about the benefits of the universal banking model? There is obviously a tax on being big and complex in the new world from a regulatory tax, there's probably a complexity tax. What are the benefits of being so big and so diversified that outweigh that tax and the regulatory burdens that make the model worthwhile in your view?

MIKE CORBAT: Again, I think you go back to this concept or this reality of globalization and what's going on and our ability to lead in the company, our customers and clients around the world, I think is critical, because when you look at the aspirations of most companies today, and you look at the history of our company, our history is that in general we were following or leading or accompanying the Fortune 500 into, in many cases, the emerging markets.

Today, a lot of what we're experiencing is leading or accompanying the global champions out of the emerging markets and whether it's a CNOOC going to Canada or pick your stories around those. Those flows today are very much becoming more and more two ways and I think our ability to be there and be supportive, again, across the gamut from a scaled operation I think gives us an advantage in terms of serving them.

JOHN MCDONALD: This actually comes up in three or four different cards the question of, does it makes sense to be together, consumer and institutional? You seem to have strength in each one, but why do they need to be together?

MIKE CORBAT: Well, I think if you look at a few things, under the Basel rules, deposits and in particular consumer deposits are of high value in terms of funding. And so when you think of the way we come to work from an ALCO perspective in a country to have, in many cases, from a risk management perspective, a balanced in-country balance sheet and in an environment, in particular in parts of the consumer world or even parts of the institutional world, where loan demand, loan growth and we have actually had pretty good, we've had actually 12% loan growth in our institutional side, about 5% loan growth in the consumer side of things, but financial institutions and we are not alone, are just awash with liquidity and I think having the balance of those allows us to operate and in particular risk manage our businesses better.

Examples when Europe was in crisis in Greece, the balance of the portfolios in Spain, big credit card business, consumer deposits, we weren't dependent upon cross border funding around those and again lesson learned in Europe is an example, that in spite of a single currency, we never allowed ourselves to be fooled that German euros and Spanish euros were the same thing, they weren't. And I think having that deposit funding on a local basis was important.

JOHN MCDONALD: On that note, another question that's come up, just can you comment on the strategy in terms of U.S. retail? What's the status of your deposit franchise? What are the differentiating characteristics on that? And what are your plans for that over the next couple of years, especially as you think about rates rising potentially and hopefully some day in the U.S.?

MIKE CORBAT: Yeah.

JOHN MCDONALD: How does your deposit franchise stack up?

MIKE CORBAT: Well, I think when you look at what we're doing in the U.S. again, very consistent to what we're doing in other places in the world and that is that we are not a rural consumer bank, we're an urban-based, high credit quality consumer bank that offers a wide array of products ranging from credit cards, mortgages, wealth management, et cetera. And that's what we've been doing is really concentrating and focusing our work around the urban centers and the urban consumer and focused on that, and that's the strategy that Gene and team are doing.

Second piece is that again when you go back in Citi's history, we were a very product rather than customer-centric organization. And for those who have been Citi customers over time, you would go to our web page, as an example, and you would go to a very distinct Citi Cards page, or you would go to a Citi Mortgage page, et cetera.

Through this work that we've done and we've talked about Rainbow, we actually bring the client to the center and in there, in spite of being the largest issuer of credit cards in the world, we candidly haven't gotten our share of cross sell against all those credit card clients, because the history was products. And so, we've got the ability from a client perspective, to, I think, have much better, much more robust conversations around the total financial lives of those people rather than being product specific.

JOHN MCDONALD: And just on that note in credit cards, you're very large both in private label and in the branded card space. And you've really invested some effort and some money under Jud Linville last year or two, have you seen some traction from that in terms of client adoption spending and maybe revolving growth?

MIKE CORBAT: Yeah, I think that when you look at the credit card space in the U.S. to touch specifically, I think what we've seen as an industry, we've seen a consumer that's gone through a pretty distinct period of deleveraging. And I think you've seen that really manifest itself in terms of reduced ANR, in terms of outstanding ANRs in those programs. I think the good news what we've seen is, we've seen, I think, a flattening out or a stopping of that deleveraging and what we've actually seen is an increase in terms of purchase sales.

I think from our perspective we were probably and I think, in some ways necessarily so, we were probably a bit late in terms of our reengagement in terms of marketing spend through the crisis based on what we went through. I think we saw some others out there ahead of us. We, over the last couple of years, have addressed that and Jud has been ramping up his marketing spend. And I think we've started to see that work its way in to purchase sales.

I think second thing is we've made some, I think some really good investments in terms of the programs. In terms of new programs, consolidation – we had some very fragmented credit card programs, we've really narrowed the number of products we offer in, we've made investments in those. Our next big investment here in the U.S. is probably into a really good cash back card, which I think is missing in our portfolio.

And I think that the third piece of that is around the American Airlines program, which is an important program for us and I think with American Airlines going through bankruptcy, it clearly took, in many cases, that card off of the top of wallet. I think with that behind us and I think very strongly with the U.S. Air, American Airlines merger in essence being done and moving forward, us being the single card operator for that and again I think importantly going back and renegotiating our way back into, in essence, being the only card accepted in the American lounges again, which we had lost for a period of time, I think is an important step in terms of the rebuilding of that business. So...

JOHN MCDONALD: Seeing it in the spend already, it seems like new accounts and the spend and hopefully it leads to some revolve as well?

MIKE CORBAT: Exactly. And the American Card has been a terrific card on all those metrics historically.

JOHN MCDONALD: Great, Mike, thanks very much. I appreciate your time today.

MIKE CORBAT: Thank you very much.