Goldman Sachs US Financial Services Conference 2014
Tuesday, December 9, 2014

Host
Richard Ramsden, Goldman Sachs

Speakers
Mike Corbat, Citigroup Chief Executive Officer

PRESENTATION

RICHARD RAMSDEN: If everybody could take their seats we are going to get started with the next session.

Okay, I am delighted to have Mike Corbat here with me today. In the two years that he has been CEO of Citigroup, he has helped drive a 4-point improvement in the core efficiency ratio. He has also set out an incredible path to cost of equity returns. He has had 30 years of experience at Citigroup, he has had experience running almost every single division at one point over his career and I think we are going to get a very enlightening perspective both on the Company as well as the global economy.

So, Mike, thank you very much for joining us.

MIKE CORBAT: Thank you.

RICHARD RAMSDEN: So I thought before we go into longer-term trends, let's start with the current operating environment. Can you talk a little bit about what you are seeing so far this quarter and what your expectations are for next year?

MIKE CORBAT: Sure. I think as we look around the global economy and look at markets we, again I think see things that are continuing to heal but certainly with challenges out there. If you look to the positive, you see a growing; expanding U.S., I still think has some fragility. I think very importantly 10, 11 months or so ago we saw a significant mindset shift in terms of corporate confidence and I think this manifested itself in terms of M&A. We continue to see a healing consumer around the world but the world remains an uneven place.

As I look to our quarter, a few things I would point to is that one, I think a lot of work that we have done in our consumer business and some things that we had been able to get behind us whether it is the comparables year-over-year in mortgages, the Korea repositioning - I think bode well for the consumer business. Our transaction service business, our treasury and trade service business continues with momentum and we've got a bit of revenue uplift which in a low interest rate environment I think is quite good.

But I would say the real challenges out there and in particular early in the fourth quarter, the first couple of weeks in the fourth quarter were the trading environment where we saw sharp moves in terms of rate spread, foreign exchange. We didn't escape that and right now we are looking to a fourth-quarter where we are going to see markets and in particular fixed income revenues but market revenues down on a year-over-year basis somewhere in the 5%-ish range, maybe a bit more but I would say somewhere in that range.

The second piece I would like to talk about is around repositioning and that our repositioning costs have been running high and we've told you we are going to bring them down as we go forward. As John and I went through the fourth quarter budget work, we saw some opportunities in this quarter to go ahead and pull some restructuring and repositioning forward and so we are going to as part of the fourth-quarter take about $800 million of repositioning in the quarter. With that and we can talk more about it later, Richard, the expectation should be that going into 2015, repositioning is largely behind us and that number should come off significantly.

RICHARD RAMSDEN: Can you just spend a second on what the $800 million is for? Are there specific initiatives within that?

MIKE CORBAT: So in the little over two years since I have been CEO, we have reduced headcount by about 20,000 people. The 20,000 people is net of about 10,000 hires in terms of regulatory compliance, safety and soundness. So a big piece has gone against people, a second big piece has gone against real estate that we have reduced our real estate footprint by about 15%, about 10 million square feet of real estate reduction and those have been the two primary drivers of the repositioning.

In the past nine quarters in Citicorp inclusive of this $800 million, we will have utilized about $3.2 billion of repositioning. We believe that is driving and will drive about $3.4 billion of run rate saves. About 50% of that as we have described has been reinvested in terms of regulatory compliance, CCAR etc. About 30% of that has been invested into technology and investment programs in our businesses and about 20% of that we've dragged to the bottom line.

RICHARD RAMSDEN: On restructuring, you have obviously done a lot in terms of rationalizing the footprint. Most recently you have announced that you are getting out of 11 consumer markets. Are you still looking for areas to restructure? And I guess specifically, how do you balance keeping in place what makes Citigroup unique which is your global footprint with the need to improve returns on the business?

MIKE CORBAT: I think it is important to recognize that while we have been doing restructuring and really getting the firm focused and the focus rather than simply geography has really been around the combination of client, client segment both on the institutional as well as the consumer side, products, product offerings as well as the markets. So when I got into the job two years ago we were in 101 countries. This morning we opened our doors in 101 countries. We've pretty radically changed the consumer footprint, the institutional network, the payment system, all those things I think that are critical to the institutional businesses are very much still there. So I would say that the bulk of really what we are doing is really creating the focus of the institution around the things that we think give us a competitive advantage and I think our customers and clients recognize.

RICHARD RAMSDEN: Can use spend a minute on your priorities for 2015? Obviously CCAR took up a lot of your time this year. When you think about 2015 and beyond, what are the two or three strategic priorities that you really have got at the top of the agenda?

MIKE CORBAT: Before I do that if I can, what I would like to go back and just close out the fourth quarter if I can. I've got one more point I would like to make on the fourth quarter and that is that clearly the industry clearly we have been operating in a heightened legal and settlement environment. And if you look at our disclosure and the things that are out there I think we have done a good job this year in terms of getting mortgage and getting some other important things behind us.

I think as we look forward the big things as an industry, the big things for us that remain out there are the combination of foreign exchange, LIBOR and AML and process controls with some other small ones.

I think as you know in terms of being able to reserve against those you have to meet the criteria of both those challenges being probable which I think there hasn't been a challenge historically in terms of believing that these things were probable and they needed to be estimable. I think from our perspective based on the conversations that we've had and I think a number of precedents that have been established in the market were at a point in the fourth quarter where we are going to go and recognize what we believe are the charges necessary to largely put those behind us which will be about a $2.7 billion charge in the fourth quarter.

Again, we think that largely addresses those issues. But again until they are closed you can't say they are done and behind you and, Richard, when I take the combination of the increased repositioning as well as

the legal reserve charges in the fourth quarter and legal reserve charges we largely assume are not tax deductible, that will leave us somewhere for the quarter of marginally profitable.
RICHARD RAMSDEN: So, on the priorities for next year and beyond?

MIKE CORBAT: Two years ago we laid out three priorities, quality and consistency of earnings, utilization of DTA, and getting Holdings to breakeven some time in 2015. I think on an operating basis on consumer and institutional, we have showed very good momentum in terms of expense discipline, earnings in a tough market and interest rate environment and feel like we have got the firm positioned well for the continuation of quality and consistent earnings as we look forward.

From a DTA perspective in the past two years, we have used approximately $5 billion of DTA. Just two years ago I think there was a question as to whether we could actually turn that. And the third piece is in the second and third quarter, we have shown our ability to get Holdings to breakeven and we believe from this point forward inclusive of OneMain and other divestitures which we are going to stay focused on, we have got that path with Holdings.

From a 2015 perspective, delivery against our targets, our Citicorp efficiency in the mid-50s, our Citigroup ROA between 90 and 110 and again, we have guided people to the lower end of that range. Building, continuing to build and executing against capital return and continuing to wind down Holdings in a responsible manner. So those three would and will be the focus for 2015.

RICHARD RAMSDEN: Can you spend a minute on the targets and I guess the specific question is there is obviously still a material gap relative to the mid-50 efficiency ratio in particular. How do you expect to bridge that gap going into 2015 and 2016?

MIKE CORBAT: I would say as you look at the levers that we have to pull, in many ways the good news is we are not overly reliant on any one lever to get there. I think it is a combination of low to mid single-digit revenue growth in Citicorp. I think that is a combination of continued consumer business rebound, continued market share gains in terms of our institutional clients business, and we haven't built in much of a rate increase into that. Continued expense discipline, the flow-through of the repositioning actions we have taken significantly lower repositioning and legal, Holdings at breakeven or better and balance sheet discipline. Our balance sheet for the past few years has been plus or minus right at $1.9 trillion and I would expect again balance sheet discipline as we go into 2015 around the ROA targets.

RICHARD RAMSDEN: Okay. Can we turn to CCAR for a second? Obviously it is a really important year for you this year. What is different about your process this year versus last year and what gives you the confidence that this year's submission is going to be received favorably?

MIKE CORBAT: I think in taking the feedback from the Fed, I would place our significant changes probably into four buckets. One is our risk identification and scenario or narrative design. What are the risks out there? How do they affect the firm? How do we stitch that together across the fabric of the firm and think about it?

Second stream would be significant work around our models. We have completed a rework or rewrite of probably slightly in excess of half of our models and revalidation of those models.

I think the third piece is around management and business engagement really bottoms up in terms of not only the scenario design but how we think about it, what are the ramifications from a business perspective?

And the fourth piece is around communication and I think as an institution, we owe a lot of gratitude to the Fed for their engagement and it has been at the local New York team level, at the Washington team level and across the horizontal work streams where I think the Fed has met us more than halfway in terms of communication.

RICHARD RAMSDEN: Okay. How do you define a successful 2015 CCAR for Citigroup?
MIKE CORBAT: Well, one is that we need to make sure that we get a pass in terms of the qualitative piece. Last year as you remember, the numbers side, the quantitative piece had ample cushion in it for our capital ask but we also know that it simply just can't be a pass that with that pass there has got to be some reasonable amount of capital return. And again as we think of the future of the firm and what is important, we will probably spend some time on it but we have in some ways got this unique ability to generate regulatory capital and we understand that we have got to have the firm positioned to be able to return that capital to our shareholders over time.

RICHARD RAMSDEN: Do you think the qualitative fail last year impacts your quantitative ask for this year?

MIKE CORBAT: No. I view it as a separate process and again based on the changes we have taken, our numbers are the numbers and we are taking a fresh approach to it.

RICHARD RAMSDEN: Okay. Can you spend a second on how we should think about the longer-term capital returns for Citigroup? So you have generated $7.00 of regulatory capital a year, at least you did in 2013. I think you are going to generate that level going into 2015. But against that you generate $5.50 of GAAP earnings. What is the right number do you think for investors to focus on in terms of the potential for Citigroup to actually return capital to shareholders?

MIKE CORBAT: I think over time we've got to be in a position to be returning that capital otherwise we are going to have a denominator problem. When people own Citigroup and you think of the equity allocations and we came out late last spring, early summer with our business segment allocations of capital, you saw how we think about that. When you own a share of Citigroup, you own shares in essence of the go forward business, you own shares in terms of our capital dedicated to Citi Holdings and you have capital that is dedicated against the DTA.

When we position the firm as you have seen us do where we can drive the earnings in Citicorp, we can get the drag of Citi Holdings or get Citi Holdings to breakeven, we stop creating DTA, Citicorp uses DTA and as we shrink Holdings it also liberates capital on the asset sales. So we've got this ability as you described for every dollar of capital we generate we have the ability to generate in excess of that from a regulatory perspective.

We've got to be in a position to get that capital over time back to our shareholders or we are going to have a denominator problem. But when you look at -- and we've shown you the segment level analysis of the businesses, our businesses against the allocated capital are earning reasonably above their cost of capital.

RICHARD RAMSDEN: And in terms of returns when you took over as CEO, you outlined a 10% ROTC target for 2015. You have indicated that you are not going to make it because of equity levels. Do you think that target still holds though going into 2016 or 2017?

MIKE CORBAT: Again just go back and clarify when we said that we declared that as an intermediate target, we don't believe that is the end state target for where we believe we can and we need to get the firm. To your point, with our lack of capital return this year, i.e., a denominator build, that number is going to be difficult to hit in 2015 but we need to make sure going forward that we've got the ability to return that excess capital to our shareholders. We've got to make sure the firm is positioned in that way.

RICHARD RAMSDEN: Okay, there is obviously a lot of new rules coming out on TLAC, NSFR. There is going to be Fed capital surcharges I think announced at 3 PM today. Can you talk about the implications for Citigroup in aggregate from the upcoming rule set and is it in any way impacting your ability to service clients in the way that you would like?

MIKE CORBAT: We have gotten guidance so far from both the FSB as well as Basel in terms of net stable funding ratios in terms of TLAC, etc. I think we will get U.S. clarity today from Governor Tarullo maybe in terms of some of those.

What you have seen from Citi is our ability I think quite quickly to be able to absorb these rules and regulations as they have been put out and whether it is the implementation of Basel today, Tier 1 Basel III at 10.7% against our stated today of a 2% surcharge plus a 50% buffer i.e., running the firm at 9.5 at 10.7%. We will get guidance in terms of TLAC and in particular short-term wholesale funding which I think has been a focus of the Fed, a focus of Governor Tarullo.

Today our balance sheet is financed with about 10% repo which I think from an industry perspective is quite competitive and we've got flexibility around that. We've got the ability to go to the capital markets; we've got the ability to pare that book. In fact over the past several quarters, we have shrunk our repo book both in terms of financing the firm as well as what we are doing from a customer perspective. And at the same time, we have lengthened some of those things so I think addressing some of the systemic concerns that the Fed has put out there.

From our perspective as of today, the leverage ratio is not our binding constraint and we have seen the willingness and desire from our institutional clients in particular to in essence pay for or reward us with business around access to our repo book and financing. And so the same way and the same mentality with which we run our corporate book that we don't in general make institutional multinational corporate loans for the sake of the loan, we make it for the cross sell of the business, the foreign exchange, the bond, the transaction service revenue.

In many ways the repo book is positioning itself in that way and we believe and we have been told by our clients that Citi is an easy counterparty to reward because there is many places they can pay us for giving that balance sheet. And so I think the value of that is going up and I think that we are positioned to take advantage of that.

RICHARD RAMSDEN: You are a global bank that competes locally and obviously different regulators are moving in different directions. Can you talk a little bit about some of the complexities that imposes upon you when you are competing against local competitors that are not necessarily held to the same rule set as you are in the U.S.?

MIKE CORBAT: As you can imagine, our desire is a couple fold. One is that there is harmony of regulation around the globe, that the rules and regulations are the same for everybody and importantly that they are applied in a similar way on a local basis.

I think the candid answer is we don't necessarily always see that but importantly if you look at the client segments that we choose to serve and whether it is on the institutional side, the multinational, the global investor or whether it is on the consumer side, the more affluently urban-based types of customers, we can provide services that is often hard for the local institutions. And again whether it is our global payments business, whether it is international capital raising, whether it is a global rewards program or the things we are able to do in digital, I believe we've got the ability to distinguish ourselves.

So we would love to see harmonization, love to see a level playing field but the segments we go after often we are really competing more against the other G-SIFIs or the other global banks as opposed to the true locals being the competition.

RICHARD RAMSDEN: I mean the leverage ratio is not a constraint for you but it is obviously for some of your peers. Can you talk a little bit about bank balance sheet repricing? Do you think it is starting to take place in certain businesses and over time, how material do think it could be?

MIKE CORBAT: I think it has and I think it has been a long time in coming. John and I often challenge our businesses and challenge our people around the fact that the world has changed and if you look at lending today and I use Europe as an example, the vast majority of corporate borrowings today still exist on bank balance sheets in Europe. It is coming down but it is coming down slowly.

And what you see or what you know is a lot of that borrowing that is occurring, that company actually has access to unsecured financing in many cases, it rates better than its bank. So that loan should only exist on a bank balance sheet to the extent it is a relationship ask, it is relationship lend and there is cross sell against it. I think you are seeing an evolution of that. It is not a step function.

I think there is positive ramifications around the world because as those loans come off of bank balance sheets, the capital markets is going to be the place that I think fills that gap and it leads to more primary issuance and again you have seen record years in terms of fixed income issuance. I think the demographics around that continue on the refinancing calendar to be quite strong and it creates better secondary volumes and better secondary revenues as part of that.

We touched a little bit in terms of the repo book but again I think you are going to continue to see pressure because when you go after supplemental leverage, the places you start, you start with cash. But with the LCR, you are limited in terms of what you can do there. Next on your list would be your repo books and again the balance, finding the right balance between financing the firm as well as creating enough capacity to be able to finance your customers and the things that they would like to do but I think without a doubt the value around that, the charging for that I think is going to become more explicit.

RICHARD RAMSDEN: Okay. Can you spend a second on what you are seeing across your portfolio businesses globally and as you think about 2015 are there some markets or some countries that you are more constructive on and others that you are at the margin more concerned about?

MIKE CORBAT: As you look around the world, a few big themes or trends happening, a few of which I touched on. One is we have a recovery occurring in the U.S. We knew coming out of the crisis that we first had to re-engage the consumer, quantitative easing, low mortgage rates, refinancing, all those things did that.

About nine, 10 months ago, very important transition and I saw it in my conversations with CEOs in the U.S., a real re-engagement that through the crisis what we saw as companies very tightly managing expenses because they knew topline was going to be difficult, deferring CapEx, deferring other types of investments, managing shareholders through buyback and other forms of financial engineering.

Ten, 11 months ago what we saw is a change of mindset and the change of mindset I think was driven from a couple of things. One is investors were giving companies feedback. We have invested in your company, we want to see that topline growth and it is okay to go do that. So we first saw a freeing up or a reinvestment in terms of some hiring but in particular investment into CapEx and then interestingly what happened is we saw companies start to push on the edges of being acquisitive and we saw the markets react well. And typically what we have seen historically is a company goes out and announces an acquisition, price of the target goes up, price of the acquiring company goes down. What we have actually seen recently in the past several quarters is both stocks trading up because investors are rewarded. I think that has created a confidence in the C-suite, it has created a confidence in boards that it is okay to go do this and I think importantly we have seen that engagement.

Europe continues on its long, slow path to recovery. What we don't know today is or what is not necessarily factored in today is the impact of what we believe is a structurally stronger dollar, i.e., weaker euro. And what 70, 75 -- whatever the number is in terms of energy prices, pointing at one, I have got to believe that Germany with a EUR $1.10, EUR $1.15 and $75 energy is a pretty competitive country and so I think we still need to see the flow-throughs of benefits there.

While we are on energy and oil, our analysts estimate that where energy prices are right now, the average U.S. family has a windfall of about $900. We expect on the consumer side to see that money come into the market in the form of purchase sales, in the form of leverage, probably give people a bit more confidence in terms of housing. And so I think there is some positive aspects there. And I also think the world is a better place because we are not completely reliant on China for growth.

Right now we are forecasting China to be somewhere in the 7% range. I think as more importantly, job creation creating about 800,000-900,000 jobs a month in China is critical. You saw the article in the paper probably this morning in terms of the banks positioned and wanting to lend more so I think there is the ability to continue to support that economy.

I think Southeast Asia does fine and we are quite constructive in terms of India.

I think in terms of areas of concern, Richard, we have got to be mindful in terms of the challenges of a place like Russia and the geopolitical ramifications of an economy right now that is not growing, some of the challenges that are there and some of the repercussions not just in Europe but around the globe.

RICHARD RAMSDEN: Let me open it up to the audience.

QUESTION AND ANSWER

SPEAKER #1: (inaudible) you briefly mentioned Russia, China is under some pressures in terms of deleverage, reducing excess capacity. Brazil also has some pressure so could you possibly talk about your exposures to those countries and how you are feeling about those exposures, what you are expecting?

MIKE CORBAT: When you look at the emerging markets away from Mexico, we have no country in our portfolio that contributes more than 3% of our revenue. Mexico is about 10% and in the emerging markets beyond that, it drops down quite considerably to about 3% of revenues.

I think as you look at the global economy today, you have got to be mindful of those places. Russia is an example where there is a real dependence from an economic perspective on energy and energy extraction and energy export. I think we have seen those challenges starting to manifest themselves in terms of the economy there.

But I also think it is important to differentiate really what extraction costs are and what government budgets are. Oftentimes people look and say the government has budgeted energy or oil at $90 and below that. There is a challenge but $90 doesn't simply extrapolate into that is the extraction cost. That is the price at which the government has budgeted energy into their plan.

You talked about Brazil. From our perspective Brazil continues low single-digit growth probably with a focus on employment, probably underperforms its potential but we don't see an economy that given the nature of foreign reserves floating exchange rates that in any way is overly vulnerable.

SPEAKER #1: And then more generally on emerging markets, a strong dollar, rising U.S. interest rates are generally presenting challenges and then the lower oil prices good for some and bad for others. How are you feeling overall about your EM exposure? Secondly, how do you think about potential revenue growth for next year from your emerging markets exposures as compared to your U.S. exposure?

MIKE CORBAT: I think it is important to understand that our emerging markets exposures are largely to global multinationals. You have seen places in Brazil as an example where from a consumer perspective a year or so ago we exited the mass market, our mass market credit cards business. We tend to be very focused in terms of the things that we do in the emerging markets. So I wouldn't constitute our credit profile or our counterparties as a blend but I would call it a targeted group of typically investment grade multinationals.

SPEAKER #2: U.S. retail, a lot smaller for you versus some of your rivals but it is a significant part of your business and I noticed you had sold some branches in Houston recently which would seem to be one of the larger, faster growing cities in the world which I think you are focusing on in terms of your retail business. So if you could just review for us were strategy for retail in the U.S. Thank you.

MIKE CORBAT: I think we ought to actually step back and I had a talk just for a second about our retail strategy global. We announced in October that we would be exiting 11 consumer markets which brings us to 24 markets around the globe. We talked about those 11 exits and talked about the contribution of those 11 countries to our consumer business, which in many ways were quite small.

We believe the focus around the remaining 24 is the right focus and the big change that we have been taking our consumer business through is this shift from a confederation of individually country run consumer banks to being a global consumer bank supported by technology, supported by product offerings, supported by a move to digital, supported by common and shared service centers, a simplification of products. I would say that our U.S. strategy is simply an extension of that with a focus in the U.S. predominantly around six major cities, a focus around the mass affluent and a focus around a series of products that we think give the ability to distinguish ourselves vis-a-vis our competition.

It is important in there and the U.S. is an example that probably in any of those 24 countries other than Mexico on a standalone basis, those businesses don't have scale or certainly in my opinion have competitive scale and so the creation of this global network and the creation of scale out of that network is critical to our ability to compete and I think our ability to create and to put products into the market and I think the U.S. is an extension of that.

If you look right here in New York, if you look at the investments we have made in terms of our branches, in terms of our products, in terms of our service and the things we are doing, I think that is exemplary of the five other major cities in the U.S. where we see real opportunities.

SPEAKER #3: So in the past you talked about how regulation was going to shift to absorb market shocks from banks to essentially the markets. Did we get a preview of that in October and it looks like it might have been a little bit of a headwind in your 4Q results but do you think longer-term that is a good or bad thing for your business?

MIKE CORBAT: I think we have gotten some previews and I wouldn't just limit it to October. I think we have seen times going back to the taper tantrum back in the late spring of 2013. I think we saw it in the first couple of weeks of October.

We have talked about the realities of bank and broker balance sheets just being smaller, of being out of certain areas of risk and whether that is parts of leverage lending, whether that is subprime, wherever those places may be. And as markets transition and we get volatility back into the market, I think we should expect to see heightened periods of volatility. I think the challenge comes whether it is a taper tantrum of October where that volatility comes very sharply and comes in many ways unexpectedly. What you would love to see or what we would love to see is a trending market with sustained reasonable levels of volatility.

What we haven't seen, markets today I think lack trend, lack direction and I think they lack any uniformity in terms of view to volatility. So if we actually saw a transitioning rate environment where people set a path against that and became comfortable investing around that path, I think that is good and in that volatility you might expect -- or we would hope to be able to catch and capture some wider bid to offer spreads but it is that one-off nature of some of this volatility we are seeing today that I think is quite difficult to trade. And I think you have not only seen it potentially in the bank and broker results but I think you have seen it in terms of some of the hedge fund and some of the investors have had quite a hard time with it as well.

SPEAKER #4: So I kind of feel like Lucy and the football as it relates to these repositioning charges and legal costs and it is not just you but it is a lot of banks. How much confidence -- I mean it is not unusual for banks to kitchen sink the fourth quarter. It has not been a particularly good year. You have already had a large mortgage settlement cost. You failed CCAR obviously all of which I hope will be reflected when the management's compensation is evaluated for next year.

But I guess my question is how much confidence do you have in 2015 that these things don't recur because the rumor is that the DOJ is not part of the FX settlement?

MIKE CORBAT: Let's take it and break it into components. From a repositioning perspective, we have the full ability to control that. That is at our discretion in terms of what we choose to do. We think that the work we have done in terms of repositioning has been good, important and accretive work. Yes, we have used $3.2 billion of repositioning but we have gotten $3.4 billion or will end up getting $3.4 billion of saves. And you can see that in terms of in spite of the regulatory headwinds and things that have been there from an environmental perspective. I think we have shown very good expense discipline.

You have seen it in our stated headcount numbers in spite of investments in terms of regulatory and compliance what we haven't able to do. And we've showed and broken out in terms of real estate and real estate footprint and sites and product simplifications how we have been spending that money.

For 2015, it should be your expectation, it should be investor's expectations, it is certainly our expectation that repositioning is going to come down considerably.

From a legal and regulatory perspective, we are operating in a heightened environment. This quarter we've tried to recognize based on conversations based on things in the market what we think is a number that puts us in the ballpark of what those should be. But candidly we don't control that at the end of the day. We don't control timing and at the end of the day, we don't ultimately control what that number is going to be. But we have tried to put our best estimate on what those numbers should be like and try and really shoot for a clean 2015. We thought that based on the information we had that we could take this reserve and feel like we were in the right neighborhood and with a strive towards absolutely wanting to hit our targets in 2015 and we think have laid out a path to where we think we can get there.

As for CCAR, we have made a tremendous investment in CCAR. We feel good about where we are but the submission is going to be the submission and that will be judged and we will get the result on that. But I can put my hand on heart and say I think we have done everything that we can do to try and position that ask in a way that is of a qualitative nature that is as good as it can be. And clearly with an eye toward wanting to continue to improve that and build on that in the future.

SPEAKER #5: Good morning. Two questions. First off, could you ferret out the repo issue a little bit more? How much of the repo book is actually used to fund your business and how much of the repo book is actually used to fund leverage market players? That is my first question.

The second question is there has been some growing issues around your payments business where people are a little concerned about how money is moved around the globe. Given what that business is to you and how complicated it is, what are some of the upcoming issues that you think we are going to have to deal with?

MIKE CORBAT: John, we don't break out -- about 30% of the book is used to finance the firm. The remaining 70% is used to finance customers of the firm. I don't have the break out in terms of the leverage of that but again; it is all the nature of the repo book is a collateralized typically daily mark type of book.

In terms of the payments business, in many ways we believe that a lot of the regulation that is out there acts as a significant barrier to entry to the re-creation of what we have in the payments business. We operate what we describe as a closed loop payment business in 101 countries. Customers, clients put money into our system, we have the ability to move that money within our own pipes to capture the natural frictions that occur to know sources uses, to be able to give dashboard reporting in a way that other financial institutions aren't able to do.

Part of the challenges that is out there clearly and it is not for us in many ways, our system actually helps alleviate some of the pressures, it is around KYC, know your customer, it is around AML. And given the nature of our customers and clients, given the nature of the stability of them operating in our systems, we believe we have a good view to what our customers are doing, who they are, what those sources and uses are of those monies and over time we believe that continues to give us a competitive advantage in terms of having this closed loop payment system. And very difficult to replicate because today we believe that regulators aren't going to approve inorganic growth i.e., acquisitions of banks by banks to grow network. So if you want to recreate what it is we have, you've got to go build it. You've got to put the bricks and mortar on the ground, you've got to take the deposits, you've got to make the loans, you've got to get the banking licenses. And I think in an environment of heightened regulation of lower interest rates; I think the barriers to entry are probably quite high right now. They are certainly higher than they have been historically.

RICHARD RAMSDEN: With that, we are out of time. So thank you very much.

MIKE CORBAT: Thank you.