For the second consecutive year, we probably have the best company kicking off a global financial services conference in Citigroup, operating in – or customers in 100-plus countries. The company's done a tremendous job post the financial crisis in terms of refocusing on its core competencies. And you've seen that manifest itself into improved results over the last several quarters and even years in terms of a positive operating leverage in Citicorp, controlled expenses, DTA utilization, more recently, capital redeployment, continued downsize of Citi Holdings, while remaining profitable as the company continues to improve its profitability metrics, exceeding a 1% ROA in the first half of the year.

From the company this morning, very pleased to have John Gerspach, Chief Financial Officer. Also present, Susan Kendall from Investor Relations, as well as other members of her team here.

And with that, let me turn it over to John.

JOHN GERSPACH: Thanks, Jason. So, good morning, everyone, and thank you all for joining us. Today, I'd like to cover a few topics, including Citi's recent results, the unique strengths of our business model, and how we're positioned to generate sustainable, attractive returns in 2015 and beyond.

To begin, let me spend a moment on our recent results. In the first half of 2015, we showed continued progress with modest revenue growth, efficiency improvements, and continued favorable credit trends, driving a significant improvement in net income. In the first six months of the year, we earned nearly $10 billion with a Citigroup ROA of 103 basis points and a return on tangible common equity of 10.5%. These results better reflect the underlying earnings power of our franchise without the drag of outsized legal and repositioning costs or losses in Citi Holdings that affected us in prior years.

We achieved these returns in an environment that remains challenging, with uneven global GDP growth, continued low interest rates, regulatory headwinds in certain markets, and continued expense headwinds in regulatory and compliance.

While we expect our net income and, therefore, our returns to be somewhat lower in the second half of the year, given the seasonality of our revenues, we remain confident in our ability to achieve our full-year 2015 targets for a Citicorp efficiency ratio in the mid-50% range and a Citigroup ROA of at least 90 basis points. And in a stronger revenue environment, of course, we would expect to see upside from these levels.

There are many unique advantages to our business model, which position us well to generate sustainable, attractive returns over time. First, we have a diversified stable revenue base that is well balanced across products and regions, with over 75% of Citicorp revenues coming from our core institutional and consumer banking businesses.

Second, we have a disciplined target client model, with a focus on deepening our relationships with a well-defined set of high-quality corporate and consumer clients.
Third, we are keenly focused on efficiency, streamlining our operations and exiting low-return businesses, while continuing to invest in the core franchise.

Fourth, we are maintaining balance sheet discipline, with the ability to redeploy Citi Holdings assets to support growth in Citicorp, while continuing to improve the cost and stability of our funding.

And finally, we have a unique ability to accelerate our regulatory capital build through the utilization of our deferred tax assets.

We are already one of the best-capitalized banks in the industry, based on both our CET1 capital and supplementary leverage ratios, positioning us well for increasing returns of capital to our shareholders over time.

In summary, we like the hand that we're playing today, with a unique global business model, a well-defined strategy, and a strong capital position.

Now, I'd like to focus on each of these competitive advantages in turn, starting with our unique global reach. On the institutional side, we can connect our clients to the banking systems in nearly 100 countries on our own proprietary network, giving them an unparalleled ability to manage their liquidity and working capital positions around the world. We provide a full range of wholesale banking products, from recurring transactional support to more episodic services, like capital raising and M&A advisory.

But, it is important to note that many of the countries on this map, particularly in the emerging markets, serve simply as nodes in our network, where our sole mandate is to serve the subsidiaries of our large multinational clients with day-to-day cash management, foreign exchange and local funding needs. Importantly, we are not trying to compete with local banks for domestic, middle-market businesses in these countries. Rather, we are there to deepen our global relationships.

And on the consumer side, we operate in 24 countries and are primarily focused on serving consumers in the top urban centers in each country.

Turning to Slide 6, we show the composition of Citicorp revenues and loans by country. With the exception of Mexico and the U.K., no international market accounts for more than 2% of our revenues or 4% of total loans. This breadth and diversity are key competitive advantages. While the GDP growth expectations for developed and emerging markets have converged, we continue to expect emerging markets to grow faster overall.

And the diversity of our franchise reflects how our clients’ geographic presence and banking needs have evolved over the past several decades. In an environment where many of our peers have pulled back from their global aspirations, we are in a unique position to provide consistent, quality execution for our clients wherever they need us around the world.

Our footprint also provides us with a stable, high-quality deposit base in these countries. So, we are able to match assets and liabilities by currency in each market while maintaining appropriate liquidity.

On Slide 7, you can see that we are also well-diversified by product line, split roughly evenly between our institutional operations and consumer banking. While we are diversified, we are not trying to be everything to everyone. Instead, we are focused on traditional consumer, corporate and private banking, and away from the brokerage, insurance and consumer finance activities that distracted us from our strengths in the past.

Over the last 12 months, revenues grew 5% in constant dollars, with institutional and consumer banking activities comprising over 75% of the total. Institutional banking revenues were up 7%, with broad-based growth across investment banking, cash management, corporate lending and the Private Bank.
International Consumer Banking grew 2% year over year, reflecting continued volume increases despite lower economic growth in certain markets and regulatory headwinds in Asia. And North America Consumer Banking grew 4%, mostly driven by volume growth as well as abating spread headwinds in our deposit franchise.

For full-year 2015, our outlook continues to call for low- to mid-single digit revenue growth in Citicorp. And I'll talk more about our third quarter expectations in a moment.

Importantly, we are capturing this growth with a disciplined target client model. Simply stated, we target those clients who can benefit most from our global capabilities, and our goal is to increase our wallet share with this well-defined set of companies and individuals.

On the consumer side, our retail banking strategy focuses on major urban areas where affluent and emerging affluent customers tend to be concentrated. Of course, in cards and lending, and in a market like Mexico, we target a somewhat broader set of consumers. But, our goal of delivering a consistent, remarkable consumer experience remains the same. And given the quality of our target client segment, we have maintained strong and stable credit trends, as seen on the right side of the slide.

On the institutional side, Citi's target client is a sophisticated multinational corporation, a public sector entity, a financial institution or global investor with a significant wallet for financial products and services.

Our strategy is to serve large, developed market companies as they fund their local operations on the ground in emerging markets and to assist the largest emerging market champions as they expand beyond their home markets and regions.

In the emerging markets, which comprise about 40% of our corporate portfolio, the majority of our funded loans are in Treasury and Trade Solutions and the Private Bank. Traditional corporate lending represents only about 40% of our ICG loans in the emerging markets. And in a market like China, as an example, nearly 70% of our traditional corporate lending exposure is to the local subsidiaries of non-Chinese parent companies.

Given this focus on large multinationals, our corporate credit exposure is predominantly investment grade. And you can see how that translates into very low non-accrual rates on our portfolio.

This client discipline helps us come to market in the most efficient way possible. Slide 9 shows the efficiency ratio trends for Citicorp. In 2014, our results were obscured by higher legal and repositioning costs, driving our total efficiency ratio to 65%. However, we maintained our core efficiency ratio at 56% last year, even while absorbing significant investments in our regulatory and compliance functions.

We created the capacity for these and other investments by simplifying and standardizing our operations and, in some cases, paring back our activities. We rationalized our client base in ICG. We exited certain markets and reduced our U.S. branch footprint in Consumer. And we will continue to evaluate our mix of markets, products and clients going forward.

Through the first six months of 2015, Citicorp's total efficiency ratio was 55%, relative to our full-year target in the mid-50% range. Putting this into context, Slide 10 shows our firm-wide efficiency ratio as well as the ratio for our consumer and institutional businesses versus peers. For total Citigroup, including Citi Holdings, our efficiency ratio was 56% for the first half of the year, which compares very favorably to the industry, including our universal banking peers. And if you look at each of the consumer and institutional segments, we compare favorably as well.

For the full year, we'll continue to expect the total Consumer efficiency ratio to be somewhere in the range of 52% to 53%, although this is somewhat higher than our original target of 49% to 52% for Consumer, we believe the decision to make certain investments in the business, particularly around branded cards, is
the right thing to do. And we can make these investments without falling short of our total Citicorp level goal.

And on the institutional side, we continue to expect to achieve a total Institutional efficiency ratio closer to the midpoint of the 53% to 57% target range that we laid out for full-year 2015.

Looking ahead, we will continue to take actions to improve the efficiency of our core franchise. However, if the revenue environment remains as it is today, we will likely continue to operate within the mid-50% range in Citicorp.

This brings me to our fourth competitive advantage, our balance sheet discipline. By winding down Citi Holdings in an economically rational manner, we have created the capacity for growth in Citicorp without increasing the overall size of our balance sheet. Since 2011, Citi Holdings assets have declined by $144 billion, and we have redeployed this capacity into higher return opportunities in Citicorp.

At the same time, we've been working hard to shed lazy assets in Citicorp and to improve the efficiency of our franchise, driving an improvement in Citicorp's ROA to 107 basis points in the first half of 2015. By shrinking Citi Holdings assets, bringing it to breakeven and optimizing our core franchise, we achieved a total Citigroup ROA of 103 basis points for the first half of 2015.

Our balance sheet discipline is also reflected in our funding, as we've improved its stability and cost over time. Today, approximately half of our assets are funded with deposits, and we've steadily increased the contribution from high-quality operating accounts.

These operating accounts are generally lower-cost and stickier. As we have reduced non-operating account balances, we have significantly improved the liquidity value of our overall deposit base. This has allowed us to reduce the amount of our high-quality liquid assets while remaining well above our required LCR ratio.

We have also reduced our reliance on long-term debt while lowering its cost and adapting to regulatory requirements. As Citi Holdings has gotten smaller, we have been able to reduce the expensive funding that supported that pool of assets, lowering our cost of long-term debt by nearly 100 basis points since 2013.

While our amount of long-term debt should stabilize around current levels as we prepare for the potential impact of TLAC, we continue to see opportunities to improve its cost by reducing high-cost debt and reissuing at more attractive levels.

As a result of this balance sheet discipline, our net interest margin has been tremendously stable. In fact, it has been flat or increased slightly year-over-year in each of the last 12 quarters. By contrast, many of our peers have seen their net interest margins decline as a result of the sustained low interest rate environment as well as actions related to meeting liquidity and other regulatory requirements.

Looking forward, we continue to expect our net interest margin to be affected by the sale of OneMain, but we should be able to significantly mitigate that impact through further debt redemption actions and the acquisition of the Costco portfolio. And of course, we would look to benefit from higher interest rates as well, in particular in the short end of the curve.

Turning finally to capital on Slide 14, since 2012, we have grown our tangible common equity by 6% annually, driven by retained earnings. However, our CET1 capital has grown by 14% annually over that same time period, as DTA utilization has created a multiplier effect on our regulatory capital generation.

The majority of our deferred tax assets are excluded when calculating CET1. So, as we utilize DTA and bring that balance down, we also shrink the deduction to our regulatory capital.
To illustrate these benefits, on Slide 15, you can see that, over the past two years, we earned $22.6 billion of net income but generated $32.5 billion of CET1 capital, driven by over $9 billion of capital accretion related to DTA.

With an 11.4% fully-implemented CET1 capital ratio, we stand well in excess of our 10.5% requirement, including our 350 basis point GSIB surcharge. And we compare favorably to peers, both on our CET1 capital and supplementary leverage ratios.

With a reduction in our GSIB surcharge to 3.5%, CCAR is likely to be our binding constraint on capital returns going forward. And we await further clarity on how CCAR might evolve beyond 2016.

Our strong capital generating ability should serve us well over time as we meet our requirements and then seek to return an increasing amount of capital we generate back to our shareholders.

Before I close, I want to address our performance at mid-year versus the three 2015 targets that we laid out 2.5 years ago. As a backdrop, these targets were based on a low revenue growth scenario through 2015, without a significant benefit from higher rates, which is more or less – probably less than what we've seen.

We feel good about our progress so far with the Citicorp efficiency ratio, Citigroup ROA and RoTCE each exceeding our full-year targets in the first six months of the year. Given the seasonality of our revenues, we would expect a somewhat higher Citicorp efficiency ratio and lower Citigroup returns in the second half of the year.

However, we continue to feel confident in our ability to achieve our full-year targets, in particular on Citicorp efficiency and Citigroup ROA. We also remain committed to improving our Citigroup RoTCE.

We earned a 10.5% return on TCE in the first six months of the year. But, these results still include a significant drag from the excess book capital that supports our DTA. If you adjust for this impact and focus on CET1 capital, we earned a 13% return in the first half of 2015.

As I've discussed here today, we believe our business model positions us well to generate sustainable attractive returns over time. Looking at both ROA and return on regulatory capital, we are already generating strong returns in a challenging environment.

From here, we're focused on two things. First is proving our ability to generate consistent, high-quality earnings. And second is positioning the firm for an increasing return of capital to our shareholders so we can optimize our capital base and reduce the drag of DTA on our RoTCE.

Even in a slower growth environment, we believe the combination of increasing capital returns and improved RoTCE over time should drive meaningful multiple expansion in our stock.

In summary, we feel good about our competitive position today with a unique global business model, a proven strategy and a strong balance sheet. We remain disciplined in our approach, growing the franchise within our well-defined, high-quality target client segments.

We continue to closely manage the balance sheet for efficiency and returns. And we believe we are on the right path to improve our return on shareholders' equity.

Before I turn it over to questions, let me make a few comments on the third quarter. Starting with our institutional business, so far in the third quarter, our markets franchise has navigated well through the volatility seen in the latter half of August with solid client activity across the franchise. For the quarter, we expect our underlying revenues for fixed income and equity markets to be down in the range of about 5%
year-over-year, in part reflecting strong rates and currencies performance in September of last year. Quarter-to-date, we've seen a greater impact from the market volatility on industry underwriting activity. And of course, actual results will depend on the market environment and our performance for the rest of the month.

On the consumer side, as we previously indicated, North America cards revenue will likely remain under pressure as it will take some time for our incremental investment spend to drive top line results. So, in total, our North America Consumer revenues will likely be roughly in line with the prior quarter. And in International Consumer, we expect year-over-year revenue growth in constant dollars to be muted, driven by continued slow economic growth as well as pressure on our investment sales revenues in Asia given the recent environment.

Turning to Citi Holdings, while we remain confident in our ability to complete the sale of OneMain to Springleaf, we do not currently expect the transaction to close in the third quarter. We continue to expect Citi Holdings to remain marginally profitable this quarter, albeit with a lower level of gains on sale versus the prior quarter.

And finally, we do expect cost of credit to be higher versus last quarter, driven by additional loan loss reserve builds given the macro environment, although we do not expect to see an increase in net credit losses. And with that, Jason, I'd be happy to take any questions.

QUESTION AND ANSWER

JASON GOLDBERG: Thanks, John. Before we open it up to the audience for questions, maybe we'll do a quick couple of ARS questions. Those who weren't here last year or the year before that, in front of you are these remotes. I'm going to throw a few quick questions up on the screen and ask you to respond.

The first one would be: if you do not own the shares of Citi or are underweight, which of the following would most likely change your mind: one, higher rates; two, more capital return; three, better growth in emerging markets; four, more confidence in capital market outlook or more certain capital market outlook; five, continued DTA utilization; and six, continued runoff of Citi Holdings?

Last year, the vast majority of you said successful CCAR. So, we got that one out of the way.

JOHN GERSPACH: All right.

JASON GOLDBERG: This year, the response would be, the majority, increased capital return, followed by emerging markets. John, I think you talked to increasing capital return and certainly a desire to do that and how you're generating capital. With respect to emerging markets, just given all the news and the headlines we've seen of late in China and what's going on in Asia, just maybe talk to how that's more broadly impacting what you do, both tactically and maybe longer term.

JOHN GERSPACH: Yes, Jason, as I mentioned during my prepared remarks, our strategy is to focus on those local subsidiaries of those multinational clients. So, we've retained a very strong customer franchise. Obviously, to the extent that there's less growth in those countries, that is going to impact our top line growth. However, from a risk point of view, we feel that we can very carefully, very clearly, very consistently navigate that type of environment, simply because of the quality of our client base and the nature of our activities.

As I said, the vast majority of our client base is investment grade. Most of our lending in the ICG really is concentrated in Treasury and Trade Solutions. So, it's really Trade and in the Private Bank. Only 40% of our loan book in the emerging markets is really traditional corporate lending. And again, that is highly concentrated in those local subs of the large multinationals.
So again, we feel really good about the franchise, but obviously, to the extent that we’re in a lower growth environment, that is going to have an impact on the top line.

JASON GOLDBERG: Okay. Let's see if the audience has questions before we take the next ARS question. You got – mic's running over.

SPEAKER #1: Hi. So, you mentioned the expected increase in provision expenses in this quarter. Could you be a little more specific? Is it energy driven? Is it emerging markets driven? What is driving this? And just to get a sense, is it a modest growth, or is it something relevant to this quarter results?

JOHN GERSPACH: It's all of what you mentioned. Again, we're involved with energy. As you saw last quarter, we had a very modest build in our energy provisions last quarter. I think we added $43 million worth of reserve balances. We'll have some level of growth in that – related to energy this quarter.

And as far as Brazil and China, there’ll be some additions for not necessarily specifically related to Brazil and China, but just for the overall current environment. And again, we don't expect to see any increase in our net credit losses. This is really just good sound credit management, where you want to take your provisions early and then work your way through the issues.

JASON GOLDBERG: Additional questions for John?

SPEAKER #2: Could you just talk about the outlook for the return on equity in the longer term? So, if you look forward to 2020, will it be much different than today, and how much different and why?

JOHN GERSPACH: The odds of getting 2020 right are pretty low. If we put an audience response survey out there for, what are the odds of getting 2020 right, I got a funny feeling you'd be down somewhere in the 5% range.

But, what I tried to indicate in the slides is that, as we utilize that DTA over time, you get a convergence between our book equity and the regulatory capital. And so, even in this environment, on a regulatory capital basis, we're earning 13%. So, we feel real good about our ability to generate on a longer-term basis returns on capital in that mid- to high-teens level. Let's call it mid-teens level, high mid-teens.

So, we're at 13% today in a fairly dismal environment. We think we can do better as the environment improves.

SPEAKER #3: Thanks for the detail on the corporate exposure in emerging markets, mostly multinational companies, predominantly investment grade. Can you help me with what gives you confidence on the consumer side in the emerging markets? Understand you bank the affluent, but if you could just give us some more detail there.

JOHN GERSPACH: Well, again, if you just look at the statistics that we've generated there over time, we've had turmoil in several of the markets in which we operate. And yet, you haven't seen that have any noticeable impact on either our delinquency percentages or our NCLs over the past several years.

In Consumer, again, outside of the U.S. and Mexico, there really is no other country that has a large concentration of the consumer business. So, you may have a hiccup here or there, but it's not going to drive anything meaningful. Think how many years now we've continued to operate our consumer franchise in Russia, while that country has undergone turmoil. We have definitely had increases in delinquencies in Russia, but they've been within our expectations for the environment, actually better. And you haven't seen that flow through to have an appreciably visible impact on any of our published statistics, whether that be NCLs, delinquencies, et cetera.
So, again, it's diversified, it's broad-based and we do focus on a very specific client segment.

JASON GOLDBERG: There and there.

SPEAKER #4: You didn't make any comments on legal and repositioning charges for the rest of the year. Any thoughts?

JOHN GERSPACH: I'm not going to tell you how to model those things. You've seen where we've been for the first half of the year. If there was anything out of whack with the first half performance, I probably would've mentioned something.

SPEAKER #5: Can I go, Jason?

JASON GOLDBERG: Sure.

SPEAKER #5: Hi, John. Can you talk about your trade finance book from the standpoint of volumes, pricing and credit? Has there been some issues with that at some other banks?

JOHN GERSPACH: Credit is real good. From a pricing point of view, spreads have moved up and down during the year in different regions, and we've adjusted the book to reflect that spread. And by that, I mean we continue to originate, but in many geographies during the course of the year, what we've done is we've adopted an originate-to-sell model. We've found other institutions that are interested in holding these loans, even at what we would consider to be lower spreads. And so, that has enabled us to retain a strong customer franchise without necessarily then putting more lower-return assets on our balance sheet. So, I think the business has done a very good job in navigating and adapting their business model to the current environment.

SPEAKER #6: Hi. I was wondering if you might be able to give us an update on the timeline around the Costco book and expectations for transfer.

JOHN GERSPACH: Timeline is still set for April 1st. And we continue to work the process through with AmEx under the terms of a contract that exists between AmEx and Costco. And we're working our way through it.

SPEAKER #7: Yes, my question is, what's the appetite to take low ROA deals but very high ROE accretion? What's your right balance for that, because there's been very interesting deals, and I think you participated in some, especially on the capital markets side, investment banking side from the Europeans. So, it's a bit of very high ROE deals, but obviously, low ROA ones.

JOHN GERSPACH: And we have to manage both of those aspects of anything that we get ourselves involved in. So, we try to maintain that balance sheet discipline. That's one of the reasons why we look to shed what we would consider to be lazy assets so we can make room for those types of deals where perhaps there is a good tradeoff to be made between an ROE and an ROA. But, we recognize that what we need to do is we need to produce both. And I think, if you get overweight to only managing your business on one metric or another, you're going to run into trouble.

And so, in the metrics that we laid out, you'll see that we have both an efficiency metric, therefore, we want to make sure that we are efficient users of our expense resources; we have an ROA metric because we want to make sure that we are efficient users of our balance sheet, our asset resources; and at the same point in time, we have a return on equity metric because we know that we need to be efficient users of our equity capital. So, you have to be able to blend all of that into any decision that you make.

JASON GOLDBERG: Stage right, yes.
SPEAKER #8: Yes, in back over here. Just as you get costs under control, it seems like there's going to be more of a focus on growth, as indicated by the investment in the branded card business. Curious to see, what are the other areas that you're thinking about for growth that may require additional investment?

JOHN GERSPACH: Well, every one of our businesses is a candidate for growth. What we want to do is put the additional resources where we can obviously earn the better returns over time.

I don't want to go into specific businesses at this point in time, but any business that we would look to make an investment in would be one of those businesses that really supports that target client model that I talked about before.

And plus, we'll also have to fund additional investments in compliance and regulatory considerations. That is what has chewed up the bulk of our investment dollars, quite frankly, or a large percentage of our investment dollars, over the past several years.

So, we'll look to expand. We'll look to put a little more investment dollars into cards. And we'll continue to build out the capabilities in other businesses as well, but I don't want to go into specifics just yet.

JASON GOLDBERG: Second row, I'll make this the last question.

SPEAKER #9: Can you touch upon your TLAC needs, not only at the holding company level, but also in the different local jurisdictions?

JOHN GERSPACH: Well, again, we're still waiting for clarity on TLAC overall. In the last set of investor presentations that we did, we laid out what we thought was a range of our TLAC needs, depending upon what would count towards TLAC capital, as well as what the range of the TLAC requirement would be. And that put us somewhere in the -- perhaps as high as $50 billion, $55 billion of additional TLAC requirement if the rules come out with the most restrictive on what is eligible and the highest percentage requirement.

As far as local TLAC, we think that, again, with the funding model that we have in place right now, we're positioned to handle TLAC around the world.

JASON GOLDBERG: Great. With that, please join me in thanking John for his presentation today.

JOHN GERSPACH: Thank you. Thank you very much.

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