PRESENTATION

GERARD CASSIDY: Thanks for coming in for our next presentation, which is Citigroup. As you know, Citigroup has assets of over $1.7 trillion and a market cap of about $126 billion. With us today is their Chief Financial Officer, John Gerspach. John has been with Citi since 2009 as CFO. He's had a number of jobs prior to that being the Controller and the Chief Accounting Officer at Citi. He started his career at Citigroup back in 1990. I really appreciate you coming in, John. Thank you so much.

JOHN GERSPACH: It's always a pleasure.

GERARD CASSIDY: I'd like to maybe start off with an update on how you see the first quarter developing...

JOHN GERSPACH: You're going to go right into it. Okay, no softballs to warm up. Let's go right into the first quarter. All right, Gerard, what I think I'll do then is I'm going to restrict my commentary in the first quarter to Citicorp, our core businesses.

GERARD CASSIDY: Good, yes.

JOHN GERSPACH: As you know, we've transferred some businesses, the Consumer businesses in Latin America to Holdings. And overall, I'd say Holdings should be marginally profitable for the first quarter. But for Citicorp, as I'm sure that you may be aware, there has been some market volatility early in 2016 that has certainly impacted the level of activity across both Markets as well as Banking.

So within Markets, assuming that our March performance looks similar to the performance that we would have had in the first two months of the quarter, I would say that we would expect our Fixed Income Markets and Equity Markets revenues to be down about 15% versus the first quarter of last year. In Fixed Income, we see spread products continuing to have pressure. I think that's been a story for about the last 18 months. And then in rates and currencies, really it's a tough comparison against some good performance that we had in the first quarter of last year. In Equity Markets, there it's been a tough market. Obviously, there has been certainly a downturn as far as new issuance level and just overall lack of customer activity, so that's what's impacting Markets.

Investment Banking, we would expect the Investment Banking revenues also to be down about 25%. And that's largely due to – again, there has been a downturn in customer issuance. And that's really impacting the DCM and ECM businesses. And then with M&A, again, it's a tough comparison this quarter compared to the first quarter that we had last year. I would say that there's probably some hope that we would recapture some of that in the second – in the last three quarters of the year. When you take a look at the pipeline that we have in M&A, I think we'll get some of that back, but it's been a tough first quarter.

If you look outside of Markets and Banking, other products that we have in the ICG business, TTS, our Transaction Services business, Private Banking, Securities Services, we see continued good solid momentum in those businesses. But the main drag there is going to be Markets as well as the Investment Banking.

Taking a look at Consumer, when you take a look at our Consumer revenues, I'd say our Global Consumer revenues will probably be down slightly on a sequential basis. And that really reflects what you would expect to have, the usual seasonality in our cards business. So that pretty much covers Consumer.
And then moving on to expenses, when you take a look at core expenses in Citicorp, I'd expect core expenses in Citicorp to be roughly flat sequentially. But I do expect that in Citicorp, we will take a repositioning reserve of probably somewhere in the neighborhood of $400 million. And that's really as we continue to resize both our infrastructure and capacity just in response to the tough revenue environment. So you can expect to see that.

From a cost of credit point of view, you may have heard people talking about energy. So, right in line with the guidance that we gave with our fourth quarter earnings call, I expect the Corporate Bank to have a cost of credit in the first quarter of about $350 million. Most of that would be related to energy. And when we finish with all the actions that we have in the first quarter, that would probably leave us with, against energy, a funded reserve level of about 4.5%. Most of that would be against non-investment-grade names. And in those non-investment-grade names, the reserves that we would have would be on the order of, probably slightly in excess of 10%.

And, outside of the energy book of business, the corporate credit book is holding up really well, no particular stress in any sector. And on the consumer side, again, credit is performing really well. So we see favorable trends throughout consumer, and that pretty much covers us right across both the U.S. as well as international.

GERARD CASSIDY: Very good. With your global footprint on the DCM and ECM business, is there one market healthier than or stronger than the other, or are they all the same?

JOHN GERSPACH: It's pretty much a global reduction as far as issuance, at this point in time. There's been some I think pickup in the debt markets, maybe in the last week or so. But up until now, it really has been pretty muted.

GERARD CASSIDY: Okay. And then in December, the Federal Reserve obviously raised rates.

JOHN GERSPACH: Remember that?

GERARD CASSIDY: And they talked about raising rates four times this year, which nobody believed. The Fed Fund futures at that time suggested two. Now the futures is suggesting maybe we're finished. Can you give us your view on where you see rates, and how that might change your revenue outlook for the upcoming year?

JOHN GERSPACH: We went into the year expecting two rate increases for the year. At this point in time, I think there's still hope that we could end up with the two rate increases, but it's probably more likely that we'll end up with one. And if we do get one, it would probably be later in the year. But I haven't given up complete hope yet that we'll end up with the two that we've actually got baked into our expectations.

GERARD CASSIDY: As we've done with other panels or fireside chats, if there are questions from the audience, please don't hesitate to ask. In terms of – you've done a very good job in reducing expenses and downsizing. Here in the U.S., you've shut down some of the branches. Can you talk to us about the strategy going forward, if that's going to continue in the U.S., where you become more efficient using your digital channels to help with that efficiency?

JOHN GERSPACH: I think we still have – obviously becoming more efficient is something that we aspire to do, both in Consumer as well as ICG, and I don't see us ever giving up the goal of becoming ever more efficient.

We put out the goal of operating Citicorp with a mid-50% efficiency ratio about three years ago, and I think that's still a good near-term goal. We got close to that in 2015, operating at 57%, but there still is more to go. And some of that will continue to include branch closures, both here in the U.S., and we'll do some branch rationalization in other countries as well.
The important thing I think, when we take a look at efficiency, is to make sure that we're not just driving cost out for the sake of driving cost out. That's good, but we also want to make sure that we're leaving enough room then for investments. And we still continue to see some good areas for investment. You've heard us talk about the investments in U.S. branded cards, and we continue to go forward with that. We'd still like to build out some elements of our Banking franchise. We continue to invest in Transaction Services. So, it's a combination of things.

GERARD CASSIDY: Talking about competition, there has been a lot of change on the global scale in the capital markets business with some of your big competitors. How are you seeing or the guys on the front line that you talk to at Citi in the investment banking area, in the capital markets area, are they seeing changes down to their level yet from maybe some of the changes at the top of our big global competitors?

JOHN GERSPACH: It's always been a very competitive environment. I'd say that since the time of the crisis, almost every bank has done some level of retargeting their strategy. You've had some banks that have come out of certain businesses. You've had other banks that maybe have expanded a little bit more. But I don't think that we've seen wholesale changes as yet. What you've seen mostly would be players that were -- I'll use the word subscale in certain areas withdraw from those areas. And so the impact of those withdrawals is largely marginal.

GERARD CASSIDY: I got you. Any questions, yes, over here.

JOHN GERSPACH: No, the core -- the question was, going back to the expense guidance that I gave, whether or not the repositioning charge was included in my commentary on flat expenses. And the answer is no, the commentary on flat expenses was related to core expenses, which would exclude repositioning and legal charges, so core expenses roughly flat on a sequential basis for Citicorp plus a roughly $400 million repositioning charge in Citicorp. Is that clear? Great, thank you.

GERARD CASSIDY: Coming back to U.S. branded cards, you've had success here. Can you share with us opportunities that might be on the horizon? Are there other opportunities to grow in addition to the internal growth?

JOHN GERSPACH: We're about ready to finally close the acquisition of the Costco portfolio. And if there was anything out there that was as attractive as the Costco portfolio or the Best Buy portfolio that we did a couple of years ago, we'd still be open for business. But I like where we are now as far as having what I think is a good balance between our own proprietary cards as well as the co-brand cards. And you don't want a card business that is overweight towards co-brand. That will tend then to drag your returns down. And so it's good to have that balance between co-brand as well as the proprietary products. I think we still have some growth that we can accomplish in the proprietary products. That's why we're putting some of the investment dollars there. And I like what Costco brings, as far as nicely balancing out the co-brand offering with at least three good anchors, between American Airlines, Hilton, and then Costco; three quality names, good customer base. I like what we've done.

GERARD CASSIDY: Good. Speaking of the branded cards, on the integration, obviously you successfully integrated Best Buy. How challenging is an integration of a credit card business, versus maybe other banking businesses?

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JOHN GERSPACH: It can be very challenging, because you're bringing over systems. Now you got -- obviously AmEx did a great job running the Costco portfolio for a number of years, but now we've got to move everything onto our platform and connect it into the Visa network. So it's not just changing one platform, you're trying to change two. And that is one of the reasons why we've delayed the closing of the portfolio until June, so that we've actually got the opportunity now to complete all of that integration work, but -- at the same time that we take on the portfolio. The other model would have said, buy the portfolio,
continuing to run it on the older platforms while you're trying to do the integration. That would have been a little trickier.

GERARD CASSIDY: I got you. We obviously have CCAR coming up in June, or the results.

JOHN GERSPACH: We've got to submit it first.

GERARD CASSIDY: That's true. They had a little change this year, as we all know, about negative interest rates, two questions. Just, what's your view about the U.S. ever getting to a negative rate environment? And second, how do you see it factoring in this year's CCAR for you?

JOHN GERSPACH: It would surprise me if the U.S. ended up with negative interest rates. I'm not going to say forever, but certainly in the near term. It would be – we were just talking about having the December rate increase, the prospects of four rate increases during 2016 and then continuing into 2017, and now we're sitting here talking about, what about negative rates. I don't think we're going to need to go there. And I think there's some question as to exactly how effective a stimulus negative rates would be.

I wonder whether or not that's one of the things that the Fed is actually looking to gain some insight into by putting it into the CCAR scenario. And so it will be interesting to see the way we all model the impact of those negative rates. It has given us a couple of twists, as far as trying to come up with the models. Fortunately, we've had experience already dealing with negative rates. Certainly in Switzerland, also in Europe in general, and Japan.

So, at least on the corporate side, I think we've got a pretty good handle on what negative rates mean, how to handle it, how it impacts your relationship with your clients, et cetera. The Consumer side, that's a bit of a different story. And I think that's something that we'll all then still have to negotiate in this exercise.

GERARD CASSIDY: It's going – yes, we're all very eagerly awaiting to see what the results are in June.

JOHN GERSPACH: Yes, we are too.

GERARD CASSIDY: Maybe you can talk a little bit about the long-term profitability, from a return on tangible common equity standpoint. I think it was about three years ago, you put out those goals. You really made some meaningful progress to them. As you mentioned, you hit some and backed off a little bit. Maybe you can share with us what you think on return on tangible common equity over the next two or three years, what we might see.

JOHN GERSPACH: So, Gerard, to just to put some numbers around it, three years ago, we set out the target of an RoTCE of 10%. Now that was never intended to be an aspirational goal. That was intended to be something more near to medium term. And so longer term, we still feel that the franchise itself is capable of producing an RoTCE in the mid-teens. So we still believe that, when you take a look at the model that we've put in place, the strategy that we have for both the Consumer business as well as the Corporate business, a mid-teens RoTCE is clearly achievable, not necessarily in this environment, but in whatever the new normal environment would be, that I would describe as something certainly better than where we are today.

A couple of things that will have to happen in order for us to get there; obviously, one of the issues that we have in trying to improve our RoTCE is the capital burden that we have with the DTA. And it's somewhat unique to us. But if you look at the differential between our regulatory capital base and our TCE, there's about a $31 billion difference. And that is primarily the capital that is disallowed for regulatory purposes supporting DTA. So one of the key things for us to do over time then is to continue to utilize that DTA, have our regulatory and TCE capital merge together. So as that converges, then we should be able to use that freed-up capital to increase the level of capital that we're returning to shareholders. That will also benefit
shareholders from an immediate capital return and it will allow us then to get our RoTCE more in line with what our targets are.

If you take a look at 2015, just to put some numbers on it again, our return on tangible common equity was about 9.2%. Our return on regulatory capital was 11.3%. So again, that DTA, the capital disallowance, is about a 200-plus basis point differential between our capital ratios. So then on top of that, I think that we can continue to wind down Holdings. We should be able to free up the capital that we have in Holdings. We should be able to drive our Consumer business to operate on an RoTCE 20%, maybe 21%. And ICG itself should be able to operate at an RoTCE in the 14% range. So at those levels of profitability with the utilization of the DTA and our ability to continue to increase the level of capital that we can return to shareholders, that should be the formula that will get us then to that mid-teens RoTCE.

GERARD CASSIDY: That would be great, obviously. Questions? Maybe you can give us some thoughts on the prospects, if ever, of the G-SIB buffer being included in CCAR or just the G-SIB buffer in general.

JOHN GERSPACH: G-SIB buffer in general; in general, I actually like what the Fed did by coming up with Method 2, not doubling it, but I think that they were very responsive to the industry in now coming up with a methodology that we can actually address. And I think you've seen the impact of that. We were successful in driving then our G-SIB surcharge down from 350 basis points to 300 basis points. And I think that is something that while it's going to continue to require us to act in a disciplined fashion, that's something that we can sustain over time, so that's good.

As to whether or not it gets included into the CCAR process, I think that's still open for question. I'm actually surprised that we haven't gotten something from the Fed as yet. They had certainly indicated that early in 2016 they would put out some sort of paper. And we're sitting here, March whatever it is, March 8, and I haven't seen a paper yet. I don't know if you had. Maybe I missed it. So I think that they're actually giving a lot of thought to this. And I think it's because it's not just as simple as do they add all or a portion of the G-SIB charge into it. I think they're trying to be thoughtful in saying, what other areas of the CCAR process could they improve? Do they want to change some of the treatment in the way stock buybacks are treated throughout the stress period? So there are other things, I think, that they're debating. Maybe that's more of a hope than anything else, but that's my hope.

GERARD CASSIDY: No, that's good insight. Would you say there's still a chance then for them to actually include it in this year's CCAR, or is that – it's off the table?

JOHN GERSPACH: No, it's off the table. For this year, it's definitely off the table. And they indicated that the earliest that we would expect any significant changes in the CCAR process would be with the 2017 submittal.

GERARD CASSIDY: Right. Right. Yes, John?

JOHN COFFEY: Can you maybe talk about China a little bit, and not just injecting your opinion, your general outlook for it, and maybe any risk management changes you've taken there? I believe you just – did you just sell, or you're selling a stake in a bank there. Are you going to take that capital out or can you take that capital out? Just kind of refresh our memories.

JOHN GERSPACH: So China. China writ large, for Mr. Coffey. Obviously, any conversation about what's going on in Asia is dominated by China, and what's the size of the economy, how fast is it growing, what's going on with credit in China? So we certainly are very focused on everything that's going on inside that country.

Having said that, our business model remains the same for China as it does anywhere else in the world. In the ICG, our Corporate Banking business, we focus on a very well-defined customer segment, large multinationals, their subsidiaries, some top-tier local corporates. But it really is a very select client base.
And we still feel very good about the credit exposure that we have in China. And we may tweak concentration limits, et cetera, but no wholesale model changes.

Now on the Consumer side, it's virtually the same as we have everywhere else, other than Mexico. It's focusing on the emerging affluent. It's heavily focused on wealth management, with some broader-based credit cards. So nothing significant there, and we don't see any significant stress in either of our credit books, whether it's on the corporate side or on the consumer side right now, coming out of China.

You mentioned the stake that we sold. We have signed with China Life for them to buy our interest in the Guangfa Bank, Guangfa Development Bank. And that's a stake that we've held now for almost 10 years. I guess it's about nine years. And it's a little bit of time to get out of it. It's a little bit of being able to free that capital up and do other things with it. But again, there was no stress that we saw coming out of Guangfa.

JOHN COFFEY: But does that capital need to stay in the country?

JOHN GERSPACH: No, no. We may use it to redeploy inside that country or inside the rest of Asia, but it's capital that we can use elsewhere.

GERARD CASSIDY: John, some of the banks over the years have had these capital gains that you just described with this investment, and they've been able to actually add to their CCAR buyback. Is that a consideration of the capital, or?

JOHN GERSPACH: Maybe if we had done it at a different timeframe during the year. But signing, as we've signed, with a close that is scheduled for early in the third quarter, it fits right into the whole CCAR process right now for 2016. So I think it's safer to assume that we've got all of that baked into our 2016 CCAR.

GERARD CASSIDY: Okay, any other questions? You mentioned, John, three years ago you set out some goals, and we have come upon the three-year anniversary. Is there any thought about coming back to something like that for the next two or three years?

JOHN GERSPACH: What I would say is, right now, in this environment, the goals that we've put out there are still — they're still good goals; operating Citicorp with an efficiency ratio of mid-50%. And, as I said, we got there — pretty close to that in 2015. I don't think we want to get more aspirational than that, just as yet, in this environment. As I said, we're going to continue to look for efficiencies, but we also want to create enough space to make the investments that we think are important. From a return on asset goal, our goal was a range of 90 to 110 basis points. We got to 94 basis points of ROA last year. So I think we're still within that range for the near term. And we already talked about RoTCE.

GERARD CASSIDY: Right, right, any other thoughts or questions? We have time for one more question. John, maybe you can share with us where the biggest opportunities are for Citicorp. Is it on the Consumer side with this branded card, or are you more excited about the opportunities on the Investment Banking/Capital Markets side or Commercial Lending? When you look at the big picture, which is the new growth engine, if you will?

JOHN GERSPACH: I think for us from where we're coming from right now, U.S. branded cards can be a big growth engine for us. We've underinvested in that business coming out of the crisis. And so now, when you take a look at the Costco acquisition that we're about to do as well as the investment that we're making in our proprietary card offering, I think that those two things can pan out to give us both good revenue growth and good longer-term ROA and RoTCE targets as well.

But I wouldn't want to say that the ICG is devoid of opportunity. I do think that we've got opportunity in equities. We tend to punch below our weight in equities. We need to be disciplined about the investments that we put there, but I think that there's a good opportunity for us to grow somewhat there. We don't have
the visions of being a top-three house, but we should certainly do better than number eight or number nine where we are today.

GERARD CASSIDY: With that, we've run out of time, so please join me in a round of applause thanking John for coming today.

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