Bernstein 2017 Strategic Decisions Conference
Thursday, June 1, 2017

Host
John McDonald, Bernstein Analyst

Speakers
Mike Corbat, Citi Chief Executive Officer

QUESTION AND ANSWER

JOHN MCDONALD: Thanks, everyone, for joining us late in the day today. We're very happy to have Citigroup returning to the conference again. We have CEO Mike Corbat. Mike, thanks for coming back.

MIKE CORBAT: John, thanks for having me.

JOHN MCDONALD: Always a pleasure to have you. I think I'll start off with the same question I've asked you the last few years, the report card question.

MIKE CORBAT: Yeah.

JOHN MCDONALD: How would you size up Citi's performance over the past year so far in 2017? Where would you give yourselves good marks for performance, and where do you give yourself a kind of a needs-to-improve set of grades?

MIKE CORBAT: So first thing I would say is it's been quite a year since you and I sat on the stage together. Shortly after we were here, we had Brexit, and then we went through the Trump election, different opportunities in terms of the market space. So when we look at the macro picture, it was a year we probably characterize as two halves. One of a fairly volatile economic first half, and a year that had a fairly volatile political second half.

One of the things I feel good about in our report card is the resiliency of our franchise. If I would have sat here a year ago and said, John, let me tell you that we're going to come out of the year and our FICC franchise is going to be up 15% year-over-year and as part of that, our dominant Rates and Currencies business is going to be up 22% on the year, you might have had some skepticism. But kind of coming through and out of that volatility, I think we, with our clients, performed well against it and I was glad to see us carry that momentum from 2016 into 2017. So that would be one piece that I feel good about.

And then we can go through and tick them off. Since we were here together we on boarded – Costco had been announced. But we moved over on a weekend in June about 11 million new cardholders, and I think that's gone well. I'm sure we'll talk more about it. Since we brought the 11 million cardholders on last June, we've added about another 1.5 million new cardholders, and we've seen really good usage and utilization of the members that we brought over as part of that program, so I feel good about that.

Shortly after, we were together. We got our CCAR results both qualitative and quantitative. Obviously, we got to pass on both of those, and we did what we said we were going to do from a capital return perspective. We, over the course of the last 12 months, have or are completing now a return of about $12.2 billion back in the form of buyback and dividend. And we'll talk more about that.

When it came to year-end, we announced that we would, coming into 2017, no longer be reporting Holdings. That Holdings, both from an asset perspective and from an earnings or volatility of earnings perspective, had become insignificant to the firm, and I don't mean that in a derogatory way, but it just wasn't worth breaking out anymore. And that we'd be folding that into Corp/Other and not reporting that. But, again, committed to continuing to run that down and committed largely to running those assets off at hopefully breakeven or better as part of that.

I would say, in terms of things that I might not say a poor grade, but I think the jury's still out on, one is that we've asked our shareholders to invest with us in terms of our Retail business and in particular, Cards business. And what we've talked about is coming out of the second half of this year, when you look at the evolution of that investment cycle, we should start to see some of those investments kick in. We should start to see some of the promo balances in terms of Costco move to full revolve, and we can talk more about that.

But I think the really big proof point, and we've talked about some of the – we will talk about some of the goals that we've put out. One is that we need to get our Return on Tangible Common Equity to a 10% excluding our disallowed DTA in 2018 to 10%, and then a 10% ROTCE fully loaded in 2019, and we've got to show you the path to better returns and we've talked about ultimately what that path to 14% looks like. And we'll talk a lot about that in our Investor Day in July. So, we've got to get our returns up, and Consumer is a big piece of that. And so the jury's out, and we've got to prove both those pieces.

JOHN MCDONALD: I know investors have asked you to push a little bit, why not have specific ROA, ROE goals for this year? Is that because you want a little wiggle room to make these investments and have them pan out? What's the thought process there?

MIKE CORBAT: Number one is we're big believer in goals. We're big believer in terms of our internal goals and having transparency externally. And if you go back to 2013, we put out our three big goals at the time in the kind of early spring of 2013, March 2013. A Return on Assets of between 90 and 110 basis points, a Return on Tangible Common Equity of 10%, and an efficiency ratio in the mid-50s percent. And we reported along those along in the way.

Last year, going into the year, we were planning on putting some new targets out of that point, but the year started from such a dark and volatile place we decided to hold back. And then we came back out and reaffirmed an efficiency target. We came back out and reaffirmed an ROA target, and talked through those throughout the year. And this year, we've now come out with our 2018 and 2019 goals. And we think these are very relevant goals for us. That right now, we're running the firm at an efficiency ratio not quite where we want it to be, in the mid-50s, and we think we actually have the ability over time to improve from that. But to get to the mid-50s percent, last year, we're at 59%. This year, we've come back and said we're going to run at 58%. And so, we've already got those disciplines in place.

I think we've done a lot of work in terms of the balance sheet in terms of taking what we've described as a lot of the lazy assets out. And in some ways, a Return on Asset target today is less relevant than it used to be. And what I mean by that is when you look at our institution, or probably most of the big U.S. banks, our binding constraint is actually our stress test or CCAR capital. And so what we want to do, and what I believe our shareholders want us to do, is to optimize that balance sheet against capital. And CCAR capital is a stress-based capital. So I think a good example of that is when you look at our Rates and Currencies business. I just talked about our dominant Rates and Currencies up 22% last year. If we had actually looked and said, we're going to constrain ourselves from an ROA perspective, we wouldn't have put that balance sheet to work because on a pure ROA basis, it's not that great – it's actually dilutive to our returns. But on a CCAR basis, it's capital-accretive and so we're trying to optimize those pieces. And so as we go forward, efficiency, ROA certainly count, and we're committed to getting those to the right place, but it's really about return on and return of capital that we're most focused on.

JOHN MCDONALD: Great. Makes sense. Let's drill down a little bit on the efficiency ratio. Like you said, 59% last year, shooting for 58% this year, further improvement in the out years. What are some of the drivers of the efficiency improvement that you see over the next few years?

MIKE CORBAT: Yeah. So if you look at our efficiency ratio, two big components is one is our Institutional business. And our Institutional business today runs really at best-in-class in terms of its efficiency ratio in the mid to high-50s.

Going back consistent with our report card, our Consumer business is not where it needs to be. Our Consumer business is in the mid to high-50s. That business has got to get down to the low 50s – needs to get to 50%. And so we've got to pull the levers in terms of that business in particular and what your expectation should be is it's going to be a combination of revenue growth. It's going to be a combination of expense discipline, continuing to use technology, digital, all those pieces to continue to bend the cost curve, keeping a tight eye on things in terms of credit, and we think we've got the ability through our businesses to drive that trajectory.

And when we put those two things together – our Consumer business, somewhere around 50%, and ICG business, somewhere in the mid-50s, a little bit of drag from Corporate/Other – we can get right into that range of 53% to 57% that we've put out there. And as the opportunities present themselves to better that, we're not locked in and saying that's as good as we can be, but we think that's a good intermediate goal.

JOHN MCDONALD: In terms of the Global Consumer bank efficiency, where are you on kind of the retail branch network modernization, optimization? I think maybe people don't fully appreciate. You've reduced the physical footprint quite a lot. I think 25% globally. Where has that occurred between Asia, U.S., and Mexico, and what are the different stages of those franchises or adds?

MIKE CORBAT: Well, one is, I would say, we've reduced branches everywhere. But when you look at Asia, the U.S., probably more work has been done in each of those. In Mexico's case, it's a bit about making sure we have our branches in the right position. And again, when you think of an institution that manages 20% of a country's savings, it's important for us to have in every sense for us, for the population, for the government, to have those presences. And in Mexico, what you're seeing us doing is really investing in terms of modernization of those branches and an increase in terms of ATM and a push in terms of technology because we know the same digitization that's going on in Asia or in the U.S. is coming to Mexico. It's just going to come there at a different pace, and we want to be ready for when that happens.

But what you're seeing in the U.S., and New York is a great example, as you walk around here. One is, I think the money and the effort that we've put into the branches, they pop. And what you see in a branch today is very different from the old branch. One is it's typically smaller than it was; and second, as you come in the branch, you tend to need to get by our ATMs, which continue to advance quite rapidly in terms of their functionality, and a lot of what historically you had to go to a teller can be done at a branch. And then eventually, if you really need to go there, you can find your way back into the branch where you'll find traditional six, seven, eight lanes of tellers cut down to two or three. And if our technology and pieces are working properly, you really shouldn't see any queuing to have access to those. So – smaller, less, more automated. And in Mexico's case, again, positioning is important.

JOHN MCDONALD: And just wrapping up the conversation about efficiency, you've done a lot of investment spending, you've done some big projects upgrading major systems in the Investment Bank, the Global Consumer Bank, and currently investing $1 billion in Mexico. Where are you on kind of these big projects? Are you kind of at the tail end of the major big projects you set upon the last couple of years? Where are you in that cycle of spend?

MIKE CORBAT: From an infrastructure perspective, we've got, really if not all, certainly most of the systems or base systems that we need. You talked about Mexico. Mexico really, we're operating there in systems that I would describe as approaching end of life, no sense of dire urgency today. But again, we've spent all the energy and effort in terms of creating these systems that have the ability to come back and communicate centrally. Mexico is not there yet, so the billion dollars that we announced over four years last fall, part of it dedicated towards this technology, the technology advancement, part of it focused towards the ATMs, the smart ATMs that we talked about, part of it really, probably less investment, more what I would describe as CapEx around branch refurbishment, et cetera, and a push towards digital from that. So, as we look, again, I think from a regulatory perspective, major investments from a Rainbow and some of the big projects we talked about in the past and things that I think they're paying great dividends, those investments made.

Now, I think where you see us making the investments as we go forward is how do we really push digital, how do we push automation, machine learning, data, all of those to one, increased customer client satisfaction and two, out of that, our expectation is that we'll have the ability to bend the cost curve. So these are projects that if we embark on them, we think have good and fairly short-term paybacks as part of them.

JOHN MCDONALD: So before we drill into some of the businesses, as you pull back and look at that ROTCE target, getting to that 10%, you've kind of been in the upper-single digits for a couple years. What are the two or three big drivers you see over the next few years to get you into that 10% plus ROTCE?

MIKE CORBAT: Well, as John and I like to describe, our mission, or our focus, is really around the two levers. One is return on capital, and return on capital really pulls on all the pieces: revenue growth, expense discipline, credit discipline, and how do we grow not just top line, but get it to the bottom line and continue to take that up.

And at the same time, return of capital, because, when you look at our capital position, today we've got a Common Equity Tier 1 ratio of 12.8%, amongst the highest in the industry. I think we've been very public in terms of saying that the capital we believe today necessary to run the institution is probably somewhere around 11.5%. So about 130 basis points of excess capital on somewhere – $1.2, $1.3 trillion of risk-weighted assets, so $15, $16 billion of excess capital right there. And so that creates an issue. We've got to get that back in the not too distant future to our shareholders.

And then the other piece is around our DTA. Of our $40-odd billion of DTA, about $29 billion of that is disallowed. So if you take the $29 billion, and you take the $16 billion I just described, $45 billion of our capital today earns nothing. So imagine having north of 25% of your capital in this position of being non-earning. So we got to get it back, we got to utilize the DTA. And as we do that, the combination of the return on capital, and with the shrinking denominator, says that we can drive up our returns. And that's why when we go back and we talk about the 10%, the ex-DTA in 2018, the 10% fully loaded in 2019, and what we think we can do beyond that, we've got a good trajectory of how we can grow ROTCE.

JOHN MCDONALD: And you made some stair steps already on the CCAR process. I know you hope to make another one. Can't get too specific on that with the results pending in a couple weeks. But I think you've been clear that your goal is to start reducing the net tangible equity, which means paying out more than you're generating at some point over the next few years, right?

MIKE CORBAT: Correct. If you go back – and so, every year when we've been here, we've talked a little bit about it. And three years ago, when we were here, we were at about $1 billion of capital return. Two years ago, we were at $6.8 billion of capital return. This past year, $12.2 billion. So in one of those tests, you say, dot-dot-dot, but I think again we've tried to be very transparent and very clear that we have got to put ourselves in a position of not only returning what we earn, but we've got to go at this denominator and take the denominator down. So, we've got to get that capital return above what we earn. And, by the way, we need to do it for an extended period of time.

JOHN MCDONALD: Okay. Shifting gears a little bit to the near term, just talk about the capital markets environment and what you're seeing. It feels a bit quiet this quarter amid low volatility. We heard from some other investment banks this week that the trading is kind of down in the low to mid double digits – 10% to 15% just year-over-year – I assume you're seeing similar kind of low volatility and maybe just some broad comments about that.

MIKE CORBAT: So when I saw some of the comments come out and I would say, and John's going to in a week or so come out with specifics, but I would say we're right in line with what the other have said. But I would categorize the environment as being okay, but low volatility. What the markets really like and when we saw things really kick back in last year, it was something to trade against. It was a Brexit; it was a Trump election; it was more speculation in terms of when and what rate increases would feel like.

I feel like today we're now saying that, or the markets are saying, that June feels relatively certain that we get another pop, and maybe we start to get some questions. I saw this week of some people calling September into question and maybe that gets pushed back a little bit. And you start to get some pieces in there. We've got German elections coming. We've got how does the whole Article 50, now that it's been invoked, work its way through and what happens with the pound sterling and what happens with the UK. So I think there's some things out, some opportunities that will present themselves, but volatility is low right now.

JOHN MCDONALD: Okay. Talk about the credit card business. You made some big investments the past few years. Let's just talk about where you're seeing some initial payoff from those investments. First, in the co-brand space. Obviously, you talked about a year ago finishing the Costco portfolio acquisition. How are you measuring your progress and success there?

MIKE CORBAT: Well, one is just to step back and talk a little bit about our Cards business. We are the largest issuer of cards in the world and, probably unlike others in the Cards business, we've got a very balanced portfolio between our proprietary products, our co-brand products, and our partner products. So our proprietary products, our Citi Prestige, our Double Cash Back, our Simplicity, et cetera. Phenomenal partnership programs, 25, 26 years in American Airlines. We've got, obviously, now Costco as part of that. And in terms of our partnership programs, Home Depot, et cetera.

So when you think about, we've got geographical distribution, we've got product distribution, and within our products: travel, we've got merchandising, et cetera. And so we don't have concentrations around any of those, so very well distributed. And so in there we've been making a series of investments across all of those platforms, and in 2016, we were quite active. And one of the things that, from a report card perspective, we renewed our long-term relationships with both the Home Depot as well as American Airlines, brought Costco on. So that means that our three biggest partnerships today extend beyond 2020. So we don't have any things to negotiate or do other than just try and grow those businesses as best we can.

We've made investments in terms of our own proprietary products in terms of our launch a few years back in terms of Double Cash, which was missing in our portfolio. I think the acceptance and understanding of our Prestige products. So we feel like we've got the right components to the puzzle. In there, Costco is the example – or an example. What you've seen is a product that appeals in terms of the program we've put in place, in terms of the rewards program, and we measure that a couple ways.

One, it's not just what happens inside of Costco. And what's really interesting when you think about the Costco program, and I talked about that Sunday in June of 11 million new cardholders, not just doing that in a weekend, but over the course of the year, that those 11 million, now moved up to 12.5 million cardholders, will spend over $100 billion on that card and over 70% of that outside of Costco. And so we're seeing the utilization, so not just the uptake, but the utilization of that card in terms of being quite strong.

What we've told you is a little bit of the good news becoming, and that is we brought on a lot of promotional balances. Those are just starting to tick over into revolve. And again, the early signs of what's moving over to revolve, it's only been a month or so, but it's certainly on or ahead of how we thought those would go. And so, I think we see a good trajectory on those. And again, when we look at things going on at Home Depot, we look at things going on at American, lots of engagement from people in those. And again, our proprietary cards are doing well.

JOHN MCDONALD: So that second half kind of inflection profitability really is the anniversarying of the promo rates. You have more stuff going from promo to the go to yield?

MIKE CORBAT: I think it's an anniversary, John, of a couple things. One is – so, when you bring on the Costco balances, it takes about seven months for those to kick over. So when you think of starting in June, and as we come through the end of the first quarter this year, those balances started to move over. So we've got a month or two in those. And then the other piece is that when you look at your proprietary products, Double Cash is an example, it takes about two years for that investment cycle to start to pay. So, you put the card out, you go through basically getting the card out, and then you go through transact, and then you start to build the receivables, and those receivables start to move from proportional balances to full balances. And that's why when we look at the second half of this year, we think the combination of Costco, as well as some of the investments we've made in our proprietary products, should start to pay back.

JOHN MCDONALD: I know this question comes up a lot. You've got generous rewards on both the proprietary and the co-brand. Do you need to revolve to make those products profitable as you make money on the combination of things, or is it really there when these folks revolve?

MIKE CORBAT: It's a combination. The revolve is certainly important, but when you look at Costco, an example, as you can imagine, in a partnership-type program, the economics are very much skewed in their favor for in-store, and when that card is used out of store it very much skews in our favor. So again, around purchase sales, we can earn, and certainly around revolve, we can earn. So it's a mix of the two, but very clearly, the economics of revolve are a dominant piece.

JOHN MCDONALD: So in terms of your credit card asset quality, some of the card specialists have started to ramp up their reserve builds and seen a turn in some of their credit metrics. Citi hasn't seen that. You've had very stable credit, and you're actually looking for card asset quality to get a bit better in the second half. Can you talk about what might distinguish your card portfolio from some of the other issuers on that front?

MIKE CORBAT: Yeah, I can't or won't speak specifically to them, but I'll tell you about us. When you look at our card portfolio today, we've got 85% of our card file have FICO Scores of 660 or higher, and in fact, 60% of our card have FICOs of 720 or higher. And so my guess is if you went and compared that against some of the names that might be part of that list, you would see very different metrics that are there. So, again I think you described it that credit has remained fairly benign, not just in the U.S. and around the world, and we don't see any real pressures or upticks away from the seasoning – the natural seasoning of our portfolio, so, again, as described and expected.

JOHN MCDONALD: Yeah. And you see yourself remaining a prime, super prime end-of-the-spectrum lender?

MIKE CORBAT: We are. That's our spot, post-crisis. That's where we operate.

JOHN MCDONALD: In terms of credit card ROA, there's been some concern that industry return's coming down. I think you've talked about some of the ROA that you're underwriting your business to. Can you just remind us?

MIKE CORBAT: Sure. We've talked about in our cards portfolios an ROA through the cycle of about 225 basis points. So, again, when you look, some of the numbers have been distorted historically by reserve releases and other pieces from an industry perspective, through the cycle that 225ish area feels very achievable.

JOHN MCDONALD: And as cards becomes a bigger of your business mix, that should obviously help your overall ROA, in that 90 to 100 kind of drive that up?

MIKE CORBAT: Sure. When you think about – when I think about our retail franchise, I often describe as, in some ways, having this great business mix; having this Global Cards business that is funded by retail deposits really everywhere in the world. So you think of this high quality, very good yield, asset funded in the local currency, or the same currency, through consumer deposits and that's a really nice mix. The stickiness of the deposit and obviously the stickiness in yield of the asset.

JOHN MCDONALD: So in the Global Consumer business, you've had some revenue challenges as you've run off some businesses and the mortgage spaces had its ups and downs. What are some of the growth drivers you see for the Global Consumer business outside of Card?

MIKE CORBAT: We've been working hard in terms of our Retail Bank. And again, New York's an example or you go other places in the world that we've spent a lot of time in terms of our segmentation and looking at our clients. And we just went through a whole segmentation – a whole series of segmentation work here in New York around our clients and the deposits, the wealth, the things that they have with us. And that what we found in there and the ability using some of these technology systems that we invested in are being able to take that holistic view and go back and really have a strong conversation with them about their financial lives from a very educated position. So we think, in our retail system, we've got a lot of what we would describe as lazy deposits or lazy assets that our clients can be getting more out of and we can be helping them to do that.

JOHN MCDONALD: Yeah, in the U.S., it seems like you got the big deposit base and maybe growing on the wealth management, the Citigold part of the strategy.

MIKE CORBAT: And again, you've seen us do that. We've been doing that, pushing that way in terms of Asia. And so, again, we've got the expertise in other places in the world of what good or what best-in-class feels like and how do we take those and make sure we bring those to the right places.

JOHN MCDONALD: Yeah. And in Mexico, you've got very strong market shares, and I think it's more about efficiency in operating leverage there and maybe getting more revolve?

MIKE CORBAT: I think in Mexico – Mexico is again about growth we've talked about and we've delivered. One of the things in the report card is we came out and said that we wanted to continue deliver year-over-year growth in terms of Asia consumer and Mexico consumer and we've done that. And it's nice to get growth in particular back into Asia. And we think Mexico is an example. We've got the ability to grow that franchise organically at a rate that's a multiple of GDP growth just based on the demographic and Citibanamex's position in the country.

JOHN MCDONALD: So moving over to the institutional side, how are you feeling about your strategic repositioning in the investment bank and the overall ICG Group? Do you have any gaps that you're currently filling?

MIKE CORBAT: So one of the – I would say, I feel very good about our franchise. If you look at, again, I talked about the resiliency of how we came out of the first quarter and some of the volatility in the last year. And if you look across, really most of our business, and whether it's FICC or it's Corporate Banking or our Treasury and Trade Solutions business, our Security Services business, you saw continued client momentum and revenue and net income growth out of those businesses.

The gaps are the things that we're focused on, remain consistent to what we've spoken about. And again, the good news around those in Equities, we called ourselves out a few years ago of not needing – or not being where we need to be and I think you've seen this continually taking revenue share. Some of that disruption that's been out there in particular in Europe has created some opportunities for us and we've gone at that, we're going to continue to go at that, and, again, that's not a big investment that's really necessary to do that, and we're showing progress there, and I think the other piece is in our Investment Bank in the combination of Advisory and Equity and Debt Capital Markets, where we've got strong relationships that we can continue to consolidate. And again, I think you've seen continued progress on that front. So, the Institutional business is, I would call it, relatively speaking, in a very good position.

JOHN MCDONALD: And where do you stand technology-wise? What would you say your IT priorities are in ICG?

MIKE CORBAT: Well, one clearly is when you look at our Institutional business, its backbone really is our Treasury and Trade Solutions business, our proprietary payment system. And as we describe it, we run the world's largest proprietary payment system with Citi connected pipes in, call it, 100 countries and day in and day out are pretty much the world's largest mover of money. Out of the connection of those pipes in this proprietary network, we've got the ability, on a consistent basis, to capture the natural frictions of foreign exchange, of fee'd money movement, of helping to manage payables, receivables, supply chain, trade finance, all of those things come out of it.

So we've been consistently investing from a digital perspective in terms of delivering a unique and single view at a company basis into their money movements within our company. So today, a corporate treasurer, a corporate CFO can go in to the systems that we provide them and they can see their payables, they can see their receivables, they can see where their monies are, they can see the currencies, and they can then move those as they see fit right off of their smart device. And so I think that's continuing to be a differentiator.

On the market side, our Velocity platform that we first introduced in terms of foreign exchange but have taken that out to other products has been a big – I think a big move for us, and I think well received by our customers and clients and on down through the franchise, right to our private bank. And again, the way that we're interacting with the family officers and the world's wealthiest people in terms of again giving them service and access to their information and ways that they haven't necessarily had it.

JOHN MCDONALD: And just a one-off question on the international front. Investors often seem confused about whether or not Citi is an EM stock. What are the differentiating characteristics of your emerging market exposure business, and anything that you think folks might not appreciate that you want to point out?

MIKE CORBAT: So while people may choose to describe us an EM stock, I would call us a global stock. Because when you look at – again, I go back to balance, and you speak to – and we talk to not just the card company or the Card business imbalance but the company. About half of our revenues come from the U.S., about half of our revenues come from rest of world. And if you look at the other half of revenues from rest of world, beyond the U.S., second largest piece would be Mexico, about 10%, and then it trails off from there. And so you can go UK, Germany, and really when you look at that, it tends to be more global than EM-concentrated.

And the second piece of that, it's not necessarily where you operate, but it's who you're operating with. So Coca-Cola in wherever they are, is still Coca-Cola. And so what you really need to look through, and I think we showed this and wanted to very much provide transparency a little over a year ago when we got into the energy – the oil downdraft in terms of showing our exposures, and then our exposures are the big multinationals. And when you go around the world, you can see from a credit perspective the people that we're dealing with. So we're not in emerging market countries covering down market SMEs, we're they're covering the Fortune 500 really of the world.

JOHN MCDONALD: That's helpful. So there's a couple questions coming from the audience. Obviously CCAR is a big topic, and as we said we can't get too specific, but maybe just some broad strokes about what factors were you balancing as you made your submission this year? You kind of talked about you generate, on an annual basis, $15 billion to $18 billion of capital per year and ultimately want to deal a return, at least what you generate. So, how do you go into a process and what factors are you kind of juggling as you grow in this year?

MIKE CORBAT: So first thing that we wanted to make sure that we had right, and I think we've made a lot of progress over the last few years, is from a qualitative perspective do we feel – does our Board feel comfortable with our process in terms of our risk identification, in terms of our modeling, in terms of our scenario planning, in terms of contingencies and things we've looked at. I think we feel like we've done a lot of that work, and we've done a good job at it, and we think from a qualitative perspective, we've positioned the firm, and positioned our submission, from a place of strength.

And from that, we said a couple years ago, this is not – we're not going to get there in one year and you've seen the walk. $1 billion, $7 billion, $12 billion, and that needs to continue and it needs to be prolonged in terms of high levels of sustained capital return because if we can't do that, the denominator problem will not go away. So we've got to get to that position of capital return above net income generation as quickly as we can. And so we looked at that and we not only looked at what it meant for this year, but as we thought about that trajectory in terms of how do we get our returns to the proper levels, the denominator as we described played a big piece in that. And so it's not just what we plan this year, but it's also into the future.

JOHN MCDONALD: So getting that denominator fixed is really important and dividends were also important in terms of the messaging and also giving something to investors while they wait. How do you guys, as with the Board and management team discusses the mix kind of balance dividend and in buybacks?

MIKE CORBAT: Yeah. So, if we simply did Corporate Finance 101, or did the straight math, with our stock trading at a discount to tangible book, it says buy every share you can. Any time you can buy a dollar for less than a dollar, you should go do it. But we also understand that there's a balance to that, and that there needs to be a yield and people not – they need to be paid. But it also, we understand, and appreciate, realistically makes the stock trade better.

So what you've seen is we've been consistently walking the balance of dividend versus buyback up. As each have increased, we've continued to increase. And again, we pay attention to our peer group and what their dividend yields look like. So we're mindful to it. But again, as long as our stock trades below tangible book, we're going to try and take advantage of that.

JOHN MCDONALD: So, a lot of questions have come up this week on the topic of potential regulatory rollback. And what's your – how do you take the temperature of the folks in DC and their interests and understanding what's been effective regulation and where things may have been overdone, and what kind of hopes do you have to maybe see things reassessed on certain fronts, and what would you recommend they look at?

MIKE CORBAT: One is from an industry perspective, what we haven't as an industry done is gone back and said that all this regulation that's been put in place should be repealed. I haven't really seen any of the banks coming out and saying that we should repeal Dodd-Frank. But I think, in concert what we have said, is an impact study, some harmonization of some of these rules and regs would be important. And when you meet with the administration and talk about regulation and where things might go, or where you'd like them to go, it's not steeped in what's the right thing for the bank or what those things are, it's steeped in those things that are standing in the way of jobs and growth. And I think if the industry or an institution can point to things that are standing in the way of jobs and growth, you'll certainly get an audience. I'm encouraged that the President came out and asked the Treasury Secretary through the Executive Order to in fact go do this impact study. In a week or so, we're going to start to get some of the findings of that, and I think that will be interesting.

I think from an industry perspective – from our perspective, a couple of the headlines that we'd love to see as these come out are, one, in no particular order, are not that Volcker needs to go away, but a harmonization of Volcker. Again, when we think about – we don't want to be in the proprietary trading business. We don't want to be using consumer deposits to speculate. But what we don't want to do is have to do five Volckers. Five agencies have taken the same law, the same rule and applied it five different ways. And what we've said is we don't care which one, just pick one of them, pick one of them and enforce it that way, and we'd be great with that.

I think the other important piece or, another important piece, is from CCAR. And again, I think sympathy from the administration that when our – the industry's binding constraint is CCAR, there's got to be more transparency in it. We can't ask our shareholders – we can't get the information we need to make better business decisions if we're just dealing against a black box or an opaque process. And again, in the conversations that I've had, there's been an acknowledgement of that and an understanding and appreciation of that. And I think, again, with CCAR coming on five, six years old now, a willingness at least to listen in terms of what some of these changes might look and feel like.

JOHN MCDONALD: And there's been some talk about a modern Glass-Steagall that's been thrown out. I think that the folks in DC are struggling to define what that might mean. You haven't been asked to defend your business model lately by anyone in that realm have you? Or do you have any sense of what modern Glass-Steagall might mean?

MIKE CORBAT: Well, when I'm in Washington, I ask all the smart people I meet, can anybody tell me what modern-day Glass-Steagall is and I've yet to get a definition that either answers it or is consistent. But if you think back and step back, to put it in context, the crisis, academics, politicians would tell you that Gramm-Leach-Bliley was not the cause of the 2008 financial crisis. In fact, in the financial crisis, we went the other way. We took institutions that weren't banks and turned them into banks.

And so, by taking them back apart, I'm not sure what they do. I think it's actually counter to what the President and the administration are trying to accomplish. And candidly, today we don't see really much of any momentum behind it, and I think you saw, or we did see, Secretary Mnuchin in his testimony a week and a half ago, I believe it was now, say that he thought anything that force the banks or the big banks apart he believed was a mistake for the system.

JOHN MCDONALD: Yeah. Couple of questions on the card one here. Given your smaller scale of U.S. consumer branch banking versus some of the large U.S. competitors, will you be able to afford the technology required to transform delivery mobile and digital and match the offerings of some of the banks that have a bigger physical presence?

MIKE CORBAT: Great question. So, in there, when you think about when we're developing technology in the example I gave in Mexico is a very good one, is that as we develop technology, for example in Asia, where I think we've got a number of cutting-edge apps and interfaces, we can take that same technology, and we can use it in the U.S. We can take that same technology and use it in Asia. So we actually have quite a broad base by which to invest, develop, and amortize those costs over.

So don't think of anything that we're doing from a technology perspective as being necessarily isolated to a particular region and needing to be funded exclusively by that region because, again, we've got a much broader consumer franchise in 19 countries that realistically all have the ability or most have the ability to take advantage of that. And interestingly, in U.S., I would argue that from a technology and a digital adoption perspective, Asia is actually ahead of the U.S. So a lot of what we're bringing to the U.S. is actually not being developed here. It's been developed in Asia, and we're now actually importing it here and overlaying it into our franchise.

JOHN MCDONALD: Here's a question, I know you get this one on occasion, about trapped value. If Banamex is a valuable franchise, which it looks like, and could be IPO-ed or sold for 1.5 times book, and you could buy back the stock, is there a point when you'd consider something like that in trying to unlock value that might be trapped in a conglomerate?

MIKE CORBAT: Couple ways we think about it. So one is I don't want people to ever think we're dismissive or don't do the math. We do. And we're always strategically looking at options. But what I would say is, as we look at Mexico and the demographics of Mexico and the ability to grow the franchise, I talked about the fact that we believe we've got the ability to grow Banamex consumer at a multiple of GDP.

In a world where growth is pretty challenging, that's valuable. A position – to having a franchise actually where you have a position where today you are managing, you are the steward of 20% of a country's deposits, it's not a position you ever want to give up lightly. And again, I think the technology and things that we're doing elsewhere will play very well into Banamex over time. And capital and ability to buy back stock, we just talked about all this ability and it's a question of how much and how soon can we do it. And if we sold Banamex and gave up the earnings and got all these capital back, there's no certainty that we would be given the permission to turn around and go buy more stock. And it would just add to our denominator problem.

JOHN MCDONALD: You got a pretty big pile already.

MIKE CORBAT: And I believe – I believe we've got more than ample resources to go at the denominator and buy back stock. And I think over time, the markets are going to value that growth much higher.

JOHN MCDONALD: Last question has come up in one of the cards or two as well, and I've asked you this before. The stocks underperformed the past 12 months, still trades below tangible quote value. What is it that you think investors need to see, what do you think the main drivers of that valuation gap to peers is? And how do you see that playing out in the next few years?

MIKE CORBAT: When I look back at our underperformance over the past 12 months or so, I believe most, if not all, of that has to do with the questions around our consumer franchise because our ICG franchise performed quite well and that we've asked our shareholders to invest with us. And our returns, our efficiency ratio aren't where they need to be, so the question is can we convert on that. Second half of this year, we're going to start showing what that looks and feels like as part of that. And so again, when we look at our pathway to 10% and to the 14%, that consumer trajectory plays a big piece. We need to get those consumer returns to 20%. Last year, they were 13% and change. We need to get ICG to 14%. Last year, they were 13%.

So, when you think about that, the question is around consumer. And so we've got to show that trajectory and I think the other big piece, John, is what we've just spent a lot of time on in terms of all this capital. And so, when you go back four, five years, and this DTA. When I became CEO, we had about $55, $56 billion of DTA. That number is now down into the 40s, the disallowed is now down to $29 billion in terms of where we are. And the question is – the question was, can you ever stop creating it? We have. Can you ever start utilizing, and consistently, we've been utilizing $2 billion to $3 billion a year, and we think that's a fair trajectory as we go forward. Now the question is, can you actually give us the capital back? And hopefully, starting this year and into the future, we've got the ability to show you that we've been good stewards of your capital, and we're about to start giving it back to you. And I think that's a bit of the show me. That's show us that you've got the ability to do that. And I think as we begin to do that, I hope that's an inflection point in people's mind in terms of that, listen, the stock is cheap, you can buy the stocks below book. Strong earnings power. Strong capital generation. Strong capital return dynamics. And then hopefully, we get some re-rating out of that.

JOHN MCDONALD: Great. And I'm sure we'll hear more of this, I forgot to mention, at Investor Day, July 25th. First in eight years, nine years. So, Mike, thank you so much. Appreciate it.

MIKE CORBAT: Thank you. Thanks, everybody.