HOST
Susan Katzke, Credit Suisse Analyst

SPEAKER
Jane Fraser, Citi CEO of Latin America

PRESENTATION

SUSAN KATZKE: Our next speaker, my last speaker of the day, certainly not least, is Jane Fraser from Citigroup. Jane joined us here, if you remember, in February of 2015 as the Head of U.S. Consumer and Commercial Banking and North American Mortgage. Today, Jane is the CEO of Citigroup Latin America, overseeing Citi's operations across Latin America where, it's worth noting, Citi has the broadest presence even after exiting a number of consumer markets, the broadest presence of any financial institution in the region, franchises in 23 countries dating back to its entry via Panama in 1904.

So Latin America accounted for 13% of Citigroup's revenues in 2017, 16% within the GCB, 12% within the ICG. And I think as you'll hear from Jane, it's a business balance between the ICG across Latin America, the GCB largely in Mexico. And so, without further delay, except one housekeeping note, we are going to have a breakout session. We are going to take advantage of the lovely weather and hold the breakout session right outside these doors. And we'll have a little bit of time for questions in the room afterwards as well.

JANE FRASER: Thank you very much. Good afternoon, everyone, and welcome to Miami. It's a hardship running Latin America out of Miami in February as you can imagine. Today what I'd like to do is share some insight into our franchise in Latin America and I going to begin with an overview of the overall franchise and delve into how we're driving growth in both the Institutional and the Consumer businesses and I'm also going to give you an update on our investment initiatives and share a few metrics that show the positive impact that we've seen so far.

We're incredibly proud of our franchise in Latin America, which is a significant contributor to both our Consumer and our Institutional businesses. As Susan said, Citi is the leading bank in Latin America with very strong market positions across our full suite of products and services. We have by far the largest footprint of any of our peers in the region, with an institutional presence in 23 markets, as well as our consumer presence in Mexico.

We're a highly innovative bank, Citi was named Latin America’s Best Corporate & Institutional Digital Bank in 2017. And we also have our Consumer business operating as part of Citibanamex. It is the number one recognized and most reputable brand in Mexico handling nearly a quarter of that country's financial transactions. Citi Latin America is a very strong contributor to total Citigroup results, with a highly attractive efficiency ratio at just under 51% and an ROA of 1.6% in total.

Now, while many of you are very familiar with our Consumer business in Mexico, here on slide 4, we want to show you the components of the total Latin America franchise. Our revenue is evenly distributed. We've got 45% generated through our Institutional franchise and the remainder comes from the Consumer side and Retail Banking and Credit Cards. And our revenue is pretty diversified by country, as you can see with Brazil, Mexico and Argentina accounting for just over half of our ICG business.

Over the last few years, we've focused our franchise in Latin America on the products, on the markets and the clients where we can generate the best returns for our shareholders. On the Consumer side, that means that we divested our sub-scale Consumer businesses in countries such as Brazil, Argentina and, most recently, in Colombia, so that we could concentrate on our Consumer franchise in Mexico and on our Institutional franchises in the region.
Focus is a beautiful thing. In this process we've managed to streamline our management structure and we've dedicated our capital, our people and our investments on the core clients to great benefit for the shareholder. And with this focus, we also committed to invest over $1 billion over four years in our digital capabilities, in our 1,500 strong branch network and our core systems in Mexico, which is our sole Consumer market in Latin America, where we have a very strong scale and presence with 21 million clients. And we're beginning to see the early results, as you'll hear later, with year-over-year revenue growth every quarter for two years now and positive operating leverage.

On the Institutional side, we have maintained our physical footprint in the 23 countries because this is a key differentiator for us in these businesses but we've also rationalized our client base to focus on those clients that truly value our global network and our capabilities. So we went from nearly 9,000 clients domiciled in Latin America down to about 1,500 while continuing to serve a growing number of global subsidiaries in the region. And what this has enabled us to do was to intensify coverage efforts, invest in upgrading and digitizing our client experience and improving our efficiency, all while growing revenue and wallet share over the same timeframe. Simpler, stronger, but unique.

The strength of our franchise is evident in our financial results on slide 6. Revenue growth accelerated to 7% last year, that's a strong multiple of GDP, with contribution from both our Consumer and our Institutional businesses. We delivered an efficiency ratio for the region of just under 51% and we achieved this growth while maintaining strong credit discipline, driving total net credit losses to just under 2% of total loans in 2017. This combination of revenue growth, positive operating leverage and credit discipline has driven a very steady improvement in net income and returns with ROA of 1.6%, well above at the overall Citi target of 90 to 110 basis points.

It's probably not hard to tell we're enthusiastic about our future in Latin America and we believe we can continue these positive results driven by our own transformation as well as a much more resilient macro and fiscal backdrop in the region. Latin America overall has really transformed itself from a region hindered by currency devaluations and debt crises to a region that has withstood market disruptions and emerged in good health. Today, the region is much more open. It's attracted substantially more foreign direct investment and trade volumes have increased significantly. Latin America is also more financially disciplined, significantly reducing inflation and its dependency on dollar funding over the past decade has reduced considerably. Today, the region as a whole is much better prepared to weather disruptions with increased reserves and higher sovereign credit ratings.

And this increased stability and resiliency has made Latin America a much more attractive partner for corporates, growing its trade volume by 35% over the last 10 years to $1.8 trillion. Not only has LATAM grown its intraregional trade flow over the last decade, it's also established new and very important corridors with countries such as China and India, more than doubling trade volume with these countries over the same period. This expansion of existing trade corridors and the establishment of new ones really positions the region well to continue to grow without an overreliance on any individual trading partner and I have to note that Citi is the ideal partner for our global clients, who are either seeking a stronger foothold in the region, or with our domestic clients, growing within the region and beyond. Citi is truly the only bank that brings the world to Latin America and Latin America to the rest of the world. It's something quite unique in the region.

And this is a great segue into our ICG franchise. Our Institutional franchise is the industry leader in Latin America, with a balance of revenues across Banking and Markets as you can see. We offer a full range of wholesale products with unique strength in custody, international cash management and foreign exchange. And over the last several years, we've really strengthened our leadership in all these businesses. Our progress is demonstrated by the many industry awards that we've earned, but, more importantly, by the very consistent wallet share gains that we've achieved throughout the region.

We've been able to achieve this leadership position in Latin America because we offer a truly differentiated value proposition to the clients in the region. We have an iconic franchise in Latin America.
It's been operating for over 100 years in seven markets and over 50 years in 11 markets and that yields deep local knowledge and it yields trusted relationships. At the same time, we're a nimble, innovative and relevant franchise that brings the best of Citi's global capabilities and technology to bear for our clients operating in the region.

All of this makes us an ideal partner today for local champions who are seeking to be outside their home market, for global multinationals seeking to establish a greater foothold in the region and, importantly, for the new wave of next-gen leaders who are born digital from the start and are going global at breakneck speed in the region.

At the same time, we are committed to growing responsibly, within the bounds of our target client strategy and our risk appetite, but, as we look forward, we're also enthusiastic about our future in Latin America. We have a prominent position in the region as you can see, with diversified revenues, products and markets and we have a track record of growing the wallet share with our target clients. And we believe we can continue to deepen our relationships against the backdrop of a more resilient macro environment, a growing capital markets opportunity as those markets develop and the emergence of local market champions with increasingly regional and global needs. So, while we're rather proud of the efficiency and returns we're delivering today, we believe we will be even better going forward.

Latin America is a great example, as you can see, of the emerging market franchise that our ICG Head and President Jamie Forese, described at the Investor Day last July – with nearly 75% of revenues coming from our network-driven businesses in TTS, in Securities Services and in Rates and Currencies. These businesses, they really generate sticky recurring revenues that contribute to the stability of Citi's total ICG franchise.

But they're not boring. They're growing at a significant pace and have a 9% CAGR over the last two years in part because our clients are centralizing their regional treasury functions and they're demanding a best-in-class provider as they do so. And these relationships are also providing the foundation for more of the episodic opportunities in capital raising and in M&A that we see in the region.

As I mentioned earlier, we have continued to focus our resources on the clients who truly value our global capabilities. In Latin America, non-financial corporations generate about two-thirds of our client revenues, with the remainder comprised of financial institutions, global investors and public sector entities. Our goal is very simple, its to continue to deepen our existing client relationships, serving our large sophisticated clients with more products in more markets and to invest in continuously improving their client experience.

Consistent with our strategy, over 85% of our non-financial corporate client revenues are generated with global multinational companies in the region. But that only tells one side of the story, because Citi generates another $200 million of revenues that are booked outside of Latam from the subsidiaries of the companies headquarters in Latin America. That's the true benefit of the global franchise.

And I'd like to highlight a specific client example. This is one of the next-gen clients I mentioned earlier, Despegar.com. It's the leading online travel company in Latin America. In 1999 it was a start-up in Argentina and today it is going to operate across the region with a market share of 11% for the entire industry. This is the level of growth that would take a traditional company in the region much longer to achieve.

We started our relationship with Despegar in 2011 and over the course of six years, we expanded our relationship as they grew to over 10 countries. The company's rapid, recent growth in scale and footprint demands an ever increasing need for more sophisticated cash management, FX, hedging, liquidity and working capital management and Citi is uniquely positioned to serve their needs. And we're doing just that – using our CitiDirect digital banking platform as the backbone to help them streamline and centralize their treasury activities. And this has allowed us to very steadily grow our TTS, our Lending, our Rates and Currencies revenues with the client. And importantly, with the strength of this operating relationship.
that we have combined with our global capital markets expertise, it put us in the pole position to take the company public in one of the most successful IPOs in the region last year. We have many, many more clients of that next generation emerging in the region.

So this ability to take our global capabilities and platforms and deploy them locally is a key differentiator in the eyes of our clients and there's no better example than in digital and data. At the core of our digital strategy is CitiDirect BE. It's a single platform that provides access to global payments and receivables, liquidity management services, trade and FX solutions across three seamless channels – online, mobile and tablet – to improve user efficiency and to enable self-service. We're also deploying TTS Interactive Solutions throughout the region, enabling us to leverage big data to provide real-time cash management solutions to our clients. And clients can access our foreign exchange capabilities through CitiFX Pulse, a single self-service platform that provides end-to-end foreign exchange solutions in 80 countries.

And we're continuing to push the boundaries on new technologies as well. Globally, we're already live with blockchain applications. That includes our venture with NASDAQ and we've got additional use cases in development around the world. So in short, we're committed to delivering the best of our global capabilities to our clients in Latin America and we believe this gives us an enduring competitive advantage against local banks, as well as against the global peers who cover the region, let's say, more opportunistically.

Now, let's turn to our Consumer franchise in Mexico. The banking sector in Mexico, it's at an inflection point, and we are extremely well-positioned to capitalize on the opportunities there. And the financial services market is clearly underpenetrated by any metric – credit as a percentage of GDP, AUM as a percentage of GDP. Furthermore, the country has a large unbanked population really throughout the structure of the population. But this is changing, and it's changing fast, in part fueled by attractive demographics, but also by smartphones, and this has led to strong growth in the financial sector, even while real GDP growth has been lackluster over the last few years. So we expect this growth in the financial services market to continue, with market revenue growth accelerating slightly to 9% over the medium term.

The other factor that gives us great confidence in Mexico is simply the scale and nature of our market position in Mexico. Make no mistake of it, we're incredibly proud of our Citibanamex franchise and we're excited about its future. We are top of mind with 21 million clients. We execute nearly a third – sorry, a quarter – we're getting there – nearly a quarter of the country's financial transactions and we have a very significant physical presence in a country where the majority of transactions still today take place in the branch. We also have a leading share of banking relationships and of client acquisitions. And when you look across the products that we offer, we enjoy a number one or two position in most categories. Our goal is to extend these leadership positions by improving the client experience while we capture share where we remain underpenetrated.

Many of you will be familiar with the investment program that we announced in Mexico in late 2016. After a period of underinvestment, we have committed to $1 billion investment program to enhance our ATM and our branch network, to drive digital engagement and to transform the client experience. These investments are beginning to yield some early success. To date, we've opened roughly 100 digital branches with at least 300 more on the way by 2020. We've added about 1,700 ATMs to our network with another 1,700 to go. And importantly, we're beginning to shift the client behavior. You see it particularly in our upgraded digital branches with over 50% of transactions occurring through the lower cost ATM channels. We're also enhancing our digital banking platform and this is already driving significant mobile and digital adoption. We expect these numbers to increase significantly as we advance towards our goal of digitizing 50% of our clients by 2020.

And another key pillar of our strategy is to bring the outside in, using an open API model to partner with the brightest minds in the industry and together with them, to deliver an intuitive and personalized banking experience. And we'll see this strategy in action later this quarter as we launch a new mobile banking app.
that's really going to change the way that we serve and interact with our clients in Mexico that we're particularly excited about.

Data analytics is another very important area of investment, with the goal of improving our distribution capabilities and allowing us to make real-time customized product offers as well as more timely transaction approvals. And all of these efforts are aimed at improving the level of service to our clients – the level of service frankly they expect and they deserve.

Over the last two years we've improved to a number one service position amongst our closest peers. But we're continuing to attack the friction points for our clients, improve response times, provide a better experience, all while driving down our cost to serve. But be in no doubt, we are committed to creating a state-of-the-art bank in Mexico, focused on delivering a richer, smarter, more intuitive experience to everyone who does business with Citibanamex.

Similar to what I described in ICG, we're making these Consumer investments while we really leverage the global capabilities that Citi has to offer. In Cards, together with our partner, Jud Linville, we've seen momentum in the rewards segment as we've introduced our global products and our global ThankYou Rewards program. Another example, we've adopted a lot of the core capabilities in digital from Asia and around the world to enhance the client experience. Our clients can now manage their accounts on their mobile devices, they can access personalized products and services on our ATMs. And we're taking the most common client journeys such as tracking card delivery or disputing charges and we're fully digitizing the experiences both on one hand to better efficiency, but also for client satisfaction.

We're transferring a lot of global talent into Mexico in a two-way exchange – I see some of them in the room – and this is really helping us enhance our capabilities across different businesses and functions and also making sure our Mexican talent has the opportunity to experience the broader Citi network before they return home.

We talked about partnerships and not doing this alone. Another way that we're delivering the best of the world to our clients in Mexico is through the recently announced sale of our asset management business, the largest in Mexico, and our ongoing relationship with BlackRock. The mutual fund industry is underpenetrated but it's a rapidly growing market in Mexico, and it's increasing in sophistication. It's at quite a pivot point.

Because of Citi's global relationship with BlackRock, the largest – the number one asset manager in the world, we will be able to offer our clients their state-of-the-art technology and their innovative and market-leading product offerings across the range of asset classes, while BlackRock in turn benefits from the power of the Citibanamex brand and our national distribution network. And together, we have the ability to drive tremendous progress in the investment and in the savings market in Mexico, frankly for the better of the country, as well as for our clients.

If you take all these investments and capabilities together, our goal in Mexico is to maintain leadership, where we already have a very strong position and then capturing market share in those products and those client segments where we have a differentiated ability to serve them. In credit cards, personal installment loans, deposits and assets under management as examples. Our goal is to maintain our leadership position and we expect to grow in line with the expanding market. In other areas – such as mortgages, commercial banking – we believe we have the opportunity to grow faster than the market to drive additional share gains, so we are very much focused on that.

And I think Cards is a really great momentum story for us now. It gives us confidence that we can accelerate growth in our overall Mexico Consumer franchise this year. After a period of repositioning and investing in the franchise, we returned to sustainable growth in the second half of 2017 – ahead of our commitment to the market. We've strengthened our partnerships with the largest retailers and the e-commerce players in the market. We've run some very successful promotional programs. In addition, we
enhanced our data analytics to improve approval rates on transactions and be much more proactive in offering credit line increases for our most creditworthy clients. And we really intensified client engagement to drive card activation and to improve retention. And we saw all of these different actions first translate into growth in the purchase sales, then growth in revolving loans and now ultimately in revenue growth.

And in 2018, we are well on our way at the beginning of the year to continue accelerating this momentum. We plan to increase our penetration of lower-cost digital acquisitions. We are continuing to upgrade the client experience through increased digital and mobile servicing. And more than anything, we just make it easier for our clients to work with us by automating credit approvals, giving our clients more ways to apply for credit line increases and the like.

And I think the success in Cards is a terrific playbook for our approach to other products and segments in Mexico and how we're really improving our capabilities and our underlying skill base and customer journeys to help drive that revenue growth going forward.

So to conclude, I'd like to leave you with a few key thoughts. First, as you saw, our Latin America franchise is highly efficient, very profitable and is a strong contributor to Citi's overall results and to the 2020 targets. Second, the region and the franchise is benefiting from a more resilient region with improved macro fundamentals and closer ties to the global economy. And finally, Citi itself is very well-positioned for growth in both our Institutional and our Consumer businesses.

So with that, Susan, I'd be very happy to take any questions.

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QUESTION AND ANSWER

SUSAN KATZKE: Great. Thank you so much, Jane. So you spelled out tremendous opportunity in both of the businesses. I'm curious thinking about Citibanamex, in particular, how it fits with the broader Citigroup franchise.

JANE FRASER: Pretty seamlessly. I think over the last few years, what we have really looked at is how do we get the benefit for Citi of being in Mexico and for Mexico and Citibanamex of being part of Citi overall. If I look at, for example, the global subsidiaries that operate in Mexico, the revenues from that business grew at 24% last year. Now that's very different from the type of growth that you'd have seen at any of our competitors in Mexico.

I talked about Cards, we talked briefly about digital, but seeing the benefits of bringing from Asia and the States, but particularly from Asia, a lot of the innovations are happening in those markets on to the ground and to the customer offerings and capabilities, that's working pretty seamlessly now and a very effective network. Different segments and segmentation approaches that we have around the world, we've been bringing in. Stephen Bird, the Head of Global Consumer, has been very effective at helping us drive the Citigold and the Citi Priority propositions.

If you go to the branches, they'll look like any of the branches here in Miami or in New York City or the like. They've got a lot of the same design except they're absolutely teeming with people I think is a big difference. And there are queues at ATM machines – its just something I never thought I'd see. And when we go around the network around the world, the clients feel that Mexico is a seamless part of the global network. So this, I think, has been a shift from some of the past that now Citibanamex and Citi are a pretty integrated whole.

SUSAN KATZKE: Thank you. And you've spoke about Latin America broadly speaking being on more solid footing today. But if we look across the Latin American markets, there have to be some that you're a
little bit more optimistic about and some that you're a little bit more concerned about. So maybe you could speak to some of the geopolitical and GDP prospects across the markets?

JANE FRASER: Hard not be excited. Obviously, Mexico. I think beyond politics and other pieces that are going on, the fundamentals of that country are just so strong that it's one that we are very positive around.

Argentina is an extraordinary country. The turnaround that we've seen there, where we had been in a challenged position during the different holdout issues that had been going on between the previous government and some of the hedge funds and a country that has really being contained 12 years into driving low competitiveness. In the last two years, with a strong technical team in the government, you've got a fully functioning and operational foreign exchange market, you've got our clients back investing in the country, we've seen a big shift in inflation and interest rates down, normalizing after a period of hyperinflation. And with that, we've started to really see the blossoming of the episodic business once more. So you're seeing Argentina really fulfill its promise from the talent that is in the country and from the individuals and the companies that are there and it's just encouraging to see the speed with which that is happening.

Digital is also really changed. I've seen enormous change in the last six months. You're starting to see a change in client behavior, you're starting to see some changes in industry structure, that's both Institutional and in the Consumer space — the payment space. It's exciting and it's a large opportunity and it's one that I think you're starting to see a lot more new companies coming forward. So that's really exciting across the board.

And in terms of concern, very simply, politics matter. And we have elections in Mexico, in Colombia and in Brazil this year, so three of the four largest countries, and no one really knows how those ones are going to turn out. There is a wide range of outcomes that are possible from continuity of very market-friendly practices to one that could be reversals. And at the moment we don’t know. So I think the major concern, similar to many other parts of the world, is unfortunately that politics do have a bearing on these things.

SUSAN KATZKE: We’re running zero on the clock, but if I have — if there are one or two questions in the room. Steve?

STEVE WHARTON: I just wondered how you're sort of contingency planning for potential changes to NAFTA. And maybe describe what businesses would be most affected, obviously more ICG probably, but just kind of how you're thinking about that.

JANE FRASER: Yeah. I think everyone's got various scenarios, and certainly on NAFTA we hope that our partners remain at the table, because I think there is a significant win-win from a modernized version. And we certainly have not taken off the table that that modernized version of NAFTA can't get negotiated in the near term.

If it doesn't, obviously the impact is greater on the Institutional client base. I think what you'll see is less confidence around the episodic business, so some of the investments coming into Mexico. On the other hand, the peso is also going to depreciate when that happens and so Mexican competitiveness is going to have an offset, which will help them. And I would say as well the Mexican government is extremely well prepared for a number of different eventualities. And I think they've got some good plans, but were NAFTA to fall apart, which is the worst of the scenarios, what it is they'll do to help compensate on their import and their export bases. We'd certainly hope it doesn't happen because it's a negative for all three countries and then has a material impact on manufacturing the supply chains.

But I think that was also because of the degree of connectivity of the supply chains between the U.S. and Mexico, that will take quite a long time to unravel. So, it's probably more psychological to start with and then it would then obviously have an impact through the country. But I think we are ready for some volatility in the peso and others as we go through this journey.
And the types of contingency planning are the ones that you'd be expecting us to be doing in terms of looking at which are different sectors that might have more exposure, which are the exporters/importers, and we've been working with a lot of the different companies already about how do we make them more resilient in the case there is a negative scenario because were the bad case to happen, it's not going to be a shock to anybody in terms of coming out of the blue. And so a lot of companies have been preparing for that eventuality as a plan B and that will help.

SUSAN KATZKE: With that, I think we will shift to the breakout session. Many thank yous for returning to our conference and sharing with us the story on Latin America.

JANE FRASER: And I think you had promised margaritas outside for those as well that are joining the breakout session.

SUSAN KATZKE: I did promise margaritas outside. We are sticking with the theme. Yes, we are.

JANE FRASER: Excellent. Thank you.