TRANSCRIPT

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SPEAKER
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QUESTION AND ANSWER

JOHN MCDONALD: Okay. Thanks everyone for joining us. We're very happy to have Citigroup here again, Mike Corbat, CEO. Mike, thanks so much for joining us again this year.

MIKE CORBAT: John, thanks for having us. Good morning, everyone.

JOHN MCDONALD: Mike, similar to last year, I thought we'd talk a little bit about the report card and how you'd give yourself grades over the past year. You had an Investor Day last July. So, I guess how would you size up your performance both strategically and financially relative to those goals that you laid out at the Investor Day last July.

MIKE CORBAT: Sure. So, as you described, we had an Investor Day that was our first one in nine years and I think an important day for us where we laid out what we believe are aspirational but realistic medium-term goals and we're now three quarters into those goals, and there we talked about targets in 2019 and 2020. And I would say as you look at where we are today, I think that we are achieving the trajectory and are on path to delivering 2019 and 2020. I would say the path to those goals and kind of what's underneath them, slightly different, but what we talked about, very consistent and delivered on. So, one is we talked really about GDP-like or mid-single digit growth top line, continued expense discipline, rising but reasonable cost of credit, and continued significant capital return.

So, if we drill below that, what we've done to-date is we have a Consumer business delivering about 4% top line with outperformance in areas like our Asia Consumer business, with outperformance in places like Retail Services, and some areas of underperformance where we talked about trying to achieve roughly 3% top line growth in terms of Cards and we've been largely flat there but we've had other positives that have offset that. I think you've seen continued cost or expense discipline. We'll talk more about that in terms of efficiency ratio as we go forward. I think, again, you've seen reasonable cost of credit in terms of the metrics that we've laid out there.

So, on the Institutional side of things, we've outperformed. We talked about 4% top line growth and we've delivered 5% to-date. Again, similar, reasonable expense discipline. ICG continues to have virtually no cost of credit, eventually that will begin to normalize. And in there, some really strong performance in particular from our accrual-type businesses. So, when you look at TTS, when you look at the Private Bank, when you look at Lending, when you look at Securities Services, all those growing somewhere between mid-single digits and low-double digits over that timeframe.

You've seen our Markets businesses continue to take share. You've seen an Investment Banking business that has continued to take share. And you've seen an Equity business that we've talked about for a couple of years in terms of investments now starting to hit its stride. When we began those investments, we had a franchise that was probably about number nine in terms of the financial league tables. We said we wanted to get it to number five. We finished the first quarter at number six. So, I think nice progress there.

But what I probably feel best about in terms of the report card to-date is what we talked about in Investor Day and I think we very much delivered on and that is the balance of our franchise. That while we have some outperformance and a little bit of underperformance, in aggregate you're not dependent on any one of our businesses or any one of our geographies or overly dependent. And so, when you look across, we've got an Institutional business and we've got Consumer businesses. We've got businesses in Latin America, in Asia, in Europe, and all of those are delivering in different ways and give us the flexibility to continue to pull levers to make sure that we hit those targets.

JOHN MCDONALD: Great. Great. So, what are you and the management team focused on for key deliverables this year? And then how does that carry through and translate to these goals for 2019 and 2020?

MIKE CORBAT: So, just to remind everybody about what we laid out in Investor Day, we laid out a number of things but some of the headlines are around a return on tangible common equity. And I think one important thing, John, that's different this year from the past is we're not speaking to tangible common equity ex-DTA.

As you know, coming out of the financial crisis, we were carrying a significant asset in our balance sheet, about $54 billion, $55 billion of a deferred tax asset. As a consequence of tax reform that happened at year-end, we actually took a large one-time charge, about a $23 billion charge that significantly reduced that deferred tax asset and now we simply talk to ourselves from a straight return on tangible common equity. And what we had laid out in there was to reach a 10% by 2019 and 11% by 2020. As a consequence of tax reform where we received both a numerator in increased net income and a reduction to the denominator, a reduction of DTA, we've increased each of those targets by 200 basis points. So, we're talking about 12% in terms of 2019 and 13%-plus in terms of 2020.

What we've talked about for 2010 is achieving 10.5% return on tangible common equity which, since the crisis, will be the first time we're earning above a theoretical cost of capital so I think a very important milestone, and we achieved or we earned 11.4% in terms of the first quarter. So, one, in terms of goals for this year is to make sure we deliver on that.

Second is the continued improvement in terms of our efficiency ratio. We said this year we would continue to bring our efficiency ratio down, industry-leading efficiency ratio, to 57%. And what we've talked about intermediate and longer term is to get that down into the low-50s, which means obviously we'll have to accelerate that trajectory as we go into 2019 and 2020, and I'm sure we'll talk a bit about that.

JOHN MCDONALD: Yes. So, maybe talk a little bit about some of the technology investments that you've been making and how those relate to the efficiency gains that you're expecting over the next two years?

MIKE CORBAT: So, what we've talked about and we spent time at Investor Day talking about in terms of the pillars of our strategy, really three. So, one is sustainable client-led growth. Second is using our of-scale technology investments to continue to not only hold costs but continue to bend the cost curve and to enhance revenues. And third is to continue to optimize our capital. So, the technology investments and the technology piece of what we're doing plays a very significant role in terms of what both the revenue and expense trajectory of the firm look like.

So, in there, examples in our Consumer business are investments around what we call our mobile-first initiative where a lot of consumer banking moving to mobile, and us being on the front edge of it. The work that's being done in our call centers, the way we're onboarding clients, the way we're taking new applications, all those changing. If you look at our Institutional business, our payment platforms, and more and more percentages of institutional payments moving across mobile devices.

And so, we think that those investments have a two-sided advantage to them in terms of one, is making sure that we stay on the revenue trajectory that we've talked about. But secondly, not just containing but bending the cost curve. And what we talked about at Investor Day was about $2.5 billion of saves across the firm, about $1.5 billion of that in Consumer that get reinvested back into the business but really contain the cost curve and give us positive operating leverage over the period.

JOHN MCDONALD: Yes. So, as you mentioned that efficiency ratio trajectory, do you expect that to kind of accelerate? You're improving 100 basis points this year from 58% to 57%, shooting for the low-50s. So, how does the tech spend – is there an arc to that spend that's going to kind of bend down and your spend will come down next year or the year after and then you'll get the benefit from the prior spend and that drives the acceleration of efficiency improvement?

MIKE CORBAT: Yes. So, we're talking about 100 basis points of improvement this year and the math, you're right, it says it accelerates and we're looking for probably about 200 basis points in each of 2019 and 2020 in terms of improvement.

From a technology perspective, what we talk about a lot in the firm is that technology is eating operations. And if you look at our technology spend today, about 20% of our expense budget is dedicated towards technology spend. So, that's a number we haven't talked about historically, but again you can see that as a meaningful number.

And in there, what we're in the process of really investing and going through right now is we're investing in the digital technology. We're continuing to run analog systems alongside of our analog processes beside it as that technology comes on, is tested and we're comfortable, the analog falls away and you get the cost savings that come as a function of moving to that digital technology.

So, we're in the phase right now in many instances of running parallel systems to make sure that the technology is what we believe it is, and I would say everything that we're doing so far is certainly living up to our expectations. So, we expect a lot of those analog costs to fall away in the next two years.

JOHN MCDONALD: And you've never really disclosed the full tech spend budget before...

MIKE CORBAT: And for us, I believe in the business we're in, that scale of investment, which is very significant, is the right level of investment today for our firm to be making.

JOHN MCDONALD: Yes. And you're spending more today than you were last year, and then over the next two years out, that will tail off.

MIKE CORBAT: Correct, yes. As our CFO likes to say, we're spending more this year than last year in an effort to spend less next year.

JOHN MCDONALD: Great. That's on the record, John. Great. So, let's talk a little bit about U.S. Retail Banking. You recently announced plans to roll out a national digital bank. So, maybe talk about your overall retail strategy, how you plan to marry kind of a selected branch presence with this rollout of a digital and then the Citigold Wealth Management, and kind of how that wraps in your overall strategy for each retail company?

MIKE CORBAT: Sure. So, if you look at our retail strategy, we really embarked on a reshaping or restructuring of that business since 2013. And since then, we've reduced branch count by about 30%. Since then, we've really focused our U.S. Consumer business in six core cities. We've made investments in technology. We've made investments in people. One of the things we've been very focused on is bringing the success that we've had with our Citigold model in Asia as an example to the U.S. with an emphasis on Wealth, and I think the early results of that are quite positive.

And as you mentioned, we've been out with an announcement in terms of launching, probably sometime in the next several weeks, an initiative which we're calling National Digital Banking where we believe that the existing technology platforms that we have in terms of client onboarding, in terms of payments, in terms of all the journeys that consumers make today and in particular in a much more digital environment, that we've got the ability to lever those and to, in fact, go after today what are potentially retail clients that are already credit card clients with us.

So, we have a national credit card and many of those credit card holders actually don't have a Citibank Retail account. And we've known them, we've known them for a long period of time and believe that we have a value proposition that should be appealing to many of them. And so, we're in the process now of finishing up. We got a couple new pieces of technology coming on, and in the next several weeks, we'll begin a targeted launch there. So, we're excited about it.

JOHN MCDONALD: And on the Citigold, what did you learn in Asia that made it successful that you can bring here where lots of banks are trying to pursue wealth management? What can you do to differently and bring from the Asian model?

MIKE CORBAT: I think lesson one is when you go to Asia and you have the conversation with a consumer bank there, people aren't Cards clients or Wealth clients, they're Citi clients, they're Citigold. And so, we invested in technology here. If you remember some of the investments we made in Rainbow that gave us the ability to have a holistic view.

So, if you go back not that far in time, and as you covered our company, it was Citi Cards, it was CitiMortgage, it was vertical or silos, as we call them, of product-driven interactions. Technology today here in the U.S. gives us the ability to have a holistic view. So, you're a Cards client, you're a Retail Bank client, you're Wealth, you're Citigold, you're Citi Blue, we have the ability to see you and think of you and present to you from a holistic view. And I think that's given us a much better entree, and clearly, much better receptivity from the clients. And when you look at the success of our branches and our deposit sizes in these branches, we're carrying significant deposits which we've got the ability as people choose to, to re-channel into different investment options where, historically, candidly, those deposits when people chose to invest oftentimes were simply leaving the bank.

JOHN MCDONALD: We're seeing some big banks go into new cities with a limited physical presence. They're starting to build de novo a physical presence. Would you consider that be on your six main cities or focusing first here on the digital world?

MIKE CORBAT: No. I wouldn't certainly rule anything out in selected cases. If we did that, it would likely be a wealth management-type approach. But I think long before we get there, we're completely focused on the implementation and execution of our National Digital Banking platform and we think that's got the ability to deliver that for us.

JOHN MCDONALD: Great. Talk a little bit about the U.S. Branded Cards business. As you mentioned, that's one of the areas that’s fallen a little short relative to the Investor Day expectations. What’s happened there? The revenue growth has been a little more challenging on the top line. So, maybe if you talk about some of the things you're seeing.

MIKE CORBAT: So, at Investor Day we talked about, over the term, believing and wanting to get about 3% top line growth out of our Cards business, and I would say to-date it's flat to up a little bit. But underlying that, we think that there's solid fundamentals in terms of cards, in terms of purchase sales, in terms of balances, in terms of promos moving to full rate, et cetera.

And I would say a couple things have led to the underperformance there. So, I would say one is that there’s been what I would describe, my words, as a bit of a rewards war out there. And what we've chosen to do is to not get in that and really shift our focus, our marketing, et cetera, to more promo balance type, so, our Citi Simplicity Card which doesn't carry a reward but comes in with a promo balance and moves to full rate. And I think what that has done is with the success, a better-than-expected success, of Costco and our building of receivables there, as well as our movement or our shift, our conscious shift, toward promo balances away from rewards and obviously, promo balances coming on with little to no income in them initially and rates rising again – our rate forecast at the time was one rate increase for each of the three years, we've clearly seen rates rise faster than that – it's put near-term pressure on top line. We're confident that what is underlying. And again what we've seen and what we've talked about on earnings calls and other places is the move to revolve is matching or exceeding our expectations in terms of – that we are capturing those full-rate balances as they move. But as we've built those promo balances, it's certainly put a crimp in terms of top-line growth.

JOHN MCDONALD: Yes. Have you tweaked the strategy at all in terms of duration of the promo balances or the approach there?

MIKE CORBAT: We have. We announced earlier this year that the success that we've had with Costco, we've actually taken back or removed the seven-month promo. So, now when you come into Costco, you come in at full balance. We stopped that in January or February of this year as a seven-month program. So, by the third, fourth quarter, the bulk of those promo balances should run off from that portfolio.

JOHN MCDONALD: How about on some of the partnership cards and maybe you can talk about the renewals and what you've gone through there and where that stands in terms of re-upping your partnerships.

MIKE CORBAT: So, just to maybe back up and give a little bit higher overview is one is we really like – again the word I'm going to use is the balance of our Card portfolio meaning that we've got proprietary products, we've got co-brand products, and we've got our retail partners business. So, again, lots of balance, scale, very efficient business, not just U.S. but global business. But in this instance, I'll talk about U.S.

So, an important piece of that is our Retail Services. So, in there we've got great partners, Home Depot, Macy's, Best Buy, on and on in there. So, in there when you think about your Card business and the balance that I speak of, when we go out with a proprietary product, it's either reward-based or promo-based and you make an investment in that cardholder over time to earn a return on there. And so, your cost of acquisition is actually quite front-loaded and very high. But you earn that back over a period of time.

Actually in Retail Services, our retail partners help us source and bring the clients in for the card offering. So, our cost of acquisition is very low but the trade-off is in that partnership, we have a sharing arrangement. And I think it's important to understand that that sharing arrangement simply isn't revenue or income. It's really what the earnings of the card are where our partners, in most cases, share the upside and downside with us. So, if cost of credit goes up, our partners share in that cost of credit.

So, again as you look at Retail Services, it’s not only outperformed in terms of the revenue line but importantly when you get to the bottom line it's a significant contributor to our business. It's a business we like and it's a business that we really continue to take share in and then we just announced L.L.Bean as a new partner, another really high-quality partner for us. And so, we're excited about that and the business has good momentum.

JOHN MCDONALD: Back on the Branded Cards – so, yes, on retail partner, you've done a little better on the revenue side. Back on Branded where there has been a little bit more revenue challenges, I think Stephen Bird spoke yesterday and kind of mentioned that you've locked up the contracts for partners there where you've had some headwinds, but I guess it's good news in the sense that you've kind of got those renegotiated and those for a couple of years now, right?

MIKE CORBAT: We do. So, we had talked recently about having all our partners signed up through 2020. We announced about a week ago terms of a new deal or a re-upping contractual terms with Sears in terms of our ability to take that portfolio, and that now has us through 2022 with all of our partners signed up.

JOHN MCDONALD: Got it. So, how about in terms of the International Consumer businesses where you've kind of outperforming a bit some of the Investor Day targets? Asia Consumer has been particularly strong. What has been going well there?

MIKE CORBAT: I think the whole business, the combination in Asia of both Wealth and Cards. And again, it's broad-based. We operate in about 16 countries from a retail perspective in Asia. And you really look across the board that countries in general are performing very well. So, clearly, the Citi value proposition, the Citigold proposition in those countries around Wealth Management, around the Card, around the aspirational brand, is resonating, and as you said, getting very good growth, 7% growth in the first quarter and again, on a solid trajectory we believe against the 2020 targets.

In Mexico's case, again it's balanced. It's a very strong retail depository franchise. We said we really wanted to go back and recapture share in terms of Cards and I think you're seeing that. And if you look at last year, we had about 6% growth in terms of Mexico Consumer, first quarter this year 8%, and we think that franchise is on a good trajectory. And clearly, there are some upheaval, some uncertainty in terms of elections, in terms of NAFTA but we've actually seen consumer confidence, consumer spending very high and clearly the Citibanamex brand is an aspirational brand there. And so, again, we believe continued good growth prospects there.

JOHN MCDONALD: Yes. Just remind the audience, too, about some of the investments you've made in Mexico and what's the kind of longer-term opportunity that gets you excited about the Banamex business down there?

MIKE CORBAT: Sure. So, about 1.5 years ago we announced about $1 billion investment into our Mexico franchise and in particular our Mexico Consumer franchise. It was really focused on three things. One is really a technology refresh in terms of all of our systems. Second was around work in terms of branch refurbishment, et cetera. And the third was really dedication of kind of more resources and investment into the business. A lot of which I would really describe, John, as – while we call it an investment, I would describe it as more deferred CapEx that actually through the crisis we didn't – or didn't feel it was the right time to be spending it. And now, based on the team we have in place, the things that we've done, we think it's the right time to be investing in that business.

JOHN MCDONALD: Where are you on the cycle in terms of that spend?

MIKE CORBAT: I would say that against our original plan, we're largely on cycle. We've gone a little bit slower but that has been more conscious in terms of two things. One is that we've actually been able to get some of the branch refurbishment, some of the technology done cheaper. And so, we've tried to take advantage of that. And then second, as part of it, some of the branch refurbishment and things have taken a bit longer to get done but we're committed to finishing it. But again watching the environment, that's a lever that we can continue to pull and use depending on how the environment plays forward.

JOHN MCDONALD: Yes. And how do you think about some of the macro risks there, the presidential election that's coming up and then the NAFTA negotiation? Sometimes these have a disproportionate effect on your stock and investor psychology. The business in Mexico is somewhere between 8%, 9%, 10% of your revenues and profits. So, how do you think about those macro risks and putting them in context?

MIKE CORBAT: So, when you look, I think there's a couple of things that are important. So, one is as you look at NAFTA and where things stand today, I would say time, in this cycle, is about to run out. We're really at the finish line or the end line here in terms of timing that would allow a refresh of NAFTA to happen this year. So, it's likely it will move to be at a minimum sometime post-election next year's business. What's likely to happen is the existing agreement will stay in place and things will continue to operate as they've operated. I think we need to watch how that plays forward. But I think what we continue to see, and we saw it through the election cycle, is that the currency simply adjusts to these movements. And again when you look at Mexico's competitive strength, one of its key attributes is not just its contiguous position to the United States, but one of the most competitive labor markets. NAFTA, no NAFTA, tariffs, no tariffs – it's likely that the currency adjusts to that and that competitiveness of labor stays there.

Second is when you look at the development of that economy and the continued expanding middle class of Mexico, so you look at – we've got 8% growth against the backdrop in Mexico today of growth at 2.2%, 2.3%. And what we've said consistently is that wherever growth is, we believe our franchise has the ability to grow at a multiple of GDP. So, while the economy could slow either on the back of no NAFTA or renegotiated NAFTA or an outcome of a presidential election on July 1, we still believe that the banking market and our Consumer franchise have ability to grow at a multiple of GDP and a growth rate in that – in a banking market that is likely faster than most places in the world.

JOHN MCDONALD: Yes. That's helpful. To switch gears, talk a little bit about the Institutional businesses which you've mentioned, in aggregate, of doing a little better than your plan from Investor Day, so, that's very helpful. And that's come despite some tougher markets performances. The Markets businesses have been a little sluggish for all of the Capital Markets bank. So, you've kind of made up – more than made up for that in some of what you call the accrual businesses.

MIKE CORBAT: Yes.

JOHN MCDONALD: What has been driving the strength in those areas?

MIKE CORBAT: Well, as you said, we had Investor Day targets of about 4%. So far, we've been delivering about 5%. And again, what I really like about that growth is not just the balance of it between our markets, banking transactions, service businesses, et cetera, but actually as you described where the growth is coming from in terms of businesses that are sticky or more accrual like. So, when you look at our Treasury and Trade Solutions business really leveraging our global network and the connectivity into our foreign exchange and our rates businesses, et cetera, that companies all over the world have a unique ability to use.

When you look at what's going on from our Private Bank. I think our Private Bank had its best quarter in the first quarter of this year since we've been reporting or talking about it, 21% revenue growth. I wouldn't annualize that. But if you go back and look consistently, we've been achieving solid single- to low-double digit returns out of that business.

Corporate Lending, right, if you look at Corporate Lending, Corporate Lending has been quite strong. And again, when you look at the lending we're doing, it's to the multi-nationals around the world typically out of our – off our network. Our Securities Services business – a business that we largely rebooted a couple of years ago and it's really, with its adjacencies to our Equity business, really doing well.

Away from that, we talked about the investment in Equities and how that's actually paying nice returns. And if you look at what our Investment Bank is doing in terms of taking share and continuing to grow revenue. And how that, I think, really highlights itself or manifests itself is that when you look at our business, if it was four, five, six years ago, and we talked about our Markets business being down, you would largely have come to the conclusion that ICG, our Institutional business is down, and likely the firm is down. And today, when you look at the diversity of that, and you look at the ups and downs of markets and there we continue to take share in those businesses, but what we've built and what we'll continue to invest and build, as in most parts of that cycle, more than offset that and given us nice revenue trajectory at the ICG level, and obviously, contributed to that trajectory at the firm. So, again, back to the B word, back to the balance that's there.

JOHN MCDONALD: I think that's a great point. You've been able to grow through the sluggish Markets revenues. That said, I have to ask you the obligatory markets question, and this is maybe at a high level, any change in the environment on the markets side?

MIKE CORBAT: So, again, as we talk about – and John will be speaking in a week or two at a conference and he'll talk about where we are. But again, in there, I don't think there's going to be any surprise as to what John says. We gave some guidance on the earnings call.

But when you think of trading, you can't judge – we don't judge trading by the year, by the quarter, by the month. In many cases, it's day-to-day because you don't know. We wake up one day and it's Italy, we wake up one day, it's North Korea, we wake up one day, and it's rate increases. And so, again, what our goal is to be there, is to be positioned as the go-to provider in our markets businesses. And I think we – again, we've been taking share across the board in our businesses, and we feel good about that.

And again as I look towards the intermediate and longer term, when we debate the cyclical secular argument, I think a couple of things are going to happen that aren't maybe necessarily factored in. One, as quantitative easing moves to quantitative tightening, the Central Bank bid goes away, and the value of liquidity and intermediation goes up and I think we're extremely well positioned because I don't see banks and, in particular, I don't see European banks leading with their balance sheets. And so, the markets are going to become more important in terms of really the movement of money or the movement of financial assets.

And I think the second piece is that from our perspective, we like our position because, again, we can run of scale in particular Fixed Income businesses and leverages in a binding constraint. And so, around accretive rates, treasuries, currencies, we've got the ability to be very active in those markets. And on a return or on a risk adjusted return CCAR return basis, those are quite accretive businesses.

JOHN MCDONALD: And maybe on the Investment Banking front, you can just talk a little bit about what you're seeing in terms of corporate confidence and how that's translating into the business for M&A and underwriting.

MIKE CORBAT: So, we talked a little bit about tax reform and I believe that there's a few very underappreciated aspects of tax reform. So, when I think of tax reform, I'd kind of put three big headlines. One is the obvious reduction of tax rate from 35% to 21%, pretty easy to calculate for everybody really what that means.

Second piece, and in some ways one that I would describe as the most underappreciated piece is the complete flip of moving from a global tax system in the U.S. to a territorial system. And so, as an international company that comes to work in 100 countries every day, 100 tax jurisdictions, we're completely rethinking how we think about tax and how our businesses are structured from legal vehicle to liquidity to capital to supply chain to where and how we're doing things. And I know we're doing that, and I know that every other multinational U.S.-based company is doing the exact same thing. And I think that is going to change things.

And as part of that, what's been labeled as repatriation isn't really repatriation because historically what happened is companies had offshore monies, and you triggered the tax payment by bringing the money back. So, when we go back to 2004 what was called the Jobs Creation Act of 2004 that was later renamed the Stock Buyback and Dividend Act of 2004, in many ways the structure drove the result and that was in order to trigger the tax advantage, you had to bring it back, and I think companies felt very compelled to use it quickly. They didn't want that sitting.

Today, we've all paid the tax. We don't have to move it. It's completely fungible. There's no time clock on it. We can bring it back when we want to bring it back. We can move it anywhere else and the taxes have been paid. And I think there's an under appreciation for the money that will be in motion as a result of that. And so, I think people looked at the first quarter of any company, international company's earnings and said, okay, we can now see the benefits of tax. I don't think you've seen it yet because I think this will play out over time.

And I think that the third piece off of that is for companies like ours, there's no bank better positioned to be in the C-suite having the conversation with the CFOs and the treasurers and the CEOs, whoever, in terms of what that strategically needs to look like in terms of money movements, in terms of foreign exchange, in terms of borrowing, in terms of capital structure, intercompany, all of those, supply chain, all of those. And we've got a big initiative against that and I can tell you a lot of active dialogue there.

And so, we get the direct benefit of what's going to happen, but as or more importantly, we get the benefit of our clients, their money in motion and their continued optimization of their strategies.

JOHN MCDONALD: So, a lot of conversations and an opportunity to help people on that front...

MIKE CORBAT: And so, on the back of that, I would say corporate sentiment is quite good, it's quite high. And I think what we're seeing is we're seeing some of those monies put to work in terms of deferred CapEx, in terms of investment. It's likely that M&A will stay fairly robust. It's likely that the financing markets as a result of these, as companies are moving money, will need to replace monies in certain jurisdictions for the fungibility of moving it to better opportunity areas and again I think we're well positioned against what's a pretty positive backdrop.

JOHN MCDONALD: Great. Talk a little bit about capital and capital return. You've laid out some pretty specific goals. Some other companies we've seen some comments that the CCAR scenarios were harsher this year going in to the submission cycle for the 2018 CCAR. Maybe talk about your longer term capital targets and your goals for capital return and kind of how you went into thinking about this year's submission?

MIKE CORBAT: So, kind of starting where you started the question, yes, the scenarios were tougher. But I would say from our perspective, they weren't unexpected, meaning that as the economy has continued to improve, I think the Fed has been fairly clear in terms of putting a countercyclical type scenario in place. And I think what they've said is no matter where unemployment goes, they're taking it back to 10% in terms of the stress of the scenario. So, I think that as it continued to improve this year, obviously that was added. And if it continues to improve throughout this year, my expectation it'll be tougher and be added again. So, I wouldn't say that while the scenarios were tougher, we were necessarily surprised.

One of the things that we laid out in Investor Day is that we believe we've got the ability to run our company at somewhere right around an 11.5% Common Equity Tier 1 capital ratio. And I would say with the things that have come out in terms of the SCB and in the NPR while all those haven't been buttoned down, we paid a lot of attention to what was said by Governor Tarullo on the way into this. And I think largely what we've seen come out of this has been in line and that guided us to the place of the 11.5%. I think the challenge in there is exactly what buffer – what's the right buffer and the variability around the Fed's ability to create different scenarios. But again, we've come out with very specific expectations and goals from our perspective, all of course subject to regulatory approval. But we talked about at Investor Day over the three CCAR cycles, the ability and the commitment to return over $60 billion of capital to our shareholders. And again, last year we returned and we're in the process right now of finishing up in this CCAR cycle, $19 billion. And again it's our expectation to return at least $20 billion in each of the next two cycles.

JOHN MCDONALD: And how do you think about the mix between dividends and buybacks? Has that evolved in your thought process, your discussions with the board over the last year or two, depends on the stock price, depends on your earnings? But how are you thinking about dividend versus buyback mix?

MIKE CORBAT: So, I think it depends on kind of where we are in terms of stock price and whether the stock is trading at or below book. Clearly, as it trades below book, you skew more heavily towards buyback than dividend, but we believe that there's a balance in there in that, one, as our investors, our long-term investors should be rewarded for being with the stock and given the adequate ability in terms of capital return, right, we've got in some ways plenty to do both. We can pay a reasonable dividend, we want to be competitive amongst our peer group in terms of dividend yield, but at the same time, given what we talked about in terms of our ability to return capital, we've got abundant capital or we've got adequate amounts of capital to do significant buybacks. And so, it's really finding that balance.

JOHN MCDONALD: Yes. So, I kind of ask you this every year. The stock, while up over the past year, has lagged a bit this year. So, is there anything you think – when investors look at Citigroup, they're not understanding appropriately or misunderstanding about the company or the longer-term trajectory of where you're headed that might affect the stock, which is still the cheapest big bank stock on tangible book.

MIKE CORBAT: So, as we talked about, one, is I think when you look at the trajectory we're on, one is to this year get to the 10.5% return on tangible common, and obviously, by 2020, getting that north of 13%. I think as we start to close that gap, I think you should hopefully see appreciation in the stock as a result of the gap closure.

I think second, one of the things I think the market is speaking to in terms of how it's thinking about or how the stock is trading today is that versus our peer group or the peer group that you're comparing us against in your analysis, we're underexposed to the U.S. And I think we've seen a number of those stocks performed quite well based on a U.S. rate play. And so, we have part of a U.S. rate play, but we're not a pure U.S. play. And so, I think that's – that differentiation has played to other people's advantage.

And then as you go back, the frustrating piece around it, and again I think time cures it, is that I think people still hearken back to periods ago where when you think about EM exposures and different EM exposures than we have today, people view that as things go on in the world that somehow we're going to significantly underperform as a result of those exposures. And I think what we've proven through GIPS crisis, through sanctions, through Venezuela, through Arab Spring, et cetera, is while we operate in those places, we operate in a prudent manner, we've got a balanced risk appetite ratio. And while at times certainly we do take some losses, it's part of the business that we're in, they couldn't or shouldn't be outsized to who we are and that the growth rates outside of the U.S. again consistently higher than developed market growth rates, and we think we're positioned to take advantage of that. And we think over time, we just need to continue to show people that we're going to make the right decisions and that those risks aren't going to be outsized to who we are.

JOHN MCDONALD: Yes. And I think that as you point out a couple of times and gave some examples, your international scope and your overall diversification balance can be positive...

MIKE CORBAT: Yes. And when you think back of what's changed, so today, we only have a retail bank in a few places across Europe, Eastern Europe, Middle East, really through Poland, Russia, and the Middle East. When you think of our Latin America franchise, it's simply Mexico, right, and obviously a strong Asian franchise. So, a lot of the hotspots from a consumer perspective, where we were historically, we're not today. And so, again, we've been very prescriptive in terms of our disclosures in our filings, and people can actually go see what those exposures are. And as you said, our largest exposure outside of the United States is Mexico and, again, we feel pretty good about that franchise.

JOHN MCDONALD: Okay. So, let's talk a little bit about disruption. This is a question we're asking, the Bernstein analysts are asking, all the CEOs speaking at the conference this week across all industries. So, as you look ahead to your business and your industry five years out into the future, what's the single most disruptive force that could threaten your business or industry and why would you think that?

MIKE CORBAT: I think if it's a threat, John, I would say that it is – it would come from a regulatory perspective, I view it as a very low risk, but the willingness of regulators to allow, in my words, an un-level playing field or an advantage to exist around fintechs.

Again what we've said is we'll welcome anybody to the industry, just come and compete on the same rules and standards that we're held to. We have seen in a couple places in the world, China is an example, where at least an initial advantage was given to some of the fintech companies and I think that proved quite disruptive to the existing financial institutions.

I don't see that and I think our regulators here have been pretty outspoken around a lack of willingness or desire or intent to do that. But if that were to happen that would in my mind be the single most disruptive thing.

JOHN MCDONALD: You probably have a fair amount of regulations that would be barriers to entry that would discourage some of these fintechs, I think, but that's a good thought for us all to think about.

How about just regulation in general? How would you characterize the regulatory environment? We've seen a lot of proposals and some changes. Do the regulatory environment change only help the small banks or are there some things on the forefront that could help Citigroup?

MIKE CORBAT: Well, I think if we go back and looked at the transcript from last year around expectations and really where things were headed, we did talk about what I would describe as tone from the top, that the regulatory tone has changed. It has become more constructive and we expected that and that's happened. I think in terms of rollbacks or changes, things have been slow and coming, and I think a lot of that has been as a consequence of how long it's taken to get heads of the agencies, heads of the regulatory bodies confirmed in their seats. So, this week we had Jelena McWilliams confirmed into her seat at the FDIC. So, now we've got said we've got Fed, we've got OCC, SEC, FDIC, et cetera, all in seats. So, we would now have what I call a quorum. And so, in order to change some of these things really Volcker is an example, you actually need a consensus amongst the group. And now that we've got sitting active heads of each of the agencies, I expect to see more coming forward.

So, in terms of things to-date, away from some of the things for the smaller banks, really not much for the large banks but the tones have changed, we don't have rules and regulations coming over the transom at us today as it did for so many years and we're able to actually get some of the challenges or some of the implementations of the rules and regs of the past implemented. But not just implemented, but actually conversion to being automated where historically as an industry, they come, they put rules and regs in place, we throw a lot of bodies at it and we've got the ability over time to automate those and I think that certainly at Citi, you're seeing that. And then I think you'll see and I think the work that was done last year out of the Treasury report is good work and we're hoping that we'll see some implementation of some of those and most likely first stop is Volcker.

JOHN MCDONALD: Yes. So, top two or three things for you will be Volcker. Maybe give clarity around CCAR that's kind of in proposal already I guess, anything else top of mind?

MIKE CORBAT: So, one, I would say at the top of the list for us is really, is CCAR, that it is ours. It's many in the industry's binding constraint. And as what we've talked about is we really would like to see more transparency, more transparency in terms of scenario, making certainly more transparency in terms of the Fed models and how they're looking at things and our ability to learn from that. So, that would be one.

Things like Volcker where again – we are an advocate of Dodd-Frank. We are an advocate of the spirit of Volcker. I think we're all somewhat perplexed and challenged by the implementation of Volcker where we have five regulatory bodies or agencies responsible and they all have a slightly different view or approach. And what we've said is just pick one. We don't care which one it is. Pick a single approach.

And in there, the strange bias or strange way that Volcker goes at things of the presumption of guilt and having to prove yourself innocent or the massive amounts of data that we and the industry are turning over to the regulators for which – I think they admit that they're not quite sure what to do with all of it and it takes a lot of time and effort and energy on our part. And if they're not going to use it, why should we be going through the effort to provide it?

JOHN MCDONALD: Yes. Great. The last thing I just wanted to touch on in terms of the global economy, we've seen political risk come out over the weekend in terms of affecting global markets, yesterday in particular. Just kind of how you're feeling about – we talked about Mexico, what about the rest of the world? And do you worry a bit about European risks or other kind of global risks affecting the U.S. economy and global markets?

MIKE CORBAT: So, first, I think we've got to acknowledge that when we think of 2017 going into 2018, some important things were happening from a global economy perspective. One is that when we look at really 2017 into 2018, the first time in a long time global synchronized growth where you're really hard-pressed to go around the world and find any economy of any significance and find it in recession.

Second is that really it wasn't until the second half of 2016 and really through 2017 that we actually saw growth expectations being met. And what I mean by that, if you go back to 2010 and think about all the prognostications of growth, there was consistently downward revisions. And it really wasn't until the second half of 2016 into 2017 where we actually saw that stabilize, and we've actually seen revisions up from there.

Again, when we talked about the world today, we're looking at somewhere around 3.4% growth where the emerging markets is somewhere north of 4% and the developed markets somewhere in the hopefully mid- to high-2s and that's a fairly usual relationship that's in there. I would say that you can't just look at the world economy though, that you've got to also, as you cited from things over the course of the weekend, be mindful of what's going on geopolitically and what's going on socially, right, because they are oftentimes – the social impetuses are driving the geopolitics which then reverberates itself potentially through the economy.

So, I would say the optimism, the underlying health of the global economy is in pretty good shape. I would say that when we look at the geopolitics, a lot going on. But I would say, as a world, we've been adjusting to that and whether you go back through Brexit or you go through various elections, I think the world has had the ability to process that. But I think in terms of North Korea, I think in terms of Italy, those things are going to be there and that volatility is likely to exist but we're going to find our way through it.

JOHN MCDONALD: Great. Mike, thanks very much. Appreciate it.

MIKE CORBAT: Thank you.