TRANSCRIPT

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HOST
Erika Najarian, Bank of America Analyst

SPEAKER
Francisco Aristeguieta, Citi CEO of Asia

PRESENTATION

ERIKA NAJARIAN: He is the CEO of Citigroup Asia, responsible for all businesses within Citi's 16 markets in the region. Francisco additionally oversees Citi's consumer operations in the UK, Russia, Poland and the UAE. In total, Francisco is responsible for about a third of Citigroup's earnings, and has been with Citi since 1994. We're very excited to hear about the future prospects of Citi's unrivaled global footprint. Please join me in welcoming him on stage. Francisco?

FRANCISCO ARISTEGUIETA: Thank you, Erika. Good morning, everybody and thank you for joining us today. It's great to have the opportunity to showcase our franchise in Asia. And Erika, thank you again for making this possible. It's exciting to be here. So what I'd like to do today is take you through our franchise in Asia, our priorities in terms of strategy and growth, and describe our institutional and consumer businesses as we plan to continue to grow our business going forward.

Let me start by saying that we're incredibly proud of our franchise in Asia, which is the largest contributor to Citigroup results outside of the United States. Asia drove over 20% of Citi's revenues and a quarter of the net income over the past 12 months. Citi is the leading bank in Asia with strong market positions across our full suite of products and services. We have one of the largest footprints across the region with Institutional presence in 16 markets and a Consumer presence in 17 markets.

Our Consumer business in Asia is anchored by our leading Wealth Management franchise, ranked second in the region, and a leading cards position in most markets. Also, we have a leading investment bank, which year-to-date, we are ranked second in debt underwriting, and third in both announced M&A and equity underwriting.

On slide 4, we show our components with a total Asia franchise. Revenues are evenly distributed by business and roughly half generated through our Institutional business and the other half coming from our Consumer side in retail banking and credit cards. Our revenues, and this is a very important point, are very well distributed by geography, in contrast to some of our regional competitors that tend to be highly concentrated by business model. No single market accounts for more than 20% of our revenues in Asia, and Hong Kong, Singapore and India being our largest markets.

The strength of our franchise is evident in our financial results shown here on slide 5. Our revenues are growing at a 5% CAGR over the last 2 years with contribution from both our Consumer and Institutional businesses. We have improved our efficiency ratio by over 400 basis points over the last 2 years, delivering an efficiency ratio of just under 57% for the whole region. We achieved this growth while maintaining strong credit discipline with a total net credit loss rate of under 45 basis points in the last 12 months. This combination of revenue growth, positive operating leverage and credit discipline has driven a steady improvement in our pre-tax earnings with 11% average growth over the past 2 years.

We are excited about the future in Asia and believe we can continue to deliver very positive results. At the center of our strategy, we are generating sustainable client-led growth, delivering the firm to our clients in a seamless and cost effective way, and contributing to the earnings growth and return goals for Citigroup in total. We believe several macro and Citi-specific drivers position us particularly well to do that going forward. First, from the macro perspective, Asia continues to be a significant engine for global growth with strong and fast growing intra-Asia flows and an increasing number of regional corporate champions.

Second, from the structural perspective, Citi is very well-positioned to capture this growth given our unique very well-connected pan-regional presence in Asia on our connectivity to Citi's global network. We also believe there is a structural advantage in having both a Consumer and an Institutional franchise on the ground in Asia, as our corporate clients continue to pursue direct-to-consumer digital strategies across the region. Finally, we are delivering the firm to our clients in new and innovative ways with the focus on digital engagement, the use of data for more actionable strategic insights, and by operating the franchise with new partners and digital ecosystems to build relevance with our clients and our target market.

As seen here on slide 7, Asia remains a major driver of global GDP growth. According to the IMF, Asia's GDP is forecasted to grow over 5% in 2019 driven by strong growth in emerging economies. This trajectory is expected to continue with Asia driving roughly 60% of the world's GDP growth through 2023. Of course, it is important to note that Citi's Asia business is somewhat of a hybrid, pairing the best of more developed markets like Hong Kong, Taiwan and Singapore with truly emerging economies like China, India and Southeast Asia. If you look at weighted average GDP growth based on our revenues and the markets in which we operate, the regional growth rate is expected to be closer to 4% next year. Still, however, very, very well above the growth expectations on other regions around the world. So if you take a step back, overall, we believe our footprint is very well positioned to capture economic growth in Asia.

Over the past year, we've continued to express concern as we engage with investors around the potential impact that trade war and tariffs could have on global flows. And while it is right to consider all the risks, it is worth putting these impacts in context. So let's think about what we do for our clients. We help large multi-nationals compete every day on the global stage. We help them manage their working capital over multiple markets and currencies. We make their supply chains more efficient, and we provide episodic financing or M&A advice depending on the situation. And of course, we will continue to do all of this in spite of that noise.

So if policy actions cause trade corridors to shift and reconfigure in different ways, we are extremely well positioned to capture these flows. Today, we are helping our clients to assess their supply chains across the region, especially as it relates to China and the new tariff structures. In response, our clients are growing and diversifying their footprints within Asia, and we're benefiting alongside them. Year-to-date, ICG clients revenues generated with local subsidiaries of large Asia based parent companies have grown by 17%, with outsized growth in corridors coming out of China, Korea, Japan and Taiwan. We have also seen an increase in the number and size of emerging market corporate champions in the region. In 2008, only 12% of the global Fortune 500s were headquartered in emerging markets in Asia. This year, that number has grown to almost a third, and we expect this trend certainly to continue going forward.

We are best positioned to capture these client opportunities given our pan-regional presence and full products suite as we show here on slide 9. On the Consumer side, we operate in 17 markets with roughly 260 retail branches concentrated in major urban areas, and we serve 17 million clients across the region. We have a leading wealth management franchise throughout the region and a growing lending platform, including a very strong regional positioning cards. On the Institutional side, we offer a full range of wholesale products and services with one of the largest Treasury and Trade Solutions and Securities Services networks in the region, each present in 16 countries and markets in Asia. We have 20 trading floors across Asia, and a growing Corporate and Investment Banking business with over a 1,000 bankers on the ground. This breadth of coverage is unique among global and regional competitors.

But it's not just about the number of markets and products we're in as we show here on slide 10. It's how we leverage the entire platform for the benefit of our clients. We believe we have a structural advantage in operating both a Consumer and an Institutional business on the ground in Asia. For example, as our corporate clients pursue direct-to-consumer digital strategies, we can obviously advise them on the implications of that strategy for their supply chain and receivable operations. But we can also provide unique strategic support, sharing our perspective on consumer and digital trends, and helping them drive engagements through for example pay-with-points programs, point-of-sale lending solutions and white-label or co-brand partnerships. This drives tremendous loyalty, as we are now integrated into our clients' day-to-day operations both as a financial but also as a strategic partner. Of course, we also provide episodic services like capital markets origination and M&A, but it's important to highlight that our client relationships extend far beyond that part of their wallet.

Finally on slide 11, I want to share how we're leveraging our digital and data capabilities to engage with clients where and when they want to connect with us. Through our digital platforms, we are delivering a complete set of products and services seamlessly through any channel our clients and customers prefer. In Consumer, we provide a 360 degree view of our clients' financial lives with everything from customized spent summaries to robust lending, saving and investing tools. As a result, we're seeing a rapid mobile adoption with users up over 30% from last year. On the Institutional side, our CitiDirect and CitiVelocity platforms provide our corporate and investor clients with seamless global access to our full suite of wholesale products.

Again, as a result, we've been recognized as having the Best Mobile Banking App, as well as the Best Corporate and Institutional Digital Bank in Asia-Pacific. We're not only making it easier to access our services through digital channels, we're also using data to make these interactions more intuitive, actionable, and very importantly, contextual. We're leveraging data in many, many ways. For example, to provide real-time geo-located car offers or discounts at local restaurants based on where you travel, to provide contextual personalized loan offers and pricing, to improve sales force productivity, and to analyze global flows for supply chain optimization in our TTS franchise, just to name a few examples.

We also recognized that in order to be relevant to our clients in the digital world, we need to think beyond our branches, websites and apps. We're leveraging common global and regional APIs to engage with new partners and to embed our services into existing digital ecosystems across the region, those like WeChat, Line and others. These capabilities increase our relevance, help us win new business and extend our distribution well beyond our current 17 million consumers and clients across the region. These investments leverage Citi’s global digital capabilities and data capabilities, and we believe give us an enduring competitive advantage over our local peers.

Now, let's switch to discuss ICG in Asia. We have an iconic franchise in Asia, combining deep local knowledge with the best of Citi's global Consumer and Institutional capabilities and technology. This makes us an ideal partner for regional champions seeking to expand outside their home market, for global multinationals seeking to establish a greater foothold in the region, and for the growing wave of next-gen leaders that are born digital from the start, and are going global at an unprecedented speed. We are committed to growing responsibly, though always within the bounds of our target client strategy and risk appetite. I certainly believe we can continue to deepen our client relationships over time. So while we are proud of the efficiency and returns we're delivering today, we believe we will do even better going forward.

Asia is a great example of our regional and global network driving strong revenue performance, with two-thirds of our revenues coming from network driven businesses in TTS, Securities Services and Rates and Currencies, as we show in the chart on page 14. TTS and Securities Services in particular serve as the backbone for Markets revenues in both Fixed Income and Equities. And Equities, again, as we show on the chart, has been growing quite significantly over the past two years. And although Rates and Currencies revenues have declined recently, this reflects the overall market wallet, as well as a more challenging trading environment over the past year. Having said that, however, we continue to gain share with our corporate clients, which comprise nearly 40% of our direct client revenues in Rates and Currencies.

These strong operating relationships provide the foundation for more episodic opportunities in M&A and capital raising as we show on slide 15. This is reflected in our year-to-date rankings with both our announced M&A and equity capital markets improving to third. Over the course of the year, we have been involved in several marquee deals throughout the region, including the largest ever private placement and the largest ever take-private transaction in Asia.

Our strategy in serving large multi-national clients also benefits our corporate credit portfolio of about $64 billion of funded exposure. The portfolio is very well diversified both by geography and business. 80% of the total funded and unfunded exposure is rated investment grade, driven by the credit quality of the underlying borrowers but also by the structure of the transactions themselves. This quality is reflected on our credit performance with an annual loss rate of under 5 basis points in recent years.

Now, let's talk a bit about Consumer in Asia going forward. Over the past 2 years, we have returned to growth and positive operating leverage in Consumer, delivering 4% annual revenue growth and over 300 basis points of efficiency ratio improvement. We've returned to growth even as lending revenues have been somewhat muted, as we reposition our portfolio away from mortgages to focus on higher return products. This shift is reflected in our loan trends as you can see on the lower left in this chart where mortgage loans have been flat to slightly down. Importantly, we're now seeing our efforts pay off with an improved organic growth across cards, personal and commercial loans over the past year. And all of that, while we continue to see sustainable and steady growth on our deposits across the platform.

We continue to expand our leadership position in Wealth Management by leveraging our premier brand, value propositions and superior service to attract new clients. As shown here on slide 19, our Wealth Management revenues are diversified across deposit, investment and insurance products. Over the past 2 years, we have generated strong growth in Citigold clients, leading to growth in both net new money and total assets under management. And we have significantly improved the productivity of our bankers by optimizing our footprint, hubbing our advisors in dedicated wealth centers and enhancing our digital wealth advisory platform.

On slide 20, we showed more detail on how we are driving unsecured lending in Asia across cards and personal loans, which we view by the way as complementary products. In total, we have a $31 billion core unsecured lending portfolio in Asia, which has grown at a 4% CAGR over the last 2 years. Importantly, we are transforming our origination process in both cards and personal loans, driving digital acquisition in cards, and as an example, nearly 40% of total acquisition in cards today is digital. This reduces the cost to acquire new accounts, while also improving client satisfaction and increasing the likelihood that these accounts will be serviced digitally throughout the lifecycle. Digital acquisitions and servicing are done through our own website and mobile apps, and importantly, within the apps and ecosystems of our partners. This expands our reach beyond our proprietary network, connecting us with the merchants and ecosystems that are most relevant to our clients in each market.

So to conclude, what I would like to do is leave you with a few thoughts. First, our Asia franchise is growing and is a strong contributor to Citi's overall results and 2020 targets. Second, the franchise benefits from diversified sustainable sources of growth, with a favorable macro backdrop, strong wealth creation from a growing middle class, and growth in multinational and emerging market champions. Finally, Citi is very well positioned to capture this growth in both of our businesses in Institutional and Consumer business.

With that, I thank you and I will love to take some questions. So I will join Erika here in the back.

QUESTION AND ANSWER

ERIKA NAJARIAN: So before we turn it over to questions, I thought I would ask the audience some questions first after this presentation. If we could pull up the first poll in question, please. So now that you heard Francisco speak, what is your forecast for APAC revenue growth at Citigroup in 2019? One, high single-digit similar to how 2018 is tracking; two, mid single-digits similar to the 2017 trend; and three, flat to low single-digit similar to the 2016 trend. Five seconds left to vote. And you say, 50% of you say, mid single-digits similar to the 2017 trend, while 37% of you say high single-digits similar to how 2018 is tracking. Nevertheless, bullish on your line of business. Care to weigh in on the polling results, Francisco?

FRANCISCO ARISTEGUIETA: I think the audience is well informed. They are doing a good job. It is indeed what we're striving to do not only in Asia but very much as a management team. We want this to be sustainable client-led growth and that is pretty much what we're aiming for.

ERIKA NAJARIAN: So as I'm sure it's frustrating to you and frustrating to Susan, trade war and Citi come up a lot in tandem. Thank you so much for that slide about the intra-Asian networks. But first let me ask you, for your multi-national clients with major business in Asia, how are the actual tariffs, and how is the rhetoric potentially changing with how they're thinking about activity levels in 2019?

FRANCISCO ARISTEGUIETA: Well, in general terms, of course, it's hard to predict how far this is going to go and with all the implications. But I can tell you certainly about early signs that we're seeing on the dialogue we're having with our clients not only around the world, but very much particularly in Asia. And the reaction to our clients is, one, that they will protect the markets they cover today. So nobody is running away from exporting to the U.S. or losing share. What they're very active in doing however is assessing their supply chains, because one of the things they believe is that the genie is not going back into his bottle, and that these type of things are likely to happen again in the future, even if there is some sort of agreement in the short-term around this first, let's say, approach to the issue. So this plays to our strength. And the reason it does is that we are uniquely deployed as I try to describe in the presentation across almost 100 markets around the world, and certainly the 16 we are in Asia in a way that we have a banking license in each country, and we've trained a profound and strong pool of talent that covers all of our products.

So the ability to understand each of these markets and help any of our clients change their supply chain, adapt it to where tariffs could be impacting today or in the future of their businesses, plays to our strength. And that is the nature of the dialogue we're having. So where trade was a bit of a commodity for a while, now it's becoming very much a solutions driven business, which plays to our strength dramatically in terms of how do we help them make that new "or adjusted" supply chain to be more efficient, how do they hedge potential currency risks that will result from changing that supply chain over time, how do we help them finance new investments or potential acquisitions or part of that supply chain as they move it around. So it's quite rich and insightful dialogue that we're having, and certainly a dialogue that values our network more than the situation we're seeing before these trade discussions started. So very much so far playing to our strength, and it's reflected on the revenue we're seeing from our clients, the flow growth that we're also seeing from our clients, and what we understand is strategic dialogue will continue to drive going forward.

ERIKA NAJARIAN: So you've alluded to in your response how you follow your client in terms of the supply chain. How does having local licenses help you? So for example, if you're competing with another global bank that may not have a license, say in South Korea, how is that Citi's advantage?

FRANCISCO ARISTEGUIETA: Well, the fact that we can do everything from the ground up without touching a corresponding bank makes a tremendous difference, not only in terms of cost for our client, but an insight of the transaction flow and how they can manage their treasury more efficiently and effectively. The fact that all of these flows ultimately start in local currency, in whatever market the sale happens or the supply transaction happens, and then it's pooled somewhere either for hedging or investing or around the world. That allows us to add value from inception, from the ground up, and that in Asia, in particular, is quite unique when you compare our footprint, deployment and network versus many of our competitors, not only because we're fully deployed, but we also are the preeminent regional bank in Asia.

When you look at our competitors, most of our competitors tend to be concentrated in one, two or three countries or markets. And as I mentioned and alluded to in my presentation, no single market accounts for more than 20% of our revenue and that allows us then to move resources very dynamically, following our clients around the region to ensure that we are supporting them as needs arise. And that's why I also mentioned, where flows were growing faster and they're growing faster out of Asia, out of Taiwan, out of Japan, out of Vietnam, out of Korea, and as we connect those countries pretty much like nobody else can, that gives us a tremendous advantage when we talk about optimizing trade and supply chains.

ERIKA NAJARIAN: You talked about regional champions in Asia.

FRANCISCO ARISTEGUIETA: Yes.

ERIKA NAJARIAN: The competitors for those corporates, are they the same that you just mentioned in terms of more limited local players that are in one to two markets? Who are your competitors here?

FRANCISCO ARISTEGUIETA: Well, it's interesting to understand the dynamics, and what is happening today is that the pace at which these local champions become regional champions is astonishing. These startups, these new economy companies are reaching 4, 5 markets outside of their home market in a matter of months, sometimes a couple of years. And that again, plays to our strength, because what happened before is that it took a long time, and therefore that initial wave was actually captured by a local bank, not even a regional bank or an international bank. And it wasn't until they were mature enough to go outside that we began to see them as a potential target market client. Today, understanding that dynamic, particularly the new economy type of clients are ones that we are adding value practically since inception because they're planning to be in 4, 5 markets across Asia very, very quickly. So we support them from the start in that lens and that scope of business. We sense it'll be tremendously accretive for building strong relationships that touch not only our transactional part of things but very much as they get to the IPO stage and capital raising. So it's a very accretive network that's happening around emerging champions around the region.

To your question, who are our competitors, it depends on where they're coming from. If they are originating in a market where you have a strong presence from a European competitor, for example, that's where we will face competition. The issue is that, that competitor will dilute itself in terms of the ability to add value as the number of markets in which the client operates increases. So if they move from two countries to three, four or five within Asia, we see ourselves gaining share rapidly in that path, whereas others struggle. And the issue is that we are very, very focused on the network business rather than competing for everything in the local market. And that's the true difference on not only globally where we play the network business but very much regionally as we see the Intra-Asia flows growing at 3 times the speed of the inbound-outbound flows in and out of the region.

ERIKA NAJARIAN: So sticking to revenue growth opportunity, maybe switching to the Consumer, you mentioned opportunities for unsecured consumer lending growth and utilizing social media channels and digital and innovation, can you remind the audience how different the Asia consumer is relatively to the U.S. consumer? I'm anticipating questions, oh my God, unsecured consumer lending through WeChat, what are you doing, but it's a different consumer.

FRANCISCO ARISTEGUIETA: It is very much a different consumer. Also the other thing we need to remember is that we cover 17 markets across Asia. So as we started to rethink our strategy for growth over 3 years ago in Asia, we realized we needed to go open architecture, that we could not solve centrally for customer preferences, our target market preferences in 17 very, very different countries. And one thing in Asia that's quite unique is that every market, every country is very different in terms of how clients think and approach their banking relationships. The pace of adoption of mobile technology and mobile banking and transaction origination is what really makes Asia unique and different.

I would put China in the extreme, so I don't think that the China phenomenon is replicable beyond China to that extent that we see in China. But certainly what we see is, across the region the penetration of mobile banking and payments and truly the development of what has become ecosystems is tremendously powerful. And what we realized is that by going open architecture, opening most of our APIs almost 3 years ago and moving all of our key data to a new data lake and enabling to mine that data proactively has positioned us in a way that we can connect and integrate to all of these ecosystems that we believe are relevant to our clients.

So as I discussed this with my management team in Asia, success for our strategy is all about relevance. Are we relevant to the lifestyle of our clients? And that will be the key to determine who do we need to partner with, consistently how do we review our value proposition to make sure that our credit card, our loan is top of mind and that sometimes is direct or indirect. Indirect in the sense that we establish partnerships in which they can use our points to pay right on checkout or after checkout, where we provide a personal loan on checkout or after checkout. So that's an indirect reach.

But as we connect the dots in front of our clients, what we can do is customize offers by mining the data that we have. We can partner with corporate clients that are going through those same 17 million clients that we serve across Asia, and we can customize offers in a way that we position those offers in ways that you will recognize contextual to your lifestyle and the things that you do and accretive to that lifestyle. So you can use the benefits of banking with Citi in a very relevant, contextual way to your lifestyle. And that can be deployed directly through Citi or through our partners, and enabled throughout the region as you travel. And that's the power of the difference between the strategy we have deployed in Asia and some other strategies you've been listening to during the last day-and-a-half.

We have been able to establish ourselves in a path to scale beyond branches which have become more and more obsolete in Asia. Before we started to reposition our branch network 3 years ago, only 5% of our transactions were happening on branches. And that tells you how mobile banking and smartphone banking have really taken over the interaction with your clients.

In the Wealth Management space, we have transformed our relationship, from a regular branch to a wealth center, and we have empowered our bankers with tools, digital in nature, to be very transparent in the way we provide advice, but also very proactive in the quality of the advice our clients get and receive. And that has increased the productivity and the engagement with our clients. And again, we need to remember that our Wealth Management platform in terms of investment solution is very much open architecture. So we sell products that third parties build for us to distribute. And that of course, that transparency is tremendously accretive to our target market.

In Asia, we also continue to see that clients value advice, and they value having a relationship manager. So robo-advisory within our target market today is not really what our clients want. It might in the future, but not today. So what we did is that, as we reposition our branches, we've kept the relationship managers and move them from the branches to the hubs. So where you before had 3 or 4 relationship managers sitting in a branch, waiting for walk-ins to come in, today you have them in rooms anywhere between 15 to 60 or 70 of these relationship managers, all calling on clients with digital tools, and below where they are, they have a first class wealth center in which they can meet with clients, if clients desire to come and get advice in person. That's the power of the model, which is a scalable model for wealth across the region. And as I said, we are the second largest wealth management house as a result across Asia.

That connected with a very strong credit card positioning across the 17 markets, and the deployment of digital lending across that platform. And as I mentioned there in my brief introduction to the region, for us, digital lending in cards are complementary products. And what we have done is that these products by the way were products that we have for many, many years. What we've done is digitized the client experience. So whereas before, we offer, for example, on the phone a personal loan against your unused portion of the credit card line. Today, what we do is that after you make a larger than average purchase in your credit card, we pick that open data and right then and there we send you a message. A message that was sent through your preferred method of communication, WeChat, WhatsApp, whatever that may be, offering you a personal loan at that point in time, saying that we realized you made this large purchase, would you like to finance it. The difference is that this is contextual.

Before I would call you on an odd hour, maybe 7:00 PM, you're coming home tired, a couple of bags coming from the supermarket or whatever it is, it's the worst time to get a call, out of context, and probably you would say no. Now, once you make a large purchase vis-à-vis your average, you're much more prone to look at a loan and say, you know what, it makes sense. And we price it according to your risk profile. So again, what we do is that we enhance the relationship. If you say yes, we offer 180 days, we will offer 24 months or 18 months, rate adjusted. You say yes, you get a one-time password and the money is in your account right then and there. What that has done is that today more than 50% of our personal loans are originated digitally, and that the take-up from our clients has increased dramatically.

So it's not a new product, but we have digitized the experience, made it contextual or relevant to your lifestyle, connected through partners. So we're offering that same solution as you check out, for example, in places like India, you buy an expensive phone or a laptop at checkout, we offer a personal loan right then and there, in conjunction with Apple. Those type of solutions, we believe, are accretive to the relationship. So although we are competitors, the reality is that we're making a relationship deep enough and relevant to your lifestyle in a way that we are adding value consistently as you transact and live your life. And that has to be, again, relevant in 17 different countries, not just one. So that open architecture approach has paid tremendous dividends for us over the last couple of years.

ERIKA NAJARIAN: Great. So I thought I'd take a step back and ask the audience about what they think about the stock overall and how they value the global footprint when they think about the stock. So first question, next question on polling, in your opinion what could be the primary catalyst for Citi's share outperforming in 2019? One, achieving targeted full year RoTCE of 12%; two, consistent improvement in revenue momentum, especially in U.S. card; three, executing on its target to improve efficiency by another 175 basis points in 2019 regardless of whether this is revenue or expense driven; four, aggressive buyback activity, particularly with the stock at 1.1 times tangible book; and five, all the fundamental catalysts are in place, global headline risk or emerging market concerns need to dissipate for fundamental improvement to be reflected. So a few seconds left. And you believe the primary catalyst will be, interesting, 42% of you say, all the fundamental catalysts are in place and you just need the headline risk to dissipate, where 33% of you say that it's achieving a targeted full year RoTCE of 12%. Interestingly, none of you said more aggressive buyback activity. So let's go on to the next polling question before I turn it to...

FRANCISCO ARISTEGUIETA: That resonates with me a lot by the way.

ERIKA NAJARIAN: Good. This might resonate with you as well. How do you think about Citi's global exposure, particularly emerging markets when you value the stock? One, I value Citi on the entirety of the franchise and group level returns and earnings power; two, given stronger growth potential in emerging markets versus in the U.S., I assign a higher multiple to earnings that Citi generates from those regions; or three, I discount earnings generated from emerging markets as Citi tends to underperform U.S. bank stocks when global concerns emerge. Interesting to see. Okay. He gave you guys a pretty good – 54% of you say, you discount the earnings generated from emerging markets as Citi tends to underperform U.S. bank stocks when global concerns emerge; 33% of you say that you value Citi in the entirety of the franchise. Definitely need to have you respond here.

FRANCISCO ARISTEGUIETA: I'm hoping that after today the discount on Asia is a lot lower. Well, I think we need to continue to share and take you through what we're doing in emerging markets to make sure that that mindset evolves. So I think that if you talk to the management team, that is the core of our strengths from our point of view, and that's where the growth is likely to come in over the coming year, stronger actually than what anybody expects. It is a tremendous differentiating factor. You enjoy higher margins, it's tremendously relationship accretive as you bring stickiness to the relationship in a way that a single market would not be able to deliver, and bring scale also, that in a way is tremendously powerful and accretive to returns. So we've got to change that mindset.

ERIKA NAJARIAN: Let me ask you this way. How many global banks take the region as seriously as you do?

FRANCISCO ARISTEGUIETA: Asia?

ERIKA NAJARIAN: Yeah.

FRANCISCO ARISTEGUIETA: Well, I think that it's an interesting thing, because we've been in Asia for 115 years. And it's very much at the center and core of what Citi stands for as we support our clients as they go abroad. Many of our competitors didn't arrive to the region with that pursuit or that long ago. So the businesses we have are businesses that are long established, solid, and that has led to a very strong brand positioning. And that brand is what is supporting our consumer engagement to a degree that today we can compete like we do with very, very strong market share in cards in most of the countries we operate in or wealth management. So it's about protecting that brand and developing that brand over the years.

What we see is that most of our competitors tend to be strong in one or two markets, but tend to struggle to have a regional reach that is as strong as their strongest market. In our approach to it, we have been able to do that because of that longstanding commitment to the region, and how strong our brand is. And how we have diversified initially from serving primarily U.S. customers to today truly having a very balanced mix between Asian clients, European clients and Latin American and American clients. And as you compete, as you see our competitors, they tend to be much narrower. U.S. competitors tend to be focused on the investment banking piece primarily, and some TTS business but primarily investment banking. And Europeans tend to be more concentrated in a broader deployment, but in two or three markets rather than being true regional competitors.

And from the Asia point of view, which you would think, well, where are the Asian banks, in reality there are no true regional Asian banks today that can compete with our strategy across the region. And if you think about, for example, DBS that has that ambition, 80% of their EBT is still Singapore, for example. So that I think has a long way to go because as we know ourselves to build not only the presence, but make that presence a network requires a lot of effort and cultural evolution to ensure that you can deliver the value of the network in all of these countries seamlessly on behalf of the client. So it's not only being present, it's what you're able to deliver to the client, and that is where we excel versus either regional competitors or international competitors be it European or American.

ERIKA NAJARIAN: So, Francisco, you mentioned the word digitization several times during your presentation. Maybe, let's ask the audience how they think about your innovation efforts. So one last polling question, and then I'll turn it to you guys to ask Francisco questions, on the topic of innovation do you consider Citi's investment efforts to be; one, above and beyond what peer banks are doing; two, in line with the innovation and investments and efforts of peer banks; and three, below the innovation investments and efforts at peer banks. Few more seconds to vote. And you say, 48% of you say, in line with innovation investments and efforts at peer banks. Care to respond here, Francisco?

FRANCISCO ARISTEGUIETA: I think it's a fair assessment. I would probably push for differentiation in terms of the pieces of the firm you're looking at. I would put Asia ahead, for sure, from our competitors. And I think that the fact that we are so open architecture, deeply partnered into the way we deliver value for our clients, that gives us an edge, which is relevant to Asia, less relevant to the U.S. for example, or less relevant in Mexico, which is the other big Consumer foothold. Remember, of the 19 countries we have our Consumer business in, 17 are Asia. So for us, it was very important to – through an open architecture OpenAPI, partnership driven strategy, we achieve relevance. And I think that's probably less seen here in the U.S. and therefore we're here today – thank you for the invitation – to try to change that. But in essence, I would differentiate the way we're set up, and we're very much set up depending on what our clients want. Remember, that's another aspect of connecting with our clients.

If you ask me, if you deployed what you have in Asia in Mexico, would it be similarly successful? I think that Mexico is probably less ready in terms of the target market to absorb what we're doing in Asia. So it's very much to connect what we do with what our clients want. And the beauty of what we have is that the pieces of what we're doing in Asia can be taken separately to the different locations as they evolve. So for example, we moved the consumer head of Asia who has been my partner in managing this for the last few years to run the U.S. business. So he is bringing with him the pieces of the strategy that we believe are relevant to engage better with our clients in the U.S. That doesn't mean that the whole package is going to come. It will come to the extent that we believe is relevant to our target market here. And that's the power of what we're building, which is quite nimble, leverageable and common in the way we deploy it. But we'll deploy it only if our clients will certainly believe that it’s something they need or want.

ERIKA NAJARIAN: Thank you. Thought I’d turn it over to the audience for any questions for Francisco. One, in the middle, right here.

SPEAKER #1: Just curious if you could give us an update on what the status is of recruiting and cost in Wealth Management in Asia. It was not that long ago that it was kind of hysterical, but is that normalized or where do we stand there?

FRANCISCO ARISTEGUIETA: Well, I think it's a great question. A couple of thoughts first. I think that today, our preeminent position with probably one more bank allow us to hire who we want to hire. And that's very important in terms of really bringing in on to the platform the best talent there is. Two, we've been able to retain because of this transformation of how we run the business today is a very attractive approach for our relationship managers to stay and grow within the platform because we're not only growing the wealth piece within consumer, but very much in the private bank, which is growing very, very fast over the last, in particular, 2 years, but certainly over the last 3 years. In terms of how competitive the market is, it varies from market to market. China continues to be a challenging market to hire on any category, not just Wealth Management. But across the spectrum, what we feel, as I mentioned before, is that we have access to the talent we want, and we are able to bring them on board. We are paying competitively, and that for us is reflective of the efficiency improvement that I was able to showcase this morning. So we're confident we can continue that path.

ERIKA NAJARIAN: Any other questions for Francisco? Great. So for those of you that want to join us, we are having a breakout session if you would just follow us, same floor. Francisco, thank you very much.

FRANCISCO ARISTEGUIETA: Thank you, Erika. Thank you very much for the opportunity. Have a great day.

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