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HOST
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SPEAKER
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QUESTION AND ANSWER

JOHN MCDONALD: Great. Thanks, everyone, for joining. Let me get started. Very happy to have Mike Corbat, CEO of Citigroup, join us again this year. Mike, thanks for joining.

MIKE CORBAT: Thank you for having me.

JOHN MCDONALD: Appreciate having you back. I thought we'd start off talking about the macro backdrop. Citi's global presence gives you some good insight into what's happening in terms of global markets. Maybe you could talk about which regions of the world you feel better about, which you feel a little more cautious about and what you're hearing from clients.

MIKE CORBAT: Sure. I was thinking back to when I was here last year, and one of the things around this question that I talked about was the necessity to use multiple lenses as you look at the world. Can't just look at the world from an economic perspective. You've got to look at what's going on politically. You got to look at what's going on societally. And I think when we look at the world today, it's more important than ever that we take the broad approach to how we think about things. As you think of the world right now, it's pretty interesting that there's clearly some forces at work, and there are some things that just have to be wrong.

And what I mean by that is – I think the fourth quarter is a good example, and I think we're seeing it again – in many ways, there's some real fundamental disconnects going on between what the market is saying in terms of price and in terms of yields, and what we're seeing in many cases in the underlying data. So, whether it was yesterday's consumer confidence, whether it's employment, whether it's housing, even business confidence to a reasonable degree, all of those things, not just in the U.S. but around the world, are in reasonable shape. And yet, like the fourth quarter, the market again is prognosticating a continued or a rising probability of a recession.

We've kind of gone – and when we think about 2018, one of those years where we came in to the euphoria of tax reform, synchronized global growth, and we rode out the year with heightened recessionary concerns. I think that proved at least in the first quarter not to be right. And the markets rebounded pretty quickly off the back of that. But we're back talking about it again. And so, I would say you look at trade, you look at Iran, you look at Brexit, you look at a number of things out there, and I think it continues to weigh on people's minds. And I think the final piece that I would say is that to me as I have conversations, and people always ask where are we in this economic cycle, the honest answer is I don't know. I understand and I'm sure we all can think of reasons why it's different. I don't know if that's true. We're 10 years into it. But the markets trade that belief to be real, meaning that they just believe it's late cycle. And if you look at price action, price action today is much more to the downside than the upside. And I think people are questioning what's the catalyst that can keep this going longer.

So, again, in our fundamentals, we don't see it today. And I go back to the statement that I've said and I believe, right now as we look at the world, the biggest risk we have of recession is our own ability to talk ourselves into it, because we don't necessarily see that catalyst today. And, again, it's based on confidence and as we know confidence can turn quickly, but we don't see it.

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JOHN MCDONALD: Maybe you can talk a little bit about the resilience of Citi's business during difficult economic times. We were just chatting off-stage here about some difficult economies. In Latin America, your business did well. In China, you have more of a network business. Maybe you could talk a little bit about that.

MIKE CORBAT: Sure. So, one of the things that I guess politely put drives me a bit crazy is when I watch things go on in the world and our stock underperforms as a result of certain things, whether it's China or other things. And when you think of our business, I wouldn't necessarily describe our business as an EM or having a big EM component to it. It's a network business.

And so I was just last week in Argentina, and if you think of some of the challenges that Argentina has gone through recently in terms of inflation, foreign exchange volatility, challenged growth, a number of things, our business in many ways has never done better on the back of that. I think of what we've been through in terms of Brazil in the last several years, our business performing extremely well. And so when we see trade talks go back and forth – if there is a trade war, no one necessarily escapes that, but we're not outsized. And I think the uniqueness, the power, the resiliency of our network I think is underappreciated.

JOHN MCDONALD: Okay. So how would you size up Citigroup's performance last year in 2018 and so far this year? When you look at your financial results, how are they tracking relative to your multi-year goals?

MIKE CORBAT: So back in 2017, we had our last Investor Day, and we talked about trying to really accomplish a few things. One is some headline growth. And we talked about GDP, GDP-plus type growth, kind of 3%, 4%, headline revenue growth, good expense discipline, reasonable cost of credit and meaningful capital return. So as I think of 2018, the underlying growth in both our Institutional and our Consumer business was about 3%. Expense growth was minus 1%. Cost of credit was reasonable. We returned about $22 billion in terms of capital in the course of the year. We grew net income beyond double digits. And so in that year that I described, a little bit of pillar to post in terms of a strong start and I think an extremely weak finish.

I think the breadth of the contributions, our accrual businesses, combination of TTS, Banking, Lending, Private Bank, Securities Services generated about 9% revenue growth. And then our Markets businesses, obviously didn't fare that well. But when you compare our market-sensitive businesses to what went on, two things that can't necessarily be controlled is one is what's going to happen in the market and second is what's the size of the wallet in the market. But I feel good about those businesses because in both those instances, we took wallet share pretty much across the board in our Markets businesses, fixed income, equity, parts of investment or investment banking. And I think that the direction of the market is the direction of the market, so I think the things that we can control, I think we did a nice job at.

JOHN MCDONALD: So last year, you generated return on tangible common equity of 11%, and you have a goal that you express confidence in getting to 12% this year and 13.5% in 2020. What do you see as the key drivers go from 11% to 12% this year, and then to 13.5% next year?

MIKE CORBAT: Yeah. Well, that 11% last year was against a stated target of 10.5%. And it really goes back to the things, John, that I just described, is better revenue growth, good expense discipline, reasonable cost of capital, a reasonable cost of credit and capital return. And so when you look at our first quarter, we had a return on tangible common equity of 11.9%. Again, we had good momentum across a number of our businesses.

And in there, I think an important piece is the acceleration of our U.S. Cards business, 5% underlying growth in that business. That's taken a while to turn and get on that trajectory. I like that we've gotten that

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business back in balance in terms of promo balances, interest earning balances, and I think you can see in a number of our metrics that continuing and accelerating and we've spoken to that.

And then as I look around the world in challenging – parts of challenging times, Asia, revenue growth there; Mexico. And really all the pieces contributing across. So, I feel good about the trajectory into this year how we came out of last year with that momentum, and I see it continuing this year.

JOHN MCDONALD: So GDP-type revenues 2% to 3%, flattish expenses kind of the model with, you said, good cost of credit and capital returns. How much flexibility do you have to achieve this plan if things get more difficult? Markets are difficult, yield curve is flat. And how do you think about exercising that flexibility versus long-term goals versus meeting your current objectives?

MIKE CORBAT: So I would use the fourth quarter last year as an example, right? We didn't know that when you looked at what I describe as the velocity and the violence of what went on in the fourth quarter, in some ways almost unprecedented in my 36 years, we started to pull some of those levers, right?

Certainly, from a compensation lever, revenues come down, you can pull that pretty quickly. From a risk perspective, you can see in our capital numbers that we are fairly prudent in terms of risk on or, in that case, risk off in the fourth quarter and I think that helped drive our 11.9% common equity Tier 1 which was probably ahead of – in a more normalized environment likely where that would have been. We can pace and re-pace and reprioritize investments, and again I think on the cost of credit side, I think we've been pretty aggressive. When you think of aggressive in the sense of staying disciplined, because in financial services, it's not that hard to grow revenues if you really want to. You can loosen up your lending standards, and in the near term, you can ramp up revenues. I think you've seen in our Cards business, I think you've seen in our ICG business that we've stayed very disciplined and in fact really fought our way up FICO, fought our way up credit through the cycle and really not gotten pulled into a diminution of terms. And we think that over the cycle, that gives us the ability to outperform or to do well in terms of credit. And I think the other piece is capital, that we've got a good-size balance sheet, and we've got levers that we can pull in terms of capital we deploy and continued capital optimization.

But that being said, when that recession comes, we're going to have to stay smart as well because we don't want to back away from some of the important long-term investments that we have in our Payments, in our TTS business, so many investments that we've made in terms of our Cards business and other things that we think have and will continue through the cycle to give us good returns and most importantly obviously keep us competitive.

JOHN MCDONALD: And to the extent you have more expense flexibility now than you did a few years ago, why is that? You've talked about some stepped-up investment spending that you've gotten through and maybe some maturation of prior investments. Where are you in that crossover point?

MIKE CORBAT: So, a few years ago, we began an investment program where we talked about really investing in a couple things. One obviously was the investment in technology. And probably one of the neatest things about investment in technology is that most importantly, if you do it right, it increases your customer client satisfaction, but pretty uniquely compared to most things to that, it actually is cost reducing. And around these investments that we started a few years ago, we talked about hitting a run rate of about $500 million to $600 million of net saves. All of last year, we've got about $100 million or so, $150 million of that full year. First quarter, we got $100 million of that. And we think that that annualizes this year to probably be around $500 million and increases to $500 million to $600 million in 2020.

So, again around our ability to absorb inflation in parts of the world, or different pieces that are out there in terms of pressures around volumes and the growth, we think we can absorb that. And what we've talked about is really keeping at a minimum expenses flat over the cycle.

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JOHN MCDONALD: Yeah. So, why is the Street skeptical? In other words, consensus estimates don't give you full credit for reaching these goals. The Street models your earnings about 10% to 15% below the RoTCE targets. Where do you think the Street is most skeptical or most conservative relative to what you think you can do?

MIKE CORBAT: I think when we look at our numbers and compare them against some of the Street estimates or the Street estimates, I'd say – probably two areas predominantly. I would say one is revenue. I think the revenue growth, I think that the consensus is probably a little bit below where we are. And, again, we don't think ours is outsized around the numbers that we just talked about. And I would say the second piece is cost of credit where, again, I think we've talked on the Consumer side as an example in our Branded business, 3% to 3.25% and our Retail Services business is 5% to 5.25%. Of course those have some seasonality to them. I think we feel pretty comfortable this year on delivering those businesses in that range. And then if you look at ICG, I think we've got a pretty good track record through some different challenges there. And so, I would say those two are the predominant areas of differential.

JOHN MCDONALD: It's got a bigger ramp in credit cost than what you think is necessary, absent of course a big recession, or any downturn is that correct?

MIKE CORBAT: Correct.

JOHN MCDONALD: So, Let's talk a little bit about your operating businesses, maybe start with the Global Consumer Bank. In the U.S., can you talk about your Consumer strategy broadly, specifically how you're looking to combine your Card presence, brand strategy, new wealth management into an integrated Consumer offering and how digital plays into that?

MIKE CORBAT: Sure. Today in the United States, we operate a consumer bank that operates in 6 cities, 700 branches, 65,000 ATMs, and certainly, amongst our peer group has the highest deposit ratios of the group. We have something in some ways that I would define as being unique to us, and that is despite having a very targeted set of branch presences, we have around that a truly national presence in terms of our Card business.

So, just in our Branded Cards business alone, we've got about 28 million people that carry a Citi piece of plastic and are active with it. And when we think about the retail bank penetration rates around that, it's less than 10% of those cardholders have a retail account with us. But when we flip it the other way and think about retail accounts to carry our card, over 40% of those people have it. And so, what we've been looking at is digitally, and with the value propositions we have, how do we actually augment, supplement, convert cardholders from being simply cardholders to being multi-relationship clients to the firm.

So in there, we obviously have the ability and we have the information to go to our card customers, many of which have been customers of the bank for 10, 20 years or more. We know who they are, we likely know where they work, we know where they live, we know what they spend. And when it's not us, we know who their bank is. And so we can create very customized, tailored offers around ThankYou points, Double Cash Back, American Airlines miles where there's an emotional attachment to those.

And then supplement that with what we've done from a digital perspective. And when you look at our digital adoption rates and things that we're doing, albeit from a smaller customer base than the big three, we've got digital adoption rates that are increasing at a pace faster than our competition. And so our digital product is resonating. And so how do we actually take this national footprint that we have and convert that? And so very early in this process, but in the first quarter, we brought in about $1 billion of deposits through those channels. And I think as we look to the second quarter, I would expect that momentum to continue. So it's resonating in there, and again around this advantage that is unique to us, I think something pretty exciting for the future.

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JOHN MCDONALD: These folks that you're bringing in, are they in fact mostly card customers or some of them brand new to Citi overall?

MIKE CORBAT: Predominantly card customers, new to bank.

JOHN MCDONALD: Yeah.

MIKE CORBAT: They're either card customers or they're not customers of the bank, in those two buckets.

JOHN MCDONALD: How does the Citigold wealth management ramp into the overall consumer strategy?

MIKE CORBAT: So, obviously in the United States, predominantly, what we focus on is what we would describe as the mass affluent. So the value proposition around Citigold in terms of your bank or your service, the different offerings that we can give you, obviously the investments that we've made in digital and really allowing you to live your financial lives through a combination of digital, as well as analog in the cities that we operate, the hub-and-spoke system that we've put in with our branches and wealth centers, our investment in wealth management professionals which we've increased significantly over the past few years I think has been resonating nicely.

JOHN MCDONALD: So, in terms of the retail bank, you've done some downsizing and optimizing of the physical footprint. Where are you in that process and are you also building branches like some of your competitors are doing now? Can you talk about that branch footprint?

MIKE CORBAT: As I said, we're right at around 700 branches. I don't expect that number really to go down from here. We've invested heavily in the ATM network and now have 65,000 ATMs across the United States. And from a branch perspective, what we've said is that what we will do is as we implement the digital strategy and we build critical mass or the beginnings of critical mass in places, we're happy, we're excited to put a hub in, we're excited to put some branches in.

So, I would expect as that gets traction, for us to be out selectively supplementing those areas, so as an example as you can imagine in a place like Dallas where we've got hundreds of thousands American Airline card customers, if we're successful in terms of converting some of those, it would be completely logical. So, in movie parlance, the way I would describe it, it's not build it and they will come, but it's more of let's make this work and then we're certainly willing to invest and supplement that with branch footprint.

JOHN MCDONALD: We see some banks going digitally all over the country in pretty much any market. Are you still going to focus on urban areas or does this kind of liberate you from that or make it a more national clearly outside of urban areas?

MIKE CORBAT: I think we're going to focus on where we feel we've got the biggest advantage, and that is think about those banks when they go to Dallas, they're new to Dallas. When we go to Dallas, we have hundreds of thousands of people who are actually customers of the bank already. And so, when we approach you, I've got hopefully a value proposition that's resonated based on what we know about you in terms of your spending, in terms of how you've chosen to take your rewards and the things that you do. I can pre-populate your application right down to pre-populating the payment authorization from the bank that's been paying our credit card for quite a while. And so really trying to take all the pain points out. And so when other people go in, they go in truly de novo. When we go in, we go in with an existing relationship and are looking to add on to that.

JOHN MCDONALD: Yeah. So, turn over to U.S. Branded Cards. The revenue growth in U.S. Cards out of Investor Day kind of undershot your expectations, relatively flattish revenues for a while. And that

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seems to have turned the corner I think. In the first quarter, you had almost mid-single digit revenue growth on a core basis. Is that the kind of new run rate? What's helped accelerate the revenue growth there and what should we expect going forward?

MIKE CORBAT: I think coming out of Investor Day, what we had talked about was Consumer business and the Cards business that we believe could grow somewhere sustainably in that 4 percentage points of revenue growth area. To your point, coming out we didn't achieve that and I think the primary or one of the primary drivers of why that didn't necessarily occur is we kind of came out and pretty quickly we're in a rewards war. And rather than compete in a rewards war, what we did is made the decision to move towards promotional balances as opposed to putting lots of rewards out, we put promo balances out, felt pretty good about our ability to target and to flip those promo balances to revolve balances, but it would take time. I would say we were pretty successful in that in terms of onboarding those new clients. I think we surprised ourselves in terms of the pace of the promo Costco growth, and that coupled with rising interest rates put pressure in the near term on our revenues.

And I think what you've see now is we got through the fourth quarter, and now, coming into the first quarter, I think you've seen us hit a better balance in terms of promo to full revolve. And we think we can kind of maintain and grow that balance. And I think you've seen client acquisition and the different pieces kick in nicely. And so I think you've seen that underlying organic revenue growth start to hit stride. And so I think we feel pretty good about our ability to kind of get back to the levels that we had talked about in Investor Day in that business.

JOHN MCDONALD: So the mix of promo and go-to rates has probably stabilized from here, and volume should drive the revenues?

MIKE CORBAT: Correct.

JOHN MCDONALD: Okay. And then in terms of Card credit quality, I think you already mentioned you feel good about the existing charge-off guidance you've given in the Branded Cards. I think it's 3% to 3.25% and in the private label 5% to 5.25%?

MIKE CORBAT: Yes. And again, there's some seasonality to that for full year.

JOHN MCDONALD: Great. So how about International Consumer? I think in Asia, revenues were in line with the 4% outlook coming out of the Investor Day. And those have moderated a bit on weaker investment sales. What are you seeing in the core business in Asia Consumer?

MIKE CORBAT: The core business is healthy. And so, as you described, we came out of Investor Day, we've been pretty consistently in that 4% area. Obviously, in the fourth quarter and first quarter, we saw that come under strain. But if you feel the numbers back as we talked about on the earnings call, that is predominantly, if not almost exclusively, coming from the wealth management component.

And if you look at the wealth management segment in Asia, it's much more market- sensitive. And so, with the volatility that we've had, we've seen the pace of that business slow. The really good news is the underlying drivers of the business. We're continuing to grow AUM at a pace of 8%, Citigold 10% in that business.

So, the assets haven't gone away. They've simply chosen to take a more passive stance. And as things normalize, we'll see those assets put back to work, and we'll see the fee income on those assets come back. And if you go back and look historically, not dissimilar to some things that we've seen in the past.

JOHN MCDONALD: So you'd chalk this up to the market volatility and more conservatism in investment choices and investment activity among the consumers there?

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MIKE CORBAT: Yeah. Well, Asia is probably most out there on that spectrum of when things are good, they can be relatively aggressive, and when things get choppy, they tend to become fairly passive. And so, you can – that sentiment can change relatively quickly. But for us over the long term, the most important piece is to continue to grow that AUM because as they come back, they'll come back with us and those revenues will come back.

JOHN MCDONALD: And outside of investment sales, the core Retail Banking in Asia, the Cards, that seems to be chugging along in that 4%.

MIKE CORBAT: The Cards depository in those pieces, I think all showing good, healthy levels of growth around the areas that we talked about. And importantly, staying credit disciplined, and when you look at NCL rates, NCL rates in Asia remain under 1%.

JOHN MCDONALD: How about Mexico? You obviously have a big – large presence there with Citibanamex. In broad terms, can you talk about your initiatives in Mexico and how you feel about the environment down there?

MIKE CORBAT: Mexico is one of these places that I kind of go back because there's a disconnect, right? And the disconnect in Mexico manifests itself in a way where you've got a newly elected president, popularity rating 85% in the country; you've got a consumer that's probably as engaged historically as ever there. And when I go to the other side of the street, to the business side, I have a business community that's probably as disengaged as I've seen; and really, the dichotomy that exists between the consumer and business.

We've got a new populist president. And I think that Mexico and the world are trying to figure out exactly what this president means. So I would say not unexpectedly and I think very consistent with historic, typically first years of a president, growth in Mexico slowed, growth has been slowing. Candidly, it's probably slowed a bit faster than we would have expected. But again, the consumer has stayed engaged.

So I think we're watching it. And again, I think we're staying very disciplined in terms of how we're approaching the business. You saw in the first quarter, our revenues come off a bit. What we talked to about on the call and what we believe is that while revenues have come down and may stay down for a while, we think that between our expense and cost of credit line that we can continue to deliver the EBT and the returns that are necessary for us to hit our targets. So, revenue is probably down a bit. Expenses will come down a bit. Cost of credit will come down a bit. And I think the net effect of that is pretty close EBT or kind of spot on EBT to what we talked about but are slowing and we're obviously watching it closely.

JOHN MCDONALD: Okay. Let's shift gears and talk about the institutional side of the business, your ICG business. There the revenue growth has been a touch below what you're shooting for at the Investor Day but that's really been driven by markets. Where what you call the accrual businesses have been probably above plan.

MIKE CORBAT: Performing well.

JOHN MCDONALD: Yeah. What's been driving the strength there and what’s your outlook for those accrual business?

MIKE CORBAT: So, when you look, I talked about last year, we had 3% underlying growth against the target of 4%. And, again, in the year that we had last year, again, this pillar to post, I feel okay about that. And when you look at the accrual businesses, the combination of TTS, our Securities businesses, Lending, Private Bank, and some other parts of banking, we had 9% growth in that business last year.

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And I think it kind of goes back to the strategy that we talked about, is kind of deep client-centric approach to the things that we're doing, using our investment dollars around technology to kind of make sure that we're providing the types of services, that we're there. And I think from that, you've seen us with those approaches continuing to take share, grow revenue. So, one is I think is that combination of taking share. Clearly, in parts of those businesses, the higher interest rates than we had forecasted for a period of time have helped us a bit in those businesses. And I think the value proposition and the uniqueness of some of the things that we're doing I think are clearly resonating.

JOHN MCDONALD: Could you remind us specifically about TTS, the Treasury and Trade Solutions? What's so unique about that that's not copyable? I hear other competitors looking to build that out. What's so special about that business? How does it feed the other businesses?

MIKE CORBAT: So, one is there's clearly a lot being said, written about, talked about in terms of the payment space today. And I think that one of the big changes that's in the process of occurring is that traditionally, the economies were fairly siloed in terms of their thoughts of the way payments work, that kind of these big B2B pipes that were there. And then obviously, we had credit cards and we had other types of payments on the Consumer side.

I think what you're seeing is really a breakdown or a delineation or a lack of segmentation where many companies, whether it's Netflix or whether it's Uber or whether it's people in the energy space want that direct access and the consumer wants a direct access to them. And so, our ability to create that ecosphere of being able to connect C2B and B2C I think is very powerful because in particular when you go to new age companies today, they don't come and say, well, okay, you're going to do this and we'll – they want somebody who brings them holistic solutions.

And so, our ability around the fact that we're in the full spectrum in a big way, world's largest institutional money mover, world's largest issuer of credit cards and these pieces in between, the fact that we own our own proprietary network physically on the ground in 100 countries with a banking license and have been in most of these countries for decades, if not longer, the fact that we're a proven operator in terms of the things that we do and that we kind of occupy share of desk, share of mind in terms of the treasury functions of these companies, and as they look to expand and to think about the things that they're doing, we're a very natural partner for them to approach to work with. And so again, we don't take our position for granted at all because it's an attractive space and people are going after it. But from our perspective, how do we actually take this advantage that we have and continue to accelerate with it. And I think that you've seen in up rates, down rates, stronger economic times, weaker economic times, this business has shown I think a tremendous ability to continue to take share and grow.

JOHN MCDONALD: And how about on the Markets revenue side. I mean obviously the industry wallet has been disappointing over the last couple of years. Can we get a comment on the second quarter Markets environment and what you're hearing from clients and seeing in terms of activity levels?

MIKE CORBAT: Sure. So our CFO, Mark Mason is going to be speaking at a conference in a couple of weeks. And so he'll kind of lay out specifically what's there. But I would say that more broadly, and then I'll get a little bit more granular, is one is that the Markets realistically have shown the ability to come back pretty quickly, and wallet to grow pretty quickly once we start to see some trends. And I would say in periods of uncertainty, things tend to become pretty muted. And so obviously, we've been in this period the past year of kind of pillar to post in those, and clearly trading revenues and wallets right now are down.

I think, as you think about the intermediate and longer term from a cyclical moving to a secular perspective, is that as QE starts to dissipate in places over time, I think the roles the governments have played in terms of liquidity probably start to wane and it's probably going to be more incumbent upon the banks and the people in this space to be providing some of those things, some of the financing, some of the liquidity that have been supplanted by parts of QE. And so, I think we see over time that there's a resilience. And from our perspective, what we've tried to do is to continue to take share in this space and take it smartly, right?

But I think that the advantages that we have in terms of scale, the advantages that we have in terms of footprint, and the advantages that we have going back to the TTS point around linkages with our business in terms of thinking about our rates and currencies business and what percentage of our volumes actually come off of our TTS flows and how do we bring them together and deliver it. So, my expectation is that we'll likely continue to take share, we'll go up and down with the market, but I would expect that we should either match or probably more importantly outperform over time.

JOHN MCDONALD: How about that uncertainty in terms of corporate confidence? Does that also weigh on that as well? And has that translate again broadly to kind of businesses like M&A and underwriting?

MIKE CORBAT: I think we've seen – and again, last year was an example. I think we came into a pretty euphoric start in terms of the tax reform in the United States and I think engagement out of the C-suite. I think by the fourth quarter, those same suites of offices were pretty rattled of not necessarily knowing where the economies were headed. I think in many cases, that fundamental disconnect, the story I tell is I went to the Davos this past year and one of our board members asked me the question, they said, when you go there, what are you going to do and what are your expectations? I said, well, I always create my list of things I'm trying to solve for the questions I have, and number one on my list is this fundamental disconnect between what the markets are saying in terms of price action and what we're seeing through our lenses, we think some pretty good lenses, and they have the same conversations with businesses from different industries and different places in the world.

And they said, well, what do you think the answer will be? I said I don't know, but I hope that everybody is as bearish as they can be. And they ask the question, they said why would you want everybody to be bearish? I said because Davos is always wrong. Always wrong.

And so I got there and what was interesting is I think everybody arrived with the same question. It was pretty early in the year so it was pretty negative. But conversation after conversation – don't see it. We don't see it in our order book. We don't see it in our engagement. We don't see it necessarily in those pieces.

So eventually that recession will come, but again fast forward to today, the engagement and the things we're seeing don't tell us that it's right there, but that is unsettling to the C-suite because they're not making investment decisions over the next 90 or 180 days. They're making investment decisions over much longer cycles. And they want to see some of that stability. But, by the way, when that stability comes back, I think you see these businesses engage around a willingness to do things pretty quickly. I think with M&A, I think being a really good example of that.

JOHN MCDONALD: Great, so we talk a little bit about capital management. You made a lot of progress reducing excess capital last few years and it looks like you're two-thirds of the way towards your goal of returning $60 billion over a three-year CCAR process. So as a result, your CET1 ratio has come down from 13% two years ago to 11.9% as you mentioned earlier. As that 11.9% approaches your goal of 11.5%, how do we think about capital return over the next few years?

MIKE CORBAT: So, a few years ago, we said – I don't know if I would necessarily call it a goal, but a target, an area that we think is the right place to run the firm and that's approximately 11.5% Common Equity Tier 1 with an acknowledged number of things out there between SCB and some of the things that in some ways will – that may implement themselves. The way we think that we'd thought about capital return I think remains very consistent to the way we've spoken about it historically. One is we think our stock is cheap. We're going to continue to buy our stock. At the same time, we recognize that – and want

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to be competitive from a dividend yield perspective. So, I think when you look at the big bank peer group, we're right there and we will stay competitive in terms of our dividend but we will be continuing to use the outsized amounts of capital return to continue to buy back shares.

And if you look when I became CEO, we had somewhere around about 3.2 billion shares. I think we're now around 2.4 billion shares. And that's going to continue to come down. And so I go back and you think of a bit of revenue growth, expense, cost of capital – or cost of credit and capital return with it continuing shrinking denominator. It gets to be a pretty powerful multiplier in terms of EPS as we go forward.

And then I think as we normalize kind of the components of the capital that we're returning probably changed a bit. And so we had significant excess pre-tax reform, significant DTA and significant pieces of wind down where we are generating big pieces or parcels of regulatory capital. I think going forward as we normalize ourself in that area of 11.5%, the two primary components of capital will be earnings. And then from a DTA perspective, we talked about our ability to probably use about $1 billion to $1.3 billion of that. Those two pieces. And I think you'll start to see our levels normalize around some of our peer set of coming back down below 100%, obviously continuing to use some of that capital for future growth, but obviously returning the rest.

JOHN MCDONALD: Yes. So even if it’s not 2020, and you’re holding your capital steady still generating something in the high-teens between the earnings and the DTA.

MIKE CORBAT: Absolutely.

JOHN MCDONALD: And why is the 11.5% the number? And is there a risk around that with SCB. Do you have some cushion in there for whether the GSIB coefficient rose on you or the SCB turned out to be a harsh final result.

MIKE CORBAT: Well, I do take a bit of solace and comfort in the fact that Chair Powell, Vice Chair Quarles, each publicly in their testimonies, have talked about their belief that big banks are probably right around where they need to be in terms of capitalization. And so as I think we look at those pieces, I think they'll be in my opinion some pluses and minuses in terms of how those will be implemented. And I think candidly, it's why it's probably taken longer than we might have expected.

I think the Fed is very conscious and probably wanting to get that right. I don't think any of us are necessarily asking for capital to go down. But at the same time, I don't think any of us today see it necessary for capital to go up. And I think the Fed and the other regulators are trying to figure out what that implementation looks like.

JOHN MCDONALD: Yeah. And your actual minimum is closer to 10.5%. You have 100 basis of buffer that you add on.

MIKE CORBAT: And we carry our own buffer on top of that, which we believe in the environment and kind of with the pieces still out there is the right thing. And as things get finalized, we'll obviously continue to dial that in.

JOHN MCDONALD: So, when we look at your stock and the valuation, what are some of the things you think about besides being frustrated about the EM label? So, the stocks rebounded nicely from the December sell off but still trades at a significant discount to money center peers and really virtually all of the bank stocks, trading at just about tangible book value. What do you think is misunderstood or underappreciated by the Street?

MIKE CORBAT: I think one is probably a bit of the skepticism that's there around the earnings and earnings trajectory and increased capital returns. So, if you look at – and all of you I'm sure track this and

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follow it, but when you look at the R-squared around return on tangible common equity and price to book, they've probably historically never been higher.

And so, what I would describe is that we have a price to tangible book today that reflects where we are, call it 1 times tangible book, somewhere right in that area. 10%, 11% return on tangible common equity. And I don't think it gives any credit towards the future. I think point one.

I think the second thing is that we continue to trade with this EM discount opposed to a network premium, right? And I think we've got to continue to prove and show that that's there.

And I think the third piece around it is the evolving composition of our business mix. And we're a very different company than we were seven, eight years ago when you think about where we make our earnings and where our earnings growth is coming from, right? We came out of the crisis knowing that kind of made a bet around being a bank. We had, relatively speaking, an outsized Markets business and an outsized Cards business. And I think we've been doing a nice job of growing in the annuity revenues around those at the same time of making sure that those are healthy taking share businesses.

And so, when you look at kind of where we are and you think of some of the spaces that we operate in, these are places that a lot of our competitors are targeting, places they want to be. We're there, we're the incumbent. In many cases, we're the dominant player. And yet, I don't think the market recognizes that.

JOHN MCDONALD: Yeah. I think it's a great point about the business mix, because you are over indexed relative to most cards and investment banking that tend to be lower PE business. Some of the parts, you get a little bit of that discount. That mix will evolve as the accrual businesses grow and where you're investing. Is there any inorganic way to change your business mix that you think about, whether it's M&A on either side or anything to accelerate the business mix operations?

MIKE CORBAT: Well, I think from an M&A perspective, we're probably much more focused on asset-type purchases than whole businesses. So, when you kind of look at the two pieces, one, I would say, when you look at the Consumer business, I'm not all that excited going out and paying a multiple of book to buy a bunch of branches and to buy somebody else's antiquated technology.

On the ICG side of things, we have that scale. We have the network. So, from our perspective, we think that our money spent – our investments made are actually much better organically than inorganically. But as in the case of Costco, as in the case of L.L.Bean, as in the case of other things that have presented themselves where we can go out and get those bolt-ons at reasonable price points and bring them in and on a risk-adjusted capital return basis they make sense, we're happy to do that, and obviously, we've got plenty of capital to be able to do that.

JOHN MCDONALD: It's interesting. As you're answering, I got a question from the audience on the card here about Retail Services or your private label card, as some people refer to it. Can you just talk about the attractiveness of that business, how that business is evolving and changing into maybe more of a partnership business? And here, the question on the card is, it just a higher volatility business that maybe you should think about getting out of and improving the mix? Is that one of the things that hurts on a sum of the parts basis?

MIKE CORBAT: Well, when you look at our Retail Services business, and we've got some terrific partners in that business, it's very different from your Branded Card business, so in the case of Home Depot or Best Buy, our client per se is not necessarily the end user. It's the enterprise.

And when you think about today of the way e-commerce is evolving, the competitiveness in terms of pricing and value proposition and people trying to seek brand loyalty, you've seen many merchandisers move towards their card as their cornerstone or their stake in the ground of trying to grow that. I think in

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the old days, when you kind of go back pre-crisis, it was a nice-to-have. But I can tell you today that our engagement with our partners around digital engagement, product offerings, all of those pieces is critical to really who they are and their growth as they compete in a hyper competitive world.

And I think our positioning in that space is effectively a duopoly in that space today around a couple providers, extremely efficient, very low cost of acquisition, we share losses with our partner and clearly provide some unique value. And by the way, it's a good return business. You've got to be very careful in terms of your credit, and I think we've spoken very publicly in terms of how we approach credit in that segment, in terms of where we draw the line in terms of our lower bands. But as you think about where the world's going in terms of payment, to having that complete wallet, again, that ecosphere of the consumer through the business, engaging with the consumer, creating the value propositions that work all the way back through the supply chain and trying to create that connectivity, I think that ecosphere is unique and I think that ecosphere over time has a lot of value as payments continue to evolve.

JOHN MCDONALD: That's helpful. A couple of questions just around the tech spend. So, where are you on tech spend today? How do you benchmark where you stand versus peers, and how much are you kind of spending to run the bank versus save the bank? Sorry, change the bank not save the bank. And then, just one question we're kind of asking across all the different industries today, is there one thing you're investing in today that will have the biggest impact in five years in your mind?

MIKE CORBAT: So we – I think it might have been here, John, that we actually kind of broke the headline that we're spending about 20% of our operating budget. Our operating expense is a little over $40 billion a year. We're spending about $8 billion a year. And as we think about that spend, it goes into really three buckets: run the bank, grow the bank, protect the bank.

Probably, the fastest growing expense on a relative basis is the protect the bank and the cost of cyber, the things that we're doing there. And obviously, what we're doing in that tech space is actually using the money and grow the bank to shrink the cost of running the bank. And so, going back, we talked about this investment program that we had. We started a couple of years ago. Last year, we crossed the inflection point of actually getting net saves on that. This year, we've talked about $500 million, $600 million worth of saves coming from that. So, increasing customer client satisfaction, making sure we're staying competitive digitally with what's going on, and at the same time, reducing costs. And I think from a bank perspective, one thing we've got to be very mindful of when we think of the competitive landscape, and maybe this goes to the second part of your question, is the expectations of our customers and clients is not best in bank, but it's best in life experience. Why is my bank experience not like my Uber experience or my Amazon experience or whatever it may be. And so that's certainly where, as an institution but realistically as an industry, we need to go right in there.

And then if you think five years from now, I think it's this ability to live your – if you choose to and it likely happens before five years but your ability to live your financial life completely untethered from bricks and mortar. When you think of what's going on in digital, when you think of what's going on in real-time payments, if you think of what's going on in terms of tokenization and how that will play in the rest of your life – and again, I think that in there, there'll be the expectation that people will want the physical and the digital. But if you choose to live your life completely attached from physical infrastructure, that's going to exist.

JOHN MCDONALD: Great. Well, Mike, we're out of time. Thanks very much for joining us today. We really appreciate it.

MIKE CORBAT: Thank you very much.

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