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HOST
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SPEAKER
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QUESTION AND ANSWER

RICHARD RAMSDEN: Okay. So, good afternoon, everybody, and welcome. We're very excited to have Mark Mason here who is CFO of Citigroup. Mark has been with Citigroup almost 19 years, and he became CFO earlier this year, and I think he knows many of you in the room. Before becoming CFO of the group, he was CFO of ICG and he previously ran the Private Bank and Citi Holdings, so he's very familiar with a lot of the operations at Citigroup. Since Mark has taken over, Citigroup has actually outperformed the BKX by 7%, so congratulations. That's a very good start. And he's going to tell us how he's going to keep that outperformance continuing over the next years. So, Mark, thank you very, very much.

MARK MASON: Thank you, Richard. Thanks for having me.

RICHARD RAMSDEN: Thanks for joining us. I thought a good place to start would be just some of your thoughts around investor sentiment at Citigroup, because clearly the investor sentiment of recent performance of the stock seems to be very closely tied to the global macro environment, with exposure to emerging market headlines in particular. But when I look at the earnings volatility, it doesn't seem to be as impacted.

MARK MASON: Yeah.

RICHARD RAMSDEN: So I thought it'd be just useful for you to set out how you think investors should think about your emerging market business, and how you manage risk across your footprint, and perhaps how that's changed over the last 5 or 10 years.

MARK MASON: Sure. And I think when you think about Citi and our global footprint, you really have to think about our target client strategy. And so, our client strategy is really largely around large institutional, corporate, and investor clients, multinationals and investor clients. And when you think about that type of strategy, our existence in emerging markets is largely around as a node on our network. So we've got these large multinational clients. They have a presence around the world, as we are in 98 countries or so. We exist in those 98 countries to serve as a node on our network to provide those clients, primarily their subsidiaries, with their needs around cash management, around FX, around local funding needs, and the like.

On the consumer side, we target largely affluent or emerging affluent clients. And so, when you think about that dynamic, it shows up in our credit performance. And our credit performance in both developed markets and emerging markets has been very, very stable. And so, part of that is, again, when we target those clients, over 80% of our corporate clients are investment grade names. We're serving their subsidiaries. When we target the consumer clients, we're targeting the higher end, those affluent type clients, and that shows up again in the credit performance.

That strategy affords us the ability to grow with multinationals as they enter into new markets. It affords us the opportunity to leverage the capabilities that we've built out in one country or one region across the rest of the world. And on the consumer side, it allows us to capture the growth in those emerging markets where you have, in many instances, an untapped financial market opportunity. We can actually grow with those clients with the products we have around the world.

RICHARD RAMSDEN: Okay. So I think that's a really good segue into what you're seeing. Well, look, I think the theme so far at this conference has been just the strength of US consumer spending and just how good confidence is and how optimistic people are around at least the consumer piece as we head into next year.

MARK MASON: Yeah.

RICHARD RAMSDEN: Obviously, a much more mixed kind of view on the corporate. Can you compare and contrast what you're seeing in the US to the other markets that you've got a material presence in, so both pieces of Asia as well as perhaps Mexico? And compare and contrast consumer versus corporate in those markets to the extent that it's kind of...

MARK MASON: Yeah, sure. I mean I guess I'll start broadly. Overall, things feel pretty good overall. And there are puts and takes around consumer versus corporate. But in general, the growth is slower than it has been. But our economists are forecasting, call it, 3% global growth with more of that in emerging markets than in developed markets over time.

Then you look at the consumer, the consumer has been remarkably strong and healthy. We've seen that sentiment both in the US, as well as in other regions and parts of the world where we operate. And you can see it in the indicators. You can see it in the unemployment statistics. You can see it in the credit performance again, and that's been able to sustain itself through the course of the year.

It is a slightly different perspective from the corporate side. And if you think about the uncertainty that's still in the market, whether it be trade or Brexit or Mexico's slowing GDP, those things are creating a sense of uncertainty and a corporate cautious sentiment, if you will. And so, we're certainly seeing that. We remain engaged with it.

RICHARD RAMSDEN: So, how does that manifest itself when you see that – is that just in terms of the lack of appetite to borrow or how does it...

MARK MASON: Yeah. It manifests itself in a couple of different ways. One, if you think about the trade impact and the dialogue that we're having with customers around supply corridors and trade corridors and how they're thinking about their supply chain and what continued trade wars or rhetoric could mean for that. So, you hear it in the narrative. It also impacts the performance that we see in investment banking activity and kind of a cautious sentiment in terms of transactions, and the wallets are down versus last year, and I think that overall sentiment plays through those variables.

RICHARD RAMSDEN: Okay. Okay. So, we'll come back to some of the other geographies in a minute. But let's move on to the financial targets because I know that this is a focus of investors. So, you're very close to the 12% RoTCE target this year. But as you know, market expectations for next year are a long way below the 13.5% that you set out at the Investor Day three years ago. As you go through your budgetary process, do you think 13.5% is still the appropriate target? And can you walk us through the different pieces that get you closer to that target relative to where the market is?

MARK MASON: Yeah. Look, I guess, the way I think about it is progress, right? Progress is the word that I would point to first. And I what I mean by that is if you look back over the past couple of years, the past few years, so think back in 2016 – we'll start with returns – we had an RoTCE of about 9% adjusted for the DTA. 2017, we had a 9.6% return. Last year, we had a 10.9% return. It was 40 basis points above the target of 10.5%. That idea we talked about at Investor Day of return on and return of capital, we're making meaningful progress against that. Return of capital, we talked about $60 billion over three CCAR cycles. We're on track to do that. So, progress, as I think about it, has been a theme for us.

The second thing that I'd point to is that the environment is very different than it was in 2017 when we set these targets. And we've been able to manage and navigate through a different environment over the past couple of years, including this year where we've seen rates go from an environment last year where rates were increasing to one where we've had three cuts this year, and we've been able to navigate that and get to a 12%, at least year- to-date in terms of our return performance.

There's no doubt in my mind that the rate environment will impact our 2020 planned budget as it comes together. It will certainly have an impact. What I feel good about is our ability to still deliver or continue that theme of progress. As we're pulling the budget together now, we are focused on continuing to deliver on that theme.

I also feel good about some of the underlying factors that are required to support that progress. So, if you think about the trend we've seen in our consumer performance, 4% underlying revenue growth through year-to-date in every region. You asked me earlier about regions. We've seen it in every region. The underlying growth, when you look at our ICG franchise, those accrual and transaction-type businesses, 5% year- to-date growth.

Even in our market-sensitive businesses, in a wallet that's been down, we've got flat revenues. We've been able to take share there. And so, when I look at those things through third quarter year-to-date, I feel good about many of those as we go into 2020, so continued top line growth, notwithstanding pressure that we will expect to see from a rate environment.

We talked about a target for 2019 of flattish expenses. I talked about that earlier in the year. And underneath that, ensuring that we are able to fund the investments that are required to capture that growth and maintain a competitive advantage. And so as I think about 2020, looking towards a similar dynamic in how we think about that expense line.

And so, to sum it up, I feel good about the strength that we've seen this year and the continuation of it, and I feel good about the prospect of us delivering on progress in 2020.

RICHARD RAMSDEN: But the 13.5% itself may change. Is that a fact?

MARK MASON: We're working on that. We're pulling it all together. There are obviously levers that we'll pull, but we're focused on making sure we continue that theme of progress.

RICHARD RAMSDEN: Can you touch on the expense savings? I think you talked about $500 million to $600 million of expense savings this year. It looks like you're going to be sort of at the higher end of the range. I think you've got another $500 million to $600 million that you've talked about for next year. How confident do you feel about those? And perhaps you can touch on two things; the first is that, where are they coming from and how easy is it to extract cost savings just given that you've been doing this now for a while. But also, what's your ability to increase those cost savings as the revenue environment is weaker?

MARK MASON: Yeah, sure. So, we did talk about $500 million to $600 million of expense saves in 2019. We are on track to deliver on the high end of that. When I think about where that comes from, there are a couple of different areas. But if you think about some of the investments we've been making in our digital capabilities, those types of investments not only deliver an ability to provide competitive solutions to clients, but it also allows for us to do that in a lower cost to serve way. And so, our investment in digital and technology, that's improved. The numbers we see around e-statements and e-payments and things of that sort, it's improved our cost of acquisition in terms of new customers that we bring on. You've heard a lot about our digital deposit growth that we've seen.

And it also helps our investment in technology, helps to improve the overall efficiency of the operation. So, you think about some of the investments that we're making in data or in our platforms that allow for us to do less manual touching and less reconciliation, and from a finance point of view those things help in terms of the cost structure. Then, there are more traditional things like low-cost locations, consolidating the data service that we have, and all of those things contributed to the savings that we're realizing this year.

When I think about next year and the $500 million to $600 million of more savings, you can look at some of the organizational simplification that we've done through the course of the year. You can start on the consumer side, which really started towards the end of last year where we brought our Branded Cards and our Retail Banking business together. That creates opportunities there. You can then kind of move over to our Institutional Client Group where we brought our Rates and Currencies business together from a management point of view.

We also brought our Banking, Capital Markets, and Advisory teams together, and those create opportunities for savings or reinvestment as well. And then most recently, we've talked about – as we've seen the wallets contract in different parts of the business, we've adjusted capacity accordingly. And so, those things will help to deliver on 2020 as you asked about, and the expected saves and efficiencies that we can expect there.

RICHARD RAMSDEN: Okay. So, before we go into the businesses in a bit more detail, but perhaps you can just give us an update on the current quarter, how the trading business is doing, and perhaps anything else you want to update us on in terms of the things we should be aware of for Q4.

MARK MASON: Sure. So, when I look at the investment banking business and market activity, market activity is certainly lower than it was last year. The wallets are down for the industry. As I mentioned earlier, we continue to have good dialogue with clients. We expect to continue to take share, but that is likely to equate to investment banking revenues that are flat to slightly down versus last year. On the markets side, if I look at fixed income and equities revenues, just given the fourth quarter we had last year, we are likely to be up in the high-teens, again, in light of the fourth quarter we had in 2018.

And then, I guess at the top of the house, so if you think about that fourth quarter last year and some of the levers we pull to bring down expenses in the quarter, we're likely to have a year-over-year – we'll definitely have a year-over-year expense number for the fourth quarter that is up. That said, sequentially, we expect our expenses to be down, as I've talked about, not quite as much as originally intended, but to be down sequentially. And total expenses for the year in line with the goal that we've set, so flattish as I've mentioned before, but certainly better than last year, thankfully.

RICHARD RAMSDEN: Okay. All right. So let's talk a little bit about the consumer businesses. I thought, look, a good place to start would be Hong Kong. That's obviously a very important market for you. I think you've got $15 billion of loan exposure in Hong Kong on the consumer side. I think you've got $50 billion of aggregate exposure. Obviously, the escalating tensions have continued for a lot longer than I think people had anticipated. What sort of impact is that having either from a business standpoint or a credit quality standpoint as you look at it?

MARK MASON: Yeah. So, we've been in Hong Kong for over 100 years. We've got about a little less than 5,000 employees there. We've got about 19 branches. As you mentioned, we've got about $15 billion in consumer loans. And, look, the industries that are likely to be most impacted by what we're seeing going on there are likely to be tourism and hospitality and retail-type businesses, and it certainly can play through to the cards business.

To date, we have not seen any material impact on the business that we have there. We haven't seen flight in terms of deposits or anything like that, and liquidity and capital is still very sound. We're obviously watching it cautiously. We obviously have continuity of business plans in place in order to ensure the operations continue should we see undue pressure there. But we haven't seen a material drag on the business performance to date.

RICHARD RAMSDEN: Okay. And your anticipation is that it's unlikely to have a material impact unless things get materially worse or?

MARK MASON: Things have to get materially worse.

RICHARD RAMSDEN: Okay. So, let's talk about North America. So, a couple of things. I mean, the first is I think – the North American Branded Card business has been a real bright spot, really over the last, I guess, 18 months now. Net interest margins are up 60 basis points year-on-year. The loan growth is actually pretty good. What are you seeing today in terms of conversion trends from people as they roll off promotional balances? And what's your expectation for loan growth and further net interest margin expansion given that it is above the top end of the range I think you had anticipated last year?

MARK MASON: Yeah. So, you're right, our Branded Cards business has been performing very well. It is on the heels of us having made significant investment in our promotional offers that are now kind of maturing, if you will, and converting into average interest earning balances. We've seen continued increases in loan volumes there. So, this quarter, the third quarter, we grew by 3%. The second quarter, I think, it was 2% or 1%. So, we've seen continued momentum in loan volume, which is good.

In fact, through the holiday season that just passed from kind of Black Friday through to Cyber Monday, our spend was up some 17% or so. So, really strong spend versus certainly more significant growth than we saw last year for sure and very strong there.

So, we expect to see continued growth in our Branded Cards business, but likely to come from the loan volume more so than the net interest revenue percentage continuing to grow as it has. We expect that to stable out, or to stabilize, I should say, through the end of 2019. And so most of that growth should come from volume.

RICHARD RAMSDEN: Okay. So, the margin expansion piece, is that what you think the volume growth?

MARK MASON: Yeah.

RICHARD RAMSDEN: Okay. So let's talk more broadly about the strategy in the US Consumer business. You've announced a couple of joint ventures, and I've been really interested to get your take on it. You did one with American Airlines. You also did another one with Google on checking accounts. Can you talk about how those fit into the broader strategy of what you're trying to do on the US Consumer business? And I guess really the question is, look, if you successfully execute on the plan, what does the US Consumer franchise look like in, let's say, five years' time?

MARK MASON: Sure. So, again, I've mentioned this is a little bit earlier, our Consumer strategy, we've really moved from a product-siloed way of running that business to more of a client-centric model when we brought together the Retail Banking and the Branded Cards, and that really allowed for us to think about how we can deepen the relationship with the Consumer clients that we have. And if you think about that and, as everyone knows, we have a light physical footprint, we have a little bit under 700 branches, but if you look at just the Branded Card customer base, we've got about 28 million or so card customers.

And so, part of that strategy is how do we actually deepen the relationship with those customers. We are in single digits in terms of having penetrated them with other products that we have. And what we've been able to do through the course of the year, I think, is demonstrate an ability to get some traction there. We've raised at this point north of $5 billion through that digital channel, $5 billion of deposits, and two-thirds of that are kind of outside of those six core markets that we operate in, and probably half of that number are new to the bank in terms of don't have a retail relationship with us.

And so, good traction. But that not only reflects good traction in terms of being able to expand the relationship with those customers and bring on new customers, but it's a proof point for the digital capability that we've invested in. And that's important because demonstrating an ability that enables us to get to the customer in a way that they're responding to is something that we can then replicate in other parts of our franchise and we can replicate with other products like Flex Loan and other products that we've introduced. And so, very good progress, I think, in terms of executing against that strategy.

To kind of get into your question a little bit about Google and American Airlines, one way to think about it is if you think about each of these populations of customers as opportunities for our firm now enabled with this digital capability. So, I mentioned the 28 million kind of branded card customers. We obviously have a partnership with American Airlines and we've got great customers there who are very responsive to the rewards programs that we have around miles and what have you, and the extension of this relationship allows for us to offer them other products and build value-based propositions, now having an understanding of what they're looking for in the way of rewards. And so, what that means is we can access a customer that's an American Airlines customer. We can offer them 50,000 miles if they would consider opening a new retail bank account with us. And so, that's another population, if you will.

Think about Google as being yet another ecosystem of hundreds of millions of potential customers that we, with existing capabilities, can offer the opportunity to open an account with us. And we're experienced at looking at the data and getting to know these customers and determining whether we want to do more with them, right? And so, this is yet another population, if you will, that we can leverage our technology and investment with to grow.

And similarly is the case with our retail services partners and those partners that we have. And getting access to the underlying customers, we're able to leverage all of that.

RICHARD RAMSDEN: So, I know privacy is, obviously, really a focus of this data and data usage. What does Google get to view of the customer data that you'll have through those checking accounts?

MARK MASON: Yeah. So, these are obviously Citibank checking accounts that will be opening. So we will have all of the personal information around a customer that you would normally provide to open a bank account and we'll obviously go through all of the appropriate checks and balances to ensure that that is done in a way that abides by all of the guidelines and rules and regulations. What Google will have is more information around what ultimately happens post the search, right?

So, if you think about you go and you do a search, you're looking for a certain product, you're then taken to that site. You decide to buy that product. You access our bank account to make that purchase. Google will have information around which product you ultimately chose and the idea that you actually executed on the transaction. They will not have that underlying banking information around your account.

RICHARD RAMSDEN: Okay. Let's talk a little bit about ICG. So, look, the Treasury and Trade Solutions business, obviously, is one of your best franchises. I think it's $10 billion of revenue a year. It's got very, very attractive margins. It's also shown very good growth. Can you talk about what the strategy is from here in terms of growing that business? And can you also touch on how the competitive landscape is evolving because it does feel as if a lot of banks are trying to develop a Treasury and Trade Solutions business themselves? So, have you seen the competitive landscape change in any way?

MARK MASON: Yeah. So, you're right. This is core to our Institutional business. I mentioned earlier, we're in 98 countries. We have the largest proprietary payment network of any financial institution. We cover the large multinationals. That gives us an opportunity – you mentioned where there's growth. So, I think, when we think about growth, that opportunity comes from both our existing clients. You think about clients that are in countries around the world, how can we grow with them in terms of entering into new countries or markets where we don't have a presence with them today. How do we ensure the linkage to other parts of our franchise, like our capital markets business and FX capabilities in particular? Note that there's a growth opportunity there, more with existing clients that we have.

There's also a growth opportunity as it relates to new clients. So, new clients that go global are a lot faster than they used to. We're well-positioned to do that for and with them in partnership. We've got banking licenses on the ground. We've got expertise on the ground. So, there's a new client lens to this as well.

I also think that – you mentioned the competitive landscape. So, while we are all very proud of the position that we have with this business, we're not blind to the need to invest in order to maintain our competitive position. And so, when I talk about investment, when I've talked about investment throughout the year, this is one of the areas that we have to protect. And what does that investment look like? It's everything from how we improve the client experience that you've heard us talk about, how we reduce the onboarding complexity for our clients as they enter into new markets, how we shorten the amount of days that it takes for them to onboard with us in a new country.

We've talked about investing in new solutions for clients, everything from fraud detection capabilities to the matching of payments and invoices, to working with clients who are expanding their e-commerce capabilities and enabling them to accept different forms of payment, whether it's a card, whether it's a bank account, whether it's an e-wallet. We've got a partnership with Mastercard that's building out that capability. So, all of those things provide, I think, opportunities for us to further embed ourselves in the operations of our clients and be better positioned to advise them on how they capture growth. And I think that's critically important.

RICHARD RAMSDEN: Okay. How are trade tensions impacting that business? Is it actually driving an acceleration in terms of businesses? Corporates look to diversify supply chains between different countries to maintain access to the US market.

MARK MASON: Yeah. So, there's certainly active dialogue with our clients around just that. I think that the trade tension, so it gets back to my earlier point, certainly impacts the corporate sentiment. There is a caution, a pause, that's a byproduct of that. It certainly impacts the dialogue we're having around the ground supply chain and the different trade corridors that they should consider. But I think the bigger impact for us would be if global commerce were to slow. And we believe that over time, global commerce will continue to grow. If it does continue to grow, the shifting of corridors, we're well-positioned to assist our clients with, and probably uniquely positioned to do that just given our footprint and our presence.

RICHARD RAMSDEN: Okay. So let's talk about the capital targets. I mean, you talked about an 11.5% CET1 target at the Investor Day in 2017. Is that still the right target for Citigroup? And perhaps you can talk about in the context of this kind of move towards an SCB world. How does that change your view around the attractiveness of dividends versus buybacks just given that you won't have to pre-capitalize dividend payments under that framework?

MARK MASON: It is. So we talked about the 11.5%. We talked about kind of the CET1 minimum requirement in that of being about 4.5%, we're a G-SIB bank at about 3%, and then we actually had another 3% as a proxy for the SCB if you will. And then we had another management buffer of about

100 basis points. We still believe that the prudent level to run the firm is at that 11.5%. Clarity on the SCB which we're all expecting over the next couple of months or so, I think, will be will be helpful in terms of solidifying that tranche, if you will.

I think that we'll continue to look at that 11% as other proposals get additional clarity. And the good thing, I think, is that from a regulator point of view, they've been consistent in terms of trying to maintain capital neutrality, but there are a number of other proposals that are out there that need to be worked through.

In terms of how we think about capital distributions and what have you, look, we've gotten to a point where our dividend ratio is about comparable to that of our peers, and we'll likely kind of maintain that. But as we think about buybacks, we want to look at kind of how the stock is trading relative to book and where it make sense to buy back, we want to kind of lean into that. I think the dividends are useful for a certain investor base, and certainly as a way of demonstrating or rewarding people for their patience.

RICHARD RAMSDEN: Okay. We have a few minutes left, so let me see if there's any questions from the audience. Otherwise, let me ask one question on Mexico. You talked about $1 billion of investment in Mexico. I think it was two years ago, I think. Something like that. Where are you on that process? And obviously things, from an economic perspective, have weakened in Mexico. Are you still committed to that investment, and what's the return on that investment been?

MARK MASON: Yeah. So, we did make an announcement back in 2016, I think it was about $1 billion, we're probably 60% or so of the way through that. We front-loaded, I think, in a way that's paying off a number of those investments in how we might improve our digital capability, and improve our general operating efficiency of that franchise.

And so, you're right, we are growing in Mexico, but not as rapidly as we thought. GDP growth has slowed, but we're actually realizing meaningful EBIT growth. So, if you look at our EBIT growth year-to-date, I think it's 43%, and that's in part because of those investments that we've made early on that have helped to improve the efficiency of the operations there. In fact, if you look back at last year's expense growth, it was about 8% in Mexico. And again, we're now seeing the return, if you will, on those investments where, despite revenue coming in slower than expected, we're able to get those expense, those efficiency benefits that allowed for us to deliver EBIT growth at the levels that I've talked about.

RICHARD RAMSDEN: Okay. Are there any other questions in the audience? Otherwise I think we're very close to being out of time. Okay, Mark. Well, thank you very much for joining us.

MARK MASON: Thank you. Appreciate it. Thank you.