



HOST

Erika Najarian, Bank of America Analyst

SPEAKER

Karen Peetz, Citi Chief Administrative Officer

QUESTION AND ANSWER

ERIKA NAJARIAN: Good morning, everybody. I am very excited to have our next guest with us today. In her first public appearance since joining Citigroup in June, we have Citi's Chief Administrative Officer, Karen Peetz. Karen, thank you so much for joining us today.

KAREN PEETZ: Thank you, Erika. Thanks for having me.

ERIKA NAJARIAN: Absolutely. So, we're going to dive right into it. You've had an extremely successful career at some great institutions, including President of Bank of New York and Chair of the Risk Committee at Wells Fargo. Why did you make a decision to come out of retirement to take on this role at Citi?

KAREN PEETZ: Well, I was enjoying retirement actually. I retired at the end of 2016 from BNY Mellon, and I had this goal of having a very balanced life of a third of my time in kind of corporate board work which is where Wells Fargo came in.

Then about a third of my time on not-for-profit work, I'm on the Board of Johns Hopkins and I'm very passionate about finding a cure for Lyme disease. And then, more time for my family, which was kind of a new thing for me. But then, out of the blue, I got a call from Mike Corbat. I knew Citi both as a client and then a key competitor for many, many years, had respect for the organization and had obviously gotten up to speed on how they've been performing during COVID before I made my decision. And then, I just kind of said, hey, 40 years in banking. I've learned a few things about what might be required. And so, I failed retirement and came back to work more than full-time, I can assure you that.

ERIKA NAJARIAN: And related to that, what do you feel that you bring to the role and what you have learned – what have you learned along the way?

KAREN PEETZ: Sure. Well, actually having been both a Board Member as well as a President of a global SIFI. Certainly during my time at BNY Mellon, we had a couple of different things, as everybody did, Recovery and Resolution being one, we had something called Tri-Party Repo Reform. And I really understood – and I think this is a big part of what I feel I bring to the table – the detailed planning required to both prove to yourself, the management team, that you can get from one point to another but then also be able to share those plans with your board and, very critically, with your regulators. So, this is a level of detail that perhaps many of us wouldn't have expected would be required, but it is required and it really keeps everybody kind of on the same page. So, that's what we're after at Citi.

ERIKA NAJARIAN: And as a follow-up to that, you were named to the Wells Fargo Board in February of 2017 and Chaired the Risk Committee during a very pivotal time for the company. Talking in general, what have you learned about overseeing risk in a company that had regulatory issues that you could take to your new role here at Citi?

KAREN PEETZ: Yes. So, there were many lessons learned from that whole experience, as you could well imagine. And I guess what I would say is the biggest learning I had was that, although, board members can be super helpful with regard to oversight and kind of outside-in thinking and guidance, there is no substitute for the executive management team. And so, really when I got the chance to kind of join a



highly functioning executive management team, who I felt I could kind of bring something to the table with, it just was too good to pass up. And at the heart of this, to answer your risk-related question, it is really just a double down on the topic of risk and control.

ERIKA NAJARIAN: Your role was announced back in June and it's clearly a very important role for the firm. Stepping back, could you tell us a little bit more about the nature of the role that you're taking on?

KAREN PEETZ: Sure. It actually sounds relatively simple, but it's quite a coordination role. The first is to improve our discipline in regulatory engagement. So, we have many large regulators, because we do business in 96 countries around the world, we have many large regulatory relationships in those countries, and then some that are smaller, and what we felt we needed was more coordination on a global basis. So, we are establishing the concept of almost like a senior banker quarterback relationship manager for our largest regulators globally, and then we are connecting with each other on a weekly basis to just talk about trends, things we might be hearing in Hong Kong that could end up impacting us in New York. And we're just very much looking to get on the front foot of our regulatory strategy and engagement, including things like having policy statements and strategy input.

The other part of the job is what comes into this whole risk and control transformation. And we originally were calling it reg remediation – regulatory remediation – and we really think a better word for this transformation. And so, I've been busily hiring folks who would typically be considered program management folks. This is a discipline that is – people get an advanced degree in program management. And so, we're taking folks from both inside of Citi and outside of Citi to create a challenge function where we will be putting together extremely detailed plans, as we talked about before. But then we'll really be challenging ourselves and all of the participants in these plans with some consistent governance, consistent platforms, reporting – things that will really help us have transparency for where we are.

And the other kind of thought that I have about participation in this whole transformation having experienced this myself is you're really a better business leader when you have learned how to break down these various components of an overall plan and you really learn how to kind of line up the resources that you need to be successful. So, it clearly has also a culture change element to it as well as accountability element to it. So, it's kind of a full package.

ERIKA NAJARIAN: As a follow-up to that, your investors have been focused on the Consent Orders, both old and recent. Can you talk about risk and controls in light of these Consent Orders? What the risk and control process means to you and how you think about managing those efforts and why that's a strategic priority for the firm?

KAREN PEETZ: Yes. And I can't emphasize enough how important that topic is, and for those of you who have read the Consent Orders, you know that that's kind of at the heart – risk and control. And what I would say is that, it really will make us better for our clients. This focus will make us even better for our clients. And so, that's why it is a strategic priority as you said.

When you talk about risk management, I mean clearly Citi has been and is – we're expert in risk management. What this really means – and it doesn't matter what kind of risk you're talking about, credit risk, market risk, pricing risk, reputational risk – what we're looking to do in this is to marry the two, and what we do have in our control environment is some room for improvement in creating more automated controls and more automatic controls that kind of keep up with our business risk. I would say that we think it's proof positive that we have managed so carefully and clearly through COVID, that we do have an excellent risk management structure and this is more focused on the control side of it.

I would say that having been trained as a banker, a commercial banker way back in Chemical Bank days, before it became part of JPMorgan, we were hammered with all kinds of risk management techniques, and right along with that, you might understand the risk, you equally need to understand the



compensating control for the risk that you're taking. So, in banking, we're all risk managers and I think what Citi is working on is syncing up the control framework to the risks that we take.

ERIKA NAJARIAN: That's great and that's a great observation. And five months in, could you share with us your other initial observations?

KAREN PEETZ: Sure. I think one of the observations I would have is that this is a huge opportunity for the firm. It's not that often that you get a chance to kind of take a huge step back and take a look at what is your target end-state. And you can see it on the Consent Orders that we have actually been given the latitude to truly take a step back in answering the Consent Order requirements to say what is our end-state, how will we construct this to be an end-to-end solution, instead of perhaps looking at something in too narrow of a fashion.

As a result, we're going to be looking at root causes, what caused us to not be able to close some of these gaps in the past in a very positive way. We'll produce the gap analyses that you've seen listed in the Consent Order, which will very much include best-in-class peer assessments as well as where we actually stand today. So, we believe we can actually leapfrog to a future state that's going to be a lot more resilient than it would be if we just kind of kept going along business as usual. The reason why I joined was that you don't get an opportunity to do this kind of thing very often in your career. And this concept of having a sustainable impact and working with a very expert senior team to drive that is just very exciting, and we're going to end up with a better outcome than if we had continued as we were.

ERIKA NAJARIAN: Going back to the Consent Orders, why do you think Citi got to where it is in terms of falling short of delivering?

KAREN PEETZ: Yeah. So, there's no question that we fell short of the delivery that we would expect of ourselves and job one now, until it's over, is to get ourselves on the right path. But I would say that we were quite heartened with the fact that the Consent Orders themselves mentioned that we had already done a lot of work. So, we are going to be using everything that we have been working on and then tweaking it, so that we can make it even further fit for purpose, but it wasn't as if nothing was going on.

The other thing that we were appreciative of in the Consent Orders was that we were not limited in our growth in any way compared and contrast with some of our peers. So, how did we come up with kind of what we should actually do? When I first joined, I was asked by Mike Corbat to take a listening tour and really did nothing but meet with, first, the executive management team, then with every member of our board – which I thought I'd meet with a couple, but I met with every single member – and then our largest regulators. And I asked each of them the same two questions: how did we get here, right, why are we at this place; and then, what should we do about it?

And I would say that the how did we get here had two components. There was a bit of a cultural component, which we're going to need to very much break down some of the silos that we had. We talked about being in our swim lanes instead of one Citi. So, that is a huge driver culturally. Also culturally, we need clear accountability and decision making, and that's one of the things that Jane is really going to get on, the kind of cultural backdrop and change required to be successful. From a process perspective, we often were solving smaller problems versus looking at the total picture. So, again, the Consent Orders are giving us a chance to step back and look at this whole target-state – what end-state do we want, what gaps do we have.

And then, the final thing I would say on that listening tour that was clear was that we often used outside consultants instead of doing this work ourselves. That's a common trap. It's easier to kind of ramp up the staffing that you need, but we are committed for this go around and for the future that these will be Citi employees who will be working on this and it will be the exception to have consultants, not the rule. So, it needs to be a Citi-led effort and that's what we're gearing up to do.



ERIKA NAJARIAN: And Karen, as a follow-up to that, as you think about the work that Citi has already putted in and what you've learned on your listening tour, what do you think is the most important in terms of really moving forward your transformation, as you call it, in a meaningful way?

KAREN PEETZ: Yeah. I think it kind of goes back to what we were talking about that this is a unique opportunity for the firm, and absolutely, I know that the executive management team sees it this way. Our incoming CEO, Jane, plans to lead this very personally.

And so, let's take the chance and let's structure it, obviously, we can't waste the time, because we do have some pretty ambitious deadlines. But let's take the time to step back, let's take a look at what we think our end-state really should be and probably should have been. Let's take the time to look truly at our gaps, and of course, this means you need to hold the mirror up to yourself in a different way than perhaps you were doing before.

Let's challenge each other, and again, that's almost the professional nature of our group's role is to develop some standards to be challenging to simple stuff like red, amber, green ratings. Were we too positive? It's okay to have a yellow or a red rating as long as you have a path to getting to an improved situation. And so, we need realistic timelines. Sometimes in the past, we might have actually tried to be so aggressive and actually undermined ourselves. We need clear priorities, and then we need this incredibly detailed plan that we've talked about before, and the level of kind of detail that will probably go to daily, weekly, monthly, quarterly and we'll be very, very clear to everybody involved where are we at any given time.

ERIKA NAJARIAN: So, that's a great segue to my next question, where you are in any given time, the market was quite surprised when the Journal first reported about the new Consent Order, and we understand that regulatory matters by nature are confidential. That being said, how can your stakeholders measure progress from the outside?

KAREN PEETZ: Yes. So, I know that our investors are quite interested in knowing how much will this cost and how long will it take, and all of those very critical and important questions. I guess the best I can say is we plan and certainly with the combination with Mike and Jane and Mark Mason, plan to give you those details as soon as we have them. We are in a planning phase though now as I've highlighted. And so, it is going to take us a little while to kind of box this all up in terms of the people spend, the technology spend, and the kinds of things that you will want to know more about, both at the top line and then with more granularity. So, all I can say is we're working on it and we would certainly plan to keep you informed as soon as we have some news and some quantification to give you.

ERIKA NAJARIAN: So, you mentioned the plan that you are undertaking. How are you framing out the plan in terms of work streams and into supporting operations that enable addressing these work streams which were suggested by the Consent Orders? And I apologize in advance for the compound question, but where is Citi in the process from your perspective, and again, I know you're probably delaying me, but how are you thinking about the cost and time it will take?

KAREN PEETZ: Sure. So, let me unpack that and start with kind of how we're getting organized with this. So, this is very much linked to the board. As you would imagine, they are quite interested in increased oversight of this whole initiative. So, they have established what they're calling the Transformation Oversight Committee. It will be chaired by the Chair of the Board, John Dugan, and then each of the committee chairs will serve on this oversight committee as well as some other representation like CBNA, our largest entity – the person who runs that bank board. So, you're going to have this very linked board oversight mechanism, which frankly will make it easier for everybody – or make it easier for management, because the various pieces, that I'll describe, will report up to a committee, but then you'll have one-stop shopping, if you will, with one board committee that understands the whole picture, which is critical.



The next level down of governance is the Steering Committee, that will be led and we've already kicked that off. Jane Fraser, incoming CEO, will definitely lead that, she'll chair that, she'll drive that, and you don't know Jane if you don't know how passionate she is with this whole topic, and her ability to both lead at a high level, but then she's also busily talking to her employees in written and verbal communication about the changes that will be required and that she's counting on them to have. On that Steering Committee will also be Paco, representing our Institutional Client Group; Anand, who's just been named to run GCB, Global Consumer Bank; and then also, Sara Wechter, Head of HR; Mark Mason, who you know very well, CFO; myself, as the Vice Chair; and then, we'll also have our Head of Audit, Jessica Roos, as a guest member at every meeting, so that we're keeping aligned with what audit would expect of this as well.

So, we then formed program groups, and again, if you've read the Consent Orders, as we already talked about, risk and control is foremost. So, that is a group that has the executive management team set of sponsors, that's myself, Paco and Anand, then we end up with a chair for each of these transformation programs and a transformation lead from my group. So, risk and control primary on this first among equals. The next topic is data and we'll get to some conversation about why data is so critical and why a transformation is going to be super helpful to the future of the firm. Compliance is another topic that was captured in the Consent Order. And then the last one of the big four, if you will, is the capital and liquidity planning, and it really is we're extending it to be the finance function at large. So, those are kind of the four core, but then we've gone one step farther and we've added three other elements and we're doing this voluntarily, because we think they're so critical.

One is culture. I made that point before that this is going to require some tweaking. Citi has a great culture. We do the right thing. And so, this is not wholesale change, but it is some tweaking around accountability and even how we govern ourselves. The next one is business simplification. As is inherent in automating controls, you have to have a sense of how can you simplify your business going forward, trying to get fewer technology platforms, those that work together more efficiently and effectively. And then, the final one, which we have whole working group around, is our interactions with our board. How do we make those even more effective, efficient? How do we make sure that we're telling them the most important aspects about this transformation?

So, within that then, my organization, as I've mentioned, has a responsibility to govern this entire set of programs in a consistent way, in a transparent way, and in a way that anybody involved, as I said earlier – the management team, the board, and certainly our regulators – will know where we are at any given time. It just makes it so much easier to kind of be dealing with one mega plan. And I guess I – this is another good place to just emphasize the sense of urgency that we have about this. This is super critical. This is job one as I said earlier. And it is one of the things that I also kind of got the sense in joining Citi that it is an organization that really rallies around kind of big needs and issues like this. So, we are finding people volunteering. Every day I get an email from somebody who wants to be signed up for one of these programs, and we are beginning to get the energy and the alignment that we absolutely need to do this differently, starting now.

ERIKA NAJARIAN: Thanks for that, Karen. That was very thorough. Understanding that all of this that you've talked about are investments that you're making in your operating environment, what improvements are you expecting on the other side of these investments?

KAREN PEETZ: Yeah. So, these are real investments. You've heard Mark talk already about what we're even spending just here in 2020 and we would expect investments to go on and I would call these – they are real investments, but I'd use two examples to just kind of talk about the benefit of these investments. The first is data. So, if you think of the power of data that when harnessed correctly, when utilized to do things like predictive market behavior or predictive consumer behavior or what our clients might be wanting in one of our markets businesses, the ability to make it usable and make it fast and to make it

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able to change as we look toward the future is just a critical, critical asset, and all of our peer groups are working on the same thing.

So, we believe that any investments we can make in making our data more usable and more tractable and more accurate is going to be a dollar well spent. I would say the same thing about controls. We have tons of controls. It's not that we don't have controls. What we have though is a lot of manual workarounds. So, we are going to need to invest in automating many of those, which will actually of course make them more reliable, less subject to human error, and that's also a dollar well spent as we come up with and that's where business simplification comes in as well. So, really we totally believe, and this is what's kind of exciting, I think as people start to see that we're taking it all seriously to look at where have we been and where are we going, the idea of building a sustainable future model that can change and certainly can actually be more effective for our clients, because that should also be a major goal.

ERIKA NAJARIAN: Karen, given the kind of franchise that Citi is, how will this execution translate globally? And if you could talk about the anticipated impact and benefits, if any, to local franchises and will this effort divert from locally agreed upon regulatory commitments?

KAREN PEETZ: So, this is the trick, right, which is to develop a plan that works for your major US regulators who issued the Consent Orders, but also because we do business in 96 countries, we have to accommodate and we want to accommodate those topics that regulators want around the world. Really a jewel in our crown is our Citi Country Officers, what we call the CCOs, and they are very close to their markets, to their clients, to their regulators around the world. And so, we are building into this entire process, regional representation, the voice of these various global regulators, particularly the largest ones, but most of what works for the largest ones typically does work for smaller regulators as well. There's something called the core college where our largest regulators collaborate among themselves and meet among themselves. So, we will be very much keeping an eye on not just what the US regulators want, but where do these largest global regulators come down and it's typically very similar. They tend to want the same things, which is fortunate.

ERIKA NAJARIAN: Got it. Well, Karen, thank you so much again for joining us in this conference to address the topic that has been top of mind for all your investors. I'm sure your investors appreciated very much hearing from you today.

KAREN PEETZ: Thank you. Thank you, Erika. Thanks to BofA for having us. Very much appreciate it.

ERIKA NAJARIAN: Thank you, again.

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