TRANSCRIPT

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Global Consumer Bank & Q&A
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PRESENTATION

STEPHEN BIRD: Good morning and welcome back to the room, and welcome back to the webcast. I'm Stephen Bird and we're going to talk about the transformation and growth in the Global Consumer Bank.

As Mike noted earlier, we have crossed an inflection point to growth. Having streamlined our franchise, honed our strategy and made important investments across our platform which are now bearing fruit. We're playing a very good hand. We've got strong franchises in growing markets, a disciplined target client strategy, a light physical footprint which is consistent with where the world is going and a set of compelling global capabilities, particularly digital that really cuts through and helps us differentiate from our competitors.

We come to market today with a far stronger set of products and digital capabilities than ever before and this creates a strong foundation from which to grow. This gives us confidence and it gives me confidence that we can sustain and accelerate the momentum that we've seen over the past year and I'm going to show you that momentum.

As you're going to see today, our path forward has got multiple engines, you hear that from Mike and John, with every business and every region contributing to earnings growth. Let's start with our franchise. We offer a full suite of products to our 110 million clients around the world. We have leading positions across the U.S., Asia and Mexico, with a presence in 19 markets. We are the number one credit card issuer globally. We have a strong deposit franchise in the wealth markets here in the States, and we're top three wealth manager in Asia. And we have a preeminent position in Mexico. Indeed, our rank in Mexico is number one or two across deposits, investments and loan products.

We also run a small but growing Commercial banking business that leverages the very best of Consumer and ICG; that serves mid-tier corporations with a full suite of products that really help them grow.

Together, what I describe adds up to a business of significant scale: $32 billion of revenues and $5 billion of net income. Over the past few years, we've intensified our focus on winning in the U.S., our home market, Asia and Mexico and have developed a strong set of global capabilities that are being deployed locally with high impact and relevance for our customers.

We sharpened our segmentation strategy, offering compelling value propositions that attract affluent and emerging affluent clients. We've continued to set the pace with the right mix of bricks and clicks, putting mobile as the core of a simpler, better customer experience. And we've launched new product and partnerships that are breaking through with our clients all whilst maintaining risk discipline.

Having the right products and capabilities in place to attract new and deepen existing relationships, gave us the confidence to begin investing in earnest again for growth. And as I am about to discuss, there is still substantial opportunity ahead.

As John described, our Consumer franchise is under-earning today, generating a return of 13%. This reflect the low rate environment, the impact of regulatory headwinds in markets like Asia and also the early stage of investments that we've made in areas like Branded Cards, U.S. wealth management, and Mexico.

Over the last 12 months, these investments have started to deliver tangible results. We're seeing higher volumes, deeper relationships and a return to sustainable revenue growth. Since last year, revenues have grown 4%. We believe this growth will accelerate, as these investments I described mature and we execute on our playbooks for success in areas like wealth management and cards.

With continued top line growth and expense and credit discipline, we have line of sight to earning a 19% return by 2020 and indeed over that in the longer-term. These are the type of returns that better reflect the true power of the Citi franchise, and we're excited to share with you the plan for that growth today. Our footprint is one of our unique strengths with an attractive mix of developed and emerging market.

On slide 3, you can see that 60% of our franchise is in the U.S., the largest developed economy in the world, where we are a leading player in cards and we have a growing affluent-oriented retail bank.

Asia is a hybrid, pairing the very best of developed markets – think of Honk Kong, Taiwan, Singapore – and truly emerging economies like China and India. In Asia, our business is anchored by wealth management, and we have a leading in cards across the whole region as well.

Mexico, represents, perhaps, the greatest potential of the emerging markets, with its compelling demographics, proximity to the U.S. and low financial penetration. Citibanamex, is the number one recognized bank brand in Mexico. And after a period of underinvestment, particularly during the crisis, we're now supporting the franchise with the resources necessary to transform the client experience, recapture share and improve our returns in Mexico.

But we are more than just the sum of our regions that I described. We have an operating model that enables us to build capabilities and leverage our scale at a global level. We share a single brand in Citi. We share common value propositions and a common technology stack, which allows us to build once and deploy everywhere. Our common approach also means that we can rapidly deploy new capabilities, just like mobile that you've been looking at, across all of the markets.

You can see us across the firm, with a common segment-driven business model, a single wealth management playbook that leverages Citigold and shared card value propositions using one global rewards program. You see it also in our approach to partners and suppliers: in our global network deal that we did with Mastercard that captures valuable scale across the whole platform; you see it in our buying power with all of our vendors; and you see it in a partnership with Wharton, where we created the Citi Wharton Global Wealth Institute that ensures that we have the best trained bankers on the Street.

Because we're also local, we're able to customize the last mile as it relates to merchants, partners and the ecosystems that are increasingly important to our clients. Think about it. Paying with points with Amazon in the U.S. or with Alipay or WeChat in China, or LINE in Thailand.

Turning to slide 5, our strategy is to drive client-led growth by delivering world-class value propositions for each segment that we serve. A relationship banking model serves our clients across the full spectrum of their needs, as they borrow, pay, save, invest and protect. Citi is not a mono liner. So once you become a Citi customer, you can stay a Citi customer, as your needs evolve through your life stages and you move up through the wealth continuum. That's the Citi model at work.

Our segments are Citigold, which serves the affluent segment; Citi Priority, which serves the emerging affluent segment; and Citi Banking, which serves the mass market with a strong basic banking proposition that leverages digital. This client-led model supported by global capabilities is deployed locally and cut through locally.

Before we go into the financial targets I'd like to spend a few minutes describing these global capabilities and why we're in a fundamentally better position today to execute against this growth plan. Then I'll take you through our outlook and our path to achieving these targets, including the individual building blocks of getting to a 19% return by 2020. Finally, I will do a deeper dive into how each business is contributing and Jud Linville will come and talk though our Cards business.

As I mentioned earlier, we spent the last few years streamlining the franchise and developing a strong foundation from which to grow. We focused our resources on 19 markets. We have a light urban-based branch footprint. We completed the implementation of our common platform, giving us a holistic view of our client relationships and the tools necessary to segment and serve those clients better. We rationalized our card products, we launched breakthrough value propositions that we're rolling out globally and we renewed all of our key co-brand and retail services partnerships though 2020 and beyond.

We continue to develop important digital partnerships as part of a broader ecosystem. We've made huge strides in reducing our physical footprint whilst changing our branches and upgrading them, smartifying them and dramatically expanding our ATM access. We're now the largest fee-free ATM provider in the U.S.

And finally, we have radically changed the way we deploy technology. We adopted a mobile first approach that accelerates our speed to market with new digital features. All of these actions contributed to the return to topline growth that I described over the last year. But more importantly, they give us the confidence that this growth is sustainable.

Now, let me turn to our global capabilities here on slide 8. First is the value proposition we offer to our retail and wealth management clients. Citigold is truly institutional-grade execution for the retail client: provides insight, fund access, dedicated bankers, and a range of exclusive privileges and pricing. It's a great example of how Consumer is leveraging institutional research and trading capabilities as we bring the best of ICG for our retail clients.

We have a unique ability at Citi to serve clients seamlessly, anywhere they live and travel around the world. Across our global franchise, Citigold, that I described, represents 60% of our total loans, deposits and AUMs. And it is our fastest-growing segment with very attractive economics. Citigold clients generate 25 times more revenue than clients in the mass market segment, and these relationships tend to be broader and deeper relationships, hence the quantum increase in their value. I should note that Citi Priority is a very important segment in its own right, but it also is a feeder pool into Citigold. And we've been driving growth there too.

We also have market-leading proprietary products in our Cards business. Citi Simplicity is designed to meet the needs of the value-oriented revolving customer, and is the largest no-fee product portfolio in the world. By the end of this year, it will be live in 10 of our markets. Citi Double Cash was launched in the U.S. in 2014 and has the highest Net Promoter Score of any cash back card in the U.S. and finally proprietary rewards with a good, better, best lineup that includes Citi Prestige. This is consistent across 14 of our markets and is the largest general purpose rewards portfolio in the world. We have a global rewards platform that covers 90% of our revenue base and an entertainment program which started with Private Pass here in the U.S. and has expanded globally through a partnership with Live Nation.

We also have some of the most valuable and iconic partners in the industry. This is very important. Just think about these names, think about Home Depot, American Airlines, Costco, Best Buy. Each of these partners are truly leaders in their own sectors and we are proud to partner with them to drive growth in purchase sales and loans and that's what happening.

We're delivering these value propositions by engaging with our clients where, when and how they want to bank with Citi. And you can see this here in this slide that we're reshaping our client-centric ecosystem. We're making it pervasive to go beyond the constraints of a traditional physical bank. Branches will continue to be relevant in the future, but they will be for advice and wealth management. There will be fewer branches. They will be smaller, and they will be in higher impact locations, where they can punch above their weight. We've reduced our branch count by over 20% over the last few years whilst investing and expanding our network with the resources and channels necessary to create this growth ecosystem.

We're hiring new bankers as well: up 15% over the past year in the U.S. as we re-launched Citigold last November. We're expanding the number of ATMs in all markets, increasing the total by over 50% since last year. You can see the ecosystem evolving. We're driving a significant increase in mobile adoption, and we're not doing this alone. We're doing this through an open API model. We're forging new digital partnerships at a rapid pace, allowing us to engage with our clients in new and much more effective ways. And this is expanding distribution and expanding Citi's reach. While this is also a lower cost to serve model, and you'll see that in our finance, the finance as I take you through them, I'll talk more about it, it is really about improving client experiences; better experiences and deeper relationships, and when we do that we earn superior economics.

As we all know, client expectations are changing rapidly today and we at Citi are embracing that change truly. Day-to-day engagements with our clients is rapidly shifting to digital and mobile. Our capabilities are marked against specific client journeys to eliminate pain points and make the digital experience simpler, faster and better for our customers.

Our goal is to acquire, engage and service our clients entirely digitally. To get there, we've had to change the way that we work. We're co-creating with our clients using lean cross-functional teams – these are scrum teams with the full capability to deliver. They've radically accelerated our speed to market with new features.

We're very proud that here in the U.S., we delivered a new mobile app, you can see that massive phone over there to my right, that is among the first to integrate banking, investing and money movement on mobile. Because of the new way of working, we increased the number of digital features launched in this app in just one year by 85% impacting 1.8 billion customer touch points each year.

Some of our clients' favorites are Quick Lock, Citi Price Rewind or the ability to request and track a replacement card. Quick Lock has been a huge success. So far, we've seen over 1 million clients lock their credit cards digitally. They can lock, they can unlock. That means that we've had 1 million fewer phone calls coming through our call centers. It also means fewer replacement cards sent, sometimes using FedEx or UPS. It also means that we have continuous usage of our cards and spending. But what it was, was an opportunity to take a very common pain point, something that's a total pain to do in other channels, and give our customers a simple, fast, convenient, secure way to control their cards.

Our digital strategy is delivering results. Since last year, digital acquisitions have increased by 15% and mobile users are up 40%. Client satisfaction, and this is all of about client satisfaction, is increasing in tandem and this is reflected in the forensic way that we measure Net Promoter Scores. And just a few weeks ago, we were proud to be recognized in London, I was very proud to go there, and receive the World's Best Digital Bank from Euromoney.

The technology is not just helping us reach our clients where and when they want to engage with us, it's also making us much smarter about what products and what services are best suited for our clients. We run an incredibly data-intensive business. For example, Citi customers use their cards over 4 billion times a year. So it is an immense amount of value and opportunities that flow from that data, as we leverage this data to make better decisions and improve our effectiveness.

We're deploying machine learning, and big data platforms and today we have over 160 live user cases in the market. I'll give you some examples. We've built models that allow us to understand each individual's wallet. How many cards do they have, what type of card do they have, which ones are they using most often and which ones are carrying the largest balances. And now we can target those customers based on those insights. So if someone has a competitor's Cash Back Card, we offer them Double Cash. Or if they tend to carry balances, we offer them Simplicity. This has driven a massive improvement in response rates and efficiencies. Our ability to retain spending activity is five times higher using this data. And their ability to retain balances has improved by 3.5 times. This is very powerful when you scale it across a $110 billion Branded Card portfolio, the world's largest card portfolio, and we're still in the early stages of applying these tools across our franchise.

Taken together, these global capabilities that I described are driving improved client engagement. On the left on the slide here you can see that we've been growing card purchase sales and Branded Cards both organically and inorganically. This has contributed to loan growth, up 4% over the past year, driven by cards and Commercial Banking.

Mortgages have declined slightly as we've shifted to higher return, unsecured lending products like cards and personal loans. Although Personal Loans are down relative to last year, partly in response to the regulatory environments in Asia, we have seen sequential growth in all regions this quarter. And in Asia in particular, we're seeing higher digital acquisitions and we demonstrate how we're doing that in the booth to my right.

And finally, we fund these assets with a stable and low cost and growing deposit base and that's the Citi model at work. This is driving the turn I referred to earlier underlying revenue growth. As to the flat top line from 2014 through 2016 reflecting lower interest rates, regulatory headwinds and the impact of the investments we are making in cards and in other areas, we crossed an inflection point about a year ago. Since that time, revenues have grown by 4%. Our investments including Costco are having a very positive impact. And importantly, we're seeing an acceleration in the underlying business growth.

Here in the U.S., our largest market, we went from flat top line to growing 2% as we drove deeper client engagement in our Retail Bank. Asia went from flat to growing at 4%, driven by cards and the recovery in wealth management. And Mexico went from growing at 2% to growing at 6%, driven by Retail Banking. With all of this in mind, let's look at how we plan to grow revenues, deliver positive operating leverage and maintain credit discipline in the future. This all comes together with the goal of delivering, as I said earlier, a 19% return in 2020.

Here you can see that we expect continued revenue growth to be the main driver, with an expected CAGR in the range of 5% over the next few years, which equates to incremental revenues of $5.5 billion. North America is expected to drive about half of this growth as our card investments mature and we continue to grow wealth management and commercial banking along with a tailwind that comes from rates. The remainder is split one-third Asia and two-thirds Mexico. We expect to maintain our expense discipline and you will see later we have a very strong track record in this regard. And the volume growth and the continued investments in our franchise will be funded by efficiency saves. And this should drive an operating efficiency, to the question earlier, from 55% to below 50% by 2020.

Of course, we do expect to give some of that improvement back in higher credit costs and in additional capital to support this growth. But we believe we can overcome those headwinds, driving annual pre-tax earnings growth in the range of 13% to 15% across the Consumer Bank.

On slide 17, we show more detail on where we expect the revenue growth in the future and how that compares to our recent results. This is a very important slide – this is the on the pace slide. Starting in the U.S., we expect the Retail Bank, excluding mortgage, to accelerate from 6% in the first six months of this year to 10% growth through 2020 with about half of that coming from higher interest rates. We're already seeing some benefit from higher interest rates today driving about a third of the 6% revenue growth that we achieved in the first half of this year. So, on a comparable basis, we expect revenue growth to accelerate from 4% to 5%. As we deepen those Citigold relationships, as we continue to grow our commercial banking business and as we begin to deploy the digital acquisition tools that are driving personal loan growth already out of Asia.

Retail Services should continue to grow at roughly 1%, as underlying revenue growth is offset by higher contractual partner payments. And in U.S. Branded Cards, we expect 1% organic growth to accelerate to 3%, as the investments that we're making mature and the impact of the non-core asset run-off declines.

In Asia, we're assuming growth of around 4%, which is roughly in line with the average economic growth in the markets in which we're operating. And in Mexico, we expect our investments to boost growth from the 6% that we're running at, at the moment, to a level slightly higher than the market, at 10%. We're already growing at this pace in our Retail Bank in Mexico driven by growth in loans, deposits and AUMs. And we expect to return to topline growth in our Mexican Cards business as we exit this year.

So that's how the regions contribute to our path. Now let's look at the composition of revenues. As you can see here, roughly two-thirds of our revenue growth is expected to come from higher volumes with assumed loan growth in the range of 5%. This is slightly higher than the 4% growth that we achieved over the past year as we assume mortgage loan stabilize and we continued to grow card, personal and commercial loans. Higher interest rates should contribute to revenue growth as well, especially here in the U.S. And fee revenues should also contribute driven by higher purchase sales and growth in wealth management. Of course, we need to invest to fuel this growth but we believe we are able to continue to self-fund those investments.

On slide 19, you can see that over the past three years, excluding Costco, we've held expenses roughly flat by driving efficiency savings for reinvestments in the franchise of roughly $1.7 billion. This strong track record gives us confidence in our ability to manage expenses going forward to achieve not only revenue growth, but also sustainable positive operating leverage. We've made key investments in U.S. Cards, including Costco. We've invested in our U.S. Retail Bank, and we've invested in Mexico, all while growing expenses by a little over 1%. That's the track record that I refer to.

We've generated these efficiency savings by optimizing the ways in which we serve our clients as you can see here in slide 20. We've reduced the number of branches by 16% over the past three years, while shrinking the size of the branches remains, saving us roughly $400 million. We've reduced our head count by 12% as we redesigned our branch operating model and streamlined our organizational structure, driving savings of $800 million. We've improved our productivity per account by rationalizing our products, and our back office location that Mike talked about, and automating key processes that run right through our business, resulting in another save of $200 million. And we have also reduced analog transactions – if you think of paper transactions, for example, shrinking by nearly 25% over the same period.

Looking ahead, we're going to continue to do exactly the same thing. We'll continue to optimize our franchise to create the capacity for investments and growth, with line of sight to roughly $1.5 billion of annual efficiency savings by 2020. We'll continue to transform the network, driving more transactions to digital and to self-service channels, like ATMs, while further reducing our physical footprint. We'll leverage our scale and investments in big data to improve the effectiveness of our acquisitions. And we will realize significant benefits from the deal that we announced earlier this year to outsource mortgage servicing here in the U.S.

This gives us the capacity to invest, to fuel the growth of our franchise – to fuel the client-led growth and new product development I described. We'll continue to digitize every aspect of the client experience and underpinning it all will be continued investments in regulatory safety and soundness. We know that it's the foundation for any plan for sustainable growth.

Before we turn to the businesses in more detail, I want to spend a moment with you on credit. While we do expect credit cost to be higher, the increase should mostly be driven by the higher volume I described, with

NCL rates themselves increasing modestly. And that increase should be the function of portfolio seasoning and coming off the bottom of the credit cycle.

In our largest market here in the U.S., roughly 70% of our loans are Card loans. And our FICO distribution skew towards the higher end; indeed, the acquisition of the Costco portfolio moved us further in that direction. In Asia, our credit losses have remained low and stable for many years now. And that's the function of our underwriting model and our client targeting.

And finally, in Mexico, while we serve a more mass market segment, we don't go as far down the credit spectrum as most of our local peers do. This has affected our growth in certain segments but it also means that our credit quality compares favorably to our local peers in Mexico and we expect it to stay that way going forward. So in total, our loss rates should increase modestly over the medium-term, but we don't expect a sharp increase and this is built-in to the targets that I described.

Before we get into the individual businesses, I want to bring all of this together and show you how we expect each business to contribute to a path, to a 19% return by 2020. As you can see, on slide 23, there are no spectators here, with every business needing to contribute. The bulk of the improvement comes from the U.S., roughly split between Retail Banking and Cards. On the Retail Banking side, roughly half of the overall improvement should come from the benefit of higher rates. The remainder is split about one-third Asia and two-thirds Mexico. This should provide a little more context for each business as we walk through those businesses.

Let's start with our U.S. Retail Bank here on slide 25. This is a great example of how we're leveraging our success in wealth management in Asia to deepen our client penetration here in the States. We launched our enhanced Citigold Wealth Management offering in the U.S. late last year and we're continuing to see very good results. We're seeing growth in households and balances and an increased penetration of investment product.

In the first half of this year, excluding mortgage, Retail Banking revenues grew by 6%, and average loans and deposits with our affluent clients grew by 8%. We began our U.S. network transformation in 2013 and since that time we've reduced our branch footprint by nearly a third. At the same time, we've been upgrading our formats and smartifying our format and concentrating our resources in our six core markets. In these markets, we've a strong position in the affluent segment, where we lead in deposits per branch. Over time, we've seen a significant migration from higher cost to serve channels, like tellers and call centers, to self-service offerings as we've invested in digital.

This has contributed to a significant turnaround in pre-tax earnings. Excluding the mortgage business, our Retail Banking earnings have grown by more than four times since 2013. And we believe we're probably through an acceleration of growth in the U.S. retail bank as we now have the tools to better segment and serve our client base. We are investing in highly trained bankers and we are hubbing them in dedicated wealth centers. We're supporting the Citigold value proposition using unique digital capabilities to meet the most sophisticated needs of these clients. In fact, we were just recognized as the number one U.S. Retail Bank for high net worth families by Kiplinger's. We believe there is significant upside from this point by increasing penetration, where they are existing affluent clients to drive more revenue growth. For example, on average in the U.S. banking system, the percentage of retail clients with $200,000 of investable assets is roughly 20%.

At Citi, however, that number is 45% and we are underpenetrated with these clients, with only 12% of these clients holding at least $200,000 with Citi. As I noted earlier, these clients generate over 25 times the revenue per client of the mass market segment. We estimate that just 1% higher penetration among these clients, adds $100 million of revenue annually. So there is tremendous opportunity for revenue growth by deepening our existing client relationships. Our penetration in the affluent segment is already growing with a 9% increase in households over the past 12 months. You can see the impact on the right of the slide with net portfolio growth through the first half of this year of $2.9 billion, up nearly 40% from last year.

We have a long runway ahead of us, as only about 40% of existing Citigold clients currently have an investment account with us. Many of the enhancements that we're rolling out nationally began right here in New York. We've now opened three Citigold wealth centers in the city and I encourage you to hop on a Citibike and go to 5th Avenue and 52nd Street and you'll see a great example of one of those wealth centers, I know some of you have been in it. We've added over 70 new relationship managers and financial advisors in the City too, and we're driving strong mobile adoption through our Citigold banking app, which has been a significant channel for uptiering from Priority into Gold.

While it's still early, the response has been very encouraging and you can see this on the right with strong growth in Citigold checking, account balances, AUMs and loans. We're working to drive similar results to these in our other five markets in the U.S.

Now, let's turn to Retail Services, where we are the second largest retail partner card issuer in the U.S. In Retail Services, our primary client is the retailer. And we're focused on providing lending expertise, advanced analytics, digital and marketing capabilities. Essentially, we become an extension of the retailers' own teams and help them drive growth. This is an advisory approach that differentiates us from our peers and has contributed to our winning significant mandates like Best Buy a few years ago, as well renewing existing and very important partnerships like we did last year with Home Depot.

Retail Services operates with an attractive return on assets of roughly 250 basis points and we have all of our key relationships in this business, secured through at least 2020. We expect revenue growth to continue and add about 1% as loan growth is partially offset by income sharing agreements with our partners. Given this dynamic, it's more relevant to look at retail services, in terms of pre-tax earnings growth. We expect pre-tax earnings growth in this business to be 2% to 3% going forward, which is roughly in line with our outlook for the U.S. economy.

As I described earlier, we're delivering sales and loan growth, while maintaining our credit discipline in our U.S. Cards business, and here in this slide, you can see the results for Retail Services. The charts in the middle of the page show our current acquisition trends from 2012 through 2016 for the U.S. and for the industry. As peers have migrated towards lower FICO segments, we have maintained our discipline with roughly 40% of our originations occurring in the 760 plus FICO categories. As shown on the far right, this is driving a pronounced difference in FICO composition in our portfolio versus our competitors.

We have seen an increase in the NCL rate in this business with an outlook of around 4.6% for this year, driven by seasoning, as well as the impact of certain changes in collections. Beyond 2017, NCL rates could increase to around 5% over the medium-term. However, even in that scenario, we still see the ability to earn a 250 basis point return in the range of 250 basis points ROE and that's consistent with our targets.

With that in mind, I'd like to turn it over to Jud, who is going to spend more time on our Branded Cards business and how we've been refueling growth there, and then I'll come back to cover our international business.

JUD LINVILLE: Thank you Stephen, and good morning everyone. I am aware that it's almost good afternoon, everyone. Looking out in the room, I recognize many of the folks I've spent time with over the past couple of quarters, or even several years, but there are folks that don't know me, my name is Jud Linville, I'm the CEO of Global Cards and Consumer Services.

So, let me begin with results in our U.S. Branded Card business, because I know that's an area of focus for many of you. And then, I'll move to our Global Card model, what I believe is a unique and critical element of this franchise. As all of you know, we have been investing in Cards over the past several years with the goal of providing differentiated value and experiences to our clients. We are focused on building a balanced portfolio across proprietary cards and co-brands and we have captured significant market share – market share gains through investments and the acquisition of the Costco portfolio in June of last year.

Costco had a material impact on our results over the past year, as many of you have seen and pointed out, contributing to a 13% increase in revenue and a 10% increase in loans and we are poised to deliver organic revenue and net income growth going forward. We believe U.S. Branded Cards has the potential to deliver ROA in the range of 215 basis points or higher over time, slightly lower than our prior target of 225 driven by two factors.

First, we're expecting a somewhat higher skew towards co-brands than our original assumptions, all based on strong client engagement. Costco in particular has generated higher than expected client and balance growth since conversion. And while the portfolio is performing better than our return expectations, this is affecting our assumed loan mix as we grow both proprietary and co-brands going forward.

Second, we're assuming a slight increase in our cost of funds, as our interest rate outlook is now higher and steeper than before. That said, the revised rate assumptions is accretive to the overall GCB business. However, it does create a slight headwind in spreads for the Card business.

U.S. Cards is a great example of how we're delivering differentiated value to our clients and ultimately to our shareholders. If you look at the left side of this page, it shows our core products in some of the positive press coverage that they've generated, but even more significant, it's how our clients are voting with their wallets. In the middle of this page is data from a Lightspeed Report on customers who opened a new card account in the fourth quarter of 2016. It shows that 85% of those customers who said their new Citi card would be their primary card came from another issuer, the highest in the industry. And as shown on the right, once we acquire a new client, we continue to drive strong engagement with the highest balance per account and the second highest spend and revenue per account as compared to our peers.

Client engagement is critical to building a balanced portfolio. Higher return, more lend-centric proprietary products drive nearly two-thirds of our revenue. We began investing to grow our portfolio in late 2015 and increased in 2016, driving strong increase in new client acquisitions. And it's worth noting for this audience, the mix of accounts we're acquiring – with about half coming from products that do not involve rewards.

As I noted, proprietary products tend to be more lend-centric. Two of our newer products, Double Cash and Simplicity, are driving much of that growth. Both products are making an impact with industry-leading net promoter scores. And they largely attract customers who revolve, which ultimately drives profitability. Growth in these products is starting to offset the run-off of non-core products which now makes up less than 15% of total loans. We're balancing this proprietary momentum with a growing, high-quality co-brand business. Co-brands tend to be more spend-centric with lower cost to acquire and strong credit quality. And while we benefit from our partner's scale and distribution, we share in the economics. So again, balance is key, and you have to have the right partners.

Last year, we renewed and extended our successful 30-year relationship with American Airlines, and we also acquired the Costco portfolio. As I noted earlier, Costco has far exceeded our expectations. Impressively, 73% of spend on the Costco Anywhere card is happening outside of Costco warehouses, which is not only 400 basis points higher than where it was at the time of conversion but that suggests that the card has become top of wallet for our customers.

And notably, spending is up 5% year-over-year in the portfolio that we purchased. In fact, part of the dynamic we are managing in the U.S. is the impact of higher than anticipated demand and engagement with our products. If you look at the upper left, this is the volume of new accounts we've generated showing a significant increase starting in late 2015 as we ramped up our investments.

As acquisitions have grown, so has the volume of new loans, those coming from customers who were recently opened and not yet fully matured, up by about $5 billion since mid-2015. The middle chart shows you the relative size of these loan vintages and you can see how each vintage has grown as the volume of new accounts originated has increased.

Each vintage has its own maturity profile, depending on the mix of products originated and the varying promotional periods which can range anywhere from six months to almost two years. As earlier vintages have matured, they've driven a corresponding increase in full rate balances, as you can see on the right. However, there has been a bit of a dampening effect as we still have more new volumes coming in than we've had maturing and transactor volume growing as well. Obviously, our revenues reflect the impact of funding these non-yielding segments of the portfolio that we look to mature later.

This next slide gives you a sense of how our loan composition has changed and how we expect it to evolve over time. It's also why we feel good about our revenue growth expectations over the medium-term. The dark blue represents loans that are evolving at a full rate. Gray is our run off non-core portfolio, largely made up of existing revolving balances. In the lighter blue, on the bottom, is the volume of non-yielding promotional and transactor balances. What you see is that in 2014 and 2015, overall loans and revenues were declining. In 2016, as we've invested in new account acquisition and added Costco you can see total loans increase, largely in promotional balances, driven by those new loan vintages.

Now, in 2017, the increase in promotional rate balances has started to moderate. As the larger vintages from late 2016 and early 2017 mature, we expect revenue growth at an average rate of roughly 3% over the medium-term. We expect our core portfolio, where we're actively acquiring new accounts, to grow at around 5% through 2020. And non-core portfolios should continue to run off over time. As this run off impact declines, our reported growth rates should start to converge at that 5% level.

In order to realize this growth, we need to stay engaged with our clients where and when they want to connect with us. Consistent with the strategy that Stephen described earlier, in cards, we're building a truly digital and mobile first business. In U.S. Cards, we have doubled the volume of new accounts originated through digital channels, driven by great products, marketing and experience all supported by proprietary analytics.

Today, digital delivers about half the new accounts we originate in the U.S. and well under that internationally. And the benefits are clear. We see about a 44% lower costs to acquire customers digitally and an 18% lower cost to serve. But it's not just about cost arbitrage. We also see that digitally acquired customers have 27% higher sales active rate and that digitally acquired customers have a 22% higher balance on average than those not digitally engaged. So, digital has, and will continue to be, a considerable financial opportunity, as well as an opportunity to reshape and build our brands.

While investing for growth, we've also enhanced our capabilities and risk, we've evolved some of rules based to a model driven approach with an increasing reliance on machine learning using big data platforms to make more granular and rapid decisions. Importantly, we've maintained our target client discipline, which means being really clear about the different types of clients we look to acquire with our broad range of products.

But just in the middle of this page show account acquisition trends from 2012 through 2016 for us and for the industry. You can see that we've drawn our mix of 760 plus FICO acquisitions, while the industry has decreased. And correspondingly, we've seen the industry shift to lower FICO segments, while we remained pretty consistent at around 23% of accounts. As seen on the far right, this is driving a much more pronounced shift in FICO composition and our portfolio versus our peers. Looking forward, we expect NCL rates to rise moderately as newer vintages season, from 2.8% in 2017 to between 3% and 3.25% over the medium-term.

Bringing this all together, in U.S. Branded Cards, we see a path to delivering roughly $3 billion in pre-tax earnings. We believe revenue growth should run at around 3% as recent investments mature and we continue to acquire new accounts and capture wallet share. This allows us to more than offset the impact of natural attrition, non-core run-off and higher cost to fund non-yielding loans in a higher rate environment. We expect digitization and efficiency savings to more than offset volume related expenses. And again, as I noted credit costs should rise as our loans grow and mature, but rates should remain in the 3% to 3.25% range, still very favorable.

As Stephen outlined earlier, a key part of our strategy is to leverage our global capabilities to provide differentiated products and services on a local basis. And before I turn it back to him, I would like to highlight a few ways which we're executing this playbook in Cards. Given our global model, we have unique positions and faster growing markets where card usage is underpenetrated and returns remain highly attractive. In Mexico as an example, our net credit margins are nearly 20%. And this is a market where only 20% of the population has a credit card.

In Asia, our net credit margin is close to 13%, still highly attractive and many markets are underpenetrated there as well. Clearly, we see a tremendous opportunity for growth in displacing cash and winning in payments outside of the U.S.

Here is an example of our global model from Mexico. So we took six different legacy reward products with six different reward currencies and a call center driven redemption platform and moved them onto our global reward platform, a far superior digital experience. We now offer the same products, and rewards experience in Mexico as we do in the U.S. and now around the globe. But we've seen since the conversion, on the right, over a 100% increase in acquisitions versus legacy products and 11% increase in spend and a 60% increase in reward redemptions with half of those redemptions now happening digitally.

We're also sharing capabilities around spend and lend. In the U.S., as an example, since 2014, we've offered customers the ability to use points to shop at Amazon. Today, that accounts for about 1 out of every 4 points redeemed. And because we operate on a global platform, we are now the first bank in Mexico, and in Asia, to offer that Amazon experience, a key differentiator against any local bank, but not everything starts in the U.S.

In Asia, we now offer the ability for clients to pay for any purchase with points, all from their smartphone. And what we are learning there could be deployed obviously in the U.S. and Mexico. And we're doing the same with lending. In Asia, as an example, nearly a third of our card loans are driven by customers, who are paying under an installment plan. Those products have existed in Asia for years, but typically sold through thousands of telesales agents. What we've done is redesign that Loan on Phone experience for Mobile. So now our client receives a text from Citi when they make a large purchase, is offered the option to convert to installments and can enroll in four clicks or less. That does not only just reduced costs, it's also driving a much higher response rate to the offer, and there is obviously tremendous opportunity, again, to take these capabilities global. Just for perspective, our existing clients hold nearly $200 billion on competitor cards so we have a long runway to capture wallet share with a compelling digital experience.

We're also leveraging our global model on digital payments. Today, many digital wallets and solutions have come to market, but no clear single winner has emerged. We have focused first on building a common global capability, with the flexibility to integrate efficiency with different local partners. In the U.S., given the high penetration of iPhone adoption, we had supported Apple Pay first. But in Asia, we went to market with Android-based solutions. We're taking a similar approach to e-commerce. For in the U.S. as an example, we've partnered with PayPal to drive engagement and acquisitions, while in China, we've done the same with Alipay.

Hopefully, this provide some context, as Stephen described our results in both Asia and Mexico, where these shared global capabilities are making an impact. Hopefully, this context is clear.

So, wrapping it all up and stepping back, Global Cards is a business that has generated about $19 billion of revenue for Citi over the past year, and we see a clear path to $21 billion range driven by client acquisitions, growth in wallet share and opportunities around new partnered distribution and capabilities. I'll also point out it's a business that delivers impressive operating efficiency, strong returns and will be essential to building the Citi brand.

With that let me turn it back to Stephen. Thank you.

STEPHEN BIRD: Thank you, Jud. That was terrific. Turning now to our international franchises starting on slide 44. In Asia, we have returned to growth and positive operating leverage delivering 3% revenue growth and 150 basis points of efficiency improvement over the last 12 months. This revenue growth was driven by Cards and wealth management whilst the retail lending revenues declined as we repositioned our portfolio away from mortgages towards higher return products. This shift has had an impact on our loan trends in Asia over the past year, you see that on the lower left, but more importantly, we're now seeing our efforts paying off with accelerated growth in cards, personal and commercial loans and they have all grown over the past two quarters.

We're extending our leadership position in wealth management in Asia, attracting new clients by leveraging our premier brands, our value propositions and our service. Citigold clients have grown by 13% over the last 12 months driving a 20% increase in net new money. We have transformed our service model by optimizing our footprint, hubbing our advisors in dedicated wealth centers and enhancing a digital wealth advisory platform. As we grow our digital capabilities in Asia, the physical barriers are disappearing. This model has significantly improved the productivity of our bankers as well and this is exactly the playbook that we were leveraging right here in the U.S.

On slide 46, we show more detail on how we're driving unsecured lending in Asia across cards and personal loans and we view these as complementary products. In total, we have a $30 billion core unsecured lending portfolio in Asia and this has grown by 5% over the past year. We should continue to grow as we've accelerated our acquisitions in part driven by the new digital capabilities that Jud just described. Through initiatives like Loan on Phone, we've been able to shrink our card salesforce while doubling the penetration of digital card acquisitions and we're employing similar digital tools to drive unsecured personal loan growth in Asia. We're doing this in partnership with merchants and the ecosystems which are most relevant to our Asian clients.

Now, let's turn to Mexico, where we have a leading franchise and a very attractive market. Similar to Asia, we returned to growth over the last 12 months with revenue growth of 6% and an improvement in operating efficiency of roughly 400 basis points. This reflects momentum in our Retail Banking business, which grew 10%, offset by continued pressure in Cards, and I'm going to talk about Cards in a moment, we intend to accelerate the topline growth of Mexico growing forward. And, as I mentioned, we're supporting this growth with a four-year investment program that upgrades our core infrastructure, transforms our client experience and further improves our efficiency.

We expect topline growth to accelerate to roughly 10% in Mexico over the medium-term. This is against industry growth of about 9% and this builds in the assumption of recapturing some share in target segments and products. Citibanamex is a top player in most products in the country. We’re the number one recognized brand and we handle 25% of all financial transactions in the country. We also have a leading share of banking relationships with 21 million clients and a leading share in new client acquisition as well. This positions us very well as we capitalize on these investments and we continue to deploy our global capabilities for the benefit of our Mexican clients.

On slide 49, you can see the results, as we've been executing against the segmentation strategy deploying our global card products and as we continue to transform our Mexican branch network. As shown on the upper left, we've seen strong growth in Citi Priority where we're executing our wealth management playbook and we're assigning Relationship Managers to our clients. We're also seeing better engagements in Citi Business with loan growth exceeding that of our peers, while maintaining strong target client discipline.

In cards, we see an acceleration in total loan and purchase sales growth. This volume has not yet translated into revenue growth, but with continued client engagement and a continuation of these trends, we anticipate returning to topline growth in Mexico as we exit this year.

And finally, we are transforming how we serve our Mexican clients. Branches are still very important in Mexico. A digital adoption there across the entire market of course does not match the U.S. or Asia but we at Citi are taking every opportunity to teach digital and to increase the use of our self-service channels. And as the Mexican marketplace evolves, we're intensifying our focus on digital as well. Our digital adoption is growing rapidly in Mexico, albeit it is from the small base, with mobile users increasing by 80% over just the last 12 months.

I would like to close by highlighting our Commercial Banking business, which leverages Consumer and ICG to deliver annual revenues of over $2 billion. In Consumer, the revenues are reported across our Retail Banking segment, and here we show the total contribution from these clients across lending, cash management, FX and associated products.

Our Commercial Banking clients are typically mid-tier institutions with financing needs and a presence across multiple countries. These companies aren't yet large enough to access the capital markets on their own right, but they value Citi's global network, our cash management capabilities and our FX capabilities as well. And this makes this segment really our sweet spot. By focusing on specific industry verticals, and staying true to our client strategy, we've been able to deepen our client relationships and generate strong revenue growth in the Commercial Banking business and we expect that growth to continue.

As I noted right at the beginning, we're playing a strong hand. We're better positioned than we ever have been before in the markets and in the businesses that are critical to drive this growth. We have strong franchises in growing marketplaces. We have an attractive client base and a compelling set of global capabilities that differentiate us from our local peers. We're massively accelerating our digital capabilities and our speed to market with new functionality.

We at Citi have a lighter physical footprint, and this positions us very well for where the world is going. And, over the past year, we've returned the business to topline growth. We expect this growth to accelerate as our investments continue to mature and we execute against the strategy we just described. And this puts us on a clear path to delivering a 19% return by 2020 and potentially beyond that in the longer term.

In the time that we got left, Jud and I would be delighted to take your questions. And I'd like to ask Susan to come back to the stage to moderate us. Thank you. Susan?

QUESTION AND ANSWER

SUSAN KENDALL: Thanks, Stephen and Jud. We're actually coming pretty close up to the noon break, but we'll take one here in the room. And we got one paddle up how about 16.

SAUL MARTINEZ: Hi. Saul Martinez, UBS. I want to push back a little bit on the assumptions for Mexico. First of all, I kind of want to understand a little bit, the 200 basis points of ROE improvement, it's about a third of the improvement in the GCB coming from Mexico on I think $36 billion of tangible equity. So, it basically implies, if my math is right, $720 million of incremental earnings in Mexico over the next couple of years. Banamex made, I think $900 million last year of earnings, under Mexican GAAP on a consolidated basis, which includes the Wholesale business. So, just help me understand the glide path to getting to such a big ramp up in profitability? Especially in light of the fact that you guys have underinvested in the franchise relative to your peers – can you just help me understand how – one, if my math is right? Two, how you get that kind of profitability improvement in a fairly short amount of time?

STEPHEN BIRD: Well, I think it begins with, first of all, your view of the Mexican marketplace. The Mexican marketplace is going to have Consumer revenues growing at 9%. So, I mean, is that consistent with your view?

SAUL MARTINEZ: 9% growth? In a good part of the cycle, yes. Whether we'll be in a good part of the cycle over the next couple of years is a good question, because you guys have grown a little bit below peers in an environment where you've been pretty much in a sweet part of the cycle in Mexico with higher rates, good credit and loan growth accelerating.

STEPHEN BIRD: Well, I wouldn't say that we're happy. We saw through 2016 very sharp reductions in consumer confidence with everything that was going on with the U.S. election, et cetera, but we've seen a resumption in improving trend in consumer confidence. In actual fact, we've seen the economy do better post the election. Now, the 9% is predicated upon our relative growth, which is in the 2%-ish range for the economy. But when you look at the under financial penetration, so fewer than 20% of the population having a credit card, for example, you get the multiplier – of economic growth, credit expansion, increased financial penetration – and that's why the sort of universally accepted number for topline growth is about 9% for Consumer revenues in Mexico.

So, the question then is, can we participate at that rate? So, you pass it down by business, we're already growing our Retail Banking business at that pace. We've markedly stepped up our card acquisitions and we're back at the pre-credit bubble issues level of card acquisition. So, if we project those and Cards kicks back in, we will be able to grow that franchise at 10%. If you grow at 10%, and as I highlighted earlier, we have already extracted 400 basis points of operating efficiency improvement in Mexico, you get a similar trend line and you get to the two-thirds of the international growth coming from Mexican franchise, which is what I assured.

Jane, would you like to comment? Jane Fraser, runs LatAm for us and perhaps she could supplement that.

JANE FRASER: Hello, everybody. Very much in line what Steve has been saying, it's a combination of the strong market growth driven by demographics. You've got the middle class coming through, increasing the penetration. We see credit is about 33% of GDP. You see AUMs at 20% of GDP et cetera. So there are strong drivers there.

I would argue that we've not been through a great cycle in Mexico. You've seen pretty low GDP growth rates for the past number of years and we're anticipating, as you heard, that's not increasing tremendously. This is a story about demographics. This is a story about middle class. And this is a story about increasing product penetration particularly in the emerging affluent.

From our perspective as well, our operating efficiency has been improving, and we see plenty of opportunity to continue to take expenses out as we invest and you've heard us talking about continuing through that investment program with positive operating leverage. And it's a combination, therefore, of operating efficiency, growth and that extraordinary scale that you've heard us talk about that we have in Mexico that drives the absolute profit improvement and also the RoTCE.

SUSAN KENDALL: Great. And that's all the time we had now for Q&A. There will be more time for questions with Steve and Jud and the rest of the management team at the end of the day.

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