TRANSCRIPT

**Barclays Global Financial Services Conference**
*Monday, September 8, 2014*

**Host**
Jason Goldberg, Barclays Capital

**Speakers**
John Gerspach, Citigroup Chief Financial Officer

PRESENTATION

**JASON GOLDBERG:** Good morning. If everyone could take your seats, we'll get started. Thank you for coming out for our annual Global Financial Services Conference. We have great attendance here, a great schedule, two and a half full days, over 170 companies here. Presenting over 5,000 one-on-one requests, we do try to accommodate the majority of those, and a lot of company presentations and panels throughout the two and a half days.

There is probably not a better company in the world to kick off a Global Financial Services Conference with than Citigroup. Citigroup is a company that has made great strides over the last several years in terms of leveraging its global footprint, keeping an eye on efficiency, utilizing its deferred tax assets, building capital for future redeployment, and actually putting up pretty respectable numbers over the last several quarters on its way to improved profitability.

From the company kicking off the conference, we're very pleased this morning to have John Gerspach, the Chief Financial Officer. Also in the front row here is Susan Kendall, Director of Investor Relations. I would like to turn it over to John.

**JOHN GERSPACH:** Thanks, Jason, thank you. Good morning and thanks, Jason, and thank everybody for joining us this morning. Today, I'd like to cover a few highlights, a few topics, including Citi's recent results, how we actively manage our global business, and finally our continued progress in generating book and regulatory capital, even in a challenging operating environment.

One of Citi's distinct competitive advantages is our global reach, and in particular our ability to bank multinational clients on our own proprietary network wherever they do business around the world. This model has several advantages, including the diversification of our revenue base and risk exposures, the ability to fund our operations locally around the world, and an unparalleled presence in the faster growing markets.

In many ways, where we do business today is a function of our clients' geographic presence and banking needs, particularly on the institutional side. But it's our responsibility to demonstrate the value of that network, starting with a clear definition of our target client base and how to allocate our resources to optimize returns.

Our goal is to continue to improve the efficiency of this core franchise while steadily winding down our non-core legacy assets in order to grow earnings, utilize our deferred tax assets, and ultimately position us for the increased return of capital to our shareholders.

Turning briefly to our financial results, on slide three you'll see the progress that we've made since 2011. Our return on assets has improved steadily, from 52 basis points in 2011 to 74 basis points for the most recent 12 months, driven by significantly reduced drag from Citi Holdings, earnings growth in Citicorp, and a reduced balance sheet.

While we faced revenue pressures over the past year, we've also continued to deepen our relationships with our target clients. Citicorp loans have grown by 6% annually since 2011, with broad growth across businesses and regions. And we have funded this growth with high-quality, low-cost deposits. We've also taken significant actions to improve the efficiency of how we come to market, simplifying and

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standardizing our operations, and in some areas, paring back to focus our resources on a better defined set of activities.

While we are optimizing our resources, our fundamental business model remains unchanged. Our institutional relationships often begin with our payments network, offering proprietary access to the banking systems in roughly 100 countries around the world. The value of a closed-loop payment system has only increased in today's regulatory environment, giving us the ability to keep our clients' funds "in our pipes," so to speak, for longer without needing to rely on correspondent banking relationships. This improves our visibility into these client transactions, and it also improves our ability to provide real-time data and capture adjacent business in areas like foreign exchange.

These flows contribute to our significant scale in fixed income trading, and rates and currencies in particular, where smaller scale competitors have retrenched. These operating relationships also provide the foundation for additional lending, underwriting, and advisory business, pairing a deep understanding of our clients' needs with sector-specific expertise.

On the consumer side, we operate in 35 countries. We are the largest card issuer globally with over $140 billion in card loans. And in retail banking, we seek to be the preeminent bank serving the affluent and emerging affluent customer segments in major urban centers.

With the exception of Mexico, where we have a national presence, our targeted approach means our retail footprint is concentrated in the major cities in each market. We need to be thoughtful in our resource allocation, investing in those markets where our target consumer segments are significant and growing, and where we have a strong franchise position. Importantly, we are driving these markets to common products and platforms in order to capture efficiencies on a global basis.

Citi is unique not only in the breadth of its global presence, but also in its longstanding footprint. We've been on the ground for at least 20 years in most countries and for more than 50 years in 40% of our markets. These are not newly planted flags, but established franchises with deep market expertise and longstanding relationships with the central banks and regulators in each country.

We don't just offer products in these countries; we run banks. And while the range of services we offer in each country may evolve over time, it would be rare for us to leave a market entirely. For example, we have exited eight consumer markets in total since the beginning of last year. However, we continue to support our core institutional clients in these markets. Over 40% of our markets simply function as nodes in our network, primarily serving the cash management, foreign exchange, and borrowing needs of the local subsidiaries of our multinational corporate clients.

However we come to market in a given country, we use a consistent set of principles to actively manage our activities and exposures. First and foremost, our business in each market must be consistent with our global strategy, starting with our target client model, which I'll discuss in more detail.

Using this client framework as a guide, we evaluate the attractiveness of each market and our ability to generate appropriate returns across our various businesses. We continually identify those markets where additional investment is needed versus markets where we can pull back existing resources or even exit a given business where appropriate. We then manage the balance sheet to support the business model in each country, matching assets and liabilities by currency in each market and maintaining appropriate liquidity. This helps insulate us from currency fluctuations as we are matching locally denominated assets with locally generated funding, mostly in the form of high quality deposits. While we do see an impact in certain quarters from the translation of local capital into U.S. dollars for reporting purposes, we actively mitigate the impact of these fluctuations on our regulatory capital ratios.

We also benefit from the diversification of our business across markets, currencies, and products. Outside the U.S. and Mexico, no one country represents more than 5% of our funded loan exposures, and we are

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mindful of any concentration risk by client, industry, asset class, or other attribute. We manage these exposures globally with a common risk system and a common risk appetite framework for aligning our risks with the emerging power of each business.

Risk management is just one example of how we're using common systems and processes to improve controls and efficiency across our markets. We also use a common global finance system to enhance decision-making, and we are investing in common global product platforms to improve the consistency of our client experience.

I'd like to go into some of these themes in more detail, starting with our target client strategy. At a high level, we target those clients who can benefit most from our global capabilities and local market expertise. On the consumer side, our retail banking strategy focuses on major urban areas where affluent and emerging affluent consumers tend to be concentrated. These populations are growing in major cities and their financial needs are convergent.

As we look at the world today, the retail banking needs of our target clients in Warsaw, as an example, are increasingly similar to those living in New York or Hong Kong, allowing us to leverage our global investments in areas like wealth management and digital platforms. Of course, in cards and lending, and in markets like Mexico, we target a somewhat broader set of consumers, but our goal of delivering a consistent, remarkable consumer experience remains the same.

On the institutional side, we target large multinational corporations and investors who rely on our global network. As you can see from the right side of the slide, over half of our corporate client revenues come from clients we serve in more than 10 countries, and our corporate credit exposure is predominantly investment-grade.

We serve our clients across multiple businesses and geographies, mitigating the concentration risk of any one product, market, or currency. Over three-quarters of our revenues come from consumer and institutional banking, split fairly evenly among retail, cards, and corporate and investment banking. Less than 25% of Citicorp's revenues over the last 12 months came from markets and securities services.

Citicorp is also highly diversified by geography, with no outside exposure or reliance on any one market outside the U.S. Over 40% of our revenues come from faster growing emerging markets. And with the exception of Mexico, no emerging market accounts for more than 3% of our revenues.

Our emerging market presence gives us unique opportunities, driven by expanding trade flows, the rise of the emerging market consumer, and the growing financial needs of local corporate champions seeking to expand beyond their home markets. While growth expectations for 2014 have moderated over the last 18 months, particularly for the U.S. and Mexico, global growth is expected to accelerate in 2015. And importantly, emerging market growth is still expected to be roughly double that of the developed markets for the foreseeable future.

On a revenue-weighted basis, the GDP growth expectations for Citi's major markets are roughly in line with global growth estimates, roughly 3% in 2014 and 3.5% for next year. These GDP trends are contributing to our loan growth, up 7% year-over-year in Citicorp, with broad growth across regions and businesses. Importantly, we have achieved this growth while maintaining solid credit trends, consistent with the target client strategy that I reviewed earlier.

The net credit loss rate for Global Consumer Banking improved again in the second quarter to less than 240 basis points, reflecting the diversification of our portfolio. While the loss rate has ticked up in Latin America, mostly due to slower economic growth and fiscal reform in Mexico, this was more than offset by continued improvement in North America and a low and stable loss rate in Asia. On the corporate side, the total non-accrual rate also continued to improve in the second quarter to roughly 40 basis points, despite an uptick in Latin America related to a specific credit outside of Mexico.

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As I've described earlier, we actively manage our balance sheet to match assets and liabilities by market, and so our deposit base reflects the diversity of our loan portfolio. Over the past several years, we have managed the deposit base to reduce our reliance on higher-cost time deposits and improve the stickiness of our base. This not only lowers our overall funding costs, as you can see at the bottom of this slide, it also positions us well for the Basel III LCR requirements, with over 90% liquidity value for our retail and commercial banking deposits and nearly 75% liquidity value for our institutional businesses.

In addition, we believe the geographic diversity of our deposit base, with only about 40% in the U.S., mitigates the potential impact of industry deposit outflows due to a rising rate environment in any one geography. In fact, we believe we're poised for a significant benefit in the event of rising rates, particularly in the short end of the curve. As economic conditions have improved since 2010, we have adjusted our interest rate position progressively to increase our sensitivity to a rising rate environment. As of the end of the second quarter, if both U.S. dollar and non-dollar interest rates were to increase by 100 basis points in a parallel shift, we estimate our annual net interest revenue would increase by $1.9 billion, or the equivalent of roughly $0.43 per share of additional potential earnings.

Finally, I want to touch briefly on the impact of currency fluctuations on our earnings and capital ratios. As I've noted before, our operations are diversified, and so no single currency is likely to create an outsized impact on our financial results. Our earnings also tend to be naturally hedged, with currency movements having an impact on each of the reported revenues, expenses, and cost of credit. In fact, over the past few years, the impact of foreign exchange translation into U.S. dollars has been no more than a few cents of EPS in any given quarter.

Where we take a more active role in hedging is with respect to our regulatory capital ratios. Because locally-denominated capital is translated back to U.S. dollars for reporting purposes, we do absorb fluctuations in our absolute amount of book and regulatory capital due to FX movements. FX though would have a similar impact on our risk-weighted assets in each currency, but these movements do not always fully offset each other. And so where necessary, we actively hedge the impact of FX on our Basel III Tier 1 common ratio. As you can see on the right side of the slide, the impact of foreign currency translation on this capital ratio has been no more than a few basis points in any quarter over the past year.

Growth in our Tier 1 common ratio has been predominantly driven by earnings and DTA utilization. We ended the second quarter with an estimated Basel III Tier 1 common ratio of 10.6%, up from 10% a year ago despite a significant increase in operational risk RWA. Our estimated supplementary leverage ratio grew from 4.9% to 5.7% during the year, and our tangible book value per share grew by 7%.

Citigroup generated over $18 billion of net Tier 1 common regulatory capital over the past 12 months, including nearly $10 billion from earnings and nearly $7 billion driven by deferred tax assets that were previously excluded from capital.

Deferred tax assets can benefit our regulatory capital in two ways. First, as our capital base grows, an increasing percentage of these and other restricted assets can be included in the calculation of Tier 1 common capital. And second, as we utilize our deferred tax assets, this also reduces the overall reduction from capital. Over the past 12 months, we have utilized nearly $3.5 billion of deferred tax assets, driven by earnings in Citicorp and a significantly reduced drag from Citi Holdings.

As the losses in Citi Holdings have improved, you can see the resulting positive impact on our ability to utilize DTA. In 2012, we reported a pre-tax loss in Citi Holdings of $11 billion, driving an increase in our DTA of $3.8 billion. Since that time, we have substantially reduced the losses in Citi Holdings to nearly breakeven for the first half of 2014. We have driven down the DTA balance for six consecutive quarters by $4.7 billion in total, and we believe we are well positioned for continued DTA utilization going forward.

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Utilizing our DTA continues to be a key execution priority, as it represents the biggest source of drag on our book capital returns. We ended the second quarter of 2014 with $202 billion of common equity and roughly $172 billion of tangible common equity, or TCE. However, a sizeable portion of this TCE supports Basel III capital deductions, including a significant portion of our deferred tax assets, which are included in TCE but excluded when calculating our regulatory capital. Or in other words, today we carry roughly $37 billion of tangible common equity over and above our Basel III Tier 1 common capital. We can close this gap by utilizing the deferred tax assets and returning that excess capital to our shareholders over time. But in the meantime, it does have a dampening effect on our book capital returns.

Over the last 12 months, Citicorp earned just over $14 billion of net income to common shareholders on average tangible common equity of $145 billion, for a return of roughly 10%. However, embedded in Citicorp's TCE was an average amount supporting DTA of roughly $38 billion over the same period. This represents a significant amount of capital on which we earn no return. Excluding DTA, Citicorp generated a return of over 13% on the tangible common equity supporting the operating businesses.

Turning to Citi Holdings, another $23 billion of capital supports a business which continued to generate losses over the last year. And so when you look at Citigroup in total, the return on average tangible common equity of 8% includes two significant items, the capital supporting DTA and Citi Holdings, which do not represent our core franchise.

Our ultimate goal is to better reflect the attractive returns of Citicorp at the Citigroup level as we further reduce the DTA, wind-down Citi Holdings, and return excess capital to our shareholders over time.

In summary, we believe our business model gives us a unique ability to support our clients wherever they grow and transact around the world. We actively manage our global activities and exposures with a clear framework for who we serve, how we approach risk, and how we manage our balance sheet. We are already generating attractive returns in Citicorp, excluding the impact of DTA. And we will continue to take actions to improve the efficiency of our core franchise, simplifying our operations, and optimizing our resource allocations across products, clients, and markets. We continue to wind-down our legacy assets in Citi Holdings, and we are committed to positioning the firm for a greater return of capital to our shareholders.

Before I turn it over to questions, I'd like to make a few comments on what we are seeing so far in the third quarter. We continue to expect consumer revenues to grow modestly this quarter both sequentially and year-over-year, which should result in our consumer business generating positive operating leverage. We also continue to expect modest revenue growth in Treasury and Trade Solutions versus last year, with ongoing volume growth outpacing the impact of a low interest rate environment.

In Investment Banking, revenue should improve versus last year as we see continued momentum in our franchise. But on a sequential basis, revenue should be down on seasonally lower underwriting volumes. And we currently expect total fixed income and equity markets revenues to be roughly in line with the third quarter of last year, although actual results will depend on the market environment and our performance in the month of September.

Turning to expenses, at the Citigroup level, core expenses excluding legal and repositioning costs are expected to be slightly higher than the second quarter, driven by additional costs we are incurring to ramp up our enhanced CCAR process. Repositioning expenses should be roughly in line with the amount we recorded in the second quarter, and legal and related costs will likely remain elevated.

And with that, I'd be happy to take any questions.

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QUESTION AND ANSWER

**JASON GOLDBERG:** Before we open up to the audience for questions, we'll do some polling stuff. In front of you are these little white gadgets that can help you respond, maybe a couple quick questions. The first question we propose to the audience is if you do not own the shares of Citi or are underweight, which are the following would most likely change your mind to the stock: one, rising rate environment; two, ability to redeploy capital and more certainty around CCAR; three, acceleration of growth in emerging markets; four, a better outlook for capital markets; five, more confidence in compliance in international markets; and six, elimination of Citi Holdings? And we'll go a quick 10 seconds. Five seconds left, let's see what Susan voted for.

**JOHN GERSPACH:** I don’t have a clicker.

**JASON GOLDBERG:** Susan has one. Wow, overwhelmingly went with two, ability to redeploy capital and more certainty around the CCAR process. To that, John, can you maybe talk to – you mentioned...

**JOHN GERSPACH:** That would have been my pick as well.

**JASON GOLDBERG:** Me too. Could you maybe address – I guess first off you mentioned higher expenses in Q3 tied to buttoning that up. Where do you think you are in the process in terms of meeting the regulatory demands? And then secondly, maybe a sneak peek in terms of how you're thinking about the 2015 CCAR process; there are some views that you have to tiptoe back into redeployment, other views that you can go with what you would have done anyway given your heightened capital levels.

**JOHN GERSPACH:** Thanks, Jason. We clearly, as I mentioned before, remain very focused on the CCAR process. I'd have to say that if somebody asked me what are the given priorities of the firm at this current moment, priority one would be CCAR, priority two would be CCAR, and priority three would be CCAR. So we remain very focused, very much in line with your views as well, I think.

We've had some great dialogues with the Fed over the over the course of the last several months, and I'd say that we are well on the way to making the needed changes that we will have to do in our process in order to pass the qualitative aspects of the next CCAR submission. I can't give you a percentage as far as are we 50% of the way home, 60% of the way home. But we are very focused on it and very active in addressing every one of the concerns that were raised.

As far as from what we might do, tiptoe back in or whatever, I think it's still too early at this point in time to gauge as to what our capital request may be. We're really focused right now on the qualitative part of CCAR. And we likely won't really begin to think in terms of what a potential capital return might be until much later in this year.

**JASON GOLDBERG:** Great. And maybe the next question quickly. What do you expect Citi’s CCAR submission to resemble: one, 5% dividend payout, 25% share repurchase, 30% in total; two, 50% dividend, 40% buyback, which is like what they put in for this year; three, 40% total payout ratio; four, five, and six, just build upon that, with six being 100%? And we'll start the clock now.

The answer is two and three, so anywhere from – it looks like 40% – 45%-ish payout ratio. I won't ask you to comment on that John, given your prior response. And with that, why don't we open it up to the audience for some questions? We've got Steve.

**SPEAKER 1:** Can you give us any sense of what you've learned over the last say four or five months in your discussions with the Fed; in other words, the level of confidence that you have that the qualitative fail is a one-year fix and that it won't extend beyond say going in, because I would think that it's what, September 8th? Typically the banks start preparing already…

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**JOHN GERSPACH:** CCAR is a year-round process and I think that's one of the clear messages that we've developed over the last several years, quite frankly, as you don't just start your CCAR preparations in September or October. It is year-round, and it needs to be integrated in the way that you actually run the business. It's not that you run your business and then there is a separate CCAR process. Everything to do with the qualitative aspects of CCAR has to be ingrained in the way that you monitor and conduct your businesses during the course of the year. And I think that's something now that is very clear. I think that's been an evolving learning for the industry, but it's one now that we clearly understand.

And so, Steve, even as we make the changes that we need to make in order to meet what we believe are the current qualitative aspects, we fully understand that since this is the way you run your business, there are going to have to be significant changes every year, a continuously improving approach to the whole qualitative aspect of CCAR.

**JASON GOLDBERG:** A question in the back, I think it's Mike?

**SPEAKER 2:** Thanks. I'm going to follow up on Steve's question. Because if we go back a year, you were expressing similar confidence that the CCAR process was going to be fine, and it wasn't given you failed. So you're confident again this year. And I think what investors want to know is what are you doing differently, or it could have been that you were just too Pollyannaish last year and now you got a harsh dose of reality and you're really doing what needs to be done because, again, your tone to investors sounds very similar to a year ago? Thanks.

**JOHN GERSPACH:** A year ago, I would say that we had a false set of understandings coming out of the previous year's CCAR, and I'll just leave it at that. We didn't grasp totally the need to ingrain the qualitative aspects of CCAR in everything that we do. The approach that we had that got us through the 2013 CCAR had been a tops-down driven approach to coming up with the various impacts in both adverse and severely adverse conditions. We didn't have enough business involvement and we didn't have enough of the CCAR process ingrained in the day-to-day operating systems.

I can't explain to you why we didn't have that understanding coming out of 2013, but clearly coming out of 2014 we have a much greater appreciation for the need to have more of a bottoms-up approach when you're looking at the various aspects of the whole qualitative set of conditions in CCAR. And we understand that it needs to be something that is not just an exercise that you conduct at the tail end of a year, but it's something again that is part of your continuous business performance assessment during the course of the year. So I think we've got a much greater sense of understanding now, but I've got to agree with you. The proof will obviously be we'll see what happens when we do the 2015 submission.

**JASON GOLDBERG:** Okay, there's one.

**SPEAKER 3:** Just to build on that, could you comment on how you view the living will process in the context of CCAR, if those conversations are going on in conjunction and whether the Fed's feedback on living wills is considered now going forward with the CCAR?

**JOHN GERSPACH:** That's a great question. It's one that we've continued to ask ourselves. At this point in time, the resolution process and the CCAR process are different. But there is likely to be some convergence at a point in time, but I can't tell you when that point in time will be.

Right now, CCAR is assessing: do you have enough capital to survive a stress situation? The resolution process really picks up in a scenario where you have failed or you are about to fail. So they actually start out with two different scenarios, and therefore have not been linked. CCAR, the assumption in CCAR is you will survive the stress scenario; it's a matter of whether you have enough capital. Resolution is you have failed. There's no clear environment that's laid out in resolution that says: "this is the environment, what happened?" You have to determine what losses would it take for you to fail.

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So they start out differently. One starts out assuming you've had a significant event. It's your event, you failed. The other is: do you have enough capital in a stressed environment. So they run as two different exercises, I think there will come a time when they're linked, but we don't see that right now.

**JASON GOLDBERG:** John, there was a Reuters article last week titled "Why Citi would be better off in bits," or something along that. Could you just maybe talk to how you think about that? Would it be easier to manage things like living wills and CCAR if the company took tacks to maybe separate itself, or the benefits running one single organization just outweigh maybe some of the potential hurdles?

**JOHN GERSPACH:** We do run Citi as one organization. I don't want that to be a doubt in anyone's mind. It's not that Citi is run as a series of separate organizations. It's run as one organization and one clearly defined set of risk parameters, risk systems, risk measurements, financial parameters, financial measurements, financial systems. So it isn't some amalgamation of differing entities.

I think any organization can always simplify how it is organized. I actually began my career working for ITT, which was probably the biggest conglomerate ever. And certainly there was a need to simplify ITT over time. I think we've taken great steps already to simplify Citi. Just take a look at the balance sheet reductions that we've done over time. We've taken out $700 billion of assets from Citi Holdings. Our balance sheet is down roughly 20%, 22% from where it was at the height of the crisis. So there has been a great deal of simplification. We have radically changed our strategy. It's a much more focused strategy. It is focused on specific targeted customer segments. It is not a strategy as you might have had in the past where it was just to get big. So I think that we've done a great deal.

I think from a resolution planning point of view, I think every organization will look, and the Fed and the FDIC made these comments as far as looking at your legal vehicle organization. Can you simplify your legal vehicle structure? We'll do that. We're in the process of doing that right now. So I think there are things that we can do. But given the target market that we have established, as I said during the presentation, where we are today is really dictated – the countries, the markets that we operate in today are really being dictated by our customer needs.

**JASON GOLDBERG:** Time for one quick question, if there is one. I guess, John, just maybe a point of clarification. You gave some trading commentary with respect to the third quarter. I guess embedded in your guidance, was that where we are point in time, or did that assume some kind of pickup in September because clearly September feels a little better than we saw in July and August?

**JOHN GERSPACH:** The commentary, I don't want to get into how it views in any particular month, but I think it's natural for the industry to assume that September will be slightly better at least than what you would see during August. I'd characterize the month of July was better than August, and we would assume that September will also be better than August.

**JASON GOLDBERG:** Got it, that's helpful. Given that, we're out of time. With that, please join me in thanking John for his presentation.

**JOHN GERSPACH:** Thank you all very much.

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