TRANSCRIPT

Alliance Bernstein 2022 38th Annual Strategic Decisions Conference
Friday, June 3, 2022

Host
John McDonald, Senior Research Analyst for Autonomous Research

Speakers
Jane Fraser, Citi Chief Executive Officer

PRESENTATION

JOHN MCDONALD: Okay, thanks everyone. We are very excited to have Citigroup with us today. We have CEO Jane Fraser joining us for a talk. We have Mark Mason, CFO, who will be here afterwards to take some questions as well. Jane, thank you so much for joining us for this fireside chat. We're happy to have you.

JANE FRASER: Oh, it's great. It's wonderful being here in person. Thank you very much for inviting me.

JOHN MCDONALD: It certainly is. So we've heard a lot this week on the macro, mostly about the United States. It sounds like you've been on quite the global tour. So maybe you could give us your perspective of what you're seeing and hearing in different parts of the globe and how that compares to what you're thinking about the US.

JANE FRASER: Yes, I've just been in Japan and in Singapore, I've been in the Middle East. I've been in Germany, Italy and Poland. And I would say that one size does not fit all. It's a general theme. We talk about the three R's, so depending where in the world you are, it's rates, it's Russia, and it's recession, is a lot of the conversation. Let's maybe start off with Asia.

You're seeing a lot of the conversation there is around China and what's happening there. I think what we see with China is a wider and a longer lockdown than everyone expected, but we are certainly starting to see from our footprint on the ground there and our people on the ground, things are starting to open up a little bit more there and wouldn't be surprised to see action taken on fiscal stimulus, particularly with November and the Congress coming up. So I suspect we'll start hearing more positively about China coming through in the next sort of weeks and months ahead as it reopens again. And then elsewhere in Asia... It's interesting, the main discussion was really around food, less around energy there, and then that's what they were more concerned about, which I took to be a good thing. I think it's a sense of they're coming out of some of the lockdowns and there was a real sense of dynamism there.

In Europe, I would say very differently. In Europe, it's obviously dominated by Russia in a way that it really wasn't in Asia at all. It was much more so rates and recovery. In Europe, the energy side was really having an impact on a number of companies. There's certain industries that are not even competitive right now because of the cost of electricity and the cost of energy. Some of them are shutting down operations. And I think the big concern there is going to be the cost of heating in the winter if it's a cold winter. I think there's some confidence if it's not a bad winter. They've probably got enough supplies through. But if it's a cold winter or if there's some more droughts or the things that we saw last year that has had an impact on some of the more sustainable energy sources, it's going to be a problem. And obviously the concern about ration gas is a tail risk that's there.

So Europe definitely felt more likely to be heading into a recession than you see in the U.S. That said, I think not of the same magnitude as here. That your consumer's still got a trillion dollars more deposit sitting in their bank accounts than they had entering COVID. Talking to other European banks and looking at our own portfolio, no one's really seeing it in the numbers in credit quality, standing up very well, both the consumer and the corporate and commercial portfolios in Europe and the banks are in reasonable stead, but I think the consumers are going to be hammered with the cost of energy and inflation.

JANE FRASER: And they just don't have the same flexibility as we have here in the states. It feels like the ECB is a few months behind where the Fed has been in getting its arms around inflation and without quite the same flexibility that the U.S. has. So that would be some of the things I'd say, just from the macro perspective that tougher time in Europe, Asia is sort of supply chains and recovery-focused, and China probably going to become more of a story again soon. Not without challenges.

JOHN MCDONALD: Yes. Yes. So where does that leave us here in the U.S.? What do you hear from clients and how does that wrap into your outlook for this year?

JANE FRASER: Yes. If we take different clients, I think the U.S. story is, as we all know, much more about rates with this is a recession. It's certainly not our base case that there will be, but it's not easy to avoid either. When we look at what the clients are talking to us about from a macro perspective, I think the confidence is still pretty good amongst the CEOs and the CFOs. They know there's some more supply chain challenges and they keep piling on top of each other, but they're feeling reasonable around that. And the activity has been pretty robust as we've seen. I'm sure we'll get onto investment banking and other things later on from the investors.

I think what I've seen in the States, what we're hearing from the investors regarding the U.S. as well, I think they feel that the Feds have actually given pretty clear guidance, and we may even see some of the volatility easing for a little while because we kind of know what they're going to do for the next few meetings. Then I think there'll be a bigger question as to what happens thereafter, what's the impact. So maybe a little bit more quieter in the markets for the next little while.

I think some of the investors have got back in into some of the different spaces. They felt the market got a bit oversold for a while, some of them even jumping back in. And generally, they've been acting in a very oddly manner, as we think about what happened compared to 2013 with the taper tantrum. And then the consumer clients are feeling pretty good still, they've got a lot of money in the wallet.

The bit, I'd say, if you look longer term, and I think this is very relevant for us as we think about what are the big shifts that are happening, it's really around... I always talk about this being an additional S in ESG now, which is security, it's around resiliency. And it is almost as if six weeks ago, all the clients we are talking to almost all around the world, suddenly recognized that they've spent their last decade focusing on scale and labor arbitrage, and efficiency, and also fossil fuel taking advantage of fossil fuel financing being cheap. And I think there's a dawning recognition that the decade ahead is going to have to be much more about resiliency. It's going to be around security, food, cyber, defense, energy. It's going to be around operational resiliency, and they're going to have to rethink a pretty big overhaul of value change in supply chains that will be inflationary by nature. It will add some costs into the system. Ultimately it should save costs because when there are problems, the system is resilient to deal with them. But that was a dominant theme from CEOs, CFOs, and the heads of the big investment firms that we've been talking to is how to cope with that as the big shift that's happened.

JOHN MCDONALD: Yes. That's interesting. Okay. Let's talk about Citigroup. So, maybe just to set the table a bit, if we do get into a trickier environment based on historical performance, people worry that Citigroup's kind of a risk-off stock. So what would you point to that might suggest it could be more defensive this time, hold up better? What changes would you point to?

JANE FRASER: Yes. Look, we've all been through quite the stress tests of the last few years. I'm feeling very good about our capital position. I feel extremely good about the quality of our liquidity. I feel good about our balance sheet quality. I look at our earnings capability and the mix that we are shifting to. And when you are worried about, "Is there going to be a recession further down the road?" First of all, it's very manageable. I think it's one that we've got the full tool kit ready. We're really prepared for all sorts of outcomes, be it geopolitical, or be it macroeconomic driven or in nature. And I think we're very well positioned indeed. And I point to a few things, if we look at where some of the challenges might be. 82% of our corporate lending is investment grade.

When I look at our exposures in emerging markets, they're not that significant because most of the business that we're doing in the emerging markets are really cash management and the transaction services businesses, which is more fee and annuity-like in nature, rather than lending led. And it's also for the multinationals and the subsidiaries of multinational companies around the emerging market. So, I think that gives us an inherent resiliency when you do see different crises or the like that come through. And the same on our consumer front, I look at the consumer portfolio we've got. It's very prime in nature. And the divestitures that we have around the world on retail bank will also help reduce down some of that volatility and risk. So, you never want to be complacent, but we are very well-prepared. The tool kit's ready. And right now we are just running, as Mark will talk about later, multiple different scenarios all the time. And making sure we're ready for many different eventualities.

JOHN MCDONALD: Okay. And before we dive into kind of some of your longer term goals, just maybe, is there anything to say about the current quarter in terms of the capital market's activity? You touched on it a little bit earlier on the investment bank side of things. Obviously your pipelines and activity was difficult and shut down a bit in the first quarter. Any kind of update so far second quarter?

JANE FRASER: Yes. Look, well, obviously we'll be heading towards second quarter results before long, so there'll be a lot more clarity and the discussion then. What I'd say on the market side, we've benefited both first quarter and we see this continuing on, that really a lot of the activity in markets has been from the corporate side, particularly when you look at G10 rates and FX. And so that's been an area that's really benefited us and we've seen that continue on this quarter. It's been highly active there and that's a base that is a very strong part of our ongoing markets activities.

JOHN MCDONALD: So good volatility.

JANE FRASER: It's good. It's very good. It's very good volatility. And it's one where we're in there helping clients manage FX, manage volatility that's out there. And there's a large differentials on the FX market. And as I say, that's continued into the second quarter. On the equity side, the derivative's pieces have continued to be good. And some of the areas where we've seen more stress are actually ones that we haven't been as active in, which would sort of more be in the high-yield markets. So I think on the market side, it's been healthy.

And then on the banking front, obviously the wallet was extraordinary last year. We saw a lot of different transactions that have been pushed rather than pulled. I'd say we probably have a little bit less confidence about how active the second half of the year will be, which is when you could see some more things coming back. So we're a bit more in a wait and see mode to see what happens there.

But otherwise, you're seeing the businesses you'd expect to benefit from improving rates also growing nicely. And we've also had the benefit of the stretch we put in place, the fee growth continues, other elements of being continuing on. And some of the areas we've been investing, we've been delivering results in terms of growth from that. And good to see the consumer starting to borrow some more money again.

JOHN MCDONALD: Good. So let's talk about your goal of improving Citi's returns. You had an investor day in March, you laid out a financial target

Of 11% to 12% return on tangible common equity. And, just the reference point on that was in 2021, you kind of did an adjusted 9.

JANE FRASER: Yes.

JOHN MCDONALD: So how did you decide on 11 to 12 as the ambition to shoot for?

JANE FRASER: Yes, I wouldn't say it was the ambition.

JOHN MCDONALD: The goal.

JANE FRASER: I think our ambition is greater than that for the long term, we sort of looked at it and we looked it as we looked at our strategy and felt we have a lot of confidence behind the strategy and what it's looking at building for our future. And that's to have a stronger business mix. So for stronger focus around businesses with good returns, growing our fee revenues, and businesses where we also see that we can either retain a leadership position or that we can strengthen the position that we're in today.

And at the same time, we have investments to make. And we also have a consent order that we're addressing. And so when we look at it from the expense perspective, we want to make sure that we will be delivering to our investors, that we are realistic about timeframes, that we are giving a good amount of flexibility for ourselves so that our investors can see the strategy, see the progress we're making on it, understand how that's delivering the financial outcomes. And, we decided that 11 to 12% over a three to five year period was something that we had a high degree of confidence about delivering. And then in the longer term, we certainly intend to deliver more than that.

JOHN MCDONALD: Um-hmm, and I guess the idea would be that, the roadmap looks kind of revenue driven, right? In other words, you've got some investments you're going to make, so it's not an expense driver. To go from 9 to get into that 11 to 12 range. And obviously we might have some credit normalization that the industry has. So I guess what are, what are some of the revenue drivers that you feel good about? Are they relying on the environment or are they reliant on some of your business drivers?

JANE FRASER: I feel very good about the revenue growth because it's diversified, it's not hanging its hat on one or two different pieces, and particularly on the macro side. So rates is about 20 to 25% of the revenue growth that we're expecting. Then we've got another 20 to 25% from the consumer lending recovery, which was really hit so hard in this cycle. And we're starting to see really good signs around that. Always slower than you would like, but I'm feeling good on that front.

Then we have the remainder split pretty evenly between areas where we've been investing for growth. So transaction services, is really a jewel in the crown for Citi. That's one where we've got, good wallet share and we can dive into that in a minute or two, but we see the opportunity to grow wallet share. Plus there's very good growth in that business anyway, from new client acquisition in the mid-market, as well as from many of the large companies that still run there. Wealth management another area that are one of those unstoppable trends, that we've got some tremendous assets we've been bringing them together, we see good growth, and finally just opportunities to just continue to get some steady, share growth in banking, in markets and you know, and our consumer franchises and making sure we're doing that in a focus way.

That's very much capital optimizing.

JOHN MCDONALD: Sure.

JANE FRASER: Rather than just revenue for revenue's sake.

JOHN MCDONALD: And I know some investors have said, Hey, can't you do this any quicker, earlier. How'd you decide on that? You called it a medium term. And I said, three to five years is kind of what you just mentioned.

JANE FRASER: Look at the world we're in now. I mean, it feels like an eternity from investor days. Some days you go, wow, how much has changed? And the bit I like about it, I wouldn't change a thing of what I stood up, and Mark and the whole team of us, stood up there on investor day and said, was the strategy. We deliberately made sure and took the time that it would be one that would work in all different environments.

JOHN MCDONALD: Sure.

JANE FRASER: And it would be sustainable. So from that perspective, we want to make sure we've, we've got a lot to execute. The proof is going to be in the pudding. We are very determined to make sure that we execute well, there may be some factors that are outside of our control from a macro geopolitical other piece that could slow some things down. So we wanted to make sure that we weren't going to under deliver, but that we were going to be credible with everyone around what we thought we would be able to do and when, and give some flexibility, so that things beyond our control wouldn't disrupt what we deliver.

JOHN MCDONALD: Sure. Fair enough. And then we'll just touch before we talk on the businesses about capital levels.

JANE FRASER: Yes.

JOHN MCDONALD: Now it does sound like there's a lot of moving parts to your capital ratio equation this year, both in the environment and also with all your business divestitures. So just remind us. Yes. I think you're starting at 11.4% on the CET1. You're going to build a little bit this year.

JANE FRASER: Yes.

JOHN MCDONALD: Out of the divestitures.

JANE FRASER: How does everything bake in.

JOHN MCDONALD: And is there any room play in? Yes. Is there any room for buybacks along the way? Or...

JANE FRASER: Yes, so we're going, we are at 11.4% at the end of the quarter, we need to be at 12% at the end of the year. We have a G-SIB score that means we have to increase up the 12% CET1 ratio, while still maintaining all the buffers and other pieces that are there. Mark laid out, and I don't need to go over and recapitulate all of that, what that path looks like in the last earnings. And it's a combination, if I look at it, I would say, first of all, given where our stock is trading, we love buybacks. We think there's an extraordinary opportunity there. However, when I'm looking at the environment, we have a few headwinds that are there. So with the rates environment, AOCI has been one that the whole industry has had to tackle last quarter.

And, there's could be another one and some more challenges there, obviously the benefit of a rates improvement and increase is that we get all of that back and more. So it's a timing issue of when does that get back to shareholders and then we've got earnings that we feel good about. I looked at, Yes, I looked back to the COVID era and we were able to maintain our capital well above regulatory, very, very highly above our regulatory minimums, the same time as taking a $10 billion build in our credit costs and with strong earnings power. So we feel good about our earnings power, and on the divestitures, we just announced Australia's got closed. That it's nice to get the first one under the belt, that gave another 1.5 billion of capital into the kitty for the year.

JANE FRASER: And we don't control the timing of when the divestitures close, but we are assuming by the end of the first quarter, next year, we'll have had a lot of the big chunky ones. And we're very focused on making sure those ones that deliver the capital back to us and ultimately our shareholders will be there. So between, a recognition of we'd like to do buybacks, but we're going to be cautious, we're going to take it as Mark said, quarter by quarter. There's a lot of volatility and uncertainty in the market there, but I'm feeling good about the medium term and the long term on that one.

JOHN MCDONALD: Yes.

JANE FRASER: Right now, it's going to be a choppy year. I think.

JOHN MCDONALD: Sure.

JANE FRASER: We are going to be, as you would expect us to be, responsible.

JOHN MCDONALD: Yep. Yep. And longer term, you are going to free up 12 billion or so of capital from the divestitures that you've talked about. So that's something we can look forward to over the next couple years.

JANE FRASER: And some of that capital will go back, some will go to our shareholders. Some of it will go to our shareholders, through investments we're making and the investments we're making are in businesses with very high returns.

JOHN MCDONALD: Um-hmm.

JANE FRASER: And ones we have a high degree of confidence around. So it should come through that. It should also come back to our shareholders from some of the investments we'll be making related to consent orders, but also related to driving…

JOHN MCDONALD: Growth.

JANE FRASER: … Digitization. Efficiency. And I do see opportunities, continue making our firm simpler. That should make it more efficient and improve that way.

JOHN MCDONALD: Okay, good. Well, let's talk a little bit about the makeover and the new Citi. You came in, you studied the company, you did a dispassionate review.

JANE FRASER: Yes.

JOHN MCDONALD: And you announced a pretty substantial corporate makeover.

JANE FRASER: Yes.

JOHN MCDONALD: So, you know, at the end of the day, what's the underlying vision of what the new Citi is going to look like and what you want it to be viewed as.

JANE FRASER: Yes. I'm really excited about the vision because it's one where all the pieces just fit really well together. And I think it will be a simpler, it will be a more focus, it will be a better connected bank, that's much better for our shareholders.

JANE FRASER: And it starts at the core, which is around the core clients we serve are institutions and individuals be those multinationals, be them banks, be them investors with cross-border needs. And the bank has extraordinary assets to really be the preeminent partner and banking partner for them on that. And that's really the heart of the strategy. Linked into it is to be a leader in wealth management. We are recognized in many parts of the world, far more than we are in the U.S., as already being that.

But I see a lot of upside and growth, and tremendous synergies from wealth management with our other businesses. And then to be a leader in our home market, and really be stronger in our home market, on our personal banking front. So I think the strategy makes a lot of sense.

JOHN MCDONALD: Um-hmm.

JANE FRASER: It's five different interconnected businesses. We are working hard on the synergies between them. They will improve our business mix. And it is a pretty significant corporate overhaul.

JOHN MCDONALD: Sure.

JANE FRASER: And it gives a lot of clarity as to who we are. And I certainly hope for all of our investors and shareholders, a much simpler institution, just to understand, to get your arms around, who is Citi how do we add value for our client base? Where are the drivers of value going to be? And not the complexity that I've certainly heard that many of you had been frustrated by in the past. So I and the management team, I think we believe that this is absolutely the right path forward and we are getting on with it.

JOHN MCDONALD: Yep. So step one was to announce the exiting of your Asia consumer businesses. Your ...

JANE FRASER: Step one was wealth management.

JOHN MCDONALD: Yes. Okay. Yes.

JANE FRASER: Step one was wealth management because that's where we saw the future would be. And then yes...

JOHN MCDONALD: Just to remind people to reorganize wealth management. Right?

JANE FRASER: So we basically said that we were going to focus our wealth manage... or create a wealth management division. And that would be one that combined our offshore centered, or consumer franchises that were centered in the big offshore centers. So, Singapore, Hong Kong, London, and the UAE, and that we would bring together the private bank and those consumer affluent franchises together, and put them into a single division, all operating off one platform. And that was the first step.

Second step was then what we are not, which was then to say, we weren't going to be a international retail banking franchise, consumer banking franchise anymore. We would focus that on the U.S.

JOHN MCDONALD: And, and again, just the rationale for getting out of the international consumer. Why did you decide that? And what are the benefits of that at least streamlining, obviously you've talked about.

JANE FRASER: Yes, look, I came to conclusion. We were no longer going to be the best owner of those assets anymore. And that was, and that we had other assets that we had that had far better returns and better fit together than the international consumer franchises did. And part of it was, and you're seeing it now. And we saw it in Asia. I just felt with the digitization, that's going on,

JANE FRASER: Branch-based banking and traditional retail banking is really rapidly getting unbundled, rebundled around digital architectures. That's a lot of investment. And that we were going to lack the scale in every single geography to really generate materially improved returns to the shareholders. Therefore, it was better to monetize now for our shareholders, and then put that money to work either in terms of returning it, return the capital and making investments.

JOHN MCDONALD: Yep.

JANE FRASER: And I'm really glad we did it.

JOHN MCDONALD: Yep. And you talk about-

JANE FRASER: Yes, it's a simpler bank to run.

JOHN MCDONALD: Yes.

JANE FRASER: Yes.

JOHN MCDONALD: So, it's a couple a year process. It's underway. You got Australia down and we'll see that play out.

JANE FRASER: I think you'll see us steadily... particularly towards the end of the year, because obviously we signed Australia early. We've got a lot of different ones that are due to close end of the year, first quarter. Mexico will take longer because we announced that one later. And the timing has been very good as well on all of this. So, really good prop. We really put an accelerator behind getting these deals signed and done as quickly as we could.

JOHN MCDONALD: So, let's talk about some of the businesses you're keeping, some of the core Citi that investors ask about. Let's start with TTS. It's been called an underappreciated crown jewel. Investors generally don't understand the business too well. So, maybe in the spirit of breaking it down for us, give us a sense of what's unique about your franchise here, what exactly are you doing for clients, and how does it connect to feed your other businesses.

JANE FRASER: So, when we talk about Citi's global footprint, TTS is really the heart of where the value sits. And what's inside that is it's the ability for a company to manage their liquidity, manage their payment, all of their treasury, their working capital, their trade. So, it's the full gamut of really how do they operate their companies on the ground in 97 countries where we've got local banking licenses.

And so, it's a combination of that breadth of different businesses. So, that means we'll be doing their payroll for them on the ground. We'll be paying all their suppliers. We'll be collecting from customers. We'll be managing their trade and all their supplier chains everywhere that they are.

And to give you an example. When I was down in Kenya visiting our African franchises, we do 60% of tax collection for the Kenyan government from companies and individuals in the country. Not things that you'd expect. But we're so digital now that we're able to penetrate into last miles as well as providing this global network.

When we are unable to operate in a country, it's very difficult for those clients to continue operating. And we see that in Ukraine, for example. We are still operating our bank in Ukraine thanks to our amazing people. And that's critical because if we weren't, then the multinational clients or the American and Europeans that you know of wouldn't be able to make payroll.

JANE FRASER: With Visa network for Ukraine and helping Visa operate there, which is absolutely critical for the payments. We're helping the supply chains coming in and out of the country that are so vital now given how disrupted everything is. And we're helping, obviously, with the humanitarian aid that comes in. So, for me, that means the U.S. governments on the phone with us is a core partner for them. And we're beginning to talk through what would that reconstruction look like through Poland.

So, I'm just trying to give you a sense of how does this network translate into being something that's really indispensable for our clients. Absolutely necessary. It's like having a root canal to get us out. It's very difficult. We're often in places where nobody else is. And so, as the only international bank there, we're seen as being safe, we're dependable, and we're absolutely vital for the multinationals to be able to operate, which is why we have 30% share of many multinationals' business in countries.

So, for TTS, what does that translate to [inaudible] money terms? $300 billion wallet business, about a 100 billion of that is with corporates. We have a 10% share. I can see that growing well.

Plus, we're starting to see the mid-market companies. Many of them are born digital players. They're starting, they basically use us to help them operate as they start expanding into different geographies, which they do very quickly, or get linked into supply chains. And that's another very important growth opportunity for us, and it's one where they just use the existing infrastructure platforms and capabilities.

Right? It's such a jewel in the crown, because it's absolutely vital for this breadth and depth of different capabilities. And then you layer on top all the digital investments that we've done over a decade.

JOHN MCDONALD: Yep.

JANE FRASER: And that then provides invaluable data, information. Hits our people and all those geographies on the ground as well that understand the local complexity and the global pieces. And it's quite remarkable. And it's a 20% plus returning business. It was 20%-plus at the bottom of the rate cycle. So, you've also got at the moment, it'll have the benefit of rates. It's got the benefit of organic growth. It's got the benefit of investment. And it's why all the fintechs want to partner with us because they can't really compete.

JOHN MCDONALD: Yes. That's super helpful context and examples to make it tangible for us. Yes.

JANE FRASER: Yes. Just why is it so sticky? Because we always talk about it being sticky. But I used to run Latin America. And I remember when there was the hurricane in Puerto Rico. Literally none of the multinationals could open for business until we were open, and we opened the Monday morning after Hurricane Maria on the Thursday. And that then enabled them to be able to begin operating the economy again and the recovery efforts. It's that dependent.

JOHN MCDONALD: Yes, yes.

JANE FRASER: I guess that's what means being a significant financial institution.

JOHN MCDONALD: Yes, yes. And I do think it's underappreciated by investors, and it sounds like it's going to become a bigger part of the company.

JANE FRASER: Yes, it is.

JOHN MCDONALD: You can scale it up.

JANE FRASER: And we've raised it up. So, if we think about that restructuring, we talk about putting wealth together. We brought, what we call services, because it also includes custody, so transaction service custody, up into their own reporting units, put fresh leadership in, and injected real performance intensity into it, giving them important investment dollars that are needed. And Yes, very, very happy with the results so far. But don't tell them that because we're wanting them just... keep going, keep going.

JOHN MCDONALD: Right, right. So, that's a great story on TTS. I think on wealth management, you touched on it a little bit, but I think here the investor reaction is, boy, it seems like everybody wants to grow wealth management. So, I think the question you're probably get is really, you too, what is it that's different, what assets are you leveraging, and what gives you some confidence you can have success growing here where everyone wants to grow?

JANE FRASER: So, I think there's a couple of pieces. There are two places in the world that will create a lot of... well, three now with the Middle East. But if you look at Asia is creating extraordinary wealth. I mean, we talk about an unstoppable trend. A lot of it is China, but a lot it's also China related into entrepreneurs and other businesses throughout the region and the Indo-Pacific region. And no matter what U.S. and Chinese geopolitics will be, that continues. And we are the third largest wealth manager already in Asia.

What I particularly like about our capabilities are how strong they are for a family office. An example I give of it is the heads of markets or the former heads of markets in nearly all of our competitors are on our private bank platform.

And they're on it because of the caliber and the capabilities that we're able to give on the content from our research platforms from the institutional side, from the breadth and depth of product capabilities that we have, the risk management, the balance sheets we have, the brand name we have.

The commercial bank, which is already been in operation in many geographies for decades, is also providing where the new wealth is being created as, well as in the larger corporates, as well as in the private asset space. The local Asian banks just don't have this. They don't have that platform and capability, nor do they have it across the different geographies that we have that globality. Because they not only want it in Asia, they also want it increasingly in the Middle East.

Having just been in UAE, there's a lot of money being created, but there's a lot happening there. Another important center for us. They want to come to London. They want to come to Europe. They want to have some money in the states, obviously. We cover all of them. So, it's really now for us about building out talent and investing some more technology.

We've got the brand name. We've got the capabilities. And so, the investments we've been making once we put all the different pieces together into a single business is then making sure that we're delivering on the promise that we have and growing it.

And in the states, the honest answer on that one is we're not going to be the number two, three player in wealth management in the foreseeable future. But we've got a lot of value to create and a lot of growth to create there. We have an incredible affluent customer base.

Don't ask me why, but we just didn't put enough wealth products. And they do love Citi and our people and the relationships we have. So, having a stronger focus on wealth, building out the digital platforms, some other things that we've already put in place, that's going to have really good growth. Same with our wealth at work. So, that one, I can sit here and smile and say, you'll see.

JOHN MCDONALD: Yes.

JANE FRASER: Don't think of this as a brokerage firm. We aren't going back to the futures as a Smith Barney here and the brokerage model. This is about modern wealth management and the family offices. And the last number I'd leave you, we're the fifth largest private bank in the world. Our average net worth of our client is $450 million. That's institutional caliber wealth and capabilities that are needed. Does also make you sit there and say, John, what have you and I been doing all our careers?

JOHN MCDONALD: I was just thinking that.

JANE FRASER: We haven't done likewise.

JOHN MCDONALD: Absolutely.

JANE FRASER: Certainly it makes you very humble when you talk to these clients about yourself as to what you've done. Spurs you on to create that value for your shareholders.

JOHN MCDONALD: I think you're doing pretty well. Okay, so I think the last one on the business mix... I don't know about myself, but...

JANE FRASER: I wasn't fishing.

JOHN MCDONALD: So, on the business mix, the last one is U.S. retail banking. You're not big. The footprint's disparate. So, I think a lot of us looked and said, hey, why wasn't this one on the divestiture list? So, I'm sure you looked at it. But what made you stay in U.S. retail banking? What's different than the other areas you have?

JANE FRASER: Look, I think we think of it in terms of personal banking, because the industry's changing. And I think it's been... I hate saying that the U.S. has lagged the rest of the world, because in almost every other things the U.S. is just so way ahead. But on this dimension, retail banking is far behind the trends that we've seen in Asia, we've seen in Europe on digitization. Probably because the retail banks are good and the branch system's been good. This change is coming, and you have to think about your whole customer relationship rather than channel and other dimensions.

So for us, it's looking very much about we don't think of retail banking so separately from

... from our cards businesses. And they're all very rapidly morphing.

JOHN MCDONALD: Yep.

JANE FRASER: And I think COVID has started that acceleration of those trends. So for us, we see the retail bank as an important feeder. There's more value. I think there's more value we can certainly create from it. It's not going to be a national branch footprint. I think you'd all kill me in five years if we went on a national branch footprint expansion, because it's going far more digital. So our focus has been, let's make sure that we are really capturing the full wallet from the customers that we have, which is where the wealth component becomes very important. That we continue to drive more value from the existing footprint we have, which is in six very attractive urban markets like New York and out in California, down in Miami, and others. I see some more value that we can get from them for sure. But also, is this feeder in and feeder into capturing more digital deposits as, yep, we do like the funding.

JOHN MCDONALD: Yes.

JANE FRASER: But let's make sure it's around the customer relationship, not just pricing to attract in customers. So our retail bank is not an asset liability management play. It's a customer relationship. And how do we make sure that we are getting sticky deposits? How do we make sure that we are getting the full breadth of the product capabilities from them, but we're also recognizing the future is digital?

JOHN MCDONALD: Yes.

JANE FRASER: And therefore, you'll see from our partners in the cards businesses, it's take American. Now, we've got savings products with American now. We've got flex pay, we've got flex loan, we've got a whole range of different ways. So their customers and our customers can think about, how do I want to pay? What format do I want to pay? Do I want to use rewards? Do I want to get rewards? Do I want to buy now pay later? How do I want to do this? And the last few years, because we did have an Asian team running a lot of the sort of product capabilities for us in the states, they brought a lot of that knowhow. And as a result, I'm really happy about the product array that we've got.

JOHN MCDONALD: Yes. So in the US, retailer really is about helping you achieve your goals in card and wealth management and what you're doing. It's all connected.

JANE FRASER: And I want to be very clear. There's some more incremental value we can get from our retail banking franchise, but it's not the center here. Yes.

JOHN MCDONALD: Okay. Another area of interest is your transformation initiative and the regulatory consent orders that are part of it. So just to remind folks, you said both this transformation and the regulatory orders are a multi-year journey. So just kind of talk about the investments you're making and how much of this transformation would you be doing anyway, even without consent orders?

JANE FRASER: I think a lot of it we would do. Not all of it, but a lot of it we would do. If we think about the world that we're heading into, we've got to have the scale, the agility, the real time, and the customer and the client experience for a world that is a lot faster and that the volumes are just, they're exploding. And therefore for that, you need an operating model and the technology platforms that will cope with the scale, the speed and the client experience necessary. And that also requires well controlled. And that's the same if you're talking about transaction services, you talk about lending, you talk about any of these other areas. And it's more factory controls than it's the controls that have been the case typically in banking before. So they tend to get embedded into the operating model.

So we've been investing in this last year and a bit in a lot of the talent that we need to make sure that we've got technology capabilities, that we've got the operational capabilities, and we have the risk and control organization in place both for a digital age and to satisfy our regulators. I think the benefit is, there wasn't customer harm. There hasn't been fraud. This is much more about investments that at the end of the day, we'll deliver efficiencies for our shareholders. It'll make the bank more robust and stronger. So at that, when Mark and I talk about the arc of the investments that come with this, I can sit here with a lot of confidence that there's a real art to it. A, because we'll simplify the bank from the strategic actions that we've taken, and that will enable us to begin, some point next year, really simplifying the management structures. But we'll also be able to deliver more and more of the investments we're making. We'll also deliver greater efficiencies at the end of it. Whereas, if it had been other areas that the consent order have been in, you don't have efficiencies at the back end of it.

JOHN MCDONALD: Right, right.

JANE FRASER: But we will have some areas where the cost is higher

JOHN MCDONALD: And that arc is part of the 3 to 5 year ROTCE?

JANE FRASER: That is part of the 3 to 5 year, yep. And a lot of it's what then, as we look at the longer term, you look at it and say, "Yep." And that gets you to the higher than the 11 to 12%, because let's be very clear. The 11, 12% is not something I'm sitting there going, "Woo hoo," about, but I'm focused on, as is the whole team, let's go step by step. Get there, get there with the right business mix, get there with the right investments in our infrastructure and technology and risk and controls. And then we can, at that point, we can start accelerating further.

JOHN MCDONALD: And building credibility around the deliverability of what you're, you're shooting for. Yes. So on that note, I know you faced some skepticism that Citi has attempted turnarounds in the past before you were CEO, obviously. So the question is, what's really different this time? Why now? Why is it going to work this time?

JANE FRASER: So one of my board members, Peter Henry, said to me, "You've got to have two things as CO, big ears and thick skin." And it's pretty thick. But it meant really going and listening and listening hard. And we listened to, we talked to investors, we talked to our people, we talked to our clients. And we got a lot of input in. And we also did our own assessment. What has held us back? And there were a number of different dimensions to it. Some of it was business mix. Some of it has been around under investment in areas of our operations. Not all, we wouldn't be able to move $4 trillion a day for multinational companies if you hadn't got pretty strong operations already. And part of it's also in our culture, and part of it's in the culture not having enough performance intensity.

So you hear us talk a lot about accountability. I also don't think we were as aligned with the shareholders as we could have been. We've been focusing on that. And then those are the different pieces. And the firm was complex. And so that piece of making it simpler, simpler business mix, simpler management structure, more modern and efficient organization. And that we put in, for me, I think probably the most important changes culturally. What are we doing to drive a firm that's fully aligned with our main stakeholders? So our regulators and our shareholders, that we're also very much client friendly and being aligned with them, mindful of our people, but driving accountability and more performance intensity into the organization for delivery. And just being really transparent about it. We've laid out a set of different metrics.

Exactly the same metrics around our strategy that I use and Mark uses when we do the management meetings and go through the operating results. So as we report them to you every quarter, and some of them have got a longer cycle to them, they're the same ones we are using. We put those into the scorecards. We've aligned compensation far more around the share price and around ROTCE. And I hope we are making us a much easier to understand, transparent organization that you'll really see how we're delivering. Because we're clear, the proof is in the pudding, right? We have to deliver. We've got to earn our credibility back. And I think we've had a good year of progress on a number of fronts. And we're just putting one foot in front of the other and delivering against the strategy and delivering against what we need to do.

JOHN MCDONALD: Sure. And amidst all those things, you've also brought in some fresh talent to get new perspective. And there's been some criticism that you had an insular culture historically. So I think that's another thing too, that it should help as well. Has that been part of your strategy to do that?

JANE FRASER: Yes. What we wanted to do is we wanted to have a combination of who are change agents with real depth of subject matter expertise from within the company, along with those who are coming from the outside, either in areas that are newer, data being an example, which are new skill sets. Or where there are other institutions that have got greater strengths than us. And we want to make sure that we're bringing that fresh perspective in so that we're really focused on delivering excellence and that people are very dispassionate about what excellence is, because my experience is turkeys don't always vote for Thanksgiving. So you need to make sure that you've got that dispassionate view everywhere. And we've really brought people in from across the board. And you're always a bit nervous at the beginning when you're saying, "Well, are we going to bring in the caliber of talent?"

JANE FRASER: I'm really excited by both the change agents that we put in place within the firm, as well as the ones that we've brought from outside, technology and data, human resources, finance, as well as some phenomenal bankers who we've been bringing in from the frontline, great wealth advisors. We have not found it challenging to attract really great talent in. And we are very clear to them this is a collective journey. This is a team effort. This is us all working together to transform a bank and deliver on its potential. And there's some momentum and excitement behind that. Everyone's pretty realistic. This is multi-year. But the caliber of talent we've got coming in is really strong. And they're working well together with the talent we've put in from the change agents within the firm to drive us forward.

JOHN MCDONALD: Great.

JANE FRASER: Yes. It's good.

JOHN MCDONALD: Well, we really appreciate hearing the story today, Jane. Thanks so much for joining us.

JANE FRASER: Yes. Thank you very much, indeed.