TRANSCRIPT

Citi First Quarter 2014 Earnings Review
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Host
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Speakers
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John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello and welcome to Citi's first quarter 2014 earnings review with Chief Executive Officer Mike Corbat and Chief Financial Officer John Gerspach. Today's call will be hosted by Susan Kendall, Head of Citi Investor Relations. We ask you please hold all questions until the completion of the formal remarks. At which time, you will be given instructions for the question-and-answer session. Also as a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time. Ms. Kendall, you may begin.

SUSAN KENDALL: Thank you, Brent. Good morning and thank you all for joining us. On our call today, our CEO, Mike Corbat, will speak first. Then John Gerspach, our CFO, will take you through the earnings presentation, which is available for download on our website, citigroup.com. Afterwards, we will be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filing, including without limitation, the risk factor section of our 2013 Form 10-K.

With that said, let me turn it over to Mike.

MIKE CORBAT: Thank you, Susan. Good morning, everyone. Earlier today, we reported earnings of $3.9 billion for the first quarter; and excluding CVA/DVA and a tax item, net income was $4.1 billion, a 4% increase over last year translating to $1.30 per share. I'll discuss these results and then turn to two other significant items in the quarter: the Fed's objection to our capital plan and the discovery of the fraud in Mexico.

During the first quarter, our institutional business performed well across our products and geographies. While lower on a year-on-year basis, market revenues rebounded from the fourth quarter and our equities business grew its revenues and continued to make progress. And higher volumes in Treasury & Trade Solutions led to revenue growth despite the ongoing low rate environment. Our consumer bank again posted growth internationally, generating positive operating leverage year on year. Revenues in Asia grew, and while we continue to execute our repositioning plans in Korea, we believe revenues in that market have now largely stabilized. In the U.S., lower mortgage refinancing activity continued to impact our retail banking business, while retail services revenues strengthened year over year showing the positive impact of the Best Buy portfolio acquisition.

In a challenging revenue environment, we made progress toward several key priorities during the quarter. Overall, we grew both loans and deposits while focusing on improving our efficiency. We continued to optimize our branch network, reduce our real estate footprint and simplify our product offerings. We reduced our headcount by about 3,000 people to 248,000, which helped lower our expenses by over $0.25 billion year on year.

While assets in Citi Holdings declined at a slower pace in the first quarter as expected, we did bring the portfolio closer to breakeven. We'll continue to take advantage of more opportunistic sales as they present themselves, and we also resolved a significant legacy issue last week with the $1.1 billion settlement regarding certain private label mortgage securitizations. The narrower loss in Citi Holdings helped drive continued progress with our deferred tax asset. After reducing our DTA by $2.5 billion in 2013, we reduced the DTA by an additional $1.1 billion during the first quarter.

While our capital levels are amongst the highest in the industry, we share your deep disappointment over the objection of our capital plan. Let me tell you what we're doing in response. First, we're engaged with the Fed so we can fully understand their concern. We're committed to bringing our capital planning process in line with the highest standards befitting an institution of our global reach.

Let me now share with you some preliminary takeaways based on what we've learned so far. To begin with, we don't believe this is an issue with our business model or our strategy. It also isn't an issue with our levels of capital or capability to generate capital. As the quantitative tests showed, we exceeded the Fed's requirements with 150 basis points cushion in the severely stressed scenario. And after generating over $20 billion of regulatory capital last year, we generated an additional $6 billion in the first quarter of 2014.

We now have an estimated Tier 1 Common ratio of 10.4% on a Basel III basis, and at 5.6%, we already surpassed the supplementary leverage ratio requirement. While we clearly have a good amount of work to do to bring our capital planning process in line with the Fed's requirements, we believe we can fix what needs to be fixed in our CCAR process so we can pass the qualitative side as well. So let me be clear; whatever the gaps are between the Fed's expectations and our CCAR process, we'll close them. I'll devote whatever resources and make whatever changes are necessary to accomplish this critical goal. We're moving as quickly as possible, while mindful of the fact that it has to be done the right way. I want and I know our shareholders deserve an industrial strength, permanent solution that paves the way for sustainable capital return over time.

We've already begun to make changes we believe will strengthen our process. As you know, I'd asked Gene McQuade to delay his retirement and run our CCAR process. I've fully empowered him to do whatever needs to be done as we prepare our next submission. It will require investment in new talent, acceleration of spend on certain systems and changes the way we build, validate and test our scenario. While not insignificant, we believe the required investments can be funded through our productivity initiatives consistent with other investments we've made and continue to make in our safety and soundness, including risk management, compliance and AML.

In light of this, I believe the right decision is to focus our full attention on preparing for the 2015 CCAR process, which begins in the fall. Among other things, this delay in increasing our capital return means it's hard to see a scenario where we'll be able to meet our intermediate target of a 10% return on tangible common equity in 2015. However, our 2015 return on asset and efficiency targets remain in place and we're committed to achieving them. I should also say that, although we understand our shareholders desire for more information on CCAR, we aren't able to go into further detail, as our supervised communications with the Fed are confidential. I hope people won't misread the absence of information as an absence of action. I assure you, we're addressing this issue with absolute urgency.

Regarding the fraud in Mexico, we're progressing along several fronts. First, we've completed our rapid review and have not identified similar issues with any other account receivables program globally, other than with the Pemex supplier program. We've reviewed over 1,100 facilities with over $14 billion of receivable financings.

Second, working closely with the Attorney General in Mexico, we're continuing our rigorous investigation into how the fraud was committed and how our controls were breached. At this point, we've terminated one employee who we believe was criminally involved in the fraud. And anyone else we find to have been criminally involved will be fired as well as referred to the Attorney General. In addition, we expect to take action against others whose negligence or lack of compliance with our code of conduct allowed this fraud to be committed. Those responsible will be held accountable for their actions and inactions.

We also continue to pursue the recovery of any misappropriated funds. And finally, we're reviewing all of our controls and processes in Mexico, and we'll strengthen any area we think falls short of our global standards and best practices. While we'd all like a quick resolution of this issue, we're doing a lot of work and it's just going to take some time to get it done.

In closing, Citi has a unique global platform, one which, as the quarter shows, is very capable of generating the returns our shareholders expect and deserve. We'll remain focused on serving our clients and taking our franchise to the next level.

John will go through the deck, and then we'd be happy to take your questions. John?

JOHN GERSPACH: Thank you, Mike, and good morning, everyone. To start, I'd like to highlight two items which affect the comparability of this quarter's results to last year. First, CVA and DVA had a small impact this quarter, at $7 million, compared to a negative $319 million pre-tax or $0.06 per share after tax in the first quarter of last year. And second, this quarter we took a $210 million tax charge related to corporate tax reforms enacted in two states. These reforms lowered marginal tax rates, resulting in a reduction in our state deferred tax asset for a negative impact on EPS of $0.07 per share. Adjusting for CVA/DVA and the tax item, we earned $1.30 per share in the recent quarter compared to $1.29 per share in the first quarter of last year.

This quarter's results also included roughly $165 million of incremental credit costs related to the Pemex supplier program in Mexico, including direct exposure to two suppliers. The vast majority of these credit costs were associated with our direct exposure to OSA, an uncertainty around Pemex's obligation to pay us for a portion of the accounts receivable we validated with them as of year-end. The remainder was associated with one other supplier to Pemex that was found to have similar issues. We have not adjusted our results for these additional credit costs.

On slide four, we show total Citigroup results. We earned $4.1 billion in the first quarter, up 4% from last year as lower operating expenses and lower credit costs were partially offset by a decline in revenue. Our return on assets improved year-over-year as well to 89 basis points. Citigroup end of period loans grew 3% year-over-year to $664 billion as 7% growth in Citicorp was partially offset by the continued decline in Citi Holdings, and deposits also grew 3% to $966 billion.

On slide five, we show more detail on expenses. Our expenses declined in total versus last year, even as we incurred higher legal and repositioning costs. Legal and related costs were $945 million in the first quarter and repositioning costs were over $200 million. Excluding these two items, core operating expenses of $11 billion in the first quarter declined by over $400 million year-over-year. In constant dollars, expenses declined by over $260 million driven by continued cost reduction initiative, and the decline in Citi Holdings assets, partially offset by higher regulatory and compliance costs, as well as the impact of business growth including the Best Buy portfolio acquisition. Sequentially, core expenses were up versus last quarter, mostly reflecting higher incentive compensation resulting from improved performance.

On slide six, we show the split between Citicorp and Citi Holdings. In Citicorp, earnings declined 8% year-over-year as lower revenues were partially offset by lower operating expenses and an improvement in credit. The revenue decline was mostly driven by lower revenues in fixed income markets and North America mortgage origination, partially offset by growth in both equities and international consumer.

In Citi Holdings, the net loss improved significantly from roughly $800 million a year ago to just under $300 million driven by a number of factors, including credit improvement in North America Mortgages, the absence of rep and warranty reserve builds in the recent quarter, higher levels of mark-to-market gains, lower funding costs, and a one-time gain on a debt transaction. Citi Holdings assets declined by 23% year over year to $114 billion or 6% of total Citigroup assets.

Turning to Citicorp on slide seven, we show results for international consumer banking in constant dollars. Revenues grew 3% year-over-year in the first quarter, while expenses increased by 2%. International consumer revenues continued to reflect spread compression as well as the impact of regulatory changes and the repositioning of our franchise in certain markets, particularly in Korea.

However, most key drivers remained positive with average loans up 7% and card purchase sales up 4% from last year. In addition, we began to see the benefits this quarter of our exclusive distribution agreement with AIA to provide insurance products in 11 of our Asian markets. Korea remained a headwind. However, while we continue repositioning this franchise, we believe revenues in this market have largely stabilized and credit has remained favorable. We will continue to restructure our cost base in Korea to reflect the lower revenues. International credit costs grew 12% year over year, mostly reflecting portfolio growth in seasoning, while the net credit loss rate remained fairly stable at 200 basis points.

Slide eight shows the results for North America consumer banking. Total revenues were down 6% year-over-year and 2% sequentially. Retail banking revenues of $1.1 billion declined by 28% from last year, mostly reflecting lower mortgage refinancing activity and were up 5% sequentially, driven by a gain on a sale-leaseback transaction. Branded card revenues of $2 billion were flat versus last year, as higher purchase sales and improved spreads were offset by lower average loans.

Retail services revenues grew 8% from last year, driven by the Best Buy portfolio acquisition. And revenues were down sequentially in both card businesses, on seasonally lower purchase sales and loan balances versus the fourth quarter. Total operating expenses of $2.4 billion were down 3% year-over-year, reflecting ongoing cost reduction initiatives, partially offset by the impact of the Best Buy portfolio acquisition. We have significantly resized our mortgage operations over the last year to reflect the change in market volumes;
And we continue to rationalize our branch footprint in North America by reducing the number and size of our branches while concentrating our presence in major urban areas, and enhancing our digital channels. Even as we have reduced branches, we have continued to grow our average deposits and retail loans, each up 4% year-over-year. And we've shifted a greater amount of our mortgage originations and card acquisitions to the retail channel.

Slide nine shows our Global Consumer credit trends in more detail. In North America, credit remained favorable in the first quarter, and we continue to anticipate the full year NCL rate to be in the range of 3%. Asia remained stable as well. And in Latin America, we saw an uptick in both NCL and delinquency rates. The higher NCL rate in the first quarter was primarily driven by Mexico cards, as that portfolio continued to season.

We have also seen a greater than anticipated impact on consumer behavior from the fiscal reforms enacted in Mexico last year, which include higher income and other taxes. This appears to have dampened card purchase activity and is resulting in increased card delinquencies across the industry. Given these changes, in combination with the generally slower pace of economic recovery in Mexico, we currently expect the full year NCL rate in Latin America to be roughly in line with the 4.6% we experienced in the first quarter.

The increase in the delinquency rate over the prior two quarters was mostly driven by our exposure to homebuilders in Mexico, for which we have established loan loss reserves. Any losses from these homebuilders may increase our NCL rate in the coming quarters; However, we would expect these losses to be charged against our reserves, and therefore they should be neutral to the overall cost of credit.

Slide 10 shows the efficiency ratio for Global Consumer Banking on a trailing 12-month basis. Total franchise results are shown on the light blue line, while the dark blue bars represent the efficiency ratio excluding North America mortgage and Korea. As I mentioned earlier, revenues have declined in both North America mortgage and Korea over the past year, and this resulted in a significant drag on our reported operating efficiency. Outside of these businesses, we have made steady progress, reducing our efficiency ratio from nearly 56% a year ago to just over 54% today as we have exited underperforming markets and simplified our operations, all while continuing to invest in those markets where we see growth opportunities. While we now believe the revenues in both North America mortgage and Korea have largely stabilized, we will continue to take actions to reduce our cost base and improve efficiency in these businesses.

Slide 11 shows our total Consumer expenses over the past five quarters split between core operating expenses and legal and repositioning costs. Core expenses had declined to just over $5.1 billion by the third quarter of last year and then increased in the fourth quarter as a result of the Best Buy portfolio acquisition. In the most recent quarter, core operating expenses have been reduced again to just over $5.1 billion, and we currently expect to deliver modest reductions in each of the subsequent quarters this year.

This improvement is expected to come from a variety of actions, including those examples shown on the right side of the slide. As you can see, we have made significant progress since the end of 2012 in reducing headcount, the number of card products, retail branches and support sites, and we expect to make further progress by year-end.

Turning now to the Institutional Clients Group on slide 12. Revenues of $9.2 billion declined 7% from last year but were up 28% sequentially. Total banking revenues of $4.1 billion were roughly flat versus prior periods. Treasury and Trade Solutions revenues of $1.9 billion were up 1% versus prior periods on a reported basis. And in constant dollars, revenues grew 4% year-over-year and 2% sequentially, as growth in fees and volumes were partially offset by spread compression.

Investment banking revenues of $1.1 billion were down 10% from the prior year on lower debt underwriting activity as well as lower M&A revenue, partially offset by growth in equity underwriting. And on a sequential basis, revenues were down 8%, mostly due to a pull forward of M&A transactions into the prior quarter, while underwriting revenues were roughly flat.

Private Bank revenues of $668 million increased from prior periods, driven by growth in investments and capital markets products. And lending revenues excluding the impact of gains and losses on hedges related to accrual loans were $415 million, up from prior periods as higher loan balances and lower funding costs were partially offset by lower loan yields.
Total markets and securities services revenues of $5.2 billion declined 12% year-over-year but were up nearly 60% sequentially. Year-over-year, fixed income revenues of $3.9 billion declined 18%, reflecting the more muted environment in the first quarter of 2014, as well as our strong performance last year in both securitized products and local markets rates and currencies. Sequentially, fixed income was up over 60% on a rebound in spread products and local markets revenues, as well as growth in commodities.

Equities revenues of $883 million were up 13% from last year and over 80% from the prior quarter, mostly reflecting improved performance in derivatives. And securities services was roughly flat, as lower net interest revenue was offset by an increase in assets under custody and overall client activity.

Total operating expenses of $5 billion were down 2% versus the prior year, driven by reduced headcount and lower incentive compensation, partially offset by higher regulatory and compliance costs, legal and related expenses, and repositioning charges in the recent quarter. On a sequential basis, expenses increased by roughly $100 million, mostly reflecting higher incentive compensation, partially offset by the impact of reduced head count.

On slide 13, we show expense and efficiency trends for the institutional business. On a trailing 12-month basis, we have lowered our operating expenses every quarter for over two years, driving the full-year efficiency ratio from 67% two years ago to 59% as of the first quarter. Our comp ratio for the most recent 12 months was 29%, consistent with full-year 2013.

Slide 14 shows the results for Corporate/Other. Revenues increased year-over-year driven mainly by higher investment revenues and hedging activities, while expenses also grew, mainly reflecting higher legal and related costs. Assets of $323 billion included approximately $111 billion of cash and cash equivalents and $156 billion of liquid available-for-sale securities.

Slide 15 shows Citi Holdings assets, which totaled $114 billion at quarter -end with over 60% in North America mortgages. Total assets declined $3 billion during the quarter, mostly driven by net paydowns.

On slide 16, we show Citi Holdings' financial results for the quarter. Total revenues of $1.4 billion were up year-over-year, primarily driven by the absence of rep and warranty reserve builds in the recent quarter as well as higher levels of mark-to-market gains versus prior periods, lower funding costs, and a one-time gain on a debt transaction. Citi Holdings expenses increased slightly year-over-year to $1.5 billion, driven by higher legal and related costs. Net credit losses continued to improve year-over-year, and we released $345 million of loan loss reserves, the vast majority of which was related to North America mortgages.

Looking at the past five quarters of Citi Holdings results on slide 17, excluding legal and related expenses, the operating margin in Citi Holdings grew to nearly $700 million this quarter, driven in part by the higher one-time and mark-to-market gains I just referred to, while credit costs were roughly flat. The pre-tax loss in Citi Holdings was just over $400 million, driven by nearly $800 million of legal and related expenses. Legal expenses were somewhat higher than in prior periods, including roughly $100 million of incremental accruals to cover the recently announced $1.1 billion settlement to resolve certain private - label securitization repurchase claims. This represented a significant step in resolving our legacy issues, and we remain hopeful we will have better clarity on the remaining mortgage and securitization-related issues in Citi Holdings sometime this year.

On slide 18, we show North America mortgage trends in Citi Holdings, which continued to improve through the first quarter. We ended the quarter with $71 billion of North America mortgages, down 18% from a year ago, while net credit losses declined by nearly 50% and the loss rate improved by nearly 100 basis points. We had $4.6 billion of loan loss reserves allocated to North America mortgages in Citi Holdings, or 42 months of NCL coverage.

On slide 19, we show Citigroup's net interest revenue and margin trends. Net interest revenue was $11.8 billion in the first quarter, up from last year on slightly higher interest earning assets and an improvement in net interest margin, and down sequentially driven by a lower day count. Our net interest margin grew to 290 basis points in the first quarter, mainly reflecting lower funding costs. As we look to the second quarter, we expect our net interest margin to decline by several basis points, likely followed by a modest increase in the back half of the year.

On slide 20, we show our key capital metrics. As of the fourth quarter, we reported an estimated Basel III Tier 1 Common ratio of 10.6%. Subsequently, we announced we would be required to add roughly $56 billion of operational risk RWA to our total risk-weighted assets, related to our transition to the Basel III advanced approaches. This additional RWA resulted in a pro forma Basel III Tier 1 Common ratio of 10.1% as of the fourth quarter, and we grew our estimated Basel III Tier 1 Common ratio to 10.4% in the first quarter.

Our estimated Basel supplementary leverage ratio was unaffected by the change in operational risk RWA, and improved from 5.4% to 5.6% in the first quarter. We continue to evaluate the impact of the newly released NPR for the U.S. SLR rules, and based on our limited review to date, we believe the impact should be flat to a slight improvement.

In summary, our performance in the first quarter demonstrated continued progress on several fronts. Markets revenues rebounded from the fourth quarter. And while fixed income revenues were less robust than last year, we partially offset this decline with growth in equities, corporate lending and the Private Bank. Our international consumer business continued to grow, with positive operating leverage year-over-year. And we continued to see growth in purchase sales across our card portfolios. We also maintained our expense discipline, and credit remained broadly favorable. We significantly reduced the drag from Citi Holdings again this quarter. And we ended the period with a strong capital position.
Looking to the rest of the year, our goal is to grow our core franchise, while improving our operating efficiency and reducing the drag from Citi Holdings.

In Global Consumer Banking, we expect revenues to be somewhat flat going into the second quarter with sequential growth in the back half of the year, while core operating expenses should continue to decline each quarter. In our institutional business, revenues will likely continue to reflect the overall market environment, with a goal of steadily gaining wallet share while maintaining our expense discipline. And in Citi Holdings, we remain focused on resolving our legacy mortgage and securitization-related issues in order to further drive the business closer to breakeven. In the first quarter, we saw higher levels of one-time and mark-to-market revenues which are not likely to recur. But we still expect to achieve a small positive operating margin excluding legal expenses.

For full year 2014, in Citicorp, we expect our core operating expenses to come in at or somewhat below the level of 2013, as continued repositioning and other efficiency savings should offset the impact of business growth, investments and a continued increase in regulatory-related expenses. And in Citi Holdings, core operating expenses should continue to decline as we wind-down those assets.

Over the past six quarters we have incurred roughly $1.7 billion of repositioning charges in Citicorp, including the actions we announced in December 2012. We expect to achieve approximately $2.2 billion of annual savings from these initiatives. Roughly $1.8 billion of these benefits are already included in our expense base on an annualized basis, and we have achieved an additional $1 billion of annual savings through our ongoing efforts to simplify and streamline our organization as well as improve our productivity.

Of these $2.8 billion in annualized savings, approximately 40% has been reinvested in regulatory, control, and compliance initiatives. Another 40% went to fund the higher volume-related expenses, cover the cost of inflation and fund investment, including the Best Buy portfolio acquisition. And 20% has fallen to the bottom line to benefit earnings.

In the second quarter, we expect total legal and repositioning charges to be roughly in line with the first quarter, although the mix should change to reflect an increase in repositioning charges due in part to the acceleration of our restructuring efforts in Korea. For the second half of the year, repositioning charges should decline while legal expenses are likely to remain somewhat elevated.

With that, Mike and I are happy to take any questions.

OPERATOR: (Operator Instructions) Your first question comes from the line of Jim Mitchell with Buckingham Research. Please go ahead with your question.

JIM MITCHELL: Quick question on expenses. Just to get to the high end of your efficiency ratio targets, it seems to me if I kind of do the math assuming flat revenue, you'd have to get somewhere between $1.5 billion to $2 billion more in expenses out. Is that the right way to think about it? Or are you assuming the restructuring and legal charges go away as part of that? Or is that independent of that, or is there some revenue assumption in those targets?

JOHN GERSPACH: Well, Jim, I think the right way to think about this is when we put those targets out, we were talking about low single digit revenue growth back in the 2012 level. And we do think that there will be, as I mentioned, some sequential revenue growth clearly in the consumer businesses. And we actually think about sequential revenue growth towards the back end of the year in our Transaction Services business as well, TTS. But overall, we are committed to hit those efficiency targets as we established for Citicorp in the mid-50s%. You reference the legal expenses, and as we set that target, I think another good way to think about this is when we set the target of the mid-50s%s, embedded in that target we would have had about 200 basis points of the efficiency ratio set aside for BAU legal and reposition.

JIM MITCHELL: Okay, that's helpful. And just maybe trying to think through the fraud loss, it is helpful that you mentioned you looked across other receivable programs. Is there any reason to think that we should have concerns about beyond that – those types of programs, or just general corporate lending. Have you done, sort of a view there and how do we get comfort I guess on that front?

MIKE CORBAT: It's Mike. As I said, we, in this instance, did what we declared a rapid review, not only obviously in Mexico but across the franchise and I think took, you know, a great deal of comfort from the results of looking across as many geographies as and as many programs as we did. And you know, as the normal course of business and audit and risk, we're constantly looking at and reviewing those and I think feel comfortable with – on the lending side, the way we're coming to work, documenting and doing things. So again, it's something – as an institution, we're always focused on and always kind of going after and always looking to learn from things that occur. But nothing, I think, that leads us to have a broader fear either in Mexico or across the rest of the franchise.

JIM MITCHELL: Okay, great, and just one last question, I'll get out of the queue. But on the emerging markets, seems like we – markets have rallied there. Has there been any kind of improvement, I guess, on the market side in March as emerging markets have seemingly done a little better?

MIKE CORBAT: I think what you saw is – you've seen a few things. We've kind of transitioned out a bit of the year end malaise, which was largely focused around Fed policy or Fed stance, and I think we've seen volumes pick up and I think confidence result as part of that. But at the same time, I don't think you can ignore what's going on in the Ukraine or in Russia; that those things clearly continue to have an overhang on the market. So I think the overall sentiment is better but I think there's still some things out there, which I think caused people pause.

JIM MITCHELL: Okay, great. Thanks, guys.

JOHN GERSPACH: Thank you, Jim.

OPERATOR: Your next question comes from the line of John McDonald with Sanford Bernstein. Please go ahead with your question.

JOHN MCDONALD: Okay, John, just to clarify one piece of the outlook. The net interest margin you indicated that might be down a few basis points in the second quarter, is that for NII dollars as well? Just kind of wondering what's driving that outlook as it would seem that day count and seasonality in cards would get better from the first quarter as we move forward in terms of net interest income dollars?

JOHN GERSPACH: Yeah. You know, John, if you take a look at our NIM performance the last several years, there's a little bit of seasonality built into the second quarter where we normally just drop by a couple of basis points. You saw, I think, a little bit of exaggerated drop last year. There was – I'm sorry, two years ago. Last year we were down about 3 basis points and there is some dividend, preferred stock dividend trading programs that we enter into traditionally in the second quarter, as do others in the industry and they just have a tendency to depress the NIM in the quarter.

JOHN MCDONALD: Is that on dollars as well, John, if we think about net interest income dollars? And is there a benefit from day count in cards that would overwhelm that or is that net out?

JOHN GERSPACH: There certainly is. There's one more day, you know, in the second quarter so we will certainly benefit from that. But there normally is, as I say, a slight decline in it but I don't think that you're looking at anything dramatic. And we certainly, as I said, expect NIM to bounce back up in the second half of the year.

JOHN MCDONALD: Okay. And then as we think about that roadmap to the ROA target for next year, the comments that you just made to Jim were helpful. Can you clarify, I think, we struggle a lot with how much legal and repositioning need to come down in your model to kind of get to that ROA target. Can you clarify the 200 basis point that you mentioned, the BAU legal you just mentioned in the prior question?

JOHN GERSPACH: Yeah. As I said, when we first established the target a little over a year ago now, built into that target, we talked about having repositioning just be more of a BAU effort. But – and certainly, we've had higher levels than we would anticipate of repositioning in the last couple of quarters. As we continue to work through the simplification of the business and trying to improve the productivity. But on a BAU basis, our – again, I don't want to parse it into how much is legal and how much is repositioning. But in general, we would look at legal and the repositioning charges to be roughly 200 basis points of the efficiency ratio.

JOHN MCDONALD: Okay. And then on the CCAR – for Mike, I guess. Understanding there's limited amount that you can say, are you able to give us any feel for the type of CCAR processes that you need to improve? Any examples you could provide there, Mike?

MIKE CORBAT: John, I think I called out the things that we're probably going to be most focused on. Around some process-driven things, some model-driven things, some people-driven things that we're going be focused on. And again, I think from our perspective in the conversations and what I've heard, not business model, not strategy. And again, I think, things that will take a fair bit of hard work, but things that we feel very strongly that we can get done.

JOHN MCDONALD: Okay. And so some of the items the Fed mentioned were previously identified. How do you work to ensure against those types of expectation gaps forming again?

MIKE CORBAT: Well, we haven't received the written communication yet. But what we didn't want to do is to wait, right. We wanted to be engaged from day one on all of these things. And so, I think it's important that we get the written communication and that we make sure that there's good communication, good transparency around the things that we're going to do; the timeframe in which we're going to do them in, and what we think the results of that work will be. And so, we're going be committed to doing that.

JOHN MCDONALD: Okay. Thank you.

OPERATOR: Your next question comes from the line of Glenn Schorr with ISI. Please go ahead with your question.

MIKE CORBAT: Hey, Glenn.

OPERATOR: Please make sure that your line is not on mute.

GLENN SCHORR: Is it there now?

MIKE CORBAT: Hey, Glenn. How are you?

GLENN SCHORR: Sorry about that. I'm good. Thanks. Just a quick follow up on that last one. I just want to make sure. You said you believed the right decision is to focus the full attention on the 2015 process?

MIKE CORBAT: Correct.

GLENN SCHORR: Is that just a function of just like, wow, there's a lot to do. What's the big deal? What's difference of a quarter? Just because I know that some of us were hoping, like, it's a cumulative process you want to get off the zero and get moving forward this year.

MIKE CORBAT: Well, Glenn, I think that when you look, there's – I think as we've described, there's no one big glaring issue to fix. We've got a series of things that we need to address across the work stream. Several of these things – and if it's model-related as an example of one, would require validation. Those things take time. And what I don't want to do is find ourselves in a position of needing to rush to get a capital submission in sometime late third quarter, early fourth quarter to not get the work done properly, and not be in a position shortly thereafter some time mid-November to start the official process or the go forward process of our January submission. So I don't want – and again, it's not a question of resources, it's not a question of people, it's not a question of dedicating those things. It's wanting to make sure we're in the right place. And I think that right now, committing to going down that path is not the right thing for the institution or the shareholders. And so, I want to be focused on getting to the right place to take on the fourth quarter exercise of our first quarter 2015 submission.

GLENN SCHORR: Okay. Management decision, not - you weren't told this?

MIKE CORBAT: Management decision.

GLENN SCHORR: Good. Back about a year ago, when you put out your slides, you had one that had that four-box matrix that showed 21 markets where you were – you called underperforming and had ROAs of less than 40 basis points. I definitely remember a couple like Turkey, like Uruguay, like Paraguay. But recently, we saw stories on Spain; you just mentioned a partial downsizing in Korea. Can you just give a quick update on where you're at in terms of that process of culling the underperformers?

MIKE CORBAT: Sure. So when we look at that bucket, Glenn, there's a couple things you'd think about. It's not actually our ambition to cull that bucket. It's our ambition to actually take those businesses or those geographies and to get them to a place where they're worthy of investment from our franchise and they're creating adequate shareholder return. There's several levers we pull as we look at those and some of the things you just described go with that ranging from a Turkey, where when we looked from a consumer perspective – certainly not an institutional perspective but from a consumer perspective, we couldn't see a pathway to investment that made sense over the intermediate or longer term. So we chose to sell that franchise. You look at a place like Korea consumer, we do see the pathway to actually getting that upscale franchise to the appropriate levels of profitability and return, but it's taking some time and some restructuring to get there.

And so, as we go at those buckets, again you saw us in that bucket exit - we've announced or we've closed five. We announced six, which was Honduras where we just thought after working with the business teams on the ground and in the product we couldn't get there. And then you've seen others. One, you've mentioned in terms of Korea where restructuring has been required and there are others and those are a work in progress. And against that bucket, I'm happy to say we think we've made good progress; more to do. And again, those buckets aren't static and so, we've had some of those businesses and some of those geographies move out of that bucket and move up and to stay the course, which is where you'd like to get them or invest to grow. But work in progress, but making progress.

GLENN SCHORR: Okay. And last quickie, I'm not sure if I saw it anywhere. Did you state your return on tangible common for Citicorp and Holdings separately? And if not, could you?

JOHN GERSPACH: Glenn, if you look, the closest that we give you to that would be the slide - I think it's slide 25 in the earnings presentation. It's the first slide of the appendix. And we have not yet formally done the allocation of the TCE for you between Corp and Holdings. We will be doing that later this year.

GLENN SCHORR: Okay. I appreciate it. Thank you.

OPERATOR: Your next question comes from the line of Matt O'Connor with Deutsche Bank. Please go ahead with your question.

MIKE CORBAT: Hi Matt.

MATT O'CONNOR: I guess one more CCAR here question. Based on what you know now, is your thought process to ask for buy back in the next submission or do you need to get through one clean before you ask for capital deployment above what you've been doing?

MIKE CORBAT: Well, I think at this point, Matt, clearly we're focused on the process. And what goes into that is environment, earnings and all those things. But I think as I've consistently said, if the stock is trading below and trading meaningfully below the math would strongly push you towards buy back versus dividend. But as we've always said, we understand there has to be a balance and I think if you looked at the quantitative submission we made this year, there was a balance between dividend increase but largely skewed towards buy back.

MATT O'CONNOR: And so I guess I meant even in terms of working through some of the changes the Fed wants you to make, at this point do you think you'll be confident enough to ask for any sort of capital deployment for next year in the 2015 process? Or do you think – some of these things we're seeing at other banks will just take some time in terms like model validation and things like that?

MIKE CORBAT: I think right now we're focused on getting the process right. I think what we saw; one of the takeaways from the Fed process this year is there continues to be more and more delineation between the qualitative and the quantitative side. But I think we've got several months of work to do here. We've got a year to deliver in terms of earnings and quality of earnings and the things we're doing, and then we'll make that assessment.

MATT O'CONNOR: Okay. And otherwise, next year, asking about expenses, you've given us the efficiency targets that were unchanged. You gave us expense guidance for this year. And as we think about the investments that you're making for things like CCAR and regulation, it will obviously be kind of a full run rate for next year assuming you're spending throughout this year. I guess the question is, how should we think about cost all in for next year? And are you, I guess, still counting on low single digit revenue growth for those efficiency targets?

JOHN GERSPACH: Let's – we've given you the expense guidance for this year. We've given you the reaffirmation of achieving the efficiency target for next year, and we'll get more into detail as far as 2015 expenses, perhaps later in the year.

MATT O'CONNOR: Okay. And then just lastly on capital, the DTA usage was quite a bit ahead of last year's pace this quarter or above $1 billion. Is that a decent run rate assuming earnings stay around here, or was there something unusual from that tax hit that might have increased that?

JOHN GERSPACH: If you think about the components that led to the $1.1 billion, or it's actually $1.1 billion of the DTA utilization came from Citicorp earnings. The Citi Holdings losses actually added $200 million to the DTA, and then the impact of the state tax law changes reduced DTA by $200 million. So basically Holdings and the state tax law changes netted themselves out and what fell to the bottom is the $1.1 billion. So I'd say there are really three variables that you have to think about.

One is what is the level of Citicorp earnings? And clearly, at the level that we produced in the first quarter, that's going to have a DTA utilization of $1 billion or more. The second would be the impact of DTA from Holdings losses. Generally, as we drive Holdings losses down, that should lessen the upward pressure on DTA. And then the third aspect would be OCI. And in this quarter, OCI actually just had zero impact on the DTA. But depending on what happens with OCI; that could either be a slight positive, meaning a reduction in the DTA, or a slight increase. I hate to take you through the long walk, but those are the three variables that you really have to establish.

MATT O'CONNOR: Okay, that's very helpful. Thank you.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Gerard Cassidy with RBC. Please go ahead with your question.

GERARD CASSIDY: Thank you. Good morning, guys. John, could you share with us some color? You mentioned that there was strength in the equity trading area within capital markets due to derivatives. What kind of derivatives were you guys seeing that helped that area?

MIKE CORBAT: Gerard, it's Mike. I'll take that one. What we've talked about in the past, in our derivative franchise, and in this case, our equities derivatives franchise is largely client. And in this case, largely corporate client related, again, matching against who our traditional client base is. And so we've been building out the sales and trading capabilities there. We've called it out in the past as an area of emphasis. And while one quarter does not make a true trend, I think we're making progress and the investments that we've made in that are starting to pay benefit. And so again, I think if you think about it, it's largely on the client side, and it's largely in particular on the corporate client list of where we're getting the penetration.

GERARD CASSIDY: Thank you. I had to jump off the call so I apologize if you've already addressed this. But on the debt gain that you had in Citi Holdings, what was the dollar amount – for that transaction?

JOHN GERSPACH: It was less than $100 million. It was something close to I think $80 million or so.

GERARD CASSIDY: Okay. And I thought I saw you had a sales-leaseback gain did you guys say in the first quarter, or did I not read that correctly in the press release?

JOHN GERSPACH: No, we did. That was reflected in the North America Retail business.

GERARD CASSIDY: And what was that dollar amount about?

JOHN GERSPACH: That was something in the $70 million range.

GERARD CASSIDY: Okay, quite small. What do you think you'll issue this year in terms of incentive comp for common equity, or shares to employees?

JOHN GERSPACH: I don't have that share count in my head, I'm sorry. It will be somewhat similar to what we issued last year, I think, maybe up or down just a little bit, but roughly in line.

GERARD CASSIDY: Okay. And then finally, the communication that you guys appointed to with the Fed regarding CCAR, is this with Washington or is it with New York? Are you comfortable that you're reaching out to the right people, so that there's no miscommunication?

MIKE CORBAT: It's in concert with both. Obviously, we've got local and we've got onsite Fed people here. Those are largely New York Fed, but the CCAR process is run centrally and largely run through that centralized process out of Washington, so I think it's incumbent upon us to make sure that we're communicating with both.

GERARD CASSIDY: Thank you very much.

MIKE CORBAT: Okay.

OPERATOR: Your next question comes from the line of Guy Moszkowski with Autonomous Research. Please go ahead with your question.

GUY MOSZKOWSKI: Thanks, good morning.

JOHN GERSPACH: Hi, Guy.

GUY MOSZKOWSKI: So you just answered the question about the size of the debt gain in Holdings. The mark-to-market that you referred to, could you roughly size that for us as well?

JOHN GERSPACH: There were a couple of those things. Guy, rather than try to piece through the whole thing, I think if I was taking a look at the Holdings performance, I would say that to the extent that we point to some of these outsized gains, I think the best way to visualize that is actually that five-box chart – or four-box chart that we give you on slide 17. And you can see that the adjusted operating margin for Citi Holdings for the last three quarters was roughly running at that $500 million or so level, and this quarter it picked up to $700 million. I'd say that you wouldn't be wrong if you assumed that the outsized contribution of those one-time items was the differential between the $500 million that we had been running and the $700 million that we ran this quarter.

GUY MOSZKOWSKI: Okay, that's actually very helpful for what we obviously need to do. In terms of the mark-to-market, was it strictly a mark to market or was it a mark prior to a sale? In other words, what I'm really trying to do is get a sense for the environment with respect to your ability to continue to sell down assets or whether at this point we really should assume that that stuff is pretty much buckled down and it's just runoff from here.

MIKE CORBAT: And in that, is your question specifically on mark-to-market assets, or is that against the overall Holdings portfolio?

GUY MOSZKOWSKI: Let's talk more broadly about the portfolio.

MIKE CORBAT: I think the environment is fine to continue to look at opportunistic sale. And so not uncharacteristic from the past, you get a pretty big fourth quarter where you're trying to get everything closed, and obviously the buyers like to get things done and we do as well for year end. I think in the first quarter, you again begin setting up for the things you want to do. We've laid out that it's of the highest priority to continue to work Holdings to breakeven, but we are going to be very focused on opportunistic sales and continuing to get assets down, risk out of the organization, capital release. And so as opportunities present themselves, and I think the environment is fine. You can see it from the way we and others are describing credit and we're describing the continued recovery in the U.S. Again, I think if the prices are there, you should expect that we're going to continue to make some progress.

GUY MOSZKOWSKI: And while we're on Citi Holdings just on the expense side, I'm cognizant of what you're saying about the outlook going forward. But the expense structure there overall has been surprisingly sticky given how quickly the assets have come down in the sales that you've been able to pursue. And I'm wondering if at this point we should start to expect some step function kind of expense cuts in Holdings.

JOHN GERSPACH: Guy, when you take a look at the expense structure in Holdings, we've been pretty good. Again, if you just focus on the core operating expenses, obviously the legal expenses in Holdings have been running fairly high and at some point in time, you should expect a step function down in those. But from the core operating expenses, we've been pretty religious about driving those down in proportion to the asset reductions that we have achieved. Now, there are some mix issues there as far as some assets are a little bit more expense intensive than others. You can imagine that the mortgage business that we have, that is a little bit more expense focused. There's a little bit more expense associated with maintaining that business than with mark-to-market assets. So it may be sticky from here, but it still should run the expenses, those core operating expenses still should run down as we reduce the assets.

GUY MOSZKOWSKI: Good, that's helpful. As we look at the expense structure on the Citicorp side, you've got a slide in the back of the appendix that mostly seems to be making some adjustments for how you distributed the *Corporate/Other* expenses out to the units. But is there any change in the efficiency ratio targets that you're looking at in terms of reallocation of expense cuts between the Institutional and the Consumer side within Citicorp, or is it all just exactly as it was, just reallocated for those corporate expenses?

JOHN GERSPACH: The only change that we've made is to reflect the reallocation, the change in allocation of C*orporate/Other* expense. That's it.

GUY MOSZKOWSKI: Okay**.**

JOHN GERSPACH: The mid-50s% target stays in place for Citicorp and everything else is just math.

GUY MOSZKOWSKI: Got it. Final question for you on the SLRs. That was, I assume computed entirely within the Fed's new NPR which reflects the January BIS leverage ratio guidance?

JOHN GERSPACH: The 5.6% reflects everything but the – what the Fed came out with last week. And as we looked at those changes, that's where we said if we were to apply those changes, the daily calculation for off balance sheet items for instance, and some of the changes in netting, there we would estimate that the 5.6% would either be flat or perhaps increase slightly.

GUY MOSZKOWSKI: Okay, got it. And then just as a follow-up to that, in terms of the SACCR, as the BIS is now calling it, do you have any estimate as to what that might do?

JOHN GERSPACH: I've got to tell you, Guy, you threw me with the SA-CCR. I'm sorry.

GUY MOSZKOWSKI: That's the new standardized approach counterparty credit risk adjustments that the BIS put out in March, but the Fed hasn't put out an NPR yet on it.

JOHN GERSPACH: I can't answer that directly, I apologize.

GUY MOSZKOWSKI: That's the new standardized approach counterparty credit risk adjustments that the BIS put out in March, but the Fed hasn't put out an NPR yet on it.

GUY MOSZKOWSKI: Okay, no problem. It's early days yet. Thank you very much.

JOHN GERSPACH: All right, Guy.

OPERATOR: And our next question comes from the line of Betsy Graseck with Morgan Stanley. Please go ahead with your question.

BETSY GRASECK: Hey, thanks. So just to follow up on that last question, I think in prior conference calls you indicated the Basel rules would be additive on the SLR, maybe 30 or 40 basis points, if I recall correctly. So I was just wondering if that...

JOHN GERSPACH: Betsy, I think that what we've said is that – at least in the last statement that we gave you, was that our early read on what the U.S. was proposing was that it might increase our reported SLR by about 10 basis points. And so all we're doing now is changing that to say it should be flat to slightly positive.

BETSY GRASECK: Okay, great. And then just separately, you indicated at the beginning of the call that most CCAR process doesn't have any implication for the business model mix shift, et cetera, but I just wanted to understand how you're thinking about some of the smaller geographies that you're imbedded in. You did have an office closure recently in Latin America. And just in the context of the repositioning that you're expecting to continue doing here over the next year or so, how much is skewed U.S. versus non-U.S.?

MIKE CORBAT: I think when you look at – so most of the things you've seen in the one year you're talking about Honduras are small consumer franchises. So if you look at what we've done whether it's Uruguay, Paraguay, et cetera, those have been sub-scale consumer franchises where we didn't see the path to profitability and adequate returns through investment or restructuring. So again, in that optimized bucket, we continue to look at those. We continue to work on it. And I think we're at the point where we feel like we've got a business plan going forward against those that are there. A restructuring plan against those that are there and we're going to go execute against that.

BETSY GRASECK: Okay. So we should expect to see some more of the kind of Uruguay, Paraguay, or you're pretty much done?

MIKE CORBAT: I think we're pretty much done against those. We'll always look and review. And one thing that I've said, Betsy, is when we look at CCAR as an example and if there are things there from a data or information perspective that we just don't have a pathway to get a clear handle on and fix, we'll obviously reassess things based on that as well.

BETSY GRASECK: Okay, thanks.

OPERATOR: Your next question comes from the line of Steven Chubak with Nomura. Please go ahead with your question.

STEVEN CHUBACK: Thanks. Good afternoon. The first question I have is a two-parter, specifically relating preferred issuance. John, on the most recent Fixed Income Call, you noted that you plan on issuing higher levels of preferreds to meet the – or approach the 150 basis point Tier 1 capital buffer that's mandated under Basel. Is the delay in the planned capital actions impact the timing of your preferred issuance plans? And what level of preferreds are contemplated as part of your 2015 profitability targets?

JOHN GERSPACH: You know, Steven, we're going to have more to say about the preferred issuance and the capital structure in our Fixed Income Call, which is on Thursday.

STEVEN CHUBACK: Okay. And then switching gears to FICC, John, one of the things you mentioned on the press call is that you speculated that the FICC fee pool is likely shrinking and you anticipate a 5% to 10% decline in 2014. I didn't know if that guidance contemplated the expectation for continued market share gains. And presumably, if the regulatory or environmental headwinds continue to weigh on FICC, which we've seen last few years, heavier gearing to flow-oriented or transactional activities in local markets should terminally make you a better place.

JOHN GERSPACH: Yeah. The commentary I made as far as FICC being down 5% to 10%, I had intended to mean the overall FICC market as opposed to giving any specific guidance on our FICC revenue. But that would certainly be where we would take a look at the overall FICC market for this year. As I said on the press call, if you just look at the last couple of years, with FICC it certainly appears to be a shrinking pie. To date, we've been able to gain share. But there's a limit to just how much share that you're going be able to gain. And what we have done though is we're not fighting the trend. We are actively managing our expense base and assessing our capacity. And we've reduced the capacity, we've reduced expenses and we'll continue to operate in that fashion. We had said early on that our FICC business for the most part is much more of a flow business. And that remains in effect. That's not a change for us. That's something – we've been operating that flow model for several years now.

STEVEN CHUBACK: Thanks, okay, and just one more for me on the DTA. Based on the 10-K disclosure, it looks like timing-related DTA still represents close to half of the total balance outstanding; so roughly $25 billion and not an insignificant sum. The cumulative loan loss reserve that we're modeling going forward, which is supposed to be a pretty meaningful driver of timing-related consumption, that appears to be getting closer to exhaustion and appears to only make small a dent in the remainder going forward. I was just hoping you could help us identify some of the other levers, which will help drive that timing-related DTA utilization just because it's such a, I guess, large drag on your excess capital positioning. I think it's roughly a $13 billion deduction based on my current calculations.

JOHN GERSPACH: There are a plethora of items that constitute timing differences. And when you're looking at the difference between GAAP income and taxable income, both including revenue recognition differences, as well as expense recognition differences and some of the issues then that you're pointing to as far as loan loss reserve. I can't give you a succinct rundown of all of those things. LLR clearly is a piece of that. And as you look at our LLR, when you say it's pretty much run its course, you're probably not that far from being off from the Citicorp point of view. But don't forget the LLR then that we have in Citi Holdings. We're certainly not looking to grow Citi Holdings, so that is the LLR that still should be runoff. So there's a variety of issues that can add to that DTA timing difference.

STEVEN CHUBACK: Are any of them potential levers that we could actually include in our models?

JOHN GERSPACH: No.

STEVEN CHUBACK: Okay, all right, fair enough. Thank you for taking my questions.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Moshe Orenbuch with Credit Suisse. Please go ahead with your question.

MOSHE ORENBUCH: Great, thanks. John, maybe dovetailing on part of your response to that last one, you had 42 months of coverage in Holdings up from I think 39 three months ago. I would assume that the life of the portfolio's gone, you know, the reserve coverage gone up by three months. Life portfolio's gone down by at least three months. Could you kind of maybe relate to life of that portfolio through it and how we should think about that 42 months coverage as we go forward?

JOHN GERSPACH: Thanks, Moshe. Just to be specific, the numbers that you're referring to isn't for all of Holdings. That's just the North American mortgage.

MOSHE ORENBUCH: North American mortgage, correct. Yes, sir.

JOHN GERSPACH: Okay. That's all right. I just want to make sure that we're talking about the same thing.

MOSHE ORENBUCH: Yes.

JOHN GERSPACH: And there, it's not so much driven by the life of the portfolio. One of the big drivers there is the percentage of loans that we have in TDR, troubled debt restructuring status. Because as you get into TDR loan, in effect, the LLR that you have is ultimately – is really much like a present value of the future loss – of a full lifetime loss. And that's what's really driving the, I think, the overall level of LLR that we have in that book. So you've got two things that drive the LLR. One is the amount of TDRs that we have. And I believe that the overall portfolio right now has a total TDR of somewhere between 20% to

25% of the portfolio is made up of TDRs. Importantly, when you take a look at the CFNA component of the portfolio, it's roughly 35% to 40% of the CFNA portfolio that's in TDR space.

MOSHE ORENBUCH: Right.

JOHN GERSPACH: The second key driver of the amount of loan loss reserves that we have would be the – is a reset that we're looking at in 2015, 2016 and 2017 for the home equity loan. So those are two things, Moshe, that we're actually going to continue to keep that I think relatively high for some time.

MOSHE ORENBUCH: And just to follow up, should we assume that the – those TDRs, as you're resolving them, they're being resolved either kind of inside of the reserves that have been set up, meaning the values have been getting better over time?

JOHN GERSPACH: Yeah. You haven't seen us adding dramatically to that reserve. And I think we've been fairly steady at something – at least the last several quarters, that's something around 90% or more reserve utilization against the NCL that the mortgage business has generated. And I would think that, again, I think the words that we would use would be the vast – we expect that the vast majority of the NCLs that we have in mortgages should be covered by loan loss reserves. I don't want to get tied down to a 90%. But again, it should be fairly high.

MOSHE ORENBUCH: Got you. You talked a fair amount about the restructuring outside the U.S. When you're doing that sort of activity in the U.S. retail business, is it that you're going to be exiting cities or going to be kind of reducing the density within the cities? And how should we think about the pace in the U.S. business?

MIKE CORBAT: It's Mike. What we've tried to do is not just internationally or just in the U.S. to make sure we're approaching the retail strategy in a unified way and that is really an urban-based approach to consumer banking. And so what you've seen us doing is you've seen us, in the numbers in the deck, we speak to a reduction of branch footprint and that's not just international. That's not just domestic. It's a mix of those. And we're going to continue to look at branch profitability, branch efficiency and continue to act against that.

MOSHE ORENBUCH: Okay, just last thing. You mentioned kind of a $20 billion of capital generation last year and $6 billion kind of this quarter. Is it fair to think about the way you will be thinking about capital return for 2015 against those numbers or against kind of reported earnings? How should we be kind of thinking as the base of that?

MIKE CORBAT: I think at this point, we're very focused obviously on getting the process and, in particular, the qualitative side of the process right. I don't think we're in a position right now to speak to that approach.

MOSHE ORENBUCH: Okay. Thanks, Mike.

OPERATOR: Your next question comes from the line of Ken Usdin with Jefferies. Please go ahead with your question.

KEN USDIN: Thanks very much. Mike and John, I wanted to ask you about your confidence in the ROA targets and efficiency targets for next year. How much leeway do you have if in fact the revenue environment doesn't pan out? It's obviously been a tougher start than we all would've liked in the 12 – 15 months since you put the targets out originally. So if in fact we do have a tougher time from here to 2015, how much flexibility do you think you have on the expense side? And then within that flexibility, how far do you have before you actually do start worrying about cutting into muscle?

MIKE CORBAT: So I think that you're right. That when we put these out, we spoke to a couple things. We spoke to the fact we thought we were in a challenging revenue environment. And I think the 13 – 14 months since we made that pronouncement, I think that's been proven correct.

I think the other thing that we've talked about was as part of that environment, we didn't see nor were we counting on a big uplift in terms of interest rates to be able to achieve our targets and we're going to achieve these targets through a few things. One is low single-digit revenue growth, continued expense discipline, and a continued push across the franchise to continue to wind down Holdings. And obviously, the Holdings piece is the ROA piece of things.

And again, I think you've seen methodically in the institutional side the work that Jamie [Forese] has done in terms of quarter on quarter continuing to bring down expenses. Manuel [Medina-Mora] has been fighting the headwinds obviously of mortgage and Korea but, again, sequentially or largely bringing those expenses down on a quarter-on-quarter basis and, again, continued to that path and continuing to take actions against it. Now you saw again the announcement that came out last night, small but again, I think, symbolistic of the effort in terms of another reduction in terms of ICG staff that's just again as I want the businesses to be ongoing in their focus of managing to this ratio.

KEN USDIN: So if we didn't get back to that path where you see the path to a low single digit revenue growth, I guess, where within the franchise would you have to look? And I'm just trying to get a sense of like how much capacity do you still have to make adjustments on top of these changes you've already clearly made and have largely been working through the run rates to John's earlier points?

MIKE CORBAT: And I think part of the reason of having an efficiency ratio out there is not – to have this not just focused on expenses. What we don't want to do is be making bad decisions around investment or how we're thinking about our franchise but there's got to be the balance between revenue and between expense. And I think that we've got to keep that balance. And so again we're going to keep pushing away on the expense side of things. Obviously, we've got work to continue to do on the legal side of things and again we're not counting on big revenue growth to be able to achieve it.

KEN USDIN: Great. And my one follow up on the reserve release side, this quarter you saw a continued nice releases out of card and also in institutional group. And, John, going forward, I was just wondering if you can help us understand kind of mix of reserve release that you expect? Or have we kind of gotten towards the end as you had been saying in prior quarters about the magnitude of release we could still be seeing out of the Corp side?

JOHN GERSPACH: I continue to think that the reserve releases will slow in card. Can you still anticipate having some for at least the next quarter or two? Probably. I wouldn't say they're done but they should be reduced. We've got the NCL. The reserve releases this quarter really came out of both branded cards in the U.S. and retail services. Branded cards were now down to an NCL rate of something like 3.5% and retail services were roughly a 4.5%. I don't see those NCL rates getting better at this point in time. But I don't anticipate continued reserve releases at the levels that we had out of those businesses in the first quarter.

You referenced ICG. ICG is always – it's a bit more episodic when it comes to either reserve bills or reserve releases or the recognition of NCL. And a lot of times what you see there is the relief of a reserve when we take an NCL because we would've had for a particular credit a reserve established. And therefore when you recognize the NCL, you release the reserve against it and it's a perfect marriage. So that's a little bit more difficult to predict but certainly from consumer, it should be declining.

KEN USDIN: And with ICG, was that exemplary of the Mexico actual losses you mentioned? Was that one that just went right against the reserve this quarter?

JOHN GERSPACH: No. That for the most part was an NCL.

KEN USDIN: Okay, got it. All right, thanks very much, guys.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Erika Najarian with Bank of America. Please go ahead with your question.

ERIKA NAJARIAN: Yes, good afternoon. I just had two follow-up questions. First, John, on the conversation you had with Guy, can we take away from that, given your guidance for lower core operating expenses in holdings at a pace of which holdings assets can decline from here, could decline greater than the 3% pace we saw at this quarter?

JOHN GERSPACH: Okay. I'm trying to make sure I've worked through the construct of your question. If the assets decline at more than 3%, then the expenses might decline by more than 3%. That's going to just depend a little bit, as I said before, on which assets come down. If it's mortgage-related assets, then yes it should come down probably a little bit more than that. If it's a mark-to-market asset, it probably won't have the same impact on the overall expense base. But again, roughly speaking, as we reduce assets, we bring the expenses down in line with those asset reductions.

ERIKA NAJARIAN: Understood. I was trying to triangulate – I thought you had very good sort of strong message on core operating expenses coming down in holdings for the rest of the year, and sort of given the message that this is really tied to obviously to the assets, I was just wondering whether it was fair to assume that the pace of asset declines were going to accelerate from here. But I get the message.

And, Mike, I apologize for re-asking the same question over and over again but just to follow up in terms of what Matt and Moshe had already asked you, I think it's very clear – and thank you all for the detail in terms of taking the steps to get the qualitative aspects of the CCAR correct. But assuming that you have made that progress a year from now is the pace at which you ask for capital return from the Fed going to be dictated by the actual excess capital that you have? Or do you feel that your initial request after you complete the qualitative process to their satisfaction going to be more conservative?

MIKE CORBAT: I think as I said, Erika, in the statement, we recognize we've got to get what we do – I call it industrial strength that when Citi operates properly, and you saw in the first quarter we've got the ability to generate large amounts of regulatory capital, regulatory capital in excess of our earnings. And so we need to get the institution to a position to be able to be returning significant amounts of that capital over time. I can't tell you going into this to where we are today what that capital last will be next year but we've got to get the institution into a position where over time we've got the ability to return that capital.

ERIKA NAJARIAN: Okay. I tried. Thank you.

OPERATOR: Next question comes from the line of Mike Mayo with CLSA. Please go ahead with your question.

MIKE MAYO: Hi. Related to CCAR, who at Citigroup is accountable for the failed stress test and what the consequences?

MIKE CORBAT: Mike, it's Mike. I am. Obviously, when you think of something that is as important as this for the institution and our shareholders, it's at the top of the house. So I'm accountable. And if you read our filings, it is in my scorecard and it's something for which I'm sure the board will hold me accountable for in 2014 when they reflect upon the year. And I'm accountable for it and I'm accountable for fixing it.

MIKE MAYO: Well, who else is accountable and what are the consequences? Can you be specific? I mean, it's one thing – I think I hear you saying you'll be paid down because you didn't pass but that's one aspect. Another aspect is making sure you have the right team in the field to ensure that you have the appropriate regulatory relations.

MIKE CORBAT: What I've done, Mike, is I've made changes. I've asked Gene McQuade to step back from his retirement and to take responsibility working directly for me in terms of our CCAR submission this year. And Gene has access to work across the firm in terms of the things that need to be done to make sure that, that submission is of the caliber and quality that it needs to be. And I've got full confidence in Gene and I have full confidence in the team we have to get to that point, because Gene is not going be able to do it alone.

MIKE MAYO: Maybe to get more insight, why is the Fed's denial, the information related to that, only preliminary? And can't you disclose some of the shortcomings without disclosing some of the exam findings? It's very frustrating for many investors not to have more information.

MIKE CORBAT: As the findings and the conversations we have not just with the Fed but with our regulators are confidential. I think the Fed has actually been fairly forthcoming with the public when they made their announcements in terms of that there wasn't any one particular thing. There were things across the series of work streams that were submitted. And again I called out things in terms of some general approaches to some processes; some things that need to be changed in terms of our modeling; the way we bet certain risks within the organization and the combination of people, modeling, and validation; as well as some other things go at those. And so in there, Mike, there's not one big thing I can point out and say that's the fix. We've got a number of things that we need to be focused on. And again, I think they're all fixable and we're going be focused on fixing them and creating the industrial strength process that we need to have.

MIKE MAYO: Perhaps a more general question, is the Fed denial a wake-up call for Citi or not? And what I think I've heard you say on this call is that several areas are doing better: Markets, Korea, Holdings, et cetera. Your optimized bucket is about done. You're making some of the process changes after the Fed denial. You're okay with your efficiency and ROA targets. So you're giving us a little bit of a roadmap to the next seven quarters. But the way I look at it, Citi has failed two of the last three CCARs. It's been 16 years of a failed merger and for shareholders, it's been two lost decades. Two decades ago today the stock was 10% higher. So again, my main question is, is the Fed denial a wake-up call for you guys?

MIKE CORBAT: Mike, I'll speak for myself and the management team and I'll let the board speak for themselves. We're wide awake, okay? This obviously came as a disappointment. And again, I'm responsible for it. But if you look at over the last 15, 16, 17 months in the job the things that we've done, we've taken head count down 18,000 people net of adding 6,000 people across audit risk compliance. We've, as John called out, had sequential improvements in expenses across our ICG businesses. We've addressed seven underperforming consumer businesses. We've set out intermediate, and again I underline the word intermediate, targets, the ROA, the ROTCE, and the efficiency ratio targets. And we predicated our ability to hit the ROTCE on our ability to return some capital. That's now proven difficult to do but committed around the ROA and committed around the efficiency targets. And we don't view that as the end state of the company.

We talked about DTA consumption and our ability to change that and there have been those historically who were quite critical of our ability to consume DTA. And I think we've proven we came in and we said it's a priority, $2.5 billion of DTA utilization last year, $1.1 billion for the first quarter of this year, and we're committed to continuing to consume it. And so we've got things we've got to do. We understand. We are not sitting here without a sense of urgency. And if anybody feels that way, they shouldn't feel that way. And we're committed to pushing the firm forward and again in there, we're coming with those actions every day.

MIKE MAYO: One conclusion I've reached from the Fed's denial is that they're encouraging Citigroup to simplify. Would you agree that that is a push by the regulators and the Fed?

MIKE CORBAT: Listen, I think that simpler is always easier in a process like this. Again, in the conversations I've had, the conversations have not been about the business model or the strategy. Again, it's incumbent upon us and we completely recognize if we don't have the ability to speak to, to model and to overlook, govern, and control our organization, then yes, we shouldn't be in that business or we shouldn't be in that geography. But I think we've got the ability to do those things. And in the conversations that I've had, I don't believe that's the statement.

MIKE MAYO: All right. I hope the Fed gives you any more information that would be helpful for investors before your annual meeting next week and I look forward to asking questions to the board. Will you webcast the annual meeting next week because that would allow the board members to disclose material information?

MIKE CORBAT: We are not going to be webcasting, Mike.

MIKE MAYO: All right. I hope someone can change their mind there. Thanks for answering all my questions.

MIKE CORBAT: Thank you.

OPERATOR: Your next question comes from the line of Eric Wasserstrom with SunTrust Robinson Humphrey. Please go ahead with your question.

ERIC WASSERSTROM: Thanks, just a few cleanup questions. John, the mortgage originations were down, it looks like, about 37% and salable rate locks down about 20%. So what would that have translated into in terms of mortgage income for the period?

JOHN GERSPACH: The mortgage revenues for the first quarter were down single-digit numbers from where we were in the fourth quarter. So as we've said, mortgage revenues pretty much now have stabilized at around the fourth quarter level.

ERIC WASSERSTROM: Okay. And so I guess that implies that there was some kind of benefit on the servicing side to offset the decline in origination?

JOHN GERSPACH: Actually, the gain on sales, the spreads have held up fairly well. We've changed the mix to be less reliant on purchased mortgages and more reliant on mortgages that we're now originating out of our branches, which is a better returning business for us. So again, we've changed some of the mix of the business. But in general, as I said, the revenues have largely stabilized in that business.

ERIC WASSERSTROM: Okay, great. And then just to reconcile that against the – adjusting for in the retail, in North American retail banking business, excluding the sale-leaseback, it looked like you would have been down only 2%. So what would have accounted for the difference between the – sorry go ahead.

JOHN GERSPACH: That's okay, the continued spread compression that we continue to have in that business. Even as we grow deposits, again, in a low interest rate environment, on a deposit oriented business, you're going to run into revenue pressure.

ERIC WASSERSTROM: And then, John, did I also understand you that credit card volumes in the period across both the proprietary branded and the retail were down more or less in line seasonally? Was that the correct understanding?

JOHN GERSPACH: From an ANR point of view – from either an ANR or an ENR point of view, the net receivables in those two businesses did exhibit the normal performance that you would have in the first quarter as far as balances being down from where they were in the fourth quarter. However, for the industry as well as for us, we continue to remain challenged with an overall decline in the ANR and the ENR. Certainly in our branded cards business, you'll see a decline year over year. And so that just reflects the continued deleveraging on the part of the U.S. consumer and the resulting high payment rates that we've been experiencing.

ERIC WASSERSTROM: Great. I was also referring to the charge card volume. If that would have looked different than what the typical seasonal trend would have implied.

JOHN GERSPACH: No, I don't think so.

ERIC WASSERSTROM: Okay. And then just lastly on CCAR, understanding that some of the issues are preliminary, I'm just trying to understand the broad scope of all your statements, but perhaps you can just help me understand. How satisfied are you today that you understand what all of the criticisms are?

MIKE CORBAT: Eric, I think at this point, we've had conversations. I won't be fully satisfied until we get the written response and then we close the gap, or we close any questions or differences that we may have from what's in that letter. But again, around the conversations, it's been, I would say, good, active, fairly constant engagement to date. Again, I want to see the letter. But I don't think I'm going be surprised by the letter, but I need to see it.

ERIC WASSERSTROM: No, of course. So just rolling that forward to resubmission, putting aside any capital return dynamics, how much progress do you think you're expected to show on these issues at that point, and is it possible to actually have accomplished that?

MIKE CORBAT: I think that the way we need to think of things is, we run an institution of global importance. And that our standard, we shouldn't set the bar to whatever the Fed's standard is. We should set the gold standard in terms of what our approach to the process should be. And I'm comfortable with Gene's leadership and coordination from the rest of the team. We're going have the ability to do that, but also recognizing that that's not going be static. Our work's not going to be static. The bar is not going to be static. And we're going to have to continue to go at this every year.

ERIC WASSERSTROM: Thanks very much.

OPERATOR: Your next question comes from the line of Chris Kotowski with Oppenheimer. Please go ahead with your question.

CHRIS KOTOWSKI: Over to you. Thanks.

MIKE CORBAT: Hey, Chris.

JOHN GERSPACH: Hey, Chris.

CHRIS KOTOWSKI: Hey. I'm good. It's gone on long enough.
MIKE CORBAT: All right.

OPERATOR: Your next question comes from the line of Matt Burnell with Wells Fargo. Please go ahead with your question.

MATT BURNELL: With Chris's comment as a preamble, let me ask a couple of follow-ups. First of all, in terms of the SLR guidance versus last quarter, John, as you said, you thought that the new U.S. rules would benefit you by about 10 basis points. You've updated that to flat to up modestly. I guess I'm curious given what JPMorgan said last week that potential netting of derivatives and some of the new U.S. rules might help them by 30 to 40 basis points, where you might see some differences between the benefit you're estimating and the benefit that they might be estimating.

JOHN GERSPACH: I don't know what they've baked into their original estimates so I have no way of commenting on how my view of the changes would differ from their view of the changes. I can just tell you where we are and where we would expect to be.

MATT BURNELL: Okay. And then in terms of the Basel III RWA on an average basis, those were up about $55 billion in Citigroup, a little bit more than that, $67 billion in Citicorp. What drove the increase in the RWA? Was it model rejection or was it something else?

JOHN GERSPACH: I'd focus you on slide 20. That's probably the easiest place to see it because it deals with quarter-end balances. And so from a quarter-end balance point of view, with both quarter ends reflecting all of the changes, the incremental op risk, what you see there is about a $27 billion increase in our risk-weighted assets from the fourth quarter going to the first quarter.

MATT BURNELL: Right.

JOHN GERSPACH: Okay, so about a third of that increase is in fact due to the loss of model approvals as we've exited from parallels. So that's exactly the impact that you were looking for. And then that requires us to use alternate approaches, which just adds a little bit to the risk-weighted assets. And that would be primarily in market risk. And then the balance is primarily just due to an increase in lending and commitments. You've seen how our loan book has grown. We've got additional commitments there. And so that's just a general business driver.

MATT BURNELL: Okay. Thank you. And then lastly, John, I think you mentioned that you're starting to believe in some revenue stability in Korea. And I guess and maybe this is putting the cart before the horse but I guess I'm just curious as to given where you stand today what the timing might be for potential revenue upside in the Korean franchise now that you've stabilized it?

JOHN GERSPACH: I would say that there is a good shot that we will have sequential growth coming from Korea, again, certainly in the back half of the year. That's the way we're looking at it. Obviously revenues have, we think they've stabilized now. I think when you've seen the announcement that at least the papers have been reporting that, that we're going to shut 56 branches in Korea. We need to work with our union there in order then to make sure that we've got appropriate head count that matches those branch closures. That's likely to have some residual impact on the revenues there. So I'm not quite sure that we can look to the second quarter as far as having revenue growth in Korea. But once we get that second quarter re-positioning behind us, I think we then should be looking towards sequential growth.

MATT BURNELL: Okay. Thank you for taking my question.

JOHN GERSPACH: Not a problem at all.

OPERATOR: Your next question comes from the line of Derek De Vries with UBS. Please go ahead with your question.

DEREK DE VRIES: We've covered a lot of ground today so I just have one last question. In the restatements, it looked like you've pushed a lot of the cost from the Corporate/Other into the divisions, which makes sense. But I guess I was surprised you didn't push any of the $56 billion of incremental operational RWA into the divisions. Is that just a timing issue, sort of adjusting your models? Or is that corporate center going to have $124 billion of risk-weighted assets going forward?

JOHN GERSPACH: As we exited from parallel, and you may go back to some of the disclosures that we've made on this. This would be the level of operational risk, risk-weighted assets, the $288 billion of RWA that is an amount that we agreed with the Fed on. We don't have the models in place today to apportion that last $56 billion out into the business unit. So it's very much model-related more than anything else. I don't envision that $56 billion staying in corporate forever, but until we get an agreed-upon model approach, it's going be difficult to apportion it out.

DEREK DE VRIES: Understood. That's clear. Thanks.

JOHN GERSPACH: All right, thank you.

OPERATOR: Thank you. We have no further questions in the queue at this time.

SUSAN KENDALL: Great, thank you, Brent. Thank you all for joining us here this morning. If you have any follow-up questions, please reach out to the investor relations team. Thank you.

OPERATOR: Thank you. This concludes today's conference call. You may now disconnect.