TRANSCRIPT

Citi Second Quarter 2014 Earnings Review
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Host
Susan Kendall, Head of Investor Relations

Speakers
Michael Corbat, Citi Chief Executive Officer
John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello and welcome to Citi's second 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 that 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. Kendal, you may begin.

SUSAN KENDALL: Thank you, Regina. 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 statement, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results in capital and other financial conditions 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: Susan, thank you, and good morning, everyone.

Earlier today, we reported earnings of $181 million for the second quarter of 2014. Excluding the impact of the legacy mortgage settlement, CVA and DVA, net income was $3.9 billion, up slightly from last year, or $1.24 per share.

Before I get into our operating performance, I want to discuss our legacy mortgage settlement. The comprehensive settlement announced today with the U.S. Department of Justice, the state AGs and the FDIC resolves all pending civil investigations related to our legacy RMBS and CDO underwriting, structuring, and issuance activities. We also have now resolved substantially all of our legacy RMBS and CDO litigation. We believe that this settlement is in the best interest of our shareholders, and allows us to move forward and to focus on the future and serving our clients.

During the quarter, our Institutional businesses performed well outside of Markets where macro uncertainty and historically low volatility reduced client activity, clearly impacting our fixed income and equities revenues. Corporate and Investment Banking revenue strengthened, led by strong equity and debt underwriting, and our Treasury & Trade Solutions businesses again saw underlying revenue growth, as volumes continued to increase.

In Consumer Banking, year-over-year of comparisons continued to be affected by lower mortgage refinancing activity, and our repositioning efforts in Korea. But we believe these businesses have now stabilized, and we're better positioned for growth in the second half of the year. We grew our consumer loans, despite the uneven economic environment, and saw continued signs of progress in our U.S. Cards business.

Excluding the settlement announced today, Citi Holdings turned a profit for the first time since its formation, and we announced agreements to sell our consumer businesses in Greece and Spain, which will further reduce Holdings' assets in the third quarter. The Holdings profit actually helped drive DTA consumption, which totaled $1.1 billion in the quarter, and $2.2 billion for the first half of 2014.

And despite the impact of the legacy mortgage settlement on our net income, our capital position strengthened to a tier 1 common ratio of 10.6% on a Basel III basis, and our tangible book value also increased. During the first half of this year, we generated $10 billion in capital, despite today's settlement.

Throughout the organization, we're focused on strengthening our capital planning process, improving our execution, and increasing our efficiency. We're engaged in a firm-wide effort that includes improving our target client model, streamlining our structure, processes, and technology platforms, and optimizing our real estate footprint. These actions create the capability to make investments in our business, regulatory, and compliance activities, and strengthen our capital planning process. They also allow us to reduce our operating expenses, both quarter-on-quarter and year-on-year.

While this effort is ongoing, we are already making some good headway. For example, during the second quarter we reduced our headcount by 3,500 people to 244,000, and it is now down nearly 7,000 for the first half of 2014, and 15,000 people since the fourth quarter of 2012. We continue to simplify our product offerings, and we further rationalized our footprint, shrinking retail branches by nearly 140, while reducing consumer support sites by another 31 locations.

Looking ahead, for the second half of this year, I feel good about how we're positioned, and I believe we should see an improved revenue picture. On the consumer side, the U.S. economy is gaining strength, as job creation and consumer spending increases. Internationally, our franchise is performing well, and we believe the headwinds facing our Retail business in Korea are abating.

In our Institutional business, while client activity has been lower in markets, business such as investment banking and trade finance are showing momentum. We've also demonstrated the ability to reduce the drag of Citi Holdings and utilize DTA, both of which will contribute to the strengthening of our capital positions going forward.

John will now 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, as Mike described, this quarter, we took a $3.7 billion after tax charge related to the mortgage settlement, for a negative impact on EPS of $1.21 per share. And second, CVA and DVA was a negative $33 million pretax this quarter, or $0.01 per share after tax, compared to a positive $477 million pretax, or $0.09 per share in the second quarter of last year. Adjusting for CVA/DVA and the impact of the settlement, we earned $1.24 per share in the recent quarter, compared to $1.25 per share in the second quarter of last year. Throughout today's presentation, I'll be discussing our results and excluding these two items to provide comparability to prior periods.

On slide 4, we show total Citigroup results. We earned $3.9 billion in the second quarter and $8.1 billion for the first half of 2014, both up slightly from prior periods, as lower revenues were offset by lower operating expenses and a decline in credit costs. Citigroup end of period loans grew 4% year-over-year to $668 billion, as 8% growth in Citicorp was partially offset by the continued decline in Citi Holdings, and deposits grew 3% to $966 billion.

On slide 5, we show more detail on expenses. Legal and related costs were roughly $400 million in the second quarter, mostly incurred in Citicorp. Repositioning costs were also around $400 million, including approximately $270 million of repositioning costs related to our consumer franchise in Korea.

Excluding these items, core operating expenses of nearly $11 billion in the second quarter declined by over $225 million in constant dollars, driven by continued cost reduction initiatives, and the decline in Citi Holdings' assets, partially offset by higher regulatory and compliance costs, as well as the impact of business growth. Sequentially, core expenses were down versus last quarter, reflecting lower incentive compensation and continued efficiency efforts, again, partially offset by higher regulatory and compliance costs.

On slide 6, we show the split between Citicorp and Citi Holdings. In Citicorp, earnings declined 18% year-over-year, as lower revenues and higher legal and repositioning costs were partially offset by lower core operating expenses and an improvement in credit.

In Citi Holdings, we earned over $240 million this quarter, compared to a loss of nearly $600 million last year. Citi Holdings' revenues increased significantly from last year, driven by the absence of rep and warranty reserve builds in the recent quarter, higher gains on asset sales, and lower funding costs. Core expenses continued to decline in line with a 15% year-over-year reduction in assets. Citi Holdings ended the quarter with $111 billion of assets, or 6% of Citigroup assets.

Turning to Citicorp on slide 7. We show results for International Consumer Banking in constant dollars. Revenues grew 1% year-over-year in the second quarter. Core operating expenses, excluding legal and repositioning costs, also increased 1% from the prior year, driven by business growth and higher regulatory and compliance costs, partially offset by ongoing efficiency savings. Including legal and repositioning costs, total operating expenses increased 12% from the prior year, mostly due to the repositioning charges in Korea.

International Consumer revenues continued to reflect spread compression, as well as the impact of regulatory changes and the repositioning of certain markets. Korea remained a headwind year-over-year. However, the franchise was broadly stable quarter-over-quarter, and we believe we should begin to see sequential revenue growth in Korea as we go into the second half of the year.

Aside from Korea, the most significant challenge for Asia Consumer revenues this quarter was a decline in Investment Sales revenues, both year-over-year and sequentially. While this business has grown over time, quarterly Investment Sales revenues tend to reflect the overall capital markets environment, and in the second quarter we saw weaker investor sentiment. We provide more details on Asia Consumer revenues on appendix slide 25.

Despite these headwinds, most underlying drivers remained positive, with average loans up 7% and average deposits up 3% from last year. International credit costs grew 10% year-over-year, mostly reflecting portfolio growth and seasoning in Latin America, while the net credit loss rate remained broadly favorable at below 200 basis points.

Slide 8 shows the results for North America Consumer Banking. Total revenues were down 5% year-over-year, and flat sequentially. Retail Banking revenues of $1.2 billion declined by 26% from last year, mostly reflecting lower mortgage refinancing activity, and were up 3% sequentially, as higher mortgage revenues and improved deposit spreads offset the absence of a one-time $70 million gain in the prior quarter.

Branded Cards revenues of $2 billion were up 3% versus last year, as we grew purchase sales. And lower average loans were partially offset by an improvement in spreads, driven by a reduction in promotional rate balances. And Retail Services revenues grew 7% from last year, driven by the Best Buy portfolio acquisition. Ongoing cost reduction initiatives drove total operating expenses down by 4% year-over-year to $2.3 billion, even after absorbing the impact of the Best Buy portfolio acquisition.

We continued to resize our North America Retail Banking business in the second quarter, taking costs out of our mortgage operations and rationalizing the branch footprint, all while continuing to grow our franchise. Over the past 12 months, we have sold or closed over 70 branches in North America. During the same period, we grew average retail loans by 11%, and average deposits by 4%, including 11% growth in checking account balances.

In Branded Cards, we also saw momentum. While total average loans have continued to decline modestly, this mostly reflects the run-off of promotional rate balances. Full rate balances have grown year-over-year for five consecutive quarters, reflecting account growth and increased card usage, primarily in our proprietary rewards and travel co-brand products, including American Advantage, where new account growth for our executive card has exceeded our expectations.

Credit remained favorable in the second quarter, with net credit losses and delinquencies both improving more than what we had anticipated in Branded Cards and Retail Services. Contributing to a loan loss reserve release of nearly $400 million. At quarter end, our loan loss reserves in North America cards represented roughly 16 months of concurrent NCL coverage.

Slide 9, it shows our Global Consumer credit trends in more detail. Overall, Global Consumer credit trends remained favorable in the second quarter, with net credit losses and delinquencies both improving as a percentage of loans. In North America, the strong credit trends I just mentioned drove an improvement in our outlook, and we now anticipate the full year NCL rate to be roughly in line with first half results or slightly better than our previous estimate of around 3%. Asia remained stable, and in Latin America, we saw a modest uptick in both NCL and delinquency rates. These trends were driven primarily by Mexico Cards, as that portfolio continued to season, and consumers continued to adjust to fiscal reforms, as well as the impact of slower economic growth.

We continue to expect the full year NCL rate in Latin America to be roughly in line with first half levels. This rate could be higher, of course, if we incur any losses related to our exposure to home builders in Mexico. 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've mentioned before, revenues have declined in both North America Mortgage and Korea over the past year.

In addition, we incurred significant repositioning charges in Korea in the second quarter, creating a drag on our reported operating efficiency. Outside of these businesses, we have made steady progress, reducing our efficiency ratio to just under 54% as we have exited underperforming markets and simplified our operations.

Slide 11 shows our total Consumer expenses over the past five quarters, split between core operating expenses and legal and repositioning costs. Legal and repositioning costs were elevated in the second quarter, driven by Korea, while core operating expenses continued to decline. We expect to make further progress in reducing core expenses in the second half of the year, as we remain on track to achieve or exceed our year-end goals for headcount reduction, card product simplification, and branch and support site rationalization.

Turning now to the Institutional Clients Group on slide 12. Revenues of $8.5 billion declined 7% from last year, and 8% sequentially. Total Banking revenues of $4.5 billion grew 6% from last year, and 9% from the prior quarter. Excluding a one-time $50 million gain in the prior year, Treasury & Trade Solutions revenues of $2 billion were up 3% both year-over-year and sequentially, as growth in fees and volumes were partially offset by spread compression.

Investment Banking revenues of $1.3 billion were up 16% from last year, and 27% from the prior quarter, driven by particularly strong debt and equity underwriting activity. M&A revenues improved from the prior quarter, and we continued to increase our share of announced M&A volumes in a growing market.

Private Bank revenues of $656 million grew 2% from last year, as growth in client volumes was partially offset by the impact of spread compression, and were down 2% sequentially on lower capital markets activity. Core Lending revenues were $454 million, up from prior periods, mostly due to higher average loans.

Total Markets and Securities Services revenues of $4.1 billion declined 16% year-over-year, and 21% sequentially. Fixed Income revenues of $3 billion declined 12% from last year, as historically low volatility and continued macro uncertainty dampened investor client flows, particularly in rates and currencies. In addition, the prior-year period benefited from gains, as we pared back risk positions, given increased volatility in emerging markets.

Sequentially, Fixed Income revenues declined 22%, reflecting seasonal trends. Equities revenues of $659 million were down 26% year-over-year, and 25% sequentially, reflecting lower client activity, as well as weak trading performance in EMEA, in part driven by macro and geopolitical uncertainties in the region.

In Security Services, revenues were roughly flat versus last year as increased client activity was offset by a reduction in high margin deposits, and up 7% sequentially, due to increased client balances and higher activity from new accounts.

Total operating expenses of $4.9 billion were down 2% versus the prior year, driven by lower incentive compensation, partially offset by higher regulatory and compliance costs, and legal and related expenses in the recent quarter. On a sequential basis, expenses decreased by over $100 million, mostly reflecting lower incentive compensation.

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 66% two years ago to 60% as of the second quarter, even as the revenue environment has remained challenging. Our comp ratio for the most recent 12 months was 29%, consistent with the full year of 2013.

Slide 14 shows the results for Corporate/Other. Revenues declined year-over-year, driven mainly by hedging activities, while expenses increased on higher legal and related expenses, as well as higher regulatory and compliance costs. Assets of $326 billion included approximately $104 billion of cash and cash equivalents and $167 billion of liquid investment securities.

Slide 15 shows Citi Holdings' assets, which totaled $111 billion at quarter end, with roughly 60% in North America Mortgages. Total assets declined $3 billion during the quarter, mostly driven by net paydowns. Roughly $3.8 billion of asset sales were in process during the quarter, but not yet closed as of June 30. These include $2.7 billion of assets from the announced sale of our retail operations in Spain and Greece, as well as nearly $1 billion of mortgage loans, each of which should close in the third quarter.

On slide 16, we show Citi Holdings' financial results for the quarter. Total revenues of $1.5 billion were up year-over-year, primarily driven by the absence of rep and warranty reserve builds in the recent quarter, higher gains on asset sales, and lower funding costs. Citi Holdings' expenses decreased significantly, with core operating expenses down 15%, in line with the reduction in assets. Net credit losses continued to improve, and we released $254 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, the operating margin in Citi Holdings remained at roughly $700 million this quarter, driven in part by gains on asset sales. Credit remained fairly stable. And, on an adjusted basis, legal costs declined significantly, driving Citi Holdings to a profit in the second quarter.

On slide 18, we show Citigroup's net interest revenue and margin trends. Net interest revenue was $11.9 billion in the second quarter, up from last year on higher interest earning assets and an improvement in net interest margin, and up sequentially, driven by day count. Our net interest margin declined sequentially to 287 basis points in the second quarter, driven by lower loan and investment yields, partially offset by lower cost of funds. We currently believe our net interest margin should remain roughly flat to second quarter levels for the remainder of the year.

On slide 19, we show our key capital metrics. Despite the impact of the settlement, our Basel III Tier 1 Common Ratio grew to 10.6%, as we benefited from DTA utilization during the quarter. Our Supplementary Leverage Ratio also improved to 5.7%, and our tangible book value grew to $56.89 per share.

So in summary, our results in the second quarter demonstrated further progress on several fronts. While Markets revenues reflected the challenging environment, we showed continued momentum in our Investment Banking franchise. And Treasury & Trade Solutions continued to grow, all while we continued to reduce our total expense base in ICG.

On the Consumer side, we continued to grow loans, deposits, and card purchase sales, while reducing our core operating expenses and maintaining overall favorable credit performance. And, in Citi Holdings, excluding the impact of the settlement, we achieved our first profitable quarter. And we believe Citi Holdings should remain profitable for the remainder of this year, although with some variability quarter-to-quarter.

Looking to the second half of the year, in Markets, our results will likely reflect the overall environment, although we would certainly anticipate that market conditions should be somewhat more favorable than in the second half of 2013. In Investment Banking, revenues will also reflect the overall market. But we feel good about the quality and momentum of our franchise, as demonstrated by our performance not only in the second quarter, but over the past year. And in Treasury & Trade Solutions, we believe we can continue growing our revenues in the second half of the year, driven by continued volume growth and abating spread headwinds.

Turning to Consumer Banking. In North America, we believe revenues should grow in the second half of the year, both versus the first half of 2014, as well as year-over-year with positive operating leverage. And in International Consumer, revenues should also grow in the second half of the year, as we move past our repositioning efforts in Korea, and the underlying growth of the remaining franchise becomes more apparent.

Turning to expenses. In Citicorp, our core operating expenses should continue to decline, although we expect to face ongoing higher regulatory and compliance costs. Repositioning expenses in the second half of the year should be roughly in line with first half levels, and legal costs will likely remain somewhat elevated and episodic in nature.

We continue to have an overall favorable outlook with regard to our credit performance. While we saw an increase in loan loss reserve releases in our North America Cards business this quarter, driven by better than anticipated credit performance, we do expect the reserve releases to be lower in the second half of the year. And, nominal credit costs in Citicorp could increase as we continue to grow our loan portfolios. And finally, we expect our tax rate for the remainder of the year to be broadly in line with the first half, in the range of 32%.

And with that, Mike and I would be happy to take any questions.

OPERATOR: (Operator Instructions) Our first question will come from the line of John McDonald with Sanford Bernstein.

JOHN MCDONALD: Hi. Good morning. John, a few questions, just wanted to follow up on a couple of the things you just mentioned. On the legal costs, would you expect, with the settlement now taking a lot of the mortgage exposure off the table, I assume, that legal costs would look more like this quarter? Where excluding the MBS settlement, they seem to come in around $400 million, rather than the prior trend, which was closer to about $800 million?

JOHN GERSPACH: Let me break it down this way, John. I'd say that with the legacy mortgage settlement behind us, we wouldn't expect Holdings to have any significant level of legal charges in the second half of 2014. Now, as I said, legal expenses in Citicorp, they're going to remain somewhat elevated and episodic in nature.

JOHN MCDONALD: Okay. That's –

JOHN GERSPACH: I wouldn't expect anything significant.

JOHN MCDONALD: Okay. And this quarter, you had about $400 million in Citicorp. And would you characterize that as still elevated, the $400 million?

JOHN GERSPACH: I would I say that that's elevated as to what we would expect in a normal environment. So we'll see where we go with the second half of the year.

JOHN MCDONALD: Okay. And then I thought the repositioning expenses would be coming down in the second half of the year after the elevated charge this quarter for Korea.

I thought you might have said that last quarter that they'd be coming down after this. So I thought you just said now that they would stay at the first half levels. What would be keeping the repositioning costs so high?

JOHN GERSPACH: Well, John, we continue to focus our efforts on our operations in the countries that we had identified as optimized markets. And matter of fact, if you go back to the conference that we presented at near the end of May, we actually used a slide that showed that we had improved our of efficiency ratio by over I think it was 300 basis points in those markets during 2013.

And we generated further improvements during 2014 through a combination of efforts, the branch closures, product rationalization, the consolidation of operations, and headcount reductions. And we're just going to continue that focus during the balance of this year. And given that continued focus, we just think it's more likely that the repositioning reserves for the second half are going to be much more in line with what we had in the first.

JOHN MCDONALD: Okay. And then you mentioned North America Consumer expense is likely to improve some more. Overall expenses on the core expense base of about $11 billion this quarter company-wide, do you hope to improve from there going forward?

JOHN GERSPACH: We expect the core expenses to decline sequentially in each of the next two quarters. Obviously, we won't get as much I think as everybody would like, just because of the higher legal and regulatory costs that we're facing, but we do anticipate continued sequential decline in the core operating expenses.

JOHN MCDONALD: Okay. And just shifting gears to the DTA utilization, it was a big number this quarter, John, and better than expected. The big settlement didn't seem to have an impact. Is that because it wasn't tax deductible? Could you just explain that?

JOHN GERSPACH: Yes, you've got it, John. The lion's share of the cost, if you take a look, we talked about taking a pretax charge of $3.8 billion, and an after tax charge of $3.7 billion. So to your point, not much of the settlement cost was tax deductible.

And so perhaps the best way to take a look at the performance in the quarter is looking at the results, excluding the settlement. And there, you'll see that I think in the first quarter we had $5.9 billion or so of pretax earnings, and in the second quarter we had roughly the same amount. So when you're dealing with that level of pretax earnings, you're going to get DTA utilization of, again, somewhere between $700 million, $800 million or $1.1 billion in the quarter.

JOHN MCDONALD: Okay. And that $1.1 billion this quarter contributed to $2.2 billion of Basel III capital build. Could you explain that, on page 36, you show how the $1.1 billion led to $2.2 billion of increased Basel III capital?

JOHN GERSPACH: Yes, John. That really is tied up in the multiplier effect. And it's a very, very complicated formula that you've got to go through and take a look at, not just the level of DTA, but first of all, what type of DTA. In both the first and the second quarter, most of the DTA that we've been able to utilize has come out of the FTCs, those foreign tax credits.

So you start by -- that's immediately dollar for dollar reduction, because those things just come off the top. Then between the capital growth, as well as the reduction that we've had in things like mortgage servicing rights, we've got even more room now in our 10% buckets, as well as the overall 15% bucket. And so you just add up all the various multiplier effects, and you end up with that $1.1 billion actually contributing $2.2 billion in regulatory capital.

JOHN MCDONALD: Okay, right. You've got expansion of the cap, the dynamic cap. Okay. Last thing, maybe, Mike, could you comment on the CCAR, any update on the progress you're making, understanding the Fed's concerns and what they're asking you to improve, and your confidence in the ability to satisfy the high qualitative bar that the regulators are setting?

MIKE CORBAT: Sure. I would say, John, that -- it's Mike. That there's really very little additional information beyond what we've said at the venues along the way. But I think to summarize that, we still are operating and feel strongly that this isn't an issue with our business model, our strategy, our levels of capital or clearly our ability to generate capital.

Gene and the team are working to continue to enhance, and where necessary build the right inclusive processes and the range of scenarios around the firm. We feel good about the progress. We feel very good about the communication with the Fed. But it's a work in progress and we've got more work to do between now and year-end.

JOHN MCDONALD: Okay. Thank you.

JOHN GERSPACH: Thanks, John.

OPERATOR: Your next question will come from the line of Jim Mitchell with Buckingham Research.

JIM MITCHELL: Good morning.

JOHN GERSPACH: Jim.

JIM MITCHELL: A quick question, maybe just a follow-up on the legal side. You guys settled for $4.5 billion in cash, and took a $3.8 billion charge, so you only used up $700 million in reserves. Is that effectively a reserve build for what remains, and that makes you feel a little bit better about your coverage going forward, or is that -- or you only really had only $700 million set aside for that issue?

JOHN GERSPACH: Jim, I'm not going to comment on the reserve levels that we have set up for any individual litigation. But in the math that you've done, you've left out the cost of the consumer relief efforts.

And we do anticipate and have made provision for an expense that we will incur in connection with those consumer relief efforts. And so that estimate is also embedded in the $3.8 billion pretax charge that we took.

JIM MITCHELL: Okay. So it's not just through reserves, but also through expense?

JOHN GERSPACH: It's through the expense that we've taken this quarter, yes.

JIM MITCHELL: Okay.

JOHN GERSPACH: Jim, if we start with the $4 billion penalty, then you've got the $500 million that we'll pay to the state AGs and the FDIC. You add to that the cost of a consumer relief, but there are hard dollar costs associated with the consumer relief efforts, and then you subtract out the reserves that we had previously established, and that's what leaves you with the $3.8 billion pretax number.

JIM MITCHELL: Okay. Fair enough. Just to follow up on the expenses and targets. I think we've obviously seen revenues come down quite a bit in capital markets year-to-date. I think you guys, as recently as early June, at a conference have been sticking with your targets.

I've had some questions on how you guys get there with lower revenues. Is this part of the reason why restructuring costs are going to remain higher, because you're doing more on the expense side? So I guess I just want to see if that's right, and if you feel still comfortable with your ROA and efficiency ratio targets given where you are right now.

JOHN GERSPACH: Yes, we're still committed to those targets for 2015. As we've said, we're very focused on our execution efforts and rationalizing the expense base in every one of our businesses.

JIM MITCHELL: So the weaker revenues don't give you pause?

JOHN GERSPACH: Well, I don't want to be so cavalier about it, Jim, to just say that we don't consider the weaker revenues. But we've taken all of that into consideration when we say that we're still committed to those targets.

JIM MITCHELL: Right, right. Okay. That's great. And one last question, it's just on deposit growth. You've had very good core deposit growth in Citicorp, and Asia has lagged quite a bit in your international side. Is that simply a function of Korea, or is there something else going on there more broad based across Asia that's limited deposit growth?

JOHN GERSPACH: No, Jim, we're carefully managing deposit growth, and we have been managing deposit growth for some time. You can't just manage deposit growth at the top of the house. You need to manage it in each country, and frankly, in each legal vehicle.

And so as we look at the liquidity needs for each of the countries in which we operate, we're very focused on the level of deposits that we have. And importantly, the quality of those deposits. So you'll see some regions where we have targeted higher deposit growth than others, and it's really based upon the liquidity needs in each of those regions.

JIM MITCHELL: Okay. So it's just you guys holding it back?

JOHN GERSPACH: Well we're carefully managing the deposits.

JIM MITCHELL: Right. Okay. That's all I've got.

JOHN GERSPACH: You have to manage your balance sheet.

JIM MITCHELL: No, I hear you. Okay. Thanks, I appreciate it.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question will come from the line of Glenn Schorr with ISI.

GLENN SCHORR: Hi, thanks.

MIKE CORBAT: Hello, Glenn.

GLENN SCHORR: Hello there. Quick in Holdings. Heard your comments about second half profitability, which is cool.

I'm just curious, on the net interest revenue side, net interest revenues have increased the last three quarters in a row, but assets, loans and deposits are obviously shrinking with the whole runoff. Just curious on how that works.

JOHN GERSPACH: Well, there's yield on assets and then there's cost of funds. And we've been actively managing both sides of that equation. So when you take a look at it, you start to lower your cost of funds as you run off assets, and that produces the results that you're looking at.

GLENN SCHORR: That makes sense to me on cost of funds. I'm curious mechanically how that works. Is that assigning the relative -- meaning when the book is larger and they're less liquid it gets a higher cost, and as the book gets smaller and more liquid, you get a better funding cost. Is that the big swing in there? It's like $150 million. It's not enormous, but it's just counter-intuitive.

JOHN GERSPACH: Well it's the type of funding that you have and the level and certainly the amount of funding that you have in each business as well. And as the cost of that funding then goes down, you're going to get a benefit. I don't know how else to describe it.

Clearly, some of the characteristics that you mentioned are driving characteristics. Highly illiquid assets have a higher cost of fund -- or cost more to fund than liquid assets. So as a book shifts from illiquid to more liquid, you're going to see that we can therefore change the funding profile.

GLENN SCHORR: I'm good with it. I appreciate it. The same kind of question, inside the Equities business, you mentioned some of the weakness was due to obviously lower volumes, the other part was I think I read a tag line on hedging on the Ukraine side produced part of the drop. Can you just give a further comment? I didn't see it in the release, but I think I saw it online.

JOHN GERSPACH: In the second quarter, again, this is specific to the equities markets, the trading business, in the second quarter, we had hedged our Equities book in EMEA in anticipation of kind of a significant negative market reaction to the Russia/Ukraine situation. Now ultimately, that did not materialize to the extent that we had planned for.

And so as a consequence, our actions to de-risk the book actually resulted in realized losses during the quarter. So the realized losses that we took in lifting those hedges equaled about 40% of the revenue decline in that product year-on-year. Equities markets were down 26% year-over-year, and so that the de-risking activities actually contributed about 10 full percentage points to that decline.

GLENN SCHORR: Got it. Okay. Super helpful. And then last one. In the FX business, I know this is a hard one, but the slowdown that we've seen, the environment obviously, volatility has fallen off dramatically. Is there any way to attribute how much of that is cyclical obvious of just lower volatility, lower client volumes, lower revenues, to changes that have taken place in light of the recent investigations in the market?

JOHN GERSPACH: I think that's going to be really difficult to try to parse out.

MIKE CORBAT: It's Mike, Glenn. I would say a couple things. Again, when you think of our FX business, there's a couple components to it which in some ways makes it different from others. One is, we've got the big transaction processing business and money is coming through the pipes that we process in a regular basis.

I think to your question, where we've seen the real slowdown is on the more active trading, and just that largely being as a result of the lower volatility. So I would view a lot of that as being largely cyclical, and I would expect as volatility comes back, some reasonable portion of that to come back with the volatility.

GLENN SCHORR: Okay. That's exactly what I was looking for. Thanks, Mike.

OPERATOR: Your next question will come from the line of Guy Moszkowski with Autonomous Research.

GUY MOSZKOWSKI: Good morning. Just a question, first of all, on your reasonable and possible losses with respect to the obviously the resolution of a lot of issues. Can you give us a sense of what that might look like versus last quarter when the Q comes out?

MIKE CORBAT: No, Guy, we'll address that when we publish the Q.

GUY MOSZKOWSKI: Okay. Fair enough. Thought I'd ask. I wanted to ask a question on the potential for the significant deposit movements in the probably foreseeable future at this point when the Fed starts to move short-term rates higher. It seems like the mechanics are going to be different than they've been in the past for all the reasons that we all know about. And I think we can say that there's a couple of schools of thought as to what might happen when short-term rates go up. One is, deposits have really only shrunk a couple of times in the last century or so. It's always been very marginal. So not to worry.

And then on the other hand, JPMorgan has flagged their view at the other end of the spectrum that maybe this time is different, because the mechanics of what the Fed is going to do will be so different and may require a drain of they've said maybe $1 trillion of bank deposits. As you think about liquidity planning and your internal stress testing, is there anything that you can share with us about the range of best and worst case deposit growth that you might be thinking about?

JOHN GERSPACH: I'm not going to give you a range, Guy. But I'll say this. I'd say that when you think about the potential impact of the Fed's actions on deposits, one, we're probably less exposed than others on this.

Don't forget, we've got of our $968 billion of deposits, it's just a little over $400 billion are domestic deposits. So it's not the biggest part of our book. And we, as I mentioned in response to one other question, we've really been managing our deposit base very carefully over the last few years.

And so, I think the other thing you need to consider is the quality of an institution's deposit base. And I think that what we've been able to achieve is an improvement in our quality of deposits, both internationally, but specifically domestically, over the course of the last several years. We're much more focused on and much more concentrated in real operating accounts. We've really driven down the level of time deposits that we have in the business.

And importantly, when you look at some of the Fed's actions, I think that they're more likely to impact deposits that people take in from financial institutions. And if you're managing your deposit base in connection with the LCR and NSFR rules, you're going to be lowering that deposit base anyway. So you should be less susceptible to big deposit movements, because in the LCR and the NSFR rules, deposits associated with financial institutions you get very little, if any, credit with the liquidity value of those deposits.

They really bring you nothing as far as managing your overall funding of your overall liquidity. So we've been very focused on managing all the aspects of the deposit base over the past couple of years, both as to the nature of the deposits, the liquidity value of those deposits, and really trying to focus on core operating deposits of both retail and corporate customers.

GUY MOSZKOWSKI: Got it. So the follow-up question was going to be how all of this might interact with LCR. But it sounds like what you're saying is that the LCR shouldn't change very much even with the kinds of flows that might be associated with that type of Fed activity, because they would probably be low LCR credit deposits anyway.

JOHN GERSPACH: Yes, it's going to be real interesting to see how the Fed goes about the next level of managing as far as increasing rates. Because when you take a look at how monetary policy is going to interact with the regulatory policy, I think we're going to end up in a new world that none of us have lived through before, nor has the Fed.

GUY MOSZKOWSKI: Great. And then the final question from me, just on the core equity tier 1 ratio that, as you noted, did tick up. That, I believe, is an advanced calculation, is that right? And if so, can you just tell us what the standardized was?

JOHN GERSPACH: Yes, the number that we published is the advanced methodology. Because again, our Tier 1 Common ratio is lower under advanced than it is currently under standard. I don't have the standard in front of me, Guy, but it's higher than what the advanced approach produces.

GUY MOSZKOWSKI: Okay, fair enough. And thanks for the thoughtful answer on the deposit outflows. That was very helpful.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Betsy Graseck with Morgan Stanley.

BETSY GRASECK: Hello, good morning.

JOHN GERSPACH: Hello, Betsy.

BETSY GRASECK: Couple of questions. One is on the op risk RWAs. You mentioned at the bottom of page 19 that the op risk RWAs are flat Q on Q at $288 billion, well for the last three quarters. I guess I'm just wondering does that imply that the kind of settlement that we just had this morning was reflected in your RWA outlook before?

JOHN GERSPACH: Yes, that's our view, Betsy. That this settlement was already embedded in the increases that we took to the op risk risk-weighted assets, both in the fourth quarter of last year and the first quarter of this year.

BETSY GRASECK: Okay. Because then when we're looking at these articles that are out there, and obviously we don't know how much is reflective of your views, but you went in with a lower bid for the settlement than the ultimate final settlement. So I'm just trying to square that.

JOHN GERSPACH: Well don't forget, what usually impacts op risk is the overall industry, more than a particular institution.

BETSY GRASECK: Okay. So you would have thought that the numbers that JPM came out with was more relevant than what the initial ask was that you might have had for yourself. Is that the way to think about it?

JOHN GERSPACH: The way to think about it is really the operational risk environment that the industry is facing, and we think that was already embedded in the $288 billion number.

BETSY GRASECK: Okay. And then we --

JOHN GERSPACH: That we had as of the end of the quarter.

BETSY GRASECK: Okay. And then we also have a couple more things that still need to get resolved. Obviously, it's been in the headlines for a while, things like LIBOR and FX. And so would those also be embedded within this number as well?

JOHN GERSPACH: Based upon everyone's current views as to what those could be.

BETSY GRASECK: Okay. Separate question on the Citicorp Corporate/Other. It's page 14. I just wanted to make sure, I understand the expected sustainability of these numbers versus one-timers in this quarter. Revenue is down because of hedging activities. Maybe I could just understand what your thoughts are for that line item, how much did hedging activities impact that, would that have been more like $140 million last year's -- last quarter's revenue line?

JOHN GERSPACH: I think that when you take a look at Corp/Other, you're going to get a variation around $100 million from quarter to quarter. Sometimes will be a little bit less than $100 million, sometimes will be a little bit more than $100 million.

BETSY GRASECK: Okay, on the revenue side?

JOHN GERSPACH: Correct.

BETSY GRASECK: And then on the expenses, a little bit of higher legal and regulatory compliance. I'm just -- legal sounds like it's a one-timer, but reg compliance, I'm not sure if that's a one-timer or if that just keeps going. So how much should I be thinking about the expense line there?

JOHN GERSPACH: I'd take a look at the core operating expenses sequentially. And if you look at them sequentially, the $284 million and the $297 million are fairly close.

BETSY GRASECK: Right. So legal and repo should fade over the next I suppose couple of years, is that how to think about that?

JOHN GERSPACH: Well, certainly, repositioning, as I said, repositioning costs overall for Citi should be -- the second half should be somewhat in line with what we had in the first half. And legal, as I've said, I think that's going to remain elevated. But it's also going to be somewhat episodic in nature.

BETSY GRASECK: Right, okay. And then just lastly on page 11, you have the Consumer expense drivers. And as of 2Q, in some cases, you've already exceeded what your year-end forecast is. Does that suggest your year-end forecast will be updated, or we're just running ahead of schedule and the levers for the expense line in Global Consumer are largely around the support sites at this stage?

JOHN GERSPACH: I'd say yes to everything that you said. So when you look at some of the drivers, we are running ahead of where we thought we would be on -- clearly on headcount. We didn't feel that we could update you with a new year-end target at this point in time.

So we will likely give you a better view as to where we're going to be at year-end when we come back to you in the third quarter. But obviously, it should be lower than the 145 that we are right now. As a matter of fact, if you look at the target, we had said it's going to be less than 145. So less than 145, we'll give you a sense as to how low we think we'll be able to drive that next quarter.

And I think as far as from a support side point of view, that clearly is a big driver of expense in the consumer businesses, and that is something that we're very focused on. Good progress in the second quarter, taking those support sides down by about 30. And we hope to be able to do that and more in the third and fourth quarter.

BETSY GRASECK: And that’s in part the benefit from the Project Rainbow?

JOHN GERSPACH: In part it's Rainbow. It's also -- we've talked about in the past trying to run the Consumer business as opposed to a collection of 35 individual Consumer businesses as more of a Global Consumer Bank, and so that clearly has some aspect of it.

But there's also aspects that we can do just in the U.S., where in the U.S., we sort of ran the Consumer business not as a bank but as a collection of product silos. And so as we begin to run the U.S. more as a retail bank, that also gives us the ability to close down sites and consolidate.

BETSY GRASECK: Okay. So there should be more to come here on the expense outlook?

JOHN GERSPACH: That’s what we’re saying, yes.

BETSY GRASECK: Okay.

OPERATOR: Your next question will come from the line of Mike Mayo with CLSA.

MIKE MAYO: Hello. A few questions. First, how much was the Ukraine hedging loss?

JOHN GERSPACH: I didn't give you an exact dollar amount, Mike. But you can figure it out by the fact that I said it cost about 10%, so let's call it just slightly around $100 million or so.

MIKE MAYO: Okay. And as it relates to Korea, you're saying the headwind should be abating. Can you give us any net income figures for Korea or revenues or some additional detail that you don't disclose in the press release?

JOHN GERSPACH: I'm not going to go into specifics. We don't do specific country results. I will tell you this, our view is that, again, revenues should be now growing sequentially in Korea. Excluding the repositioning charge for the first time in several quarters, Korea actually turned a pretax profit. So again, we're encouraged as to the future direction of our Consumer franchise in Korea.

MIKE MAYO: As relates to expenses, a few people have asked about this. But when I go back to the March 2013 presentation that gave efficiency targets, it said the high end of efficiency assumes flat revenues, and revenues for the first half of this year versus last are down 3%. So once again, why are you still comfortable with your efficiency targets for 2015 when revenues have been so much worse?

You highlighted slide 10 and slide 13, your efficiency targets for Global Consumer and ICG. Just can you confirm that is for the entire year 2015? Do you still expect to get not only those two targets, but for Citicorp as a whole?

JOHN GERSPACH: Yes, I confirmed that.

MIKE MAYO: And if I had to give a very short answer, you've given a lot of things that you're doing, why can you still reach those efficiency targets even though revenues have been so much worse?

MIKE CORBAT: Mike, it's Mike. I think as John kind of walked through things, we've been taking a multi-pronged approach to things. So the combination of headcount, support sites, tech data information, we've been going across the board at different levers that we can pull to try and keep the expenses in line. And again, I think as we think about the second half of the year, certainly on a sequential basis, we're feeling better.

I think if you look at the underlying drivers and fundamentals of the business, deposits, loans, what's going on in TTS, what's going on in the Investment Banking side of things, despite market challenges, parts of the firm are performing well and we think in the second year there's some continued revenue uplift there. And so again, the combination of both levers around the efficiency ratio, the combination of revenue lift with expense discipline gets us to where we need to be.

MIKE MAYO: I guess the one wild card is still legal. And I know this settlement was a lot more than I expected or was more than almost any shareholder that I spoke with expected. And so if you can just give any additional color.

I read one article saying that the Department of Justice didn't want to hear about your small market share in some of the mortgage areas, whereas, that seems to be a relevant consideration. So why did you go ahead and settle for what is a huge amount in the minds of many shareholders, as opposed to pushing this on? And what does this mean for your remaining legal issues, and what are your remaining legal issues, the way you think about it?

MIKE CORBAT: I think when you look at our settlement, Mike, there's two components to it. One is, the RMBS, which has been quantified. And then if you've got to go down the list to actually find us on the list in terms of our size and participation.

But I think the other side of that is what we did in terms of putting the CDO litigation behind us. And when you go back and look at our participation in CDOs, you look at 2005, 2006, 2007, we were somewhere at or near the top of the league tables year in and year out in CDOs. And so this was very important to get behind us, and I think meaningful. And again, as I think we went through the negotiation, we felt to get this behind us that this was something that was in our shareholders' best interest to move on from.

MIKE MAYO: And what remains? I assume FX and LIBOR are the big ones. How should we think about that potential exposure, or am I correct in assuming those are the two big remaining legal exposures?

MIKE CORBAT: We don’t comment, Mike, in terms of forward-looking legal.

MIKE MAYO: Okay. And last question, if interest rates increased by 100 basis points, what's the benefit to Citigroup today, versus, say, a quarter ago?

JOHN GERSPACH: A quarter ago, I think we told you it was somewhere between $1.8 billion and $1.9 billion for a parallel shift in the interest rate move. If interest rates move by 100 basis points, that's about 100 higher, so now it's somewhere between $1.9 billion and $2 billion.

MIKE MAYO: Okay, great, thank you.

OPERATOR: Your next question will come from the line of Moshe Orenbuch with Credit Suisse.

MOSHE ORENBUCH: Great. Thanks. I guess I was sort of wondering, when you had spoken at a conference towards the end of May, you had mentioned that you thought the entire market's revenue would be down 20% to 25% and FICC performance was substantially better.

You kind of addressed a little bit around that. But is it as simple that June was better than the previous months? Could you talk a little about that, and maybe put it in the context of current activity for the last couple of weeks and into the third quarter?

JOHN GERSPACH: Yes, I'd say that June was certainly a much better month overall from what we had -- the way we had viewed the market performance when we spoke at the conference at the end of May. And several events transpired at the end of May, beginning of June, that had a calming influence on the markets.

Specifically, as it relates to spread products. So, everything from the Crimea referendum, everything just sort of seemed to calm down. And it was a better overall environment, as I said, mostly for spread products in the month of June.

MOSHE ORENBUCH: That’s kind of continued to show through in July so far.

JOHN GERSPACH: Again, it's been just a couple of days in July. Let's not get too carried away.

MOSHE ORENBUCH: Okay. Another question kind of unrelated and that is, given the strength of your capital and the high level of capital generation, are there ways that you can actually use that capital position before you have an opportunity to return capital next year?

Are there activities that you had reduced or stopped doing that you would consider doing again? Are there any ways to think about that for the back half of this year, just given even the SIN buckets, are there ways to use those, just given the strength of that capital position?

MIKE CORBAT: I think, Moshe, if you go back, I think there's a couple different ways we potentially think about using it. One is, we're not going to do stupid things with it around putting risk on that doesn't make sense or doesn't fit the business model.

But I think if you go back, you look at Best Buy, and I think going forward there will probably be the opportunity to take a look at some more portfolios that might come available. And so again, we'd take a hard look at those, and if they're accretive to the business, we'd be prepared to act on those.

Clearly, we continue in our invest to grow markets to grow, and whether that's footprint, clients, balance sheet. And so we're putting our capital to work in those areas, and I'd say those are probably the two primary things that we look at in terms of capital use.

MOSHE ORENBUCH: Just to follow up of on that, Mike, the private label card is an area where there have been a couple of portfolios that are up for sale. Any other areas that you would just specifically highlight where you've seen of opportunities to put capital to work?

MIKE CORBAT: I think that the private label card I think there's potentially some things coming forward in the cards business. John talked a little bit about, we've been pleasantly surprised in terms of the uptake on the American Airlines portfolio, opportunities that continue to grow organically.

But I would say away from those things, Moshe, we're largely focused on what we can do organically around our business model. And again, you've seen both in Consumer and both in ICG pretty good loan growth.

MOSHE ORENBUCH: True. Thank you very much.

OPERATOR: Your next question comes from the line of Gerard Cassidy with RBC Capital Markets.

GERARD CASSIDY: Thank you. Good morning. Following up on the comments about the good loan growth in ICG, you guys had very strong Corporate Lending revenue growth in the quarter. Can you give us some color where the corporate loan growth is coming from?

JOHN GERSPACH: Again, it's pretty widespread. Trade products have continued to perform well. We actually saw a slight rise in loan spreads in trade loans this quarter.

And we had good uptake on, from a corporate lending point of view, in both Europe and North America. Now some of that was related to activity in the capital markets area, M&A. But again, it's been pretty good.

GERARD CASSIDY: The results for the second quarter, in years past -- the large banks, the second quarter results often reflected the Shared National Credit Exam (SNC). Can you give us some color, do the results reflect -- your results this quarter, reflect any changes that the regulators may have had due to the SNC exam, and maybe where does that stand right now, the SNC exam?

JOHN GERSPACH: I'm not aware that we had to make any significant changes as a result of the Shared National Credit Exam.

GERARD CASSIDY: Another question, sticking with the ICG Group, can you guys estimate how much of the falloff in the trading revenues are cyclical versus secular? I know it's a difficult question, but the volatility is certainly down in this business, hopefully it will come back to drive revenues higher.

But can you give us an estimate of what you think it might be? And then as part of that, are you at a size, if it is a secular decline, are you comfortable with the size of your expense base if it is -- part of it is a secular decline?

JOHN GERSPACH: As you said, Gerard, it's really hard to come up with an actual number as to what is cyclical versus secular. We continue to evaluate how we view the various offerings that we have in those Markets businesses, and we constantly adjust our capacity to where we think the new secular trend is. So again, it's somewhat product by product, as opposed to just say, it's markets in general. And again, it's -- things move based upon market conditions.

You take a look at our FICC revenues for this quarter. FICC revenues were down 12%. Now that was primarily driven by rates and currencies, and rates and currencies are going to respond to what's going on in the market.

But even the rates and currencies, the rates and currencies were down something close to 30% for the quarter. But you're comparing rates and currencies this second quarter compared to the second quarter of 2013. And the second quarter of 2013 was a relatively strong quarter for rates and currencies.

And in fact, our results in the second quarter benefited from some outsized gains that we took as we correctly lowered our inventories and our Local Markets business in anticipation of increased negative sentiment in the EM associated with the tapering. So the absence of those prior-year gains associated with the de-risking, contributed probably a full 6 percentage points to the year-over-year decline in rates and currencies revenues.

And so, rates and currency is down 23% year-over-year. That's kind of in line with what you would I think expect from a seasonal point of view, and in the current environment. So hard to find that there's something dramatically secular going on there.

Now when you look at spread products on the other hand, spread products were up just about 30% year-over-year, and basically the entire year-on-year increase occurred in the month of June, following the improvement in market sentiment that I referenced earlier. So you're still seeing a lot of cyclical that's running through the various businesses at this point.

GERARD CASSIDY: Thank you.

MIKE CORBAT: I think the second part of your question, if you go to slide 13, ICG is not standing and watching. And if you go back and look at slide 13, you see the nine consecutive quarters. You see from a core operating expense that the business has taken out about $1.1 billion of operating expenses. So again, continuing to stay focused on the model and the cyclical versus secular and trying to make sure we're adjusting to those two pieces.

GERARD CASSIDY: Shifting gears, moving over to Citi Holdings, you gave us some good color about the pending sales that you have in the pipeline, and I think you said almost $1 billion of that number comes from mortgage loans. What are you seeing in pricing for the distressed assets in the mortgage area? I'm assuming it's improved, but by how much?

JOHN GERSPACH: It's improved. I can't give you an actual figure quarter-on-quarter, I just don't have it in my head. But it has improved. But again, it's improved, but you have to take a look at those loans broken out by a bunch of different categories, and also by the location of the loans, by specific MSA codes.

So it isn't as though the entire market is re-priced up by 500 basis points or something like that. It really is product dependent and market dependent. And as you know, we have been very active sellers of these mortgages in the past. So it's not that we haven't already gone through this book and done a lot of sales activity.

GERARD CASSIDY: In view of putting this mortgage problem behind you with the settlement today, is there ever a reason to do a very large bulk sale in Citi Holdings to put it behind you? Is that ever feasible?

MIKE CORBAT: I think it's all dependent upon price. If the price was right, we'd be happy to do it. I think based on current market prices, and you can see the improvements on the NCLs, and you can do your own market check and look at what the market would pay for these assets versus the funding collect-out value, and today I'd say it's not there. But if it were to present itself, we'd be happy to react to it.

GERARD CASSIDY: Would you say it's extremely wide from what you -- in terms of market prices versus what you're comfortable with? Or are we within -- is it something within a realm of possibility?

MIKE CORBAT: I think, again, I think as John said, you can't just take the entire portfolio and lump it, because it goes through Firsts through Seconds through the old CF&A mortgages. And all are very different, and all have different very different pricing characteristics to it. So it's probably most likely amongst round the prime.

First, you'd get closed first. And as you moved down that spectrum, that bid to offer spread so-to-speak would probably widen out. But again, as we've looked at what we want to sell, it's not just the headline asset reduction, but more importantly, it's the removal of risk.

It's the removal of cost of servicing, and in particular, special servicing against these, and obviously capital release. So we look at it against what we see the risk adjusted earnings power of the asset is, and if it's close, we're happy to move on. I would say for a lot of the portfolio today we don't see that, but not to say it won't happen some point in the future.

GERARD CASSIDY: Great. And then just last question, and I may have missed this. I apologize. You guys have moved very swiftly in reducing your branch count globally, but in North America as well. Is there much left to do in North America in terms of reducing the number of branches in the consumer business?

JOHN GERSPACH: I think you'll see continued centralization of our branches around the key metropolitan areas, again, in accordance with our stated strategy where we want to really focus on the large cities. So, I still think that there's some level of branch rationalization yet to go.

GERARD CASSIDY: Thank you.

OPERATOR: Your next question will come from the line of Chris Kotowski with Oppenheimer and Company.

CHRIS KOTOWSKI: Good morning. Earlier in the quarter, there were a number of press reports about attempts to sell OneMain Financial. And I'm just thinking, does it make sense for Citi to sell a profit-making company for cash that it can't return to shareholders, or is there a way to spin it out to shareholders or would that get caught up in the whole CCAR process? Or would it count as a disposition if you did it that way?

MIKE CORBAT: I think, again, kind of going back, we, in my words, crossed the bridge back in 2009 when we placed OneMain into Holdings, or at that point Citi Financial into Holdings. And while it's a terrific business, the sub-prime unsecured lending business is not a business that's core to who we are, or our client base, or our future.

So, again, what we've said is, we want to in essence maximize the exit value for our shareholders, and we've been running that in accordance with that. I think as we've shown in Holdings dispositions, we're wide open to different structures, spins, sale, different approaches are on the table. And I think as we get closer to kind of looking at that exit, we'll certainly weigh all of those.

CHRIS KOTOWSKI: Okay. Thank you. That’s it for me.

OPERATOR: Your next question will come from the line of Eric Wasserstrom with Sun Trust Robinson Humphrey.

ERIC WASSERSTROM: Thanks very much.

JOHN GERSPACH: Hello, Eric.

ERIC WASSERSTROM: Hello, how are you? Maybe if we could just step back for a few minutes and talk about the list of strategic priorities, Mike, that you've articulated since you moved into the CEO role.

There was, of course, the operating expense reductions, the DTA utilization, the resumption of revenue growth across different regions, the reallocation of resources among different global geographies that maybe were under scale, and maybe an unspoken one was some of the resizing that would occur inside

ICG. So I just wonder now, where would you say you are -- like which inning are you in with respect to those various priorities?

MIKE CORBAT: Well, I think if you go back and you touched on some, so I think you've seen from the efficiency ratio perspective and your operating expenses, I think you've seen pretty consistent progress against moving towards the target that we set out for the company. I think that when you look at things such as DTA, at the point we really stated the priority of DTA utilization, DTA was still going the wrong way. It was still increasing, and I think since that point in time, we've showed the consistent ability to use it.

I think a piece you didn't mention in there was we said, John and I had put out that by the end of 2015, we wanted to get Holdings to breakeven. And I think this quarter got us there a little bit early, and it's our job to work to try and obviously sustain that. And I think candidly, the most challenging part of it has really been the revenue side of things, has been the environment.

I think a combination of the economic, the regulatory, and the political nature of things around the world has probably made things more challenging than we certainly would have liked. We've tried to continue to adjust the business model to that. So I think that we've made progress on everything that we've set out to do. We've got more work to do. We're not going to rest until we get there. But I feel quite good and quite proud of what we've managed to accomplish in the last year and-a-half or so.

ERIC WASSERSTROM: And you touched on the benefits to the reductions from the sale of Greece and Spain. But were there any geographies that sort of moved into the four review bucket in the past quarter or two quarters that maybe where the market isn't aware of?

MIKE CORBAT: I think, again, we showed the optimized list as part of the 2013 exercise. John spoke earlier to the progress against that bucket that in fact we've made about 330 basis points of efficiency gains in 2013, and we've continued to get those gains in 2014.

And what we've said I think remains consistent today. That we need to have a pathway or a line of vision or a line of sight to those businesses or geographies making sense over the intermediate or longer time frame. And so, if we discover businesses or believe there are businesses that's can't get there, they'll absolutely come under strategic review.

ERIC WASSERSTROM: And just the last question from me. On slide 24, the last 12 months return analysis, the 10% that's listed there, and then there's the call-out box including the DTA would be 13%. Your disclosure changed a little bit from the prior quarters. So I'm just curious, would that number have increased, the number excluding the DTA, would that have increased sequentially this period?

JOHN GERSPACH: No, actually, on a trailing 12 month basis, because we've generated more capital, our denominator has increased and, therefore, has lowered the return.

ERIC WASSERSTROM: So that actually got to the crux of my question, that the compounding of capital is occurring at a rate faster than what's occurring in the numerator, is that effectively correct?

JOHN GERSPACH: That’s exactly what’s going on.

MIKE CORBAT: As I said in the he opening, in the first half of the year, we generated about $10 billion of capital.

ERIC WASSERSTROM: Okay. Great. Well thanks very much.

OPERATOR: Your next question will come from the line of Erika Najarian with Bank of America Merrill Lynch.

ERIKA NAJARIAN: Hello. Good morning. My questions have all been asked and answered. Thank you.

JOHN GERSPACH: Okay, thank you.

OPERATOR: Your next question will come from the line of Brian Kleinhanzl with KBW.

BRIAN KLEINHANZL: Good morning. So I us just had a couple quick questions here. You said that the revenues in Citi Holdings benefited from the asset sales done there. Can you give us what the dollar impact was from the benefit? And was it all through NII?

JOHN GERSPACH: No. The dollar amount of the asset sales is somewhat similar to the dollar amount that we had disclosed last quarter as far as the benefit of asset sales, which it was somewhere in the vicinity of $200 million or so. So it's roughly flattish to the first quarter.

BRIAN KLEINHANZL: Okay. And then also on Citi Holdings, end of period loans went down $8 billion, other assets went down about $300 million. But the total assets only went down $3 billion. What's the driver of the delta there? Is it organic growth?

JOHN GERSPACH: And you're focused on Holdings, right? I just want to make sure.

BRIAN KLEINHANZL: Yes, just Holdings only.

JOHN GERPSACH: Yes. As we signed to sell the businesses in Spain and Greece, they come out of the loan book and they go into assets held for sale. So they move down into an "other asset" category. That's the way that -- once you've got an asset held for sale, you one line the assets and one line the liabilities of those businesses. And so therefore, they come out of loans or whatever other balance sheet line they're in, and they all go down to other assets and other liabilities. That's all.

BRIAN KLEINHANZL: Okay. And then within the efficiency ratio that you looked at in the Global Consumer Banking, you said that excluding Korea and mortgage banking would be meaningfully lower. But even if you back out the expenses related to Korea this quarter, it's still mortgage banking is being a drag on the efficiency ratio. Do you still think that market share gains is enough to improve the efficiency ratio there, or do you actually need to do more repositioning in North America Mortgage?

JOHN GERSPACH: Well we've actually been taking -- the expenses have been coming out of North America Mortgages. Now, they come out of mortgages on somewhat of a lag basis. Because you tend to recognize your revenues, especially when you're doing originate to sell, you tend to recognize the revenues when you lock in the rate, when you do a rate lock, and then you still have another quarter where you've got to do all the processing in order to really make the sale.

But in general, the expenses have been coming down in North America. We think we've got the -- with the expense reductions that we should expect to see in the third quarter, I think that the business is properly sized both from a -- certainly from an expense point of view, compared to the level of originations that we would expect to get out of that business.

BRIAN KLEINHANZL: Okay. Great. Thanks for taking my questions.

JOHN GERSPACH: Okay. Not a problem.

OPERATOR: Your next question will come from the line of Ken Usdin with Jefferies.

KEN USDIN: Thanks. Good morning, guys. John, first on just that whole follow-up on Holdings. So the adjusted operating margin has gotten up to $700 million with the help from that $200 million of gains. Is it fair to say that we're now in this new higher range for that operating margin for Citi Holdings, or is it still just dependent on whether or not you can get those gains every quarter as you continue to make incremental sales?

JOHN GERSPACH: I'd say it's still dependent on our ability to get those gains. So I would tend to look more at the $500 million as the level that we would expect in that business, somewhere between $400 million and $500 million. And if we get a reasonable amount of asset sales, then you'd get up to the $700 million level.

KEN USDIN: Okay. And then secondly on credit quality, this quarter's interesting that the reserve release in Consumer and specifically in North America Cards was bigger than it's been for a while, and then conversely, the mortgage release in Holdings was actually smaller. So can you help us dimension how we should think about aggregate release going forward, and what you anticipate would be the bigger drivers from here?

JOHN GERSPACH: Clearly, the reserve release that we had in Cards, as I tried to indicate in some of the remarks that I made, that was really in response to the fact that the credit performance in Cards just got a lot better than what we had been anticipating at the end of the first quarter. At the end of the first quarter, we were talking about overall North America NCL rates sort of leveling off at 3% for the year, and we just continued to see much more favorable delinquency experience, as well as NCL experience in both Branded Cards and Retail Services.

And we expect that level of NCL and delinquency to continue. So that's what really drove the reserve release in the second quarter. I don't expect that the reserve releases in those two cards businesses to stay at the level that we've had in either the first or the second quarter as we move into the second half of the year.

KEN USDIN: And then on the mortgage side, is it just more dependent on sales from here than it is on credit performance?

JOHN GERSPACH: If you take a look at just at mortgages, I believe that if you look at the reserve release as a percentage of the NCLs that we took in mortgages, it's roughly equivalent to where we had been. I think that the reserve release was equal to about 86% of the net credit losses that we had in the Holdings mortgage book, and we had been running somewhere between 85% and 90% in any of the last several quarters. So that reserve release is likely going to be, again, somewhere in that 85% to 90% range of the NCLs that we ultimately charge off in mortgages.

KEN USDIN: Okay. And then quick question on the asset yield. So you mentioned that the NIM should be pretty stable from here. Deposit costs look to have flattened. So can you talk to us about incremental loan yields and incremental securities purchases, and then ability to continue to scroll overall balance sheet in terms of NII dollars?

JOHN GERSPACH: Our expectation is that loans will continue to grow. We still have loan growth. Again, focus on the Citicorp business, Citicorp loans grew 8% year-over-year. And we anticipate, again, still getting good, healthy loan growth in our Citicorp businesses. Those loan growth, even if spreads come down a little bit on loans, that still gives you a nice, healthy contribution to your NIR and your NIM.

I think you're right as far as deposit cost. I think that's probably going to be somewhat flattish from here on out. Maybe a slight uptick, but not much. And we still have the ability to lower our overall cost of funds as we continue to issue long-term -- roll over the long-term debt at more favorable spreads than what we were issuing several years ago.

KEN USDIN: Okay. And then last question on that last point, John, as far as the long-term debt, and then also more importantly the continued preferred issuance, I think you guys are still around 70 basis points of B3 RWAs. Can you give us an understanding of just how much of that long-term debt is to roll, and then also your general issuance plans on how much of that preferred bucket you want to continue to get done?

JOHN GERSPACH: As far as long-term debt, I think we're pretty much at the level, certainly of the long-term debt held at the holding company. We're pretty much at the level that we think we need to be on a full year basis. And so there will continue to be issuance. We'll give you an update on those issuance plans when we do our Fixed Income Conference towards the end of this week.

But I think it's pretty much in line with the guidance that we gave out at the end of the first quarter. And we will continue to be an issuer of preferred stock. We recognize that we've got some preferred stock issuance to do over the next 3 to 5 years, so we will be issuing preferred stock, but in a somewhat paced approach.

KEN USDIN: Right. Okay. Thanks for the answers.

JOHN GERSPACH: Okay.

OPERATOR: Your next question will come from the line of Matt Burnell with Wells Fargo Securities.

MATT BURNELL: Good morning. Thanks for taking my questions. Just to follow-up on, John, you're pretty positive commentary about underwriting strength and M&A strength. And I guess I'm trying to get a little more color on was that just in the U.S., or are you gaining or do you feel you're gaining share across the different geographies, Asia, Europe and the U.S., in both those businesses?

JOHN GERSPACH: I'd say it's fairly widespread. Obviously, it's going to be a little bit heavier in some geographies than others. And I don't want to get into a geography by geography commentary.

But again, it's a widespread improvement in the second quarter, certainly in the wallet share. And again, as we look to the wallet share that we're capturing in the announced M&A, again, that's fairly broad-based.

MATT BURNELL: Okay. And then just returning to slide 24, I appreciate the breakout of the average allocated TCE, which I presume is going to be updated annually. I guess I'm curious as to the $42 billion of TCE allocated to Corp/Other. Is that going to stay at a roughly similar amount to the total Citigroup capital, or could that be moved down into some of the operating units over time?

JOHN GERSPACH: Well, when we set up the amount equal to Corp/Other, we laid out the rationale for how we got there. It's a little bit of the operations that we have in Corp/Other, importantly, it's where we hold the capital associated with the DTA.

It's where we hold some of the Op risk capital that we can't quite allocate to other of the businesses. And importantly, as we continue to generate capital, far in excess of our ability to distribute capital, that amount will grow over time.

So we'll do an annual re-appropriation based upon what -- the level of capital that we think is appropriate for each business. But as long as we continue to be net generators of TCE, you're going to see more of that in the Corp/Other number.

MATT BURNELL: Okay. And just finally from me, you mentioned that the impact of 100 basis points higher rates is slightly more at the end of June than it was at the end of March. I noticed that your securities -- your investment portfolio is up about 8% year-over-year, up 4% quarter-over-quarter. Can you update us on what the estimated reduction in your Tangible Common Equity would be from 100 basis point higher rate environment?

JOHN GERSPACH: Again, we'll put this all out next -- probably when we do the Fixed Income Conference. But my recollection is that it goes to about $3.4 billion.

MATT BURNELL: Okay. Thanks very much for taking my questions.

OPERATOR: Your next question will come from the line of Derek DeVries with UBS.

DEREK DEVRIES: Thanks. I have a couple questions on Latin America. I guess starting with last week, the Mexican Antitrust Authority published recommendations on reform. And I was hoping you could give us some of those key recommendations, and maybe a talk a little bit about the impact that it could have on Banamex?

JOHN GERSPACH: I have to tell you, we don't view what was published last week as having any significant near term impact on Banamex. I'd say that the industry is still sorting through what was published, and it's still in the early stages of analysis.

DEREK DEVRIES: Maybe a little more concrete, the provisions in Latin America ticked up. And I take on board your comments about portfolio growth and seasoning. But if there's nothing one off in nature there, is this a level we should sort of expect going forward from Latin America, or is there some one-off things in there?

JOHN GERSPACH: It's not necessarily one-off. But again, most of the performance, the credit performance in Latin America Consumer really is being driven by Mexico Cards. And the consumer in Mexico is still absorbing a little bit of the fiscal reform actions that have gone through, and clearly, as the Mexico economy continues to struggle to really regain the momentum that everyone thought that it would have, consumer spending has not been robust.

So we would anticipate, that's why I said that the NCL rate will remain relatively high through the end of this year. And that's why we said the Latin America NCL rate will probably stay at around the first half levels, but we do believe that once that gets behind us, there should be improvement in those NCL rates as we go into next year. So we still feel very good about the overall, the underlying credit quality in our Mexico Cards portfolio.

DEREK DEVRIES: Perfect. Thanks. And then I guess one last question, just touching on a subject you've talked about a lot today. Last quarter, you said that when you made your 2015 targets, you built in about 200 basis points in your efficiency ratio for litigation. So obviously falling off a lot from this year. And I was just wondering we're three months further along, you still feel comfortable you'll get enough of the litigation stuff behind you this year that the 200 basis points for litigation still a good guess as to where it will come out next year?

JOHN GERSPACH: Well just to be clear, I believe that what I said was that the 200 basis points would cover both repositioning, as well as legal and related costs.

DEREK DEVRIES: You absolutely did. Apologies.

JOHN GERSPACH: So, we'll have to see. As we get closer to year-end, we'll take a look. But again, we still believe based upon what we look at today that we should be able to achieve the efficiency targets that we've set out for 2015.

DEREK DEVRIES: Perfect. Thank you very much.

OPERATOR: Your next question comes from the line of Andrew Marquardt with Evercore.

ANDREW MARQUARDT: Morning, guys. Couple of things.

JOHN GERSPACH: Hello, Andrew.

ANDREW MARQUARDT: How are you? Just back on the balance sheet dynamics, in a potentially changing rate environment at some point and the deposit velocity question that Guy was getting to earlier. Can you just help us understand if you do have certain level that you've baked into your modeling, how you think about the ALCO in terms of maybe that over half deposits are in fact from the ICG Group, and a third of those are in North America, so it's still a relatively good contribution of total deposits. How you do think about maybe isolating that component that could be at risk in terms of a reversal once rates do eventually move higher?

JOHN GERSPACH: Actually, we don't view that component as being at risk, because certainly -- I wouldn't say there isn't one dollar of deposit that isn't at risk. But the overall deposit level, we don't view as being at risk, especially on the TTS businesses, the Treasury & Trade Solutions deposits. Because they really represent, for the most part, operating account balances. And so those are the funds that businesses need to have in order just to conduct their ongoing operations. So again, we feel relatively good about that.

Now, if the Fed tapering or the Fed comes in and does something to try to drain liquidity out of the system, that could impact future deposit growth, but it's not likely to impact the absolute level of deposit that we currently have in those businesses.

ANDREW MARQUARDT: Okay. That's helpful. And then do you have an updated LCR ratio at this point, or is that something we should wait for another fixed income call question, maybe?

JOHN GERSPACH: That calculation is still ongoing, and we'll give that to you when we do the fixed income call. It still is a very strong ratio. I just don't have it in front of me right now.

ANDREW MARQUARDT: The last quarter was about 120% -ish, if I recall correctly. So probably not --

JOHN GERSPACH: It's going to be just around that, maybe even slightly higher when we publish it this week.

ANDREW MARQUARDT: Got it. And then just lastly, I know there's been a lot of questions on the efficiency ratio and goals, sorry. But can you help just us understand maybe just to dumb it down, if in fact the revenue environment remains tepid and tougher for longer, if the revenue environment is stagnant here, there certainly sounds like there's room on GCB to move, and then maybe on ICG as well.

Can the efficiency ratio really be met if the revenue environment today stands as it is for another six quarters or so? Is that possible? Is there enough room on what you have already, or would it drive you to rethink, maybe pulling another something out of the drawer, to reconsider other things?

JOHN GERSPACH: Let's think about the revenue environment that you refer to. We have ongoing revenue growth, and have had ongoing revenue growth in Latin America, even as Mexico has slowed down. So, the revenue environment for Latin America still seems to be in growth mode, and we feel very good about the way our franchise is positioned there.

When you take a look at Asia, we now have got the Korea repositioning behind us. And we have had underlying growth in each of our franchises in Asia over the last several quarters, but that has been offset in many ways by the reduction in revenues in Korea.

So we actually are quite constructive as far as the revenue environment today in Asia, Asia Consumer, is producing growth both sequentially and year-over-year in the second half of the year. So we feel really good about the performance of our Asia Consumer franchise going forward.

In North America, we've got the mortgage repositioning out of the way. So our mortgage revenues stabilized in the first quarter. They actually grew in the second quarter.

We've got that business now positioned properly, we think, for the way the market should move forward. And again, we're not looking to constantly gain -- we don't look to be number one or number two in that business.

We just want to be able to serve our customers through our retail branches with an appropriate mix of correspondent business. So again, we're very constructive on what we've been able to do with the mortgage business.

Branded Cards, I mentioned, we've got purchased sales growth. We've got good underlying momentum in the full rate loans in that business, and importantly, in the products where we have actually been investing.

When you take a look at Branded Cards, I think the year-over-year sales growth, the purchase sales growth was about 5%. But if you look at the portfolios where we've actually been investing, the sales growth there year-over-year is upwards of 8%. So again, we feel really good about the momentum and the revenue prospects for Branded Cards.

So in our Consumer franchises, from a revenue momentum point of view, we feel good about the revenue momentum. And then when you move over to the ICG, we look at the Banking franchise. And again, with the past investments that we've made in investment banking, we're doing very well as far as being able to maintain or actually grow wallet share.

We've had several quarters in a row now of $1 billion or $1 billion plus revenue quarters. So again, we feel good about the revenue momentum in that business.

We feel very good about the revenue momentum that we've got in Transaction Services, in TTS. 10 quarters, 8 quarters in a row we struggled with spread compression overwhelming the volume growth, the contribution of volume growth.

Now that we see the impact of the spread compression beginning to abate, the impact of the volume growth now actually is able to overcome the spread compression. And so we feel really good about the revenue prospects for that business going forward.

So then, that leaves you with Markets. And I think we spend an awful lot of time focused on what's going on in Markets. But Markets, while it's an important part of our business, it is not the largest contributor to our overall revenue picture or our overall profitability. And so, I think that there are some legitimate questions going forward as far as Markets, but the rest of the business I'd say we feel pretty good about the revenue prospects.

ANDREW MARQUARDT: That's helpful. Thanks for that summary. And then in terms of end markets, and maybe it's summarized in the ICG, when you reference your I think comp ratio this last quarter was 29%, in line with last year, should we expect that that should remain or could it tick higher just because as one referenced earlier as well, I'm still trying to figure out how much is cyclical versus secular?

JOHN GERSPACH: The 29% that I referenced is actually the comp ratio over a trailing 12 month basis.

ANDREW MARQUARDT: Okay.

JOHN GERSPACH: So that's 29% both for full year 2013 and 29% for the last 12 months as measured as of the end of this quarter.

ANDREW MARQUARDT: And should we expect that for the full year?

JOHN GERSPACH: I'm not going to forecast where comp ratios are going to be, but you can see that we've been holding it fairly constant.

ANDREW MARQUARDT: Thanks, guys.

JOHN GERSPACH: Okay. No problem.

OPERATOR: Your next question will come from the line of Steven Chubak with Nomura.

STEVEN CHUBAK: Hello, good morning.

JOHN GERSPACH: Morning, Steven.

STEVEN CHUBAK: So one of your competitors provided some helpful disclosure on the Advanced Approach framework under CCAR specifically, which reflected an additional 100 basis point decline in the firm's Tier 1 Common under stress, due to the stressed RWA inflation under the Basel III Advanced framework. And since the Advanced framework appears to be your binding capital constraint at the moment, I was wondering whether you've conducted a similar assessment internally. And if so, if you could provide some guidance as to how the Advanced Approach framework could further impact future risk based capital ratios under CCAR? I got to tell you, I have not spent any time looking at what our peer institution put out there. So I apologize. Have you done the work yourselves, though?

JOHN GERSPACH: I'm not sure what they did. So I don't know what they did, so I can't comment as to whether or not we did something similar.

STEVEN CHUBAK: Okay. Fair enough.

And then switching gears and as a follow-up to Betsy's question on Operational Risk capital, your comments indicate that the $56 billion true-up proposed by the Fed or imposed by the Fed late last year contemplates some buffer for litigation matters not yet resolved. And I was just wondering what the process is for the Fed providing guidance on Op Risk capital levels? So is the feedback given quarterly, or is it merely evaluated as part of the advanced model submissions, which from what I recall is actually an annual process?

JOHN GERSPACH: It's something that is under discussion periodically, but obviously goes through a much fuller exam on an annual basis.

STEVEN CHUBAK: Okay. And then just one more from me on capital allocations.

As part of your enhanced segment disclosure on slide 24, the amount of capital allocated exclusive of DTA to support the operations in Corp and Holdings and focusing I guess or excluding the Corporate/Other segment was a combined $126 billion or so, which implies on current RWA levels about a 10% Tier 1 Common target. And I was wondering if we should think about that 10% Tier 1 Common ratio as an appropriate through the cycle target for Citigroup at this juncture, or is it simply still too early to make such a determination?

JOHN GERSPACH: Again, when you take a look at the underlying franchises in Citi right now, we clearly think that the Citicorp businesses are capable of producing mid-teens ROTCE. And again, that's going to be -- so the overall firm's contribution to ROTCE is going to be dependent upon our ability to return capital at some point in time.

STEVEN CHUBAK: Okay. Thanks. And actually, just one more quick question regarding the DTA disclosure.

Can you update us on the level of U.S. Foreign Tax Credits that are subject to expiry by 2018? I know it was about $9.9 billion at the end of the year. But obviously, you've made some progress over the last two quarters.

JOHN GERSPACH: We update those disclosures on an annual basis. There's just too much movement during individual quarters to actually come up with something that is relevant. So we'll update you at the end of this year as to the progress that we've been making.

STEVEN CHUBAK: Okay. That's it from me. Thank you for taking my questions.

JOHN GERSPACH: Not a problem. Thank you very much.

OPERATOR: There are no further questions at this time.

SUSAN KENDALL: Great. Thank you, Regina, and thank you all for joining us today. If you have any follow-up questions, please reach out to Investor Relations. Thanks.

OPERATOR: Ladies and gentlemen, this concludes today's conference. Thank you all for joining, and you may now disconnect.