TRANSCRIPT

Citi Fourth Quarter 2016 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 fourth quarter 2016 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. Kendall, 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'll be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results 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 filings, including, without limitation, the Risk Factors section of our 2015 Form 10-K.

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

MIKE CORBAT: Thank you, Susan. Good morning, everyone.

Earlier today we reported earnings of $3.6 billion for the fourth quarter of 2016 or $1.14 per share. For the full year, we generated nearly $15 billion in net income or $4.72 a share. We finished the year strongly and we carried that momentum into 2017. We drove revenue growth in our businesses and demonstrated strong expense discipline across the firm. We achieved a full year Citicorp efficiency ratio of 58%, as we targeted, while again increasing our loans and deposits.

We had excellent performance across our Institutional businesses, especially in Fixed Income and Equities, with revenue up 31% for the quarter and 10% for the entire year despite the difficult start in the first quarter. Treasury and Trade Solutions generated year-over-year revenue and margin growth for the 12th consecutive quarter. We successfully navigated the volatility in the energy sector earlier in the year, resulting in solid credit performance consistent with our target client strategy.

In Global Consumer, our U.S. branded cards business continues to see the early benefits from the Costco portfolio and our other cards products also delivered revenue growth. Internationally, we again generated revenue growth and positive operating leverage in both Asia and Mexico, and we continued our investment in Mexico where we have scale, a strong brand position and the opportunity to drive improved wallet share and returns.

2016 was a very important year for Citi in several respects. This marks the last time we'll report the results of Citi Holdings separately. We'll end this chapter much differently than we began it. At its peak, it had over $800 billion in assets, generating sometimes multi-billion dollar losses in a single quarter. Today, Holdings' $54 billion of assets are only 3% of Citigroup's balance sheet and for the 10th quarter in a row, Holdings was profitable with $87 million of net income. The results of Citigroup today are driven by the core franchise and we no longer need to distinguish between core and non-core.

In short, the restructuring is over. Citi is a unique and resilient franchise and after a lot of hard work, we'll focus on further optimizing its performance to the benefit of our shareholders. We won't take our eye off the ball on expenses and are committed to investing only in areas where we're going to drive improved returns. And in fact, we're beginning to produce the capital returns our investors expect and deserve.

In 2016, we returned nearly $11 billion in capital to our shareholders. This reflected the impact of our original capital plan as well as the incremental increase we announced in November. That raises the total return to $12.2 billion for the 2016 CCAR cycle. And you're seeing the results. Buybacks of common stock, a core element of the plan, drove down the common shares outstanding by 181 million shares, or 6% during the year. And our tangible book value increased to $64.57, up 7% for the year.

Even with this capital return, we ended the year with a common equity Tier 1 ratio of 12.5%, 40 basis points higher than we started the year. And as you can see, the capability of this franchise to both generate and return very significant amounts of capital is quite powerful.

We moved closer to our aspiration to be an indisputably strong and stable institution. The feedback we received from the Fed and the FDIC on our Resolution Plan was another significant milestone for our firm during the year. And we are committed to improving not just our return of, but our return on capital. Excluding the capital supporting disallowed DTA, we generated a 9% return on our Tangible Common Equity in 2016 and given our trajectory, we expect to reach at least 10% return on our TCE, excluding disallowed DTA in 2018.

Looking forward, economic sentiment has clearly become more positive since the U.S. election. In general, we'll benefit from pro-growth policies as will our clients. In addition, we see a path for more consistent interest rate increases and revenue opportunities in areas such as infrastructure investment. And while corporate tax reform may lead to a writing down of a portion of our deferred tax assets, it should also result in higher net income and improved returns.

At this point, no one actually knows what will become U.S. policy, but I believe that there are pent-up capital and investment opportunities which corporates are poised to act on given the right circumstances. This could boost GDP growth in the U.S. and beyond, given the significance of our economy globally. So we enter the year with a healthy amount of optimism about the prospects of growth strengthening.

John will go through our presentation, and then we'd be happy to answer your questions.

JOHN GERSPACH: Thank you, Mike, and good morning everyone. Starting on slide 3, we show total Citigroup results. Revenues of $17 billion in the fourth quarter declined 9% from the prior year and expenses decreased 9% as well, each driven primarily by the continued wind-down of Citi Holdings as well as the impact of foreign exchange translation. In our core Citicorp franchise, revenues grew 6% year over year while expenses declined 2%. And in constant dollars, revenues grew 8% versus 1% growth in expenses.

Citigroup credit costs improved significantly, driven by improvement in both ICG and Citi Holdings, partially offset by higher credit costs in consumer, reflecting loan growth as well as the shift from reserve releases last year to reserve builds in North America Cards. Net income of $3.6 billion in the fourth quarter grew 4% from last year. And earnings per share of $1.14 grew 8%, including the benefit of share buybacks, which drove a 5% decline in our average diluted shares outstanding.

On a full year basis, we earned nearly $15 billion, or $4.72 per share, with the drag from higher preferred dividends in 2016 more than offset by lower shares outstanding. And our full year Return on Tangible Common Equity was 7.6% on a reported basis, or 9% excluding the TCE supporting disallowed DTA. In constant dollars, Citigroup end-of-period loans grew 3% year over year to $624 billion, as 6% growth in Citicorp was partially offset by the continued wind-down of Citi Holdings, and deposits grew 4% to $929 billion dollars.

On slide 4, we show the split between Citicorp and Citi Holdings. Citicorp was again the predominant driver of profitability in the fourth quarter, contributing $3.5 billion or 98% of total net income. Pre-tax earnings of $5.1 billion in Citicorp grew by over $1.3 billion year over year, mostly driven by higher revenues and lower credit costs in our Institutional franchise. And, on a full-year basis, despite the difficult first quarter, we were able to deliver an efficiency ratio in Citicorp of 58%, in line with our revised goal for the year.

Turning to Citi Holdings, we earned a small pre-tax profit in the fourth quarter with revenues, expenses and cost of credit each declining significantly as we continued to wind down the portfolio. We reduced Citi Holdings to $54 billion of assets at year end, or 3% of total Citigroup, and we have signed agreements in place to reduce this amount by an additional $9 billion. On a full year basis, Citi Holdings contributed $600 million of net income, which we do not expect to recur in 2017.

On slide 5, we show the full year 2016 EBT walk for Citigroup. In total, EBT declined by over $3 billion from 2015 to 2016, roughly half of which was attributable to lower gains on asset sales in Citi Holdings and a modest impact from FX translation. The remaining EBT decline occurred in the core Citicorp franchise. However, this comparison includes losses on mark-to-market loan hedges in 2016, as compared to gains in the prior year, as well as certain previously disclosed one-time items that also affect the variance, including a gain on the sale of our merchant acquiring business in Mexico in 2015 and the write-down of our investment in Venezuela in the first quarter of 2016.

Together, these items drove a nearly $1.3 billion negative variance in the full year EBT comparison, all of which was reflected in revenues. Excluding these items, Citicorp revenues increased 3% year over year in constant dollars, or over $1.7 billion, driven by growth in Fixed Income markets, Treasury and Trade Solutions, North America Cards, and Mexico Consumer revenues.

And our operating margin grew by nearly $400 million, including the impact of significant investments in our North America Cards franchise that have not yet fully matured. Of course, credit costs also increased in 2016 as we grew loans in our target segments, including the acquisition of the Costco portfolio. However, most of the year-over-year variance of roughly $700 million in 2016 reflects the absence of nearly $400 million of reserve releases that occurred in 2015 as credit normalized in North America Cards.

Turning now to each business, slide 6 shows the results for North America Consumer Banking. Total revenues grew 5% year over year in the fourth quarter. Retail Banking revenues of $1.3 billion declined 4% from last year, reflecting lower mortgage revenues as well as the impact of certain consumer incentives offered in coordination with the launch of our enhanced retail segmentation strategy. During the quarter, we launched our enhanced Citigold integrated wealth management offering for the affluent segment in the U.S. We also launched Citi Priority for the emerging affluent segment, and we executed significant enhancements to our mobile banking platform across all our consumer segments. We continued to rationalize our physical footprint, down 7% to 723 branches at year-end, while doubling our free ATM access. And we continued to grow volumes, with average loans and checking deposits up 6% and 9% respectively.

Turning to Branded Cards, revenues of $2.2 billion grew 15%, reflecting the impact of the Costco portfolio acquisition as well as modest organic growth. Excluding Costco, we generated 2% revenue growth, as we have largely absorbed the impact of higher acquisition and reward costs and are beginning to benefit from organic volume growth. Turning to Costco, the results continue to be very encouraging. To date, we have generated over 1 million new Costco card accounts and over $52 billion of purchase sales. And loans continued to grow in the fourth quarter, ending the year at nearly $17 billion.

In total, we grew end-of-period branded card loans by 11%, or over $8 billion in the second half of 2016, across our proprietary products, Costco, and other co-brand portfolios. This reflects strong engagement with our existing cardholders as well as significant new account balance growth. New accounts typically feature promotional rates for a period of time, so we would expect revenue growth to follow once these balances mature and begin to accrue at full rate.

Finally, Retail Services revenues of $1.6 billion were roughly flat to last year, as loan growth offset the absence of two portfolios we sold in the first quarter, as well as the impact of renewing and extending several partnerships.

Total expenses for North America Consumer were $2.5 billion, up 6% from last year, mostly reflecting the Costco portfolio acquisition, volume growth, and continued marketing investments, partially offset by efficiency savings.

And finally, credit costs of $1.2 billion were down sequentially but increased $370 million from last year. Net Credit Losses increased to $1.1 billion, mostly driven by Costco, organic volume growth and seasoning, and the impact of regulatory changes on collections in cards. And we built $113 million of net loan loss reserves during the quarter compared to a release in the prior year, driven by the ongoing impact of the Costco portfolio acquisition as well as organic volume growth. We continue to expect the full-year NCL rate to be in the range of around 280 basis points in Branded Cards and 435 basis points in Retail Services for 2017, with some variability by quarter.

On slide 7, we show results for International Consumer Banking in constant dollars. Net income grew significantly from last year on higher revenues, lower operating expenses, and stable cost of credit. In total, revenues grew 5% and expenses were down 1% versus last year. In Latin America, total Consumer revenues grew 8%, driven by continued momentum in Retail Banking, with average loans and deposits increasing 7% and 13% respectively.

Cards revenues declined slightly from last year. However, we saw ongoing strength in account acquisitions, purchase sales, and average loan growth, which should translate to sustainable revenue growth by the second half of 2017. And finally, expenses declined 5% year over year in Latin America, as ongoing investment spending was more than offset by efficiency savings as well as the impact of one-time items in the prior-year period.

We continued to execute on our investment plans this quarter in Mexico, modernizing our branches and ATMs, enhancing our digital capabilities, and upgrading our core operating platforms. These infrastructure investments should improve operating efficiency and returns over time. And we still expect to maintain positive operating leverage each year throughout the investment period.

Turning to Asia, Consumer revenues grew 4% year over year, driven by improvement in Wealth Management and Cards. Wealth management revenues grew 18% from last year, reflecting better investor sentiment and continued positive AUM inflows. And Cards remained positive as well, with revenues up 4%, driven by a continued improvement in yields and abating regulatory headwinds. Expenses in Asia grew 2% from last year, driven by investment spending, partially offset by efficiency savings.

On slide 8, we show more detail on our Asia Consumer portfolios. Starting with retail loans, as we've discussed previously, we have been working to optimize the returns on this portfolio by shifting away from lower yielding mortgage loans and de-risking the commercial portfolio while growing higher return personal loans. Over the past year, we have increased net interest revenue as a percentage of average loans in the retail portfolio by 13 basis points, largely offsetting the revenue impact from a 7% decline in average loans, driven by mortgages and the runoff of certain non-core products.

As you can see on the slide, personal loan balances have stabilized in recent quarters, as underlying growth in certain markets has been offset by regulatory headwinds in others. These headwinds are abating, and therefore we believe we can drive modest growth in total retail loans from this new base in 2017 while continuing to improve the yield on the portfolio.

And, turning to Cards, while average card loans were flat year over year, we have improved net interest revenue as a percentage of average loans by roughly 40 basis points, as we have shifted a larger portion of our balances to higher yielding revolving loans. We also expect to generate loan growth in Cards going forward. As we invest to drive higher account acquisition and usage. We expect these initiatives along with our continued focus on Wealth Management to drive sustained growth in Asia in 2017 and beyond.

Slide 9 shows our Global Consumer credit trends in more detail across both Cards and Retail Banking. Credit remained broadly favorable again this quarter. The increase in the NCL rate in North America mostly reflects the impact of the Costco portfolio, seasonality, and the impact of regulatory changes on collections in Cards. Credit trends in Asia Consumer remained stable this quarter, and the NCL rate in Latin America remained favorable at 415 basis points. While we continue to believe the NCL rate in Latin America should settle closer to 4.5% as the portfolio seasons, it will likely remain below this level for the first half of 2017, reflecting strong credit quality and continued low delinquency rates.

On slide 10, we show the year-over-year EBT walk for Consumer for the second half of the year. As we noted last quarter, the first half of 2016 was affected by several factors including the comparison to much stronger prior-year periods in Wealth Management, the early stage of our organic cards investments, the expenses we were absorbing on Costco before we had the full benefit of the revenues on that portfolio, and the impact of significant repositioning charges in the first quarter of the year. As we moved into the third quarter, you could see momentum building again in our Consumer business, and this continued through year end.

In total, we generated 6% underlying revenue growth with a 5% increase in expenses in the second half of 2016, driving growth in our operating margin of over $450 million year over year. Of course, credit costs also increased, reflecting volume growth and the absence of prior-period reserve releases. But overall, we feel good about the trajectory of our Consumer business based on our performance in the second half of the year.

Turning now to the Institutional Clients Group on slide 11, net income of $2.5 billion in the fourth quarter grew substantially from last year on higher revenues, lower operating expenses, and lower cost of credit. Revenues of $8.3 billion grew 11% from last year, reflecting solid progress across the franchise. Total banking revenues of $4.4 billion grew 3% from last year. Treasury and Trade Solutions revenues of $2.1 billion grew 6% in constant dollars, driven by continued momentum with new and existing clients.

We saw strong fee growth, higher volumes and improved spread in certain geographies, resulting in the 12th consecutive quarter of revenue and margin growth in TTS. Investment Banking revenues of $1.1 billion were flat to last year, as higher debt underwriting revenues offset declines in equity underwriting and M&A. Private Bank revenues of $731 million were up 6% year over year, mostly driven by loan growth and improved spreads. And corporate lending revenues of $462 million grew 7%, mostly reflecting the impact of loan sale activity in the prior-year period.

Total Markets and Securities Services revenues of $4.1 billion grew 24% from last year. Fixed Income revenues of $3 billion were up 36%, with both rates and currencies and spread products contributing to revenue growth. Rates and currencies grew roughly 30% year over year, reflecting strong client activity and a more favorable environment, continuing on the positive momentum that began to build in the second quarter. And spread product revenues grew nearly 40% this quarter, also reflecting strong client engagement.

Turning to Equities, revenues grew 15% year over year, driven by an improvement in derivatives along with improved trading activity overall, particularly post the U.S. election. Finally, in Securities Services, revenues grew 3% year over year as increased client activity, higher deposit volumes, and improved spreads more than offset the impact of divestitures.

Total operating expenses of $4.6 billion were down 5% year over year, driven by efficiency savings, lower repositioning costs, and a benefit from FX translation. For full year 2016, excluding the impact of severance, our comp ratio was 26%. And cost of credit was substantially lower year over year, reflecting stabilization in commodities as oil prices continue to recover from record lows.

On a full year basis, our Institutional business earned nearly $10 billion with solid progress in our network driven businesses. TTS grew 8% for the full year in constant dollars. Securities Services grew 6% on the same basis, excluding the impact of business divestitures. And rates and currencies grew 22% in 2016, accelerating from the 5% growth we generated in 2015.

We maintained our expense discipline, absorbing higher volumes without significant incremental cost. And we managed effectively through the volatility in oil prices and other factors this year, resulting in favorable credit performance consistent with our high-quality target client segments.

On slide 12, we show the year-over-year year EBT walk for ICG, demonstrating the strong momentum we have generated since the difficult start of the year. We saw broad-based growth this year across our accrual and transaction services businesses. And in market-sensitive franchises, our strength in Fixed Income more than offset the lower market activity in both Investment Banking and Equities. The most significant year-over-year drag comes from other revenue items, including the impact of the Venezuela write-downs in the first quarter as well as the mark-to-market losses on loan hedges driven by spread movements.

Slide 13 shows the results for Corporate/Other. Revenues decreased year over year due to the absence of both the contribution from our equity stake in China Guangfa Bank, which we sold last quarter, as well as gains on asset sales in the prior year. And expenses decreased, mostly reflecting lower repositioning costs, partially offset by higher regulatory spend.

On slide 14, we show Citigroup's net interest revenue and margin trends. With net interest revenue continuing to grow year over year in Citicorp, while Citi Holdings declined with the reduction in assets. Citicorp net interest revenues grew 4% in the fourth quarter and 5% for the full year in constant dollars, driven by loan growth as well as the net impact of higher short-term rates. Looking forward, we believe Citicorp net interest revenue will continue to grow in 2017, with a roughly $500 million impact from the December 2016 rate hike and a $900 million benefit from loan growth and mix, including the impact of our card investments maturing in the second half of 2017. However, this upside should be partially offset by an increase in funding costs of roughly $100 million as we absorb the full year impact of our TLAC-related benchmark debt issuance, as well as a roughly $100 million impact from lower day count.

Turning to Citi Holdings, we would expect the net interest revenue of $2 billion in 2016 to decline again by roughly half in 2017. But this decline should be neutral to earnings as we continue to expect this portfolio to operate at around breakeven. Of course, we could see some fluctuations from FX translation but these are the underlying trends we expect going into 2017.

Turning to NIM, our net interest margin of 279 basis points in the fourth quarter declined by roughly 7 basis points sequentially, driven mostly by lower trading NIM, higher funding costs and the higher mix of promotional rate balances in Cards. And looking to next year, we expect the net interest margin to remain roughly flat to the full year of 286 basis points, as improvement in the core franchise offsets the continued decline in the legacy Holdings portfolio.

On slide 15, we show our key capital metrics. During the quarter, our CET1 capital ratio declined slightly to 12.5%, driven by OCI movements and $4.7 billion of capital returned during the quarter, partially offset by earnings and a decline in risk-weighted assets. Our Supplementary Leverage Ratio was 7.2%, and our tangible book value per share grew by 7% year over year to $64.57 per share despite the OCI pressure this quarter, in part driven by a 6% reduction in our shares outstanding.

To conclude, I'd like to spend some time on our outlook. As a reminder, we are folding Citi Holdings into Corp/Other starting this quarter, so I'll reference total Citigroup results going forward. Starting with our assumptions around the environment, we ended 2016 with a far more favorable backdrop than we started the year in terms of client engagement, capital markets activity and commodity prices. And we expect the environment to remain broadly favorable going forward, but our base case does not assume any additional rate hikes in 2017. At a high level, we expect to deliver modest revenue growth and an improved efficiency ratio for total Citigroup, even as we continue to invest in the franchise and wind down the non-core assets that will now be recorded in Corp/Other.

In Consumer, we expect continued revenue growth and positive operating leverage on a full year basis in constant dollars in both Asia and Mexico, even as we execute on our investment plans for each region. And in North America, we expect revenue growth as well. In the first half of 2017, this growth should mostly reflect the impact of the Costco portfolio acquisition. In the second half, we expect growth to be driven organically as our Branded Cards investments mature and more loans begin to accrue at full rate. However, mortgage revenues will likely continue to be a drag on year over year results in a higher rate environment.

In our Institutional business, we expect continued growth in our accrual and transaction services businesses. We feel good about the strength of our franchises in Fixed Income and Investment Banking where clients remain engaged and our results will reflect overall market environment. And we remain focused on improved execution and wallet share gains in equities where we continue to see a significant revenue opportunity over time.

We believe we can drive an improvement in the efficiency ratio from 59% for total Citigroup in 2016 to roughly 58% in 2017 as we continue to automate processes and enhance our digital capabilities. Our original target of achieving an efficiency ratio in the mid-50s range for Citicorp remains in place now for total Citigroup, and we believe we could operate within that range as early as 2018.

Citigroup cost of credit should be somewhat higher in 2017, driven by loan growth and seasoning, and our tax rate should be in the range of around 31%. We also expect continued significant EPS benefits from our share buybacks during the year.

As Mike described earlier, we believe we're on the right path to improve our Return on Tangible Common Equity, excluding the capital supporting disallowed DTA, from 9% in 2016 to at least 10% in 2018. And we should demonstrate progress towards that goal this year as we continue to drive efficiencies across the franchise and begin to see the full benefit of our Cards investments in the second half of the year.

We continue to believe that we are capable of producing a Return on Tangible Common Equity of roughly 14% over time as we've previously disclosed. And an important milestone on that path will be achieving at least a 10% RoTCE on the full amount of our Tangible Common Equity, which we believe we could achieve as early as 2019, depending on the rate environment as well as the outcome of tax reform.

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

QUESTION AND ANSWER

OPERATOR: Our first question will come from the line of Jim Mitchell with Buckingham Research. Please go ahead.

JIM MITCHELL: Hey. Good morning, guys.

MIKE CORBAT: Hi, Jim.

JOHN GERSPACH: Hey, Jim.

JIM MITCHELL: Hey, Mike. It seems like you've been the most optimistic on this call than you have I think since you started. How do we think about that in the context of that low, modest revenue growth that you talked about? Is it simply just the drag from Holdings, or are you just being conservative? I'm just trying to get a sense of that dichotomy.

MIKE CORBAT: If you look at the business coming out of the fourth quarter and the momentum we're carrying, it's a tale that I would choose to split. One, as I look at our Institutional businesses and whether its rates and currencies, spread product, TTS, Private Bank, check them off, I think we're extremely well positioned, very engaged, and right now what we see – think about rates and currencies as an example, up 22% for full year 2016 coming off of up 5% for 2015, 27% growth in two years off of two rate increases. So as we've said, we obviously did our plan earlier in the cycle, in the early fall, but right now my guess is consensus is somewhere two to three rate increases, we've got some elections and we've got some things. So, long story short, we feel like the Institutional business across the board, Markets, Banking, Private Banking, all those things are pretty well set.

On the Consumer side of things, the second half growth and positive operating leverage in international was what we promised and what we delivered. I think if you look from a North America perspective, the investments that we made in terms of getting Costco up and going, and John talked to the numbers there, $6 billion of loan growth there, $52 billion of purchase sales in the six months, 1 million new customers, we're going to have to overcome some of those promotional balances, but the good news is we've got to overcome those. They're there. And so by the second half of next year we should see that really starting to kick in.

And from the Branded Cards perspective, again, we've started those investments and we've seen the revenue growth, we've seen kind of all the positive indicators there, but we know that's just a bit of a longer story, but the investments we're making in digital and those things across the board feel like we're well positioned. What we don't know, and I'm sure we'll get to it, is exactly how to think about what policy and what policy changes are going to be and really what that means for growth right now. So I would argue that, obviously, with no rate increases, we're certainly behind the times and conservative, but feel very good about the way the franchise is positioned.

JIM MITCHELL: Okay, that's helpful. And maybe just to follow up on the efficiency ratio target for 2018 at 55% – mid-50s for the whole Citigroup, what kind of a revenue growth are you embedding? It doesn't sound like a lot but I just want to make sure I understand. Is this absolute cost cutting, or is it sort of expectations of some revenue growth with flat expenses? How do we think about that?

MIKE CORBAT: I think it's all the pieces. It's the combination of revenues, it's the combinations of continued expense discipline. As John mentioned, it's a combination of technology and digitization. So in there, we're in essence really pulling all the levers to get there.

JIM MITCHELL: Okay, great. I'll stop there, thanks.

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

STEVEN CHUBAK: Hi. Good morning. So I just wanted to kick things off, and it's a little bit of a meaty question on the DTA, but it's a topic that a lot of people have focused on. And, John, I know in the past you had spoken to under a territorial tax system with a 10 percentage point reduction in the corporate tax rate that that would result in a tangible book value write-down somewhere in the vicinity of $12 billion, although the capital hit would be substantially less, closer to $2 billion. And those impacts that you flag relate to timing DTA specifically, and I wanted to better understand how the foreign tax credits might be affected, because that is an area where some have suggested under a territorial system, they could potentially be at risk.

JOHN GERSPACH: Okay, so let me just update only because numbers have changed a little bit since when I spoke at that conference back in November I think it was. But at that point, what I would say right now is again, just to reiterate, we end the year with about $47 billion of Deferred Tax Assets. And within that, there's about $40 billion that are really U.S. Federal DTAs. Within that $40 billion, there's about $3 billion of NOLs, which have got a 20-year life, and there's $14 billion now of foreign tax credits that again generally have a 10-year life. So that leaves $23 billion that really comes about as a result of timing differences, and, therefore, have no specific time use or limitation. So those are the – I just wanted to give you the context on some of the updated numbers.

Everything that you said, when I spoke at that conference again, I ran through a whole series of things, including how you might calculate rate impacts, saying that the largest impact would be on timing differences. And just to, again, update some of the things that I talked about, if we now dropped to a 25% tax rate with a territorial system, we'd end up with still no reduction to our territorial – I'm sorry – combined with a territorial system the P&L hit would be about $12 billion, which I think is consistent with what I quoted back in November. And that $12 billion would probably have about a $3 billion reduction – that would amount to a $3 billion reduction in our regulatory capital. And the change from the $4 billion that I talked about back in November just reflects subsequent changes due to allowable and disallowable DTA mostly coming out of the OCI. So again, as I said, those are all very, very raw estimates.

Within that, again, our belief is that we continue to expect FTC carry-forwards to continue to exist post tax reform. And under the law, FTC carry-forwards can be used because there's a provision in the law that allows 50% of domestic income to be treated as foreign income. So that's in the law. So again, with a 25% tax rate and a territorial system, we don't see any hit to our ability to use FTCs.

STEVEN CHUBAK: Thanks, John. I appreciate all the detail there. And then just one question on the targets on efficiency and RoTCE that you outlined. Relative to expectations, some of the messaging is certainly encouraging, particularly on the RoTCE target for 2019 of around 10%. I didn't know if that target contemplated a write-down in tangible book value as we think about tax policy impacts, or is that based on the current steady state that exists today?

JOHN GERSPACH: I think that absent tax reform that we'll probably get to that 10% number late in 2019. With tax reform, it would be for the full year. So there is some element in tax reform that's baked into getting into that 10% number in 2019, but it's relatively small.

STEVEN CHUBAK: Got it. I appreciate the color, John. Thanks for taking my questions.

JOHN GERSPACH: Not a problem.

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

ERIKA NAJARIAN: Hi. Good morning. My first question, and it's just a clarification question, you mentioned that the base upon which you were giving your outlook had no further rate hikes contemplated. I just want to make sure that the mid-50s efficiency ratio guidance for 2018 reflects the maturity of your investments and so any further rate hikes or a structurally higher curve, is that potentially upside to that mid-50s target?

JOHN GERSPACH: In 2018, we've assumed one additional rate increase around the middle of the year. So just to be totally transparent, there's a very, very small impact of higher rates that we've got baked into 2018, but it's a half year of a 25 basis point increase, so it doesn't really drive a lot.

ERIKA NAJARIAN: Got it. And second question is, one of your primary competitors mentioned late last year that we could be seeing the bottom in global fixed income pools, and he mentioned that the current run rate for Fixed Income is about 35% from peak, although saying that half of that is permanently gone. And I'm wondering if you contemplate your franchise, do you agree with those numbers in terms of what the potential structural upside could be from here?

JOHN GERSPACH: We've long talked about FICC being a shrinking pie, so I think that that's fairly consistent. I think it probably shrunk a little bit more than any of us thought it would during the latter part of 2015 and perhaps the early part of 2016. But again, we don't anticipate FICC to be a pool of revenues that is going to exhibit tremendous growth rates.

I do think that there's potential, if you just take a look at the last, say, half of 2016, the pool probably grew in the second half of 2016 and shrunk a bit more in the first half of 2016. So, again, we're not looking at FICC being some expanding pool of revenues. We do continue to believe that FICC is largely a scale game, and we think that our franchise is benefiting from our approach. We continue to consolidate share.

ERIKA NAJARIAN: Got it, thank you.

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

KEN USDIN: Hi, thanks. Good morning. John, I wanted to ask you. This year you had about $1.8 billion of legal and repositioning charges, a 2% drag on the efficiency ratio, and I'm just wondering as we think ahead to that efficiency ratio improvement that you're talking about for the next two years, can you separate for us a little bit what you generally expect out of that reposition and legal versus core and how much of a benefit that lower repositioning and legal might be to the efficiency ratio improvement.

JOHN GERSPACH: Yeah, when you look at the results for the full year, we probably ended up at I think its 238 basis points of Citicorp revenue. Legal and repositioning ran about 238 basis points of revenue for Citicorp. Now that's a little higher than where we had for 2015 and higher than the 200 basis points or so that we had guided to for full-year 2016. And most of that above-guidance impact occurred in the first quarter as a result of the rather large repositioning charge that we took early in the year.

If you look at Citigroup, and let's say Citigroup is what we're all going to be looking at going forward, legal and repositioning for 2016 was 264 basis points, about flat I think with whatever we had in 2015. It was 265 – 270 basis points. Now going forward, what we fully expect is that legal and repositioning will be a diminishing part of our story. So I would say that those charges should run about 200 basis points of Citigroup revenues in 2017 and then decline further in 2018.

Now – looking to Mike – I'd say just as we're going to stop reporting Holdings as a separate management entity in 2017, my hope is that we can stop reporting legal and repositioning as a separate component of expense in 2018.

KEN USDIN: And therefore, that guidance does contemplate that reduction, the overall efficiency ratio guidance contemplates that.

JOHN GERSPACH: Yes.

KEN USDIN: Okay. My second question just on credit, if you do have this improving efficiency ratio out there, it does presume also that you talked about the card loss expectations for this year, but just a broader question on credit in general. How much normalization do you expect, or are you anticipating seeing, not just from card, but just as the portfolio continues to season with other recent growth that you've seen across the globe?

JOHN GERSPACH: I think we've talked a little bit about it. Asia is still an incredible story when it comes to credit. Asia, we still see our overall cost of credit in Asia bumping at most up to 1% – 100 basis points in the near term. You take a look at where we're running right now and it's well below that. We've given you our target for what we think Latin America will settle out at, which is about 4.5%. Again, that's higher than where we are right now. We think that's where we'll settle, 450 basis points given portfolio seasoning. And then we gave you 2017 guidance for the two largest segments in North America, Branded Cards and Retail. Credit costs in our forward look inch up a bit from the 2018 as portfolios season, and we have to think that the environment becomes a little weak. But again, we don't anticipate significant growth in net credit. By 2018 – 2019, maybe Branded Cards ticks up somewhat above 300 basis points. But it still well within, I think, what would you expect a good band of performance to be. And it's reflective again of the quality of the book that we're building up.

KEN USDIN: Great, thanks a lot.

JOHN GERSPACH: Not a problem.

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

JOHN MCDONALD: Hi, good morning. John, I just wanted to clarify the outlook for the net interest income dollars that you gave. It sounded like maybe looking at net growth of about $1.2 billion in 2017. Did I hear that right? And would that be assuming no more rate hikes?

JOHN GERSPACH: That's correct, John, in Citicorp.

JOHN MCDONALD: Okay, that's Citicorp, just year on year 2017 versus 2016. Should we just about that as Group now, or is there some Holdings component we should think about as well?

JOHN GERSPACH: No, John. That's one of the reasons why I mentioned, if you look on that schedule that's in the deck, we generated $2 billion of net interest income from Holdings in 2016, and we fully expect that amount to decline by half. So we expect that amount to go down by $1 billion in 2017 because we sold off a bunch of portfolios and we have plans to continue to sell portfolios in Holdings.

But again, you're not expecting Holdings to generate net income in 2017, because at the same time we've told you that our expectations going forward is that Holdings overall should operate at about breakeven. So as you look at the net interest income that we've generated this year, you look at Holdings as being a series of empty calories. It's there but it's not really doing anybody any good because it's, one, going to go away; and two, it's going to get absorbed in the overall Holdings breakeven.

JOHN MCDONALD: Got it, okay. But on the net Group basis, you'll have a – maybe right now, looking at a little bit of net interest income growth, but we've got to net those two.

JOHN GERSPACH: And again I think if you're trying to gauge growth, where we're getting momentum, and I know that we're not going to be reporting Citi Holdings any longer, but again, that momentum is going to come from Citicorp. And we've had good, consistent net interest income growth in Citicorp in 2016, and we'll have it again in 2017, and we'll have it again in 2018. And it will be even higher if we get more rate increases.

JOHN MCDONALD: Got it, very clear. Thank you, and just a question on the DTA, John. What were the dynamics of the DTA progress in the fourth quarter? There was an OCI impact, it looked like. And then just what's a reasonable expectation, do you think, of DTA utilization, as best you can tell, as we look forward?

JOHN GERSPACH: In the quarter, John, the DTA that we utilized through operations of about $600 million – we utilized $600 million through operations. But as you mentioned, the OCI impact cost us about $1.8 billion, so we actually grew DTA by $1.2 billion in the fourth quarter.

If you take a look at DTA for the full year we utilized, on a net basis including the OCI impact, about $1.2 billion. But I think it's important that we parse that out a little bit for you because there are two different components of our DTA. There's a series of our DTA that is time-sensitive, the NOLs, the FTCs, et cetera. We utilized during the year about $2.4 billion of our time-sensitive DTA. So we utilized $2.4 billion of our time-sensitive DTA and then it was timing difference DTA, mostly as a result of the OCI movements that caused us to grow timing difference DTA by about $1.2 billion. But we continue to utilize that time-sensitive portion of the DTA at a fairly regular pace. I'd say looking ahead to next year, we had targeted a use of about $2 billion of DTA this year, and I'd say that's a pretty good target to have for next year as well.

JOHN MCDONALD: Okay, thank you.

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

MIKE MAYO: Hi. How are you doing?

MIKE CORBAT: Hey, Mike.

MIKE MAYO: My question relates to your targets and accountability to those targets. The short question is what are your targets for 2017 for ROA and ROE? And the longer version is in three parts. Number one would be the timeframe. Thank you for giving us the RoTCE target of 10% by late 2019 without any DTA write-down. But from our perspective, you missed the ROE target that you had from a few years ago. Now you have to carry more capital, so there's a story there. But you missed the efficiency target from last January. Now you revised that in April, you made the revised target, but there's a story there. And then you missed the ROA target of 90 to 110 basis points. So after missed targets this decade from our shareholder perspective, now we have to wait another two and a half years to see if you achieve your targets, and it just seems like not enough accountability in the short term for 2017.

The second question does relate to the ROA. Can you commit to an ROA of 90 to 110 basis points in 2017? And last year in the first three minutes of this call, you highlighted how you met that target, which was good, and now in 2016, it's down to 82 basis points and you don't mention that you missed the ROA target. You don't mention it anywhere on this conference call and you don't mention it anywhere in the 89 pages that were released today.

Then the third question's ROE. What is your ROE target for 2017? Again, this is down to 7.6% RoTCE. That's down from 9.2% in 2015. And after it's gotten worse, you now say exclude the DTA impact, and that would boost it to 9%. I'd say there's no credible accounting theory that would permit the exclusion of the DTA capital, if that was the case you should have taken a reserve, but let's go with the 9%, that's still worst in class so again, waiting two and a half years seems like a long time if we wanted to hold you accountable.

So, the timeframe, waiting another two and a half years after missed targets, the ROA target, where do you expect that to be in 2017 and what kind of ROE target can we have in 2017? What I'm really getting at, if you were on the outside trying to hold you accountable, how would you want us to hold you accountable in 2017, what specific metrics after what shareholders have been through?

MIKE CORBAT: Sure. There's a lot in there, so let's go a little bit back in time and talk about three, four years ago what we laid out. We laid out three big external goals, an ROA between 90 and 110 basis points. We talked about an efficiency ratio in the mid-50s, and we talked about a Return on Tangible Common Equity of 10%. So let's tick those off.

As you cited, last year we came in 94 – 95 basis points in terms of the ROA, this year 82 basis points. But I would say, and this is not an excuse, the 90 to 110 basis points remains the numbers and the outlook for 2017, but since the ROA target was introduced, factor in TLAC, factor in LCR, where our liquidity measures have come up and our funding base has changed mix precipitously. And when you factor those in it gets you pretty darn close to the 90 basis points for the year in terms of the impact of those and some other things.

So, not an excuse, by the way, we're not backing away from it, we'd love to be at the 90 basis points, but the second piece I would say about ROA, and why today we probably speak less about ROA than we have in the past, is because I think our balance sheet is pretty darn efficient. Back then we said we've got a lot of balance sheet tied up in Holdings, we've got an inefficient balance sheet in Citicorp, and really what we want is rather than growing our balance sheet, to optimize the balance sheet we have. And since we made that announcement, Mike, the balance sheet hasn't moved. And on a net deployed basis in the client activities, it's actually gone down because of the higher percentage that's deployed in terms of liquidity and the things that are necessary there.

Second piece of that is when we think about the way we run the firm and the levers and the dials and the things that we want to optimize, ROA has become less relevant because clearly today, our binding constraint is around CCAR capital. And so a great example. If we were simply focused on ROA, I'd cut the balance sheet right now to rates and currencies and say you can't have what you have dedicated to that client flow business. Clearly, revenues up 27% over two years, that would have been the wrong decision, and that's what a strict ROA methodology would've led us to. So, not backing away from the 90 basis points. Wish we were there, there are things in there. You can choose to accept them or not, and again, I think we're doing a pretty darned good job in terms of managing the balance sheet.

In terms of the efficiency ratio, we did put out some revised guidance after what I think the industry would describe as an extremely difficult first quarter. We could've sat there and said, you know what, it is what it is, but again, what we want to do is we want to have real guideposts along the way by which to run the firm and to give external guidance. And, again, when you compare our 58% versus the rest of the industry, I'm not ashamed of it. We're going to do better of it, but I don't look at that and say that we are underperforming given our business mix and the investments that we're making. And again, we've recommitted to be able to get to the mid-50s.

On the third point in terms of RoTCE, we had, and again, I've publicly taken accountability around what happened in terms of CCAR, and that was what it was. But, what we've tried to do is come back from that, and again, quite proud of our $12.2 billion of CCAR cycle capital. And by the way, the expectation is to continue to tick that up as quickly as we can and to pull every lever between revenues, expenses and capital return to get that up as quickly as we have. We made a commitment to use DTA. I remember four, five years ago some people writing that not only would we never use it, we'd never stop creating it, and we have. And so, listen, its progress. It's not as fast as we'd like to go. The environment is not as good as we'd like to have it, it's not an excuse. But I think in terms of the things that we've laid out there, we've executed against each of them in this environment in a disciplined and committed way, and that's what we're going to continue to do.

MIKE MAYO: Just one follow-up, so for 2017, which metrics should shareholders collectively hold management accountable to?

MIKE CORBAT: Going forward, I think the metric that makes most sense is the metric around the Return on Tangible Common Equity, ex-DTA.

JOHN GERSPACH: We think that that's an important milestone target for you to look at. Obviously, Mike, we still believe that this franchise can generate an overall RoTCE of 14%. We've said it and that is where we're going to get there. We're not going to get there tomorrow. We think near term guidepost, one, let's get to that 10% number, excluding the capital that supports DTA. We've told you that we can get there in 2018, and what you should expect to see is meaningful progress towards that goal in 2017. That is also going to be supported by what we told you as far as an efficiency ratio. We're now changing the efficiency ratio to reflect all of Citi, not just focusing on Citicorp, but we've said that Citigroup, which ran at an efficiency ratio of 59% in 2016, we'll run it at 58% in 2017, and we look to get into the range of the mid-50s hopefully as early as the next year.

OPERATOR: Our next question will come from the line of it Eric Wasserstrom with Guggenheim Securities. Please go ahead.

ERIC WASSERSTROM: Thanks very much. Mike, maybe if we could just back up for a moment. Obviously, over the course of your tenure, there's been profound progress in changing some of the strategic focus of the organization, certainly the geographic footprint and other things. So I'd love to understand, with so much having been accomplished, what your top three strategic priorities are for the near to medium term.

MIKE CORBAT: Sure. So, when we think about it, and these will I think align very neatly and simply with what we've spoken about publicly. Going back to the last conversation, very clearly to get first, our Return on Tangible Common Equity ex-DTA up, get our Return on Tangible Common Equity up, get our Return on Equity up. And the focuses around those are a combination, and what's necessarily to do that is revenue growth, and, as I spoke about earlier, I feel good about our ability in ICG in any kind of reasonable environment to continue to grow those revenues. The payoff and payback in terms of the investments we've made in Retail from a Cards perspective, from a Mexico perspective, from some growth back in Asia, good expense discipline, investments in digital and capital return. And what we've talked about is continuing to walk up capital return and the combination of execution against those three things gives us the ability to hit the things that we've laid out in terms of 2017, 2018, and beyond.

ERIC WASSERSTROM: Thank you. I appreciate that. I guess I'm trying to understand a little more operationally what we should be looking for. It sounds like continued investment in digital is certainly on the top of the list, but what else should we look for in terms of sort of executional things that then translate into the financial results?

MIKE CORBAT: Again, just ticking through what we've talked about in no particular order, one, we've talked about our investments in terms of equities, people, platforms, technology, balance sheet. This year we started the journey at an unacceptable number 8, and this year we finished the year at an unacceptable – I'm sorry, we started the journey at 9, we finished the year at 8, but very clearly closing the gap to 7. Again, John talked about we had revenues down 9%, the market was down 15%. We think there is a north of $200 million per quarter revenue opportunity to execute against in any type of reasonable environment.

We look at what we talked about bouncing around here in terms of Costco. We brought on $6 billion of new balances, which come in with promos and come in with costs of various types. Second half of next year we should start to see that, and by the way,– second half of this year we should see that, and by the way, we're saying you shouldn't annualize that but at the same time, you should expect to see us continue to grow those pieces.

Our investment in Mexico, if you look at what we've done there, not just revenue growth, but positive operating leverage. Again, that positive operating leverage and expense discipline in spite of the public investments that we've talked about, we think that there's more to come from there. Our relationship with American Airlines, with Home Depot, done this year, they should start to pay some fruit – pay some dividends out in terms of the future. So as you look across the franchise, I think geographically, product-wise, segment-wise, there's a lot of opportunity to have positive revenue and net income trajectory.

ERIC WASSERSTROM: Great. And maybe just on the issue of Mexico, obviously, it's become a topic that's become a little more controversial just given what may be our new policy approach as a nation. Can you maybe put a box around what you think the risks could be from changes in either trade policy or other kinds of policies that might affect what could occur there?

MIKE CORBAT: As I said in the preamble, probably I, like most other people, don't necessarily understand because there's been no meat put on the bones in terms of what a border adjustment tax may mean or what it would look like. But as I listen to what the administration has said, and the common thread that really runs through everything when things come out, I tend to think of things as really trying to be stimulus around jobs, investments and growth.

And what I read the administration is trying to do is create the right level playing field so that U.S. companies have the ability to compete. And if there are things, whether it's Mexico or elsewhere in the world that aren't fair, they should be reexamined. And again, if you go back to our history, 205 years and since then, through wars, through trade wars, through depressions, through recessions, we've supported U.S. companies all over the world and in this, we will continue to do that. I think a lot of it depends on what form any type of tariffs may take on. And it's tough to tell.

One thing that's in the numbers in some ways that people miss is that a lot of things that go back and forth across the border, and in particular inbound to the United States, are inter-company. And so when you think of an auto manufacturer, Ford, GM, whoever it may be manufacturing in Mexico, Brazil, wherever it may be, a lot of that is simply their own products coming back. Parts get sent in, parts gets assembled, parts get exported, and you've got to get through those numbers. So, early to tell, but again, the stance the administration is taking, we think, is workable from what we've heard. And again, we've maneuvered these type of things before, and we think we've got the ability to work with them in the future.

ERIC WASSERSTROM: Thanks very much. I appreciate that.

OPERATOR: Your next question comes from the line of Saul Martinez with UBS. Please go ahead.

SAUL MARTINEZ: Hi, thanks for taking my questions, a couple questions. First in the equities business, it seems like you had decent momentum this quarter. Could you just give us your latest thoughts on how you're feeling about moving up in terms of gaining share and trying to capture the associated revenue opportunities you talked about in the past?

And I just have also a broader question on Mexico. And look, it seems like you have some momentum there, but I guess, more broadly, it is a great franchise. It's an iconic brand, lowest deposit cost in the system, but you've also been less profitable than your peers for a while, whether it be the Spaniards or some of the local Mexican banks. So, what gives you the confidence that you really are turning the corner there in terms of regaining share, regaining business momentum and really closing the profitability gap, so to speak, with some of your peers? And is there a point where because of either exogenous factors or because you can't get the returns to where you want them to be that you decide, hey, it could be worth more to somebody else than to ourselves.

MIKE CORBAT: Why don't we start with Equities. So with Equities, what we've consistently talked about is an investment that in many ways is threefold. Its people, getting the right people in the right positions, and we've done a lot of that whether it's sales, trading, research, technology, et cetera. Second, is getting the right technology in place, and in particular technology around prime broker, Delta One, where if you went and looked at we had underinvested, and there were better products out in the marketplace. And really the third piece is around balance sheet. And if you look at our balance sheet, we have been underexposed vis-à-vis some of the bigger players in Equities. We've systematically gone out and tried to find the right people and put them in the right jobs. And I think that work is largely in place, but we'll always look to invest there where it makes sense.

On the technology side, we began those investments a while back. They'll probably continue through this year, but I think if you look at what we've been able to do on the prime brokerage side, and again, we've got the flexibility around our Supplemental Leverage Ratio and around capacity on our balance sheet smartly to take those balances on. And with those balances, obviously, come trading flows and volumes, and so that obviously continues.

And so the pieces there are in place. And again, what we've said in here is we're not right now positioning an expense base and a mindset of being number one, but we think to get into that 5/6 region is the first stop and a reassessment is probably at least a $200 million revenue per quarter opportunity, and you've seen it. So we're now closing in on number 7, and we're going to systematically continue to go at that. We've done it in our other businesses. And again, as we've described historically, these aren't new relationships to the firm. We've got very strong sales and trading relationships. We've got very strong corporate banking relationships. So we've got penetration, we've just got to show the right coverage, right product, right commitment to the business, and the other pieces should follow suit.

From a Mexico perspective, we've admitted that through the crisis and for a period of time we underinvested in our Mexico franchise. At the same time, we probably saw as you referenced the Spaniards and others investing, and investing in a couple ways: investing in service, investing in technology, investing in advertising, investing in credit. And probably a number of our competitors have been much more aggressive with the balance sheet than we had been certainly through the crisis until more recently. Obviously, we want to be smart about that. We want to stay committed to the segments that make sense for us, but again, our investments that we're talking about here around investments in ATMs and around branches, if you've been down there, and you probably have, our branches are tired. And branch banking is still a very important – the predominance of activity still takes place in a branch. Won't be that way forever, but the investments therefore into branch refurbishment increase client satisfaction. The investments into the ATMs and into digital and smart ATMs gives us the ability as Mexico will transition from physical to digital – transition 20% of the depositor base in Mexico in that shift. And we think we've got the opportunity around technology. And a lot of this, we've said, is labeled as investment but candidly a lot of it in many ways is deferred CapEx and it's things that we need to do and we think we've got the ability not just to maintain but to grow share and to grow profitability. And again, you started to see in the latter half of the year our ability smartly to be able to do that.

In terms of the final part of your question, would we ever get to the point? I would argue, when I look at the demographics of Mexico, of Banamex in Mexico, very strong. And I would argue as we've had the conversations with the inbound administration around a smart border policy, a smart trade policy and that border adjustments are not going to take away the labor arbitrage between Mexico and the U.S. completely. So how do we actually partner with our neighbor to create a supply chain, to create a competitive advantage around energy independence, around food independence, around technology, around as competitive a labor force that exists anywhere in the world to create a supply chain that truly competes on a global basis. And we think that's what's at stake, and we think our toehold there in Banamex gives us a unique position to benefit from that.

SAUL MARTINEZ: Okay, great. Thanks for the thoughtful answer.

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

MIKE MAYO: Hi, John. I think you were in the midst of answering the question from before related to which metrics, which targets should shareholders hold management accountable to in 2017. And I think what I've heard you say is 2017 efficiency 58% from 59%, 2018 10% RoTCE ex-DTA, and efficiency in the mid-50s with only one rate hike. And in 2019 you get a 10% RoTCE, not excluding the DTA either for the full year or late in the year depending what happens with the write-down. Is that correct? And which metrics should we hold you accountable to in the shorter term?

JOHN GERSPACH: In the shorter term, Mike, that's why we gave you the 2017 efficiency ratio of 58%. I think that's a pretty clear efficiency ratio to measure us by next year. And I think Mike was pretty clear on 2018, which is an RoTCE, again, excluding the DTA capital but it's progress, of 10%. And during 2017, the expectation is that you're going to see meaningful progress towards that goal. I'm not going to give you an exact number at this point in time, but you can expect that we have to demonstrate progress towards that goal, otherwise that 10% goal in 2018 won't be credible by the time we get to the end of 2017.

MIKE MAYO: And what was the RoTCE of 14%, or did I hear that wrong? Is that an aspirational goal?

JOHN GERSPACH: That still is what we think that the franchise is capable of producing. And that is where we are going to get to. If you go to slide 20 in the deck, you take a look at slide 20 that summarizes where we are today. We've said that we believe that that entire franchise is capable of generating an RoTCE of 14% or higher. We're at 7.6%. Okay, so that means that there's a gap of 640 basis points that we need to bridge.

Now there are going to be many actions that are going to contribute to closing that gap, but you can probably say that they fit into three broad buckets: structural, business performance, and call it environment or rates. The structural elements are all the items that we've discussed. We need to reduce the $29 billion of capital that we currently have supporting the DTA on which we earn nothing. We need to complete the wind-down of Holdings and free up the remaining capital that we have caught up in the credit and market risk RWA that's in that segment.

And finally, we're currently operating at a CET1 capital ratio of 12.5%. Going forward, again, as we demonstrate our ability to do this, we should be able to operate more in line with a ratio of 11.5%, maybe even slightly lower. We'd expect these improvements, that's going to close roughly 40% of the gap, let's say. Call that, out of the 640 basis points, roughly 250 basis points. Now we've got plans in place for each, as we've told you. We're going to continue to utilize the DTA. We continue to wind down Holdings. And as Mike said, we're going to be increasing the amount of capital that we return each year to our shareholders so that we're returning an amount of capital that is at least equal to the amount of capital that we generate each year. That's all in our plans.

We'd expect business performance to cover another 40% of the gap, another 250 basis points, without any benefit from the rising interest rates other than, say, that 25 basis points that I talked about in 2018. So our Citigroup goal of 14% requires ICG to operate at an RoTCE of 14% and GCB at 20%, and for Citigroup to operate in an efficiency ratio in the mid-50s. We've already talked about how we're going to get to the mid-50s.

ICG generated a 12.3% RoTCE in 2016. You see it right there on that page. And we'd expect the investments that we made in our Equities business along the continued growth in Investment Banking and TTS to help us close this gap.

In GCB, the gap between our target of 20% and the 14% that we generated in 2016 is much larger. But again, we believe that the investments that we've made and are continuing to make in our branded cards franchise, and as Mike mentioned in Mexico and in Asia, that's going to help us significantly close this gap. And we expect to show you continuous improvement in GCB's RoTCE each year from this point forward.

And then the final 20%, that's likely to come from rates. I think it might have been you and I that had this exact conversation a couple of quarters ago on this call. When I spoke about the 14% target then, I mentioned the rate environment with a Fed funds rate that was 200 basis points higher than where we were at that point. So we've seen the first 25 basis points. We got that in December. There's talk of perhaps another three interest rate hikes in 2017, and I recognize this is just talk. But if that does turn out to be true, then we're halfway home to the rate environment that I had described. Now we won't see that until 2018 is fully baked into the numbers, but it's there.

So that's the rough outline of how we move from 2016's RoTCE to the 14% target. And quite frankly, with the exception of the rate environment, most of it is within our control. I understand that increasing the level of capital we return to shareholders requires approval from the Fed, but it's up to us to make the case through our performance. And you've seen the progress that we've made over the last three CCAR cycles, increasing our annual capital return from about $1 billion in the 2014 cycle to $7 billion on a four-quarter basis in 2015 and now $12 billion in 2016. So we believe we're making significant progress and we expect to continue to demonstrate progress in the next cycle.

So, with that as a backdrop, and then we think that those interim goals that we shared with you earlier should serve as important milestones for you to judge our overall progress towards achieving that 14% goal.

MIKE MAYO: All right, thank you.

JOHN GERSPACH: No problem.

OPERATOR: Your next question comes from the line of Brian Kleinhanzl with KBW. Please go ahead.

BRIAN KLEINHANZL: Great, thanks. I had a quick question on the margin guidance you're giving with the 286 basis points for 2017. Is the right way to think about that as maybe just in the first quarter of 2017 that the increased investment spend maybe takes away some of the benefits from the increase in rates in December? I guess I'm trying get the trajectory over 2017 to understand where you're at, and is 2017 a good starting point for 2018.

JOHN GERSPACH: Okay. So there are a couple of things that are going to be going on during 2017, during this year. One of which is of course the continued wind-down of Holdings. Don't forget, as we disclosed, we have contracts in place to sell the Argentine and Brazil Consumer franchises this year. We don't make any money there, but we do generate net interest income and we generate NIM. So that will depress our NIM as we sell those franchises in 2017. Again, that's the empty calories that I talked about before. You're going to see a decline in Holdings net interest income, but you're never going to miss it because it's associated with businesses on which we make nothing. As a matter of fact, we lose money. So, that is going to, though, depress that one statistic called NIM.

Now, the other thing that's going on is you're going to see continued growth in the rest of the business, particularly in Branded Cards. And in Branded Cards, if you think about what's going on, we've got Costco in place right now, but if you go back to 2015, we talked about midway through 2015 beginning to invest in our Branded Cards business, concentrating on growing our proprietary cards portfolio. And at that time, we said that those investments, they're going to yield immediate growth in active accounts and purchase sales, but it's going to be 24 months, roughly two years, before they reached maturity and really became profitable. The milestones, and we gave you milestones, as far it would be the middle of 2016 before the investments produced growth in ANR; the end of 2016, before they generated year-over-year growth in revenue; and then the second half of 2017 when they begin to contribute to net income growth.

We've hit each of the interim milestones and quite frankly, we remain on track for those investments to mature in the back half of 2017, at virtually the same point in time we began to pursue the acquisition of Costco, and we closed on that acquisition midway through 2016, or in June of that year. And again, we said that while the acquisition would yield immediate growth in accounts and purchase sales and loans, because of purchasing accounting, it's going to be a full 12 months before the deal is accretive to income. Again, pointing to the second half of 2017 as when this strategic relationship would begin contributing to net income growth, and once again, we remain on track.

So, what you see, if you take a look at the ANR that's again in the branded cards section of the supplement, we've seen growth in ANR in the fourth quarter, and it's in line with our expectations. Our ANR grew about $3 billion sequentially, and there's about $1 billion of that growth coming from high-spending transactors and some promo balances in Costco, and the other $2 billion is in other promo balances concentrated in Simplicity, our value card.

Now full rate revolving balances, quite frankly, in the fourth quarter were about flat, even as we got growth in Double Cash, as promo balances continue to flip to full rate ANR. And Costco was mostly offset by decline in our legacy products. So we've had good growth in the ANR. It's up, I think, it's 4% sequentially. But since this growth is predominantly concentrated in promo balances, it really as of yet hasn't contributed to growth to net interest income or to earnings.

So over the next several quarters, again, consistent with our planning, we expect the promo balances to continue to flip to full rate receivables, such that by the second half of 2017, our year-over-year growth in branded cards ANR should be concentrated in full rate revolving balances. So that's kind of the final step in having the Branded Cards investment program and the Costco acquisition reach sustained profitability. And like all other steps – as each of these initiatives, we expect that to occur on schedule. And that flip from promo balances to full-rate ANR is going to give us a nice lift in our net interest income as well.

BRIAN KLEINHANZL: Okay, great. Thank you.

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

MATT BURNELL: Thanks, good afternoon. Just I guess in the interest of time, one specific question. John, you've alluded to this over the last 90 minutes, but I guess I just want to get a specific comment from you in terms of it looks like the capital returns this year of the $12.2 billion you mentioned were roughly a little over 80% of your net income. And you've clearly set out a path in terms of Return on Tangible Common Equity. Can you give us a little greater level of detail in 2017 and 2018 how you're thinking about capital returns as you move towards the 100% that you mentioned?

JOHN GERSPACH: That's exactly what the goal is, is to, quite frankly, as I mentioned, we need to be able to return the capital that we generate each year, which actually is in excess of the net income that we generate. So that is the goal. We have yet to see the CCAR scenario and everything else, so it's a little early to be talking about specific targets for 2017 let alone 2018. But, again, you've seen the trajectory, $1 billion, $7 billion, $12 billion. The goal for 2017 – and I've talked longer term, both Mike and I have said, we know that we've to get to the range of $15 billion to $18 billion, and we want to get into that range as quickly as we can.

MATT BURNELL: And is there any thought to maybe having over 100% payout ratio? Is that something that potentially could occur in a new administration?

JOHN GERSPACH: I don't think that it's something that's just only with the new administration. I mean, it's something that we will need to get to over time. I think, quite frankly, with the discussions that we've had with the existing makeup in the Fed, I've yet to hear anybody put an artificial cap on a “payout ratio.”

MIKE CORBAT: And the way, Matt, that we do think about it and we speak about it is, to John's point, there's probably really three components to our capital generation. There's our earnings, there's our DTA utilizations, there's Holdings runoff. And so in the case of DTA as an example, a lot of that from a regulatory perspective, is disallowed. So the argument is that, that should not get trapped in terms of capital capture, that that in essence belongs to our shareholders and should be returned to our shareholders. And as we think about, layout, capital plans, that's the way we think about it, and that's the way articulate it.

MATT BURNELL: Thank you.

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

GERARD CASSIDY: Thank you. Good morning – or good afternoon, John and Mike.

JOHN GERSPACH: I hope it's not good evening yet.

GERARD CASSIDY: Maybe you guys can share with us some color just about, on the capital markets side, how the pipelines look, activity levels, maybe even spread it out geographically between Asia – ECM looked pretty good this quarter – versus U.S. And then also what your latest thoughts are on Brexit and how that is going forward.

MIKE CORBAT: Yeah, so we talked a bit about the aggregate numbers in terms of where we were from banking, but if you would go with the term for a minute with me, our exit rates were quite strong. When you look at what we did from an ECM perspective, our fourth quarter was up 30%, wallet down 4%. Our M&A was up 24%, wallet up 3%. Our DCM was down 8% but wallet was down 18%. It's not entirely appropriate to simply take a quarter, these are longer cycles, but we continue to go after share, take share. And when we look at the backlog and look at the positioning and look at the client engagement, it's strong.

And if we think about some of the policies that the new administration is speaking about, as I said my preamble, that we haven't seen it yet, but around tax repatriation, around corporate tax reform, you could see meaningful investment, CapEx occurring, and we think we're well positioned to assist our clients on that front. And it feels like right now we've got commodity marketplace stability, feels like there's some consensus around some rate movement, and those things should create a backdrop that's open and facilitating to capital markets activity and feel like we're well positioned against it. Second part of your question is?

GERARD CASSIDY: And what’s going on, the latest thoughts on Brexit.

MIKE CORBAT: Yeah, so we obviously all listened to and followed the Prime Minister's talk yesterday, and I think she very clearly laid out in terms of the stance that, in essence, around immigration and around law and governance, in essence – my words – a hard exit, but very open, and – what's the right word – very open and wanting to engage around what the right trade policy is going forward.

So again, as we said, we continue to plan contingencies. We've got a lot of flexibility in terms of our own structure. Our bank is European-based in Ireland. We've got people in 20 or 22 of the EU countries. So that flexibility's there and we don't see a disruption. We're very focused on not having any disruption to our service of clients. But we've got to see here what Article 50 looks like in the next few months, and we'll continue to adjust to that. Very clearly, not just ourselves but others, continue to point towards most likely slower growth in the UK as a result of this for a period of time.

GERARD CASSIDY: Great. And then just finally, John, you mentioned that the Citi Holdings revenues in 2017 should be about half of last year, which would be about $1 billion. In 2018, you think they'll – could they fall to a couple hundred million dollars when we look out into 2018 for Citi Holdings revenues?

JOHN GERSPACH: I just want to be clear, Gerard, that I was referring to the net interest revenue in Citi Holdings, just as one component of the revenues. And so, again, if you just go back to that slide 14, you can see that the net interest revenue in Citi Holdings declined from $4.4 billion in 2015 to $2 billion in 2016. As I mentioned, it should drop by about half again in 2017. When I take a look at 2018, it will decline. It shouldn't decline again by half, but by a decent amount, somewhere between 30%, 40% in 2018. And then it could stabilize after that, but quite frankly, it's at a fairly low number. So it'd be less of a drag on the overall results.

GERARD CASSIDY: Great. Thank you, and I appreciate your patience on the length of the call. Thank you.

JOHN GERSPACH: Not a problem.

OPERATOR: Our final question will come from the line of Steven Chubak with Nomura Instinet. Please go ahead.

STEVEN CHUBAK: Thanks. John, just one quick follow-up. I was hoping you could clarify how you define mid-50s for your 2018 efficiency target. And the only reason I ask is the Street's modeling about 57%, and I'm wondering whether 57% actually conforms to how you define mid-50s, or does it have a lower upper bound of, call it, 56%, in which case, there might be more room for earnings to surprise positively?

JOHN GERSPACH: We were at, I think, 57.1% last year in Citicorp, and we certainly could not say that that was in the band of mid-50s. I think as you get to the upper band of the high 56s, you start to stretch the band of mid-50s. But 57% would be probably just like a tick too far. But if we got to 56.8%, 56.7%, maybe even 56.9%, if you want to split hairs, in 2018, I think that would be pretty good progress and put us in that band of mid-50s.

STEVEN CHUBAK: Thanks for clarifying that, John. Appreciate it.

JOHN GERSPACH: Not a problem.

OPERATOR: I will now turn the conference back over to management for any further remarks.

SUSAN KENDALL: All right. Thank you all for joining us today. If you have any follow-up questions, please feel free to reach out to Investor Relations. Thank you.

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