Citi Fourth Quarter 2017 Earnings Review

Tuesday, January 16, 2018

On February 23, 2018, Citi announced that it was adjusting downward its fourth quarter and full year 2017 financial results, from those reported on January 16, 2018, due to an updated estimate for a one-time, non-cash charge of $22.6 billion, recorded within North America Global Consumer Banking, Institutional Clients Group and Corporate/Other related to the enactment of Tax Reform, which was signed into law on December 22, 2017 (previously, the entire charge was recorded in Corporate/Other). The financial impact of this adjustment lowered Citi's fourth quarter and full year net income by an aggregate of $594 million due to refinements of original estimates. The financial impact of this adjustment is **not** reflected in this fourth quarter earnings review transcript, dated January 16, 2018. For additional information, including Citi's fourth quarter and full year 2017 results of operations including this adjustment, see Citi's Annual Report on Form 10-K for the period ended December 31, 2017, filed with the U.S. Securities and Exchange Commission on February 23, 2017.

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 2017 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, Jamie. 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 condition may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings including, without limitation, the Risk Factors section of our 2016 Form 10-K.

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

MIKE CORBAT: Thank you, Susan, and good morning everyone. As you know, our net income for the fourth quarter and the year reflect the impact of the one-time, non-cash charge due to tax reform and I'll go into some more detail about that after I discuss our business performance.

We had a strong close to an important year. We reported operating earnings of $3.7 billion for the fourth quarter of 2017, or $1.28 per share. During the quarter, we again showed growth in many of the products we've been investing in and increased loans in both sides of our house.

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Globally, Consumer Banking was up 4%, including 7% internationally. We again had revenue growth and positive operating leverage in both the U.S. and our international franchise. Credit remained favorable and net income grew by 8%.

The Institutional Clients Group saw continued momentum with double-digit growth in its banking products, comprised of TTS, Investment Banking, Private Bank and Corporate Lending. We did have a decline in Markets revenue due to a less robust environment this quarter than in the period following the U.S. election last year, but engagement remains strong with our target clients.

For the full year, on an operating basis, we earned $15.8 billion in net income for 2017, which was nearly $1 billion more than in 2016, and our earnings per share were $5.33, up 13% from 2016. We also made solid progress towards the targets we laid out during our Investor Day in July as a result of our focus on client-led growth. Revenue growth and strong expense management brought us to a full year efficiency ratio of 57.7%, an improvement of over 150 basis points from 2016. We increased our return on assets to 84 basis points. Our return on tangible common equity, including and excluding DTA, increased to 8.1% and 9.6%, respectively.

In terms of capital, we returned over $17 billion to our shareholders during the year and reduced our common shares outstanding by over 200 million shares.

Turning to tax reform, we believe it will greatly benefit Citi's shareholders. The charge we're taking relates mostly to the reduction of the value of our deferred tax assets as a result of a lower corporate tax rate, the implementation of a territorial tax system and the tax on deemed repatriation. DTAs primarily represent tax credits generated from losses we took in the U.S. during the financial crisis and tax benefits from our foreign operations. These tax credits will be re-measured at a lower enacted corporate tax rate since the rate is being cut from 35% to 21% and, of course, we'll benefit from a significant reduction in our effective tax rate going forward.

While the GAAP charge is large, it's important to note that the impact on our regulatory capital is far smaller at about $6 billion. Even after this charge, we have a Common Equity Tier 1 ratio of 12.3% today, which is well above the 11.5% level we need to prudently operate the firm. Not only do we remain committed to returning at least $60 billion of capital during the current and next two CCAR cycles, obviously subject to regulatory approval, but we feel confident about our ability to generate capital going forward. If anything, that ability has been enhanced by tax reform.

From a business perspective, it's a great opportunity to advise our clients on how they can optimize their models to fit the new tax regime. Everything from repatriation to supply chain is on the table and we're already engaged in these conversations with our clients.

The macro environment is as positive as we've seen in many years. 2017 was the first year since the crisis in which growth actually exceeded expectations. Tax reform could change the sentiment among those making investment decisions from optimism to confidence and become the boost the U.S. economy needs to drive growth higher. The U.S. consumer should also benefit as higher take-home pay could drive either increased discretionary spending or the acceleration of payment of existing debt, each a potential positive outcome from the reduction in tax rates.

So on balance, tax reform is a clear net positive for Citi and its shareholders and will help us achieve our goals of improving our return on and increasing our return of capital. We'll benefit from the lower tax rate and, therefore, higher net income going forward. We believe the combination of higher income and reduced tangible common equity will have a meaningful positive impact on our returns, improving return on tangible common equity by about 200 basis points going forward.

We're revising the return targets we provided in July accordingly and don't plan on speaking to RoTCE excluding DTA when we discuss the returns going forward. In all, tax reform not only leads to higher net

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income and increased returns, but also serves to strengthen our capital generation capabilities going forward.

With that, John will go through the presentation and then we'd be happy to answer your questions. John?

JOHN GERSPACH: Thanks, Mike, and good morning, everyone. Starting on slide 3, before we go into our operating results, I do want to spend a few minutes on the impact of tax reform on our fourth quarter as well as the benefits we expect going forward. I would note that these figures are based on our current understanding of the details of the Tax Cuts and Jobs Act and we will continue to refine our estimates over the near term.

As noted on the table, our fourth quarter results included a one-time, non-cash charge of $22 billion or $8.43 per share comprised of roughly $19 billion due to the re-measurement of our deferred tax assets, or DTA, arising from the lower U.S. corporate tax rate as well as the shift to a territorial regime and roughly $3 billion related to the deemed repatriation of unremitted earnings of foreign subsidiaries. From a reporting perspective, the entire $22 billion charge was recorded in the tax line in our Corp/Other segment. The impact on our CET 1 Capital was significantly smaller at approximately $6 billion, or a 40 basis point reduction in our CET 1 Capital ratio. Importantly, we remain on track to return at least $60 billion of capital in aggregate over the 2017, 2018 and 2019 CCAR cycles, subject of course to regulatory approval.

On an ongoing basis, we expect to benefit from a lower effective tax rate, going from the low-30% range down to an estimated 25% rate in 2018 with a line of sight to a 24% rate over the next two years. And finally, the combination of a lower tax rate, and therefore higher net income, along with the $22 billion reduction in our tangible common equity is expected to drive a material improvement in returns, adding roughly 200 basis points to our RoTCE going forward.

Turning to slide 4, for the remainder of this presentation, we show fourth quarter and full year result excluding the impact of tax reform in order to better describe our underlying trends. On this basis, net income was $3.7 billion in the fourth quarter, up 4% from the prior year, and earnings per share of $1.28 grew 12%, including the impact of a 7% reduction in average diluted shares outstanding. These results include a combined net benefit of roughly $0.08 per share from discrete items that resulted in a lower than expected tax rate as well as a one-time loss in discontinued operations. Excluding these items, our normalized EPS was $1.20 in the fourth quarter.

Revenues of $17.3 billion grew 1% from the prior year, reflecting 2% aggregate growth in our Consumer and Institutional businesses, offset by lower revenues in Corp/Other as we continued to wind down legacy assets. Expenses were flat year over year as higher volume related expenses and investments were offset by efficiency savings and the wind-down of legacy assets. And cost of credit increased, mostly reflecting volume growth and seasoning as well as an episodic charge-off in our Institutional business this quarter.

On a full year basis, total revenues grew 2% in 2017 including 6% aggregate growth in our Consumer and Institutional businesses. Total expenses remained flat, driving over 150 basis points of improvement in our efficiency ratio to just under 58%. And net income grew 6%, resulting in a 13% increase in earnings per share, including the impact of share buybacks. Our RoTCE, excluding the impact of disallowed DTA, improved to 9.6% in 2017, showing good progress towards our original Investor Day target of a 10% return on this basis in 2018.

In constant dollars, Citigroup end of period loans grew 5% year-over-year to $667 billion, as 7% growth in our core businesses was partially offset by the continued wind-down of legacy assets in Corp/Other. GCB and ICG loans grew by $41 billion in total with contribution from every region in Consumer as well as TTS, the Private Bank and traditional Corporate Lending.

Our progress was broad-based in 2017 with revenue growth and positive operating leverage and operating margin expansion in our Institutional business, as well as every region in Consumer. In Global Consumer

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Banking, we generated 4% revenue growth and nearly 100 basis points of improvement in our efficiency ratio. In ICG, revenues grew 7% with 200 basis points of efficiency improvement. Of course, our ICG results benefited from a gain on sale in the third quarter but even excluding the gain, we generated 6% revenue growth and over 100 basis points of efficiency improvement in 2017. And finally, revenues in Corp/Other declined significantly year-over-year by roughly $2 billion. We expect the wind-down of legacy assets to continue to be a drag on topline results over the medium term. However, the dollar impact should moderate going forward.

Turning now to each business, slide 6 shows the results for Global Consumer Banking in constant dollars. Net income grew 8% in the fourth quarter as growth in operating margin outpaced the higher cost of credit. Total revenues of $8.4 billion grew 4% year-over-year with positive operating leverage in both North America and our International franchise. Operating margin grew by 7% and we delivered solid improvement in earnings, both year-over-year and sequentially. This represents the third consecutive quarter of sequential improvement in our Global Consumer earnings which we expect to translate into year-over-year earnings growth in 2018.

From a product perspective, Global Retail Banking revenues grew 6% in the fourth quarter, reflecting growth in loans and AUMs, even as we continued to shrink our physical branch footprint and Global Cards delivered 3% revenue growth, driven by continued growth in loans and purchase sales in every region.

Slide 7 shows the results for North America Consumer in more detail. Fourth quarter revenues of $5.2 billion were up 2% from last year. Retail Banking revenues of $1.3 billion grew 7% year-over-year. Mortgage revenues declined significantly, mostly reflecting lower origination activity. However, we more than offset this pressure with growth in the rest of our franchise. Excluding mortgage, Retail Banking revenues grew 14%, driven by continued growth in checking deposits and deposit margin, growth in investments and loans and increased commercial banking activity.

Average deposits declined 2% year-over-year with half the decline coming from lower escrow balances given the lower mortgage activity. We generated 4% growth in checking deposits this quarter, driven largely by our Citigold segment. However, this was more than offset by a reduction in money market balances as clients put more money to work in investments. This aligns with our Citigold wealth management strategy with assets under management up 14% year-over-year to $60 billion. We continue to see positive momentum in Citigold with continued growth in both households and balances with improving penetration of investment products.

Turning to Branded Cards, revenues of $2.2 billion increased slightly from last year. Client engagement remains strong with average loans growing by 6% and purchase sales of 10% year-over-year. We continue to generate growth in total interest earning balances this quarter, up about 4% year-over-year, excluding our Hilton portfolio, as recent vintages continue to mature as expected, partially offset by the runoff of non-core balances. However, we face continued headwinds from growth in transactor and promotional rate balances which we are funding at a higher cost versus last year given the higher interest rate environment.

The growth in promotional rate balances reflects a strong response to our offers, generating growth in both spending and borrowing activity from new accounts during the promotional period. We continue to be confident in our acquisition strategy and believe the investments we're making today will generate revenue growth as these balances mature.

As we look forward, we expect interest earning balances to continue to grow, while promotional rate loans should stabilize and then begin to decline in 2018 as we continue to take actions to adjust our acquisition strategy in a rising rate environment. These actions include shortening or eliminating the promotional period on certain offers while continuing to optimize our mix of acquisitions by product. The combination of interest earning loan growth and the decline in promotional rate balances should deliver underlying

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revenue growth in 2018 in the range of around 2%. However, this growth should largely be offset by the impact of additional terms that go into effect this quarter in certain of our partnership contracts. And, as previously noted, we expect to close the sale of the Hilton portfolio this quarter however this sale should be neutral to revenues in full year 2018 as the gain on sale is roughly the same as the annual revenues on this portfolio.

Finally, Retail Services revenues of $1.6 billion grew 2% driven by higher average loans. Total expenses for North America Consumer were flat to last year as higher volume-related expenses and investments were offset by efficiency savings. We continue to drive transaction volumes to lower cost channels and digital engagement remains strong with a 13% increase in total active digital users including 21% growth among mobile users versus last year.

Turning to credit, net credit losses grew by 7% year-over-year and we built roughly $150 million of loan loss reserves this quarter, each driven by volume growth and normal seasoning in the portfolios. Our NCL rate in U.S. Branded Cards was 289 basis points for full year 2017. We remain comfortable with an NCL rate in the range of 300 basis points for 2018 and up to 325 basis points over the medium term. And in Retail Services, our full year NCL rate was 473 basis points. This is consistent with our outlook for an NCL rate in the range of 500 basis points for 2018 and up to 525 basis points over the medium term.

On slide 8, we show results for International Consumer Banking in constant dollars. Net income grew 16% year-over-year in the fourth quarter driven by revenue growth, positive operating leverage and continued credit discipline. Fourth quarter revenues of $3.2 billion grew by 7% with contribution from every business and region.

In Latin America, total Consumer revenues grew 6%. This growth rate accelerated from 4% in the third quarter on better momentum across both Retail Banking and Cards. Retail Banking revenues grew 7% in the fourth quarter with broad-based volume growth across deposits, commercial loans and personal loans as well as improved deposit spreads. And card revenue growth improved to 4% on continued growth in purchase sales and full rate revolving loans. We're achieving revenue growth in cards somewhat earlier than we had planned and this should contribute to an acceleration in growth for overall Latin America Consumer revenues as we go into 2018.

Turning to Asia, total Consumer revenues grew 8% year-over-year in the fourth quarter. Retail Banking grew 5% driven by our wealth management business, partially offset by lower retail lending revenues and card revenues grew by 11% reflecting continued growth in average loans and purchase sales as well as a modest gain on the sale of a merchant acquiring business. Excluding the gain, card revenues increased by 7% in the fourth quarter. On a full year basis, Asia Consumer revenues grew by 5% in 2017 and 4% excluding gains. In total, operating expenses grew 5% in the fourth quarter as investment spending and volume-driven growth were partially offset by efficiency savings.

Slide 9 shows our Global Consumer credit trends in more detail by region. Credit remained broadly favorable again this quarter. The NCL rate improved sequentially in both North America and Asia. And in Latin America, the sequential increase in the NCL rate reflected an episodic commercial charge-off while delinquencies continued to improve.

Turning now to the Institutional Clients Group on slide 10. Revenues of $8.1 billion declined 1% from last year as continued strong momentum in Banking and Securities Services was offset by a decline in Markets revenues. Total Banking revenues of $4.7 billion grew 11%. Treasury and Trade Solutions revenues of $2.2 billion were up 9%, reflecting higher volumes and improved deposit spreads with balanced growth across net interest and fee income. Investment Banking revenues of $1.2 billion were up 10% from last year with wallet share gains for the year across debt and equity underwriting and M&A. Private Bank revenues of $771 million grew 15% year-over-year, driven by growth in clients, loans, investments and deposits, as well as improved spreads. And Corporate Lending revenues of $509 million were up 14%, reflecting lower hedging costs as well as loan growth.

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Total Markets and Securities Services revenues of $3.4 billion declined 17% from last year. Fixed Income revenues of $2.4 billion declined 18% reflecting continued low volatility as well as the comparison to a more robust trading environment last year in the wake of the U.S. elections. Equities revenues were down 23%, mostly driven by an episodic loss in derivatives of roughly $130 million related to a single client event. Excluding this item, Equities revenues declined by 4% from last year, reflecting lower activity in corporate equity derivatives while investor client engagement remains strong. Finally, in Securities Services, revenues were up 14% driven by growth in client volumes and higher interest revenue.

Total operating expenses of $4.7 billion increased 2% year-over-year, reflecting the impact of FX translation. And finally, credit costs were $267 million in the fourth quarter, predominantly driven by the same single client event while overall portfolio quality remains strong.
For the full year 2017, our net income grew 16% on the combination of revenue growth, positive operating leverage and continued credit discipline. We generated over half of our revenues in Banking, which grew 12% on continued momentum in TTS, Investment Banking, the Private Bank and Corporate Lending. Securities Services grew 8% as we continued to deepen client relationships while also benefiting from the higher rate environment.

And we deepened our relationships in Markets as well. In Fixed Income, while the trading environment proved to be challenging this year, with low volatility and fewer macro catalysts, we continued to see strong engagement with our corporate clients as they leveraged our global network, particularly in rates and currencies. And in Equities, we made solid progress with our target investor clients, improving wallet share and growing client balances in line with our investment plans.

Slide 11 shows the results for Corporate/Other. Revenues of $746 million declined 13% from last year driven by the wind-down of legacy assets. Expenses were down 24%, also reflecting the wind-down, as well as lower legal expenses. And the pre-tax loss in Corp/Other was $66 million this quarter, better than our outlook, mostly due to higher than expected hedging related revenues in Treasury. However, we continue to believe an outlook for pre-tax losses of $250 million to $300 million per quarter in Corp/Other is a fair run rate to expect through 2018.

Slide 12 shows our net interest revenue and margin trends split by core accrual revenue, trading-related revenue and the contribution from our legacy assets in Corp/Other. As you can see, total net interest revenue of $11.2 billion in the fourth quarter was essentially flat to last year. Core accrual revenues grew year-over-year by over $500 million in the fourth quarter, in line with our outlook. But this was offset by lower trading related net interest revenue as well as the anticipated wind-down of legacy assets.

On a full year basis, core accrual revenue grew by $2 billion over 2016, again, in line with our outlook. This was offset by a roughly $800 million decline in the net interest revenue generated in the legacy wind-down portfolio in Corp/Other. And trading-related net interest revenue declined by nearly $1.7 billion year-over-year with about two-thirds of this decline coming from higher wholesale funding costs.

As we look to 2018, we expect core accrual net interest revenues to grow by another $2.5 billion year-over-year, driven by loan growth, mix improvement and the benefit of higher rates – assuming one additional Fed rate increase mid-year. Legacy asset related net interest revenues should continue to decline by about $500 million during the year as we continue to wind down that portfolio. And trading related net interest revenue will likely to continue to face headwinds in a rising rate environment.

On slide 13, we show our key capital metrics. In the fourth quarter, our CET1 Capital ratio declined sequentially to 12.3% driven by $6.3 billion of common share buybacks and dividends, as well as the estimated $6 billion reduction in CET1 Capital due to tax reform which, as I noted earlier, had a roughly 40 basis point impact. Our supplementary leverage ratio declined to 6.7%. And our tangible book value per share declined to $60.40 including the full impact of the $22 billion non-cash charge related to tax reform.

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In summary, we made good progress in 2017 with broad-based revenue growth, positive operating leverage, earnings growth and a sizable return of capital to our shareholders. Importantly, we continue to deepen our client relationships and lay the foundation for sustainable client-led growth and steady improvement in returns over time. We remain committed to our medium and longer-term return targets and expect to show continued progress in 2018.

For the full-year 2018, we expect top line growth broadly in line with the medium-term outlook we described in July at around 3% plus or minus with stronger growth in our operating businesses being offset by the continued wind-down of legacy assets. We expect to achieve another 100 basis points of improvement in our efficiency ratio on a like-for-like basis – keeping in mind that we just adopted new rules on revenue recognition that will gross up both revenues and expenses by about $800 million annually with no impact on earnings. Credit costs should continue to grow but more driven by the normalization of credit in ICG this year, having already absorbed material LLR builds in Consumer in 2017. And, in total, operating margin expansion should drive improvement in earnings before tax across the firm. In addition, as I noted earlier, we expect our effective tax rate to be around 25% in 2018 with line of sight to a 24% rate over the next two years. This combination of higher earnings before tax, continued capital return and the impact of tax reform is expected to drive a significant improvement in RoTCE in 2018.

As Mike noted earlier, given that our disallowed DTA is much smaller now post tax reform, we'll no longer speak to our returns ex-DTA but rather, on the full amount of our TCE. Excluding the impact of tax reform, our return on total tangible common equity improved to roughly 8% in 2017 and we expect to make additional progress this year. So including the impact of tax reform, which benefits our returns by an estimated 200 basis points, we should be able to generate an RoTCE approaching 10.5% in 2018. Of course, this sets us on a path to exceed our original targets for 2019 and 2020 as well with the estimated benefit of tax reform moving those return targets up to roughly 12% and at least 13%, respectively. What we described at Investor Day was a balanced, achievable plan that did not rely heavily on macro or regulatory tailwinds or on any single business and we believe we are as well-positioned now as ever to deliver results through 2020 and beyond.

In terms of earnings power, the macro backdrop has only gotten stronger with all major global markets having returned to growth and the U.S. poised to benefit from a more competitive tax regime. Higher GDP growth or additional U.S. interest rate hikes, beyond the one we have embedded in this year's plan, would provide a tailwind for us.

We also have two more quarters of operating performance behind us, extending our track record in areas like TTS, Investment Banking, Private Bank and Securities Services in ICG. We're continuing to see progress in Equities and have extended our leadership in Fixed Income in a difficult market.

In Global Consumer, we finished with a very strong second half in Asia and we returned to growth in Mexico cards earlier than we had planned – giving us confidence that we can accelerate our overall revenue growth in Mexico. In the U.S., while Branded Cards has gotten off to a slow start, likely delaying growth in that business until 2019, we showed good traction with our Citigold wealth management investment and Retail Services is growing at slightly above our medium-term outlook. We also demonstrated strong expense discipline and overall credit remains benign.

Turning to the tax rate, as I noted earlier, we believe we have line of sight to reducing our effective tax rate to 24% over the next two years. And if you look at what was embedded in our Investor Day outlook, we had assumed our effective tax rate would tick up over time to around 33% by 2020. So, by 2020, we now see the potential for a roughly 900 basis point improvement in our effective tax rate. This gives us even more confidence in our ability to generate and return capital.

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Despite the charge we took for tax reform, our capital position remains strong and we are on track to return at least $60 billion in capital over the 2017, 2018 and 2019 CCAR cycles, subject to regulatory approval. And while there are lots of moving pieces, we believe our ability to generate regulatory capital has only improved post tax reform as higher net income should more than offset any reduction in our annual DTA utilization.

This brings me to my final takeaway which is our confidence in steadily improving our RoTCE. As we've said before, we believe we are in a unique position to improve our return on capital while also increasing our return of capital for a powerful impact on RoTCE and we are committed to showing you progress each year as we move forward.

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

QUESTION AND ANSWER

OPERATOR: Our first question is from the line of John McDonald with Bernstein.

JOHN MCDONALD: Good morning. I was wondering on the net interest income outlook, the core accrual NII for $2.5 billion, that assumes one rate hike. So many folks are assuming more rate hikes for this year, two or three, sometimes four. How much would your outlook for net interest income increase if we saw two or three hikes rather than the one you've embedded in your outlook?

JOHN GERSPACH: I think the rule of thumb, John, would be that for each additional quarter that we had an incremental 25 basis point impact of Fed rate hike, you should see an increment of about $80 million of core interest revenue. So, just if we got a rate hike in March of 25 basis points and then we still got that mid-year rate hike, that would give you three quarters of additional 25 basis point rate hikes, so that should translate to $240 million, $250 million of additional core accrual NIR.

JOHN MCDONALD: Okay. Thanks. That's helpful. And then in terms of the card revenues, I guess, first on the U.S. Branded Card, you mentioned that the revenue growth of 2% in 2018 will be offset by certain partnership renewals. Could you just mention what's going on with the renewals there? And then also, should revenue growth be accelerating towards the end of 2018 as the promo balances start to wear off, the core balances start to grow? And when could we see the unencumbered revenue growth start to show itself? Is that a 2019 story and what are your thoughts there?

JOHN GERSPACH: When we think in terms of the dampening of some of the new terms, I think that when we, for instance, just to point to one example, when we renewed the American contract a couple of years ago, we talked of the fact that there was some additional revenue sharing that came into play beginning in 2018. That certainly is a contributing factor to what I'm talking about here as far as this dampening effect. As far as the acceleration of revenue – yes, the expectation would be revenue growth should accelerate in the tail half, the second half, of 2018 and then be fully visible from a full-year point of view in 2019, again, all excluding the impact that you're going to see quarter to quarter as a result of the sale of the Hilton portfolio.

JOHN MCDONALD: Okay. And then on the International Consumer, it looks like both Latin America and Asia Consumer revenues have accelerated and are showing good momentum. Can you just talk a little bit about what you're seeing there and then inflection in Mexico Consumer as well as Asia on a core basis and maybe what kind of revenue growth expectations you might have on the International Consumer front?

JOHN GERSPACH: Yeah, I'd say that from a medium-term point of view, John, what we're seeing now gives us confidence in those projections that we put forward for Investor Day so I don't want you to think that we are upping the guidance from Investor Day. But with this performance, as I mentioned – let's stay with Mexico cards – for about six quarters in a row we saw declining revenue growth year-over-year in

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cards. We began earlier this year to see that year-over-year revenue shortfall decline – it was lessening – but we didn't think that we were going to return to year-over-year revenue growth until the fourth quarter of this year.

As we talked last quarter, we actually saw the third quarter produce 2% year-over-year growth in our Mexico cards revenues, and now, that has accelerated to 4% here in the fourth quarter. So, again, that just demonstrates to us that we're on that path then to deliver the overall revenue growth that we built into those medium-term outlooks for cards in Mexico, which was in that 9%-10% range so it's moving forward really well.

JOHN MCDONALD: Okay and you mentioned overall even with U.S. Card being a little light, your overall Consumer revenue trajectory feels good relative to the Investor Day targets.

JOHN GERSPACH: Yeah. If you'd think about it, what this means is we put up, I think, at Investor Day a compound annual growth rate for U.S. Branded Cards over the three-and-a-half year period was going to be 3%. That probably comes down to 2% just given the fact that 2018 is likely going to be a flat revenue year. At the same point in time, Retail Services, we had, I think, a 1% compound annual growth rate built in and we feel pretty good now about that looking more like a 2% growth rate. And then there's some additional strength coming in in Retail Banking as a result of the strong Citigold offering that we've got so, all in all, we feel good about it. It builds on what Mike said earlier. We weren't reliant on any one product or any one region and so I don't think it's unusual that you're going to see some – there would be some gains in one product and a shortfall in others. Overall, still in line.

JOHN MCDONALD: Okay. Thanks, John.

OPERATOR: Our next question is from the line of Jim Mitchell with Buckingham Research.

JIM MITCHELL: Hey. Good morning.

JOHN GERSPACH: Hi, Jim.

JIM MITCHELL: Hey. Just maybe on the efficiency ratio, I think you've guided to about 100 basis point improvement in 2018, but I think the target for 2020 is the low 50s, and 100 basis points will get you closer to, I guess, 57. So it seems to imply that there are some back-ended acceleration in efficiency improvement. Is that the right way to think about it and where is that coming from in 2019 and 2020?

JOHN GERSPACH: Everything that we're talking about right now is clearly in line with what we put up with Investor Day, I don't think we'd ever talked about a very specific 2018 goal at that point. But getting another 100 basis point reduction fits in with the pace that we had built into that Investor Day presentation. So, again, there's nothing here that is different.

We're continuing to see gains coming out of the investments that we're making in digital and Consumer. You've seen, I think, the result of that as far as on the impact on the operating efficiency improvements that we've seen in Consumer and you can see the improvements that we're getting in ICG. I'd say that there is still some process re-engineering work to go through with our global functions and there is some additional work that we'll get out of our core infrastructure from a technology point of view. Those are going to require some additional effort in 2018 before you begin to see the results of that coming into play in 2019 and 2020.

JIM MITCHELL: That's what I was trying to get at. There is potentially, as you kind of – the investments start to trail off and you get these process improvements, you might see more of a step-down in 2019 or 2020.

JOHN GERSPACH: Yeah, which is why we put forward the guidance of low 50s by 2020.

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JIM MITCHELL: And is that somewhat tied to the investment in Mexico as that finally kind of rolls off maybe in 2019 and 2020 as well, so that's how we think about that?

JOHN GERSPACH: Well the investment in Mexico, again, that's sort-of embedded in what I was talking about with the Consumer and, again, that will ramp up over time. Just as you make the investment, you don't get the immediate payback, right? So if you put investment dollars to work in 2017, you'll get some benefit in 2018, you'll get even more benefit coming out of that in 2019 and 2020. But there's also re-engineering in some of our, I'm going to call, core infrastructures, our global functions – whether that be compliance, finance, risk – there's still work that we can do there and we should start to see, again, an increased benefit coming out of those types of activities in 2019 and 2020.

JIM MITCHELL: Okay. That's helpful and maybe just one quickie on the DTA. It looks like you still have about $13 billion deducted from CET1. Should we expect the pace of utilization to be slower with the lower tax rate? How do we think about that $13 billion going away over time?

JOHN GERSPACH: Yeah. Again, we're still going through a lot of this work, right, but where we are right now, while the disallowed DTA was basically cut in half, I mean, actually more than half – $28 billion down to $13 billion – our current assessment would be that our annual DTA utilization is basically reduced by about a third. So we had told you to expect DTA utilization of about $2 billion a year that would be accretive to the capital base and so, now that's more in the $1.3 billion to $1.4 billion range. So again, still contributing to the overall capital. So we picked up 900 basis points of benefit in our effective tax rate and only lost $600 million, $650 million worth of DTA utilization in any given year. All in all, a pretty good tradeoff, and that gives you some idea as to why we're talking about this strong improvement in our overall ability to generate and therefore, return capital.

JIM MITCHELL: Yes. Absolutely. Okay. Thanks a lot.

OPERATOR: Our next question is from Glenn Schorr with Evercore.

GLENN SCHORR: Hello. One easy one, I think, at first. Appreciate the 200 basis point boost to the return on tangible targets. Is it simple math? Can I think about that EPS range we talked about going up by a similar percentage?

JOHN GERSPACH: Yeah, you can, Glenn. I mean, again – and I realize that is simple math. If you continue to do the math, though, I talked about the fact that we're getting a 900 basis point improvement in our effective tax rate in 2020. And if you actually do the math on that, you're going to scratch your head and say, well, wait a minute, this looks like a 900 basis point improvement in our effective tax rate should actually drive a much higher improvement to RoTCE than the 200 basis points that Mike and John are talking about. And the math would suggest that it's probably closer to a 300 basis point improvement in RoTCE in 2020.

But, again, we're still working through a lot of the details and trying to assess what we might want to do with regard to additional investments, deploying additional capital for some clients, business expansion, et cetera, et cetera. So there's actually some dry powder above that 200 basis points right now and we'll get more specific with you as 2018 continues.

GLENN SCHORR: I definitely appreciate that. It touches on the ability, I guess, a double-digit EPS number from this quarter's sub-5 it's pretty powerful growth. Okay. Can we talk about the revenue yields in both Retail Services and Citi Branded Cards has been falling? Well, I don't want to put words in your mouth. How much of it relates towards the teaser and the promotional books and the transactor books and does that run off at the same pace as you talked about the revenue improvement?

JOHN GERSPACH: Yeah, broadly, we would expect that NIR in Branded Cards to also improve – the NIR percentage – to improve in the back end of this year, 2018, and then continue to show improvement on a

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full-year basis in 2019. It is that combination, Glenn, that you were talking about as far as even as we're seeing growth in the interest-earning balances, we do have that drag from promotional balances.

GLENN SCHORR: Okay. Last one. Average loan growth in ICG was good, 8%, and I think no matter what form it comes in, is typically pretty good. But I'm just curious how much of it we should think of as like facilitation loans, things like Aramco, things like hedge fund leverage – which are good things, I don't want to make it like they're bad – versus a traditional corporate borrowing money and building something? Just curious on that type of mix.

JOHN GERSPACH: I mean, there's certainly some element of episodic lending in that loan growth, but the bulk of it – and I just don't have a percentage in my mind, whether it's two-thirds or thereabouts or even three-quarters – is really what you would consider to be, I guess, normal ongoing lending arrangements. Just straight on commercial loans, loans in the Private Bank, trade loans in TTS, et cetera, et cetera. So, we do feel good about that loan growth in ICG.

GLENN SCHORR: Okay. Thanks very much, John.

OPERATOR: Our next question is from Matt O'Connor with Deutsche Bank.

MATT O'CONNOR: Good morning.

JOHN GERSPACH: Hi, Matt.

MATT O'CONNOR: I want to follow up on the 3% revenue growth outlook for 2018 and just including the net interest income guide. It seems like it's implying flattish fee revenues, if we kind of just take the math literally, and wondering why fees aren't expected to grow, if that is the right interpretation, and then just some of the puts and takes on the fee business.

JOHN GERSPACH: I don't have my line item detail on 2018 but I don't think you're getting to the right conclusion.

MATT O'CONNOR: Okay. And then maybe just talk about some of the puts and takes in the fee business where you do think there will be some growth and then where you do think there will be some challenges.

JOHN GERSPACH: Well we continue to see strong fee growth in our TTS business, just to name one, both in cash fees as well as from commercial cards business so, we've been getting strong fee growth in there. Yeah. I'm sorry, Matt. I just can't go down line item detail by business in my head.

MIKE CORBAT: I think, John, if you look at, as an example, fee growth where you think of where we've seen good growth, Matt, is when you look in the banking products, where you look, as John talked about, market share gains in M&A. You look at what we've done in terms of the Private Bank, Securities Services, Lending, those more accrual-type revenues have been strong and, again, we don't see anything in the environment that takes away from the outlook of those remaining strong. I think John has talked about a backdrop where we'll see trading remains choppy, but again, I think we've got an interest rate outlook that by some people's standards remains conservative. So I think we feel good about the revenue outlook, where we are, where the global economy is and feel good about hopefully at least achieving that 3% number.

MATT O'CONNOR: Okay and then just a clarification. The $800 million grossing up of both revenues and expenses, does that show up – I guess, one, is that part of the 3% revenue growth expectation?

JOHN GERSPACH: No.

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MATT O'CONNOR: Okay. Good and then that shows up in the fee revenues versus net interest income, right?

JOHN GERSPACH: Yes. Well, it will show up in noninterest revenue.

MATT O'CONNOR: Yes. Perfect. Okay. Thank you.

OPERATOR: Next question is from Gerard Cassidy with RBC.

GERARD CASSIDY: Good morning, John.

JOHN GERSPACH: Hi, Gerard.

GERARD CASSIDY: If we could turn it around – obviously the benefits to this country from the lower tax rates have been explained by you and others. You're in the unique position to give us a view of what it might do to some of the other non-U.S. countries that obviously are not lowering their tax rates. Do you guys have any sense on what this impact might do to some of the countries you're in that could lose businesses that come to the U.S. or something like that?

MIKE CORBAT: Gerard, it already has at least in rhetoric started to put pressure in particular on some of those higher tax economies. The challenge is when you get into those economies from a fiscal perspective they don't necessarily have the latitude, the leeway or the ability to significantly cut taxes. And so again as we talked about the opportunities out there for us, we start right here in terms of Citi but, in terms of the dialogues we're in, everybody's taking a look at everything from what repatriation means – to supply chain, to legal vehicle structure, to tax domicile – and we expect there to be some action, reaction and some movement which, from a business perspective, should benefit us. But, to your point, it's going to put some more pressure on those economies to attempt to become more competitive.

GERARD CASSIDY: Very good and, I may have missed it, but have you guys announced any type of wage increases for your folks? I know some of the other banks have announced the hourly earnings going up and stuff and one-time bonuses. Have you guys announced anything on that front?

MIKE CORBAT: As of yet we have not.

GERARD CASSIDY: Okay. And then lastly, John, on the promotional rates that you talked about in credit cards, what's the typical normal term in terms of if somebody takes down one of your cards with a promotional rate, is it six months, 12 months? And then second, when the term expires, what's the roll-off where customers actually either give the card back to you or take the balance down to zero?

JOHN GERSPACH: Yeah, if you take a look at the – I'm not quite sure that there's a norm because each product has got its own offer rate. We have some of our products where we have offered at 21 months interest free for a balance conversion and then 21 months of interest-free purchases. That would be the extreme and then there's others where it would be 7 months of purchases interest-free as we have on Costco – so it does vary. But, all of these things are being re-assessed, as I mentioned, and we've never commented publicly on what the actual conversion rate is but I can tell you that as we've seen our earlier vintages actually mature, the conversion rate that we're getting is right in line or even better than our models.

GERARD CASSIDY: Very good. Thank you.

OPERATOR: Our next question is from Mike Mayo with Wells Fargo Securities.

MIKE MAYO: Hi. You mentioned a new RoTCE target for 2020 of 13%. What is your new ROA target for 2020? At Investor Day, you said it was 90 to 110 basis points.

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JOHN GERSPACH: Yeah, Mike, again, if you do the math on that 200 basis point improvement, it should drive you to an ROA that is somewhere well north of the midpoint of that range that we gave you. So think about it as being moving towards the upper end of that range of 90 to 110 basis points and you'll get very specific later on.

MIKE MAYO: Okay. And then, John, as far as the efficiency target, you were at 58% in 2017, and now, you're looking for 100 basis points better, so 57% but that still isn't too close to the low 50s. Can you talk about the balance between investing for future growth and letting the savings fall to the bottom line? I mean, what are your biggest areas of investment? How much are you investing? Any change in your CapEx budget or anything else along those lines?

MIKE CORBAT: Sure, Mike. When you go back and think about what we talked about at Investor Day and the pathway to a low-50s efficiency, as John described earlier, there's the concept of balance in there that it's a bit of revenue and it's expense. And on the expense side, it's continued expense discipline but at the same time, some investments we're making today as an example in the digital space where we can convert analog functions to digital functions, improve customer processes and satisfaction, at the same time, get costs out.

As an example, when you look at the Mexico investment that we've made, which I think we clearly have to acknowledge as having been helpful in terms of the 6% revenue growth in Mexico today, you look at three things there. One was the branch work we did, the movement to start smart branches. We've got 75 smart branches up and operating and you go into those branches and watch in terms of what's changed from the reduction in the teller lines and the interaction out in front in terms of some of the machines, 1,600 ATMs with more or increased functionality being put in place. And then when you look at digital, actually, when we look year-over-year, we've got an increase of 38% of digital engagement in Mexico, above our expectations, and that allows us to continue to drive out cost.

So you look at Mexico, yes, we got 6% revenue growth, but we did that inclusive of investment with 4% expense growth. And so, again, as anything, we put some of these things in, and I don't think you'll be surprised in terms of the continued areas of investment. I think there is nothing really outside of what we've described, but a big emphasis towards digital, towards technology, towards new and smart banking as we go forward and then obviously, continued investments in places like our TTS businesses and all the things that we've talked about so I don't think you should expect anything significant away from that. Maybe we could, based on client and customer uptake, increase the pace, or the volume, of some of those investments if we see the returns but nothing extraordinary.

MIKE MAYO: I'm just trying to figure out if you can get where you're going a little bit faster and if you're satisfied with the progress. I mean, when we look at Mexico, when we look at TTS, when we look at the key metrics, they're moving in the right direction, but then we go back to your old ROA target from 2015 and say, wow, you'll still be getting there in 2020 so that's five years later than before. When we look at your remaining DTAs at the pace that you outlined, they'll be used up in another 10 years. That will be 20 years after the financial crisis. So, I'm just wondering if you might revisit your statement from last year where you said the restructuring is over, maybe you could have piecemeal restructurings or maybe you could still sell off some appreciated assets or do something a little bit faster. Again, even though things are moving in the right direction, maybe you can get there sooner.

MIKE CORBAT: Yeah and, as I said, we're always open and we're always looking at things, and certainly, tax reform causes us to take a look but, again, when you look at some of the things you've called out, Treasury and Trade Solutions growing 9% in the quarter, 7% in the year. Mexico growing at 6%. Those are big upscale businesses that are growing as we would like to grow them at a multiple of GDP. But what we don't want to do is fall into the trap of then saying, let's accelerate that faster and then start taking outsized growth in the form of balance sheet or other types of risks where we end up stumbling along the way. So its trying to find that right balance, we're going to push ourselves, but we're going to try and make sure we don't make stupid decisions along the way in terms of getting there.

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MIKE MAYO: All right. Thank you.

OPERATOR: Our next question is from Betsy Graseck with Morgan Stanley.

BETSY GRASECK: Hi. Good morning. It's Betsy Graseck. How are you?

JOHN GERSPACH: Hi, Betsy.

BETSY GRASECK: Hey. Just wanted to drill into two things. One was on the Branded Card. You mentioned that you're expecting to see that growth really be where you're looking for it to be in 2019. Could you just give us a sense of the road map between now and then? What are some of the key assumptions that you're making that will drive to that higher level of growth in 2019?

JOHN GERSPACH: Sure, Betsy. There's several, I think, that you should track us on. One is we've talked about one of the key elements, obviously, in driving the revenue growth in Branded Cards is the continued growth in interest-earning balances and, there, we now have seen that growth. We've got 4% growth we quoted – excluding, again, the Hilton portfolio, which is going to give us some noise – but ex. the Hilton portfolio we've gotten now 4% growth in the fourth quarter year-over-year and so we feel good about that. And so now we've got sequential growth in those balances for the second quarter in a row so that puts us on a good pace.

We mentioned in the last quarter, we touched on it again this quarter, that one of the dampening effects, though, even as we're growing those interest-earning balances, we have a higher level of promo balances than we had originally expected to have because of the change in acquisition strategy. And while we're comfortable with our acquisition strategy, the promo balances are giving us a drag right now so we're looking to first stabilize those promo balances early in 2018 and then have them decline during the course of 2018.

Some of the things that you can see, if you go to our website and our offerings, you'll see that we have already begun to alter some of the offerings that we've put out. We've changed the terms. We've shortened the amount of time on some of the promos. Some of the promos we've pulled entirely. So, we're managing the promo balance line as you would expect us to given, one, the strong take-up that we had on the other offers and, two, just given the environment that we're in. So, growth in interest-earning, shrinking, declining in the promo balances and then there's going to be the other aspects of Cards that sort of bounce along underneath that.

This year we're selling the Hilton portfolio. That's going to give us a big gain in the first quarter, but we then lose the revenues of Hilton in each subsequent quarter, right? So what we said is think in terms of the gain that we book in the first quarter will basically offset the revenue loss of Hilton for the balance of the year. But again, that's going to give us a year-over-year headwind this year, so that's why it's a little bit – going into next year, which is why it's going to be a little bit difficult. So but overall we say – it should be flattish revenues for 2018 and then revenue should begin to grow in 2019 – basically delaying our growth profile in Cards by about a year.

BETSY GRASECK: Okay. No, that was great explanation. Thanks for the detail. The follow-up is just on Retail Partner Card. We haven't spoken so much on this call about that. Could you give us a sense of the strategy there? And one of your partners is closing stores, are you seeing an impact on that or not? Give us some sense as to how you're managing that business.

JOHN GERSPACH: We really haven't seen – I mean, the Retail Services business is moving along very nicely. I mentioned the fact that the revenue growth is actually higher than what we had originally expected. We've got excellent engagement with our clients there. And I'd say that we're working well with each one of our retailers. That means – again, that's one of the core competencies, I think, that Retail Services

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provides is this ability of partnership and advisory approach to each of the retailers. And we offer advanced analytics, digital marketing capabilities. I think all of that is what's coming through in the strong revenue performance in Retail Services, even as some retailers are closing stores.

Don't forget, in Retail Services some of our cards are general purpose cards and we're seeing real good out-of-store purchases off of those cards as well. So it's not just the in-store purchase activity that is driving that business. Also for many of the cards where we've got general purpose cards out there, and so it's much more of a co-brand relationship, we're seeing good out-of-store purchase activity as well.

BETSY GRASECK: Got it. Okay. And then just one separate topic on tax. There's a lot of discussion about the BEAT and I notice that – I think you mentioned that it didn't really have much impact on you. Could you just give us some color as to why that's the case or how you're structured in a way that enables you to avoid that?

JOHN GERSPACH: Yes. I'm trying to think about why would our structure force us to be in there? Based upon our structure, we're really not impacted by the Base Erosion Anti-Abuse Tax. If you're asking, I guess it's probably our foreign branch structure, probably gives us a little bit of help with regard to BEAT, maybe, compared to others.

BETSY GRASECK: Okay. As opposed to subsidiary?

JOHN GERSPACH: Correct. Again, branches are taxed as part of the – are considered part of the U.S. tax entity.

BETSY GRASECK: Right. Okay. Thank you.

OPERATOR: Our next question is from Erika Najarian with Bank of America.

ERIKA NAJARIAN: Hi. Good afternoon. Mike, maybe this one is for you. As we think about a new regulatory regime as we enter the future stress test balance with the write-down in tangible book value and of course what that implies for valuation, could you give us an update in terms of your preferences of capital return between buybacks and dividends?

MIKE CORBAT: Sure. So I would say that tax reform has not changed the approach that we've talked about historically. One is that continuing to walk a dividend up so that from a current yield perspective the dividend remains competitive amongst our peers and dedicating the vast majority of our capital return capacity or capabilities towards buyback.

ERIKA NAJARIAN: Got it and, John, just a follow-up question. You mentioned earlier that for every quarter that we have an additional 25 basis points on the short end – that's about $80 million a quarter – in your modeling what does that assume for deposit costs?

JOHN GERSPACH: That reflects our updated view of deposit beta. If you go back a year or so, I think I was asked that same question, the guidance then would have been for 25 basis points we would have expected roughly $100 million. So now, just given the fact that – the assumption is that deposit beta will continue to increase that's why the new guidance would be closer to $80 million.

ERIKA NAJARIAN: Okay. Thank you.

OPERATOR: Our next question is from Brian Kleinhanzl with KBW.

BRIAN KLEINHANZL: Hey. Good morning.

MIKE CORBAT: Hey, Brian.

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BRIAN KLEINHANZL: So, a quick question. You gave, or reiterated, the guidance on the NCL rate both for Branded Cards and Retail Services, but shouldn't your borrowers or customers also benefit from tax reform? So, I mean, is there some chance that you come in better than that guidance post tax reform?

JOHN GERSPACH: There clearly is, Brian. I mean, right now our assessment is that that benefit certainly would give us even greater confidence in those forward projections that we put out there. But we really haven't had a chance to run every aspect of tax reform in every MSA around the country through our various models to see what that might give us as far as any improvement in our NCL projections going forward. But I agree with you that when you take look at the positive impact of tax reform, and I think Mike mentioned this in his opening comments, the expectation is that with higher take-home pay you would expect consumers to either increase spending or perhaps increase the payment rate on existing debt. Both of those things would be beneficial to the economy, both of those things would be beneficial to consumers and they both should be beneficial to us.

BRIAN KLEINHANZL: Okay. And then just a follow-up also on the NCL, you mentioned last quarter that you were seeing stabilization in the collections rates. Have you seen any improvement quarter-over-quarter in those collection rates? Thanks.

JOHN GERSPACH: Yes. We definitely have seen improvement in line with our expectations. And so, again, that's one of the reasons why we're reaffirming the view towards a 5% NCL rate in Retail Services – approximate 5% NCL rate in Retail Services in 2018. And again, we're reaffirming the guidance of around a 300 basis point NCL rate in U.S. Branded Cards for 2018.

OPERATOR: Our next question is from Saul Martinez with UBS.

SAUL MARTINEZ: Hi. Good morning.

JOHN GERSPACH: Hi, Saul.

SAUL MARTINEZ: Couple questions. It seems like you are making progress in Mexico, you have good business momentum there. But are you concerned at all about the macro backdrop? There has been a pretty pronounced slowdown in loan growth in the fourth quarter in Mexico – and that includes Cards, there's tick-up in delinquencies, you have the election obviously where the frontrunner is sort of a left-leaning guy with some populist tendencies, obviously NAFTA uncertainty. But do you worry at all that sort of the macro backdrop – the election, the credit cycle – could trip you up in your progress there?

MIKE CORBAT: Well, we obviously pay a lot of attention to it, Saul, and we are watching it closely and if you look at NAFTA, clearly we believe the benefits to the U.S. and Canada and Mexico are important and that alliance is important. As we look at the numbers, you've seen the Mexican economy underperforming. I think right now growth forecasts look like Mexico's probably going to come in somewhere around 2.1%. That's clearly under-growing where it should be. So part of the NAFTA overhang is already built in. But, if we saw NAFTA completely fall apart, it would probably have some impact and probably have more of an impact on our corporate franchise than the consumer franchise. The election obviously we're watching and we'll see how that unfolds but again, as we look at our positioning in Mexico, we think we've got the continued ability to outgrow our consumer franchise at a pace as we've described is a multiple of GDP that's there.

I think the other thing that you've seen is in spite of the fact that the dollar has weakened some you have actually seen the peso weaken further. Really if you go back to mid-summer at its point, it was probably about at its strongest. We've probably seen about a 15% depreciation versus the dollar since then and that's made obviously the peso more competitive. So you've got to measure the ins and outs but net-net if we don't get NAFTA, net-net if we end up with the election with a more leftist candidate, it will likely hurt the economy from here.

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SAUL MARTINEZ: Okay. That's helpful. Can you comment on M&A, just M&A as a strategy to deploy capital? There are opportunities there, how do you think about it in terms of your overall capital strategy?

MIKE CORBAT: So, when we think of M&A, we don't think of being out there and buying another bank or a big bank. Couple things, one is from a regulatory perspective, not just for us, but certainly for the bigger banks in the industry, that would probably be challenged from a regulatory approval perspective and candidly, at this point in time, I don't think we're all that keen about taking on big branch infrastructure. We've got infrastructure in our Consumer business. We've got infrastructure in our Consumer business that already has us at scale and I think we'd rather take that same investment as we're doing and channel it towards digital and other things where we can get growth organically and I think you're seeing that in the strategy today. And where opportunities present themselves around portfolios or different types of bolt-ons that are in strategy, we're wide open. We've got the capital. We've got the balance sheet. We've got the risk appetite for those things that fit us and so, we continue to look at those. But again, when we think about and talk about and create expectations for you, it's predominantly organically led.

SAUL MARTINEZ: Okay. So you don't feel like you need any branch infrastructure outside of your core six markets in the U.S.?

MIKE CORBAT: No. Again, we're going the other way, others are going the other way, and we hope and believe in – are making the investment in digital and think we can continue to grow our franchise using digital rather than physical branch footprint.

SAUL MARTINEZ: Okay. Great. Thanks a lot.

OPERATOR: Our next question is from Ken Usdin with Jefferies.

KEN USDIN: Thanks. Good morning. If I could follow up on the NII dollars. John, thanks for giving that core accrual and legacy. I wanted to ask about the trading part and I know it's quite volatile, but you had that $1.66 billion delta this year and it ended at $510 million. Can you help us try to range what you could expect that to do, that part to do, this year?

JOHN GERSPACH: In 2018?

KEN USDIN: Yes.

JOHN GERSPACH: I think, Ken, maybe the best way to think about it is if you look at the fourth quarter, we were down in trading-related NIR $430 million or so and then as you mentioned that's $1.7 billion for the year. And there's an element of that that is going to be just difficult to predict because it's related to changes in trading strategies and balance sheet structure, et cetera but I think you can get a sense of the impact of higher funding costs, which is what we called out in my prepared commentary.

You can get a sense of that if you take a look at slide 19 of the financial supplement. And if you look there, take a look at the trading-related assets and liabilities along with the categories Fed funds sold and repurchased and purchased. And if you look at those lines, you're going to see that with the – when you take a look at the assets and liabilities that are really clearly associated with our trading business, just a little over – the trading liabilities fund just a little bit over half of the level of assets that we employ in our trading business. Now that means that the balance, you got to think about it primarily being funded by debt, some form of debt, with three month LIBOR rate as a good proxy to understand the cost of that funding.

So, obviously, as we've seen three-month LIBOR steadily increasing while we've seen traded-related NIR decline. I mean I'm being overly simplistic. As I said, there are certainly other factors that impact trading-related NIR but in periods of steadily rising rates, that's the factor that's going to have the largest impact.

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KEN USDIN: Okay. That's a good way to think about it. I'll come back if I have questions about that. And then the other question is in your core, are you contemplating both the Hilton sale as well as the delta to your just FTE component, which I know is not a big number, but is that all contemplated in the other two components?

JOHN GERSPACH: Yes. Everything that you just mentioned is – all those factors are in the guidance that we gave you.

KEN USDIN: Okay. Last thing then, just on the loan yields overall, I know there's a lot of moving parts also quarter-to-quarter and all that but just on the loan yields, the decline this quarter of 13 basis points, I know probably some of that is the teaser balances. But how much is mix and how much is volume? Can you help us understand what the moving parts are of loan yields? Thanks.

JOHN GERSPACH: I don't have that broken out, but obviously mix is definitely playing a role in NIM. So, if you take a look at our core NIM, which declined 2 basis points for the quarter and maybe it was roughly 5 basis points for the full year, in the quarter the decline really was just due to the impact of currency rates but, underneath that, what we've seen is a change in mix. So our corporate loans, which have good but lower NIM – our corporate loans are growing faster than our consumer loans and therefore we've got a change in mix that is certainly contributing to that flattish NIM on a sequential basis and also contributes to the somewhat flattish NIM on a year-over-year basis as well.

So, we're seeing the loan growth. It's generating good net interest revenue. That's why you're seeing the growth, $2 billion of core accrual net interest revenue growth for the full year, $520 million of that in the fourth quarter. But just given the fact that a lot of that is coming off of the corporate loans, it's depressing the overall level of NIM at this point in time.

KEN USDIN: Yes. Okay. Understood on all. Thanks a lot.

OPERATOR: Our next question is from Marty Mosby with Vining Sparks.

JOHN GERSPACH: Hey. How are you doing, Marty?

MARTY MOSBY: All right. Thanks. When you look at the tax rate for this particular quarter and it being down lower, is that a reflection of when you kind of look at your expectations or reserves against taxes, you have that and as the tax rate's going down in the future, you would adjust the reserves that you need on potential benefits. And the reason I'm getting at that is there're about half the banks that have had this particular impact in this particular quarter before we got into the actual rate going down. So I was thinking that would foreshadow why you think you can get down to 24% too down the road.

JOHN GERSPACH: No, Marty. I mean it's a good thought but really what's driving our tax rate lower this quarter, that 25.1%, it's really just an impact of one episodic item, one episodic discrete item that was in the fourth quarter. That's what we tried to call out earlier in the call when we pointed to the fact that a combination of a tax good guy, this one discrete item that benefited the corporate tax rate and one tax "bad guy" that ended up in disc ops, added about $0.08 per share to the earnings. So it's just a combination of two episodic discrete tax items.

MARTY MOSBY: Okay. And nothing to do with the future tax rate going down?

JOHN GERSPACH: No sir.

MARTY MOSBY: And then another thing I was going to ask you was we've talked a lot about the improvement in returns and earnings as you go forward but not a lot about reduction in the tangible book value as you change the DTA this quarter. There is about a – looks like about $10 per share that it came down and if you look at the increase in your returns, incrementally it could add $1 to $1.50 per year to make

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that up so it's going to take while to get back up from where we're at. I just was curious how y'all thought about that in the sense of the dilution that you took upfront with the write-off.

JOHN GERSPACH: Yeah. We've always had the deferred tax assets in our tangible book value and our total book value and I think many have questioned as far as the future value of those. We always thought of those as being something that you would look at more on an annuity basis because we knew that you'd be getting the value of those assets over time. And while we did take that write-off, there still is a remaining annuity value to the DTA that is on the books so we still think there's good value there. The reduction in the tangible book value, or the book value, which is about $8 a share – I think when you look at the fact that we're generating a 200-basis-point improvement at a minimum of RoTCE out into the future, I still think it's a pretty good tradeoff. So you've got more certainty in the book value because the uncertain element of that DTA, the value of the DTA, has been removed and you've traded that uncertainty for a real improvement in your RoTCE. So again, I think that the tradeoff is overall accretive to the value of the stock.

MARTY MOSBY: Got it. Thanks.

JOHN GERSPACH: No problem.

OPERATOR: Our next question is from Andrew Lim with Société Générale.

ANDREW LIM: Hi. Good morning. Thanks for taking my questions. Just had the following question on the trading NII that you talked about earlier. I mean, as the three-month LIBOR keeps on going up, I guess theoretically it might head down towards zero and maybe even negative. Is that something theoretically that's possible? And if that is on the table as a possibility, is it something that you could consider to wind up your trading strategies?

JOHN GERSPACH: As I've said, there's a lot of moving pieces. There are a lot of moving pieces in trading related NIR and the best way to actually look at the business is not through this one line item. This is just a factor of balance sheet construction and interest rate movement. That is not the way that we, or you, should evaluate the health of our trading businesses. So we really encourage you to look at the overall revenue performance in these trading businesses. And when you take a look at our FICC trading business, it's either number one or number two. We definitely have been gaining market share so no, we're not going to shut down our FICC business because of trading-related net interest revenue.

ANDREW LIM: Right so, everything should be taken as a whole. I understand. Okay and then just on the net charge-off guidance that you've given. What kind of interest rates do you look at in terms of given that guidance and how should we look at that, too, from a macro perspective? Do you look at, like, the short end, one to two years, or is it increasingly like the five years as corporates and so forth have turned down their borrowing?

JOHN GERSPACH: When we try to put models into play, we take a look at the overall economic environment including where we think – where we see interest rates going which is a combination of short end and long end, which is going to have different behavioral impacts on either consumers or corporate clients. So the answer is all of that goes in.

ANDREW LIM: All right. Thank you very much.

JOHN GERSPACH: No problem.

OPERATOR: Our final question is from Al Alevizakos with HSBC.

AL ALEVIZAKOS: Hi. Thank you for taking my questions and for the presentation. My first question is regarding the outlook that you have for 2018 and going forward on your IB trading business. Overall, I just

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want to know if you think that the tax reforms will be enough to kick the period in Q1 and Q2 effectively and offset the prolonged low volatility.

And the second question, which is effectively a follow-up of this question, is whether you see any significant margin pressure at the moment in your IB trading products. And if you do I'm just trying to find what you think is the primary reason. You've already mentioned the higher funding costs but I'm wondering whether you think that you're now facing higher competition from your bank peers or a new competition from fintech. Thank you very much.

MIKE CORBAT: So, maybe I'll start with the first one but, Al, if I understand, when you say IB, you actually mean sales and trading as the subject.

AL ALEVIZAKOS: Yes, sales and trading.

MIKE CORBAT: Okay. So, one, I think I described and John described a couple of things both on a relative and an absolute basis. So, on a relative basis, quarter-over-quarter, year-over-year comparisons coming out of 2016 with the elections, obviously, activity was down a bit. I think what we've talked about and described on this call historically is we don't necessarily measure trading by the quarter, we don't necessarily measure it by the month, it is often times week-to-week, it's day-to-day, and it's very, very much event-driven and so, we've talked about an outlook in terms of rates going forward. So if we start to see more rate increases, you could see some more activity around that.

John also talked about the mix of our business being a bit different. That for us it's not just the investor – that the corporate client plays an extremely important part. And that I could argue in terms of foreign exchange and some other things that might be related to repatriations – money movements, domicile, et cetera – that we could see some activity coming out of that business as people react to tax reform that's there. But it's our intention in the business that growth is going to look like and feel like more coming from share gains and the consolidation of a leadership position and I think you saw that in a down revenue, down wallet year in terms of trading that we actually fared pretty well there. And that's my expectation is that it would be more of that as we go through 2018. The second part of your question, Al, was on margins in the business?

AL ALEVIZAKOS: Yes, just wanted to understand whether you think about pricing is actually going a bit lower. So it's not only about volumes anymore but actually pricing becomes part of the issue going forward.

JOHN GERSPACH: Al, it's John now. Pricing had certainly been an issue in that business for the last several years. We've seen continued pressure on pricing and I think you have to assume that that continues. That's one of the reasons why we talk about this really being a scale business. If you're not prepared to make the investments in technology, which we've done, and if you don't have that good client base in order to work with, you're going to be in trouble.

One of the things that we always point to, especially in our rates and currencies business, is that a large percentage of our client revenues come from corporate clients. And corporate clients are different from investor clients because corporate clients are in the market every day because they really have to hedge their overall balance sheet, they've got to think in terms of working capital management. That's different than investor clients. In this year, in rates and currencies, corporate clients formed 45% of our client revenues and even in a year where overall client revenues declined in the industry, we actually had a 5% growth in our corporate client revenues and that was enough to actually generate an overall increase for us in client revenues in our rates and currencies business.

So, yes, there's a lot of changing dynamics in the marketplace but we really think it boils down to being able to focus on your customers, which is why we talk about client-led revenue, and make sure that you are investing in the necessary technology and those are the things that we're doing.

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AL ALEVIZAKOS: Great. Thank you very much for the answers.

JOHN GERSPACH: No problem, Al. Thanks for your question.

OPERATOR: There are no further questions at this time. Are there any closing remarks?

SUSAN KENDALL: Thank you, Jamie, and thank you all for joining us this morning. If you have any follow-up questions, please reach out to me in Investor Relations. Thank you.

OPERATOR: Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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