TRANSCRIPT

Bernstein's 31st Annual Strategic Decisions Conference
Thursday, May 28th, 2015

Speakers
John McDonald, Sanford C. Bernstein Analyst
Mike Corbat, Citigroup Chief Executive Officer

JOHN MCDONALD: Good morning. Thanks very much for joining us again this morning. Very happy to have Mike Corbat, CEO of Citigroup, join us. Mike, thanks for coming back. It's great to have you again this year.

MIKE CORBAT: John, great to be here. Thank you.

JOHN MCDONALD: Thought we'd kind of start off, give us a little bit of a report card, what were your key accomplishments in 2014 and so far in 2015, what's the strategic agenda going forward from here?

MIKE CORBAT: Sure. 2014 was an important year, important chapter in Citi's history. It's a year that we got through quite a large number of issues. Some of those were painful to deal with, but I think have positioned our company and our businesses in a way where we can show, and we're beginning to show, the real true earnings potential of our businesses.

If you go back under three years when I took over as CEO, I laid out what we believed were four important things that we wanted to accomplish. One, at that point in time, our DTA was approaching or was at $55 billion, and we needed to show the world, we needed to show our investors that we actually had the ability not only to stop creating DTA, but to actually use it. Second was around Holdings. Our non-core portfolio, which was once about 40% of the balance sheet of our institution, for several years suffered large losses. We said we needed to get it to break even. Third, we needed to generate a real quality and a consistency of earnings. And fourth, be viewed as indisputably strong and stable.

So, if I take the first two, I'd give ourselves a check mark there. We've not only stopped creating DTA over the last eight, nine quarters, we've used about $7 billion of it. That's generated about $12 billion of regulatory capital, capital we've begun to give back and want to give back over time. We've committed to getting Holdings to break even by the end of 2015. We've managed to do that about a year early, and feel like we have Holdings in a place today, on an annual basis, where we can continue to run Holdings at breakeven or better.

As far as quality and consistent earnings, it's been a bit of up and down. If you look at the core underlying revenue and momentum of the business, the key indicators are solid, but the environment in particular around legal and opportunities that we saw in terms of positioning the business, in terms of repositioning costs tend to mute out or drown out the actual underlying results of the business.

And in terms of being indisputably strong and stable, I can sit here today and say from a capital, liquidity, from a structure perspective, the institution going in, coming out of the crisis has never been stronger, and we're clearly focused on making sure from that that the business has the ability to be in a position to continue meaningful capital return to our shareholders.

The first quarter of 2015 I think started to show, and we completely get that one quarter does not a year make, but we were able to do some important things in the first quarter of 2015. One is, we were able to show a clean quarter. We were able to show, without a lot of noise around legal repositioning and other things, actually what our underlying businesses could do. We were able to I think put some important wins on the board. Obviously one being CCAR, and a lot of work that was done in 2014 to position the firm - more work to do. I'm sure we'll talk about that, but we've already begun meaningful buyback, and we've started to raise our dividend.

We got some important deals done which I don't think a couple of years ago we could've gotten done. One, being a global agreement with MasterCard in terms of again showing that we come to work, and we act in unified way where a handful of years ago we would have been negotiating with MasterCard on individual contracts all over the world. We have one global agreement with MasterCard, and we were able to benefit from our scale as being the largest issuer of credit cards in the world.

And I think the final piece I'll mention here is around Costco, and our ability to win that deal. I think it's an important deal. It is a, without a doubt, accretive deal to our shareholders, and I think those are some things, John, we wouldn't have been able to probably speak to a few years ago.

JOHN MCDONALD: Very helpful. Let's talk a little bit about CCAR, capital management, some of those issues. You took a very important first step this year in terms of getting a passing grade on the CCAR starting with a healthy buyback announcement, maybe a baby step we can call it on the dividend. How did you think about the request that you made going into this year's CCAR? What were the drivers and how did you think about the buyback versus the dividend?

MIKE CORBAT: Well, we – if you think about a year or so ago, we were sitting here. We had a lot of work ahead of us and we had a fairly short window in which to accomplish that work. It's May, we've received our letter same as last year from the Fed. Effectively, you get your scenarios in November, and you've got to make your submission in early January. And so I feel very good, very proud of what we accomplished in terms of a pretty significant redo of our models, our scenario design process, really working on beginning the embedding of CCAR in the institution. And we got to the right result, in particular on the qualitative side where so much of the focus has moved.

We didn't want to go in with the – in essence, a tiny capital ask because we wanted to make sure that the Fed had confidence in terms of the processes that we were putting in place and that we could make this meaningful and sustainable. We've begun that, but, again, I think that others would sit up here would tell you, I'll certainly tell you, we have more work to do. We're committed to it. We've got the team, the resources against it, and we want to continue to put the firm in a position for meaningful capital return, and I'll talk about some of the special attributes of our company in terms of capital generation in a minute.

But I'll answer your second question first. And that is that, from a buyback-versus-dividend perspective, we are very focused in terms of buyback because our stock is trading below book. And as one investor said to me the other day, anytime you can buy dollar bills for less than a dollar bill, you should do that. And as long as our stock trades below book, we're going to be not exclusively, but primarily focused in terms of buyback. It's the most accretive thing we can do for our shareholders.

And in that, it's important to understand that the core earnings from our businesses, the combination of holdings run-off and the benefits of DTA utilization allow us in most cases to generate more regulatory capital than earnings. And so we want to be in the position that we're able to return that capital to the best interest of our shareholders. And for us, if we're not in a position to do that, we end up with a denominator problem in terms of building more capital than we need.

JOHN MCDONALD: Yeah, they do end up as kind of high-class problem in growing capital, but it's hard to improve that ROE as the denominator grows. I guess when we think about that, is there a cap on how much you can ask for year-over-year increase from the Fed? Is that known, or is it not clear? Does it all depend on how the CCAR shakes out on the numbers?

MIKE CORBAT: We don't – well, I'll answer it a few different ways. One is we don't think of it that way. First, we look at our capital-generating capacity and what's necessary to run our institution and what's excess. And we want to make sure our capital planning process is in the ability to return the excess.

Second, there's, in some ways, what we would describe as the prospective where we're actually factoring in what it is prospectively we'd like to ask in the form of dividend and buyback and those things that are, in some ways, retrospectively where the capital's already come in to the institution, it's there, and we want to get that paid out either in the form of buyback or could be in the form once were trading above book of special dividend. And so, we're not married or wed because, in many ways, we can't beat simply a percentage of earnings because of those other two pieces, the DTA and holdings which have the ability to throw off capital. And that's different from our earnings.

JOHN MCDONALD: One of the questions I know you get asked is about the OneMain sale. You've got an agreement to sell it. You're going to release some capital, probably take a gain. Is it possible you'd consider doing an off-cycle request, or does that make things too complicated, and you rather wait till next year's submission?

MIKE CORBAT: Well, we've talked about the sale of OneMain in the closing which, right now, is slated to be in the third quarter. We've talked about $1 billion of pre-tax gain on that, and we'll be using some of the rest of the gain to retire stranded costs, stranded funding. We looked and, again, when you think of the capital cycle, the amount of effort that has to go in and the preparation of that submission to take our resources away from the things that we want to make sure that we're fixing, we're adding to, we're embedding in the organization to go make that submission, we don't think is in the best interest of shareholders and the company. We'd rather make sure those efforts are focused on in terms of getting our next year's submission exactly where we need it to be.

JOHN MCDONALD: Another question on the CCAR, some investors worry that it gets more difficult for GSIB banks if we incorporated GSIB buffers into the CCAR process. Is that something you think the industry will kind of have a conversation about with the regulators and where do you see that shaking out if you a view on that?

MIKE CORBAT: Candid answer starting out is we don't know because we don't know exactly where things will come out in terms of GSIB. There's been some talk that the Fed may want to include the GSIB in CCAR. But I think one important aspect that is maybe underappreciated is when you look at the types of capital you have and where your constraints may be, I think what we saw this year in CCAR results is the majority, a lot of the industry today, their binding constraint is already in fact their CCAR capital. So, the benefits of the Fed adding the GSIB buffer as part of that, or making the GSIB part of that, I'm not sure there's huge benefits to the Fed to do that. But again, it's the Fed's decision, and unfortunately our crystal ball doesn't have the answer to that.

JOHN MCDONALD: And since we don't know exactly the final rules on your capital and what your requirements will be, should we think of you as somewhere in the 11% kind of Tier 1 Common Equity ratio?

MIKE CORBAT: Well, in there – kind of in some ways, what you're asking is what's our binding constraint.

And if you look at where we would put ourselves today, we would be in the 4% bucket which would put us at 11%. We'd want to run with some buffer on that, call it 50 basis points. So, we'd look to be somewhere in there in the 11.5% area. And as I said, when you look at CCAR capital, the two are in some ways very similar in terms of number. So, I would kind of put us in that zone right now.

JOHN MCDONALD: Okay. Let's switch gears a little bit and talk about some of your financial targets. A few years ago, you laid out specific financial targets for 2015. You sounded pretty confident on your April call about getting to these targets of 1% ROA for Citigroup, mid-50s efficiency ratio for Corp. Is that a right reading of your tone? You sounded good. You feel good about the ability to hit those targets. Are they in your control?

MIKE CORBAT: As I said, the first quarter was a good clean quarter, $4.8 billion of net income. We had an operating efficiency of 54%. We had a return on assets of 105 basis points. So, there's a lot to feel good about in there. But at the same time, recognizing that one quarter does not a year make, and the environment is not easy. It's a challenging trading environment. It's a challenging economic environment.

But again, to reiterate, we are committed to hitting our mid-50s efficiency ratio at the Citicorp level, and coming in somewhere between 90 and 110 basis points at the Group level. And in there, it's important I think to also know that we haven't built in the necessity of big rate rises or big external things to help us. That is – those assumptions incorporate low-single digit revenue growth at Citicorp, talks about continued expense discipline, balance sheet discipline, continue to run Holdings at breakeven or better, and obviously, a big reduction year-over-year in terms of legal and repositioning costs. And so, we've got those levers, and I think you saw in the first quarter, our ability around legal and positioning and expense discipline to even in a challenging revenue environment to really drive our own destiny, so we're very focused on it.

JOHN MCDONALD: And what are some of the businesses that are driving better efficiency and profitability this year? If you could give us a feel for that. Where are you getting costs out and where is just the operating leverage improving?

MIKE CORBAT: If you go back and look at our company over the last several years, our revenue mix from a product, from a geography perspective it's become much more balanced. And yes, as an industry, we clearly suffered a slowdown in terms of trading volumes. We've clearly suffered in terms of the rates we get paid in terms of the deposits we placed at central banks or the loans that we make but we've been, I think, quite successful in offsetting those by investments we made and continued focus on some of our more capital-light businesses.

So, whether that's our private bank, our securities services businesses, investments we made in terms of our investment bank. I think all of those continue to pay dividends. And as well as investments we made from a technology perspective in our transaction service business, our management of cash around the world in 100 countries for companies in the move to digital. And again, the expense focus and the balance sheet discipline of driving those resources to the right places and getting more out of them.

JOHN MCDONALD: You mentioned lower legal and repositioning cost as the driver this year. On a legal front, it's always hard to tell, but do you feel like we have a line of sight towards lower legal cost in the next year or two, and you've got more behind you than in front of you there?

MIKE CORBAT: Yeah, we took an important step this quarter to get a big one behind us around foreign exchange. And in the fourth quarter, we felt we were starting to get enough clarity where we took a sizeable reserve around what we saw and thought we had line to sight to. Again, you never know what's out there but I think we feel adequately reserved, appropriately reserved around the things that we see and know. There's still some more to finish up in terms of LIBOR. There's still some more to do in terms of AML and some other things. But again, I think we feel like we've got pretty good line of sight on those. So, our expectation is we should see legal and repositioning down significantly year-over-year.

JOHN MCDONALD: And when we think about your ROA target, technically it's a range, right? From 90 basis points to 110. Is there a level there that you'll feel happy with? Are you shooting for the middle of the range, the upper, the lower? And next year, can we expect you to set a new target that's higher than you within what you achieved this year?

MIKE CORBAT: When we set targets back in March of 2013, we told investors at the time that our targets were not predicated on big upward rate moves or big changes in terms of volumes. I would say that since we've put the targets out, we certainly haven't gotten any tailwinds. Rates have probably remained lower longer; certainly global growth has remained lower longer. But at the same point, we're very focused on delivering the targets. We've told people to think towards the lower end of that range. If you think about potential tailwinds, what we've been able to do, we believe, in terms of our efficiency ratio, in terms of our return on asset targets is really position the company that when rates do turn, when trading volumes do start to lift a bit, we can generate a fair bit of operating leverage in the firm.

And we've talked about from a rate perspective that every 100 basis points of rate increase, in particular, in the short end, benefits us somewhere up by about $1.9 billion in revenue. We should have the ability to drag most of that revenue to the bottom line, to EBIT. And so, I feel like we're well positioned in that.

JOHN MCDONALD: As we get through this year, when you think about planning, will you think about committing to something in the future, whether it's for 2016 or a few years out and setting another target?

MIKE CORBAT: Yeah. I'm not sure if they will be the same targets in terms of the same two or three metrics. But I think it's proven to be for us a good discipline of having some public targets out.

JOHN MCDONALD: Can you talk a little bit about your investment bank in the capital markets environment? First thing, just more broadly, sometimes hard for outsiders to differentiate between the capital markets unit at the various investment banks, what's different, unique about your franchise? What are your strengths when we think about markets and banking?

MIKE CORBAT: Well, in many ways, we have a very unique franchise. We operate the world's only closed-loop payment system in 100 countries, owned and operated by us. So, when people, companies, governments, individuals move cash around the world, most destinations in the world that comes into our pipes and we deliver it. We get the stickiness of that. We get the natural frictions of those transactions coming through. We process anywhere on any given day between $3 trillion and $10 trillion of payments a day through those pipes. That's unique and I think stays unique because I don't see people having the ability to necessarily recreate that.

Let's say the second piece is our trading desk in 80 countries. And while a lot of securities firms, investment banks, briefcase bank. Where the bankers and the people go in and out of countries, we're there, and our ability to have a purpose every morning when we open our doors to service, in particular, our corporate clients, where naturally they're giving us deposits, where naturally there's foreign exchange flows, where naturally there's local markets funding needs and local currencies, other institutions don't have the ability to do that. From a risk management perspective, we've got those local deposits and local currencies. So, when we're lending locally, we're lending from a balanced book. And so, amongst others, I would say quite unique, from a consumer perspective, our operation in 24 countries.

JOHN MCDONALD: If you think about the softness in trading that you initially seen in the last few years, how much do you attribute to regulatory pressures and changes that the industry is going through on capital, liquidity, and how much is just low volatility, low rate environment?

MIKE CORBAT: The debate between secular and cyclical has been one that's been quite robust for the past few years. We believe that Volcker, et cetera is largely embedded in the market today. And what we're really missing, and when we've seen it, you can see the pickups, and I'll give some examples. What we've lacked is we've lacked in many ways around the world conviction in terms of what markets are going to do, and the U.S. is a terrific example of that. That everybody is waiting for the fed to come out and raise rates and it's really tough to trade to a market where there's a lack of conviction, a market where you've got either low or extremely unpredictable volatility where you're missing really a lack of trend. And so as we see the global economy recover, probably with the U.S. first starting to set the course, some others following behind, we think you'll start to see volumes in a fairly reasonable way come back.

Second piece that's there, is structurally in the markets, there's been some big changes. So, when we talk about the negative implications of regulation, one big one out there that swings to the positive is that bank balance sheets aren't going to be the home for a lot of loans that traditionally were originated and sat on bank balance sheets. And we've started to see the capital markets filling that void. So, we've seen good debt issuance levels. We expect those to continue. As that debt is created, you get more trading opportunities. And again, from our perspective, having an of-scale trading platform, we think it plays to our advantage.

JOHN MCDONALD: Could you remind us what kind of trading trend is on the first quarter if there were some divergence based on the mix of business and how that's played through so far in the second quarter?

MIKE CORBAT: What we saw on the first quarter, dovetails a bit into what I said. We actually saw in a very constructive way, for the first time in the first quarter, some real trends starting to emerge in the dollar. At least for the first quarter, if we want to call a quarter a trend. And as the dollar was trending stronger versus the euro and other currencies, we saw people really taking positions around that. And you saw, across the industry, relatively strong rates and currencies, and, in particular, currencies in the first quarter.

Unfortunately, in the second quarter, that hasn't continued with the same conviction. Last week, though, interestingly, from what I read and saw, I've heard probably the most conviction out of Chairman Yellen that we've heard yet in terms of we will have a rate rise this year.

And so, we get more momentum behind that and that rate rise is happening for the right reasons. Growth in the U.S., confidence, I think that could be a strong catalyst towards a pretty good pick up in terms of market activity.

JOHN MCDONALD: Yes. In terms of so far what you've seen this quarter, a few of your peers yesterday kind of said the market's environment kind of trending flattish to a year ago. Is your business feeling the same?

MIKE CORBAT: We'd call it the same way. A quarter is three months but through the first two months or almost two months looks very similar to last year.

JOHN MCDONALD: Yes. So, in terms of the consumer franchise, and I guess just more broadly, you have a global presence. It gave you some unique insight into global trends. Which global markets do you feel good about, which do you have some concerns about?

MIKE CORBAT: We're quite constructive in terms of Mexico. If you're at all constructive in terms of the U.S., we believe Mexico post-financial, post-energy, post-structural reforms is well positioned; unit labor cost, energy cost and so as the U.S. rebound in growth occurs. A lot of those manufacturing jobs very likely go to Mexico and we've seen that with Mexico surpassing Brazil in terms of auto production, Mexico surpassing the rest of Latin America in terms of aviation, and I think other strong sectors in there.

Southeast Asia, growth feels good. India, I was in India a few weeks ago. India, trending growth above 8%, and so outsized growth in India. And while China is slowing, we're still going to see 6.8%, 6.9% growth out of China. And again, remember as a company, the segments that we're serving are the large multinationals, the investors from a consumer perspective, the urban base mass affluent. So, we're not of mass down market bank and the segments that we're serving, we actually see pretty good growth rates in. And by the way, we so far see a continuing fairly benign credit environment.

JOHN MCDONALD: Korea has been a bit of a drag for you in the last couple of years, partly you've been restructuring your business there. Has that turned the corner for you?

MIKE CORBAT: As we've talked about, we've been pretty aggressive in terms of our restructuring of our Korean consumer bank. And we got the vast majority of that done last year. We have seen the benefits of that restructuring. I would still describe the environment as being challenging, the combination of rate caps regulation and other things, but feel like the business is much better positioned and headed in the right direction.

JOHN MCDONALD: You did a lot of pruning of the business in the last two years. Do you feel like you've exited the areas you need to and you have the franchise you want now when you think about global consumer?

MIKE CORBAT: While we were doing it, it felt like a whole lot more than pruning, but they were the right things, the right things to do. And, John, you referenced in the fourth quarter, we announced that we would be exiting 11 consumer markets, one commercial market, and taking our consumer franchise probably to less than 50% of where it was at its peak, 24 countries, but more importantly than the countries are the cities, again, around urban-based, mass affluent, internationally, digitally minded, consumer-centric, and we feel that those markets are the right markets for us.

JOHN MCDONALD: So, what do you see as the growth drivers for the international consumer business if we look out a few years?

MIKE CORBAT: Even in this environment, if you look at loans, deposits, all really growing at global growth rates. And so, as we look in terms of our positioning, the combination of wealth management offerings in terms of the things we're doing there – and to back up for a second, in terms of a big piece of the transformation of our company, our consumer bank today, not just in the countries and cities we serve, is radically different, our approach is different.

And when you go back a handful of years and look at the way we came to work and served our consumer clients, we were Citi Mortgage and Citi Auto, and Citi this and Citi that. Today, the systems we've put in place, the investments we've made are client-centric. We've got the holistic view of what our customers' financial lives look like and how we can service them. We've made significant investment in terms of our technology platforms, of unifying our technology platforms from 24 locally run institutions, consumer institutions, into one globally run. And that changes customer experience. It changes your servicing levels. It changes your speed to market in terms of products. Changes your expense base.

And so the model is built. The implementation of the technology, Rainbow as we've talked about, is underway. We've got it out in a number of places, and we're seeing the benefits of it. We're continuing on that as we said in this challenging environment. We're doing that organically rather than in essence, the big bank. We're seeing the benefits of that.

JOHN MCDONALD: And then more domestically, the question comes up pretty frequently. What's the vision of what you want Citibank to be in the U.S. As a retail bank, as a card issuer?

MIKE CORBAT: We operate in seven major cities in the U.S. So, again, urban-based, mass affluent, internationally minded, digitally savvy, consumer-centric. And if you look at what we've been able to do in terms of technology in the past couple of years, we've actually closed 200 branches in the U.S. Our average in the U.S. today, when you walk by one, houses about $218 million in deposits. We've been growing deposits. Digital uptake is on a compounding double-digit basis. And we continue to see that - changes our service levels, changes our satisfaction levels.

We've made significant investments into our cards portfolio. Candidly speaking, we are underinvested in our cards business during the crisis. We had to. But coming out of it, you've seen us add a cash back card which was something that was missing. You've seen us put together a global rewards program that I think is quite distinguished. And again, we've built the platform that I think a few years ago couldn't have taken on a Costco, couldn't have negotiated a MasterCard agreement. So, we see good abilities to grow the U.S. consumer franchise.

JOHN MCDONALD: It's the fact that you're shooting, say, as a company for a 1% ROA; some of the card companies have higher ROAs. Does that enable you to kind of outbid them if it's a Costco bid or just organically and pay higher rewards? Does that help you?

MIKE CORBAT: I should start out and remind everybody that a 1% ROA is on a $1.8 trillion to $1.9 trillion balance sheet, and in that $1.8 trillion to $1.9 trillion, we have JGBs at 20 basis points, and we have assets at several hundred basis points. So, simply because we're running the institution with a stated public objective of 90 to 110 basis points doesn't mean that we, at individual businesses, allow that to be the hurdle rate. Because, again, risk-adjusted, we're going to think of assets very differently. And ROA and on a GAAP balance sheet is a very blunt instrument.

And so, when we look at, as an example, the Costco perspective, the Costco acquisition, we view it in every sense of the word of being accretive to our institution and our shareholders. So, return on equity, return on assets, efficiency ratio, all of those. And when you think about the Costco acquisition, in addition, and by the way it's not what guides us to it, it will help us use DTA. It's not how we price, but it's a benefit. It will help us in terms of diversification of our cards portfolio.

Today, we've got big travel programs, co-brand programs around American Airlines and Hilton. Costco, with its mass affluent, so to speak, consumer base and the spend and our ability to do other things with that we think is a strong addition. So, don't think that everybody comes to work and says that, gee, if I can earn 1% on assets, it's going to fly through approvals. We're going to look at a much more granular level in terms of risk, returns and what really benefits the institution.

JOHN MCDONALD: You've made a lot of investments in cards. It's a big part of your asset mix, even bigger than some of the other banks that you compete against. So, growth in card balances could be very accretive to your ROA. Are you starting to see some payback from the investments you've made and have you starter to see some revolving balances yet?

MIKE CORBAT: So, what we've made, as I said, significant investments in terms of our card portfolio. Going through the Holdings era of cleaning parts of it up, investments in terms of products that we didn't have, investments in terms of technology, rewards programs. And so we feel like we've largely got the foundation in place. We did being, self-critical, under-invest in our cards business during the crisis, and so you're seeing us now – and it was important. What we didn't want to do is we didn't want to be out pushing marketing dollars around places where we had product gaps or we had inferior products.

And so, what we've now been able to do is fill the gap in terms of Double Cash to get our rewards programs right to radically simplify the number of cards offerings that we have. When I became CEO, we were approaching 900 individual card offerings around the globe. How do you market, support, service, that number? We've more than cut that number in half and we've been very focused in terms of the products, the cards and the segmentation that we really want to be focused on and now feel like the platform's in a place where we can spend those marketing dollars wisely and get returns on it.

And so, we've seen initial stages, purchase sales coming up a bit. The revolve has been tougher to get. Our Double Cash, we're seeing good signs in terms of Double Cash bringing in a good level of revolve. So, we think we're in the early stages of growth or a drive in terms of revolve.

JOHN MCDONALD: Couple of questions on Citi Holdings. Can you help investors think about a potential time line for that wind down? What stage are we at and how does it play out over the next few years?

MIKE CORBAT: To set the table, if we go back five, six years or so, at one point, Citi Holdings was approaching about $900 billion of assets, 70 operating businesses in 45 countries. There were many that worried in terms of the amount of capital disruption that would be necessary to get through and out of Holdings.

At the end of the first quarter, Citi Holdings was down to about $122 billion of assets. Of those $122 billion of assets, $32 billion we already have signed agreements in terms of those sales. And of the remaining $90 billion, more than half, about $54 billion of the remaining assets are in U.S. mortgages. About $30 billion of residential firsts and about $24 billion of seconds. Against the $54 billion we hold - at the end of the first quarter, we held about $3.1 billion of reserves, equating to about 50 months of coincidental coverage.

And what you've seen is we've said, and we remain committed to, is the businesses listed in Holdings are either for sale and wind down. And as we see prices or opportunities to be able to shed those businesses at levels where from a capital, from a price, from an expense takeout perspective it makes sense, we're going to do it.

And so, we've showed year-over-year we had Citi Holdings down about 20%. And so, I'm not going to make a prediction in terms of the pace because we're opportunistic in terms of the pace. But we're very mindful in terms of wanting to get rid of these assets as quickly and as practically as possible. Because again, Citi Holdings today, we've got somewhere in the magnitude of about $17 billion of capital tied up against those assets. Some of it, as we shed those assets, hopefully, we can give back. Some of it will be tied up in terms of ops capital, operations capital, for a longer period of time. But we're very focused on it.

JOHN MCDONALD: And do you think you can maintain the breakeven or modest profitability at Holdings once OneMain is gone?

MIKE CORBAT: We do. We do. OneMain is not the only profitable business in Holdings. We've worked very hard in terms of continuing to take costs out. We've worked hard in terms of trying to address stranded funding, so as we sell an asset, the funding that's against it to go ahead and get that funding retired and take that cost away, and we look at the calculus in total. And so, on an annual basis, we are comfortable with our pronouncement that we will run Holdings at breakeven or better.

JOHN MCDONALD: And it sounds like you're comfortable for investors to hope that after the wind-down there are some treats left over, whether it's excess capital or maybe some excess reserves and...

MIKE CORBAT: We talked about – So, against the $120 billion or so of assets today, we're holding about $17 billion of capital against that. So, as we get those assets down, it is fully our intention to try and get that capital back to our shareholders over time. It's their capital. But I would just tell everyone that in there, there's operations capital, which even when you sell the asset, you're force to hold for a period of time. So, we'll certainly give back what we can give back, but there'll be some we'll need to keep, but we'll give that back as soon as we can.

JOHN MCDONALD: Couple of questions that have come up from the audience. A few themes. One of them is around expenses and operating leverage. Are you done with major repositioning costs? And if the revenue environment remains subdued, can you do more on expenses to actually just lower actual dollar amount of expenses?

MIKE CORBAT: Since I became CEO, we've taken about $3.4 billion or so of repositioning, of which we've said that we can, basically, achieve cost savings at least equal to that amount, which we have at this point largely recognized. Given the regulatory environment, we've needed to reinvest some of those savings back into the business. On the last earnings call, John, I talked about it today, or certainly by year-end we have about 30,000 of our employees in some type of control or compliance function. One out of every eight of our employees comes to work focused on compliance and controls.

And so we've managed to overcome those headwinds. That's probably equated to, as John has described on our earnings call, about 50% of those savings, and we've managed to get 50% of those savings or will get 50% of those savings to the bottom line. So, we've been very mindful that we've asked our shareholders to be patient with us as we've taken these, and we've been very committed in terms of delivering the savings.

We've also very much tried to shift the mindset of our businesses from these big episodic one-off restructurings to really being focused in terms of BAU, given the environment and the fluidity of the environment, how should you be sizing yourself, how should you be using technology, et cetera. And a lot of cases, what we've seen is we've made the big push towards regulatory and compliance. As would be expected, you tend to push a lot of bodies at those, and you would hope and believe over time. And in places like mortgage and others, I think we've proven the ability that you get the ability to automate those and get some of those people out, or in our case, we've recycle those people into other things as we brought that technology in. So, we're still going to be making investments. The pace of those investments should be slowing, and we're very focused on trying to self-fund those investments as we go forward.

JOHN MCDONALD: And if the revenue environment turns out to be more challenging, do you have other levers? Can you pull back on the investments or just cut expenses in other places?

MIKE CORBAT: All of the above. We've got the ability. Again, we think we're pretty responsibly running the institution today. And if you look, since I became CEO, net of probably bringing in somewhere between 15,000 and 20,000 compliance people. Our head-count, on a net basis, at the end of last quarter, it was down about 22,000 people, and so we've, again, simpler, smaller, safer, stronger, in terms of an institution. And so, we've got our leverage in terms of expenses. We've got leverage that we can pull in terms of some of investments, although I think based on the importance and what we see as future paybacks of some of those investments, I'd be reluctant, but if we need to we'll certainly take a hard look at it.

JOHN MCDONALD: Have CCAR and the GSIB buffers changed the attractiveness of any of the businesses, and changed how you look at investing in certain businesses?

MIKE CORBAT: When we run the institution, we think of capital as multifaceted or multidimensional. We've got GAAP capital. We've got regulatory capital. We've got CCAR capital. We've got GSIB capital. We've got leverage ratio. So, as we look at and think about our businesses, we look at our businesses or our geographies and try and discern what the binding constraint is. Why is that the constraint and how do we optimize against that constraint?

And so, as an example, what we wouldn't want to do – CCAR is scenario dependent. In one year, for whatever reason, the Fed comes out with its scenario and it's very harsh on a particular geography or particular product, I wouldn't want to be making long-range decisions based on a single set of data points around CCAR.

But when we look across and we see a series of constraints or things that we can optimize, I think we've shown our willingness and ability to take those actions in our businesses in terms of our consumer businesses, in terms of the way we've gone with some of our products, head count, all of those.

JOHN MCDONALD: There's a couple of questions in here about the Costco deal. Do you need to buy the Costco outstandings from American Express in order to complete the deal?

MIKE CORBAT: Do we need to buy them? The answer is no. We do have the right not to move forward with the deal if we don't get those receivables. We'd like to get to a place to be able to do that. Costco is completely aligned with our desire and the importance of doing that. So, we'll see where those negotiations take us. But unequivocally, we'd like to have those receivables.

JOHN MCDONALD: And you kind of touched on this, but it come up a couple of times in the cards here. Would the Costco deal be accretive without the benefit of DTA? Does it generate an ROE in line with your card business broadly?

MIKE CORBAT: Absolutely. Absolutely. And when you think about it – again, just to go back and touch on the point, we do not buy assets, we do not buy deals for the sake of DTA consumption. That would be giving shareholder money away. But the way we think about it, we've got two opportunities. They've got the same returns; one uses DTA, and the other doesn't, we'll take the DTA deal very likely. But we're not going to destroy shareholder value around simply rationalizing things in terms of DTA.

When you think of us, you mentioned, when we look at a deal like Costco, we look at our cost of equity, we look at our cost of funding, and again, as a bank, we have the ability to go to our cards business and give them dedicated funding at a specific price for the term of that deal. Others may not be able to do that. So our business could go in knowing exactly what its cost of funds was going to be and to maximize against that. And so we looked at the pieces around. And again, we're very comfortable in terms of the math behind the Costco deal.

JOHN MCDONALD: There's a couple of questions about ROA and ROE, and a number of cards here say we'd love an ROE target. And can you talk a little bit about what your internal debate is about kind of reestablishing ROE target? There's obviously a few factors going in there. And could you get to a 10% return on tangible common equity without doing 100% payout of capital? Is it an ROA lever? What are your thoughts on that as you think out over the next couple of years?

MIKE CORBAT: John, as you know, if you go back to winter/spring of 2013, we did have an ROTCE target when we came out with our original targets. Efficiency ratio, return on assets, as well as wanting to be a 10% by the end of this year. Last year, when we didn't receive permission in terms of capital distribution, that target became very challenged because of the denominator issue. Importantly, that capital was not destroyed; it was delayed. We completely understand the need and desire for ROTCE, if you go look at the first quarter, and again, the first quarter is just a quarter. But we are actually about 11%.

And so again, when we show the underlying fundamentals, when we can run a clean quarter, and we can do some things, we've got the ability to do that. We are very dependent upon capital return because going back to my original comments, it's a bit of this blessing and curse so to speak, that the combination of operating earnings, Holdings rundown and DTA utilization, we've got the ability to generate a multiplier of our earnings. And so, if we simply return earnings, we have a denominator drag. And so as shareholders, we would ask you to be mindful of the pieces, but understanding it is our goal to get to a point and realistically beyond our control once we fully understand capital rules as soon as GSIB, TLAC, NSFR, a bunch of these things we think probably gets solved in 2015. It will probably leave the Fed in a more comfortable position that capital levels are where they need to be and a comfort in terms of being able to do more with your excess. But we need to be in a position to get the excess out.

JOHN MCDONALD: Yeah. So, probably in a few years of net building capital still and then hopefully, transition to allow that net reduction.

MIKE CORBAT: By the end of 2018, 2019, we'll have fully phased in. And when you look at the CCAR process, depending how the Fed chooses to do it, nine quarters could start to put us there in this next submission. So, depending on timing and how that looks but hopefully, if not this submission, by the next submission we could be in a position to. Again, we got work to do but be in a position, hopefully, to ramp that up.

JOHN MCDONALD: We've got time for one more question. Come up here in the cards a little bit. Are there things that you might consider to lower your GSIB bucket?

MIKE CORBAT: It's a great question. And the answer is yes. If you look at our disclosures, we did work on intra-financial system assets 2013 to 2014, down 24%; derivative notionals, down 8%; level 3 assets, down 7%. The challenge is a couple fold. It's that one is we've made that – in essence – that submissions in, we won't know till September. So, long lag time. And the other piece, two pieces, are one is we've got to take all of what we do and convert it to euros. And you're judged based on euros. And the third piece is it's not absolute. It's relative.

And so, it's very difficult to be able to predict. So, we'll, without a doubt, be continuing to refine our actions in trying to reduce those. But simply by reducing them doesn't mean you're going to move a bucket. And my guess is, overall, we're not alone in that approach. So, it's very difficult to say, and beyond our control.

JOHN MCDONALD: Fair enough. Mike, thanks so much. Appreciate you coming.

MIKE CORBAT: Thank you.