TRANSCRIPT

Citi Second Quarter 2015 Earnings Review

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Host
Susan Kendall, Head of Investor Relations

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

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Second Quarter 2015 Earnings Review with Chief Executive Officer, Mike Corbat; and Chief Financial Officer, John Gerspach. Today's call will be hosted by Susan Kendall, Head of Citi Investor Relations.

We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. Also, as a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time.

Ms. Kendall, you may begin.

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

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results 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 2014 Form 10-K.

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

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

Earlier today we reported earnings of $4.7 billion for the second quarter of 2015, or $1.45 per share excluding the impact of CVA and DVA. It was a solid quarter overall and we continued to make good progress towards our strategic and execution priorities. With half the year behind us, we remain on track to hit our financial targets in terms of return on assets and our efficiency ratio. We again achieved both positive operating leverage and strong loan growth in our core Citicorp businesses. Citi Holdings was profitable again during the quarter, and we continued to wind down its assets, which are down 22% from a year ago, and Holdings assets now comprise only 6% of Citigroup's balance sheet. We continued to utilize DTA this quarter, bringing the total to $1.5 billion for the first half of 2015 and we added $3.5 billion to our regulatory capital during the quarter even as we returned roughly $1.7 billion to shareholders in the form of share buybacks and common dividends. Our tangible book value increased to $59.18 and our Common Equity Tier 1 capital ratio increased to 11.4% on a fully implemented Basel III basis.

We submitted our resolution plan to the Fed and the FDIC, which details how we would resolve Citi without the use of taxpayer funds or harm to the financial system. Viable resolution planning is critical to our making Citi a simpler, smaller, safer and stronger institution.

In terms of our businesses, we saw balanced performance for the quarter across our institutional and consumer segments. In ICG, we have grown our investment banking wallet share year-to-date and our private bank continued to show strong revenue growth. Treasury and trade solutions saw revenue growth on a constant dollar basis and our Markets and securities services revenue grew from a year ago, driven by rates and currencies and securities services.

In consumer banking, high quality checking deposit growth, improved spreads and higher mortgage originations drove revenue growth in the U.S. where we've optimized our branch footprint to focus on seven cities, and internationally we also grew revenue despite continued spread headwinds, with growth across investment sales, deposits, loans, and purchase sales.

We remain focused on our expenses and driving efficiencies throughout the organization. Despite significant investments in our regulatory and compliance functions, we continue to lower our overall headcount, and we're reducing both our real estate footprint and our employees in higher cost locations. These actions help to keep our expenses lower than they were a year ago, even before the benefit of foreign exchange.

While I am pleased with our results for the first half of the year, the environment remains challenging and unsettled. Growth forecasts continue to be downwardly revised, and we still don't have clarity on when interest rates will begin to rise. While some volatility may create trading opportunities, we would much prefer to see growth strengthen consistently across the developed and emerging markets. But whatever the economic conditions are, we will remain focused on our clients and executing our strategy on behalf of our shareholders.

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

JOHN GERSPACH: Thank you, Mike, and good morning, everyone.

Starting on slide 3, I'd like to highlight a couple of items: CVA, DVA, and the prior period mortgage settlement that affect the comparability of our results to last year. Excluding these items we earned $1.45 per share in the recent quarter compared to $1.24 per share in the second quarter of 2014.

On slide 4, we show total Citigroup results. In the second quarter, we earned $4.7 billion, generating a return on assets of 101 basis points and a return on tangible common equity of 10.1%. Net income grew by over $700 million year-over-year, driven by core improvement in Citicorp. Revenues declined on a reported basis to $19.2 billion but increased 3% year-over-year in constant dollars. Expenses declined 7% year-over-year, mostly reflecting lower legal and repositioning charges as well as a benefit from FX translation. And net credit losses improved, offset by a lower net loan loss reserve release. The tax rate in the second quarter was 29%, somewhat lower than the 31% outlook we had provided on a full year basis.

Turning to the first half of 2015, the total efficiency ratio for Citigroup, including Citi Holdings, was 56%. Net income grew by 17% year-over-year. We generated an ROA of 103 basis points and our return on tangible common equity was 10.5%.

In constant dollars, Citigroup end of period loans declined 1% year-over-year to $632 billion as 4% growth in Citicorp was more than offset by the continued wind down of Citi Holdings. Deposits also decreased 1%, driven by Citi Holdings, including the reclassification of $21 billion of Japan retail deposits to held-for-sale in the fourth quarter of last year.

On slide 5, we provide more detail on second quarter revenues in constant dollars. Citicorp revenues were up 5% year-over-year, mostly driven by growth in our institutional franchise, and revenues declined in Citi Holdings, reflecting continued asset reductions, as well as the impact of classifying our OneMain business as held-for-sale at the end of last quarter. As a result of the HFS accounting treatment, OneMain loans are classified as other assets. As such, approximately $160 million of net credit losses were recorded as a reduction to other revenue during the second quarter. This lowered both revenues and cost of credit by an equal amount and, therefore, had a neutral impact on earnings.

On slide 6, we show more detail on expenses in constant dollars. Citicorp expenses were down 1% as ongoing efficiency savings and lower legal and repositioning costs were largely offset by higher regulatory and compliance costs, and Citi Holdings expenses also declined on lower assets.

On slide 7, we show the split between Citicorp and Citi Holdings. Citicorp net income grew 22% year-over-year in the second quarter, and as I just described, we generated positive operating leverage again this quarter in Citicorp, with 5% growth in revenues and a 1% decline in expenses in constant dollars. And for the first half of 2015, we achieved a Citicorp efficiency ratio of 55.1%.

Turning to Citi Holdings, we were profitable again this quarter with over $150 million in net income. Citi Holdings ended the quarter with $116 billion of assets or 6% of total Citigroup assets.

On slide 8, we show results for international consumer banking in constant dollars. Net income grew 25% year-over-year driven by higher revenues, lower operating expenses and an improvement in credit costs, partially offset by a higher effective tax rate.

Revenues grew 1% year-over-year in the second quarter, reflecting volume growth, partially offset by spread compression and ongoing regulatory headwinds in certain markets. In Latin America, we grew revenues 3%, driven by modest loan and deposit growth in Mexico, partially offset by the impact of selling our consumer franchise in Honduras last year. And in Asia, revenues were roughly flat year-over-year as 3% growth in retail banking revenues, including wealth management, was offset by lower card revenues. Asia card loans and purchase sales both grew year-over-year by 4% and 5%, respectively, but this growth was offset by lower spreads, driven by continued higher payment rates and the impact of regulatory changes in certain markets. We continue to believe these headwinds will abate somewhat in the second half of 2015. Asia card revenues grew by 3% sequentially in the second quarter.

In total, average international loans grew 2% from last year, card purchase sales grew 5% and average deposits grew 4%. Operating expenses declined 5% as lower repositioning costs were partially offset by the impact of volume growth, higher regulatory and compliance costs and technology investments. And credit costs declined from last year.

Slide 9 shows the results for North America consumer banking. Net income of $1.1 billion declined slightly year-over-year as higher revenues, lower expenses and lower net credit losses were more than offset by a decline in the net loan loss reserve release.

Total revenues grew 1% year-over-year. Retail banking revenues of $1.3 billion grew 11% from last year, reflecting continued loan and checking deposit growth, higher mortgage origination activity and improved deposit spreads. Branded cards revenues of $1.9 billion were down 5% from last year as 5% growth in purchase sales and improved spreads were more than offset by the impact of lower average loans, mostly driven by the continued runoff of promotional rate balances and higher payment rates. And retail services revenues were flat to last year with improved spreads being offset by the continued impact of lower fuel prices and higher contractual partner payments.

Total expenses declined 3%, mostly driven by ongoing efficiency savings, as we have continued to rationalize our branch footprint and capture the benefits of our global scale in cards.

Our retail banking results reflect the strong progress we are making in North America. Over the past year, we have reduced our branch count by 15% to 779 branches, and at the same time we've improved the overall productivity of our network, concentrating our resources in seven key markets and deepening our relationships with our target clients. Despite the branch reductions, we grew checking account balances by 7% year-over-year. Card acquisitions per branch were up 10% year-over-year on a same-store basis and we continued to enhance our retail mortgage origination platform, reducing our reliance on third parties and better integrating our operations. Over 80% of our growth in origination volumes year-over-year came through retail channels.

Slide 10 shows our Global Consumer credit trends in more detail. Overall, credit remained favorable in the second quarter. In North America and Asia, trends remained broadly stable, and in Latin America, the NCL rate improved in line with the lower delinquency rates.

Slide 11 shows the expense trends for Global Consumer Banking. Over the last 12 months, our consumer efficiency ratio was 54%, including over 150 basis points attributable to legal and repositioning charges. For the first half of the year, the total efficiency ratio for Global Consumer Banking was 53.3%, down from 56% last year. We now expect the total consumer efficiency ratio for 2015 to be somewhere in the range of 52% to 53%, consistent with our plans to begin gradually increasing the level of investment spend during the second half of the year, primarily in U.S. branded cards.

Turning now to the Institutional Clients Group on slide 12: revenues of $8.6 billion in the second quarter grew 2% from last year and declined 6% from the prior quarter. Total banking revenues of $4.4 billion were roughly flat to last year and up 4% sequentially.

Treasury and trade solutions revenues of $2 billion were down 1% year-over-year on a reported basis. In constant dollars, TTS revenues grew 5% from last year, as growth in deposit balances and spreads more than offset a decline in trade revenues. This represents the sixth consecutive quarter that we've generated both revenue and operating margin growth in TTS on a year-over-year basis. And while trade revenues continue to present a headwind this quarter, we see some early positive signs that spreads may be stabilizing. Both cash and trade revenues increased sequentially, up 3% in total.

Investment banking revenues of $1.3 billion were down 4% from last year, as higher M&A revenues were more than offset by lower underwriting activity, as compared to a very strong second quarter last year, consistent with overall market trends. Year-to-date, investment banking revenues are up 4%, driven by strong M&A results, and we have gained overall wallet share versus 2014, particularly in North America.

Private bank revenues of $746 million grew 13% year-over-year, driven by strong growth in investments and capital markets products, as well as higher loan and deposit balances. And corporate lending revenues of $445 million were down 2% on a reported basis. In constant dollars, lending revenues grew 4% from last year as higher volumes were partially offset by lower spreads.

Total Markets and securities services revenues of $4.2 billion grew 4% year-over-year and declined 12% sequentially. Fixed income revenues of $3.1 billion were down slightly from last year as continued strength in rates and currencies was offset by lower revenues in spread products. Rates and currencies revenues grew by double digits year-over-year in the second quarter as investor-client activity and market volatility were improved versus last year. G10 rates was the key driver of growth in North America, in particular, as we saw strong client activity and a favorable trading environment, offset by a small decline in G10 foreign exchange. Local markets rates and currencies grew modestly year-over-year, driven by our franchise in Asia. In spread products, however, activity levels declined versus last year, in credit products in particular, resulting in lower revenues. On a sequential basis, fixed Income revenues declined 12%, driven by seasonal factors as well as the lower rates and currencies activity as compared to a strong first quarter.

Equities revenues of $653 million were down 1% year-over-year and down 25% sequentially. Our equities revenues this quarter included a charge of $175 million for valuation adjustments related to certain financing transactions, and as of today we have a remaining exposure with respect to these transactions of less than $100 million. Excluding the adjustments, equities revenues would have increased by 26% from last year, driven by growth in derivatives, improved trading performance in EMEA and strong client momentum in Asia.

In securities services, revenues were up 7% year-over-year and 3% sequentially, reflecting increased activity and higher client balances.

Total operating expenses of $4.8 billion grew 2% year-over-year as higher regulatory and compliance costs were partially offset by ongoing efficiency savings and the impact of FX translation. And credit was a positive in the quarter.

On slide 13, we show expense and efficiency trends for the institutional business. Over the last 12 months, our efficiency ratio was 57%, including roughly 140 basis points attributable to legal and repositioning charges, and our comp ratio was 27%. We continue to expect to achieve a total ICG efficiency ratio closer to the midpoint of the 53% to 57% target range for the full year 2015.

Slide 14 shows the results for Corporate/Other. Revenues were higher year-over-year and sequentially, driven mainly by gains on debt buybacks as well as real estate sales in the recent quarter, partially offset by hedging activities. And expenses were down, mainly reflecting lower legal and related costs.

Slide 15 shows Citi Holdings assets, which totaled $116 billion at quarter end, down 22% from a year ago. We have continued to make great progress in winding down these assets. During the quarter, we closed the sales of our consumer businesses in Peru and Nicaragua, and we have signed agreements to sell an additional $32 billion of assets, including our consumer businesses in Japan, Egypt, Costa Rica and Panama, as well as OneMain Financial.

On slide 16, we show Citi Holdings financial results for the quarter. Revenues of $1.7 billion declined by over $300 million from last year, driven by the reduction in assets as well as the impact of classifying our OneMain business as held-for-sale at the end of the quarter. As I described earlier, as a result of the HFS accounting treatment, approximately $160 million of net credit losses were recorded as a reduction in revenue during the second quarter. The HFS treatment had no impact on expenses, which declined 13% year-over-year, primarily due to the asset reductions.

On slide 17, we show Citigroup's net interest revenue and margin trends. The bars represent net interest revenue per day for each quarter in constant dollars, showing a consistent growth trend year-over-year, even as the contribution from Citi Holdings has continued to shrink. Our net interest margin increased sequentially to 295 basis points, driven by a higher than expected contribution from trading NIM, which can fluctuate quarter-to-quarter. Excluding this impact, our net interest margin would have been closer to 291 basis points, and we expect to maintain roughly this level for the third quarter.

Looking to the fourth quarter, our results will depend in part on the timing of divestitures, including OneMain and our Japan retail business. We estimate that without these businesses on a combined basis, our net interest margin would be lower by roughly seven basis points before using any part of the associated gains to redeem high cost debt. We believe we can ultimately mitigate more than half of this NIM pressure through a combination of the upcoming debt redemption actions as well as the April acquisition of the Costco portfolio.

On slide 18, we show our key capital metrics on a fully implemented Basel III basis. During the quarter, our CET1 capital ratio improved to 11.4%, driven by retained earnings and DTA utilization. Our supplementary leverage ratio improved to 6.7% and our tangible book value grew to $59.18 per share.

In summary, we continued to make progress in the second quarter with revenue growth and positive operating leverage in Citicorp, lower legal and repositioning expenses and continued favorable credit trends. For the first half of 2015, we are tracking well through our financial targets with a Citicorp efficiency ratio of 55%, a Citigroup ROA of 103 basis points, and a return on tangible common equity of 10.5%. Of course, we would expect our results to be stronger in the first half of the year, given the seasonality of our markets business, but for the full year, we continue to expect to deliver a Citicorp efficiency ratio in the mid-50% range and a Citigroup ROA of over 90 basis points. Finally, we ended the quarter with a strong capital position, improving our CET1 ratio to 11.4% and our supplementary leverage ratio to 6.7%, even as we returned roughly $1.7 billion of capital to shareholders in the form of buybacks and common dividends this quarter.

Turning to the second half of this year, we continue to expect modest revenue growth in Citicorp. In consumer, in North America, we expect continued underlying revenue growth in our retail banking franchise, although comparisons to the prior year will be impacted by certain one-time items that benefited our mortgage business last year, as previously disclosed. And in North America cards, revenue will likely remain under pressure in the second half of the year, as it will take some time for our incremental investment spend to drive top line results.

In international consumer, we continue to believe we can generate revenue growth and positive operating leverage year-over-year in the second half of 2015, driven by continued modest growth in Mexico as well as continued volume growth and abating spread headwinds in Asia as we begin to lap some of the spread compression and regulatory changes we absorbed last year.

Turning to the institutional franchise, we continue to see good momentum across corporate lending, treasury and trade solutions, securities services, and the private bank, which together generated 8% year-over-year revenue growth in the first half of the year in constant dollars. Investment banking revenues will depend in part on the overall market, but we continue to feel good about the strength of our franchise, generating 4% year-over-year revenue growth in the first half with overall wallet share gains versus 2014. And finally, in markets, we expect our overall performance to reflect the market environment with the goal of continuing to gain wallet share with our target clients.

In Citi Holdings, we remain focused on winding down the portfolio while staying above breakeven. As I described earlier, we have signed agreements for the sale of $32 billion of assets, virtually all of which we expect to close by year end, and in particular, we continue to work towards a late third quarter sale of OneMain Financial.

We expect credit costs to increase somewhat in the second half of the year, driven by loan growth as well as lower loan loss reserve releases. And we expect to keep balance sheet discipline, staying at or below our current size.

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

QUESTION AND ANSWER

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

JIM MITCHELL: Good morning, guys.

MIKE CORBAT: Hi, Jim.

JOHN GERSPACH: Hi, Jim.

JIM MITCHELL: Maybe we could talk a little bit just about the expense trajectory from here. You highlighted higher regulatory expenses and some investments in U.S. cards. But maybe you can kind of give us – but you also haven't seen much of a decline in markets expenses in the corporate bank yet, seasonally, we should expect some decline in revenues and then layering, maybe layering on top of that data on a single operating platform in the global retail business and what that could mean for expenses longer-term. Thanks.

JOHN GERSPACH: Well, that's a mouthful, Jim. Okay. But that's all right, that's okay. I'll try to take it one at a time. As we've said, we're really focused on operating Citicorp towards an efficiency ratio, and so we are committed to operating Citicorp overall in an efficiency ratio in that mid-50% range for the year. And so that's – certainly near-term, that's what you should expect us to do. Regarding some of the items that you mentioned, I do think that as we get further into next year, certainly we begin to see some of the regulatory cost growth, those trends begin to abate.

So we think that we're towards the end of that growth cycle, but that's something really for a 2016 story. I don't see that for the second half of this year. As for everything else, we're focused on being the most efficient that we possibly can. We've given you the efficiency targets for those different businesses and certainly in a different rate environment, we would certainly expect our efficiency performance to be even better.

JIM MITCHELL: But ex-rates, you would say 55% is sort of your steady state?

JOHN GERSPACH: We've said mid-50% for this year. Could we do something more? Sure. But you take a look at the progress that we've made already, we're operating Citicorp at 55%; we're operating Citigroup overall with an efficiency ratio of 56%. I'd say that to date we're certainly well ahead of what most of our peer institutions have been able to do. So I feel pretty good about the work that we've already done, and while we can continue and we always will continue to get better, I don't know that we want to get much better. We do want to make sure that we've got enough powder to make important investments in those Citicorp businesses.

JIM MITCHELL: No, that's fair. And then maybe one just accounting question. On the DTA, you used up $1.2 billion last quarter. It seems like that dropped to about using up $300 million this quarter. Yet it looks like North American net income was pretty similar to last quarter. Why the bounce? Why not using more DTAs this quarter?

JOHN GERSPACH: Well, the answer there is three initials; OCI. When you take a look at what happened on the available-for-sale portfolio with some of the rate rise that we had, OCI ended up impacting us. If you take a look at the contribution from earnings, the contribution from earnings on DTA was roughly similar to the first quarter. Both Citicorp and Citi Holdings combined to use roughly $800 million of DTA in both the first quarter and the second quarter. But the difference in the way the two quarters pan out really has to do with OCI.

JIM MITCHELL: Okay. That's helpful, thanks.

JOHN GERSPACH: Not a problem.

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

GLENN SCHORR: Hi. Thanks very much. First one is just the timing and the puts and takes. You mentioned OneMain being the late third quarter hopeful. Can the debt repurchase coincide with that? How long of a delay there? And then also Costco coming in. I'm just more of timing the good guidance you have given us on the puts and takes on the NIM in the back half and going into next year.

JOHN GERSPACH: Yes, Glenn, what we're working to would be to do the best job we can of matching up the cost of the debt buybacks with the gain recognition on OneMain. That's very much of our focus, and that's what we are going to try to do. And then as far as Costco, as we've said, that contract is due to kick in April 1 of next year. So that will be something towards the second quarter.

GLENN SCHORR: Great. I look for some clarification on the equities, and the $175 million-ish, I think you said, charge on valuation side. What were you financing, why's it get revalued? I'm just curious of the mechanics, I understand that it's not going to repeat, I hope.

JOHN GERSPACH: No, these are just financing transactions that result from the processing and funding of client trading activity, primarily in our prime brokerage business. And the charge that I mentioned was related to a very limited number of financing transactions where we just felt it was necessary to adjust the value of collateral to reflect the current estimate of its liquidity characteristics.

GLENN SCHORR: Does that mean there's some realized losses related to PB balances? Because it's a rare – actually we don't see any real –

JOHN GERSPACH: No, this has nothing to do with realized losses at all. As a matter of fact, I would say that given what we know today, based upon everything that we've got, what we've done is we've just took an appropriate and a prudent charge to revenues. We continue to work with the parties involved, and so this is still very much a work in process. As of today, all the promised payments have been made on schedule, and we anticipate that these financing transactions will be resolved hopefully over the next several weeks. And to your question, as long as the remaining scheduled payments are received, we will not realize the loss, and therefore the charge that we've actually taken would actually be reversed back into revenue.

GLENN SCHORR: Yes, good. Here's the last one. I thought, given all the volatility in FICC and your EM-heavy franchise, the local markets franchise; I thought the performance was good considering all the disruption late in the quarter. I'm just curious, was there disruption late in the quarter? And of the things that happened late in the quarter, have we seen a reversal of any of that so far in July?

JOHN GERSPACH: I'd say we had a couple of periods of disruption during the quarter that we managed to work our way through. And I think it's a little bit early right now to make comments on the overall tone of what trading will be for the balance of the third quarter, but we managed to work our way through a series of events.

GLENN SCHORR: All right. Thanks a lot, John.

JOHN GERSPACH: All right.

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

BRENNAN HAWKEN: Good morning, John. So just to clarify, you guys sort of adjusted the GCB target for the full year versus last quarter. But is there any impact to your target that you're shooting for to exit the year, or does that still remain in the previous range?

JOHN GERSPACH: No, the – what we would say is, we haven't adjusted the target. The target remains that, we believe that that business should be able to operate in an efficiency ratio of 49% to 52%. However, given where we are in this year, and given the fact that we do want to begin to put some additional marketing spend against U.S. branded cards in the third quarter and the fourth quarter, which we think is the right thing to do from a future top line growth point of view, the overall efficiency ratio for the business for this year is likely to be slightly higher than 52%, somewhere in that 52% to 53% range. We'll give you guidance on next year and where we expect that business to be when we're talking about the third quarter or the fourth quarter.

BRENNAN HAWKEN: Okay. Thanks for that. And I know that sequential quarter deltas can be somewhat difficult, but is it possible to provide some color on what drove the pickup in Citicorp expenses quarter-over-quarter on a constant dollar basis, and maybe the quarter-over-quarter uptick in core efficiency for GCB?

JOHN GERSPACH: Yes, most of the expense increase that we're seeing really has to do with pressure coming out of regulatory and compliance types of costs, and I think that's something that you'll probably hear throughout the industry at this point in time.

BRENNAN HAWKEN: Okay. And those regulatory and compliance costs are captured in the core expense as opposed to being considered legal and repositioning, right?

JOHN GERSPACH: Absolutely.

BRENNAN HAWKEN: Perfect.

JOHN GERSPACH: But they're in our core operating expense and everything is in our efficiency ratio.

BRENNAN HAWKEN: Got it, got it. And so is that why you guys highlighted on the expense front in international GCB that you had the uplift from volumes, but you didn't see that translation into revenue? Is that because of that regulatory headwind?

JOHN GERSPACH: Well, that's not an expense headwind, but that is a different type of regulatory headwind. As I think I've mentioned in the past, what happened in Asia, especially last year, and it continues somewhat into this year, almost every country has passed some form of what the U.S. did back in 2010 with the CARD Act. And so they've put in a series of debt caps and interest rate caps. So those are headwinds that are impacting us from a revenue point of view, and we now believe – we do believe that those spread headwinds are beginning to abate, particularly in the second half of the year as we lap the imposition of those new regulations. But that's what's impacting us on the revenue line. That's a little different from the other regulatory and compliance headwinds that we face on the expense line.

BRENNAN HAWKEN: Okay, terrific. Last question for me: thinking about Holdings in the North America mortgage book, as of last quarter, about $24 billion or so of the $54 billion mortgage was second lien, which is my understanding that it's basically not marketable. So I'm just kind of curious, of the remaining roughly $50 billion of mortgage that is first lien, how much of that do you carry the corresponding second lien on your balance sheet? And therefore, you probably wouldn't want to sell those mortgages to put yourself – kind of arb yourself negatively in the structure? Just trying to think about sizing, what's left to sell in mortgage?

JOHN GERSPACH: Brennan, I don't have that particular figure either with me or in my head, so I can't answer that question for you right now. We do have, as you can see later in the deck, of the remaining $51 billion of mortgages, about $23 billion of that is home equity. And as you can see, that's declining at a fairly steady rate of about $1 billion a quarter. Obviously, we're going through the reset period now. 2015, 2016 and 2017 are the years where virtually about $13 billion – $12 billion of that portfolio go through rate reset and the rate resets are performing well now.

What we're hopeful of is that the market begins to get a sense that the rate reset issue is not really a big deterrent. That perhaps a market for second – for home equity loans will open up, if not later this year, then perhaps early next year or mid-next year. And then that might give us the opportunity to work down those balances in home equity loans at an even faster rate.

BRENNAN HAWKEN: Thanks a lot for all the color, John.

JOHN GERSPACH: Not a problem.

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

JOHN GERSPACH: Hi, Matt.

MIKE CORBAT: Hi, Matt.

MATT O'CONNOR: Good morning. The color on the NIM, in terms of OneMain and some of the offsets was helpful. Just as we try and put it all together and think about the earnings impact and the capital impact of those three things, OneMain, Costco, debt restructuring; any color there you can give us?

JOHN GERSPACH: No. I really haven't put the whole capital impact, the story of each of those things into my head, so I apologize for that. Obviously, we're not doing – OneMain is something that we've been focused on for some period of time, so that is all part of the Holdings story and trying to continue to wind down Holdings, so we would look at that as something as exiting what is really a good business, but a one that just doesn't fit with our strategy. And Costco, we continue to believe that that is something that will be accretive to next year, so we feel well about that. But I can't link the capital story for you of those three separate things. I'm sorry, Matt.

MATT O'CONNOR: Okay. Or the earnings impact? You said offset at least half the NIM drag, but obviously there's some credit costs and expenses and things like that, especially related to OneMain as well.

JOHN GERSPACH: Yes, but OneMain – again, OneMain is part of Holdings. You know what we're trying to do with Holdings, and our target for Holdings is to remain above breakeven. OneMain certainly is a contributing – a significant contributor to Holdings profitability, but it's by no means the only profitable business that exists in that portfolio. And so we continue to believe that even with the disposition of OneMain, the earnings of the remaining portfolio plus the effect of the ongoing expense reductions, as well as the continued retirement of high-cost funding – and we'll have other episodic gains and losses – so we think that that will enable us to maintain Holdings into next year at no worse than breakeven on an annual basis.

MATT O'CONNOR: Okay. And then just separately within North America retail banking, you mentioned the deposit spreads were improving, and that was a key driver of the revenue. What's driving the better deposit spreads? Is that just mix, or what is that exactly?

JOHN GERSPACH: Yes, if you take a look at our overall focus on deposits, deposit quality and cost is something that we've been focused on for the better part of two-plus years at this point in time. We see a definitive trade-off as far as what you can do to be able to optimize your deposits. And when it comes to optimizing deposits, we look at both making sure that we are improving the liquidity value of the deposits, as well as then optimizing the cost. But there's a lot of situations where we're actually willing to pay more for high-quality deposits if it gives us the ability then to shed low-quality non-operating deposits.

This whole topic of non-operating deposits is something that, again, we've been focused on now for five quarters, six quarters. And we've been steadily driving down our non-operating deposits. And that's benefited us both from in terms of a liquidity point of view and I think in our ability then to overall fund the franchise.

MATT O'CONNOR: Okay. Thank you very much.

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

MIKE MAYO: Hi. With regard to your efficiency ratio, you're at 55% for Citicorp. You mentioned the growth in some of the regulatory costs should abate next year. And you also said it should be better if and when interest rates go up. So – and you still have Project Rainbow, actually if you could give an update on that. So where should the long-term efficiency ratio go? And at what point would you think about being more aggressive with that target? And again, an update on Project Rainbow.

MIKE CORBAT: Mike, I think a lot of – and John touched on it a bit – where we go with our efficiency ratio is going to be a function of the environment. We would be pushing towards – in a rising rate environment, obviously, we've talked about our sensitivity to rates and the impact in terms of revenues and our belief that we could get a lot of those revenues to the bottom line as rates begin to come up.

And so we've tried to be mindful. We said when we set the mid-50%, that was predicated on a kind of low-single digit to mid-single digit revenue growth environment, which is unfortunately proved to be the case. As that revenue environment changes, we would adjust our efficiency ratios – again, trying to deliver positive operating leverage as a result of that.

MIKE MAYO: And what about your ROA target? I mean, you're at over 100 basis points. The low end is 90 basis points. At what point would you consider increasing that target? And I'm not saying to do away with concrete targets over a concrete timeframe, but for next year or long-term normalized, where should the ROA be?

JOHN GERSPACH: Mike, let me just jump in for a second because I think it's going to be hard for us to give long-term guidance as far as return on assets until we get more clarity around some of the regulatory rules that still need to be set, including especially the TLAC. So it's possible that all financial institutions, including us, might actually, as a result of TLAC, be forced to put on levels of debt that would serve no other purpose – well, not no other purpose, but certainly serve the purpose to end up grossing up our balance sheet, which could, therefore, inhibit any bank's ability to improve ROA. So before we give longer-term targets on ROA, we'd like to see the rules under which we'll need to be operating.

MIKE MAYO: And then just going back to the – my earlier question, one factor that's more unique to you guys, Project Rainbow, as you consolidate your systems, you think you'd have more efficiency gains from that, unless you're going to reinvest some of the savings. Where do you stand with that?

MIKE CORBAT: Rainbow continues on its path of implementation. We continue to go live in countries around the world, and as we've talked about historically, when we launched Rainbow, we launched it with the premise that it would be an expense saver for us, and in essence have rationalized the target on that. What we've seen is a combination of not just expense saves, but also some revenue gains as we've got the system in place. We've talked about from a timeframe perspective, we continue to roll it out and fund it organically. And so, work in progress, but the results so far are quite positive.

MIKE MAYO: All right. Thank you.

MIKE CORBAT: Thank you, Mike.

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

GRANT D'AVINO: Hi. This is actually Grant D'Avino on for John.

JOHN GERSPACH: Hi, Grant.

GRANT D'AVINO: I just had a nitpick question on revenues. The revenue in Corp/Other has jumped up a little bit in the last few quarters, and I know you mentioned some gains. So just if you could talk a little bit about what level that might be a little bit more sustainable at?

JOHN GERSPACH: Yes, I think that longer-term, you'd probably expect Corp/Other revenues to be something in the $100 million to maybe $200 million range. So somewhere – maybe even $150 million to $200 million, so this is at somewhat higher levels right now. And we noted the fact that it included some gains on the sale of real estate and continued debt buybacks. Debt buybacks, the hedging activities –

that's all what we would consider to be normal type of activity that could go into Corp/Other. The sale of the real estate gains, and that generated about $140 million of gains this quarter – so that's what I think you're really seeing as pumping up Corp/Other.

GRANT D'AVINO: All right. That's helpful. Thanks. And then just one more follow-up: looking at international consumer loan growth, it looks like trends are pretty good, ex-Korea, and just wondering sort of what your outlook was there?

JOHN GERSPACH: For international consumer or for Korea? I just want to make sure –

GRANT D'AVINO: For international consumer, more broadly.

JOHN GERSPACH: Yes, okay. Well, again, we think that the drivers that we have in that business continue to reflect pretty well on the strength of the franchise. So we would continue to expect to see both growth in deposits and average loans, and hopefully investment sales will continue. Obviously, investment sales are somewhat dependent upon the overall state of the markets. And as I mentioned, we've gotten – I think reasonable – in the current environment, reasonable growth, coming out of the retail banking piece of the franchise, where we had 3% revenue growth this quarter.

We need to get the cards franchise back contributing, and that's really more a matter of just being able to lap those regulatory changes and make sure then that we've really seen the abatement in the spread pressure that we've otherwise been facing, which is why we're more confident on the revenue growth of that franchise going into the second half of the year.

GRANT D'AVINO: All right, thank you.

JOHN GERSPACH: Not a problem.

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

STEVEN CHUBAK: Hi, good morning.

JOHN GERSPACH: Hi, Steven.

STEVEN CHUBAK: Hi. So, John, I had one quick question on capital. I was hoping you could give us some insight or incremental color on what contingency plans you might have in place if the Fed were to incorporate G-SIB surcharges in CCAR, just given that it could have a pretty meaningful impact on your return profile as well as your payout capacity.

JOHN GERSPACH: Yes, let me approach it this way. One, if that were to happen, it would impact the entire industry, not just us, so we'd really have to take a look at what the entire industry response is.

Secondly, it will depend upon what G-SIB surcharge they were to add to the CCAR requirements. I don't know how the G-SIB surcharge will be calculated. I guess we'll all find that out Monday, and that should be informative. If they give us the opportunity – if they come up with a G-SIB surcharge that we can actually manage and therefore take effective actions against, then certainly part of our action plan would be to really focus on managing down our G-SIB surcharge.

Thirdly, if they were to add the G-SIB surcharge into CCAR, I don't know what changes they might also make in the CCAR process itself. Don't forget, some of the things that they build into CCAR, such as the market shock, actually serves the purpose of putting more stress on the larger institutions already. So you would think that if they were going to put the pressure on the capital, then to be fair they might take some of the pressure off the CCAR calculations themselves. So there's a lot that is unknown about what may happen, and so contingency plans at this point in time are somewhat dependent upon the scenario in which we're ultimately dealing.

STEVEN CHUBAK: No, understood. I appreciate that color, John. And maybe it's one more nitpicky question on DTA. I did appreciate the color you'd given surrounding the AOCI impacts weighing on the pace of consumption, but just wanted to get a sense as to what drove the increase in the net operating losses, just given AOCI hits are typically a timing DTA issue and it did increase by north of $500 million, which is not immaterial.

JOHN GERSPACH: No, you're absolutely right. That roughly $500 million-plus increase that you see in the back of the investor deck during the second quarter was actually caused by a $900 million increase in state and local net operating losses that all resulted from audit settlements that we concluded during the quarter. So that influx of the state and local NOLs was partially offset by the utilization of roughly $500 million of FTCs in the quarter.

And the difference is it has to do with general business credits. But the NOLs that we added in as a result of the audit settlements have got a 20-year life on them. So we've got every confidence in the world that we're going to be able to generate use of those, of that $900 million of NOLs, and importantly, the FTCs that we're utilizing are the FTCs that will actually have near-term expiration dates in 2017 and 2018.

STEVEN CHUBAK: Okay. Thanks for clarifying that, John, and thanks for taking my questions.

JOHN GERSPACH: Not a problem, Steven.

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

BETSY GRASECK: Hi. Good morning.

JOHN GERSPACH: Hi, Betsy.

BETSY GRASECK: Just a follow-up question on the expense ratio and just a little bit of a different angle on asking about the consumer, where you indicated that for the near-term the expense ratio would rise as you're reinvesting in the business. I noticed you didn't change the overall company expense ratio, so just wanted to see if what you're saying is you've got other cost saves even further ahead of plan happening elsewhere in the organization that's funding this investment spend in consumer or you're saying, look, we see good payback, relatively good timeframe, and as a result we're just going to let this rise up a little bit as we're reinvesting and we'll get it back next year.

JOHN GERSPACH: Yes, I'd say it's some combination of all of that, Betsy. When we take a look at trying to manage Citi, overall Citi to an efficiency ratio, it's very much, as you say, we've got several things to look at. The performance of the ICG, which from an expense point of view, an efficiency ratio point of view this year has been quite good. We've got consumer, which has made great progress on its expenses, but with the performance of the ICG and the performance of other things that we see in some of the staff functions, we feel that we've got a little room, then, to let consumer end this – run this year at slightly higher efficiency ratios and still bring the full firm in at our overall target. And we think that letting consumer go a little bit higher in this year, especially because of some higher levels of marketing and investment spends, will actually then have much better payoffs in the future, exactly as you outlined.

BETSY GRASECK: And so when you're thinking about where you're putting your incremental dollar to work, is U.S. consumer the best place right now?

JOHN GERSPACH: Well, we're very, very focused on U.S. branded cards. We think that U.S. branded cards is an excellent business. And consumer overall we think gives us excellent returns. We obviously have a lot of things going on with Rainbow and whatnot, so you don't want to overload activity into any one area. But focusing specifically on branded cards, we think that there's good payback to be gotten from branded cards. As a matter of fact, with all the investment that we've made, in order to – I think that Jud and his team have done a great job as far as completely re-stacking the product offering that we have in U.S. branded cards – in order to get the maximum out of the work that they've done, we need to put a little bit more marketing dollars at work.

BETSY GRASECK: And then just lastly, on card, you indicated that you're likely to get back some of the NIM compression from the exits in part from portfolios like Costco, understanding that there's some other portfolios out there that could be of interest to you. Could you just give us a sense as to how you're thinking about what kind of financial hurdles and goals you have in mind when you're looking at portfolios for purchase?

JOHN GERSPACH: Well, we look at each portfolio standalone. We understand the targets that we're working towards. And it's not just a matter of looking at a portfolio and seeing, does it make economic sense. It has to be a portfolio that really fits in with the business. That's one of the reasons why Costco was so attractive to us just because of the incredible client strength that they bring and it meshes in very well with the client profile that we're looking at. So for us, Costco was a natural fit. Other portfolios may not have that same good client mix.

BETSY GRASECK: Okay. Thanks.

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

ERIKA NAJARIAN: Hi, Good morning.

JOHN GERSPACH: Good morning.

MIKE CORBAT: Morning.

ERIKA NAJARIAN: My question is on how your best-in-class capital ratios, particularly on leverage, is impacting your client conversations in markets? Do you get a sense that some of your competitors that have, for example, a much lower SLR and, therefore, have less balance sheet to give are being less aggressive with, in terms of competing in markets, or not really? Is competition really as fierce as ever and the leverage ratio differences aren't really making an impact?

MIKE CORBAT: Erika, it's Mike. I would say that competition is fierce. I'm not going to dismiss that, but we don't have some of those same constraints. And I would say we probably see it more pronounced in Europe, where the European banks by and large are constrained by their leverage ratios. And I think we've been able to consistently be in front of our clients and smartly trying to use our balance sheet with them, which obviously drives the ancillary revenues. So we have seen that and have tried to take advantage of that as an opportunity.

ERIKA NAJARIAN: Got it. And just a follow-up question: John, the way you sort of answered Steven's G-SIB question on the CCAR, I'm assuming also that until we get final rules on TLAC, we won't see you guys legging in any potential issuance ahead of having the rules finalized in the U.S.?

JOHN GERSPACH: No, we're continuing to do debt issuance, if that's your question. Obviously we've – as a matter fact, when you take a look at the amount of preferred and the amount of debt that we issued last quarter, I'd say it was quite substantial. We issued roughly – not roughly – we issued $2 billion of preferred, we did $3 billion of sub debt and we did $5.5 billion worth of senior debt. So we did $10.5 billion worth of issuance last quarter. Now, of course, we also bought some debt back, but overall we were a net issuer of $8 billion-plus worth of offerings.

ERIKA NAJARIAN: And based on your understanding of the proposals, could you give us a range on what your TLAC is at the end of the quarter, the TLAC ratio?

JOHN GERSPACH: Well, we'll give you more guidance on that next week when we do the fixed income call. But the numbers that I've seen would suggest that our TLAC ratio now has inched up a little bit over where it was last quarter. I think we're at 21.3% as of the end of June, but we'll firm up all those numbers for you when we do the fixed income call next week.

ERIKA NAJARIAN: Got it. Thanks so much.

JOHN GERSPACH: Not a problem.

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

MATT BURNELL: Good afternoon, gentlemen. Thanks for taking my calls – my questions. John, just a question on the U.S. branch system: that's down about 15% year-over-year. However, you've got sort of expense reductions, at least reported expense reductions down about 3% year-over-year. Is there more to go in terms of the U.S. branch count? Or are you pretty much done with that?

JOHN GERSPACH: I'd say, we're pretty much done. There is still probably some slimming that we could do as far as completing the focus of the branches on the seven focused cities. I think we're a little over 90% now of branches that are in our seven focused cities. So there could be some additional, but I think also importantly, there's probably some case to be made for opening up some additional outlets in some of those cities as well, just to make sure that we've actually got the proper coverage.

Now, I use the term "outlet" as opposed to "branch" because I'm not sure that, in the future, every outlet that we open will look like one of the branches that are out there today. It's much more likely that the branches of the future will be somewhat smaller, in line with the fact that many more of our customers are transacting with us by alternate means, using mobile banking and the Internet.

MATT BURNELL: And then for my follow-up, just a question on your comment in terms of investment banking taking market share. It sounded like you were taking more market share in North America, perhaps than – at least in this quarter, than you did outside the U.S. Is that also true in the markets business? Because a number of other banks this quarter have implied that they continue to get market share at least on the markets side of the equation outside the U.S. to a greater degree than they are getting it within the U.S.

JOHN GERSPACH: Yes, you take a look at market or wallet share on any individual quarter, we try to look more at market share in longer-term trends. We are continuing to add market and wallet share, especially against our focused clients in both investment banking, as well as with our markets business. And we see that as a strength of our franchise, but I can't tell you whether we actually took market share in a particular business during a quarter. I don't track it quarter-to-quarter. I tend to look at more trends on a trailing 12-month basis.

MATT BURNELL: Okay. And then just finally, the 26% increase in equity markets, if we exclude the valuation adjustment, how much of that was the result of improved activity in Asia?

JOHN GERSPACH: A very good piece of it stemmed from Asia. Asia was one of our – a primary engine for growth. I don't have the percentage in my head, but it was the primary driver.

MATT BURNELL: Great. Thanks very much, John.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Eric Wasserstrom with Guggenheim Securities. Please go ahead.

ERIC WASSERSTROM: Thanks very much. John, just a couple of clarification questions, please. One, I just want to make sure on the efficiency guidance for GCB, was that new guidance than what you'd previously stated?

JOHN GERSPACH: I believe it was.

ERIC WASSERSTROM: Okay. I'm sorry, could you just repeat that? I didn't quite –

JOHN GERSPACH: Previously, just to be clear, I believe that the – when I spoke last quarter, we would have said that we thought that GCB would end the year with or have an efficiency ratio for the full year near the top end of the range that we had set out, 49% to 52%. But with the – some of the incremental spend that we're looking to do, particularly in U.S. branded cards, that's going to knock that just slightly above. So that's why I wanted to make sure that you were aware of the fact that it's likely to end – have for the full year an efficiency ratio slightly above where I would have said it the last time.

ERIC WASSERSTROM: Okay, great. Thanks for clarifying that.

JOHN GERSPACH: Not a problem.

ERIC WASSERSTROM: And just on the debt repurchases and the debt issuance that you went through with Erika a moment ago, were those consistent with the plans for this year? Or is the plan different than the one that we talked about last quarter?

JOHN GERSPACH: No. It's consistent with the plan. I mean we may have pulled forward some of the issuance into the second quarter that we otherwise would have planned to do in the third quarter, but we're still on our plan and we'll have more to say about debt issuances on Tuesday.

ERIC WASSERSTROM: Sure. And the pull-forward presumably was because of rate and market opportunity?

JOHN GERSPACH: Yes, we had the opportunity to do some larger amounts than we otherwise would have, given on the heels of certainly the first quarter results that we had, and I think you've seen it kind of continues with the second quarter results, we found a favorable market for our debt, and we didn't want to disappoint any investors.

ERIC WASSERSTROM: Great. Thanks very much.

JOHN GERSPACH: Not a problem.

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

GERRARD CASSIDY: Thank you. Hi, John.

JOHN GERSPACH: Hi.

GERRARD CASSIDY: John, can you remind us, putting off to the side for a moment the possibility of G-SIB being included in CCAR, but can you remind us what the binding constraint on the capital ratio, which ratio you guys are looking at as that binding constraint?

JOHN GERSPACH: Right now, if the G-SIB surcharge comes in at the 400 basis points that we would currently estimate it to be, it's sort of running neck and neck between the CET1 ratio including the G-SIB surcharge and what we would look at as far as the CCAR requirements. And that is somewhat dependent upon the scenario that you might get out of CCAR, et cetera. But it's pretty much neck and neck, CET1 with G-SIB and CCAR.

GERRARD CASSIDY: Okay. Thank you. You've talked about growing the card business, and you've had success with acquisitions and now you're putting more muscle into growing that business organically. As you go on the offense from the defensive position you've been in in the past, are there other areas you guys are looking to grow possibly through acquisitions, separate from cards?

MIKE CORBAT: I would say that when we think of acquisitions, as John spoke earlier, it would need to be very much in strategy, and it would be probably much more biased towards portfolios rather than business acquisitions. So again, around our framework, fitting in business and having the right accretive attributes, we're wide open to portfolio purchases.

GERRARD CASSIDY: And then my final question, overall credit continues to improve for you folks and the industry, but I did notice that in the non-accrual area in corporate, North America sequentially had a jump in your non-accruals whereas Latin America you had a significant improvement. Could you give us some color on both of those line items?

JOHN GERSPACH: Yes, let's start with the Latin America line item. That really reflects an asset sale that we had done, so we actually exited a non-accrual loan during the quarter, so you see that reflected in bringing down the non-accrual loans in Latin America. And then as far as the increase in non-accrual loans in North America, that's largely driven by some additional classifications of non-accrual loans coming out of our energy portfolio.

GERRARD CASSIDY: And was that as a result of the Shared National Credit Exam, I assume? Or no, it was something separate?

JOHN GERSPACH: Well, it certainly is in connection with the Shared National Credit. We had decided to classify a good portion of those loans as non-accrual, and then what happens – so let's leave it like that. But again, so from an overall energy exposure point of view, our energy exposure actually declined during the quarter, as far as the exposure that we have to the producer type of client. Other than that, we added to the energy exposure in what we consider to be the more of the high-grade energy processors as far as our multinational clients. So we saw an overall increase in the energy exposure, but a decrease in the exposure that we have to the exploration type of client set.

GERRARD CASSIDY: Great. Thank you.

JOHN GERSPACH: Not a problem.

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

BRIAN KLEINHANZL: Great. Thank you. Yes, most of my questions have been answered. I just have one follow-up question related to the North America cards and the additional investment spend. When you think about it from a receivables point of view, when you have the additional investment spend, what are the expectations around receivable growth? Said differently, is that investment spend needed just to stabilize receivables, or are you expecting growth above and beyond what you have already? Because from 1Q to 2Q, you saw 8% growth annualized, so are you looking to get even further beyond that with this additional investment spend?

JOHN GERSPACH: I'm not quite sure about that 8% number that you referenced. That doesn't quite ring with me. But we would expect, then, that the incremental market – when you're thinking about cards, it is somewhat of a time sensitive process, and so when you spend marketing dollars, the first thing you're doing is you are acquiring accounts. Then you make those accounts active. Then those accounts get into spending, and then from that spending you end up growing receivables.

So marketing dollars spent today are likely to be growing receivables more in the 2017 range than early on in 2016. So it's not a case of you just add marketing dollars and you suddenly sprout receivables.

BRIAN KLEINHANZL: Great. Thank you.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of David Hilder with Drexel Hamilton. Please go ahead.

DAVID HILDER: Thanks very much. Just a quick question on the Citi Holdings assets: I think you said that Citi Holdings is now 6% of total assets, and it looks like from the footnote it's more like 13% of your risk-weighted assets, so it looks like the risk-weighted assets in Citi Holdings are not coming down as fast as total assets. Do you think that kind of relationship will continue, and is it related to any particular type of asset in Citi Holdings?

JOHN GERSPACH: Well, when you take a look at Citi Holdings in particular, as we got out of the riskiest assets in Citi Holdings early on, we were very focused on making sure that we got out of the most risky assets in Citi Holdings. That relationship between risk-weighted assets and GAAP assets in Citi Holdings has been steadily declining. So we've got now $116 billion worth of GAAP assets sitting there in Citi Holdings. The RAP assets, the risk-weighted assets, associated with Citi Holdings are at $169 billion.

So, David, we've been de-risking the Holdings portfolio all along, and so there isn't a big multiplier effect anymore associated with that Holdings asset. Within that $169 billion, $49 billion of the risk-weighted assets are there for operating risk. So it's really $120 billion worth of credit and market risk RWA associated with $116 billion worth of GAAP assets. So it's virtually a one-to-one relationship at this point in time between credit and market risk risk-weighted assets and GAAP assets.

DAVID HILDER: Great. Actually the reference or explanation on operating risk is actually quite helpful. Thanks very much.

JOHN GERSPACH: Very, very happy to help you.

OPERATOR: Your next question comes from the line of Marty Mosby with Vining Sparks. Please go ahead.

MARTY MOSBY: John, I was very curious in your comment, most of the banks are getting asked about SIFI and the inclusion into CCAR. The analysis that we had done, there was some talk about countercyclical buffers at the very beginning of this going into SIFI. If you look at the countercyclical buffer average for the money center banks, 2.5%, the credit losses in CCAR average 2.7%. If you look at the SIFI buffer average for the money center banks as it kind of looks right now, it's around 3%. And if you look at operational losses, it's actually 3.1%.

So your concept of, well, if they throw the overall SIFI buffer into CCAR, then they'd have to make some adjustment to operational losses – I think I just was going to ask you to kind of think about that and expand on that concept.

JOHN GERSPACH: Yes, I wasn't focused so much, Marty, on operational losses, but there are other aspects of CCAR, such as the market risk shock, that we all go along with. That market risk shock is really targeted against the major banks. And because of the way that that market risk shock actually impacts the banks, there's a doubling-up effect on PPNR reduction and market risk shock. It's something that is known by, I guess, CCAR aficionados. And so again, if there was going to be some add-on to the – I'm going to call it the denominator, the capital, I'm going to say hope, or my thought process would be, that we could explore some reduction then in some of the add-ons that go into generating the losses. But I agree with you, it wouldn't be operational risk. It's really just in the way that the CCAR calculations are done and the scenarios are constructed.

MARTY MOSBY: Just I'm saying that it would be coincidental that these buffers are almost equaling the losses in CCAR, and then when you look at the non-money center banks, they have very little operational loss at all and they don't have any SIFI buffers. So it's just the parallel calculations seem to be more than just trivial.

JOHN GERSPACH: Yes, maybe. I don't have any insight into how the Fed has come up with some of their models, but I'm sure they're quite good at it.

MARTY MOSBY: The last thing I was going to ask you is, and I appreciate the time, as you look at your tangible book value, without these extra charges because you've had a lot of that already reserved and who knows what's ahead, but let's just assume that less is ahead versus what we've seen in the past. Your ability to repurchase at or below tangible book value and the returns improving, growth this quarter annualized in tangible book value is about 8%. It just seems like that acceleration could continue into the future and just wanted to see your thoughts on that. Thanks.

JOHN GERSPACH: Well, we agree with you that we do think that over time we have the ability to grow tangible book. Obviously as I mentioned before, one of the items that you are always focused on with tangible book is the impact of rates on your AFS portfolio, and you've seen that there are times when that can play a heavy hand in dampening down that growth. But we do believe that if we can continue to perform, and we should the way we have been, we have the opportunity to continue to grow tangible book. It's one of the reasons why we think that continuing with stock repurchases is the right thing to do from a capital return point of view.

MARTY MOSBY: Thanks again.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question will come from the line of Christopher Wheeler with Atlantic Equities. Please go ahead.

CHRISTOPHER WHEELER: Yes. Good morning, gentlemen, and David Hilder set my question up very well, given he's an old colleague of mine, and that's to do with the rundown of Citi Holdings and how that impacts risk-weighted assets because you mentioned the $34 billion, which you have basically got baked in, and you just touched on the relationship between the GAAP assets and the RWA. So if we were to be looking at what is going to happen to the $1.279 billion of RWA you had fully-phased at the end of the second quarter, obviously I would imagine that a minimum would be $34 billion coming off that pro forma. And I suppose the question I'm asking is how much more might come off in respect to the uplift between the GAAP assets and RWA? And also perhaps how much you think you might use in actually growing the business during that period? Thank you.

JOHN GERSPACH: Thank you, Christopher. Let me try to parse through some of those questions. First, just to be clear, the assets that we've got under contract is $32 billion. I think I heard you say $34 billion.

CHRISTOPHER WHEELER: I think that's just me, I had too many bank results obviously in the last few days.

JOHN GERSPACH: Sorry, I don't mean to add to your numbers, but, I just wanted to make sure that you were focused on that $32 billion.

CHRISTOPHER WHEELER: Yes.

JOHN GERSPACH: The second is, is that as much as I said that overall there's virtually a one-to-one relationship between credit and market risk RWA and GAAP RWA; that obviously is not the same with each asset that we have, and included in that $32 billion worth of assets that I mentioned, of course, is the sale of our Japan retail bank. And our Japan retail bank would be one of those situations where the RWA associated with it would actually be much less than the GAAP assets. So I can't guide you to how much RWA is associated with the overall $32 billion, but I wouldn't immediately jump to the conclusion that the $32 billion is one-for-one reduction in RWA.

MIKE CORBAT: And, John, the piece I would add to that is from an expectation perspective, John mentioned the $49 billion of assets associated with operations. As assets come down, you can't simply release the ops RWA. It's going to take time to work through that. So you should expect to see as a percentage of Holdings RWA as we reduce assets that ops piece continuing to grow.

JOHN GERSPACH: Or stay the same.

MIKE CORBAT: Or stay the same, both as a percentage.

CHRISTOPHER WHEELER: Okay. Thank you very much. That's really helpful. Thank you.

JOHN GERSPACH: Not a problem.

OPERATOR: And at this time, there are no further questions.

SUSAN KENDALL: Great. Thank you all for joining us. If you have any follow-up questions, please feel free to follow up with Investor Relations. Thank you.

OPERATOR: Ladies and gentlemen, that concludes your conference for today. Thank you all for joining. You may now disconnect.