TRANSCRIPT

Citi First Quarter 2016 Earnings Review

Friday, April 15, 2016

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 First Quarter 2016 Earnings Review with Chief Executive Officer Mike Corbat and Chief Financial Officer John Gerspach. Today's call will be hosted by Susan Kendall, Head of Citi Investor Relations.

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

Ms. Kendall, you may begin.

SUSAN KENDALL: Thank you, Brent. 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 any 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 circumstance. Actual results and 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 2015 Form 10-K.

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

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

Earlier today, we reported earnings of $3.5 billion for the first quarter of 2016, or $1.10 per share. These results reflect a difficult macro environment which was more challenging than we anticipated when we entered the year.

That said, we continued to make progress in key areas. We grew loans and deposits in our core businesses, utilized deferred tax assets, generated and returned capital to our shareholders, and reduced our expenses, while absorbing a significant repositioning charge. In our institutional businesses, market-sensitive products clearly suffered from weak investor sentiment during the quarter. This primarily impacted our trading and investment banking revenues.

However, our accrual and transaction service businesses posted 7% year-on-year growth, consistent with recent quarters. These businesses are gaining market share, and now contribute almost half of our institutional revenues. Investor sentiment also impacted our consumer business, including wealth management, and especially in Asia. And while U.S. Branded Cards showed stronger performance across key indicators, both top- and bottom-line results remained lower, due to the investments we are making in that business.

Overall, credit trends remained very stable in our consumer portfolios as we continued to focus on our targeted segments. Our Global Consumer Bank is now entirely focused on our priority markets of the U.S., Mexico and Asia, and we see real paths for growing our franchise. We've been optimizing our footprint in terms of countries and branches to make sure we're allocating our resources to areas where they can generate the best returns.

In the last three years, we've exited or are in the process of exiting from 19 consumer markets. And in February, we announced we would sell our consumer businesses in Brazil, Argentina and Colombia, and focus solely on our growing institutional business in South America. During the quarter, we also reduced our branch footprint by 82, while increasing our average deposits in our nearly 2,700 branches globally.

We also took a repositioning charge in the quarter. The repositioning is part of our effort to make sure Citi is appropriately sized and structured for the current environment. We've identified opportunities for greater efficiencies in our regional models, including additional de-layering and shifting staff to our service centers, which now host more than half of our people. That will drive an additional reduction of headcount, which was down 3% during the quarter to 225,000 – almost 40,000 fewer than when I became CEO.

We also drove another significant reduction of assets in Citi Holdings, which were down 10% from the end of last year, and down 44% from one year ago. For the seventh quarter in a row, Holdings was profitable. And while our work isn't done, with Holdings assets now accounting for just 4% of our balance sheet, we won't report Holdings separately after this year. I think being able to do this is a testament to the excellent work of the Holdings team, which we expect to remain intact and continue to unwind the remaining assets. The wind-down of Citi Holdings is a significant milestone for our institution, and has been a longtime goal. We said we would take Citi Holdings to a point where its assets weren't meaningful enough to merit separate reporting, and that's what we're doing.

Another area we've focused on is shrinking our deferred tax assets. In the first quarter, we utilized an additional $1.6 billion in DTAs, which contributed to a net increase of $6 billion in regulatory capital and our CET1 ratio increasing to 12.3%. We continued to return capital to our shareholders, repurchasing 31 million common shares during the quarter, bringing the net reduction of outstanding shares to just under 100 million over the last four quarters. Our tangible book value per share increased almost $2 to $62.58 in the quarter.

We continue to make progress in our efforts to be a safer and stronger institution, and earlier this week, we learned that neither the Fed nor the FDIC found any deficiencies in our 2015 resolution plan. And last week, we submitted our capital plan to the Federal Reserve. We believe that the combination of an even stronger capital position and the improvements we've made in our capital planning process, as well as in our risk management, compliance and control functions, have allowed us to make a strong submission.

While 2016 didn't get off to the start we hoped for, the environment stabilized in the second half of the quarter. Volatility decreased as some of the more pessimistic scenarios failed to materialize. However, the outlook is still rife with risk, from political elections to interest rates.

I think as we've shown in this quarter, we can manage through challenging times. We think we have – where we have too much capacity, we will reduce it, while still serving our clients. If we think certain sectors are showing signs of weakness, we'll manage our exposures even more tightly.

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

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

Starting on slide 3, we highlight the impact of CVA/DVA on our prior-period results. Beginning this quarter, we adopted FASB's new accounting standard on the reporting of DVA, or debt valuation adjustments. Under the new rule, changes in DVA that relate to Citi's own credit spreads are no longer recognized in earnings, but instead are reflected in OCI. So, we no longer need to adjust our reported revenues and net income to exclude this item. Going forward, therefore, we will speak to reported results in our earnings presentation, which should be largely comparable to the historical results excluding CVA/DVA.

On slide 4 we show total Citigroup results. In the first quarter, we earned $3.5 billion. Revenues of $17.6 billion declined 11% from last year, mostly driven by lower industry-wide activity in markets and investment banking, a continued wind-down of Citi Holdings and the impact of FX translation. In constant dollars, revenues were down 9%, including a 6% decline in our core Citicorp businesses.

Expenses decreased 3% year-over-year, driven by the wind down of Citi Holdings, lower legal expenses and a benefit from FX translation – partially offset by higher repositioning costs and ongoing investments in the franchise. And net credit losses continued to improve, offset by a loan loss reserve build this quarter compared to a net release in the prior year.

In constant dollars, Citigroup end-of-period loans grew 1% year-over-year to $619 billion, as 5% growth in Citicorp was partially offset by the continued wind-down of Citi Holdings. And deposits grew 5% to $935 billion.

On slide 5, we show the split between Citicorp and Citi Holdings. Citicorp revenues of $16.1 billion were down 9% from last year on a reported basis. In constant dollars, as I mentioned, revenues were down 6% from last year, mostly driven by capital markets-related businesses – fixed income, equities, investment banking and Asia wealth management – as well as the impact of our continued investments in U.S. Branded Cards.

Citicorp expenses increased 2%, reflecting the higher repositioning charges and ongoing investments in our franchise, partially offset by efficiency savings and a benefit from FX translation. And cost of credit grew 29% from the first quarter of last year, almost entirely driven by the energy sector. Otherwise, credit quality remained favorable.

In ICG, we saw very little net cost of credit outside of energy this quarter. And in consumer, our NCL and delinquency rates both continued to improve, although we are not benefiting from reserve releases as we had in the prior year.

Citi Holdings contributed pretax earnings of $477 million this quarter, mostly driven by gains on asset sales. For the remainder of the year, we expect Citi Holdings to be closer to breakeven. We reduced Citi Holdings' assets by $8 billion this quarter, ending the period with $73 billion of assets or just 4% of total Citigroup, with signed agreements in place to sell $10 billion of this remaining amount. And as Mike noted earlier, 2016 is the last year we will report Citi Holdings as a separate segment.

Turning now to each business. On slide 6, we show results for international Consumer Banking in constant dollars. In total, international Consumer Banking revenues declined 2% year-over-year.

In Latin America Consumer, which is now comprised solely of our Mexico franchise, revenues grew 2% as growth in retail banking continued to be partially offset by pressure in cards. We saw good momentum in retail banking drivers, including 11% growth in average deposits and 9% growth in average retail loans. However, card balances remained under pressure in Mexico as continued growth in purchase sales was offset by higher payment rates, reflecting our focus on higher credit quality segments of the market.

Turning to Asia, Consumer revenues declined 4% year-over-year, driven by weak investment sales revenues, as well as continued but abating regulatory pressures in cards. Outside of wealth management, retail banking revenues continued to grow year-over-year. And in cards, we believe we are through the most significant regulatory headwinds, which I'll discuss more in a moment.

In total, average international loans grew 1% from last year. Card purchase sales grew 4% and average deposits grew 5%. Operating expenses grew 4%, driven by higher repositioning charges and an increase in technology investments, primarily in Mexico, while core expenses in Asia were roughly flat.

And finally, total international Consumer credit costs increased 7% from last year, reflecting the impact of reserve releases in the prior period. Net credit losses declined, and the NCL rate improved to 1.6%.

On slide 7, we show Asia Consumer in more detail. The first quarter is historically a strong period for wealth management in Asia, with higher transaction activity driving strong investment sales revenues.

Given weak investor sentiment during the quarter, we didn't see the typical rebound in transaction activity, and therefore, our wealth management revenues declined significantly from last year. However, we have seen consistent net inflows in our assets under management, as you can see on the slide, with the declining year-over-year trend in AUMs driven by the impact of lower equity market values. Therefore, we remain well-positioned to serve these clients as market confidence improves in the future.

Turning to cards, card purchase sales have slowed in the current environment, but payment rates have stabilized, and as a result, our average card loans have continued to grow. As we begin to cycle past the most significant regulatory headwinds, this loan growth is starting to have a positive impact on revenues. So while card revenues still declined year-over-year, the trends continued to improve, and we believe we are on a path to achieve revenue growth in cards by the second half of the year. And credit trends remain favorable across the entire consumer business in Asia.

Slide 8 shows the results for North America Consumer Banking. Total revenues declined 4% year-over-year. Retail banking revenues of $1.3 billion were roughly flat, excluding $110 million gain on the sale of our Texas branches last year, as continued growth in loans and deposit spreads was offset by lower mortgage gain on sale revenues.

In Branded Cards, revenues of $1.9 billion were down 6% from last year, driven by higher acquisition and rewards costs, as we have continued to ramp up new account acquisitions in our core products. I'll talk more about Branded Cards in a moment, but we continue to feel good about the investments we are making. And in fact, we saw year-over-year growth in our average loans this quarter for the first time since 2008.

Turning to retail services, revenues of $1.7 billion increased 3% from last year, mostly reflecting gains on the sale of two small portfolios. Even including the impact of these asset sales, average loans were flat year-over-year, and purchase sales increased 2%.

Total expenses of $2.5 billion in North America increased 7%, driven by higher repositioning costs and marketing investments, partially offset by efficiency savings, as we continued to capture scale benefits in cards and rationalize our branch footprint. As previously announced, we exited over 50 branches this quarter as we continue to concentrate on our key markets and adapt to a significant shift in customer behavior to digital channels.

And finally, credit costs in North America increased 17% from last year, driven by a reserve build of approximately $80 million this quarter in our commercial portfolio related to energy credits. Our energy exposure in the commercial business is significantly smaller than the corporate portfolio we report in the ICG. On a global basis, we have energy exposure of $2.1 billion in the commercial business, with $1.4 billion funded, 90% of which is in North America. The credits are mostly in the E&P and services and drilling segments, and are predominantly non-investment grade. We have no exposure in the commercial portfolio to junior or second-lien positions, and our funded reserve ratio is roughly 9%. We provide more details on this portfolio in the appendix to our earnings presentation.

On slide 9, we show some key performance indicators for North America Branded Cards, including year-over-year growth in average active accounts, average card loans and purchase sales for our total portfolio. In the second half of last year, we began to ramp up new account acquisitions in our core products, and these investments are beginning to have a significant impact.

Growth in average active accounts and purchase sales began to accelerate late last year, and these trends are now driving total loan growth as well, even as our legacy portfolios continue to shrink. Card revenues were still down year-over-year this quarter, but we believe we can return to growth sometime in the latter part of 2016, not including the benefit of acquiring the Costco portfolio.

Slide 10 shows our global consumer credit trends in more detail. Credit remained broadly favorable again this quarter, with stable to improving NCL and delinquency rates in every region.

So as we look at our consumer franchise globally, there were a few things to highlight on slide 11. First is the impact of the current environment on market-sensitive businesses – including wealth management, as well as mortgage – which together drove our year-over-year decline in revenues of nearly $150 million. Second is our continued investment in U.S. cards, which is putting pressure on revenues today, but is also starting to drive real underlying performance improvement. And third is the impact of regulatory changes in our business, particularly in Asia, which we believe is abating.

When you pull back these drivers, you can see we are achieving growth, although muted, driven by overall growth in personal loans, card volumes and deposits. And we've achieved this growth with very little change in our core expenses. In fact, year-over-year, the entire increase in our consumer operating expenses was driven by the combination of investments and higher repositioning costs.

As we move forward, we believe we are making the right investments to grow the higher-return markets and products in our franchise, and that as these investments mature and we cycle past the remaining regulatory headwinds, we will be well-positioned to drive higher returns to something in the range of 20% RoTCE in a more normal rate environment.

Turning now to the Institutional Clients Group on slide 12. Revenues of $8.0 billion in the first quarter declined 12% from last year, driven by market-sensitive businesses – fixed income, equities and investment banking. Total banking revenues of $4.0 billion, excluding the impact of loan hedges, declined 6%. Treasury and Trade Solutions revenues of $2.0 billion grew 8% from last year in constant dollars, driven by continued growth in transaction volumes with new and existing clients, as well as improved deposit spreads.

Investment banking revenues of $875 million were down 27% from last year, driven by an industry-wide slowdown in activity levels, as well as our strong performance in M&A the prior year. Private bank revenues of $746 million grew 5% year-over-year, driven by higher loan and deposit balances. And corporate lending revenues of $455 million were down 4% on a reported basis. In constant dollars, lending revenues declined 2% from last year, as higher volumes were more than offset by the impact of positive fair value marks in the prior period.

Total Markets and Securities Services revenues of $4.1 billion declined 15% from last year. Fixed income revenues of $3.1 billion were down 11% from last year. Rates and currencies grew 5% year-over-year, with particular strength in March, as market conditions improved versus the start of the year. However, this growth was more than offset by lower activity levels and a less favorable environment in both securitized products and commodities.

Equities revenues declined 19%, reflecting impact of lower volumes in cash equities, as well as weaker performance in derivatives. In securities services, revenues grew 3%, reflecting a modest gain on the sale of our private equity fund services business. And Other included a charge of approximately $180 million, reflecting the write-down of virtually all of our investment in Venezuela as a result of changes in the exchange rate.

Total operating expenses of $4.9 billion were up 5% year-over-year, driven by higher legal and repositioning costs. Core expenses were down 1%, as higher regulatory and compliance costs and investments were more than offset by lower compensation expense and the impact of FX translation. On a trailing 12-month basis, excluding the impact of severance, our comp ratio remained at 27%.

Total credit costs of $390 million were down from the fourth quarter, but up significantly from last year. Nearly all of the ICG credit costs this quarter were related to energy. We built roughly $260 million of additional reserves, and recognized losses of roughly $115 million in the energy sector. The reserve builds were concentrated in the E&P and services and drilling segments, driven by ratings migration due to sustained low oil prices, as well as the impact of regulatory guidance.

At quarter-end, our total energy exposure in ICG was $57 billion, of which approximately $22 billion was funded. The funded reserve ratio was 4.2%, including a funded reserve ratio of over 10% on the non-investment grade portion. We have very little second-lien exposure in the corporate portfolio, with $85 million of total exposure and reserves against roughly a third of this amount. We provide more details on the corporate portfolio, as well as the nature of our unfunded exposures, in the appendix to our earnings presentation.

As we look at the potential for additional energy and non-energy provisions for the rest of 2016, if oil prices were in the range of around $30 per barrel, we now estimate our full-year ICG cost of credit would be roughly $1.4 billion. Now, this is higher than our previous estimate of roughly $1 billion, with about two-thirds of the increase related to the potential impact of regulatory guidance, and the remainder reflecting our revised view on the portfolio.

If you look across both the commercial and corporate portfolios, our total exposure to reserve-based lending in North America is roughly $4 billion, of which $2 billion is funded. And we have a 9% funded reserve ratio against these loans. We estimate that our total RBL exposure could be reduced by roughly $500 million as a result of the upcoming spring re-determinations. And year-to-date, we have seen no material drawdowns against these facilities.

Turning back to ICG, we saw a significant increase in corporate non-accrual loans this quarter, up by $730 million sequentially, with roughly $500 million related to energy and $90 million related to metals and mining. Our total metals and mining exposure was $13 billion at the end of the first quarter, with roughly $5 billion funded, and we did not incur any cost of credit on the portfolio in the first quarter.

The increase in non-accrual loans in metals and mining, as well as other sectors outside of energy, did not result in a material cost of credit, as we have significant collateral against many of the loans. Nearly two-thirds of both the total additions as well as the energy-related additions to non-accrual loans this quarter remain performing.

On slide 13, we show the year-over-year EBT walks for ICG, highlighting several themes. First, despite the challenging market conditions this quarter, we continued to see growth in several of our accrual and transaction services businesses, including Treasury and Trade Solutions, private bank and securities services. The market environment had the biggest impact on fixed income, equities and investment banking, which together were down 16% year-over-year. To offset these pressures, we continue to actively address our structure, reducing capacity in areas where revenues are likely to remain muted, while preserving our client-facing capabilities. And these actions drove much of the repositioning charge in ICG this quarter. The remaining EBT drivers were the write-down of our investment in Venezuela, mark-to-market losses on loan hedges driven by spread movements, and of course, the higher credit costs in energy.

Turning to the next slide, as I noted, we saw continued growth this quarter in many of our ICG businesses. Together, TTS, corporate lending, private bank and securities services account for nearly half of total ICG revenues. And they grew 7% year-over-year this quarter in constant dollars. This growth trend has been consistent over time, as we have deepened our relationships with our target clients and gained market share, particularly as some peers have retrenched and reduced their global presence.

Our strategy, focused on providing integrated solutions to a targeted set of clients on a global basis, is clearly yielding positive results. It does not mean that we will be immune to revenue swings in more market-sensitive businesses, like markets and investment banking, but our mix of traditional banking and transaction services does provide a stable, growing base of revenues in more efficient, higher-return businesses. Where we believe revenues are likely to remain muted, we are taking appropriate measures to optimize our capacity, without diminishing our client capabilities.

And we are remaining disciplined on credit. So while we will not be immune to credit cycles, we strongly believe that our focus on larger multi-national clients should result in better performance through a cycle. All of these reasons are why we are still confident that our ICG business is capable of producing an RoTCE in the range of 14% in a more normal environment.

Slide 15 showed results for Corporate/Other. Revenues increased year-over-year, mostly reflecting higher investment income. And expenses were down, mainly reflecting lower legal and related costs.

On slide 16, 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 consistent growth year-over-year in Citicorp, while Citi Holdings has continued to shrink. Our net interest margin was 292 basis points this quarter, flat to the fourth quarter, as the sale of OneMain was fully offset by the impact of higher rates.

Our NIM should be fairly stable at this level in the second quarter as we continue to offset the impact of the wind-down of Citi Holdings with improvements in the core franchise. And we expect the acquisition of the Costco portfolio to provide a benefit of about 3 basis points, resulting in a NIM of roughly 295 basis points in the second half of the year.

On slide 17, we show our key regulatory capital metrics on a fully implemented basis. During the quarter, our CET1 capital ratio increased to 12.3%, driven by net income, OCI movements and approximately $1.6 billion of DTA utilization, partially offset by $1.5 billion of common share buybacks and dividends. Our supplementary leverage ratio improved to 7.4%. And our tangible book value per share grew by 9% year-over-year to $62.58.

Before we turn it over to questions I'd like to make a few comments regarding our expectations for full year 2016. Clearly, this year started with a more challenging environment than we had anticipated, resulting in lower revenues and a higher operating efficiency ratio than we had planned, even before the pull-forward of certain repositioning actions into the quarter. While the expense saves resulting from these repositioning actions will help offset some of this pressure, we still expect our full year operating efficiency ratio to be higher than we had anticipated – in the range of around 58%.

This outlook assumes that equity and fixed income market revenues will be roughly flat sequentially in the second quarter, and then exhibit a normal seasonal decline into the third and fourth quarters. We believe investment banking revenues should recover from first-quarter levels if the environment is favorable, based on the significant backlog of deals we have pending with our clients. And we should be able to continue growing the accrual and transaction services businesses year-over-year in ICG, as I described earlier.

On the consumer side, we continue to believe we can achieve year-over-year revenue growth in our existing U.S. Branded Cards and Asia cards businesses in the latter half of 2016. And of course, we will benefit from the acquisition of the Costco portfolio in June.

Turning to the Citicorp expenses, there are a few things to consider. First, we believe that regulatory and compliance costs have started to plateau and we expect the repositioning actions we took in the first quarter to pay back with roughly $400 million of total savings during the remainder of the year. So even though we expect to incur significant additional expenses related to Costco in the second half, we believe our core operating expenses in Citicorp can remain roughly flat sequentially going into the second quarter, and then decline somewhat thereafter.

Repositioning costs should be significantly lower for the remainder of the year. And in total, legal and repositioning costs should run in the range of about 225 basis points of Citicorp revenues this year, higher than our original estimate of 200 basis points, again due to the low revenue assumptions.

While this quarter's results were disappointing, we believe we are taking the right actions to address our cost base, while at the same time continuing to invest in those areas where we have a competitive advantage and can achieve strong returns over time. We continued to demonstrate strong capital generation this quarter, and we remain highly focused on resource allocation across the franchise.

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

QUESTION AND ANSWER

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

JIM MITCHELL: Hey, good morning.

JOHN GERSPACH: Hi, Jim.

JIM MITCHELL: Hi, John. A question on energy. I appreciate the update, but that's at $30 oil; we're at $40 now. Obviously that can move. But do you think that if we stay above $40, that the pressure would be a little less? Should we think – but how do we frame oil prices, if they remain higher?

JOHN GERSPACH: Yes, I think a little bit of that is going to be determined based upon where its sentiment plays out. So clearly, when we set up this guidance figure – and what we're looking at is the expectation of, let's say, oil at a band of $30 to $35. If oil consistently stays above $40, and especially on a forward curve, you see continued price increases, then yes, the credit cost that I quoted should be somewhat less.

JIM MITCHELL: Okay, but not dramatically so? It (multiple speakers) be materially higher?

JOHN GERSPACH: They will be somewhat less.

JIM MITCHELL: Right. Fair enough. And just maybe a follow-up on the Costco acquisition. Appreciate the color on expenses. Should we expect that overall, with all of the puts and takes, to be – I think you initially were hoping would be modestly accretive. Is that still the expectation?

JOHN GERSPACH: Very modestly accretive. That's to net income. It's really going to be roughly flat, Jim. That's, I think, the best way to think about it. Will it generate a buck or two of net income? Yes, but really the way to think about it is, flat.

JIM MITCHELL: Okay, that's great. Thanks.

JOHN GERSPACH: Okay.

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

GLENN SCHORR: Hi, thanks a lot.

JOHN GERSPACH: Hey, Glenn.

GLENN SCHORR: I just want to make sure I got all of the moving parts – and I appreciate all of the guidance. I think it's fair to assume we aren't going to model loan hedges, the hit that you took this quarter, the write-down in Venezuela that happened this quarter. It sounds like with your new guidance, energy reserving could stay about this level, given your past comments with Jim's question. So the big deltas from here over the next couple quarters would be if trading gets better and your comment about legal and repositioning being a lot lower? Did I get all of the big moving pieces right?

JOHN GERSPACH: Yes, I'd also – don't forget, we do believe that in the second half of the year, we are going to get year-over-year revenue growth coming out of the U.S. Branded Cards business as well as the Asia cards business. One, as we see those investments begin to really kick in on the final piece of the puzzle. We've gotten the account acquisition; now we're seeing the receivable balances build, so that revenue growth now should be clearly visible in the latter part of 2016.

And in Asia – again, credit cards – we believe that we're working our way through the last of the regulatory pressure, and therefore, we should get growth out of that business. But yes, I'd say it's those things, and then the continued growth of the accrual businesses in ICG, and the big wild card is going to be what happens with market sentiment.

GLENN SCHORR: Yes. And then if we could drill down on the comments about markets, obviously January and February had a lot thrown at it, and we all saw the weakness. Your comments for flattish markets revenues in the second quarter – I think a lot of us were thinking, like, it's not great, but it's better than where we were in January and February. And I'm curious if there's more behind that conservatism besides just that we aren't far out of the woods just yet?

JOHN GERSPACH: Well, I'd say that March was clearly better than January and February, and April is kind of following along March's path. But I wouldn't call either March or early April robust. It's good, it's better than it was in January and February, but it's still not a robust market. So maybe I'm being a bit cautious, but I'd rather be a little cautious and plan that way than tell you everything is bounding back and it's all going to be a great and glorious second quarter.

GLENN SCHORR: Fair enough. Last little one is, the proxy came out, and I was curious to see the elimination of the ROA target in the LTIP, and go all-in on total stockholder return. I think shareholders would like that piece. But I'm curious on what brought the change?

MIKE CORBAT: Glenn, it's Mike. Your last comment – shareholders would like what?

GLENN SCHORR: The fact that 100% of management's long-term incentive plan is now driven by total shareholder return. But I was curious on why the drop of the ROA component of it?

MIKE CORBAT: Well, as John referenced in his comments, we're not walking away from targets and the disciplines in the firm haven't changed. So John laid out the path of getting to 57% for the remaining three quarters, bringing us in somewhere around 58% in a reasonable environment for the year. The firm is still ROA-focused in all those, but realistically, we thought we would be transitioning here to much more of a return on equity set of targets. John spoke about some of the targets that we're putting into the businesses. And at the end of the day, really, what you're looking at is the pathway to how we can get our firm to getting to the returns that you want and expect. And so maybe we were overly simplistic in the plan this year, really, just focusing on that. Again, these plans are year-to-year. We'll continue to take feedback, and if that feedback is consistent out there, we'll think of those things as we go into the future.

GLENN SCHORR: Okay, appreciate that, thanks.

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

BRENNAN HAWKEN: Good morning. Thanks for taking the question.

JOHN GERSPACH: Hey, Brennan.

BRENNAN HAWKEN: So just a quick one on the return on tangible outlook that you gave for both GCB and ICG. So the 20% GCB – I think you indicated a normal rate environment. Could you maybe give us some color around what normal is, John? And then in ICG, it was a bit more broad on normal. So if you could maybe just help us understand what you mean by normal in ICG too?

JOHN GERSPACH: Well, I'd say that we think in terms of what we would consider to be a normal environment. I'd say you'd start with certainly having a U.S. GDP growth of something closer to 3% than the 2% that we are now looking at. And you certainly would have a higher GDP growth than coming out of the emerging markets. You'd expect market sentiment, a little less volatility, less fear, driving improvements in markets as well as investment banking activity. And none of that was clearly visible in the first quarter. And I'd say a more conducive rate environment with, let's just say, a Fed funds rate of about 200 basis points or so higher than where it is today. I think that would be a good start, as far as trying to define a more normal environment. And I don't think that's the beyond the realm of possibility.

BRENNAN HAWKEN: Okay, great. Thanks for helping us frame that. And then next one – not sure what you can say, but you guys got a very, very favorable living will outcome here this week, and some investors have pointed to the fact that you highlighted a commitment to increasing capital returns in your deck upfront. And while certainly that's not a new goal for you, thinking about CCAR right around the corner, is there anything that you can add on those fronts and on the regulatory front, and how those discussions are going?

MIKE CORBAT: Well, I think the result we got in terms of the resolution planning was one where the whole firm came together to submit the plan, and we were obviously very pleased with the outcome. And in many ways, it's the same way we've refocused the firm around our CCAR submissions. It's what we really tried to build into the fabric of the place.

So our investments that we've put forward, we think, on the qualitative side, hopefully will show themselves. And again, in this kind of environment, we've been producing lots of capital, and we know we've got to be in the position for meaningful capital return, and we want to be on that path. So we think that the submission we put in on CCAR was a strong one, and we'll see in June the results.

BRENNAN HAWKEN: Great. A self-imposed two-question limit. Thanks for the color.

JOHN GERSPACH: Thanks, Brennan.

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

MIKE MAYO: Hi. You highlighted your progress, which is good. Reducing headcount, branches, consumer markets, Holdings, expenses and DTAs. But the tangible ROE is still only 7%. Now, you did say that the results were disappointing and that you'll get better returns with a, quote, more normal environment. But from my standpoint, having covered the company for a long time, the market's not buying it. The stock is at 72% of tangible book value, looks like this year will be the tenth in a row with returns below the cost of capital, and note some large U.S. peers manage to have much higher returns.

So the question is, why not do more? So the tactical question, which, I think it's an easy one – the efficiency ratio this quarter was 60%, you're guiding this year for 58% - that implies the next three quarters should be much better than 60%. If you could just clarify why that's the case.

And the tougher one is the strategic question – can't you accelerate restructuring more than what you've already done? You highlighted what you've done, but with the stock at 72% of tangible book value, you should be selling the silverware in the dining rooms, or the paper clips in the desk, or the desk chairs, or the whole desk, to free up capital to buy back stock here.

And the one area in particular – I know, we brought it up before – but why not sell Banamex? Why not sell the Mexican bank, monetize that gain, use the DTAs to avoid paying taxes, avoid integrating it for Project Rainbow, and use the proceeds to buy back stock? What else can you do? And can you give us a sense of additional urgency? Because with a 7% ROE and 72% of tangible book value of the stock price, it seems like you guys should be doing more.

JOHN GERSPACH: Well, I'm glad Brennan had a two-question limit. Let's see, where to start? Mike, maybe I'll –

MIKE CORBAT: You go, and then I'll jump in.

JOHN GERSPACH: So let's talk about efficiency ratio. So the comments that we made on the 58%, what we said is that the expectation would be that the repositioning actions that we took this quarter should begin to drive down expenses in the second half. And I think if you followed the revenue guidance that we gave, Mike, and the expense guidance that we gave, that should get you to a point of about a 57% efficiency ratio for the balance of the year.

That had been our guidance for the full year. Tough to recover from the first quarter that we had, but we felt that it was important to get the balance of the year back on the target that we had originally set. And we think that, again, with the outlook that we've put forward, by and large, we're there. So that's on the efficiency aspect of it.

As far as how we improve the returns and everything, one of the things that you need to focus on is the fact that we do have $29 billion of capital, tangible common equity, tied up in DTA. It's hard for us – matter of fact, impossible for us, to get a return on that capital. What we do in the back of the deck is, we do show you that, adjusting for that DTA capital, even our current business over the last four quarters, in the environment that it is – whether you look at Citicorp or Citi Holdings, were generating a 10% return on the capital, excluding that capital tied up in DTA.

That's not making an excuse. It's just showing you where we have the issue. Which means that we're really focused on driving down DTA, utilizing the DTA, which should add to the capital strength. And which should then give us the ability, over time, to return more capital to our shareholders. So that is definitely consistent with what we have been talking about.

There's another element. We'll continue to drive down Citi Holdings. We've driven it down to where it's now at the level that it is. We've got still more assets to do. That's capital tied up in Citi Holdings that is not really earning an adequate return. We'll free that capital up, we'll return that capital to the shareholders. So those are elements of the path forward.

And then the final is, as we put out, we still believe our consumer business is capable of generating a 20% RoTCE in a normal environment, and the ICG, a 14%. In consumer, we told you where we're focused. We're focused on cards and wealth management. We think that, that's the right path forward; we think that's the right way to grow revenue; we think that those are both good efficiency and high-return businesses. We've got a focus on moving more of our account acquisition to digital channels that will really benefit the efficiency ratio as well.

In the ICG, we've got a nice base going in those accrual and transaction services business, 7% compound annual growth rate, even in the somewhat challenging environment we've all been operating in, in last two years. Investment banking, we feel really good about the franchise. It's a bad quarter. There wasn't much deal volume. But we've got a very high backlog in investment banking, and that's why we feel that those revenues should improve in the balance of the year.

When it comes to our fixed income franchise, I don't think anybody can top our rates and currencies franchise. Even in this environment, rates and currencies, revenue's up 5% year-over-year, and those are good performing businesses. I think our rates business really outperformed, because basically, foreign exchange was somewhat flat year-over-year. Our real outperformance was in rates. We've got a great franchise in rates, and our customers recognize that. We've got some work to do as far as adjusting capacity and spread products; we're taking care of that.

And finally, we are continuing to make investments in equities. Equities should help us over time. It did not help us in this quarter. But that's the path forward, Mike. We don't think it's the time to start selling the furniture. Mike, I don't know if you've got a comment.

MIKE CORBAT: I'll just close it with a conversation on Mexico, because you specifically mentioned Mexico. Mexico for us is an important franchise. And as John talks about the pathway to a 20% return in the consumer businesses, Mexico plays an important role in there. And when we look at the business, in every sense of the word, it's accretive to the company and to its shareholders. Second piece around it is, as we look at the growth prospects for Mexico and where we think Mexico's economy is headed, we like what we see, and Banamex plays an important role in the Mexican economy around that.

Third and final piece is, is if we were to take some type of action against Banamex, based on capital planning and submission processes, you actually don't know how much of that capital would actually be liberated or entitled to go back to investors. So it's a good business, it's a growing business, we think it's a strategically important business. And simply selling the furniture to liberate some capital here, we don't think is the right long-term or intermediate-term decision.

MIKE MAYO: All right, thank you.

OPERATOR: Your next question likes from Gerard Cassidy with RBC. Please go ahead.

GERARD CASSIDY: Thank you. Good morning, John.

JOHN GERSPACH: Hey, Gerard.

GERARD CASSIDY: Question. You touched on, a couple of times, your backlog in investment banking. Can you give us a little more color? Is it more North America, or is it Asia? And then the second – how does it compare to the end of December? Has the backlog picked up from there, or is it about the same?

MIKE CORBAT: Backlog is up. We've probably got one of the best backlogs we've had in several years. And if you think of the markets, and just to put it in context, yesterday was April 14, and realistically, that was the opening of the IPO market here in the U.S. So as you could imagine, there's a fair number of things to do. And so when you think about M&A, when you think about the equity calendar, if we can get some kind of reasonable environment, I think you could see a lot of transactions coming through the pipe there.

From our own perspective, I think there's good balance around the globe, U.S., Europe, Asia, in terms of the backlog. So again, if we can get any kind of reasonable environment, we think we're going to be quite active.

GERARD CASSIDY: Great. And then in terms of what's going on in the UK with Britain thinking of leaving the EU, can you guys frame out, if that happens, what the risks could be to Citigroup?

MIKE CORBAT: Yes, well, from a Citi perspective, but more importantly from a Citi client perspective, we think that the EU staying together as it is, is the best outcome. But we'll leave that to the UK voters to decide. From our own perspective, as probably you know, we operate in most of the 28 EU countries, and so we have a lot of flexibility in terms of what we could do. We run a significant bank out of Ireland, we have trading, we've got people in a number of the countries. So we would have options in terms of where we would choose to headquarter a European trading business or where we would put. But clearly, around the

UK, we would still have significant resources there. So we've got contingency planning, but we've got a lot of potential options if that's the path it goes down.

GERARD CASSIDY: Great. And then just one last question on credit. I know you've given us good detail on energy. In the non-energy area, there was some deterioration in credit. Granted, it wasn't as significant as energy. What type of industries was that deterioration in?

JOHN GERSPACH: I mentioned the fact that some of the non-accrual loan adds were in metals and mining, and the rest were small bits in other industries. No particular concentration, and no particular geographic that I'm aware of. So it was just spread around.

GERARD CASSIDY: Okay, good. And actually, continuing that, you had nice improvement in charge-offs in Consumer, outside the United States. Do you expect that to continue, especially in Asia and Latin America?

JOHN GERSPACH: Well, we don't see it getting any worse. As we look at the delinquency statistics, it's running pretty well. You have a total NCL rate outside the U.S. of 1.6%. That's probably close to 70 basis points lower than the loss rate that we have in the U.S. And that's all-in, including Mexico. So I don't want to say that it's going to get much better. I'm not quite sure how much better it can get. But I don't see it getting worse.

GERARD CASSIDY: Great. Appreciate all of the color, thank you.

OPERATOR: Your next question comes from the line of Chris Kotowski with Oppenheimer. Please go ahead.

CHRIS KOTOWSKI: Yes, looking at the Global Consumer Bank, in the last couple years, you've given us guidance on positive operating leverage. And maybe not on a quarterly basis, but on an annual basis, we saw that you delivered that in both 2014 and 2015. And this year, the first quarter doesn't look good, and then you've got all these moving parts, with Costco coming in and other jurisdictions being shut down. Can you give us an idea of what kind of underlying same-store sales operating efficiency or leverage? Is there a positive operating leverage, or is it just that the card business revenue give ups are too much?

JOHN GERSPACH: It's going to be tough to overcome for this year, especially with the large amount of repositioning than we did in the first quarter. So I think it's going to be hard to generate that type of story for 2016. But we do think then that, again, the business that we're growing and the business that we're investing in is one that is going to be capable of generating, on a consistent basis, positive operating leverage and higher returns. So that's what we are trying to do, Chris.

CHRIS KOTOWSKI: Okay. And then secondly, kind of unrelated, just if you can say, on something like Venezuela, where you have written an investment there essentially down to zero, is there still an operating business there with optionality, in case the situation, business and economic and political situation there, ever turns around? Or is it just basically more or less shut down?

JOHN GERSPACH: No, we still have a good business serving our ICG clients that have, particularly, subsidiaries in that country. So there is a – if the country improves, we should see a benefit coming out of that. And you're quite right. With the $180 million write-down that we took, our remaining investment in that country is $4 million. So it looks like it's headed for some really good ROE if and when the business can come back.

CHRIS KOTOWSKI: Okay. Great, thank you.

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: Couple of questions. Just one on the restructuring and the cost this quarter, and then the fade-in of the $500 million that it's going to drive. So I just wanted to understand how much of the restructuring came in this quarter? And then I hear you that it will be coming through. I just wanted to understand, is the $500 million coming entirely through by the end of this year?

JOHN GERSPACH: No, we'll get about $400 million of that in the last three quarters of the year, so that the repositioning that we took in the first quarter largely will repay itself in the 2016 results. That's exactly what Mike wanted us to achieve, so that's the way we've really looked at that.

BETSY GRASECK: Okay. And so then, we have a little bit of a benefit sub-piece in 2017, and then this quarter's results reflected some of the benefit of the restructuring you took last year, is that accurate?

JOHN GERSPACH: That is correct.

BETSY GRASECK: Right, okay. And so with that restructuring, do you feel that with maybe a better market – not a normal market, given how you define normal – you think you're at a good spot in the expense ratio, that getting to that 57%, 56% is something you can achieve in 2017?

JOHN GERSPACH: I don't want to get into 2017 targets, because again, I'm still trying to figure out what the market environment is going to be for the balance of this year. But we do think that, again, everything that we're doing now is positioned to improve that operating efficiency, and getting us close to that mid-50% that we're still targeting for Citicorp.

BETSY GRASECK: My basic question is just that, given more stabilized revenue environment, the restructuring that you took this quarter feels like it's the last one you need to take of this magnitude. Is that reasonable, or?

JOHN GERSPACH: I think it's reasonable as long as market conditions stay where they are. As we've said, if market conditions weaken, then there may be other actions that we need to take. We're not deaf to the need to do things in order to improve returns. We think that's the right way to run a business. So we've got a model in place. We've set the businesses with their goals. But if market conditions look as though those revenue environments are not going to come around, then we'll need to take additional actions. Hopefully, as you said, we're finished with large repositioning actions.

BETSY GRASECK: Right, okay. And then just a couple other ticky-tackies. One is on the card portfolio. You highlighted the fact that you've got to positive growth in the card portfolio this quarter, which is great, and that's in spite of the legacy card portfolio. Could you just remind us the size of the legacy card portfolio, and over what kind of timeframe you expect that's going to be rolling off?

JOHN GERSPACH: No, I don't want to split the portfolio like that. I will tell you that the core portfolio that – again, where we've been making the investments, those – obviously the performance that we're getting out of that portfolio is even better than what you see on slide 9. So the purchase sales growth in the core portfolio where we are making the investments, the core products, is 16%. The average open accounts is up 9%. The average card loans is up, I think it's 4%.

So you can see that, again, that is really driving the growth, which is exactly what we would expect it to be. And that's why we believe that by the second half of the year, we're going to get the entire card portfolio to the point where we'll have year-over-year growth.

But again, we aren't finished then, because we would expect even more growth coming out of that core portfolio in 2017 and 2018. And again, that's before we even talk about adding in Costco. And Costco, the first year we have it, Costco will not be contributing much, just because of the way the accounting works. But we think that's a really good business, and looking forward to the contributions that that will make in the second half of 2017, and then into 2018.

BETSY GRASECK: Okay, that's very helpful. Last question is just on the reserving that – not reserving, but the outlook for what could be a $1.4 billion, if oil stayed at $30, a lot of caveats there. And you mentioned that's $400 million above what you'd previously indicated, two-thirds of which coming from regulatory guidance. Could you just give us a little bit of color around what you think that regulatory guidance is, why it might be different from what your views are? You had the other one-third of revisions of your views versus two-thirds from them.

JOHN GERSPACH: Earlier this year, the OCC, in particular, came out to the industry with some guidance, first verbally and then in writing, largely centered as to how you should be treating some of the reserve-based lending debt. And we still have some questions about how we are interpreting that guidance. We think that in that $1.4 billion figure I've put out, we've taken the most conservative view as to how to interpret that guidance. But again, we're still waiting to make sure that we've interpreted it the proper way.

BETSY GRASECK: Okay, thanks for that.

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

BRIAN KLEINHANZL: Okay, thanks. I just had two quick questions. One, on transferring Citi Holdings back into Citicorp now, does that mean we can expect, really, no announcements for future sales of businesses, and that you've finally reached this end state where you're happy with all your businesses?

JOHN GERSPACH: Well, we still have the consumer businesses in Argentina, Brazil and Colombia that are in Holdings. They may or may not be sold this year. If they are sold next year, we'll probably tell you about it. So I don't think that you've heard the last of some of the business sales. But again, Holdings is just becoming – it's just a normal way of doing business right now. Almost everybody has got some things that they are selling, whether it's a portfolio or whatever.

MIKE CORBAT: And what you talked about, John, is we finished the quarter at $73 billion, we've got commitments already in place for $10 billion. And so as John mentioned, Argentina, Brazil, Colombia, you've got an operating business, the OneMain version, for CitiFinancial Canada. But away from those, it is largely an asset portfolio. And so you'll be able to see assets in Corporate/Other move up or down, and we can provide color or insight around those. But we're going to keep the focus to get the transactions closed and out the door. But again, I just don't think it's all that meaningful to the finances of the company anymore.

BRIAN KLEINHANZL: Right. I'm referring to new announcements. From here on out, there shouldn't be new announcements about country exits and that.

MIKE CORBAT: So we will put out press releases as we sign and as we close the transactions –

JOHN GERSPACH: I think he's asking, Mike, are we going to have any more sales. And that's going to be dependent upon how we continue to assess the environment. If the environment says that we need to scale back in some places, we'll be active in response to that.

BRIAN KLEINHANZL: Okay, great. And then just the one question on the Costco. It's getting close to the close now. Can you provide any update on portfolio size, anything besides the accretion numbers you just gave?

JOHN GERSPACH: No, the portfolio will close on or about June 20, it should be June 20 when the portfolio closes and everything moves over. As we get closer to that date, we may give you some more, but for now, we're just focused on the June date.

BRIAN KLEINHANZL: Okay, thanks.

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

MATT O'CONNOR: Hi. Just to follow up on the Costco deal, about neutral to earnings this year. As we think next year and beyond, obviously there's some upfront marketing investments and system investments, but any thoughts on how profitable it could be longer term?

JOHN GERSPACH: Well, we haven't commented on the profitability of the individual portfolio, and we won't do that. We will say and we have said, that the return characteristics of that portfolio fits perfectly into the cards business that we're trying to grow. So I've said on a number of occasions that our U.S. Branded Cards business should be one that, when we're finished with the investments and adding in Costco and everything else, we think that it's a business that should earn an ROA somewhere in the 2.25%, 2.35% range, and Costco will be an important part of that.

The key to our U.S. cards business is to have a balanced portfolio, balanced between our core proprietary products, as well as the card portfolios where we've got our partner cards. So we think that that's the right way to grow that business, and that's the way that we're moving forward, and overall, that business, again, 2.25% thereabouts ROA in the future.

MATT O'CONNOR: Got it. And then circling back on expenses, the improvement in the efficiency ratio the rest of the year – and it sounds like it's mostly revenue-dependent. The question is, if revenues are weaker, how quickly can you adjust to that environment? I'm trying to get a sense of how variable is the cost structure? We didn't see much variableness this quarter, but it's also just one quarter. As you think over the next several quarters, if revenue comes in a little bit lighter, do you have flexibility to bring those costs lower than flat?

JOHN GERSPACH: Yes, what I actually tried to guide you to was the fact that we think the core expenses will be actually coming down, especially in the second part of the year. We don't anticipate having anywhere near the level of legal and repositioning charges that we had in the first quarter either. So we think that expense reductions in the balance of the year is an important element of getting to that 57% efficiency ratio.

MATT O'CONNOR: Okay, right, I understand. But how much variableness – I'm just coming back to that variableness question – how much flexibility is there to further bring down? I was a little surprised the first quarter we didn't see much variability in the expenses, given how weak revenue was. Obviously you took a repositioning. It's just one quarter. But if the revenue is less than what you laid out today, how much real-time flexibility is there to bring down costs?

JOHN GERSPACH: We'll address that as we see with the revenue. I'm not giving you a figure that X percent of the expense base is variable, because on a longer-term basis, everything is variable. On a shorter-term basis, it's not going to be as variable as you would like it to be.

MATT O'CONNOR: Okay. All right, fair enough, thank you.

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

ERIKA NAJARIAN: Yes, hi. Just one question for you, Mike. I appreciate the color that you gave during the prepared remarks on CCAR. And just a follow-up to that, are you confident enough, or how confident are you in terms of checking off the regulators' qualitative to-do list, in terms of moving closer to your peers over the next few years in terms of pay out – especially in light of the kind of regulatory capital growth that Citi has enjoyed over the past couple of years?

MIKE CORBAT: Yes, that's exactly, Erika, what we are committed to. We fully understand that capital generation and capital return is a big part of the investment thesis and story. And if you go back and look over the past couple years, capital generation hasn't been our issue. Over the last three years, we've generated over $50 billion of regulatory capital. In the last quarter, we generated $6 billion of regulatory capital. And so ours is the normalization around the process, and the credibility to make sure that we can get that capital back to our investors, and that's exactly what we are working at. And that's why so much time and energy has been put in on the qualitative side of things to be able to get to that point as quickly as possible.

ERIKA NAJARIAN: Okay. And my follow-up is, John, did I look at the headlines right during your call with the media that the same group that was in charge of resolution planning is also in charge of CCAR?

JOHN GERSPACH: I'm sorry, Erika?

ERIKA NAJARIAN: Sorry. I thought I saw headlines on Bloomberg when you held your call with the media this morning that, I think it said that you mentioned, the same group that was in charge of resolution planning is also in charge of CCAR?

JOHN GERSPACH: You can't believe everything that you read online or in headlines. No. What I said was during the Q&A that I had with the media, the question came up as far as resolution planning. And I said, look, we put a lot of hard work into developing the resolution plan, and that we really carefully incorporated all the feedback that we received in late 2014 on the earliest submissions, and we've embedded resolution planning into our day-to-day management of Citi.

And I said, that's very similar to what we've done with CCAR. So rather than think of CCAR and resolution planning as separate initiatives performed by isolated teams of people, we consider both as integrated parts of our capital planning process. And I said, just as we have a continuous budgeting and forecasting process that is owned by our business managers, well, the business managers also own the CCAR process and the resolution planning process. So that's what I said.

ERIKA NAJARIAN: I see. Thanks for the clarification, John. Appreciate it.

JOHN GERSPACH: That's okay. It's not that we suddenly have got a new management – that's the wrong way to run CCAR and resolution, to have somebody separate. Barbara guides CCAR, I guide resolution. But it's the business managers that ultimately own it.

ERIKA NAJARIAN: Got it, thank you.

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

MATT BURNELL: Good afternoon. Thanks for taking my question. John, maybe just one more quick one on energy. I presume you're at least part of the way through the spring redetermination. I'm curious what your expectations are in terms of the potential reduction of the borrowing bases across your borrowers when that process is complete?

JOHN GERSPACH: Yes, we think that our reserve-based lending exposure could be reduced by about $500 million. That would be combined, the ICG as well as the consumer book. And it's probably $300million/$200 million, $350 million/$150 million, with the ICG being slightly bigger piece of that.

MATT BURNELL: Okay, that seems a smaller percentage than what we've heard from a couple of other lenders. If I can follow up just on a separate topic, the 200 basis points to now, I guess, 225 basis points of revenue that you're suggesting we should think about in terms of repositioning and legal costs, how far does that guidance go out? It sounds like with legal now sort of ramping down, certainly never going to go away, but ramping down, and the repositioning costs presumably are going down over time, should we think about that ratio in 2017 and 2018 and on out? Are you going to be continuing to reposition and invest in places like wealth management?

JOHN GERSPACH: Well, I would say that, again, we do think that 200 basis points, and certainly 225 basis points, is a very high charge on the revenues for legal and repositioning. And it's relevant in the near term, 2016. We'll assess 2017 when we get there. But that would not be my view as to where we would expect legal and repositioning to be certainly beyond 2017. We should be looking at something which is a lot smaller. But I'll give you more guidance as we get closer to the end of 2016.

MATT BURNELL: Okay. And then just finally for me, maybe a ticky-tack little question. There was a substantial jump in the other-than-temporary impairment losses on the income statement this quarter to $465 million. Is there anything you would like to call out there?

JOHN GERSPACH: Yes, Venezuela is in there. The Venezuela charge of $180 million, so that's a big piece of that.

MATT BURNELL: Okay, thanks very much, John.

JOHN GERSPACH: Okay.

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

STEVEN CHUBAK: Hi. I had a quick question on capital. John, in the past, I know you've highlighted operational risk declines as a meaningful source of future capital relief. And at the same time, you've also talked about CCAR as being your binding constraint on capital. And it's something that a lot of clients have mentioned as well, as a potential source of relief. And what I'm wondering is, because the stress test exam only evaluates capital ratios under the standardized approach, which excludes op risk from the denominator, I'm wondering whether that renders any potential benefit tied to op risk relief going forward? I just want a sense as to whether we should still be crediting that as a future source of relief, given that it's not contemplated explicitly within the capital ratios within CCAR?

JOHN GERSPACH: Actually, Steven, I don't know whether I misspoke or you misheard, but it's probably my fault. But I certainly didn't intend to indicate that op risk would be a source of capital relief. As a matter of fact, if anything, I think that the op risk portion of the advanced approach RWA is very sticky right now. There just isn't a clear-cut agreement either amongst us or even the regulatory bodies, really, as to how you reduce op risk. So that's one of the reasons why, when we’ve given you the Holdings RWA in the past – and this quarter, for instance, the Holdings RWA is like $130 billion. And of that $130 billion, $49 billion is op risk. That's the same $49 billion that was there in the fourth quarter. That's the same $49 billion that was there in the third quarter. So we really – we tend to think, overall, if you take a look at the 10-Ks and the 10-Qs, I believe that our op risk RWA is like $325 billion. And I’d consider that to be fairly sticky for now, because I just don't have a good methodology in place to figure out how we drive that down. It's one of the very – it frustrates me. I think it frustrates probably every CFO and Chief Risk Officer that you would talk to at a major bank right now. But that's kind of where we are.

STEVEN CHUBAK: Sure, well, thank you for clarifying that, John. And it certainly frustrates investors and analysts as well. Just one question on the profitability targets, and I know we spent quite a bit of time on it this morning, but taking the challenging revenue environment we saw in 1Q, the 100 basis point increase in the efficiency target, and then the breakeven guidance for Holdings for the remainder of the year, are you still committed to deliver on the 90 basis point ROA target that you'd laid out and, I think, reaffirmed maybe as little as just one month ago?

JOHN GERSPACH: Yes, I would say that, given all of that math, the 90 basis points – again, given where we ended up in the first quarter, it's going to be tough for us to come in at 90 basis points.

STEVEN CHUBAK: Got it. And just one more quick ticky-tack question for me. Was wondering what the source of RWA growth was in the quarter? I did see that the balance sheet grew as well, but didn't know if you could clarify that?

JOHN GERSPACH: Yes, it's a little bit of the balance sheet growth, and that's also being fueled also by foreign exchange movements. Don't forget these are one-day, as opposed to being averages. And so if you actually take a look at what happened at the end of March compared to where we were at the absolute end of December, in certain currencies, the dollar actually weakened, particularly against the euro. So that added $4 billion or $5 billion worth of RWA to us. We had some model changes that was like another $8 billion or $9 billion. We had, I think, $15 billion worth of just volume as the balance sheet grew. And then there was a $5 billion increase in market risk, which we're still looking at. That's why these are estimated numbers at this point in time, don't forget. We'll lock down the RWA calculations as we file the 10-Q in a couple weeks.

STEVEN CHUBAK: Got it. Thanks, John, for taking my questions.

JOHN GERSPACH: Not a problem.

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

KEN USDIN: Hi, thanks. Just a question on total cost of credit. You talked a little bit earlier about losses. We talked a little bit about the energy outlook for the rest of the year. But John, relative to a $2 billion all-in cost of credit for the HoldCo, how should we just understand how that goes, especially with not really knowing what Costco will add to that?

JOHN GERSPACH: Well, any number that I gave you is ex-Costco. And I didn't give you a view towards what Consumer would be. But don't forget, Costco overall, as I think I mentioned earlier, you've got to think in terms of Costco revenue, expense, cost of credit being basically breakeven for the balance of this year. And that's just due to the fact that the way the accounting works, you're forced to build loan loss reserves basically over the first year that you have the portfolio. So think about Costco as, it'll impact all the ratios, but from a net income point of view right now, it's basically breakeven. So that's not in there. The $1.4 billion that I gave you as the forward look on ICG, that was all-in. That was not just energy; that's all-in ICG.

KEN USDIN: Okay. So that's all-in, including reserve builds? That's all-in, okay.

JOHN GERSPACH: All-in.

KEN USDIN: And then do you think – the last piece is just, do you think you'll continue to have any releases underneath in card, or is it more just how the losses traject from here?

JOHN GERSPACH: Well, as we continue to build the card portfolio, you'll likely to see small reserve increases, but it would be volume-driven, as opposed to being driven by a weakening credit performance. So as you build portfolios, you do have to put aside reserve dollars. But again, we continue to believe that the credit performance in Consumer, whether it's on the U.S. book or international, should continue to be very favorable.

KEN USDIN: Okay, understood. Thanks a lot, John.

JOHN GERSPACH: Thank you.

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

JOHN GERSPACH: Hi, Eric.

ERIC WASSERSTROM: Hi, John. A question on the Treasury and Trade Solutions outlook. Obviously one area that's been sort of weak globally has been trade finance, particularly trade finance related to various commodities, which is a big portion of that, of the global total. So how do we think about that pressure relative to the pretty positive guidance and recent trend that you've indicated?

JOHN GERSPACH: Well, all of that – all of the trade performance is in that number that you see reported on whatever the slide number is,14 or 13, that is in the deck. So that's pretty much how we're operating today. One of the things that we've done over time is, we've moved a lot more of our trade business into being less balance sheet-intensive. So we do a higher percentage of our business now on originate-to-sell. And what that's given us is the balance sheet then to expand into the supplier finance aspects of trade. That has got better spreads, and it really deepens the relationship, then, that we have with our client customers.

So recognizing everything we've said, trade is not what I would call a tremendous growth business at this point in time. But it's got relationship qualities to it, and it's really adding to the overall franchise in a very positive way.

ERIC WASSERSTROM: Got it. So it sounds as if the volume pressures have been offset by basically moving down the ecosystem in terms of client opportunity. Is that more or less correct?

JOHN GERSPACH: I wouldn't say it's moving down the ecosystem. I'd say that we're expanding the business that we can do with our target market clients by helping them in working capital management. And what we've done is, we've gotten out of a lot of the FI-sponsored business, which is episodic, it's very low spreads. We'll still originate those things, but then we tend to syndicate and sell the trade finance receivable. What we really want to do is, we want to use trade, as we do with almost every one of our product areas, we want to use our trade capabilities to help our clients manage their business.

ERIC WASSERSTROM: Got it. Great. Thanks very much for the clarity.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Vivek Juneja with JPMorgan. Please go ahead.

VIVEK JUNEJA: Hi, thanks. A couple of questions. Firstly, John, you'd given last-quarter net interest margin at 2.85% to 2,90% for the first half. Now you came in a little bit above that, which was really flat linked quarter. Are you still expecting to go to 2.85% to 2.90% for the first half? And if so, what would drive that down?

JOHN GERSPACH: No, actually, Vivek, what we've revised our guidance to is, we think the 2.92% kind of holds flat in the second quarter.

VIVEK JUNEJA: Okay.

JOHN GERSPACH: Again, as we continue to offset the impact of Holdings run-off by better spreads on our loan business, largely due to the interest rate lift that we got coming out of December, and by the tail end of the year, as we get the Costco business on our books, that should be another boom to our NIM. And we're expecting somewhere in the order of a 3 basis point improvement from Costco. So we should end the second half of the year with a NIM in the range of 2.95%.

VIVEK JUNEJA: Okay. And Mike, a question for you. The equities business, you've had trading issues several times over the last couple of years. What are your plans to fix that?

MIKE CORBAT: As you look at this quarter, this quarter wasn't a quarter where the revenue performance was a result of trading issues. This was really, from our perspective – and I think you saw across the industry, but certainly for us, the client volume, client flow challenges. And John and I have talked historically about the run rate we would like to see the business at, and the opportunity. And again going back, there's no reason why, as a Firm, we should be in the 8, 9 area. We should be in the 5, 6 area, and we think there's an incremental couple hundred million dollars a quarter over time that we can add with just some reasonable investments. And the investments come in a couple ways. It comes in terms of people, and it comes in terms of balance sheet. And given where our capital ratios are, given where our leverage ratios are, prime finance as an example, we think we've got opportunities to go in and take share, and that's what we are trying to execute on.

VIVEK JUNEJA: Okay. The only thing I'd say is of the peers who have reported so far, your equity trading revenues year-on-year were weaker than those.

MIKE CORBAT: Yes, they were.

VIVEK JUNEJA: Yes, okay, thanks.

OPERATOR: Thank you. We have no further questions in the queue at this time.

SUSAN KENDALL: Great, thank you, everyone. If you have any follow-up questions, please feel free to reach out to Investor Relations. And thanks for your time this morning.

OPERATOR: Thank you. This concludes today's conference call. You may now disconnect.