

**Citi First Quarter 2017 Earnings Review**

Thursday, April 13, 2017



**Host**

Susan Kendall, Head of Investor Relations

**Speakers**

Michael Corbat, Citi Chief Executive Officer

John Gerspach, Citi Chief Financial Officer

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**PRESENTATION**

**OPERATOR:** Hello and welcome to Citi's First Quarter 2017 earnings review, with Chief Executive Officer, Mike Corbat, and Chief Financial Officer, John Gerspach. Today's call will be hosted by Susan Kendall, Head of Citi Investor Relations.

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

**SUSAN KENDALL:** Thank you, 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 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 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 limitations the risk factors section of our 2016 Form 10-K.

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

**MIKE CORBAT:** Thank you, Susan, and good morning, everyone. Earlier today, we reported earnings of \$4.1 billion for the first quarter of 2017, or \$1.35 per share. We clearly carried momentum in many of our businesses from the end of last year into the quarter, leading to significantly better performance from one year ago. While our results were impacted by one-time gains, we increased revenues in both our consumer and institutional lines of business, while maintaining our expense discipline. We grew loans and deposits and achieved an efficiency ratio of just under 58%, a return on assets of 91 basis points, and a Return on Tangible Common Equity ex-DTA of over 10%, in line with our near term targets, which we're committed to meeting.

In Global Consumer Banking, our U.S. credit card business continued to benefit from the Costco portfolio, although we did see lower mortgage revenues. Internationally, we again posted revenue growth and positive operating leverage in Asia and Mexico, and we continued our investment plan in Mexico to drive improved efficiency and returns.

The Institutional Clients Group had a strong quarter all around as we keep gaining share among our target clients. Our Markets business performed very well with revenue up 17% year-over-year, comprised of a 19% increase in Fixed Income and a 10% increase in Equities, another area we've been investing in. Banking results were also strong, notably in Investment Banking, which was up almost 40%, and Treasury and Trade Solutions and the Private Bank were each up 9% as well.

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We also continued to wind down legacy assets, recording gains on asset sales including our consumer finance business in Canada and our consumer business in Argentina. This helped offset the one-time impact from exiting our U.S. mortgage servicing operations.

We utilized \$800 million in deferred tax assets, contributing to the \$5.5 billion of total regulatory capital generation before returning \$2.2 billion to our shareholders. During the past year, we reduced our outstanding common shares by 6% and returned 80% of earnings to our common shareholders. Our tangible book value per share increased to \$65.94, that's 5% higher than a year ago and 14% higher than two years ago. Even still, our Common Equity Tier 1 Capital ratio has increased to 12.8%, well above the 11.5% upper range of what we believe we need to operate the firm prudently. So we clearly have excess capital, and couldn't be more committed to returning that capital to our shareholders. Last week, we made our CCAR submission for the current cycle and feel good about the progress we've made to strengthen our firm.

We also continue to be positive about growth in general and the U.S. economy. While the details of potential policy changes in areas such as tax code and infrastructure spending have yet to be worked out and will take a little longer than originally projected, we continue to believe that it's a matter of when, and not if, these changes will occur. As that process unfolds and outcomes become clear, I expect business will react accordingly as sentiment shifts from optimism to confidence.

In the meantime, we continue to do our part to support growth in communities across the U.S. We were recently named the top affordable housing financier for the seventh year in a row, and we announced that small business lending increased to \$11 billion last year, almost double what it was five years earlier.

We remain confident in our model and our unique global network, which processes \$4 trillion in payments a day and helps U.S. companies compete overseas. We've built a franchise that's balanced across product and geography, and we're making targeted investments where we see the best opportunities to grow revenue and improve returns. With that, John will go through our presentation, then we'd be happy to answer your questions. John?

**JOHN GERSPACH:** Hey, thank you, Mike. And good morning, everyone. Starting on slide three, we show total Citigroup results. Net income grew 17% to \$4.1 billion in the first quarter, driven by higher revenues and lower cost of credit, and earnings per share grew 23%, including the benefit of share buybacks, which drove a 6% decline in our average diluted shares outstanding. Revenues of \$18.1 billion grew 3% from the prior year, reflecting growth in both our consumer and institutional businesses, offset by lower revenues in corporate/other, as we continued to wind down legacy assets.

Expenses were roughly flat, as the impact of higher performance-related compensation and higher business volumes was offset by lower repositioning costs. Ongoing investments were largely funded through efficiency savings and cost of credit declined significantly, driven by a \$230 million reserve release this quarter in ICG as compared to a build in the prior year related to the energy sector.

Consumer cost of credit increased year-over-year, reflecting the addition of the Costco portfolio and other volume growth as well as the continued impact of changes in collection processes in U.S. cards. As previously announced, our results this quarter included a charge of nearly \$400 million related to the exit of our U.S. mortgage servicing operations. This charge was recorded in corporate/other, with roughly \$300 million reflected as a reduction in revenues and the remainder in expenses. However, we were able to more than offset this impact with nearly \$750 million of gains on other asset sales, including gains of roughly \$400 million on the sales of two businesses – CitiFinancial Canada and Argentina Consumer – which closed on the last day of the quarter. On a net basis, these episodic items benefited our results by roughly \$0.08 per share.

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In constant dollars, Citigroup end of period loans grew 2% year-over-year to \$629 billion, as 5% growth in our core businesses was partially offset by the continued wind down of legacy assets in Corp/Other, and deposits grew 3% to \$950 billion.

Turning now to each business, slide 4 shows the results for North America consumer banking. Total revenues grew 2% year-over-year in the first quarter. Retail banking revenues of \$1.3 billion declined 3% from last year, driven by lower mortgage revenues. Mortgage revenues declined by roughly \$80 million year-over-year, reflecting lower origination activity and higher cost of funds, as well as the impact of the previously announced sale of a portion of our mortgage servicing rights.

Excluding mortgage, retail banking revenues were up 5%, driven by continued growth in average loans, deposits, and assets under management. We're seeing positive early results from the launch of our enhanced Citigold wealth management offering in the U.S., with year-to-date growth in households and balances tracking in line with our expectations. At the same time, we continued to transform our network this quarter by reducing our branch count to roughly 700 while continuing to roll out smart branch formats, including Citigold Centers, expanding our Citigold sales force and adding new digital capabilities as transaction activity continues to shift to self-service, digital, and mobile channels.

Turning to Branded Cards, revenues of \$2.1 billion grew 13%, mostly reflecting the impact of the Costco portfolio acquisition and modest organic growth, offset by the impact of day count. We saw good engagement across the franchise again this quarter, with 4% year-over-year growth in average loans excluding Costco.

Looking at the total portfolio, despite the normal pay-down you would expect in the first quarter, our full rate revolving balances remain stable sequentially, and we continue to expect growth in these full rate revolving loans in the second half of the year as our investments mature. The interest yield on the portfolio was also relatively flat sequentially at roughly 9.6% this quarter, as the recent rate increase was offset by growth in promotional rate balances as well as the impact of portfolio mix. From here, we expect yields to improve, driven by rate increases as well as the growth in full rate revolving balances in the second half of the year.

Finally, Retail Services revenues of \$1.6 billion were down 5%, driven mostly by the absence of gains of the sale on two small portfolios in the first quarter of last year. Excluding the impact of divestiture activity, revenues were up 1% year-over-year.

Total expenses for North America consumer were \$2.6 billion, up 3% from last year, mostly reflecting the Costco portfolio acquisition, volume growth and continued investments, partially offset by efficiency savings and lower repositioning costs.

And finally, credit costs of \$1.4 billion increased roughly \$330 million from last year. Net credit losses increased to \$1.2 billion, mostly driven by Costco, organic volume growth and seasoning, as well as the impact of changes in collection processes in cards. And we built roughly \$160 million of loan loss reserves during the quarter to support volume growth.

Looking at our card portfolios in more detail, in Branded Cards, our NCL rate of 3.1% was inflated this quarter by the flow-through of delinquencies to credit losses related to the Costco conversion. Excluding this impact, which is now behind us, the Branded Card NCL rate was closer to 2.9%, up from the prior quarter due mostly to seasonality and the previously mentioned impact on collections. We believe this collections impact is now stabilizing and so the NCL rate should improve in the second half of the year driven by normal seasonality. This is consistent with the improvement we saw this quarter in both 90-plus-day and early bucket delinquencies on a dollar basis. Therefore, we remain comfortable with our full-year outlook for an NCL rate in Branded Cards of around 280 basis points.

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The drivers are similar for Retail Services, where the loss rate increased from the prior quarter, but given normal seasonal improvement in delinquencies, we continue to expect the full-year NCL rate to be around 435 basis points.

On slide 5, we show our results for International consumer banking in constant dollars. Net income grew 12% from last year on higher revenues and slightly lower operating expenses, partially offset by higher cost of credit. In total, revenues grew 3% and expenses were down 1% versus last year.

In Latin America, total consumer revenues grew 4%, driven by an 8% growth in Retail Banking, reflecting continued growth in average loans and deposits, as well as improved deposit spreads. However, cards revenues declined from last year, reflecting lower revolving loans, as well as a higher cost of fund non-revolving balances.

Total average card loans grew 5% year-over-year, however, revolving balances have generally lagged, as we have grown in high-quality consumer segments with lower revolve rates. The year-over-year trends are improving however, and we expect to return to growth in revolving card loans sometime in the second half of the year.

Expenses were roughly flat year-over-year in Latin America, as ongoing investment spending was offset by efficiency savings and lower repositioning costs. We continue to execute our investment plans in Mexico, which we believe will drive improved operating efficiency and returns over time, and we still expect to maintain positive operating leverage each year throughout the investment period.

Turning to Asia, consumer revenues grew 3% year-over-year, driven by improvement in cards and wealth management, partially offset by lower retail lending revenues. Card revenues grew 6%, driven by higher volumes and improved revolve rates versus last year. Average card loans were up 3% and purchase sales were up 4% year-over-year, reflecting slight organic improvement as well as the recent acquisition of a \$700 million co-brand portfolio with Coles supermarkets in Australia.

Retail revenues were up slightly year-over-year as higher wealth management revenues were largely offset by the continued repositioning of our retail loan portfolio. Average retail loans were stable sequentially, but down 5% year-over-year with modestly improved spreads. Expenses in Asia declined 2%, as volume growth and ongoing investment spending was more than offset by lower repositioning costs.

Slide 6 shows our Global Consumer credit trends in more detail across both Cards and Retail Banking. The NCL rate in North America increased from last quarter, as I described earlier, but should trend lower for the remainder of the year as the Costco conversion-related losses are now behind us and we should benefit from normal seasonality. Credit trends in Asia consumer remain stable this quarter and the NCL rate in Latin America was 4.4%, up somewhat from the prior quarter, mostly driven by lower loan growth but still in line with our near-term outlook.

Turning now to the Institutional Clients Group on slide 7, net income of \$3 billion grew substantially from last year on higher revenues and lower cost of credit, partially offset by higher operating expenses. Revenues of \$9.1 billion grew 16% from last year, reflecting solid progress across the franchise. Total banking revenues of \$4.5 billion were up 14%. Treasury and Trade Solutions revenues of \$2.1 billion grew 9%, driven by strong fee growth, higher volumes and improved spreads. Investment Banking revenues of \$1.2 billion were up 39% from last year, reflecting a rebound in debt and equity underwriting and our continued momentum in M&A. Private Bank revenues of \$744 million grew 9% year-over-year, mostly driven by loan and deposit growth and improved spreads. And Corporate Lending revenues of \$434 million were down 3% from last year on lower average volumes.

Total Markets and Security Services revenues of \$4.8 billion grew 18% from last year. Fixed Income revenues of \$3.6 billion were up 19% with both rates and currencies and spread products contributing to

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revenue growth. Equities revenues grew 10% year-over-year, driven by an improvement in derivatives. And finally, in Security Services, revenues were down 3%. However, excluding the impact of prior period divestitures, the business grew 12% year-over-year.

Total operating expenses of \$4.9 billion were up 1% year-over-year, as higher incentive compensation was partially offset by lower repositioning costs and the benefit from FX translation. On a trailing twelve month basis, excluding the impact of severance, our comp ratio was 26%. And cost of credit was a benefit this quarter, driven by net ratings upgrade and continued stability in commodity prices.

Slide 8 shows the results for Corporate/Other. Revenues of \$1.2 billion declined significantly from last year, driven by legacy asset runoff and divestiture activity, as well as lower revenue from treasury related hedging activity. And expenses were down 11% to \$1.1 billion, driven by the wind-down of assets, partially offset by episodic expenses this quarter related to the exit of our U.S. mortgage servicing operations. While Corp/Other was essentially break-even this quarter on a pre-tax basis, as I noted earlier, our revenues included roughly \$450 million of net episodic gains this quarter, and our expenses included about a \$100 million of related charges, resulting in a net benefit to EBT of roughly \$350 million.

Slide 9 shows our net interest revenue and margin trends split by core accrual revenue, trading-related revenue and the contribution from our legacy assets in Corporate/Other. As you can see, total net interest revenue declined 3% year-over-year in constant dollars to \$10.9 billion, as growth in core accrual revenues was more than offset by the wind-down of legacy assets as well as lower trading-related net interest revenue. Trading positions are managed on a total revenue basis, with the interest component varying based on a number of factors. So while our total trading revenues were up significantly this quarter, the contribution from net interest revenue was lower than a year ago. For this reason, as we've said in the past, the trading component of our net interest revenue is by nature more difficult to forecast.

Turning to our core accrual businesses, net interest revenues of \$9.5 billion were up 3%, or \$280 million, from last year, driven by the addition of the Costco portfolio, other volume growth and the impact of the December 2016 rate hike, partially offset by lower day count, an increase in our FDIC assessment and higher long-term debt. On a sequential basis, core accrual revenues declined as the benefit of higher interest rates was more than offset by the impact of lower day count, loan mix and rate positioning actions. Adjusting for day count, core accrual revenues were up slightly from last quarter. Our core net interest margin declined by 1 basis point, reflecting the impact of higher cash balances.

Looking to the remainder of the year, core accrual revenues should continue to grow year-over-year. Assuming one additional rate hike midyear, core accrual revenues should grow year-over-year by roughly \$1.5 billion in total over the next three quarters, with just under two-thirds of that amount coming from higher rates and the remainder mostly reflecting higher loan volumes and mix.

On slide 10, we show our key capital metrics. During the quarter, our CET1 capital ratio improved to 12.8%, driven mostly by earnings, partially offset by \$2.2 billion of common share repurchases and dividends during the quarter. Our supplementary leverage ratio was 7.3%, and our tangible book value per share grew by 5% year-over-year to \$65.94, in part driven by a 6% reduction in our shares outstanding.

To conclude, I'd like to spend some time on our outlook for the second quarter. Starting in consumer, in North America, revenue growth this quarter should continue to be mostly inorganic, driven by a full quarter of revenue contribution from the Costco portfolio which we acquired in June of last year. Excluding mortgage, we expect continued growth in our North America retail banking franchise as well. However, this will likely be offset by lower mortgage revenues versus the prior year. And internationally, we continue to expect modest year-over-year revenue growth in constant dollars with positive operating leverage in both Asia and Mexico.



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On the Institutional side, we expect Market revenues to reflect the normal seasonal decline from the first quarter. Investment Banking revenues should be broadly stable sequentially, assuming that market conditions remain favorable. And we should continue to grow year-over-year in TTS, Security Services, and the Private Bank. In Corporate/Other, revenues and expenses should continue to decline over time as we wind down legacy assets, but the underlying EBT contribution we saw this quarter of about negative \$350 million is a good run rate for modeling this segment going forward. Cost of credit should be higher quarter-over-quarter, driven by the normalization of credit costs in ICG, partially offset by an improvement in North America consumer. And on a full year basis, we continue to expect our efficiency ratio to be around 58%.

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

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**QUESTION AND ANSWER**

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

**GLENN SCHORR:** Hi, thanks very much. First, a quickie, I just wanted to get a clarifier. Did you just say the minus \$350 million is a good run rate to use for holdings going forward? I missed the last comment.

**JOHN GERSPACH:** Corp/Other.

**GLENN SCHORR:** Corp/Other. Sorry, okay.

**JOHN GERSPACH:** We don't have Holdings anymore, Glenn. Holdings got folded into Corp/Other.

**GLENN SCHORR:** That's why it threw me off, thanks.

**JOHN GERSPACH:** Yeah, sorry about that.

**GLENN SCHORR:** That's okay. The strength in DCM was great, in banking in general, but I wondered if you have any thoughts on how much of the up almost 40% versus last year is last year's disruption in the quarter versus maybe pull forward as some people thought rates might go up versus maybe it's just a good environment and it's a competitive product to lending? Just curious there.

**MIKE CORBAT:** Sure, hi, Glenn, it's Mike. If you go back and look at the first quarter last year, obviously it was a tough start. And you look at the areas in particular, so, ECM, I don't think we did a – as an industry – we did an IPO until the middle of April. If you look at what went on, you had referenced, maybe inadvertently DCM, but DCM had a tough start last year, I think it had an almost extraordinary March this year.

And I think if you look at the pipeline of banking, banking deals, I would say all the pieces that we expected with that momentum coming out of last year came to fruition. And I would say that the second quarter continues to feel like it has positive momentum. So I would say coming off a very low base, but I would say the activity in client engagement was high, and I think remains high going into the second quarter.

**JOHN GERSPACH:** Yeah, Glenn, this is John now. I actually think the activity this quarter is more or less of what you would think about as being a more normal quarter, as opposed to something that is a big bounce off of a down quarter, until you have an outsized a wallet out there in this quarter. I think if you take a look at historical averages, it's kind of in line. So it doesn't appear to be outsized activity. I mean nice bounce-back, obviously, from the first quarter of last year, but as Mike said, there was virtually zero equity activity last year in the first quarter. So we got a nice bounce-back there.

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**GLENN SCHORR:** I appreciate that. Maybe last question, it's a good lead-in to zero equity activity, in equity, cash volumes are off a lot, especially in the U.S., but you had a very good quarter. In your prepared remarks you mentioned about derivatives leading the way. Are you talking about corporate derivative size? Is that an activity – an environment question, or are you doing something specific to drive your derivatives business and equities? Because I would've thought you might have mentioned PB being a bigger driver. Just curious for a little more color because that's an area of work for you guys.

**JOHN GERSPACH:** Yeah. Well, Glenn, we've been putting investments in equities for a while, and we like the investments we said that we've made in both the people and the platforms in equities. We've got balance sheet to put to work. We think that we've been gaining share with our targeted clients, and I think you're starting to see some of that activity coming through now. It's one quarter, so let's string it together for a couple of quarters, but we saw good client engagement on both the corporate and investor side this time. And so we'll see.

**GLENN SCHORR:** Okay. I appreciate it. Thank you.

**JOHN GERSPACH:** Not a problem.

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

**JOHN MCDONALD:** Hi, John. I wanted to ask about Branded Cards and kind of that outlook for the second half. You still got revenue yields feeling some pressure but you mentioned that should get better, can you just remind us of that kind of trajectory of second half profitability inflection that you are looking for in cards and what the drivers are of that as things mature?

**JOHN GERSPACH:** Sure, John. It's primarily two-fold. One is, as you recall, back in the middle of 2015 we began to make some significant investments in growing our proprietary product portfolio in cards. That's when we really tried to roll out the launch of everything from double cash to our various Value Cards, Thank You, the Rewards Cards, all of that. As we said there, it takes basically 24 to 30 months for those new card acquisitions in a proprietary book to really begin to generate positive net income. And so that 24 months coincides with the second half of this year.

And in similar fashion, when we bought the Costco portfolio last June, we said that, just due to purchase accounting, Costco would not be accretive to earnings until a full year had elapsed, and that happens to coincide with the second half of this year as well.

So we've got both of those tailwinds that we fully expect them to be visible in our second half results. You should be able to see it both in revenue growth, and also in improved cost of credit, especially as we lapse some of the very high cost of credit numbers that we had in the second half of last year as we were building up loan loss reserves for Costco in connection with the purchase accounting.

So those two factors, and as I said, we like the way Costco is performing. We like the momentum that we've got in our proprietary cards products as well. And it's all progressing as we had expected. And so that gives us the confidence in talking about that year-over-year growth coming in the second half of the year.

**JOHN MCDONALD:** Okay. And then just separately, could you repeat for us the net interest income, the core net interest income, guidance that I think you said if there's one more rate hike? And then also just let us know, like, how much does one 25 basis point rate hike help you? Is there any way you can just dimension that for us so we could if we wanted to add our own assumption of more rate hikes, how should we think about that?

**JOHN GERSPACH:** Yeah, I mean, very rough math, John, 25 basis point rate hike should impact revenues positively by about \$100 million for each full quarter that it's in effect, that's very rough math.

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That's all going to be dependent upon where you are with deposit betas and everything else. So the initial rate hikes, you might get a little bit more than \$100 million. Subsequent rate hikes, you might get a little bit less than \$100 million. But \$100 million is a good rule of thumb to use.

**JOHN MCDONALD:** Okay, and if we take the net interest income that you saw this quarter, how should we think about that as it relates to your outlook going forward for net interest income?

**JOHN GERSPACH:** Well, when you take a look – again, let's just focus on the core accrual revenues. What I said during the prepared remarks was that we expect the core accrual interest revenue to grow year-over-year by about \$1.5 billion during the next three quarters, again, assuming one more rate hike somewhere around mid-year. We had roughly \$300 million year-over-year benefits in the first quarter. I think you'd see that if you look at slide 9 of the presentation. So that would mean we would expect full-year growth to be about \$1.8 billion from a combination of the higher rates and volumes for the full year.

**JOHN MCDONALD:** Got it. Understood. Thanks very much.

**JOHN GERSPACH:** No problem.

**OPERATOR:** Your next question comes from the line of Jim Mitchell with Buckingham Research. Please go ahead.

**JIM MITCHELL:** Hi, guys. Mike, you were, I guess, pretty strong statement around capital return. What's giving you the confidence, I guess, is it just the fact that you're feeling that much better about your capital ratios? Is it sort of regulatory conversations? Obviously Tarullo gave a speech where he's talking about maybe phasing out the qualitative side of things. Is that your sense that they're going to be a little bit more willing to give you credit for the excess capital you have? Just any color around that thought process on your part.

**MIKE CORBAT:** Sure. I'd start there first, Jim, on the qualitative side of things. And I think that the work that the team has done from a qualitative perspective in terms of models and scenarios and all of the important pieces that go into your buildup and ultimately your ask, I think we've made up a lot of progress, and I think the regulators have recognized some of that progress that we've made and I think we feel good about the process we've put in place and obviously, depending how it goes forward, we're committed to continuing to improve on that.

And then the other side of it is the quantitative side. And again, as I said in my opening remarks, you look at what we've done here in terms of capital return, and yet our ratios continue to go up. And so this quarter, generating \$5.5 billion of regulatory capital, and what we've said is we've got to get to a position where we're returning that excess capital. That's an important piece of the math around our pathway to making sure our returns get to where they need to get.

And so we've been engaged in those conversations. We'll see when the ask is responded to, what it looks and feels like, but, again, I think we feel good about the process, we feel very good about our numbers and our ability to make big asks, and we'll continue to work on it.

**JIM MITCHELL:** Okay. That's helpful. And just maybe a broader question on regulation or deregulation, or however you want to think about it, have you felt, now that we're couple of months into the new administration, has there been any kind of coalescing around some ideas that maybe go from idea to actually implementation that you feel good about, or is it still too early to be making any kind of assumptions around some easing around some of the regulations?

**MIKE CORBAT:** I think in terms of being able to point to specifics, I think it's early. But not just myself, a number of us in the industry have been very engaged with the administration, been very engaged with a number of the different committee members, regulators, et cetera. And I think we talked about before just the tone from the top is an important message and signal. And I think we've seen very clearly that the



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President and the administration is very pro-growth, pro-jobs. And I think around that, I think the presidential order that he put out, which I think is one of the first real signs along the way here in terms of what's going to be focused on and where things go, we've obviously been involved and commented in terms of things that could be focused on and should be focused on, and we'll see what Secretary Mnuchin and that comes back with. But at this point, I would call the conversations with the administration very constructive.

**JIM MITCHELL:** Okay, and considering the noise around potentially a new Glass-Steagall, maybe that's sort of similar to what they did in the U.K. about ring fencing, would that be something that would be overly onerous for somebody like you?

**MIKE CORBAT:** Well, probably like all of you, anytime I hear this term 21st Century Glass-Steagall, I ask what it is, and I have yet to have anybody really tell me what's there. And as you can imagine that, not just myself but I'm sure others have been involved in those conversations, and I would say that the administration is focused around trying to harmonize regulations, focused around trying to take things away that are either duplicative or don't really add value. And I have yet to have anybody really explain to me what value there is in terms of either a reinstatement of Glass-Steagall, which in itself is strange, or what 21st century Glass-Steagall is. So, we continue to ask about it but not necessarily be that focused on it. We think our business model is the right model.

**JIM MITCHELL:** Okay. Fair enough. Thanks a lot.

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

**MATT O'CONNOR:** Hi, I wanted to come back to the outlook for net interest income, and I was hoping to get on the same basis as what you talked about in January. I think you said the net impact of growth at that time what was Corp and at that time what was Holdings, the net of those two would be a modest positive. I think it was up \$200 million year-over-year. So I was wondering if you could just update that with, you know, including obviously the comments you gave earlier, but just bringing on the same basis to that would be helpful.

**JOHN GERSPACH:** Yeah. So in answering the earlier question from John, I mentioned that if you add up the two pieces, the \$300 million year-over-year growth that we saw in the first quarter and the \$1.5 billion growth that we anticipate for the balance of the year, you get \$1.8 billion.

Now, the prior guidance that we had given of \$1.2 billion had included trading-related net revenue, so the two figures are not really comparable. The \$1.8 billion that I'm talking about in response to John's question and the \$1.5 billion of guidance really talks about core accrual revenue, whereas the other \$1.2 billion was just kind of all in, and as I said, it included trading-related revenue. So the figures just aren't comparable there.

**MATT O'CONNOR:** Right, and that was my question. I was trying to get them comparable. Because the constant net interest income obviously excludes the run-off book, it holds day counts, it holds currencies constant, so I understand there might be some moving pieces going forward, but just having it on apples-to-apples basis, your best guess and outlook right now would be helpful.

**JOHN GERSPACH:** Yeah, no, I've given you best thing that I can do which is to give you the \$1.5 billion outlook, which is reflective of the construct that we have in place today. When we built the \$1.2 billion outlook previously, as I mentioned, that it included trading-related revenues, built into that \$1.2 billion there was some downward expectations related to trading net interest revenues in the previous guidance.

So what I'd say is that the change in guidance right now is primarily related to assuming two additional rate increases. We've had the one rate increase in March, and now we've built in another rate increase in

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June. And there was probably just some modest reduction in our expectation for loan growth that, compared to the earlier guidance, certainly following the first quarter performance.

**MATT O'CONNOR:** Okay. So if you're not willing to take a stab on the trading part, which is fine, we can kind of estimate that, how about just the legacy asset piece here that I think was about a \$400 million contribution this quarter? And you obviously had some sales at the end of the quarter. How should we think about projecting out that component?

**JOHN GERSPACH:** Same as the guidance that we gave you back at the beginning of the year. We said our expectation would be that what we called it Holdings at that point in time, because we had a holding segment, and we said that Holdings year-over-year, we would expect \$1 billion reduction in net interest revenue. You saw that we had roughly a quarter of that, \$220 million in the first quarter in the legacy asset component of the bar chart on slide 9. And so it's still is looking about \$1 billion year-over-year impact.

**MATT O'CONNOR:** Okay, that's helpful. And then just squeezing in one other one. Besides the \$100 million exit cost for the sale of the mortgage servicing unit, were there other legal or repositioning costs? I didn't see anything disclosed, but it's been a busy day.

**JOHN GERSPACH:** Bear in mind, no, Matt, what you probably noticed is that we just collapsed all our expense disclosure now into one line, just called it operating expense. For a while when we were going through periods of heavy repositioning cost and heavy legal expense, we thought that it was beneficial to break those things out into separate line items, so that we could talk to you separately about them. But now, as far as legal and repositioning it pretty much is just part of our BAU activity. So it's just in the operating expense number.

**MATT O'CONNOR:** Okay. All right.

**JOHN GERSPACH:** Matt, if we had anything unusual, we'd call it out.

**MATT O'CONNOR:** Okay. Yeah, it's just – it was very high a year ago, so as we think about the underlying expense growth of the company, I think combined it was in the \$700 million range a year ago so just trying to figure out is it a meaningful number to adjust for or not as we think about the operating leverage and underlying trends.

**JOHN GERSPACH:** Well, the first quarter performance, again, we talked about operating efficiency targets for the year. And as you know, when we talk to you about operating efficiencies, everything all in, we don't adjust revenues and we don't adjust expenses. So that 58% target is all in.

**MATT O'CONNOR:** Yeah. Okay. Thank you.

**JOHN GERSPACH:** Okay.

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

**MATT BURNELL:** Thanks very much for taking my question. Just one, I guess, maybe fairly detailed question. There was a drop in non-interest bearing deposits in North America of about 5% quarter-over-quarter, drop of 6% year-over-year. Can you provide some more color as to what's going on there, and does it tie in with anything that's going on within the loan portfolio?

**JOHN GERSPACH:** Yeah, as you mentioned, that drop was basically in our TTS business. And what we saw there was just some additional inflows going into some of the interest bearing accounts coming out of the non-interest bearing. And as companies, after a while, they'll build up excess cash and build up excess cash, eventually they'll shift a little bit of it over into an interest-bearing account.

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**MATT BURNELL:** Yeah, yeah. Fair enough, John. And then just on the international consumer business, particularly in Latin America, Mexico specifically. Obviously the trends are pretty positive or more positive now on a year-over-year basis. They were a little bit negative, I assume some of that's seasonal, on a quarter over quarter basis, has there been any, in your sense, any effect of U.S. policy on activity levels within your Mexican business?

**JOHN GERSPACH:** Well, I do think that the Mexico economy at the beginning part of the year, I'd say that there was somewhat of a decline in consumer confidence that did occur. I was in Mexico three weeks ago. My sense was that that had sort of changed, it was beginning to come back. But there was definitely a drop in consumer confidence at the beginning of the year.

**MATT BURNELL:** Okay. And then just finally, the release of the \$230 million in ICG, was that entirely due to energy exposures, or was there a combination of factors there?

**JOHN GERSPACH:** There were a couple of other small things, but the predominant driver was energy.

**MATT BURNELL:** Great. Thank you, John.

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

**STEVEN CHUBAK:** Hey, good afternoon.

**JOHN GERSPACH:** Hi.

**STEVEN CHUBAK:** So, John, I wanted to kick things off with a question on capital. Basel proposed some changes to its calculation methodology for G-SIB surcharges, and on balance it feels like it's going to result in some upward pressure on your G-SIB score. I know there are differences between Basel and the Fed's calculations, and which one could be a binding constraint for you guys specifically, but it looks like on balance, the changes that Basel's proposed are a bit tougher for you guys. And didn't know if that's going to result in you potentially moving to a higher G-SIB bucket, given some of the changes from Basel, from what appears to be 3% today to 3.5%.

**JOHN GERSPACH:** So in trying to piece through your questions, from a capital point of view, Steven, our binding constraint from a capital point of view is the Fed mandated Method II calculation of G-SIB. And even if the Basel committee made changes to what in the U.S. we would call Method I, the Method II score would still be the binding constraint. So if you think about it under the current regime, Method I, we're at 2%; Method II, we're at 3%. As we run the numbers based upon the proposal coming out of Basel, the Method I would move to 2.5%. And so we would still stay where we are from a capital point of view with Method II being the driving factor. And then we'd have to see whether or not the Fed made any changes in their score.

The Basel still continues with their flawed methodology of converting everything into euros which means that as we get changes in the dollar without any change at all in our balance sheet, our score under method I can change dramatically. So we would still expect the U.S. to do what it had done and put forward a much more balanced approach eliminating currency fluctuation from your capital base. So we'll see how that goes.

The one change, Steven, and this may be what you're driving at, obviously Method I is the determinant of your TLAC requirement. And so to the extent that there was a change in Method I, and then again, depends on whether or not the U.S. just adopts the flawed Method I methodology proposed by Basel, or it does again a sensible change and converts it to something that stabilizes the impact of currency fluctuation.

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**STEVEN CHUBAK:** Thanks, John. That's extremely helpful color. And maybe just switching to the revenue side of the equation, certainly the results in Private Banking and TTS have been quite strong. You alluded to within Private Banking a lot of the strength really being driven by the lending side. And didn't know if you could just give us some context as to how we should be thinking about the revenue outlook for that particular business and is this a reasonable jumping off point, where off of \$750 million we should expect to see pretty steady growth?

**JOHN GERSPACH:** Well, I don't think that you should count on 9% year-over-year growth every quarter, Steven. But we do have a very solid Private Banking franchise. And if I gave you the indication that the growth was primarily driven by loans, it's really a much more balanced growth coming out of both loans and deposits. And obviously it's being impacted by changes in the deposit spread as well.

**STEVEN CHUBAK:** Got it. And just one quick question, if I may, just on the NII side, I know you've given a lot of guidance. Last quarter, you noted that we should expect to see the NIM flat year-on-year. And I'm wondering, does that still apply to the core book at least, or does that guidance no longer hold?

**JOHN GERSPACH:** No, I would say that for the core book, we would expect NIM to be maybe up slightly year-over-year, and I'm hedging that bet only because we have seen a lot of growth in the cash balances. You can see now cash is almost 10% of our balance sheet at this point in time. And obviously, as that cash grows, it does impact the denominator of the NIM calculation and you get very little earnings off of cash, especially cash that we would have over in, say, EMEA. So I'll hedge a little bit on NIM going forward, but it should be up slightly. But, I'd ask you to focus a little bit more on net interest revenue growth.

**STEVEN CHUBAK:** Fair enough. Okay. Thanks 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:** Thanks. Hi, Mike and John.

**JOHN GERSPACH:** Hi.

**KEN USDIN:** It was nice to see the 10.2% RoTCE ex the disallowed DTA this quarter. We do know that it typically is the peak quarter for you guys in terms of the progression for the year. But, I was just wondering if you can just talk about those guideposts that you had given us, and your confidence in those out-year ROE targets that you've had, and just any changes that you're thinking underneath it?

**MIKE CORBAT:** So as I said, Ken, in my opening remarks and then John reiterated, is we remain committed to the numbers that we put out there, efficiency ratio, ROA and RoTCE ex. DTA. And again, I think our story is, one, where we've talked about, you can map out what looks like at this point a fairly typical, sequential ICG year, again with good momentum as we see things right now. And then, obviously, talking about the back half story in terms of consumer.

So we're hoping that the combination of revenue, control cost of credit, expense discipline carries through the cost of the year, and that's what the franchise is focused on. And then, as we go into the outer-years, the third or fourth lever in there is obviously capital return. And so, we want to continue to pull that lever and continue not just to focus on what the growth of the numerator looks like, but also focus on the denominator. And when we put those together, it gives us confidence in terms of what we've told you we're going to do.

**KEN USDIN:** And Mike, as a follow-up to that, we know we have the July Analyst Day coming up, and just wondering, is that more about just providing color on the current strategy, or should we expect anything

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different in terms of the overall company strategy? It's been a long time since you've done one of those so, just what should we be anticipating in general as we think about that?

**MIKE CORBAT:** Ken, I think it's another step in terms of what I described as the renormalization of the company. One thing, when I look at this quarter, that, in some ways, I feel quite good about is about what if I told you four, five, six years ago, we're going to have an earnings deck that can responsibly describe this firm in 11 pages. You probably would've taken pause at that.

And so, I think our ability to go in and I think really go granular with you in terms of the businesses and the things that we're doing, and I think a lot of the work that's being done from a client, from a digital perspective, and some of those things that either over lunch, or in meetings, or on these calls we don't get to do, and it's something depending on the reaction and how you see it, it's something we'd like to get into, whatever it comes to be as a normal rhythm of doing with you. So, I don't think there's going to be anything earth-shattering, but we plan on taking you deep into some of these strategies, and hopefully, showing you a few things along the way.

**KEN USDIN:** Got it, okay. Thanks, Mike.

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

**BETSY GRASECK:** Hi, thanks. Good morning.

**MIKE CORBAT:** Hi, Betsy.

**BETSY GRASECK:** Hey, a couple of questions just on the non-interest-bearing deposits. I heard you earlier talk about NIB and how it's not atypical to move from NIB to interest-bearing deposits over time. But, I'm just wondering, is there some seasonality as well in the first quarter that you're thinking happened here this year?

**JOHN GERSPACH:** No, I wouldn't put it on seasonality. There still is a lot of cash out there, and it's always looking to find a home. And so we attempt – especially on the corporate side – we attempt to accommodate our clients as best we can and you're just seeing that cash continue to build up.

**BETSY GRASECK:** And is there anything on the deposit beta side that we should be thinking about, how you're going to deal with deposit betas at this stage in the cycle? It's still low I know, but maybe you could give us a sense of how it's moved up over the last couple of quarters.

**JOHN GERSPACH:** It's actually been fairly stable. I mean, we saw a little bit of a change with the December rate hike, but it's minute at this point in time, Betsy.

**BETSY GRASECK:** So basically, when we're looking at the cost of funds on the liability side, the uptick has more to do with just a net shift to non-interest-bearing deposit – I'm sorry – a non-deposit funding. Is that a fair statement?

**JOHN GERSPACH:** That's a fair statement. It's mostly driven by changes in our long-term debt for the most part.

**BETSY GRASECK:** Okay. All right. Hey, thanks a lot, John.

**JOHN GERSPACH:** No problem at all, Betsy.

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



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**ERIKA NAJARIAN:** Hi, good afternoon. My questions have been asked and answered. Thank you.

**MIKE CORBAT:** Thank you, Erika.

**JOHN GERSPACH:** Thank you, Erika.

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

**GERARD CASSIDY:** Hi, John. Hi, Mike.

**JOHN GERSPACH:** Hi.

**GERARD CASSIDY:** Can you remind us, John, your capital ratio, your CET1 ratio, obviously, is 12.8%. In a more normalized environment, as we move forward, what's your guys comfort level of where you want that to be?

**JOHN GERSPACH:** Well, when Mike gave his opening comments, he talked about 11.5% being kind of at the upper end of a range as to what we would think we would need to have to run the institution prudently. And when you think about it, if you just look at our regulatory requirements right now, they're at about 10%, you add up the different buckets. We always want to have – at least now we're thinking about having a 100 basis point buffer on top of that, which gets you to 11%. There's still talk about maybe moving into that SCB type of – the Stress Capital Buffer – so that could take you to an 11.2%. And so somewhere between 11% and 11.5% I think is a good range to think about right now as to what we would need to prudently run the institution.

**GERARD CASSIDY:** Very good. If there's changes coming with the new appointments to the Fed, and they decide to do away with the capital charge that you and a few of your peers have for operating risk, how much capital is tied up in that area right now?

**JOHN GERSPACH:** Well, when it comes to op risk, we still have on the order of \$327 billion worth of risk-weighted assets tied up in op risk capital. But then, again, op risk capital is part of the advanced approach. So the next question becomes, do they stay with advanced approach, do they move to standardized? CCAR is based upon standardized. The whole derivation of the stressed capital buffer, again, was calculated in CCAR which basically is based upon standardized RWA. So I think that there's still some discussion to be had as far as what becomes the real focal point of the denominator. Is it the advanced approach, or is it the standardized?

**GERARD CASSIDY:** Sure. I noticed in the ICG this quarter, obviously, the trading activity was very strong for you and also for your peers. Your Treasury and Trade Solutions numbers was a nice 9% increase. Can you give us some color, aside from interest rates moving up, helping that business? What are some of the other factors that contributed to the growth of that business, considering it's one of the largest in the total banking number?

**JOHN GERSPACH:** Well, it's obviously client volumes. We continue to gain wallet share with our clients. You can see some of the statistics that get published by SWIFT and other things that we continue to gain share there. And we've got a very healthy commercial card business in Treasury and Trade Solutions as well. And that's been a real engine for growth during the last two years. And there's every indication that that should continue.

The nice thing about the commercial cards business, that gives us fee-based revenue, and so it diversifies the business away from just being focused on rates on balances. And with that commercial card business, again, once we win that mandate with a client, it helps us really work with their working capital management side of business and so it becomes very, very sticky over time.

**GERARD CASSIDY:** Great. And then just lastly, obviously you guys are global. Can you give us some color, given the European elections that are coming up and the political tremors we're seeing right now,

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how are the international markets today for your banking pipelines, trade finance? What are your guys in the front line seeing?

**MIKE CORBAT:** Well, obviously, everybody's watching, and we're watching French elections, we're watching the lead up to German elections. One of the things we're watching closely, obviously, is with Article 50 having been declared, what European engagement around what Brexit looks and feels like. So I would say in the case of the UK, it's clearly been a dampener in terms of activity in the UK, not a lot of inbound FDI, et cetera.

But I would say that on the continent, business actually remains fairly robust, and client engagement, you can look it from a calendar perspective what was done in Europe this quarter, equity debt and transactions in general, and we've had a little bit of volatility in terms of currencies and some things. And so I'd say the pipeline right now remains pretty strong. But, we'll see as we go through from round 1 to round 2 and where polling goes in terms of the French elections, I think people will be watching that transition or that segue pretty closely. But as of right now, things feel pretty reasonable.

**GERARD CASSIDY:** Great. Thank you.

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

**ERIC WASSERSTROM:** Thanks very much. Just two follow-ups on the – inside the Global Consumer Bank. The first is, you've talked about, John, in the past, the remediation that you had to do for all of the changes in Korea from the regulatory environment, and that had largely concluded, I think, at the end of last year. Are you seeing the reacceleration of revenue growth that you were hoping for in that region?

**JOHN GERSPACH:** Yeah – I want to make sure – I didn't say it was over, I said that the regulatory headwinds were abating, which they have and that's actually been what you've seen in the numbers now over the last couple of quarters as we've continued to have modest year-over-year revenue growth, 3% this quarter. And again, that's a good way of thinking about that business right now. It certainly isn't back to the go-go years where we had much higher revenue, but you can see the momentum building in that business as we work our way through the year.

**ERIC WASSERSTROM:** But in terms of the cost associated with complying with the changes and the regulatory environment there, has that diminished at all?

**JOHN GERSPACH:** Well, when we talked about regulatory costs in the past, it wasn't necessarily focused on Asia, it was more focused globally with a lot of it here in the U.S. And I'd say that cost is still running high, but it's plateaued. And that's given us now the opportunity to shift some of the investment more away from just doing regulatory work and put investment dollars towards supporting the businesses which has been great.

**ERIC WASSERSTROM:** Great. And then just one follow-up on Mexico. The investment that's going on there, what form is that actually taking? I know that there's been a lot of focus on physical branches and things, but where are those dollars being – where would they be manifested in the actual operations?

**JOHN GERSPACH:** Well, there's several components to the investment program in Mexico, Eric. Core technology upgrades, branch refurbishment, as you mentioned, ATM rollouts, we need to modernize a lot of the ATMs. And so, we're proceeding with those planned investments as we work our way through the year. I'd say that the pace of new branch construction has been a bit slower than we originally planned just due to some startup issues, but we're still on track on incur more than 30% of the total program cash spend this year – 2017. But naturally due to the fact that some portion of that cash spend is going to actually be capitalized, the impact on expenses will lag somewhat, and it's going to increase gradually over the next couple of years until it's fully reflected in our 2020 results.

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**ERIC WASSERSTROM:** Got it, great. Thanks very much for that.

**JOHN GERSPACH:** Not a problem.

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

**SAUL MARTINEZ:** Hi, good afternoon.

**JOHN GERSPACH:** Hi, Saul.

**SAUL MARTINEZ:** Hi. So a couple of more detail-oriented questions on Branded Cards. I just want to make sure I understand some of the numbers and some of what you said. First, on the yield, I think you mentioned that you kind of have hit a floor at 9.6% and you expect that to increase as the promotional balances on Costco go away and whatnot. Can you give us a sense of what you expect in terms of the glide path of that number, how that can progress over the second half of the year, and ultimately what kind of yield you can get in your branded cards portfolio?

And then on the credit quality in the Branded Cards, I think you mentioned Costco collections changed the collection process, seasoning and whatnot influencing the numbers this quarter. And you had about \$633 million of net credit losses in Branded Cards which is a big increase versus 1Q and 3Q. I guess it's fair to say that that's sort of abnormally high, and we should expect that run rate to normalize at a lower level in the coming quarters. Is that fair?

**JOHN GERSPACH:** Yeah, let's take the second half first. When you get to credit, the guidance that we've given you is that we expect for the full year, Branded Cards – and that's Branded Cards all in – to have an NCL rate of about 280 basis points. So first quarter was 311 basis points, full-year average 280 basis points, so yes, we expect it to decline as we go through the year and average out of that 280 basis points for the full year. So first quarter was definitely abnormally high, and again, some of that was just a Costco bubble, quote-unquote. We did have some startup issues with the Costco portfolio. That meant that there was some difficulty, people getting set up on payment plans that led to an increase in delinquencies. You saw the 90-plus-day delinquencies grow during the fourth quarter, and then they get washed out in the first quarter, and that's what hits the NCL this quarter. So absent that whole bubble, the NCL for Branded Cards in the first quarter was closer to 290 basis points. So we do feel really good about that guidance going forward as far as 280 basis points for credit.

Your question on yield, and when it comes to the yield, it's flattening at 9.6%, and now, yes, the expectation certainly is that it does grow. I agree with you that our expectation is that it does certainly grow, but I'm going to shy away from giving you an absolute number as to what it's going to grow to, only because there are so many factors that go into that, including the mix of promo balances, and if we end up with some more transactors those yield figures could possibly come down a bit, but yes, it should grow from here.

**SAUL MARTINEZ:** Okay. And that starts to really take place in the second half in a more meaningful way?

**JOHN GERSPACH:** Yeah. I mean, again, my expectation is that you should see some increase in yield first quarter into second quarter and then you should see a larger increase in yield second quarter to third quarter.

**SAUL MARTINEZ:** Okay. And on your Costco portfolio, how is the spend progressing, especially the spend outside of Costco?

**JOHN GERSPACH:** Again, the spend is doing well. Obviously it's a little hard for us to compare history right now because we've never seen Costco spend in the first quarter. We only had the portfolio since last June. But the out of store spend is still above that 70% figure.

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**SAUL MARTINEZ:** Okay. No, that's helpful. Thanks a lot.

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

**BRIAN KLEINHANZL:** Great, thank you. I have just two quick questions. I guess, maybe in a different way to look at the core accrual NIM that was 3.40% this quarter, what would that be ex-rewards and promotions?

**JOHN GERSPACH:** I don't have that I'm sorry.

**BRIAN KLEINHANZL:** Okay. And then I know you said legal repositioning is actually part of just the ongoing business as usual now, but previously you gave a guidance that it was about 2.25% of assets as an ongoing run rate. I mean, is that still what you would consider guidance, or is that, you expect to be lower in 2017, 2018?

**JOHN GERSPACH:** Well, we had said I think it was going to be 2% of revenue for 2017. And again, that was just a view as to where we thought it was going to be but even that we thought was a high figure compared to norm. We said it should reduce then over time. But think in terms of it being somewhere in that 2% range in 2017 if you want to think about what's in that efficiency rate and if that changes dramatically, we'll say something.

**BRIAN KLEINHANZL:** Okay. Great. Thanks.

**OPERATOR:** Thank you. We have no further questions in the queue at this time. I'd like to turn the call back over to management for closing remarks.

**SUSAN KENDALL:** Great. Thank you all for joining us today. If you have any questions, please feel free to reach out to Investor Relations. Again, thanks. We'll talk to you soon.

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

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