TRANSCRIPT

Citi Second Quarter 2018 Earnings Review

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Host
Susan Kendall, Head of Investor Relations

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

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Second Quarter 2018 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, Natalia. Good morning and thank you all for joining us. On our call today, our CEO, Mike Corbat, will speak first, then John Gerspach, our CFO, will take you through the earnings presentation, which is available for download on our website, citigroup.com. Afterwards, we'll be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectation 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 2017 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 $4.5 billion for the second quarter of 2018 or $1.63 per share. Our earnings per share were 27% higher than a year ago as a result of improved business performance, a lower tax rate and a continued reduction in shares outstanding. Our EBT was up 5% as a result of revenue growth in both sides of the house, combined with continued expense and credit discipline. Loans and deposits increased 5% and 4%, respectively.

Our efficiency ratio was 58%, 130 basis points better than a year ago; our return on assets was 94 basis points, 11 basis points higher than a year ago; and our return on tangible common equity improved to 10.8%, 300 basis points higher than a year ago.

Global Consumer Banking had 3% revenue growth, including 6% internationally. In Latin America revenue increased 11%, while underlying growth in Asia was 4%, in-line with our medium-term expectations. In the U.S., we continued to grow our Retail Banking business and we closed the acquisition of the L.L.Bean portfolio in Retail Services. And in U.S. Branded Cards, we saw strong interest-earning balance growth as our investments continued to mature.

Our Institutional Clients Group also grew revenue by 3%. While Fixed Income was in-line with what we forecasted, our Equities business had another strong quarter, up 19% from the year before. And our accrual businesses continued to show strong growth across the board, especially Treasury and Trade Solutions, Securities Services, Corporate Lending, and the Private Bank. Investment Banking revenue delivered another solid quarter with good growth in advisory and equity underwriting.

Taking a step back for a moment, it was almost a year ago since we brought you all together to lay out our 2020 targets, so I think this morning is a good opportunity to recap some of the progress we've made since Investor Day.

As you may recall, at the time, I spoke about three strategic priorities we would pursue to reach those financial targets.

First was to deliver sustainable client-led growth by deepening our relationships with existing clients and reaching new clients within our targeted segments. Next was to leverage our scale and investments in technology to enhance the client experience and improve our operating efficiency. And third was to optimize our capital base and return all the capital above the amount needed to prudently operate and invest in our franchise.

In terms of the first, you can see in our results over the past 12 months that we've continued to grow revenue and deepened client relationships across our franchise. We expected that, in some cases, we would outperform and in others we could underperform those growth expectations, but on balance, we're performing close to our medium-term goals. And importantly, much of that growth is being generated in stable accrual businesses – in Consumer and in areas like TTS, Securities Services and the Private Bank.

And we've had good success in many areas where we've been investing. Earlier, I mentioned Equities where last quarter we ranked sixth, just outside of our top five target. In Consumer, our Wealth Management capabilities have been enhanced both through branch base and digital outreach and we significantly increased the amount of Citigold households here in the U.S. Internationally, Mexico is starting to see the revenue levels we've forecasted as we execute our investment plan there, and our Asia franchise continues to grow. Clearly, U.S. Branded Cards have faced headwinds but we're seeing underlying momentum that gives us confidence in growth going forward.

On the second priority, we continue to drive our digital transformation and invest for growth while self-funding these investments through efficiency savings. We're focused on transforming the client experience across our franchise, driving digital solutions for both our Consumer and Institutional clients while lowering our costs through automation or other service improvements. These efforts are leading to lower call volumes per account and higher digital engagement by our clients. And, overall, we've improved our operating efficiency year-over-year for seven straight quarters and we are on track to reach the low-50s by 2020.

The third priority is capital return. Last July, we committed to return at least $60 billion through dividends and buybacks over three CCAR cycles, of course subject to regulatory approval. For the first cycle, we returned $19 billion of capital, and just last month we got approval for the second tranche, a return of $22 billion, including an increase in our dividend to $0.45 per quarter. So, our capital planning has been effective, reducing our common shares outstanding by over 200 million over the past year to just over 2.5 billion shares, which helped drive our EPS up by 20%.

So one year in, I'd have to say that I'm pleased with the progress we've made. For the first half of 2018 our return on tangible common equity was just over 11% and we expect to remain ahead of our 10.5% target for the full year. We're on track to bring our efficiency ratio down to roughly 57% with a return on assets above 90 basis points.

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

JOHN GERSPACH: Thanks a lot, Mike, and good morning, everyone. Starting on slide 3, net income of $4.5 billion in the second quarter grew 16% from last year, as growth in operating margin was partially offset by higher credit costs and we benefited from a significantly lower tax rate.

EPS grew 27%, including the impact of an 8% reduction in average diluted shares outstanding. Revenues of $18.5 billion grew 2% from the prior year, driven by higher net interest revenues. And expenses were flat, as higher volume-related expenses and investments were fully offset by efficiency savings and the wind down of legacy assets.

Our efficiency ratio was 58% for the quarter, over 100 basis points better than last year, representing the seventh consecutive quarter of year-over-year efficiency improvement. And cost of credit increased 6%, driven by volume growth and seasoning in Consumer.

In constant dollars, Citigroup end-of-period loans grew 5% year-over-year to $671 billion. GCB and ICG loans grew by $40 billion in total, with contribution from every region in Consumer as well as TTS, the Private Bank and traditional Corporate Lending.

Now, looking at the first half of 2018, we generated modest revenue growth and positive operating leverage, with roughly 90 basis points of improvement in our efficiency ratio. EPS grew by 26%, including the benefit of share buybacks as well as the lower effective tax rate. Our return on assets was 96 basis points and our RoTCE was just over 11%, positioning us well to exceed our target of 10.5% for full-year 2018.

Now, before we go into the second quarter in more detail, let me build on some of the comments Mike made earlier on our progress since Investor Day on slide 4. We remain committed to improving RoTCE through a combination of client-led revenue growth, expense discipline and significant capital return.

As we've noted before, our plan is balanced across regions and businesses with no outsized reliance on macro drivers including interest rates. And we believe our results over the last 12 months represent solid progress. As you would expect, certain businesses have outpaced our medium-term growth expectations while others have lagged. But, on balance, we generated roughly 4% growth in our core businesses.

In Consumer, revenues are up 4% in constant dollars, slightly below our 5% medium-term goal. In North America, our Retail Banking and Retail Services businesses are broadly on pace. And while U.S. Branded Cards has grown 1%, we are seeing underlying improvements in 2018 that gives us confidence in a stronger trajectory going forward. In Asia, we've outperformed our 4% medium-term growth target, driven by strength in Wealth Management revenues. And while Mexico was somewhat below its 10% target, we've seen an improving growth trend over the past few quarters.

In our Institutional business, we're broadly tracking to our 4% medium-term growth target. Fixed Income Markets have been challenging, but we've offset this pressure with solid double-digit revenue growth in our accrual businesses, TTS, Corporate Lending, Private Bank and Securities Services, and we're also seeing significant growth in Equities.

We've ramped up investments across the franchise to support this client-led growth, but over the past year, we've been able to fully offset this additional spend and volume-driven growth through efficiency savings and the wind down of legacy assets, resulting in flat expenses in total.

Credit costs have increased, but we remain well within our medium-term loss rate guidance and credit quality remains broadly stable across the franchise.

Over the past year, we repurchased roughly 8% of our shares outstanding, contributing to EPS growth of 20%. And our total capital return increased by over 50% to roughly $19 billion. As Mike noted earlier, we recently announced plans to return an additional $22 billion in dividends and buybacks over the next 12 months.

Now, we recognize there is significant work yet to do, but we believe we're solidly on track to achieve our targets, and I'll speak more about our outlook in a moment.

Turning now to the second quarter. Slide 5 shows the results for Global Consumer Banking in constant dollars. Net income grew 15% in the second quarter, driven by operating margin expansion and a lower tax rate partially offset by a higher cost of credit. Total revenues of $8.3 billion, grew 3% year-over-year with contribution from every region and product.

Global Retail Banking revenues grew 6% in the second quarter, reflecting growth in loans and AUMs even as we continue to shrink our physical branch footprint. And Global Cards revenues were up 1%.

Slide 6, shows the results for North America Consumer in more detail. Second quarter revenues of $5 billion were up 1% from last year. Retail Banking revenues of $1.3 billion grew 4% year-over-year. Mortgage revenues continued to decline, mostly reflecting lower origination activity and higher funding costs. However, we more than offset this pressure with growth in the rest of our franchise. Excluding mortgage, Retail Banking revenues grew 9%, driven by continued growth in deposit margins, growth in investments and increased commercial banking activity.

Average deposits declined 3% year-over-year, primarily driven by a reduction in money market balances as clients put more money to work in investments. In keeping with this focus on Wealth Management, assets under management were up 8% year-over-year to $61 billion.

We continue to see positive momentum in Citigold with households up over 20% year-over-year and we're continuing to drive towards the next stage of our transformation by starting to roll out national digital banking. We launched the first set of foundational features in May on our mobile app, including the ability for Retail Banking clients to view and analyze their full financial position across firms. The next step will be the rollout-enhanced deposit taking capabilities through both online and mobile channels over the coming months, along with a broader marketing campaign. This is just the start of a wider launch across the full spectrum of deposit taking, borrowing and advisory services with the goal of building full service relationships through these digital channels.

Turning to Branded Cards. Revenues were down 1% from last year, including the impact of the sale of the Hilton portfolio. Excluding Hilton, Branded Cards revenues were up 1%, with underlying revenue growth of 2% being offset by the impact of previously mentioned partnership terms that went into effect earlier this year. In addition, during the second quarter, we recorded a gain of roughly $45 million in Branded Cards related to the sale of Visa B shares. However, this gain was partially offset in the second quarter by the impact of repricing actions on a small portion of our card accounts, related to the previously disclosed issues with APR rate reevaluations under the CARD Act. For the full-year, we expect the impact of these repricing actions to be roughly $50 million. So together, the Visa B gain and the repricing actions are neutral to revenues in 2018.

In total, we continue to expect Branded Cards revenues, excluding Hilton, to be roughly flat this year on a reported basis with around 2% underlying growth, driven by continued strong client engagement, loan growth and improved mix. This is similar to what we saw in the second quarter.

Excluding Hilton, purchase sales grew 10% year-over-year in the quarter and average loans grew 5%, including 6% growth in interest-earning balances as recent vintages continue to mature.

Our net interest revenue percentage declined sequentially as expected, but we continue to expect the net interest revenue percentage to improve sequentially beginning this quarter. This improvement should continue into the fourth quarter and then translate into a year-over-year increase in the NIR percentage in 2019. As the mix of interest-earning balances continues to improve, we believe our underlying growth will accelerate in 2019, resulting in modest reported growth next year, even considering the Hilton and Visa B gains we took in 2018.

Finally, Retail Services revenues of $1.6 billion grew 1%, driven by higher average loans. This growth rate is likely to accelerate over the next few quarters reflecting the recent acquisition of the L.L.Bean card portfolio, which added $1.5 billion of high-quality receivables at quarter end.

Total expenses for North America Consumer were up 3%, including a provision of approximately $50 million for an industry-wide legal matter. Excluding the impact of this provision, expenses were up 1% as higher volume-related expenses and investments were largely offset by efficiency savings.

Turning to credit, net credit losses grew by 8% year-over-year and we built roughly $117 million of loan loss reserves this quarter, each driven by volume growth and normal seasoning. Our NCL rate in U.S. Branded Cards was 304 basis points, in-line with an NCL rate in the range of 3% for 2018. And in Retail Services, our NCL rate was 507 basis points, which is also consistent with our outlook for an NCL rate in the range of 5% for 2018.

On slide 7, we show results for International Consumer Banking in constant dollars. Second quarter revenues of 3.2 billion grew 6% with contribution from both regions.

In Latin America, total consumer revenues grew 11%. Retail Banking revenues grew 12% in the second quarter driven by growth in loans and deposits. And Card revenues grew 9% on continued growth in purchase sales and full rate revolving loans.

Turning to Asia, Consumer revenues grew 2% year-over-year in the second quarter and were up 4%, excluding the benefit of a modest one-time gain in the prior year. Retail Banking revenues grew 4%, reflecting continued strength in wealth management despite a sequential slowdown in investment revenues. And excluding the one-time gain last year, Card revenues also grew 4% on continued growth in loans and purchase sales.

In total, operating expenses were up 4% in the second quarter as investment spending and volume-driven growth were partially offset by efficiency savings. And cost of credit grew 11%, reflecting loan growth as well as a reserve release in Asia in the prior year period.

Slide 8 shows the Global Consumer credit trend in more detail. Credit continued to be favorable again this quarter with NCL and delinquency rates broadly stable across regions.

Turning now to the Institutional Clients Group on slide 9. Revenues of $9.7 billion increased 3% from last year, driven by continued momentum in our accrual businesses along with a strong performance in Equities this quarter.

Total Banking revenues of $5.2 billion grew 6%. Treasury and Trade Solutions revenues of $2.3 billion were up 11%, reflecting higher volumes and improved deposit spreads with solid growth across both net interest and fee income. Investment Banking revenues of $1.4 billion were down 7% from last year as growth in M&A and equity underwriting was more than offset by a very strong prior year comparison in debt underwriting. Private Bank revenues of $848 million grew 7% year-over-year driven by growth in clients, loans and investments, as well as improved deposit spreads. And Corporate Lending revenues of $589 million were up 22%, reflecting loan growth as well as lower hedging costs.

Total Markets and Securities Services revenues of $4.5 billion were down 1% from last year. Fixed Income revenues of $3.1 billion declined 6% year-over-year, reflecting a more challenging market environment, as well as a comparison to a strong prior year period in G10 rates and securitized products. We continued to see strong corporate client activity this quarter, in particular in G10 FX and local markets. Equities revenues were up 19% with growth across all products, reflecting the benefit of continued higher market volatility, as well as continued momentum with investor clients, in line with our investment strategy. And finally, in Securities Services, revenues were up 12%, driven by growth in client volumes and higher interest revenue.

Total operating expenses of $5.5 billion increased 4% year-over-year, reflecting higher compensation cost and an increase in business volumes, along with higher levels of investment spending, partially offset by productivity savings. And finally, cost of credit remained benign this quarter.

Slide 10 shows the results for Corporate/Other. Revenues of $528 million declined 20% from last year, driven by the wind-down of legacy assets. Expenses were down 40%, also reflecting the wind-down, as well as lower legal and infrastructure costs. And pre-tax income was $47 million this quarter, better than our outlook, reflecting recoveries and cost of credit related to the sale of legacy mortgage assets, as well as lower legal expenses.

Looking ahead, we believe an outlook for pre-tax losses in the range of around $100 million to $150 million per quarter in Corp/Other is a fair run rate for the remainder of 2018. This is a further improvement from our prior outlook based on higher Treasury revenues given the higher rate environment, as well as continued lower infrastructure expenses.

Slide 11 shows our net interest revenue and margin trends. As you can see, total net interest revenue of $11.7 billion this quarter grew roughly 4% from last year as growth in core accrual net interest revenue was partially offset by lower trading related net interest revenue, as well as the wind-down of legacy assets in Corp/Other.

Core accrual net interest revenue grew by $1 billion year-over-year, and our core accrual net interest margin improved by 13 basis points to 360 basis points, driven by rate increases, loan growth, and an improved loan mix versus last year. On a sequential basis, core accrual revenues grew approximately $550 million, reflecting the benefit of higher rates as well as loan growth, along with the impact of one additional day in the quarter. And our core accrual net interest margin also improved by 6 basis points, primarily reflecting higher rates.

Looking ahead for the remainder of the year, we are updating our prior outlook for growth in core accrual net interest revenue from roughly $2.7 billion to $3.4 billion for full year 2018, reflecting loan growth, improved mix, and lower than expected retail deposit sensitivity in the first half of the year, as well as an additional rate hike in September that had not been included in our original outlook.

In the first half of 2018, our core accrual net interest revenue grew by nearly $1.8 billion year-over-year. So, this implies second half growth should come in just slightly lower than that. Although the retail deposit betas have run lower than anticipated so far this year, we do expect higher sensitivity going forward, which is reflected in our outlook.

Finally, we continue to expect legacy asset-related net interest revenues to decline by about $500 million this year as we wind down that portfolio. And trading-related net interest revenue will likely continue to face headwinds in a rising rate environment as we saw in the first and second quarters.

On slide 12, we show our key capital metrics. Our CET1 capital ratio remained roughly flat sequentially at 12.1% this quarter as net income was offset by $3.1 billion of common share buybacks and dividends. And our tangible book value per share increased slightly to $61.29.

Before we go to Q&A, let me spend a few moments on our outlook. For the third quarter, in ICG, Markets and Investment Banking revenues should reflect the overall market environment. However, we would typically expect seasonally slower activity versus the second quarter. We expect continued year-over-year growth in our accrual businesses as we continue to serve our target clients across our global network. And keep in mind, on a year-over-year basis, we will be comparing to a third quarter last year that included a gain of roughly $580 million on the sale of Yield Book, a Fixed Income analytics business.

In Consumer, in North America, we should see continued progress in Retail Banking and Retail Services, including a full quarter contribution from L.L.Bean. U.S. Branded Cards growth will continue to be impacted by the Hilton sale on a year-over-year basis. However, we do expect the net interest revenue percentage to improve sequentially beginning this quarter as our loan mix continues to improve. We expect continued year-over-year revenue growth in Asia and Mexico. And additionally, we expect to generate a gain of roughly $250 million on the sale of our asset management business in Mexico this quarter.

Total Citigroup expenses should continue to decline sequentially as you saw in the second quarter. Cost of credit should increase, reflecting normalization in ICG and Corp/Other. And the tax rate should be just under 25%.

Now, taking a broader look at revenue and efficiency trends for the second half of 2018, we expect total revenue growth to come in slightly higher than the 2% year-over-year growth we saw in the first half of the year. Expenses should continue to decline sequentially in both the third and fourth quarters. And this should keep us on pace to again deliver roughly 100 basis points of efficiency improvement, similar to what we achieved in the first half of the year.

We think about our expense base in a few components, as we described at Investor Day last year. First, there are volume-related expenses that will grow over time as we expand our franchise. Second are the incremental investments we are making to both deepen our client relationships and improve the efficiency of our operations. We estimated these incremental investments at roughly $1.5 billion by full year 2020. Third are the efficiency savings we expect to realize in order to offset these volume-related costs and investments. These, we estimated at roughly $2.5 billion by 2020. And then finally, we have expenses related to legacy assets which are shrinking over time.

If you look at what we've achieved so far over the past year, we've deployed nearly half of the $1.5 billion of incremental investments with a somewhat heavier emphasis in Consumer initially, and now across both Consumer and ICG. And at the same time, we've only realized roughly a third of the estimated $2.5 billion of efficiency savings. If you do the math, you'll see that the incremental investments were funded through efficiency savings over the past year, while other volume-driven expenses were essentially offset through the wind-down of legacy assets.

So, we're not yet at a point where the efficiency savings are outpacing the incremental investment spend, but that should change as we go forward. In fact, as we have gotten better line of sight into the $2.5 billion of efficiency savings, we believe there could be upside to that figure. This would give us the flexibility to invest more into the franchise or we could also let those benefits drop to the bottom line depending on the environment.

If you look at the existing $2.5 billion of planned savings, the largest component is in Consumer with $1.5 billion of efficiency benefits. As you would expect, many of those benefits are driven by our digital transformation. First is how we're using digital to engage with our clients, shifting consumer activity to more convenient and efficient channels. Second is how we're using technology to streamline our own operations, things like straight through application processing, the use of Big Data, and branch optimization. And third, a portion of the savings should come from more conventional initiatives, for example, using lower cost locations, improving procurement, and process reengineering.

The second and third buckets, which are largely in our control and do not rely on changes in consumer behavior, comprise over three-quarters of the planned efficiency savings. And on the portion that is tied to client engagement, we are seeing good progress.

Digital and mobile usage is up across all regions. E-statements and e-payment penetration rates are rising. Agent-handled call volume per account is continuing to decline, and this is contributing to a continued decline in operations cost per account.

So, while there's a lot of work still to be done, we have a good line of sight into our efficiency drivers, both in Consumer and across the franchise. We remain confident in our ability to drive an improvement in

Citigroup operating efficiency of roughly 100 basis points in 2018, and then a further 400 basis points improvement by 2020, in line with our goal of reaching the low 50% range.

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

QUESTION AND ANSWER

OPERATOR: Your first question is from the line of Glenn Schorr with Evercore.

GLENN SCHORR: Hi. Thanks.

JOHN GERSPACH: Hi, Glenn.

GLENN SCHORR: Hello. So in ICG Corporate Lending, the rev is up 22%, as you pointed out. I'm curious, the combination of, A, biggest drivers of that loan growth; and if you think that actually improves as all the tax regime filters through; and B, the other part of your comment would help, that was lower hedging cost. And I thought that I was a little curious in a world where rates are rising, so one mathematical and one more related to growth.

JOHN GERSPACH: These lower hedging costs, that's something we've actually talked about, I think, for the last several quarters. And it's a combination of two things, Glenn. Some of it is we've reduced the actual amount of hedges that we've put on. And if you think about some of the things that have happened in the past year, the energy sector, for instance, has stabilized. And so, that's an area where we've been able to lower some of our hedging exposure. And then additionally, we've also, I think, put in some more effective hedging strategies. And so, those two combined for the benefit that we've gotten in the hedging cost.

As far as the overall growth in Corporate Lending, I think, it is pretty widespread. If you look in the back of the deck somewhere around slide 23, 24 – how about 24. You see the growth in end-of-period loans is pretty widespread across regions with the exception of Latin America, and Latin America is being hit a little bit by the slowdown in Brazil, otherwise, there's still good volume growth elsewhere. But you can see, year-over-year, 9% growth in North America, 16% growth in EMEA, 8% growth in Asia. And on a linked-quarter basis, we've gotten still some decent growth coming out of North America and EMEA.

And if you go into the supplement, we give you the breakdown of the loan growth by product for ICG. And you can see, it's all those things that I talked about on those comments. It's TTS, it's traditional Corporate Lending, so it's pretty widespread.

GLENN SCHORR: Awesome. One more growth question, if I could, this one in North American Cards. Curious if there are one or two products you're most confident in that's going to drive that pickup in the second half in 2019.

JOHN GERSPACH: Well, the pickup, Glenn, it's driving from two broad themes that we've talked about, I think, last time. One is we've started to see and we expect to continue to see the run-off in promotional balance. We've adjusted some of those terms that we had on the card last year, and we've reduced the overall volume of new promotional activity that we've had. So we've got a very good line of sight to the reduction in the promotional balances. So, those are obviously accounts that cost us money, right? I mean, we don't earn anything on a promo balance and I've got to fund it.

At the same point in time, we continue to see those promotional balances transition into full rate revolving balances at just about the rates that we've been modeling. The flipping rate, I think I got asked the question last quarter on what's the rate of conversion, and I said it was just under 50%, and that rate has held. It's actually inched up just a wee bit, but I'd still say it's just below 50%. So, we're getting a good conversion activity as promotional balances run off and they flip into full rate revolving balances. That's one of the reasons why full rate revolving balances have grown 6% year-over-year.

So, again, we feel very good about those underlying metrics in U.S. Branded Cards. You'll see that change now, that change in trajectory in net interest revenue percentage has been declining fairly steadily for a couple of years now and this should be the bottom quarter.

Next quarter, the expectation is that net interest revenue percentage increases, and then it increases again in the fourth quarter. And what we should see is in 2019, on a full year basis, the interest revenue percentage should be higher than the overall net interest revenue percentage that we had in 2018.

GLENN SCHORR: Awesome. Thanks, John.

JOHN GERSPACH: No problem.

OPERATOR: Your next question is from the line of John McDonald with Bernstein.

JOHN MCDONALD: Hi, John. Thanks for the comments about the trajectory of your investment spend versus the cost saves. That was helpful to thinking about your path of efficiency improvement. So, I just want to reiterate, based on the targets and the pickup in saves you're expecting, this year, you're kind of running at a pace for about 100 basis point efficiency improvement. And it sounds like that's going to accelerate next year to kind of a 200 basis point improvement pace starting next year, I guess?

JOHN GERSPACH: I would put it this way, John. Absolutely, a 100 basis point improvement, that's what we're targeting for this year and we've got confidence in our ability to hit that. The next 400 basis points, whether it comes in 200 basis points, 200 basis points; 180 basis points, 220 basis points, I don't want to get too specific about that. We'll have more to say on that as we get closer to the year and we take a look at the budgeting. But, yeah, it will be 400 basis points of improvement over the next two years, and we will get to a low 50s operating efficiency in 2020.

JOHN MCDONALD: Got you. Okay. Fair enough. And then just on the Global Consumer, Asia consumer growth decelerated somewhat this quarter from a 7% pace to something like more like 4%. I'm sorry, if I missed it, if there's some special items there, but what drove that deceleration there?

JOHN GERSPACH: Client activity was fine. There was a little bit of a slowdown in investment activity. I think I mentioned that in the commentary. That's somewhat of a sequential thing you get from the first quarter to the second quarter. And it was also – there was a couple of small non-recurring items that occurred in the first quarter. Nothing big enough to call out, but again, it's just a little bit of noise as you go through the sequential comparison.

JOHN MCDONALD: Okay. And then just the opposite trend, Latin America accelerated to 11%, kind of in line with what you've been targeting for Mexico for the Investor Day targets. Is that a pace that you can maintain going forward or there's some factors that we should keep in mind that were special this quarter?

JOHN GERSPACH: Woah there, big guy. All right. I would never want to point to 11% as being a sustainable trend, but – because every quarter, we've got one or two little things in it. But what we do like is the fact that if you take a look over the last four quarters, that rate of growth has been accelerating. I think we were at 4% rate of growth four quarters ago, then we went to 6%. Then, last quarter, it was either 8% or 9%. Now, we're up to 11%, and that – and really, what we're thrilled with is the fact that the underlying drivers are there.

You take a look at the Cards business, all last year, we were talking to you about the fact that the Cards business was now just beginning to lap some of the restructuring efforts, the repositioning efforts that we had in place, and now, you're seeing that really hit its pace. So, I don't want you to think that 11% is going to be every quarter. But again, over the next two and a half years, it'll be at or close to that 10% CAGR that we put out at Investor Day.

JOHN MCDONALD: Got it. Thank you.

JOHN GERSPACH: Okay.

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

JAMES MITCHELL: Hey, good morning.

JOHN GERSPACH: Hey, Jim.

JAMES MITCHELL: Hey. Maybe just a follow-up on sort of the growth outside the U.S. It's obviously been ticking up, but I think investors are pretty concerned about what we've seen lately in terms of emerging markets or at least equity markets and tariffs and NAFTA. How do we think about the, I guess, the risks to the improving story? How do you guys – how can you frame it for us to be more comfortable that these businesses are pretty sustainable in some of these headwinds?

MIKE CORBAT: Well, Jim, first, I would say that when we look at the trade rhetoric, it certainly introduced volatility, but we haven't yet really started to see any significant changes in behavior. Second piece is when you think about where and with whom we operate in emerging markets, we're operating there typically with the multinationals. And the multinationals take a pretty consistent long-term approach to their business, our relationships are broad.

And in here, if you kind of play this out to a certain end, supply chains or trade routes may realign, but they don't go away. And with the network we have, we're simply going to be leading and realigning with them to be partnering in terms of what they choose to do if it's different from what it is today. So, we haven't seen changes in behavior of any significance. And so, right now, it's the rhetoric we're tracking. I think the markets have the fears of what that rhetoric leads to, but at this point, we're not seeing it coming through the numbers.

JAMES MITCHELL: Okay. That's helpful. And then maybe you talked about expenses actually a little bit ahead of expectations on the consumer side. It might give you some flexibility to invest more or let some flow to the bottom line, but how do we think about where those incremental investments could go? Would it be more to accelerate efficiency saves potentially, say, in the institutional side? Or would it be more for revenue growth driven those investments or a combination of both? How do we think about where that incremental savings could go?

JOHN GERSPACH: Jim, one of the things, we haven't decided what to do with those incremental dollars as yet. That's something that we'll get more into as we get into the fall in our traditional budget making, and we'll have more to say on all of that as we get into the fall maybe around the next earnings call. But I think we would look at a combination of both revenue growth investments and continued efficiency. And at some of these things, it would be advancing investments, maybe would have been in our minds, something that we would have done in 2021 or even 2022 and just bring those things forward. So, we haven't made any decisions yet. But I think the important thing from an investor point of view is the understanding that the $2.5 billion is going to be higher. We're not struggling to get to the $2.5 billion.

JAMES MITCHELL: Right. No, that's fair. Just wanted to see if you had any kind of, at least some examples of what you think you could accelerate, some of those 2021 type investments, what some of those areas could be.

JOHN GERSPACH: Jim, my fear is that if I start giving –

JAMES MITCHELL: If you don't want to share yet, that's fine.

JOHN GERSPACH: No, no, it's worse than that. If I start giving you examples, any example I give is going to be linked to a business guy. And the first thing he's going to do is make a beeline in my office and say, so then I can increase my budget? So, no, not yet. We're still going to be making those decisions.

JAMES MITCHELL: All right. Fair enough. Thanks.

JOHN GERSPACH: All right.

OPERATOR: Your next question is from the line of Matt O'Connor with Deutsche Bank.

MATTHEW O'CONNOR: Hi.

JOHN GERSPACH: Hey, Matt.

MATTHEW O'CONNOR: Another question on the efficiency. You talked about the full year improvement in 2018, about 100 basis points. I think you're running about 133 basis points so far. And I guess as I looked to the back half of the year, I would have thought there might be opportunity to expand on that. I think the second half revenue comps are hopefully relatively easy and it sounds like you're pretty confident on the expense side. So, I just want to push a little bit on the second half efficiency guide.

JOHN GERSPACH: Yeah. Well, don't forget, we do have a little bit of a tough comp, I mentioned it in the outlook, anything that we compare to. We did have that $580 million gain last year on the Fixed Income analytics business, Yield Book. So, that goes away as far as from a year-over-year comp.

And also, while we continue to benefit from the wind-down in legacy assets, that does tend to abate, right? I mean, the expenses, as they run off, there's less of them to run off.

So, we're confident in that 100 basis point improvement, but I certainly wouldn't want to commit to anything more than that. Just now, obviously, we'll give you more update as we get it, but we're confident in that 100 basis points.

MATTHEW O'CONNOR: Got it. And just changing directions, within U.S. Card, I think you've announced that you've changed or eliminated the promotional pricing related to the Costco portfolio. I think the Citi-Branded effort on the promotional pricing balance transfers, it's still out there and seems to be pretty aggressive. Any thoughts on tweaking that to not be as generous?

JOHN GERSPACH: We have plans in place to tweak all of our offers. You can think about it as we've got a rollout schedule in mind. We don't want to completely take some of the juice for future revenue growth off the table. So, we've taken certain actions. There's certain other actions that we've got planned. All of that is embedded in that outlook that I've given you.

MATTHEW O'CONNOR: Okay. I mean, I guess, a bigger picture question is, you've clearly made a lot of investments in Card over the years. And I think several years ago, you improved the customer service, some of the systems. Now, you've been ramping up on some of the offerings and it's gotten very competitive, I think, in terms of what you are providing to customers. But it feels like there should be some bigger payback at some point beyond just 1% or 2% revenue growth. So, I don't know if you kind of looked out beyond next year, if you see a more material acceleration, or if you could just talk to that kind of conceptually of all the efforts in Card. When do you get more robust revenue growth out of those?

MIKE CORBAT: I think you can't just look at the revenue side of things. You need to look at the expense side because, again, a lot of the investments we're making are in this transformation from what has historically largely been an analog business to a digital platform. And, obviously, we're in the stages of making those investments and, in many cases, running new and parallel processes, so actually incurring the expense of both.

And as John mentioned and I mentioned in my preamble, we've had very good success at reducing the calls per account and transforming those into digital interactions, which generate significant savings. That's – the uptakes, we think, have been strong and it's accelerating, and we think that continues to accelerate. And then, over time, we get to pull out the analog and largely run on the back of the digital platforms that we've built, and that should manifest itself largely in the expense line.

JOHN GERSPACH: And, Matt, if you go back to Investor Day, we had targeted Branded Cards for a CAGR of 3%. And so, that's still – when we get comfortable with the fact that we can meet or beat that 3%, then we can start talking about a little bit of upside. But again, we do like what we're seeing right now in those underlying drivers, and it certainly has given us the confidence in the fact that this is a business that this year, flat revenues with a 2% underlying growth, and next year, we should be able to see a – it's something around maybe a 2% growth overall, even with the grow-over that we've got to do with Hilton and the Visa B gain.

MATTHEW O'CONNOR: Okay. Thank you.

OPERATOR: Your next question is from the line of Mike Mayo with Wells Fargo.

MIKE MAYO: Well, this might be a record for the number of questions on efficiency, but I'll try again. Can you hear me?

JOHN GERSPACH: Yes, very much, Mike.

MIKE MAYO: I'm just going to repeat what I think I heard you say. So, you expect expenses to be down sequentially in the third and the fourth quarter, and you expect to have savings above the $2.5 billion. On the revenue side, you said revenue growth should accelerate on year-over-year comparisons for the third and fourth quarter, and NIR should be higher from $2.7 billion to $3.4 billion. Is that correct?

JOHN GERSPACH: Yeah. Obviously, the NIR is part of the accelerating revenue growth, and the $2.5 billion of savings is not a 2018 number. It's the $2.5 billion of savings that we said that we would get from 2018 through 2020. So, you've got all of the facts. I just want to make sure that you're linking them properly.

MIKE MAYO: Okay. So, why not more than 100 basis points of efficiency savings this year? Why not more than, say, 200 basis points of savings next year? I guess, that's for you. But then, Mike, a bigger picture, where is Citigroup between investing and harvesting? Of course, you're always investing in your business, but you had a lot of front-loaded investments. And a lot of times, the consensus estimates wind up having efficiency going a lot lower, then you say, well, we have to invest more in Mexico or we have to invest more in credit card, we have to invest more in something else, maybe it's digital banking now. So, are there any other major investments like that, that could come our way, where we say, well, that efficiency progress might be delayed from what we said? So, the big picture about investing versus harvesting, and then the specifics, why can't you have more than 100 basis points of efficiency saves this year?

MIKE CORBAT: Why don't I start with the first part. So, one is I think we've been very transparent in terms of the investments that we've been making and where we've been making them. And I think we've laid out, as John talked about, the Consumer business, the saves and the investments there. So, I don't think there's anything we're going to surprise you with in terms of new investments. I wouldn't leave on the table, where the opportunities present themselves, to actually pull some investments forward where we think the paybacks are strong. So in there, as well as John said, when we get into the budget, we're going to be looking at opportunities that we have in the firm of where we can make investments and get some strong near-term savings and paybacks, and that's why, at this point, we really don't want to commit to exactly how the 400 basis points breaks out between 2019 and 2020, because we may have some things that we can pull forward that actually cost us a little bit in 2019 but have the ability to pay back in 2020.

JOHN GERSPACH: But nothing's going to change as getting to the low 50s by 2020.

MIKE MAYO: Okay. And the digital banking effort, does that involve a large incremental spend?

JOHN GERSPACH: There's two aspects to the spend, Mike, both of which are embedded in the investment dollars that we've been talking about. One is there's obviously some level of technology development as you're developing new features and functions on the apps and you're introducing those then. And the second would be a marketing campaign to make sure then that customers are aware of the capabilities that you have and how those capabilities can help solve their needs.

So, I would say there's two elements of that spend. Both elements are in the $2.5 billion. Both elements are in the 100 basis points of improvement for this year. Both elements are in the path to us getting to the low 50% efficiency ratio by 2020.

MIKE MAYO: Got it. Thank you.

JOHN GERSPACH: Okay. Thank you

OPERATOR: Your next question is from the line of Betsy Graseck with Morgan Stanley.

BETSY GRASECK: Hi. Good morning.

JOHN GERSPACH: Hi.

BETSY GRASECK: I had a little more recent question, but just on the NII uptick and strengthened NIM this quarter. Could you just give us a sense as to...

JOHN GERSPACH: You sure, Betsy, you don't want to ask something about operating efficiency? It seems to be the topic.

BETSY GRASECK: Well, you want one on that?

JOHN GERSPACH: No, no, no. No, no. I'll take net interest for 20, please.

BETSY GRASECK: So, you had a nice pickup, right, in NIM this quarter, first time in a while. So just wanted to get a sense as to why we should expect that that's going to be sustainable. And in particular, can you speak a little bit to the NII lift that you had in the institutional segment as well? Because it was obviously 2% year-on-year, but 12% Q-on-Q. So, wanted to understand what's going on there.

JOHN GERSPACH: Yeah. Betsy, maybe the best thing, if you look at slide 11 that we've given you on the net interest, we've put everything in constant dollars so that you don't get FX changes sort of clouding your picture. And then, when you take a look at every individual quarter, there's always day count issues.

So, maybe look at the bottom of that page and take a look at the core accrual net interest revenue per day, and I think that what you're going to see is we actually started to see an acceleration in net interest revenue, core accrual net interest revenue last quarter.

You saw how we went from $113.5 million a day in the fourth quarter to $116.9 million per day in the first quarter, and now some additional growth up to the $121.6 million. So, we've actually – this is actually two quarters in a row now of good acceleration in our core accrual net interest revenue.

And in both of those quarters, the growth, it's roughly the same. It's about 50% of the growth being contributed through the ICG, the Corporate business, and that's tied into the loan growth, the growth in deposits. We've got some incremental spread on some of our trade loans this quarter. So, all of that is embedded in it. That's about half of it. And then the other half is somewhat split 50/50, 60/40 between the Consumer business and Corporate Treasury, where we continue to benefit from the higher rates, and in Consumer from the growth in volumes, particularly some of the volumes we talked about in Asia, in Mexico, and now with the growth of the full rate interest earning balances in Branded Cards.

So, all of that is embedded. But I don't want you to think that it was just a phenomenon that suddenly happened in the second quarter. It's actually two quarters in a row now of what I would call fairly good sequential growth in our net interest income.

BETSY GRASECK: Okay. No, that's fair. I guess part of the question, too, is around the trading related NII, which, with the flattening curve, has been under pressure, yet in 2Q improved. So, maybe we can get some color on that as well.

JOHN GERSPACH: Yeah. Every second quarter, there's dividend season in Europe. And so we get into some special trades in the second quarter. If you look at last year, the first quarter of 2017 compared to the second quarter of 2017, you'll also notice that trading-related net interest revenue increased from the first and second quarter last year.

It was $140 million last year. It's – what is it, $180 million this year. It really is just that seasonal dividend season trade that ends up being transacted in Europe.

For the most part, we still expect the headwinds to be there for net interest revenue in trading.

BETSY GRASECK: Got it. And so your outlook for NIR for the second half, that's based on the forward curve?

JOHN GERSPACH: Yeah, it's based upon the forward curve. It's also based upon our expectation for volumes and betas.

BETSY GRASECK: Thank you.

JOHN GERSPACH: Okay.

OPERATOR: Your next question is from the line of Ken Usdin with Jefferies.

KEN USDIN: Thanks. Good morning or good afternoon. One more balance sheet question, John. Just deposits are growing really well for you guys and the beta is obviously picking up too, especially, sequentially. It's hard to see some of the detail when we think about the averages.

So can you walk us through just how U.S. rate curves versus non-U.S. rate curves are affecting how you're looking at deposit growth and what you're paying in different markets? And is this the type of improvement that we should start seeing in terms of incremental betas from here?

JOHN GERSPACH: No. I'd break it down into two distinct categories, Ken. So, from a corporate deposit point of view, we've been talking for some time about the fact that we've seen increased sensitivity. And that increase – that sensitivity has continued to increase. And so that has already been baked in and will continue to be baked into our net interest revenues as well as our forward outlook for net interest revenues in those corporate deposits.

And from a corporate deposit point of view, sensitivities, I would say, they're a little higher in North America than they are overseas. But again, all of that is baked in. Where we see a real difference so far is in U.S. Retail sensitivity and those betas that we've actually realized to-date have lagged our estimates.

And so some of that benefit is helping us in growing the net interest revenue at a somewhat faster pace that we had originally guided to. But, again, in the forward guidance that I'm giving, our expectation is that those U.S. Retail betas will increase in the second half of the year, so we think that that's all baked into the additional growth that we've given you in those outlook comments.

KEN USDIN: Okay. Understood. And what are your expectations for, I guess, generically these non-U.S. rate cycles, everyone is waiting for; it seems to be continued to be pushed out – ECB and BoE, do you include any hikes from – important to you non-U.S. yield curves as you think forward?

JOHN GERSPACH: We employ all the forward curves in our forward guidance. So we use the forward curve where there is one in every country in which we operate. Obviously, the most important ones would be in Mexico as well as the U.S. and then some of the curves in Asia. But all of that is baked in.

KEN USDIN: Right. I guess I was more just wondering if there's been any meaningful changes as you see it. There's a lot curves for us to watch. You guys watch them all the time but it seems like there probably hasn't been that much change lately.

JOHN GERSPACH: No, not really.

KEN USDIN: Okay. Got it. Thanks a lot.

JOHN GERSPACH: All right. Thank you.

OPERATOR: Your next question is from the line of Gerard Cassidy with RBC.

GERARD CASSIDY: Hi, John. Hi, Mike.

MIKE CORBAT: Hi, Gerard.

JOHN GERSPACH: Hi, Gerard.

GERARD CASSIDY: John, can you share with us, you're rolling out the national digital platform as you described. When is the official kick-off where you're going to be able to say to us, okay, it's up and running, It's fully implemented. And then second, how are you guys going to measure the success of that strategy?

JOHN GERSPACH: Gerard, when we're ready for an actual date, we'll give it to you. We've been rolling out features. We've been testing a lot of functions. So I would say that the best I could tell you right now is to expect a marketing campaign sometime in the early fourth quarter, maybe the late third quarter but I can't give you a more definitive date than that at this point in time.

And then we'll measure success on that, both from a – how we're doing from an NPS point of view. I mean we do believe that our introduction of national digital banking will enhance our NPS. We've seen really nice growth in our mobile NPS right now, so we feel good about the mobile app that we have. We feel good about the digital capabilities that we now have for our existing clients. And therefore, this business is a chance for us to expand nationwide.

GERARD CASSIDY: And as part of the rollout and the strategy, do you expect to have the feature or the ability for a new customer to open up a checking account? Obviously, the savings accounts are the ones that have been successful for everybody, but do you – are you striving to be able to have a straightforward way where a new customer could open up a checking account through the mobile or online?

MIKE CORBAT: Yeah, we do. We actually already have that. We already have that built.

JOHN GERSPACH: It's just a matter of – we want to make sure that it's completely tested before we broadly announce it there.

GERARD CASSIDY: Okay. I see. And then coming back to the credit cards, obviously, you had a big win with L.L.Bean. Are there any other in the pipeline types of bidding that you're doing where we could hear further announcements second half of this year or early next year on Branded – or on wins like this?

MIKE CORBAT: Yeah. We are – we're in active conversations not just in the U.S. You've heard us talk about Qantas, you've heard us talk about Kohl's; so not just in the U.S. but we're in active conversations around the globe. And, again, I don't think you'll see anything as chunky as a Costco, but these are terrific add-ons to the portfolio. In this case L.L.Bean – high-quality, good spend, et cetera, and so we've always got our eye out for them.

GERARD CASSIDY: And speaking of pipelines, any color on the Investment Banking pipeline as you're going to the second half of this year?

MIKE CORBAT: The environment remains strong. As we look at the pipeline, this quarter you saw advisory, you saw equity capital market is strong. We had a tough comp to overcome in terms of DCM, but as you look at the deal pipeline and some of the things not just big, but intermediate-sized things going on and we expect it to stay that way through the year.

GERARD CASSIDY: And the last question. Credit quality is strong for you and your peers and you had an improvement in many areas. I just didn't notice in Asia, there was – it looked like you had an uptick in Corporate and non-performers. Again, it's not a major issue, but was it any color on – was it one credit or any color there?

JOHN GERSPACH: Yeah. One credit, you're going to get those things episodically, right?

GERARD CASSIDY: Right, right. Appreciate it. Thank you.

JOHN GERSPACH: Not a problem, Gerard.

OPERATOR: Your next question is from the line of Erika Najarian with Bank of America.

ERIKA NAJARIAN: Hi. I thought I'd help you get to the record number of card questions as well. Just wanted to just ask one question; I wanted to make sure I heard what Mike was saying earlier. As we think about 2019, the ROA in North America Branded Cards should continue to – should be improving from here regardless of any new partnerships that you may win.

JOHN GERSPACH: That's correct.

MIKE CORBAT: That's correct.

ERIKA NAJARIAN: Great. Thank you.

MIKE CORBAT: Thank you.

JOHN GERSPACH: And Erika, we're going to put that question in the Cards column and at the end of the day, we'll give you a scoreboard tally the cards questions as compared to efficiency questions. Thanks, Erika.

OPERATOR: Your next question is from the line of Saul Martinez with UBS.

SAUL MARTINEZ: Hi, good afternoon. Well, I'll change gears and won't ask you about cards or efficiency. I'll ask you about capital. All right. So on that, have your thoughts evolved on your capital planning and specifically your target CET1 in light of not only the stress capital buffer which we realize hasn't been finalized and could change, but also the Fed adopting a more counter-cyclical approach to the testing. This year, obviously, the stress capital losses were elevated and if you use this year as a basis, it would suggest that the capital cushion that you and some of your peers have above their targets is pretty minimal, so just – if you can give us your thoughts on how the capital planning process is evolving?

JOHN GERSPACH: Yeah. Saul, the short answer to your question is no.

Now, the longer answer is when we put together the 11.5% ratio at Investor Day last year, we presented that as representing the capital ratio at which we could prudently run Citi and I think that we were very clear as to the various components that comprise that target; and as you remember, those components included a CET1 minimum requirement of 4.5% and then a GSIB surcharge of 3% and an SCB that we then estimated at 3% and then a management buffer at 1%.

Now, three months ago, the Fed published an NPR for the SCB, which I think largely confirmed the industry's concerns about the variability that the SCB introduces into each firm's capital requirements. And I think at the most recent CCAR results, they service-proof that those concerns were well-founded. And I think to answer your counter-cyclical buffer, if you look at what happens with the SCB, in many ways that counter-cyclical buffer is built into the SCB, when you start to measure the peak-to-trough losses.

So, I think that if you look at the CCAR results and I don't think that the Fed ever intended for the SCB to introduce this level of variability into the capital requirements of any individual firm or for that matter the industry as a whole. So I really do expect that changes are going to be made to that NPR before the SCB is actually implemented.

And further I talked about the GSIB charge. I think that the Fed is open to recalibrating the GSIB surcharge, especially if it moves forward with the SCB. So, I mean don't forget the U.S. banks that are using the Fed's method two approach, they're operating under a GSIB surcharge that's significantly higher than what's called for under the Basel-approved method one, so I think there's room for change in that component as well.

And then the last thing I'll talk about is don't forget this management buffer that we have of 1%. We established that to cover some of the variability that we saw in various elements of the capital requirements. So if the SCB, as implemented, creates some variability, we could probably also look then to have the management buffer be raised or lowered periodically rather than just be set at some fixed element of the capital requirement. So given all of these potential moving pieces, I don't think that we've got any clear reason to change that 11.5% target at the present time. For Mike and I, it still represents to us the best estimate of the CET1 ratio at which we should be prudently running Citi.

SAUL MARTINEZ: Okay, now that's helpful. If I could change gears a little bit and ask a follow-up on Mexico. It seems like you do have commercial -- good commercial momentum there but, or improving commercial momentum there, but we did have a fairly sizable change politically in Mexico with the left not only winning, but winning convincingly. Just any initial thoughts on what the implications of that are? What are your folks at Banamex saying about that?

MIKE CORBAT: Well, I think you're right. We did have a decisive victory, President-elect López Obrador clearly elected majorities now really in both parts of the house there. I would say that reaction locally has been reasonably positive. We've seen that manifest itself in terms of currency. Other pieces, he started to put some people in positions forward. The market's responding well too. He's come out and reiterated the sanctity of the Central Bank. He's reiterated a commitment to fiscal discipline, so I would say all of those things so far have been taken positively, and in this instance, you shouldn't forget that you have someone elected by a popular majority and consumers aren't going to wake up and change their spending habits based on getting the outcomes that they want.

I think what we're probably watching more short, intermediate term is the business reaction, so we actually don't expect really much of any near-term reaction from a consumer perspective. In fact, you could argue potentially towards some uplift actually in terms of that theory, but we're watching the businesses in terms of FDI activity investment and so forth. And again it's too early to tell but we haven't seen any reactions of significance so far.

SAUL MARTINEZ: Okay, great. Thanks guys.

JOHN GERSPACH: Thank you, Saul.

OPERATOR: Your next question is from the line of Chris Kotowski with Oppenheimer & Company.

CHRIS KOTOWSKI: Yeah, good afternoon. You've been discussing your national consumer strategy, mainly in terms of online and mobile banking and so on, but at the same time, it just occurs to me that I can't walk into a drugstore these days without tripping over a Citi-Branded cash machine and I'm going to imagine that's not a coincidence, and so I'm kind of curious how you're planning on kind of integrating that physical presence with the online presence, and then kind of follow-ups to that are your agreements with CVS, Walmart, and Rite Aid is that – are those national agreements, are they exclusive agreements and are they long-lived?

MIKE CORBAT: They are national agreements. They are long-lived and they're absolutely is part of the broader strategy, so ultimately as you're somewhere and you want to find an ATM, you'll be able to go on and find the closest ATM, whether it's a city branch or whether it's one of the ATM's that you've described. So, again, we think as adding to and supporting the national digital banking effort that that's a key component and gives those clients access to the cash and the transaction they think they need.

JOHN GERSPACH: And, of course, Chris, if you're a Citigold client, we'll waive the ATM fees no matter where you go.

CHRIS KOTOWSKI: Okay. But, so – but presumably, I could like get an online account with my Citi account and then I walk into a CVS in Dallas and I could still get cash out without a fee?

JOHN GERSPACH: Yeah.

CHRIS KOTOWSKI: Yeah. Okay. All right. Cool. Thank you. That's it.

OPERATOR: Your final question is from the line of Brian Kleinhanzl with KBW.

JOHN GERSPACH: Hey, Brian.

BRIAN KLEINHANZL: Hey, good afternoon. I just have two quick questions. One, on the Corporate/Other, you mentioned there's going to be 100 to 150 over the remainder of 2018, but is the expectation then that it kind of tracks lower from there as anything improves from there as the legacy assets roll off into 2019 and 2020?

JOHN GERSPACH: I'm going to get to 2019 and 2020 when – closer to the fall at the next thing. Let's see how we do with interest rates. There is – as I said before, there's a limited amount of legacy that is still yet to run-off, so we'll see.

BRIAN KLEINHANZL: Sure. And then a quick follow-up on Mexico, you mentioned it was tracking below the revenue growth target, but you didn't seem to indicate what was tracking below target. I mean, is it just loan growth that isn't coming through as expected? I mean, what can you do to get Mexico back up?

JOHN GERSPACH: It was basically the revenue growth, Brian, is tracking slightly below target. Again, we had set out the 10% CAGR for the period midway through 2017 up through 2020, and while we had 11% this year, if you take a look at where we're – this quarter, where we've been on the trailing 12-months is slightly below that, but again, with good momentum.

BRIAN KLEINHANZL: Right, but on the revenue side, what's tracking below? Is it just loan growth is weaker than expected? Is it...?

JOHN GERSPACH: Deposits, I would say. It's a combination of some slightly lower loan growth and slightly lower deposit growth. But again, the important thing for us is that trend is improving – 4%, 6%, 9%, 11%; we think we're on the right trend line moving forward.

BRIAN KLEINHANZL: Okay, great. Thanks.

JOHN GERSPACH: No problem. Thank you.

OPERATOR: There are no further questions.

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

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