Citi Fourth Quarter 2018 Earnings Review

Monday, January 14, 2019

Host
Susan Kendall, Head of Investor Relations

Speakers
Michael Corbat, Citi Chief Executive Officer
John Gerspach, Citi Chief Financial Officer
Mark Mason, Citi Incoming Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's fourth quarter 2018 earnings review. Today, we are joined by Citi's Chief Executive Officer, Mike Corbat; the Chief Financial Officer, John Gerspach; and Citi's incoming CFO Mark Mason. 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 expectations and are subject to uncertainty and changes in circumstances. Actual results in capital and other financial condition may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings, including without limitation, the Risk Factors section of our 2017 Form 10-K.

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

MIKE CORBAT: Thank you, Susan, and good morning, everyone. Excluding the one-time impact of Tax Reform, we reported earnings of $4.2 billion for the fourth quarter of 2018, or $1.61 per share. Our net income for the year totaled $18 billion, or $6.65 per share, a 25% increase from 2017. During 2018, we made solid progress towards the 2020 targets, as we had committed. Our return on tangible common equity reached 10.9%, exceeding the 10.5% we targeted for the year and despite the market conditions we experienced throughout the fourth quarter, we still improved our operating efficiency to 57% for the year.

In addition, we grew loans and deposits in constant dollars by 4% and 7% respectively, improved our return on assets to 93 basis points and managed our effective tax rate down to the 23% range, a little better than we had forecast. We had positive operating leverage and our EBT was up 5% on an underlying basis. While the revenue environment was more challenging than we had anticipated, we responded decisively by managing both our expenses and our balance sheet in light of the lower market sensitive revenues.

Our expense base declined by 4%, both year-over-year and sequentially this quarter, taking our annual expense base to below $42 billion, and we continued to prudently manage risk-weighted assets to optimize our capital needs. While we won't sacrifice the investments which are key to competing in the future, we also have to ensure that we remain flexible and adapt to whatever market conditions and economic conditions that materialize.

Turning to the quarter, in the Institutional Clients Group, our market sensitive products generally had a challenging quarter, especially in Fixed Income. We did gain share in M&A, but Investment Banking was impacted by a decline in equity and debt originations during the quarter. Our accrual businesses, which consist of Treasury and Trade Solutions, Securities Services, the Private Bank and Corporate Lending, continued a very strong performance, up 11% for the full year in constant dollars. And as a matter of fact, we've now had five straight years of consecutive growth in TTS and are confident that we can continue with that momentum.

In Global Consumer Banking, in the U.S. we saw 4% underlying growth in Branded Cards and 6% revenue growth in Retail Services this quarter, and Retail Banking grew 5% ex-mortgages. Internationally, we saw good growth in Mexico, especially in the cards products, while Asia was impacted by lower revenues from investment products.

During the year, we returned $18.4 billion in capital to our shareholders, buybacks of common stock reduced the shares outstanding by over 200 million shares from a year ago, or 8%, and our tangible book value per share increased by 6%. We finished the year with a Common Equity Tier 1 ratio of 11.9%, up from 11.7% in the third quarter, as risk-weighted assets declined. We'll be making our CCAR submission in the spring and believe we've got the capacity to reach our three-year capital return target of $60 billion.

As 2019 begins, we find ourselves operating in a more uncertain macro environment. From what we see, economic growth is stronger and more resilient than recent market volatility would indicate. That said, we're prepared to make adjustments if we get the sense economic conditions are changing. We remain committed to our 2020 financial targets and this year we've targeted increasing our Return on Tangible Common Equity to 12% and further improving our efficiency ratio.

We continue to utilize technology to improve the client experience and lower our cost to serve, whether it's by automating processes or enhancing our mobile channels, and we'll continue to roll out new digital capabilities throughout the year. As I mentioned before, we have levers we can pull if revenues come in lower, but we're very cognizant of the need to invest for the long term, so that we can serve our clients with distinction.

One thing before we go to Q&A, I want to take a minute on the occasion of his final earnings call to thank John for his 28 years of service to the firm and to congratulate him on his retirement. I know those on the phone respect him for his candor and honesty, and we'll miss him. He leaves things in good hands with Mark Mason, and I know everybody's going to enjoy working with Mark.

With that, John will go through our presentation and then we'll be happy to answer your questions. John?

JOHN GERSPACH: Thank you very much, Mike. Good morning, everyone. Starting on slide 3, first, let me note that all comparisons throughout this presentation exclude the one-time impact of Tax Reform in the fourth quarter of 2017, as well as the subsequent adjustment in the fourth quarter of 2018. As previously disclosed, we recorded a non-cash charge of $22.6 billion related to Tax Reform in the fourth quarter of 2017. At that time, we noted that the final impact of Tax Reform could differ from the provisional estimate based on the finalization of our own analysis, as well as additional guidance to be received from the U.S. Treasury Department. In the recent quarter, we finalized our analysis and adjusted the provisional charge resulting in a benefit to income taxes of nearly $100 million, or $0.03 per share. Excluding this benefit, we earned $1.61 per share in the fourth quarter of 2018.

Now, looking at our results on this basis, net income of $4.2 billion in the fourth quarter grew 14% from last year, driven by a reduction in expenses, lower cost of credit and a lower effective tax rate. And EPS grew 26%, including the impact of an 8% reduction in average diluted shares outstanding. Revenues of $17.1 billion declined 2% from the prior year, primarily reflecting lower Fixed Income Markets revenues, as well as the wind-down of legacy assets in Corporate/Other. Expenses declined by 4%, or over $400 million year-over-year, resulting in our ninth consecutive quarter of positive operating leverage. And cost of credit was down 7% versus last year.

Our effective tax rate was 21% for the quarter, reflecting an adjustment to our full year estimate of income taxes under the new tax regime, as well as other resulting actions we have taken. This results in an effective tax rate of just over 23% for full year 2018, which we believe to be an appropriate tax rate as we look into 2019. In constant dollars, Citigroup end-of-period loans grew 4% year-over-year to $684 billion and deposits grew 7% to $1 trillion.

Now, looking at full year results on slide 4, we made steady progress in 2018, although revenue growth remained somewhat below our medium-term outlook. As a reminder, in 2017 we recorded a one-time gain of roughly $580 million on the sale of a Fixed Income analytics business in ICG. And in 2018, we had a gain of roughly $250 million on the sale of our Mexico asset management business in Consumer. Excluding these items, Consumer revenues grew 3% in constant dollars, slightly below our medium-term goal. This is primarily driven by the near- term impact of weaker market sentiment on our Asia wealth management revenues; the impact of partnership terms that came into effect in 2018 in U.S. Branded Cards, which we have now lapped as we go into 2019; and, finally, in U.S. retail, a drag from lower U.S. mortgage revenues which should abate going forward, as well as rising deposit sensitivity.

Institutional revenues also grew 3%, as strength in our accrual businesses in Treasury and Trade Solutions, Securities Services, Corporate Lending and the Private Bank was partially offset by weakness in Fixed Income, as well as softness in equity and debt underwriting. These results largely reflect the macro uncertainty seen in the fourth quarter, which created a challenging trading environment as well as an industry-wide slowdown in underwriting activity. Despite these headwinds, we made continued progress on our efficiency goals, driving our full year efficiency ratio to 57%.

Credit quality remained broadly stable across the franchise, and underlying pre-tax earnings grew 5%. EPS grew by 25%, including the benefit of share buybacks as well as a lower effective tax rate. And our full year RoTCE is just under 11%, well above our target for 2018, which positions us well relative to our 12% goal for 2019.

Turning now to each business; slide 5 shows the results for North America Consumer in more detail. In total, revenues of $5.3 billion grew 1% in the fourth quarter. Retail Banking revenues of $1.3 billion declined 1% year- over-year. Mortgage revenues continued to decline, mostly reflecting lower origination activity and higher funding costs. Excluding mortgage, Retail Banking revenues grew 5% year-over-year in the fourth quarter, slightly better growth than we saw in the third quarter, as deposit spreads stabilized in our commercial portfolio and we faced fewer headwinds from episodic transaction activity. Average deposits declined 1% year-over-year, primarily driven by the transfer of deposits into investments.

Assets under management were flat year-over-year, as 5% underlying growth was offset by the impact of market movements, given the equity market selloff at year-end. Excluding market movements, total deposits and assets under management grew 1% with improving momentum. If you look at 2018 versus 2017, we more than doubled our net new money inflows across consumer deposits and investments this year, and we retained a larger dollar amount of those deposits that transferred into investments.

Turning to Branded Cards, revenues were roughly flat versus the prior year, including the impact of the sale of the Hilton portfolio, as well as partnership terms that went into effect in 2018. Excluding Hilton, revenues grew 2% year-over-year, including 7% growth in net interest revenue, reflecting loan growth and spread improvement versus the prior year. Average loans grew 3% versus last year, including 9% growth in interest-earning balances, as recent vintages continued to mature and we saw strong balance retention across our portfolio. This growth in interest earning balances is driving a positive mix shift in our portfolio. On a year-over-year basis, our net interest revenue as a percentage of loans, or NIR percentage, improved by over 30 basis points to nearly 880 basis points, a little better than we had anticipated for the fourth quarter.

We're now approaching a more optimal mix of interest-earning and non-interest-earning balances. As such, we expect to remain broadly around this level of spreads going forward, although we will see quarterly fluctuations and actual performance will depend on a number of factors, including our acquisition mix, the rate environment, and our balance between proprietary and co-brand portfolios over time. This should fuel strong underlying revenue growth in 2019 and beyond, as we've now lapped the impact of partnership renewals on our fee income and we're growing loan volumes at more attractive spreads. We continue to expect reported growth in total revenues in 2019 even considering the Hilton and Visa B gains we took in 2018.

Finally, Retail Services revenues of $1.7 billion grew 6%, driven by organic loan growth as well as the benefit of the acquisition of the L.L.Bean card portfolio. Total expenses for North America Consumer were up 3%, primarily reflecting investments.

Turning to credit, total credit costs were up 2% year-over-year, reflecting loan growth and portfolio seasoning in both Branded Cards and Retail Services. Our NCL rate in U.S. Branded Cards was 297 basis points for full year 2018, exactly in line with our 3% outlook. And in Retail Services, our NCL rate was 488 basis points for the full year, which is again consistent with our 5% outlook in that segment.

On slide 6, we show results for international Consumer Banking in constant dollars. Fourth quarter revenues of $3.2 billion grew 1%, driven by Latin America. In Latin America, total Consumer revenues grew 5% or 7%, excluding the ongoing impact of the sale of our asset management business in the third quarter. Card revenues grew 8% on continued strength in purchase sales and loan growth, while Retail Banking revenues grew 6%, excluding the impact of the asset management sale. Retail loan growth was muted in Mexico this quarter, driven by an episodic pay-down in our commercial portfolio, while we continued to generate solid growth in deposits.

Turning to Asia, Consumer revenues grew 1% year-over-year in the fourth quarter, excluding the impact of a modest gain on the sale of our merchant acquiring business in the prior year. Excluding the gain, card revenues grew 3% year-over-year on continued growth in loans and purchase sales, and Retail Banking revenues declined 1% reflecting the lower investment revenues. While investment revenues remain under pressure, we continued to see positive inflows into assets under management, as well as 8% growth in Citigold clients. And excluding investment revenues, our underlying Asia Consumer growth remains broadly in line with our medium-term expectations, driven by growth in loans and deposits.

Total average loan growth of 3% in Asia includes the impact of our continued repositioning away from lower return mortgage assets. Excluding mortgages, loans grew 5% year-over-year. In total, operating expenses were up 1% in the fourth quarter, as investment spending and volume-driven growth were largely offset by efficiency savings, and cost of credit declined 1% reflecting a modest reserve release in Latin America this quarter.

Slide 7 shows our Global Consumer credit trends in more detail. Credit remained broadly favorable again this quarter across regions. In North America, the sequential uptick in delinquencies is consistent with the seasonal trend we've seen in other years from the third to the fourth quarter, driven by cards. This typically translates then into higher NCL rates in the first half relative to the second half of the year.

Turning now to the Institutional Clients Group on slide 8; revenues of $8.2 billion were down 1% in the fourth quarter, as strength in our accrual businesses, as well as revenue growth in M&A and Equity Markets were more than offset by weakness in Fixed Income. Total Banking revenues of $5 billion grew 5%. Treasury and Trade Solutions revenues of $2.4 billion were up 7% as reported and 11% in constant dollars, reflecting continued growth in transaction volumes and deposits, as well as improved spreads. Investment Banking revenues of $1.3 billion were down 1% from last year, as strong M&A performance was more than offset by a decline in underwriting, reflecting lower market activity.

Private Bank revenues of $797 million grew 3% year-over-year, driven by growth in loans and investments as well as improved deposit spreads. And Corporate Lending revenues of $559 million were up 9%, reflecting loan growth along with lower hedging costs. Total Markets and Securities Services revenues of $3.1 billion declined 11% in the fourth quarter. Fixed Income revenues of $1.9 billion declined 21% year-over-year due to a challenging trading environment during the quarter.

At the Goldman conference in early December, I noted that while clients remained engaged, we did not see the level of transaction activity we had originally expected this quarter, in G10 rates in particular, as clients had largely stayed on the sidelines in an uncertain macro environment. Thereafter, the environment continued to deteriorate, characterized by volatile market conditions and widening credit spreads. This resulted in a risk-off sentiment where market making became even more challenging in December across both rates and currencies, and spread products.

Equities revenues were up 18%, mainly reflecting the impact of an episodic loss in the prior year. On an underlying basis, revenues were down slightly, as strong client activity, particularly in derivatives, was offset by a challenging trading environment and lower client financing balances. And finally, in Securities Services, revenues were up 7% as reported and 12% in constant dollars, driven by continued growth in client volumes and higher interest revenue.

Total operating expenses of $4.8 billion declined 2% year-over-year on lower compensation costs associated with lower revenues. And finally, cost of credit was $129 million this quarter, reflecting a normalization in credit trends in our corporate loan portfolio.

Looking at the full year, excluding the previously mentioned gain of roughly $580 million in 2017, both revenues and expenses grew by 3% in 2018. We generated over half of our revenues in Banking, which grew 5% on continued momentum in TTS, the Private Bank, and Corporate Lending. Securities Services grew 11% as we continued to deepen client relationships, while also benefiting from the higher rate environment. And in Equities, we made solid progress with revenues up 19% for the full year. The combined strong performance in these businesses helped to offset weakness in Investment Banking and Fixed Income, down 7% and 6%, respectively, on a full year basis.

But even within these businesses, there are still some standouts. In Investment Banking, we showed continued progress in M&A, with revenues up 16%. And in Fixed Income, if you look at our total G10 FX and local markets rates and currencies business, revenues were far more stable at roughly flat to last year, as we benefited from steady corporate flow activity across our global network. Cost of credit was higher than the prior year, given lower reserve releases, but credit quality remains solid, with roughly 5 basis points of losses for the year.

Slide 9 shows the results for Corporate/Other. Revenues of $470 million declined 37% from last year, driven primarily by the wind-down of legacy assets. Expenses were down 45%, also reflecting the wind-down, as well as lower infrastructure costs. And pre-tax income was $44 million this quarter, better than our outlook, reflecting episodic gains in our investment portfolio, as well as lower total expenses relative to our prior expectations. Looking ahead, we would still expect a modest pre-tax quarterly loss in Corporate/Other in 2019.

Slide 10 shows our net interest revenue and margin trends. As you can see, total net interest revenue of $11.9 billion this quarter grew roughly 8% from last year in constant dollars, as growth in core accrual net interest revenue was partially offset by lower trading-related net interest revenue, as well as the continued wind-down of legacy assets in Corporate/Other. Core accrual net interest revenue grew by $1.4 billion year-over-year, well above our prior expectations, driven by the FDIC surcharge benefit, improved spreads in our U.S. Branded Cards business, and balance sheet optimization, as we deployed more cash into better yielding assets.

On a sequential basis, our core accrual net interest margin improved by 12 basis points to 372 basis points, including 4 basis points from the FDIC surcharge benefit. The remaining 8 basis points reflect momentum we've seen building over the second half of the year, given higher interest rates, continued loan growth, and an improved loan mix. As we noted last quarter, even though core accrual net interest revenues grew sequentially from the second to the third quarter of 2018, our net interest margin remained flat at 360 basis points, as the benefits of higher rates and loan growth were offset by higher average cash balances during the quarter. As we deployed that liquidity into better yielding assets, you can now see that underlying revenue improvement pull through in the net interest margin.

On a full year basis, core accrual revenue grew by more than $4 billion over 2017, ahead of our outlook of $3.7 billion for the year, with about $1 billion coming from the benefit of higher interest rates. As we had expected, this was partially offset by a nearly $500 million decline in the net interest revenue generated in the legacy wind-down portfolio in Corporate/Other, and trading-related net interest revenue declined by nearly $1.7 billion year-over-year, similar to the year-over-year decline seen in 2017.

So, if you look at our total net interest revenue for full year 2018, we grew by about $2 billion year-over-year in constant dollars. As we look at net interest revenue for 2019, now we're unlikely to get the same magnitude of benefit from rate hikes this year. However, a slowing rate trajectory should also translate into a smaller drag from trading-related net interest revenue from 2018 to 2019. We should also see a smaller drag from the wind-down of legacy assets. And then, of course, we will benefit from the absence of the FDIC surcharge, which is about a $400 million benefit year-over-year.

So, on a net basis, we expect to generate as much or even more than the $2 billion of growth in net interest revenue that we saw in 2018 even if we see less incremental benefit from rate hikes. Of course, in 2018 this growth in net interest revenue was partially offset by a roughly $1 billion decline in non-interest revenues, driven by a drag from partnership renewal terms and lower mortgage revenues in Consumer, the wind-down of legacy assets, the impact of gains we took in 2017 on hedging activity in corporate treasury, and the net impact of previously mentioned one-time gains on asset sales. We do not expect noninterest revenues to decline again in 2019, as we've now lapped the operating revenue headwinds in Consumer and we expect less pressure from the wind-down of legacy assets.

On slide 11 we show our key capital metrics. In the fourth quarter, our tangible book value per share increased 6% year-over-year to $63.79, driven by the lower share count, and our CET 1 Capital ratio improved to 11.9%, driven by a reduction in risk-weighted assets, as we continued to prudently manage the balance sheet. Our total CET 1 Capital declined modestly during the quarter as net income and DTA utilization were more than offset by $5.8 billion of total share buybacks and dividends. For the full year, we returned over $18 billion of capital to common shareholders for a payout of 110% of net income to common. And based on our 2018 CCAR capital plan, we expect to return an additional $9.8 billion of capital in the first half of 2019.

In summary, we made continued progress in 2018. And while the revenue environment proved more challenging than we had anticipated, especially in the fourth quarter, we delivered on several key objectives. We improved our RoTCE by nearly 300 basis points, achieving a full year RoTCE of 10.9% and exceeding our goal of 10.5% for the year. We delivered nearly 100 basis points of improvement in our efficiency ratio, while continuing to invest in our future. We maintained our credit discipline, growing our loan portfolio, while maintaining loss rates that were well within our medium-term expectations across every business and region. We achieved a benefit to our ongoing effective tax rate under the new tax regime that exceeded our initial estimates. And we delivered on our capital optimization goals, returning over $18 billion of capital through share buybacks and dividends during the year.

We recognize that the bar gets even higher as we go into 2019. We also recognize that we're in an uncertain macro environment, where the market is beginning to discount future growth and this may create a more volatile operating environment, as we saw in the fourth quarter. But we're continuing to manage the franchise responsibly and we're committed to steady, sustainable improvement in both our efficiency and returns.

If you look at our performance in 2018, several businesses performed well with good visibility into 2019. The largest of these is our Treasury and Trade Solutions franchise, which generated over $9 billion of revenues and posted its fifth consecutive year of growth in constant dollars. Our other accrual businesses in ICG across Securities Services, Corporate Lending, and the Private Bank, generated another $8 billion of revenues, with good line of sight into 2019.

Our Mexico Consumer franchise, with nearly $6 billion of revenues, continued to grow with a favorable market backdrop, including record low unemployment and strong consumer confidence. And while our U.S. Branded Cards franchise generated only 1% growth for the full year, we saw 3% underlying growth in that franchise in 2018, with momentum as we exited the fourth quarter. That's a business with nearly $9 billion of annual revenues, where we are now realizing the benefits of our investments over the past three years.

We also made significant progress in bringing our U.S. Consumer business together for a more powerful client-centric franchise as we go forward. And we took on new portfolios, like the L.L.Bean card acquisition to augment our organic growth. Of course, it's more difficult to predict the operating environment in areas like Trading and Investment Banking. But we continued to show good progress in M&A and Equities this year and our global FX business proved to be resilient in a challenging market.

As we look to 2019, we're preparing for a range of operating environments, with the focus on achieving our RoTCE target of 12% this year in a responsible, sustainable way. From a revenue perspective, in addition to the good momentum we're seeing in many of our businesses, we also have other revenue tailwinds, including the absence of the FDIC surcharge, as well as a smaller expected drag from the wind-down of legacy assets in Corp/Other.

In 2018, we absorbed over $1 billion of total revenue drag from legacy assets, which depressed top line growth by about 1% and it should drop to about half that amount in 2019. In addition, on the expense side, we're now beginning to see efficiency savings meaningfully outpace the incremental investments we continued to make in the franchise. In the second half of 2018, we realized a net benefit to expenses of roughly $200 million, as savings exceeded incremental investments. That should grow to around $500 million to $600 million of net incremental savings in 2019, plus an additional $500 million to $600 million of net incremental benefits in 2020.

These net savings should offset volume-driven expense as we continue to grow the business. And it should also result in positive operating leverage for Citi in total and for our Consumer and Institutional businesses in 2019. Of course, the magnitude of operating levers we can achieve this year is sensitive to the revenue environment. But even if the environment is challenging, we believe we can deliver more total efficiency improvement than we did in 2018. And achieving our 12% RoTCE goal for this year is not dependent on capturing the full efficiency benefits we laid out in the fall, which showed roughly 175 basis points of improvement to our efficiency ratio in 2019.

Credit continues to perform well. Our effective tax rate is coming in better than we had originally estimated under the new tax regime with the potential to move somewhat lower. And, as you saw in the fourth quarter, if growth opportunities are limited, we will prudently manage the balance sheet to limit RWA growth and therefore, our capital needs. It's still our goal to get the efficiency ratio into the low 50% range. And we believe that's the right level, given the investments we're making in digital and automation, as well as our mix of businesses. But our primary goal is to responsibly and sustainably improve the return we're delivering on our shareholders' equity, from the roughly 11% we achieved in 2018 to about 12% this year and over 13.5% in 2020.

With that, Mike, Mark, and I are happy to take any and all questions.

QUESTION AND ANSWER

OPERATOR: We have a question from the line of Jim Mitchell with Buckingham Research.

JIM MITCHELL: Hey, good morning. And, John, congrats on retirement.

JOHN GERSPACH: Thanks, Jim.

JIM MITCHELL: Maybe if I could follow-up on just – you spent a lot of time there at the end on the expense flexibility. I think that's a big sort of concern in the marketplace, given the revenue backdrop at least in the fourth quarter that can change quickly in capital markets and appreciate the commitment to the RoTCE. But when we think about in a more dire scenario, how much kind of a flexibility do you have? You were down 4% year-over-year. In a tougher environment, can you get expenses down year-over-year in 2019? How do we think about sort of that range of flexibility so we can kind of play around with our models.

MARK MASON: Hi, Jim. This is Mark Mason. How are you?

JIM MITCHELL: Hi, Mark. How are you?

MARK MASON: Good. I'd turn you to page 17 inside of the deck that John just went through. And what 17 shows, if you look back all the way to 2016, it shows the trailing month efficiency ratios. And what we've shown here is that year-over-year for the past number of quarters we've been able to bring that operating efficiency down. But, more importantly, to your question around expense ranges we can manage to, you can look at the fourth quarter of 2018 and see we ran at about $41.8 billion. And if you look back at any of those years in 2017 and 2016, that's about the range in which we've run over the past couple of years. And so to answer your question, I think as we think about the prospects for 2019 and our ability to manage expenses tightly, this is probably the range you should think about.

JIM MITCHELL: Okay. All right, that's helpful. And then maybe just one question on credit in cards, are you still comfortable, John, with the 3% in Branded Cards and 5% or is – I know that was sort of your prior expectation. Is that still the expectation in 2019 for the card losses?

JOHN GERSPACH: Yeah, what we've said, the medium-term expectations would be that Branded Cards would operate in that range of 3% to 3.25%, and Retail Services in the 5% to 5.25%, and those are still valid assumptions as we move forward and specifically for 2019.

JIM MITCHELL: Okay. Thanks.

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

JOHN MCDONALD: Hi. Good morning. Mark, I was wondering if you could just clarify the range that you're referring to in your answer to Jim's question. You mentioned the $41.8 billion this quarter is a low on that slide. Was there a range from that to something else or just kind of ballpark of $41 billion, $42 billion? Just wondering kind of what you're referring to there.

MARK MASON: Ballpark range, if you look at the page 17, fourth quarter of 2016 the LTM there was about $42.3 billion. Fourth quarter of 2018 is about $41.8 billion. So that's a ballpark range, roughly.

JOHN MCDONALD: Okay, got it. And then two questions for you guys. On the Branded Cards, John, you mentioned feeling good about the momentum continuing on the NII front, which was very solid this quarter, and better fees, as you lapped the partnership headwind. So what's a reasonable revenue growth aspiration for 2019 in this kind of economy? Is it similar to how you exited here in that 2% to 3%? Is that kind of how you're thinking about Branded Cards revenues for 2019?

MARK MASON: Yeah, I mean, the Branded Cards, as John mentioned, fourth quarter roughly 3% underlying, and that's a – we think of that as a pretty good run rate going into 2019.

JOHN MCDONALD: Okay. And then you mentioned the card loss guidance just a question ago. Just wondering on the card ROA, I think the previous target for Branded Cards was 215 basis points Branded Cards ROA. For the year, you're at 180 and this quarter you're at 211. Is that 215 kind of the aspiration on the Branded Cards ROA? I think that was prior to tax reform, but just wondering what your updated thoughts are there.

MARK MASON: Yes, that's still the target we're moving towards for Branded Cards, and that was pre-tax reform.

JOHN MCDONALD: Okay. So kind of new tax rates maybe offsetting increased competition or stays about the same?

JOHN GERSPACH: It's probably going to...

MARK MASON: Just probably a little bit of upside to that.

JOHN MCDONALD: Got it, okay. So staying conservative there. Thank you.

MARK MASON: Yeah.

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

MATT O'CONNOR: Good morning.

MIKE CORBAT: Hey, Matt.

JOHN GERSPACH: Hey, Matt.

MATT O'CONNOR: Are there any specific marks that you'd want to call out either within Fixed Income trading or other areas related to hung deals or – obviously, there's just kind of tough December and spreads widened and some of it's just normal marks. But are there specific marks you'd want to call out and then have those reversed in January? There's been some articles out there talking about spreads tightening and banks able to offload some stuff they couldn't just last month.

JOHN GERSPACH: The short answer to that is no. That is not what we saw in our particular trading results. And to the extent we had those kind of marks, they more likely end up in our loan revenue that we were talking about and you can see we had fairly robust loan revenue growth again. So that's not what's impacting us.

MATT O'CONNOR: Okay. And then just a bigger picture question. I mean, obviously, if we look at where bank stocks in general, and especially your stock, there's concern about a macro slowdown. I don't think we're seeing it outside the capital market revenues in your results, but anything real-time that you're seeing in the TTS business? Obviously, you see a lot of global corporates, a lot of government data. We have the shutdown in the U.S. Just kind of any real-time updates in terms of macro conditions that you're seeing.

MIKE CORBAT: Yeah, Matt, what I would say we see is we actually see, certainly a U.S. and even more broad global economy, where the underlying fundamentals, in particular on a domestic economy basis as you go around the world, comprised of strong, tight labor markets, reasonable wage increases, good consumption, while investment coming down, still reasonable. And I think what's clearly, and in the fourth quarter overshadowed that, was really market fears over what the transition from QE to QT might look and feel like and, obviously, we saw a lot being paid attention to pretty much any word that came out of the Fed's mouth.

And I think the third piece is that adds to that volatility is things such as trade, kind of the on/off again momentum of trade negotiations, obviously, affecting two of the biggest economies in the world. And I think when we put those three things together, we clearly see a disconnect between what we see in our business on an anecdotal basis and what the markets are saying. So we don't see it and I think what we've said before, and I think others have said before, is that right now we see the biggest risk in the global economy is one of talking ourselves into the next recession as opposed to the underlying fundamentals taking us there.

MATT O'CONNOR: Okay. Thank you.

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

GLENN SCHORR: Hello there.

MIKE CORBAT: Hey, Glenn.

GLENN SCHORR: How are you? Okay. So I just wanted to hammer home one thing that you said. You said you won't sacrifice key investments for competing in the future, so onset of market conditions, I get it and you are doing that. As you balance – you have a lot of targets out there and I think we probably all over-obsess over each basis point on them. But as you balance the hitting the targets versus the necessary investments, can we just rewind and go through what you think those couple of key investments – I know there's more than that, but key investments to make you, as you said, competitive in 2019 and beyond, what's going to drive growth?

MIKE CORBAT: Sure. So if you go back and you look at the last page or so that John talked about, when you look at underlying growth in the business, if you look at – John talked about the $9 billion of TTS revenue growing at 11%. We talked about Securities Services, the Private Bank, lending, Mexico, U.S. Branded Cards, Equities, M&A. If you just take those revenues and add them up, you're in excess of 50% of the revenue of the firm, and those are – if you look at the momentum in those businesses, it's clearly strong. And what we don't want to do is stop that investment or do anything that has the potential to derail the growth in every way we've worked so hard to build.

And so, again, when you think about things that are top of list, clearly the more broad investment in terms of digital, we talked about some of those cost saves that had begun to come through, roughly the $200 million this year, manifesting itself in $500 million to $600 million incremental in each of the next two years. A lot of that savings is dependent upon the continued investment in terms of the switch from analog to digital, and in particular in parts of our Consumer business. Coming from behind and kind of getting cards back on track, the empty calories of cutting marketing investment in terms of our platforms there, the investments that we started and have been executing against in terms of Mexico, I think all of these things you're seeing good, and we have a lot of confidence in those paybacks.

So I don't think there's anything in our list of investments, Glenn, that would surprise you and, obviously, as the environment evolves, we're going to continue to watch those very carefully. And if we start to deem some of those lower priority, we're certainly willing to pull back on those. But what I don't want to do is get lured into the start/stop. It's so disruptive. That right now I just described to Matt an economy where we don't see the underlying fundamentals having significantly changed. We saw that in 2011. We saw that again coming out of 2015 into 2016. In each of those timeframes, we went back to have better growth and recessionary fears fall away. I can't say that's the point this time. But what I don't want to do is I don't want to sacrifice that momentum that we've got going right now as we go into 2019. But if and when appropriate, we're going to pull the levers we need to pull.

MARK MASON: Mike, I'm not sure we mentioned TTS in particular as well. In addition to those businesses, we're putting more investment into that business, building out the client experience, building out the platform. That's, obviously, a business that's a large growing part of our franchise and we want to maintain the competitive position we have there.

GLENN SCHORR: I appreciate all that. If I could, two quick, what I'll call, annoying questions that come up plenty. One is your exposure and lending into the CLO market as a lender, just maybe talk about your positioning there, and then what collateral, what LTVs, and what protections you have in that world. And then also just anything you could say about size of Sears and why just because one retailer goes out doesn't mean people stop paying their bills.

MARK MASON: So I'll start off on the leveraged lending piece. So first from a direct exposure perspective, we talked about our corporate loans being largely investment grade and as of the end of 2018, our exposure both funded and unfunded was roughly about 83% investment grade. So less than about 20% is not rated investment grade and of that, about 55% is funded. And, of course, all these exposures are subject to our risk appetite framework and we feel really comfortable with that. So, although, leveraged lending is not a material component of our overall lending business, we do, of course, participate in that space to serve our target clients in the ICG. And when we look at that, we would also have some exposure to leveraged loans related to CLOs, and there are two places where that exposure resides. So, one is in our markets business, and the other's in our investment portfolio. And in both cases, there are limits that are imposed on the exposure and our exposures, again, are of course subject to our overall risk framework.

In our Markets business, we serve as a warehouse lender and an underwriter for our CLO manager clients and we make markets for our investor clients in the secondary market for CLOs. I'll make couple of comments on the warehouse lending that we do, which is subject to an aggregate $5 billion exposure limit. First, there are some structural protections that are in place that have been enhanced since the crisis. Second, unlike the pre-crisis, our CLO primary syndicate does not retain any residual exposure post the issuance. And, as I said, we do make markets for our investor clients in the secondary market, but that exposure is subject to a market risk RWA limit of about $1.5 billion.

So, as far as our investment portfolio is concerned, the holdings are well diversified and represent exposure to about 75 unique CLOs, and those investments are limited to most senior tranches of the CLOs that are rated AAA. There are also some restrictions in terms of structure. For example, we only invest in CLOs which include performance triggers. And so, net-net, we feel pretty good about our exposure. We're not heavy into leveraged lending. If you look at some of the underwriting charts, we rank pretty low on those underwriting charts, and so we feel pretty good about where we stand at this point.

JOHN GERSPACH: Touch on Sears.

MARK MASON: Sure. So in terms of Sears, as you know, we don't comment on retail partner financial conditions. But I guess what I will say is you'll recall that last quarter we indicated an upfront impact under a full liquidation scenario for Sears that could be in the range of about $300 million, and that included certain accruals, the write-down of a portion of our related intangibles, and the time and cost of migrating the cardholders to other Citi products. Today, we'd expect that that total impact will be more like $200 million. So the impact has declined, due in part to an additional quarter of intangible amortization, as well as a refinement to our original estimate.

By the way, I'd point out that we booked a small reserve in the fourth quarter that's associated with certain contingent liabilities. But if Sears pursued a liquidation in the near-term, you can think about the vast majority of this impact coming in the first half of 2019. And again, much of the impact would have otherwise been recognized as ongoing amortization expense by the end of 2019 anyway. So the net incremental impact would likely be less than $100 million for the full year. And beyond that, upfront impact and acceleration of store closures would likely have an impact on the Retail Services revenues, perhaps resulting in a flat top line result in total for 2019 and 2020, given the expected impact of new account acquisitions.

MIKE CORBAT: And, Glenn, specific to your question in there, again, we've talked about it before. But you've got a co-brand card here, where 70% of the volume on that card is out of store which is consistent with top of wallet. So this is not just an in-store product, but it's a utility product for these people where they're using in broad ways. So I think the access to that and the access to the credit and the top of wallet nature we take comfort in in terms of people's desire to keep that outstanding.

GLENN SCHORR: Thank you for all that detail. That was great.

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

MIKE MAYO: Hi. I have a question on efficiency. In slide 17 it showed improving efficiency for the last two years, and you can go back further and see improving efficiency. But when we look at your efficiency business line by business line, it looks worse than peers. So my question is, what else can you do to improve intensity of expense control? And I'm not talking about cutting CapEx or long-term investments. Mike, I heard what you said. You don't want to have stop/start, stop/start. But what are you doing for travel, entertainment, black cards, Ubers, size of coffee cups, paper clips, the sort of tone at the top that says, hey, we've made a lot of progress, but we still have a long way to go. We don't always get that sense, or I don't personally always get that sense that this is a firm that needs to better optimize, notwithstanding how far you've come.

MIKE CORBAT: Mike, I think you've got to go back and put in a little bit of context of history, right? Having gone through the crisis and the things that we needed to do, we cut back, we curtailed, we stopped a lot of those things, and tightly monitor those things that you mentioned. So it wasn't, we came out of the crisis and everybody's flying around the world first class and staying in five star hotels. We've put in place, we maintain and monitor strict travel policies in terms of off-sites, in terms of all the spends that we have. We put them in place, we monitor, and we continue to take efficiencies from those. So it's not like they were there and in better times they went away and we're putting them back. We, obviously, continue to monitor and push those. So probably why you don't hear about them is because they got put in place and we just continue to push them as opposed to putting new things on. But in the environment as we said, we're going to do the appropriate things of making sure that we continue to push ourselves on the expense front. At the same time, knowing that we've got to create our own capacity to invest. So we take it seriously. We take it with a sense of urgency and as a firm, I would say we're all over it.

MIKE MAYO: As a follow-up then, maybe one for John and one for Mark. John, you have made progress, but maybe not – maybe you didn't get everything done that you wanted to get done. As you look at Citi, as you are about to leave, where do you see some possibilities that you didn't get exactly what you wanted? And then, Mark, what's the difference in your approach versus John, and how you're going to look at things and some maybe nuanced changes?

JOHN GERSPACH: Mike, when you look at – actually the answer to both the questions you asked to Mike and to me, you look at the efficiency by business, most of the work still has to get done in the Consumer business. And if you look at where we need to focus, it certainly isn't in the cards business. I think you understand and we understand cards is already a very efficient business. We need to improve the efficiency in our Retail business, and that's what a lot of the investments are focused on and that's where we also need to be able to grow our revenue. So I'd say that that's a business that is going to need improvement going forward and it's one that we highlighted when we laid out Investor Day. So, again, that's where we're geared going forward. But it's in the overall efficiency in the Consumer business where we still have some work to do. I'll turn it over to Mark.

MARK MASON: I guess I'd say, one, I'd like to just echo the point that we are intensely focused on this. We're focused on not only the efficiency, but on delivering the return targets that we've set. And so you've seen the numbers. We've gone from an 8.1% return on tangible common equity last year to a target of 10.5% this year to delivering a 10.9% this year as an actual number. And I recognize that that is still short of where we've targeted for ourselves going forward, and I recognize we've got a 12% return on tangible common equity for 2019.

But as both Mike and John have said, we're preparing for varying operating environments and doing so in a way that we can ensure that we still hit that 12%, and that involves all of the line items. That involves what we can do to continue to realize the benefits and the momentum we're seeing in the strong parts of the franchise, many of which both Mike and John have gone through. It involves us delivering on the savings from productivity, the $500 million to $600 million that largely should offset the volume and compensation growth that we see in revenue growth going into 2019. It involves continuing to manage the cost of credit. And we think the fourth quarter number is probably a good run rate looking into 2019. It involves continuing to manage the tax line. That number's come in better than what we expected when we talked about 2018 performance. And it involves managing the balance sheet. And, again, as we saw the fourth quarter come down in revenues, we were able to bring our risk- weighted assets down as well.

And so my commitment is probably a lot similar – not probably – is a lot similar to what John's commitment and Mike's commitment has been. My commitment is the execution of the strategy that we've talked about, delivering against the targets that we've set, and building in the flexibility that allows for us to manage in uncertain environments.

MIKE MAYO: Thank you.

OPERATOR: Your next question is from the line of Steven Chubak with Wolfe Research.

STEVEN CHUBAK: Hi. Good morning.

JOHN GERSPACH: Good morning.

STEVEN CHUBAK: So I was trying to unpack some of the revenue guidance for 2019. And given some of the favorable guidance you gave on NII up $2 billion year-on-year, it implies you should be able to hit that 3% revenue growth goal even with the income staying flattish in 2019. And I'm just wondering is that the right way to interpret the guidance and is that why you specifically mentioned the flattish fee income growth almost as a floor for 2019, and certainly you conveyed a very positive tone on your ability to hit that 3% target.

MARK MASON: Yeah, so I'd say two things. One, you're spot on in terms of the NII, and we feel like our ability to deliver on the $2 billion or so or similar performance to what we saw in 2018, and then in terms of the non-interest revenue, as we mentioned, that was a decline this year. We should certainly see growth in the non-interest revenue this year. But we do have to keep in mind that our reported growth for non-interest revenue will look a little bit lower than the underlying because of a number of one-timers, including the wind-down of legacy assets and things like the Hilton gain and the Visa B share gains, et cetera. So I think the way you can think about it is that the bulk of the reported growth that we'd expect to see next year would come in the NII line, but we would not see the decline in non-interest revenue, and perhaps even see some upside there.

STEVEN CHUBAK: Got it. Okay. And switching gears for a moment just to capital targets. Now, we've heard some recent rhetoric come out of the Fed on capital rules and the SCB, and something that they've made pretty clear and the word choice that they've used is that, the industry currently holds adequate levels of capital. So it certainly suggests rules are unlikely to get tougher from here. At the same time, it's less clear whether we're going to see meaningful relief either. And I'm just wondering based on your discussions with regulators, expectations for the SCB, whether you're thinking has evolved on your long-term capital target 11% to 11.5%? Do you still view that goal as being appropriate based on your current vantage point?

MIKE CORBAT: I think with the SCB getting pushed out to 2020, what we would say is we've talked very publicly about the 11.5%. And I would say based on what we know today, that continues to feel to be the right neighborhood for us. Obviously, as we go forward, we'll continue to refine that, but I think we're quite comfortable with the 11.5% today.

JOHN GERSPACH: I think the only thing I'd add to Mike's comment is that 11.5% that we laid out there, that was never intended to be a bright line limit. There's a great deal of variability in many of the components, some of the things that you just talked about that go into calculating the CET 1 ratio. So we would expect to operate on an ongoing basis with a CET 1 ratio in the range of 11.5%. So, in other words, we may periodically dip slight by below that 11.5%, and that would still be okay.

STEVEN CHUBAK: Very helpful, John. One final question for me. Just on non-interest bearing deposits, you reported another 5% drop-off in those balances in 4Q. Just curious it'd be more of an industry-wide phenomenon. Just hoping if you could speak to which segments specifically are seeing the steepest declines and maybe what's your expectation in terms of where that could bottom as a percentage of total deposits.

JOHN GERSPACH: I'm not going to give any guidance as to where it could bottom. But what we have seen is most of that decline, obviously, is in U.S. retail, which is where the bulk of our non-interest-bearing deposits are. And there what we've seen is two things. We've seen flows out of the non-interest-bearing directly into interest-bearing, and we've also seen flows going into investment products. I'd say that especially in the second half of this year, we've seen overall flows in our Consumer retail deposits, excluding commercial deposits, that they pretty much have normalized now. Basically, if you could look underneath the numbers, U.S. retail consumer deposits are virtually flat from an end of period basis, end of 2017 to 2018, and that's, again, we're getting in new money. Most of the new money is coming into interest-bearing accounts, CDs, but some is coming into the checking.

We're continuing to grow our wealth management clients. We increased Citigold households by another 18% this year. And what that means is those clients are operating the way we would expect those clients to operate, which is they're starting to move money into investments, but we're retaining – in the second half of the year our retention rate on those flows into investment accounts improved to 75%. So we think right now we're in a fairly good balance, but you are still going to see a bit of a shift going forward from non-interest-bearing into interest-bearing.

MARK MASON: And just keep in mind, our U.S. retail deposits are about $150 billion out of the $1 trillion of total deposits we have.

STEVEN CHUBAK: Got it. Very helpful color. Thank you, both. And, John, congrats on retirement.

JOHN GERSPACH: Thanks.

OPERATOR: Your next question is from the line of Marty Mosby with Vining Sparks Management.

MARTY MOSBY: Good morning.

JOHN GERSPACH: Hi, Marty.

MARTY MOSBY: I had a few questions about just what you're seeing in these particular businesses. If you look at Fixed Income, the pullback in yield from when it hit highs kind of late summer, into the fall, kind of throws all your yield investors off, because they finally started to see rates starting to pick up, and then all of a sudden it comes right back and they just get kind of frozen, like I wish I would have bought yesterday kind of thing. How do you see that kind of evolving? Have you seen any of this – it kind of thaws over time, because they have to kind of get back to, okay, well, this is just where we're at, we can get higher rates, so let's go ahead and start doing that. Was some of that part of what we saw in the fourth quarter and we've seen any signs of that change to the first quarter?

JOHN GERSPACH: Marty, the fourth quarter was one of those quarters where there was so much volatility. It's not necessarily whether interest rates are moving up or down. You can certainly get good client engagement and a lot of activity in either of those cases. It's where the market appears somewhat directionless or people aren't quite sure exactly how far something is going. So this is this concept that people have talked about as being bad volatility, and that's really what we saw in the fourth quarter, where the volatility was just so much that people didn't know when to jump in and, therefore, everybody just stayed on the sidelines.

What we saw – and I commented when I spoke at the Goldman conference. My comments there were about the lack of client engagement that we had begun to see in the G10 rates area of our business. And that was one of the things that led us then to talk about trading revenues overall being down slightly year-over-year, because we didn't see that good engagement in G10 rates. With December, we saw basically that extreme volatility, given the overall lack of a view of where rates would finally bottom out just impact every one of our businesses in Fixed Income. And that's what really led to the change from being slightly down to where you see today, where the combination of Equities and FICC ended up being down 14%. But most of that really was in Fixed Income, it was in the second half of the quarter and predominantly in December.

Now, we have seen some improvement in trading conditions with volatility moderating and both equity and yields showing signs of stabilization early in January. But it certainly is very early at this point in time and I would still say that market conditions have yet to fully recover.

MIKE CORBAT: Marty, what you saw in particular in the later stages of the fourth quarter, and you could see it manifest when you look at fund returns for the quarter, where people went from in some cases having pretty reasonable years to actually having down years. We really saw kind of a mindset that manifested itself in similar ways for those people that managed to get there and be up, they wanted to protect their ups and weren't willing to necessarily be that active. And those that were down said, I'm down, I don't want to risk being down further, and so we really saw precipitous drop-off in terms of client activity as a result of that.

MARTY MOSBY: That makes sense. And as you look at the debt underwriting, came in a little bit better. There was a lot of discussion about liquidity in the market beginning to pull back, but I guess rates coming down. So I just kind of wanted to balance what you saw with the liquidity market versus with equity underwriting kind of having its trouble with the valuations coming down, maybe more reporting into debt underwriting. I thought it did a little bit better. I just thought maybe there was a balance between the liquidity and the rate coming down getting some deals done in the particular fourth quarter.

JOHN GERSPACH: Overall, Marty, debt underwriting, it may have been a little bit better than people were fearing, but it still was not exactly what I would call a strong environment by any stretch of the imagination. And that pretty much persisted almost throughout the year. Market wallets and debt capital market were pretty much down 29% during the quarter. So, again, maybe not as bad as people thought about, but it was still a pretty dramatic reduction. Equity markets were down. Wallet was down about 36% in the quarter year-over-year and debt about 29%. So, yeah, equities were down a little bit more than debt. But we're still talking about some pretty significant drop-offs in market wallet fourth quarter 2018 compared to fourth quarter 2017.

MARTY MOSBY: Then lastly, a more global question. If you look about and think about this where we're seeing valuations right now, particularly your valuation being below tangible book value, let's say take off the table recession or not, because I think that is the biggest part of the question, and assume as you all kind of foreshadowed, as well as our models foreshadow, that we're not heading into that recession unless we talk ourselves into it, then it really becomes returns versus your cost of equity. As long as you're being able to improve returns, like you have, and I think we've kind of crossed that threshold of cost of equity, but just wanted to make sure, where do you kind of peg that cost of equity and do you see in your mind that you are kind of building that excess return. And if you're not going in recession and you're generating excess returns, then discount to tangible book value is definitely not reasonable at this point.

MIKE CORBAT: We think we've clearly crossed that. So at the 10.9% that's been referenced, again, call it a circa 10% cost of equity, so we think we're above that and clearly as we execute against the trajectory this year, the 12%, obviously, clearly above that. And above 12%, 13% plus and beyond.

MARTY MOSBY: Thanks.

JOHN GERSPACH: Thank you, Marty.

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

JOHN GERSPACH: Hey, Ken.

KEN USDIN: Hey. Thanks. Good morning. Can I just ask one question on lending? Like you guys like the industry saw really good growth especially on the North America side and in EMEA, especially in Corporate Banking, and it looks like some was in the Markets business. Can you just give us some color on was that in your view just core underlying economic improvement akin to like you talked about earlier? Was some of it related to the market disconnect and perhaps might be fleeting, and kind of was on-balance sheet/off-balance sheet? How would you just help us understand this big surge in Corporate Lending that you guys saw this quarter?

JOHN GERSPACH: When you look at the Corporate Lending and Corporate Lending, I think of it, it grew about 2% sequentially. It's about up 6%. I'm talking about the average balances that we give you in the back of the earnings deck. And that loan growth was pretty much spread across various components. I'd say that overall there was still good corporate demand for loans. We saw good corporate demand. It did range a little bit different by geography and how we chose to address it. We had a lot of strong client demand in Asia, for instance. And yet if you look, you'll see that our Asia loans were actually down sequentially and year-over-year, and that's just because that demand was at spreads that we didn't feel were appropriate. So we just chose not to participate.

Some of the things that we did do in our TTS business is where we saw that the spreads didn't quite meet our hurdle rates, we still originated the loans, but we originated them for distribution. So, again, pretty good demand. There is – in the Markets area that you mentioned, a lot of that growth is driven by some year-end Community Reinvestment Act lending. That's the segment of the business where we do our Community Reinvestment Act. But there's also an element of some residential warehouse lending that is in there that we would expect then to clear out sometime in the first quarter as securitizations are executed.

KEN USDIN: Got it. And, John, just to follow-up, you mentioned just some pockets where spreads are tight. How would you just characterize the overall Commercial side lending environment out there? Is there an opportunity to take back some market share away from the nonbank segments that have been tough for the whole industry and are you guys seeing some of those opportunities?

JOHN GERSPACH: I'd say yes, but don't forget, I think a lot of those opportunities are going to be in what I would consider to be the small to medium type of operations. And we're not a big player in what we would consider to be the CCB business, the commercial aspect of it. We certainly are growing in that business, but it's not a large enough segment for us that would necessarily drive a significant amount of loan growth in 2019.

KEN USDIN: All right, understood. Thank you very much.

JOHN GERSPACH: Okay.

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

JOHN GERSPACH: Hey, Betsy.

BETSY GRASECK: Hi. Good morning. Hi, John, I can't believe we can't ask you questions on this call next quarter.

JOHN GERSPACH: You can. I just won't answer.

BETSY GRASECK: It's terrible. Good luck, and enjoy. We're going to miss you.

JOHN GERSPACH: Yeah, and I know you're going to like Mark a lot more. He's a lot more user friendly than I am. So...

BETSY GRASECK: Oh, I don't know. All right. I've enjoyed your non-user friendliness, actually. So maybe we could just – my last question for you here is around the outlook for the long-term RoTCE, and I know in this call we spent a lot of time talking about outlook and the flex points that we have for 2019, and I'm just thinking as I – because we do model out next several years. You've mentioned in the past the 16% that you put out there a couple quarters ago, was 14% plus 2% for tax reform. But maybe you could give us a sense of, is there anything incremental to how you think about what the drivers are to that 16% beyond what we discussed as drivers for the 12% for next year?

JOHN GERSPACH: Well, I think Mark laid out a whole – I laid out some drivers and I think Mark commented on them earlier as well. But, again, we laid out that 16%. Tax rates, we're finding our way to a lower effective tax rate than we had originally thought that we'd be able to achieve, and I think that there's still some additional work that we can do there. But outside of that, it's going to come down to those core elements of improving that efficiency ratio, seeing better growth in the Consumer business and the accrual businesses. We're already seeing that in the ICG. Just think about the net interest revenue outlook that we just talked about and all of the growth now that is coming out of those businesses, you've seen that core accrual revenue grow $4 billion year-over-year.

We talked about the fact that masking that has been some underlying impacts in that fee-driven revenue, the non- interest revenue that we think now we've lapped. So, I don't think there's anything new that needs to be done in order to get to that 16% and I think there's a whole series of opportunities that Mark and the team are going to continue to unearth.

BETSY GRASECK: One question there is on the provision line, and I know you indicated the 3.25%, 5.25% range for the card. Does the comments around provision, should I take away from that that you feel that you are at normalized provision levels for your book at this stage?

JOHN GERSPACH: At this stage, we're at normalized provisions in Consumer. I'd say that 2018 was a bit of a great – a very good year for corporate credit. Fourth quarter, I think, is probably more indicative of where you will see the loss – the overall cost of credit for ICG. But we're certainly not looking at any sort of significant ramp-up in cost of credit over the next couple years, other than as loan portfolios continue to grow and season, you're going to get some natural increase, but those loss rates, we feel pretty good about those loss rates.

BETSY GRASECK: And as you think about the segments and the geographies, for hitting these targets into 2020 or maybe long term, I call that like beyond 2020, I guess, but as you hit what you're looking for in the U.S. retail card, do you migrate more capital towards emerging markets? Do you migrate more capital to Mexico and Asia which have been growing faster? Or do you feel like this current mix is – you can hit the 16% with the current mix?

MARK MASON: Yeah. I mean, when we put together the targets, it reflected where we thought we'd see the opportunity, so continued momentum out of Mexico, momentum out of Asia, albeit, as John has described, we're seeing some pressure in the Retail Banking part of the business, particularly in investments. And so, as you would imagine, we're constantly looking at the client demand that's out there, juxtaposed against returns and growth opportunities and re-calibrating and reallocating resources accordingly. But at this point in time, I'd say that mix that we've talked about then in terms of needing to close the gap on the Consumer side and 100 basis points or so of improvement on the ICG side is still where we think things are heading.

I guess – and the final point I'd make on that is as you saw in the fourth quarter, where we see pressure in the business, i.e., we saw pressure in Fixed Income, in particular, you'll see us manage the balance sheet. We brought risk-weighted assets down. We ended with a risk-weighted assets of $1.170 trillion versus the $1.196 trillion last quarter. And in this case, you saw our CET 1 ratio go up to 11.90%.

BETSY GRASECK: Yeah. And I know we'll get the VAR numbers in the 10-Q, 10-K, so I assume we'll see some reflection of that there as well. Anything in rates in Fixed Income? I know we talked through a lot of high yield spread, credit widening and how that's not really impacting you much. But I'm just wondering on the rate side and the volatility that existed in rates.

JOHN GERSPACH: When you take a look at the decline in FICC revenues, most of it was centered in G10 rates. So, that was a big driver of the year-over-year decline in FICC. When we look at it, and you can see it in the supplement, I think the...

BETSY GRASECK: Yeah.

JOHN GERSPACH: When you look, spread products year-over-year were off by 3%. Now, remember, we had a miserable fourth quarter last year in spread products. So, on a relative basis, it was kind of an easy comp. But the bulk of the year-over-year decline is in rates and currencies and within that, most of the decline is centered in G10 rates.

BETSY GRASECK: Great. And there was that one-off that was reported post the Goldman conference, but that was in your Goldman conference comments I would think, right?

JOHN GERSPACH: That was embedded in the guidance that I gave at Goldman, absolutely. But even taking that loss out, Fixed Income would still be down mid-teens year-over-year and, again, the loss really in G10 rates.

BETSY GRASECK: So, then last is just – I got a question this morning on the PG&E utility company that suggested that they might be reporting bankruptcy this year or filing for bankruptcy this week. You have some exposure to them. Could you just talk us through how you deal with those kind of events? I know we talked through Sears earlier.

JOHN GERSPACH: Yeah. I mean, obviously, we don't comment specifically on any client, but in general we have a very strict risk appetite framework that we apply. You see that reflected in the overall statistics for our corporate book, which is in excess of 80% investment grade. So, any exposure that we would have to any type of company that you're reading about is certainly going to be manageable.

BETSY GRASECK: Okay. Well, John, it's been great working with you and, Mark, looking forward to it. Thank you.

MARK MASON: Thanks, Betsy.

JOHN GERSPACH: Thanks, Betsy.

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

BRIAN KLEINHANZL: Hi, good morning.

JOHN GERSPACH: Hey, Brian.

BRIAN KLEINHANZL: Hey. A quick question on the tax rate. When you gave the updated guidance at the end of 2018, you had said that 2020 was expected to be effectively lower than what it was in 2019. Even though tax rate's down, we're at 24% and less than 24%. I mean, does that same relationship hold, even though you've dropped down the tax rate guidance, so now you're at 23% for 2019. Are you still expecting 2020 to be below 23%?

JOHN GERSPACH: Well, let's leave it at, at least, equal to that 23% for 2019 until we're ready to come out with anything further. But again, as we indicated in some of the guidance, we do think that there are opportunities that we have to go lower than the 23%. But we're not prepared to give guidance on that yet.

BRIAN KLEINHANZL: Okay. Thanks. And then, the other question was on your 2020 targets, I mean you have that 3% revenue CAGR kind of embedded in there to get to those targets, but since you missed revenue growth this year, you're really kind of looking at now needing 4% in the next two years to still stay at a 3% for the full-time period. So, is that kind of how you're thinking about it and how dependent is hitting those 2020 targets on revenue growth alone?

MIKE CORBAT: So, when you look at that, as we described at Investor Day, Brian, we talked about a number of levers, right, that it was the combination of single-digit revenue growth, good expense discipline, reasonable cost of credit and, obviously, significant capital return. And so, we've talked about the levers here as we went through. One is, obviously, the revenue momentum that's going on in parts of our businesses, the more annuity like. We spoke to the expense saves, so the $200 million manifesting itself to $500 million to $600 million and then another $500 million to $600 million. Earlier on in the year, John had talked about that we're actually outperforming on the expense front and we could get an incremental couple hundred million dollars of expense saves that would come through.

Obviously, we talked about the legacy assets piece. We talked about FDIC surcharge. We talked about the tax rate and, again, we feel confident – again, don't have scenarios or anything yet, but feel good about capital returns and as we look to the future, 11.9% down to 11.5% and the combination of earnings, DTA utilization which we don't talk about much more, but it's there and it's reasonably significant and obviously continuing to close that gap between 11.9% and 11.5% or wherever that number is. So, we think we've got a number of levers that we can pull as we go forward.

BRIAN KLEINHANZL: Okay. Just one last one, you said that you were expecting – I think everyone is – fewer rate hikes in 2019 versus 2018. So, how do you think about deposit betas if there are less rate hikes? Thanks.

JOHN GERSPACH: Well, deposit betas are likely – certainly on the retail side, they're likely to continue to increase into 2019 even if there are no further rate hikes. In our plans we're assuming that there's one rate hike in 2019, but we still are assuming that there's going to be some increase in retail deposit betas. And if we look back at the last time rates increased, retail deposit betas continued to increase for some time after the last rate increase. We have seen stabilization on the betas on the corporate deposits. And so, there may be some continued pressure upward there, but much less so. To the extent there's going to be any, I think, large moves in beta, it'll be on the retail side and that's, again, baked into all the guidance that we've given.

BRIAN KLEINHANZL: Great. Thanks.

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

SAUL MARTINEZ: Hi. Good morning. Couple quick ones, hopefully. First, more of a geography question on the FDIC surcharge benefit of about $140 million, $150 million, how is that distributed between North American Consumer and ICG? Is the vast majority of it in North American Consumer or is there a portion that also migrates into ICG?

JOHN GERSPACH: No, no, no, no. Actually that $140 million – the $140 million is not separately isolated within the overall FDIC assessment that we get. So, we apportion that out as we do with all the other aspects of the FDIC assessment, and it goes globally to all of our businesses around the world. So, if you want to think about it, it's actually two-thirds of the overall FDIC assessment ends up in ICG and only one-third in Consumer. So, it would be less than a third of that benefit that shows up in U.S. Consumer.

SAUL MARTINEZ: Okay. So, it's allocated roughly in line with the overall distribution of deposits essentially?

JOHN GERSPACH: No, it's actually allocated based upon a much more complicated formula than that, because it's not deposits that give rise to the assessment. There's a whole series of other risk indicators that actually drive your assessment. And so, we actually apportion that assessment among the businesses based upon their contribution to the risk factors that go into the assessment calculation itself.

SAUL MARTINEZ: Okay. Got it. That's helpful. And secondly, I guess a much broader question. Any updated thoughts on the political dynamics in Mexico. It does seem like there has been, at least, a bit more recent movement by the government to engage with the banking system in a more constructive way. And I'm just curious if you guys sense that and just your overall level of optimism that maybe things aren't necessarily getting better from a political standpoint, but at the very least there's no signs of deterioration in terms of the policy landscape.

MIKE CORBAT: Yeah. So, we're early, right? The President's been in office since December 1. I think he and his team continue to find their feet and I think what you're referencing most recently was that they've kind of come out and they've been very clear in terms of wanting to become more inclusive in terms of banking. But in there they've involved the finance ministry, they've involved the local bank and banking associations in terms of, I think, working quite consciously and artfully to craft that message in a constructive way. So, it's early, but I would say that the interactions that we've seen have been positive and I think the underlying piece of that, as was referenced in some of the conversations before, we've got an environment there right now where we probably got consumer sentiment really at or near all-time highs, and so you've got an engaged consumer and I think they're very mindful to try and want to keep that consumer engaged.

SAUL MARTINEZ: Got it. Thanks a lot.

MIKE CORBAT: No problem, Saul.

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

GERARD CASSIDY: Good morning, everyone.

MIKE CORBAT: Hi.

JOHN GERSPACH: Hi, Gerard.

GERARD CASSIDY: Can you share with us, John, you touched on how the growth in TTS this quarter was due to wider spreads and also higher volumes and transactions. If you had to rank the three reasons why you had the better growth year-over-year, which one of those contributes the most to that growth?

JOHN GERSPACH: They all contribute. And I'm trying to rank them. I think it's actually – it's the volumes that are driving things more than anything else. The deposit volumes and the transaction volumes would be the ones that are driving it. Rates is having an impact, but it's really the volumes that we're seeing in the deposit growth as well as the transaction volumes that are driving the revenues. And those transaction volumes are – they're spread between things like commercial cards, just the traditional interaction that we've got on moving cash, but there's a whole series of working capital solutions that we're rolling out. So, that's one of the reasons why we feel really good about the long-term growth prospects of TTS because, again, it's not just being driven by one specific thing that if that stops, suddenly all the air goes out of the balloon. It's really a business that has got multifaceted growth engines at this point in time.

GERARD CASSIDY: And, John, how is – I mean you've got such a global footprint here in this area. New business or new client growth, is that a contributor each year as well that actually moves the dial or is it just the steady-Eddie 1% to 3% or 4% new customer growth?

JOHN GERSPACH: No. No, no, no. There's definitely – I don't have the number in my head, but we don't have 100% penetration on our corporate client base with TTS. As strange as that may be, as good as we are, we don't have 100%. So, we have the ability to introduce that TTS product set into new clients every year and we are doing that.

And then, once you're into new clients, what you're likely to get is you get one of their regions or maybe several of their countries and therefore, there's the ability then to grow into multiple countries, multiple regions and it's been a lot of that, a lot of that is what has fueled the volume growth in TTS. I think overall, Gerard, we've got like something like a low-double-digit market share in TTS, maybe it's 10% or 11%. Whatever it is, it's relatively small and there's still a sizable growth opportunity in TTS.

MARK MASON: And, John, to your point, it's not just growing with new multinational clients, but also with smaller clients that are looking to go global and given the breadth of our franchise, we're positioned to take advantage of both of those opportunities and serve both types of those clients.

GERARD CASSIDY: Very good. And shifting gears on you guys, can you give us any color on Investment Banking pipelines? Obviously, we know what happened in the fourth quarter and December in particular. What are you guys expecting or seeing for the upcoming quarter in those pipelines?

JOHN GERSPACH: Pipeline remains, I'd say, very, very strong and client dialogue remains strong and we've got a very healthy backlog going into 2019.

MIKE CORBAT: We just need the right environment to execute in.

MARK MASON: That's right.

GERARD CASSIDY: Right. Okay. And, John, circling back to your comments on the G10 rates business, how it really fell off, when you look at it by customer segment that you trade with, was it more of the market traders, meaning hedge funds or was it long-onlies or sovereign wealth funds? Who really saw a falloff the most from your customer standpoint?

JOHN GERSPACH: Early in the quarter I'd say it was fairly concentrated a little bit more in the investor clients, but as the quarter proceeded, we saw both investor and corporate clients move to the sidelines.

GERARD CASSIDY: I see. Very good. And echoing others, we're going to really miss your candor and frankness, and good luck in those retirement years.

JOHN GERSPACH: Thanks, Gerard. Really appreciate it. It's been great working with you.

GERARD CASSIDY: Thank you.

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

ERIKA NAJARIAN: Hi. Good afternoon. Sorry to prolong this, but I actually had a question. Thank you so much for all the guidance that you've already given us on the revenue outlook and expenses. And heard you loud and clear, John, that the efficiency improvement in 2019 will be wider than the 90 basis points that we saw in 2018. Assuming that low-50s, sort of starts at 53% at the top of the range for 2020, I'm wondering, is the improvement in efficiency in 2019 going to be about equal to 2020? Or is it going to be accelerating improvement into 2020, sort of like you're implying what had happened in 2018 and 2019? If that question is clear.

MARK MASON: It's going to be accelerating. This is Mark. It's going to be accelerating into 2020.

ERIKA NAJARIAN: Okay. And one more.

MIKE CORBAT: If you looked at what we just talked about from the expense side of things, where we talked about a recognition of $200 million this year going to $500 million, $600 million next year of going to an incremental $500 million or $600 million in 2020. So, as the investment spend comes to maturity, our ability to accelerate on the expense side manifests itself.

ERIKA NAJARIAN: Got it. Most investors – just a quick follow-up question – are expecting that the Fed will not raise rates anymore in 2019. Given the different tailwinds that you noted for net interest revenues, I'm wondering what the downside risk is to that $2 billion in growth, if the Fed's last rate hike was December.

MARK MASON: Yeah.

JOHN GERSPACH: Go ahead, Mark.

MARK MASON: Yeah. This is Mark. So, I mean, look, in the past, in 2017 we talked about a roughly $100 million benefit per quarter for a 25 basis point Fed rate hike. And if you think about for the most recent rate hike in 2018, we're only assuming a benefit of about $55 million a quarter. And so, my point in that and all of this is consistent with our U.S. dollar IRE disclosures in the K and the Q, we're not heavily dependent on this midyear 2019 hike in order to deliver on our outlook for 2019.

ERIKA NAJARIAN: Got it. Thank you so much.

MARK MASON: Yeah.

OPERATOR: Your next question is from the line of Al Alevizakos with HSBC.

JOHN GERSPACH: Hey, Al.

AL ALEVIZAKOS: Hi. Thank you for taking my question. So, you mentioned during the presentation that Asian wealth management was one of the weak areas in the quarter. That doesn't really strike me as a surprise. However, I would like to know what do you think is happening and what is your outlook for 2019. And was the weakness just because of AUM or was it something else as well? And then, secondly, just want to confirm on your comment on equities, excluding the one-off loss that you had previously, were the revenues down year-on-year, because you mentioned good derivatives offset by weaker prime brokerage? Thank you very much.

JOHN GERSPACH: So, Al, let's take the second one first. On the equities, yes, the – excluding the one loss that we talked about last year, it would still be, as I said, down slightly year-over-year. So, think of slightly as being something in the single digit – low single digits, mid-single digits type of range. And so, does that get you where you need to go on the equities?

AL ALEVIZAKOS: Yes.

JOHN GERSPACH: I'll take that as yes. Okay. And then, when you think about Asia, when we looked at Asia, it really is just that runoff in investment revenues and we generate – I think I mentioned this on last quarter's call, one of the things that we're trying to rebalance in Asia is that a lot of our investment sales generate revenues on the front end as opposed to being continuing fees as the investment keeps on going. So, to the extent you get periods like this where there's – investors are not moving money into new investments, it hurts us on the fee line.

Now, we're converting more of those investment products in Asia into more back-end loaded, more consistent fees and get away from this front-loaded concept, but we haven't done that as yet. So, that certainly is one of the things that is going on. And we have seen – consistent with some of the things I talked about with the trading, we have seen some pickup in investment sales in early January. But again, it's early and certainly not back to where we want it to be.

AL ALEVIZAKOS: Thank you for that. Could we say that the performance in the U.S. wealth management was particularly different in the fourth quarter compared to Asia?

JOHN GERSPACH: Well, Asia, it's a much bigger wealth management business in Asia. That's a business that we've been developing for several years now. The U.S., we're really only into maybe the second, maybe it's two-and-a-half years of really focusing on wealth management. So, I think that you'd see similar results, but it's just the U.S. business is relatively small at this point in time.

AL ALEVIZAKOS: Excellent. Thank you very much. Enjoy the retirement as well. Thank you for all the help.

JOHN GERSPACH: Thank you so much, Al.

OPERATOR: Your final question is from the line of Vivek Juneja with JPMorgan.

VIVEK JUNEJA: Hi. Thanks. Sorry to hold you up longer. A couple of questions. The decline in risk-weighted assets, was that all from trading and if the markets do recover, should we expect that to go back up?

JOHN GERSPACH: It's primarily concentrated in credit risk assets. The bulk of it would be in the markets businesses, but it's fairly widespread across ICG. And it depends on when the markets and when the sentiment comes up and then what else – where else we – how else we deploy our capital. But if you look, you'll see that there's some variability, I'll call it, in our risk-weighted assets and that's pretty much just much dependent on client needs and customer demands.

VIVEK JUNEJA: Right. Okay. Because you are a regular market maker, so I would expect that if things do come back, you would be very much there and part of it.

JOHN GERSPACH: Absolutely. Absolutely.

VIVEK JUNEJA: Second one, a little one, which is what is the dollar amount of your wealth management revenues in Asia in 4Q 2018 and what was it in 4Q 2017 because you give us the last 12 months, but it's hard to get a real sense of what the revenues actually did year-on-year without the actual number for the quarter.

JOHN GERSPACH: Yeah, Vivek, I don't have that number in front of me. I'll have to – Susan will have to get back to you with something if it's there.

VIVEK JUNEJA: Okay. And Lastly, LATAM Consumer, what do you need to do to get back to positive operating leverage year-on-year which wasn't the case this quarter?

JOHN GERSPACH: Taking a look at operating leverage quarter-to-quarter, that is hard...

VIVEK JUNEJA: No, year-on-year, yeah.

JOHN GERSPACH: Yeah. I think if you take a look at it on a full year basis, that's a much better gauge of what you're doing in a business because you're going to have quarters like this where you have a slight decline in the retail revenues. So, I wouldn't look at the business on a full year basis and we've been pretty consistent with positive operating leverage coming out of Mexico, in particular, and we would expect to have positive operating leverage in Mexico in 2019 as well. So, it's a one quarter.

VIVEK JUNEJA: But if I look at, John, full year 2018 and I ex the gain on the sale of the asset management business, it was essentially revenue growth and expense growth are – given your rounded numbers in constant dollars, are essentially the same. So, that would say no positive operating leverage.

JOHN GERSPACH: Well, except for the fact that we knew that that gain was coming and so we paced our investment spending to take advantage of the fact that we had the gain, and so for the full year we were still managing to positive operating leverage. Just as I'm sure that you'd want us – if we knew that there was a large loss coming, your expectation would be that we would manage those expenses down somewhat in order to produce a better efficiency ratio and operating leverage ratio, right?

VIVEK JUNEJA: Okay. All right. Thank you, and good luck, John.

JOHN GERSPACH: Thanks a lot, Vivek.

VIVEK JUNEJA: Bye-bye.

OPERATOR: There are no further questions. Are there any closing remarks?

SUSAN KENDALL: Thank you all for spending the time with us this morning. As always, if there are follow-up questions, please reach out to me and my team in Investor Relations. Thank you.

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