TRANSCRIPT

Citi First Quarter 2019 Earnings Review
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Host
Susan Kendall, Head of Investor Relations

Speakers
Michael Corbat, Citi Chief Executive Officer
Mark Mason, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello and welcome to Citi's First Quarter 2019 Earnings Review with Chief Executive Officer, Mike Corbat, and Chief Financial Officer, Mark Mason, CFO. 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'll 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, and Mark Mason, 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 and capital and other financial condition may differ materially from these statements due to a variety of factors, including precautionary statements referenced in our discussion today and those included in our SEC filings, including without limitation, the Risk Factors section of our 2018 Form 10-K.

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

MIKE CORBAT: Thank you, Susan, and good morning, everyone. This morning, we reported earnings of $4.7 billion for the first quarter of 2019. Our earnings per share of $1.87 are up 11% from a year ago. We continue to make progress against our financial targets and strategic priorities. First, in regards to improving our return on capital, our return on tangible common equity rose to 11.9%, up 50 basis points from a year ago. We had positive operating leverage and improved our efficiency for the 10th straight quarter and we had strong growth in both loans and deposits in our core businesses.

In our Global Consumer Bank, we had underlying revenue growth and positive operating leverage in every region. Excluding the Hilton gain last year, total revenues grew 4% on flat expenses. We grew our operating margin by 8% and credit costs remain broadly in line with our expectations driving double-digit EBT growth. In North America, we saw strong underlying growth of 5% in our Branded Cards portfolio and 3% growth in Retail Services. We saw deposit growth in Retail Banking and introduced new products to support our branch-light, digital-heavy strategy in the U.S. In Mexico, we had 5% underlying growth and while Asia grew at a slower rate due to a very strong prior-year investment revenues, loan and deposit growth remained solid.

Our Institutional Clients Group also performed well. In our steady accrual-type businesses such as Treasury and Trade Solutions and Securities Services, overall revenues were up 7% in constant dollars. We also had a 20% increase in Investment Banking, where we have steadily been gaining share among our target clients. Fixed Income did rebound from the fourth quarter with modest year-over-year growth, while Equities was impacted by a weaker environment.

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We continue to execute against our second goal in regards to returning – to improving the return of capital to our shareholders.

During the quarter, we returned over $5 billion in the form of buybacks and dividends, we repurchased 66 million common shares in the quarter and have reduced our shares outstanding by 9% from a year ago. We believe we're on track to reach the commitment we made at Investor Day of returning at least $60 billion to our shareholders over the three CCAR cycles ending next year, subject, of course, to regulatory approval. We recently completed our 2018/2019 CCAR submission to the Federal Reserve, which is the third tranche of that commitment.

When we entered the year, we talked about the need for us to be flexible to meet a range of operating environments, given the way 2018 ended. We have multiple levers at our disposal, including expenses, balance sheet and continued credit discipline. I think we used them correctly and now the environment seems to be normalizing.

While GDP growth does appear to be slowing somewhat, we still see good consumer and corporate engagement. We'll continue to focus on serving our clients and finding opportunities to deepen our relationships across our consumer and institutional businesses. And we remain committed to executing our strategy and to meeting our financial targets.

As you know, we pride ourselves on having a deep bench. And last week, we called on that depth when we selected new leadership who will help drive our firm forward in light of Jamie Forese's retirement. Paco Ybarra, Carey Lathrop, Andy Morton, Mary McNiff and Jessica Roos, all had decades of experience at our firm. I also think the change at the top is healthy and creates opportunities to do things differently and shows that we take our talent and succession planning seriously.

Now, I'll turn it over to Mark. Then, we'd be happy to take your questions. Mark?

MARK MASON: Thank you, Mike, and good morning, everyone. Starting on slide 3, net income of $4.7 billion in the first quarter grew 2% from last year, as a reduction in expenses and a lower tax rate more than offset lower revenues as well as higher credit costs. EPS grew 11%, including the impact of a 9% reduction in average diluted shares outstanding. Revenues of $18.6 billion declined 2% from the prior year and were down 1% excluding $150 million gain on the sale of the Hilton portfolio last year, primarily reflecting lower equity markets revenues and mark-to-market losses on loan hedges in our Corporate Lending portfolio, along with the continued wind-down of legacy assets in Corporate/Other.

Expenses declined 3% year-over-year, as continued investments in the franchise were more than offset by efficiency savings and the wind-down of legacy assets, resulting in our 10th consecutive quarter of positive operating leverage. And cost of credit increased, driven by volume growth and seasoning, while overall credit quality remained stable.

Our return on assets was 98 basis points for the quarter and RoTCE improved to 11.9%. Our effective tax rate was 21% for the quarter, below our full-year outlook, reflecting a discrete item related to tax reform as well as a small benefit associated with stock-based incentive compensation. The lower tax rate resulted in a benefit of about $0.04 per share this quarter. We expect to be closer to our 23% tax rate outlook for the remainder of the year.

In constant dollars, end-of-period loans grew 3% year-over-year to $682 billion, as 5% growth in our core businesses was partially offset by the wind-down of legacy assets and deposits grew 5% to over $1 trillion.

Turning now to each business, slide 4 shows the results for Global Consumer Banking in constant dollars. Excluding the previously mentioned gain on the sale of the Hilton portfolio, revenues grew 4% with contribution from all regions, while expenses remained flat, resulting in positive operating leverage and an 8% improvement in operating margin. And pre-tax earnings grew 11%.

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Slide 5 shows the results for North America Consumer in more detail. First quarter revenues of $5.2 billion were up 4% from last year, excluding the Hilton gain. Retail Banking revenues of $1.3 billion grew 1% year-over-year. Mortgage revenues stabilized sequentially, but declined again year-over-year, mostly reflecting lower origination activity and higher funding costs. Excluding mortgage, Retail Banking revenues grew 2%, driven by modest deposit growth and spread expansion. Average deposits increased 1% year-over-year, reflecting growth in both branch-based deposits as well as through digital channels. And looking at deposits and assets under management in aggregate, we grew balances 3% from last year, excluding the impact of market movements.

Turning to Branded Cards, revenues grew 5%, excluding the Hilton gain. Client engagement remained strong with purchase sales up 7% year-over-year, excluding Hilton. And we continued to generate growth in interest-earning balances this quarter, up about 9% year-over-year. This growth in interest-earning balances drove an improvement in our net interest revenue as a percentage of loans or NIR percent to 912 basis points this quarter.

Looking forward, the NIR percent should decline seasonally from the first quarter to the second quarter. And for the full year, we continue to expect spreads to remain at a level similar to or perhaps slightly higher than the fourth quarter of last year. Average loan growth of 1% was somewhat muted this quarter, but I would note that the first quarter of 2018 represented the peak level of promotional balances last year. Since that time, we have optimized our mix of interest-earning to non-interest-earning balances, while continuing to drive account growth. And we expect loan growth to revert to more recent levels starting in the second quarter.

Finally, Retail Services revenues of $1.7 billion grew 3%, driven by organic loan growth as well as the impact of the L.L.Bean portfolio acquisition. Total expenses for North America Consumer were up 1% year-over-year, as higher volume-related expenses and investments were largely offset by efficiency savings. We continue to drive transaction volumes to lower cost channels and digital engagement remained strong with 12% growth in mobile users year-over-year.

Turning to credit, net credit losses grew by 10% year-over-year, reflecting loan growth and seasoning in both cards portfolios. Consistent with the patterns seen in prior years, we expect card NCL rates in the first half of the year to be higher than the second half of the year. Our NCL rate in U.S. Branded Cards was 326 basis points in the first quarter, in line with our full-year outlook for an NCL rate in the range of 300 basis points to 325 basis points. And in Retail Services, our NCL rate was 536 basis points, which is also consistent with our full-year outlook for an NCL rate in the range of 500 to 525 basis points.

During the quarter, we continued to enhance our digital capabilities and launch new products to lay the foundation for a more integrated multi-product relationship model, we simplified our deposit account opening process for both new customers and existing cardholders and at the same time, successfully launched a new digital savings product targeted to customers outside our core retail markets.

Looking across all deposit products, we have already seen digital deposit sales in the first quarter of 2019 that are roughly equal to all of last year. More than two-thirds of the new accounts from digital channels are new to our retail banks and more than half are outside of our branch footprint. We also launched a new digital lending product, Flex Loan, that allows eligible cardholders to convert a portion of their credit line into a fixed rate personal loan, leveraging our experience in Asia. And we will continue to launch new products and relationship-based offers in the second quarter that leverage our proprietary ThankYou and Double Cash rewards across both card and deposit products. This will also initially be targeted to eligible card customers outside our core retail markets. So, while many of these initiatives are still new, we feel good about our progress today.

On slide 6, we show results for International Consumer Banking in constant dollars. First quarter revenues of $3.3 billion grew 3%. In Latin America, total consumer revenues grew 6% or 5% on an underlying basis,

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excluding the impact of the sale of our asset management business last year. The impact was a net benefit in the first quarter as we recorded a small residual gain on the sale, partially offset by the absence of related revenues. Retail loan growth was muted in Mexico again this quarter, driven by a slowdown in activity in our commercial banking franchise where client sentiment has become more cautious under the new administration. While consumer confidence remains quite strong in Mexico this quarter, we have begun to see a slowdown in GDP growth and overall industry lending volumes. And while a slowdown in GDP is not unusual in a post-election year, we are watching the economy closely. Importantly, we are managing expenses carefully and maintaining credit discipline in order to preserve profitability and returns as seen this quarter in our strong EBT growth.

Turning to Asia, consumer revenues grew 1% year-over-year in the first quarter as growth in deposit, lending and insurance revenues was largely offset by lower investment revenues. While investment revenues remained under pressure in the first quarter, we continued to see positive flows into assets under management as well as 10% year-over-year growth in Citigold clients. And our revenue comparisons should become easier from here as investment revenues peaked last year in the first quarter. Excluding investment revenues, our underlying Asia Consumer growth remains broadly in line with our medium-term expectations.

In total, operating expenses were down 1% for the first quarter as efficiency savings more than offset investment spending and volume-driven growth. And cost of credit declined 4% reflecting a modest reserve release this quarter compared to a modest build in the prior year.

Slide 7 shows our Global Consumer credit trends in more detail. Credit remained broadly favorable again this quarter, with stable delinquency trends across regions. In North America, the NCL rate increased sequentially, mostly reflecting seasonality in cards. And in Mexico, the NCL rate reflects continued seasoning in the cards portfolio as well as the impact of lower overall volume growth.

Turning now to the Institutional Clients Group on slide 8. Revenues of $9.7 billion declined 2% in the first quarter as strength in TTS and Investment Banking was more than offset by weakness in equities, as well as the impact of $230 million of mark-to-market losses on loan hedges as credit spreads tightened throughout the quarter.

Total banking revenues of $5.2 billion grew 8%. Treasury and Trade Solutions revenues of $2.4 billion were up 6% as reported and 10% in constant dollars, reflecting higher volumes and improved deposit and trade spreads. Investment Banking revenues of $1.4 billion were up 20% from last year, outperforming the market wallet, driven by strength in M&A and investment grade debt underwriting. Private Bank revenues of $880 million declined 3% versus a strong quarter in the prior year, reflecting lower managed investment revenues, as well as higher funding costs. And Corporate Lending revenues of $569 million were up 9%, reflecting growth in volumes and spreads.

Total Markets and Securities revenues of $4.7 billion declined 6% from last year. Fixed Income revenues of $3.5 billion grew 1% year-over-year as strength in rates and spread products was partially offset by weakness in FX, given the low currency volatility seen this quarter, while corporate client activity remained stable. Equities revenues were down 24% versus a particularly strong quarter in the prior year, reflecting lower market volumes and client financing balances. And finally, in Securities Services, revenues were flat on a reported basis, but up 5% in constant dollars, driven by growth in client volumes and higher interest revenue.

Total operating expenses of $5.4 billion declined 1% year-over-year as efficiency savings more than offset investments and volume-driven growth. And cost of credit was $21 million this quarter, driven by portfolio growth, partially offset by loan-specific reserve releases.

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Total non-accrual loans increased sequentially this quarter, but the ratio of non-accrual to total corporate loans remained low at 41 basis points. And the addition to non-accrual this quarter did not negatively impact our cost of credit as these loans were covered by previously established reserves.

Slide 9 shows the results for Corporate/Other. Revenues of $431 million declined 27% from last year and expenses were down 26%, mostly reflecting the wind-down of legacy assets. And the pre-tax loss was $93 million this quarter, in line with our outlook. Looking ahead, we continue to expect a modest pre-tax quarterly loss in Corporate/Other for the remainder of 2019.

Slide 10 shows our net interest revenue and margin trends. In constant dollars, total net interest revenue of $11.8 billion this quarter grew by roughly $860 million year-over-year, reflecting higher rates, loan growth and a favorable loan mix as well as the absence of the FDIC surcharge. These results included a modest drag from the lower trading-related net interest revenue and the continued wind-down of legacy assets. As we had anticipated, the drag from these items was far less material this quarter than it had been a year ago. And in total, these revenues now comprise less than 5% of our total net interest revenue. Therefore, we believe it is most relevant to look at our net interest revenue and net interest margin trends on a consolidated basis going forward.

On a sequential basis, net interest revenue declined by roughly $240 million, reflecting two fewer days in the quarter. And our NIM expanded by 1 basis point, reflecting higher rates and improved loan mix. On a full-year basis, we continue to expect to generate at least $2 billion of growth in net interest revenue year-over-year.

We are no longer assuming a midyear rate increase in 2019, but the expected benefit from the rate hike had been relatively small at less than $100 million of incremental revenue.

In the first quarter, the year-over-year growth in net interest revenue was more than offset by a decline in non-interest revenue. However, this decline in non-interest revenue was mostly driven by the $150 million Hilton gain in the prior year, a $250 million year-over-year drag from the mark-to-market losses on loan hedges and the comparison to a very strong prior year in equities. We also saw a small residual drag on non-interest revenue from the wind-down of legacy assets, but less than we've seen in prior years. On a full-year basis, we continue to expect total non-interest revenue to come in at least flat to the prior year.

On slide 11, we show our key capital metrics. In the first quarter, our tangible book value per share increased 7% year-over-year to $65.55, driven by lower share count. And our CET1 Capital ratio was stable sequentially at 11.9% as net income was offset by $5.1 billion of total common share buybacks and dividends.

Before we go to Q&A, let me spend a few moments on our outlook. We continue to prepare for a range of operating environments with a focus on achieving our full-year RoTCE target of 12% for 2019. For the full year, we continue to expect modest revenue growth, flattish expenses and higher but manageable cost of credit combined with continued balance sheet and capital optimization to drive improved returns for our shareholders.

Looking to the second quarter, we expect to return to year-over-year revenue growth. We face fewer headwinds in areas like Asia Consumer, equities and the Private Bank, which presented difficult comparisons for us this quarter. And the underlying growth in North America Consumer should be more evident as we move beyond the impact of the Hilton portfolio sale.

For the second quarter in ICG, in Fixed Income and Equity Markets, given the slower start to the year, we do not expect to see the same magnitude of seasonal decline in revenues we typically see from the first quarter to the second quarter. Investment Banking revenues should reflect the overall environment, but given the strength of our performance in the prior year, we expect to be somewhat down year-over-year. And we expect continued year-over-year growth in our accrual businesses across TTS, Securities Services,

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Corporate Lending and the Private Bank as we continue to serve our target clients across our global network.

On the consumer side, in North America, we expect continued year-over-year revenue growth with U.S. Branded Cards now on a solid path. In Asia, year-over-year revenue growth should improve as we continue to grow our accrual businesses and we face less of a headwind from investment revenues. And in Mexico, year-over-year revenue growth will likely be muted given strong growth and performance in the second quarter of last year, although we expect continued growth in pre-tax earnings.

For total Citigroup, we expect expenses in the second quarter to be roughly flattish to last year and cost of credit should continue to reflect loan growth and normal portfolio seasoning. In addition, we look forward to receiving our CCAR results late in the second quarter. At Investor Day, we stated our goal of returning at least $60 billion of capital to shareholders as part of the 2017, 2018 and 2019 CCAR process and subject to regulatory approval, we remain on track to deliver on this goal.

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

QUESTION AND ANSWER

OPERATOR: Your first question is from the line of John McDonald with Autonomous Research.

JOHN MCDONALD: Good morning. Thanks. Mark, I wanted to ask you about the efficiency improvement that you're looking for this quarter. Looks like the efficiency ratio improved 90 basis points year-over-year, but ex the Hilton, looked closer to 140 basis points. I guess is that 140 basis points more of what you're looking for this year in terms of efficiency, better than you did last year and what are the key drivers of that?

MARK MASON: Thank you, John, and good to talk to you. I guess I'd say we are certainly pleased with the expense levels we were able to deliver against this quarter. We came into the year on the heels of a fourth quarter that was obviously under a lot of revenue pressure. And so, we wanted to be thoughtful about managing all the levers that we had in Q1. And in fact, that is what we've done.

For the full year, as I've mentioned, we are looking for some top line revenue growth for total Citi and expenses that would be roughly flattish to what we had seen in the prior year. That will obviously result in improved operating efficiency versus last year, but probably equally important, certainly equally important, we're managing those other levers whether it be the cost of credit or capital to ensure that we're getting to that RoTCE of 12% and that we stay on a trajectory to get to 13.5%-plus in the outer years.

What's involved with that, to the other part of your question, is continued momentum, continued growth in the accrual businesses that we have, that I mentioned earlier, TTS, Securities Services, Private Bank, et cetera, continued strength in our consumer franchise, which grew globally at 4% this year, but U.S. Branded Cards ex-Hilton grew 5%, we expect that growth to continue and continued strength in the NIR line percentage for the Branded Cards business and a continued normalization or stable market more broadly that should hopefully bode well for our Markets businesses. So, those are kind of the drivers on the top line.

On the expense line, we will, as mentioned last quarter, see the benefit of our productivity outweigh the investments that we're making and that should generate another $500 million to $600 million over the course of 2019 that will be available to either fund expenses related to volume growth and certainly contribute to the overall performance metrics that we mentioned. And so, those items as well as the results coming out of CCAR and what that means for capital will be important levers that get us to the returns and get us to the resulting operating efficiency.

JOHN MCDONALD: Great. That's very helpful. Just as a follow-up, it looks like the average deposits in North America Consumer showed a pickup and a better trend this quarter. Just what's driving that

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improvement in your view? And could you remind us more broadly of your strategy to grow U.S. retail deposits and why you feel comfortable doing so despite a smaller physical footprint?

MARK MASON: Sure. So, we grew the deposits – U.S. retail deposits by about 1%. We got about $180 billion of deposits. About $30 billion or so are commercial deposits to balance our consumer-related deposits. We saw very good growth through our digital channel. So, digital generated deposits on the heels of really executing against the strategy that we talked about.

And so, we have a relatively small footprint with 689 or so branches. That said, we've got access to over 65,000 ATMs and we've got a very, very large U.S. cards portfolio. And our strategy, as you know, is a client-led revenue growth strategy where we are looking to take advantage of the large customer base we have in cards and through enhanced digital capabilities, offer them value propositions that adhere to what they're most responsive to.

And so, what we saw in the quarter in this deposit growth was a combination of getting good traction with our digital platform and with our customers, both new-to-bank customers, but also existing branch customers and with some of our cards customers.

We'll continue to roll out new products in the second quarter. We rolled out Flex Loan this quarter. We'll roll out additional products in the second quarter around ThankYou and Double Cash rewards. And, again, those will involve value propositions that we think will appeal to our clients and drive a broader penetration of their wallets and a deeper customer relationship.

JOHN MCDONALD: Great. Thank you.

MARK MASON: You're welcome.

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

GLENN SCHORR: Hi. Thanks very much.

MARK MASON: Good morning.

GLENN SCHORR: So, I think both growth in the consumer side in Mexico and Asia are below where your goals were. It does sound like you felt good about Asia getting better, but I heard your comments on Mexico looking at its lower GDP growth and worse loan trends. So, what do you look for there? More importantly, what can you do if the just general macro backdrop in Mexico is a little slower? What's the goal there? Do you power through and grow the underlying franchise or do you cut back to manage profitability?

MIKE CORBAT: I think in that, Glenn, what we've talked about and I think what Mark pointed out in his remarks is we think we've got the ability to manage the cost line there and to manage for both EBT growth as well as returns. So I think we've talked about some of the investment we've made there. I think we're starting to see the ability to pull the levers on positive operating leverage and sustainability of that.

At the same time, through some of the other things we've done, capital optimization, et cetera, not only drive EBT, drive net income, but also drive returns. So, I think if we saw growth rates continued to slow a bit, I think we think we've got the ability to manage through that and continue to still get the growth we want there at the bottom line in returns.

GLENN SCHORR: Okay. And if I could follow up on John's and your answer on his card question, offering card customers tailored rewards to bring in banking business, I happen to be a big fan of that, but I think it's getting a little active where you and a couple other big players are doing that. Can you drill down a little bit more of what exactly you're offering? Is it in motion right now? And is it too early to talk about initial results?

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MIKE CORBAT: Well, I think it's too early to talk about results, because we're really kind of just at the stage of launch. But if you think, Glenn, about what we have that makes us a bit unique, I'm going to leave some of our partner – our Retail Services relationships aside, but we effectively have 28 million people in the United States that carry Citi plastic and somewhere between ThankYou, Double Cash, a value proposition that clearly people bought into.

So, as we go into these markets non-core, when we go outside of our six, we don't go in on a de novo basis. We go in already having established Citi customers in those areas. We know who they are. We know what they spend on. We know who their bank is, right? We've seen their payments come in if it's not us. And we think we've got the ability around our value proposition to target them offers, which has the ability – gives us the ability to compete on something other than rate. And so, I think we feel excited about it. You'll see us out in the market in Q2 with that. And so, I think it's early to tell, but the early tests and things we've done, we're excited about it.

GLENN SCHORR: All right. Thanks very much.

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

JIM MITCHELL: Hey. Good morning.

MIKE CORBAT: Good morning.

JIM MITCHELL: Maybe just, Mark, a quick question on rate sensitivity. I think you guys have been much less sensitive to the long-end of the curve both positively or negatively than your peers. I guess two questions on that, I guess, can you discuss the risk of a rate cut given your short-end sensitivity? And I guess, secondly, how you think about your positioning here? Is there any opportunities or risks in this if the flatter curve is here for a while?

MARK MASON: So, I guess I'd make a couple of comments. One, just as it relates to what we forecasted for 2019 and I mentioned it in my remarks, in that, we had originally forecasted one rate hike of about 25 basis points in the second half of the year. That one rate hike essentially equated to about $100 million of revenue and so not a material impact. We've taken that out of our forecast now as I sit here and talk to you about the outlook, but not a material impact to the revenue forecast that we have for 2019.

Similarly, if there were – we've continued over time to kind of take down our IRE exposure, and we certainly have done that and continued to do that through this quarter. If we were to look at a rate cut, we've kind of looked at our exposure there and a rate cut would be somewhere around $35 million to $50 million for the quarter. And so, not a material impact of a rate cut either.

And so, we feel – obviously, if rates remain flat or decline for an extended period of time, we obviously will manage and look at the balance sheet very carefully and thoughtfully there, but we feel good about where we stand today as it relates to the rate environment.

JIM MITCHELL: Yeah. That's very helpful. And then, when we think about your $2 billion-plus for the year, I guess what scenario drives the plus? Is it just loan growth or is there some other aspects of the market that could help?

MARK MASON: Yeah, I mean, it's largely going to be loan growth and the amount of volume we're able to capture there. But we continue to feel very good about the $2 billion NIR forecast, that net interest revenue forecast that we've talked about and we think that the continued momentum that we see in Branded Cards and other parts of the portfolio will allow for us to deliver against that. So, we remain on target for that. We did $860 million in Q1. It's roughly 8% more than the prior year. And so, we feel good about that momentum.

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JIM MITCHELL: Okay.

MARK MASON: And I guess the other component would be mix. So, loan growth and mix would be the other component that would be an important driver there, that is to say consumer versus corporate growth, that type of mix.

JIM MITCHELL: Okay. Maybe just one follow-up on Asia Consumer. Accounts, both card and Retail Banking accounts were pretty flat. Is there an opportunity to grow that from here? What's sort of the strategy in Asia to grow accounts, or is it just a more mature market?

MARK MASON: I'd make two points on Asia Consumer. One, we did see good growth with our Citigold customers, about 10% growth in Citigold accounts. And then, two, we saw good growth as it relates to investment AUMs adjusted for market movement. So, good momentum there as well. And so, we think we're showing good signs for when that market does return in terms of the broader market activity to capture some of that upside given the account growth and given the investment AUMs we've been growing.

JIM MITCHELL: Okay. Thanks.

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

MATT O'CONNOR: Good morning. I was just wondering if you can elaborate a little bit on the management turnover. I think it's three of the top five people that presented at Investor Day have retired and I'm not looking for a meaningful change in strategy, but other kind of changes around the edges in terms of execution and just elaborate a bit on some of the senior people leaving the company.

MIKE CORBAT: Sure, Matt. I think if you look back and kind of go back through the years, really not just since I've became CEO in 2012, but actually if we go back, the senior leadership levels of the firm, I think by any standards, been pretty remarkable stability. And if you look at the retirements that we announced in the fall or Jamie's retirement, in most cases, all 30-year plus veterans, not only of the industry, but almost in every case or most cases our firm. And so, below that as you can imagine, we, over the years, built an equally strong and robust bench.

And so, while I hate to see people move on, at the same time and in Jamie's case, Jamie has been a terrific partner, friend, if you look at the success we've had in ICG, he's obviously been the leader of that and I think done a nice job of building that, but I think a lot of the credit also, as he would give, goes to the team below in terms of what they've done.

So, I think in this instance, we're excited about the people I talked about in my opening remarks having been at the firm for quite a while and having their shot at putting their fingerprint on the business. And I think if you look at the underlying growth, the market share gains, the customer feedback we get from many of the surveys, that obviously goes as great as he is beyond one person in the organization. And so, they're excited, we're excited, I'm excited to have him at my table and the things that we can do to continue to grow the business going forward.

MATT O'CONNOR: And if I recall correctly, I don't think you appointed a new President and I'm wondering if you do intend to do that and if it would come from someone internally or potentially somebody externally. Thank you.

MIKE CORBAT: I have no plans to do that as of now.

MATT O'CONNOR: Thank you.

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

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MIKE MAYO: Hi.

MIKE CORBAT: Hi, Mike.

MIKE MAYO: So, what are your RoTCE and efficiency targets for 2019 and 2020? So, I really just want to know where you're guiding us. I think consensus has really backed off some of the targets you had last year. So, let's start with RoTCE. You've reiterated a 12% target for 2019. That's clear. And then, at the September presentation from last year, you said 13.5% for 2020. And, Mark, today you said the outer years. Again, consensus does not expect this, but are you still looking for 13.5% for 2020? And if not, what are you looking for?

MARK MASON: So, let me be clear. And I apologize if I misstated something. So, for 2019, the RoTCE target is 12%. For 2020, the RoTCE target is 13.5-plus percent.

MIKE MAYO: Okay. Well, there seems like a disconnect between consensus than what you're guiding. So, I guess there is some skepticism. And maybe one reason for the skepticism is on the efficiency. And I appreciate that efficiency is a means to an end. That is your goal is to improve the returns; I get it. But that September presentation last year, you highlighted efficiency improving from 57% in 2018 to 53% in 2020 with a 175-basis-point improvement in 2019 and a 225-basis-point improvement in 2020. And you might have pulled back a little bit from that on the fourth quarter earnings call. I'm not sure, but what is your efficiency target now for the firm? And if you can give any color on GCB and ICG, that would be great too.

MARK MASON: So, I'll make a couple of statements. One is longer term, we are still – remain committed to getting to the low-50s from an operating efficiency point of view. We believe the investments that we've made, the productivity that we're expecting will allow for us to get there over time.

The targets that you referenced for 2019 and 2020 are certainly targets that we have and that we've set and constructed to plans based on, we presented those. I will tell you as you witness that on the heels of 2018 and frankly as we continue to go through the balance of 2019 that we're going to pull whatever levers we need to pull to get to the return targets that we've set, while at the same time trying to protect investments that are critically important to the growth of the franchise.

And that's an important trade-off that we have to do, that we have to make and we've done it in the past, we did it in Q4 and we'll continue to do it. So, I'm not moving away from those targets. What I'm doing is I'm recognizing and hopefully others are recognizing that there are multiple levers that can be pulled, that we've got a long-term objective of delivering shareholder value and we don't want to make short-term decisions that compromise our ability to do that.

MIKE MAYO: So, with the chance to kind of clear the deck a little bit, so, I think – and consensus does not assume you're going to get that 53% efficiency ratio next year. You talked about not relying on one additional rate increase. You want to protect the critical investments. So, do you want to give us any guidance for efficiency improvement in 2019 and 2020?

MARK MASON: I'm not giving any additional guidance at this point in time beyond what's out there.

MIKE MAYO: And then, last follow-up. That's fine. Understood. And then, last follow-up. Mike, back in 2013, you gave a target to improve the ROA to 90 basis points to 110 basis points and I think if you adjust for taxes, you still might not be in that range. So, I think some of the frustration reflected in the valuation in the stock is some missed financial targets. Can you give some sort of context to the missed financial targets, whether it's that one or some of the efficiency guidance that was given over the last few years, why they weren't met and why you can maybe make your targets now, at least for the RoTCE? Thanks. That's my last question.

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MIKE CORBAT: So, Mike, on the ROA, we've talked about this on these calls and in different forums before and that is if you look at what's happened from a capital perspective and a capital optimization perspective, our binding constraint today and probably has been for a bit and will likely to be into the future is around standardized stressed-based capital. And what we've talked about from a balance sheet or from an RWA optimization is making sure that we're using the balance sheet in a way that is accretive to our shareholders.

And so, the example I give, which remains the case today and I think witnessed in our numbers for the quarter that we had outperformance in terms of our rates and in terms of our spread product. Those are accretive businesses to our shareholders. And rather than choose to optimize our balance sheet simply based on a blunt number of assets over earnings to actually look at the capital and the optimization of return and that's what we've done. And I think we've talked about that. We've tried to be transparent with that. I think in the numbers, you see in terms of RWA usage and allocation, we've tried to stay mindful to that, which we think is clearly the best outcome.

MIKE MAYO: Can I squeeze one last short question?

MIKE CORBAT: Sure.

MIKE MAYO: Without the efficiency targets, do you think you can commit to show better efficiency this year and next in each region in GCB, because you showed it this quarter, and in ICG? Is that too much of an ask or is that something that's achievable?

MIKE CORBAT: I think it's achievable. I'm not going to commit here, because again, I don't know what the environment brings. And simply rather say that we're committing to positive operating leverage in every region, every business, I would just go back to Mark's point that we understand how it plays in the math. We're committed to getting the company into the low-50s. I think as you've seen our ability to drive leading performance in terms of operating efficiency, but if it comes down to the choice of not being able to make an investment in an area that we view as critical or accretive or something that's offering real opportunity versus hitting that target, I think our shareholders have been very clear certainly to me and to Mark that they would want us to make that investment. So, here, Mike, I won't commit to that.

MIKE MAYO: All right. Thank you.

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

SAUL MARTINEZ: Hey, guys. Good morning. I want to follow up on the RoTCE question. Obviously, the Street is well below your guidance for this year and especially for 2020. And I'm sure you look at analyst estimates and your IR team looks at analyst estimates in terms of where they're at. I mean where do you think there is the most scope for outperformance? Where do you guys differ, you think, in terms of what your expectations are versus where you think the Street is?

MARK MASON: There's some difference as it relates to revenue. There's some revenue difference. There's some cost of credit difference when you kind of look at analyst expectations versus where we are. We obviously – our cost of credit estimates are lower than that of the Street. And then, obviously, we have – we're at a 11.9% of a CET1 ratio going down to the 11.5% at the end of the year. And so, what we do with capital is another assumption that's in there.

I think the tax rate, certainly we came in lower this quarter, but we talked about that being at about a 23% for the full year. So, most of the differential, I think, is going to be a little bit on the top line, in the cost of credit as well and then the rest of it, I think, is pretty much there. We talked about flattish expenses, which I think most people have picked up on.

SAUL MARTINEZ: Yeah. So, there's a little bit on the revenue side and you're building in a lot less normalization in terms of credit costs than maybe what most of us have?

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MARK MASON: I kind of feel like we're looking at a normalized view of it.

SAUL MARTINEZ: Okay. Got it. If I could change gears then, on the Retail Banking earnings, income from continuing operations this quarter, I believe, was in the $80-something-million this quarter, far below what it's been in the recent past. And I guess a couple questions. First, is there anything idiosyncratic in that number? And, two, I get that you've highlighted some of the newer initiatives and those will take time to kind of play out and filter into numbers, but any sense of when you start to – when you think that will start to actually filter into the results and you'll start to see better results in Retail Banking?

MARK MASON: And so, Retail Banking for North America, we started to see I think some good growth this quarter, particularly if you exclude mortgages. And so, we think that that will continue to play out. As I mentioned, we're seeing deposit growth there that's going to help on the revenue line and we expect that to continue as we execute against that strategy.

I don't think there's anything in particular in the way of expenses except what I would say is that the productivity that we've talked about is going to start – it will continue to play out through the balance of the year. And so, that's going to help when you look at kind of the Retail Banking profitability in the outer quarters as we start to see the productivity savings outweigh the investments that we've been making across that – or that piece of the franchise. So, a combination of continued revenue growth, continued expense improvement on the heels of productivity saves should help drive improved performance there.

SAUL MARTINEZ: Was there anything unusual in the line item this quarter? The $83 million of operating earnings has been running about $130 million to $160 million in recent quarters or is it just the tough quarter?

MARK MASON: Not that I can recall. We talked about the investments that we've been making. So, the digital investments that we've been making in the platform, I mean those are the things that would be playing out through Q1. And, again, it's somewhat back loaded in terms of the productivity saves that start to play out in the balance of the year.

SAUL MARTINEZ: Okay. Got it.

MARK MASON: I guess the other thing I'd mention is and I mentioned this at a conference I did in March, which is that as we came into the year and again on the heels of the fourth quarter where we saw material softness in revenue, we wanted to be very thoughtful about the 2019 plan. And we did take an opportunity in Q1 to pull forward some of our restructuring decisions, if you will, or reorganization decisions. And so, while we don't break the item out, there's probably some repositioning dollars inside Q1 for Retail Banking in particular that is driving that $83 million that you see in the quarter. Again, you'll see the benefits of that start to play out in the outer quarters. So the investments and some repo spending.

SAUL MARTINEZ: Got it. That's helpful. Thank you.

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

KEN USDIN: Thanks. Good morning. Mark, just a follow-up there. You had a really good start year-over-year on the expense side. And then, you're mentioning flattish on the second quarter, which should be up a touch from the first, even though history would show that first quarter often is the peak for the year just given the way you guys accrue in your institutional businesses.

So, can you just talk through – is it perhaps just more of a better aspiration on the revenue side of why you'd only expect flat year-over-year given the point you just made about having perhaps a little restructuring under there and then the better start already that you had in the first quarter of the year?

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MARK MASON: Yeah. So, to be clear, we do expect to see revenue growth through the balance of the year. And so, that obviously will drive some expense dollars with that. We still expect that the absolute dollar of expenses will be higher in the first half versus the second half of 2019, but on a year-over-year basis, you could see some growth in the second half resulting in an aggregate FY18 to FY19 that's flattish on the expenses.

KEN USDIN: Okay. Got it. And on credit, you talked about being inside the bands for your full-year expected card losses and also that first half will similarly also be higher than second there. Just want to ask you anything you're seeing in the consumer side outside of normal seasoning that would change your views one way or the other as far as credit cards specifically and loss trajectories going forward? Thanks.

MARK MASON: Sure. No, there's nothing. We look at a whole host of metrics as you would imagine, whether it's days delinquent or min pay and all of those important metrics and we're not seeing any signs of significant concern or of concern as it relates to the portfolio. You referenced exactly what I think the numbers reflect, which is some seasoning and seasonality that's kind of playing out even when you look at the chart on slide 7, that if you look at North America, that bump from the 2.60% to 2.97%, one, there's a single name kind of commercial credit in there that's driving probably 4 basis points and the rest is really just tied to the seasonality that you can see in prior year quarters.

Even in Latin America, it's less of an increase in NCL dollars and more a byproduct of lower volumes and the denominator there. And so, the answer is no. We're not seeing any particular signs around consumer or credit concerns and I'd extrapolate that to more broadly to suggest that is the case for institutional as well.

KEN USDIN: Okay. Understood. Thank you.

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

BETSY GRASECK: Hi. Good morning.

MARK MASON: Hi, Betsy.

MIKE CORBAT: Hi Betsy.

BETSY GRASECK: I wanted to touch base on an announcement that you made at the end of March that had to do with Citi building out digital consumer payments platform. And I know we talked earlier on the call about the issuer side, but I think this is more on the merchant side. And I just wanted to understand what your expectations are for the TAM that you're looking at, what your market share improvement is that you think you can get with this over time and do you feel that this would also bleed into opportunity on issuance as you deliver more services to your clients? Maybe just spend a little time on that. Thanks.

MIKE CORBAT: So, I think if you look at what's going on in the payments space, I think we've seen a lot – we've had a lot more engagement from our business customers of wanting to create a direct C2B channel. And I think some people have looked at this different ways through different merchant-acquiring models, but I think the way that we're set up and we've worked closely with Mastercard and others is really trying to create that channel where our consumers have the ability directly through our pipes to create payments in there. And I think in some ways that plays to our strength. It plays a little bit to our uniqueness of the things that we do. And so, we're excited about that.

I think if you look at the pace of payments that's kind of going in that direction, obviously, picking up and I think importantly, both the business expectation and the consumer expectation is that that channel, if it doesn't exist, needs to exist. So, early stages, but again based on the pipes and the things we've had both in the consumer side as well as from the ICG side, we think we've got the connectivity and I think unlike others, we're actually leading this from the ICG or the TTS side in our firm.

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BETSY GRASECK: Okay. Maybe we could broaden it out a little bit to talk about the B2B platform that you're working on as well as the cross-border payments in general. We're hearing from some other institutions as well that there's a lot of interest in developing direct merchant-to-merchant or corporate-to-corporate B2B, payment cross-border at tee, and I'm wondering where you are with your offering there and if it's something that you're focused on building out or not?

MIKE CORBAT: Well, I would start out by saying, Betsy, I think that's the business we're in. When you look at our TTS business historically, the TTS portion of that has been – predominantly has been B2B. You've seen the growth rates that we've had there. I think you've seen us kind of not only operating Fortune 5000 to Fortune 5000, but also kind of working down and would – John would historically kind of talk about what TTS is in terms of treasury management, supply chain, cash, working capital. I think all of those. And so, I think that's what you describe is the area where I think we've seen a lot of our penetration and growth coming from over the past couple years and it's obviously an area that we're going to continue to stay focused on.

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

ERIKA NAJARIAN: Hi. Good morning. I just had one follow-up question. Mark, in terms of the guidance for growth for NIR, is it based off of the $46 billion in NIR that you presented in slide 10? I'm just remembering from previous quarter that you talked about core accrual net interest revenue, which would be I think based on the fourth quarter slides a base of $44 billion.

MARK MASON: $2 billion was based on total NIR.

ERIKA NAJARIAN: Okay. Terrific. Thank you.

MARK MASON: You're welcome.

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

STEVEN CHUBAK: Hi. Good morning. So, I wanted to start off with a question on the capital targets. You know the commitment to achieving the RoTCE goals for 2019 and 2020. So, that's certainly quite encouraging. But I was hoping you could remind us just what the underlying CET1 or capital target that's contemplated as part of those goals? And maybe any update in terms of the sensitivity to those goals if capital targets have to actually increase under the SCB?

MARK MASON: Sure. So, again, our goal or our target, I should say, from a CET1 ratio point of view is 11.5%. And that 11.5% is comprised of a CET1 minimum capital requirement of 4.5%. We have a GSIB surcharge of about 3% and we have an estimate for SCB of about 3% as well. And then, there's a management buffer that we've added in there of 1%, which is really designed to cover variability in various elements of the capital requirements. And so, that gets us to the 11.5%.

We've obviously been running at 11.9% in the fourth quarter and again in the first quarter. The fourth quarter will inform what we're able to request and therefore, hopefully get approved from a regulatory CCAR point of view. But that gives us another 40 basis points above our target to absorb a worse scenario if that were the case or to request more capital should that be an opportunity that we deem or think makes sense.

I think as it relates to – there really isn't a lot of new information as it relates to the SCB proposal. And so, I think the last that's been out there from a news point of view has been in 2020. We get some guidance for 2020. We don't have any additional guidance or direction around that. What's going to drive our ability to return capital in the future will be the combination of how much net income we're able to generate to common, the utilization of our DTA, our disallowed DTA. Today, our disallowed DTA is about $11 billion.

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We've been using somewhere between $1 billion and $1.3 billion on an annual basis. I would expect that to still be the case.

So, the combination of those two things combined with what we're seeing in the way of growth in our business and/or opportunities that we think make sense to invest will get us to kind of a core number in terms of what would be available for us to return to shareholders. And so, we think we're well positioned with the 11.5% and we've made our submission and are looking forward to regulatory approval sometime in second quarter – at the end of the second quarter.

STEVEN CHUBAK: Thanks, Mark, for all that helpful color there. And just one follow-up up for me on CECL. At the 2017 Investor Day, you guided to $1.5 billion to $2 billion pre-tax impact. You were quite brave being so early in giving that guidance. I'm wondering, now that we have better visibility into the accounting rules, whether you can give us updated targets on the CECL reserve impact, whether you're still comfortable with that initial guidance of $1.5 billion to $2 billion?

MARK MASON: Sure. Thank you. So, you're absolutely right. We have previously indicated that we expect the impact of CECL versus our current reserves to be on the upper-end of the 10% to 20% range. We have been, as you would imagine, spending a lot of – have been spending a lot of time on finalizing our CECL models, working through assumptions, in many instances receiving clarification from regulators and other standard setters and at this stage, we believe the outcome could be a little bit higher than that range. So, potentially 20% to 30% primarily driven by credit cards, but keep in mind even if or even at a 30% level, the incremental impact to regulatory capital is manageable. So, that'd be less than about 30 basis points of CET1 capital and then, in addition, we'd benefit from the regulatory capital phasing over four years.

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

MARK MASON: Thank you.

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

GERARD CASSIDY: Thank you. Good morning, Mark. Good morning, Mike.

MARK MASON: Good morning.

MIKE CORBAT: Hey, Gerard.

GERARD CASSIDY: Mark, can you share with us – you just gave us a good detail of the amount of money and that might be available each year to give back to shareholders through net income as well as the DTA. How much of net income do you guys think you're going to need to support the organic growth of the organization on a go-forward basis?

MARK MASON: How much net income?

GERARD CASSIDY: Yes. How much of the – if we assume that you could theoretically give back 100% of income every year, but obviously you want to support your growth and you're going to need to retain some of it. Do you have an idea of how much of it you would need to keep each year to support that organic growth?

MARK MASON: Yeah. So, I mean, look, obviously since we've been running at CET1 ratios going back as high as 12% or so, we've been able to return more capital and have a payout ratio that was north of what the net income is that we've been able to generate. I would imagine as we get – not I would imagine – as we get closer to the 11.5% and considering your point around investing in the business through either balance sheet, which would impact the RWA or the expense line itself, I would still imagine we'd have a payout ratio that was considerably high. It wouldn't be a 100%, but it'd likely be consistent with what we see

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with peers in the industry. So, I'm not prepared to give you an actual percentage payout ratio post-2020, but I'd say it'd be pretty high and certainly consistent with what peers are paying out.

GERARD CASSIDY: Very good. And then, circling back up on CECL and to your comments that you just made, do you guys think you'll give to us, the investors, by the end of the year some color on what the – everyone has been very good at the day one reserve build which you just gave us or refined for us today, but any thoughts about what the day two the loan loss provision number could look like on a quarterly basis going forward versus what you're going to report in 2019 under the old methodology?

MARK MASON: So, I guess, what I'd say to that is if you think about our plan, if you will, our forecast and what's out there, from an adoption of CECL point of view, we've contemplated that in our 2020 plan and the return targets. And while we continue to refine the analyses around CECL and its impact, Gerard, we don't expect a material impact on our EBT or returns.

GERARD CASSIDY: Very good. Thank you.

MARK MASON: You're welcome.

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

AL ALEVIZAKOS: Hi. Good morning. Thank you for taking my question.

MARK MASON: Good morning.

AL ALEVIZAKOS: It's regarding the Fixed Income performance. I just was surprised by it, because it was too strong, I think, given the market backdrop. I just wanted to get a bit of clarity between the different regions. What kind of performance did you see in the U.S. versus Asia or Europe? Thank you.

MARK MASON: Yeah. So, our Fixed Income revenues grew 1% versus the prior year and what we really saw was a normalization of rate and credit markets at the turn of the year coming out of the fourth quarter and the dislocation that was there. Within Fixed Income results, our G10 rates outperformed, driven really by strong client activity.

In North America, we did see a pickup in or an uptick, I should say, in corporate hedging deals on the back of strong DCM activity. And in EMEA, the results included increased revenue on structured note issuances as investors kind of sought out additional yields. This was offset by the weakness I mentioned earlier in FX, given the declining currency volatility. But, as you mentioned, strong performance – or solid performance, I should say, in Fixed Income also aided by solid results in spread products with strong performance in the flow credit products. And we also had a strong quarter in commodities, particularly in EMEA, driven by good client activity in oils and metals.

MARK MASON: So, a good mix of North America performance and EMEA performance.

AL ALEVIZAKOS: Thank you.

MARK MASON: You're welcome.

OPERATOR: There are no further questions.

SUSAN KENDALL: Great. Thank you all for joining us this morning. And if you have any follow-up questions, please feel free to reach out to Investor Relations. Thank you.

OPERATOR: This concludes today's earnings call. Thank you for your participation. You may now disconnect.

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