TRANSCRIPT

Citi Third Quarter 2019 Earnings Review

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Host
Elizabeth Lynn, Interim 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 Third Quarter 2019 Earnings Review, with Chief Executive Officer, Mike Corbat; and Chief Financial Officer, Mark Mason. Today's call will be hosted by Elizabeth Lynn, 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 call is being recorded. If you have any objections, please disconnect at this time.

Ms. Lynn, you may begin your conference.

ELIZABETH LYNN: Thank you, operator. Good morning and thank you all for joining us. On our call today, our CEO Mike Corbat will speak first, then Mark Mason, our CFO, will take you through the earnings presentation, which is available for download on our website, citigroup.com. Afterwards, we will be happy to take questions.

Before we get started, I'd 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, capital and other financial conditions 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 2018 Form 10-K.

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

MIKE CORBAT: Thank you, Liz, and good morning, everyone. This morning we reported earnings of $4.9 billion for the third quarter of 2019. Our earnings per share of $2.07 were 20% higher than a year ago. Our return on tangible common equity was 12.2%, bringing our year-to-date return to 12%, which remains our target for the year. We also had loan and deposit growth for the 15th consecutive quarter. We again saw balanced underlying growth in Global Consumer Banking with a 4% increase in revenues and EBT growth of 17%.

In North America, growth in our Branded Cards business accelerated to 11% from last year. Deposit momentum continued with a strong contribution from both traditional and digital channels as we leveraged our brand and scale in credit cards to drive deeper multiproduct relationships with our clients.

Internationally, EBT was up 26% excluding the gain on sale last year. In Mexico, we continued to manage through a slower growth environment through expense and credit discipline. In Asia, investor sentiment continued to improve, resulting in higher wealth management revenues.

Our Institutional Clients Group also had balanced performance with solid results in both the market-sensitive and accrual-type businesses. Our share gains continued in Investment Banking, while our markets performance showed resilience due to strong client engagement. The backbone of our global network, Treasury and Trade Solutions had strong revenue growth of 7% in constant dollars, while the Private Bank grew as well.

In addition to achieving stronger business performance, we remained focus on improving the returns we deliver to our shareholders through our capital planning. Consistent with the commitment we made in 2017, we remain on pace to return over $60 billion of capital to our shareholders over a three-year period, which ends next year. The plan includes significant buybacks, which have lowered our common shares outstanding by 259 million shares or 11% in the last year alone. Combined with 6% growth in net income, they've helped drive our tangible book value per share up 12%.

For now, we're focused on closing out the year and planning for 2020. The environment is highly unpredictable given how much of it is at the mercy of political machinations, whether it's trade negotiations or even the elusive resolution on Brexit. We will help our clients navigate these choppy waters while also being flexible and adaptable when it comes to our own resource allocation.

Despite it all, we remain committed to investing in the products in which we see the best growth opportunities as well as in our own infrastructure for the purpose of safety and soundness. We have the leading global network and we're going to maximize our competitive advantages.

I'll now turn it over to Mark, and then we'd be happy to take your questions.

MARK MASON: Thank you, Mike, and good morning, everyone. Starting on slide 3, net income of $4.9 billion in the third quarter grew 6% from last year, and EPS grew 20%, mostly driven by a decline in our average diluted shares outstanding as we've continued to buy back shares throughout the year consistent with our capital plan.

Revenues of $18.6 billion grew 1% from the prior year and were up 2% excluding the roughly $250-million gain on the sale of our asset management business in Mexico last year, reflecting solid results across both our Consumer and Institutional businesses.

Expenses increased 1% year-over-year as volume growth along with continued investments in the franchise were partially offset by efficiency savings and the wind-down of legacy assets. And cost of credit increased driven by volume growth and seasoning in Consumer while overall credit quality remains stable.

Our effective tax rate for the quarter was 18%, better than our outlook, reflecting discrete tax items. The discrete tax items equate to a benefit of $0.10 per share this quarter. Excluding this benefit, our tax rate would have been roughly 22%. In constant dollars, end of period loans grew 4% year-over-year to $692 billion as 5% growth in our core businesses was partially offset by the wind-down of legacy assets. And deposits grew 9% with contributions from both our Consumer and Institutional franchises.

Looking at year-to-date results on slide 4, revenues were up 3% on an underlying basis, excluding the impact of FX as well as the roughly $150-million gain on the sale of the Hilton portfolio in the first quarter of 2018 and the previously mentioned gain on the asset management business in Mexico. Overall, Consumer revenues have grown 4%, roughly in line with our medium term expectations.

On the Institutional side, revenues were up 2% year-to-date with continued growth in our accrual businesses. Expenses declined 1% year-to-date even as we continued to make critical investments in our franchise, and the underlying pre-tax earnings grew by 4%. EPS grew by 17%, and we generated an RoTCE of 12%, in line with our expectations for the full year.

Turning now to the businesses, slide 5 shows the results for Global Consumer Banking in constant dollars. The Consumer business showed continued momentum in the third quarter. Excluding the gain last year, revenues grew 4% with contributions from all regions, while expenses were down 1%, driving continued growth in operating margin and earnings. And looking at year-to-date results in Consumer, excluding both gains in 2018, we generated 4% revenue growth while expenses were roughly flat, resulting in 9% growth in operating margin and 12% growth in pre-tax earnings.

Slide 6 shows the results for North America Consumer Banking in more detail. Third quarter revenues of $5.4 billion were up 4% from last year. During the quarter, we continued to make progress towards a more integrated client-centric relationship model. Our deposit momentum continued to improve. Year-to-date total net deposit inflows more than tripled compared with last year, with strength across both traditional and digital channels.

We've seen accelerating growth in deposits raised through digital channels. We generated nearly $2 billion in digital deposit sales in the third quarter, bringing our year-to-date total to over $4 billion. Consistent with our strategy to drive towards national scale in retail, nearly two-thirds of these deposit sales were outside of our existing branch footprint. And of this amount, roughly half were with card customers who previously did not have a Retail Banking relationship with us.

Our experience to date gives us confidence in our digital capabilities and engagement model, and provides a solid foundation for deepening these relationships over time. And while most of the products we've introduced so far have leveraged our proprietary products and reward programs, you'll see us expand into more partner programs as we move forward.

Turning now to the results of the individual businesses, Retail Banking revenues of $1.3 billion were down 2% year-over-year as the benefit of stronger deposit volumes was more than offset by lower deposit spreads. Average deposit growth accelerated to 3% year-over-year, and looking at average deposits and assets under management in aggregate, we grew customer balances by 5%.

Turning to Branded Cards, revenues of $2.3 billion grew 11% year-over-year. Client engagement remained strong with purchase sales up 7%, and average loan growth improved to 3%. We continued to generate higher growth in interest-earning balances this quarter, up 9%. This growth in interest-earning balances drove a year-over-year improvement in our net interest revenue as a percentage of loans to 914 basis points this quarter.

Finally, Retail Services revenues of $1.7 billion grew 1%, driven by organic loan growth. Total expenses for North America Consumer were down 2% year-over-year as efficiency savings more than offset investment spending and higher volume-related expenses.

Turning to credit, net credit losses grew by 9% year-over-year, reflecting loan growth and seasoning in both Cards portfolios. Our NCL rates in US Branded Cards and Retail Services were 312 basis points and 477 basis points, respectively, this quarter, consistent with our full year guidance.

On slide 7, we show results for International Consumer Banking in constant dollars. Third quarter revenues of $3.3 billion grew 4%, excluding the previously mentioned gain on sale last year. On this basis, Latin America Consumer revenues grew 3%. Loan and deposit growth was muted in Mexico again this quarter, reflecting the current environment where we are seeing a deceleration in GDP growth and a slowdown in overall industry volumes. But importantly, we are managing expenses carefully and maintaining credit discipline in order to preserve profitability and returns, as seen again this quarter in our strong EBT growth year-over-year.

Turning to Asia, Consumer revenues grew 5% in the third quarter. We continue to see strong growth in our underlying wealth management drivers in Asia with 9% growth in Citigold clients and 7% growth in net new money versus last year. In total, operating expenses were largely unchanged in the third quarter as efficiency savings offset investment spending and volume-driven growth. And cost of credit was down 12%, reflecting a modest LLR release relative to a build in the prior year.

Slide 8 shows our Global Consumer credit trends in more detail. Credit remained favorable again this quarter with NCL and delinquency rates broadly stable across regions.

Turning now to the Institutional Clients Group on slide 9. Revenues of $9.5 billion were up 3% in the third quarter, reflecting continued momentum in TTS and the Private Bank combined with strong performance in Investment Banking and stability in Fixed Income Markets, partially offset by softness in Equity Markets and Corporate Lending. Total Banking revenues of $5 billion were up 3%. Treasury and Trade Solutions revenues of $2.4 billion were up 6% as reported and 7% in constant dollars as we continue to see strong client engagement and solid growth in transaction volumes, partially offset by spread compression.

We would expect the underlying business drivers to continue to perform well in TTS given our unique global footprint and ability to deliver integrated solutions to our multinational clients despite continued uncertainty around the macro environment. Investment Banking revenues of $1.2 billion were up 4% from last year, outperforming the market wallet, reflecting continued strength in debt underwriting and strong performance in M&A, particularly in EMEA.

Private Bank revenues of $867 million were up 2%, driven by higher lending and deposit volumes as well as increased investment activity with both new and existing clients, partially offset by spread compression. And Corporate Lending revenues of $527 million were down 6%, reflecting lower spreads and higher hedging costs.

Total Markets and Securities Services revenues of $4.5 billion were up 1% from last year. Fixed Income revenues were roughly flat, although we did see better activity with both corporate and investor clients as well as a solid quarter in rates and currencies, particularly in G10 rates. Equities revenues were down 4%, primarily reflecting lower client activity and lower balances in prime brokerage, partially offset by strong client activity in derivatives.

And finally, in Securities Services, revenues were down 1% on a reported basis but up 2% in constant dollars, reflecting higher volumes from new and existing clients. Total operating expenses of $5.4 billion increased 4% year-over-year as investments, volume-driven growth, and higher compensation costs were partially offset by efficiency savings. And credit quality remained strong, consistent with our target client strategy.

Looking at year-to-date results in ICG, our operating margin improved by 1% as solid results in TTS and strength in Investment Banking were offset by the decline in Equity Markets revenues.

Slide 10 shows the results for Corporate/Other. Revenues of $402 million declined 18% from last year, reflecting the wind-down of legacy assets. Expenses increased 6%, reflecting higher infrastructure costs partially offset by the wind-down of legacy assets. And the pre-tax loss was $68 million this quarter, in line with our outlook. Looking ahead, we would expect a pre-tax loss in the range of $100 million to $150 million in Corporate/Other for the fourth quarter as we continue to invest in infrastructure and control.

Slide 11 shows our net interest revenue split between our Markets business and the contribution from the rest of the franchise excluding Markets on the top of the slide. As you can see, year-to-date net interest revenue grew by 4% or roughly $1.3 billion year-over-year in constant dollars, driven by 5% growth ex-Markets, reflecting strength in North America Branded Cards and TTS as well as the absence of the FDIC surcharge.

Looking at results for the quarter, net interest revenue was roughly flat year-over-year and declined by roughly $250 million sequentially, reflecting the impact of lower Markets net interest revenue. And net interest margin declined 11 basis points sequentially, also driven by the lower Markets net interest revenue. However, it is important to note that the decline in Markets net interest revenue is almost fully offset by higher noninterest revenue in Markets this quarter, shown at the bottom of the slide.

And turning to total noninterest revenue for total Citigroup. This quarter we generated strong year-over-year growth in noninterest revenue of roughly $350 million, driven by growth across the franchise including higher Markets noninterest revenue even as we faced the headwind of the $250-million gain last year, all of which gives us confidence in our ability to deliver better growth next quarter in noninterest revenue.

So while we did see pressure in net interest revenues driven by the dynamics seen this quarter in Markets, which could continue into the fourth quarter, in total for Citigroup, we remain comfortable in our ability to generate modest year-over-year revenue growth in 2019 on a reported basis; driven by net interest revenue growth of 2% to 3% in constant dollars for the full year, below our original forecast given the dynamic I just mentioned in Markets. But offset by higher noninterest revenue which should be better than our original forecast of at least flat to 2018 on a full year basis.

So again, in aggregate for total Citigroup, we still expect to generate modest year-over-year revenue growth in 2019 on a reported basis, but the composition is likely to be somewhat different than we originally anticipated.

On slide 12, we show our key capital metrics. In the third quarter, our tangible book value per share increased 12% year-over-year to $69.03 driven by net income and the lower share count. And our CET1 ratio declined sequentially to 11.6% as net income was offset by $6.3 billion of total common share buybacks and dividends along with an increase in risk weighted assets.

Before we go to Q&A, let me spend a few minutes on our outlook for the fourth quarter. In ICG, Markets and Investment Banking revenues should reflect the overall environment, but we are not anticipating a repeat of the challenging trading environment seen in the fourth quarter of last year. And in our accrual businesses, revenue should benefit from continued strong client engagement and higher volumes. However, we would expect this to be somewhat offset by spread compression given the lower interest rate environment.

In Consumer, we expect continued year-over-year revenue growth in all regions driven by continued loan and deposit growth, partially offset by the impact of lower deposit spreads. For total Citigroup, expenses should decline sequentially, cost of credit should continue to grow modestly, and importantly, we expect solid pre-tax earnings growth year-over-year.

Finally, we expect a tax rate of approximately 22%, absent any discrete tax items.

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

QUESTION AND ANSWER

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

GLENN SCHORR: Hi. Thanks very much. I wonder if I could just get a follow-up on Branded Cards. The 11% growth in the quarter, can you talk about or give us a breakdown of where that's being derived, what you're doing to incent that growth?

I think I heard your comment about where part of the relationship is coming and how you're growing in the Bank on nonbank customers through the card portfolio. But focus specifically on the 11% growth in Branded Cards, talk about balance transfer and how the underwriting box you're writing to. Thank you. Sorry about that jumbled question.

MARK MASON: That's okay. Thank you. So I guess what I would point to on Branded Cards is a couple things. One, we're seeing, as we've mentioned on a number of quarters now, the conversion from promotional type offerings that we've made and balances to average interest earning balances. And so this is a continuation of customers that we have that we brought on a couple years ago through promotional offerings who weren't paying any interest to now converting to interest earning balances, and that's fueling part of the growth.

You'll see purchase sales are up 7% in the quarter. You see the loan volumes are up as well. And so we're getting continued use of the card, top of wallet use, as evidenced by those purchase sales and the benefit of them now being interest earning balances for us.

And that should – that's been the case for the past number of quarters. We'd expect that to continue to play out in the fourth quarter and continue to get some spread benefits. But likely going forward well into 2020, the benefits will continue to play out from a volume point of view. So volume growth will continue to be an important factor as well.

GLENN SCHORR: And what you're doing on the promotional balances offers, I just noted some long 21-month type offers out there. Just don't know if that's a growing percentage of the book or just tweaking at the margin.

MARK MASON: We kind of reached the mix, our desired mix of promotional balances that we're looking to have in the portfolio. Now, what you would imagine is once you strike that balance between promotional and the interest earnings you've got to maintain that balance, which means we'll continue to do promotional offerings going forward at the pace we've been running at in order to maintain that mix.

And as those promotional balances mature, they ultimately convert into interest-earning. And so they fuel kind of the go-forward growth and they're important parts of – or it's an important part of our investment strategy as we execute on the Branded Cards strategy.

GLENN SCHORR: Got it. And then maybe a last follow-up on that. The flip side of that is I know the desire to deepen the existing card relationships and convert card customers that don't have other banking relationships with you, what exactly are you doing to penetrate that? It sounds like it's starting to work.

MARK MASON: Yeah. So, it is starting to work. I think I referenced earlier the growth in digital deposit sales and referenced that in fact a good portion of that is coming from card customers who previously did not have a retail banking relationship with us.

As we think about investments we've made in technology and our ability to mine the data that we have of our customers, we're able to create value propositions that they're likely to respond to and open up a Retail Banking account with us.

So, for example, we know which of our card customers enjoy and prefer our ThankYou Rewards programs and which of our card customers respond to many of the other programs that we offer from a rewards point of view. And so we're able to create packages for them that reward them with benefits they respond to, like ThankYou Points, if they're willing to open a Retail Banking account with us digitally. And clients are responding.

And so our ability to mine that data, to create value propositions around things that our clients are motivated to – or motivated with has resulted in the growth that we're speaking to now.

MIKE CORBAT: And I think the other piece of that, Glenn, is so far we have done that exclusively with our own proprietary products. But in the not-too-distant future, we'll be rolling that out to some of our co-brand as well as some of our retail partners. So, I think we've got the ability to continue to expand on that.

MARK MASON: Yeah.

GLENN SCHORR: Okay. Thanks so much

MARK MASON: Thank you.

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

JOHN MCDONALD: Hi. Good morning, guys. Wanted to ask about RoTCE targets. Mark, just wanted to confirm for 2019 still feeling good about 12% or darn close to 12% for this year given your fourth quarter outlook.

And then for next year, obviously for both of you, the environment's gotten tougher. We all know that. And 13.5%, your prior target for RoTCE, feels ambitious in this environment. Mark, you acknowledged that at the Barclays conference. But how are you guys going to think about it as you go through your planning and what to target for kind of 2020 as you balance wanting to show improvement in RoTCE versus what might be a more difficult environment?

MARK MASON: Sure. So first on your first point, John, the 12% remains our target. As you pointed out, we did 12.2% RoTCE this quarter and we're at 12% year-to-date. And so that remains the target. And we feel as though we'll get to that number or darn close as I've said and now you've said as well.

In terms of the 13.5% for 2020, I've said at the Barclays and I'll say again, and Mike alluded to it, it's a very different environment than I think we expected kind of coming into the year. There was a fair amount of uncertainty that remains. 13.5% remains the target, but we are now in the midst of our budgeting process and we need to factor in the uncertainty that's in the environment, what that's likely to look like or how that's likely to play out, what the impact, the full year impact in 2020 of the rate reductions might be, what we think client demand is going to look like.

And there are puts and takes there in parts of the business. There will be pressure from some of this uncertainty. In parts of the business like Markets there could be some positives as we see volatility persist. And so we really need to get through the budgeting process to both understand what we think that top line is likely to look like, understand what levers we have available to us to pull in order to continue to demonstrate progress, and see what we might be able to do to narrow that gap and deliver on our targets.

MIKE CORBAT: And I think as Mark alluded to, John, the other thing that I very much want to do is get the benefit of continuing to talk to our clients in terms of how they're thinking about things. Not just – I think as you probably heard more broadly this morning in terms of the US. But when you globally look at the Consumer, the Consumer's in fine shape. We saw the IMF come out this morning and revised growth downward. I would describe that probably more as a catch-up to where many of us have been than necessarily any new information, i.e. 3% global growth. So not as high as we'd like it to be, but 3% global growth is still growth.

And so I think a lot of it really depends on how our clients see themselves positioning in terms of CapEx, in terms of investment spend, in terms of hiring. And I don't think we want to be premature in any way in either direction of reading too much into that. And so we want to get our businesses in a room. We want to continue to glean information from our clients not just here in the US but around the world in terms of how they're thinking about things.

And I think as the past several years have shown, last year is a great example, the closer we can get to the year as opposed to kind of prejudging this early before we declare anything, I think the better and more informed we'll be able to come back.

JOHN MCDONALD: And I guess just to push you guys a little bit, the absolute level of RoTCE is quite a bit below peers and I think what most people would think your franchise should be able to do on paper. With that in mind, even in this environment, Mike, do you hope to push to do better than you do in 2019? Like, is that a – is a goal that you think is definitely reachable to do better next year than this year?

MIKE CORBAT: Absolutely. I think we've got to continue to show progress and we've got to continue to narrow that gap.

JOHN MCDONALD: Okay. Thanks.

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

JIM MITCHELL: Hi. Good morning. Good morning, guys. Just maybe first on ICG a little bit, was a little surprised expenses were up quarter-over-quarter despite revenues being down. I know you had taken some severance in the first quarter and I thought the messaging was that you'd start to see those expenses come out in the back half of the year. Was it just volume? Was it investment or any other severance in there? How do we think about the trajectory in ICG expenses?

MARK MASON: Sure. So, yes, the expenses were up 4%. There are investments that we're making in the ICG, particularly in our TTS business and how we improve the client experience and deepen some of those client relationships, and those investments obviously are critically important. There's some volume-driven growth tied to it largely around transactional expenses, and then there are some compensation costs as well.

So there's the higher performance from a base compensation point of view. There's some strategic hires that we made in parts of the franchise. And then lastly, and you alluded to it, but it certainly played out in this quarter as well as we've seen pressure on some of the wallets and as we thought about kind of the long term or longer term business model and benefits from technology that will play out, we've made some capacity adjustments. And those capacity adjustments obviously come with a cost, and so that is part of the – what you see in the quarter as well in that 4% increase.

JIM MITCHELL: So you feel that even in a lower growth, but not negative growth, a lower growth environment you can still get the operating leverage over the intermediate term, positive operating leverage?

MARK MASON: Yeah, we think we – Look. I mean, obviously in adjusting the capacity here we're going to see some benefits of that play out in 2020. What will matter obviously is the top line and how wallets continue to evolve and how much share we're able to continue to capture. But we think we will continue to be able to run the business efficiently and perform accordingly.

JIM MITCHELL: Right. Fair enough. And then maybe just on deposits, really strong growth on a period-end basis, particularly in ICG. Is that sort of end of quarter balance sheet positioning by some of your clients and that's rolling off? Or do you think that's sort of some sustainable growth? And if so, what's driving that?

MARK MASON: Yeah, we actually – you're right. We did see strong growth in the deposits across the board, in TTS specifically as well. It's across all regions in TTS. Frankly, it's with both new and existing clients. The majority of the deposit growth consisted of operating deposits, which is good.

And frankly, about a quarter of the growth in operating deposits were from new or renewed clients. And so we're actively engaged with our clients. We're seeing opportunities to roll out our broad solutions with them, and we think that is likely to continue.

JIM MITCHELL: Okay. Great. That's helpful. Thanks.

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

MIKE MAYO: Hi.

MARK MASON: Hey, Mike.

MIKE MAYO: First, look, you're growing revenues faster than expenses. This was the 12th quarter in a row that you didn't call it out that way. I think I estimate you made it year-over-year by one-fifth of 1% of revenues. Revenues grew faster than expenses, so you made it.

So the question is, growing revenues faster than expenses, when you look back a bit ago you were kind of doing it by like a touchdown or two. Then it went down to a couple field goals. Now it seems like you're exceeding it by an extra point, to push the analogy. So the question is, how confident are you to continue that string of revenues growing faster than expenses year-over-year? And what is the role of technology in helping you do so?

MARK MASON: So, look, you're right. We have reflected positive operating margin. We expect that to continue for the full year of 2019. And as we've talked about when we describe both 2019 and 2020, we've talked about plus or minus GDP growth on the top line, roughly flat expenses. And we expect to deliver that for 2019. So, yes. Positive operating leverage and operating margin is what we're expecting to deliver.

Mike, you want to take the technology piece?

MIKE CORBAT: Sure. Well, I think there's a couple pieces I'd add too. So one here, Mike, I think is if you go and you look at the numbers, I would say relatively quietly, as Mark alluded to over the past year, our head count is down by about 7,000, so somewhere between 3% and 4%. That has been almost exclusively focused on capacity at the front-end. It hasn't really been focused or aimed at infrastructure. And so when we came into the year, what we told you is we would be going at every lever and looking at all the things that we could do, and I think this year we've done that.

I think clearly technology, when you go back to slide 23 and look at our Consumer business and some of the drivers around contact rates, digital and mobile engagement, E-statement penetration, all of those moving I think very nicely in the right direction. And those continue to give us not only cost benefits but as more importantly service benefits in terms of the reactions to those.

So I'm guessing, Mike, that given what's out there, the 2020 will continue to be a year where everything's on the table. We're going to kind of look at the multitude of those levers, and we're going to kind of go pull at those as we see fit. But at the same time, not sacrificing the investments that we need to make to either maintain or continue to attempt to build competitive advantages in the US and around the world.

MARK MASON: The only thing I'd add to that is – so if you think about technology and its benefits and how they manifest themselves, one, as it relates to the offerings that we're able to create for our clients, so our ability to create solutions around our clients' problems, you think about TTS as a good example. And as we deal with clients, and for example they try to match invoices with payments, we've been able to use technology in partnership with companies like HighRadius to create capabilities around that.

So technology helps with our offerings. Technology helps with the client experience, as Mike suggested, in terms of the lower cost to serve but also improving the way and the experience that our clients have with us. And then finally, technology helps with the efficiency of how we run our operations, so expanding our cloud infrastructure, removing legacy data centers and physical servers, using automation, for example. So a number of different buckets are impacted by the technology spend that we make, and we'll continue to make that spend in light of those benefits.

MIKE MAYO: And then just one follow-up. As it relates to – I know John asked the question about your RoTCE target. I mean, I guess I'll ask – I'll make it easier and harder for you. I guess the easier thing is, look, under you, Mike Corbat, the RoTCE really has gone up quite a bit, 7%, 8%, up to 12% over a few years. So that's tremendous progress. But you still lag to peers. And I don't think consensus expects you to get your 13.5% target.

I think you're kind of – what I'm hearing you say today is everything's on the table, but let's look at it in light of the new environment. So assume it might not be 13.5%. So I guess we'll have to wait for the fourth quarter unless you want to confirm that now. But, look, as long as it's getting better, you're moving in the right direction. That's good.

I guess what irks me though is this year's target of 12%, when you say we'll get darn close – and I know you're competitive. Both of you are. Your whole firm's competitive. But to be darn close, I mean let's just get the target. Everything that you can possibly do. Everyone at the firm should know that 12% RoTCE is what you're striving for. It's just that sense of intensity. Even if you have it internally, it's just I'm not feeling it on this side of the perspective. So, if you could just give us a sense of the degree of that intensity.

And I guess lastly, I mean two years ago you said our restructuring is over. So if you have a worst in class RoTCE versus your US peers, the issue is management or model. So it's either management intensity needs to pick up or maybe you need to retract the statement that a restructuring is over and take a new fresh look. So that's my last question.

MIKE CORBAT: Okay. So what I would say, Mike, is that you're right. Mark and I are competitive. We are intense people. The firm is completely focused on this. But just like last year's fourth quarter, when I know you were disappointed, what I don't want to commit to is in some environment having to do things that don't make sense for the long-term.

As an example, could we have cut and slashed and gotten our way last year to our efficiency target? Yes, we could have. In light of the rebound we saw this year, would those have been the right decisions? I don't believe that at all to be the case. And so we are committed to the 12% within the realm of what makes sense for our firm and in particular for our shareholders over the intermediate to longer term. And I think you've seen again this quarter we're pulling every lever we need to get there, but we're trying to do it smart. And you have my commitment, Mark's commitment, we're going to continue to do that, to do everything we can to deliver that 12%.

MARK MASON: I completely agree with that. And I guess the one thing I'd add just to highlight a point is that we're obviously trying to run this firm for its long-term sustainability and for the shareholder value that we can create. And that means making the smart decisions through the quarter around how we spend money and around how we evolve that model.

So what I mean by that is if you think about what we talked about in the way of capacity adjustments that we'd had to make and the repositioning around that, those are increased expenses that we're having to take in the quarter and through the year.

A short-minded view of that would be that that is against the 12% target that we're trying to deliver. When you're trying to run a firm for the long-term sustainability, you take those decisions because they are the right decisions to do, and you realize that over time they will pay dividends and benefits to the franchise.

And so, yes. Without a doubt, 12% is our target. People know that up and down this firm. But we're going to run the firm responsibly. So hopefully that makes sense, Mike.

MIKE MAYO: Yes. All right. Thank you.

OPERATOR: Saul, your line is open, please go ahead.

SAUL MARTINEZ: Hi. Hi, everybody. This is Saul Martinez. So wanted to also ask about 2020. I realize there's a high level of uncertainty in the macro outlook. You're going through your budgeting process currently. But given what you know about your current rate sensitivity, what the forward curve is telling you right now, where long rates are at, what you're seeing in the economy, how confident are you that some revenue is still the base case for 2020 – some revenue growth target is still the base case for next year?

MARK MASON: Yeah. Saul, thank you. Like you said, we're pulling that together as part of the budget process. We do know, as you've suggested, that there will be a full year impact to the rate reductions that we've seen thus far through the year and any additional rate reductions that we see in the balance of the year, and so that's going to be a headwind that we've got to face off.

That said, there is certainty around that direction that we've seen play out. There's been FX volatility through the year that has caused a Markets reaction in terms of that volatility generating client activity, and I bring that up because there are puts and takes that play out across our businesses as the market evolves. And there's still uncertainty around trade and how much progress we continue to make through the year on that topic. There's still uncertainty around Brexit and what happens there.

And so as those things get hopefully finalized or additional decisions get made, those will be factors that we've got to consider as we look at 2020 and pull that plan together and before we're able to speak to what that target is from an RoTCE point of view or what levers we can pull to get to that target. And so it is still in progress, I guess, is how I'd have to respond to that, Saul.

SAUL MARTINEZ: Okay. No. I get that. And I wasn't so much asking specifically about RoTCE but just the top line and whether the degree of confidence that there could actually be some growth, because that would – that obviously in this environment the fact that you are less rate sensitive than a lot of your peers does differentiate you.

MARK MASON: Yeah.

SAUL MARTINEZ: But okay...

MARK MASON: And I do – I mean, I do – We do expect to see continued growth in our Cards business. We do expect to see continued growth in our Global Consumer franchise. So as we reference kind of those core components to the franchise, if you will, and to our network businesses, we do expect continued momentum there. But we do have to factor in some of these headwinds and unknowns.

SAUL MARTINEZ: Got it. Let me change gears a little bit and ask you about CECL, and not the day one impact. I know you guys for some time have given the estimated day one impact of CECL in a range there. But how should we think about the day two impact on loan loss provisioning going forward?

Credit losses are credit losses, over the life of the loan they will be the same regardless of the accounting framework. But there are lot of puts and takes. Your starting point ALLL ratio will be higher, but given level of charge-offs will mean more provisioning, and mix plays an important role. And it seems like you are growing at higher loss content lending in the US, but have you thought about how CECL – in an environment where maybe things don't really deteriorate much, where we don't have a big change in the macro backdrop, where it's more of the same, how CECL impacts your ongoing level of provisioning going forward? And so just kind of maybe thinking through some of the puts and takes of that.

MARK MASON: Yeah. So we haven't given any guidance on day two, as you've said. Obviously the composition of the balance of the portfolio in any given quarter is going to be an important factor in estimating what that impact will be. We obviously have a mix of both consumer loans and corporate loans, and so all of those factors will come into play.

I guess what I would say is as we've thought about our forecast and we've factored in what the longer term impact would be of CECL, but we haven't given any particular guidance. And I can't really speak to it any more specifically than that.

SAUL MARTINEZ: Okay. All right. That's helpful. Thanks so much, guys.

MARK MASON: Yes. Thank you.

MIKE CORBAT: Operator, who's next?

OPERATOR: Our next question comes from the line of Steven Chubak with Wolfe Research. Steven, your line is open.

STEVEN CHUBAK: Thanks very much. So I wanted to start off with a question on NII. Mark, I was hoping you could speak to some of the factors that pressured the Markets related NII specifically. As I think back over the last two to three years as rates were rising, higher funding costs were consistently highlighted as a drag on your liability sensitive trading book. And with rates declining, we're really not seeing that benefit from lower funding costs on the way down.

And I was hoping you could help us unpack what's happening on the trading side, why the book isn't acting a little more liability sensitive. And should we see any funding benefit over time as the Fed continues easing?

MARK MASON: Yes, so, I think – look, I think it's – if you turn the page, that page 11 kind of highlighted the mix that – the dynamic that you're referencing and that I spoke to, which is that we're obviously seeing lower NIR on our – from our Markets business. That's being completely offset in Markets non-NIR.

And while you're right that we have talked about funding cost and its impact, and there is a funding cost benefit that plays through as rates come down, the dynamic around the Markets revenues is overshadowing that, if you will. So this mix impact is more significant than the funding cost benefit that we're seeing.

So an example of this, the first thing I'd say is that, as you would imagine, we manage our Markets business not for NIR and non-NIR but for total revenues. And so that composition and that mix can and has varied. The NIR component is a function of the client demand and how traders manage the risk and fund positions. And so that is essentially what we're seeing play out here.

So one example of that is we could be long an asset that generates interest revenue, long for example because we have inventory in place to facilitate that client activity. We could hedge that position with a derivative, and that impact of that hedge would hit non-NIR in principal transactions. And so it's that type of positioning that is impacting the mix, and this mix is overshadowing the funding cost benefit.

STEVEN CHUBAK: Got it. But I guess thinking – even taking a more holistic view, looking at principal transactions plus NII as the key trading proxy, it sounds like you should still see some benefit on the funding side over time as rates do come down. But the geography might simply be different.

MARK MASON: The geography may be different. Again, we are seeing a funding benefit. It's just being overshadowed.

STEVEN CHUBAK: Got it. Okay. And just one more follow-up for me. On the Retail Bank strategy, you highlight some of the progress, growing deposits through the legacy card channel and digital sales. You also alluded to the possibility of maybe forging new partnerships to build further scale. And I was hoping you could speak to maybe what some of those partnerships might look like.

And then just bigger picture as you think about the need to add scale to the US Retail franchise, whether it might make more sense to grow inorganically. And is that even a viable option given your current size or the current share of industry liabilities that you currently retain?

MIKE CORBAT: Sure. I'm not on this call going to speak to specific names, but in the not-too-distant future you will see us coming out, and you know our portfolio of world class partners and our co-brands and in our Retail Services business.

And we've been working with a number of them on new value propositions around those offerings, again very similar to the ways that we've rolled out our own proprietary products. And so in the not-too-distant future you'll hear more coming on that.

STEVEN CHUBAK: And then bigger picture, just the Retail Bank strategy and the appetite to maybe grow inorganically?

MIKE CORBAT: It depends on your definition of inorganic. And so again, if we continue to find, as an example, portfolios of loans or cards or those types of things that we can acquire and fit from a client demography perspective, fit from a business line perspective and obviously are accretive to our returns, wide open to it.

In terms of being out there buying a national consumer bank, I don't see that today, but – in particular given where some valuations are and I think given what's at stake on the digital side of things. But again, never dismissive. But we've very focused on the things that we can do organically, our investment in digital. And again I think you've seen what we've done there in terms of on the Consumer side, the Institutional side, using that digital strategy to not just reinforce but continue to grow our franchise.

STEVEN CHUBAK: Great. Thanks for taking my questions.

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

ERIKA NAJARIAN: Hi, good morning.

MARK MASON: Good morning.

ERIKA NAJARIAN: Just a few follow-up questions. On Chubak's questions with regard to net interest revenue, could you remind us on – clearly, there's been a lot of volatility in terms of yield curve expectations. And could you remind us in terms of how your balance sheet is positioned today what the sensitivity is to 25 basis points of rate cuts?

MARK MASON: Sure. So we've talked about this in the past in terms of if you look at the IRE that we have in our 10-Qs, for the third quarter you'll see that that won't have materially changed. So the simple math is that a 25-basis point cut would result in a reduction of $50 million per quarter.

Now, that is the simple math. And the impact is, in fact, greater than what that math would imply, and it's greater because the IRE analysis is based on a parallel shift. And we've certainly seen flattening of the curve, as well as the pace of the cuts is faster and the impact on deposit pricing sensitivity obviously is an important factor.

So we've got a curve that's flatter and lower than expected, and the impact of the future cuts will kind of depend on the pace and the shape of the curve and the competitive environment. So those are all factors that influence that simple math, but the simple math has not changed.

ERIKA NAJARIAN: Okay. Got it. And just a follow-up to Glenn's question earlier, year-over-year growth in Branded Card revenues of 11%. You noted, Mark, that you're sort of at the right shift in terms of the mix in that portfolio. And as we think about 2020, should growth in Branded Cards revenue more reflect the sort of mid-single digit loan growth that you've been showing?

MARK MASON: Yes. We would expect that volume at that pace would be the major driver. There may still be a little bit of spread, but it will be mostly volume at the pace you've seen taking off at this stage or picking up at this stage.

ERIKA NAJARIAN: Got it. Thank you.

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

MATT O'CONNOR: Good morning.

MARK MASON: Good morning.

MATT O'CONNOR: You're obviously one of the most global banks, and given all the trade uncertainty there's naturally the perception that you're impacted by all this more than others. And I was wondering, one, if you could just talk about that in terms of what areas you think it is maybe dragging down some of the business. And then, two, I think in the past you've talked about there's some puts and takes. So if you do less trade with one country, there's some offsets in some others. So just try to elaborate on some of those factors. Thanks.

MIKE CORBAT: Sure. Sure. I think that without a doubt, and this was reinforced, Matt a few weeks ago when I was in China, that in certain economies around the world, tariffs, trade tensions have certainly impacted trade.

It's impacted it in two ways. One, from a volume perspective I think we see less trade and movement today. And I think the second way which you alluded to is that that we've also seen the rerouting of trade. And the example we give is, today China is not necessarily consuming less soy, it's just getting its soy from different places in the world.

And so I think our ability as a global bank to move with our clients on both sides in terms of the importer and the exporter and to be helping them rethink what those trade routes and what that supply chain looks like, I think we've been very effective at.

And I think the other piece that I don't think any of us can escape is that at least for right now with some of these uncertainties it has caused a slowdown in terms of trade. I think our business has shown a good resiliency, and again our trade is included as part of our TTS numbers. But to Mark's earlier point, if we can start to get some clarity on some of these things where I think businesses can have a little bit more surety in terms of the future, I think our trade business would definitely benefit from that.

MATT O'CONNOR: And do you think – so obviously it's going to be a directional negative, I think, on the revenue in the near term here, but do you think it kind of increases the relationship you have with all your global corporates, right, because you're one of the few banks out there that can shift some of the trade mix, and this lets you kind of flex maybe more of your muscles than if trade wasn't so complicated?

MIKE CORBAT: I think that's right. Our ability to be in the room on not just trade but more broadly defined supply chain management and really what that means in terms of a lot of companies today that operate in kind of just in time inventory is critical. And as examples, what we've seen out of the China mix is trade routes with Vietnam and India being a couple of the beneficiaries of that. And I think our ability to move with our clients in terms of what that means has us pretty well positioned out there, and it's something we're obviously wanting to make sure we're in the room and part of.

MARK MASON: And I think we're uniquely positioned to be part of that dialogue, just given the globality and our presence in over 98 countries, et cetera, so.

MATT O'CONNOR: Great. Thank you.

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

BETSY GRASECK: Hi, good morning.

MARK MASON: Good morning, Betsy.

BETSY GRASECK: Couple of questions. One, just wanted to understand how you're thinking about G-SIB surcharge size, because I think you're a little above where you were in December. Does that matter to you? Not sure if it does.

MARK MASON: Sure. So we are obviously – in December, we were at a 3%. We are targeting being at a 3% again for 2019. Where we're at in that bucket does matter as it has capital implications if you think about how it fits into our TCE requirements. So it absolutely matters, and we're targeting being at a 3% by the end of the year.

BETSY GRASECK: Is there anything in particular that you have to do to get there? Or is it just normal course?

MARK MASON: Well, I mean, obviously we'll look at client demand that we have. We'll look at returns for the use of the balance sheet that we have. And our primary objective obviously would be to meet client demand where we can grow and do so with returns that make sense for the franchise. And so that's kind of a primary objective.

We think we can do that through the balance of this year and deliver as a 3% G-SIB bank. If we start to see in the future growth that takes us beyond that, we want to be thoughtful and responsible about how we capture that and ensure that we're getting the commensurate returns that make sense. But we're actively managing how we're using the balance sheet, how we're engaged with our clients. And where it makes sense to put on higher returning assets, we're doing so. And where it makes sense to reduce those that are lower returning, we're doing so. And it's that dynamic that we'll manage to, to get to where we need to be for the end of the year.

BETSY GRASECK: Got it. Okay. Thanks, Mark. So Mike, question just on the Consumer business and a little bit broader. You're a nationwide business in cards and you are a little bit more targeted, right? You used to be nationwide in mortgage, but now you're more targeted around your customer set.

I know you're looking to move into different geographies via the deposit, and you've got some wealth. And I'm just trying to understand how you think about that, that footprint and that collection of businesses. And is – maybe you could give us – help us understand the strategic angle, and where you're taking the US business, where you want to take the US business over the next, say, three years or so.

MIKE CORBAT: Sure.

BETSY GRASECK: Does deposit lead first into new geographies, and then you fill in with other products? Or is – Maybe you can loop in some of the inorganic discussion that you had before.

MIKE CORBAT: I would say today it is primarily organic and it is fundamentally technology driven. So using some of the things you cited, Betsy. So, one, today from a physical presence, we've got six large presences across the United States. But as you reference, we've got truly a national cards franchise. And depending whether you cut the line at our proprietary network or you go to some of our co-brand and retail partners, we're touching as many as 70 million consumers across the United States, virtually in every state.

And I think as Mark referenced in the numbers, in some of the experimenting we've been doing on the deposit side, our ability to grow outside of footprint of the deposits brought in not just in the quarter but really year-to-date, two-thirds of those brought in outside of the six markets. Of those deposits that were brought in, over 50% of those deposits were brought in by people who do not have the relationship, the depository relationship with the bank. And so I think our ability to continue to build on that and be smart around the advantage we have, and that is we know these people.

When you think about proprietary perspective, when you think about the length of some of our co-brand relationships and what we know, we know where you live. We know what you spend. We know how much you earn. And by the way, we know who your bank is. And we can be targeting people around that. So we think there's a real opportunity. In many ways we think it's very much a unique opportunity because there's really no bank out there that has the same national presence that we have from our cards portfolio.

So again, not just from a proprietary perspective but how do we engage with our partners and how do we create the right value propositions in each direction. And I think we've got a good plan against that, and you're going to be seeing more of that in the not-too-distant future.

BETSY GRASECK: Okay, because it does feel like great brand value, maybe a little under-levered in the revenue line here. And so I'm just wondering, do you build on that with incremental products, like mortgage across these different geographies, kind of going back to where you were pre-crisis where you were much more nationwide and a much broader set of products?

MIKE CORBAT: And again, I wouldn't rule out – and we've been asked, Betsy. I wouldn't rule out branch openings and changing that number from six to something higher, but first it's going to come through digital engagement. And from that digital engagement, you'll likely see us start or build on that relationship off of the card to a deposit relationship. And then like most people that are in the digital space, you continue to add on to that.

And so for us, let's make sure the value proposition works. I think we're seeing that. Let's build on that. And then as we have success, open to building more branches in areas where that makes sense, and certainly open to adding more products.

BETSY GRASECK: All right. Thanks, Mike.

OPERATOR: Your next question is from the line of Marty Mosby with Vining Sparks. Marty, please go ahead.

MARTY MOSBY: Thanks. I have two questions. One is when you looked at the – going back to the financial markets kind of NII number, isn't it also that the inversion of the yield curve when long rates come down, the assets that are in the inventory are tied to the longer part of the curve and the funding is tied to the shorter end of the curve, so the inversion really does have a pretty meaningful impact on your net interest revenue in that particular segment? And that also makes a difference because as the Fed catches up with the long end of the curve, that part of your NII can actually see a benefit going forward which will be different than what you'll see in a normal kind of retail bank?

MARK MASON: There's some impact there, but I think less so relative to the mix dynamic that I was describing. So – but you're right. There is some impact that flows through because of that dynamic.

MARTY MOSBY: Okay. And then kind of looking at the bigger picture, in other words, being on your side and having to hit a target. And you have to put a target, and yet when you say the word target it is a target, right? It's the direction you're going in, which I think is much more important than if I'm 11.9% or 12.1%. It's the direction of improvement that you're kind of continuing to be able to go through that path. And if you look at this and look at this particular story and investment, creating a tangible book value is a big piece of what – I think we hadn't talked about is the tangible book value was up 12% over the last year.

So if your tangible book value is growing double digits, you've got a 3% dividend, and I'd love to know your opinion on whether or not that's defensible through the downturn in the cycle. But I think we set up CCAR to make it defensible. So if you have a sustainable dividend, you're growing your tangible book value, and progression in returns is on the upward trend, then I think trading at tangible book value is a pretty good bargain. So just wanted to kind of think about those three avenues or those metrics.

MIKE CORBAT: Sure. So, Mark, why don't we tag team? So one, Marty, I would say from a dividend perspective, when you look at that roughly 3% dividend yield, $2.04 a share, a little over 2 billion shares outstanding, so somewhere slightly north of $4 billion on a net income base in the high-teens. So I think clear sustainability of dividend, and in any reasonable environment I think ample headroom to continue to take that up.

The other piece obviously is the flexibility we have in terms of buyback and the amount that we have there, and we've talked about the components of the combination of earnings, of goodwill, intangible, DTA type usage in there that gives us a bit more capacity. And so again, I think ample flexibility. And as you've said in here, it's not just hitting any particular target but in the round. And obviously our primary focus here, which I think we've tried to use other things as proxies for, is to – some of the earlier conversations is continuing to on both an absolute and relative basis continue to grow our return on tangible common equity. So continue to take that up in any reasonable environment and also continue to close the gap to peers as part of that.

MARK MASON: I think that's spot-on, Mike. The only thing I'd add to your point around continued progress is you can look back to 2018 and we had a target of a 10.5% RoTCE. We were able to deliver on the 10.9%. We've talked about a 12% for this year. We're on track year- to-date to do that. We've talked about returning capital over the three CCAR cycles at $60 billion-plus. We're at $60 billion-plus. And so we are continually trying to demonstrate progress on those very important metrics, not the least of which is this RoTCE, and we plan to continue to do so.

MARTY MOSBY: Yeah. And I think the progress and sustainability are the two key words that you talked about there. Continued progress and sustainability of what you've already achieved through any reasonable outcome is the things that I just wanted to confirm. So thanks.

MARK MASON: Agree. Agree.

MARTY MOSBY: Thank you, Mike.

MARK MASON: Thank you.

OPERATOR: And your next question is from the line of Ken Usdin with Jefferies. Ken, please go ahead.

KEN USDIN: Hi. Thanks a lot. Just a couple of quick ones. It was good to see the overall deposit costs start to turn down this quarter. Can you just talk about deposit strategies from here? And how you'd expect the betas to act especially since you are still putting out that national rate? How are you trying to match off against the lower rate side on the asset side with the deposit cost? Thanks.

MARK MASON: Yes. So our Consumer deposits, while we did get growth in volume there, we did see pressure from a spread point of view. Keep in mind, our US Consumer deposit is about $150 billion, and the betas are generally low as it relates to those Consumer deposits. And so as – we're not – as we saw the rate environment increasing a year or so ago, we didn't see the benefits of that. And so similarly – we didn't see the impact of that – and so similarly as we see rate cuts play out, we're not going to see that play through either. And so kind of low betas on the Consumer side likely to continue there.

As it relates to pricing, for the high yield savings accounts for example which has been part of our growth strategy, just part, we have adjusted pricing for those and for money market accounts. And we've been doing that over the past quarter or so as we've seen interest rates come down, and you should expect that we'll continue to do that to be aligned with the market.

KEN USDIN: Okay. And a follow-up on the capital side. So you're 11.6% on CET1, you'd talk about it 11.5% year-end. Rates have obviously been a helper, and the capital return continues underneath. Can you talk about just like what happens post 2019 in terms of your willingness to let the CET ratio continue to come down in the context of still seeing a big capital return number and given what the outlook is for earnings underneath? Thanks.

MARK MASON: Sure. So you're right. We did see kind of CET1 come down from second quarter to third quarter. We also saw that last year as well, second to third quarter, as we start to execute on the capital return that's approved as part of the CCAR cycle. There's somewhat of a natural dip there. But there's also the planning that we've talked to around getting down to what we thought – what we think is a prudent level of capital hold, which is about 11.5%. So we are in line, I would say, with our expectations to be roughly at 11.5% by the end of the year.

You'll recall that that 11.5% has a management buffer in it. That buffer is meant to account for some of the uncertainty and volatility and some of the proposals that are still outstanding that could have an impact on capital requirements. But at this stage without complete clarity on how some of those things change, we feel like 11.5% is still the prudent level at which to run the firm.

That means in going into 2020, we will first have to think about client demand and growth juxtaposed against what we're able to generate in the way of net income that would be available to common shareholders and the DTA that we're able to reduce. And based on that reduction of a disallowed DTA, we will be able to determine how much capital we can in fact return to shareholders.

And so that's how we'll think about capital return going forward. But the CET1 target at this stage remains at the 11.5% level.

KEN USDIN: Thanks a lot, Mark.

MARK MASON: Thank you.

OPERATOR: And your next question comes from the line of Brian Kleinhanzl with KBW. Brian, please go ahead.

BRIAN KLEINHANZL: Yeah. Thanks. Yeah, I just had two quick questions on expenses here. It sounded like in Mexico you were kind of managing the efficiency ratio and trying to get that lower. I mean, does that mean you've officially decided not to do that last piece of investment? I think you outlined it was $500 million opportunity to pull back on.

MARK MASON: Yeah, so we – you're right. We have been managing Mexico very thoughtfully and trying to ensure that we continue to demonstrate EBT growth there in light of the environment that's there and softer revenues that we've been seeing. The expense management that we're seeing there is in part a by-product of the investments that we made in the prior year, and so some of those investments were in building out the efficiencies around our operations. And so we're starting to see some of those cost saves play out in 2019, and so that is a good thing.

We obviously will look at the balance of the investments that are to be made as part of our Mexico strategy and determine how we want to prioritize those and how we want to pace those in light of the environment that we're in. But the cost savings that we're seeing at this stage are really a by-product of the return on the early investments we made to improve productivity and thoughtful pacing around what's left.

BRIAN KLEINHANZL: And then just a separate one on – you mentioned that there's a continuing investment in controls and risk in Corporate/Other. Are you close to a point where you've reached a peak on that, and we should expect that to trend down over time? Or is it still something that's increasing? Thanks.

MARK MASON: Sure. We actually do expect – I think I mentioned the outlook for the pre-tax loss in Corporate/Other being slightly higher going into the fourth quarter as a result of continued infrastructure cost. We think that's important to make as a franchise. That includes things like enhancing our data capabilities. It includes things like cybersecurity capabilities, improving our compliance in risk and finance infrastructure. So all of those things we think are critical to not only running a safe and sound organization but in many ways to – helping to drive better business operations as well. And so, yes, we expect to continue to make investments in that area.

MIKE CORBAT: And I would say, Mark, that in all of that we – it's not just the investment into safety and soundness, but there's paybacks in the round on that in terms of being able to replace manual processes and other things.

MARK MASON: Absolutely. Between the automation opportunities that are there, the straight-through processing opportunities that are there, that's what I was alluding to when I said the opportunity to improve business operations. So it's safety and soundness and those efficiencies that we'll get as an organization. So they are investments, in fact, in many instances and do have paybacks associated with them.

OPERATOR: Okay. Your next question is from the line of Gerard Cassidy with RBC. Gerard, please go ahead.

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

MIKE CORBAT: Hey. Good morning.

MARK MASON: Good morning.

GERARD CASSIDY: Can you guys share with us – you identified that you had some strong performance in M&A this quarter, particularly in EMEA. Was it due to hiring people that you're having this success in M&A? Or is it taking market share from some of the competitors, particularly over in Europe, some of them are struggling?

MIKE CORBAT: I think it's both. I think when you go back and look this isn't just a third quarter of 2019 phenomenon, but I think something we've spoken to. And I think you've seen over the last three or four years, some pretty consistent market share gains for us there. And it hasn't just been EMEA, but EMEA I think has been one of the top performers for us.

And so I think it's really been both client engagement, but also as you know in the business of making sure you have the right people in the right seats. And again, as you've seen publicly, we've been making those investments.

MARK MASON: Yeah. We've seen increases in – when you think about share in technology, in healthcare, in consumer, and so we've seen it across a number of sectors. As Mike says, it's a by-product of having made those investments and being positioned to serve our clients well.

GERARD CASSIDY: And then in the Markets business, obviously we've all seen on the retail side that the trading commissions have been dropped to zero at many of the discount brokers like Charles Schwab or Fidelity. In cash equities in the Institutional business, we all know the cents per trade has steadily declined, electronic trading has reduced revenues. Is there a day that we're actually going to see zero commissions possibly in cash equities following the retail side?

MIKE CORBAT: We could. We could. I don't think we're right there, but again I think a lot of it in my mind will have to do with information and our ability to use that information and how GDPR rolls out in the US and more broadly and what we're actually permitted to do with that information. I think that's a topic for another day, but I think that you could theoretically see certain people willing to pay for that information.

I think point two is that when you actually look at with the indexation, the other thing that's going on is that the economics in terms of derivatives, the economics in terms of prime brokerage, the economics in terms of custody and clearing, all areas that we've been heavily investing in. So to the extent that the cash equity trade underlies several of those activities supported by pre-trade around research and other pieces, I think there's more to play out in that as well.

GERARD CASSIDY: Very good. And then just lastly, you talked about the success of gathering deposits digitally. I may have missed this, and you pointed to your high yield savings account. To win those deposit customers, are you doing it with the high yield savings account or is there a cash bonus? If they open up the account online, they get an extra $100 or something like that?

MARK MASON: So first of all, we're growing the deposits more broadly than just the high yield savings account and frankly more broadly than just the digital. We're growing through traditional channels as well. We do have growth in the high yield savings accounts specifically too, and that is through an offer of higher rate.

But that said, what you also heard us reference was creating value propositions as well as incentives for clients to open deposit accounts with us, i.e., offering ThankYou Points, offering double cash back, those types of incentives that are aligned with the card as incentive for those customers to open a Retail Banking account with us, in this case online or digitally.

GERARD CASSIDY: Okay. So you're not sending them toasters though, right?

MARK MASON: We're not. We're not. We're out of the toaster sending business at this stage.

GERARD CASSIDY: All right. Thank you.

OPERATOR: Your final question will come from the line of Vivek Juneja with JPMorgan. Please go ahead. And Vivek, your line is open. Please go ahead.

We are not getting a response from Vivek Juneja.

MIKE CORBAT: He may be asking his question elsewhere, operator. So with that, Liz, back to you.

ELIZABETH LYNN: Thank you everyone for joining the call today. If you have any follow-up questions, please feel free to reach out to us in Investor Relations, and have a good day.

MARK MASON: Thank you.

MIKE CORBAT: Thank you.

OPERATOR: Thank you. Thank you again for joining today's conference call. You may now disconnect.

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