TRANSCRIPT

Citi Second Quarter 2020 Earnings Review
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Host
Elizabeth Lynn, 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 Second Quarter 2020 Earnings Review with the 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 is being recorded today. If you have any objections, please disconnect at this time.

Miss Lynn, you may begin.

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 limitations, the Risk Factors section of our 2019 Form 10-K.

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

MIKE CORBAT: Thank you, Liz, and good morning, everyone. Today, we reported earnings for the second quarter of 2020. With net income of $1.3 billion, we had earnings per share of $0.50. As in the first quarter, credit costs weighed down our net income. However, the overall business performance was strong, which shows that we've been able to navigate the COVID-19 pandemic reasonably well so far. With solid revenue growth of 5% and strong expense management, down 1%, both on a year-on-year basis, our margin was up 13%.

We grew loans, and our deposits were up significantly. Our regulatory capital increased, and we have continued to add to our substantial levels of liquidity, and our balance sheet has more than ample capacity to continue to serve our clients. The Institutional Clients Group had an exceptional quarter. Fixed Income was up 68%. We had our best Investment Banking quarter in recent history, and Private Bank revenues approached $1 billion. And while Treasury and Trade Solutions continued to be impacted by the lower rate environment, we did see good client engagement and strong deposit growth in that business. Global Consumer Banking revenues were down as spending slowed significantly due to the pandemic.

In North America, despite the decline in purchase sales activity, Branded Cards revenue was up slightly due to a mix shift towards interest-earning balances. At the same time, Retail Services saw a significant decline in consumer spending with our partners. Retail Banking saw higher mortgage revenue from refinancing activity due to the low rate environment. In Asia, the slowdown in travel and consumer activity again reduced revenues. And in Mexico, revenues declined as the country is struggling from the effects of the health pandemic.

Our capital position strengthened during the quarter, with our Common Equity Tier 1 ratio increasing to 11.5% on an advanced basis. I was pleased with our results from the Federal Reserve's latest stress test, placing our Stress Capital Buffer at 2.5%. This leaves us comfortably above our new regulatory minimum of 10%. Our Tangible Book Value per Share of $71.15 was down only slightly from the first quarter, but still up 5% from a year ago. We plan to keep paying our quarterly dividend, as long as macroeconomic and financial conditions permit.

During the quarter, we continued to support our clients, colleagues and communities through this pandemic. While I'd like to see more of our people back in the office, we've been clear that we won't do anything to jeopardize their health and safety. Most recently, we paused plans to invite a limited number of colleagues back to sites located in areas where the health data was going in the wrong direction.

We've also remained committed to supporting communities through a variety of initiatives. These now total over $100 million in contributions from our company and its foundation. But what I'm most proud of is the $2 million which my colleagues donated out of their own pockets to organizations providing COVID relief as part of our matching program. And we recently made our first distribution to the Citi Foundation, representing $25 million in net profits from the Payroll Protection Program to support community development financial institutions.

We're also partnering with minority-owned depository institutions to help them extend credit to businesses through PPP by purchasing their loans through a $50 million facility. This effort is even more important as we look at the economic disparities drawn along racial lines in our society. And of course, we continue to serve our clients, whether it's providing consumer relief or helping companies access the capital markets to strengthen their balance sheets.

We entered the second half in a strong position to handle what comes our way. We are in a completely unpredictable environment for which there are no models, no cycles to point to. The pandemic has a grip on the economy, and it doesn't seem likely to loosen until vaccines are widely available. We'll keep managing through this with a sharp emphasis on our risk management. We continue to make investments in our infrastructure to enhance our safety, soundness and controls to ensure that we have an indisputably strong and stable institution.

With that, Mark will go through our presentation, and then we'd be happy to answer your questions.

MARK MASON: Thank you, Mike, and good morning, everyone. Starting on slide 4. Citigroup reported second quarter net income of $1.3 billion, which included a $5.6 billion increase in credit reserves this quarter, primarily reflecting the deterioration in the economic outlook since the end of the first quarter under CECL and downgrades in the corporate loan portfolio. The reserve build also includes an additional qualitative management adjustment to reflect the potential for a higher level of stress and/or a somewhat slower recovery.

Revenues of $19.8 billion grew by 5% from the prior year, primarily reflecting higher Fixed Income and Investment Banking revenues. Expenses were down slightly year-over-year, resulting in positive operating leverage, and a 13% improvement in operating margin.

Credit costs were $7.9 billion this quarter. Our effective tax rate was 9% for the second quarter, reflecting a higher relative impact from tax advantaged investments and other tax benefit items given the lower level of EBIT.

Looking at results for the first half of 2020, we delivered net income of $3.8 billion even as we increased credit reserves by $10.5 billion under the CECL framework, given the current environment. We grew revenues by 8%, predominantly reflecting continued strength in our Markets and Investment Banking businesses, while we held expenses flat year-over-year, allowing us to deliver positive operating leverage, and a 20% increase in operating margin.

In constant dollars, end-of-period loans grew 1% year-over-year to $685 billion, reflecting growth in our institutional businesses, mostly offset by the impact of lower spending activity in our consumer business. Deposits grew 20%, reflecting engagement with clients and a flight to quality, so to speak, across both the institutional and consumer franchises, which served to strengthen our available liquidity. And we maintained a strong capital and liquidity position, which has been critical to our ability to support our clients as they manage through this crisis.

As of June 30, our CET1 capital ratio was 11.5%, 150 basis points above our regulatory minimum requirement. We had close to $900 billion in available liquidity. And including the additional reserves taken this quarter, credit reserves stand at roughly $28 billion with the reserve ratio of 3.89% on funded loans. With the level of capital, liquidity and the reserves we hold today, plus significant pre-provision earnings power seen through the first half of the year, we continue to operate from a position of strength. And as we discussed last quarter, we are combining this financial strength with operational resiliency, which allows us to partner with and support our clients as we all manage through this crisis.

Turning now to each business. Slide 5 shows the results for Global Consumer Banking in constant dollars. Revenues declined 7%, as strong deposit growth was more than offset by lower loan volumes and lower interest rates across all regions. And expenses decreased 8% as lower volume-related expenses, reductions in marketing and other discretionary spending and efficiency savings were partially offset by increases in COVID-19-related expenses. Total credit costs of $3.9 billion were up significantly from last year including, a reserve build of approximately $2 billion, driven by the deterioration in the economic outlook.

Slide 6 shows the results for North America consumer in more detail. Second quarter revenues of $4.7 billion were down 5% from last year. During the quarter, we continued to focus on providing assistance to help customers impacted by COVID-19. Since the crisis began, we have provided relief to more than 2 million accounts, representing roughly 6% of our aggregate balances across cards and mortgages.

In a hopeful sign, many of those same customers have continued to make their regular payments during the second quarter, although we realized it's still early. And to-date, over half of our Cards enrollees have rolled off the program, with more than 80% of these customers remaining current, while re-enrollment rates remain below expectations in about the mid-teens.

Turning now to the businesses, starting with Cards. Branded Cards revenues of $2.2 billion were up 1% year-over-year as lower purchase sales and lower average loans were offset by a favorable mix shift towards interest-earning balances, which supported net interest revenues. As seen across the industry, purchase sales declined significantly, down 21% in the second quarter. However, in recent weeks, we have seen signs of improvement with purchase sales down in the low-double digits year-over-year in June, compared to a 30% decline in April. Average loans declined 7%, reflecting lower sales activity.

We also took credit actions during the quarter, including a pause in proactive marketing and a reduction in credit line increases and balcon activity as examples. We believe these risk actions are prudent given the current environment, but they are likely to result in more pressure on interest-earning balances in the second half of the year.

Retail Services revenues of $1.4 billion were down 13% year-over-year, reflecting lower average loans as well as higher partner payments. Net interest revenues were down 7% as average loans declined by 6% on lower purchase sale activity. Purchase sales were down 25% year-over-year in the second quarter, but similar to Branded Cards, we saw improvement in the month of June, with the pace of sales declines slowing to the mid-teens.

Higher partner payments drove the remainder of the revenue decline versus last year. As we have discussed in the past, Retail Services revenues are shown net of payments related to income-sharing arrangements with our retail partners, which can vary quarter to quarter based on the overall mix and profit outlook for our portfolios.

Retail Banking revenues of $1.1 billion were down 3% year-over-year as the benefit of stronger deposit volumes and an improvement in mortgage revenues were more than offset by lower deposit spreads. Our deposit momentum continued to improve, with average deposits up 14% driven by a combination of environmental factors, including the delay of tax payments, stimulus payments and a reduction in overall spending as well as our continued strategic efforts to drive organic growth.

Digital deposit sales accelerated even as we continued to adjust pricing given the current rate environment, with digital deposits growing by $3 billion this quarter to a total of nearly $12 billion. We also saw a strong engagement with existing clients, driving balanced growth across deposit products, including checking, which grew 13% year-over-year.

Total expenses for North America Consumer were down 10% year-over-year as reductions in marketing and other discretionary expenses, along with efficiency savings and lower volume-related costs, more than offset incremental COVID-19-related expenses.

Turning to credit, total credit cost of $3 billion increased significantly from last year as we built roughly $1.5 billion in reserve this quarter, reflecting the impact of changes in our economic outlook, partially offset by the impact of a change in accounting for third-party collection fees.

On slide 7, we show results for International Consumer Banking in constant dollars. In Asia, revenues declined 15% year-over-year in the second quarter. Cards revenues declined by 22%, reflecting lower activity levels with purchase sales down 29% year-over-year.

We're seeing a disproportionate impact on Asia Card revenues from lower travel spend in the region, given our affluent client base and a greater proportion of fee revenues coming from travel-related interchange and foreign transaction fees. We also saw an impact on customer acquisition in products like insurance, which rely more heavily on face-to-face engagement.

However, average deposit growth remained strong at 10% this quarter, albeit at lower deposit spreads, reflecting a flight-to-quality, as well as continued client engagement across the franchise. While investment revenues were down this quarter, we saw continued underlying growth in our wealth management drivers, with 6% growth in Citigold clients and 10% growth in net new money versus last year.

Today, we're seeing some early signs of a pickup in activity, with purchase sales declines moderating and net new money and investment sales showing material improvement in June versus prior months, but the shape of the recovery remains fluid.

Turning to Latin America, total consumer revenues declined 7% year-over-year. Similar to other regions, we saw good growth in deposits in Mexico this quarter, with average balances up 9%. However, revenues were impacted by lower purchase sales and loan volumes, as well as lower deposit spreads in the current environment.

In total, operating expenses for our international business were down 4% in the second quarter, reflecting efficiency savings and lower volume-related expenses. And cost of credit increased to $883 million.

Slide 8 provides additional detail on Global Consumer credit trends. Credit loss rates generally trended upward this quarter as a result of the macroeconomic slowdown, although this was much more a function of the lower loan balances, as it is still too early to see a pronounced impact from COVID-19 on our net credit losses.

90-plus day delinquency rates improved in the US despite the lower balances, as reduced spending, combined with the benefit of significant government stimulus and our own customer relief efforts, has generated liquidity, which has been used to pay down debt even in the later delinquency buckets.

Earlier-stage delinquencies are also improving, given the additional liquidity and the impact of relief efforts, although it is still early and there is still significant uncertainty around the timing of the economic recovery and how customers will perform once these relief and stimulus programs start to roll off.

Delinquency rates were up slightly in Asia, although still modest at absolute levels. And in Mexico, we saw a more significant impact as COVID-19 is still peaking in that market and customers are not benefiting from the same level of government stimulus.

Turning now to the Institutional Clients Group on slide 9. Revenues of $12.1 billion increased 21% in second quarter and were up 25% excluding a roughly $350 million pre-tax gain on our investment in Tradeweb in the prior year, as strong performance in Fixed Income, Investment Banking, and the Private Bank was partially offset by lower revenues in TTS, Corporate Lending, and Securities Services. The quarter was also impacted by $431 million of mark-to-market losses on loan hedges, as credit spreads tightened during the quarter.

During the quarter, we continued to see strong client engagement across all of our institutional businesses, and we have been actively helping our clients navigate through this uncertain environment. In TTS, we continue to work with our clients to sustain their operations, manage their supply chains, and optimize their working capital and liquidity. And we're continuing to see momentum in our digital efforts, as evidenced by strong growth in CitiDirect users and digital account openings, which further deepen our relationships with our clients.

In Markets, we saw record volumes as we supported our clients, leveraging our Citi Velocity platform and electronic execution capability. And similar to the first quarter, we actively made markets for both our corporate and investor clients as we helped them navigate through volatile macroeconomic conditions.

In Investment Banking, clients remain focused on both sources and uses of short-term and long-term liquidity. We continued to provide new loans and facilitate additional draws for clients looking to bolster liquidity. However, we also saw significant repayments, which led to the sequential decline in end-of-period loans in Corporate Lending.

And we continue to help our clients access capital markets, which drove further share gains. I would note that investment-grade debt underwriting was up 131% year-over-year as we continued to help our clients source liquidity in this evolving environment.

Turning now to the results for the businesses, starting with Banking. Total Banking revenues of $5.7 billion increased 4%. Treasury and Trade Solutions revenues of $2.3 billion were down 11% as reported and 7% inconstant dollars, as strong client engagement and solid growth in deposits were more than offset by the impact of lower interest rates and lower commercial cards revenues.

Our average deposits were up 30% in constant dollars. We had strong growth in our instant payments and API volumes, and our cross-border flows were resilient despite the significant macro slowdown, all of which give us confidence in the underlying health of the franchise.

Investment Banking revenues of $1.8 billion were up 37% from last year, outperforming the market wallet and delivering the highest revenue quarter since the financial crisis. Results reflected strong growth in both debt and equity underwriting, partially offset by M&A. Private Bank revenues of $956 million grew 10%, driven by increased capital markets activity, as well as higher lending and deposit volumes, partially offset by lower deposit spreads. Corporate Lending revenues of $646 million were down 11%, as higher volumes were more than offset by lower spreads.

Total Markets and Securities Services revenues of $6.9 billion increased 48% year-over-year. Fixed Income revenues of $5.6 billion grew 68%, reflecting strong performance across rates and currencies, spread products, and commodities.

Equities revenues of $770 million were down 3% versus last year, as solid performance in cash equities was more than offset by lower revenues in derivatives and prime finance, reflecting a more challenging environment. And finally, in Securities Services, revenues were down 9% on a reported basis and 5% in constant dollars, as higher deposit volumes were more than offset by lower spreads.

Total operating expenses of $5.9 billion increased 7% year-over-year, as efficiency savings were more than offset by higher compensation costs, continued investments, and volume-driven growth. Total credit costs of $3.9 billion were up significantly from last year.

We built roughly $3.5 billion in reserves this quarter. The increase in reserves reflected the impact of changes in the economic outlook, as well as downgrades in the corporate loan portfolio during the quarter. As of quarter-end, our overall funded reserve ratio was 1.71%, including 4.9% on the non-investment grade portion. We provide more details on the corporate portfolio in the Appendix of our earnings presentation.

Total nonaccrual loans increased $1.5 billion sequentially this quarter, reflecting the current environment, with roughly half of the increase coming from smaller-sized exposures. Overall, we remain vigilant in managing the portfolio and reserve levels relative to the stresses we see out there today.

Slide 10 shows the results for Corporate/Other. Revenues of $290 million declined significantly from last year, reflecting the wind-down of legacy assets and the impact of lower rates, partially offset by AFS gains as well as positive marks on legacy securities as spreads tightened during the quarter.

Expenses were down slightly as the wind-down of legacy assets was partially offset by higher infrastructure costs, as well as incremental costs associated with COVID-19. And the pre-tax loss was $343 million this quarter, reflecting loan loss reserves on our legacy portfolio, as well as lower revenues, partially offset by lower expenses.

Slide 11 shows our net interest revenue and margin trends. In constant dollars, total net interest revenue of $11.1 billion this quarter declined $580 million year-over-year, reflecting the impact of lower rates and lower loan balances, partially offset by higher trading-related NIR and the improved mix in Branded Cards that I mentioned earlier.

On a sequential basis, net interest revenue declined by roughly $250 million, mainly reflecting the lower rate environment, partially offset by higher trading-related NIR and the absence of an episodic one time item. And net interest margin declined 31 basis points sequentially, with lower net interest revenues driving roughly one-third of the decline and the remainder representing balance sheet growth, reflecting an increase in liquid assets, driven by higher deposits as we accommodated the needs of our clients, while also strengthening our own liquidity in the current environment.

Turning to non-interest revenue. In the second quarter, a strong performance in trading and investment banking drove a significant increase year-over-year. As we look to the third quarter, we expect both net interest revenues and noninterest revenues to decline year-over-year, reflecting the impact of lower rates and lower levels of activity related to COVID-19, as well as a normalization in Investment Banking activity.

On slide 12, we show our key capital metrics. Our CET1 capital ratio improved to 11.5%, primarily reflecting the decline in risk-weighted assets. Our supplementary leverage ratio improved to 6.7%, primarily reflecting the benefit of the temporary relief granted by the FRB. And our tangible book value per share declined slightly to$71.15, reflecting the debt valuation adjustment, DVA, impact to OCI, as Citi's credit spreads tightened during the quarter.

During the quarter, we also received our stress test results, including our preliminary stress capital buffer, SCB, requirement of 2.5%. Incorporating this SCB and a GSIB surcharge of 3% results in a minimum regulatory requirement of 10%.

In summary, the environment remained challenging this quarter, but we continued to perform well. We ended the period with a strong capital and liquidity position. The underlying business performance this quarter remained solid, and we were able to absorb the significant reserve build with strong results in our Markets and Investment Banking businesses.

Overall, client engagement remains strong, bolstered by increased digital acquisition and engagement. And while our Consumer business has been impacted by COVID-19-related lower levels of activity, we have seen a pickup through the quarter. That said, we did see a significant headwind from the full quarter impact of the lower rate environment.

Looking to the third quarter and the rest of 2020, we expect the environment to continue to remain challenging and uncertain. On the top line, we expect to see continued pressure in Consumer, reflecting the impact of rates and lower levels of activity related to COVID-19. And we would also expect the low rate environment to continue to weigh on our accrual businesses in ICG.

Our Markets and Investment Banking businesses should reflect broader industry trends. That said, we would expect a normalization relative to the first half. Based on our best estimate, we would expect these headwinds in the back half of the year to result in full year revenues that are flat to down slightly, with the decline in net interest revenues more or less offset by noninterest revenues on a full year basis.

On the expense side, we remain focused on protecting our employees and supporting our customers. And we continue to feel good about the investments we are making, particularly in our digital capabilities and infrastructure and controls. That said, we continue to explore all opportunities to operate more efficiently to fund these investments and offset headwinds created by COVID-19. And overall, we still expect expenses to be flattish to down slightly for the full year.

Turning to credit, we do expect a higher level of losses going forward, given our current outlook. However, this should be offset by the release of existing reserves. Of course, the overall level of reserves in the back half of the year remains dependent on the environment relative to our current outlook.

So to wrap up, we're preparing for a range of outcomes and remain confident in our ability to maintain our overall strength and stability, as well as continue to support our customers.

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

QUESTION AND ANSWER

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

MIKE CORBAT: Glenn, you may be on mute.

GLENN SCHORR: Sorry about that. Can you hear me now?

MIKE CORBAT: Yeah, we can hear you loud and clear.

GLENN SCHORR: Sorry about that. My apologies. A quick question on Cards. In your comments you mentioned doing less balance transfer and tighter credit box, impacting revenues. Could you dimensionalize maybe what portion of the book or remind us what portion of the book is promotional, where this might take it to, and how much pressure we're talking about on the card side? Appreciate it.

MARK MASON: Yeah. This is Mark. Good morning, Glenn. Look, I'd say a couple of things we're seeing take place. We're obviously managing through a crisis here. And what we've seen is we've seen less purchase sale activity, less loan volume take place, and frankly, less new card acquisitions, both on the Branded side as well as the Retail side.

And in light of that, in light of the environment that we're in, we've dialed back the marketing spend, we've dialed back balcon and the like. And what happens, as you know, is that as you dial back that level of spending, in the future you don't get the increase in average interest-earning balances, loan balances that ultimately drive forward- looking revenues.

And so, the comment there is simply meant to suggest, as we prudently manage through this crisis, we've needed to dial back, we've decided to dial back that spend, and I think what's critically important is that we turn that back on as this crisis turns around. And that's the way we're kind of planning, so that we start to get those promotional balances picking back up as the economy turns, as GDP turns, as unemployment falls, and we can start growing those balances again.

So that mix, as you know, is very important. It will be pressured as we manage through this, but then we want to be very responsive to the economy as it changes, which is, frankly, different from the way it was handled in the past.

GLENN SCHORR: All fair. All prudent. I get it. And apologies if I missed it in the prepared remarks, related to the reserve build, I get that there's multiple scenarios, a lot of variables. But can you talk about where we were at the end of the first quarter versus where we're at the end of the second quarter, and the economic backdrop that you wrote reserves to? Just so we can do the compare and contrast. Thanks

MARK MASON: Yeah. Let me try and dimension that a little, because I think it's important, first, to kind of understand how we approach the CECL modeling. And then I'll share with you the variables, the key variables that we used in the second quarter here, specifically.

So, remember, as we approach CECL, we've got to take a view on the forward look of the economic environment. And the way we've approached that is we've established models in order to forecast those reserve levels. And we use one scenario for that. We use a base scenario for the modeling of that.

In addition to that base scenario, which drives the quantitative output in the way of the level of reserves, we have a quantitative approach that drives a management adjustment. And that management adjustment is designed to account for the economic uncertainty and the prospect of a more severe stress or a slower recovery. And so those two components become important to how we've established the reserve both in the first quarter and in the second quarter.

In the first quarter, or second quarter to more specifically answer your question, the base economic forecast called for US unemployment peaking at roughly 15% or so in the second quarter and GDP falling 35%-plus quarter-over-quarter.

Now, what's important is the shape and the pace of the recovery, including whether we see a significant second wave of the virus or what impact the crisis has on broader employment, et cetera, and our base scenario as GDP recovering sequentially in the third quarter and beyond and hovering, call it, under 10% by the end of the fourth quarter of 2020, and then trending down from that through the fourth quarter of 2021.

And these assumptions kind of assume a potential second wave, but one that is controlled. It assumes appropriate fiscal response, if needed, to maintain that pace of recovery, but there's a lot of uncertainty there. And that kind of drives the quantitative approach. And then, we consider the probability of an alternative downside scenario, and we build additional reserves as appropriate to that.

And so, if you think about our total reserves, which show up on page 20, I think, which stand at about $28.5 billion in terms of the ACL reserves, that includes roughly a $2.2 billion or so, $2.3 billion or so additional management adjustment to account for the possibility of a more adverse outcome.

And so hopefully that helps. We've got a very specific base scenario; then we look at a more stressed scenario, severely more stressed scenario; and we put a probability to that in order to establish what our management adjustments should be. And that's what's in the $28.5 billion that sits today.

GLENN SCHORR: Okay. Thanks so much, Mark.

MARK MASON: You're welcome.

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

MATT O'CONNOR: Good morning.

MARK MASON: Good morning.

MATT O'CONNOR: Could you talk a bit about the timing of when you think the charge-offs will actually start to go up? And, obviously, you've alluded to the large reserves, and that may or may not hit earnings entirely. But just as we think about the loss recognition, maybe you can speak to when you think we might start seeing that and what peak levels and when. And, obviously, it might vary by region, so any thoughts on those topics would be helpful. Thank you.

MARK MASON: Sure. So we are – if you kind of look at the information that we've reported, we aren't yet seeing significant NCLs as of yet. We aren't yet seeing – there're some increases, but we aren't yet seeing significant NCLs. We aren't yet seeing meaningful increases in even the 30 to 89 buckets. In fact, they're declining.

So if you look at kind of North America, the 30 to 89 delinquencies declined sequentially in Branded Cards; in Retail Services, they were relatively stable. In Asia, in Mexico, they declined as well, all in our supplement. And part of that is because, as you know, there are government payroll protection programs. There is stimulus checks. There are unemployment benefits. There are all of these things that are in place in many ways to kind of prop up the economy. And so we aren't yet seeing the stress, if you will, kind of play through those early buckets.

What I would say is that as we get through the back half of the year and towards the back half of the year, we're likely to see NCL start to pick up and we're likely to see some of that, at least from the Consumer side, start to peak towards the middle of next year. But I think what you've got to keep in mind is that we're building reserves now around lifetime expected losses. And so, to the extent that the forecast plays out as the scenario would suggest, you'll see those losses pick up. And all things being equal, as it relates to balances, you'll also see the reserves used to cover those losses.

MATT O'CONNOR: And then just on a follow-up, I mean, this is the first cycle that we've all been through with CECL. And I always think about there's all these reserves being built that you're supposed to use as charge-offs hit, but that kind of assumes that you know charge-offs aren't going to go up kind of beyond the level of reserves, right? So like, if charge-offs are going up, but the macro environment continues to get worse, you don't really know if you should be using reserves or not.

So I guess I'm just wondering, like, it should be a little bit more coincident in terms of using reserves as charge-offs go up than maybe before CECL. But I would assume like the back half this year, for example, when charge-offs go up, like you're not going to be using reserves yet until you're confident that the macro is not going to be worse than you've reserved for, right?

MARK MASON: Again, I think in every quarter, we're going to be taking a view on the forward economic outlook. And so, a little bit to your point, if we get into the third quarter and we're seeing that our outlook is consistent with what it was at the end of the second quarter, then we're going to take a view – balances in terms of loans, all things being equal related to balances, we're going to take a view as to whether we think that economic environment is going to be as we've scenario-ed it out, get better or worse and act with the reserves accordingly.

I think the other thing that I'd point out to your question is that, remember when I described how we established the reserves, we've also built this management adjustment, this qualitative approach, which is meant to account for some of that uncertainty and the prospect for a yet worse scenario.

MATT O'CONNOR: Okay. Thank you.

MARK MASON: Yeah.

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

ERIKA NAJARIAN: Hi. Good morning.

MARK MASON: Good morning.

ERIKA NAJARIAN: I hate to ask yet another question on the reserve, but just wanted to make sure we got the right takeaways from everything that you just said, Mark. As we think about your current outlook for the economy, are you done with significant reserve building? And in that case, in terms of what you're alluding to, should we assume that once the charge-offs actually start to manifest, that's drawn against your reserves, and you have a longer, reasonable, and supportable period versus peers? And I'm wondering as investors start evaluating banks on normalized earnings, how we should think about the end-state reserve-to-loan ratio relative to that longer RNS period?

MARK MASON: Yeah. I guess, here's the way I think about it, which is – obviously, you've heard us say in say in terms of the uncertainty, unprecedented crisis, we've taken a view on our forward-look of the economy and how it plays out. And that is, in fact, a view that drives what we've established in the way of reserves.

Now, we're sitting at reserve levels of $28.5 billion, 3.9% or so of funded, 7% against the Global Consumer Bank in terms of against balances. The ICG at 1.7%; even within the ICG, noninvestment-grade is nearly 5%, 4.9% in terms of the reserves against the loan balances.

We're sitting with reserves that we feel the level – we feel comfortable about the level of reserves that we have. But that is, for all the reasons that I described, tied to the scenario that I've described for you, a scenario where we see the meaningful drop in GDP this quarter, but we also see a recovery sequentially in the third quarter and unemployment start to fall by the fourth quarter.

And so, to the extent that those things [audio gap] a little bit of room there, I would say, because I do have a management adjustment, then I would expect that the first half would reflect, by and large, the majority of the reserves that we would need to take. And as losses started to play out, that we'd be utilizing that reserve in order to cover them. So hopefully, that helps.

ERIKA NAJARIAN: Yes, that helps. And I'll follow-up offline on normalized reserves, but I wanted to get the second question in. Your peer earlier today noted that we should essentially cut trading revenues in half for the second half of the year in terms of normalization. And should we be doing the same for Citi for the second half of the year? And I suspect probably more applicable to the fixed side than the equity side.

MARK MASON: Yeah. Look, we have seen very strong performance in our Markets business and in FICC in particular with up 68% and, if you adjust for the gain that we had last year, is up as much as close to 90%, little bit under 90%. So very strong performance there. I did mention in my prepared remarks that we would expect to see our Markets revenue, our Investment Banking revenue normalize in the back half of the year. And I think that certainly holds in terms of what we're expecting.

And I also gave a little bit of guidance in terms of how to think about full year performance, and that should, hopefully, inform how to kind of model our performance. I talked about total revenues or full year revenues that are flat to down slightly, with a decline in net interest revenue that's more or less offset by noninterest revenues on a full year basis.

And I think if you – you can kind of model that out, and it will, I think, reflect that normalization that I'm speaking to with regard to Markets, which will show up in both, but you'll see a good part of the normalization in the non-NIR.

ERIKA NAJARIAN: Got it. Thank you.

MARK MASON: Yeah.

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

MIKE MAYO: Hi. I have a few questions, so I'll ask a couple, then I'll requeue at the back, if that's okay. But, Mike, the one line that got me was that we will be struggling until we get a vaccine, which might be correct. Nobody really knows how this is going to play out, but that's a little bit more pessimistic than some of the guidance given by others. And certainly, the timeframe for a vaccine is uncertain, too.

So I'm just trying to reconcile the comment that – and the reserves are fine. It sounds like the second quarter reserve build is a high watermark, so that's reflecting everything. On the other hand, if we have to wait until we get a vaccine – and also, you did mention Mexico not having the stimulus, and we have had some data since the end of the quarter that looks a little bit worse.

So, I guess my question is, Mike, how confident are you that you've built enough reserves as of the second quarter in light of what you said about Mexico, the vaccine, and what's taken place since quarter end?

MIKE CORBAT: Sure. Thank you, Mike. So let me just kind of touch on the comment in terms of the vaccine. As we think of – as I think of this health pandemic, and not necessarily specific dates, but a broad-based timeline, effectively, I think of this going through four stages: containment, stabilization, normalization, and ultimately a return to growth.

I would describe that today, the economy as we've seen, the global economy, the global health pandemic is not all in the same place. We didn't enter it at the same time. We didn't have the same response either from a health or from a fiscal or monetary perspective. And therefore, we're going to see exit and exit rates different, and we're going to actually see the numbers in terms of resurgence of COVID in some areas in different ways.

I would describe right now that broadly in the world, we are somewhere between containment and stabilization, right? Containment is that we can bend the curve in terms of the transmission of cases. Stabilization is that as we remove or start to take down some of the barriers or actions that were put in place, working remotely, social distancing, kind of all of those things that have been put there. And as those start to get lifted, that you actually don't see cases come back.

And when you get to the third phase around normalization, and simply put normalization to me is, am I willing to get on the airline, or am I willing to get in a subway, am I willing to go into a crowded venue to watch a sporting event or a concert, or what it may be. And I think realistically, when we get to that third bucket, I just don't see that coming. And I would say many don't see that coming until we feel like there's an antivirus vaccine that's available for the mass population around that.

And so, I think one of the things that people struggle with today is the disconnect in some ways between where the market is in some ways and actually where we are in terms of this health pandemic and the number of questions that are out there. So, I don't want to be pessimistic in there. I want to be a realist, and I just think that in order to truly normalize, that's what's necessary to do that.

To the second part of your question, we've seen different responses in different ways. We've seen different health responses. We have seen different economic responses. And I think the approach specific to your question in terms of Mexico is that, in both cases, those responses have been pretty straightforward, right? We really haven't seen the extraordinary actions that we've seen from the US or UK or some of the governments around the world.

It's been much more of a BAU response and I think as part of that, we're seeing that economy being hit fairly hard. And it's still, relatively speaking, in the earlier stages. And by the way, that's not just Mexico, more of Latin America and other parts of the world. And I think as we forecast growth rates going forward, I think our forecast right now is for a contraction of about 8% in Mexico in terms of GDP as we look forward.

So, the economy has been hit, will continue to be hit. That being said, I think the actions that we've taken in terms of – the risk approach we've taken in terms of the ways that we have looked at and been mindful in terms of risk going into this, I think should serve us well. But again, I think the effects of this are likely to be felt longer in Mexico.

MIKE MAYO: And the last part of my question was, since quarter end, you see the COVID cases increase in Florida and Texas and see what's happening in California. Any change in assumptions in the last couple of weeks?

MIKE CORBAT: When you say functions, Mike, do you...

MIKE MAYO: Your assumption, sorry.

MIKE CORBAT: Oh, assumption. Assumptions, I'm sorry. Sure, yeah. Well, to me, right, if we want to characterize what's happening in this, in some cases as a resurgence or the second round of this, one is I would say that we've seen both societal and behaviors changing. I think what we've seen in the states where we've seen resurgence is in some ways a dichotomy of the population.

I think those that have reverted back to original protocols from the early stages of COVID and what needs to be done, and I think those that are, I think, being much more – for lack of a better term – free spirited or kind of moving forward with their lives. And I think you can see that in the spend rates that while these cases have had a resurgence, we've seen spend come back off in some of those places, but we haven't seen it necessarily go back to the lower levels of the darkest days of early COVID.

I think the second thing in there, and it's in all of the national health reports, is that the demographics have changed. We were actually seeing – and part of it can be attributed maybe to testing or more mass testing, but we're actually seeing the average age of the infected population coming down. Round one, it was in the 50 to 50-year plus range on average, and the last numbers I saw coming out had the most recent cases in these states actually in the mid-30s as an average, and so we're actually seeing a different demographic in there. And again, I think that has some impact in terms of the way people respond and what spend and what other things are.

And to Mark's earlier point, Mike, just finishing on this, I think that what we're seeing is that the extraordinary actions of the Fed and the Treasury leave, not just ours, but industry models, kind of wanting for more insight. But we've never seen this type of action, and whether it's the checks people receive, whether it's payroll protection, 500-plus billion dollars, whether it's the holiday in terms of income tax payments, but we're actually seeing a consumer in the US that actually kind of goes into this, and it's not all even, but in pretty good shape.

Savings rates are up. Obviously, spending levels are down. Mark talked about some of the delinquencies and some of the positive things that we're seeing there in terms of the buckets and the roll rates. It's early. But again, I think, as we look at a potential spike back up in some areas, obviously, over the weekend, stimulus round two came on the table. It seems to be bipartisan, and so it's likely we're going to get more from that. And so, again, I think those things give us – I won't say comfort, but give us, I think, a good view based on what we've been through in terms of the consumer, in particular, to be able to withstand some of these variations in contagion rates as we go forward.

MIKE MAYO: So a 10-second summary, your $28.5 billion of reserves, as we stand here at July 14, reflect all that – the 8% contraction in Mexico, some spending come off, some spike in cases and everything else that's out there now. It's not like the first quarter where you had all this new information. The $28.5 billion is your best estimate now for your future losses under CECL?

MIKE CORBAT: Yeah. And the one correction I would make to that, Mike, is it's not – again, we closed in, our view is as of the quarter-end, is as of June 30. But again, the models are very sensitive to unemployment, they're sensitive to GDP. And as we went through last quarter, as we were doing different flashes, those numbers moved around. So again, the models are sensitive to those inputs. And my guess is as those inputs continue to change, there'll be variation. But absolutely as of quarter-end, we are comfortable with where we set those and the reserving around that.

MIKE MAYO: Thank you.

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

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

MARK MASON: Good morning, Gerard.

MIKE CORBAT: Good morning, Gerard.

GERARD CASSIDY: Mark, you gave us good detail in the slides, as you pointed out on the commercial portfolio, the wholesale portfolio, and you showed us some of the migration trends from AAA to BBB, et cetera. Can you share with us what percentage of the corporate portfolio was reviewed and was downgraded? And second, how often do you now need to review the portfolio for potential future, either upgrades or downgrades in that portfolio?

MARK MASON: Yeah. So look, we are constantly reviewing the portfolio, and we've ramped that up – that timing up significantly as we've managed through this crisis. There are obviously – I'd start by saying kind of all companies, all sectors have been impacted by this. Obviously, there's some more significantly impacted than others. When I think about sectors that drove a good portion of the reserve build that we've seen is I think about aviation, I think about energy, I think about autos, commercial real estate to some extent, and retails – retailing. And that combination probably drove roughly half of the build that we saw. We did see significant downgrades through the quarter, and you heard me reference the non-investment-grade reserves sitting at 4.9% of the loan balances. And so, we are actively reviewing the portfolio, as you would imagine.

We're looking at both the 80% investment grade, the 20% non-investment grade of our balances, and we're adjusting that accordingly, and we'll continue to do that through the quarter, and continue to work through the entire book. Just to put it in perspective, there were probably a couple of thousand names that were involved in the driving of the downgrades. And so, they're meaningful names and meaningful review and assessment that we go through in the quarter.

GERARD CASSIDY: Very good. Thank you. And then as a follow-up, shifting over to the consumer side in the slides once again, you gave us the relief efforts that you're making with some of your customers for forbearance, I guess you could call it, in credit cards, mortgage, et cetera. It's a two-part question. Is there any way of you, Citigroup, finding out what percentage of those customers are unemployed, but receiving enhanced unemployment benefits so that the delinquencies across in your portfolios as well as your peers are quite low, and part of the reason possibly is due to these unemployment benefits being so beneficial to the people that are unemployed? Is there any way of carving out the higher-risk components of these forbearance areas where they could end up turning into charge-offs later in the year or next year?

MARK MASON: Yeah. Look, we're constantly, again, reviewing the portfolio. But in terms of specific unemployment information, that's something that we have available to us as we work with our customers and review their specific credit statistics. So, we don't have that.

We do have, as you know, the early signs of both customers who were – who took advantage of the forbearance globally, and them still paying. So, we've got – if you think about it globally, we have 40% to 60% of the customers that were – that are enrolled in the consumer relief programs continue to make payments, and they are contractually obligated to do so, almost 50% in Branded Cards and 40% in Retail, and again, high numbers around the globe. So, that is a good sign that people are benefiting from the program, and taking those benefits and applying them to their exposures. And the other important stat that I think is a good indicator, and probably gets a little bit closer to what you're trying to get a sense for is that the first-time enrollment volumes have come down significantly.

While we're offering reenrollment, the rates are running below expectation, and they're kind of in the mid-teens, so to speak, or right around there, and more than half of the total enrollments that have rolled off to-date, and over 80% of those remain current. And so, we're seeing good signs of those rolling off enrollment continuing to remain current, which we think is a positive indicator.

That said, we said it a couple of times on the call now, there's still some uncertainty – fair amount of uncertainty out there in terms of how this thing continues to evolve, but good leading indicators between purchase sales, between reenrollment levels, between continued payment both on and off the programs.

GERARD CASSIDY: Well, very good insights. I appreciate that, Mark. Thank you.

MARK MASON: Yeah.

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

JOHN MCDONALD: Thank you. Mark, was hoping you could drill down a little bit on the outlook for consumer revenues. You mentioned the outlook for continued pressure on the top line there. Just wondering, it sounded like maybe you're seeing some improvement in Asia. You're down 15% revenues in the quarter, but it sounded like maybe a little bit of improvement there. Latin America, I wasn't sure. So, maybe just a little bit of dimensioning what you see in the outlook for consumer revenues, international and domestic?

MARK MASON: Yes, sure. So look, I mean, I think that we're going to continue to see pressure on the consumer revenue line. And I think that, as you know, if we think – if you just kind of take them in pieces very quickly, in the US, our Branded Cards, our Retail Services, the unemployment stats are very important indicators for those businesses. You know what those stats are. We've seen – while we've seen improvement in purchase sales, they're still down in the 20s year-over-year. And so, we do expect that we will see continued pressure on the loan activity there, and so – and as a result, continued top line pressure on the consumer business domestically.

Similarly, when I look at Asia, for example, there, we have a large card business. We're focused on the wealth segment there. Again, purchase sales are still under pressure there. The nature of that activity in cards skews towards travel, and Mike commented on the prospect of travel recovering and what that looks like in the future. And so, we'd expect to see continued pressure in Asia. Similarly, there's pressure in the insurance business that's there in light of the face-to-face interaction that's involved, and in Mexico as well, just given the GDP deceleration.

So, I think consumer will continue to have some top line pressure. I think the underlying indicators there are still strong for us in terms of the deposit growth, in terms of the client engagement, in terms of the digital access and use of our offering. And so, we've got good indicators, including investment AUMs in Asia that show positive signs as we come out of this. But as we're managing through it, we're going to have top line pressure there.

JOHN MCDONALD: In Latin America, just to finish that up?

MARK MASON: Yeah. So, in Latin America, in Mexico, specifically, as Mike suggested, we're seeing continued pressure from a GDP point of view. They are later in the cycle in terms of addressing or managing through this COVID-19 situation. There's likely to be some continued pressure on employment there. And so, I think there's going to be top line pressure in Latin America consumer, Mexico in particular, as we go through this as well. That said, I feel good about where we're positioned. We kind of started to dial back lending activity a little bit in some of the prior quarters. I think we're well-positioned from a reserve point of view. And I think we're positioned for when Mexico recovers from this to continue to kind of gain ground there given some of the investments we've made in the prior years.

JOHN MCDONALD: Got it. Thank you.

MARK MASON: Yeah.

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

BRIAN KLEINHANZL: Great. Thanks. Maybe just a quick question for Mike. I know there've been a lot of changes in Hong Kong, still a big piece of your portfolio. And with the operations over there, is there any change in how you're thinking about the business there and how you think about that on a go-forward basis to start?

MIKE CORBAT: Yeah, Brian, I would say, one, is that, I think as we look at the region, you can't just look at Hong Kong. I think you've got to take a bit of a broader view. And the word I would use is that, it's complex, right? We've got the combination of a sideline trade deal with China. You've got the interaction between China and Hong Kong. You've got the recent announcement or creation of this new national security law, which is, I think, fairly specific in terms of calling out financial support in terms of China against its sovereignty with significant penalties around that. And so, I think we've got to be mindful of all those.

From our perspective, we've been in Hong Kong a long time. It's an important place. It's our Asian hub as we operate in a number of countries there. And I would say a couple of important things to that: one is we do obey local laws; second is that our goal really is to be there to support our clients, and that we're fairly used to operating in charge to complex environments. And as part of that, I think we have found both the Hong Kong government, and the HKMA and others very supportive of our business and our approach. And at the same time, we have, I think received the same support from China, and haven't, in any way, kind of received restrictions or other things from them. So obviously, it's something we pay close attention to. It's important to us. But obviously, we're committed to being there, and obviously are monitoring things closely.

BRIAN KLEINHANZL: Yeah. And a separate question. Mark, you mentioned that in the Retail Services that there was some pressure from partner payments. So, are those higher partner payments fully in the run rate now or should we expect those to kind of increase on a go-forward basis? And what were those exactly? Thanks.

MARK MASON: Sure. So, as you know, we've got a number of partners that make up our Retail Services partner business, and many of these arrangements call for sharing of profitability, so contractual profitability sharing between us and the partners. And we will determine that based on our outlook in any given quarter for the balance of the year. And so – and we make an estimate for what we think profitability will look like, and then we obviously account for the share that goes to the partner in the revenue line. That profitability estimate excludes ACLs, so the reserves that we've been building. It does include any NCLs that we realize. And so, important to note that, again, when we're calculating that the lifetime reserves that we're building, despite the fact that we will share them when they become losses, that's excluded from the profitability estimate.

And so essentially, what's happened and what's caused part of the drag in Retail Services is that we've seen the losses that we expect from Retail Services push out beyond kind of 2020. As I mentioned earlier, we see good signs in some of the early buckets. And as such, our view as to when those losses will actually come through as NCLs has been pushed out into 2020. 2021 – sorry, 2021. As a result, the 2020 view on profitability for some of these partners has gone up. And therefore, the amount of sharing has increased, thus putting pressure on the top line.

To answer the other part of your question, so we believe at this stage, based on our view for the balance of the year that we've accounted for the level of profit sharing that we would expect. But as things evolve, we will need to adjust accordingly.

BRIAN KLEINHANZL: Great. Thanks.

MARK MASON: Yeah.

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

SAUL MARTINEZ: Hey. Good morning, and thank you for taking my question. So, Mark, I want to go back to CECL and get your perspective on the stickiness of CECL reserves as these charge-offs start to happen, and I guess, the willingness to release reserves because I think we've all been focused on reserve builds, when do we see the peak in reserves, and less focus on what happens in the cadence and pace of releasing reserves and declines in the reserves as the actual losses start to occur.

And I mean, as you know, CECL kind of works backwards. Every given quarter, you need to – you estimate what your lifetime losses are in your portfolio, your charge-offs, and kind of back into a plug with loan loss provision. So, I'm curious, given all the uncertainty that we are – we still have, and will likely continue to see whether as you start to see charge-offs start to materialize in whenever, the fourth quarter or the beginning part of next year in a more material way, whether there is sort of a bias to maybe maintain reserve levels at fairly high levels and not necessarily release reserves because even if we're not – even if reserve releases aren't happening or we're not building reserves as charge-offs happen, that could imply that provision in credit costs remain pretty high for a while.

So, I'm curious whether you think there will be sort of a hesitancy or a natural inclination to kind of wait it out and have a little bit more stickiness in the reserve levels until we get more clarity on all of the things going on in the world.

MARK MASON: I think it largely depends on our outlook at that point in time in that given quarter. I mean there's just no – there's no other way for me to kind of explain it. When we get into the – we're in the third quarter now. As we go through the third quarter and the fourth quarter, we will have a view, a forward-looking view.

And if that forward-looking view is still meaningfully uncertain to worse than it was in the second quarter, then we will likely continue to have to adjust reserves accordingly. If that forward-looking view is better, we can – or the same for that matter, it will support the release activity that you're alluding to. And that's the way I think about it. And I think that's how it's probably going to work.

SAUL MARTINEZ: Okay. Got it. And I guess maybe just getting more granular even in that. I guess if there's – if your baseline economic yield, I know you only use one scenario, your baseline hasn't changed or even gotten – maybe getting a little bit better, but you still have a high degree of uncertainty and potential in the range of the outcomes, some of which are far worse. I would assume that your qualitative adjustments will factor that in, in some way, shape or form, is that and that's reflecting. Okay.

MARK MASON: That's right, right? So, I mean the way we think about the qualitative piece now is we'd cover kind of a 15% probability that the recovery is worse or slower, right? And that has an impact or an implied higher unemployment, et cetera. And so, if we view things as getting better, we would cobble that probability, so to speak, to adjust the way we think about the management adjustment that should be there.

SAUL MARTINEZ: Got it. Okay. Awesome. Thanks so much**.**

MARK MASON: Yeah.

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

KEN USDIN: Thanks. Good morning. First question, just on expenses. Mark, you've done a very nice job this year keeping the level flat in that $10.4 billion, $10.5 billion zone. Through the first half, you got $3 billion more revenue and flat expenses. And I heard your point earlier that you expect to keep it flattish from here. Given that we'll see a likely decline in second half revenues from here, though, can you talk about just what optionality you do have to adjust the cost base lower, given your point about supporting employees, investing in technology, and then the pushes and pulls of compensation, staff levels, et cetera? Thanks.

MARK MASON: Sure. Thank you. So, I guess a couple of things. One is, as I mentioned in my prepared remarks that I do expect that we will maintain our full-year expenses roughly flattish, and that's what we're kind of managing to. And part of that against revenues that are flat to slightly down, and if you think about what we're managing through in the midst of this crisis, we've got a lot of puts and takes. So, we've got some headwinds that kind of fall into a bunch of different categories, including the things we do to support our employees, including building out our collection capabilities, including enhancing our fraud detection capabilities, all of which I think are important to ensuring that we're managing through this crisis in a thoughtful and responsible way. Sanitization of buildings, ensuring that people have remote access and the equipment to support that. All of those things come with cost, cost that we were not planning for in the year.

There are obviously some tailwinds. So, we've got marketing expenses that you heard me mention, we've dialed back. We've got T&E expenses because people are doing more Zoom than they are traveling to meet with clients. And so, you've got some tailwinds there that offset that. But net-net, when you think about those expenses, they're headwinds for us. We also have investments that we will continue to make; investments in technology; investments in enhancing our digital capabilities, which have proven to be quite valuable as we manage through this crisis. Investment in infrastructure and controls that ensure that we not only protect the franchise, but we're improving our efficiency in operations, and improving the quality of our data, et cetera, et cetera.

And then we've got productivity initiatives and the other levers that pull or that we do pull quite naturally with revenues. And so, the compensation expenses, obviously, will adjust accordingly. The transaction expenses will adjust with how we see volumes move, and we'll continue to deliver on our productivity savings in the way of right placement and reducing our number of centers and the like. And so, yes, there're levers, but there're also meaningful headwinds, and that's kind of how I get to that outlook of roughly flattish as we manage through this particular year?

KEN USDIN: Got it. Thank you. My second question just on capital. This year, you've been bound a little bit more on CET1 by the advanced approaches, with advanced RWAs a little bit higher than standardized. It's only about 20 basis points, but as we get into the SCB construct, can you do anything to optimize the advanced RWAs vis-à-vis the standardized approach, and how much of a focus will that be?

MARK MASON: Yeah. Look, I mean, we're part of – a big part of kind of what's driving the advanced – the downgrades that are associated with the crisis that we're managing through. And so that is a factor that's likely to persist for a while, and we're actively managing and optimizing the balance sheet to identify ways to impact or reduce that risk- weighted assets or – and aid in the calculation here of the CET1, and – but that is the headwind that we've got to manage.

Now what I'd point out is that the regulatory minimum for CET1 in both standardized and advanced is running at about 10%. And so, we sit on an advanced basis at a ratio, as Mike and I have said at 11.5%. So, we're still 150 basis points above that regulatory minimum, which we think gives us room to manage through this period of uncertainty, and a range of different outcomes. It also gives us room if you think about some of the additional stress analysis that's in front of us in the industry. So, yes, advanced. Yes, a byproduct of the crisis we're in. Yes, we're constantly looking to manage it effectively where that makes sense, and where we can continue to serve our clients in a way that is right for the franchise.

KEN USDIN: Yeah. Got it. Thanks for that color, Mark, appreciate it.

MARK MASON: Yeah.

OPERATOR: Your next question is from the line of Jim Mitchell with Seaport Global.

JIM MITCHELL: Hey. Good morning. Mark, maybe just can you help us unpack a little bit how we think about the trajectory of NII? What – how do you– flight to safety deposits have been stickier than I would have thought, still seeing growth in deposits. What are your assumptions, I guess, around balance sheet growth and NIM? Where do you see kind of NIM bottoming out? Those kind of things would be, I think, helpful in just understanding your assumptions versus ours?

MARK MASON: Yeah. So look, we – I kind of mentioned in my opening remarks that we obviously saw a NIM decline some 31 basis points quarter-over-quarter. And that's a combination again of lower rates, the loan mix shift that we've seen, so lower NIM cards and higher ICG in terms of that mix and the balance sheet expansion, which is really a reflection of the strong growth in deposits and the solid liquidity position that we have. And so, when I think about that dynamic, we are likely to continue to see, as I mentioned, pressure on our cards lending activity around the globe. We're likely to kind of continue to see rates kind of impact some of our banking businesses, businesses like TTS and the like. And as a result, I think that we'll continue to see some pressure on the NIM line in the outer quarters. But again, I'd point you back to the total revenue forecasts that are given because, obviously, there are other components here, and that getting back to flattish to slightly down.

JIM MITCHELL: No. I mean that's all fair. I just was curious if you're assuming a flattish balance sheet or further growth. Obviously, I've heard your comments on some of the pressures, just trying to figure out what your base case assumption is for the balance sheet?

MARK MASON: Yeah. In the balance sheet, we'll see – there'll likely be some growth in the balance sheet, but that will be driven by the client demand that we see out there and our ability to meet that, but we will likely see some continued growth in the balance sheet from a GAAP asset point of view.

JIM MITCHELL: Okay. And just as a follow-up on capital. I mean, what is your – Mike, do you think you need to see, getting back to your earlier comments, need to see a vaccine before the banks can sort of confidently return to buybacks? Or do you think just – you just need to have a little more stable macro data? How do you think about returning to buybacks given your capital position? Obviously, you can't do it in the third quarter, but beyond that.

MIKE CORBAT: Yeah. I think it's based on, as we look and project forward, what we see from an economic perspective and obviously, what's going on in the economy, both consumer and institutional, and how we're projecting loss and loss rates going forward. And do we feel comfortable about the trajectory of the pandemic, and using my timeline, do we feel like we're somewhere in that stabilization moving to normalization, right?

So, I think in here, there's the fear that as we get into colder weather, maybe that's now been debunked with Florida and Texas and others. But in the fall, maybe we start to see a resurgence in some of these things spike up. I think, we'd like to see this roll over and have some comfort that we've got the ability to keep it down and that, again, we see a better sense. I'm not sure what the new normal is, but we see a better sense of normalcy, whatever that is, returning to the global economy.

JIM MITCHELL: All right. That's fair. Thanks.

OPERATOR: Your next question is from the line of Charles Peabody with Portales.

CHARLES PEABODY: Yes. Good morning.

MARK MASON: Good morning.

CHARLES PEABODY: Couple of questions regarding your capital – your tax position and how it affects your capital. First, in the stress test, I believe the CARES Act provided some capital relief around your tax position. I was wondering if that was true, and if you could size that?

And secondly, going forward, if tax rates are raised, as Biden suggests, how much would that enhance your CET1 ratio?

And then finally, I think Jamie Dimon this morning implied that he would love to restart buybacks sometime in the fourth quarter after the election. I'm just curious if you saw buybacks as a regulatory issue or a political issue. Thank you.

MARK MASON: Okay. In terms of the CARES Act, there is a benefit associated with that. I don't think that it is significant in our case to the CET1 ratio, but I don't have that specific number in front of me.

In terms of the tax rate and the prospect of the rollback of taxes, that will come with many, many puts and takes, including the impact to the DTA and other things that we have across the firm. And so, I apologize, I don't have the exact math on that, but we can certainly kind of circle back to you...

CHARLES PEABODY: But you would have to write up your NOLs by billions of dollars. Is that correct?

MARK MASON: We would have to make a number of adjustments such as that that would add to capital.

CHARLES PEABODY: Okay.

MIKE CORBAT: But Mark, I would – go ahead.

MARK MASON: Go ahead, Mike. No, go ahead

MIKE CORBAT: I was going to say, Charles, the other piece that you've seen in our tax rate is, given the breadth of our business, we haven't necessarily enjoyed the benefit that the more fully US-centric institutions have had. And so again, ours would be the blend of US versus international. And in that tax rate going up again, I don't think we would go back to a global taxation system. We would stay a territorial system, which again, vis-à-vis some US counterparties could, on a relative basis, would probably be to our benefit.

And I think to your final point, I view when the US industry made the decision to go ahead and to stop buybacks. It was not political. It was done, we thought, from a prudence perspective of the right thing, not knowing what to expect going into this. I don't view this today as being political. I view it as – and as the fed has said, it will ultimately be our choice to come back and to reinstate buybacks at the right time. And again, as we said in the previous questions, we'll be monitoring that. And when the time is right, we'll be back in there filing to re-begin or to begin the buybacks.

CHARLES PEABODY: All right. Thank you.

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

BETSY GRASECK: Hi. Good morning.

MARK MASON: Good morning.

MIKE CORBAT: Hey, Betsy.

BETSY GRASECK: Two quick questions. One on Mexico, I know a couple of years back you invested something around $1 billion in the infrastructure there. And I'm wondering is that investment finished, completed? And is it now in the run rate? Or does that represent a level of funding that could then come out and pay for other things? Is it an efficiency opportunity is basically the question.

MARK MASON: So, yes, we did announce an investment a number of years ago. We are largely through that. I think we got to somewhere – probably 80% or somewhere through having deployed that investment. What is left does serve as a lever for us that we consider as we take on these decisions. And just keep in mind, those investments were made in building out, enhancing our technology and branches and digital capabilities and the like. And so, I think they've certainly been beneficial, but we are largely through that, and what's left is available to us to toggle as we need to here.

BETSY GRASECK: Okay. And then as I flip to the US, could you give us an update on where you are with the efforts to drive deposit growth in the US? I mean, I obviously see that deposit growth was up, not only in the US but in international in the quarter, but I'm really kind of honing in here on the consumer side. And you'd had the announcement around some partnerships with American Airlines and with Google, and so I'd just like to understand where you are in that strategy, and do you think that there's anything that you can do to drive up the consumer deposit growth in the back half of this year and into next?

MARK MASON: Yeah. So, we've had very good consumer deposit growth through the quarter. I think that we benefited from the investments that we've made in our digital capabilities, as you've seen the digital deposit sales grow meaningfully as high as $12 billion as we ended the quarter. And we continue to see those benefits play out both in our market and outside of our markets, which, as you know, has been part of our strategy to ensure that we're leveraging the breadth of our customer base in cards that has a broader presence in the US than we do in terms of a Retail Banking footprint. And so, we continue to see those benefits of the strategy play out. Some of that is fueled by some of the things that I've mentioned earlier in terms of the stimulus that's out there and the delay in terms of tax payments. But nonetheless, we've been able to capture upside from both new and existing clients, and we expect to continue to do that through the balance of the year.

I'd also highlight – I know your question was around consumer specifically, but I would also highlight that we're also seeing very good continued traction on the institutional side in our TTS franchise. And that growth in many ways is as we've seen and worked very closely with our corporate clients to shore up their liquidity positions. Whether it was early on where they were drawing on lines or in the quarter where we partnered with those same clients to access the capital markets, we've been kind of that partner of choice, that flight to quality on both the consumer side in the US and internationally as well as the institutional side.

BETSY GRASECK: Yeah. No, I figured that institutional was extremely strong. I was just wondering, out of that is there more room for the consumer to accelerate and kind of move it forward from here?

MARK MASON: Yeah. And on the consumer, you've seen it in both the US, you've seen it in Mexico, you've seen it in Asia. We've had strong consumer growth across all of the regions, but we are pleased with the growth that we're seeing here.

Mike, did you want to add something?

MIKE CORBAT: Yes. I would just say the other piece, Betsy, is that, I think, very consistent with what we've spoken about in the past of that $12 billion that Mark mentioned, two-thirds, which again is a pretty stable number for us is coming from outside our branch footprint, which we obviously pay – we pay close attention to given our branch model.

BETSY GRASECK: Two-thirds of the growth in consumer is coming from outside of branch footprint?

MIKE CORBAT: Two-thirds of the digital growth is coming from outside the branch footprint.

BETSY GRASECK: Got it. That's great. Thank you.

MIKE CORBAT: Thanks.

MARK MASON: Thanks.

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

MIKE MAYO: Hi. Thanks for letting me have my follow-up questions. So, just to be clear, so you are not guiding for positive operating leverage this year, Mark. Because earlier, you said, expense is flat to down, and then you said flat. And it sounds like you're – I know there's a lot of COVID costs that make this a difficult year, but – so no positive operating leverage this year?.

MARK MASON: Yeah. I'd repeat what I said earlier, which is revenues kind of slightly down and expenses, flattish, right.

MIKE MAYO: Okay. I guess – and as far as the equities business, you guys didn't participate as much as others. And help me with this logic. I mean, you had the corporate drawdowns in March. That was replaced with the fixed income markets. And now maybe we have a re-equification with more equity activities, and then one of your competitors showed a lot of pickup in equities. You talk about a normalization in capital markets. Do you expect the equities to improve? Do you recognize the underperformance? Is it a timing thing? How do you think about that?

MIKE CORBAT: Sure. I would say one is let's kind of break the business into a few different buckets. So one, I would say that our cash trading performance was good. It was strong. And I would say that, again, it's early to see, but we did not do as well in either of Prime or Delta One – Prime Finance, Delta One, derivatives.

From an equification perspective, if you actually look into our capital markets numbers, you see a very strong number in ECM, that our ECM business was up 56% on a year-over-year basis. So, in terms of the capital raising aspects of it, we were quite active in most of the headline deals that were done. And so again, cash trading, okay. We'll see where things come out, but not as good performance in Derivatives, Delta One, Prime Finance and a strong performance in terms of ECM.

MIKE MAYO: And then just a summary question. Through the course of this call, your stock price went down. You're underperforming the BTX. It's just one day. I know stocks don't read too much into that. But there is I think a feeling that I'm getting that either you're being more maybe realistic, pragmatic about the realities of the world out there, and that goes back to your mention about the vaccine.

You're seeing something specific to your franchise that gives you more caution or maybe me and others are just interpreting your comments too negatively. And I just say that because when you talk about the revenues, the NIM was down 31 basis points. It still goes lower. You talked about the consumer being under pressure, less partner payments in Retail Services, ICG normalizes ahead, TTS gets hurt by lower rates. You don't have positive operating leverage and expenses, the loan losses. You have Mexico with COVID. And we're only somewhere between containment and stabilization, and no buybacks for some time to come.

So, those are all…That's a summary of some of the negatives that you had from this call. So maybe that was unintentional or maybe that was intentional. So, this is kind of a last chance to either put some positives on the other side, like with digital banking or deposit growth or things like that or to say, you know what, I'm actually in the camp where this is going be a long road, and maybe you differ from the rest of the world?

MIKE CORBAT: Well, I would start out, Mike, and say that it is not our intention to be negative. I think we're all in this together. And I would certainly say that the unknowns outweigh the knowns. And if somebody has the crystal ball, I would love to see it.

But I think what we are seeing and what we've described coming through four very challenging months as the first half of 2020, with revenues up 8%, expenses flat, our ability to absorb significant reserve builds under the new format of CECL, broad scale or wide-ranging engagement from our clients, I think you will continue to see in the numbers as they settle that we continue to take market share.

We've continued to build capital. We've continued to build liquidity, and feel very good about where we are and how we're going into the second half of the year. The unknowns are the unknowns. We don't know. And that in there, we're seeing resurgences in places where cases had been down, and they've come back up, and the US is uneven and the approaches, and the rest of the world have been uneven.

And so again, I would say, we go in, feeling very well-positioned against this. But we don't want people leaving the call simply thinking that the world is a great place, and it is a V-shaped recovery. It's our view that we will see V, we will see U, we will see W. And as an institution, we need to be prepared to deal with all of it. And I think you've seen across our businesses, while in certain areas revenues have been under pressure, that we've managed through this very well so far. And I'm really proud of the team in terms of what they've done. But again, I don't think anybody should leave any bank earnings call this quarter simply feeling like the worst is absolutely behind us, and it's a rosy path ahead. So, feel good about where we are. The environment is unknown. I think the actions we've taken so far have been spot on, and I think we're well-positioned for what the future brings.

MIKE MAYO: Yeah. All right. Thank you.

OPERATOR: This concludes today's second quarter 2020 earnings review. Thank you for your participation. You may now disconnect.

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