TRANSCRIPT

Citi First Quarter 2015 Earnings Review
Thursday, April 16, 2015

Host
Susan Kendall, Head of Investor Relations

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

PRESENTATION

OPERATOR: Hello, and welcome to Citi's First Quarter 2015 Earnings Review with Chief Executive Officer, Mike Corbat, and Chief Financial Officer, John Gerspach. Today's call will be hosted by Susan Kendall, Head of Citi Investor Relations.

We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. Also as a reminder, this conference is being recorded today. If you have any objections please disconnect at this time.

Ms. Kendall, you may begin.

SUSAN KENDALL: Thank you, Brent. Good morning, and thank you all for joining us. On our call today, our CEO, Mike Corbat, will speak first. Then John Gerspach, our CFO, will take you through the earnings presentation, which is available for download on our website, Citigroup.com. Afterwards we'll be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on Management's current expectations and are subject to uncertainty and changes in circumstances. Actual results in capital and other financial 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 2014 Form 10-K.

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

MIKE CORBAT: Susan, thank you. Good morning, everyone.

Earlier today, we reported earnings of $4.8 billion for the first quarter of 2015 or $1.52 per share, excluding the impact of CVA and DVA. It was a strong quarter overall and we accomplished a great deal by executing against our top strategic priorities. We tightly managed our expenses, helping to achieve positive operating leverage in Citicorp, and we're on track to hit our financial targets for the year.

Citi Holdings was profitable again, earning $149 million. We also announced the sales of the largest business remaining in Holdings, OneMain, as well as our credit cards business in Japan and our consumer business in Nicaragua. We have now signed deals to divest over $30 billion of the remaining assets in Citi Holdings, which were already reduced 19% over the last four quarters.

After utilizing $3.3 billion of our deferred tax asset during 2014, we utilized another $1.2 billion of DTA during the first quarter. This helped Citi generate $5.3 billion in regulatory capital during the quarter, helping increase our common equity Tier 1 ratio to 11% on a fully implemented Basel III basis and increase our supplementary leverage ratio to 6.4%.

The Fed did not object to our capital plan, so we can now begin a meaningful capital return to our shareholders. This reflects the improvements we made in our capital planning process as we build a safer and stronger institution.

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We continued the transformation of our credit cards business, setting us up for growth in the U.S. with the Costco announcement and solidifying an important global relationship with MasterCard. We've simplified our products, improved our technology, brought in new talent, and have built a solid foundation to invest in.

While some businesses, such as markets and international consumer, faced revenue headwinds, we had solid overall performance from our core businesses during the quarter. We grew loans and deposits in our core businesses and gained wallet share among our target clients. In ICG, our banking business had a very good quarter, led by investment banking and the private bank, and treasury and trade solutions revenues were up as well in constant dollars.

In markets, as we previously disclosed, we saw a slow start to the year in parts of fixed income, including credit, but our rates and currencies franchise continued to see strong client activity and equities was roughly flat to last year. Our U.S. consumer business posted good performance, driven by growth in retail banking. In international consumer, revenues were flat, but loans, deposits and purchase sales all continued to grow and some of the headwinds in that business should abate as we go through the year.

While I'm pleased with our first quarter accomplishments, the environment, both macroeconomically and legally, remains very challenging. Interest rates remain low, economic growth is uneven, and market sentiment lacks conviction. That highlights the need for us to continue simplifying our Company by focusing on our target clients and markets, while driving our finite resources to where they can generate the best risk-adjusted returns.

Regarding our capital planning, we're committed to building on our progress to ensure we have a sustainable process that satisfies the expectations we place on our institution, a bank with unique global reach. We recognize the need to keep strengthening the CCAR process and are continuing to invest in our compliance and regulatory functions. Overall, we expect to reach a headcount of 30,000 people in these functions by year-end and as an example, we're very focused on resolution planning and have 600 people dedicated to it.

We're maintaining discipline across our Company, whether it pertains to our balance sheet, risk management, and expenses in light of the environment. I believe we have the right people in the right jobs to meet these challenges and our targets. As you may know, Stephen Bird will succeed Manuel Medina-Mora as Head of Global Consumer Bank, Francisco Aristeguieta will follow him as CEO of Asia, and Jane Fraser will replace him as CEO of Latin America, including Mexico.

Between them, these three Citi veterans have been in our Company for nearly 50 years and reflect our deep bench talent. I also want to acknowledge the contributions of Brian Leach who is retiring from Citi at the end of the month. He's worked practically nonstop for the firm over the past nine years and I know we would not be where we are today without him.

John will now go through the deck and then we'd be happy to take your questions. John?

JOHN GERSPACH: Thank you, Mike, and good morning, everyone.

Starting on slide 3, I'd like to highlight a couple of items; CVA/DVA and a prior period tax charge that affect the comparability of our results to last year. Excluding these items, we earned $1.52 per share in the recent quarter compared to $1.30 in the first quarter of 2014.

On slide 4, we show total Citigroup results. In the first quarter, we earned $4.8 billion, generating a return on assets of 105 basis points and a return on tangible common equity of 11%. Net income grew by over $660 million year-over-year, with about one-third coming from our core improvement in Citicorp and two-thirds attributable to lower legal and related expenses in Citi Holdings. Revenues declined on a reported basis to $19.8 billion, but increased slightly year-over-year in constant dollars, driven by modest growth in

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Citicorp. Expenses declined 10% year-over-year, mostly reflecting the lower legal and repositioning charges, as well as a benefit from FX translation. And net credit losses improved, offset by a lower net loan loss reserve release.

In constant dollars, Citigroup end of period loans declined 3% year-over-year to $621 billion, as growth in Citicorp was more than offset by the continued wind down of Citi Holdings. Deposits also decreased 3%, driven by Citi Holdings, including the reclassification of $21 billion of Japan retail deposits to held-for-sale in the fourth quarter of last year.

On slide 5, we provide more detail on first quarter revenues in constant dollars. Citicorp revenues were up 2% year-over-year, driven by North America retail banking and continued strength in our institutional banking franchise, partially offset by lower markets revenues. This growth in Citicorp was partially offset by lower revenues in Citi Holdings, mostly reflecting continued asset reductions.

On slide 6, we show more detail on expenses. In total, Citigroup expenses declined 6% year-over-year in constant dollars, driven by a significant decline in legal and related costs in Citi Holdings. Citicorp expenses grew 1% year-over-year as growth-related expenses and higher regulatory and compliance costs were partially offset by efficiency savings.

On slide 7, we show the split between Citicorp and Citi Holdings. Citicorp net income grew 5% year-over-year in the first quarter. As I just described, we generated positive operating leverage in Citicorp with 2% growth in revenues and 1% growth in expense in constant dollars. And we achieved an operating efficiency ratio of 54%.

Turning to Citi Holdings, we were profitable again this quarter with nearly $150 million in net income compared to a loss of roughly $290 million last year, driven mostly by the lower legal and related expenses. Citi Holdings ended the quarter with $122 billion of assets or 7% of total Citigroup assets.

On slide 8, we show results for international consumer banking in constant dollars. Revenues were roughly flat year-over-year in the first quarter, reflecting modest volume growth offset by spread compression, ongoing regulatory headwinds in certain markets, and the impact of prior period asset sales.

In Latin America, we grew revenues in Mexico on higher loan and deposit balances, as well as a rebound in card purchase sales. However, this growth was offset by the impact of prior period divestitures in other markets. And, in Asia, we saw modest growth in our retail banking franchise and wealth management revenues were stable year-over-year. However, card revenues declined as higher volumes were more than offset by lower spreads.

In total, average loans grew 3% from last year. Card purchase sales grew 7% and average deposits grew 5%. Operating expenses grew 2% as the impact of volume growth and higher regulatory and compliance costs were mostly offset by ongoing efficiency savings, and credit costs declined from last year, driven by a modest net reserve release.

Slide 9 shows the results for North America consumer banking. Net income grew 12% year-over-year on higher revenues, lower operating expenses, and a continued decline in net credit losses, partially offset by a lower net reserve release and the impact of a tax benefit in the prior-year period. Pretax earnings grew 21% from last year.

Total revenues were up 4%. Retail banking revenues of $1.3 billion grew 18% from last year, reflecting continued loan and deposit growth, higher mortgage origination activity, and improved deposit spreads.

This quarter's results included a gain of roughly $110 million on the sale of our Texas branches as compared to a gain of $70 million last year on a sale leaseback transaction. Branded cards revenues of

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$2 billion were down slightly from last year as growth in purchase sales and improved spreads were more than offset by the impact of lower average loans, mostly driven by the runoff of promotional rate balances and higher payment rates.

Retail service revenues grew slightly from last year on higher average loans and improved spreads, partially offset by higher contractual partner payments. Total expenses declined 6%, driven by ongoing efficiency savings, as well as lower legal and repositioning costs.

We continued to resize our North America retail banking business in the first quarter, while also growing our average deposits, loans, and assets under management. Since the beginning of 2014, we have sold or closed nearly 200 branches in North America.

We are focused on deepening relationships with our target clients in urban areas. Today, roughly 90% of our footprint is concentrated around seven key markets. While average deposits grew 1% year-over-year in the first quarter, checking account balances grew 10% and assets under management grew 7%. Today, our average deposit balance per branch is roughly $218 million, up over 20% from a year ago.

Slide 10 shows our global consumer credit trends in more detail. Overall, credit remained favorable in the first quarter. In North America and Asia, trends remained stable to improving and in Latin America, the NCL rate increased somewhat from last quarter on a normalized basis; however, the delinquency rate continued to improve, which we expect to result in lower NCL rates later in the year.

Slide 11 shows the expense trends for Global Consumer Banking. Over the last 12 months, our consumer efficiency ratio was 55%, including over 200 basis points attributable to legal and repositioning charges. In the first quarter, these charges were minimal and the total efficiency ratio for Global Consumer Banking was 52.6%, down from nearly 55% in the first quarter of last year. We currently expect to improve the total consumer efficiency ratio to 52% or below for the full year 2015.

Turning now to the Institutional Clients Group on slide 12, revenues of $9.1 billion in the first quarter were down slightly from last year and up 27% sequentially. Total banking revenues of $4.2 billion grew 4% from last year and 3% from the prior quarter. Treasury and trade solution revenues of $1.9 billion were down 2% versus prior period on a reported basis. In constant dollars, TTS revenues grew 4% from last year as growth in deposit balances and spreads more than offset a decline in trade revenues.

Investment banking revenues of $1.2 billion were up 14% from last year and 12% sequentially, driven by strong M&A and debt underwriting activity, partially offset by lower equity underwriting revenues. Private bank revenues of $708 million grew 6% year-over-year, driven by higher client volumes and growth in capital markets products, and corporate lending revenues were $445 million, up 7% from last year, on higher average loans and improved fair value marks.

Total markets and securities services revenues of $4.8 billion declined 6% year-over-year and grew 62% sequentially. Fixed income revenues of $3.5 billion were down 11% from last year, primarily driven by spread products, partially offset by growth in rates and currencies.

As we previously disclosed, we saw a slow start in spread products this year as compared to a strong first quarter last year, with lower activity levels across distressed credit, non-investment grade CLOs, and municipals. We did see strong client activity in investment grade credit; however, these flows tend to come at lower spreads.

Turning to rates and currencies, client flows were very strong this quarter in both G10 and local markets, driven in part by central bank actions and a pickup in FX volatility. Excluding the modest loss we incurred on the Swiss franc revaluation, rates and currencies revenues would have improved by greater than 20% from last year.

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Equities revenues of $873 million declined 1% year-over-year as growth in prime finance was offset by lower cash equity revenues. Sequentially, revenues grew 86% on seasonally higher activity and improved trading performance in EMEA. In securities services, revenues were up 12% year-over-year and 7% sequentially, reflecting increased activity and higher client balances.

Total operating expenses of $4.6 billion declined 5%, driven by FX translation, lower legal and repositioning expenses, and ongoing efficiency savings, partially offset by higher regulatory and compliance costs.

On slide 13, we show expense and efficiency trends for the institutional business. Over the last 12 months, our efficiency ratio was 57%, including roughly 140 basis points attributable to legal and repositioning charges, and our comp ratio was 28%. We currently expect to achieve a total ICG efficiency ratio closer to the midpoint of the 53% to 57% target range for the full year 2015.

Slide 14 shows the results for Corporate/Other. Revenues were down slightly year-over-year, while total operating expenses increased, driven by higher legal and repositioning charges. On a sequential basis, revenues improved, driven by hedging activities, as well as the absence of losses from the sale of available-for-sale securities. Expenses were down as more regulatory and compliance costs were absorbed directly by the businesses.

Slide 15 shows Citi Holdings assets, which totaled $122 billion at quarter end, including $31 billion of assets which had been reported in Citicorp until this quarter. Over the past few months, we've made great progress in divesting these and other assets in Citi Holdings, including the announced sales of our consumers businesses in Japan, Peru, and Nicaragua, as well as OneMain Financial. We expect these sales to close this year, totaling roughly $32 billion of assets and we have several other active sales processes underway.

On slide 16, we show Citi Holdings financial results for the quarter. A significant reduction in legal and related expenses drove most of the earnings improvement year-over-year. Total revenues of $1.8 billion were down 7%, while core operating expenses fell by 13%, reflecting the continued wind down of the portfolio, and credit costs improved as lower net credit losses were partially offset by lower net reserve release.

On slide 17, we show Citigroup's net interest revenue and margin trends. The bars represent net interest revenue per day for each quarter in constant dollars, showing a consistent growth trend year-over-year, even as the contribution from Citi Holdings has begun to shrink.

Our net interest margin remained flat sequentially at 292 basis points in the first quarter and was up slightly from a year ago on improved funding costs. In the second quarter, we expect our net interest margin to decline, perhaps by 2 to 3 basis points, similar to the trend we've seen in prior years.

Looking to the second half of the year, our results will depend in part on the timing of divestitures, including OneMain and our Japanese retail business. We estimate that, without these businesses, on a combined basis, our net interest margin would be lower by roughly 7 to 8 basis points before using any part of the associated gains to redeem high cost debt.

On slide 18, we show our key capital metrics on a fully implemented Basel III basis. During the quarter, our CET1 capital ratio improved to 11%, driven by retained earnings and approximately $1.2 billion of DTA utilization.

Our supplementary leverage ratio improved to 6.4% and our tangible book value grew to $57.66 per share. In summary, we delivered solid results in the first quarter with modest revenue growth and positive operating leverage in Citicorp, significantly lower legal and repositioning expenses, and continued favorable credit trends. We continued to wind down Citi Holdings in an economically rational manner,

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including several announced divestitures that we expect to close by year-end. We also strengthened our capital position, ending the quarter with a CET1 ratio of 11% and a supplementary leverage ratio of 6.4%.

On a full year basis, we remain committed to delivering our financial targets, including a Citicorp efficiency ratio in the mid-50s and a Citigroup return on assets of at least 90 basis points. In Citicorp, we continue to expect modest revenue growth in 2015.

In consumer, we saw healthy growth in North America retail banking this quarter as volumes continued to grow and deposit spreads improved; however, international consumer revenues were flat year-over-year. This trend should improve somewhat as we progress through the year, driven by continued volume growth as we expect the pace of regulatory change and spread headwinds to abate in certain markets.

Turning to our institutional franchise, we saw good momentum this quarter across corporate lending, investment banking, treasury and trade solutions, securities services, and the private bank. Together, these businesses represent over half of our institutional revenues and should continue to grow this year with some quarterly fluctuations. In markets, we expect our performance in 2015 to reflect the overall environment with the goal of continuing to gain wallet share with our target clients.

In Citi Holdings, we remain focused on winding down the portfolio while staying above breakeven on a full-year basis. Overall, we continue to expect credit costs to increase in 2015, driven by loan growth, as well as lower loan loss reserve releases and we expect to keep balance sheet discipline, staying at or below our current size. Our first quarter results provide a solid start to 2015, better demonstrating our underlying earnings power and the impact of the actions we've taken to simplify and streamline our operations.

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

QUESTION AND ANSWER

OPERATOR: (Operator Instructions) Your first question comes from the line of John McDonald with Bernstein. Please go ahead with your question.

JOHN MCDONALD: Hi. Good morning, John. I had a question on the expenses. In terms of the core expenses, trying to get a sense of how much of your cost saves you achieved this quarter and reflected in the core operating expense number or the $10.8 billion? I guess another way of asking it, is that number sustainable and a good jumping off point for expenses from here?

JOHN GERSPACH: Yeah, John. As we ended the fourth quarter of 2014, I think what we told you then is that all the repositioning actions that we had taken during the previous nine quarters, we expected to generate cost savings, annual cost savings, of about $3.4 billion. As of the fourth quarter of last year, about $2.7 billion of those cost saves were already embedded in our expense base. That left about $700 million of annual saves to realize, then, during 2015.

In the first quarter we generated an additional, just over $200 million, of that remaining $700 million. So we've got some more to go this year, but we feel pretty good about the level of expenses that we're currently running at.

JOHN MCDONALD: Okay. And is the first quarter typically high on expenses because of the seasonality of the investment bank revenues?

JOHN GERSPACH: No, we don't -- I wouldn't say it's typically higher in the first quarter. It's a little bit higher maybe in the first quarter, but pretty much expenses stay fairly consistent during the course of the year; again, depending on certain fluctuations for episodic items. You saw at the end of last year, we had

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some expense growth associated with our focus on CCAR. So those items do give us some quarterly fluctuations. But again, I think the first quarter is a pretty good jumping off point for the rest of the year.

JOHN MCDONALD: Okay. Could you also just clarify the comments about the NIM, net interest margin, in the second half of the year, John? You're selling some businesses and that will have an impact on NIM, but it sounded like there might be some actions you could take to mitigate that?

JOHN GERSPACH: John, what we said even in the press release that we put out in connection with signing the deal for OneMain Financial is that our intent is to invest some of the gains that we get from that sale to redeem high cost debt that are used to fund the businesses. Redeeming that high cost debt will then serve to improve the NIM, somewhat mitigate the impact of the NIM loss from OneMain.

JOHN MCDONALD: Okay. Just on a related point to that, John, I was hoping I could ask Mike a question in terms of the CCAR. Mike, you passed the CCAR. I presume you've heard back from regulators in terms of how you did and maybe new MRA.

Could you share any thoughts on what kind of feedback you received and what you'll work on for next submission? Related to OneMain, is it too early to ask if the OneMain transaction goes through as planned, would you consider maybe making an off cycle request to add on to existing approval with an update for capital that might get released when OneMain goes away?

MIKE CORBAT: Sure, John. Starting with CCAR, first off, I should preface it by saying that not only we believe the industry or the submitting banks haven't yet received formal response in terms of feedback. We've gotten verbal response, but I would categorize the responses we received so far as having put a lot of work into it, made a tremendous amount of progress, but on an industry basis, the large SIFI banks have more work to do. We recognize we have more work to do and we view 2015 as an important year to do that and Barbara Desoer and the team are obviously committed to doing that.

From a OneMain perspective, it's early in the year. I would say we're not big fans of going through the processes of one-offs, but let's get through the year and see how things go and we'll make a decision at some point later in the year.

JOHN MCDONALD: Okay. And the timing, expected timing, just as an update, on OneMain?

MIKE CORBAT: Third quarter, John.

JOHN MCDONALD: Okay. Thank you

OPERATOR: Your next question comes from the line of Jim Mitchell with Buckingham Research. Please go ahead with your question.

JIM MITCHELL: Hey, good morning guys.

JOHN GERSPACH: Good morning, Jim.

JIM MITCHELL: Maybe just a question on the big jump in the SLR, that seems to imply, if my math is right, that you made some progress on the denominator. First, is that the case? Does that have also positive implications for the Tier 1 leverage and CCAR when we think about next year, or is that just purely an SLR phenomenon?

JOHN GERSPACH: No, it's primarily focused, of course, on SLR and we did make progress in reducing the denominator of SLR. That will have knock-on effects against other ratios. Again, it's just something

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that we are focused on. It's against all categories of the various SLR computation, and so it does have knock-on effects for other calculations.

JIM MITCHELL: Do you think there's more to go there?

JOHN GERSPACH: We're always looking to optimize. I feel pretty good about where we are right now at 6.4%, but we'll always strive to run the most efficient balance sheet that we can.

JIM MITCHELL: Fair enough. Maybe just a follow-up question on fixed income, you, and I think some others, have mentioned a slow start, particularly in spread products. Maybe if you can just give us a sense -- you've disclosed in the past clearly rates and FX is a bigger proportion of your business than some others. You had a competitor today show significant or decent year-over-year growth in FICC despite, arguably, a lower concentration of FX and rates and a similar decline in spread products. So just trying to get a sense, was it really the issue with the Swiss franc or just had a particularly bad, tough time in spread products? Just trying to get a sense why we wouldn't have seen a little bit more of an improved result there.

JOHN GERSPACH: Jim, as you know, when you're trying to do growth rates or you're trying to do anything year on year, you have to look at the composition of both periods. If you go back to the first quarter of 2014, that was, on a relative basis compared to our peers, a very strong quarter for our FICC businesses and it was especially strong for us in spread products. So the first quarter of 2014 gives us a tough comp.

Spread products historically have accounted for about 40% of our FICC revenues, but if I look back to the first quarter of 2014, spread product revenues were significantly above that level. Then if you look at the current quarter, year-over-year, our spread products revenues are down significantly. They're down significantly to the point where the revenues for spread products this year are below the historical percentage that we would normally expect them to be of our total FICC business.

So it's been a significant impact on us and I mentioned some of the underlying factors during the prepared comments: lower activity levels across distressed credit, as well as non-investment grade CLOs and munis. These are what I would call normal fluctuations that you expect in an uncertain rate environment and just reflective of the lack of distressed opportunities.

Rates and currencies, just to segue over, rates and currencies benefited from extremely strong customer flows throughout the quarter, especially in our FX business. That's why we said that excluding the reval impact that we had, the modest loss stemming from the Swiss franc, rates and currencies revenues would have been up over 20% compared to the first quarter of 2014. So I'd characterize the first quarter of 2015 as a strong quarter for rates and currencies, our rates and currencies franchise, but a down quarter for spread products and it's exacerbated by a tough comp back to an extremely strong 2014.

JIM MITCHELL: That's all fair, I appreciate the color. Just any more color on how things progressed throughout the quarter? You mentioned a slow start. Does that imply that things got better each month, progressive month?

JOHN GERSPACH: It was a slow start and things evened out during the course of the quarter, but I wouldn't say that we finished with a big upswing in spread products.

JIM MITCHELL: Okay. Thanks. Thanks for all the color.

JOHN GERSPACH: Okay.

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

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MATT O'CONNOR: Good morning

JOHN GERSPACH: Hi, Matt.

MIKE CORBAT: Good morning.

MATT O'CONNOR: Just from a consolidated point of view, if you look at net interest income, it was down about $500 million versus last quarter. Is that mostly the impact of FX and day count?

JOHN GERSPACH: Matt, I missed you. Sorry. What was down $500 million? I'm sorry.

MATT O'CONNOR: If we look at consolidated net interest income dollars, they were down about $500 million Q/Q.

JOHN GERSPACH: Q on Q, yes, don't forget there's a two-day impact, fourth quarter's got 92 days in it, first quarter has 90 days.

MATT O'CONNOR: Right. I assume some FX impact in there as well or --?

JOHN GERSPACH: There's going to be some impact on that, as well. On a constant dollar basis, you can see the comparison in net interest revenue per day on slide 17, and as you can see on a per day basis, fourth quarter, on constant dollars, first quarter net interest revenue is spot on with the net interest revenue that we had in the fourth quarter of last year.

MATT O'CONNOR: Okay. In terms of the outlook, you gave some color on the NIM down a couple bps potentially in 2Q, but we should pick up a day and then some balance sheet growth so those NII dollars should be up as we think about 1Q to 2Q?

JOHN GERSPACH: I hate to get that deep into it, Matt. The expectation is that NIM is going to be down, as it has been every second quarter for the last couple of years, down 2 to 3 basis points. There's a certain amount of seasonality in that. You can see, though, again, if you look back as far as our net interest revenue per day, it stays pretty constant and so that's more of a denominator factor than anything else.

MATT O'CONNOR: Okay. Then maybe a bigger picture question on Mexico, I know it was a couple years ago there had been some de-risking there in terms of the credit profile and then more recently, some control issues had been flagged. Just where are we? Obviously, there's that change of management, as well. How are you feeling on Mexico overall, in terms of both the new leadership that you have there, and as well as the strategy for the fundamentals?

MIKE CORBAT: I would say we feel quite good. As you referenced, we made some material changes to management leadership in Mexico, both from an operations and from a control perspective, and feel like we've got the right people in place.

We did fairly broad sweeping reviews of our control processes in Mexico and as we've said, as a Company, we are extremely bullish on the economic prospects of Mexico and Banamex's position in terms of helping to fuel that growth for the country. We see a lot of opportunity in Mexico.

MATT O'CONNOR: Lastly, if I could squeeze in, I assume you can't tell us anything more on the Costco deal than what's out there, but anything on the timing in terms of when you'll have more details to share?

JOHN GERSPACH: No, Matt, that will happen during the ensuing couple of quarters and we'll put those details out when they're available.

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MATT O'CONNOR: Okay. Thanks for taking the questions.

JOHN GERSPACH: Alright. Thanks, Matt.

OPERATOR: Your next question comes from the line of Glenn Schorr with Evercore ISI. Please go ahead with your question.

GLENN SCHORR: Hello there. Thanks. I like the improvement on the efficiency ratio targets and I like the commitment to the target ranges. Just a quick curious question on -- I don't think of you as the biggest rate beneficiary, but it helps. What type of rate scenario do you have embedded in there? I like your tone from last quarter of we're going to hit them one way or another.

JOHN GERSPACH: Matt, as we -- Matt. Glenn, sorry. You just overwhelmed me with what you liked and I was focusing on that.

GLENN SCHORR: We'll get to the bad.

JOHN GERSPACH: Going into the year, what we said was that we were expecting a continuation of the difficult environment that we experienced in 2014. Unfortunately, I think that's what we're heading into; certainly that's the way 2015 is playing out. We weren't expecting to be bailed out by any sort of significant rate increase and again, it doesn't look like that's going to happen.

So we said that we thought that our Citicorp businesses could generate low to mid-single digit revenue growth this year, just based upon the fundamentals, and that is, in effect, what we experienced in the first quarter with a 2% growth rate in Citicorp. So we don't really have any sort of significant rate increase baked into those revenue projections and our commitment is to deliver Citicorp that mid-50s efficiency ratio and the ROA target for overall Citigroup, no matter what the environment.

GLENN SCHORR: Very much appreciate that. Strong dollar didn't seem to have a huge P&L impact and you broke out for us all the places it hit both revenues, expenses. It also impacts the G-SIB buffer and I know those rules aren't finalized, but is there a way to hedge that, or do you give up P&L neutrality if you wind up hedging that? Is it an either/or scenario?

JOHN GERSPACH: One, I wouldn't even propose putting on hedges for rules that are not even fully baked in yet.

GLENN SCHORR: Fair.

JOHN GERSPACH: So that's not something we're looking at. The difficulty with anything to do with the G-SIB calculation is that not only is it linked to changes in the FX rate, it's linked to what 79 other banks are doing and I don't know how to put a hedge on against 79 banks' activities. That's just not something that I know how to control at this point in time.

From an overall, what we can focus on, that what we do know what to do is hedge the CET1 ratio and you can see again that despite all the fluctuations in the dollar, it had zero impact on our CET1 ratio. We lay that out for you in slide 37 in the back of the deck.

So we've got a very effective ratio hedging program on to protect the capital ratios that are significant and you can see that, once again, as you said, the dollar fluctuation doesn't really impact our revenue, or doesn't impact our net income performance. Again, we lay that out for you in the back of the deck, as well. Whether the dollar is going up or the dollar is going down, it all nets out to somewhere plus or minus $100 million of pretax earnings.

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GLENN SCHORR: I appreciate that. Last one on credit, which has also been great, just curious if there's anything within -- whether it be Russia/Ukraine exposure or energy exposure that is getting internal rankings going higher or should I say internal downgrades that we should be thinking about throughout this year?

JOHN GERSPACH: We've been actively managing the exposure, obviously, to Russia on an ongoing basis and as you have seen, we've continued to manage down the exposure that we have in Russia. The consumer business in Russia is actually performing, I'd say, better than what we had expected, so that's good. When it comes to energy-related matters, we gave you a lot of details as far as our energy exposures when we did fourth quarter last year and we'll give you more details on that when we do the fixed income investor presentation next week. But in general, our energy-related exposures, on a funded basis, are steady fourth quarter to first quarter. Total exposure is down slightly.

We mentioned last quarter that about 85% of our exposure to energy companies was investment grade. We've had some minor downgrades in that but it's -- I think it's reduced by a couple 300 basis points, so maybe it's down to 82% so it's still very strong. During the quarter, though, in connection with those downgrades, we did take about a $100 million reserve. No credit losses, but we did take a $100 million credit reserve and that you'll see reflected in the ICG results this quarter.

GLENN SCHORR: Great. I appreciate all that. Thanks.

JOHN GERSPACH: Not a problem, Glenn.

OPERATOR: Your next question comes from the line of Brennan Hawken with UBS. Please go ahead with your question

BRENNAN HAWKEN: Good morning, guys. On Holdings, thinking about the $30 billion in sales that you've inked, or equivalent of $30 billion in assets tied to sales that you've already inked, how should we think about revenues and expenses that are tied to those?

JOHN GERSPACH: When you take a look at Holdings, again, our commitment to Holdings is to be able to run that business, at least on a breakeven basis, over a full-year period. And we believe that, even with the sales that we've got lined up for the balance of this year, we still should be able to produce Holdings at breakeven during the balance of this year and into next year.

BRENNAN HAWKEN: Okay. Alright. Thanks for that, John. How about on the capital front, can you help us think about what potential capital impact might come from those deals?

JOHN GERSPACH: We don't go into deal by deal basis on these things. Holdings at the end of the first quarter has got about $179 billion, I think, worth of risk-weighted assets. Now, about $49 billion of those assets, though, are op-risk assets, so individual sales are not going to impact op-risk.

Say you've got $130 billion of mostly credit risk, some market risk, but mostly credit risk, risk-weighted assets sitting there in Citi Holdings. If you think about the businesses that we've got on tap, including OneMain and Japan, they total, as we said, about $32 billion worth of GAAP assets, but on a risk-weighted asset basis, it's much lower than that.

They only account for about $16 billion worth of the risk-weighted assets, and that's just because of the concentration of HQLA type assets that are concentrated in Japan. So you're not going to get a significant drop-off in Holdings' risk-weighted assets just stemming from the combination of those deals.

BRENNAN HAWKEN: That's helpful. You mentioned, John, I believe, a decline in trade revenues. We heard a competitor mention lower demand in trade finance. Could you give maybe a little bit of color around that business and what trends you're seeing there?

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JOHN GERSPACH: Yes. I'd say that our commentary would be similar. There certainly is a lower demand. Some of the trade finance business, obviously, is in connection with energy-related type of projects, so when you get the price of oil dropping by 50%, you're going to have a significant drop in your demand for trade finance.

Importantly, what we're evidencing in that business is a discipline. We're not just going to chase volume at any cost, because chasing volume just doesn't give you the type of returns that you want. So we're maintaining good relationships with our clients, but shifting the business to some to be -- we'll facilitate the deal, but not look to hold the asset itself, and so that has a reduction in our trade revenues for now, but we're maintaining, we think, overall market share in the trade finance area.

BRENNAN HAWKEN: Okay. That's helpful. Last one from me: Argentina we've seen a lot of noise coming out of the situation there with the bond payments and the like. Does that adjust how you think about that market from here?

MIKE CORBAT: If you look at our franchise in Argentina, we just, in actually 2014, celebrated our 100th anniversary of being in the country and it's a place that we've got a historied franchise. Clearly, we're challenged that today, or if you go back to March 12, sitting between the District Court ruling here in the U.S. and the Argentine government's not a place we want to be and as a result of finding ourselves in that position, made the decision on our own that we would like to exit the custody business. So we are in conversations with the Argentine government in terms of trying to execute against that process. It's, as many of these things are, complicated, but we think that's the best course of action for us to take.

BRENNAN HAWKEN: And limited to the custody business at this stage?

MIKE CORBAT: Absolutely, limited to the custody business.

BRENNAN HAWKEN: Terrific. Thanks for all the color.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Betsy Graseck with Morgan Stanley. Please go ahead with your question.

BETSY GRASECK: Hey, thanks. One follow-up and one on expenses. Just on the RWA discussion around Citi Holdings, so to get RWAs down more significantly from here, is it just a function of the U.S. first and second lien resi portfolio fading? Is that really the next driver, or is it some of these others that are on tap to be sold?

JOHN GERSPACH: I'd say still the U.S. mortgage portfolio in Citi Holdings, you can see that it's got the lion's share of the GAAP assets and in similar fashion, it has the lion's share of the remaining risk-weighted assets.

BETSY GRASECK: That's a natural fade over four years, is that how we should think about it?

JOHN GERSPACH: We've done some opportunistic asset sales. We continue to run that portfolio down. You've seen the reduction that we achieved in the first quarter compared to the fourth quarter. So that's a combination both of paydowns, as well as asset sales, and we'll continue to do that where the economics make sense.

BETSY GRASECK: Sure. Okay. Separately on the expenses, which looked fantastic this quarter, you indicated earlier that there's, what, $700 million left in the cost saves to come through, $200 million used this -- well, I should say $500 million left, $700 million at the beginning of the year, $200 million used this

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quarter, $500 million left to go. Is that going to manifest itself mostly through non-comp lines as it comes through? I'm just thinking about it relative to the comments you made on ICG group with the expense target going from 57% to 55% and a comp ratio of 28% looks extremely efficient already on the comp line.

JOHN GERSPACH: The bulk of the remaining annualized savings, I want to just be clear, Betsy, that roughly $500 million, it's a little bit less than $500 million, that's on an annualized basis, so you'll get that in the expense base during the remaining three quarters, but that will show itself. The bulk of those savings are split between comp costs, as well as real estate costs, because we got real estate actions that we've also got embedded as we continue to take streamlining actions. We're consolidating sites, along with some of the personnel actions that we've taken. So you'll see it on both the occupancy line, as well as on the compensation line.

BETSY GRASECK: Okay. Just lastly on the repo costs, you mentioned for a couple quarters here that you would expect repo activities would be -- repositioning activities would be fading. We had a smaller run rate this quarter, obviously, of repo costs. Is that the kind of expectation going forward here or are we just taking a pause before you dig into the next round?

JOHN GERSPACH: Our overall guidance has been that we expect legal and repositioning costs to run about 200 basis points for Citicorp and we said that was a pretty good target to go for 2015. So when you look at the overall level of legal and repositioning in the quarter, I think it ran something like 175 basis points, so roughly in line with that 200 basis point target. I think that, during the course of the year you will continue to see some level of repositioning, even in this quarter.

While Citicorp I think shows a repositioning charge of $1 million, there was actually gross repositioning charges of something around $30 million, but that was largely offset by the release of some previously established repositioning reserves from prior periods. But we still will continue to do some repositioning, but yes, we do think that the bulk, certainly the largest portion of our repositioning efforts, are behind us.

BETSY GRASECK: The $500 million is coming through roughly evenly split the next three quarters or is it back end-loaded at all?

JOHN GERSPACH: I'd say that we got a little over $200 million in the first quarter. There's probably a little bit more to come that will be -- you'll see in the third quarter with the second and fourth quarter somewhat evenly split.

BETSY GRASECK: Okay. Thank you.

OPERATOR: Your next question comes from the line of Mike Mayo with CLSA. Please go ahead with your question.

MIKE MAYO: Hi. I'm trying to reconcile two thoughts. The positive thought comes from the CEO letter where, Mike, you say all that we accomplished over the last two years has been in preparation for this year. That's a pretty positive statement. But then I've heard a few, I think, negative statements on the call in the ICG efficiency ratio was 51% in the first quarter and you're guiding to 55% for the year. So I guess that won't maintain. Trading typically peaks in the first quarter. You talked about a lower margin after the asset sale. So is this as good as it gets? Is this a false start for Citigroup or is there a lot more ahead?

MIKE CORBAT: Mike, I'd say that you're right, there is cyclicality to the business, but if you look at the quarter, I think there's a couple stories or a couple themes in here that are important to call out. John talked about the diversification of our earnings base and if you look at the banking piece of it, we had good earnings growth in banking, at the same time, offsetting some softness around parts of our markets business, if you look at what's gone on in terms of North America consumer.

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So we believe, and you look at the earnings power of Citi and how and where we make it in dependence on certain revenue streams, hopefully you see and believe that there's more diversity to what we're doing. I think a lot of that's the work that we've done and continue to do. From an overall efficiency perspective and from an ICG perspective, we are committed to our targets and, yes, ICG did have an efficiency ratio in the low 50%s.

But again, we've got investments that we need to make in that business and we can't be starving these businesses and we're already, when you compare us against our industry peers, we're already leading in terms of what we're doing. By the way, when we talk of an efficiency ratio of 54% for the quarter in Citicorp, when you take that and overlay it over Citigroup, it goes to 55%.

So it's not that there's a bunch of things that are away from that. So completely committed to the targets, diversification of earnings, and I think a continued story going forward.

MIKE MAYO: You're addressing --

JOHN GERSPACH: I just want to make sure that you picked up on some of the other things we talked about which is that we did recognize that we had headwinds in our international consumer business during this first quarter, as well. So in a quarter where we had headwinds in both our trading performance, as well as in international consumer, we still were able to post overall strong results.

As Mike said, I think that really speaks to the balance and strength of the overall business model. We fully expect international consumer to generate growth in the second half of the year and return to positive operating leverage. So I just want to make sure you captured all the positive statements.

MIKE MAYO: Got it. That addresses the operating efficiency. On capital efficiency, Mike, you said that you don't really believe in a lot of one-offs to buy back capital, but you can now repurchase stock, which is different; actually, if you could let us know when you're allowed to start buying back stock? Also, if you can buy back stock at such a discount to tangible book value, why wouldn't you sell off additional non-core assets?

If it was me, if I could buy dollar bills for a discount, I'd be buying as many as I could. I'm looking at my office. I'd be selling my water bottle, my stapler, maybe my desk chair. I'd stand. I'd do whatever I could to raise that additional capital to buy back stock and I'd make the request to regulators. The question before of why not take the proceeds from OneMain or anything else that you can sell for a gain and buy back stock right now?

MIKE CORBAT: Well, two things. One is we have started buying back stock. Our permission gave us the ability to start that on April 1 and we did. So that's underway.

I think if you've seen, Mike, we've, I think, been very disciplined and, I think, quite transparent in terms of the way we look at our businesses and those businesses that, over the intermediate term, we don't believe there's a pathway to being accretive to our franchise and the investors, you've seen us take action against those. So we'll continue to review those, but we believe today the franchise away from Holdings is largely positioned the way we would like it to be. If you look at the returns of those businesses, both institutional and consumer, they are accretive to our shareholders.

MIKE MAYO: Alright. Thank you.

MIKE CORBAT: Alright.

OPERATOR: Your next question comes from the line of Steven Chubak with Nomura. Please go ahead with your question.

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STEVEN CHUBAK: Hi, good morning. So John, I just wanted to start off with maybe a follow-up to Glenn's earlier question on the G-SIB surcharge calculation, recognizing of course, as you said, that the Fed's proposal has not been finalized. Assuming the current drafts and some of those FX considerations relating to the calculation are not amended, can you maybe just speak to some of the actions that you can take to help mitigate the G-SIB score? In addition to that, whether you have any plans to actually manage to a specific target since I know it's unclear whether you've moved up a bucket from the 3.5% to the 4%?

JOHN GERSPACH: Thanks, Steve. I'd say it's pretty clear that we have moved up to the 4% bucket. That's certainly our estimation just given, again, given the change in exchange rates and everything else, we'll get confirmation of that. But we're pretty sure that we're in that 4% bucket, under the current proposed rules and we'll have to see how those play out. As we've said, you saw some of the impact that we've had by managing down some of the components of the SLR denominator.

Again, we're looking to manage down various elements of both the SLR and the G-SIB calculation. We focus on the OTC derivatives that are trading on OTC, the PFE associated with derivatives, things that we can control we're bringing down. You haven't seen the disclosure yet, but we brought our derivative notionals down another $3 billion or so in the quarter, $3 trillion -- $3 trillion, sorry, and so where we can, we will.

What I don't know is what impact that has on the calculation because I don't know what everybody else is doing and I don't know where FX rates are going. So we will look to optimize our footprint, but the way the calculation is currently structured, I can't tell you that it will have any impact.

STEVEN CHUBAK: Have you had any dialogue with regulators with regards to the approach and whether it seems fair or balanced given some of those FX considerations, as well as the fact that it's a relative calculation, as you noted?

JOHN GERSPACH: I believe there were a series of comment letters already submitted to the Fed and I'm sure that the Fed is giving those due consideration.

STEVEN CHUBAK: Understood. Maybe just one more on risk-weighted assets, also a follow-up to Betsy's question with regard to Holdings RWA specifically. Just looking at some of the 10-K disclosure that you provided, it looks like 30% of Holdings RWA consists of operational risk, so call it $54 billion or so, and just given the long look back for op-risk, I just want to get a better understanding as to what happens in an accelerated unwind of Holdings? Should we expect that $5 billion to $6 billion of capital is actually released, or does it persist or linger because of the significant look back?

JOHN GERSPACH: Steven, the updated number that I mentioned earlier is we would say that of the $179 billion at the end of the first quarter of risk-weighted assets that's in Holdings, about $49 billion of that is op-risk. Right on to your point, we don't expect that op-risk RWA to dissipate just because we've gotten rid of the Holdings assets. That will stay with us for some time. I can't tell you how long, but it will be with us for some time.

STEVEN CHUBAK: Okay. That's really helpful. Thanks, John, and congratulations on the strong quarter.

JOHN GERSPACH: Thank you, Steven.

OPERATOR: Your next question comes from the line of Gerard Cassidy with RBC. Please go ahead with your question.

GERARD CASSIDY: Thank you. Good afternoon, guys. John, you mentioned that your deposits per branch here in the states, I think, were up 20% even though you've obviously downsized the branch

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structure that you have here in the states. Are you now at the optimal level in the seven cities that you've identified, or is there further reductions that we should expect?

JOHN GERSPACH: We're concentrated around those seven cities. Are there still some branches outside those seven cities that we might consider doing some further pruning on? Perhaps. There's probably other opportunities that we have to open up additional outlets in some of those seven cities, as well.

So the number, 788, that we currently have, that could go up a little, could go down a little. I wouldn't necessarily just focus on it. Again, whatever we do will be consistent with that strategy of concentrating our efforts on those seven urban areas.

GERARD CASSIDY: Following up on your comments that you talked about with after OneMain is sold, obviously the NIM will come under some pressure, but you do get the capital gain, hopefully, from the sale and you can pay down some of your high cost debt. Will some of the gain be also used for stock repurchases, or is it all just to reduce that higher cost debt?

JOHN GERSPACH: Under the CCAR thing, the CCAR submittal, we've already received approval over the next five quarters to buy back about $7.8 billion of our stock and so those actions are currently underway, as Mike indicated earlier, beginning on April 1. As to whether or not we would do anything specific with the OneMain gain, while it's probably too early to give you a definitive answer, I would not expect us to.

GERARD CASSIDY: Okay. Early in your comments, I think you said that by the end of the year, you might have about 30,000 folks working in regulatory and compliance. Where is that number today?

JOHN GERSPACH: I think at the start of the year, we were looking at something around 26,000, maybe a little bit over that. So think in terms of slightly more than 10%, 12% growth during the course of the year.

GERARD CASSIDY: Do you have a ballpark on what that cost is if you use an average salary of $60,000 or something like that for the folks that are in that division or that group?

JOHN GERSPACH: I'm not going to address the $60,000 number that you just threw out, but no, I can't give you a specific cost of that. We've made comments that, obviously, the cost associated with regulatory and compliance efforts has continued to increase. It's consumed a fairly significant portion of the efficiency savings that we've been generating in the business. We've given you that math before.

We've said that, of the $3.4 billion of expense saves that we expect to get and specifically, of the now $2.9 billion of expense saves that we've gotten through our efficiency efforts, approximately 50% of that savings, of those savings, are being consumed by additional investments that we're making in regulatory and compliance activities.

GERARD CASSIDY: Okay. Thanks. Obviously, General Electric made that announcement about exiting the financial services business in a big way by selling a couple hundred billion dollars of assets. Is there any interest on your part in looking at any of those portfolios?

MIKE CORBAT: I think as we've shown, Gerard, we're always willing and interested to look at assets at the right price. So if things fit in strategy, happy to look at it, but I don't see us breaking into new areas that we're not already in.

GERARD CASSIDY: Great. Just finally, coming back to, John, I heard your comments about the G-SIB MPR and obviously, everybody's made their comments and letters. To your recollection in the past, on MPRs, does the Fed ever come back to you guys, you and your peers, for added commentary after the official closing of the letters are posted and all that?

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JOHN GERSPACH: I don't believe that is within the rules. They may seek additional commentary through other means, but I don't believe that while the comment and review period is underway that they can have individual discussions. But again, I'm not a rules expert.

GERARD CASSIDY: That's helpful. I appreciate it. Thank you.

OPERATOR: Your next question comes from the line of Matt Burnell with Wells Fargo Securities. Please go ahead with your question.

MATT BURNELL: Good afternoon, gentlemen. Just an administrative question, it looked like there was a fairly sizable increase in other revenue in your reported income statement. I'm just trying to get a little more color as to what the change was there in the first quarter, relative to the fourth quarter.

JOHN GERSPACH: Sorry, Matt, can't do that one. I'll give you the usual line. If you call our crack IR staff after the completion of this call, they'll get you that information. I apologize.

MATT BURNELL: I appreciate that's a little bit in the weeds. Just to pull up a little bit from the weeds, you mentioned on slide 24 that there was a transfer of a portion of the liquidity portfolio from corporate into ICG. At the same time, you've also increased the allocated TCE into that business. What was the size of that portfolio that you transferred and what effect might that have going forward on ROE, ROTCE in that business?

JOHN GERSPACH: I can't recall the exact size. It was a fairly sizable number, something like $130 billion or so. Again, we can get you the exact number. That was, again, we thought, more reflective of some of the deposit-taking activities that are resident in the transaction services business, and while we had -- they tend to generate, then, high quality liquid assets that we hold.

Those things used to be resident in our Corp/Other segment and so we felt that it was a better measurement from a performance point of view to actually push those assets into the business themselves. I think you can see that it's had a small impact on the capital then attributed to ICG. That capital is up a couple of billion dollars from quarter-to-quarter. It's going to drive down their ROA but we think it's a better measure of what the real ROA is that we have coming out of that business.

MATT BURNELL: Presumably it doesn't affect the overall Citicorp ROTCE that you're reporting and tracking against?

JOHN GERSPACH: From a Citicorp or from a Citigroup point of view it's a right pocket, left pocket. We just thought that it was a better way of measuring performance.

MATT BURNELL: Okay. Thanks very much. That's it from me.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Ken Usdin with Jefferies. Please go ahead with your question.

KEN USDIN: Thanks. Hi, Mike and John. A question on just CCAR and the limitations. It's clear that CET1's not so much your limiter as much as Tier 1 total. You had previously talked about raising about $4 billion in preferreds this year as a helper on that side of things. I'm just wondering, just post this year's CCAR, could you give us some thoughts about just the outcomes around limitations and any views that you might have that may be different around the magnitude of preferred issuance that you might need to think about for this year and looking ahead?

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JOHN GERSPACH: No, we still think that $4 billion is about the right level of issuance that we'll have this year. We'll give you further guidance next week when we conduct the fixed income call, but I don't expect that number to increase. The important thing about the CCAR, don't forget CCAR is an exercise that goes out over nine quarters.

It's really what gets reflected in the various CCAR calculations is the totality of your capital plan, including issuances, as well as redemption, the use of capital repurchases over that nine-quarter period. We're still comfortable with the guidance that we've given as far as the level of preferred stock issuance that we need to do.

KEN USDIN: Okay. Understood. Great.

Second question, you spoke to the drags that have been impacting the international consumer businesses from the spread compression and the regulatory changes. Can you talk a little bit more about just qualitatively the international markets, LATAM and Asia and any impact you're seeing from FX, not so much in the translation effect because that's pretty clear that's the net neutral, but just in terms of the economies in general, organic and secular growth, and how you're feeling about those businesses? Thanks.

JOHN GERSPACH: Obviously, globally, growth, GDP growth is less than what we would hope for and I don't think we're alone in that, but we still see good opportunities in markets. India, for instance, is doing very well. It's likely that India's going to emerge as the economy with the strongest GDP growth this year as it out-distances China. But we continue to invest in our franchises throughout Asia and we're getting good driver growth. The deposit levels, the loan levels, so we feel really good about the strength of our overall Asia franchise. Like so many other things, these are patches that we have to manage our way through where you're going to get some regulatory headwinds. You're going to have some slowdown in GDP. That might mitigate some of the -- it might cause you to lessen the pace of some of your investments in those countries, but it doesn't stop the fact that we're still looking to grow our Asia consumer business.

KEN USDIN: Then last clarification, John, you earlier had mentioned that you'd be trying to offset or keep Citi Holdings profitable on a yearly basis this year into next year. I'm just wondering is the potential debt paydown considered, after the sale of OneMain, considered in the helping part of next year, as well?

JOHN GERSPACH: Yes, very much so. Very much so.

KEN USDIN: Okay. Understood. Thank you.

OPERATOR: Your next question comes from the line of Eric Wasserstrom with Guggenheim Securities. Please go ahead with your question.

ERIC WASSERSTROM: Thank you very much.

JOHN GERSPACH: Hi, Eric.

ERIC WASSERSTROM: Hi, how are you, John? Just a couple of questions. First, as it relates to the Costco portfolio, can you just describe how the price discovery works on that?

JOHN GERSPACH: I'm not quite sure that we've released the contractual terms on that, but just to say that there is a process put in place by which a purchase price can be set between the two parties. We ultimately feel that we will reach agreement on an appropriate purchase price, because we think it's in both of our best interests to have the portfolio transferred.

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ERIC WASSERSTROM: I guess what I'm trying to just understand is, to the extent that there's, obviously, a difference in view on pricing, what is the mechanism for resolution?

JOHN GERSPACH: There is a mechanism and the mechanism leads to a choice as to whether or not the portfolio ultimately is transferred.

ERIC WASSERSTROM: Okay.

JOHN GERSPACH: Although we don't think that's where it's going to go.

ERIC WASSERSTROM: Okay. On a different topic, and there's obviously been some press speculation about legal authority and their interest in getting one of your legal entities to plead guilty to an issue. I'm not asking you, obviously, to comment directly on that, but my question is to the extent that that does happen for your banking entity in the United States, how does the investment community think about the operational risk that creates for you?

For example, does it create risk to your licenses? Does it create risk to certain counterparties who may not be able to interact with you on a go-forward basis? How do we frame our understanding of those risks?

JOHN GERSPACH: Eric, you know we don't comment on individual litigation or regulatory matters or specific reserving actions unless it's related to specific settlements that we're announcing. Since we don't comment on these things, because they ultimately are hypotheticals, I'm really not going to comment then on your hypothetical.

ERIC WASSERSTROM: Okay. Understood. Thanks very much.

OPERATOR: Your next question comes from the line of Chris Kotowski with Oppenheimer and Company. Please go ahead with your question.

CHRIS KOTOWSKI: How do the redemption of high cost debt work? So just hypothetically, let's say, is it the proceeds or is it the gain that is the driver on how much you can do? If hypothetically you sell a business for $1 billion in proceeds and you have $100 million gain, can you buy back $100 million of debt or $1 billion, or is the constraining factor that it's got to be the redemption costs have to be less than $100 million?

JOHN GERSPACH: Your last one. The constraining factor is the cost of the redemption. So if I've got $100 million gain, I should be able to retire debt that would generate a $100 million loss. That would cancel out the gain and the loss, producing a zero impact on net income and we would have the ongoing benefit of the debt being retired; therefore, lessening interest charges in the future periods.

CHRIS KOTOWSKI: Okay. This is either presumably part of the CCAR capital plan or doesn't require a specific approval for all that, right?

JOHN GERSPACH: Either one.

CHRIS KOTOWSKI: Okay. Alright. That’s it from me.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Brian Kleinhanzl with KBW. Please go ahead with your question.

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BRIAN KLEINHANZL: I just had one quick question with regards to what you've mentioned about potentially looking at some of GE's assets relative to your guidance that the balance sheet should be at or below its current size over the year. Did that mean your guidance excludes any potential acquisitions?

MIKE CORBAT: We would say that if there's something that we think is extraordinary and creates real value, we would certainly be willing to put that on if it's accretive in the ways we want to look at it. But the other lever you know we pull is that we've maintained a flat balance sheet while investing in our business and loan growth by the continued shrinkage of Holdings.

So depending on the size of the asset and the nature of it, we might be able to create room through Holdings. If it were extraordinary or something we thought of merit, we could certainly add it to the balance sheet.

JOHN GERSPACH: I just want to be clear, the comment that I made as far as the balance sheet size was related to this year. I'm not saying that we will never grow the balance sheet in 2016, 2017, 2018. That was a very specific comment as it related to the other comments on the balance of the year. It would be doubtful that any significant portfolio of assets we would actually be able to close on this year. So the guidance stays for this year.

BRIAN KLEINHANZL: Okay. Just one follow-up question, was there any gain from moving OneMain into held for sale?

JOHN GERSPACH: Was there what? I'm sorry.

BRIAN KLEINHANZL: Any gain from moving -- you said, I think, the OneMain operations were moved to held-for-sale.

JOHN GERSPACH: No, no, there's no gain associated with a movement into held-for-sale.

BRIAN KLEINHANZL: Thank you.

JOHN GERSPACH: Not a problem.

OPERATOR: Thank you. We have no further questions in the queue at this time.

SUSAN KENDALL: Great. Thank you all for joining us this morning. If you have any follow-up questions, please reach out to Investor Relations and we look forward to speaking with you again soon. Thanks.

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

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