Seeking Alpha

Transcripts | **Financial**

Citigroup Inc. (C) CEO Mike Corbat on Q3 2019 Results - Earnings Call Transcript

Oct. 15, 2019 4:11 PM ET | 3 Likes
by: SA Transcripts

Q3: 10-15-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.97 beats by $0.02 | Revenue of $18.57B (1.01% Y/Y) beats by $34.14M

Earning Call Audio

Subscribers Only

0:00:00 -1:23:13

Citigroup Inc. (NYSE:C) Q3 2019 Earnings Conference Call October 15, 2019 10:00 AM ET

Company Participants

Elizabeth Lynn - Head, Investor Relations

Mike Corbat - Chief Executive Officer

Mark Mason - Chief Financial Officer

Conference Call Participants

Glenn Schorr - Evercore

John McDonald - Autonomous Research

Jim Mitchell - Buckingham Research

Mike Mayo - Wells Fargo Securities

Saul Martinez - UBS

Steven Chubak - Wolfe Research

Erika Najarian - Bank of America

Matt O'Connor - Deutsche Bank

Betsy Graseck - Morgan Stanley

Marty Mosby - Vining Sparks

Ken Usdin - Jefferies

Brian Kleinhanzl - KBW

Gerard Cassidy - RBC

Operator

Hello and welcome to Citi's Third Quarter 2019 Earnings Review with Chief Executive Officer, Mike Corbat; and Chief Financial Officer, Mark Mason. Today's call will be hosted by Elizabeth Lynn, Head of Citi Investor Relations.

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

Ms. Lynn, you may begin your conference.

Elizabeth Lynn

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

Before we get started, I'd like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results, capital, and other financial conditions may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings including, without limitation, the Risk Factors section of our Form 10-K.

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

Mike Corbat

Thank you, Liz and good morning everyone. This morning, we reported earnings of $4.9 billion for the third quarter of 2019. Our earnings per share of $2.07 were 20% higher than a year ago. Our return on tangible common equity was 12.2%, bringing our year-to-date return to 12%, which remains our target for the year.

We also had loan and deposit growth for the 15th consecutive quarter. We, again, saw a balanced underlying growth in Global Consumer Banking with a 4% increase in revenues, and EBIT growth of 17%.

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

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

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

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

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

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

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

Mark Mason

Thank you, Mike and good morning everyone. Starting on Slide 3, net income of $4.9 billion in the third quarter grew 6% from last year and EPS grew 20%, mostly driven by a decline in our average diluted shares outstanding, as we've continued to buy back shares throughout the year, consistent with our capital plan. Revenues of $18.6 billion grew 1% from the prior year and were up 2% excluding the roughly $250 million gain on the sale of our asset management business in Mexico last year, reflecting solid results across both our consumer and institutional businesses.

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

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

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

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

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

Slide 6 shows the results for North America Consumer Banking in more detail. Third quarter revenues of $5.4 billion were up 4% from last year. During the quarter, we continued to make progress towards a more integrated client-centric relationship model.

Our deposit momentum continued to improve.

Year-to-date total net deposit inflows more than tripled compared with last year with strength across both traditional and digital channels. We've seen accelerating growth in deposits raised through digital channels. We generated nearly $2 billion in digital deposit sales in the third quarter, bringing our year-to-date total to over $4 billion.

Consistent with our strategy to drive towards national scale in retail, nearly two-thirds of these deposit sales were outside of our existing branch footprint. And of this amount, roughly half were with card customers who previously did not have a retail banking relationship with us.

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

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

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

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

Turning to credit. Net credit losses grew by 9% year-over-year, reflecting loan growth and seasoning in both cards portfolios. Our NCL rate in U.S. Branded Cards and Retail Services were 312 basis points and 477 basis points, respectively, this quarter, consistently with our full year guidance.

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

Turning to Asia. Consumer revenues grew 5% in the third quarter. We continue to see strong growth in our underlying wealth management drivers in Asia with 9% growth in Citigold clients and 7% growth in net new money versus last year.

In total, operating expenses were largely unchanged in the third quarter as efficiency savings offset investment spending and volume-driven growth. And cost of credit was down 12%, reflecting a modest LLR release relative to a build in the prior year.

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

Turning now to the Institutional Clients Group on Slide 9. Revenues of $9.5 billion were up 3% in the third quarter, reflecting continued momentum in TTS and the Private Bank, combined with strong performance in Investment Banking and stability in fixed income markets, partially offset by softness in equity markets and corporate lending.

Total banking revenues of $5 billion were up 3%. Treasury & Trade Solutions revenues of $2.4 billion were up 6% as reported and 7% in constant dollars, as we continued to see strong client engagement and solid growth in transaction volumes, partially offset by spread compression.

We would expect the underlying business drivers to continue to perform well in TTS, given our unique global footprint and ability to deliver integrated solutions to our multinational clients despite continued uncertainty around the macro environment.

Investment Banking revenues of $1.2 billion were up 4% from last year, outperforming the market wallet, reflecting continued strength in debt underwriting and strong performance in M&A, particularly in EMEA. Private Bank revenues of $867 million were up 2% driven by higher lending and deposit volumes as well as increased investment activity with both new and existing clients, partially offset by spread compression. And Corporate Lending revenues of $527 million were down 6% reflecting lower spreads and higher hedging costs.

Total Markets and Securities Services revenues of $4.5 billion were up 1% from last year. Fixed Income revenues were roughly flat, although we did see better activity with both corporate and investor clients, as well as a solid quarter in rates and currencies particularly in G10 rates.

Equity's revenues were down 4%, primarily reflecting lower client activity and lower balances in prime brokerage, partially offset by strong client activity in derivatives. And finally, in Securities Services, revenues were down 1% on a reported basis, but up 2% in constant dollars, reflecting higher volumes from new and existing clients.

Total operating expenses of $5.4 billion increased 4% year-over-year, as investments, volume-driven growth and higher compensation costs were partially offset by efficiency savings. And credit quality remains strong, consistent with our target client strategy. Looking at year-to-date results in ICG, our operating margin improved by 1% as solid results in TTS and strength in Investment Banking were offset by the decline in Equity Markets' revenues.

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

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

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

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

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

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

Before we go to Q&A, let me spend a few minutes on our outlook for the fourth quarter. In ICG, Markets and Investment Banking revenues should reflect the overall environment, but we are not anticipating a repeat of the challenging trading environment seen in the fourth quarter of last year. And in our accrual businesses, revenues should benefit from continued strong client engagement and higher volumes.

However, we would expect this to be somewhat offset by spread compression given the lower interest rate environment. In consumer, we expect continued year-over-year revenue growth in all regions, driven by continued loan and deposit growth, partially offset by the impact of lower deposit spreads.

For total Citigroup, expenses should decline sequentially, cost of credit should continue to grow modestly, and importantly we expect solid pre-tax earnings growth year-over-year. Finally, we expect a tax rate of approximately 22%, absent any discrete tax items.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will come from the line of Glenn Schorr with Evercore.

Glenn Schorr

Hi. Thanks very much.

Mark Mason

Good morning.

Glenn Schorr

I wonder if I could just get a follow-up on Branded Cards, the 11% growth in the quarter. Can you talk about -- or give us a breakdown of where that's being derived, what you're doing to incent that growth? I think I heard your comment about where part of the relationship is coming in, and how you're growing in the bank on non-bank customers through the card portfolio, but just focus specifically around the 11% growth in Branded Cards, talk about balance transfer and how the box you're writing to? Thank you. Sorry about that jumbled question.

Mark Mason

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

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

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

Glenn Schorr

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

Mark Mason

We've now -- we've kind of reached the mix, our desired mix of promotional balances that we're looking to have in the portfolio. Now what you would imagine is once you strike that balance between promotional and the interest earnings, you've got to maintain that balance, which means we'll continue to do promotional offerings going forward at the pace we've been running at in order to maintain that mix. And as those promotional balances mature, they ultimately convert into interest earning. And so they fuel kind of a go-forward growth and they're important parts of -- or I'd say important part of our investment strategy as we execute on the Branded Cards strategy.

Glenn Schorr

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

Mark Mason

Yes. So, it is starting to work. I think I referenced earlier the growth in digital deposit sales and referenced that. In fact, a good portion of that is coming from card customers who previously did not have a retail banking relationship with us. We are, yeah, as we think about investments we've made in technology and our ability to mine the data that we have of our customers, we're able to create value propositions that they're likely to respond to and open-up a retail banking account with us.

So for example, we know which of our card customers enjoy and prefer our ThankYou rewards programs and which of our card customers respond to many of the other programs that we offer from a rewards point of view. And so we're able to create packages for them that reward them with benefits they respond to like ThankYou points, if they're willing to open a retail banking account with us digitally, and clients are responding. And so our ability to mine that data, to create value propositions around things that our clients are motivated to has – or motivated with has resulted in the growth that we're speaking to now.

Mike Corbat

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

Mark Mason

Yes.

Glenn Schorr

Okay. Thanks so much.

Mark Mason

Thank you.

Operator

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

John McDonald

Hi. Good morning, guys. I wanted to ask about the RoTCE targets. Mark, just want to confirm, for 2019, still feeling good about 12% or a darn close to 12% for this year given your fourth quarter outlook. And then for next year, obviously for both of you, the environments gotten tougher we all know that and 13.5%, your prior target for RoTCE, feels ambitious in this environment. Mark, you acknowledged that at the Barclays conference. But how are you guys going to think about it as you go through your planning? And what's the target for kind of 2020 as your balance wanting to show improvement on RoTCE versus what might be a more difficult environment?

Mark Mason

Sure. So, first thing, your first point, John, the 12% remains our target. As you pointed out, we are – we did 12.2% RoTCE this quarter, and we're at 12% year-to-date. And so that remains the target, and we feel as though we'll get to that number or darn close, as I've said now and you've said as well. In terms of the 13.5% for 2020, I've said it at the Barclays, and I'll say it again and Mike alluded to it. It's a very different environment than I think we expected kind of coming into the year.

There's a fair amount of uncertainty that remains. 13.5% remains the target, but we are now in the midst of our budgeting process. And we need to factor in the uncertainty that's in the environment, what that's likely to look like, or how that's likely to play out, what the impact – the full year impact in 2020 of the rate reductions might be, what we think client demand is going to look like. And there are puts and takes there in parts of the business.

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

Mike Corbat

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

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

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

John McDonald

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

Mike Corbat

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

John McDonald

Okay. Thanks.

Operator

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

Jim Mitchell

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

Mark Mason

Sure. So yes, the expenses were up 4%. There are investments that we're making in the ICG, particularly in our TTS business and how we improve the client experience and deepen some of those client relationships and those investments obviously are critically important.

There are some volume-driven growth tied to it, largely around transactional expenses. And then there are some compensation costs as well. So there's the higher performance from a base compensation point of view. There's some strategic hires that we've made in parts of the franchise.

And then lastly and you alluded to it, but it certainly played out in this quarter as well, as we've seen pressure on some of the wallets, and as we've thought about kind of the long-term -- or longer-term business model and benefits from technology that will play out, we've made some capacity adjustments. And those capacity adjustments obviously come with a cost. And so that is part of the -- what you see in the quarter as well in that 4% increase.

Jim Mitchell

So you feel that even in a lower growth, that negative growth, lower growth environment, you can still get the operating leverage over the intermediate term?

Mark Mason

So we think we -- look, I mean obviously in adjusting the capacity here, we're going to see some benefits of that play out in 2020. What will matter obviously is the topline and how wallets continue to evolve and how much share we're able to continue to capture. But we think we will continue to be able to run the business efficiently and perform accordingly.

Jim Mitchell

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

Mark Mason

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

And frankly, about a 1/4 of the growth in operating deposits were from new or renewed clients. And so we're actively engaged with our clients. We're seeing opportunities to roll out our broad solution with them and we think that is likely to continue.

Jim Mitchell

Okay. Great. That's helpful. Thanks.

Operator

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

Mike Mayo

Hi.

Mike Corbat

Hey, Mike.

Mike Mayo

First, look, you're running revenues faster than expenses. This was the 12th quarter in a row that you didn't call it out that what I think, I estimate you made it year-over-year by one-fifth of 1% of revenues, revenues grew faster than expenses. So you made it. But -- so the question is, growing revenue's faster than expenses, when you look back a bit ago, you were kind of doing it by like a touchdown or 2. And then it went down to a couple of field goals. Now it seems like you're exceeding it by an extra point to push the analogy. So the question is, how confident are you to continue that strength of revenues growing faster than expenses year-over-year? And what is the role of technology in helping you do so?

Mark Mason

I'll take the first one?

Mike Corbat

Yeah, okay.

Mark Mason

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

Mike Corbat

Sure. Well, I think there's a couple of pieces I'd add to it. So one here, Mike, I think is if you go and you look at the numbers, I would say, relatively, quietly, as Mark alluded to over the past year, our head count was down by about 7,000, so somewhere between 3% and 4%. That has been almost exclusively focused on capacity at the front end. It hasn't really been focused or aimed at infrastructure.

And so when we came into the year, what we told you was we would be going at every lever and looking at all the things that we could do. And I think this year, we've done that. I think clearly, technology, when you go back to slide 23 and look at our consumer business and some of the drivers around contact rates, digital mobile engagement, e-statement penetration, all of those moving, I think, very nicely in the right direction. And those continue to give us that only cost benefits, but as or more importantly, service benefits in terms of the reactions to those.

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

Mark Mason

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

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

Mike Mayo

And then just one follow-up, as it relates to -- and I know John asked the question about your RoTCE target. I mean, I guess I'll ask -- I'll make it easier and harder for you. I guess, the easier thing is look, under you, Mike Corbat, the RoTCE really has gone up quite a bit, 7%, 8%, up to 12% over a few years. So that's tremendous progress, but you still lag peers. And I don't think consensus expects you to get your 13.5% target. I think you're kind of -- what I'm hearing you say today is everything's on the table, but let's look at it in light of the new environment. So assume it might not be 13.5%. So I guess we'll have to wait till the fourth quarter unless you just want to confirm that now.

But look, as long as it's getting better, you're moving the right direction, that's good. I guess what irks me though is, this year's target of 12%, when you say we'll get darn close. And I know you're competitive, both of you are, your whole firm's competitive. But to be darn close, I mean, let's just get the target. Everything that you can possibly do, everyone at the firm should know that 12% RoTCE is what you're striving for. It's just that sense of intensity, even if you have it internally, it's just -- I'm not feeling it on this side of the perspective. So if you could just give us a sense of the degree of that intensity?

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

Mike Corbat

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

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

Mark Mason

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

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

A short-minded view of that would be that that is against the 12% target that we're trying to deliver. When you're trying to run a firm for the long-term sustainability, you take those decisions because they're the right decisions to do and you realize that over time, they will pay dividends and benefits to the franchise. And so, yes, without a doubt, 12% is our target. People know that up and down in this firm. But we're going to run the firm responsibly. So hopefully that makes sense, Mike.

Mike Mayo

Yes, all right. Thank you.

Operator

Saul, your line is open. Please go ahead.

Saul Martinez

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

Mark Mason

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

That said, there is certainty around that direction that we've seen play out. There's been FX volatility through the year that has caused a markets reaction in terms of that volatility, generating client activity. And I bring that up because there are puts and takes that play out across our businesses as the market evolves. And there's still uncertainty around trade and how much progress we continue to make through the year on that topic. There's still uncertainty around Brexit and what happens there. And so, as those things get hopefully finalized or additional decisions get made, those will be factors that we've got to consider as we look at 2020 and pull that plan together and before we're able to speak to what that target is from an RoTCE point of view or what levers we can pull to get to that target. And so, it is still in progress, I guess is how I'd have to respond to that Saul.

Saul Martinez

Okay. No I get that and I wasn't too much asking specifically about RoTCE, but just the topline and whether the degree of confidence that there could actually be some growth because that would -- that obviously -- in this environment the fact that you are less rate sensitive than a lot of your peers does differentiate you. But okay...

Mark Mason

And I do -- I mean I do -- we do expect to see continued growth in our cards business. We do expect to see continued growth in our global consumer franchise. So, as we reference kind of those core components to the franchise if you will into our network businesses, we do expect continued momentum there, but we do have to factor in some of these headwinds and unknowns.

Saul Martinez

Got it. Let me change gears a little bit and ask you about CECL and not the day one impact. I know you guys for some time have given the estimated day one impact of CECL and a range there. But how should we think about the day two impact on loan loss provisioning going forward? Credit losses are credit losses over the life of the loan. They will be the same regardless of the accounting framework, but there are a lot of puts and takes. Your starting point, ALLL ratio will be higher, but given level of charge-offs will mean more provisioning and mix plays an important role. And it seems like, you are growing in higher loss content lending in the U.S. But have you thought about how CECL in an environment where maybe things don't really deteriorate much where we don't have a big change of the macro backdrop towards the team, how CECL impacts your ongoing level of provisioning going forward and so just kind of maybe thinking through some of the puts and takes of that?

Mark Mason

Yes. So we haven't given any guidance on day two as you said. Obviously, the composition of the balance of the portfolio in any given quarter is going to be an important factor in estimating what that impact will be. We obviously have a mix of both consumer loans and corporate loans and so, all of those factors will come into play. I guess, what I would say is, as we thought about our forecast and we factored in what the longer-term impact would be of CECL, but we haven't given any particular guidance and I can't really speak to it any more specifically than that.

Saul Martinez

Okay. All right. That’s helpful. Thanks so much guys.

Mark Mason

Thank you. Operator, who is next?

Operator

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

Steven Chubak

Thanks very much. So, wanted to start off with a question on NII. Mark, I was hoping you could speak to some of the factors that pressured the markets related to NII specifically. As I think back over the last two to three years as rates were rising, higher funding costs were consistently highlighted as a drag on your liability-sensitive trading book. Now with rates declining, we're really not seeing that benefit from lower funding costs on the way down and I was hoping you could help us unpack what's happening on the trading side. Why the book isn't acting a little bit more liability sensitive? And should we see any funding benefit over time as the Fed continues easing?

Mark Mason

Yes. So, I think -- look I think it's -- if you turn the page that page 11 kind of highlighted the mix that -- the dynamic that you're referencing and that I spoke to which is that, we're obviously seeing lower NIR on our -- from our Markets business that's completely -- that's being completely offset in markets non-NIR. And while you're right, that we have talked about funding costs and its impact and there is a funding cost benefit that plays through as rates come down, the dynamic around the markets revenues is overshadowing that, if you will. So, this mix impact is more significant than the funding cost/benefit that we're seeing. So, an example of this, the first thing I'd say is that as you would imagine, we manage our Markets business not for NIR and non-NIR but for total revenues and so that composition and that mix can and has varied.

The NIR component is a function of the client demand and how traders manage the risk and fund positions, and so that is essentially what we're seeing play out here. So, one example of that is we could be long in asset that generates interest revenue, long for example because we have an -- we have inventory in place to facilitate that client activity. We could hedge that position with a derivative, and that impact of that hedge was hidden on NIR in principal transactions. And so it's that type of positioning that is impacting the mix and this mix is overshadowing the funding cost/benefit.

Steven Chubak

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

Mark Mason

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

Steven Chubak

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

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

Mike Corbat

Sure. I'm not, on this call, going to speak to specific names, but in the not-too-distant future, you will see us coming out. And you know our portfolio of world-class partners in our co-brands and in our Retail Services businesses and we've been working with a number of them on new value propositions around those offerings. Again, very similar to the ways that we've rolled out our own propriety products and so in the not-too-distant future, you'll hear more coming on that.

Steven Chubak

And then bigger picture, just the retail bank strategy and appetites maybe growing organically.

Mike Corbat

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

In terms of being out there buying a national consumer bank, I don't see that today but -- in particular, given where some valuations are and I think given what's at stake on the digital side of things but -- again, never dismiss it. But we're very focused on the things that we can do organically, our investment in digital.

And again, I think you've seen what we've done there in terms of on the consumer side, the institutional side, using the digital strategy to not just reinforce but continue to grow our franchise.

Steven Chubak

Great. Thanks for taking my questions.

Operator

And your next question is from the line of Erika Najarian with Bank of America. Erika, please go ahead.

Erika Najarian

Hi, good morning.

Mike Corbat

Good morning.

Erika Najarian

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

Mark Mason

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

$50 million.

Now, that is the simple math. And the impact is, in fact, greater than what that math would imply. And it's greater because the IRE analysis is based on a parallel shift and we've certainly seen flattening of the curve as well as the pace of the cuts is faster. And the impact on deposit pricing sensitivity obviously is an important factor. So, we got a curve that's flatter and lower than expected. And the impact of the future cuts will kind of depend on the pace and the shape of the curve and the competitive environment. So those are all factors that influence that simple math, but the simple math has not changed.

Erika Najarian

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

Mark Mason

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

Erika Najarian

Got it. Thank you.

Operator

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

Matt O'Connor

Good morning.

Mark Mason

Good morning.

Matt O'Connor

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

Mike Corbat

Sure. I think that without a doubt, and this was reinforced, Matt, a few weeks ago when I was in China, that in certain economies around the world, tariffs, trade tensions have certainly impacted trade. It's impacted in two ways. One, from a volume perspective, I think we see less trade in movement today. And I think the second way, which you alluded to, is that we've also seen the rerouting of trade. And the example, we gave is today, China is not necessarily consuming less soy. It's just getting its soy from different places in the world.

And so I think our ability as a global bank to move with our clients on both sides in terms of the importer and exporter and to be helping them rethink what those trade routes and what that supply chain looks like, I think we've been very effective at. And I think the other piece that, I don't think any of us can escape is that at least for right now with some of these uncertainties it has caused a slowdown in terms of trade. I think our businesses have shown a good resiliency. And again, our trade is included as part of our TTS numbers.

But to Mark's earlier point, if we can start to get some clarity on some of these things where I think businesses can have a little bit more surety of – in terms of the future, I think our trade business would definitely benefit from that.

Matt O'Connor

And do you think – obviously, this could to be a directional negative, I think, on the revenue in the near-term here. But do you think it kind of increased the relationship you have with all your global corporates, right? Because you're one of the few banks out there that can kind of shift to some of the trade mix and just let's you kind of flex maybe more of your muscles than if trade wasn't so complicated?

Mike Corbat

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

Mark Mason

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

Matt O'Connor

Great. Thank you.

Operator

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

Betsy Graseck

Hi, good morning.

Mark Mason

Good morning, Betsy.

Betsy Graseck

A couple of questions, one just wanted to understand how you're thinking about GSIB surcharge size. Because I think you're a little bit above where you were in December. Does that matter to you? Not sure if it does.

Mark Mason

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

Betsy Graseck

And is there anything in particular that you have to do to get there? Or is it just normal course?

Mark Mason

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

We think we can do that through the balance of this year and deliver as a 3% GSIB bank. If we start to see in the future growth that takes us beyond that, we want to be thoughtful and responsible about, how we capture that and ensure that we're getting the commensurate returns that make sense.

But we're actively managing how we're using the balance sheet, how we're engaged with our clients. And where it makes sense to put on higher returning assets, we're doing so. And where it makes sense to reduce those that are lower returning, we're doing so. And it's that dynamic that we'll manage to get to where we need to be for the end of the year.

Betsy Graseck

Got it. Okay, thanks Mark. So Mike, question just on the consumer business, a little bit broader. You're a nationwide business in card, and you are a little bit more targeted -- well, you used to be nationwide in mortgage. Now you're more targeted around your customer set.

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

Does deposit lead first into new geographies and then you fill them with other products? Or is -- maybe you can loop in some of the inorganic discussion that you have before?

Mike Corbat

Well I would say, today, it is primarily organic than it is fundamentally technology-driven. So using some of the things you cited that you saw, one, today from a physical presence, we've got 6 large presences across the United States.

But as you referenced, we've got truly a national cards franchise. And depending whether you cut the line at our proprietary network or you go to some of our co-brand and retail partners, we're touching as many as 70 million consumers across the United States, virtually in every state.

And I think as Mark referenced in the numbers and some of the experiments that we've doing on the deposit site, our ability to grow outside of footprint of the deposits brought in not just in the quarter, but really year-to-date, 2/3 of those brought in outside of those six markets.

Of those deposits that were brought in; over 50% of those deposits were brought in by people who do not have the relationship -- the depository relationship with the bank. And so, I think our ability to continue to build on that will be smart around the advantage we have, and that is that we know these people.

When you think about proprietary perspective or you think about the length of some of our co-brand relationships and what we know, we know where you live, we know what you spend, we know how much you earn. And by the way, we know who your bank is and we can be targeting people around that.

So we think there's a real opportunity in many ways. We think it's very much a unique opportunity because there's really no bank out there that has the same national presence that we have from our cards portfolio. So again, not just from a proprietary perspective, but how do we engage with our partners and how do we create the right value propositions in each direction. And I think we've got a good plan against that, and you're going to be seeing more of that in the not-too-distant future.

Betsy Graseck

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

Mike Corbat

And again, I wouldn't rule out – and we've been asked, Betsy, I wouldn't rule out branch openings and changing that number from six to something higher. But first, it's going to come through digital engagement. And from that digital engagement, you'll likely see us start or build on that relationship off of the card through a deposit relationship. And then like most people that are in the digital space, you continue to add on to that. And so for us, let's make sure the value proposition works. I think we're seeing that. Let's build on that. And then as we have success, open to building more branches and areas where that makes sense and certainly open to adding more products.

Betsy Graseck

Okay. Thanks Mike.

Operator

And your next question is from the line of Marty Mosby with Vining Sparks. Marty, please go ahead.

Marty Mosby

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

Mark Mason

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

Marty Mosby

Okay. And then kind of looking at the bigger picture not – in other words, I've been on your side and haven't hit a target, and you have to put a target. And yet when you say the word target, it is a target, right, it is the direction you're going in, which I think is much more important than if I'm 11.9 or 12.1. It's the direction of improvement that you're kind of continuing to be able to go through that path. And if you look at this, and I look at this particular story and investment, creating a tangible book value as a big piece of what I think we hadn't talked about is that tangible book value is up 12% over the last year. So if your tangible book value is growing double digits, you got a 3% dividend that I'd love to know your opinion on whether or not that's defensible through the downturn in the cycle, but I think we set up CCAR to make it defensible So if you have a sustainable dividend, you're growing your tangible book value and you're progression in returns is on the upward trend, then I think trading at tangible book value is a pretty good bargain. So, just wanted to kind of think about those three avenues or those metrics.

Mike Corbat

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

The other piece obviously is the flexibility we have in terms of buyback and the amount that we have there. And we've talked about the components of the combination of earnings, of goodwill, intangible DTA-type usage in there that gives us a bit more capacity, and so again, I think ample flexibility.

And as you've said in here, it's not just hitting any particular target, but in and around. And obviously, our primary focus here, which I think we try to use other things as proxies for, is to – some of the earlier conversations is continuing to on both end, absolute and relative basis, continue to grow our return on tangible common equity, so continue to take that up in any reasonable environment and also continue to close the gap to peers as part of that.

Mark Mason

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

Marty Mosby

Yes, and I think the progress and sustainability are the two key words that you talked about there. Continued progress and sustainability of what you've already achieved through any reasonable outcomes is the things that I would – I just wanted to confirm. So thanks for that.

Mark Mason

Agreed. Agreed. Thank you.

Operator

Your next question is from the line of Ken Usdin with Jefferies. Ken, please go ahead.

Ken Usdin

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

Mark Mason

Yes. Our consumer deposits, while we did get growth in volume there, we did see pressure from a spread point of view. Keep in mind, our U.S. consumer deposit is about $150 billion, and the betas are generally low as it relates to those consumer deposits. And so as – we're not – as we saw the rate environment increasing a year or so ago, we didn't see the benefits of that.

And so similarly, and we didn't see the impact of that. And so similarly, as we see rate cuts play out, we're not going to see that play through either. And so we kind of low betas on the consumer side likely to continue there.

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

Ken Usdin

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

Mark Mason

Sure. So you're right, we did see kind of CET1 come down from second quarter to third quarter. We also saw that last year as well second to third quarter as we start to execute on the capital return that's approved as part of the CCAR cycle. There's somewhat of a natural dip there, but there's also the planning that we've talked to around getting down to what we thought – what we think is a prudent level of a capital hole, which is about 11.5%.

So we are in line, I would say, with our expectations to be roughly at 11.5% by the end of the year. You'll recall that, that 11.5% has a management buffer in it. That buffer is meant to account for some of the uncertainty and volatility and some of the proposals that are still outstanding that could have an impact on capital requirements.

But at this stage, without complete clarity on how some of those things change, we feel like 11.5% is still the prudent level at which to run the firm. That means then going into 2020, we will first have to think about client demand and growth juxtaposed against what we're able to generate in the way of net income that will be available to common shareholders and the DTA that we're able to reduce.

And based on that reduction of a disallowed DTA, we will be able to determine how much capital we can in fact return to shareholders. And so that's how we'll think about capital return going forward. But the CET1 target at this stage remains at the 11.6% level.

Ken Usdin

Thanks Mark.

Mark Mason

Thank you.

Operator

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

Brian Kleinhanzl

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

Mark Mason

Yes. So we – you're right. We have been managing Mexico very thoughtfully and trying to ensure that we continue to demonstrate EBIT growth there in light of the environment that's there and softer revenues that we've been seeing.

The expense management that we're seeing there is in part a byproduct of the investments that we made in the prior year. And so some of those investments were in building out the efficiencies around our operations and so we're starting to see some of those cost saves play out in 2019 and so that is a good thing.

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

Brian Kleinhanzl

And then just a separate one on -- you mentioned there's a continuing investment in Controls and Risk, in Corporate and Other. Are you close to a point where you've reached the peak on that? Would you expect that to trend down over time or is it still feeling that's increasing? Thanks.

Mark Mason

Sure. We do we actually do expect I think I've mentioned the outlook for Corporate/Other being slightly higher going into the fourth quarter as a result of continued infrastructure costs. We think that's important to make as a franchise. That includes things like enhancing our data capabilities. It includes things like cybersecurity capabilities, improving our compliance and risk and finance infrastructure.

So, all of those things that we think are critical to not only running a safe and sound organization, but in many ways, to helping to drive better business operations as well. And so yes, we expect to continue to make investments in that area.

Mike Corbat

And I would say, Mark, within all of that, we -- it's not just the investment and the safety and soundness, but there's paybacks in and around on that in terms of being able to replace manual processes and other things.

Mark Mason

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

Operator

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

Gerard Cassidy

Thank you. Good morning Mark, good morning Mike.

Mike Corbat

Good morning.

Mark Mason

Good morning.

Gerard Cassidy

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

Mike Corbat

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

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

Mark Mason

Yes, we've seen increases in -- when you think about share, in technology, in healthcare, in consumer. And so we've seen it across a number of sectors. As Mike said, it's a byproduct of having made those investments and being positioned to serve our clients well.

Gerard Cassidy

And then in the Markets business, obviously, we've all seen on the retail side that the trading commissions have been dropped to 0 and many of the discount brokers like the Charles Schwab or Fidelity.

In cash equities in the institutional business, we all know that the cents per trade has steadily declined. Electronic trading has reduced revenues. Is there a day that we're actually going to see zero commissions possibly in cash equities following the retail side?

Mike Corbat

We could. We could. I don't think we're right there. But again, I think a lot of it, in my mind, will have to do with information and our ability to use that information and how GDPR rolls out in the U.S. and more broadly and what we're actually permitted to do with that information. I think that's a topic for another day.

But I think that you could theoretically see certain people willing to pay for that information. I think point two is that when you actually look at with the indexation, the other thing that's going on is that the economics in terms of derivatives, the economics in terms of front brokerage, the economics in terms of custody and clearing, all areas that we've been heavily investing in.

So to the extent that the cash equity trade underlies several of those activities supported by free trade around research and other pieces, I think there's more to play out in that as well.

Gerard Cassidy

Very good. And then just lastly, you talked about the success of gathering deposits digitally, and I may have missed this, and you pointed to your high-yield savings account.

To win those deposit customers are you doing it with the high-yield savings account? Or is there a cash bonus if they open up the account online, they get an extra $100 or something like that?

Mark Mason

So we are -- so first of all, we're growing deposits more broadly than just the high-yield savings account and frankly, more broadly than just the digital. We're growing through traditional channels as well.

We do have -- broke in the high-yield savings account specifically too, and that is through an offer of higher rate. But that said, what you also heard us reference was creating value propositions as well as incentives for clients to open deposit accounts with us, i.e., offering

ThankYou points, offering Double Cashback, those types of incentives that are aligned with the card as incentive for those customers to open a retail banking account with us; in this case, online or digitally.

Gerard Cassidy

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

Mark Mason

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

Gerard Cassidy

All right, thank you.

Mark Mason

You bet.

Operator

And your final question will come from the line of Vivek Juneja with JPMorgan. We are not getting response from Vivek Juneja.

Mike Corbat

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

Elizabeth Lynn

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

Mark Mason

Thank you.

Mike Corbat

Thank you.

Operator

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