TRANSCRIPT

Citi Third Quarter 2013 Earnings Review
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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 Third Quarter 2013 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, Molly. 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 will be happy to take any 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 condition 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 2012 Form 10-K.

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

MIKE CORBAT: Thank you, Susan. Good morning, everyone. Earlier today we reported earnings of $3.2 billion for the third quarter. Excluding CVA and DVA and a tax benefit, net income was $3.3 billion or $1.02 per share. Our results reflect the challenging operating environment, including a slowdown in client activity based on uncertainty regarding Fed tapering, concerns about the effect of the U.S. government shutdown and forecast for slowing economic growth, particularly in the emerging markets. Although I think we've performed relatively well in this challenging uneven environment, we cannot and are not satisfied with these results and we'll be focusing on areas where we need to continue to improve.

Turning to our individual businesses, the macro environment had the biggest impact on our markets businesses and in particular, fixed income, where the typical slowdown in third quarter activity levels was exacerbated. We also pared back some of our risks in emerging markets. That impacted trading opportunities, but it was the right thing to do for the firm. We have more work to do in equities where our derivatives performance was not where we want it to be, but year-to-date, we continue to make progress.

As for investment banking, although there were some transactions we would have liked to have participated in, we've increased our share of wallets so far this year. Our Transaction Services businesses are still being affected by spread compression, but we continue to work hard to offset that through volume growth and increased market share. In trade loans, one of the several areas where we leverage our unique global network to a competitive advantage, new originations grew 23% year-to-year.

In Consumer Banking, as expected, we faced significant revenue pressure as U.S. mortgage originations were sharply reduced and we continued to adjust to regulatory changes in other markets such as Korea. We did see strong revenue and volume growth in other markets, several of which we've designated as

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Invest to Grow. And importantly, our credit trends remain favorable as we focus on our target segments around the world.

Although we can't control the revenue environment, we certainly can control our expenses. And expenses for the quarter were $11.7 billion, 4% below the second quarter and the prior-year period. We achieved this while making investments and bearing the brunt of increased regulatory costs. We remain on track with the repositioning actions we announced late last year, which have helped reduce our head count by over 10,000 people year-to-year.

We're working on a variety of different efforts to improve our productivity. Some center on optimizing our global real estate footprint and have resulted in reducing our portfolio of sites by 73. Others seek to reduce the turnaround time for transactions and improve the client experience. More importantly, we're instilling the need for these efforts to be business as usual, and not episodic.

We also continue to make progress in two critical areas, which I've identified for you before: reducing the drag on earnings caused by Citi Holdings; and the utilization of our deferred tax assets. We reduced our assets in Citi Holdings by $9 billion during the quarter. Holdings assets now total $122 billion and are 6% of our GAAP balance sheet. And even without the benefit of an incremental loan loss reserve release, Holdings net loss was reduced for the third consecutive quarter.

While legal costs associated with Citi Holdings will likely remain elevated in the near term, we took another significant step to get past legacy issues with our agreement with Freddie Mac, that following onto our agreement with Fannie Mae during the second quarter.

Regarding our deferred tax assets, we consumed $500 million of DTA during the third quarter. This modest amount brings the 2013 total year-to-date to $1.8 billion. As you know, I want Citi to be known as an indisputably strong and stable institution and again, we made progress towards this goal. The capital we generated this quarter, primarily through retained earnings and DTA utilization, resulted in our Tier 1 common ratio increasing to an estimated 10.4% on a Basel III basis. Other key metrics also strengthened, including our supplementary leverage ratio which increased to an estimated 5.1%.

Looking towards the end of the year, we believe it's going remain a challenging environment, and growth uneven. As has been the case historically, transitioning from a lower to higher rate environment doesn't happen without causing disruptions especially in the emerging markets and we're clearly seeing evidence of that. In addition, the ongoing uncertainty regarding the Fed tapering is keeping many investors on the sidelines and that may be for an extended period of time.

In the U.S., the twin impact from the government shutdown and dangerous flirtation with the debt ceiling are clearly impacting the economy and the financial markets. The housing market is still in recovery mode, but we expect refinancing volumes to continue to decrease. We'll continue to take steps to make sure our mortgage and other consumer businesses are sized correctly.

Internationally, emerging growth has slowed and will likely remain uneven but we still believe these markets will outpace developed market growth. That being said, we manage our risk prudently and continue to adjust our appetite based on the latest trends and conditions.

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

JOHN GERSPACH: Hey. Thank you, Mike, and good morning everyone. To start, I'd like to highlight some significant items affecting our results this quarter. First, CVA and DVA were a negative $336 million pre-tax and $208 million after tax in the third quarter, for a negative impact on EPS of $0.07. We also recorded a tax benefit of $176 million related to the resolution of certain tax audit items, which had a positive impact on EPS of $0.06 per share.

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For comparison purposes, in the third quarter of 2012, CVA and DVA were negative $776 million pre-tax or $485 million after tax, for a negative impact of $0.16 per share. We also had a tax benefit last year of $582 million or $0.19 per share. In addition, in the third quarter of 2012, we recorded a pre-tax loss of $4.7 billion related to the Morgan Stanley Smith Barney joint venture, which had a negative impact on EPS of $0.94 per share in that quarter.

Adjusting for these items, we earned $3.3 billion in the third quarter of 2013 or $1.02 per share as compared to $1.06 per share on an adjusted basis in the third quarter of 2012. Throughout today's earnings presentation, I will be discussing our results excluding CVA/DVA, the tax benefits, and gains or losses on the sale of minority investments, to provide comparability to prior periods.

On slide 4, we show total Citigroup results for the quarter. We earned $3.3 billion in the third quarter, roughly flat to last year as lower operating expenses and lower credit costs were offset by a decline in revenues and a higher tax rate. Earnings per share declined 4%, including the impact of higher preferred dividends in the recent quarter. Citigroup end of period loans were flat year-over-year at $658 billion as growth in Citicorp was offset by the continued decline in Citi Holdings, and deposits grew to $955 billion.

On slide 5, we provide more detail on revenues in constant dollars which declined 4% from last year and 8%, sequentially. As Mike discussed, we faced a challenging operating environment across many of our businesses in the third quarter. In Consumer Banking, revenues declined sequentially by roughly $350 million primarily driven by lower U.S. mortgage refinancing activity, as well as the absence of $180 million gain in the second quarter. Securities and Banking revenues declined by nearly $1.3 billion sequentially, as the seasonal decline in activity in the third quarter was exacerbated by uncertainty around the timing of Fed tapering, the pending government shutdown and other geopolitical events. We also incurred losses on loan hedges, as compared to gains in the prior quarter, as spreads tightened versus the end of the second quarter.

In Transaction Services, revenues declined sequentially from a seasonally strong second quarter, which also included a $50 million gain. Year-over-year, revenues increased as growth in volumes and fees more than offset the impact of spread compression. Holdings revenues were up versus prior periods, mostly driven by the absence of rep and warranty reserve builds this quarter. Finally, foreign currency translation accounted for roughly $200 million of the recorded revenue decline versus prior periods.

As we show on slide 6, we maintained our focus on expense discipline in the third quarter. Excluding legal and repositioning costs, core operating expenses were roughly $10.8 billion, down over $400 million year-over-year and over $250 million sequentially in constant dollars. At the end of the second quarter, I said we expected to see about $200 million of incremental repositioning savings by the end of 2013. We achieved about half of that amount in the third quarter, or roughly $100 million.

The incremental $150 million of expense savings this quarter was comprised of lower performance based compensation and lower transaction costs, both of which were driven by the more challenging revenue environment in the third quarter. Legal costs remained elevated at nearly $700 million mostly reported in Citi Holdings, and repositioning costs totaled $133 million for the third quarter, mostly in Citicorp. Year-to-date, repositioning costs have averaged around $125 million per quarter. Naturally, there will be some variability quarter to quarter in these costs as we continue to pursue our efficiency efforts, but we do not anticipate taking another very large repositioning charge similar to the fourth quarter of last year.

On slide 7, we show the split between Citicorp and Citi Holdings. Citicorp generated third quarter revenues of $17 billion and net income of $3.4 billion. Year-over-year, revenues declined 7% and expenses were down 6% driven by repositioning savings, lower performance based compensation, lower legal and related expenses and the impact of FX. Credit costs in Citicorp increased year-over-year. Net credit losses continued to improve. However, reserve releases in North America cards continued to decline and were partially offset by reserve builds in Latin America consumer. We also built reserves in our unfunded corporate portfolio driven by an increase in commitments, as well as certain credits

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migrating to lower risk ratings in the quarter. Year-to-date, Citicorp revenues grew 1% and expenses declined 3%, partially offset by the higher cost of credit resulting in 5% growth in pre-tax earnings.

Turning to Citi Holdings, revenues were nearly $1.3 billion and the net loss declined to roughly $100 million in the third quarter. Citi Holdings ended the period with $122 billion of assets or 6% of total Citigroup assets.

Turning to Citicorp on slide 8, we show results for international Consumer Banking in constant dollars. On this basis, revenues grew 2% year-over-year while expenses declined 1%. In Latin America, revenues grew 6% and expenses were up 4% from last year; while in Asia, revenues declined 2% and expenses were down 4%. Revenues were down in EMEA, reflecting market exits in Turkey and Romania.

International consumer revenues continued to reflect spread compression as well as the impact of regulatory changes in certain markets, including Korea. However, most underlying drivers showed sustained momentum in the third quarter. Total average loans grew 5% from last year, and card purchase sales were up 8%.

Credit costs of $836 million in the third quarter were up 34% from last year. Net credit losses increased in dollar terms, but remained relatively stable as a percentage of loans. We also built loan loss reserves, including nearly $170 million in Latin America, roughly half of which was related to our exposure to the top three homebuilders in Mexico, with the remainder driven by continued portfolio growth as well as potential losses from recent hurricanes in that region. I mentioned last quarter that we continued to monitor the performance of our clients in the home building industry in Mexico, as well as the value of our collateral. At the end of the third quarter, our loans outstanding to the top three builders totaled less than $300 million. The loan loss reserve build in the recent quarter was driven by further deterioration in the financial and operating condition of these companies and decreases in the value of our collateral, resulting from the breach of certain of these clients' credit agreements with us as well as lower valuations. We will continue to monitor the performance of our homebuilder clients, as well as the value of our collateral to determine whether additional reserves or charge-offs may be required in future periods.

On slide 9, we show revenue details for Asia consumer. Lower revenues in the third quarter reflected spread compression in retail banking, as well as the continued impact of regulatory changes in certain markets, most significantly in Korea. Sequentially, the decline was also driven by lower investment sales revenues, which tend to fluctuate more in line with retail investor sentiment and the broader capital markets environment. Card revenues improved both year-over-year and sequentially, with continued growth in purchase sales across the region. And we saw strong revenue growth in certain markets, including Hong Kong, India, Thailand and China.

Turning to Korea, we are in an ongoing process to reposition our consumer franchise in that market to improve its operating efficiency and returns. And upon completion, Korea should better reflect our consumer franchise elsewhere around the world, with a footprint more concentrated in the major cities and a focus on high quality consumer segments. We believe revenues in Korea could begin to stabilize in early 2014, but we expect this market to continue to present a drag on year-over-year revenue comparisons for Asia through at least next year.

Slide 10 shows the results for North America Consumer Banking. Total revenues were down 12% year-over-year and 6% sequentially. Retail banking revenues of $1.1 billion declined by 35% from last year and 29%, sequentially, reflecting lower mortgage origination revenues, as well as continued spread compression on deposits, partially offset by growth in deposits and commercial loans. Also, as we mentioned last quarter, our mortgage revenues in the second quarter included a gain of roughly $180 million on the sale of an on-balance-sheet mortgage portfolio.

Cards revenues of $3.6 billion were roughly flat versus last year, as an improvement in net interest spreads was offset by lower average loan balances. On a sequential basis, revenues grew 4% as

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average loan balances stabilized in Citi branded cards and net interest spreads continued to improve. In Retail Services, spreads were lower, driven by a higher mix of deferred interest promotional balances, but loan balances grew due to the acquisition of the Best Buy portfolio.

Total operating expenses of $2.4 billion were down 4% year-over-year, primarily reflecting lower legal and related costs and repositioning savings. Third-quarter results reflected a portion of the benefit we expect from actions we have taken to reduce the expense base in mortgages in light of the lower origination activities. However, we also saw higher expenses in cards as a result of the Best Buy portfolio acquisition. The net reduction on expenses quarter-over-quarter was mostly driven by continued repositioning actions as well as reduced marketing expenses.

Credit costs increased year-over-year as net credit losses continued to improve, but the loan loss reserve release also declined to just over $200 million, driven by cards. Overall, while we faced significant mortgage and spread related headwinds in North America this quarter that are likely to continue, we also saw some progress in our core franchise. Average deposits continued to grow, up 8% year-over-year including 15% growth in checking account balances. Commercial market loans were up 15% and card purchase sales grew year-over-year in both portfolios.

Slide 11 shows our Global Consumer credit trends in more detail. Credit quality in North America continued to improve in the third quarter, with a decline in the NCL rate reflecting both underlying improvement in the portfolio, as well as the impact of purchase accounting for the Best Buy portfolio acquisition. In Asia and EMEA, we also saw stable to improving credit trends. And in Latin America, the net credit loss rate has remained fairly flat for the past several quarters. We expect the fourth quarter NCL rate in Latin America to remain roughly flat to third quarter levels. However, as we've stated previously, the rate could be higher if we incur any material losses on our exposures to homebuilders in Mexico.

In addition, as I mentioned, we took reserves this quarter for estimated potential losses resulting from the two recent hurricanes in Mexico. Any such losses may increase our NCL rate in the coming quarters. However, we would expect these losses to be charged against the reserve, and therefore they should be neutral to the overall cost of credit.

Slide 12 shows our Securities and Banking business. Revenues of $5.1 billion declined 10% from last year and 20% from the prior quarter. Investment banking revenues of $839 million were down 10% from the prior year and 19% from last quarter, mostly in line with the overall market. While revenues declined in the third quarter, our franchise continued to show momentum year-to-date with revenues up 10% year-over-year and wallet share gains in most major products.

Equity market revenues of $710 million were up 36% from last year, reflecting market share gains as well as improvement in our derivatives trading performance. Sequentially, equity market revenues declined 25% as cash equity revenues declined broadly in line with overall market volumes and trading performance was weaker in derivatives. While our derivatives results were lower this quarter, we continue to make progress in building this franchise, which contributed to the 24% growth in equities revenues year-to-date.

Fixed income market revenues of $2.8 billion declined 26% from a particularly strong third quarter last year, when we benefited from an environment with strong liquidity, more robust client activity, and significant credit spread tightening. By contrast, the recent quarter reflected a general slowdown in client activity, exacerbated by uncertainty around the timing of Fed tapering, the pending government shutdown and other geopolitical events. Sequentially, fixed income revenues declined 17%, reflecting the slowdown in activity as well as actions to pare back risk given increased volatility in the emerging markets.

Private bank revenues of $614 million were up slightly from last year, and down 5% sequentially driven by lower capital markets activity. Lending revenues, excluding the impact of gains and losses on hedges

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related to accrual loans, were $377 million in the third quarter, down 10% from last year on lower volumes and down 6% sequentially on lower spreads as well as losses on loan sale activity.

Total operating expenses of $3.4 billion were down both year-over-year and sequentially, reflecting the impact of headcount reductions and lower performance-based compensation. For the first nine months of 2013, total revenues increased 6% over last year driven by equities and investment banking, while expenses declined 3%, resulting in 13% net income growth.

Moving to Transaction Services on slide 13, revenues of $2.6 billion were up 2% from last year in constant dollars, as strong fee income growth more than offset a decline in net interest revenues. Treasury and Trade solutions was up 1%, as volume and fee growth was partially offset by the impact of spread compression globally, and Securities and Fund Services revenues grew 3%, as higher settlement volumes in fees more than offset lower spreads.

Sequentially, revenues declined 4%, reflecting seasonally strong client activity, and a one-time gain of roughly $50 million in the prior quarter. Spread compression continued to dampen revenues this quarter. However, the volume drivers for Transaction Services showed sustained momentum. Trade loan originations grew 23% year-over-year. Average deposits were up 4%. Assets under custody grew by 9% and SFS settlement volumes grew 11%. Expenses of $1.4 billion grew 4% year-over-year in constant dollars driven mainly by higher volumes, partially offset by efficiency savings.

While expense growth outpaced revenue growth in the third quarter, we continue to believe the business can achieve positive operating leverage in total for the second half of 2013, even when excluding the repositioning costs incurred in the fourth quarter of last year.

Slide 14 shows the results for Corporate/Other. Revenues were up versus the prior year driven by hedging activities, partially offset by lower AFS sales while expenses declined mostly reflecting lower legal and related costs. Assets of $313 billion included approximately $119 billion of cash and cash equivalents and $139 billion of liquid available-for-sale-securities.

Slide 15 shows Citi Holdings assets. We ended the quarter with assets of $122 billion in Citi Holdings or 6% of total Citigroup assets. The $9 billion reduction in the third quarter reflected $4 billion of asset sales, and $5 billion of net pay downs.

On slide 16, we show Citi Holdings' financial results for the quarter. Total revenues of $1.3 billion were up year-over-year and sequentially, primarily driven by the absence of rep and warranty reserve builds this quarter.

Citi Holdings expenses increased 16% year-over-year to $1.4 billion, driven by higher legal and related costs. Excluding these legal costs, core operating expenses declined 16% to roughly $790 million. Net credit losses continued to improve in the third quarter, driven by North America mortgages and we released $679 million of loan loss reserves including a release of roughly $725 million in North America mortgages, partially offset by losses on asset sales.

Regarding the mortgage reserve release, roughly $425 million of reserves were utilized to offset net credit losses in the third quarter, and the incremental $300 million reserve release was driven by continued improvement in delinquencies and home prices year-to-date. Looking to the fourth quarter, assuming the U.S. economic environment remains favorable, we expect to utilize loan loss reserves to offset virtually all of our mortgage net credit losses, but we do not currently anticipate additional reserve releases beyond that level. We ended the period with $5.7 billion of loan loss reserves allocated to North America mortgage loans and Citi Holdings, or 40 months of NCL coverage.

Looking at the past five quarters of Citi Holdings results on slide 17, the pre-tax loss in Citi Holdings improved again this quarter, even excluding the incremental $300 million reserve release in mortgages.

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However, while the adjusted operating margin on the upper left panel on this slide increased significantly in the past two quarters to roughly $500 million, it will likely trend lower as each of the last two quarters included some level of positive marks or episodic gains. We expect mortgage net credit losses to continue to improve with reserve releases trending in line with NCLs. And legal costs will likely continue to be elevated and somewhat volatile in the near term.

On slide 18, we show mortgage loan and adjusted net credit loss trends. We ended the quarter with $76 billion of North America mortgages in Citi Holdings, down 20% from a year ago, while net credit losses declined 50% and the loss rate improved by over 130 basis points. These mortgages include approximately $12 billion of loans originated in our legacy CitiFinancial business, the vast majority of which are residential first mortgages.

While the NCL rates on CitiFinancial loans have improved, the loss rates on these loans tend to be higher at just over 5% in the third quarter, as compared to less than 1% for residential first mortgages originated by CitiMortgage. We sold roughly $500 million of mortgages this quarter, most of which were non-performing for a total of $6.4 billion of mortgage sales year-to-date.

On slide 19 we show delinquency trends, including both residential first mortgages and home equity loans. Thirty-plus day delinquencies continued to improve, down 9% sequentially to $5 billion. FICO and LTV trends also remained favorable through the third quarter, and we provide these details in the appendix on slide 38.

On slide 20, we show Citigroup's net interest revenue and margin trends. Net interest revenues totaled $11.5 billion in the third quarter. In constant dollars, net interest revenue was roughly flat to the prior quarter and down slightly versus last year. Our net interest margin in the third quarter decreased by four basis points, reflecting lower loan yields and an increase in cash balances, partially offset by an improvement in funding costs. Looking to the fourth quarter, we expect NIM to remain roughly flat.

On slide 21 we show our key capital metrics through the third quarter. Under Basel III our estimated Tier 1 common ratio increased to 10.4%, driven by retained earnings and DTA utilization. Citigroup's estimated supplementary leverage ratio was 5.1%, up from 4.9% last quarter. And the supplementary leverage ratio for Citibank remained above 6% for the third quarter.

In summary, we clearly faced a challenging environment in the third quarter with a slowdown in client activity, a continued low rate environment and declining mortgage originations all posing significant headwinds. But against this backdrop, we managed our business well with a continued focus on efficiency and growing our loan portfolio in a disciplined manner. We are on track to meet the repositioning targets we announced at the end of last year. And underlying credit performance remained favorable.

We also continued to make significant progress in winding down Citi Holdings, which is now just 6% of total Citigroup assets. Year-to-date, the quarterly drag from Citi Holdings is down significantly from last year, even excluding the incremental mortgage reserve release this quarter. And finally, we continued to grow our capital, benefiting from a combination of earnings and further DTA utilization. We ended the quarter with an estimated Basel III Tier 1 common ratio of 10.4% and an estimated supplementary leverage ratio of 5.1%, one of the strongest capital positions in our industry.

Looking to the fourth quarter, in North America consumer, we expect continued headwinds in mortgages, although some of this pressure should be offset by additional revenues from the acquisition of the Best Buy portfolio. Net credit loss trends in North America should remain favorable, although we expect net loan loss reserve releases to moderate, given the need to build reserves for new loans originated in the Best Buy portfolio.

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In international consumer, in total, we expect continued volume growth, albeit somewhat offset by ongoing spread compression globally. Growth will likely be driven by Latin America, as we expect our repositioning efforts in Korea to continue to present a drag on year-over-year revenue comparisons in Asia in the near term. And international consumer credit costs should generally trend in line with loan growth.

Turning to our institutional businesses, our Securities and Banking results will likely continue to reflect the overall market environment, with a goal of steadily gaining wallet share over time with our target clients. And in Transaction Services, we expect continued volume and fee growth to help offset the ongoing pressure of the low rate environment.

So in total, we see a continued challenging operating environment in the near term, but we remain focused on those aspects of our business that we can control. Our results year-to-date reflect the strength of our franchise, and our progress towards our key priorities: gaining share with our clients, generating consistent earnings and building our capital base.

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

OPERATOR: (Operator Instructions) Your first question comes from the line of John McDonald with Sanford Bernstein.

JOHN MCDONALD: Hi. Good morning. I was wondering how you're feeling about some of the 2015 financial targets. If we look at the ROA target of 90 to 110 basis points in 2015, we look at this quarter, you had 69 basis points; year-to-date, around 80. What do you see as the key drivers to getting towards the 2015 goals?

JOHN GERSPACH: Well, John, as we've talked about, reducing the losses in Citi Holdings is certainly one of the key goals that we see in driving us towards the goal of generating ROA of between 90 and 110 basis points in 2015. And we'd also look for some modest amount of net income improvement coming out of Citicorp as well.

JOHN MCDONALD: On the Citicorp side, John, I guess the efficiency goal is part of those 2015 targets, around mid-50%s. I'll just call it 55% or so. You had 61% this quarter on the efficiency ratio, 57% year-to-date. So I guess that implies some additional savings to be realized or revenue growth? Could you talk about getting to those efficiency goals?

JOHN GERSPACH: Yeah, as we've said when Mike laid out those efficiency goals back in March, the environment that we anticipated was low single-digit growth in revenues, and I think that's pretty much the environment that we've seen and certainly might expect to see in the near term. So we do anticipate most of the contribution towards those efficiency targets to come out of the expense line.

And I think as you've seen, we've been delivering on the repositioning savings that we talked about after that fourth quarter reserve that we took last year, and we continue to try to find additional efficiency savings throughout the businesses.

JOHN MCDONALD: And just on that, could you remind us, you mentioned the incremental efficiency saves this quarter, could you just remind us if you tally up what you are shooting for with last year's. I think it was $900 million. This year, where are you on that cumulatively?

JOHN GERSPACH: Yeah, as we've said, at the end of the second quarter, I walked everybody through where we were, and we said – our estimate was that you'd see $300 million of the savings in the run rate in the fourth quarter. The $300 million therefore representing exactly what we had said we would get, which is a total annual save of $1.2 billion. And we had about $200 million of additional run rate savings to generate from the end of the second quarter. And as I mentioned, we generated about half of that, say,

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$100 million, in the third quarter. So we've got about $100 million more to bake in to our fourth quarter results.

JOHN MCDONALD: Okay. So we should look for that to kind of come off the $10.8 billion adjusted expense number, assuming a similar revenue environment?

JOHN GERSPACH: Yeah, I'd say that if you look at – if volumes and the environment stays the same, you'll see the repositioning savings come through maybe partially offset by some incremental seasonal marketing expenses. So I don't want you to just take the $10.843 billion and take an even $100 million off and get $10.743 billion. The rounding could end up leaving us at rounding at $10.8 billion. But you should see the expenses come down.

JOHN MCDONALD: Okay. Thank you.

JOHN GERSPACH: Again, John, assuming that the environment stays where it is.

JOHN MCDONALD: No. Understood, understood. But I guess, John, thinking about next year as we go from 2014 to 2015, it seems that you would – if revenues aren't going get better, you would need to do more than $10.7 billion, $10.8 billion, or beyond the repositioning saves you've announced for this year to get that efficiency ratio towards the 2015 targets, are we – seems reasonable to expect more saves whether you announce them or not in 2014?

JOHN GERSPACH: Well, as I said, we're going be committed to delivering the efficiency targets as we laid out for 2015. And as you noted John, year-to-date, we've already got an efficiency ratio of 57% in Citicorp. So I think that we've already made a fair bit of progress this year in going from where we ended up in 2012. So I think that we'll continue to make progress towards the 2015 goal in 2014.

JOHN MCDONALD: Got it. Okay. Thank you.

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

GLENN SCHORR: Hi. Thanks very much. A two-parter quickly on reserves. One, I just want to make sure, the reserve build that you spoke about, especially on the international side, is a function of growth and not some concerns on credit?

JOHN GERSPACH: The two particular areas of "credit concerns", Glenn, that we had in the quarter, were the homebuilder loans that I mentioned, and the impact of the hurricanes, those two hurricanes that hit Mexico during the month of September. So when you think about the $170 million reserve build that I mentioned for Latin America, three-quarters, maybe a little bit more of that build were really associated with those two items.

GLENN SCHORR: I got you.

JOHN GERSPACH: And the rest is portfolio growth.

GLENN SCHORR: Okay. Good. Good. That's just a clarification. And then you also said inside Holdings, I think this quarter you had the $725 million, you broke down the portion related to losses and portion related to just overage and led us to not more than just losses in the fourth quarter. Just curious, you follow that up with 40 months of coverage, what's holding back a little bit more? Because the trends on credit seem great.

JOHN GERSPACH: Yeah, the trends on credit are great. And like with anything else, we'd like to see where the environment is going into the fourth quarter. There still is a bit of an unsettled environment out there, as you may know, and you may see yourself. But in general, when you look at 40 months of

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coverage, and I'm not saying we're always going stay at 40 months of coverage, but it won't be unusual or shouldn't be unusual for us to have a fairly high months coverage ratio on NCLs. When you think about the fact that TDR, troubled debt restructurings, represent just under 20% or so of our first mortgage portfolio in Holdings. And as you think about it, Glenn, the LLR that you need to hold for a TDR is in all intents and purposes, it's a discounted value of a life of loan reserve. So as such, I just think that you should expect that our LLR is going continue to represent a fairly significant months of NCL coverage for some time.

GLENN SCHORR: Okay. I got you. Anything you could help us with on the mortgage revenue runoff will happen quickly as we've seen and typically, there's an expense lag of a quarter or two. Is there anything material you can point to that over the next of couple quarters, as you adjust on that lag, that even in no change worlds, you'll get some efficiencies just from running through the normal process?

MIKE CORBAT: In that – Glenn, it's Mike – you're referring in this instance to the mortgage business in Corp not the Holdings run-off?

GLENN SCHORR: Correct, correct.

MIKE CORBAT: Yeah. In there, so what we've spoke to is we've clearly – as the company clearly as an industry seen the slowdown coming out of the change of stance in May from the Fed, and we started very quickly, in anticipating that, to take actions in the second quarter. We've taken more actions in the third quarter. You've probably read in the press some of those actions we've taken. Unfortunately, there's a lag to that because in the area of fulfillment, we've got commitments that we need to process and get through the pipes. But we're focused on it and clearly making sure that our mortgage business fits what we see as the future capacity, future necessity and demand of that sector.

GLENN SCHORR: Okay. I think that I get that loud and clear. Last one is just in FICC, I understand the choppiness, and you referred to it a couple of times on the macro stuff that delayed the quarter or it impacted the quarter. Just curious if it was particularly acute within emerging market FX or within credit, just so we can adjust for ourselves because we're well below something like a 12-quarter average number.

JOHN GERSPACH: Yeah, and Glenn when you think about the impact of – on the FICC revenues, it certainly had the largest impact – the largest product that was impacted quarter-on-quarter and year-over-year was certainly our rates and currencies business. And you wouldn't be wrong in thinking about the fact that there was a fair degree of that impact that was concentrated in the emerging markets. And that's really due to the fact that in the third quarter, even towards the end of June, we saw a high amount of volatility in certain emerging markets.

In some cases, we saw spreads widening between 50 and 250 basis points. So as a result, we pared back our risk in many of those markets while still providing liquidity to our customers during this period of turmoil. So I'd say that the combination of the high volatility and our intentionally running a lower risk in many of the markets made for a more difficult trading – a more difficult environment for us to capture trading opportunities.

GLENN SCHORR: I'm with you. All right. I'm good. Thank you very much.

OPERATOR: Your next question comes from Gerard Cassidy with RBC.

GERARD CASSIDY: Thank you. Good morning.

JOHN GERSPACH: Hi, Gerard.

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GERARD CASSIDY: On the $300 million of Mexican loans that you identified, what types of loans to build – are they raw land loans or are they working capital loans? What type of loans are they?

JOHN GERSPACH: They're development loans. They're building loans as far as people are building. They have the land and they're looking for construction type of loans.

GERARD CASSIDY: Okay. And in terms of your Transaction business, you've talked about the challenges that you're having with the spreads and it's been like this for some time because of the low rate environment. Can you share with us what kind of interest rate environment would be ideal for that business to start seeing wider spreads?

JOHN GERSPACH: I don't want to be short rising rates, but particularly rising rates in the, I'd say in the current to five-year area. So far, to the extent we've had any sort of rising rate environment, it's been more out towards the 10-year and higher. And we really need the shorter tenors to begin to rise to really benefit that business.

GERARD CASSIDY: Would you benefit more for the rates here in the U.S., or in the E.U., or is it 50-50? Which rates may work better once they start rising?

JOHN GERSPACH: Well, U.S. rates would definitely have a faster and certainly more impactful hit on us.

GERARD CASSIDY: You, like your peers, I presume, have made comments to the Federal Reserve about the SLR that they've proposed. What's your folks' view on the possibility of them easing up or giving you guys some relief in the way they're defining the assets that you're going use in the denominator for that equation, such as cash at central banks? Do you think they might pull that out of the equation or are they really focused on just keeping it the way it is?

JOHN GERSPACH: Now that's a little difficult to answer. The comment period only ended a brief time ago, and so we'll have to see how the Fed and others take a look at the various comment letters that were submitted. And I'd say that, as I normally do, we continue to have constructive dialogues with our regulators, and so we'll have to see how they react.

GERARD CASSIDY: Coming back to Citi Holdings and talking about the loan loss reserve releasing, if we were to see housing prices appreciate in 2014 in the mid to high single digits, down from where we've seen low double digits, would that give you more confidence to release more reserves?

JOHN GERSPACH: Well, I don't want you to think that the amount of loan loss reserves that we need to hold – that we think we need to hold is solely linked to home price movements. I mean it's that, it's also a bit of the overall economy. So there's a lot. There's what's going on with delinquencies. And as I mentioned to one of the prior callers, it also has to do with the amount of TDRs that we have in the portfolio where you're really then dealing with, like I said, almost a discounted life of loan reserve. And that's not necessarily going to get influenced tremendously by movements in HPI.

GERARD CASSIDY: And then finally, John, if on Slide 31, you guys give us good detail on the consumer credit delinquency trends, and obviously, they're going in the proper direction from the total portfolio. Are there any in those sub-sectors, whether it's Mexico or Korea, that concern you the most or what we should kind of keep an eye on? Because again, the total numbers are good but some of the sub-sectors are going the opposite direction.

JOHN GERSPACH: Well, I'd say that the ones that you would think about are the ones that we're focused as well, which is I mentioned Mexico, not that we've got a tremendous worry in Mexico, but we called out a couple of things with the homebuilders and we'll have to assess the impact of the recent storms. Mexico is also going through a period where they're still absorbing the change in administration, and a lot of the reform work that is going on with the new administration. And so we think that long term,

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that's beneficial, but it's certainly had a slowdown in growth in the near term in Mexico. But Mexico and Korea, those are certainly the countries where we've got the two largest portfolios, and so those are certainly two good ones to watch.

GERARD CASSIDY: I appreciate it. Thank you.

JOHN GERSPACH: Not a problem.

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

JIM MITCHELL: Hey. Good morning.

JOHN GERSPACH: Hey, Jim.

JIM MITCHELL: How are you? Just a quick question. You're down to 6% of assets out of Citi Holdings, but the RWAs are still at 20%. Is that all a function of the mortgage side or is there some idiosyncratic or large RWA assets in like, say, SAP that we could see some more progress on the RWAs on the Basel III side?

JOHN GERSPACH: Yeah, it's a combination of both things. I mean there are, as you put it, some idiosyncratic, but they're somewhat small as well. I mean the largest impact that we're going to have on driving down RWA over time will still be resident with the mortgages. But there are a few things that are in SAP, such as we got a lot of the hold-to-maturity securities, and that's going to certainly impact us.

And the other one that is sort of – it exists below the surface - is op risk. Don't forget op risk also forms – when you get into a Basel III environment, there's a decent chunk of your RWA that is constituted by op risk, and that is a much longer term part of your capital base to try to get rid of. So it's largely mortgages. There's a couple of things in SAP that could give us a pop, but op risk is also going to take some time to work our way out of.

JIM MITCHELL: Should we expect any pop from the sale of some of the hedge fund and private equity assets that looks like will close in the fourth quarter?

JOHN GERSPACH: Not really.

JIM MITCHELL: Okay. And maybe another question on the SLR, it seems like there's been more effort to use compression trades and it's unclear on the benefits of OTC clearing, but I would assume that would also be positive on notional values. Have you got any sense on whether you think that's a big item, a small item? Obviously, you can't give any numbers, but do you think that could have some positive impact on SLR going forward?

JOHN GERSPACH: I clearly think it could have a positive impact on the SLR going forward. I think the magnitude of the impact is something then that we'll have to see over time, just to see just how much of that we can actually accomplish.

JIM MITCHELL: Okay. And last question just on – I'll ask a question on CCAR. You guys obviously, with one of the strongest Basel III ratios, the new stress test will partially use Basel III, and your SLR's above 5% already. Do you guys feel a lot better, still cautious? How do we think about your approach to CCAR next year or the end of this year?

MIKE CORBAT: Well, I think versus a year ago, Jim, I'd say we certainly feel better. And we feel better by a few things. We laid out that we wanted to get the right result in terms of last year's submission. I think we got that and I think importantly, it just wasn't the quantitative piece, it was the qualitative piece. And since then, I think we've shown the ability to generate capital in a meaningful way when we kind of

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get the right things working; the combination of Corp earnings, reducing the drag in Holdings, the utilization of DTA, and I think we've started to build a track record of that.

But I think we've got more work to do. We continue to be in a challenging operating environment, and as John and I have described, I don't think that's going change. At this point, we really don't know the scenarios and what they're going be, so we'll take those onboard, we'll see how the fourth quarter shapes up, and then we'll start to make some decisions in terms of what our submission might look like.

JIM MITCHELL: All right. Thanks.

MIKE CORBAT: Okay.

OPERATOR: Your next question comes from Guy Moszkowski with Autonomous Research.

GUY MOSZKOWSKI: Good morning.

JOHN GERSPACH: Hi, Guy.

GUY MOSZKOWSKI: Hi. First question is on one of the items that you signaled broadly that you can control which is your expense structure. Obviously, Securities and Banking saw a pretty significant decline in revenue and we know that expenses can be sticky, but it seemed as if they were very sticky when you assess the efficiency ratio there even ex the DVA issues. And I was wondering is there some high level of litigation reserve build maybe that's encompassed within the expenses there this quarter?

JOHN GERSPACH: Yeah, there's a minor amount of litigation expenses but I don't think it's anything that would be driving the expense view in Securities and Banking, otherwise, we would have called it out for you.

GUY MOSZKOWSKI: I think you might have mentioned in a press interview earlier today that you guys saw private label securities as still an open issue, and I wasn't sure what you – exactly what you meant to say with that but maybe you can give us a sense for whether we should be expecting more litigation reserve build as a result of that?

JOHN GERSPACH: I think the question was more in terms of what issues remain open from a litigation point of view relating to mortgages, and it was in context to – again, it was more on the dealing with Holdings and the litigation expenses that we had in Holdings, and the fact that with the agreements now that we had reached with Fannie and Freddie, we had pretty much put the repurchase risk with those two – with the GSEs behind us. And my comment was that the only area – the largest remaining area of mortgage litigation that I think the industry still faced had to do with private label securitizations.

GUY MOSZKOWSKI: Got it. And if you were building reserves for the private label litigations that did affect you for underwriting and originations that you had done prior to 2009, would that reserve build be in Holdings?

JOHN GERSPACH: Yes, it would.

GUY MOSZKOWSKI: Okay. That's helpful. And then the final question, since we're talking about Holdings expense levels, as you called out, ex all that stuff, your expense levels in Holdings were down about 16% year-over-year, which is obviously the trend that we all want to see. But I was wondering if you could give us a little bit more guidance over the next one year to two years. How should we see the expense that's in place for managing all those Citi Holdings assets come down as the assets do?

MIKE CORBAT: Yeah, I think – Guy, it's Mike – is that it's tough to predict what asset sales will look like. Clearly, we've been in a transitioning rate environment, and John had talked about our ability to sell or our

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desire to sell re-performing mortgages and, obviously, not only shed the asset but take the expense out. So I think in this environment, it's tough to know and have a crystal ball looking forward in terms of what sales will look like. And therefore, I think it's difficult to judge what expense reductions will look like.

But as we've been, we're going to continue to be focused on trying to manage those expenses down. And again, as we look at asset sales, it's not just about the asset sale, the capital release, the risk reduction; it's also about the expense reduction. We look at those things in aggregate, and we're going to continue to do that and take advantage of those things that are out there, but really tough to predict.

GUY MOSZKOWSKI: And then maybe just a follow-up on that, maybe you can give us update on how you're managing OneMain?

MIKE CORBAT: Sure. OneMain is a business that we put through a pretty sizable restructuring. Probably today one of a few, if not only, of scale, branch-based sub-prime consumer lending businesses. Not a business as we've said that fits long-term with us, but again, I think things that have gone on from a regulatory and a credit dynamic, there's a real part of society that needs to be served. We think OneMain is very well positioned to do that. And at the point in time where somebody comes along and is willing to pay us a price that we think the business is worth, then we'll be happy to consider that. But until that, we're going to continue to run the business and have it best positioned for that day.

GUY MOSZKOWSKI: Great. Thanks very much for taking my question.

JOHN GERSPACH: Not a problem, Guy. Thank you.

OPERATOR: Your next question is from the line of Chris Kotowski with Oppenheimer & Co.

CHRIS KOTOWSKI: Just a follow-up on the difference between RWAs and assets in Holdings. You mentioned that a big portion of the difference is operating risk. And I'm just – most of Holdings looks like a mortgage company now. And I'm wondering to what extent is there still an operating mortgage company there? I thought of it mainly as just basically holdings of loans and assets as opposed to an operating company.

JOHN GERSPACH: Well, you do have to service those assets.

CHRIS KOTOWSKI: Okay. But it's purely a servicing, it's not an origination.

JOHN GERSPACH: Correct. And you may think about the fact that certainly in the last couple of years, a lot of the expense that has been incurred by people in the industry, including elevated NCL rates, including some of the additional expense dollars that people have had to put in it, have been associated with what has been determined to be operating deficiencies for these mortgages. So there is still a certain amount of op risk that we need to account for in our Basel III risk-weighted asset determination.

CHRIS KOTOWSKI: Okay. But should one expect over time that the RWAs will track down roughly in line with the assets decline? Because...

JOHN GERSPACH: Yes.

CHRIS KOTOWSKI: We didn't see that this quarter, though.

JOHN GERSPACH: Let's see. On Holdings, the GAAP assets came down $9 billion, and the risk-weighted assets in Holdings came down about $13 billion. So it's...

CHRIS KOTOWSKI: More or less in...

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JOHN GERSPACH: More or less in line. I mean I wouldn't want you to – again, it has to do with mix and everything else. I don't think you're going be able to just look always and say it's exactly in a ratio of x:x. Plus, as I mentioned, that op risk does not come down ratably based upon the sale of assets.

CHRIS KOTOWSKI: Okay.

JOHN GERSPACH: To the extent I'm servicing a loan, I still have op risk.

CHRIS KOTOWSKI: Okay. And then another question, just on the Best Buy acquisition, should we expect that to have roughly the same profitability of your other partner cards, or is it theoretically should be disproportionately better impact in that supposed – I would assume there's some – that you'd get efficiencies on the expense side and managing that in your existing business.

JOHN GERSPACH: Yeah, I would say that, over time, you should expect it to contribute to increased profitability in Retail Services. But in the near term, it's likely to actually be a drag on profitability growth, only because of the mechanics that are involved in calculating now the loan loss reserves that we need to put up on Best Buy.

Under purchase accounting, the acquired portfolios now, we bring them on our books at fair value – fair market value. And so then as you – which means they come on without any loan loss reserve. Therefore, as you build each new loan, as each new incremental loan comes on your books, you need to start putting up loan loss reserves for the estimated inherent losses in those loans. And there's no benefit from old loans rolling off your books, so you don't see any reduction in LLR because you've got old loans rolling off. So the first 12 months, maybe the first 15 months of the acquisition, you're going to see an accelerated build of LLR just resulting from the mechanics before everything smoothes itself out.

CHRIS KOTOWSKI: Okay. And the tax books work the same way?

JOHN GERSPACH: Well, the tax return won't reflect, but I think what you're interested in is the DTA aspect.

CHRIS KOTOWSKI: Correct. Do acquisitions help the DTA?

JOHN GERSPACH: They do over the longer term. But they say I have to provide – I take tax benefit for the LLR just as I do with any other business. So again, it's a – the first year or so, it'll be less beneficial than you might otherwise think.

CHRIS KOTOWSKI: Okay. And then finally, just to just ask Guy's question a different way, in Securities and Banking, we saw revenues go from $6.4 billion to $5.1 billion, so down $1.3 billion but expenses only came down $100 million. And should one just not look at it on a linked-quarter basis? Or – I mean it just didn't seem like they came down in line with revenues.

JOHN GERSPACH: Yeah, I actually agree with your comment. I think that quarterly – quarter-on-quarter expense variations in that business can be a bit misleading. I personally believe that to really get a true picture of how a firm is managing its expense base, you need to look at its performance over a full year. And I think if you do the analysis and if you look at the expenses in that business, just take out our fourth quarter 2012 repositioning reserve, and you look at those expenses on a trailing 12-month basis for a run of quarters, what you're going to see is that expenses both in the ICG and Securities and Banking have been steadily declining since the first quarter of last year. So, on a trailing 12-month basis, the efficiency ratios in both ICG and Securities and Banking have also been steadily improving during that same timeframe.

And I think that if you take a look at that and you compare our efficiency ratios on a trailing 12-month basis over that timeframe with our peer institutions, using the ICG ratios for the universal banking peers

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and the Securities and Banking ratios for our more pure-play investment banking peers, I think you're going find that we hold up pretty well. And almost every quarter, our trailing 12-month expense efficiency is better than each of our peers.

CHRIS KOTOWSKI: Okay. Fair enough. Thank you.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Mike Mayo with CLSA.

MIKE MAYO: Hi. I wanted to follow up on that last question and it's been asked several times. So if we were to accept that your trailing 12-month expense efficiency looks good but still I think the issue is the quarter-on-quarter decline, you said it could be misleading in the bigger picture of things, but at the same time what we've heard is macro still has headwinds, markets are still unsettled, it's a challenging operating environment, and you only have $100 million of expense savings left. So I think the concern is, is this potentially an inflection point from what's been a decent trailing 12-month record, but now we're going into an area that's maybe not going to get us positive operating leverage?

MIKE CORBAT: Well, I think, Mike, I'll start and John can chime in. When we laid out our public targets in spring, we laid out an efficiency ratio which we then went on and spoke to what portion of that's Consumer versus what's ICG, and we spoke to mid to high 50%s for ICG. And so clearly, those businesses have taken that on. And again, we've talked about tepid top-line growth in terms of low single digits, and the businesses have to onboard that, and they have. And they've got to obviously – they've got to work to achieve that.

So I don't think there's a mystery or there's any surprise to what needs to be done. And again, I think those metrics were designed without looking at overreaching revenue targets. And so again, I think they're in line and we'll continue to adjust. And I think you've seen, away from the significant repositioning charge in the fourth quarter, you've seen us at a run rate somewhere, plus or minus, $100 million, $125 million a quarter. Again, going at it in that BAU we described and obviously some of that's coming out of ICG, and we'd expect them to continue to keep doing that in their business.

MIKE MAYO: So how should I think about this? For the firm as a whole, revenues from the second quarter to the third quarter were down $1.6 billion and expenses were down roughly $300 million. So that's a $1.3 billion gap linked-quarter. You get the other $100 million of savings; it's still a $1.2 billion gap. So either revenues need to improve or stabilize in certain areas or expenses have to go down a lot. Where is the extra leverage?

JOHN GERSPACH: Mike, I still think you're focused on the quarter-to-quarter. And again, the targets that we set out were targets for a full year. And I think that when you take a look at performance, you want to judge the performance over a full year. Now, granted if you want to take a look out a full year, that's okay. So judge us by how we perform then over that full year when we get there.

But the targets specifically that we set out for Securities and Banking back in March is we said that in 2015, we would be able to run Securities and Banking with an efficiency ratio of between 55% and 60%. And people at that point in time thought that that was a pretty good target to aim for. Well, in fact, if you take a look at our Securities and Banking business on a trailing 12-month basis, we're operating that business at a 57% efficiency ratio.

MIKE MAYO: Okay. Yeah, I guess the test will be a year from now as we look back. And are you as confident as you were before that you'll have positive operating leverage looking ahead?

JOHN GERSPACH: We're still committed to getting to the efficiency ratios that we laid out for 2015 as well as the ROA targets that we laid out for 2015.

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MIKE MAYO: Okay. If I can shift gears, on Citi Holdings, what were the losses on the asset sales of $4 billion?

JOHN GERSPACH: I don't have that number in my head, Mike. I'm sorry.

MIKE MAYO: But it was a loss?

JOHN GERSPACH: I don't even know. It could have been a slight net gain. I actually think it was a slight positive this quarter. That's one of the reasons why I called out the fact that the $0.5 billion in the upper left quadrant of that one chart is something that I think will likely come down, just because there were some episodic gains in that $0.5 billion.

MIKE MAYO: So how should we think about pre-tax earnings in Holdings? I mean the last four quarters, it's gone from negative $1.7 billion, negative $1.3 billion, negative $900 million, negative $500 million, so that's a nice trend, but you said don't read too much into home price appreciation. So if we were trying to model that, what would you point us to?

JOHN GERSPACH: Well, our target is still to drive Holdings to breakeven – to close to breakeven by 2015. And I think that we're still on a path to do that, but I don't want you to think that that path is going to be linear. There's likely to be some ups and downs in that. But in general, the trend is moving towards breakeven by 2015.

MIKE MAYO: Since you're getting so close to that target now, why wouldn't you revise that projection from 2015 to, say, late 2014 even?

JOHN GERSPACH: Well, I mean the target that we put out was in March, so we're seven months into achieving a target that we said we would do over – you do the math – I guess it's somewhere around 33 months. So we still have 26 months to go till the end of 2015.

MIKE MAYO: Okay. And then as it relates to emerging markets, you said revenues in Korea should stabilize early next year. With all the regulatory and other changes taking place there, what gives you that confidence?

JOHN GERSPACH: It's the way that we're looking at the business. And again, when I throw things out like that, that's what we think should happen, and it's based upon how we see the runoff in existing portfolios that we think are going to come down and based upon the environment that we see. If there's a significant change in the environment, then, as we always do, we will update you on our new views.

MIKE MAYO: Can you remind us how long you've been repositioning Korea? It's been, what, a couple years now?

JOHN GERSPACH: It certainly has been in excess of one year, yes.

MIKE MAYO: And last question, going from what you can control to what you can't control, as it relates to the government situation in the U.S., have you been selling treasuries to help protect yourself?

JOHN GERSPACH: As a matter of fact, I got that question earlier today on the media call, and yes, we no longer hold any U.S. treasuries that have a maturity date prior to November 1. And quite frankly, we have a very de minimis amount that have maturities prior to November 16.

MIKE MAYO: All right. Thank you.

JOHN GERSPACH: All right.

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OPERATOR: Your next question comes from Moshe Orenbuch with Credit Suisse.

MOSHE ORENBUCH: Great. Thanks. Most of my questions actually have been asked and answered. But on the card business, as you're seeing now kind of stabilization in the branded card business and you've got the Best Buy assets, there was a mention of actually reduced marketing. Could you talk a little bit about your plans both for the branded card business and whether there are opportunities out there to grow or acquire in the private label business?

JOHN GERSPACH: You just went back and forth, Moshe. So I want to make sure that I answer the exact question that you've put out. And I thought I heard you first ask about the branded cards business with marketing. And I think what you'll see is that we are still in the process of repositioning the branded cards business. We did delay – we didn't have much to talk about with branded cards quite frankly in the third quarter. You're likely to see some additional advertising and marketing as we move into the fourth quarter. And hopefully, what I think you'll see over the course of the fourth quarter and then into 2014 is some new product offerings and some revitalized product offerings that we should have in branded cards.

Your question on Retail Services, that's much more of an ongoing operation with Retail Services. And the big change there, of course, is the acquisition of the Best Buy portfolio.

MIKE CORBAT: And I would say to that point, it's been asked before, we're absolutely open to more portfolio purchases, but those portfolio purchases need to make sense from a yield, from a returns, from a resource deployment perspective. People have often said, well, do you rationalize it from a DTA perspective? One thing we look at, but the underlying fundamentals of the portfolio purchase have to make sense before we consider the DTA benefit. But if there are things out there that make sense, we'll certainly take a look at them.

MOSHE ORENBUCH: Got you. Kind of on a slightly separate topic, questions about Citi Holdings have been asked several different times, but you've got $1.2 billion of revenues and $1.4 billion in expenses. So your pre provision is a couple hundred million negative. But embedded in that expense is $600 million of legal. Is there kind of a run rate that you would expect, kind of irrespective of all of those volatile items, of legal? And then something on top of that we should expect, or is that kind of not a way that you can look at it at this point?

JOHN GERSPACH: Well, Moshe, exactly what you've just pointed out was the exact point that I was trying to make by having you focus on the upper left quadrant of that slide that we had earlier, the four panel slide dealing with Citi Holdings. And you're right. When you move out the litigation expenses, we have $0.5 billion of PPNR – adjusted PPNR in that number. The issue there is, as I mentioned, there's some element of episodic gains that is built into that number and asset marks, and so I don't want you to think that that represents a run rate.

As you can imagine, Holdings is a collection of some businesses, a lot of different portfolios, couple of different assets, and so I don't want you to think in terms that now we've hit a run rate of $0.5 billion of adjusted PPNR in that business.

MOSHE ORENBUCH: Right.

JOHN GERSPACH: It will fluctuate.

MOSHE ORENBUCH: Right. Although, I would assume that OneMain was alluded to before, that that's a big driver of that and that's something that is – should be stable and, if not, actually growing, right?

JOHN GERSPACH: Spot on.

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MOSHE ORENBUCH: Okay, thanks so much.

JOHN GERSPACH: No problem.

OPERATOR: Your next question comes from the line of Matt Burnell with Wells Fargo.

MATT BURNELL: Good morning, John. A question for you just to follow up on your guidance in terms of operating leverage trends specifically within Korea. You mentioned that you expect revenues to stabilize early in 2014 and that operating leverage would be positive in your forecast for the full year.

JOHN GERSPACH: No, no, Matt, Matt, hold on. I just want to make sure – I think you're linking two different comments that I made. The comment that I made on Korea as far as revenue stabilizing, that is particular to the Global Consumer business in Korea. The comment that I think I made as far as positive operating leverage in the second half of this year was on the Transaction Services business.

MATT BURNELL: Okay. Then I guess just – what is your outlook for operating leverage trends within the Korea consumer business over the course of the next 6 months to 12 months? I mean it was – Asia more broadly had slightly lower revenues year-over-year but your expense control more than offset that within Asia. I guess I'm just curious as to how you're thinking about the revenue trends within Korea could affect the overall Asia operating leverage trends.

JOHN GERSPACH: Yeah, and it has a dampening effect on that trend. And that's one of the reasons why we talked about the fact that Korea could be a drag on Asia performance over time and so it'll be a drag. But I didn't, nor do I want to, comment specifically on operating leverage in Korea itself or in any other specific country.

MATT BURNELL: Okay - just moving on to the slide on corporate loan details within Brazil, India and China which was very interesting. I guess I'm just curious, given how low the loss rates are in those countries, and I appreciate a lot of that is due to the loan mix. Are the loan mixes in some of your smaller exposures within EM markets similar in terms of the CTS and TF composition, or are they more varied across the smaller exposures you have in EM?

JOHN GERSPACH: Well, the loan composition in each country will be slightly different. You can see how the loan composition inside China, India and Brazil are somewhat different. But the trend is still going to be much more towards loans for either local market champions, in other words, those really high quality emerging market headquartered companies, or to subsidiaries of companies that are headquartered in the developing markets, and then with a fairly decent dose to where we have it of trade related. So the mix will vary but it's going to look something like this, if you think about the way these three countries are portrayed.

MATT BURNELL: Okay. And then just one final question on the domestic mortgage portfolio. In the North American home equity portfolio within Citi Holdings, the credit performance has obviously gotten a lot better. I guess I'm curious as to how you think about a higher rate environment potentially affecting the home equity portfolio specifically, and the ability of those homeowners to continue to make payments, or what the effect of a higher rate environment on that portfolio might be in terms of credit performance.

JOHN GERSPACH: Yeah, Matt, I think that you've hit on the single largest risk that does impact the home equity book in Holdings, and it's something that we think a lot about and it drives a lot of our thought as far as what level of reserves that we need to have. We've also given you some additional disclosure in our recent Qs as far as what percentage of that portfolio begins to hit resets in 2015, 2016 and 2017. I don't have all those numbers in my head, but if you go to our most recent Q, and we'll do it again on this upcoming Q, we'll actually – we'll lay that out for you as far as the reset risk that we have in that portfolio.

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MATT BURNELL: Okay, thank you.

JOHN GERSPACH: Not a problem.

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

ERIKA NAJARIAN: Good morning. I just had one follow-up question. On the four-panel slide that you referred to, I mean the message is clear that adjusted PPNR may be lower than we've seen over the past few quarters but still positive. And when you said you're utilizing reserves to absorb future charge-offs, that implies to me a zero provision. I guess, is it fair to conclude that when you get to breakeven to Holdings has to do with your legal and related costs at this point?

JOHN GERSPACH: Yeah, I would say that, again, there'll be some variability as you just laid out in that upper quadrant. I'm not going to say that it could never go negative. I don't want you to think that that's always going to be positive. There's a chance it could go slightly negative, depending upon how low the asset volumes get in the business, et cetera. But you're absolutely right. The single largest driver of when we are able to get to Holdings to be consistently breakeven really has to do with the legal and related costs.

ERIKA NAJARIAN: Got it. Thank you.

JOHN GERSPACH: You're welcome.

OPERATOR: Your next question comes from the line of Marty Mosby with Guggenheim Securities.

MARTY MOSBY: Hello.

JOHN GERSPACH: Hey, good morning or afternoon.

MARTY MOSBY: Wanted to kind of go back to the CCAR question and just focus on dividends. As you're going through the reinstitution of your dividend, how do you think about that when you kind of look at the volatility of earnings that have been anywhere from a quarterly run rate of close to $1 this quarter or at the top end close to a $1.30. Given the Fed gives you about a 30% kind of leeway, how do you think about that when you go to establish this dividend level going into next year?

MIKE CORBAT: I think, Marty, when you look at it, I think the corporate finance math clearly points you towards a preference of buyback versus dividend as your stock trades below book. And so I think that'll be the first bias. But at that point, we also understand that we, to some degree, need to be mindful and, over time, continue to address the dividend issue. So we'll look at those tradeoffs as we approach. But again, I think as has been very clearly signaled by the Fed, the bar around dividend is higher than buyback just based on the nature of what a dividend is, and so we'll have to take that into account.

MARTY MOSBY: And then just briefly touching on the expense versus revenue, the way you're looking at that trailing 12 months, is that just because the composition is more kind of maybe fixed with salary and bonus versus variable expenses, so that over time you kind of work your way through the ups and downs of revenue and can create traction and efficiencies but you're not going be able to move as quickly to the quarterly fluctuations?

JOHN GERSPACH: Yeah. I still think that the best way to measure your efficiency is over time.

MARTY MOSBY: Yes.

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JOHN GERSPACH: And therefore, as you look at something over a trail 12-month basis you would have captured a full year performance. And I really think that's the best way to judge how a firm is evidencing expense discipline.

MARTY MOSBY: And I wasn't disagreeing with that as much as I was trying to just get at is that just a difference in the way of the compensation is set up now and structured? And looking at it over that time really is a better way to do that because of the way the compensation is structured now?

JOHN GERSPACH: Yeah, I think it's a matter of how compensation is structured between deferrals of incentive comp. Much more is deferred now and recognized over three or four years and so a lot of the compensation expense that you have in a year actually relates to performance in other years as well as the operating performance that you have in the current year. Plus, there's different methodologies that firms employ and how they accrue compensation expense and when they accrue compensation expense. But when you get to year end, you have to have the expenses accrued for that year's performance in that year. So that's why I continue to think that at any given point in time, you really want to measure people on a trailing 12-month basis.

MARTY MOSBY: And lastly, on Page 38 you're showing the loan-to-value for mortgages and Citi Holdings, and you've seen a market improvement in those that have loan-to-values over 100% to the point now that your reserves cover basically 100% of those balances when you start looking at those that have greater than 100% and FICOs less than 660. So when you're talking about home prices and the difference it makes, it does make a difference on this particular page in that you've seen migration in the more stable and better performing buckets. That would still be a positive you could see rolling forward, I would think.

JOHN GERSPACH: And you're absolutely correct.

MARTY MOSBY: Thank you.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Derek De Vries with UBS.

DEREK DE VRIES: I think that was me, Derek De Vries of UBS. Good afternoon, everyone. You just sort of opened the can of worms on deferred comp. And I'm wondering if you can help me understand it a little bit? As we get to the end of the compensation year within Securities and Banking, can you just give us the amount, broadly in hundreds of millions or billions or whatever, the amount that would be awarded but not yet expensed? So that will help us understand the ability to flex down the cost base. So I was wondering if you can give us the awarded but not yet expensed at the end of the compensation year.

JOHN GERSPACH: I'm not prepared to do that at this point in time.

DEREK DE VRIES: Okay. Then maybe just a slightly more generic question then. I'm trying to sort of reconcile the comments you made in the beginning, the sort of challenging and uneven operating environment against more of an upbeat backdrop on loan growth, particularly in emerging markets. And just as we go forward, should we think about the kind of growth rates that you've been able to deliver recently? Or do you see some things that make you think that could slow down a little?

JOHN GERSPACH: Well, I would take a look at the overall environment. And I do think that it does remain challenging. We have been able to grow loans in a challenging environment, although that loan growth has been a little bit less this year than it had been in years before. And even though you can continue to grow loans, then the – you have the other issue as far as spread compression. So you can continue to grow loans, but if you're growing loans at lower spreads that's not exactly going be beneficial towards your revenue. So I think that you need to sort through how you think about both. I think that we've

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evidenced that we can certainly grow the volumes, but I think what you also see is that we have been impacted by a certain amount of spread compression as have most other people in the industry.

MIKE CORBAT: Derek, as I think about it, I think there's two things in some ways in competition. As you look at growth estimates as we look forward for 2013, we've seen off of downward revisions in 2013 actually some uplifts in 2014. But I think at the same point when you go back and you look historically, and you can look at several points of history, 1994, 1995 certainly easily being one of those. Any time in particular out of the U.S., you're transitioning into a higher rate environment; the EM economies don't come through that cleanly.

I think in many ways today, those economies are much better positioned to come through the shift towards higher rates and whether that's a rise in foreign exchange reserves, whether that's floating exchange rate mechanisms, external liquidity, and you can go on and on through those. But again, I just think a transition in U.S. interest rate is certainly going have an impact on trading volumes, capital flows, new issuance calendars. And so I think we've got to try and strike a balance between those things.

DEREK DE VRIES: Okay. That's very clear. Thank you very much.

JOHN GERSPACH: You're welcome.

OPERATOR: Next question comes from the line of Vivek Juneja with JPMorgan.

VIVEK JUNEJA: Hi, Mike. Hi, John. I won't beat up on the Securities and Banking efficiency ratio question, even though that's up 10 percentage points linked quarter. Let's turn to the other two businesses that are almost two-thirds of your revenues, GTS and Global Consumer Bank. Following a little bit of your trail of thought, John, looking at it year-to-date, GTS efficiency ratio is up from, I believe from your numbers, up from 52% to 54%. And Global Consumer Banking is up a little also from 53% to 54%. So even though you're more than halfway through your cost restructuring, your efficiency ratios are going the other direction. Can you talk to that a little bit and especially given your confidence about GTS for the second half?

JOHN GERSPACH: Yeah, and I think what you're going to see in Transaction Services, and I said it before, I think you'll start to see improvement beginning in the fourth quarter and that improvement should begin to then roll forward through next year's results as well. And I have no doubt that Transaction Services will meet the efficiency targets that we set out for them for 2015.

Consumer has been bumping around at, as you mentioned, 53%, 54% probably as I look at it on a trailing 12-month basis for the last five quarters maybe. But there's still work to go there. They have not fully completed the rollout of Rainbow yet. And obviously we're still in the process of readjusting the mortgage business, so they've got that running through the top line and we haven't quite gotten the expenses out in mortgages yet. And the commitment was that we would get consumer to 47% to 50% by 2015. And so I still think that we're on track to do that.

VIVEK JUNEJA: Okay. Even though you have – but so far you've gone the other direction. So you'll perhaps have a lot in 2014. Okay. Let me move, a couple of little ones. Private label, I just want to come back to that. Did you add anything for that in the third quarter?

JOHN GERSPACH: It was a very small amount, because don't forget, we only had the Best Buy...

VIVEK JUNEJA: No, sorry. Private label MBS reserves. I – my apologies.

JOHN GERSPACH: Oh, I'm sorry, private label. I thought you said – I'm sorry. I'm sorry.

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VIVEK JUNEJA: I have a question on Best Buy. I'll come to that in a second, but let's start private label MBS.

JOHN GERSPACH: I was reading down your list, Vivek. Just looking over your shoulder on that camera that's over there, but don't worry about that. When it comes to private label securitizations, I'm not going to comment about any specific reserving in the quarter.

VIVEK JUNEJA: Okay. And then turning to Best Buy, did you take on any delinquencies with that?

JOHN GERSPACH: Again, when it comes to Best Buy, we did take on delinquencies, and so the delinquencies do end up in our statistics. It's just that from a reserving point of view, we don't pick up loan loss reserves.

VIVEK JUNEJA: Okay. And those are not marked down; the loan portfolios.

JOHN GERSPACH: The loan portfolios come on our books on a fair market value basis.

VIVEK JUNEJA: Yep. Okay. Okay. Great. Thank you.

JOHN GERSPACH: Not a problem, Vivek.

OPERATOR: Your next question comes from the line of Adam Hurwich with Ulysses Management.

ADAM HURWICH: Hi. Thanks for taking the question. I'm referring to slides 21, 26 and slide 41. You've managed to keep your risk-weighted assets pretty flat, actually declining on a Basel III basis. And at the same time, you seem to be growing your regulatory capital at a 15 – currently – at a $15 billion rate and rising. I'm just wondering -- how do we think about capital adequacy going forward? And given your capital build rate, at some point we have to think a little bit more holistically about what you do with that. Could you just give us at least a basis to understand that?

JOHN GERSPACH: Well, yeah, you've got a lot of questions wrapped up in there. Let me try to parse through a little bit of that and you come back in where I've failed. From a capital build rate, certainly the capital is building as a result of the earnings as well as the DTA. And so this quarter, the earnings themselves were a little over $3 billion, the DTA was a benefit of $500 million and then we also had a benefit of OCI, which of course from a Basel III basis ends up in that as well. So over the course of the quarter we actually built about $4.5 billion worth of regulatory capital from those three components. What we've said is that we want to – our expectation is that over time we would target running at a 10% Basel III ratio. Now we need to think about how we may change that as the supplemental leverage ratio rules begin to finalize, but that's where we are right now. So what have I failed to answer?

ADAM HURWICH: There's – you didn't fail to answer anything, John. The only reason I'm asking this is because there seems to be a lot of focus on GAAP numbers, but there's a large discrepancy between GAAP and regulatory capital measures, and there seems to be a benefit that you will accrue due to that differential. Am I missing anything, or in fact when regulators are comfortable with the bank, will we be able to see a benefit from the discrepancy?

JOHN GERSPACH: Adam, I think you're right. As a matter of fact, one of the things that we talk about is the fact that as we think about the strategies for our Citicorp businesses, we think that those Citicorp businesses operate in a very Basel III friendly way. We're focused on real high level credit-worthy customers in both the consumer business, as well as in the corporate business and we think that we can run the business, as I say, in a very efficient manner under Basel III. You might take a look at – and maybe you referenced it one of the slides that we have in the appendix that shows the returns that we get on a Basel III basis. So that's where we're headed with the strategy. As far as how the regulators view us

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and what might be the future, again, we think that we're in fairly constructive dialogues with the regulators.

ADAM HURWICH: Thank you very much.

JOHN GERSPACH: Not a problem, Adam.

OPERATOR: Your next question comes from Andrew Marquardt with Evercore.

ANDREW MARQUARDT: Good afternoon, guys.

JOHN GERSPACH: Hey, Andrew.

ANDREW MARQUARDT: Couple ticky-tack questions, just a follow on that last question in terms of capital. Can you help us understand; is there a material difference in terms of Tier 1 common Basel III under the standardized approach versus the advanced?

JOHN GERSPACH: There's a very large difference between the way those two calculations work, and under the terms of Dodd-Frank, what large banks in the U.S. are supposed to be doing – are directed to do – I shouldn't say supposed -- are directed to do is report the lower of the two ratios. So currently, we are reporting our ratios under the advanced approach.

ANDREW MARQUARDT: Which is the lower of the two.

JOHN GERSPACH: Yes, by definition. I couldn't report it if it wasn't.

ANDREW MARQUARDT: Okay. Thank you. And then separately, you had mentioned in terms of unfunded commitments there was a reserve build partly due to growth in commitments as well as some risk migration downward? Can you help clarify exactly what was going on there in terms of the risk migration and maybe how we should think about that going forward?

JOHN GERSPACH: In our commitments book when we took a look at some of the commitments we had to our clients, especially clients that are in countries where the country itself ends up being risk weighted lower, we therefore rerate the company and therefore ended up building a bit more reserves.

ANDREW MARQUARDT: Should we expect continued build in unfunded commitment reserves or was this a one-time adjustment?

JOHN GERSPACH: I wouldn't call it a one-time adjustment, but it's another one of those episodic adjustments. I don't anticipate that level of migration repeating in the fourth quarter, but I can't tell you that it absolutely won't either.

ANDREW MARQUARDT: Thanks. And then lastly, just bigger picture in terms of the margin on a consolidated basis. You had mentioned – expected maybe flat-ish in the fourth quarter. But then beyond that, is it fair to assume that there will kind of still be this gradual grind down in terms of the margin on a consolidated basis given the global spread compression that you've referenced?

JOHN GERSPACH: I think as long as we stay in a low interest rate environment you're going to have as you put it that grind down approach. I would think at some point in time we would begin to see some level of interest rate increase and then you could get a bit of a benefit. Until then, it's going be really a matter of how the calculus works out between your ability to grow loans and how they – and lower your cost of funding. How those two factors offset the impact of the continued spread compression.

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ANDREW MARQUARDT: And lastly, just to wrap it back to the first question. On this long call of getting to your longer term ROA goal, what would be your view of a normalized interest margin over the cycle to get into that 90%, 110% ROA basis?

JOHN GERSPACH: We didn't really talk about that at that point in time and I don't really have a longer-term NIM goal that I care to share at this point in time.

ANDREW MARQUARDT: Okay. Thank you.

JOHN GERSPACH: Not a problem.

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

BETSY GRASECK: Hey. Thanks. Just one quick question on TSO, you indicated that the operating leverage you're expecting second half to be positive. Could you just give us a sense as to – is that versus first half? Is that year-on-year, and the major drivers there?

JOHN GERSPACH: It would be year-on-year, Betsy. In other words, it would be the second half of 2013 compared to the second half of 2012.

BETSY GRASECK: Okay, and the drivers?

JOHN GERSPACH: The drivers would be revenue growth being larger than expense growth. No, I'm only kidding you, sorry. I apologize.

BETSY GRASECK: Yeah, no. I mean I get what operating leverage is. I'm just saying, it's really you're banking on it being more revenue related than expense related?

JOHN GERSPACH: Well, actually I think you're going to see some good expense performance coming out of the fourth quarter.

BETSY GRASECK: Okay. And then in retail banking ex the mortgage on the revenue margins there, got the message that it was competitive environment and you need to be competitive to get the volume growth. Is there – that's been a trend over the past couple quarters, so we should continue to expect that going forward? Just asking for some color from the field as to how you're thinking about...

JOHN GERSPACH: On mortgage revenues?

BETSY GRASECK: No. No, excluding mortgage revenues. So retail banking margins are down excluding mortgage related...

JOHN GERSPACH: I think you're still going see pressure in retail banking just due to again that low interest rate environment, and the impact therefore that low interest rate on the deposit taking business that we have in the retail bank.

BETSY GRASECK: Yep. Okay. Thanks.

JOHN GERSPACH: Okay.

OPERATOR: At this time we have reached our allotted time for questions.

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SUSAN KENDALL: Thanks, Molly, and thank you all for joining us here today. If you have follow-up questions, please reach out to the Investor Relations team. Thank you.

OPERATOR: Thank you for participating in today's conference call. You may now disconnect.

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