TRANSCRIPT

**Citi Third Quarter 2015 Earnings Review**
*Thursday, October 15, 2015*

**Host**
Susan Kendall, Head of Investor Relations

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

## PRESENTATION

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

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

Ms. Kendall, you may begin.

**SUSAN KENDALL:** Thank you, Regina. 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 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 2014 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 $4.2 billion for the third quarter of 2015, or $1.31 per share excluding the impact of CVA and DVA. The quarter had more than its fair share of volatility, and our results speak to the resilience of our franchise globally. And despite the revenue headwinds, we once again proved our ability to manage our expenses, and we remain on track to deliver our full-year efficiency and return on asset targets.

I feel good about the quality and consistency of the earnings that we've demonstrated through the course of the year, and we've also made strong progress against our other core priorities. We've achieved both positive operating leverage and continued loan and deposit growth in our core Citicorp businesses. We continue to improve the quality of our balance sheet by replacing legacy assets from Citi Holdings with high-quality loans in Citicorp. Citi Holdings was profitable again this quarter. Holdings assets declined 20% on a year-over-year basis and will end at $110 billion for the quarter, which represents only 6% of Citigroup's balance sheet. We expect to close an additional $31 billion of asset sales during the fourth quarter.

We utilized an additional $700 million in deferred tax assets this quarter, bringing the total utilization to $2.1 billion through the third quarter, which has contributed $3.5 billion to our regulatory capital. In total, we generated $14 billion of regulatory capital so far this year and have been able to return over $4 billion of that capital to our shareholders in the form of share buybacks and common dividends.

 

We grew our tangible book value to over $60 per share, and our Common Equity Tier 1 capital ratio increased to 11.6% on a fully implemented basis. With one quarter to go, we're on track to hit our financial targets in return of assets and our efficiency ratio, and we also earned a 10% return on tangible common equity so far this year.

Turning to the results of our businesses, while the uncertain environment clearly dampened client activity in our Markets products, we made good progress in other areas, with revenue growth in Treasury & Trade Solutions, Securities Services, and the Private Bank. Equities also grew. And while our total fixed income revenues were under pressure, we saw continued strength in our emerging market franchise. We also continued to see momentum in M&A year to date as a result of investments we've made in that business.

Internationally, our Consumer Banking business was also impacted by slowing growth and shifting consumer sentiment, most notably in Asia. In the U.S., our retail franchise continued to grow revenues, loans, and deposits, even as we continued to sharpen the focus of our branch footprint. And in branded cards, we're seeing growth in active accounts and purchase sales, although it's going to take some time for the full benefit of our investments in this business to be reflected in our results.

As we look to the end of the year, we still don't have clarity on many important issues. Predictions on the timing of interest rate increase seem to change every day. We don't yet know the long-term impact of recent volatility on consumer and business sentiment. And in many large markets, there are high degrees of political risk, which have economic ramifications.

I think that this quarter showed that we're well equipped to handle what the world throws our way, whether it's managing our risk, our expenses, or our capital. Challenging environments have become the norm. And the work we've done to make our firm simpler, smaller, safer, and stronger has given us a resilient and sturdy platform from which to operate.

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

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

Starting on slide three, we highlight the impact of CVA/DVA on our reported results. Excluding this item, we earned $1.31 per share in the recent quarter compared to $0.95 in the third quarter of 2014.

On slide four we show total Citigroup results. In the third quarter we earned $4.2 billion, generating a return on assets of 91 basis points and a return on tangible common equity of 8.9%. Revenues of $18.5 billion were down 8% from last year, mostly reflecting the impact of foreign exchange translation. In constant dollars, revenues declined 2% year-over-year, as a slight improvement in Citicorp was more than offset by lower revenues in Citi Holdings. Expenses declined 18% year-over-year, driven by lower legal and repositioning charges as well as the benefit from FX translation. And net credit losses continued to improve, offset by a significantly lower net loan loss reserve release.

Turning to the first nine months of 2015, the total efficiency ratio for Citigroup, including Citi Holdings, was 56.5%. Net income grew by 22% year-over-year. We generated an ROA of 99 basis points, and our return on tangible common equity was 10%.

In constant dollars, Citigroup end-of-period loans declined 1% year-over-year to $622 billion, as 5% growth in Citicorp was more than offset by the continued wind-down of Citi Holdings. And deposits were flat versus last year at $904 billion, also reflecting 4% growth in Citicorp, offset by a decline in Citi Holdings.

On slide five, we provide more detail on third quarter revenues in constant dollars. Citicorp revenues were up slightly year-over-year. And Citi Holdings revenues declined by nearly 30%, mostly reflecting higher gains on asset sales in the prior year, including the impact of selling our Consumer operations in Spain and Greece.

On slide six, we show more detail on expenses in constant dollars. Citicorp expenses were down 13% year-over-year, driven by significantly lower legal and repositioning costs. And Citi Holdings expenses also declined on lower assets.

On slide seven, we show the split between Citicorp and Citi Holdings. Year to date, Citicorp has contributed over 97% of our net income, while Citi Holdings, although profitable, has had a limited impact on total earnings. As I just described, we generated positive operating leverage again this quarter in Citicorp, with revenues up slightly and expenses down 13% in constant dollars. And for the first nine months of 2015, we achieved a Citicorp efficiency ratio of 55.4%. Citi Holdings remained profitable this quarter and ended the period with $110 billion of assets.

On slide eight, we show results for International Consumer Banking in constant dollars. In total, International Consumer Banking revenues grew 2% year-over-year. In Latin America, excluding the gain of approximately $180 million this quarter on the sale of our merchant acquiring business in Mexico, revenues were roughly flat versus last year, as a modest increase in loan and deposit balances was offset by continued spread compression. Card loan balances in Mexico remained under pressure this quarter, reflecting both slower economic growth and ongoing shifts in consumer behavior. However, we were able to offset this impact with growth in personal loans and other retail banking products. Overall, we are maintaining a strong share of consumer loans and deposits in Mexico. And importantly, credit continues to perform well, which I'll discuss more in a moment.

Turning to Asia, Consumer revenues declined 6% year-over-year, driven by lower investment sales revenues as well as continued high payment rates and ongoing regulatory pressures in cards. We saw an industrywide slowdown in activity in Asia during the quarter, reflecting changes in consumer sentiment, driven by slowing economic growth and the recent volatility in the capital markets. In Retail Banking, we continued to see year-over-year revenue growth in lending, insurance, and deposit products. However, this was more than offset by lower investment sales revenue. And in cards, we saw slower than expected growth in purchase sales this quarter. Card loans still grew modestly year-over-year, but this growth was muted by the impact of continued high payment rates. And regulatory changes remained a headwind as well, although we continue to believe this will abate somewhat as we go forward.

In total, average international loans grew 3% from last year. Card purchase sales grew 5%, and average deposits grew 4%. Operating expenses grew 1%, as higher regulatory and compliance costs and technology investments were mostly offset by lower legal and repositioning costs as well as ongoing efficiency savings. And credit costs increased 7% from last year, driven by a loan loss reserve build in Latin America. Our NCL and delinquency rates continued to improve this quarter in Latin America. However, given the macroeconomic environment, we did build additional loan loss reserves, in particular in Brazil. We have taken a cautious approach in Brazil for several years now, including the sale of our mass market credit card business, Credicard, in late 2013. At less than $3 billion, the Brazil consumer portfolio now represents just 1% of our global consumer loans, and we do not expect it to have a material impact on our total consumer cost of credit as we look forward.

Slide nine shows the results for North America Consumer Banking. Total revenues declined 4% year-over-year and were flat sequentially. Retail Banking revenues of $1.3 billion grew 3% from last year, as continued loan and deposit growth and improved deposit spreads were partially offset by the impact of a $50 million mortgage repurchase reserve release in the prior year. In Branded Cards, revenues of $1.9 billion were down 9% from last year, driven by a modest decline in average loans and an increase in acquisition and rewards costs, as we have continued to ramp up new account acquisitions in our core products. We feel confident that we now have the right products to drive high-quality account growth. We expect the investments we are making today to generate higher net interest revenue over time, as growth in active accounts, better customer engagement, and higher purchase sales translate into higher full-rate balances. We feel good about our progress to date, with nearly 6% year-over-year growth in active accounts and 12% growth in purchase sales in our core products. Of course, this path to revenue growth in cards will take some time and the full benefits of our actions may not be completely reflected in our results for perhaps another two years, as we build new loans to offset the continued runoff in our legacy products. In the interim, we will benefit from inorganic growth next year with the acquisition of the Costco portfolio.

Finally, turning to Retail Services, revenues declined 2% from last year, reflecting the continued impact of lower fuel prices as well as higher contractual partner payments, as we continue to share some of the benefits of higher yields and lower net credit losses with our retail partners. Excluding the impact of loan loss reserves, pre-tax income grew 7% in Retail Services.

Total expenses of $2.3 billion in North America declined 6%, as incremental investments were more than offset by lower repositioning costs and ongoing efficiency savings, as we have continued to capture scale benefits in cards and rationalize our branch footprint. Since the beginning of 2014, we have closed or sold over 200 branches and plan to exit roughly 50 more by the end of the first quarter of 2016, including our Boston area branches. With these actions, we are concentrating our presence in our most productive urban markets and also adjusting our model to reflect a significant shift in transaction activity to digital channels, requiring fewer branches and lower head count per branch. This shift also improves our ability to retain customer relationships as the physical footprint changes. Even when we exit a market entirely, we have found that we are able to repay a significant portion of the consumer deposits over time.

Slide 10 shows our global consumer credit trends in more detail. Asia credit was stable again this quarter, with a loss rate of roughly 80 basis points. The loss rate in North America continued to decline to 2.2%. And both the NCL and delinquency rates improved again this quarter in Latin America, driven by favorable trends in our Mexico cards portfolio that we expect to continue.

Slide 11 shows the expense trends for Global Consumer Banking. For the first nine months of the year, the total efficiency ratio for Global Consumer Banking was 53%, down from 55% last year, and we expect the ratio to be roughly 53% for the full year.

Turning now to the Institutional Clients Group on slide 12, revenues of $8.4 billion in the third quarter declined 3% from last year. Total banking revenues of $4 billion, excluding the impact of gains on loan hedges, were down 7% versus the prior year, mostly reflecting lower Investment Banking activity. Treasury & Trade Solutions revenues of $1.9 billion were flat year-over-year on a reported basis. In constant dollars, TTS revenues grew 7% from last year, as growth in deposit balances and spreads more than offset a decline in trade revenues. This represents the seventh consecutive quarter that we've generated both revenue and operating margin growth in TTS on a year-over-year basis.

Investment Banking revenues of $937 million were down 25% from last year. Equity underwriting revenues were down 43%, reflecting lower industrywide activity this quarter. Debt underwriting revenues were down 17%, driven by high-yield and leveraged loans, products where our core clients were less active this quarter than in the prior year. And M&A revenues were down 24% compared to a very strong quarter last year. Year to date in 2015, we have continued to gain momentum in M&A, with 16% revenue growth, sustained wallet share gains, and a strong share of announced volume.

Private Bank revenues of $715 million grew 8% year-over-year, driven by strong growth in managed investments revenue as well as higher loan and deposit balances. And Corporate Lending revenues of $403 million were down 9% on a reported basis. In constant dollars, lending revenues declined 4% from last year, as higher volumes were more than offset by lower spreads and the impact of loan sale activity.

Total Markets and Securities Services revenue of $4 billion declined 5% year-over-year. Fixed Income revenues of $2.6 billion were down 16%, as we saw lower activity levels and a less favorable environment in the recent quarter, particularly in securitized products and G10 FX. The revenue impact was most significant in North America and Western Europe and was partially offset by strong performance again this quarter in our emerging markets franchise, where our Fixed Income revenues grew 4% year-over-year. Our G10 rates business was roughly flat year-over-year for the quarter, but we did see significantly lower than expected revenues in the back half of September.

Turning to equities, excluding the impact of reversing $140 million of the valuation adjustment we recognized in the second quarter, revenues increased by 12% from last year, driven by growth in derivatives, with particular strength in North America and Asia. And in Securities Services, revenues declined 4% on a reported basis and were up 7% in constant dollars, reflecting increased activity and higher client balances.

Total operating expenses of $4.7 billion decreased 4% year-over-year, as higher regulatory and compliance costs were more than offset by lower compensation expense and the impact of FX translation. Total credit costs were $309 million, up sequentially, reflecting a net loan loss reserve build this quarter compared to a net release last quarter. In both quarters, we built reserves for energy-related exposures. However, the build was more than offset last quarter by reserve releases in other portfolios. In the third quarter, we built energy-related reserves of roughly $140 million, or about half of the total ICG build. The remainder was split between other portfolios and the impact of overall volume growth.

Of course, we are working closely with our clients to mitigate the risk of losses actually being realized. Total net credit losses were $34 million this quarter. And while corporate non-accrual loans increased during the quarter, more than two-thirds of the loans we added remain performing.

On slide 13, we show expense and efficiency trends for the Institutional business. Over the last 12 months our efficiency ratio was 57%, including over 100 basis points attributable to legal and repositioning charges, and our comp ratio was 27%. We continue to expect to achieve a total ICG efficiency ratio in the range of 55% to 56% for the full year 2015.

Slide 14 shows the results for Corporate Other. Revenues were higher year-over-year, driven primarily by gains on debt buybacks. And expenses were down, mainly reflecting lower legal and related costs.

Slide 15 shows Holdings assets, which totaled $110 billion at quarter end, down 20% from a year ago. We have continued to make great progress in winding down Citi Holdings, with signed agreements to sell an additional $37 billion of assets, $31 billion of which we currently expect to close in the fourth quarter. By year end, we currently expect Citi Holdings assets to be somewhere in the range of $70 billion to $75 billion.

On slide 16, we show Citi Holdings financial results for the quarter. Revenues of $1.4 billion declined 32% from last year, mostly reflecting lower gains on asset sales as well as divestiture activity. Expenses also declined, driven mainly by the lower assets. And cost of credit remained favorable, driven by the North America mortgage portfolio, where the total NCL rate improved to 1.2%.

On slide 17 we show Citigroup net interest revenue and margin trends. The bars represent net interest revenue per day for each quarter in constant dollars, showing a consistent growth trend year-over-year, even as the contribution from Citi Holdings has continued to shrink. Our net interest margin was 294 basis points in the third quarter, roughly in line with the prior quarter, as trading NIM continued to be higher than expected.

Looking to the fourth quarter, our net interest margin will depend on a number of factors, including the level of trading NIM, the timing of expected divestitures in Citi Holdings, and the magnitude and timing of any debt redemption actions. Given all that, we currently expect our net interest margin in the fourth quarter to be in the range of 285 to 290 basis points.

On slide 18 we show our key capital metrics on a fully-implemented basis. During the quarter, our CET1 capital ratio improved to 11.6%, driven by retained earnings and DTA utilization, even as we returned $2.1 billion to shareholders in the form of share buybacks and common dividends. Our supplementary leverage ratio improved to 6.8%, and our tangible book value grew to over $60 per share.

In summary, we continued to operate well in a challenging environment this quarter, with continued cost discipline, significantly lower legal and repositioning costs, and great progress towards the wind-down of Citi Holdings. Three quarters into the year, we have an efficiency ratio at Citicorp of 55.4%, a Citigroup ROA of 99 basis points, and we earned a return on tangible common equity of 10%. We continued to utilize our deferred tax assets this quarter, and we ended the period with a very strong capital position. We are certainly seeing the impact of slower global growth and macro uncertainty on our top line results, but we feel good about our ability to manage risk through this cycle. We are remaining disciplined with our target client strategy and feel strongly that focusing on these higher-quality, more resilient segments is the right strategy in any economic environment.

Looking to the fourth quarter, in North American Consumer, revenues will likely be roughly flat to the third quarter. And in International Consumer, we expect revenue to be flat to slightly higher than last year on a constant dollar basis, as we expect continued modest volume growth, with Asia revenues beginning to stabilize.

Turning to the Institutional franchise, we continue to see good momentum across Treasury & Trade Solutions, Securities Services, and the Private Bank, which together generated 8% year-over-year revenue growth in the first nine months of the year in constant dollars. Investment Banking revenues will depend in part on the overall market, but we continue to feel good about the strength of our franchise, particularly in M&A. And finally, in Markets, we expect our overall performance to reflect the market environment, with the goal of continuing to gain wallet share with our target clients.

In Citi Holdings, there are a series of transactions that will impact the fourth quarter. As I noted earlier, we currently expect to close roughly $31 billion of previously-announced asset sales, including our retail and cards businesses in Japan and OneMain Financial. We will continue with other ongoing portfolio sales, and we also plan to redeem high-cost debt. As we've said previously, we expect the net gain on the sale of OneMain to be roughly $1 billion, including the cost of planned debt redemption actions. In addition, we expect to incur gains and losses on other sales, including some that may be recognized through the cost of credit line. And we expect to see higher transaction-related repositioning and other expenses as well. And so on a net basis, including the impact of all of these other transaction-related items, we would not expect the full $1 billion gain on OneMain to fall to the bottom line.

Finally, for total Citigroup, we expect our cost of credit to be roughly flat to the third quarter, excluding any impact from the portfolio sales out of Citi Holdings.

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

## QUESTION AND ANSWER

**OPERATOR:** (Operator Instructions) Our first question will come from the line of Jim Mitchell with Buckingham Research. Please go ahead.

**JIM MITCHELL:** Hey, good morning, guys. Just maybe a quick question.

**JOHN GERSPACH:** Good morning, Jim.

**MIKE CORBAT:** Good morning, Jim.

**JIM MITCHELL:** Hey, good morning. Just the asset sales, $31 billion this quarter, potentially $37 billion in total; can you help us think about the impact on capital ratios when they're done?

**JOHN GERSPACH:** When we take a look – I gave you where I thought that Citi Holdings would end up on a total asset basis, GAAP asset basis for the end of the quarter, somewhere in that range of $70 billion to $75 billion of assets. So we'll certainly see a reduction, but as we've said in the past, in particular the Japan retail business is not risk asset heavy.

**JIM MITCHELL:** Right.

**JOHN GERSPACH:** So associated with that $31 billion worth of sales, you're looking at something that might be roughly half of that in risk-weighted assets.

**JIM MITCHELL:** Right, okay. That's helpful. And I guess as we think about – even though that's not a huge impact, you have that. Your capital ratios have expended pretty significantly over the past 12 months. I know this is not an easy question to answer. But if you look at your capital return payout ratio, it's still below peers. With the improvement in ratio now better than most with asset sales, do you think you can get closer to peer payout ratios next year in CCAR, or is there anything else we should be thinking about?

**MIKE CORBAT:** Jim, this is Mike. I'd answer that a couple ways. One, as long as the stock continues to trade below tangible book, our primary actions are going to be focused on share buyback rather than dedicating that right now towards dividend. And again, as our capital numbers speak, we've had another strong quarter. We've had a strong year to date in terms of capital generation, and we've got to position the firm over time to be bringing that capital back or we're simply creating our own denominator problem. So we're focused on it. We don't know CCAR scenarios. We don't know all the processes yet, but again, we're very focused on it.

**JIM MITCHELL:** Okay, fair enough. I'll stop there, thanks.

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

**GLENN SCHORR:** Hi. Thanks very much.

**JOHN GERSPACH:** Hi, Glenn.

**GLENN SCHORR:** Hello there. I guess I wanted to start with credit, and energy specifically. The performance overall has been great. I hear your comments and I've heard past comments about mostly investment-grade, largely large corporate. I'm just – I'm sitting back and I listen to our energy team and they talk about the death and destruction in the oil patch. And I see the large numbers that large banks like yours have, and I'm trying to square the circle there and say why should we feel good about future reserves – or current reserves on the energy book. So I guess let's just revisit why we take comfort in your exposures, and then maybe you can help with talking through what you do have reserved or where your exposures are. I appreciate it, thanks.

**JOHN GERSPACH:** All right, Glenn. So again, as we've said in the past, I'll give you a bit of a rundown. Our energy-related loans, the total exposure remains about constant to where we were last year at about $60 billion worth of total energy-related exposure. The funded book has actually gone down slightly to $21 billion during the quarter. And the book does remain primarily investment-grade. We have had some downgrades. We've also taken on some new business, which in this market you can imagine is not necessarily at the same high level. But the overall book remains two-thirds investment-grade, down a little bit from – the funded book remains two-thirds investment-grade, and the overall exposure is still about 80% investment-grade. So we feel very good about the credit quality.

 

Having said that, we continue to work with our clients. We have been building reserves because it certainly is prudent in this environment. We told you that we took $140 million of reserves this quarter. That's roughly equal to what we took during the first half of the year. We took about $100 million in the first quarter, $40 million in the second. So this is something that we're looking at every day, and we're adjusting the provisions accordingly. But it still remains a very high-quality book and not one that is necessarily dramatically dependent on the specific price of oil. Again, our exposure to what you would consider to be close to the wellhead still remains fairly small. It was roughly constant at about a funded book of about $6 billion, and we've worked our way through a lot of the reconsideration events of taking a look at reserve levels. So again, all I can say is that it's something that we're looking at and it's something that we still feel really good about.

**GLENN SCHORR:** Okay, that's always helpful. One other question I had is just more high level of which ways do we see that your SLR premium ratio as an advantage. And there's a lot of downsizing in Europe. There are a lot of people trying to optimize their own balance sheets. Where can we see that playing a role as a positive to help you bring on books of business and just be like basically the high bid?

**JOHN GERSPACH:** We don't always want to be the highest bid there. We like to get business at a reasonable price. But you're right, we do have a certain advantage with the SLR ratio, and we feel that we're using that appropriately. Of course, SLR is one ratio. You also have to take into account what we're doing on all the other ratios. But for instance, the strength that we've got in our SLR ratio has enabled us to pursue a little bit more growth in the prime brokerage area, and we see that as a way of getting additional penetration into some of our key investor clients. So again, we're using it where appropriate. But everything that we do is carefully thought out on several planes, as you can imagine.

**GLENN SCHORR:** I appreciate that. Okay, thank you.

**JOHN GERSPACH:** Not a problem.

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

**MATT O'CONNOR:** Hi. Can you just elaborate a bit on why the NIM will be down five to 10 basis points, what the assumed timing of the OneMain and balance sheet restructuring as part of that?

**JOHN GERSPACH:** Why NIM was down? I'm sorry, Matt.

**MATT O'CONNOR:** I'm sorry. I think the outlook for 4Q is for the net interest margin percent to be down five to 10 basis points, and there are obviously a lot of moving pieces that's going to impact that. But how do we think about core NIM overlaying the impact of OneMain, the debt restructuring? I'm trying to figure out if it's down that much because of those transactions. Or is that down that much on a core basis?

**JOHN GERSPACH:** No, what we've said in the past, Matt, is that both the Japan retail business as well as OneMain are high NIM-producing businesses. So those are high NIM-producing businesses. And as we shed those businesses, that's going to have an impact on our NIM and take it down several basis points. I can't remember the exact number that we gave you last quarter. Unfortunately, I can't predict the timing of the sales, when they will occur in the fourth quarter. So the fourth quarter is going to be somewhat of a transition quarter regarding NIM, which is why I'm giving you a range of 285 to 290 basis points.

Once we close the fourth quarter, we'll be able to give you better guidance as to how NIM will progress in the future, including don't forget we'll be bringing on the Costco portfolio in the second quarter of next year, so that will give us the ability to recapture a portion of that NIM that we're losing through the OneMain sale. And we'll also make some of it back through debt buybacks, et cetera. But I apologize, the fourth quarter is going to be a little bit noisy from a NIM point of view, and it's really going to be dependent upon the timing of all of those actions.

**MATT O'CONNOR:** So as we think about the exit level of this year of the net interest margin, essentially a good 1Q 2016 level, holding rates, holding mix, and holding all that steady, how would that NIM compare to the current third quarter NIM or what you're expecting in 4Q?

**JOHN GERSPACH:** Again, I'll be in a much better position to give you that type of guidance, and we will give you that type of guidance when we get finished with the fourth quarter and I know when these sales have closed and what impact they will then have on our reported NIM.

**MATT O'CONNOR:** Okay. And then just separately, the Costco deal, you mentioned the portfolio coming on in the second quarter. Has that been finalized in terms of pricing and everything?

**JOHN GERSPACH:** It still hasn't been finalized yet. Obviously, we're still in a process. We're working through a process with AmEx and with Costco and with Visa, all being guided by the terms of the contract that exists currently between AmEx and Costco, and that's really all I can say about that.

**MATT O'CONNOR:** Okay, all right. Thank you.

**JOHN GERSPACH:** All right.

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

**BRENNAN HAWKEN:** Hi, good morning.

**JOHN GERSPACH:** Hi.

**BRENNAN HAWKEN:** So just following up on the Holdings questions, in the sale of assets that you expect to close here in the fourth quarter, is there an updated sense about how much of the expense base of Holdings should come out on the back of this?

**JOHN GERSPACH:** We haven't given that guidance. We'll give you a better sense, again, after these deals close. You can imagine that associated with certain of these deals, there are continuing transaction service arrangements where for a period of time we will be in a position of supporting the buyer with that business, which means that we will retain a certain amount of the expense base into the future, for which we will be paid. So again, once we determine the timing of all of these transactions and we finalize the terms of the sale, including any ongoing service arrangements, I'll be in a much better position to give you guidance on the impact on the Holdings expense base.

**BRENNAN HAWKEN:** Okay, thank you. And then thinking about another exit but more recently announced, Boston, can you give some color maybe on how much you think that might impact the North American GCB efficiency ratio or any other metrics?

**JOHN GERSPACH:** I told you where we expect to end the year with the efficiency ratio Global Consumer. And that's really what we're focused on, and we intend to end there at the 53% that we basically have now. And we haven't given any future guidance on operating efficiency ratios. But it's safe to assume that in the current environment we're looking to maintain those efficiency ratios in the ranges that we have said are our targets. So the exit of Boston is part of that overall consideration, and so I wouldn't think about it as being any more accretive to the year-end target of 53% that I gave you earlier.

**BRENNAN HAWKEN:** Sure, I was referring to a go-forward rather than the year-end, but let me try a similar idea but maybe in a broader scope. So when we think about the efficiency ratio here and if we think about a revenue environment which is clearly difficult, I know you've made reference in the past to the efficiency ratio and the need for revenue. But if the environment remains difficult, do you have the ability to pull levers and work the efficiency ratio down further from here, or are we going to be in a waiting game until the revenues can come through? Just how should we think about that?

**JOHN GERSPACH:** I don't want you to feel as though you're in a waiting game. But what we've said is that we intend to operate the business with an efficiency ratio. And the efficiency ratio target that we've put out for Citicorp, and we put this out more than 2.5 years ago now when we were looking at what we thought would be a difficult environment in 2015, and the environment has actually proved to be even more difficult I think than we thought at that point in time. We said we can operate overall Citicorp with an efficiency ratio in the mid-50%, and that's where we are.

And given this environment, we still feel – again, we haven't worked our way all the way through our budget considerations and everything else. But in this type of environment, we think that that's a pretty good efficiency ratio to be operating under. And it takes a lot of management in this type of environment to continue to operate at that efficiency ratio and still have room to make the investments that you want us to make, so that when the environment improves, we can generate even higher levels of revenue growth. So all of that is tied up in those efficiency ratio targets that we've put out there.

**BRENNAN HAWKEN:** Okay, I guess last one for me then. If we think about your new card offering, how is it that you would recommend we measure success based upon the change, the new products that you've put out, the retooled offering? What metrics would you guide us to look to if some of the components of the environment for revenue remain challenging?

**JOHN GERSPACH:** The metric that we'll guide you to, and we'll begin to give you more of this probably next quarter, will be taking a look at our active accounts. I think that that is where we're seeing the big difference. I mentioned active accounts are up 6% year-over-year, and that's a big change for us. As I said, we were struggling before to maintain a steady state of active accounts. And so to see active accounts up 6% this year now, basically compared to last year, that's pretty sizable growth for us. I talked about the fact that acquisitions on our core products were up 37% on a year-to-date basis. But having those acquisitions is good. Having those acquisitions really transition into active accounts is where we need to be, and that's clearly where we've gotten to now and where we're going to keep on driving. So we'll give you metrics on active accounts.

**BRENNAN HAWKEN:** Thanks for that, John.

**JOHN GERSPACH:** Not a problem.

**OPERATOR:** Your next question will come from the line of John McDonald with Bernstein. Please go ahead.

**JOHN MCDONALD:** Thank you. John, just wondering on expenses, the year-over-year constant dollar expense trends look good. You're down 13% year-over-year. It's harder for us to tease out how much of that was from lower legal and repositioning compared to core expense. Could you shed any light on that on how the core expenses trend on a constant dollar basis?

**JOHN GERSPACH:** Core expenses are up slightly. And again, it's in line with the plans that we had going into this year when we thought about what we needed to do in order to generate the efficiency ratios that we were targeting. So again, up slightly but all included in the efficiency ratio target that we gave.

**JOHN MCDONALD:** Okay. And as you look ahead to the fourth quarter, any thoughts on the core expenses? Are we going to probably be in the same neighborhood? Are there any puts and takes to think about?

**JOHN GERSPACH:** It's going to vary business by business and everything. For instance, in some of the businesses where we've seen some of the revenue challenges, for instance, in some of the International Consumer businesses, you can imagine that we've already begun to look at the core expenses there and have begun to adjust the trajectory. So these are all things that we look at. I'm not going to give you specific guidance on exactly where core expenses is going to be. But again, what we're committed to is to deliver on that mid-50% efficiency ratio for Citicorp.

**JOHN MCDONALD:** Okay, and then this is a question for Mike. Following up on your comments about using excess capital and trying to avoid the denominator problem, do you become more interested in trying to grow assets inorganically as your capital grows and perhaps you get more comfortable with the regulatory rules, whether it's card portfolios or consumer books? Is that something that you'll look more to in trying to grow through portfolio acquisitions?

**MIKE CORBAT:** I think, John, we've been open to those acquisitions, whether it was Best Buy or whether it will be Costco. But all of those need to be in our targeted segments. You're not going to see us going out breaking into new products or things that we don't view today as really being core to who we are as a franchise, whether that's a client segment or whether that's by geography or industry or whatever it may be. But we're wide open to those portfolio acquisitions. And if they hit our ROA and our return metrics and we think risk-adjusted they make sense, we'll certainly look at them. But again, what we've really tried to build our business model around is just really driving our own organic core growth off of our existing platforms.

**JOHN MCDONALD:** Okay, thanks.

**OPERATOR:** Your next question will come from the line of Mike Mayo with CLSA. Please go ahead.

**MIKE MAYO:** Hi. When will we hear about new targets for 2016, and can you give us a preview?

**MIKE CORBAT:** Sure. First, as you can imagine, in this environment we're really focused on delivering 2015 and our targets around that. So it will be sometime as we get into the new year. We haven't set a date as to when we'll do that. As John said, we're heading into budget season, and we'll be looking both at 2016 and some planning beyond that.

I would say that some preview around that, Mike, is that, as John said, that when we went into these targets two, three years ago, we said it's a tough environment. It's probably stayed as tough or tougher both from an economic or regulatory just an overall backdrop than we had even thought at the time. It certainly doesn't feel like it's going to get a whole lot better here for a period of time, so I wouldn't expect big changes to those targets. Our goal is to manage the institution well through the environment we're in and be in a position to deliver strong performance, strong operating leverage, and all the things you would expect as the environment at some point in the future starts to turn.

**MIKE MAYO:** So how much does getting where you want to be dependent on higher U.S. interest rates?

**MIKE CORBAT:** It certainly hasn't been a help in terms of where we are, and where we are is we said we would get and run the institution to the mid-50%. And again, I think as you look across the industry, it leaves us in a reasonable position. We've talked about changes in interest rates. And as of now, roughly a 100 basis point upward shift of rates translates somewhere into about $2 billion – $2.1 billion of revenue, which we would hope, we believe, largely translates into EBT.

And so there are tailwinds that can come out of some of those shifts. But again, as we've seen, as the Fed has contemplated its move, you'd want those moves to come on the backdrop of a perception of economic strength. And if economic strength is there, you get the double tailwind of not just the rate push, but you get some stability, you get some markets trending, you get some confidence back in the market that I think would be welcomed by both consumers as well as the institutions and the corporates.

 

**MIKE MAYO:** Is it fair for us to expect a little bit higher returns? You're shedding some non-core assets. You've repositioned the firm. You just announced you're retreating some from Boston and I guess Korea is past on the restructuring. Is it fair for us to expect a bit more as we look out?

**MIKE CORBAT:** I think a lot of that, Mike, depends on the environments there. But what you can expect is that we're going to continue to closely manage the place and we're going to keep an eye, and management has a strong eye towards the targets that we've put out there, delivering on those, and continuing, as I said in my opening remarks, not just around expenses, but around risk and capital to try and manage the place smartly.

**MIKE MAYO:** And then last follow-up, the IMF and other forecasters have reduced their growth rate for Asia, and this quarter saw some pullback in China markets. But here you're saying on this call that Asia Consumer is stabilizing. So can you help me with that disconnect?

**JOHN GERSPACH:** When you take a look at the IMF, they have lowered their growth forecast, but they're still forecasting growth. And when you take a look at our Asia Consumer revenues, we believe that they will stabilize. They are stabilizing now, and they should stabilize going into the fourth quarter and then into next year. So I don't think that those two things are inconsistent. I'd like to get more growth out of Asia. But with the lower – with everybody living in a lower GDP environment, getting high levels of growth is going to be difficult. Even with the levels that we're seeing now, again, we're still getting good engagement on loans, on deposits. So it's not that we're not seeing some levels of growth, even at this point in time.

**MIKE MAYO:** All right, thank you.

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

**GERARD CASSIDY:** Thank you. Good morning, guys.

**JOHN GERSPACH:** Hi, Gerard.

**GERARD CASSIDY:** John, can you share with us the Citi Holdings as you bring the assets down, I think you pointed out that today the assets represent about 6% of total assets and 13% of risk-weighted assets. So clearly there's more capital supporting Citi Holdings, which we've always known about. Do you think that when you bring it down eventually to zero, will all that capital be freed up, or is there some operational risk that the regulators will require you to maybe keep more capital in there, even if the assets are no longer there?

**JOHN GERSPACH:** I'd say that that is the most likely case, Gerard. So when you think about Citi Holdings, Citi Holdings at the end of the quarter had about $157 billion worth of risk-weighted assets. And in that $157 billion, consistent with what we said at the end of the second quarter, there's about $49 billion worth of risk-weighted assets associated with operating risk. And I just don't think that we're going to get to a point where, even if we shut Holdings down, that we're going to be able to relieve ourselves of that $49 billion of risk-weighted assets. So that may come over time, but it's going to be time, not a quarter or two. So I think you really need to look at the $108 billion then of credit and market risk assets that are supporting Citi Holdings as really being the opportunity that we have now for further capital reduction as we wind down the balance of Citi Holdings.

**GERARD CASSIDY:** Thank you for the clarity there. Would there be any operating expenses that have to stick around with that $49 billion of the operating risk assets? When Citi Holdings assets all go to zero, would you still have to have some operating expenses to support that $49 billion?

**JOHN GERSPACH:** No, no, we shouldn't. We've been pretty good at making sure that we attack any stranded costs in Holdings as we've gotten rid of the assets. And so this $49 billion, it will be driven based upon models. At some point in time, we had businesses that generated operating risk events, and it's just going to take time then to have that fade into the past. And the timeframe is just one that we'll have to work through our own models and then certainly with some of our regulatory friends.

**GERARD CASSIDY:** Great. And shifting gears on you, you mentioned in your prepared remarks about card loans. They grew modestly year-over-year, but the growth was muted by the impact of continued high payment rates and regulatory changes. They both remain headwinds. But you then went on to say that you think that regulatory changes, there might be some abatement in this upcoming year. Or was that more just due to the high payment rates that you think that could slow down to help the growth?

**JOHN GERSPACH:** No, no. That was a reference – and I think you're quoting me from the comments that I made about Asia specifically.

**GERARD CASSIDY:** Right.

**JOHN GERSPACH:** And in Asia, we had almost every country in Asia implement some version of the U.S. CARD Act during the past two years. And so what we've been doing is working our way then through those impacts on the Asia card book, whether that's higher payment rates, whether that's lower debt ceilings, items like that. So that has been working its way through the book. And what we are looking at now is that the impact of those regulations are abating, both because there are not so many new regulations coming new, and also because we are lapping the impact of the changes that were put in place a year or two ago. So both of those factors give us, again, some of the confidence in the fact that those impacts will be lessening as we look forward.

**GERARD CASSIDY:** And then finally on cards, you mentioned that the revenue in branded cards was down about 9%, and this was due to the increase in acquisition and reward costs. How long do they last? And is that primarily from when you buy a new portfolio, or is there an ongoing cost as well just going out and reaching out for new customers?

**JOHN GERSPACH:** This is the cost of growing accounts organically.

**GERARD CASSIDY:** Okay.

**JOHN GERSPACH:** Two different models as far as inorganic and organic growth. But when you get into an organic growth model, which is where we are right now predominantly, we will get, as I mentioned, a boost from inorganic growth when we add in the Costco portfolio, so that will be a big plus.

But from an organic point of view, the first thing we did is we had to restructure the product offering in cards, which I think we've successfully done. And we've gotten a nice balance now of new products dealing with both a value product, our rewards product, the value product would be Simplicity, the rewards product would be ThankYou. We've introduced Double Cash, giving us a cash-back product, and so we've got a nice balance there between cards that appeal to spend-oriented consumers and revolve-oriented consumers. We've got a nice balance in our product portfolio between proprietary cards and co-brand cards. And now it's a matter of putting the investment dollars at work to grow, to first acquire new accounts, have them transition into active customers, and then grow spend and revolve behavior on each one of those cards.

And so the first phase that you run into once you've restructured is you get into a rebate and reward phase, where as you add in those accounts, there are a certain amount of costs that you incur up front to acquire the account. We call those rebates, and they basically hit your revenue line, as well as then the rewards costs that you pay as they continue to drive spend early on. And that also is a muting factor on your revenue line as well. So once we get through with the – that will eventually pace itself out, and we'll go from rebates and rewards, and then we'll get into a revolving period as well.

**GERARD CASSIDY:** Thank you for the clarity. I appreciate it.

**JOHN GERSPACH:** Not a problem.

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

**ERIKA NAJARIAN:** Hi, just one quick follow-up for me. The roughly $400 million that you called out, John, in quarterly increase in corporate non-accruals in North America and EMEA, what percentage of that increase quarter over quarter was related to energy?

**JOHN GERSPACH:** Roughly 80% of the net add was energy-related.

**ERIKA NAJARIAN:** Got it, thank you.

**JOHN GERSPACH:** Not a problem.

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

**KEN USDIN:** Hi, thanks. John, just on the debt buyback front, can you help us understand just how much the benefit was this quarter, and if the premise of doing more in the future is also baked into your expectation for the future NIM?

**JOHN GERSPACH:** The impact of the debt buybacks is incorporated in my 285 – 290 basis point range. Obviously, debt buybacks you get a certain benefit in the quarter in which you do it, but it's usually more of a forward-looking benefit. And debt buybacks is just one of the tools that we use as far as active management of our long-term debt portfolio. We find a series of debt that just are not particularly trading well, and that gives us an opportunity then to buy that back. And then usually it ends up giving us the opportunity then to reissue at a better rate.

**KEN USDIN:** Yes, and was that a modest benefit this quarter?

**JOHN GERSPACH:** We had certain – I can't tell you. I haven't been able to isolate, in my head anyway, the impact of debt buybacks on this quarter's NIM. But I'm sorry, it's blended in with our overall cost of funding, which did come down.

**KEN USDIN:** Okay, understood.

**JOHN GERSPACH:** And that's something that's really going to – that's going to trickle in over many, many quarters.

**KEN USDIN:** Got it, so it's got a tail to it, which is going to be my follow-up, is that I would think you'd see a – you didn't really see it in the cost of debt on the liability side of the average balance sheet page, so just wondering how much benefit you could still get from that going forward.

**JOHN GERSPACH:** Again, a lot of that's going to depend on how markets perform and everything else. We've been fairly successful in the past at dealing with debt buybacks. It's something that we look to do. If it's there, it's there.

**KEN USDIN:** Okay, got it. And then just a follow-up question on the International Consumer Banking side and to your point about flat year-over-year constant dollars and your comments about the investment sales slowing. Any sense if that investment sales slowdown was just customers freezing given what was happening this quarter? And what are you seeing just in terms of the International Consumer activity aside from revenues, just in terms of the behavior and activity as you look ahead?

 

**JOHN GERSPACH:** Activity levels, obviously it's going to vary a little bit region by region. But a lot of our Wealth Management business is concentrated in Asia. And there, it's very much to your point. What we see in times of market volatility and market uncertainty is that our Wealth Management clients are not as active as you would imagine. They're just not as active in putting more of their funds to work in the markets. And that, therefore, has an impact on our investment sales. So it's a little bit of market sentiment. It's a little bit of consumer confidence. It's all of those things.

And as far as how does it – what do we think about it going forward, as the markets clear themselves, as people become a little bit more confident again that they know where they're going, we see that activity come back. But this was a particularly tough quarter for investment sales.

**KEN USDIN:** Right. Okay, got it. Thanks very much.

**JOHN GERSPACH:** Not a problem.

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

**STEVEN CHUBAK:** Hi, good morning.

**JOHN GERSPACH:** Good morning, Steve.

**STEVEN CHUBAK:** John, I had a quick question on risk-weighted assets. I just wanted to clarify a couple of things relating to the disclosure in the release – or in the presentation. So it looks as though the headline numbers declined about 4% year on year. Or just looking at the capital impact disclosure, which maybe reflects some FX-related impacts, it looks as though the RWAs on a constant dollar basis have been relatively stable. I just wanted to get a sense as to how we should be thinking about it in 2016 where maybe you don't have the offset of the Holdings runoff and you still have continued core growth in Citicorp. Should we expect those RWAs to begin to trend-line on an upward trajectory?

**JOHN GERSPACH:** Steve, so let me help you. Let me deal with the sequential decline in risk-weighted assets. So on a sequential basis, risk-weighted assets dropped from – I don't have the page open – $1.279 trillion to $1.258 trillion, about $21 billion. And roughly half of that decline was FX-related. And don't forget, we take that into consideration as part of our overall capital hedging program because our capital hedging program is built on a ratio hedge. So we hedge to our CET1 ratio. And so just as our capital in various countries is going to be impacted by fluctuations in FX rates, we also know that our risk-weighted assets are going to be impacted by that as well. So all of that is baked into our capital hedge. But that means that for the quarter, we actually saw a non-FX-related reduction in RWA of about $10 billion. So that's what's baked into that number, and some of that is in Holdings and some of that is in Citicorp.

In general, again, we do expect to see Citi Holdings continue to reduce. That should give us room to grow Citicorp. We have not worked our way through our overall 2016 plan as yet, so I cannot give you guidance as to where we're going to think about – what we're going to think about RWA levels going into next year. But we'll take all of that into account as we finalize the budget and as the budget gets finalized around both our efficiency targets as well as our ROA targets and our ROTCE targets as well.

**STEVEN CHUBAK:** Okay, thank you for the detail there, John. And I just wanted to switch gears for a moment. I appreciate the color that you had given on Brazil in terms of some of the Consumer exposures there. One of the things I was hoping you could give some clarity or detail on is relating to corporate exposures specifically, where it looks like Brazil is about 5% of the total loan book. I know in the past, the disclosure you've given suggests that the majority of those corporates are actually based in Brazil versus – in lieu of I suppose other regions where maybe it's predominantly multinationals. I wanted to get a sense as to what the credit trends look like today, how they're performing, and whether you start to reserve for any potential losses within the Institutional segment.

**JOHN GERSPACH:** Our Brazil book is structured very similar along the lines of every other country in which we operate, which is that is a book that really again focuses on those large multinationals. And again, it's somewhat similar. We take all of that into account. We certainly didn't wait to see that S&P downgraded Brazil before we began to take a look at some of our Brazil book and build the appropriate reserves. But again, it's a consistent strategy, large multinational corporates, global investors. At the end of the third quarter we had total exposure of $14.5 billion or so in Brazil. And most of that, 75% of the corporate lending book is, as you said, it's to Brazil-based companies. And a large portion of the book, more than half, well more than half, I think it's like 60% – 70%, is TTS related, so it's trade-related loans. So you have a combination of short-dated secured loans on TTS, large multinationals. I'm not going to tell you that the book will never have an NCL, but we feel pretty good about the quality of the book.

**STEVEN CHUBAK:** Excellent, and then just one more quick one for me, John. And apologies for getting a little bit nitpicky here, but it did sound as though the guidance you had given on the full-year efficiency range for ICG is 55% to 56%. I do believe on the last quarter's call you had said the midpoint of the 53% to 57% target range, which suggests maybe some upward pressure on the efficiency ratio. And I just wanted to get a sense as to whether that's a reflection of revenue pressure. I know that revenues on a constant dollar basis are down about 1% year on year through the first nine months, or more a reflection of what you're seeing in terms of the performance thus far, maybe your outlook ahead of the fourth quarter?

**JOHN GERSPACH:** I think the language that we had last time was closer to the midpoint as opposed to specifying the midpoint. So you can assume that this is – I'm thinking that we're going to be slightly above where I would have targeted at the end of the last quarter, and it very much reflects the revenue pressure that you see.

**STEVEN CHUBAK:** Okay, thanks for clarifying that, John.

**JOHN GERSPACH:** Having said that, somewhere between 55% and 56% compares really well with our peers.

**STEVEN CHUBAK:** I would tend to agree. Thanks again for taking my questions.

**JOHN GERSPACH:** Not a problem.

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

**BETSY GRASECK:** Hi, good morning.

**JOHN GERSPACH:** Hi, Betsy.

**BETSY GRASECK:** So just a couple follow-ups. One is on corporates. I was going to ask a question about corporates in Asia. You mentioned the slightly softer growth coming out of the consumer. I just wanted to get a sense as to how corporates are trending because what we're hearing from folks is that there's a little bit of softer demand given that China is not doing as much.

**MIKE CORBAT:** Betsy, it's Mike. I would say that that's accurate that business activity on the corporate side, loans, and just overall calendar has slowed a bit. That being said, John talked about other parts of our business there, in particular our EM sales and trading businesses, and our EM sales and trading business in Asia has actually been quite strong. So while headline volumes have slowed, you can imagine through our TTS business, our foreign exchange business in some of those markets, more activity as companies try and position and spend more time focusing on the balance sheets they're actually running in those companies. So a bit of in-and-out, but yes, the region is not escaping the slowdown.

**BETSY GRASECK:** And then just a question on your bond portfolio that you manage globally. I'm just wondering. Are there any opportunities to optimize your investments across geographies, or are the investments are really just trapped within each of the countries that you're generating that deposit flow from?

**JOHN GERSPACH:** Betsy, it's a little bit of both. So obviously, we've got a bond portfolio that's at the top of the house, but we do have bond portfolios in each of the countries. And so within each of the countries, we look to optimize within the country, and at the top of the house we look to optimize across the institution.

**BETSY GRASECK:** And is there any more that you can do here? I'm just thinking about the relative rate environment. Could there be some opportunities for incremental optimization in a lower for longer rate environment?

**JOHN GERSPACH:** Are you having the budget discussion that Mike is going have with me as to whether or not my Treasury unit is doing the right job? Did he subcontract this out to you?

**MIKE CORBAT:** Thank you, Betsy.

**BETSY GRASECK:** Okay, thanks.

**JOHN GERSPACH:** The answer, Betsy, is we look at this stuff all the time, and we're always finding new things that we can do. So it's something that we do look at every day. But I can't give you a specific answer as to is there a lot more than we can do. We think we're doing a lot right now.

**BETSY GRASECK:** Okay. And then just lastly on the U.S. credit card environment, you mentioned that the two years forward is when with the new accounts you get to a better lending environment obviously because at first you get the new accounts in, and then they spend, and then they borrow. I just wanted to understand. Was that two years to what you think is average run rate in borrowing or in revolving for the accounts that you're looking for, or is that when you start to see the beginnings of borrowings? I'm just trying to understand what the two-year number was about.

**JOHN GERSPACH:** What we should see is – even as early as next year, we should begin to see growth in our overall loan portfolio. So you should start to see average net receivables. First they'll stabilize. Maybe that will be very early next year, and then we should begin to see some growth. But it is going to take almost that full two years before you see the real full impact of everything that we're doing. We'll be able to show you metrics along the way so that you'll be able to gauge just how well we're progressing. I mentioned to one other caller about giving active accounts. But you'll also see the growth in ANR. But given the heavy impact of that reward and rebate on the top line revenues, it's going to take some time.
If you think about the 9% down that we've got year on year in cards, just to maybe give you an example, I'd say about 10% of that decline is environmental, some hangover from regulatory. About 30% of that decline is just the impact of the runoff portfolio, the legacy portfolios running off. And again, that will begin to abate as well. But then 60% of that decline is really being caused by this instrument activity that we have. So it won't always be at that high level, but it's going to be at a level for some time.

**BETSY GRASECK:** I got it. Okay, thanks. That was very helpful.

**JOHN GERSPACH:** Okay, Betsy.

 

**OPERATOR:** Your next question will come from the line of Matt Burnell with Wells Fargo Securities. Please go ahead.

**MATT BURNELL:** Good afternoon. Thanks for taking my questions, just one question on loan growth and so your outlook into the fourth quarter. I guess following up on an earlier comment, it seems like that while there is continued growth expectations across many of your international markets, those growth expectations are coming down, and you reported core loan growth in Citicorp as being at about mid-single digit. Are you expecting that to continue at mid-single-digit levels over the next quarter or two, or are there markets where you think that that could slow down substantially?

**JOHN GERSPACH:** I don't want to get into a specific guidance point on loan growth in Citicorp on constant dollars. But we do think that, again, this quarter did present certain challenges. I don't think the environment is going to change dramatically in the fourth quarter, so I wouldn't look to the fourth quarter as being radically different from what we've seen on a sequential basis looking at the third quarter. But again, we'll just have to see how everything continues to develop off of there.

What's happening is not just, of course, the fact that you get loan growth, but what also matters is where you get the loan growth and in what loan products do you get the loan growth in. And so the key for us is to begin to see the loan growth in those higher-margin credit card products. We like to see the loan growth in the Retail Bank. That's fine, but those loans are usually slightly lower margins because they're securitized. It's a fixed payment scheme as opposed to revolving behavior that you have on cards. So loan growth is one thing, and I feel pretty good about our ability to grow loans. But I'll feel better when we begin to see better growth coming out of the card products.

**MATT BURNELL:** Okay, John. Thanks, that's helpful, and then just a very quick follow-up. I just want to make sure I heard you correctly in terms of your commentary about credit costs in the fourth quarter. I believe you said that those would be relatively stable with the levels of the third quarter. Is that correct?

**JOHN GERSPACH:** Yes, other than whatever asset sale impacts we have, as some of the asset sales that we'll be doing out of Holdings, actually the gain or loss gets recognized in that cost of credit line.

**MATT BURNELL:** Right.

**JOHN GERSPACH:** But outside of those activities, it should be stable.

**MATT BURNELL:** Okay, fair enough. Thank you very much.

**JOHN GERSPACH:** Okay, not a problem.

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

**BRIAN KLEINHANZL:** Hi, good morning. I just had two quick questions. On the hedge gains that you had called out, were those related to a specific sector, meaning energy, or were they region, like in Brazil or somewhere else, that drove the big gain this quarter?

**JOHN GERSPACH:** I'm not going to go into specific things. But in general, the hedges that we've got on our loan book, that's just part of our ongoing risk management efforts. We use loan hedges to manage credit risk concentrations primarily. And to the extent that we can, and for the most part we do, we use single-name CDS to hedge those concentration risks. So it's not because we're worried about any particular name, but because we're just trying to manage again our concentration of risk in a particular sector.

And so in the third quarter, as you saw what happened in the environment, credit spreads were generally widening, and that had two impacts. We had gains on those loan hedges, and at the same point in time we took provisions on the loans. And it shouldn't be – that's not – that's in line with the way that you should expect it. I'm not going to say it's always going to line up correctly. But I think if you go back to the last two quarters, what you'll see in each of the last two quarters, to the extent we had small losses on the loan hedges that gave us then the opportunity – it usually matched up with an opportunity to release reserves in the corporate portfolio. And to the extent where we had a small gain, we usually had a small build in a loan loss. Again, I'm not going to say that it's perfectly correlated, but it certainly has been somewhat correlated over the last three quarters.

**BRIAN KLEINHANZL:** Okay, that's helpful. Thanks. And then just switching gears to Mortgage Banking, I know you said you wanted to increase the market share there back to where you were historically or getting closer to it. But it looks like year on year there's not much change in the market share. Is there just less emphasis on growing market share in the mortgage bank, or is it just a function of the market?

**JOHN GERSPACH:** No, it's not less emphasis. It really is very much a function of the market itself. And there's also – so it's a combination certainly of the market. You've also seen – I think everyone has seen some of the gains on sale being reduced in the mortgage book, so that's also having an impact on the overall revenue stream that we're getting out of mortgages. But we're still focused exactly as we were. We're not trying to be one of the top three or four producers of mortgages, but we do want to be in a position to be able to support our retail clients when it comes to their mortgage needs.

**BRIAN KLEINHANZL:** Great, thanks for taking my questions.

**JOHN GERSPACH:** Not a problem.

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

**ERIC WASSERSTROM:** Thanks very much. John, I just maybe want to consolidate my understanding of your answers to several of the questions that have come before. So just to preface for a quick second, it seems as if the overall set of dynamics is some rebasing of NIM because of change in asset mix and a fairly constant efficiency ratio given the challenges of revenue generation and reinvestment. And putting aside maybe some of the volatility in capital markets, it seems then that the primary lever on the income statement for some acceleration in earnings is therefore asset generation. Is that correct?

**JOHN GERSPACH:** That's one way of looking at it, yes.

**ERIC WASSERSTROM:** And so within that, I just want to make sure I understand. It seems as if what you're pointing to as the primary drivers of incremental asset generation, meaning beyond the current run rate trend, are Card in the U.S., retail loan in International Consumer, and Treasury, TSS, and Private Bank in ICB. Is that broadly correct by category?

**JOHN GERSPACH:** I think what you've isolated on is what we would consider to be our core banking activities, which is exactly where we're focused. And don't forget, everything that we do starts with having a clearly articulated strategy that we have been consistent with for the past five to six years. And that strategy really guides us along the way.

The second thing that we are very, very proud of is the strong balance sheet that we've built. And so when you start with a well-defined strategy and a strong balance sheet, that again then gives you the opportunity to pursue appropriate levels of growth. We've gotten to the point now where our core banking activities, Cards, Retail, TTS, Securities Services, Private Bank, Corporate Lending, all of those account for more than 75% or close to 80% of our revenues. And that's where we continue to see our growth coming from in the future.

 

**ERIC WASSERSTROM:** And just in Corporate Banking, we didn't hear too much about it on the call. But is there any reason to expect some change in trend line there on a few- quarter view from an asset generation perspective?

**JOHN GERSPACH:** From asset generation, we'll continue to support our clients as they need assets, whether those be corporate loans or debt or equity underwritings. But our ability to generate assets is really governed by the needs of our clients.

**MIKE CORBAT:** And, John, what we may see, to Eric's question, is that if and as the markets remain volatile, we may see corporates choosing to access the loan market versus the capital markets and maybe transition that over time. So we've seen it. So in periods of volatility, we would probably be asked to put our balance sheet to work, and so you could see loan growth coming through the corporate sector in that form as well.

**ERIC WASSERSTROM:** Very interesting. All right, thanks very much.

**JOHN GERSPACH:** Okay.

**OPERATOR:** At this time, there are no further questions.

**SUSAN KENDALL:** Thanks, Regina, and thank you all for joining us here today. If you have any follow-ups, please reach out to Investor Relations. Thanks.

**OPERATOR:** Ladies and gentlemen, this concludes today's conference for today. Thank you all for joining. You may now disconnect.