TRANSCRIPT

Citi Third Quarter 2011 Earnings Review

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Host
John Andrews, Head of Investor Relations

Speakers
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John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's third quarter 2011 earnings review with Chief Executive Officer, Vikram Pandit and Chief Financial Officer, John Gerspach. The call will be hosted by John Andrews, 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. Mr. Andrews, you may begin.

JOHN ANDREWS: Rachel, thank you, and good morning to everybody, and thank you for joining us today. On the call today, our CEO, Vikram Pandit, 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'd be happy to take your questions. Before we get started, I'd like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations, and are subject to uncertainty and changes in circumstances. Actual results 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 2010 Form 10-K. With that out of the way, let me turn it over to Vikram.

VIKRAM PANDIT: John, thank you, and good morning everybody. Thank you for joining us today.

Earlier today, we announced net income of $3.8 billion, or $1.23 per share, for the third quarter. When you exclude CVA and focus on our operating results, we earned $2.6 billion, or $0.84 per share. These are solid results, particularly in a macro environment in which economic and political uncertainty created a lot of market volatility.

As always, we're managing through short-term challenges while steadily executing our long-term strategy. Over the past few years, we have methodically positioned Citi for the trends and opportunities we see in the world. We've built substantial financial strength, de-risked our balance sheet and reoriented our business back to what we do best and what is in Citi's DNA:

being a uniquely global bank focused on capital flows and global trade, with a particular focus on the emerging markets.

I want to start by focusing on four areas: first, our risk as it pertains to Europe, the emerging markets and the U.S. mortgages; second, our decision to move retail partner cards out of Citi Holdings and into Citicorp; third, our financial strength; fourth, I want to provide you some detail on our ongoing efforts to manage expenses. I will close with a few comments on the economic environment.

I believe that Citi's performance during this quarter shows the significant progress we have made in improving our risk management, one of my top priorities when I became CEO. We've completely revamped our risk profile, risk approach and most importantly, our risk culture. We've put in place robust practices in the businesses and regions to integrate risk analysis into decision-making.

Today, you have another example of this improved risk management in the update on our European exposure. More than 18 months ago, we recognized the potential for Greece's sovereign debt issues to impact other countries in the Eurozone. Since then, we have reduced our exposures where needed, while continuing to serve our clients diligently. As you will see, we have continued to closely manage our trading and AFS portfolios in the GIIPS, France and Belgium and currently have no material net exposure to sovereign debt securities.

In terms of funded exposures, we have net lending exposures to the GIIPS sovereign entities of $1.5 billion, and we currently don't have any France and Belgium net sovereign lending exposure. Our GIIPS financial institution net lending exposure is $2.1 billion, and our France and Belgium financial institution net lending exposure is $2.3 billion. Our exposures include lending to foreign subsidiaries where applicable. Margin may be held against some exposures, reducing our net exposure, while other exposures are collateralized. We are providing that margin and collateral information as well. Lastly, our exposures to corporates are partly driven by global banking, and a large amount of these exposures are to large multinationals that participate in global trade and capital flows.

Today, we are also including a good amount of information regarding our consumer banking businesses in the emerging markets. Our deep roots in these markets give us sufficient advantages in growing and managing these businesses and managing our credit risk. These businesses continue to produce strong growth in revenues, loans and deposits.

Our credit portfolio in the emerging markets is diversified by country and by product. The credit quality in these portfolios is not only good; in fact, in most of the countries where we do business, it's even better than in the U.S. And the credit margins we earn in these markets are substantially better than the margins the industry earns in the U.S.

One sign of our success in these markets is that our investment spending in Asia is paying off. We achieved positive operating leverage in our Asian consumer business this quarter, one quarter ahead of when we expected it. We expect our Latin American consumer business to follow next quarter.

I did say last year that it was unlikely for the emerging markets to continue at their current pace. That said, we still expect them to grow faster than the developed markets. And also, the individual markets are not monolithic; each country faces its own opportunities and trends.
We continue to be very transparent about our U.S. mortgage exposure. We have a smaller owned mortgage portfolio than any peer. Because of our aggressive risk mitigation efforts, which includes selling mortgages, our portfolio has shrunk faster than any peer.

And in a period of uncertainty, we believe that we hold the largest reserves against that portfolio. We have the smallest servicing portfolio and the smallest securitization portfolio of any peer. While we continue to focus on the risk of the mortgage portfolio, particularly if the economy were to weaken, I feel very good about all the steps we have taken and how we are positioned today.

Regarding Citi Holdings, we've decided to move the vast majority of our retail partner cards business to Citicorp. We have made a lot of progress in strengthening this portfolio, including shedding some assets and re-underwriting the portfolio to much higher credit standards. The portfolio is now 2/3 of its size at its peak, with an average balance weighted FICO of more than 700. In addition, so far this year, this business has earned a $2.2 billion profit before taxes and is a powerful source of ongoing profits.

As importantly, the credit card business and the availability of credit have changed since the enactment of the CARD Act. Consumer behavior has also changed, as branded cards carry smaller open lines and consumers would rather use retail cards to preserve and protect their open lines of credit with banks.

With this transfer, pro forma Holdings assets will total about $250 billion, or 13% of Citi's balance sheet. Although we continue to analyze the Holdings portfolio, we don't expect any other transfers of this magnitude, and our goal is to get Holdings below 10% of the balance sheet in the near future.

Next, Citi has built unquestionable financial strength over the past several years. At the end of the third quarter, our Tier 1 Common Ratio was 11.7%, and we had approximately $145 billion in Tangible Common Equity. Almost 25% of our balance sheet is cash or liquid securities. We have enough liquidity that we could operate without issuing long-term debt for a couple of years, although we still plan to participate in the debt markets.

We still expect to end 2012 with the 8% to 9% Basel III Tier 1 Common Ratio and meet the Basel III capital requirements ahead of schedule. Subject to regulatory approval, we still plan to begin returning capital to shareholders next year, and we believe the pace of return can increase in 2013 and beyond, as economic conditions improve and we continue to reduce Holdings assets and monetize our deferred tax assets.

Let me spend a minute on expenses. Third quarter expenses were $12.5 billion in total, down 4% from the second quarter. After the big reductions in headcount and cost over the last couple of years, we continued to actively manage our expense base. We are constantly assessing our performance and will continue to resize our businesses when necessary.

Looking forward, we expect our fourth quarter expenses to be roughly flat, although the impact from episodic items such as FX and legal costs are not predictable. Also, compensation will continue to hinge on performance.

Finally, as I have said before, the macro will dominate the micro, but we are encouraged by the results driven by the methodical execution of our strategy. Regardless of any cyclical slowdowns in the emerging markets, we think the secular trends, such as trade and rising consumption in the emerging markets, will persevere, and we will pace our investments accordingly.

In the developed markets, growth is likely to be slow for years. We remain concerned about the U.S. housing market, and the U.S. residential mortgage portfolios of most banks remain the greatest risk. John will now take you through the presentation, and as John Andrews said before, we'll come back to answer your questions.

JOHN GERSPACH: Thank you, Vikram, and good morning everyone. Starting on Slide 2, Citigroup reported third quarter net income of $3.8 billion, or $1.23 per diluted share. This quarter's results included significant CVA of $1.9 billion, driven by Citi's credit spreads widening. Excluding CVA, earnings were $2.6 billion or $0.84 per share in the third quarter. Revenues of $20.8 billion were roughly flat versus the prior year on a reported basis. Excluding CVA from both periods, revenues were down 8%, as continued strong growth in international Consumer Banking and Transaction Services was more than offset by lower revenues in Citi Holdings, Securities and Banking, and North America Consumer Banking.

Expenses of $12.5 billion were up 8% year-over-year and down 4% from last quarter. Year-over-year, roughly 3/4 of the increase was driven by the impact of foreign exchange, higher legal and related costs and the absence of one-time benefits in the prior period. Excluding these items, operating expenses grew 2% year-over-year in the third quarter, driven by higher investments, partially offset by productivity savings and other expense reductions. I'll discuss year-to-date expenses in more detail later.

Cost of credit continued to improve year-over-year, down 43% to $3.4 billion. Sequentially, end of period loans declined 2% for Citigroup; however, reported loans included a net negative impact from foreign exchange in the third quarter. On a constant dollar basis, total Citigroup loans were up 1% sequentially, as loan growth in Citicorp more than offset the decline in Citi Holdings.

On Slide 3, we highlight significant items affecting the third quarter and comparable periods. As I mentioned earlier, CVA was a significant factor this quarter, at $1.9 billion pre-tax compared to $164 million in the second quarter and $115 million in the third quarter of last year. The $1.9

billion of CVA this quarter included $1.6 billion of CVA on Citi's fair value option debt and roughly $300 million of derivative CVA, net of hedges.

In the second quarter of 2011, we also recorded over a half billion dollars of realized gains on the sale of assets transferred out of held-to-maturity in the Special Asset Pool. And in the third quarter of last year, we had a net loss on the announced sale of Student Loan Corporation of $800 million. Finally, turning to loan loss reserves, we recorded a significantly lower net reserve release in the third quarter of 2011 at $1.4 billion, versus $2 billion both last quarter and in the prior year.

Turning now to Citicorp and Citi Holdings on Slide 4. Citicorp reported revenues of $17.7 billion and net income of $4.6 billion in the third quarter. Versus last year, Citicorp loans grew 13% on a reported basis, including 6% growth in consumer and 21% growth in corporate loans. As I mentioned earlier, in the third quarter, international loan growth reflects a negative impact from foreign exchange. Loans originated in foreign currencies are translated back to U.S. dollars for reporting purposes, and therefore, as the U.S. dollar appreciates, our reported loan balances are reduced. Excluding the impact of FX, we grew loans in every business in Citicorp in the third quarter, both year-over-year and sequentially.

Citi Holdings reported revenues of $2.8 billion and a net loss of $802 million. Citi Holdings ended the quarter with $289 billion of assets, down $19 billion during the quarter and $132 billion year-over-year.

On Slide 5 we show a nine quarter trend for Citicorp's results. Excluding CVA, Citicorp's revenues of $15.8 billion in the third quarter were down 2% versus the prior quarter and prior year, as growth in Regional Consumer Banking and Transaction Services was more than offset by lower revenues in Securities and Banking.

Operating expenses of $9.8 billion were up 9% versus the prior year, and down 3% from last quarter. Year-over-year, roughly 1/4 of the increase resulted from the impact of foreign exchange. The remainder was primarily driven by investment spending, offset by productivity savings and other expense reductions.

Citicorp's net credit losses were $1.9 billion, down 36% from the prior year, driven by Citi-branded cards in North America. We released $585 million in net loan loss reserves, up from $426 million last year, due to higher net releases in Citi-branded cards, partially offset by lower releases in international Consumer Banking and a net build in the corporate portfolio, each driven by loan growth. Excluding CVA, earnings before taxes of $4.6 billion were roughly flat versus last year, as lower revenues and higher operating expenses were offset by lower credit costs.

Slide 6 shows the results for North America Consumer Banking. Revenues of $3.4 billion were down 9% versus last year, mainly due to a decline in average cards loans, lower mortgage revenues and the impact of the look-back provisions of CARD Act. Sequentially, revenues were up slightly again this quarter by 2%. Expenses of $1.8 billion were up 24% year-over-year and

2% sequentially, as we continued to make investments largely through higher marketing and technology spending. Year-over-year expense growth also reflects the absence of a one-time benefit in the prior period.

Credit costs declined 75% from last year to $509 million. Net credit losses were down 41% to $1.2 billion, driven by Citi-branded cards, and the reserve release was $653 million this quarter. Net credit margin grew by 28% year-over-year to $2.3 billion.

Earnings before tax, excluding the impact of loan loss reserves, grew by 45% to $445 million in the third quarter. This measure is one of the most relevant metrics for consumer businesses as year-over-year net income comparisons are often significantly skewed by reserve actions. For the second consecutive quarter, we grew both card accounts and end of period loans on a sequential basis. Year-over-year, purchase sales and card accounts both grew by 2%.

Turning to our international Consumer Banking businesses on Slide 7. First, as Vikram mentioned, Asia achieved positive operating leverage in the third quarter, with revenue growth of 13% and expense growth of 9% year-over-year.

In total, international revenues were $4.9 billion in the third quarter, up 10% versus last year, with growth in all regions. Year-over-year revenue growth reflected continued improvement in underlying drivers, as well as the benefit from foreign exchange. Spread compression continued to be a headwind in the third quarter, but it is abating.

On a sequential basis, revenues were roughly flat, as 2% underlying growth was offset by a net negative impact from foreign exchange. On average during the quarter, the dollar appreciated versus local currencies in EMEA and Latin America, resulting in a negative impact on reported revenues. In Asia, the sequential impact of FX was small.

Expenses were $2.9 billion in the third quarter, up 12% versus last year, with over 1/3 of the increase due to the impact of foreign exchange. The remainder primarily reflects higher investment spending and volume-related costs, partially offset by continued productivity savings.

A lower net reserve release resulted in an increase in credit costs, at $720 million versus $352 million last year. Net credit losses declined 9% to $691 million, while the reserve release was just $9 million this quarter versus $440 million last year. Net credit margin of $4.1 billion was up 14% year-over-year. Earnings before tax, excluding the impact of loan loss reserves, grew by 20% to $1.2 billion.

On Slide 8, we show growth trends for international Consumer Banking in more detail. Year-over-year, we continued to show growth in all major drivers. However, as I mentioned, sequentially this quarter was negatively affected by the impact of foreign exchange. We provide more detail for these drivers on a constant dollar basis in the Appendix, in Slides 43 and 44.

On a reported basis, average deposits and loans grew by 11% and 16% year-over-year, respectively. Investment sales were up 1% versus last year, and card purchases grew 20%. On a trailing 12-month basis, we have grown both net credit margin and pre-tax earnings, excluding the impact of loan loss reserves, in every quarter for two years.

On Slide 9, we take a closer look at our international consumer loans. Our portfolio is well diversified by country and product. At the end of the third quarter, ten countries represented nearly 85% of our loan book, and our largest markets are Korea and Mexico. By product, over 75% of loans were to retail customers; mostly mortgages and credit cards. And close to 1/4 of the book was local commercial loans, mostly again, in Korea and Mexico.

On Slide 10, we go into more detail on our Asia consumer portfolio. Asia Consumer Banking represented nearly $85 billion of loans at the end of the third quarter, with over 80% in emerging markets. We have grown our loans in Asia in a careful and consistent manner, with strict underwriting criteria and the benefit of decades of local experience in these markets.

Structurally, the region continues to mature, with full credit bureaus in almost every country. Mortgages represented roughly 40% of the portfolio, with the largest emerging market exposures in Korea, Singapore and Hong Kong. Our emerging market mortgage business in Asia is relationship-driven. As a result, the majority of loans are with borrowers who also have a retail banking relationship with Citi.

LTVs are relatively low in the region, and are capped by regulatory limits in most markets. In Korea, for example, LTVs are capped at 60%. In Singapore, LTVs are capped at 80%. And in Hong Kong, LTVs are capped at 50% to 70% based on property value. In each of these 3 portfolios, Citi's average updated LTV is roughly 50% or lower. Mortgages in these markets are also full recourse. As a result of the high quality of our borrowers and low LTVs in the region, our average historical NCL rate for mortgages in Asia has been close to 0%.

Cards represented nearly 1/4 of Asia loans with the largest emerging market exposures in Taiwan, Korea and Malaysia. Our cards portfolio in Asia is well-seasoned, with historical average NCL rates in these emerging markets of roughly 3%-4% over the last ten years. As we consider new card originations, our target is to generate operating income of at least 2x steady state NCLs.

Turning to Slide 11, we show more detail on Latin America. Latin America Consumer Banking represented $35 billion of loans at the end of the third quarter. Mexico was over 60% of the total, and Brazil was roughly 20% of loans.

Cards represented 37% of the portfolio, with an NCL rate of 8.4% in the third quarter. Mexico cards is roughly $5 billion and has been repositioned over the past three years, with a focus on tighter underwriting criteria and increased penetration of our existing retail base. Through the third quarter, early-stage delinquencies for recent originations were tracking better than targets and were at roughly 50% of the '07 and '08 vintage levels. Similar to Asia, our target is to generate operating margin on new originations of at least 2x the steady state NCL rate.

Brazil cards is roughly $4.6 billion, and has migrated to a higher percentage of transactors who tend to have better credit quality. The Brazil market is facing regulatory changes, including a significant increase in the minimum payment due, which will continue to put pressure on NCL rates in the near term. However, we currently believe the underlying credit quality of our portfolio remains stable.

Commercial loans are about 31% of the portfolio, mostly in Mexico where NCLs have averaged less than 1% over the past two years.

Slide 12 shows the performance of Citi-branded cards by region since 2008. Revenues per average loan are shown on the blue lines, and NCL rates are in red. The green space in between represents the net credit margin for each region through the cycle. As you can see, we generate a substantial net credit margin in our international businesses.

In Asia, revenue yields are lower than in Latin America. However, the region also benefits from significantly lower NCL rates, resulting in a relatively stable net credit margin through the cycle. In Latin America, revenue yields have come down slightly from early '08 levels, reflecting the migration to higher quality borrowers.

NCL rates are higher in Latin America and were more volatile during the recent cycle. However, the lowest net credit margin was still over 10% in the third quarter of 2009. In North America, net credit margins are beginning to recover but remain compressed versus pre-crisis levels.

Slide 13 shows our Securities and Banking business. Excluding CVA, revenues of $4.8 billion were down 12% from last year and down 9% versus the prior quarter. In investment banking, revenues of $736 million were down 32% sequentially, driven by lower activity levels across all products. Ex-CVA, equity market revenues of $289 million were down 63% sequentially. While cash equity revenues were relatively stable, we had weak trading performance in our equity derivatives business. We also incurred losses in principal strategies, driven in part by the ongoing wind down of its positions.

Fixed income market revenues, ex-CVA, were down 22% sequentially to $2.3 billion, as strong growth in rates and currencies was more than offset by lower revenues in credit-related and securitized products. Lending revenues were $1 billion, up from $356 million last quarter due to gains on hedges. Private Bank revenues, excluding CVA, were down 2% sequentially to $545 million.

Total operating expenses of $3.6 billion were down 1% from last year and down 8% sequentially. Year-over-year, higher investment spending was more than offset by lower incentive compensation expense and ongoing productivity savings. Quarter-over-quarter, the decline was largely driven by lower incentive compensation expense.

Credit costs were $174 million in the third quarter, down from $279 million last year on lower net credit losses, partially offset by a reserve build this quarter due to growth in corporate loans and commitments.

Moving to Transaction Services on Slide 14. Revenues of $2.7 billion were up 7% from the third quarter of last year, driven by international growth. Treasury and Trade Solutions was up 5%, primarily due to higher trade revenues and increased deposits, partially offset by the impact of the continued low rate environment. Securities and Fund Services grew 11% year-over-year, driven by strong growth in transaction and settlement volumes, as well as new client mandates.

Transaction volumes and new mandates continued to show momentum in both businesses. Asset growth was driven by trade loans, with average trade assets up over 50% from last year. Average deposits were up 7% year-over-year to $365 billion. Assets under custody were up 1% year-over-year to $12.5 trillion, but were down 7% from the prior quarter due to a negative impact from foreign exchange and lower market values. Expenses of $1.4 billion were up 17% versus last year, reflecting higher volumes and continued investments, partially offset by productivity savings.

On Slide 15 we show a nine quarter trend for Citi Holdings. The loss in Citi Holdings was $802 million in the third quarter, up from a loss of $218 million in the second quarter, driven by the absence of gains in the Special Asset Pool. Revenues were down 27% year-over-year to $2.8 billion, due primarily to lower assets. Operating expenses of $2.1 billion were down 6% versus last year, and total credit costs were down 40% to $2 billion.

Looking at Citi Holdings in a bit more detail on Slide 16. Revenues in Brokerage and Asset Management were $55 million this quarter, up from last year due to the absence of private equity marks in the prior period. In Local Consumer Lending, revenues were down 15% versus last year to $3 billion, driven by declining loan balances.

In the Special Asset Pool, revenues were negative $227 million in the third quarter. These results were driven by negative net interest revenue as interest earning assets are becoming a smaller portion of the Special Asset Pool, while we continue to incur funding costs on the total portfolio. Non-interest revenue was only $8 million this quarter compared to nearly $1.2 billion last quarter, which included over half a billion dollars of gains realized on the sale of assets which had been transferred out of held-to-maturity earlier this year, as well as realized gains on other asset dispositions.

Operating expenses were down 6% year-over-year to $2.1 billion, due to declining assets. Credit costs were down 40% year-over-year to $2 billion, as credit trends continued to improve in both the consumer and corporate portfolios. Total net credit losses were down 44% to $2.6 billion, as we released $838 million of net loan loss reserves in Citi Holdings.

Slide 17 shows Citi Holdings assets. We ended the quarter with $289 billion in Citi Holdings, or 15% of total Citigroup assets. The $19 billion reduction in the third quarter was comprised of: roughly $10 billion of asset sales and business dispositions; approximately $7 billion of net run-off and pay-downs; and roughly $2 billion of net cost of credit and net asset marks.

Slide 18 shows the results for the Corporate/Other segment. Revenues declined by $296 million versus last year, mainly driven by lower investment yields, lower gains on sales of AFS securities and hedging activities. Expenses were up by $217 million versus last year, mainly due to legal and related costs and infrastructure investments. Assets of $283 billion include approximately $93 billion of cash and cash equivalents and $121 billion of liquid available-for-sale securities.

Turning to total Citigroup expenses on Slide 19. Year-to-date in 2011, expenses totaled $37.7 billion, up 8% from $34.9 billion in the same period last year. Nearly 2/3 of the increase resulted from the impact of foreign exchange translation and episodic driven expenses.

On a year-over-year basis, the impact of the weakening U.S. dollar resulted in roughly $1 billion of higher expenses. Legal and related costs were $1.1 billion higher as compared to last year. And other episodic items were a net benefit of around $200 million, including the absence of the U.K. bonus tax in the second quarter of 2010.

On an operating basis, our expenses were up by $1 billion, or just under 3% year-to-date. Investment spending was $2.8 billion higher in the first nine months of 2011, which I'll discuss more of in a minute. We funded roughly half of these investments with efficiency savings of $1.4 billion year-over-year. All other operating expenses, including higher volume-related costs, were more than offset by a decline in Citi Holdings expenses.

Excluding foreign exchange and episodic-driven costs, our expenses year-to-date would have been $35.9 billion. As we look to the full year, we expect operating expenses, excluding the impact of FX, legal and related costs and other episodic items that we simply cannot control, to be towards the lower end of our previously disclosed guidance of $48 billion to $50 billion.

Now I'll spend a moment on our investments and efficiency savings. As shown on Slide 20, year-to-date, we have invested close to $3.2 billion in 2011. As you may remember, we ramped up our investment program towards the end of the second quarter of 2010, so relative to last year we have increased investments by $2.8 billion.

Roughly 60% of the total investments year-to-date were revenue generating, such as incremental cards marketing campaigns, new branches and key hires. Another 20% related to ongoing investments in risk management, finance and compliance systems, as well as the need to respond to new regulations. Finally, about 20% of investments relate to enhancing our technology and infrastructure to become more efficient and productive.

We are seeing good results from our efforts to become a more efficient company. Our reengineering program has yielded close to $1.4 billion in savings year-to-date. On an ongoing basis, our efficiency goal is to eliminate 3%-5% of our expenses each year. On an expense base of roughly $48 billion to $50 billion, this equates to around $2 billion of ongoing efficiency savings annually.

Slide 21 shows total Citigroup net credit losses and loan loss reserves. NCLs continued to improve in the third quarter, down 12% sequentially to $4.5 billion, and the net LLR release was $1.4 billion versus $2 billion in the prior quarter.

We ended the quarter with $32.1 billion of total loan loss reserves, and our LLR ratio was 5.1%. Consumer NCLs declined 12% sequentially to $4.2 billion, and we released $1.2 billion in net loan loss reserves.

Corporate credit costs were $86 million in the third quarter compared to a benefit of $104 million last quarter. Corporate net credit losses were down 22% sequentially to $272 million. However, we had a smaller reserve release, as a release in Citi Holdings was partially offset by a build in Citicorp to reflect continued growth in corporate loans and loan commitments. Corporate non-accrual loans of $4.2 billion were down 14% versus the prior quarter.

Slide 22 shows our international consumer credit trends. The NCL rate remained fairly stable in Asia at just over 1% in the third quarter. NCLs continued to improve in Latin America, driven by Mexico cards. Delinquency rates also improved in both regions.

On Slide 23 we show our North America cards portfolios. In Citi-branded cards, the NCL rate continued to improve in the third quarter, down 87 basis points to under 6%, and 90+ day delinquencies were down to 1.4%. In retail partner cards, the NCL rate fell by 166 basis points to 7.5% this quarter, and 90+ day delinquencies fell to under 2.5%.

On Slide 24, we show the North America mortgage portfolio in Citi Holdings, split between residential first mortgages and home equity loans. NCLs improved in both portfolios in the third quarter, and 90+ day delinquencies declined as well, although at a slower pace than prior periods.

In residential first mortgages, we ended the quarter with $70 billion of loans, down 18% from a year ago. Sequentially, 90+ day delinquencies declined by 3% to $3.8 billion, and net credit losses were down 5% to $437 million. The sequential decline in first mortgage delinquencies was entirely driven by asset sales, as we sold roughly $500 million of delinquent mortgages in the third quarter.

In recent quarters, both asset sales and the pace of modifications have slowed, as we have a smaller pool of eligible delinquent loans to sell or modify. This trend continued in the third quarter. At the same time, our early bucket delinquencies are beginning to increase, reflecting re-defaults of previously modified mortgages. As a result of these converging trends, we could begin to see increasing delinquencies and net credit losses in the first mortgage portfolio. However, expectations for re-defaults and a resulting increase in net credit losses are already factored into our net loan loss reserve balance.

In home equity loans, we ended the quarter with $41 billion of loans, down 13% from a year ago. Sequentially, 90+ day delinquencies declined by 2% to $1 billion, and net credit losses were down 14% to $542 million. As I mentioned earlier, the pace of improvement in our home equity delinquencies has slowed. While net credit losses on the portfolio continued to decline through the third quarter, we are watching these trends closely.

We ended the quarter with roughly $10 billion of our total loan loss reserves allocated to North America real estate lending in Citi Holdings, or over 30 months of coincidental NCL coverage. Adding to the potential risks surrounding North America mortgages is the continued economic uncertainty, high unemployment and the potential for further housing price declines.

On Slide 25, we show a consolidated view of North America consumer mortgages, including both Citi Holdings and Citicorp. Our total NCL rate declined to 2.8% in the quarter, and 90+ day delinquencies were roughly flat at 3.9%. For our total North America consumer mortgage portfolio, our reserves cover 30 months of NCLs.

On Slide 26, we address three additional mortgage-related topics. First is our third-party servicing book. At the end of the third quarter, we serviced $421 billion of loans for third parties, and we retained the rep and warranty liabilities on another $27 billion of sold servicing. Our repurchase reserve totaled $1.1 billion at the end of the third quarter. This reserve is up from $969 million at the beginning of the year, as we utilized $548 million of the reserve and built an additional $642 million year-to-date.

Second is the volume of our private label RMBS issuance. Citi was a relatively small issuer of private label RMBS, with total issuance of roughly $91 billion during 2005 through 2008. We issued $25 billion in CitiMortgage. Since issuance, this amount has been reduced by roughly $13 billion of repayment and recoveries and $1 billion of cumulative losses. The remaining $11 billion outstanding has a 90+ day delinquency rate of 12.5%.

We issued $66 billion through our Securities and Banking business. Since issuance, this amount has been reduced by roughly $34 billion of repayment and recoveries and $8 billion of cumulative losses. The remaining $24 billion outstanding has a 90+ day delinquency rate of 26.6%.

The last topic is FHA origination and the potential risks related to government-guaranteed loans. Over the past three years, Citi cut its FHA origination volume dramatically. From 2005 through 2008, we represented roughly 7% of the market. In 2009, this level dropped to roughly 3%. And since 2010, Citi has represented less than 1% of industry FHA origination. More broadly, as Vikram mentioned earlier, we believe mortgages and related issues are among the biggest risks facing U.S. banks today, particularly in the face of an uncertain economic environment.

On Slide 27, we summarize our country risk exposure to Greece, Ireland, Italy, Portugal and Spain, noted here as GIIPS, as well as France and Belgium. At the end of the third quarter, Citi's gross funded exposure to GIIPS was $20.6 billion, and our combined gross funded exposure to France and Belgium was $14.4 billion.

Netted against our gross funded exposure, we have margin posted under legally-enforceable margin agreements, collateral pledged under bankruptcy-remote structures, and purchased credit protection from financial institutions. These amounts totaled $13.5 billion for GIIPS and $12.4 billion for France and Belgium. Credit protection has been purchased from high quality financial institutions predominantly outside of these seven countries.

Net of margin, collateral and purchased credit protection, our net current funded exposure to GIIPS at the end of the third quarter was $7.1 billion, and our net funded exposure to France and Belgium was $2 billion. We also hold collateral totaling $4.4 billion for GIIPS and $4.1 billion for France and Belgium, which have not been netted from these amounts. We continue to carefully manage these exposures, while servicing our important clients in these countries.

In summary, we produced good results in light of a very challenging operating environment this quarter. Let me close with some comments about our outlook for various businesses.

Our greatest performance challenge this quarter was in Securities and Banking, reflecting very difficult market conditions, but also weak performance in our equities business. It's obviously difficult to forecast operating conditions for this business in the coming quarters, but global macro and economic uncertainty will likely weigh on operating results in the near term.

As we navigate the uncertain environment, we will remain focused on servicing our clients, while controlling risk carefully. As is the case with all of our businesses, we actively manage our expenses, and we'll be carefully calibrating compensation levels to performance. We will also ensure that the overall size and positioning of our Securities and Banking business reflect the opportunities we see going forward.

In Transaction Services, we expect continued revenue growth into next year, as our investments generate underlying growth to offset the headwind of spread compression. Even in a continued low rate environment, we currently anticipate achieving positive operating leverage in Transaction Services by the second or third quarter of 2012.

In North America Consumer Banking, we continued to benefit from declining credit costs this quarter. However, these improvements will likely slow into next year, as we approach more normalized levels. Absent a material weakening of the U.S. economy, we currently anticipate achieving positive operating leverage in North America Consumer Banking by the end of 2012. This is about a year behind our consumer businesses in Asia and Latin America, as we began our investment program in North America more recently.

In international Consumer Banking, we achieved positive operating leverage in Asia this quarter and expect to do so in Latin America in the fourth quarter. This reflects underlying growth in these markets, as well as our investment spending and the strength of our franchise in these regions. Credit quality in most of these markets has largely recovered, and we anticipate slight increases in dollar NCLs and delinquencies as our portfolios continue to grow and season. As Vikram noted in his opening comments, we are very focused on managing credit risk in these markets, and we feel very good about the quality and diversity of our portfolios.

Turning to Citi Holdings, the transfer of retail partner cards into Citicorp will obviously shrink the assets in Citi Holdings, but it will also affect the earnings profile of the remaining business. As you know, we said back in March 2010 that within Local Consumer Lending, our existing reserves plus expected pre-provision net revenue would be sufficient to cover expected lifetime losses in the existing portfolio. We continue to believe this is true, even with the transfer of retail partner cards out of Local Consumer Lending, although, as always, this assumes no further downturn in the U.S. economy.

Our major focus in Citi Holdings will remain on managing the risks inherent in the U.S. mortgage portfolio. We expect ongoing weakness in U.S. housing into the middle of next year. Foreclosure backlogs continue to grow, and the economic outlook is uncertain. Additionally, litigation and regulatory risk will remain high in the mortgage business, although given the size of our portfolios, we believe our exposure is smaller than peers.

Regarding expenses, as Vikram said, we anticipate fourth quarter expenses, excluding the impact of foreign exchange and legal and related costs, to be roughly flat to this quarter. Since we started our restructuring in 2008, we have been extraordinarily focused on expenses, and will remain so.

That said, we also have real growth opportunities in many of our businesses, and we will pursue those with prudent investment spending. As I just noted, we're beginning to see the benefits of those investments, and we anticipate achieving positive operating leverage in more of our key businesses over the next year or so.

That concludes our review, and Vikram and I will now be happy to take your questions.

OPERATOR: At this time, I would like to remind everyone, if you would like to ask a question, please press star, then the number 1 on your telephone keypad. Your first question comes from the line of Glenn Schorr with Nomura.

GLENN SCHORR: Hi, thanks. I'm curious, John, on your comments on reshaping the investment bank for the opportunities that you see, obviously in a tougher revenue environment now, but expenses have been elevated there. I'm just curious, what drives the decision, meaning if you go there and you shrink a little? Is it Basel III, is it Volker's, is it the derivatives rules? What are the main drivers that's going to bring rethinking on the IB, or Securities and Banking?

VIKRAM PANDIT: Glenn, let me answer that. It's Vikram.

GLENN SCHORR: Thanks, Vikram.

VIKRAM PANDIT: And I think, yes, it's all of the above. You've got to start right there, which is Basel III, Volker, are definitely going to have impact on the kind of business you're in, the credit businesses, like securitization, some of the derivatives businesses, those that are non-clearing house counterparty businesses are going to be affected by that. You've got scale for that. That's important. On the other hand, the expense is going to be higher, because if you want to be in clearing houses, you've got to make sure the systems are set up. So on one hand, you reduce the business. On the other hand, on a getting-ready-for-it-basis, the expenses are higher. And none of us truly know where the Volker Rules are going to come out. And they are going to have an impact, and we need to watch that. But in our own case, as I'm sure elsewhere, we've been getting ready for that, making sure that we can comply with the definitions of proprietary trading and other activities. So those are clearly the cases.

The bigger issue is whether we all are going to see a secular change in the level of activity in those businesses. You and I know that's really hard to predict, and we all are living in an environment where the interest rates are 2%. And on the other hand, we're expecting some of these businesses to return some very good rates of return. Now, how that all squares, we're going to have to see. And that's probably the most uncertain part.

The part that we're more certain about is that capital markets activities, albeit slowly, and albeit in a smaller volume today, are moving to the emerging markets. It's the emerging market companies that are doing the IPOs. It is the emerging market companies that are going to need the issuance of debt and all of the M&A that goes with that. And that's one of those businesses that we are investing against as a company. So you can see, it's sort of a picture with a lot of factors that are changing, which means that you've got to be right on top of the business making sure that you're sizing the business correctly and optimizing it to where we think activity's going to come from, and taking some guesses as to what the secular level of activity is going to be.

GLENN SCHORR: I appreciate that, thank you. Related matter, but a little different, is you had a lot of time to prepare for it, but can you talk about any direct impact you've seen on the downgrade to P2 by Moody's?

JOHN GERSPACH: Yeah, Glenn, so far, we really haven't seen much of an impact, to be honest with you.

GLENN SCHORR: Good to hear. So counterparties are hanging in, trading partners have no issues?

JOHN GERSPACH: No, we've gotten so far what we expect. We know that there are some counterparties that, by their charter, can't do business with anybody who's less than a P1, and so that went away. That's what we expected to happen. And as you noted, it's something that we've been preparing for that possibility for some time. We've already got commercial paper, even as of the second quarter, was down to $9 billion. I think we're in $6 or $7 billion right now. We may dip a little bit more than that, but it's just not going to have that big of an impact, or it least it hadn't had that big of an impact on us as yet.

GLENN SCHORR: I appreciate that, and maybe one last one. Just curious, the AOCI jumped from $12 billion to $17 billion. I know spreads widened out a lot, but rates came down. Just curious if you can give us a little color behind the scenes.

JOHN GERSPACH: Yeah, that's basically all due to currency translation adjustment, FAS 52 impacts.

GLENN SCHORR: Okay, great. I appreciate all the answers. Thanks.

JOHN GERSPACH: Okay, thanks, Glenn.

OPERATOR: Your next question comes from John McDonald with Sanford Bernstein.

JOHN MCDONALD: Hi, John, just following up on Glenn's last question. So the FX currency translation did affect the growth in tangible book value this quarter, I guess, and also the Tier 1 ratio as well?

JOHN GERSPACH: Well, it has less of an impact on the Tier 1 ratio because we hedge to our Tier 1 ratio. So it does have an impact from a tangible book point of view. You've got the impact on both the capital accounts, but also don't forget, you've got an impact on goodwill and intangibles as well. So that all sort of nets down to, I think, about a $3.5 billion impact on tangible book value.

JOHN MCDONALD: Okay.

JOHN GERSPACH: But from a Tier 1 ratio point of view, it doesn't impact our ratio because of the way we hedge it out.

JOHN MCDONALD: Okay, gotcha. Second question, the net interest margin and net interest income held in pretty well for you guys, okay, amid a tough interest rate environment. What's your outlook for the NII and the NIM if we continue to muddle through a low growth environment with low interest rates?

JOHN GERSPACH: Yeah, you know, NIM was up a basis point this quarter, and obviously, there's a lot of ins and outs that go into NIM. I tend to think you should focus on two broad categories. One is movements in our loan portfolio. Again, as we've mentioned before, if Citi Holdings continues to shrink, some of our higher yielding loans are running off. That NIM pressure is only somewhat offset by growth in the Citicorp loan portfolio, especially in the low interest rate environment. Our strategy is to lower the risk profiles in our portfolios as we bring on new loans at lower rates. If you think about the impact of Citi Holdings, higher yielding loans rolling off and lower yielding loans coming on, that was about a net hit to NIM of three basis points. So the second impact is our continued roll off of long term debt, and the absence this quarter of certain borrowing costs that we had in the second quarter in our trading business associated with some rather specific client strategies. As those client positions rolled off in the third quarter, so did those associated borrowing costs. So the second factor, this cost of LTD and the higher financing costs rolling off added about four basis points to our NIM. Those two things sort of net out to the one basis point.

So you asked about looking forward. Absent some significant portfolio sale coming out of Holdings, our NIM is going to continue to reflect the pressure of a low interest rate environment and subsequent changes in our portfolio, and it's likely to come down by a couple of basis points each quarter.

JOHN MCDONALD: Okay. And other banks are retiring TruPS. Given that you've got lots of capital on almost all metrics, and those presumably have a high interest expense, would you start to think about that as a strategy - retiring the TruPS as well?

JOHN GERSPACH: Yeah, that's something that we will continue to look at. There are some TruPS that we can call now, but our higher yielding TruPS require a regulatory event in order for us to put out a call provision on. We're waiting to see when that regulatory event may occur.

JOHN MCDONALD: Okay. And the last thing, just a clarification on your Basel III goals to be at 8-9% by the end of next year. Just to clarify, that's on a fully loaded basis. Is that correct?

JOHN GERSPACH: Yeah.

JOHN MCDONALD: Okay, so that assumes all the numerated deductions that don't even start technically until 2014, right? That those all hit immediately?

JOHN GERSPACH: That's on a fully phased in set of rules, yes.

JOHN MCDONALD: So do you have an idea on an as reported basis what kind of Basel III you'd expect to be actually reporting on January 1, 2013?

JOHN GERSPACH: No, I'm not going to forecast out Basel III ratios.

JOHN MCDONALD: Okay, but it would be higher than the 8-9% obviously, correct?

JOHN GERSPACH: As I said, Glenn, we expect to be between 8-9%.

JOHN MCDONALD: Fully loaded. Okay.

JOHN GERSPACH: All right?

JOHN MCDONALD: Yeah, thank you, John.

JOHN GERSPACH: All right.

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

JIM MITCHELL: Hey, good afternoon. A quick question on the follow-up on John's question on the Tier 1 common. On the Tier 1 common dollars, it looks like it was basically flattish when we look at risk weighted assets. Just trying to figure out if there was not much of an impact from the FX translation. What kept it flat in the quarter?

JOHN GERSPACH: The biggest impact, I mentioned the fact, the way we hedge. If you take a look at our risk weighted assets, on an ex-FX basis, our risk weighted assets actually grew about $20 billion more than you would have expected just from a decline, or just from an impact of the appreciating dollar. So if nothing else had changed, you would have expected our risk weighted assets to have dropped by about $30 billion this quarter, and in fact, they only dropped by about $11 billion. So we had growth in our risk weighted assets, and that comes from three basic factors. About 1/3 of that increase comes from loan growth, again, ex-FX. Risk weighted assets associated with loans grew by about $7 billion in the quarter. Another $6 or $7 billion was risk weighted asset growth in our trading book. That was driven by factoring market volatility into the various models. The other 1/3 was a combination of repositioning some of our AFS securities and some of our reverses out of zero risk weighted assets into 20% or 50% risk weighted assets. So those three factors kind of add up to the $20 billion worth of risk weighted asset growth. And if you think about it, as I think we put in the 10Q, each $10 billion of risk weighted asset growth impacts our Tier 1 ratio by about 12 basis points. So that $20 billion would be somewhere around 24 basis points. And I think the way the roundings work, you'd probably get an extra 3/10 increase in our published Tier 1 ratio.

JIM MITCHELL: Okay, all right. I got that. Thanks. And then maybe a follow-up on the expenses in the investment bank. If we look at year-to-date, clearly because of the tough environment, I think revenues are down ex-DVA about 17%, but expenses are up 3%. Do you think there's some more…you're kind of guiding to flat expenses sequentially, but is there some room there to, if revenues were to remain weak, to cut compensation at the end of the year?

VIKRAM PANDIT: Let me say that we are focused on making sure expenses are in line with our performance, and quite frankly, compensation should be in line with performance too. And it's too soon to talk about it…about the fourth quarter now…but we'll certainly have that in our mind next quarter.

JIM MITCHELL: Okay, fair enough. One last question on the collateral that's not netted in your disclosures. What's in there? Is it just not AAA collateral? What's the makeup of that type of collateral?

JOHN GERSPACH: Yeah, those would be assets that we've got pledged, but we don't necessarily have sitting in bankruptcy remote vehicles, or we have physical possession of. So we have to go and get it.

JIM MITCHELL: Gotcha.

JOHN GERSPACH: All right?

JIM MITCHELL: Okay, thanks a lot.

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

BETSY GRASECK: Hi, good morning.

VIKRAM PANDIT: Hi, Betsy.

BETSY GRASECK: A couple of questions. One on the retail partner cards, I think that's something that the market had been hoping for for a while. Could you just give us a sense as to why now, and was there any regulatory approvals that were required for this?

VIKRAM PANDIT: I think why now is really a sort of answer to taking stock of what we've done to change the business, which is, we've shrunk the portfolio, improved the credit quality, and it's fully funded by a deposit base. Why now is also a result of understanding all the changes that came out of the CARD Act. I think that one of the biggest changes coming out of the CARD Act is that opened lines on branded cards have been rationalized, total amount of credit outstanding has been rationalized. Retail credit at point of sale is an important source of financing for people who are buying large items, such as those that are private label partner supply, and so basically, consumer behavior has changed. We think that this form of white label or private label credit is going to be an important part of what drives consumer sales, and our corporate customers are asking for that service from us as well. So strategically, we're in different place than we were before. Lastly, we've stress tested that portfolio on a risk basis, and looked at the liquidity profile that we're carrying, and looked at the credit requirements in the U.S. marketplace. And we generally feel that it is therefore what we do as our core strategy at Citi, and that's why we moved it over. Obviously, we always had conversations with regulators about everything we do, but this was our decision.

BETSY GRASECK: And when you say corporate customers have been asking you for this, does this mean vendor financing, or this means incrementally more investment in incremental private label card?

VIKRAM PANDIT: It's not a matter of financing. We launched the Google wallet, as an example. There are lots of different aspects of the credit card and the credit basis, which are not going to be necessarily where banks own the last mile. It may turn out that the last mile customer is a customer of somebody else, and that somebody else is our corporate customer, and they would like to have the kind of card service and/or the financing service to help them, of course, on a risk controlled and quality controlled basis that we will be on top of. But that's what I mean by saying that is the kind of service we see having much more demand going forward.

BETSY GRASECK: And on RWAs, you assess on the same way, whether they're in Citicorp or Citi Holdings, is that right?

VIKRAM PANDIT: There may be some differences in terms of, depending on the clientele and how it's done. But, by and large, we are okay with both risk weighted assets on both sides, branded and this side, and we're happy with the rates of return we can earn for you on both of those businesses. And that was part of the decision making as well.

BETSY GRASECK: Okay, and then lastly on capital ratios, you indicated that 8-9% all in, Common Tier 1 by year end '12. We've got some conversation coming out of the Europeans that they are looking for their rate to get to 9% sometime in the middle of next year. Does that at all weigh into your thinking as to what you're planning for by year-end '12?

VIKRAM PANDIT: First of all, I don't know exactly what the regulators are going to do in Europe, nor do I necessarily know the measures are built on what, and so it's not clear. One of the biggest issues we've had, which is what we've been arguing for, is a level playing field. Let's get to apples to apples. So I don't know what those numbers are, but our plans are our plans. We're going to get to 8-9% Basel III by the end of next year, and these are the plans we've been talking about for a while. We think they're the right ones for us and our shareholders.

BETSY GRASECK: Thanks.

OPERATOR: Your next question comes from Ed Najarian with ISI group.

ED NAJARIAN: Yeah, good afternoon.

VIKRAM PANDIT: Hi, Ed.

ED NAJARIAN: Just one quick question. When JP Morgan reported earnings, they were much more conservative about loan loss reserve recapture, given their outlook. You're still recapturing somewhat, some reserves, obviously less than in prior quarters, but you've given a pretty muted outlook, obviously, especially for the North American mortgage and home equity market. I'm just wondering how you're thinking about reserve recapture, and maybe how you're thinking about it in terms of both Corp and Holdings going forward. Thanks.

JOHN GERSPACH: I think when you look at where we've been releasing reserves recently, it's primarily been in our two U.S. cards portfolios. Don't forget, we were among the last of the institutions to actually begin reserve releases, because quite frankly, we were one of the last to actually reprice the portfolio and then see the impact of all of that flow through our books. When you take a look at the two portfolios, both branded cards and retail partner cards, which we show you on that slide in the investor deck, we're continuing to see improved performance, both on an NCL and a delinquency basis. And we'll be guided by that as we consider reserve actions in the future. I'd say that we're very comfortable with our existing LLR ratio of 5.1%.

VIKRAM PANDIT: Ed, I don't know what conservative means in any case. Everybody has to reserve fairly, and we're very cognizant of the environment we're headed into, as we've been for a long time. We were one of the only ones that talked about housing prices going down for a long time here, and so we get it.

ED NAJARIAN: So we could potentially see more of a sort of…your view now is there's a good chance that most of that will come from cards, to the extent that we do see more?

JOHN GERSPACH: To the extent that we've got reserve releases in the future, it is most likely to be much more heavily weighted towards those two cards portfolios.

ED NAJARIAN: Okay, thanks. And then just as a quick follow-up, and I'm guessing this one's going to be a challenge to answer. You highlight that you want to return capital in 2012. I know you haven't tried to quantify that amount, other than saying you want to finish the year at that 8-9% level on Basel III Tier 1. But as we think about the tradeoff next year on whatever amount of capital you do end up returning… between buybacks and dividends. On the one hand, I'm guessing you want to raise the dividend and establish sort of that start to the payout ratio, or to a better payout ratio, but on the other hand, you might have a very great opportunity to be buying back a fairly significant amount of stock at a big discount to tangible book. So I'm just wondering how you're balancing that tradeoff in your head right now.

VIKRAM PANDIT: You know, that's a very valid question for a stock that's trading below tangible book value right now. By buying back stock, if that's the way we decide to return capital, we'll be helping our long term shareholders in two ways; one by reducing stock count, and two, by accreting their book value per share. That's a very powerful way to create value for your long term shareholders, and certainly, we're going to take that into account as we think about this. I think that's particularly true as we look beyond 2012 and look at all the DTA monetization, and all the capital that's released by the wind-down of Holdings. As we look at that, we'll be very cognizant of where the stock is trading on a price to book value basis and make the decisions accordingly. So your point is valid. That point is not lost on us, and when we get closer to making the decisions, we'll have a much more informed perspective.

ED NAJARIAN: Okay, thanks very much.

OPERATOR: Your next question comes from Matt O'Connor with Deutsche Bank.

MATT O'CONNOR: Hi, guys. Actually, a few things. One is a follow up to Betsy's question about if European banks need to get to this 9% by mid next year, and I think that's under Basel 2.5, which you guys and the other U.S. banks aren't on, but I don't know if that's a metric that you track internally and care to share with us?

JOHN GERSPACH: We're focused on Basel I, which is what we report on now, and Basel III, which presumably is where the U.S. will go in the future.

MATT O'CONNOR: Okay, then I think the way the calculations work for the 2.5, your hypothetical ratio would probably be somewhere between the 11.7% under Basel I, and then whatever the Basel III is, so it's going to be higher than the Basel III, but less than the 11.7%.

JOHN GERSPACH: Yeah, I don't know what to say, Matt, so…

VIKRAM PANDIT: The math may work out that way, but we don't have a comment on that.

MATT O'CONNOR: Okay. Separately, as you think about the long term debt footprint for the company, there is a lot that you've talked about running off. Is there some sort of target that you would think about long term?

JOHN GERSPACH: Well, what we've said, Matt, is very specifically that what we intend to do is to allow all the TLGP debt to run off. We don't intend to refinance any portion of that, and we haven't to date. So as the TLGP debt runs off, that's been reducing our levels of long term debt.

MATT O'CONNOR: Okay, then just lastly on the expenses…which all the extra details were helpful…as we think about kind of the clean run rate of about 3% or 2.8%, to be exact, is that a decent run rate to use going forward beyond the 4th quarter?

JOHN GERSPACH: I'll have more to say about 2012 when we do the earnings release after the end of the 4th quarter.

MATT O'CONNOR: Okay. Any early preview though, directionally? I mean, it sounds like you're preparing for a tougher revenue environment, which a lot of us think is the right thing to do. So there's some things that you can't control, but…the underlying expense growth…it does seem like you're more and more focused on that.

JOHN GERSPACH: Yeah, I think we see the same operating environment that you do, and so we will be prepared accordingly.

VIKRAM PANDIT: Yeah, I think there's no question we believe rates in the U.S. and the developed market is going to be low for a very long period of time, which is why we've been making sure that emerging markets businesses are growing in a very controlled way. That's the delta, we think, and we've been methodically going after it.

MATT O'CONNOR: Okay. Actually, if I could just squeeze in a last one here…on the deposits, you had very strong growth in U.S. non-interest income, which is obviously the most profitable stuff. Where's that coming from? And then the non-U.S. was down, which I don't know if that's FX, or what was driving that?

JOHN GERSPACH: Most of the impact on the international deposits was driven by changes just in the FX rates. From a domestic point of view, we had a lot of good deposit growth in transaction services, and so again, that's a growing part of our business.

MATT O'CONNOR: Okay, thank you.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from Chris Kotowski with Oppenheimer & Co.

CHRIS KOTOWSKI: Good morning. I wanted to go into your comments a bit on that you would expect mortgage delinquencies to trend back up again. Is that due to some significant degree, because of the weaker economic data points that we've been seeing for the last 3-5 months, or is it just that the modified loans are hitting the windows where they would redefault even in a stable economic environment?

JOHN GERSPACH: Yeah, Chris, it's a combination of both. Right now, it's probably a bit more heavily weighted to the redefaults of the modifieds than it is the economic point, but they both certainly factor into our view of how this might develop out into the future.

CHRIS KOTOWSKI: Okay, and then on the trading results and environment, is it safe to say that, like, heavy damage was done during the month of August, but that September and July were just maybe slack activity, but that there were positioning losses as credit spreads blew out that may not be there unless that reoccurs?

JOHN GERSPACH: Well, I would say that August was a particularly volatile month between the U.S. debt ceiling whatever, and the ongoing Euro, but throughout the quarter, spreads certainly widened. That happened as well in September, so I'd say it was just an all around difficult quarter.

CHRIS KOTOWSKI: Okay, fair enough. Thank you.

OPERATOR: Your next question comes from Vivek Juneja, with JP Morgan.

VIVEK JUNEJA: Hi, a couple of questions. Firstly, what was the amount of hedge gains included in your lending line? Was one of them $300-$500 million, roughly?

JOHN GERSPACH: Yeah, we never break out the hedge gains specifically, and that's not a number I've really got at my fingertips. Maybe if you call the IR group, they can get it for you, but it's probably something in the order of like a half billion dollars.

VIVEK JUNEJA: Then the SAP assets, there weren't any negative marks, despite spreads widening out. Were those offset by hedges, or was it something else?

JOHN GERSPACH: We did have some negative marks. Maybe it doesn't show up quite in the …

VIVEK JUNEJA: Yeah, the net number, we obviously can't see it, so that's why, it doesn't matter…

JOHN GERSPACH: Yeah, there were some ups and downs. Actually, we had, in one of the SAP asset breakouts back on page 41, you get a little bit of flavor of a little bit more detail as to what went on in the various components of the mark-to-market book, and the single biggest contributor was our derivatives positions in the SAP. We have some hedges on there, which were just swaps from, swapping out from pay fix to floating, hedging some other positions we had, so we've got some gains on those.

VIVEK JUNEJA: Okay, yes, well that's what drove my comment about whether you had some hedged gains. And on that same page, equity assets are down pretty sharply. Anything particular going on?

JOHN GERSPACH: Not that I…no.

VIVEK JUNEJA: Because it went down by almost a third.

JOHN GERSPACH: Yeah well, I'm pretty sure we had an asset sale in there for equities, a small asset sale. So we had a sale of some private equity assets, and I just don't have the detail of that with me right now. There were obviously some marks that we took, but that's what really drove that.

VIVEK JUNEJA: Okay, and on the topic of sale, did you sell any MSRs this quarter?

JOHN GERSPACH: No.

VIVEK JUNEJA: In Holdings? Okay.

JOHN GERSPACH: No, we had no sale of MSRs this quarter.

VIVEK JUNEJA: Okay, because those, the value of that came down pretty sharply, too.

JOHN GERSPACH: Yeah, well…

VIVEK JUNEJA: Okay.

JOHN GERSPACH: Think about interest rates.

VIVEK JUNEJA: Retail partner cards, a question for you Vikram, which is now that it is back in Citicorp, strategically, will you think about shifting focus and drawing it and adding more partners, or what's the plan on that one?

VIKRAM PANDIT: I think we do plan to manage it as a real core operating business, which means that if there are growth opportunities, then we're going to consider them carefully. I think you understand that the…Vivek, you know this…the nature of the branded card business, given Basel III requirements and open lines, and the amount of competitiveness in there, suggests that while there are opportunities, that the private label business is one where there could be some good opportunities. Particularly, as I said, customer behavior is moving towards maintaining the credit line availability on the branded cards, and using the point of sale private label card as a way to finance their incremental large purchases, and that's a point that's not lost on our corporate clients as well. We'll be just very, very thoughtful about where and how to make those investments, but certainly, the credit availability in the U.S. in aggregate has come down a lot, which creates an opportunity.

VIVEK JUNEJA: And on the same, similar term of growth, you've got European banks that are thinking about divestitures, especially in the U.S., but also outside. What's your appetite for that in terms of using your capital part for any of those?

VIKRAM PANDIT: First of all, let me step back a little bit. I think the amount and the quality and the prospects of the deleveraging are still uncertain. From what I understand, they're much more dollar based than Euro based. So the question becomes, what are the dollar based assets, and what do you want to do with them. The reality for us is really, we'd rather use our capital towards those businesses and those areas that create a long term earnings profile versus having a mark-to-market gain on a shorter term investment. Although, if there are opportunities that come up, we'll look at it. But I don't think you should expect us to be a preferred bid for the large amount of assets they may sell.

VIVEK JUNEJA: Okay, thank you.

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

MOSHE ORENBUCH: Great, thanks. I'm trying to remember back to the beginning of the call. I think you had put some metrics out for the quality of the private label book, and from what I recall, a 7.5% loss rate seems kind of high. Do you think that cycles down to a particular level, and do you have a normalized level? And kind of coupled with that, it was alluded to in an earlier question, but there's been a fair amount of portfolios trading hands in that area. Would that be something in which you would think about actually acquiring portfolios, now that this is back in Citicorp? And I've got a follow-up.

VIKRAM PANDIT: Well, I think the base strategy is still one of organically growing with our clients, and particularly, our corporate clients in the existing private label partner card partners that we have in that business. There are occasionally portfolios that come up. We'll take a look at them, and it has to be compelling within wanting to have that portfolio for that quality of credit card clients, that quality of customer, and that particular corporate client as well. So we'll look at them, but our driving strategy is going to be to grow organically with where we think credit is necessary.

JOHN GERSPACH: And to get back to you, you're focused in on the NCL rate. As we said earlier, the NCL rate, which you quoted at 7.5% for this quarter, that was down 166 basis points from the prior quarter. And we think that business kind of operates more in the 6-6.5% range over time, so we think we still have some –

MOSHE ORENBUCH: Still have some room to go.

JOHN GERSPACH: - some room to run in improvement.

MOSHE ORENBUCH: Okay. And just kind of on a separate topic, that page 20 which I thought was really a good disclosure on breaking down your investments a little more. Is the primary driver the revenue generating investments actually delivering or some of the other things getting decreased in terms of the, you know, what you had laid out in terms of getting to positive operating leverage by kind of divisionary geography you'd spoken about before?

JOHN GERSPACH: No we're on track to deliver on, you know…I'm not gonna say on every single investment. I mean, obviously you got a couple that are probably not doing exactly what you want it to. But overall, our revenue investments, we're seeing results and I think you're starting to see the results. Certainly as you look at what we're achieving in Asia and in Latin America, the revenue growth we're getting out of GTS, I mean that…there's a lot of new client mandates there. So, I think we're doing pretty well as far as getting the results that we want out of those investments.

VIKRAM PANDIT: And if you look at the table that John put up, a lot of those investments are against our retail businesses internationally, retail businesses, GTS businesses…all of which are predictable in terms, more predictable I should say in terms of when you invest what could come out of that. And so we've also made sure the investment skew is towards those businesses that we think give us a good rate of return.

MOSHE ORENBUCH: You mentioned that the North American Consumer would be kind of later next year. And how much of that billion nine is being targeted there, any sense proportionately?

JOHN GERSPACH: I can't give you the exact number at the top of my head, Moshe. We can get that for you as far as, you know, a rough breakout.

MOSHE ORENBUCH: I mean we're certainly seeing some initiatives just kind of in the median and like.

JOHN GERSPACH: Yeah.

MOSHE ORENBUCH: Great. Thanks so much.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from Jason Goldberg with Barclay's Capital.

JASON GOLDBERG: Thank you. You mentioned a lot of the decline in equities trading tied to unwinding of principle strategy positions. Can you talk to where you are in that process? How much more to go? And are those kind of realized or unrealized losses we saw?

JOHN GERSPACH: Yeah. Jason, I'd say we're close to two thirds done winding down that particular position, you know, that business. That’s kind of where we are.

JASON GOLDBERG: Okay. And secondly I guess the CVA causes a lot of variability in the quarter. I know you've kind of given us the numbers to back it out, but how should we just think about that going forward? Is it simply as spreads come back in, you know, that will go from a gain to a loss or are there ways you kind of manage that to lock that in or is that not something you really focus on?

JOHN GERSPACH: Well we focus on it a lot, but there's little…you know when it comes to your bond spread, I can't hedge that. So I can't hedge my own spreads. As the spreads widen you get this ridiculous thing where we book revenue on our fair value option debt and then as our spreads contract, we'll end up taking revenue off the table.

JASON GOLDBERG: Alright. Thank you.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from Ron Mandle with GIC.

RON MANDLE: Hi, I have two questions. On the capital ratio question before John you gave a good rundown of the denominator but I was wondering about the numerator. It would seem that the amount of actual dollar amount of Tier 1 Common didn't grow during the quarter. I was wondering if you could comment on that.

JOHN GERSPACH: Now again the absolute dollar amount of capital is going to be impacted by the FX impact on the capital. Like I said, what we do Ron is we hedge the ratio. We don't hedge the nominal dollar value of the capital.

RON MANDLE: Okay. So you hedge the ratio, so you hedge the denominator which you spoke about?

JOHN GERSPACH: We hedge…

RON MANDLE: And so then you also hedge the numerator and so that was, you know…if the denominator…so that was a negative also if the denominator didn't go down as much as it should have, then the numerator didn't either?

JOHN GERSPACH: If we hadn't had grown the $20 billion in risk-weighted assets on the ex-FX basis, then our risk weighted assets would have been about $20 billion lower and our Tier 1 ratio would have been about 24 basis points higher than it otherwise would have.

RON MANDLE: And in terms of capital line, that shows up in the AOCI that you referred to before?

JOHN GERSPACH: Correct.

RON MANDLE: Okay. And so if FX is stable in the fourth quarter then what should we expect? Would there be a reversal of these items?

JOHN GERSPACH: Well if it's stable, then nothing would change. So then you would have no impact on either your nominal value of Tier 1 capital or your Tier 1 ratio.

RON MANDLE: Okay.

JOHN GERSPACH: And it would just change based upon all your normal factors.

RON MANDLE: Okay. And then related to that in the second quarter slide deck, you had the table that showed how you were leveraging the net income with DTA utilization and the 10% to 15% threshold impact. So presumably there was no benefit of that this quarter?

JOHN GERSPACH: We actually utilized about $200 million of the DTA.

RON MANDLE: Okay. And also on the CVA, you divided it into two pieces. You said you had a gain on derivatives. Is that on the…you know, with your spreads widening, the counterparty spreads were also widening but you actually had it so well hedged you had a gain?

JOHN GERSPACH: That’s correct.

RON MANDLE: Nice work. And then one last question on a separate topic. When you were talking about the international retail… international consumer banking, you said that some of the growth was partially offset by spread compression on a year-on-year basis, but you added that the spread compression seems to be abating. I was wondering if you could expand on that and what that might mean for your net interest margin going forward.

JOHN GERSPACH: Well that’s kind of factored into some of the…you know, it was an earlier question. I can't remember if it was Glenn or whomever had asked about it, or John who asked about NIM. And that factors into there, Ron. We are continuing to obviously grow loans in Asia. We still see those loans coming on at lower rates than they had been growing in the past. Now we've been living in a low interest rate environment for the better part of a year and so you're starting to lap that effect. And so the real downward pressure from that low interest rate environment on your growth is starting to abate. And over time, as you learn to live in a low interest rate environment, it kind of leaves you where you are. I think what we all would like to see is an environment where we got some increases in interest rates and that will help to grow our revenues we think at a faster rate.

RON MANDLE: But it sounds, in a way, like what you're saying is that the pressure in the U.S. will be offset to some extent by the abating of the pressure internationally?

JOHN GERSPACH: Well the abating comment that I made earlier, I think, was really on the international portfolio. And so as we look at our regional businesses, there we see the abating effect of a low interest rate environment. Given how U.S. rates have come down rather dramatically just over the last several months, I don't think that I would use the abate word in relation to U.S. interest rates as yet.

RON MANDLE: No, I was just saying that the combination, you know…what you're saying about the combination helps offset to some extent the U.S. pressure?

JOHN GERSPACH: Yes.

RON MANDLE: Yeah.

JOHN GERSPACH: Yes our international growth certainly helps to offset the impact of the low rate environment in the U.S.

RON MANDLE: Right. Okay. Thanks very much.

JOHN GERSPACH: Alright Ron.

OPERATOR: Your next question comes from Todd Hagerman with Sterne Agee.

TODD HAGERMAN: Good afternoon everybody. Couple questions…first just off in terms of capital. Vikram you've been pretty confident in terms of your outlook on the capital redeployment, commenting about planning to return a fair amount of capital to shareholders in the next couple years. But yet in the course of the call today, we've talked about some of the volatility within your Tier 1 common ratio. You had less DTA utilization this quarter then I think you've had the last couple of quarters. Can you talk first just in terms of your conviction on that outlook and again, what gives you that confidence in terms of returning that to shareholders in face of some of your peers being a little bit more cautious, particularly as they think about the uncertainty with B3.

VIKRAM PANDIT: Well we've been uncertain about B3 for a while. You know, we were very early on in talking about it makes no sense to talk about where you are or what their calibration is because those details were still being done. And so we've been very cautious giving you guidance that we believed in on where we're going. So maybe there are others who see the same caution that we saw earlier. And that's fine. The path that we have put ourselves on takes into account the kind of performance we've had this quarter, last quarter and what we expect to be our continuing performance over the next few quarters as well. We also are incorporating the fact that we'll get some more clarity on some of the calibration that's out there still uncertain on B3. But given all of that, we are still of the view that we will be at 8% to 9% on Basel III by the end of next year. And we're still of the point of view that we ought to be able to start returning capital, subject to regulatory approval, next year. There are others who started this year and we were also very cautious of making sure that we paced ourselves as far as that was concerned when we were asked why not do it this year. And I think again that was also part of the same sort of longer term planning. So what I would say to you is that the Basel III set of rules and calibrations are not without doubt. They're not clear yet. But taking all of that into account, we're still of the point of view that we're gonna hit our Basel III numbers by the end of next year and still of the point of view that we can do that and as well return capital next year and those are the conversations we've been having with the regulators.

TODD HAGERMAN: Okay. And if I could tie in…just in terms of your outlook on Holdings, I think, again you referenced the notion that you may or expect to be below kind of a 10% threshold and I think you characterize it in the near term, if you will. How should we think about the relative mortgage exposure within Holdings…your cautious outlook there. You did sell a small amount of credit this quarter but, again I think, in quarters past you talk about a slower runoff as it relates to Holdings. And now it seems that perhaps your outlook has changed in terms of the contribution, the relative size. How should we think about that going forward and your comments on mortgage and partner cards specifically?

VIKRAM PANDIT: Yeah. I think our prior perspective still stands in terms of what we mentioned to you and where we are. You know the schedule. We've got today a Local Consumer Lending book of $217 billion that includes, by the way, the partner cards $44 billion approximately at the end of third quarter. And, you know where we are with the Brokerage and Asset Management, especially the JV with Morgan Stanley. You know where we are with our SAP pool of $45 billion or so. I think the way to think about this is consistent with what we said earlier. There are possibilities of sales in this portfolio that continue particularly those that we think reduce our severity risk. We'll continue to examine those. But certain portfolios, like mortgages, are gonna have to mature over time. So, none of that perspective really has changed except that if you move over the partner card business, we're approximately about $250 billion on a pro forma basis. And all I said earlier was that we believe we are on track to get below 10% in due course of time, and that's a good number to have the Citi Holdings be, below 10% of our total assets. By the way, everybody has some of these, if not most of these assets. We just have called them Citi Holdings. Others have them in their core portfolios. And to have this number be less than 10% tells you a little bit about how de-risked we are as a business and that's why that goal is important to us.

JOHN GERSPACH: But we're gonna continue to approach everything in Citi Holdings from an economically rational fashion. We're not gonna rush just to get down to below 10%.

TODD HAGERMAN: No, I can appreciate that John. Just again the concern being the relative mortgage exposure, your cautious comments there and whether or not…

JOHN GERSPACH: Hey. From a relative mortgage exposure, I kind of like our position.

TODD HAGERMAN: Well.

VIKRAM PANDIT: Well I want to be very clear. I don't think John was talking about something specific to us. We're talking about macro issues out here. Okay. These are issues having to do with joblessness out there, having to do with the fact that unemployment is not ticking down. And so these are macro issues surrounding mortgages. In that kind of environment, you'd rather have this portfolio than many others.

TODD HAGERMAN: Okay. Thanks very much.

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

MIKE MAYO: Yeah. My first question is on the movement of the retail partner cards business from Citi Holdings to Citicorp. And you said in the press release that it's due to current credit trends, or at least that was one of the reasons. Yet isn't the movement…isn't Citicorp more about strategic placement as opposed to current happenings?

VIKRAM PANDIT: Yeah. I mean we wouldn't have moved it unless we went through, Mike, a very thoughtful, strategic view as to what was happening to credit in the U.S. and the customer base in the U.S., and what's happening to funding and all of that. And the fact is that there is a closer relation between the private label card business and customers being able to get credit today then prior to the CARD Act being passed and prior to Basel III rules. And so it was on the basis of all of that. We also see a trend, by the way, where it's going to be quite likely that not all banks are going to be able to own the last mile in terms of their customer. And therefore having these capabilities to serve our corporate clients, customers, are an important part of the services we have to offer them as well. So, it was in relation to that. It was in relation to the fact that we're gonna mange that portfolio as tightly as we are managing today in terms of making sure its high credit quality. And so, this was not based on any one quarter or any one month in terms of assessment. It was based on what we think it means to us longer term and what it's going to contribute to our earnings base for you on a long term basis.

MIKE MAYO: And a second question…Asia has had some noise recently in terms of growth expectations. And your Asian consumer loans, the average loans grew 17% year-over-year. Are you thinking about potentially slowing the pace growth or being more cautious?

VIKRAM PANDIT: We do not target a growth rate. We target a clientele that we believe we can help and a lot depends upon what our clients need. And that too, our clientele in some of these markets is different than some of the local banks might have, who have much more penetration. They are much more mass market then we are. So there are a couple of factors that are going to drive our loan growth. One is, obviously, the absolute growth rate in the economy will have an impact. But the second part is that our bank in these countries serves a kind of clientele which is still growing. And we are so under-penetrated in terms of serving some of these clients that we may have a structural growth rate that may turn out to be different than the broader GDP growth rate of the countries. That's what's gonna drive our growth. But it is not driven by saying we need to make an X amount of target in terms of loan growth. It's based on serving our clients and the credit quality we're comfortable with.

JOHN GERSPACH: Yeah. And Mike, don't forget the numbers that you're looking at obviously are the as reported. If you go to the back of the investor deck, we've given you all the drivers on a constant dollar basis. And if you go to page 43 of the investor deck, you'll see that on a constant dollar basis our loan growth in Asia is much lower than that 17% that you're quoting. On a constant dollar basis, our card loans grow about…this is end of period loans, they grow by about 5% and the retail banking loans are growing about 12%.

MIKE MAYO: And then my last question is on expenses. I know you've touched on that a lot. You know, slide 19 breaks out your expenses pretty clearly saying its up $2 billion or so on a core basis. And I guess your revenues on a core basis year-to-date might be down $3 to $4 billion. Just taking the managed revenues on slide 5 down $2 billion, and on slide 45 the FX impact that helped you buy $1.4 billion. So core revenues year-to-date are down $3.5 billion, core expenses are up $2 billion year-to-date, so $5.5 billion gap. And as you highlight on slide 20, maybe half of that is due to investment spending. What's the reason for the rest of that gap between core revenue and core expense growth?

JOHN GERSPACH: You know, Mike, as we've said, we are investing in the businesses. I think we've given you a path towards where we get most of the businesses to positive operating leverage. When you're in an investment mode, you're going to have things like that. And obviously the biggest variability is in the Securities and Banking business. And as you know, Vikram said earlier that's one where I think the entire market now is still searching to see what the new secular normal is. If you think about all of our other businesses…we got Asia now. Asia RCB is at positive operating leverage. So revenue growth is in excess of expense growth and that's the way we'll continue to operate that business. Latin America hits in the fourth quarter. We'll hit GTS on that basis either the second or the third quarter of next year. And then North America Regional Consumer Banking towards the end of next year. So we're investing to grow revenues and we're going to be delivering that revenue growth over the course of the next year or so.

VIKRAM PANDIT: And the revenues have been obviously impacted by the carry-on impact of the CARD Act as well as FDIC assessments; things of that sort. So there are lots of items that affected that revenue line, but the most important thing to us is these investments are occurring, as John Gerspach said, against those opportunities that we think create good earnings for our shareholders in the long term basis.

MIKE MAYO: Alright. Thank you.

JOHN GERSPACH: Okay. Mike.

OPERATOR: Your next question comes from Mike Holton with Boston Company.

MIKE HOLTON: Hey, good afternoon. Two quick ones. On your PIIGS exposure, what was the net P&L impact this quarter?

JOHN GERSPACH: I'm sorry, I can't answer that. I just don't know.

MIKE HOLTON: Okay. I mean, given spreads blew out, it would seem like, given your hedges on it, it probably was a positive. But that's a guess.

JOHN GERSPACH: Sorry.

MIKE HOLTON: Okay. And just a second thing. You guys made a lot about – look statements and I think you properly hedged yourself by saying hey assuming the economy does not deteriorate from kind of current levels. Just to get a sense for kind of the economic indicators you're using in your head, are you kind of assuming U.S. growing 2% plus or minus GDP and Europe kind of bounces along the bottom?

JOHN GERSPACH: That would be pretty fair.

MIKE HOLTON: Okay. Thanks a lot.

JOHN GERSPACH: Okay.

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

ADAM HURWICH: Question regarding the credit card business. Given your macro-economic outlook and given how you've managed lines of credit in the credit card business both in the U.S. and abroad, could you see maximum losses in your scenario not reaching where losses were prior to, you know, prior to current cycle?

JOHN GERSPACH: You know, you were breaking up a little bit as you were speaking. And so I'm not quite sure I caught the gist of it. It was something about national loss rates?

ADAM HURWICH: No, given the way you've managed the lines of credit in the credit card business…

JOHN GERSPACH: Yep.

ADAM HURWICH: …both in the U.S. and abroad.

JOHN GERSPACH: Okay.

ADAM HURWICH: Could you see loss rates in those businesses not reaching prior peaks?

JOHN GERSPACH: The answer is yes.

VIKRAM PANDIT: Absolutely.

JOHN GERSPACH: Absolutely.

ADAM HURWICH: And can you give us just a sense as to by how much you think you can undercut those previous peaks?

JOHN GERSPACH: Well, you know, you can take a look at Asia. I think we've said Asia in the past has over the last ten years has sort of average loss rates of 3% to 4%. We could be in the 2's longer term, you know, maybe so just kind of a shade below that. And I don't want to give you a view on the U.S. just as yet, but as I've said we think we're certainly trending down in both portfolios. But it's a little early to give you an absolute where I think that we'll end up.

ADAM HURWICH: Thank you.

JOHN GERSPACH: Okay.

OPERATOR: There are no additional questions at this time. Are there any closing remarks?

JOHN ANDREWS: This is John Andrews again, Investor Relations. Thank you for letting us bring this in under slightly two hours. Hope you have a great afternoon. If you have any follow-up questions, you know where to find us. Thanks.

OPERATOR: Thank you ladies and gentleman for your participation. You may now disconnect.