TRANSCRIPT

Citi Third Quarter 2014 Earnings Review

Tuesday, October 14th, 2014

On October 30, 2014, Citi announced that it was adjusting downward its third quarter 2014 financial results, from those reported on October 14, 2014, due to a $600 million (pretax and after-tax) increase in legal expenses recorded in Citicorp (in Corporate/Other). The financial impact of this adjustment lowered Citi's third quarter 2014 net income from $3.4 billion to $2.8 billion. The financial impact of this adjustment is **not** reflected in this third quarter earnings review transcript, dated October 14, 2014. For additional information, including Citi's third quarter 2014 results of operations including this adjustment, see Citi's Form 8-K and Quarterly Report on Form 10-Q for the period ended September 30, 2014, each filed with the U.S. Securities and Exchange Commission on October 30, 2014.

Host
Susan Kendall, Head of Investor Relations

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

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Third Quarter 2014 Earnings Review with Chief Executive Officer, Mike Corbat, and Chief Financial Officer, John Gerspach. Today's call will be hosted by Susan Kendall, Head of Citi Investor Relations.

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

Ms. Kendall, you may begin.

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

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations, and are subject to uncertainty and changes in circumstances. Actual results and 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 2013 Form 10-K.

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

MIKE CORBAT: Thank you, Susan. Good morning, everyone. Earlier today, we reported earnings of $3.4 billion for the third quarter of 2014. Excluding the impact of CVA/DVA, net income was $3.7 billion, or $1.15 per share. Before I address the quarter, I'd like to discuss the actions we announced regarding Global Consumer Banking.

As you know, we're committed to simplifying our company, and allocating our finite resources to the business where we can generate the best returns for our shareholders. Consistent with these priorities, we intend to exit our consumer businesses in 11 markets, among them Japan, Egypt and Peru. We'll continue to serve our institutional clients in these markets, which remain important to our global network.

While these consumer franchises have real value, we didn't see a path for meaningful return. We believe our consumer business will achieve stronger performance by focusing on the countries where our scale and network provide a competitive advantage. Sales processes are already underway in most of these markets, and I expect these actions to be substantially completed by the end of 2015. At that point, we'll have reduced our consumer footprint by 19 markets since 2012, and Global Consumer Banking will be serving 57 million clients across 24 markets.

I'd also like to address the announcement we issued earlier this morning regarding a legacy Banamex unit, which provided personal security and protective services. While the fraud is not financially material, in light of the conduct we found, in the interest of transparency, we thought it was best to inform you. As you know, we've been reviewing our franchise in Mexico, and have already made meaningful changes to strengthen our processes and controls, and we'll continue to take whatever steps are necessary to make sure that every part of our global franchise lives up to the standards all of us rightfully expect.

Now turning to the quarter, we achieved solid performance across our institutional businesses. Both Banking and Markets saw improved revenue from the prior-year period, assisted by a better trading environment and a strong M&A pipeline. Treasury and Trade Solutions revenues increased slightly, despite spread compression.

Global Consumer Banking had a strong quarter as well, and saw loan growth throughout the regions. In North America, we had revenue improvement in each of our businesses, both quarter-on-quarter and year-on-year, while we continued to optimize our branch network. Internationally, we saw revenue improvements across every region compared to the third quarter of last year.

Overall, these results show solid business performance, which has helped increase Citigroup net income by 5% year-to-date over 2013. We also continue to be focused on reducing the drag on earnings caused by Citi Holdings and consuming DTA. These have been execution priorities, and we again made progress on both fronts.

In Citi Holdings, we closed the sales of our consumer businesses in Greece and Spain, which helped reduce assets during the quarter by 7% to $103 billion. Holdings' assets now constitute only 5% of Citigroup's balance sheet.

The Holdings profit of $272 million again helped drive DTA consumption. We utilized $700 million of DTA in the quarter, bringing the total to over $5 billion for the last seven quarters. This contributed to our generating nearly $4 billion of regulatory capital this quarter, and growing our Tier 1 Common ratio to 10.7%. Our tangible book value also increased to $57.73.

While we're pleased with our ability to generate capital, we're equally focused on our ability to return it to our shareholders. During the quarter, we continued to make progress on our efforts to strengthen our capital planning process. Most important, our capital planning process is being fully embedded in the way we run the firm. This must impact everything from increased business engagement, and enhancements to our forecasting models and scenario design processes, all of which lead to an improved approach to risk and controls. This work will continue as we get closer to receiving the 2015 stress test scenario from the Fed, at which point we'll prepare a strong submission which reflects the work that has been done.

As we finish out 2014, we're very mindful of the challenging macro environment. Geopolitical tensions, uneven growth and concerns over the timing of interest rate increases have increased volatility, while the economy in the U.S. seems to be slowly gaining strength, the Eurozone is not yet in growth mode and emerging market growth has slowed. While our expense reduction efforts have been productive, we continue to face pressure related to legal costs and the need to invest in regulatory and compliance, as well as the critical need to protect our network from cyber crime. We'll remain vigilant along each of these fronts to ensure the safety and soundness of our institution.

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

JOHN GERSPACH: Thank you, Mike, and good morning, everyone. Let me briefly review the results of the quarter, and then I'll go into more detail on the strategic actions we announced earlier today.

To start, I'd like to highlight two items that affect the comparability of this quarter's results to prior periods. First, CVA/DVA was a negative $371 million pre-tax or $228 million after-tax this quarter, including a $474 million one-time charge due to the implementation of funding valuation adjustments related to certain derivatives. Together, these charges had a negative impact on EPS of $0.08 per share this quarter, similar to the CVA/DVA charge last year.

And secondly, last year, we recorded a tax benefit of $176 million, or $0.06 per share, related to the resolution of certain tax audit items. Adjusting for these items, we earned $1.15 per share in the recent quarter compared to $1.02 per share in the third quarter of last year. Throughout today's presentation, I will be discussing our results excluding these items to provide comparability to prior periods.

On slide 4, we show total Citigroup results. We earned $3.7 billion in the third quarter, a 13% increase from last year. Pre-tax earnings of $5.9 billion grew 28%, driven by revenue growth and lower credit costs, partially offset by an increase in operating expenses, mostly driven by higher legal and repositioning charges. However, our tax rate was higher this quarter at 36%, reflecting a higher level of non-tax deductible legal accruals versus last year, as well as higher tax costs related to the sales of our consumer operations in both Greece and Spain.

On a year-to-date basis, we generated positive operating leverage, with modest revenue growth and flat expenses, and our return on assets improved to 83 basis points. In constant dollars, Citigroup end-of-period loans grew slightly year-over-year to $654 billion, as 4% growth in Citicorp was partially offset by the continued decline in Citi Holdings. And deposits were flat at $943 billion.

On slide 5, we show more detail on expenses. Legal and related and repositioning costs totaled over $1.3 billion in the third quarter, mostly incurred in Citicorp. We also incurred $59 million of operating expenses related to the sales of our consumer operations in Greece and Spain this quarter.

Excluding these items, core operating expenses of nearly $11 billion in the third quarter increased by roughly $100 million versus prior periods, primarily reflecting an adjustment to incentive compensation expense, driven by better-than-anticipated performance year-to-date in our Institutional franchise. Higher regulatory and compliance costs, including those related to CCAR, and the impact of business growth, were more than offset by continued cost reduction initiatives, as well as the decline in Citi Holdings' assets.

We expect to incur an incremental $150 million to $175 million of costs in full year 2014, as we work to enhance our capital planning process. We estimate that about one-third of that amount will be non-recurring. In 2014, the incremental CCAR-related costs will be more heavily weighted to the back half of the year. In the third quarter, we spent an incremental $60 million related to the CCAR process, and we expect this amount to increase further in the fourth quarter.

On slide 6, we show the split between Citicorp and Citi Holdings. Citicorp's pre-tax earnings grew 13%, as higher revenues across the franchise and lower credit costs were partially offset by an increase in operating expenses. Citicorp expense growth was mostly driven by higher legal and repositioning costs, the adjustment to incentive compensation in ICG and higher regulatory and compliance costs, partially offset by efficiency savings.

In Citi Holdings, we were profitable again this quarter, with over $270 million in net income, compared to a loss of over $100 million last year, driven primarily by lower legal and related expenses. Citi Holdings ended the quarter with $103 billion of assets, or 5% of total Citigroup assets.

Before I go into more detail on Citicorp, I'd like to cover the strategic actions Mike discussed earlier which will streamline and simplify our consumer operations. We are exiting our consumer operations in 11 markets, plus our consumer finance business in Korea. As you can see on slide 7, these actions include markets across Latin America, Asia and EMEA. Substantially all of these operations were previously classified as “optimize” markets in our country bucketing framework. And, while we have made steady progress in many of these businesses, we ultimately determined that our scale did not provide for meaningful returns.

We already have active sales processes underway for over half of the businesses, and we currently expect the strategic actions to be substantially completed by the end of 2015. We intend to report these consumer operations as part of Citi Holdings as of the first quarter. We will continue to serve our institutional clients in these countries, which remain important to our global network.

On slide 8, we provide details on the financial impact of these actions, showing Citicorp on the left and Global Consumer Banking on the right. Over the last 12 months, these businesses contributed over $1.6 billion of revenues and $34 million of net income. Total assets were $29 billion as of the end of the third quarter, including $7 billion of consumer loans, and total deposits were $26 billion. As shown on the far right, on a pro forma basis, our Global Consumer Banking business would continue to capture more than 95% of our existing revenue base, while further simplifying our operations and improving our performance.

Now, turning back to the third quarter, on slide 9, we show actual results for International Consumer Banking in constant dollars. Net income grew 22% year-over-year in the third quarter, driven by higher revenues and lower credit costs, partially offset by higher legal and repositioning charges. Revenues grew 5% year-over-year in the third quarter, driven by continued volume growth across the franchise, with average loans up 5% and average deposits up 3%, a rebound in investment sales revenues in Asia, and a reduced impact from our repositioning efforts in Korea.

Core operating expenses, excluding legal and repositioning costs, were roughly flat, as ongoing efficiency savings offset the impact of business growth, as well as higher regulatory and compliance costs. International credit costs declined 13% year-over-year driven by a net loan loss reserve release in the current quarter, while the net credit loss rate remained broadly favorable at just under 200 basis points.

Slide 10 shows the results for North America Consumer Banking. Net income grew 33% year-over-year this quarter, driven by higher revenues, lower operating expenses and continued favorable credit trends. Total revenues were up 5% year-over-year. Retail Banking revenues of $1.2 billion grew 9% from last year, reflecting continued volume growth and abating spread headwinds, as well as a mortgage repurchase reserve release of roughly $50 million this quarter. Branded Cards revenues of $2.1 billion were up 1% versus last year, as we grew purchase sales, and an improvement in spreads mostly offset the impact of lower average loans. And, Retail Services revenues grew 8% from last year, mostly driven by the Best Buy portfolio acquisition.

Ongoing cost reduction initiatives drove total operating expenses down slightly year-over-year to $2.4 billion, even after absorbing the impact of the Best Buy portfolio acquisition and higher legal and repositioning expenses. We continued to resize our North America Retail Banking business in the third quarter, taking costs out of our mortgage operations and rationalizing the branch footprint, all while continuing to grow our franchise.

Over the past 12 months, we have sold or closed nearly 90 branches in North America. During the same period, we grew average retail loans by 9% and average deposits by 2%, including 10% growth in checking account balances. We also continued to see momentum in Branded Cards. While total average loans have continued to decline modestly, this mostly reflects the runoff of promotional rate balances. Full rate balances have grown year-over-year for six consecutive quarters, and we continue to see strong growth in accounts and purchase sales in our proprietary rewards and travel co-brand products. We also launched our Double Cash Card this quarter, which rounds out our product portfolio in the important cash-back segment.

Slide 11 shows our Global Consumer credit trends in more detail. Overall, Global Consumer credit trends remained favorable in the third quarter, with net credit losses and delinquencies both improving as a percentage of loans. In North America, the NCL rate continued to improve, while 90-plus day delinquency rates were flat. Asia remained stable. And in Latin America, we saw a modest uptick in the NCL rate, while the delinquency rate improved slightly. Net credit losses grew broadly in line with our expectations in the third quarter, driven by portfolio growth and continued seasoning in the Mexico Cards portfolio, as well as the impact of both slower economic growth and fiscal reforms in that market.

However, our overall loan growth was slower than anticipated, which had a negative impact on the NCL rate for the quarter. This slower loan growth reflected the overall economic environment, as well as a higher level of prepayments in our mortgage portfolio. Looking to the fourth quarter, we expect the dollar amount of net credit losses in Latin America to be more or less stable.

Slide 12 shows the expense and efficiency trends for Global Consumer Banking on a trailing 12-month basis. While annual expenses increased in late 2012 and early 2013, driven in part by higher North America Mortgage activity, we have driven down the core expense base over the past five quarters, even as we have absorbed the impact of higher expenses associated with the Best Buy portfolio acquisition. Including roughly $800 million of legal and repositioning charges over the past year, our total efficiency ratio for Global Consumer Banking was 56%.

Slide 13 shows our total Consumer expenses over the past five quarters, split between core operating expenses and legal and repositioning costs. Core expenses continued to decline on a sequential basis in the third quarter, as we made further progress towards our year-end goals for headcount reduction, card product simplification and branch and support site rationalization.

Turning now to the Institutional Clients Group on slide 14, net income grew 29% year-over-year driven by higher revenues, partially offset by higher operating expenses. Revenues of $8.7 billion grew 13% from last year, and 2% sequentially. Total Banking revenues of $4.3 billion grew 11% from last year, and were down 3% from the prior quarter. Treasury and Trade Solutions revenues of $2 billion were up 1% year-over-year, as growth in fees and volumes was partially offset by spread compression. Sequentially, revenues declined 2%, driven by lower trade assets and spreads.

Investment Banking revenues of $1.2 billion were up 32% from last year, driven by strong M&A and Equity underwriting activity, and down 7% from the prior quarter as continued momentum in M&A was more than offset by seasonally lower underwriting volumes. Private Bank revenues of $663 million grew 8% from last year, as growth in client volumes was partially offset by the impact of spread compression. Corporate Lending revenues were $442 million, up 17% from last year, reflecting growth in average loans and improved funding costs, partially offset by lower loan yields, and down 3% from last quarter on lower gains from asset sales.

Total Markets and Securities Services revenues of $4.3 billion grew 8% year-over-year and 5% sequentially. Fixed Income revenues of $3 billion grew 5% from last year, driven by strength in securitized products, as well as an increase in foreign exchange volatility and volumes, which benefited our rates and currencies business in the month of September. Sequentially, Fixed Income revenues were down slightly, as a seasonal decline in spread product revenues was mostly offset by strength in rates and currencies. Equities revenues of $763 million grew 14% year-over-year, driven by improved client activity in derivatives, and were up 16% sequentially on better trading performance.

In Securities Services, revenues grew 8% year-over-year, driven by an increase in client balances and activity. Total operating expenses of $5 billion grew 3% over prior periods, driven by the compensation adjustment, higher regulatory and compliance costs, and higher repositioning charges, partially offset by ongoing efficiency savings.

On slide 15, we show expense and efficiency trends for the Institutional business. On a trailing 12-month basis, the efficiency ratio declined to 59% this quarter, despite continued elevated legal and repositioning charges. And our comp ratio for the last 12 months was 28%, down from 29% last quarter.

Slide 16 shows the results for Corp/Other. Revenues declined year-over-year, driven mainly by hedging activities, while expenses increased on higher legal and related expenses as well as higher regulatory and compliance costs, including those related to the CCAR process. Assets of $332 billion included approximately $97 billion of cash and cash equivalents, and $180 billion of liquid investment securities.

Slide 17 shows Citi Holdings' assets, which totaled $103 billion at quarter-end, with over 60% in North America Mortgages. Total assets declined $8 billion during the quarter, driven by net paydowns and divestitures, including the sales of our consumer operations in both Greece and Spain.

On slide 18, we show Citi Holdings' financial results for the quarter. Total revenues of $1.6 billion were up year-over-year, primarily driven by gains on the sales of our consumer operations in both Greece and Spain and lower funding costs, partially offset by losses on the redemption of debt used to fund Holdings' assets.

Citi Holdings' expenses decreased significantly, driven by the lower level of assets, as well as lower legal and related costs, partially offset by $59 million of episodic expenses related to the sales of our consumer operations in Greece and Spain.

Net credit losses continued to improve, down 45% year-over-year, driven by North America Mortgages, and we offset all of the Mortgage net credit losses with loan loss reserve releases. The net loan loss reserve release of $144 million includes the impact of roughly $75 million of losses on assets moved to held-for-sale this quarter. Excluding these losses, the reserve release would have been close to $220 million.

On slide 19, we show Citigroup's net interest revenue and margin trends. Our net interest margin improved to 291 basis points in the third quarter, reflecting lower cost of funds. Looking to the fourth quarter, given the sale of consumer loans with attractive margins in Greece and Spain, we could see our net interest margin decline by a basis point or two.

On slide 20, we show our key capital metrics. During the quarter, our Basel III Tier 1 Common ratio grew to 10.7%, driven by net earnings and continued DTA utilization. Our Supplementary Leverage Ratio also improved to 6%, with about half of the sequential increase due to the impact of the revised final U.S. rules. And our tangible book value grew to $57.73 per share.

In summary, our results in the third quarter demonstrated momentum across the firm. In Consumer Banking, we grew revenues, loans and deposits in every region, resulting in positive operating leverage and strong income growth over last year. And in our Institutional franchise, we saw broad revenue growth across Markets, Investment Banking and Treasury and Trade Solutions, also resulting in positive operating leverage and significant growth in net income. In Citi Holdings, we were profitable again this quarter, while continuing to wind down the remaining assets in an economically rational manner. And we continued to grow our book and regulatory capital.

Looking to the fourth quarter, in Consumer Banking, we expect to continue growing our revenues while maintaining positive operating leverage year-over-year. In Markets, our results will likely reflect the overall environment, as well as normal seasonal trends. In Investment Banking, revenues should also reflect the overall market, but we feel good about the quality and momentum of our franchise, as demonstrated by our performance. And in Treasury and Trade Solutions, we believe we can continue growing our revenues year-over-year in the fourth quarter, driven by continued volume growth and abating spread headwinds.

Turning to expenses, in Citicorp, our core operating expenses should be relatively flat to third quarter levels, as we expect to continue to face ongoing higher regulatory and compliance costs, including those related to our enhanced capital planning process. Repositioning expenses should be more or less in line with the roughly $400 million we incurred in the third quarter. And legal costs will likely remain elevated and episodic in nature. We continue to have an overall favorable outlook with regard to our credit performance.

And finally, we expect our tax rate for the fourth quarter to be broadly in line with the first half of the year, in the range of 32%.

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

Question and Answer

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

JIM MITCHELL: Hey. Good morning, guys.

JOHN GERSPACH: Hey, Jim.

JIM MITCHELL: I appreciate the sort of give up on – or just disclosure on Mexico. Obviously, that's been a focus of investors. Can you give us – obviously, you've probably done a very thorough review. Can you give us a sense of how you feel about just overall risks? People talk about AML issues or worries about that. As you've gone through the process, can you give us some comfort level there?

And then I guess taking a step back, second question being, as you reduce complexity by getting out of 11 more markets, potentially getting rid of OneMain, how do you feel that helps you going into CCAR next year? Thanks.

MIKE CORBAT: Sure. Jim, I think from a Mexico perspective, we said as part of OSA, we were going to embark on a comprehensive review of our policies and processes. That review is significantly underway. I think we've made some meaningful changes to the way we come to work and think about things in Mexico. We continue to be focused on those things and, again, are committed to getting the franchise to the right place. It's an important franchise for us in every sense of the word, and a place where we think there's growth and a place where we need to and should be making investment, and we've got to get those things right and we're committed to do that. And we've put a lot of resources forward, both locally and from around the globe, to help us be able to do that as quickly as we can.

I think from a complexity perspective, I think two things. One is, I think you hit on part of it, and John and I talked about it. These 11 consumer markets, plus the Korean piece, were those that were in the "optimize" bucket. They were those that we were working with the businesses on in terms of trying to create a pathway to proper returns. We didn't in the end see that in these, and so I think in many ways these decisions were made around a couple axes. One is that we didn't see the prospect to getting to adequate returns in a reasonable period of time. Second, we felt that we could take those resources and we could reallocate them into other parts of our business where we would certainly have the ability to try and get more out of them. And I think the third piece you touch on is around those, if you don't have a pathway to that, it doesn't make sense to keep complexity or keep things in the firm that aren't going to be able to touch those. So I think we were able to tick off several boxes by making these moves.

JIM MITCHELL: Right. No. Makes sense. And I think with these sales though, it seems like that helps profitability. Does that give you more comfort on the ROA target? And just a quick clarification. Your ROA target of 90 basis points includes Citi Holdings and that contemplates – I've had some questions around the selling of OneMain and what that may do to your targets?

MIKE CORBAT: That's right. That's right, yes. And so the ROA target includes Citi Holdings, so that will be there to begin. We've put all the caveats around big gains or losses that are outsized, et cetera, but that's there. And, again, I think you can see in these moves, and, again, as we described, we're going to move these businesses into Citi Holdings. And in Citi Holdings, I think we've proven we've got the expertise and the people that can manage these exits well, and we don't want our go forward businesses distracted in that process. And, again, we've already started the process against most of those and have an expectation that we'd like to be out of the majority of those by the end of 2015.

JIM MITCHELL: But otherwise, still feel comfortable with the target, even if you sell a profitable business like OneMain?

MIKE CORBAT: We do. Yes, we do.

JIM MITCHELL: Okay. Great. Appreciate it. Thanks.

MIKE CORBAT: Yep.

OPERATOR: Your next question comes from the line of John McDonald with Sanford Bernstein. Please go ahead with your question.

JOHN MCDONALD: Thanks. Following up on the targets, John and Mike, I was wondering how you're feeling on the Consumer Bank, on the GCB targets for efficiency ratio? On slide 12, John talked about the target, and you give a helpful box there. The 49% to 52% efficiency target seems like a stretch from the pro forma 55%. Could you help us feel better about kind of what some of the drivers are there?

JOHN GERSPACH: Sure, John. When you take a look at that slide, I think you'll notice that at the top of the slide there's a blue box that has the repositioning charges and legal charges of $800 million. Both the 56% and the 55% figures include what we would think of as being rather outsized repositioning and legal charges over the last – on a trailing 12-month basis. So I think you've got two things. One is, as you can see with the dark blue boxes, both on this slide as well as the next slide, we are continuing to drive down the core operating expenses in the business, but at the same time then I don't think that we'll see the same level of repositioning charges going into 2015 that we've seen during 2014.

JOHN MCDONALD: Okay. That's helpful. And, John, did you mention if there will be any repositioning charges for the simplification you described today, or is that a driver of the $400 million that you talked about for the fourth quarter?

JOHN GERSPACH: I'm sorry, John, I missed the beginning part of your question.

JOHN MCDONALD: I was just wondering what repositioning expenses might be associated with the strategic actions you announced today.

JOHN GERSPACH: No, nothing specific in that $400 million related to the 11 markets.

JOHN MCDONALD: Okay.

JOHN GERSPACH: Whether or not we have repositioning charges associated with that will really be determined based upon the structure of whatever deal that we negotiate on a sale.

JOHN MCDONALD: Okay.

JOHN GERSPACH: So it's a little early to call that.

JOHN MCDONALD: Okay. And then just to clarify, the CCAR expenses, you mentioned, incremental costs of $100 million to $150 million in 2014 over 2013?

JOHN GERSPACH: Correct.

JOHN MCDONALD: And you spent $60 million so far –

JOHN GERSPACH: $150 million. John – $150 million to $175 million is the number that I quoted.

JOHN MCDONALD: Okay. And you spent $60 million or so this quarter?

JOHN GERSPACH: We spent an incremental $60 million year-over-year this quarter.

JOHN MCDONALD: And was there any in the first half of the year that would count to that $150 million to $175 million?

JOHN GERSPACH: Yeah, there were some – certainly beginning in the second quarter. I don't have that number right in front of me, but it would have been much less than the $60 million that we had in the third quarter.

JOHN MCDONALD: Okay. So were you assuming –

JOHN GERSPACH: And then we expect those expenses then to continue to ramp up into the fourth quarter.

JOHN MCDONALD: Got it. Okay. So we can kind of put the pieces together there. And then you said one-third of it you expect to be non-recurring?

JOHN GERSPACH: Correct.

JOHN MCDONALD: Okay. And then just on credit, John, you had the reserve release in International Consumer. What drove that? And how are you feeling about reserve releases continuing in the other parts of the businesses, domestically, in Citicorp and then also in Holdings?

JOHN GERSPACH: Yeah, I'd say that we're still seeing – well, first, as far as from an international point of view, that was largely driven by Asia, but also by continuing favorable credit trends throughout the countries, with the exception of where I called out the NCL rate issue that we have in Mexico. Although again, the NCL – the dollar losses there of net credit losses were largely in line with our expectations. It's much more of a rate issue. We continue to see real favorable credit in North America, certainly in both our Mortgage business, but importantly in both of our Cards businesses, Branded Cards as well as Retail Services. So that story is still continuing. When I look at the net credit margin, which I think you see it in the supplement, the net credit margin in our Branded Cards business this quarter was over 950 basis points. So that's really outstanding performance in that U.S. Branded Cards business.

JOHN MCDONALD: How should we think about whether we're likely to see some reserve releases in Card or in the Mortgage part of Holdings going forward?

JOHN GERSPACH: Well, Mortgages – as far as from a Holdings point of view, John, you can pretty much expect that we're going to be largely netting off reserve releases against the NCLs that come out of Mortgages. This quarter it was just about 100%, I think it was like 101%. Last quarter, we were in the 90% range. So you're going to see a large portion of the – of whatever losses we take in the Mortgage book in Holdings offset by reserve releases.

As far as the rest of the world, I don't think you're going to see much more in the way of reserve releases coming out of our International Consumer operations. We continue to grow those books. And so just as you continue to grow the loan book you're going to have to build loan loss reserves against that. And then in the U.S., it's really going be driven by just how much better our credit performance can get in our two Cards businesses. You might still see some reserve releases in the near quarters, but I wouldn't look out much past that.

JOHN MCDONALD: Okay. Thank you.

JOHN GERSPACH: All right.

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

GLENN SCHORR: Thank you.

JOHN GERSPACH: Hey, Glenn.

GLENN SCHORR: Hello, there. Maybe just a little color on timing and what drove the one-time implementation of the FVA on the over-the-counter derivatives that you mentioned? I think you have the bullet on slide 3.

JOHN GERSPACH: Yeah, this is something that we've been looking at for some time. There's been a couple of other institutions that have adopted it, so it's something that's been knocking around in the market. We've set ourselves a goal to adopt it sometime during 2014. As soon as we could get all the systems in place and we had the ability to monitor this type of calculation over several months, a full quarter. And so we have gotten everything in place, and we felt comfortable then pulling the trigger on the formal adoption in the third quarter instead of waiting until the fourth quarter. We think it's the way the industry is going and, therefore, we wanted to adopt it as soon as we felt comfortable that we had the systems in place to track it.

GLENN SCHORR: Okay. And this is the one-time catch up, I think like you said some people have adopted, some haven't. And you expect everybody to by year-end?

JOHN GERSPACH: I don't know about by year-end but I do think that over time, and I don't know whether time is by this year-end or next year-end, I think that the move is to go that way and we just felt it was better to be at least in the middle of the pack.

GLENN SCHORR: Got it. Okay. We can move on, thanks.

JOHN GERSPACH: No problem.

GLENN SCHORR: You've had the big benefit, as others have, as lower average rate on long-term debt. And that's been a driver of your stable and actually even growing margin. So I heard your comments about the 1 or 2 basis points, not overly focused on that. But my one question is, is looking forward in terms of debt coming due and all thoughts around TLAC, how much more optimization do you see coming in, say, the next two years on the cost of financing, impact on the margin, and then where you fit in TLAC in general?

JOHN GERSPACH: Okay. That's a very broad question. So let me try to –

GLENN SCHORR: Sorry.

JOHN GERSPACH: No, that's okay. That's all right. It's a great question. But let me just try to break it down into pieces. So let me start I guess with TLAC is probably because that was, again, we still don't know where TLAC is going to come out. We've all seen the rumors and everything else, but we haven't seen the formal rules yet. So it's a little hard to judge exactly what's going be implemented with TLAC. But from a TLAC point of view right now, we would put our loss-absorbing capital at just over 20% of our risk-weighted assets. Now, that's, again, our calculation based upon our interpretation of the rules and in order to get to that 20%, for instance, we have eliminated all of the structured notes that we issue, as saying that we think that they'll be ultimately kept out of the rule. That may be right, that may be wrong, but that's what gets us to that little bit over 20%. So we feel like we're okay with TLAC. But obviously, there'll be more work to do and we'll have to see, again, how the rules come out.

So let's put the response to TLAC aside just for a second. And then when you take a look at our existing book, I still think that there is some optimization work that we can do on the liability side of our balance sheet. Don't forget we still have debt that we're carrying, that was issued in 2007, 2008, 2009, 2010 when our credit spreads were much higher than they are today. And so as that debt runs off, that can still give you some lift.

GLENN SCHORR: Maybe the other side of the equation is, I've noticed, the growth in international markets has been good on the loan side. The deposit growth has been less impressive. I don't know if that's something that you're doing consciously or just a product of some of the markets that you're in.

JOHN GERSPACH: No. Glenn, what you're seeing is – we are active managers of our balance sheet. And again, you'll notice that at least especially – if you take a look at the U.S. Cards business. I've mentioned that before. You'll see there that we've actually been driving up yields in the U.S. Card business – as we've let those promotional balances run off, we've actually experienced higher yield then on those interest-earning assets. So I don't want you to think that everything we're doing is just on the right hand of the balance sheet. We're actively moving on the left-hand side of the balance sheet as well as we think about driving our NIM performance.

But to your other question then on deposits, yes, we're active managers of our deposit base as well. And we're looking to run what we would term a compact balance sheet. We're not looking to grow the balance sheet much beyond where it is today. We don't think we need a balance sheet much larger than $1.9 trillion to serve our clients. And so within that construct then you need to be very careful about both what you put on the left side of the balance sheet and how you fund that on the right side of the balance sheet. So when you deal with all the rules that are out there, as far as net stable funding ratio, the LCR, the SLR, all of those rules come into play as we think about how to structure the right side of the balance sheet.

GLENN SCHORR: Okay. Maybe just a really quick wrap up. We definitely appreciate slide 8 and the impact of the strategic actions. Are we looking at that slide each quarter as we roll through 2015 or is there a chance you move those 11 markets into something like discontinued ops and we get a clean look at Citicorp without it?

JOHN GERSPACH: No. Glenn, one of the things that we mentioned is that effective with the beginning – with the first quarter, we'll move those 11 markets into Holdings. So that we will give you a clean –

GLENN SCHORR: Okay.

JOHN GERSPACH: We'll give you a clean look at the GCB. We'll show it on pro forma basis again next quarter. But then beginning in the first quarter, we'll give you a clean look at the Global Consumer Bank.

GLENN SCHORR: Thank you. Missed that one. Appreciate it.

JOHN GERSPACH: That's not a problem, sir.

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

BRENNAN HAWKEN: Hi. Good afternoon. How are you?

JOHN GERSPACH: Hey, Brennan.

BRENNAN HAWKEN: So first one, just a quick one. I don't know whether you can comment. JPMorgan gave us a little color on the source of it – the legal charge, is it possible to say what that's tied to? I think JPMorgan indicated it was heavily tied to FX.

JOHN GERSPACH: Yeah, Brennan, as you know we typically don't comment on reserving actions unless it's related to a specific settlement that we're announcing. So that's as far as we're going to go today.

BRENNAN HAWKEN: Okay. And then on the funding side, I believe you had said that funding costs drove the NIM expansion. Maybe give a bit more color on, specifically, what was behind that?

JOHN GERSPACH: Yeah, again, as we manage both our deposit as well as – the cost of our deposits as well as the cost of our debt, we've managed to improve the cost of funds. I'm – I don't know if that's giving you enough or if you need something. But the improvement was just about evenly split between the two, and so that's actively managing deposits, we're managing down things like time deposits and instead concentrating on getting deposit growth in operating balances, which are either interest-free or interest-light. And then on the long-term debt, again, we're swapping out debt where we had issued it under higher credit spreads and replacing it with debt that is a bit more attractive to us today.

BRENNAN HAWKEN: Yeah, I know. I'm sorry if I wasn't – I meant is there any geography impact there or anything beyond just shifting away from time deposits?

JOHN GERSPACH: Well, from a geography point of view, again, most of the debt would be U.S. centric.

BRENNAN HAWKEN: Sure.

JOHN GERSPACH: And the deposits would be a global phenomenon.

BRENNAN HAWKEN: Okay. And then thinking about your rate shock scenario, can you give any color about what that might look in year two or how you might think about that in year two? Just trying to think about the benefit from rolling the portfolio into higher yielding securities versus your expectation for deposit pricing pressure?

JOHN GERSPACH: Yeah, when we put out the $1.9 billion impact that really is – it's a rate shock type of thing. And so it's an estimate as to what the revenue impact would be to the firm over a year if rates just moved instantaneously by 100 basis points. Now, obviously then as you begin to operate in that environment, there would be a lot of moving pieces and give and take. But I would say that for the most part that, that $1.9 billion should be sustaining into year two. I mean, you might have some changes, a little bit around the edges but it should be largely sustaining.

BRENNAN HAWKEN: Okay. So effectively the benefit from rolling into higher rates would probably be largely offset by increasing deposit pricing?

JOHN GERSPACH: Yeah, if you're in a rising rate environment, again, it's going to certainly impact both sides of your balance sheet. That's why I'd say it will be largely sustaining.

BRENNAN HAWKEN: Okay, terrific. And then last one with me, is it possible to get a rough idea of the cost basis on OneMain?

JOHN GERSPACH: No.

BRENNAN HAWKEN: All right. Figured I'd give it a shot. Thanks a lot.

JOHN GERSPACH: That's okay, Brennan. Thanks a lot.

OPERATOR: Your next question comes from the line of Guy Moszkowski with Autonomous Research. Please go ahead with your question.

GUY MOSZKOWSKI: Hi, gentlemen.

JOHN GERSPACH: Hi, Guy.

MIKE CORBAT: Hi, Guy.

GUY MOSZKOWSKI: Hey. So you announced what sounded like very logical moves on the Global Consumer side. I was wondering if you could give us a sense for the capital free-up potential with – what's either your capital allocated to those markets or the RWA impact?

JOHN GERSPACH: Yeah, not at this point in time, Guy, all right? I mean, we're still – we've given you the capital attribution for the overall consumer business. And we'll refresh that in the first quarter. And when we've refreshed that in the first quarter, you'll see the impact from those exits as well as other changes.

GUY MOSZKOWSKI: Okay, fair enough. When you think about what you've been doing to try to get a more positive CCAR outcome next time, I was wondering if you have had some discussions with the regulators about how they would view this type of strategic action that you're taking?

MIKE CORBAT: Sure. Guy, it's Mike. Obviously, we're in pretty constant and consistent dialogue with the regulators. I think in there, the business model and the running of the business is our decision in terms of what we want to do. And provided that we can show we've got the ability to run it in the right way, they're fine with that. I think to the earlier question, in this case, that given these aren't and we don't see a path in the intermediate term to being accretive to our shareholders, it will certainly work towards a smaller, simpler consumer business, a more focused consumer business, and in the end taking those factors, you've got to view that as a positive. But the regulators haven't commented specifically on it.

GUY MOSZKOWSKI: Got it. Just a question on the DTA utilization. The level you did in the quarter was kind of comparable to what you did last year on a quarterly basis, but I think in the first half you had been running more around $1.1 billion. I was just wondering, mechanically, maybe you can explain to us why it fell off?

JOHN GERSPACH: Yeah. Really, it has to do, Guy, with everything – earnings has been fairly consistent. So if you look at the earnings impact over the last couple of quarters, our earnings, both coming out of Citicorp as well as Citi Holdings, have been running at about $800 million a quarter. I think one quarter it hit $900 million, so the real change from what we were running in the first half to what we ran in the second really has to do with the impact of CVA and OCI. And it's as simple as that. But the earnings potential, if you go into the back of the deck –

MIKE CORBAT: Page 39.

JOHN GERSPACH: Page 39, there you'll see that over – for a trailing 12-month period, the earnings of Corp and Holdings utilized $3.4 billion of DTA.

Now on a year-to-date basis that similar number is $2.6 billion. And in the quarter, it was $800 million. So again, very consistent at $800 million, $900 million a quarter as the earnings power of the franchise begins to utilize the DTA. It's the other stuff, it's how the OCI moves that gives you a little bit of noise that you see over there on the right side. For a full year, the impact of all of that was $200 million of utilization. But you're going to get noise quarter-to-quarter.

GUY MOSZKOWSKI: Got it. So the noise is going to depend on what happens to your credit spreads and those of your counterparties and OCI, in other words, rates. And so you're really not going to know about that until the end of the quarter, basically?

JOHN GERSPACH: That's exactly right, Guy. But again, that's going be some noise. But I think that the number that you really want to focus on is how are we doing as far as utilizing DTA, driven by the earnings capacity of the franchise?

GUY MOSZKOWSKI: Yeah, understood. Absolutely. JPM called out emerging markets revenues in FICC as a driver of the relative strength in the quarter, and I was kind of surprised that you didn't, that you indicated securitized products more, just given your mix. Could you give us a sense for emerging markets results in FICC in the quarter versus the two reference quarters?

JOHN GERSPACH: Yeah, our emerging markets franchises performed very well in the quarter. They didn't necessarily contribute as much to growth year-over-year because they actually had a pretty good performance in the third quarter of last year. Now, the FX franchise performed well globally, driven by September. But if you're just trying to isolate what changed year-over-year, securitized products had a slightly larger contribution. And if you think about the environment that we were living in, in the third quarter of last year compared to the third quarter of this year, I think it's pretty easy to figure out why there would have been a little bit more client activity around securitized products, it was just a little bit better. Even though it wasn't a great rate environment, it was certainly a better rate environment than - U.S. rate environment - than what we had last year.

GUY MOSZKOWSKI: Yeah, it makes sense. Final one for me. During the quarter, at least some of the, I guess, Dodd-Frank-driven new daily filings on liquidity, and I think some of the Volcker stuff, started to go into effect for the G-SIBs. And I was just wondering to what extent you might ascribe some of what – what we were hearing towards the end of the quarter was some liquidity issues in credit markets. Does that have anything to do with it?

JOHN GERSPACH: I don't know if I would ascribe movements in the credit markets to – certainly not to Volcker. But I think everyone is looking to see how they're going to manage in a SLR, LCR, NSFR type of world. And any time that you put out brand new rules, I think it takes a while then for the system to sort of adapt to them. And that may have been some of the noise that you heard about at the end of the quarter.

GUY MOSZKOWSKI: But do you think it has or maybe had temporarily an impact on the inventory management for the big dealers?

JOHN GERSPACH: I would say that anybody who's concerned about managing their balance sheet, yeah, it would definitely have an impact. You have to be highly cognizant now of your SLR ratio, and you've got to manage through both the SLR and the LCR. So depending upon what deposits you take in, those deposits could have a high liquidity value or they could have zero liquidity value. If a deposit has zero liquidity value, then you can't do anything with it other than invest it overnight, which means that you're holding either cash or overnight Treasury securities. Now that drives up the asset side of your balance sheet, and now you've got to be worried about your SLR constraints, because all of a sudden, now, you've got to put capital against that. So depending upon where any individual firm was at quarter-end, I would say that they were definitely watching both the asset side of the balance sheet from an SLR point of view, and the right side of the balance sheet from a combined LCR and SLR point of view.

GUY MOSZKOWSKI: Got it. That's very helpful. Thank you, and thanks for taking my questions.

JOHN GERSPACH: Not a problem at all, Guy.

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

MATT O'CONNOR: If I could follow up with your comment about a strong CCAR submission, if you could just elaborate on that. What exactly does strong mean? Do you think from a process point of view, from a capital deployment ask, or just any comments you can give around that, since you did mention it.

MIKE CORBAT: Yeah, I think as I described, Matt, I think that, really, we've been focused on a number of things but one is that really taking the CCAR process and really embedding it into the firm. And again, I think that goes along a few different channels. One is management engagement. How is management thinking about their business? What are the risks in their business? How do we quantify those? How do we position the firm against those? Second is, I think work where we've done around our models. Model building, model validation, model integration into the firm. I think that we've worked hard in terms of making sure, in essence, we've got the boots on the ground across the different areas, in particular, second and third lines of defense and making sure that they're synced up against our businesses and really operating in the right way.

So it's a big focus towards model build out that infrastructure but most importantly, how really that gets embedded in the way we think about and run the business on a day-to-day basis. Not a one-off submission and then back to the old ways.

MATT O'CONNOR: Okay. And I realize it's still I guess about five, six months away, in order to get all the guidelines. But as you think about what a successful outcome would be, is passing on a qualitative basis enough, or would you want to also be able to have a meaningful amount of buybacks as well, to view as a success?

MIKE CORBAT: Well, I think that as you alerted to, we're not going to speak to what the number is. But we've got to certainly get beyond success being measured as a successful submission with no capital ask, right? We're in a position where we're fortunate to generate large amounts of regulatory capital and we've got to put the firm in a position to return that. So I would view a successful ask as a combination of those things.

MATT O'CONNOR: Okay. And then just separately on expenses, the 4Q commentary of relatively flat on a core basis was helpful. As we think into next year, maybe before we account for some of the business exits, but how should we think about the expense run rate beyond this year? You've been taking some of these repositioning costs that I know have been driving a positive operating leverage. Is there more benefit from those still to come?

JOHN GERSPACH: Matt, at this point in time we're still focused on, for 2015, is delivering on being able to run Citicorp in that – in the mid-50s efficiency ratio. And so that's the target that we've set out for ourselves a year and a half ago. And that's still the target that we're working at towards 2015.

MATT O'CONNOR: Okay. All right. Thank you.

JOHN GERSPACH: Okay.

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

MIKE MAYO: Hi. As far as the GCB restructuring, Mike, is this it? Going from 35 markets to 24 or is there potentially more?

MIKE CORBAT: Well, I think as you look, Mike, just to kind of put it in context – I think we've gone from a number higher than that. I think, in aggregate, we're down somewhere around 15, 17 markets in the past couple years. And so what we've said is that we've got an ongoing process, which we've talked very openly out about our country bucketing and business bucketing and the way we think about those. We do still have businesses in the "optimize" bucket. Those businesses obviously not being on the list are making progress towards the goals that we've agreed to in terms of where they're going to get those businesses. And again those buckets will continue as they've been to be fluid and we'll keep assessing things against what we've laid out. But right now, those businesses are on track and feel like they've got a pathway to get to a place of having adequate returns or good returns in the consumer business.

MIKE MAYO: Is there more restructuring in the U.S. that you can do? You mentioned mortgage and branches. What else could be done?

MIKE CORBAT: Well, as we laid out on page – we've laid out as a series of metrics from a headcount, from a product perspective, from a site perspective, things that probably the largest drivers of cost in there. It's page 13 in the deck. And so we're committed on delivering those. We've made significant progress against those. Continuing to simplify our products, continuing to rationalize our branch footprint, continuing to shrink and consolidate our support sites. And again those are the big drivers of expenses. So I think as we've laid out there, we've got more work we think we can do.

MIKE MAYO: So getting to that target range in GCB of 49% to 52% that would be more than simply less legal and repositioning costs? John, I think your answer earlier said that was going be a nice driver of it. But other than that, what would be the main drivers?

JOHN GERSPACH: No, Mike, as I said before, there's two elements to it. I drew your attention – at least I intended to draw the attention to that chart 12 and note that there were two areas of the expenses. We had the light blue box at the top, which talked about the legal and repositioning charges and I pointed that as one area that would contribute – we felt would contribute next year. But more importantly, and I think this is where you're driving, it's the big blue box at the bottom that really talks about those core operating expenses. And there, we intend to continue to drive those core operating expenses down.

We lay out for you on slide 12 the progress that we've made on a trailing 12-month basis. But then you can also see, when you flip over to slide 13, that we're making progress in that area on a quarter-by-quarter basis. And that is going to continue as we continue to execute on the actions that Mike talked about as we continue to reduce headcount, we continue to simplify the product offering, and we continue to rationalize our branch and support site structures. So all of that work continues. It's ongoing now. It will remain ongoing into next year.

MIKE MAYO: Okay.

JOHN GERSPACH: And beyond.

MIKE MAYO: And last follow up and that's it. When you say support site, I'm just trying to get more meat on the bones on this slide 13. Is support sites going down? Is that a big expense takeout or the head count reduction, the branches, that should all help. I'm just trying to get a sense of magnitude.

MIKE CORBAT: So support sites, Mike, they break into probably two big buckets. One would be service centers and the second would be data centers. And obviously, as you consolidate those, turn space back, create more scale, et cetera, you've got the ability to get those costs out. Centers of Excellence, however you choose to describe them. And so I think we've shown the ability to do that and we've got more work to do.

JOHN GERSPACH: Yeah, Mike, I think when you look at those four items that we lay out there, they all are somewhat interrelated. We don't have standardized the platform there but clearly as you simplify your products and you standard – and you put everything onto one standard platform, that means then that you can collapse a lot of individual call centers into one because you're not running individual call centers for different products in every country, each one then having to deal with a different operating system.

So we standardize the information available to our customer service personnel. We make it easier for them to understand the products that we offer. That enables them to provide a much better experience to our clients. So we can simplify the products, we standardize the platforms, we can reduce the sites and, therefore, we can actually provide our clients with a better experience with less people.

MIKE MAYO: All right. That's helpful. Just one other separate question. I opened up the paper this morning saw some comments from Mike O'Neill, the Chairman. And so Mike Corbat, what's your current relationship with Mike O'Neill and just – I thought the timing was interesting to see the Chairman – and Citigroup's the last major U.S. bank that has the CEO and Chairman position split. So I'm wondering your current thoughts on that, the tradeoff, the benefits, the costs of having that.

MIKE CORBAT: Sure. I think from our perspective, I won't speak to others, I think our relationship and our structure works well for us. I think our relationship is excellent. I think the dialogue with the board is very good. And I think from a governance perspective and a relationship perspective and when we think about run the firm and the delineation of duties, it certainly works for us.

MIKE MAYO: And the degree that Mike O'Neill is giving you counsel when it comes to these restructuring moves like the one you announced today?

MIKE CORBAT: I think we always have good, engaged strategic interaction with the board, not just Mike, but with the board. And so the board was aware of these actions and supportive of the actions that management recommended.

MIKE MAYO: Great. Thank you.

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

JOHN GERSPACH: Hi, Betsy.

BETSY GRASECK: Hi. Good morning. Just a quick ticky-tacky question at this stage. You mentioned the core operating expenses at $10.9 billion looking to keep relatively flat into 4Q. I know we have CCAR expenses coming up a little bit. I mean, maybe that adds a percent or something like that. But we should expect those CCAR expenses are on top of what you did in 3Q would be incremental? Or are you saying that you think you have other things in core operating expenses you're going to peel back and that's going to offset CCAR expense increase in the quarter?

JOHN GERSPACH: Yeah, we would say that the – again, we should be able to keep the expenses relatively flat into the fourth quarter. We still have benefits that are rolling off or other expense initiatives that we've introduced. I mean you've seen the amount of repositioning charges that we've taken. Those repositioning charges do generate real savings but those savings in the fourth quarter are likely going to be reinvested then as we continue to enhance our capital planning process – CCAR.

BETSY GRASECK: Right. No, I get it. Okay. Thanks a lot. Just wanted to –

JOHN GERSPACH: Not a problem.

BETSY GRASECK: Yeah.

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

GERARD CASSIDY: Thank you. Good afternoon.

MIKE CORBAT: Hi, Gerard.

GERARD CASSIDY: Hi. Can you share with us – in your last Q I think you put in there that 100 basis point parallel shift in the yield curve would contribute an additional $1.9 billion or so to revenue. If the yield curve flattens and the Fed does move rates up next year, but as you notice today, the 10-year is down to about 2.2%. If we don't get the parallel shift, how much of the benefit would you likely see with the front end going up but long end remaining anchored where it is today?

JOHN GERSPACH: Yes. See, if the front end went up but the long end dropped – there is a scenario that we've laid out for you which has 100 basis point increase in short term and relatively flat, long-term. I think what you see in that type of environment, we capture the lion's share of the $1.9 billion. I don't have that number in my head. But it's virtually – it's a substantial portion of the $1.9 billion.

GERARD CASSIDY: Great. The second question is, can you remind us, in terms of your capital ratios, your Tier 1 Common ratio, for example, what kind of cushion do you want to keep above whatever the final number turns out to be? And I know that's a moving target, because you're seeing the Fed and others ask for more capital and they haven't given us the exact numbers yet. But are you looking to maintain a 50 or 100 basis point number over whatever the final target becomes?

JOHN GERSPACH: Well, as you say, it's a little hard right now because we don't know where the final rules are going to come out. So let's – give us a chance to take a look at the final rule and then we'll be happy to tell you what kind of buffer we think we need. I mean there's still a bit of rulemaking yet to be laid down. We've got the promise of another G-SIFI surcharge. We've got OLA that still needs to be finalized. So when these things begin to settle down, we'll be happy to come back to you then with a more informed target.

GERARD CASSIDY: Okay. Thank you. And then as of today, what would you point to as your binding constraint on the capital ratios? Which one do you guys look to today? And again I know this may not be the case a year from now.

JOHN GERSPACH: Well, let's see. On October 14, I'd say it's Tier 1 – Basel III Advanced Approach Tier 1 Common.

GERARD CASSIDY: Okay.

JOHN GERSPACH: But check back with me by November 14 and I may have a slightly different answer. And I'm not trying to be cute, it's just that as the rules begin to change and they intersect, you're constantly battling one against the other. If you would ask me a year ago, I would have said, SLR was going be the binding constraint. Six months ago, I was really worried that Standardized RWA – the Standardized Approach was going to be the binding constraint. Today, I feel like it's Basel III Tier 1 Common. And then, of course, there's always what the ultimate is, is of course the CCAR submission itself. So we need to keep our eye on all four of those and it's – it doesn't do you any good to just manage one.

GERARD CASSIDY: Great. And then one last question. The shared national credit exam hasn't been released yet. Probably will be shortly here. But there was some commentary by the Federal Reserve, they're still concerned about leverage loans by some of the larger banks that they're aggressively underwriting them and they now claim they may use this in CCAR as part of the qualitative area. Do you guys have any color on that? Or what do you think about that? Are you concerned about that, if they bring it into the CCAR process the way everybody underwrites leveraged lending?

MIKE CORBAT: Those rumors are there, Gerard. We haven't heard anything on that, formally. So obviously this has been a big area of focus for the Fed and the OCC. And so, evolving but we haven't gotten any guidance on that so far.

GERARD CASSIDY: Thank you, guys.

JOHN GERSPACH: Okay.

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

STEVEN CHUBAK: Hi. Good afternoon.

JOHN GERSPACH: Hey, Steven.

STEVEN CHUBAK: I was hoping you could provide some clarity on what drove the sequential increase in risk-weighted assets. Historically, what we've seen, particularly given periods of elevated FX volatility, that there's a natural capital hedge from FX translation on the RWA denominator. I didn't know if you could provide some more detailed guidance as to, what were the sources of RWA build in the quarter?

JOHN GERSPACH: Yeah, that's a good question, Steven. Since the beginning of the year, we've absorbed about – well, you can see it in the chart back on slide 20. We've got about $60 billion in incremental RWA since the beginning of the year. The impact of business growth in Citicorp has been more than offset by reductions in Holdings, and we've gotten a little bit of FX benefit in this quarter, that was probably worth about $10 billion or so. But the entire net impact really is the result of enhancements to our risk models, primarily credit models, and as well as our interpretation of the final B-III rules. So we've been enhancing our models and that's caused us then to increase the amount of risk-weighted assets that are required.

STEVEN CHUBAK: Thanks. That's really helpful. I mean, is that model enhancement process, is it largely completed at this juncture? Or do you – should we expect that there's more to come, which could result in some RWA stickiness going forward?

JOHN GERSPACH: Yeah, I'd say that we think that, now, we've done an intensive review of the models, certainly, especially in the period since we've gone live on the Basel III advanced approach. And we're certainly comfortable with the models as they exist right now. But here comes the big however. However, our regulators still continue their reviews, so there still may be additional enhancements required going forward.

STEVEN CHUBAK: All right. Fair enough. And just one more for me. Relating to the securities portfolio and, specifically, the breakdown of HTM versus AFS. The last two quarters, we've seen an increase in the amount of securities that you've classified as held-to-maturity. And just looking at last year's CCAR results, and in addition to that, your mid-year stress test exam, which were published for public consumption, the AOCI losses were actually quite substantial, and presumably should only increase as the number of Basel III deductions are recognized within the Transitional horizon. And I was wondering whether CCAR considerations have actually prompted you to accelerate the reclassification of some of your securities portfolio, and is that something that we should expect to persist going forward?

JOHN GERSPACH: No, I'd say if you looked at the percentage of our investment portfolio that is classified as HTM, we're probably underweight compared to many of our peers. And so, as we look at the possibility of reclassifying things between AFS and HTM, it's a little bit more being driven by our view as far as volatility in our OCI, and therefore, how that impacts the numerator in our regulatory capital.

So again, that's really our focus. We want to make sure we've got the right mix. And again, we don't want to overweight towards hold-to-maturity. But we would look at it right now and say, perhaps, we're a little underweight where we are. Having said that, we're very comfortable with the level that we have right now, so I'm not leading you to the fact that we're going to be increasing it dramatically, but we may continue to add bits and pieces into the HTM.

STEVEN CHUBAK: All right. Understood. Thanks for clarifying that, John, and thank you for taking my questions.

JOHN GERSPACH: Not a problem, Steven.

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

ERIKA NAJARIAN: Yes, my questions have been asked and answered. Thank you.

JOHN GERSPACH: Okay. Thank you, Erika.

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

KEN USDIN: Thanks, guys. Just this one question for me. John, you alluded in your prepared remarks to the recent bit of slowing in some of the international businesses. And I just wondered if you could just flush out for us, when you think about your international businesses and developed versus emerging markets, do you see that slowdown as either, A, partly seasonal; B, any change in terms of how you're perceiving growth; or C, related to just this kind of global downgrade of growth expectations and how are you responding to that?

JOHN GERSPACH: Yeah. I would say it's more of the latter as far as just the overall impact of everyone's expectations for global growth being – coming down a bit. In the comments that I made earlier, I think what you're referring to is some of the comments I made as far as loan growth that we had in Latin America, specifically Mexico. So you do have certain market-by-market where you can see the impact. But from an emerging market view, we still see good growth, good overall growth coming out of the emerging markets especially when compared to the developed markets. It's just a little bit less growth than what we would have anticipated earlier in the year.

KEN USDIN: And just as a quick follow up on that, have you noticed anything then – you'd mentioned a couple of comments in your prepared comments in the deck about spreads but has the spread and competitive environment changed at all in that tune? Are you finding yourself still able to gain share within those faster growing economies?

JOHN GERSPACH: Yeah, we're doing fine. I mean, and I think that we're managing to keep pace within the economies in which we operate. I mean we have seen spread pressure hit us in the trade product. That's certainly something that hit us this quarter. When you take a look at the revenue growth in TTS, the revenue growth in TTS was impacted both year-over-year and quarter-over-quarter by roughly a $40 million decline in trade product revenues.

And while the spreads in the cash management business were largely stable, overall trade spreads have been declining now for several quarters. So we've seen that impact and – but we are maintaining our market share in that product, but we're doing that by shifting to an originate-for-sale type of approach. So we're maintaining market share. But instead of originating for balance sheet, we're originating to sell. That means that we forego net interest revenue in return for an upfront fee. But as a result, the trade revenue assets have declined, some of our trade assets, but we've preserved and in some cases have improved our returns. So there's different ways of managing through lower spread environments.

KEN USDIN: Very well. Thank you.

JOHN GERSPACH: Okay.

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

JOHN GERSPACH: Hey, Matt.

MATT BURNELL: Hi, John. Thanks for taking my question. Just first of all, and I don't want to make too much of the mid-year DFAST numbers. But I was curious, your PPNR estimate for the most recent mid-year DFAST was down about a little less than 30%. In fact, that was in line with most of the other big banks. But I guess I'm just curious if there's color you can provide as to what the difference was between the numbers that you put together for this year's mid-year cycle and last year's mid-year cycle, just in terms of the PPNR change.

JOHN GERSPACH: Well, I think there's two things. One is, it's a different scenario. Obviously, each year, you construct a different scenario in which you then assess your stress within that scenario. So there's the scenario difference. And also, as Mike said earlier, we're in the process of enhancing our overall capital planning process and I think you see some of the results in those numbers.

MATT BURNELL: Okay. And just moving on to the Mortgage business, I know that's not a huge contributor to your overall bottom line. But I guess in the bigger picture, I'm just curious how you all are thinking about the potential for loosening of standards by the FHFA, even if it's minimal loosening, in terms of opening up maybe the lower end of the mortgage market and how much that might affect your ability to generate mortgage revenue given that you tend to target slightly better credit quality customers?

MIKE CORBAT: I guess I would start in that, Matt, in terms of saying I think that, that would – that's important. I think it's good for the market. Because I think what we've seen is the mortgage market today isn't functioning the way we'd like. If you're not 20% down and high FICO, it's been quite tough for people to get in and to be able to afford and buy homes. So one is, I think, for the overall system, we would be supportive of that. I think as you rightly point out, our model is largely focused around our Citi clients, which tend to be higher in FICOs and probably have the ability to make higher down payments and higher deposits. But again, some of it falls in there and we'd certainly be open and we'd be supportive of that. So I think from our perspective, I don't think it would have a big impact on Citi, but I think it would be very constructive for the market.

MATT BURNELL: Okay. That's it from me. Thank you.

JOHN GERSPACH: Okay, Matt.

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

CHRIS KOTOWSKI: Yeah, I was –

JOHN GERSPACH: Hi, Chris.

CHRIS KOTOWSKI: Hi. I was wondering in the context of the page 8 disclosure about the impact of the strategic actions is $7 billion in loans, roughly. And on page 31, we see that Korea alone has about $24 billion in consumer loans. So I'm wondering what specifically is in there and what isn't? And in particular I guess I was wondering is, from all those countries, is Citi Cards also withdrawing or is it just the basic branch system?

JOHN GERSPACH: Yeah, let me try to help you through that one. First is, we are not exiting the consumer franchise in Korea. We're exiting a specific element of the consumer – of that consumer business, the consumer finance business in Korea, which is a much smaller component of the overall Korea franchise. So when you take a look at the $24 billion worth of loans – the consumer loans that we have in Korea, it's a relatively small amount of those loans that is actually then coming out. Okay?

CHRIS KOTOWSKI: Okay. And then just the Card – in those 11 countries, are you basically, mainly, out of the branch system or a branch banking business or also out of the Card business as well?

JOHN GERSPACH: It's going to be out of Cards as well as out of the branches.

CHRIS KOTOWSKI: Okay. And then lastly for me, I'm not sure if you can comment, but on the cover of the OneMain S-1, it lists the proposed maximum offering as being $50 million in size and that –

MIKE CORBAT: $50 million.

CHRIS KOTOWSKI: Yeah, that seemed very small and I was wondering if there's anything you can – any color you can provide us on how we should expect the disposition to proceed in the year ahead?

MIKE CORBAT: Sure. I would describe that as a filing and, again, I think our stated intent all along in this is to go towards the process that drives this business in terms of best price, best terms to the right buyer. I would say that kind of going in this, we'll run a sale process, and if we don't get a sale process to the right place then we'll pursue an IPO, but we wanted to have the flexibility to do that, and if we got there, didn't want to have to wait the time necessarily to do all the filing. And obviously, in preparation for the sale process, you do a lot of those things that are requisite in the filing anyway. So it was, I think, convenient to be able to do that. So again, move towards the sale process and we'll always have the option of an IPO if we want to use it.

CHRIS KOTOWSKI: Great. Thank you. That's it from me.

JOHN GERSPACH: Great. Thanks, Chris.

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

BRIAN KLEINHANZL: Yeah, good afternoon. I just had a –

JOHN GERSPACH: Hi, Brian.

BRIAN KLEINHANZL: Quick question on the strategic actions today. You mentioned that these are coming mostly from the "optimize/restructure" markets that you had identified previously. But also on that same chart you also identified 20 markets, which were the "invest to grow" markets. Now, assuming that you take these dollars, allocate it to the 11 markets and move those to "invest to grow." Kind of what are the top three markets that you're looking to invest in these days?

MIKE CORBAT: I would say as we look around, we're clearly, in no particular order, investing in the U.S. in several different ways. Continue to invest. We had a stated investment program that we're gearing towards Mexico. We've talked about other markets in Asia where we've been targeted and continuing to grow our businesses. So I think there's several places. I don't think there's a shortage of places where we can put these resources, so to speak, at better levels than they're being used today.

BRIAN KLEINHANZL: Okay. Great. And just one other question on the tax rate guidance that you gave. Are you assuming that all of the legal charges going forward are now going be tax-deductible? And that's why you're getting to the lower tax rate there?

JOHN GERSPACH: No. No. No. We anticipate that – again, it's going be dependent upon item-by-item as far as whether or not we would assess an accrual to be tax deductible or not. But as we look into the fourth quarter, right now, we think that at 32% more or less tax rate is where we'll end up.

BRIAN KLEINHANZL: Okay. Great. Thanks for taking my questions.

JOHN GERSPACH: Okay. Not a problem.

OPERATOR: Thank you. We have no further questions in queue at this time. I'd like to turn the call back to management for any further remarks.

SUSAN KENDALL: All right. Thank you all for joining us this morning. I know it's been a busy morning for many of you. If you have follow-up questions, please feel free to reach out to IR. Thank you.

MIKE CORBAT: Thanks, everybody.

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