TRANSCRIPT

Citi Third Quarter 2016 Earnings Review
Friday, October 14, 2016

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 2016 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 conditions may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings, including without limitation, the Risk Factors section of our 2015 Form 10- K.

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

MIKE CORBAT: Thank you, Susan, and good morning, everyone. Earlier today, we reported earnings of $3.8 billion for the third quarter of 2016 or $1.24 per share. I have to say that I'm very encouraged by the underlying momentum across our franchise, notably in several areas where we've been investing.

In our Global Consumer Bank, we saw revenue increases in every business line and geography, excluding the impact of a one-time gain last year in Mexico. In the U.S., we realized the benefit of our first full quarter of the Costco portfolio, which is exceeding our expectations in every key metric. The remainder of our Branded Cards portfolio as well as Retail Services also delivered modest revenue growth, as did our more focused retail branch network.

In our Institutional Businesses, revenues increased 2% as meaningful improvement in nearly every banking and markets product was partially offset by a swing in the mark-to-market value of loan hedges. Our fixed income franchise continued to benefit from strong client engagement across both our corporate and investor client base.

And the backbone of our global network, Treasury and Trade Solutions, generated year-over-year revenue growth for the 11th consecutive quarter despite the low rate environment. In both our Consumer and Institutional businesses, we continued to grow both loans and deposits.

Consistent with our strategy, we continued to shift our resources to where they can generate the best returns for our investors. This could mean investments like Costco or divestments of certain businesses.

For example, this month, we announced agreements to sell our Retail Banking operations in Argentina and Brazil and plans for significant investment in Mexico. As a sign of our commitment to Mexico, a market where we have real scale and confidence in its growth prospects, we're integrating the local brand with Citi's and the franchise will be known as Citibanamex.

Turning toward our dwindling non-core assets. For the ninth quarter in a row, Citi Holdings was profitable, and at $74 million in net income, was less than 2% of Citigroup's total earnings for the quarter. Assets in Citi Holdings are now only 3% of our balance sheet and down 48% from one year ago. As you know, the next quarter will be the last that we report Holdings' results separately.

We remain intensely focused on shareholder returns. This was the first quarter we began implementing our new capital plan. During the quarter, we reduced our outstanding common shares by 56 million. The amount of outstanding is 2% lower from the prior quarter and 4% down from one year ago. That acceleration in the reduction of the amount of outstanding shares is due to the increased amount of buybacks under the capital plan.

In the past two years, we've lowered the amount of outstanding common shares by 180 million or 6%. Our tangible book value per share increased to $64.71 in the quarter, which is an 8% increase from one year ago, reflecting the impact of the stock repurchases and our efforts to deliver quality and consistent earnings. Even so, our Common Equity Tier 1 ratio increased to 12.6% and we're committed to continue increasing the capital we return to our shareholders in order to improve our returns.

Looking forward, while we expect growth both in the developed and emerging markets to pick up next year, the uncertainties that color the current economic environment haven't retreated. Brexit, hard, soft or scrambled, is still an open question and is likely to remain so for the near future. Here in the U.S., thankfully, we're only a few weeks away from the Presidential election and there seems to be growing consensus for interest rate increases that the Fed has clearly been dovish up to this point. Economic projections have improved somewhat recently, particularly in places like Brazil and Russia, which may soon return to positive growth.

John will now go through our presentation and then we'd be happy to take your questions. John?

JOHN GERSPACH: Hey. Thank you, Mike, and good morning, everyone. Starting on slide three, we show total Citigroup results. Revenues of $17.8 billion declined 4% from last year and expenses decreased 2%, each driven primarily by the continued wind-down of Citi Holdings as well as the impact of foreign exchange translations. And credit costs improved, reflecting a reduction in the provision for benefits and claims due to asset sales in Citi Holdings as well as lower net credit losses, partially offset by a net reserve build this quarter as compared to a small release in the prior year.

Net income of $3.8 billion declined 8% from last year, mostly driven by mark-to-market loan hedges and the absence of one-time gains in the prior period. However, we were able to offset some of this impact through underlying business growth. We also benefited from share buybacks, which drove a 4% decline in our average diluted shares outstanding.

In constant dollars, Citigroup end-of-period loans grew 3% year-over-year to $638 billion and 7% growth in Citicorp was partially offset by the continued wind-down of Citi Holdings. And deposits grew 4% to $940 billion.

On slide four, we show the split between Citicorp and Citi Holdings. Citicorp was again the predominant driver of profitability in the third quarter, contributing 98% of total net income. Pre-tax earnings of $5.6 billion in Citicorp declined by roughly $300 million year-over-year. However, this comparison includes losses on mark-to-market loan hedges this quarter as compared to gains in the prior year, as well as certain previously disclosed one-time items that benefited the third quarter of 2015, including a gain on the sale of our merchant acquiring business in Mexico and the reversal of a valuation adjustment in our

Equities business. Together, these items drove a roughly $900 million negative variance in the year-over-year EBT comparison, all of which was reflected in revenues.

Excluding these items, Citicorp revenues would have grown 6% year-over-year, with broad-based growth across our Institutional and Consumer businesses, partially offset by lower revenues in Corp/Other. Citicorp expenses grew 3%, mostly reflecting volume growth as well as continued investments in the franchise, partially offset by efficiency savings. And cost of credit grew 8% from the third quarter of last year, driven by a larger reserve build.

Most of the reserve build related to our U.S. cards franchise, driven by the Costco portfolio acquisition, volume growth and the estimated impact of newly proposed regulatory guidelines on third-party collections, which I'll describe more in a moment. Credit quality remains broadly favorable across the franchise, with stable to improving loss rates in every region.

Turning to Citi Holdings, both revenues and expenses declined significantly year-over-year as we continued to wind down the portfolio. We reduced Citi Holdings assets by nearly half over the past year, ending the third quarter with $61 billion of assets and we have signed agreements in place to reduce this amount by an additional $10 billion.

Turning now to each business. Slide Five shows the results from North America Consumer Banking. Total revenues grew 7% year-over-year. Retail Banking revenues of $1.4 billion grew 2% from last year on continued growth in average loans and checking deposits of 9% and 10% respectively. We generated this volume growth even as our branch footprint continued to shrink.

We have spent the last several years reshaping our branch network, upgrading technology and deepening our focus on our core six markets, enabling us to grow revenues while reducing expenses and significantly improving the profitability of our retail bank. And now, with the right footprint and infrastructure in place, we are beginning to invest for additional growth by enhancing our segmentation strategy, focused on the Citigold Wealth Management platform, improving our digital and mobile banking capabilities, and continuing to upgrade the network with smart branches and dedicated Citigold centers.

Turning to Branded Cards, revenues of $2.2 billion grew 15%, reflecting the first full quarter of contribution from the Costco portfolio as well as modest organic growth. Excluding Costco, we generated 1% underlying revenue growth as we are beginning to lap the investment program we started last year, and a portion of the new balances are maturing to full rate.

Turning to Costco, the early results continue to be very encouraging. New account acquisitions have far exceeded our expectations, at nearly 800,000 to-date. Purchase sales have totaled roughly $28 billion to-date, with over 70% being out-of-store, indicating that customers are using this card first for their everyday purchases. And the loan portfolio had grown to over $14 billion as of the end of the third quarter.

Finally, Retail Service revenues of $1.6 billion improved 1% from last year. We saw better than expected average loan growth in Retail Services this quarter, up 2% sequentially, which offset the absence of two portfolios we sold in the first quarter as well as the impact of renewing and extending several partnerships.

Total expenses for North America Consumer were $2.6 billion, up 12% from last year, mostly reflecting the Costco portfolio acquisition, volume growth, and continued marketing investments. Costco-related expenses were somewhat elevated this quarter as we addressed higher than anticipated service volumes in the weeks following the conversion.

And finally, credit costs in North America increased significantly from last year. Net credit losses increased 6% to $929 million, driven by volume growth. And we built over $400 million of net loan loss reserves during the quarter, including nearly $450 million in Branded Cards and Retail Services. Roughly a third of this amount was related to the acquisition of the Costco portfolio, as we previously described. Another third was related to volume growth in normal seasoning in the portfolios. And the remaining third predominantly reflected the estimated impact of newly proposed regulatory guidelines on third-party collections.

In Branded Cards, the NCL rate declined to 225 basis points this quarter, reflecting the addition of the Costco portfolio, which did not incur any losses during the quarter as we had generally excluded late stage delinquencies from the acquired loans. Excluding Costco, the NCL rate in Branded Cards has been in the range of roughly 280 basis points year-to-date. We expect the loss rate on Costco to be lower than the existing portfolio, but this benefit will likely be offset by the impact of seasoning as well as the estimated impact of the proposed regulatory guidelines I just mentioned. So we expect the NCL rate to remain in the range of around 280 basis points next year with some quarterly variability.

In Retail Services, the loss rate has been in the range of around 410 basis points year-to-date and we expect it to increase to around 435 basis points next year. Again, primarily reflecting the impact of seasoning and the proposed regulatory guidelines. Importantly, these NCL rates are consistent with our return goals for each business, with Branded Cards targeting at least 225 basis points of ROA and Retail Services in the range of around 250 basis points.

On slide six, we show results for International Consumer Banking in constant dollars. In total, excluding the impact of a one-time gain on the sale of our merchant acquiring business in Mexico last year, revenues grew 4% and expenses were flat to last year. In Latin America, excluding the prior-year gain, consumer revenues were up 5%, as continued growth in Retail Banking, which grew 11% year-over-year, was offset by a decline in Cards. These Retail Banking results reflect strong volume growth with average loans and deposits increasing 8% and 12%, respectively.

Latin America Cards revenues declined from last year. However, we continue to see signs of recovery in that business this quarter, which I'll cover more in a moment. And finally, expenses were flat year-over-year in Latin America, resulting in significant positive operating leverage. As Mike mentioned earlier, we are continuing to invest in our Mexico consumer franchise to drive sustainable growth with initiatives to enhance our branch network, digital capabilities, and service offerings. We expect to maintain positive operating leverage next quarter and each year throughout the investment period, driven by revenue growth as well as cost savings from upgrading and standardizing our technology platforms.

Turning to Asia, consumer revenues grew 3% year-over-year, driven by improvement in Wealth Management and Cards, partially offset by the continued repositioning of our retail loan portfolio. Wealth Management revenues grew 11% from last year on improving investor sentiment and continued positive AUM inflows. And Cards turned positive as well with revenues up 4%, driven by modest volume growth, a continued improvement in yields, and abating regulatory headwinds.

Retail lending revenues remained under pressure as we continued to shift our portfolio away from lower return mortgage loans this quarter. While this shift drove a modest decline in average retail loans and lending revenues, our goal is to build a higher return, more balanced portfolio over time. And finally, total credit costs grew 13% in our international consumer franchise, reflecting a modest reserve build this quarter compared to a release in the prior year while loss rates remained favorable.

On slide seven, we show some key performance indicators for our Global Branded Cards franchise, including year-over-year growth in purchase sales, average card loans and revenues. In North America, as you can see, these trends show a significant positive impact from the Costco portfolio acquisition. But even excluding that transaction, we continue to show progress in our existing franchise with organic growth in purchase sales, average loans and revenues this quarter. As I just noted, in Asia, we have also achieved revenue growth year-over-year, which we expect to continue going forward.

And finally, in Latin America, we achieved growth in both purchase sales and average loans this quarter, but revenues remained down 6% versus last year. This year-over-year comparison was affected by certain episodic fee revenues in the prior period. On a comparable basis, Card revenues in Latin America would have been down 3% versus last year, reflecting the continued impact of higher payment rates. With continued growth in purchase sales and average loans, we expect Latin America Card revenues to return to sustainable growth in the second half of next year.

Slide eight shows our Global Consumer Credit trends in more detail across both Cards and Retail Banking. Credit remained broadly favorable again this quarter in every region. The decline in the NCL rate in North America mostly reflects the impact of the Costco portfolio, which, as I mentioned earlier, did not incur any losses this quarter. Excluding Costco, the NCL rate would have been flat to the prior year at 2.2%. And the NCL rate in Latin America showed particular improvement as well. However, as our loan portfolio continues to grow and season, we still expect this NCL rate to run closer to 4.5% as we go into next year.

On slide nine, we show the year-over-year EBT walk for Consumer for the third quarter. When we presented this slide last quarter, our first half EBT comparison was affected by several factors including: a comparison to much stronger prior-year periods in Wealth Management, the early stage of our organic Cards investments, the expenses we were absorbing on Costco before we had the full benefit of the revenues on that portfolio, and the impact of significant repositioning charges in the first quarter of this year.

Now, in the third quarter, you can see that we're beginning to build momentum again. We generated business growth in areas like Asia and North America Cards, as well as the retail and commercial businesses in both North America and Latin America. We are beginning to lap the impact of our Branded Cards investments on rebate and rewards costs, and saw a full quarter benefit from the acquisition of the Costco portfolio, and Wealth Management revenues continue to recover with improving investor sentiment.

In total, we generated 5% underlying revenue growth in our consumer franchise this quarter. And, while expenses were up as well by 7%, we still grew our operating margin by roughly $150 million year-over-year. And we believe we can operate closer to flat operating leverage in the fourth quarter. Of course, we faced credit headwinds this quarter as we build loan loss reserves compared to a release in the prior year. However, some of the current quarter reserve builds were related to Costco and the proposed regulatory guidelines I mentioned earlier, and shouldn't recur at these levels. So overall, while we still face some headwinds, we feel good about the direction of the consumer franchise.

Turning now to the Institutional Clients Group on slide 10. Revenues of $8.6 billion in the third quarter grew 2% from last year, driven by Fixed Income, Investment Banking and Treasury and Trade Solutions. Total banking revenues of $4.3 billion grew 7% from last year. Treasury and Trade Solutions revenues of $2 billion grew 8% in constant dollars, driven by continued growth in transaction volumes with new and existing clients. The TTS business remains core to our institutional strategy, delivering integrated solutions to our multinational clients and deepening our operating relationships with them across multiple products and markets.

Investment Banking revenues of $1.1 billion grew 15% from last year on strong debt underwriting activity, partially offset by lower equity underwriting revenues. Private Bank revenues of $746 million were up 4% year-over-year, driven by loan growth, improved spreads, and higher managed investment revenues. And Corporate Lending revenues of $450 million also grew 4%, mostly reflecting higher average loans.
Total Markets and Securities Services revenues of $4.5 billion grew 11% from last year. Fixed income revenues of $3.5 billion were up 35% with both rates and currencies and spread products contributing to revenue growth.

Rates and currencies grew over 30% year-over-year with particular strength in G10 rates, reflecting strong client activity and a more favorable environment. And spread product revenues grew over 40% as credit and securitized markets continued to recover from the depressed levels we saw in late 2015. Turning to Equity, excluding a positive valuation adjustment in the prior year of approximately $140 million, our revenues were down 23% year-over-year, driven by lower client activity and a less favorable environment, particularly in derivatives as well as the comparison to a strong quarter in Asia last year.

Finally, in Securities Services, revenues grew 4% year-over-year as increased client activity, higher deposit volumes, and improved spreads more than offset the impact of divestitures. Total operating expenses of $4.7 billion were down 1% year-over-year, driven by efficiency savings, lower legal costs, and a benefit from FX translation. On a trailing 12-month basis, excluding the impact of severance, our comp ratio remained at 27%. Cost of credit was a benefit of $90 million in the third quarter, as net credit losses were largely offset by previously existing reserves, and we also saw a net benefit from ratings upgrades, reductions in exposures, and improved valuations.

On Slide 11, we show the year-over-year EBT walk for ICG on a year-to-date basis, which shows continued significant improvement from the start of the year. Given the strong revenue performance this quarter, we're now showing 2% growth on a year-to-date basis in our Accrual and Transaction Services businesses as well as markets and banking. And we were able to achieve this growth while maintaining our operating discipline with expenses up just 1% even while we continue to invest in the franchise. The most significant year-over-year drag comes from Other revenue items including the impact of the Venezuela devaluation in the first quarter as well as mark-to-market losses on loan hedges driven by spread movements.

As part of our ongoing risk management efforts, we use loan hedges to manage our credit risk concentrations, using predominantly single-name CDS positions against specific exposures in our portfolio. While these positions provide an economic hedge and help us manage concentrations to any particular client, sector or region, they are accounted for on a mark-to-market basis. And this year, we've seen consistent spread tightening in these positions, driving mark-to-market losses in comparison to the spread widening we experienced last year, which drove significant gains.

Slide 12 shows the results for Corporate/Other. Revenues decreased year-over-year largely due to the absence of the contribution from our equity stake in China Guangfa Bank, which we sold this quarter and expenses increased, mostly reflecting our sponsorship of the U.S. Olympic team this year as well as higher consulting costs related to the timing of the resolution plan submission.

On slide 13, we show Citigroup's net interest revenue and margin trends. The bars represent net interest revenue per day for each quarter in constant dollars, showing consistent growth year-over-year in Citicorp while Citi Holdings has continued to shrink. Our net interest margin was 286 basis points this quarter, lower than our previous outlook of around 290 basis points as the benefit from Costco and other loan growth was offset by lower trading NIM and higher than anticipated cash balances during the quarter as we supported client activity. Looking to the fourth quarter, we expect NIM to remain relatively flat to this level.

On slide 14, we show our key capital metrics. During the quarter, our CET1 capital ratio increased to 12.6%. Our supplementary leverage ratio was 7.4%. And our tangible book value per share grew by 8% year-over-year to $64.71, in part driven by a 4% reduction in our shares outstanding.

Before I turn it over to questions, let me make a few comments on our outlook for the fourth quarter. In Consumer, we expect to continue to generate year-over-year revenue growth in constant dollars across North America, Asia and Latin America, although sequentially, mortgage activity could be seasonally slower versus the third quarter.

In the Institutional franchise, we expect markets to reflect a normal seasonal decline from the third quarter, but revenues still should improve year-over-year. And Investment Banking revenue should be broadly stable sequentially, assuming that market conditions remain favorable. In Corporate/Other, revenues should continue to run close to zero.

Turning to expenses, we expect core expenses in Citicorp to be down modestly from the third quarter, reflecting the absence of certain episodic costs, lower compensation expense and other efficiency savings, partially offset by seasonally higher marketing expenses and ongoing investment spend. And cost of credit in Citicorp should be higher than the third quarter, assuming that credit costs in ICG normalize versus the benefit we saw this quarter.

In Consumer, the LLR build should be lower in the fourth quarter. However, we also expect NCLs to be higher as the Costco portfolio begins to incur losses and we continue to see the impact of volume growth. Finally, we expect Citi Holdings to operate around breakeven.

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

QUESTION AND ANSWER

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

GLENN SCHORR: Hi. Thanks very much. First and foremost, a big-picture question. I think you showed a lot of progress in turning around growth in both International Consumer and Cards, keeping expenses flat, credits fine, shrinking the share count, all the good stuff. So when I look at slide 19, I want help in your words interpreting it. At Citigroup, the return on tangible is not where you want it to be, not earning the cost of capital. Excluding the disallowed DTA, it's a lot closer at 9.2%. When you look at GCB and ICG, they're even better. So I guess I'm curious on how you evaluate where profitability is and where it should be. Not sure you're ready to roll out goals for next year yet, but just any guidance there would be great.

JOHN GERSPACH: So, I mean, Glenn, it's a perfectly fair question. What you see in Corp/Other – I think we laid this out in some of the slides we used at the Financial Services conference early in September. We recognize that we've got a lot of capital sitting there in Corp/Other. Some of it is capital we're holding above what we would say is our target capital. And again, we're waiting to see where the whole CCAR process and the various rules as far as Basel III enhanced or Basel IV come out. But we recognize we've got capital there and that's also where you got the DTA capital that we back out at the bottom.

So there is improvement clearly that we intend to drive in GCB. We still have the target there of 20%. ICG is closer to where we had set the longer-term goal of 14% and we still have a ways to go in getting that 9.2% up to that overall target of 14% that we set out. A good piece of that will come from continued business growth and continued expense efficiencies. A small bit will come as we continue to wind down Holdings. And the rest of it will come as we continue to increase the amount of capital that we're able to return to our shareholders.

GLENN SCHORR: Fair enough. Two small ones to follow up. Specifically, on the loan hedges in ICG, are they always going to be offsetting the positives? In other words, is that how the hedges will work and we'll just have to deal with a negative line when things are going well? And then on securitized products that were up 40%, what specific products are there? And does it feel sustainable for now, in your opinion?

JOHN GERSPACH: Let me tackle the first question as far as – what was the first question? I'm only kidding, Glen. Sorry. I think that what we've seen in the last two years, but really in the third quarter of each of the years, it's an outsized movement in credit spreads. And that's really been reflecting in those loan hedges. They're – the results that we're getting on those loan hedges, the large gain in last third quarter and the heavier losses now that we've taken in the second quarter and the third quarter, I think that's more reflective of a wider spread – a larger spread movement than this is the way it's always going to be. Because we've had these hedges, these types of hedges on in the past and you haven't seen – you've seen some variability, but the volatility that we've seen in each of the last two years I just think is a bit outsized. So I don't think – and I can't tell you when it's going to stop, but that's not something that I think that's going to be carried with us into the future.

MIKE CORBAT: And, Glenn, on the spread products side of things, I think what you've seen here is the year's progressed and we've moved more towards a more likely shift towards higher rates. I think you've seen a relatively strong calendar on the debt issuance side which always helps fuel secondary activity. And I think people now focusing on positioning or repositioning their credit portfolios for an environment in the U.S. of higher rates. So again, we've beaten spread products down to some pretty low volumes and some pretty low numbers. So it's our expectation that, again, around a backdrop of a path towards slowly increasing rates and repositionings of portfolios, volumes continue to work their way back up. We don't see any big spike back up, but we expect it to continue to work its way back up.

GLENN SCHORR: All right. Thanks very much for that.

JOHN GERSPACH: Thanks, Glenn.

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

JOHN MCDONALD: Hi. Good morning. A bigger picture question on Cards, guys. It's nice to see the traction on the card metrics from the investments in terms of account growth; loans and revenues look like they're picking up now. But as you said, you've also got this upfront investment and provisioning that you're doing. I guess, bigger picture, where are you in terms of this investment cycle in Cards? And where do you see maybe an inflection point where the profits, net profits begin growing and ROA gets closer to that targeted range that you have?

JOHN GERSPACH: That's a fair question, John. So we mentioned the fact that now we're beginning to lap some of the investment activity we've had to grow the organic portfolio. When we brought on Costco, we said that just given the purchase accounting, Costco will not be really accretive to our earnings until sometime in the latter part of 2017. It's going take at least a full year to really get there before it gets accretive just because of the way the loan loss reserve mechanics come. So I'd say that we're at a point now in Cards, it may stabilize. It may be, from a return point of view, be slightly down again in 2017. But then I would expect it to begin to tick up. I can't give you the exact timing, John, but it's sometime either in late 2017 or certainly in 2018. And then throughout 2019, we should see a steady drive towards increased profitability coming out of the Cards business.

MIKE CORBAT: And, John, if you look at the three, in essence, things that we've been working against. John mentioned overcoming some of the regulatory headwinds that were there. We've also talked about having a number of – or really all of our important re-negotiations behind us, and so that's now done. And the third piece is that we've got our products in place. We've got our cashback in place. We've got our Global Rewards Program in place. And we've built and put those out there and now it's really supporting and driving growth and a lot of what you've seen us now turning toward is the increase in terms of marketing and really trying to drive volume towards and client acquisition towards those cards. And that's probably the spending that you continue to see from this point forward.

JOHN MCDONALD: Okay. Thank you. And then just as a follow up, a separate question on CCAR. Just wanted to get your thoughts on the recent proposed tweaks in CCAR. As you've discussed, John, unlocking the value trapped by DTA requires you to eventually start returning more capital than you're generating. Do you have any increased clarity or confidence after CCAR last year and then the tweaks proposed this year that you can accelerate payouts to a level of net reduction in the next year or two?

JOHN GERSPACH: So, John, I'd say that everything that you saw come out from Governor Tarullo's speech, there's nothing in that speech that is inconsistent with what we want to drive towards. So we don't see any reason to think that we can't eventually get there. I think that the question is, is timing. As we've said, that's something that we'll consider each year as we go through our CCAR process. You've seen us have significant increases in that capital return over the last two cycles. And that's our goal is to continue to increase that capital return, as I think Mike said in his opening remarks.

JOHN MCDONALD: Okay. But in terms of the timing, there's still some uncertainty in terms of what kind of pace that we could expect over the next year or two?

JOHN GERSPACH: Yeah, I think you have to be somewhat cautious in that. We haven't seen – we heard the speech and the tweaks, clearly what Governor Tarullo laid out in that speech I would say are manageable. There's an NPR that is going be published early next year. I'd like to read that NPR before I made any comments. And I certainly would like to see what scenario we're going to be looking at in next year's CCAR test. So there's a few things that I think Mike and I would like to be able to work our way through before we gave you a specific answer on that question.

JOHN MCDONALD: Okay. Fair enough. Thank you.

JOHN GERSPACH: Okay.

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

JIM MITCHELL: Hey. Good morning, guys.

JOHN GERSPACH: Hi, Jim.

JIM MITCHELL: Hi. Maybe on the Card business, you guys, I think, had 5% quarter-over-quarter growth in period-end balances, so obviously still very good momentum. Can you help us think about was that a big flurry upfront and it's starting to slow or are you seeing that momentum continue? How do we think about the next quarter or two in terms of the pace of new sign-ups?

JOHN GERSPACH: Well, when you take a look – don't forget, there was a lot of pent-up demand in Costco as far as for new account acquisition and clearly, with Costco not issuing cards for six months or seven months, we certainly captured that. I have to admit, we've been favorably, nicely surprised by the way that the Costco portfolio has grown. We bought that – when we took that portfolio on, it was – it came on our books at $10.6 billion. When we reported second quarter, in the first 10 days, it had grown to $11.3 billion. And now it's looking at something in excess of $14 billion. So we've benefited from very strong growth in the Costco portfolio. I don't think that I'd want to say that we can expect to have that type of sequential growth out into the future, but we'd still expect that portfolio to yield very good results. As Mike and I have both said, the portfolio performance so far, the relationship with Costco, the overall relationship is just exceeding our expectations.

JIM MITCHELL: So would you say that in terms of the long-term accretion, obviously the next few quarters, you won't see it, but long-term, has it increased your expectation around accretion?

JOHN GERSPACH: I'd say that it gives us greater confidence in pointing towards that ROA target of 225-plus basis points.

JIM MITCHELL: Okay. Fair. And then one last question on expenses. You gave guidance for next quarter, but as we think about next year, all the puts and takes of sort of the investment spending in Mexico, continued investment spend in Retail and Cards. How do we think about overall, can you still kind of get efficiency savings to fund a lot of that and keep expenses reasonably flat or how do we think about that?

JOHN GERSPACH: Well, I don't want to commit to flat expenses yet for 2017. We're going through our budget process now. I think we'll have a little bit more to say about 2017 guidance when we report fourth quarter earnings. But again, we're not looking at a large-scale investment program going into next year. But there are investments that we want to make and we think that they're important. But we're not going to surprise you with some incredible amount of operating expense growth. But I'm not willing to commit to flat operating expenses at this point in time.

JIM MITCHELL: That's fair. But do you think on the repositioning and restructuring charges, legal charges, I think we're at 500 basis points year-to-date. You guys have been targeting 200 basis points. Do we start to see some of at least the repositioning stuff come down?

JOHN GERSPACH: I don't think – I'm surprised that we're at – that's not a number that I have in my head.

JIM MITCHELL: Maybe I'm doing the math wrong, but I thought that's what I calculated.

JOHN GERSPACH: Yeah, I don't think so. It's in the high – it's in the higher 200 basis points at this point in time. And what we said was that we thought that we'd be at somewhere around 200 basis points, which is kind of where we were last year. This year, given the first quarter revenues, where they were, it's likely to be a little bit higher, maybe 225 basis points. Again, I don't want to say that we're going to stay in that 200 basis points to 225 basis points range next year, but I certainly don't see it growing to 500 basis points, Jim, no.

JIM MITCHELL: Great. I think I was doing it as a percentage of expenses. My apologies.

JOHN GERSPACH: That's okay. That's okay.

JIM MITCHELL: Okay. Thanks.

JOHN GERSPACH: All right.

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

STEVEN CHUBAK: Hi. Good afternoon.

JOHN GERSPACH: Hi, Steven.

STEVEN CHUBAK: So, John, on the media call, you had indicated that the Equities business could increase its ranking to number five or number six globally, which from what I can gather implies about $3.5 billion to $4 billion of revenues versus the current run rate of about $2.8 billion. And I was hoping you could speak to how you plan on closing the gap. Does it require additional investments from here as we think about the expense outlook going forward? Or can you close the gap with the current personnel and resources that you have in place right now?

MIKE CORBAT: Steven, its Mike. The numbers I would say is we look at where we are, which is in an eight, nine position going, as John described, to five, six. It varies a bit by quarter and will vary a bit based on some of the volumes, worth about $250 million of revenue per quarter. So theoretically, about $1 billion of revenue a year. We feel that the investments that we've talked about in the Equities business are largely done and primarily focused on really two key areas. One is investment in terms of technology which is critical certainly to the future of the Equities business and second is coming out of a resizing, rescaling that we'd gone through in our Equities business of making sure we got the right people in the right positions and being out there and getting talent both internally and externally into the right seats and I would describe that as largely done.

So really from here, it's up to us and up to our team to execute, I would say. And I don't put this out there as an excuse, but I think it is a reality that in a very challenged volume market, it's tough to take share. So we're getting the right signals in terms of some of the early KPIs around broker votes, around some of the feedback of some of the services that come back and tell your ranking. We just haven't seen that yet translating or manifesting itself into significant changes.

But I think you saw us a while back say we were going to do this in the Investment Bank and we've made improvements there. We said we were going to do this in the Private Bank and we've made improvements there. And so this is one of those things we're going to hold ourselves to our commitment to deliver. Our people are certainly committed around that. And obviously, in this kind of environment, just take a little bit of time.

STEVEN CHUBAK: Thanks, Mike. I really do appreciate all the color there. And switching gears for a moment, just moving onto the capital side. I recognize some reluctance to speak about a proposal that is not yet official. But based on some of the guidance that had been given with this new SCB calculation, I was hoping you could clarify based on the latest of the CCAR results where you think that minimum ultimately shakes out. And then given the volatility in CCAR results year to year, how you're thinking about the additional cushion you might want to maintain above any designated minimum?

JOHN GERSPACH: Steven, I think that most of the analysts that publish kind of captured where the SCB would turn out for us. I think most of the estimates coalesced around an SCB of 270 basis points against a CCB of 250 basis points. And that's pretty much where we would put the number as well. We have not yet begun to really contemplate exactly how much cushion we need around that because again, we haven't seen the final NPR, so it's a little hard to talk about cushion against a speech. I'd just as soon see the rules before we actually get into public discussion about whether or not we need cushion. We also need to – if this is the way it's going to be, you need then to also reassess just how variable those results are. So we'll look at all of those things. As I said, our initial view, based upon Governor's Tarullo's speech, is that the proposal that he put forward seems to be manageable from our perspective.

STEVEN CHUBAK: All right. Thanks, John. And then just one more quick one for me on looking at the capital denominators. It looks like your leverage exposure actually increased quarter on quarter even as assets and RWAs were flat. And given the strength in your SLR ratios – and I know you've spoken to this in the past, where you're well above designated minimums and some of your European competitors might be more constrained. Are you seeing opportunities to deploy some of that additional balance sheet towards SLR-intensive opportunities maybe on the derivative side specifically?

JOHN GERSPACH: Yeah, I wouldn't say it's focused so much on the derivative side, but obviously, we put some of our balance sheet capacity to work in areas like prime brokerage, just to build it right back into your initial question as far as Equities, we're clearly putting more balance sheet to work there. And in this quarter, we had a little bit more I think increase in some of the off-balance sheet things. A few more commitments, et cetera, et cetera, but nothing staggering. And again at 7.4%, I think the word robust might even be an understatement.

STEVEN CHUBAK: I would agree, John. Well, thank you for taking my questions. Appreciate it.

JOHN GERSPACH: Not a problem, Steven.

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

MIKE MAYO: Hi.

JOHN GERSPACH: Hi, Mike.

MIKE MAYO: I have two questions that relate to the tradeoff between results today and results in the future. And the first relates to operating leverage, which this year is negative 400 basis points according to your slide three. That would be for both Citigroup and Citicorp. On the other hand, the linked-quarter progress is decent. So I'm trying to figure out how you managed that tradeoff between maybe a little less investment spend today for better earnings versus you wanted to protect the future. And I think what I heard you say is you're in the late innings for the card investments, but in the early innings for additional Mexican investments.

JOHN GERSPACH: Yeah, Mike. That is clearly a tradeoff that we're constantly balancing. And we said going into the year that this year, because of the cards investment and the fact that the cards investments impact us both on a revenue as well as expense line, it was going be particularly challenging this year from an operating leverage point of view.

We're now seeing the momentum come through and again, we believe that we're going to continue to be able to show that momentum in the Cards business. We've got the positive operating leverage now in our Asia Consumer business and our Mexico Consumer business. And even though in – certainly in Mexico, this is two quarters in a row now of positive operating leverage. We've said that we intend to have positive operating leverage in Mexico in the fourth quarter.

And then on a going-forward basis, the way we're looking at it right now, even with the investment spend that we want to do, we do believe that we'll be able to generate positive operating leverage in our Mexico Consumer business in the next couple of years. Now I can only say that on an annual basis. I don't think anybody commit to quarterly operating leverage. There's always one or two things that happen. But our target next year is to produce positive operating leverage for the full year in Mexico.

MIKE CORBAT: And Mike, on each of those, I would add to what John said. We talked about it in Cards. We haven't necessarily talked about it the same way in Mexico, but it holds true, that a lot of the Cards spend we needed to do was catch-up, that we were in a position or weren't in a position through the crisis to be making those investments that we probably wanted to and need to, to be competitive in the U.S. And you've seen us do that. And I would say the same largely holds true for Mexico. If you look at some of our Mexican competitors, whether they're Mexican-owned or owned by other national banks, nationalistic banks, I would argue that we've underinvested in that franchise and some of this is really catch-up. And to the latter part of your question or statement, I don't think we're necessarily forecasting that there's a lot more that we need to do from here. We think that the $1 billion over the next four years primarily focused on technology, branches, ATMs, puts us back in a competitive position.

MIKE MAYO: So do you think that Citigroup will show positive operating leverage in 2017?

JOHN GERSPACH: Mike, let us work through the budget and then we'll talk to you when we announce fourth quarter earnings.

MIKE MAYO: And then the second question relating to the tradeoff between today and the future, I know you don't like having a 7.8% RoTCE or 9.2% as you show on slide 19, but what about accelerating the realization of some of those disallowed DTAs by selling appreciated assets such as Mexico? One choice is to invest in Mexico. Another choice is to sell Mexico, get the gain, redeploy the proceeds in a buyback, get the certain benefit today as opposed to less certain benefit down the road.

MIKE CORBAT: I think you framed it well in terms of today versus the future and we remain consistently constructive in terms of Mexico at the broad level as well as our franchise in Mexico. And in a world certainly from my opinion that, where growth, top-line growth is going to remain tough, positions like that are to be treated well. And so we look at the intermediate to longer term prospects of our earnings and capital generation capacity or capability in Mexico as being very accretive to our shareholders. And as you've seen, we've got plenty of opportunity through our earnings and through the other things we're doing, DTA and other, to generate significant amounts of capital and to continue to address the denominator problem that we have in terms of continuing to take share count out.

MIKE MAYO: All right. Thank you.

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

KEN USDIN: Thanks. Good morning.

JOHN GERSPACH: Hi, Ken.

KEN USDIN: I was wondering – good morning. Thanks. I was wondering if you could just walk us through a little bit of just your underlying outlook for credit outside of the comments you've made about the card normalization and just the ratios that are going to move upward as the books start to season. Can you just give us some color, just maybe North America versus rest of the world? Any signals whatsoever of credit normalization? Any pockets of weakness? You did mention some GDP strengthening in a couple of specific markets. But just how does credit feel to you as you look forward?

JOHN GERSPACH: Right now, credit feels pretty good, I have to admit. We don't see – again, we think that rates might inch up a little bit next year, but again, we're not seeing anything that would suggest some change in the cycle at this point in time. Part of that is, again, we're focused on a very specific target client and so we don't exactly have this broad mass market approach in most of our businesses, which might insulate us a little bit. But at this point in time, with the underwriting practices we have in place, we feel really good about credit in North America, in Latin America, in Asia.

KEN USDIN: Okay. Great. And then just on the ICG side, as far as just the business growth, loans have been certainly growing. A couple peers are growing faster, but you have that non-U.S. business. So can you just talk about demand for credit and where you sit in terms of willingness to continue to push that directionally as well as you continue to grow Treasury and Trade and the other parts of ICG?

MIKE CORBAT: Yeah, I think the way, Ken, that you characterized it there is probably appropriate in that loan demand is reasonable. But, again, as we think about the extension of loans, we're facilitating a client relationship with the extension of that loan. And so, as our clients need to expand and grow around the world, we're there to support them. So as you look at a business model that supports largely Fortune 500, Fortune 5000 types of companies, and you look at global growth rates in the world, I think that the growth rates we're posting there make sense, and I think within the scheme of the environment, are prudent and reasonable. And I would expect to continue to see, all things considered, similar types of growth rates into next year. If you look at the world next year, growth rates globally coming up a bit with probably parts of the emerging markets rebounding better or faster than parts of the developed economies and I would expect loan growth to largely mimic that.

KEN USDIN: Okay. Got it. Thank you, Mike.

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

ERIKA NAJARIAN: Yes, just a follow-up from me. John, you mentioned in the last call that the restriction in terms of taking market share or the capital restriction that we should think about is the G-SIB surcharge. And in light of the continued market share opportunities and your efforts in the Equities business, is there natural RWA roll-off that can continue to fund balance sheet allocation, higher in ICG rather than taking it from something else that's revenue generating? I don't know if I quite articulated the question well.

JOHN GERSPACH: Well, the way I'm interpreting the question is, does our focus on managing to a 3% G-SIB surcharge, is that going to impact our ability to seize opportunities?

ERIKA NAJARIAN: Correct.

JOHN GERSPACH: Yeah, it may and quite frankly in some cases, if the only thing that you view as being growth is growing revenues, again, we're focused on improving our returns, returns on assets and specifically RoTCE. And so as we look about where we're going to employ capital or where we're looking at growth opportunities, we do that with a focus on improvement in each of those areas. And so far, we haven't seen anything that would indicate that we need to step outside that 3% G-SIB category right now in order to seize opportunities that are accretive to our ROA and our RoTCE. So maybe we've had to re-portion capital from something that produces lower ROA or lower RoTCE in order to move it into a higher ROA/RoTCE, but we think that's the right way to manage resources.

ERIKA NAJARIAN: Okay. Great. Just a follow-up. I just wanted to make sure I understood your response to John's question correctly when he was asking about Card. Just taking a step back, as we think about operating leverage in the North American Consumer Bank overall, should we interpret your answer as operating leverage is likely going to be more achievable in 2018 given the investment cycle. Positive operating leverage?

JOHN GERSPACH: Yeah, and I'm trying to avoid getting specific in years and everything else. We're working through a lot of that right now. But in very broad terms, yes, it will be more likely to be in 2018 than it will be in 2017 just given everything else. But again I'm not able to give specifics on any year at this point.

ERIKA NAJARIAN: Okay. Thank you.

JOHN GERSPACH: No problem, Erika.

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

BETSY GRASECK: Hi. Good morning.

JOHN GERSPACH: Hi. Good morning.

BETSY GRASECK: Hey. Just a couple questions. One is, just to follow up a little built on investment spend in Mexico. I heard you indicate the branches and ATMs, et cetera, is that getting it up to speed with what you've been doing globally or is there something else in there that's moving it forward? Is that going to be at the cutting edge of what you're doing globally? Maybe you could speak to also how you're tying together the network between the U.S. and Mexico as well.

MIKE CORBAT: Sure. So if you look at our footprint in Mexico, we've got about 1,500 branches in Mexico today. And I'd say a lot of that investment spend, if you went down there and looked, Betsy, is getting these branches up to where they should be from an appearance, from a technology perspective.

The other piece is today, we've got about 7,500 ATMs in Mexico. We want to do two things. We not only want to move towards smart ATMs as Mexico and Mexico banking moved more towards digital, we also want to increase the number of ATMs. And what we've talked about is going from 7,500 to 10,000. And at the same time, going through the earlier part of your question, you'll see us continuing to employ our strategy around branch optimization. And the introduction of smart branches gives us that flexibility that you've seen us using in Asia, in the U.S. and other parts of the world around that and so it's a kind of a combination of those. And the other piece we talked about is the technology piece and that technology piece really serves our ability to continue to bring the platforms of the historic Citi together with Banamex, now Citibanamex and trying to make sure we're offering the best of each to each.

BETSY GRASECK: And that's within Mexico, the Citibanamex – and the Citi piece in Mexico and the Banamex piece in Mexico coming together. Not Citi U.S. linked up with Mexico Banamex.

MIKE CORBAT: No.

BETSY GRASECK: Okay. And then Mexico's had real-time banking for a while and I know that here in the U.S., we're beginning to launch that. And I know there was a press release I saw that you were going to be joining clearXchange. So maybe you could speak a little bit to what your goals are there for real-time banking. And is there anything on money transfer in general between the two countries as well?

MIKE CORBAT: Well, starting at one is, I don't have the statistic in front of me. But when you look at branch transactions in Mexico and the way our customers like to bank, they're very, for lack of better term, branch-dependent or they really favor coming into the branches. And so the move towards digital is occurring certainly slower than the U.S. or parts of Asia. But we want to make sure we're there on the forefront in terms of having that technology in place and having the ability to convert as people care to do that. And we think that will continue to happen over time, although for right now, it feels like it's certainly occurring at a slower pace than the rest of the world.

BETSY GRASECK: Okay. And then just on – is there anything there with money transfer between the two countries? Or not really?

MIKE CORBAT: Well, of course there's money transfer between the two countries. I don't know of anything in clearX that necessarily promotes that and obviously around money management across that border, you've got to be smart about knowing your customer and your systems you have in place around KYC/AML. And clearly, we continue to make investments on that front. And as part of not just Mexico, but who we are, we are a large mover of money around the world and certainly Mexico's one of those places where it's the same.

BETSY GRASECK: Okay. I appreciate that. Thanks.

JOHN GERSPACH: Thanks, Betsy.

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

MATT O'CONNOR: I'm actually all set. Thank you.

MIKE CORBAT: Thank you, Matt.

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

MATT BURNELL: Thanks for taking my call. Just a couple of quickies perhaps. John, how are you all thinking about the potential for capital markets disruption from the beginning of the Brexit negotiations? There's been a lot of commentary about potential costs but, I guess, I'm just curious on the revenue side how you're thinking about how that might play out over the next couple of quarters.

MIKE CORBAT: Matt, its Mike. We don't have a lot of answers right now. And as the Prime Minister came out, I guess, it was last week or a week-and-a-half ago, Article 50 won't be invoked until March of next year. That then starts the clock on a two-year window and I think it's our own belief, based on a series of elections in Europe, the combination of France and Germany, that information is probably going be more backend loaded than frontend loaded. And so what we've been working for is making sure, as that information comes out, we're in a position to continue to service our clients really no matter what.

And when you think about our franchise, we not only have a sizable franchise in the UK, we also operate in 20 of the 27 EU countries. So we've got flexibility. We've got our passport bank already established in Ireland. We've got the pipes connected to certainly the larger countries within the EU. So we've got flexibility around that. And what we've said and in the meetings that I've had with both UK and other European officials, we're going to watch and see this unfold, but our primary goal here is to make sure that, in an undisrupted way, we can continue to serve our clients. And we think our structure today gives us time and flexibility, and when the time is right, we'll make the decision of ultimately what we're going to do, what we'd like to be benefited of as much information as possible before we make that decision and we just don't have it today.

MATT BURNELL: Okay. That's helpful. Thank you. John, just a question on the Card business and the investments you're making there. There have obviously been a couple of new products that have been either introduced or revamped in the U.S. market over the last quarter or so. I guess, I'm curious how you're thinking about the competitive landscape and does that potentially put some greater pressure on you to increase investment relative to rewards in the Card space? And does that have an effect on potential returns on that business over the next couple of years?

JOHN GERSPACH: Yeah, the Cards business has always been competitive. So, people introducing new products is nothing new. One of the new products that got introduced appears to be an attempt to answer our Prestige product, which has been out there now for maybe five years or so. And we still think that the Prestige Card that we have is an immensely strong offering and should withstand the test. So we don't see anything there in some of these new introductions that would cause us to change our view as to where we can drive the Cards business over time.

MATT BURNELL: Okay. And then just finally for me, in terms of the net interest margin, you expect that to be stable in the fourth quarter. Last quarter, you had anticipated that Costco might have a modest benefit to the margin. Where's the change in the outlook there? Is it just cash balances or is it something else?

JOHN GERSPACH: Yeah, you hit it. You hit it. The second quarter NIM, you remember, was 286 basis points.

MATT BURNELL: Right.

JOHN GERSPACH: And the guidance we put out suggested that we thought third quarter NIM could grow to 290 basis points. And as we said, embedded in this assumption was that we'd get about a 3 basis point lift from Costco and we thought an additional 3 basis point improvement by normalizing average cash balances. But we knew that we had a 2 basis point drag coming from the increase at a higher FDIC assessment that all the large banks got. So that's sort of how we got to the 290 basis points.

So then you ask, okay, so what actually happened? Well, we got the 3 basis points from Costco. As a matter of fact, our loan book actually contributed a 4 basis point improvement to NIM. We got the additional FDIC assessment, so that did cost us 2 basis points. But as we mentioned in some of our commentary, we took on additional deposits to support client activity and, therefore, we just didn't get the improvement that we were seeking from lowering the average cash or HQLA. And then finally, we had a 2 basis point hit by lower NIM on our trading book. And the trading book NIM is always difficult to forecast. So 4 basis points up on loans, 2 basis points down on trading, 2 basis points down from FDIC, flat.

MATT BURNELL: Okay. Thank you.

JOHN GERSPACH: Quite all right.

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

BRIAN KLEINHANZL: Hi. Good afternoon.

JOHN GERSPACH: Hi.

BRIAN KLEINHANZL: I have a quick question on the Costco you mentioned, the new account openings. But could you give us some color on the progression of those new account openings? Like, are you at a run rate right now where you can say this is about on average what we're opening per week or per month?

JOHN GERSPACH: No, I think we're still in the early days of this. Obviously, as I mentioned a little bit earlier, Costco had not been able to issue cards for seven months or so. So, there's been a large pent-up demand for these cards. So I certainly wouldn't want to put the first 3.5 months in generating 800,000 new accounts as a new run rate. But it still is generating new accounts at a faster rate than we thought it was going to. And just like with everything else with the Costco portfolio, I think we'll know more and have be able to give you a better sense as to sustained run rates of growth, et cetera, over the course of the next two to three quarters.

It's a quarter-and-a-half since – not even a quarter, it's four months today just about since we took over the book. And it takes a while to get into the normal rhythm so you can actually have an understanding as to the way the portfolio is going to operate. And as we develop that level of comfort and understanding, we'll be happy to provide you with more color.

BRIAN KLEINHANZL: Okay. And then I just had one – a different question on the – you mentioned that there was an improvement in the yield in Asia. Can you maybe give us some background on to what's allowing you to have or see that improved yield? Is it a change in geographies? Is it just new loans coming on at higher yields?

JOHN GERSPACH: Well, again, we've been in the process of repositioning the Cards portfolio in Asia. We've got a lower amount of promotional balances now, so that's enabled us to – some of that is because the promotional balances have run off. But a lot of that is because those promotional balances now have converted into full rate loans. And that is really, I'd say, the lion's share of the yield improvement that we're seeing in that portfolio.

BRIAN KLEINHANZL: Can you give what percentage is promotional of the remaining balance?

JOHN GERSPACH: No. I can't go that deep right now. I'm sorry.

BRIAN KLEINHANZL: Okay. Thanks.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question comes from the line of Marty Mosby with Vining Sparks. Please go ahead.

JOHN GERSPACH: Hi, Marty.

MARTY MOSBY: Hi. I was checking in on the DTA. It didn't seem like we got much of a pull down in that this quarter and just was curious why not?

JOHN GERSPACH: Yeah. The underlying businesses used about $300 million of DTA. And then given the movement in OCI, as we saw a little bit of the impact of slightly higher rates and, equally as important, the strengthening of the dollar against certain key currencies, that essentially wiped out the improvement that we got in DTA from the earnings. But, again, I think on a year-to-date basis, we're doing okay and we're in line with where we said we're going be. And, don't forget, when it comes to utilizing the DTA, for us, it's really being focused on utilizing the FTCs and we remain on track to utilizing substantial portion of FTCs this year.

MARTY MOSBY: CET1 kind of growth in the ratio, if you kind of roll back 18 months, you were increasing about 30 basis points per quarter. Last year, it was really down to about 20 basis points per quarter. And then this quarter, with the accelerated repurchase, you're down to about 10 basis points per quarter. Is that just kind of a normal progression? And if you think about that, you round out at around 13% and then you start to kind of stabilize. Is that kind of maybe just a top looking down kind of approach of how you see yourself landing in that ratio?

JOHN GERSPACH: Yeah, I'd say, Marty, that what you're seeing is exactly what we want to achieve over time, which is to be able to return the capital that we're generating to our shareholders. And so, over time, we'd like to be able to continue to see that, again, that CET1 ratio either stay where it is or perhaps as we get more insight into some of the CCAR rules and some of the scenarios, even have a somewhat lower CET1 ratio. I think that's consistent with our view towards increasing the amount of capital return.

MARTY MOSBY: And then just lastly, a real quick question on the loan loss build, loan loss reserve build in the Consumer Bank. You allocate most of that to Costco and to the regulatory guideline change. Could you give us a more specific number just for that? Because that really is kind of a setup in a sense of a change or an unusual build that wouldn't recur as you move forward.

JOHN GERSPACH: Yeah. I'd say we try to break that $450 million build in Cards out into thirds. One third was Costco, another third was seasoning and volume growth, and then that last third was predominantly due to the impact of those regulatory guidelines. So, it's something less than the $150 million of the other third. If you want to think of that as being something in the $120 million, $110 million range, I'm not going to argue with you.

MARTY MOSBY: Got you. All right. Thanks.

JOHN GERSPACH: Okay.

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

GERARD CASSIDY: Thank you. Good afternoon, guys.

JOHN GERSPACH: Hi, Gerard.

GERARD CASSIDY: Can you guys share with us – clearly the oil markets have stabilized dramatically from the first quarter. Are you guys seeing any opportunities to grow the energy business at this point or how do you feel about your energy business understanding that the credit has stabilized and is starting to improve in many areas?

MIKE CORBAT: Gerard, I'd say that, yes, we do see some opportunities. Clearly, as oil has stabilized and stabilized somewhere around the $50 area, we've seen the combination of M&A conversations, the combination of financing, refinancing conversations, and overall activity. And people starting to engage coming back. Again, as we've described, our customer, our client base will remain consistent, too. We are largely a multinational global type client energy player throughout the vertical, and we're going to remain consistent to that. We think there's some opportunity in for us. If you go back and you look historically, we've had a strong energy franchise.

GERARD CASSIDY: Great. And then on to deposits. You guys saw some very good deposit growth in the ICG business in the quarter on a sequential basis. Did the change in the money market mutual funds had any impact on that growth?

JOHN GERSPACH: Not that we can see.

GERARD CASSIDY: Okay. And then finally, John, you pointed out that the trading markets, of course, are seasonal in the fourth quarter. Last year I think for you folks, it was down about just under 20%. The year before that, those numbers declined 30% sequentially. Do you have any sense on what this year is shaping up? We recognize they will be down, but any magnitude?

JOHN GERSPACH: No. I think if you look historically, you run the last two years, you'd be looking at something in the low 20% range as being kind of the norm. As to whether or not this year we're going to get that type of reduction, I don't know. But December usually is a pretty light month and there's certainly nothing to indicate right now that that's going to change. So, I still would think that you need to expect some seasonal reduction in fourth quarter trading revenues.

GERARD CASSIDY: Great. Appreciate the help. Thank you.

JOHN GERSPACH: No problem.

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

MIKE MAYO: Hi. I was just look for a clarification. You had mentioned there wouldn't be positive operating leverage until 2018, but I think you were referring to a specific area as opposed to the firm.

JOHN GERSPACH: Mike, that's exactly right. The question had to do with North America consumer and whether or not it was more likely that we'd have positive operating leverage in 2018 versus 2017.

MIKE MAYO: Got it. Thank you, yeah.

JOHN GERSPACH: Okay.

MIKE MAYO: That clears it up. Thank you.

JOHN GERSPACH: Okay. All right. No problem.

OPERATOR: Thank you. We have no further questions in the queue at this time.

SUSAN KENDALL: Great. Thank you all for joining us today. I know it's been a busy morning. If you have any follow-up questions, please feel free to reach out to Investor Relations. Thank you.

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