TRANSCRIPT

Citi Third Quarter 2017 Earnings Review
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Host
Susan Kendall, Head of Investor Relations

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

PRESENTATION

OPERATOR: Hello and welcome to Citi's third quarter 2017 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, Jamie. Good morning, and thank you all for joining us. On our call today, our CEO Mike Corbat will speak first. Then John Gerspach, our CFO, will take you through the earnings presentation, which is available for download on our website, citigroup.com. Afterwards, we will be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results 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 2016 Form 10-K.

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

MIKE CORBAT: Thank you, Susan. Good morning, everyone. Earlier today, we reported earnings of $4.1 billion for the third quarter of 2017, or $1.42 per share, including the impact of the sale of a fixed income analytics business. We delivered a very strong quarter, showing the balance of our franchise by both product and geography and highlighting our multiple engines of client-led growth. We have revenue increases in many of the product areas we've been investing in, tightly managed our expenses, and again, saw loan and deposit growth in both our Consumer and Institutional businesses.

We've made progress towards the targets we discussed on Investor Day. In terms of ROTCE, 9.8% ex-DTA year to date, an efficiency ratio of 57% year to date, and we also returned over $6 billion of capital to our shareholders this quarter.

Turning to our businesses. In Global Consumer Banking, we generated revenue growth and positive operating leverage in all three regions: Asia, Latin America and North America. In the U.S., Retail Banking and Retail Services, both had growth. And while we didn't see the year-over-year revenue growth we'd anticipated in Branded Cards, we did show good sequential growth at 5% driven by growth in full rate balances and strong client engagement.

Our Institutional Clients Group again delivered excellent results and continued to gain wallet share as a result of our efforts to deepen our relationships with our target clients. Treasury and Trade Solutions grew 8% and we saw double-digit growth across Investment Banking, the Private Bank, Corporate Lending and Securities Services. While total trading revenues were down by 11%, trading activity was better than we had anticipated earlier in the quarter and equities was up 16%.

You can also see the impact of our $19 billion capital plan during the quarter. We generated $4.7 billion o regulatory capital during the quarter, driven by earnings and DTA utilization, and we returned $6.4 billion of capital to our shareholders, enabling us to begin to reduce the amount of capital we hold. Year-to-date payout is nearly 100%.

Including the impact of repurchasing over 80 million shares during the quarter, we reduced our common shares outstanding by over $200 million, or 7%, over the past year. We reduced our Common Equity Tier 1 capital ratio to 13%, still 150 basis points above the 11.5% we believe we need to prudently operate the firm. Given the amount of stock repurchasing power in our capital plan, we remain committed to reaching that level over time. Overall, we continue to make progress in increasing both the return on and return of capital for our investors.

The macro environment remains a largely positive one. Growth, while not as high as we would like, remains consistent and we don't see too many economies in distress. However, while geopolitical tensions don't seem to have weighed on growth at least as of yet, I don't know how long that can continue. And while tax reform remains a question mark, we do like the direction the administration is going in terms of regulation which we see as adjusting course to accommodate higher growth rather than a full scale regulatory repeal agenda.

With that, John will go through our presentation and then we'd be happy to answer your questions. John?

JOHN GERSPACH: Hey, thanks, Mike, and good morning, everyone.

Starting on slide 3, we show total Citigroup results. Net income of $4.1 billion in the third quarter grew 8% from last year, including a $580 million pre-tax gain on the sale of Yield Book, a fixed income analytics business, which benefited EPS by $0.13 per share. Excluding the gain, EPS of $1.29 grew by 4%, driven by a decline in our average diluted shares outstanding. Revenues of $18.2 billion grew 2% from the prior year, reflecting the gain on sale as well is 3% total growth in our Consumer and Institutional businesses, offset by lower revenues in Corporate/Other as we continued to wind down legacy assets.

Expenses declined 2% year-over-year as higher volume-related expenses and investments were more than offset by efficiency savings and the wind down of legacy assets. And cost of credit increased, mostly reflecting volume growth, seasoning, hurricane and earthquake related loan loss reserve builds and additional reserve builds in North America Cards, which I'll cover in more detail shortly. In total, we built $100 million of hurricane and earthquake related loan loss reserves across North America and Latin America GCB as well as the legacy portfolio in Corporate/Other.

Year to date, total revenues grew 3% year-over-year, including 7% total growth in our Consumer and Institutional businesses. Total expenses remained flat and net income grew 7%, driving a 13% increase in earnings per share, including the impact of share buybacks.

In constant dollars, Citigroup end of period loans grew 2% year-over-year to $653 billion as 4% growth in our core businesses was partially offset by the continued wind down of legacy assets in Corporate/Other. GCB and ICG loans grew by $26 billion in total with contribution from every region in Consumer as well as TTS, the Private Bank and traditional Corporate Lending.

Turning now to each business, slide 4 shows the results for North America Consumer Banking. Total revenues grew 1% year-over-year and 5% sequentially in the third quarter. Retail banking revenues of $1.4 billion grew 1% year-over-year. Mortgage revenues declined significantly, mostly reflecting lower origination activity. However, we more than offset this pressure with growth in the rest of our franchise. Excluding mortgage, retail banking revenues grew 12%, driven by continued growth in loans and assets under management as well as a benefit from higher interest rates. We're continuing to see positive results from the launch of our enhanced Citigold Wealth Management offering, driving growth in both household and balances with improving penetration of investment products.

Turning to Branded Cards. Revenues of $2.2 billion were down slightly from last year. Client engagement continues to be strong with average loans growing by 8% and purchase sales up 10% year-over-year. We generated year-over-year growth in full rate revolving balances in our core portfolios. However, non-core balances continued to run off as expected. And we faced continued headwinds from growth in transactor and promotional balances, which we are funding at a higher cost versus the last year, given the higher interest rate environment.

Full rate revolving balances, which had been flat since the beginning of the year, began to grow this quarter as new loan vintages matured and started to accrue interest. This drove 5% sequential growth in revenues this quarter. However, it was not sufficient to deliver year-over-year growth. Relative to our expectations going into 2017, we're seeing solid revenue growth in several products, including Costco and Double Cash. However, in aggregate, we are seeing slower than anticipated revenue growth in our proprietary business, mostly driven by a higher mix of promotional balances in our portfolio.

Finally, Retail Services revenues of $1.7 billion grew 2%, driven by higher average loans.

Total expenses for North America Consumer were $2.5 billion, down 5% from last year as higher volume-related expenses and investments were more than offset by efficiency savings.

Digital engagement remained strong with a 13% increase in total active digital users, including 22% growth among mobile users versus last year. We continue to drive transaction volumes to lower cost digital channels. For example, increasing e-Statement penetration and lowering call center volumes, while improving customer satisfaction.

Turning to credit, net credit losses grew by over $300 million year-over-year, reflecting the acquisition of the Costco portfolio, which did not incur losses in the third quarter of last year; some episodic charge-offs in the commercial portfolio, which were offset by related loan loss reserve releases this quarter; and overall portfolio growth and seasoning.

We also built $460 million of loan loss reserves with a roughly $500 million reserve build in Cards being partially offset by the reserve release in commercial banking. The reserve build in Cards was comprised of roughly $150 million for volume growth and normal seasoning in the portfolios, $50 million related to the estimated impact of the hurricanes and about $300 million to cover our forward-looking NCL expectations. About two thirds, or $200 million, of this amount related to Retail Services, where we could see the NCL rate increase from 470 basis points in 2017 to roughly 500 basis points the next year. And the remainder is attributable to Branded Cards where we expect the NCL rate of 285 basis points this year to rise by about 10 basis points in 2018.

On slide 5, we show results for International Consumer Banking in constant dollars. In total, revenues grew 5% and expenses were up 4% versus last year, driving a 6% increase in operating margin.

In Latin America, total Consumer revenues grew 4% year-over-year. This is somewhat slower than recent periods, driven in part by lower industry-wide deposit growth this quarter, which we expect to recover as we go into year-end. Card revenues grew slightly year-over-year on continued improvement in full rate revolving loan trends, and expenses also grew 4% in Latin America, reflecting ongoing investment spending and business growth, partially offset by efficiency savings.

Turning to Asia, consumer revenues grew 5% year-over-year, driven by improvement in wealth management and cards, partially offset by lower retail lending revenues. Higher card revenues reflected 6% growth in average loans and 7% growth in purchase sales versus last year. And while retail lending revenues declined versus last year, we saw sequential revenue growth again this quarter. Expenses in Asia grew 4% as volume growth and ongoing investment spending were partially offset by efficiency savings.

Total international credit costs grew 4% year-over-year, mostly reflecting volume growth and seasoning in Latin America.

Slide 6 shows our Global Consumer credit trends in more detail by region. Credit remained broadly favorable again this quarter. In North America, the sequential increase in the NCL rate reflects the commercial charge-offs I noted earlier, while the NCL rate declined in both card portfolios.

Turning now to the Institutional Clients Group on slide 7, revenues of $9.2 billion grew 9% from last year, reflecting the previously mentioned gain on sale as well as continued solid progress across the franchise.

Total banking revenues of $4.7 billion grew 11%. Treasury and Trade Solutions revenues of $2.1 billion were up 8%, reflecting higher volumes and improved deposit spreads. Growth in TTS was balanced across net interest and fee income, with fees up 9% on higher payment, clearing and commercial card volumes as well as higher trade fees. Investment Banking revenues of $1.2 billion were up 14% from last year, with wallet share gains across debt and equity underwriting and M&A. Private Bank revenues of $785 million grew 15% year-over-year, driven by growth in clients, loans, investment activity and deposits as well as improved spreads. And Corporate Lending revenues of $502 million were up 14%, reflecting lower hedging costs and improved loan sale activity. We continued to see strong engagement with our global subsidiary clients this quarter as they borrowed to support core business activities.

Total Markets & Securities Services revenues of $4.6 billion grew 3%, including the gain on sale. Fixed income revenues of $2.9 billion declined 16% on lower G10 rates and currencies revenues, given low volatility in the current quarter and the comparison to higher Brexit-related activity a year ago as well as lower activity in spread products. Our local markets rates and currencies business grew modestly, as we remained engaged with our corporate clients across our global network. Equities revenues were up 16% reflecting client-led growth across cash equities, derivatives and prime finance. And finally, in Securities Services, revenues were up 12%, driven by growth in client volumes across our custody business along with higher interest revenue.

Total operating expenses of $4.9 billion increased 5% year-over-year as investments and volume-related expenses were partially offset by efficiency savings. On a trailing 12-month basis, excluding the impact of severance and the gain on sale, our comp ratio remained at 26%.

On a year-to-date basis, ICG revenues of $28 billion grew by 10%, even while trading revenues remained flat to last year. We generated half of our revenues in banking, which grew 13% on continued momentum in TTS, Investment Banking, the Private Bank and Corporate Lending. And we're seeing strong growth in Securities Services as well, which we view is similar to TTS in many ways as the foundations for developing broader relationships with our investor clients.

Slide 8 shows the results for Corporate/Other. Revenues of $509 million declined significantly from last year, driven by legacy asset runoff, divestitures and the impact of hedging activities. Expenses were down 36%, reflecting the wind-down of legacy assets and lower legal expenses. And the pre-tax loss in Corporate/Other was roughly $260 million this quarter. We believe this level of $250 million to $300 million of pre-tax loss per quarter is a fair run rate to expect for Corporate/Other through 2018.

Slide 9 shows our net interest revenue and margin trends, split by core accrual revenue, trading-related revenue and the contribution from our legacy assets in Corporate/Other. As you can see, total net interest revenue declined slightly from last year to $11.4 billion, as growth in core accrual revenue was outpaced by the wind-down of legacy assets as well as lower trading-related net interest revenue.

Core accrual net interest revenue of $10.4 billion was up 5% or $450 million from last year, driven by the impact of higher rates and volume growth, partially offset by a higher level of long-term debt. On a sequential basis, core accrual revenue grew by nearly $350 million this quarter, reflecting day count, the impact of the June rate increase, loan growth and mix.

Year to date, core accrual revenue grew by $1.5 billion year-over-year, and we expect to see roughly $500 million of additional growth in the fourth quarter. However, on a full-year basis, we expect this increase to be offset by a roughly $900 million decline in the net interest revenue generated in the legacy wind-down portfolio in Corporate/Other.

On slide 10, we show our key capital metrics. In the third quarter, our CET1 capital ratio declined sequentially to 13%, as net income was more than offset by $6.4 billion of common share buybacks and dividends. Our supplementary leverage ratio was 7.1% and our tangible book value per share grew by 6% year-over-year to $68.55, driven by a 7% reduction in our shares outstanding.

As we look to the fourth quarter, in Consumer, we expect continued modest year-over-year revenue growth and positive operating leverage in both North America and International Consumer. In total, we have achieved sequential growth in pre-tax earnings in Global Consumer Banking for the last two quarters, and we expect this to continue in the fourth quarter.

On the Institutional side, we expect continued year-over-year revenue growth in our accrual businesses, including TTS, the Private Bank, Corporate Lending and Securities Services. Markets revenues will likely reflect a normal seasonal decline from the third quarter and Investment Banking revenues should be similar to this quarter, assuming a continued favorable environment.

We remain on track to achieve an efficiency ratio of 58% for the full year. And cost of credit in the fourth quarter should be broadly in line with the third quarter, driven by the normalization of credit costs in ICG, offset by lower reserve builds in Consumer. Finally, we expect our tax rate to remain at around 31% in the fourth quarter.

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

QUESTION AND ANSWER

OPERATOR: Our first question is from the line of Glenn Schorr with Evercore ISI.

GLENN SCHORR: Hey, thanks very much. A couple of quickies if I could on Cards, the first one on just the average yield being about in line year-on-year. You mentioned balance transfers still part of the mix. Are balance transfers – some are rolling off, but are you rolling new ones on? I'm just curious on what you're doing there.

JOHN GERSPACH: Yeah, yeah, Glenn. We are definitely rolling on new promotional balances.

GLENN SCHORR: And is that Branded and Costco, or is it more on the Branded side?

JOHN GERSPACH: Costco is part of Branded but I think maybe the best way to think about this is, if you take a look at what's going on with Branded Cards revenues in general, I think there's three factors that we need to discuss in order to explain where we are with the Cards revenue growth.

And the first is that as we saw the competitive dynamics in the rewards offerings in the U.S. heat up late in 2016, at that time, we made a conscious decision to shift our acquisition program away from rewards-oriented products and more towards value products. Now value products, as we've been discussing, those typically feature a promotional period and so this change in tactics, combined with the fact that the initial response to our value acquisition offerings was even stronger than we anticipated, has resulted in a higher amount of these non-yielding promotional balances in our portfolio. And based upon the performance of the earlier vintages, we expect these promotional balances will generate growth in full rate balances. But, in the near-term, we're seeing a dampening effect on revenues caused by this shift in focus. So that's one factor.

Then, secondly, there's also a dampening effect on the revenues against where we anticipated, just caused by the higher rates. If you remember, when we went into the year, our planning was based upon one 25-basis point hike in rates in the U.S. during 2017, and in fact so far we've seen two. And while the higher rates are overall accretive to the U.S. Consumer business, we've also talked about the fact that higher funding rates increased the near-term revenue drag caused by promotional balances. So that's the second factor.

Now, as late as June, we believe that despite the drag of the higher promo balances and the higher funding rates, we'd still be in position to deliver at least some level of year-over-year revenue growth in the U.S. Branded Cards beginning in the third quarter. However, this is where the third factor comes into play. Beginning in July, we saw a slight uptick in the overall payment rate across the proprietary portfolio. But while small, it was just enough to take us from a small increase in revenue year-over-year to a small decrease.

So three factors. Change in acquisition focus, slightly higher interest rates and a slight increase in payment rates that have combined to result in the third quarter 2017 Branded Card revenues to be just below the level that we had in third quarter 2016.

GLENN SCHORR: Okay. I definitely appreciate all that detail, John. Are you seeing actual organic growth outside? I guess it's tough to differentiate given your strategy, but are you seeing actual organic growth in Costco?

JOHN GERSPACH: Absolutely. Costco remains a real winner. We've continued to be able to grow account balances. We've seen continued growth in the purchases, so it's still looking like an absolute winner for us.

GLENN SCHORR: And just last one cleaning up. Were there any sales of delinquent loans in the quarter that we should know about?

JOHN GERSPACH: Just the normal level that we would do every quarter. There's always a small amount, but there's nothing unusual this quarter.

GLENN SCHORR: Okay. Thanks for all that, John.

JOHN GERSPACH: Not a problem at all, Glenn.

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

JOHN MCDONALD: Hi, good morning, John. I wanted to ask about the Retail Services business on the private label card. You mentioned the loss rate there could go to 5% from 470 this year. Just kind of wondering what you're seeing there. Are you still seeing kind of roll rates deteriorate a bit from initial delinquency to charge-off and is that what you're kind of building into that outlook for next year?

JOHN GERSPACH: Yeah, that's it. Exactly, John. It's exactly what we've been talking about for the last nine months or the last three quarters. And while we've seen some improvement in those later-staged delinquency bucket roll rates, it's still higher than what we thought it was going to be. So that's what's feeding into that – both has fed into the increased guidance that we've given you during the course of the year, driving another 2017 expected NCL rate from 435 basis points coming into the year to 470 basis points now. And so we're reflecting about a 30-35-basis point increase where we otherwise would've expected Retail Services to be in 2018.

JOHN MCDONALD: Is that what the reserving action this quarter brings you to, so you've kind of reserved for that outlook of 5% now?

JOHN GERSPACH: Yeah, maybe if you want, I'll go through both Branded Cards and Retail Services because it's the same three factors that impact both of them. So, when you think about the Branded Cards LLR buildup we built about $200 million of the LLR of that $500 million in Branded Cards. And there's about, on a normal basis given growth and seasoning in Branded Cards, we probably have about $50 million to $100 million in a quarter. So figuring the midpoint would be about $75 million. We added $25 million of reserves to cover our estimated impact of the hurricanes.

And then finally in Branded Cards, we're looking at an NCL rate of about a 10-basis point growth next year. That will go from about 285 basis points this year to 295 basis points next year. That's a little bit higher than what we had previously considered. It's still in line with our long-term 300 to 325 basis points, but we'll probably get to 295 basis points next year. You take a 10-basis point increment in your NCL rate multiply it by an $85 billion loan portfolio, adjust that for 14 to 15 months of coverage and that adds about $100 million accrual onto Branded Cards. So, overall, $75 million, what I would consider to be normal, $25 million for hurricanes and $100 million just to adjust to that forward look.

So, when you think about that forward look, maybe perhaps we could've taken more of a wait-and-see approach over the next several quarters, but our assessment was that it was appropriate to take that reserve build now. So all things being equal, I'd expect that the fourth quarter reserve build would be back in that range of $50 million to $100 million in Branded Cards that we would consider to be more normal.

And then if you move over to Retail Services, it's similar to what we just went through with Branded Cards. We had a $300 million reserve build in Retail Services. And again, if you look at Retail Services, the normal reserve build there is again kind of in that $50 million to $100 million range. And with Retail Services, we'd likely be in the upper end of that range right now just given the volume build that we've seen. So, I don't know, call that $90 million, $85 million, $100 million, somewhere in that range. Then there's another $25 million for hurricanes that we've put away in Retail Services, kind of the estimated losses that we think could occur.

And then again, as we look forward and we think about the NCL rate next year being 30 to 35 basis points higher than what we had previously thought about, again, you take 30 – 35 basis points, multiply it by our current $46 billion portfolio, adjust that for a 14 to 15-month coverage period and that gets you the extra $200 million reserve build there. So $75-$80-$100 million for normal, $25 million for hurricanes, $200 million for the forward look, that gets you to that $300-$320 million that you see in the supplement. And again, just like in Branded Cards, perhaps we could've taken more of a wait-and-see approach, but we thought it was appropriate to take the reserve build now.

And again, all things again being equal with Retail Services, I'd expect that we'd back in that upper end of that $50 million to $100 million normal range in the fourth quarter.

Let me just finish it because, if we're adjusting that range up to 500 basis points of losses in Retail Services in 2018, we're also going to take the medium-term view of Retail Services, up from where we had talked about on Investor Day of being about 500 basis points to be more in the range of 510 to 525 basis points. So, again, not a big change but we're going to make that change in the forward guidance.

JOHN MCDONALD: Okay, that's very helpful. Appreciate the detail there. And just one quick strategic question on Retail Services. Is this a portfolio and a business that you're looking to grow? Do you see that growing or adding new partners or growth within the existing partners? Or is it something that probably feels pretty stable over the next few years?

MIKE CORBAT: I think it's an area, John, that the opportunities present themselves as we've seen in Best Buy and other and if the portfolios make sense, we clearly got the capital, balance sheet, liquidity capacity. And if the returns make sense, we'd be happy to take them on.

JOHN MCDONALD: And without acquisitions or anything, does that grow or does it stay pretty stable?

JOHN GERSPACH: No, we think it's a growth business and again, if you measure it in revenue, John, it's a little hard and I think we touched on this a little bit in Investor Day. It's a difficult business to measure just based upon revenue growth only because with so many of the partner relationships that we have, we end up with performance sharing agreements and those performance sharing agreements, the accounting for that all runs through revenue. So your revenue, as your NCLs go up or down, that impacts the performance of the business. That ends up in your revenue number. So that's why, over time, we might only look at that as being a 1% revenue growth business, but we like the growth aspects on pre-tax earnings.

So we think it's a really good business and, unfortunately, it's those performance sharing arrangements that tend to obscure the true revenue trends. And even in the near-term economics, we end up having to build the loan loss reserves for all the NCLs that we're going to incur in that business even though some of those NCLs ultimately, as they're realized, will go into the performance sharing arrangement. And so it's actually our partners that will actually bear a significant percentage of those NCLs.

JOHN MCDONALD: Got it. Got it. So the pre-tax is the best way to track that.

JOHN GERSPACH: I'd say the best measure is probably pre-tax earnings less the LLR.

JOHN MCDONALD: Got it. Okay. Thanks, guys.

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

JIM MITCHELL: Hey, good morning.

JOHN GERSPACH: Hey, Jim.

JIM MITCHELL: Hey, John, quick – just a clarification. Did you say that you expect NII to see an additional growth of $500 million in the fourth quarter?

JOHN GERSPACH: I did, year-over-year. We expect year-over-year growth to be $500 million in the quarter. If you remember, Jim, as we've been talking about growth in net interest revenue year-over-year, we've been focused on that core accrual line. And we said that, in the second half of the year, we would expect that to grow about $1 billion year-over-year and we saw $450 million in the third quarter and we're looking at $500 million in the fourth quarter so we're roughly in line with that $1 billion that we talked about back in July.

JIM MITCHELL: Okay, fair enough. Maybe sticking with sort of NII and maybe a little bit of a longer-term outlook in Cards, I think your net interest margin there, which you've obviously gone through in detail on what's been impacting it, I think you're down about 8.6% this quarter. A year ago, it was closer to 9.4%. When do we start to see or if you have a sense of when that starts to inflect? And can you get back to that 9% plus number over time?

JOHN GERSPACH: The ultimate number that we settle on is going to be really determined based upon the overall portfolio mix between the proprietary portfolios, the co-brand cards and everything else. I don't want to give you a long-term target on the average yield. We've given you the target that we believe that Branded Cards in the medium-term should produce about 215 basis points of ROA. And that includes yield assumptions; that includes our forward look of NCL rate of 300 to 325 basis points. I don't want to start giving guidance, Jim, on every little line item that comprise the card's performance.

JIM MITCHELL: We can ask anyway. And maybe just one question on the capital return. It looks like you did about a third of your total CCAR number in the quarter, obviously, a little bit of a faster pace with you frontloading a little bit. Does that imply that there's a little more flexibility with the Fed in terms of doing more upfront? How do we think about your flexibility if you see an opportunity to buy stock and you do more than just a quarter's worth in a quarter?

JOHN GERSPACH: When banks file their capital plans, the capital return is approved not just based upon the full year, but it actually is quarter-by-quarter. So we have to lay out to the Fed what our estimated capital returns will be for each quarter, and then we need to live within that, call it, budget for each quarter. So we've got some flexibility, but it has to be within the quarterly numbers that we've told the Fed that we're planning for.

JIM MITCHELL: Okay. Got it. Thanks.

JOHN GERSPACH: No problem, thanks.

OPERATOR: Your next question is from Brian Foran with Autonomous.

BRIAN FORAN: Hi, good morning.

JOHN GERSPACH: Hey, Brian.

BRIAN FORAN: Just maybe a last one on this Consumer credit issue. I mean when we look at the medium-term Global Consumer Banking net loss rate you gave at Investor Day of 220 to 240 basis points, is everything you're seeing right now, not just in retail card but pulling up across all the businesses, still consistent with that range. Is some of this pushing it towards the upper end of that range? What would be your mark-to-market on that 220 to 240 basis points guidance?

JOHN GERSPACH: Yeah, the only thing that we've seen so far that would cause us to change any guidance would be in Retail Services, where again, we're guiding up from roughly 5%. And then we had it in there at a little bit higher than 5%, to 510 to 525 basis points. So I haven't seen it. To be honest with you, Brian, I have not taken a look at whether that drives us more towards the upper end of that guidance. It keeps us within that guidance though.

BRIAN FORAN: Thanks, and then maybe a question I get a lot. I know it's a little bit of a lost cause to forecast trading-related NII. I can't even forecast trading. But why is it down across the whole industry, not just you, so much? Is it just as simple as trading books are liability sensitive, so there's a little bit of give-back there, or why are we seeing these trading-related NII numbers come under so much pressure?

JOHN GERSPACH: It has to do with the instruments that you're using in any given quarter to help position your clients appropriately, how you hedge, what instruments you use to hedge positions. And so some of the instruments that you use are mark-to-market instruments, and therefore any change up or down in those instruments ends up going into principal transactions and then – you know mark-to-market revenues. If you're doing that by actually holding a security, then to the extent that you've got a mark on that security, the mark would go into principal, but interest that you actually accrue on that security goes to net interest revenue. So trying to predict, as you said, trading-related net interest revenue, good luck.

BRIAN FORAN: If I could sneak one last one in, Equities and Securities Services, I know both are areas where you've invested for some time now. When you look at the recent momentum, any sense of how much of that is market share and client gains versus how much of it is the backdrop?

JOHN GERSPACH: I'm sorry, but you were breaking, coming in and out. So in Securities Services, how much of it is market gains compared to actual client growth?

BRIAN FORAN: No, no, in both Equities and Securities Services, you've seen some nice momentum lately. Any sense if that's the payoff from the investments you've made versus, I guess, the tailwinds are really more in Securities Services in terms of the market, but just are these the payoffs we're seeing from your investments right now?

JOHN GERSPACH: Certainly in both businesses, we're seeing the growth that we've been hoping for. Securities Services, we've had good underlying growth for six quarters now. But in the beginning part of this year and for most of last year, that underlying growth was being masked by the impact of some businesses, some product portfolios that we had sold early in 2016. And so we lapped that impact in the first quarter of this year, and that's why now the last two quarters, the real underlying growth rate that we're getting out of Securities Services is coming through.

And again, we consider that to be similar to TTS, a foundational type of business, in order to grow good, in this case, investor client relationships. So we think that's a terrific business, and you're now able to see I think more clearly the momentum that we have there. And when it comes to Equities, Mike?

MIKE CORBAT: On the Equities side, we'll get the most recent quarterly numbers, but I think the last numbers I saw had year-to-date equity wallet down, revenue down about 5%. Again, we're up year-to -date somewhere in the 4%, and we think that continues to come from share gains.

JOHN GERSPACH: Yeah and I think the nice thing also, when we take a look at are we making progress with Equities, I really think and we've been talking about it, we try to gauge the progress that we're making in building the client franchise. And so in order to really gauge I think the progress that we're making there, take a look at our secondary business combined with the primary equity business, the ECM business. And if you look at that, the Equities franchise revenues, the equity markets plus the ECM, they totaled over $1 billion this quarter, and that's up 30% year-over-year. The ECM revenues are certainly up significantly versus the prior year – they virtually doubled. And that's really because we've been able to generate about 170 basis points of wallet share gain this year, and that's all with corporate clients. So combining both elements of our Equities franchise, we've got a growing and balanced business with good momentum going with both our corporate as well as our investor clients.

BRIAN FORAN: Thank you both.

JOHN GERSPACH: No problem.

OPERATOR: Your next question is from Mike Mayo with Wells Fargo Securities.

MIKE MAYO: Hi. Yesterday the IMF named Citigroup one of nine banks that should have subpar profitability through 2019. And my question is, at what point would you relax your assumption that Citi's restructuring is over? On the one hand, the ROE is up year-over-year, certainly a lot higher than a few years ago. On the other hand, third quarter ROE is 7.3%. You still have I'm guessing around $46 billion of DTAs. Why not consider more restructuring, or at what point would you do so?

MIKE CORBAT: So starting with the IMF report, Mike, the report of the coverage is based on one chart that I think is on page 12 of the document, and there's no underlying analysis that we can find in terms of how they came to those numbers, so we don't understand how they reached their conclusions. We disagree with them. I think we very clearly laid out our return targets during Investor Day and I think as today's results show, year-to-date results show, we're making progress against those targets, and we remain confident in terms of reaching them.

In terms of the restructuring, we declared the restructuring over. But again as you can see in the numbers today and the numbers year to date, that what we said is, while the restructuring is over, our focus around expense discipline stays. And you've seen operating expenses in the quarter down 2%, year-over-year flat, and that's in spite of the investments that we've talked about being funded in there. So again, that discipline is not something that we've let slip away, and that's a discipline that I expect will continue to keep as we go into the future.

So we feel that what the quarter talks about, what year-to-date talks about is the balance and breadth of revenue growth, and you can see the positive operating leverage across really almost all our business lines. You can see the revenue growth that’s there. You can see the expense discipline. And again, you see that not only on a quarter basis but you see it on a year-to-date basis, and John talked about our expectations into quarter four.

MIKE MAYO: And one follow-up, the first page of the press release in the third quarter and the prior two quarters now highlights ROTCE excluding DTA. Why not instead of excluding DTA, try to use the DTA more quickly through sales of assets? Is there anything else that you can do or you think you maybe should do under certain circumstances to sell appreciated assets, so the level of DTA is declined and your ROTCE, without any adjustments, would increase?

JOHN GERSPACH: No.

MIKE CORBAT: As we've talked in the past, that's something that we look at. Again, we try and manage the DTA carefully because that is your capital we want to give back to you, and we're not going to make either uneconomic or short-term decisions. And again, we think based on what we've got approved this year and what we'll be looking to get approved in the future, we've got a lot of capital to return today and we've got a lot of capital to return into the future, and we're very focused on that.

MIKE MAYO: All right, thank you.

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

MATT O’CONNOR: Good morning. I think you guys stopped disclosing the legal repositioning costs earlier this year, but I was wondering if you could give us a sense of how meaningful they were. And what I'm getting at is I'm trying to figure out how much of the positive operating leverage as we're looking year-over-year is coming from some of those drivers going away? And obviously, it's sustainable when they go away I think as you mentioned with the restructuring being done, but I'm trying to figure out how much of the operating leverage that you pointed to is coming from those going away and how much is kind of benefits still to come from further reductions in those buckets?

JOHN GERSPACH: As you say, Matt, we stopped doing those line item disclosures. But right now, year-to-date, legal and repositioning has been running about maybe a little bit under 150 basis points of revenue. And so I think going into the year, we had said that our anticipation would be that it would be about 200 basis points. So we've gotten a little bit of a lift out of the reduction in the level of legal and repositioning that we've had. And I'd say that's probably about where we finished the year, somewhere at or just below 150 basis points of revenue for legal and repositioning.

MATT O’CONNOR: And then in the three-year outlook you provided at Investor Day, I think it implied a modest drop in expenses over the next three years and I would assume that's going to be one of the drivers in addition to general efficiency efforts?

JOHN GERSPACH: So to the extent that we get to a more normal level of legal and repositioning, yeah. I don't think that it's a big driver. It's one factor that clearly is in there. But in any given year, you're still going to have some level of repositioning cost in legal, which I think every company has, and that's why it's just part of their overall expense base.

MATT O’CONNOR: Okay. Yeah, I just think – I do think it would be helpful to break it out because if we look year-to-date, you have about 300 basis points of positive operating leverage. If I adjust out some of the gains, it's about 200 basis points. I'm just trying to get a sense of how much of that is from kind of these one-offs going away and that helps, I think, give confidence in getting the 400 basis points of operating leverage that you're looking for going forward.

JOHN GERSPACH: Well, when we go back to the Investor Day charts, we tried to give you a sense as to over the timeframe that we were talking about, that clearly the wind down of legacy assets, and thinking all of that is now in Corporate/Other, is certainly going to be one of the factors that gets us to the expense profile that we put in there. The wind down of legacy assets depresses revenues and it also serves to depress expenses. So we tried to give you a sense as to the revenue and expense growth we were going to be getting out of the core businesses and then where we saw Corporate/Other, those legacy assets also play a role.

MATT O'CONNOR: Yeah, okay. Thank you.

OPERATOR: Your next question is from Marty Mosby with Vining Sparks.

MARTY MOSBY: Thanks. I wondered if – a very small minor item but you when you look at your security gains, you've had about $200 million per quarter as rates are kind of generally moving higher. Just didn't know if you were trying to reposition or do some things in that particular portfolio by taking those gains. Now it's about five quarters in a row that you've actually taken gains. So just was wondering what your ALCO stance was there?

JOHN GERSPACH: We're always rebalancing the portfolio, and so you're always going to get some level of security gains. It's not something that we do to try to generate the gains. It's just an outcome of balancing where we are and the books to how we want to position them for the future.

MARTY MOSBY: And then when we look at the – Okay. Go ahead.

JOHN GERSPACH: No, I was just saying, so it's an outcome, not a target.

MARTY MOSBY: Got you. And then when we look at the overall operating earnings per share, we're still in this $1.25 – $1.30 range but yet shares are down 7%. I look at the Institutional business, its revenues are actually up, so it's not really volatility related to just compression in that particular business. You saw a lot of momentum in other pieces of the business, which means that there has to be some legacy assets that are still running off, some divestitures of businesses. These things are still kind of creating a drag that's not allowing you to really push earnings up even though we are seeing the benefit from capital. So when do we get to that inflection point and start to see some of the positives accrue to further growth?

JOHN GERSPACH: Marty, as we laid out in Investor Day, that's certainly is something that we're still seeing in 2017. And as we get further into 2018, 2019 and 2020, those forces become less. And we also expect to get a greater contribution from the Global Consumer business towards driving that earnings growth. And so it's a combination of completing the wind down of legacy assets. And as you know, there's a lot less of those legacy assets than there were. We're down to – when we stopped disclosing Holdings, we were down at about $54 billion of assets. If I could find Holdings again, it would be somewhere around $40 billion of assets now. But it still is something that is dragging. We're still supporting some of the businesses that we sold with transition service arrangements.

So that is going to be something that colors our results for a little bit. But as we move forward and we continue to get this sequential growth in Global Consumer and now you've seen two consecutive quarters of growth in pre-tax earnings in Global Consumer and we fully expect that fourth quarter to be another quarter where we get sequential growth and we also expect that the fourth quarter is when we get Global Consumer to year-over-year growth, and that is certainly then going to be a contributor to the growth in EPS in 2018 and beyond.

MARTY MOSBY: Got it, thanks.

OPERATOR: Your next question is from Ken Usdin with Jefferies.

KEN USDIN: Thanks. Good morning. Mike, I want to ask you a question going back to your opener. We've seen the metrics on the global growth start to improve mid-single digits year-over-year Consumer and then some of the Institutional businesses, and I just want – a lot of enthusiasm for the emerging markets rebound that we've seen broadly speaking. You mentioned the potential for the global disruption. Can you just talk us through just like business momentum in the non-U.S. markets and maybe just touch on a couple of the biggest ones as well just to give us an understanding of kind of where we are in terms of that, just organic growth improvement and where you might be, worried about a little bit of a pause?

MIKE CORBAT: Sure. So I think as you look around the world today and if you look at the forecast being put out in terms of 2018, at the top level right now growth is predicted to improve both in the developed and developing markets, but the developing markets, the emerging markets are supposed to improve. So growth rates right now in the emerging markets probably came in somewhere just under 4% in 2016. We see a number probably somewhere around 4.5% in 2017 and we see forecasts up around 4.75% going into 2018.

Developed markets, we probably were somewhere around 1.5% last year, forecasted just a bit above 2% this year and I think we start to bump up hopefully towards 2.5% next year. And if we get tax reform here in the U.S., obviously that'll act as a catalyst to those numbers. And as you look around the globe, you've got most economies doing better and so that's the backdrop by which you would look at and judge things. And so, again, the relationship of the emerging markets growing faster than the developing markets stay in place. Again, if you get tax reform, you get a catalyst to that.

I think things that we look at and you just can't ignore, obviously, I talked to my opening about some of these things that are out there that the markets, and we've seen businesses, just work their way through, and obviously, the North Korea situation being one of those. And so again, you've got challenges out there that, at some point, could start to weigh on the mindset, the pace of investment, the pace of business activity. We haven't seen it to-date, but it's not to say that it couldn't manifest itself in some ways. We've obviously also had the near-term challenges of a lot of natural disasters. And whether that's been hurricanes or earthquakes or flooding damages that have come as a result of some of those things. Those things will have a near-term impact in terms of what growth will look and feel like but probably as we've seen historically, in some ways those actually end up being a stimulus in the longer-term in terms of those monies that come back in the form of aid and investment and in rebuilding. And that's our expectation that we would probably see that occur again.

KEN USDIN: Got it. All right. Thank you for that. And if I could just ask one follow-up, just moving picture with regards to the reg reform and tax reform potential, I guess more so on the reg reform where it seems like the conversation is potentially louder, what are your kind of updated thoughts and hopes in terms of what might be most beneficial to Citigroup?

MIKE CORBAT: So you go back and look at it I think an excellent piece of work that was done was the Treasury report that was put out in June and we would describe that as largely consistent with what certainly our expectations and I think the broader markets or broader banking system expectations were. And what you've seen is consistent conversation with the broadly defined administration around going after that. Important pieces that are now starting to come into place are starting to get some key personnel. So we've obviously just seen Randy Quarles confirmed into the Fed supervisory seat. That's important to get him in place. We've got a confirmation hopefully happening soon in terms of getting the permanent Comptroller of the Currency at the OCC. We'll have the seat turning over at the FDIC. And then as you start to get these in place, hopefully, they can get together and start to affect some of the change that's there.

But again, as we've talked about, none of this, or the vast majority of it, doesn't require any legislative or legal changes to existing rules or law, and it's in many ways the tone from the top and the prioritization of the agencies which again, as we've said, we think is constructive for the banking and business environment.

KEN USDIN: Got it. All right. Well, we'll see how that evolves. Thanks a lot, Mike.

MIKE CORBAT: Thank you.

OPERATOR: Your next question is from Saul Martinez with UBS.

SAUL MARTINEZ: Hi, good morning, guys. A couple of questions. One, just a clarification on the efficiency ratio target. The 58%, does that exclude or include the $600 million or the $580 million gain that you booked this quarter? My understanding was that it excluded it but I just wanted to make sure that's still the case.

JOHN GERSPACH: Well the target that we set at the beginning of the year, it includes all the expenses and all the revenues that we have. When you take a look at how that $580 million gain is going to impact us, we're talking basis points on that ratio, so whether we come in at 57.9% or 58.1%, that to me is 58%.

SAUL MARTINEZ: Okay. I mean, fair enough. Second question on the overall health of the Consumer, you talked about moving up your loss ratios from $470 million to $500 million in the longer-term changing. We are seeing increases in losses in an environment where you do have a very strong labor market, unemployment coming down. It does really feel like there is maybe a two-speed Consumer with established households doing well and younger demographics, millennials, middle income folks not doing so well. So I'm curious as to how you're feeling just more broadly about the health of the Consumer overall, especially if we do start to see, at some point down the line in the coming years, some change in labor market, the labor market environment. And do you think there's some risk in the medium-term to the losses – the expectations that you have in some parts of your Consumer business?

MIKE CORBAT: I would say not just in the U.S., but as we look around the world, we would rate the health of the Consumer right now as pretty good. And again, Saul, you touched on a number of the most important things so, when you look at a consumer, what are the things you look at? Does the consumer have a job? If they have a job, are they going to keep it? If they don't have a job, how difficult is it to get one? And I think if you look across the world, unemployment's low, employment is high. Probably the bigger challenge to the consumer or to the worker has been the lack of wage growth. And again, not just in the U.S. but in many places and we're beginning to see some of that. And again, that's healthy to the consumer.

The other piece is when we look at the consumer, and again, when we go back to the crisis and know what we know from there, very hard to have an engaged consumer. In the U.S., the consumer accounts for about two-thirds of the U.S. economy. Very difficult to engage a consumer when housing prices are going down. And again, what we've seen not just here in the U.S. but in many places is a fairly steady consistent rise or at a minimum good stability to housing prices and I think the combination of jobs, a little bit of wage growth, stable housing and rising asset prices has left the consumer in a pretty good place.

Obviously, we are a long way from the last credit cycle and so we're always challenging ourselves in terms where we are. But a lot of the signs we look for in terms of the deterioration of the consumer, I've got to say right now, we just don't see. And if you go and look at our NCL rates and look at our delinquency rates around the globe from the document we've given you, again, the numbers don't point to it.

SAUL MARTINEZ: Okay. Fair enough. Thanks for the response.

OPERATOR: Your next question is from Erika Najarian with Bank of America.

ERIKA NAJARIAN: Yes, thank you. Just one quick follow-up question. Just one quick follow-up. Thank you so much for your very robust answers on card. Totally acknowledge that you told Jim that the card yield from here really will depend on the mix. I'm wondering, just from a timing perspective, is there a way for us to measure when these promotional balances would be potentially rolling off and be fully on the full yield? Is there sort of a timing that we could think about?

JOHN GERSPACH: In general, the promotional balances, while the range of offers vary, they do go up to 21 months. Now don't freak out. That does not mean that it's going to be 21 months before we see growth in anything. But just as going into this year, we shifted our mix of acquisitions away from rewards towards promotional balances. It doesn't mean that we won't shift back again. Now the one thing that we know about Cards is in trying to build this balanced portfolio, the balanced business, we're going to need to make adjustments as we go along every quarter. So I just don't want to give specific guidance, Erika, as far as what month or how long. We do think, again, we're going to get sequential growth again this quarter and we'll keep you apprised as to how we think we're doing overall with our targets on Branded Cards.

ERIKA NAJARIAN: Got it. Thank you.

JOHN GERSPACH: No problem.

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

BETSY GRASECK: Hi, good morning.

JOHN GERSPACH: Hey, Betsy.

BETSY GRASECK: A quick question on Equifax. I believe you're one of the users of Equifax and that you partner with them maybe a little bit more than some of the other credit bureaus. I just wanted to get a sense from you as to any changes that you're making with regard to that relationship post-breach, and then also understand if there's anything different that you do on the retail partner card side given that point-of-sale is one of the ways you acquire customers.

MIKE CORBAT: And so you're right. We do use the services of Equifax. But we've got to say that, while this one is of a significant magnitude, data breaches aren't new, and us having to work with and work around data breaches I think for us and others I said have become fairly embedded in our business. When you think about the risk that we bear, we're really bearing two types of risk when incidents like this occur. One is the authentication risk. So is somebody presenting the credentials? Are they actually that person or that entity? And I think we feel we've got ways of working with different technologies to authenticate, and obviously we flag those accounts and we go on heightened alert to watch those.

The second form of risk is the acquisition risk, and that is that if somebody comes in through the application process, are they actually who they say they are? And that in itself is challenging and probably causes us – or does cause us to go through more steps of making sure that that's them. So one is we would go back, we would flag the file, and we would go back and be required to do extra levels of work against that.

And from that, the natural question is what's the ramifications on near-term, longer-term formation of credit and I would say in the first instance, I think we've got the ability to authenticate pretty quickly. I think in the second instance, it does slow the process down. And again, some people have been locking their accounts within Equifax. That makes it a bit more challenging so I wouldn't say it's necessarily material in terms of the slowdown, but it does slow the process down just a bit.

BETSY GRASECK: Okay, and then just a quick question on the expense ratio. I know you just had a discussion on that. It looks to me like you came in pretty firmly below your guidance on the expense ratio, good thing this quarter may be 70 basis points or so below what you had been expecting. And I'm just wondering if there's anything as we look forward to 4Q that would suggest that that trajectory of coming in below expectation is changing. Is there anything special about fourth quarter we should be considering? Why not just keep that expense ratio improvement going?

JOHN GERSPACH: We had targeted the full year at 58%, and that's where we expect to come in at, that 58%.

BETSY GRASECK: Okay, all right. Thanks.

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

GERARD CASSIDY: Good morning, John.

JOHN GERSPACH: Hey, Gerard.

GERARD CASSIDY: I have a question. Obviously, and I don't mean to sell short the efforts you have made in capital markets because you've done a great job in investing in your businesses and you showed us today, like you did at Investor Day, gaining the wallet share. But can you give us some color about competition because some of our bigger European competitors seem to still be struggling? Are you able to take advantage and grow your market share as others haven't fully recovered like the American capital market players have?

MIKE CORBAT: Again, going back, we focused a number of years ago around, and what we said growth is going to look and feel like for us is not a whole lot of new client acquisition. In fact, we're doing more with less clients, more focused on our target clients. And growth is going to come in the form of taking market share both on the capital markets side of things as well as on the banking side of things, and that's what we've done. And it's our expectation that we will continue to focus on taking share. And again, I think the opportunities – we know having lived it, when you go through restructuring and you go through changes to your business model how disruptive they can be, and I think actually with us taking the early actions and actually having a lot of stability in our ICG franchise has served us well, and we continue to want to be focused on that.

GERARD CASSIDY: Very good. Could you guys give us some color? You had good growth this quarter in Corporate Lending both sequentially and year-over-year. Was it here in the States or outside the States that you saw better growth in the Corporate Lending business within ICG?

JOHN GERSPACH: I would say, Gerard, that it varies by product. Private Banking loans have been strong, Private Banking lending in both the U.S. and in Asia, but primarily in the U.S. When it comes to trade loans, we've seen some good growth pretty much in Asia, again, in trade loans as well as some things here in the States, and so it's been a nice mix across the place.

GERARD CASSIDY: Very good. And I apologize if you've already addressed this. How do the backlogs look for the upcoming quarter in terms of the capital markets activity in Investment Banking?

JOHN GERSPACH: We normally don't give too much guidance on the backlog, but I think that we've seen that in the forward guidance that we've given towards the fourth quarter where we sort of said the Investment Banking revenues in the fourth quarter we expect to be pretty much on where we were in the third quarter.

GERARD CASSIDY: Very good. And then just lastly, obviously, you and your peers have all given us very good guidance this quarter on the weakness in trading, particularly in the FICC marketplace. Can you share with us – there's been a real surge in these non-bank liquidity providers, they obviously have incredible technology and algorithm type trading, companies like XTX Markets or Citadel Securities. Now granted, they focus their efforts on the very liquid markets that are lower margin like the G10 rates or currencies. Do you guys see these guys as bigger competitors now than a couple years ago, or any color in that specific area of capital markets?

MIKE CORBAT: I don't have the statistics to that, but a couple of the names you mentioned there are pretty good competitors. But again, as we look in there, we've been taking share. I can't speak to their shares in the market. But again, when you look at our numbers, we've been consistently taking share, and we've been taking share in many of the areas they operate.

GERARD CASSIDY: Thank you, Mike. I appreciate it.

OPERATOR: Your final question comes from the line of Jeffery Harte with Sandler O'Neill.

JEFF HARTE: Good morning, guys.

JOHN GERSPACH: Hi, Jeff.

JEFF HARTE: Most of the questions have been hit, but I've got a couple left. One, looking at North American credit cards, the profitability may be a little more challenged than you initially thought it would be in like the Branded Card, ROA target coming down a little bit. This has been an area you've been really investing and looking to for growth over the last year. Does that impact your focus on North American cards as an area of growth, the reduction in profitability versus what you were initially expecting?

JOHN GERSPACH: No, Jeff, when we got out at Investor Day, we talked about the fact that the ROA was going to come down from 2.25% down to like 2.15%. Again, it's a tweak more than anything else, and it was more reflective of a rebalancing of just the fact that we had a lot of the co-brand just growing faster than what we had thought was going to happen. So some of that is just a product of our own success but we still think of Cards as being a healthy part of our business, but it's not the only engine for growth that we have. It's the first area that we talked about only because the investments that we made in Branded Cards were so visible.

When you think about the early investment that we made in the proprietary portfolios, we got into that whole rewards and rebates area. And so you know that you're just taking a big drop down in your profitability, and it's very, very visible. It's not quite the same as hiring a few more people in equities markets. These things were big and so we needed to really make sure that we talked about them and that you understood where we were going.

I think the nice thing is, is that we've developed many engines of growth right now. You take a look at what's going on in the rest of North America, the launch of the Citigold platform, we now have retail banking revenues, excluding mortgages, which again we changed our strategy on that, but the retail banking revenue is up 12% year-over-year. Yeah, it's getting a little bit of lift from interest rates but it still is good growth. We've had our Citigold Wealth Management clients increase by 28% year to date. You can see the assets under management growing by 10%. So we've got a nice growth coming out of retail banking in the U.S.

On the International, five consecutive quarters now of positive revenue growth and positive operating leverage in both Consumer Asia and Consumer Mexico. You see the engines for growth that we've built in the ICG and these are all client-led businesses. TTS, Securities Services, Private Bank 15%, that's a couple of quarters now we've had double-digit growth in the Private Bank. So while Branded Cards was the first engine for growth that we talked about publicly, we've built a whole series of engines for growth that we're really excited about and that we tried to lay out for everybody on Investor Day. I mean, we're still focused on growing that Branded Cards business, but it's not the only engine for growth that we have either in Consumer or for Citi.

JEFF HARTE: Okay and maybe taking a second leg off of that, the International versus the North America businesses in general, I mean, part of the argument for Citi I think has always been exposure to international especially emerging market kind of some of the Consumer businesses that nobody else can really match, though we've really kind of seen North America growing better than some of the International recently. Can you talk a bit to when or will the kind of International business start to outgrow the North America business some, especially kind of the in the wake of how much you've downsized your geographic presence there?

JOHN GERSPACH: Jim, I think you may be getting caught up just a bit in the inorganic growth that we had in North America from the Costco portfolio because we actually like the organic growth that we've been getting now in Asia and in Mexico. In Mexico, revenues were a little bit lighter this quarter than we would have liked, but that seems to be something that's cutting across the industry with how deposits were growing.

But now in Mexico, what we've got now is we've actually finished the repositioning of the cards book. We've worked our way out of that J-curve type of thing and now we've got Cards revenues in Mexico that actually have growth year-over-year. So we think that the growth prospects for Mexico are pretty good. At Investor Day, we said we are in anticipation of compound annual growth rate in revenues of 10%. We had been running at about 7%, 8%. We'll probably back to that 7%, 8% in the fourth quarter and then we should continue to grow into 2018 and 2019. Asia, again, we've got the cards business there now generating nice growth. We're starting to get growth in some of the retail lending. We like the wealth management business that we've got in Asia.

And again, in both of those businesses, five consecutive quarters of revenue growth and positive operating leverage. We think that's the way that you build a nice, sustainable growth pattern by being able to grow revenues as you're generating positive operating leverage.

And then in North America, again, we'll take a look. Branded Cards is coming along a little bit slower than we had thought but still coming along nicely. And I talked about the retail banks. I think we've got really three good engines for growth in the future there in the Consumer business.

JEFF HARTE: Okay, thank you.

JOHN GERSPACH: No problem.

OPERATOR: Ladies and gentlemen, we have reached the allotted time for question-and-answer session. Presenters, are there any closing remarks?

SUSAN KENDALL: Hi, thank you, Jamie. Thank you for joining us here today. If you have any follow-up questions, please feel free to reach out to Investor Relations. Thank you. Have a good afternoon.

OPERATOR: Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.