TRANSCRIPT

Citi Third Quarter 2015 Fixed Income Investor Review
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HOST
Peter Kapp, Head of Fixed Income Investor Relations

SPEAKERS
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James von Moltke, Citi Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer John Gerspach and Treasurer James von Moltke. Today's call will be hosted by Peter Kapp, Head of Fixed Income Investor Relations.

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

Mr. Kapp, you may begin.

PETER KAPP: Thank you, Brent. Good morning and thank you all for joining us. On our call today, our CFO, John Gerspach, will speak first. Then, James von Moltke, our Treasurer, will take you through the fixed income investor presentation, which is available for download on our website, citigroup.com.

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 2014 Form 10-K.

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

JOHN GERSPACH: Thank you, Peter, and good morning, everyone. We're pleased to be hosting our Fixed Income Investor Review this quarter. I'd like to begin by highlighting some key points from our third quarter 2015 results on slide two. And after that, I'll turn the call over to our Treasurer, James von Moltke, who will provide an update on our balance sheet and our issuance plans. Then we'll be happy to take your questions.

We earned $4.2 billion during the third quarter, and we made progress on our execution priorities. We achieved positive operating leverage as well as continued loan and deposit growth in our core Citicorp businesses, and Citi Holdings was again profitable during the quarter. Holdings' assets are down 20% over the past year to $110 billion. And we've signed agreements to sell $37 billion of these remaining assets, including $31 billion expected by year end.

Year-to-date, Citigroup's efficiency ratio was 56.5%, our ROA was 99 basis points, and we generated a return on tangible common equity of 10%. And we remain on track to deliver our full-year efficiency and ROA targets.

We utilized $2.1 billion of deferred tax assets through the first three quarters of 2015, contributing to $14 billion of capital generation, $4 billion of which we returned to shareholders in the form of share buybacks and common stock dividends.

Active balance sheet management has allowed us to grow loans and deposits in Citicorp while holding our overall balance sheet steady by reducing lower-return assets. We maintained a diversified funding profile as our deposit quality remains strong, and we continue to execute against our debt issuance plans. And our capital, leverage, and liquidity ratios remain robust.

On slide three, we show total Citigroup results adjusted for the items noted on the slide. As I noted earlier, during the quarter we earned $4.2 billion and $13.6 billion year-to-date. Revenues of $18.5 billion were down 8% from last year, mostly reflecting the impact of foreign exchange translation. In constant dollars, revenues declined 2% year-over-year, as a slight improvement in Citicorp was more than offset by lower revenues in Citi Holdings. Expenses declined 18% year-over-year, driven by lower legal and repositioning charges as well as a benefit from FX translation. And net credit losses continued to improve, offset by a significantly lower net loan loss reserve release.

And now let me turn the call over to James.

JAMES VON MOLTKE: Thank you, John.

Beginning on slide four, we show balance sheet trends over the past five quarters. We actively manage both our assets and our liabilities, allowing us to serve clients while maintaining a sound financial position and improving our returns.

On a reported basis, total assets declined by $75 billion in the past year, primarily as a result of the dollar's appreciation against foreign currencies, especially the euro and the Mexican peso. To provide more meaningful insight into our underlying business trends, we've presented this slide and several others in today's presentation on a constant dollar basis. On this basis, our balance sheet grew by $7 billion, mainly reflecting growth in Citicorp loans, partially offset by the continued wind-down of Citi Holdings and a modest decline in trading-related assets.

On the liability side, growth in deposits in our core businesses allowed us to strengthen our funding profile, combined with a significant reduction of short-term borrowings and non-TLAC-eligible debt.

Slide five presents trends in our loan portfolio in constant dollars. Total Citigroup loans decreased 1% year-over-year, as 5% growth in Citicorp was offset by continued reductions in Citi Holdings. Consumer loans grew 2% year-over-year, with modest growth in each of our regions. On the institutional side, loans grew 8% year-over-year in total. Our corporate lending portfolio increased 9% based on new business and funding prior commitments in support of our target clients. And TTS loans declined 2%, as we continue to distribute a significant portion of our trade loan originations, allowing us to support our clients while maintaining balance sheet discipline in a continued low spread environment. Citi Holdings loans decreased 34% year-over-year, driven by a $15 billion reduction in North America mortgages as well as the impact of our previously announced agreements to sell OneMain and the Japan credit card business, which were classified into other assets held for sale.

On slide six, we show credit quality trends in our consumer and corporate loan portfolios. In the third quarter, consumer credit remained favorable, with an overall net credit loss rate of roughly 200 basis points. The rate in North America continued to decline to roughly 220 basis points. Asia credit was stable again this quarter, with an NCL rate of roughly 80 basis points. And the rate improved again this quarter in Latin America, driven by continuing favorable trends in our Mexico cards portfolio.

In the corporate portfolio, non-accrual loans increased to 52 basis points of total loans. The most significant increase in non-accrual balances was seen in North America this quarter, primarily driven by downgrades in our energy portfolio, which I'll speak about in a moment. It's important to note, though, that a significant portion of our total non-accrual loans remains current. In fact, over two-thirds of the loans added to non-accrual status in the third quarter continued to perform, including nearly 75% of energy-related loans.

Let me make several points specific to our energy exposures. First, our portfolio remains predominantly high-grade, with 79% of our energy related exposures rated investment-grade. This is down from 83% last quarter, reflecting recent downgrades as well as the impact of new business. Second, we've been building reserves against the energy portfolio, including by approximately $140 million in the third quarter, as we noted during our earnings presentation. And we recognized $17 million of net credit losses in the energy sector during the third quarter.

The more limited portion of our energy exposures that is most sensitive to energy prices drove the growth in non-accruals and reserve build this quarter, primarily in the E&P and drilling segments.

We provide updated information about our energy-related exposures on slide 24 of the appendix. Our total energy exposures were a little less than $61 billion, while funded loans declined by $1 billion to $21 billion.

Turning to slide seven, we show the composition of our deposits, which fund 50% of our assets. Total deposits were approximately unchanged from last year's third quarter despite significant reductions in Citi Holdings. Citicorp grew deposits by 4% in constant dollars, with continued high-quality deposit flows across our franchise. Consumer deposits increased 2%, including 5% growth in international markets. North America deposits were unchanged, but we grew checking account balances by 7%, even as we reduced our branch footprint by 13%. Corporate deposits increased 10% year-over-year, especially in North America and Asia, reflecting a continued focus on growing high-quality deposits in TTS and our Private Bank. Citi Holdings and other deposits declined significantly year-over-year, driven by the impact of our agreement to sell the Japan retail business as well as the now complete transfer of MSSB deposits to Morgan Stanley.

Slide eight further illustrates the diversity and stability of our deposit franchise. The majority of our deposits are outside the United States, providing local funding for our overseas operations. We manage the balance sheets of these international operations to be largely matched as to their currency and liquidity characteristics. Overall, Citigroup's deposits have a 74% liquidity value under current regulatory definitions for the liquidity coverage ratio, flat to last quarter. We expect deposit quality to remain relatively stable at this level based on our current business mix.

In our consumer business, our deposits have an LCR liquidity value of 86%, reflecting the stickiness of our retail deposit base. And in our corporate businesses, the liquidity value of deposits remained stable at approximately 68%. We have worked with our clients over time to grow higher value deposits and reduce low LCR liquidity value deposits while limiting disruption to their operations. In particular, deposits with 100% runoff value, primarily non-operating deposits of financial institutions, were roughly $52 billion, down by about one-third over the past year.

On slide nine, we update our regulatory liquidity metrics. Our LCR was 112% in the third quarter, in excess of the 100% minimum requirement and consistent with the levels we have maintained over the past year. Over time, we would expect to manage our LCR in the range of 105% to 110%, providing a buffer over liquidity requirements from regulators.

As of September 30, our HQLA was $399 billion, up $13 billion from the prior quarter. On the right side of the slide, you can see the composition of our HQLA as of the end of the quarter, nearly 85% of which consists of cash and government debt.

As to the net stable funding ratio, or NSFR, we continue to expect U.S. regulators to propose a version of these rules during the fourth quarter. We currently estimate that our NSFR under the international version of the rules is in excess of the 100% minimum.

On slide 10, we show Citigroup's net interest revenue and net interest margin. Our NIM was 294 basis points in the third quarter, roughly in line with the prior quarter. Improvements in our cost of funding have supported our NIM in the past several years, with the cost of deposits continuing its downward trend this quarter and the cost of long-term debt down from the prior year period but up slightly from last quarter. While debt buybacks have helped us reduce the cost of our unsecured debt, we have continued to substitute unsecured debt for lower cost but non-TLAC-eligible funding sources, such as securitizations.

And as you can see on slide 29 in the appendix, consistent with recent quarters, we continue to expect a NIM benefit from a rising rate environment. Our estimate of the net interest revenue benefit from a 100 basis point instantaneous parallel rate shift increased modestly to $2.1 billion, of which $1.5 billion reflects the impact of U.S. rates.

On slide 11, we show the composition of our long-term debt outstanding. During the quarter, our long-term debt increased to $214 billion. Parent company debt increased by $2 billion during the quarter to $157 billion, reflecting net issuance of senior and subordinated debt. Bank-issued debt remained flat. We expect to finish 2015 with long-term debt outstanding around current levels. Our weighted average maturity increased slightly to 6.8 years, as we continue to target a WAM in the range of seven years. And our total preferred stock reached $15 billion in the third quarter.

On slide 12, we update our issuance and redemption expectations for long-term debt in 2015. For the full year, we expect to issue approximately $28 billion of senior and subordinated debt. We issued $21 billion of senior and subordinated debt during the first three quarters of the year, including roughly $5 billion in the third quarter. During the fourth quarter, we expect our issuance will roughly offset maturities and buybacks. We currently expect this to translate into approximately $7 billion of benchmark debt issuance, over $4.5 billion of which we've already completed.

Additionally, through the first three quarters of 2015, we have issued $4.75 billion of preferred stock. We currently expect to issue approximately $1 billion of preferred during the fourth quarter, after which we will have around $3 billion of remaining issuance to reach our current target levels.

And with respect to our debt redemptions, year-to-date we have completed $7 billion of debt buybacks. As you may have seen, we announced further repurchase offers yesterday. Our fourth quarter expected buyback activity is largely driven by the anticipated completion of a number of transactions in Citi Holdings, including OneMain, as we discussed on our earnings call.

On slide 13, we cover total loss absorbing capacity, or TLAC. As you may be aware, the Federal Reserve announced that it will discuss its proposed TLAC rule tomorrow, October 30. So we should all know shortly how or whether the U.S. regulators proposed rules will differ from the FSB's original proposal. Recent press reports regarding the FSB's deliberations have set expectations that structured notes will be excluded from TLAC. At the same time, they also highlighted some potentially helpful changes to their proposed rules, including the possibility of a somewhat extended implementation timeline.

Against the backdrop of this uncertainty, here we update our estimates of our total loss absorbing capacity based on the original consultative document released by the FSB in November 2014. Importantly, on this basis, we estimate we have already reached the low end of the FSB's proposed TLAC requirements. Consistent with our prior calculations, we include in our estimates of TLAC: CET1 capital, preferred stock and unsecured parent-issued senior and subordinated debt with at least one year remaining until maturity, and a small portion of our customer-related debt, but we do not include structured notes. On this basis, we estimate Citigroup's total loss absorbing capacity increased to $278 billion, or 22.1% of our risk-weighted assets, and 11.7% of our total leverage exposure. We estimate our potential requirements by adding 6% to the base TLAC requirement of 16% to 20%, reflecting the capital conservation buffer, and our 3.5% GSIB surcharge, for a total of 22% to 26%.

Let me make several important points about our ability to meet TLAC requirements without significant changes to our balance sheet planning. First, as I noted a moment ago, we estimate we have already reached the low end of these TLAC requirements, while at the high end of the range our TLAC shortfall would be less than $50 billion. Second, as we have previously indicated, some continued issuance of preferred stock and subordinated debt to optimize our capital structure relative to other regulatory requirements is expected, as well as continued discipline in managing our risk-weighted assets. Third, if necessary, we would issue incremental senior debt, substituting it for non-TLAC-eligible funding sources such as customer-related debt, securitizations, and repo financing, to maintain our balance sheet discipline. And fourth, we would expect to utilize the full glide path for implementation to achieve TLAC compliance by the required dates. Like you, we look forward to having greater clarity around TLAC as we plan our funding actions.

Turning to slide 14, let me summarize our capital position, which remains among the strongest in the industry. During the quarter, our CET1 capital ratio improved to a revised 11.67%, driven by retained earnings and DTA utilization, even as we returned $2.1 billion to shareholders in the form of share buybacks and common dividends. Our total capital ratio increased 50 basis points to 14.6%. And our supplementary leverage ratio improved to 6.85%, while Citibank's SLR was unchanged at 6.7%.

On slide 15, we show the components of our regulatory capital ratios. We've made significant progress towards filling our regulatory capital buckets, as we look to optimize our capital structure under Basel III and CCAR requirements. As I described earlier, we expect to issue roughly $4 billion of preferred stock through 2016, reaching approximately 150 basis points of Additional Tier 1 capital, and further strengthening our supplementary leverage ratio. And including the benefit of last week's $1.5 billion subordinated debt issuance, we currently expect net new issuance of approximately $3 billion to $4 billion of subordinated debt over the next several years, bringing our Tier 2 capital to 200 basis points of RWA. After we have achieved this targeted level of subordinated debt, we would expect to continue issuing subordinated debt to maintain Tier 2 capital levels, offsetting the amortization of regulatory capital benefit and the potential impact of future buybacks.

Moving to our last slide, let me summarize four key points. First, we remain on track to deliver our full-year efficiency and ROA targets, and we have made strong progress against our other key execution priorities. We reported positive operating leverage in Citicorp and significantly lower legal and repositioning expenses. We made continued progress in winding down Citi Holdings, and we utilized $2.1 billion of DTAs in the first three quarters of 2015.

Second, through active balance sheet management, we've maintained total assets around $1.8 trillion dollars, as we optimize our assets and liabilities to support client needs and improve returns. Net credit losses were again lower, while reserve releases have declined. And we have maintained a stable net interest margin.

Third, our funding base remains a key strength. Our deposit base is stable and high quality, and our long-term issuance plans are on track.

And lastly, we have continued to prepare our businesses and balance sheet for the ongoing evolution of the regulatory landscape. Our capital and liquidity remain strong. And as regulations become clearer, we are better able to adapt our business to the environment.

This concludes our Fixed Income Review. John and I will be happy to take your questions.

PETER KAPP: Before we go to Q&A, I'd just like to clarify that on the comments on slide six, 79% of the energy-related exposures are rated investment-grade as of the third quarter.

QUESTION AND ANSWER

OPERATOR: Your first question comes from the line of Ryan O'Connell with Morgan Stanley. Please go ahead.

RYAN O'CONNELL: Thank you very much. The first question is on TLAC. Good news, just to check my understanding, it looks like your overall TLAC requirement is down about $10 billion. And it looks like, just as you pointed out, your losses on cash flow is about $5 billion, but your risk-weighted assets also went down about $25 billion. So I guess a couple of questions. In the lower risk-weighted assets number, does that include the pending sales? Does it reflect the pending sales of OneMain and Japan or not?

JAMES VON MOLTKE: No, it doesn't include the pending sales of OneMain and Japan. So in other words, they are still part of our risk-weighted assets at the end of the third quarter.

RYAN O'CONNELL: Okay. And so then I think you talked about this on the earnings call, but just to check, so once those sales are completed, how much more will that reduce risk-weighted assets?

JAMES VON MOLTKE: The total number of assets that we'll deconsolidate at that time is, as we said, about $31 billion. And as I think we said before, the risk-weighted asset content of those assets is around 50%.

RYAN O'CONNELL: Okay, so let's say ballpark about $15 billion more?

JAMES VON MOLTKE: Ballpark.

RYAN O'CONNELL: Ballpark. Okay, that's very helpful. Then just a question on the business itself, and that is with regard to investment banking. Obviously, this is a tough quarter for everybody. But I just wanted to dig in a little more on what was going on in M&A and equity underwriting because your M&A revenues were down about 24% year-over-year. Now maybe just last year was a good year, I don't know. But could you talk about what was going on in M&A and equity underwriting? Because my impression was maybe that was a little bit more of a downdraft than other people saw.

JOHN GERSPACH: Hi, Ryan. It's John.

RYAN O'CONNELL: Hi.

JOHN GERSPACH: So when you think about M&A, we think we're continuing to make good progress overall in M&A as we're gaining wallet share with our clients. But as you know, M&A by its nature is an episodic type of business. So in the third quarter itself, you're right, our revenues were down year-over-year. But if you take a look at the M&A revenues on a year-to-date basis, the revenues are actually up 16%. And so we feel that that is more indicative of the sustainable wallet share gains that we've made, especially since the beginning of the year. So look at the third quarter as just being one quarter, and again, I really refer you to the year-to-date results for M&A.

RYAN O'CONNELL: Okay, fair point. Thanks a lot.

JOHN GERSPACH: No problem.

OPERATOR: Your next question comes from the line of Robert Smalley with UBS. Please go ahead.

ROBERT SMALLEY: Hi, good morning. A couple of questions from a couple different areas, if that's all right.

JOHN GERSPACH: Sure.

ROBERT SMALLEY: You had mentioned that non-operational deposits had dropped about a third. Could you talk about impact on the GSIB number there, and is there anything else that would be holding you up from getting a lower number there?

JAMES VON MOLTKE: So just to be clear, is your comment – is your question mostly about the GSIB bucket or mostly about non-operating deposits?

ROBERT SMALLEY: Mostly about the GSIB bucket.

JAMES VON MOLTKE: Okay, so let's go to that. We talked about in last quarter's call, as you know, came shortly after the final rules were proposed. And we confirmed our level of being at around 714 – 715 points in that bucket.

ROBERT SMALLEY: Right.

JAMES VON MOLTKE: As we've updated our calculations reflecting June numbers, we've fallen within that bucket, so we're deeper into the middle of the range of that bucket. And to your question, that reflects a number of actions that we've taken over time, including managing down our reliance on short-term wholesale funding as well as also Level 3 assets. So it does reflect work we've done on our balance sheet.

ROBERT SMALLEY: Okay. And where do you think that that ends up over time? Is there more work that can be done there, or are you really at the end of shedding the non-operational deposits that you didn't want?

JOHN GERSPACH: Robert, it's John. Obviously, we've been working on these non-operational deposits now for almost two years. And when you take a look at the reductions that we've made, we're pretty far along in our ability to drive further decreases in non-operational deposits. But again, that's just one lever.

ROBERT SMALLEY: Right.

JOHN GERSPACH: I think the broader question you've really got is about the GSIB bucket itself. As James indicated, we now would look at ourselves as closer to the middle of that bucket. So when you think about the fact that the scoring on that bucket goes for about 100 points, so it's from 630 up to 729 when you take a look at all the scores, we're now closer to the midpoint. I would say therefore we're certainly less likely to drift up to the 4% bucket. But it's a pretty tough task to drive all the way down through that 630 score in order to get down to the next bucket. So I think we're pretty much where we are. We will continue to optimize as best we can. But for now, certainly looking in the near term, I'd say we're at 3.5%.

ROBERT SMALLEY: Okay, that's very helpful. In terms of capital allocation within the investment bank, I think you in the past have spoken about growing the prime brokerage business a little bit as we've seen some of your less capitalized competitors slim that down. Is that still something that – is that still a road that you continue to go down? And are there other areas that you're seeing now, particularly we're seeing some of the large European banks restructuring their investment banks, where you want to allocate more capital and take advantage of an opportunity?

JOHN GERSPACH: I'd say that we still have some opportunities that we can look at in prime brokerage. Again, when we're focused on a product like that, it's not necessarily because we're in love with the product. It's really we use that product as a means of either gaining entry into a relationship or deepening a relationship that we have with one of our target clients. And so we will continue to utilize some of those strengths that we've got through the management of our balance sheet over time. It's given us that ability then to put more assets and more capital to work to further the deepening of the relationship when it comes to something like prime brokerage with our investor type clients.

We do think that there are other opportunities that we have to grow wallet share with our target market clients, whether that be through investment banking or other areas, and we'll continue to seize on those opportunities. Again, we've been making investments in our investment banking franchise over the last several years, and we have already seen that that has yielded results by expanding the wallet share we've got with our target market clients, and we'll continue to pursue that in the future.

ROBERT SMALLEY: Great, and one more, if I could, on the energy side. Thank you for the disclosure. I appreciate it. In terms of reserve-based lending review, is that fairly well completed? And certainly the reserve increase is noted. Is that all tied together? Is there more to come in the fourth quarter? That's the first one.

Second one, you gave some breakdown on investment-grade versus non-investment-grade. Does this include private companies too that may not be rated? Is that an internal rating?

And then the third, my understanding from some of my energy colleagues is that you've been very proactive and ahead of a lot of your peers in going to clients and having them restructure. Can you give us maybe some anecdotal evidence or something to go on there and some of the outcomes?

JOHN GERSPACH: Okay, so I think I've tried to keep track of the questions that you've asked.

ROBERT SMALLEY: Okay, sorry.

JOHN GERSPACH: That's okay. That's all right. So it's ongoing, likely some more, internal, and no. Come on, Robert. Come on back, so let me give you a little color. So obviously, the reviews are ongoing.

ROBERT SMALLEY: Right. Have we seen most of the reserve build now in the third quarter? Can we expect the same type of number in the fourth quarter, or are we basically through it?

JOHN GERSPACH: I don't have the ability to look ahead right now at what we will likely build in the fourth quarter to give you whether it's going to be the same, slightly less, a little bit more. But there's likely to be some additional reserving actions taken in the fourth quarter just as we complete the final reserve-based lending and other reviews that we will do on energy on an ongoing basis and other aspects of the loan book.

ROBERT SMALLEY: Okay. And the reason I asked about the proactive part was that I just want to see what the sequence is because if you are in fact proactively restructuring with your clients, then that may not necessarily be tied into an RBL review. It's more tied into your own credit process.

JOHN GERSPACH: We certainly have got a very active risk area, as you can imagine, and we do try to get ahead of these things to the extent that we can. So it's not just waiting for March and September when you tend to get into the reserve-based lending reviews. We're working with our clients all the time. Now that doesn't mean though that we won't be putting up reserves. What we normally do is we'll take the reserves based upon our view of the overall credit. But at the same point in time, we're working with our clients to help them restructure. That usually means that we've taken a reserve. But hopefully then you've been able to minimize any NCLs that you ultimately have to recognize.

ROBERT SMALLEY: Okay.

JOHN GERSPACH: Does that make sense?

ROBERT SMALLEY: That does make sense. And in terms of public versus private, how do you look at when you give an IG number, how do you determine whether your private companies are IG? Is that included in that number?

JOHN GERSPACH: Yes, we have a view towards each of the clients. We attempt then to categorize the client as the way we would think that a public rating would appear. Again, it's based on internal models, but they've pretty much held up over time.

ROBERT SMALLEY: Okay, all right. Thank you for all of that and your patience.

JOHN GERSPACH: Not a problem at all.

OPERATOR: Your next question comes from the line of Mark Kehoe with Goldman Sachs Asset Management. Please go ahead.

MARK KEHOE: Hi, good morning. Could you just talk quickly about whether you've changed your guidance on the LCR ratio? Previously I thought that was close to 110%. Is the target now 105% to 110%, lower than previous? Thank you.

JAMES VON MOLTKE: No, Mark, it's James. That's consistent with the previous range. I think we've talked about the 105% to 110% range in the past.

MARK KEHOE: And what would bring you down to the 105% range?

JAMES VON MOLTKE: That's a good question. There are obviously ways that we can deploy the excess liquidity based on market opportunities, and those are opportunities that we'll continue to look for. But I can't talk to specific plans we have to bring down that ratio. Is that it? Operator, we may have lost the line for Mark.

OPERATOR: Yes, sir. Your next question comes from the line of Pri de Silva with CreditSights. Please go ahead.

PRI DE SILVA: Good morning, John and James. Many of your international competitors, as you mentioned earlier, have either cut back or are in the process of cutting back from fixed income. Do you think it's time to play offense, or do you need more time for additional secular and cyclical changes to happen to the business before you deploy additional resources to it?

JAMES VON MOLTKE: So I think a couple things I'd say. I think first of all, yes, we're observing that international competitors are facing the same regulatory rules and making strategic decisions around them, and we do think that's an opportunity for our businesses. And really the point I'd make is that it shows the benefit of being an early adopter of and moving into compliance with the regulatory ratios quickly. And that then gives us the flexibility to take advantage of market opportunities, including potential dislocations among competitors.

PRI DE SILVA: And do you think the time is there yet, or do we need to wait until let's say there's more clarity on the monetary policy side or bid-ask spreads widen?

JAMES VON MOLTKE: I'd say it's an ongoing process of identifying market opportunities. And I'd say, by the way, it's more broadly applicable than just in the global markets business, where we look for opportunities where competitors are withdrawing either from specific client relationships or cutting back in certain – in asset areas, obviously prudently from our perspective because we want to remain focused on our target clients and our target products within the constraints of our balance sheet positioning.

PRI DE SILVA: Great. And then if I may switch tracks for a second, the TLAC NPR is expected tomorrow. And assuming we have corrective action steps built into the requirement in the event a company drops below the required level when everything is fully phased in, what sort of internal TLAC cushion or buffer do you envision when the rules are fully phased in? I know we're three years out probably, maybe more, but just to get your thoughts on it.

JAMES VON MOLTKE: It's a great question, but it's not something we've given a lot of thought to so far obviously in advance of the rules coming from the Federal Reserve. And as I said in the prepared remarks, we do intend to take advantage of the conformance period. So your question really relates to what the balance sheet would look like in three and six years.

PRI DE SILVA: Great, thank you very much.

JAMES VON MOLTKE: Thank you.

OPERATOR: Your next question comes from the line of Louise Pitt with Goldman Sachs. Please go ahead.

LOUISE PITT: Hi. Good morning, guys. Thanks for the call again, just a couple of quick supplementaries as we're thinking about the numbers that you've put out there with regards to issuance. So from a preferred bucket standpoint, adjusting for the new potential deal in the fourth quarter, can you comment a little bit on what your targeted level of preferred relative to the size of the balance sheet will be? We've been hearing some anecdotes from other banks that the 1.5% guideline that has been in place in the past may actually be lower than they are intending to issue in preferred, and you're still below that. So I was just wondering as you think about that over the course of the next two or three years if you can comment on whether you would go above that 1.5% guideline.

And then secondly from a senior debt issuance perspective, can you comment on potential markets that you've been looking at or demand that you've seen?

And then my final question is on structured notes. You had potentially indicated in the past that some of your structured notes could either be refinanced, reissued, restructured, whatever word you want to use, but at least somewhat included to be TLAC-eligible. Can you comment on that and also on any expectations that you have for a bucket that the Fed might include as a sort of sin bucket and what the ramifications for breaching that might be?

JAMES VON MOLTKE: Sure. That's a lot also to go back over, Louise.

LOUISE PITT: Sorry.

JAMES VON MOLTKE: But happy to do so. First of all, as it relates to the 150 basis point target that's enshrined frankly in regulation around preferred, we're going to work to get to that target, as we've noted, over a number of quarters. We may build a very slight buffer to that, but we're not really intending to go beyond the 150 basis points for now. We'll certainly look at other factors that I think people have referred to over time, such as SLR requirements and CCAR needs, but at this point we're not planning to go significantly beyond the 150 basis points.

I'll go to the structured notes comment second. Obviously, we're awaiting the Fed's views tomorrow, and you're absolutely right, we'd assumed some portion of structured notes could be included as part of our glide path on TLAC, and we no longer view that to be the case or we're not expecting that news tomorrow. We've shown you our numbers I think over time in terms of glide path and the flexibility we have, so it isn't a huge impact on our planning, but obviously it's a change versus prior expectations.

In terms of issuance, senior issuance, I don't want to get into specific market opportunities or areas that we see. We'll obviously remain opportunistic to some degree within the confines of the issuance plans that we've laid out for you.

LOUISE PITT: Okay, great. Thanks.

JAMES VON MOLTKE: My pleasure.

OPERATOR: Your next question comes from the line of David Jiang with Prudential. Please go ahead.

DAVID JIANG: Hi, guys. I just want to go over the expectations for redemptions in the fourth quarter. Is it another $5 billion to get to $12 billion?

JAMES VON MOLTKE: Yes, that's the net that's implied on our slide. I think it's slide 12. You will have seen that we announced some tenders yesterday.

DAVID JIANG: Yes.

JAMES VON MOLTKE: And those tenders relate to a total potential buyback of a little over $7 billion. We are going to have to see what the participation rate is in those offers. But in general, what I'd say to you is that the implied net issuance in the fourth quarter would be zero, and we'll adjust our gross issuance to reflect the success of the tender program.

DAVID JIANG: Right. So on the debt, the gross issuance side, you expect to issue $7.5 billion, if I recall, in the fourth quarter?

JAMES VON MOLTKE: $7 billion.

DAVID JIANG: $7 billion, of which is it $4.5 billion is completed?

JAMES VON MOLTKE: A little over $4.5 billion is completed.

DAVID JIANG: Okay. Just so when you look at the debt redemptions over the last three years, it's been pretty heavy. I'm just wondering how much left is there to do just looking forward. Or have you effectively exhausted all the ways to economically do liability management?

JAMES VON MOLTKE: We pursue liability management for a number of reasons. I think in particular, maintaining an efficient funding curve for the organization. We'd expect to do some amount of continued liability management exercises. But to your point, the last few years have been a little bit unusual as we've been reducing the overall level of long-term debt. And obviously, as we pointed out in this quarter, from time to time we'll be doing larger actions in conjunction with larger transactions closing in Citi Holdings. And so you've seen that effect in a couple of years, including this year.

DAVID JIANG: Great, thank you.

OPERATOR: Your next question is a follow-up from the line of Mark Kehoe with Goldman Sachs Asset Management. Please go ahead.

MARK KEHOE: Hi, just a last question. In terms of – it sounds like you were going to use the full glide path for TLAC compliance. But when I look at your preferred issuance, you largely have gotten there well ahead of the (inaudible) phase-in. Why the divergence between TLAC compliance and then preferred issuance compliance? Thank you.

JAMES VON MOLTKE: So, Mark, we lost you on the line and it's a little bit hard to hear you acoustically. But I think your question has been how do we reconcile the intention to use the full conformance period on TLAC with the way that we've managed our sub debt and preferred glide path. Was that your question?

MARK KEHOE: Yes, thank you.

JAMES VON MOLTKE: We look at the two differently. The sub debt and preferred glide path is really around managing our capital stack, if you like, and rebuilding our conformance with really what's implied in the regulations in terms of expectations for additional Tier 2 and total capital. Whereas TLAC we look at differently; there would be an external cost, if you like, to the organization if we accelerated significantly ahead of that conformance timeline, especially if we're substituting that parent issued debt for potentially less expensive liabilities. And so while we won't linger, it certainly makes sense I think economically to take advantage of the three- and six-year proposed conformance period.

MARK KEHOE: Okay, thank you.

OPERATOR: Your next question comes from the line of Arnold Kakuda with Bloomberg. Please go ahead.

ARNOLD KAKUDA: Hi, thanks for the call. It's really helpful. Quick question, and I appreciate the color on the expected tenders in the fourth quarter. So I think you mentioned that you would redeem high-cost debt in conjunction with the OneMain sale. So my question is, have we in the announced tender offers that you've already done in the past few days, does that include the high-cost debt that you intend to redeem for OneMain?

JAMES VON MOLTKE: Yes, it reflects the actions that we've decided to take, reflecting a number, by the way, of financial goals that we have for those transactions in connection with the closing of a number of deals in Citi Holdings. So I think the short answer is yes to your question.

ARNOLD KAKUDA: Okay, great. And then switching gears, some of your big European peers have talked about potential RWA inflation over the next few years on higher-risk floors. And so is this something that will impact you and your U.S. peers? Is that going to happen in the future, or have you already gone through a similar exercise let's say in 2014 when you were approved to use the advanced approach framework?

JAMES VON MOLTKE: I can't talk to what our competitors have been saying about their forward-looking expectations of RWA. Certainly everything that we're aware of that's effective today is baked into our RWA calculations. We're following certain regulatory discussions closely that could impact RWA levels in the future. But it's I think still too early in terms of where we stand in the rule-making to begin to give estimates or manage capital, frankly, towards those what I think are still speculative RWA levels.

ARNOLD KAKUDA: Okay, great. And then lastly, as the Fed starts thinking about raising rates, perhaps indicating a turn in the economic cycle, would it be logical for the Fed to start thinking about activating a countercyclical buffer for you guys, perhaps raising capital requirements in the future?

JAMES VON MOLTKE: I'm not going to comment on Fed policy, either on rates or on the countercyclical buffer.

JOHN GERSPACH: Everybody else does, including everybody at the Fed.

ARNOLD KAKUDA: Okay, great. Thank you.

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

DONNA HALVERSTADT: Good morning. Apologies if I missed it, but I don't think I heard your answer to Louise's questions about any expectations you might have for the Fed to include a sin bucket in the TLAC guidelines and what the ramifications for breaching it might be. Did you address that?

JAMES VON MOLTKE: I don't think so. But again, I don't want to talk to a rule that's coming out as soon as tomorrow.

DONNA HALVERSTADT: Okay, thank you.

JAMES VON MOLTKE: Thanks.

OPERATOR: Thank you. That concludes the question-and-answer session. Mr. Kapp, do you have any closing remarks?

PETER KAPP: Thank you, everyone, for joining the call today. If you have follow-up questions, please reach out to us in Investor Relations. We'll talk to you again next quarter.

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

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