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 Tom Rogers, 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. Rogers, you may begin.

TOM ROGERS: Thank you, Thea. 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 I get started, I'd like to remind you that today's presentation may contain forward-looking statements which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial conditions may differ materially from these statements due to a variety of factors including the precautionary statements referenced in our discussion today and those included in our SEC filings including, without limitation, the Risk Factors section of our 2015 Form 10-K.

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

JOHN GERSPACH: Thank you, Tom, 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 2016 results. After that I'll turn the call over to our Treasurer, James von Moltke, who will provide an update on our balance sheet and issuance plans. Then we'll be happy to take your questions.

Earlier this month, we reported net income of $3.8 billion for the third quarter of 2016, or $1.24 per share, and we're pleased with the momentum across our franchise that drove these results. We generated underlying year over year revenue growth in nearly all of our businesses. We grew loans and deposits in both our institutional and consumer franchises and we continued to make progress in winding down Citi Holdings.

Corporate and consumer credit quality remained stable this quarter. We maintained a diversified funding profile. Our deposit quality remains strong. We continue to execute against our issuance plans and we reduced our estimated TLAC shortfall. And our regulatory capital leverage and liquidity ratios remained robust.

On slide 3, we show total Citigroup results. As I noted a moment ago, in the third quarter, we earned $3.8 billion. Revenues of $17.8 billion were down 4% from last year, and expenses decreased 2%, each driven primarily by the continued wind-down of Citi Holdings as well as the impact of foreign exchange translation. Citicorp revenues grew 2% from the prior year in constant dollars, as broad-based growth across our institutional and consumer businesses was partially offset by lower revenues in Corp/Other.
And credit costs improved, reflecting a reduction in the provision for benefits and claims due to asset sales in Citi Holdings as well as lower net credit losses, partially offset by a net reserve build this quarter as compared to a small release in the prior year.

Citicorp was again the predominant driver of profitability in the third quarter, contributing 98% of total net income. We reduced Citi Holdings assets by nearly half over the past year, ending the third quarter with $61 billion of assets and we have signed agreements in place to reduce this amount by an additional $10 billion.

And now let me turn the call over to James.

JAMES VON MOLTKE: Thank you, John. Beginning on slide 4, we show balance sheet trends over the past five quarters. On a reported basis, total assets increased by $10 billion in the past year. To better reflect 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 increased by $6 billion from the prior year period as we continued to grow our core businesses while winding down Citi Holdings.

Citicorp loans grew 7%, reflecting the continued strength of our core customer franchises as well as the impact of the Costco portfolio acquisition, which closed near the end of the second quarter of 2016. And Citigroup deposits grew 4% driven by Citicorp deposit growth of 5%. This deposit growth funded our Citicorp loan growth as well as growth in our investment securities, contributing to our strong liquidity portfolio.

Slide 5 presents trends in our loan portfolio in constant dollars. Total Citigroup loans increased 3% year over year despite continued reductions in Citi Holdings. As noted, we grew Citicorp loans 7% as we continued to serve our target clients in both the consumer and the institutional businesses. Consumer loans grew 7% year over year, driven by 13% growth in North America. This included a 25% increase in branded cards, which was primarily driven by the acquisition of the Costco portfolio. International consumer loans declined 1% year over year, as continued growth in Mexico was more than offset by a 4% decline in Asia consumer loans. This decline reflected the continuing repositioning of our portfolio away from lower return mortgage loans.

On the institutional side, loans grew 6% year over year in total. Our corporate lending portfolio increased 1%, primarily driven by the funding of transaction-related commitments to our target market clients partially offset by loan sale activity. On an average basis, our corporate lending portfolio increased 4%. TTS loans declined 2%, as we continued to support our clients while utilizing our distribution capabilities to optimize the balance sheet and drive returns.

And markets and private bank loans grew 18% during the year. Private bank growth was primarily driven by real estate and investment-related lending to our high net worth target clients as we deepen our relationships at attractive return levels. And our markets growth included lending to target clients in advance of capital markets issuance.

Citi Holdings loans decreased 35% year over year driven by a $17 billion reduction in North America mortgages including transfers to held-for-sale. Nearly 80% of Holdings’ remaining loans are North America mortgages and Holdings’ credit quality remained stable in the third quarter.

On slide 6, we show credit quality trends in our Citicorp loan portfolio. Consumer credit performance remained broadly favorable again this quarter in every region. The decline in the NCL rate in North America mostly reflects the impact of the Costco portfolio, which did not incur any losses this quarter. Excluding Costco, the NCL rate in North America would have been flat to the prior year at 2.2%. And we built over $400 million of consumer loan loss reserves during the quarter. Nearly $450 million in branded cards and retail services. Roughly a third of this amount was related to the acquisition of the Costco portfolio as we previously described. Another third was related to volume growth and normal seasoning in...
the portfolios, and the remaining third predominantly reflects the estimated impact of newly proposed regulatory guidelines on third party collections. This build drove a slight increase in our months of coverage from 17 to 18 in the third quarter, however we expect this ratio to revert back to lower levels as NCLs increase, reflecting portfolio growth and seasoning, the normalization of losses on the Costco portfolio and the regulatory impacts I just mentioned.

Looking to next year, we expect the NCL rate in North America branded cards to remain stable at around 280 basis points, while the NCL rate in retail services is expected to rise somewhat to around 435 basis points. The NCL rate in Latin America showed improvement again in the third quarter. However, as our loan portfolio continues to grow and season, we still expect this NCL rate to run closer to 4.5% as we go into next year.

ICG cost of credit was a benefit of $90 million in the third quarter as net credit losses were largely offset by previously existing reserves, and we also saw a net benefit from ratings upgrades, reductions in exposures and improved valuations. Non-accrual loans decreased $45 million from the second quarter levels to 77 basis points of loans. The increases in EMEA and Latin America non-accrual loans were, in each case, primarily driven by one energy-related credit, whereas the improvement in North America was broad-based.

Turning to slide 7, we show the composition of our deposits, which fund over 50% of our assets. Total deposits increased 4% from the prior year period in constant dollars, with continued high quality deposit flows across our franchise. Consumer deposits increased 5% driven by broad-based growth across all regions. Corporate deposits increased 4% year over year, with TTS accounting for over half of this growth as we continued to support client activity.

On slide 8, we update our regulatory liquidity metrics. Our average LCR was 120% in the third quarter, down slightly from the second quarter, reflecting both a decrease in average HQLA to roughly $404 billion and a slight decline in average net outflows. We expect our average LCR to remain around this level over the next several quarters as we continue to manage our liquidity profile in the context of resolution planning guidelines. As to the net stable funding ratio, or NSFR, we continue to estimate that our NSFR under the U.S. regulators' proposed rule is comfortably above the 100% minimum requirement based on what we know today.

On slide 9, we show Citigroup's net interest revenue and net interest margin. Citigroup net interest revenue decreased 1% year over year driven by the continued reduction in Citi Holdings, in particular the sale of OneMain Financial, which was almost entirely offset by 5% growth in Citicorp. Our NIM was 286 basis points in the third quarter, flat to the prior quarter as the benefit from the Costco portfolio and other loan growth was offset by lower trading NIM and the impact of the FDIC assessment surcharge, which became effective in July 2016. Looking to the fourth quarter, we expect NIM to remain roughly flat to this level.

Our estimate of the net interest revenue benefit from a 100 basis point instantaneous parallel rate shift remained at just under $2 billion and the portion attributable to U.S. rates remained stable at approximately $1.4 billion. We remain conservatively positioned for interest rates consistent with market expectations for further rate moves.

Turning to slide 10, let me highlight our issuance program year to date, including over $6 billion of benchmark debt issued last week. Year to date, we have issued $27 billion of benchmark debt including $23 billion of senior and $4 billion of subordinated debt. These issuances have been diversified across tenors and have a weighted average maturity of over eight years. And we have issued across multiple currencies including U.S. Dollar, Euro, Australian Dollar and Yen denominated offerings.

In August, we issued a callable structure that was well received by the market. Given the efficiency of callable structures, we're pleased to have seen that market continue to evolve. With the successful
execution of our transactions last week, we have completed our planned 2016 long-term unsecured debt issuances, and, as we previously noted, we completed our preferred stock issuances during the second quarter.

On slide 11, we show the composition of our long-term debt outstanding. During the third quarter, our total long-term debt increased to $209 billion as an increase in parent company debt was partially offset by securitization maturities. Including last week's issuances of over $6 billion and fourth quarter maturities of approximately $2 billion, we expect parent company debt to end the year at around $160 billion.

We currently expect bank level debt to end the year flat to modestly above the third quarter level depending on the volume of credit card securitization issuance we complete during the remainder of the quarter. And the weighted average maturity of our long-term debt remained at around seven years in the third quarter.

On slide 12, we update our estimates of our Total Loss Absorbing Capacity based on the Federal Reserve's November 2015 proposed rule. Based on the assumptions set forth on the slide, we currently estimate that we meet our expected requirement under the Total Loss Absorbing Capacity definition as we show in the middle column on the slide. Accordingly, we expect our estimated long-term debt requirement of 9% to remain our binding constraint under the TLAC rules.

Our estimate of this measure is shown in the right-most column. We estimate we have reached a ratio of 8.4% of our risk-weighted assets as of the end of the third quarter, equating to a long-term debt shortfall of approximately 60 basis points, or $7 billion. The $2 billion improvement from last quarter reflects both the increase in eligible long-term debt as well as a slight reduction in our risk-weighted assets.

As we note on the slide, this estimate assumes our non-U.S. law debt will remain eligible. If, consistent with the proposal, the final rule renders this debt ineligible, our shortfall could have increased by approximately $10 billion when the rule becomes effective. Of course, our estimates are necessarily subject to the final rules once adopted. However, based on our current analysis and assumptions, we continue to believe that the proposal's impact on our issuance plans and earnings to be manageable.

Turning to slide 13, let me summarize our regulatory capital position, which remains among the strongest in the industry. During the quarter, our CET1 capital ratio improved modestly to 12.6%. Our total capital ratio increased from 16.1% to 16.3% and our Supplementary Leverage Ratio decreased slightly to 7.4%, driven by a modest increase in total leverage exposure reflecting an increase in average on-balance sheet assets. Citibank's SLR also declined slightly from 6.8% to 6.7%.

Moving to our last slide, let me summarize four key points. First, we earned $3.8 billion of net income in the third quarter driven by the underlying momentum across our franchise. Second, we have maintained total assets of approximately $1.8 trillion while serving clients by growing loans and deposits in our core Citicorp businesses. Third, we reported a CET1 capital ratio of 12.6% and an SLR of 7.4%. We believe the strength of our balance sheet allows us to support our clients while addressing the evolving regulatory landscape. And finally, we continue to maintain a stable liquidity profile and a diversified funding base.

And with that, John and I will be happy to answer your questions.
QUESTION AND ANSWER

OPERATOR: (Operator Instructions) Okay. The first question will come Hima Inguva with BoA.

HIMA INGUVA: Great. Thank you. Can you hear me okay?

JAMES VON MOLTKE: We can hear you. Good morning.

HIMA INGUVA: Thanks for that. Excellent. Good morning, and thanks a lot for doing the call. It's very helpful. My first question is around the call structure. So we are seeing banks issue call structures, you have as well, and do you expect the trend to continue? I would like to know your views on pricing of these structures. How do you view the pricing as it's being done currently?

And then do you have any plans on issuing these calls with two years? So for example, seven non-call five, 11 non-call nine, just to get the complete TLAC treatment? And do you think the market would receive that well?

JAMES VON MOLTKE: So a few points, Hima. First of all, we're very pleased with the deal that we did in August and its reception in the marketplace. And I think secondly then, pleased that we've seen a rapid adoption of these structures by the industry. And I think more recently, more issuance in a number of tenors in both in fixed and floating rate format. So the answer to the first question I think is we're pleased to see that development, and we expect it to continue, and also, if you like, broaden the number of structures.

I think it's difficult to speculate how the market will develop over time, and I don't want to comment on pricing, but I would expect that a significant proportion of TLAC-eligible debt from the industry is likely to take the form of in these structures given its efficiency from a TLAC and, actually, NSFR perspective as well. Lastly, to the two year, we've given that a little bit of thought, but frankly, we're focused on the economics of these structures and their efficiency and to date, we look at it as most effective with the one year to maturity call.

HIMA INGUVA: Great. Yeah, makes sense. And then when you said broader structures did you imply subs?

JAMES VON MOLTKE: Look, we've looked at subs in the past, and that market was a bigger market before some regulatory changes in scenarios like step-up provisions. We review it from time to time on the economics, but we haven't found those structures to be very economic. And we've also reduced our required sub debt issuance program versus the last several years.

HIMA INGUVA: Great. Thank you. That's very helpful. And my next question is around TruPS that have been issued by Citigroup Capital XIII. So basically looking at slide 25 here. So I believe these TruPS are permanently grandfathered, and given the high cost of this, and these are already callable structures, a call with securities relative to others, so do you plan on ever calling this security and maybe potentially replacing with prefs?

JAMES VON MOLTKE: So, I don't want to really ever speak to specific securities that are outstanding. In respect of the Capital Xllis that you refer to, one thing to note is that they are eligible for AT1 treatment, and so have capital value to us. We look at the economics of that instrument from time to time, but we have not made a decision to call it at this time.

HIMA INGUVA: Okay. Great. That's very helpful. Thanks a lot.

OPERATOR: The next question will come from Robert Smalley with UBS.
JAMES VON MOLTKE: Good morning, Robert.

ROBERT SMALLEY: Hi. Good morning. Thanks.

JAMES VON MOLTKE: Hi.

ROBERT SMALLEY: I want to follow up first on the call structures versus bullets, then a couple of asset quality questions if that's all right.

JAMES VON MOLTKE: Sure.

ROBERT SMALLEY: First, you talked about efficiency in terms of seven non-call six transactions that you did. Could you talk about specifically a little bit of the arithmetic between that and the seven non-call five? You're selling a cheaper option and you have to play that off versus the 50% treatment for TLAC. Specifically could you talk about the arithmetic and how that comes in, how you look at it as an issuer?

JAMES VON MOLTKE: Sure.

ROBERT SMALLEY: And a little bit of just why you did that structure here, and in Europe you did bullets?

JAMES VON MOLTKE: Yeah so a couple of questions there. First of all, I would say that the market is evolving towards sort of natural tenors, if you like. And my own instinct is the beam at the six non-call five and eleven non-call ten structures probably will form the bulk of issuance over time. We'll see how the market develops. But to me, it's natural pricing against the 5 and 10 year points in the secondary curve. I don't want to comment on the specific math of the option premium, if you like, comparing those two tenors, but we elected the seven non-call six as our test in the summer. And that really doesn't tell you anything about our future issuance plans.

As it relates to the bullets, we will continue to access a wide variety of transaction structures going forward. So we don't want to be reliant on any one structure, any one tenor or any one currency as we think about issuance. And so that really informed our decision in going for bullets in the most recent issuance.

ROBERT SMALLEY: Thank you. That was helpful. Just on the two asset quality questions, in terms of card, you talked about increases in provisions, a third, a third, a third: Costco, basically growth math and regulatory issues. And this echoes some of the comments we heard from a major card issuer last night. At the same time though, we see a lot of commentary about increases in problems in certain segments in the U.S., certain economic segments, certain geographic segments. Are you simply not seeing that in your portfolio? Or is that something that you think would happen further out? Can you comment on that at all?

JOHN GERSPACH: Hey, Robert, it's John. As far as what are we seeing in our portfolio, right now we're seeing fairly stable trends. We commented on where we thought we would go with NCL rates next year, and the only change that we're seeing in the NCL rates going forward at this point in time are really reflective of some of those proposed regulatory changes that we talked about. So we don't see anything, and again I always hate to use absolutes, but we're not seeing the type of trend that you're mentioning some others may have called out.

ROBERT SMALLEY: Okay. That's helpful. And then finally on the energy portfolio which was a big concern a couple of quarters ago, people are kind of forgetting about it, but we are seeing refinancing trends, EP, Key, Basic as examples where in the refinancing they didn't draw down on revolvers but have refinanced their liability structure. You participated in some of this, I know you don't want to go into any specifics on clients, but is that really what the trend is and will we continue to see that going forward and we can start to put this chapter behind us?
JOHN GERSPACH: You know, any time somebody asks the question, can we put this chapter behind us, I always have to hesitate. If the current trend continued then I would say it, but I hate commenting on overall industry trends. We feel really good about our portfolio which is what we have said from the start of this whole thing. We feel that given the overall credit quality of the portfolio, and we've I think been fairly transparent as far as giving you some of the ratings detail on the portfolio, we felt that we had a portfolio that would perform well. That has clearly been the case. And given where the situation is right now, we would continue to expect our portfolio to perform well.

ROBERT SMALLEY: And the trend of refinancing without drawing down on revolvers is that the way that you're preferring to do it and do you see that persisting going forward in refinancings?

JOHN GERSPACH: Well, I think that as the industry works its way through this that's something that you're going to continue to see. I can't say for how long or in what quantities, but as various companies are looking to shore up their balance sheet, strengthen their balance sheet, that is a natural move.

ROBERT SMALLEY: Great. Always helpful. Again, thanks for doing the call.

JOHN GERSPACH: Not a problem.

OPERATOR: The next question will come from Mark Kehoe with Goldman Sachs.

JAMES VON MOLTKE: Good morning. Mark.

MARK KEHOE: Good morning. How are you?

JOHN GERSPACH: Hey, Mark.

MARK KEHOE: Just a question in terms of the non-call floating rate structures. Does that in a sense change any way the way you manage GAAP risk on your balance sheet? And then kind of related to that question is also, why use the floating rate structure as opposed to a fixed rate structure in the past? Is there something going on there that's appealing to issue floating rate securities?

JAMES VON MOLTKE: I think two things. One is yes, in a fixed-rate format it would present a hedging question. I think the overarching expectation is that you're hedging to the call date, not to the final maturity. And I think then secondly we, I'm sorry, I blanked on your second question, Mark.

MARK KEHOE: Just really why the issuance of floating rate securities as opposed to fixed rate? Is there a change in issuance by investors' demand or you can kind of push through some more to the market?

JAMES VON MOLTKE: No. Again, we'll always look for diversity in our funding base. The floating rate security is efficient in some ways. For us it avoids, if you want to have that floating rate exposure, it avoids the need to swap. But really it's just accessing markets where there's liquidity and investor demand from time to time.

MARK KEHOE: The follow-up question, just in terms of the sub debt issuance plans for the next 12 months, you mentioned those and also the amortization of your sub debt.

JAMES VON MOLTKE: Sure. We have I think some disclosure on the amortization of sub debt that we provided in the past. I'd say broadly our issuance plans for next year, it's a little bit early to provide clear guidance, but I'd say broadly speaking, next year will look quite similar to this year in terms of our issuance plans. In terms of sub debt, at this point we're really just replacing the decay in terms of the eligibility of sub debt as capital instruments.

OPERATOR: The next question will come from Donna Halverstadt with Morgan Stanley.
DONNA HALVERSTADT: Good morning. I also have a question on the callables and its clear why callables are attractive, not just for TLAC, but for other reasons as well. And it's clear why callables, within callables, that floating rate structures have certain advantages to fixed rate structures. But my question is on the size of the dollar FRN market, which is currently a small fraction of the size of the fixed rate corporate market. Do think that the dollar FRN market is large enough or that it can grow large enough over time to readily absorb the amount of floating rate debt that you and your peers may like to issue over time?

JAMES VON MOLTKE: Yeah, Donna, that's a very hard question to answer because again, the traditional format, especially for the large size of bank and financial issuers in the U.S. has been fixed and it's been a larger market. I think the recent volumes of floating rate have been encouraging, but that market may be larger than we've typically accessed in the past. But I wouldn't say that we're expecting it to really represent a major shift in terms of the capacity in the marketplace. But it's been encouraging to see more floating rate capacity in recent months.

DONNA HALVERSTADT: Okay. And then my second question relates to the general expectation that grandfathering is a likely solution to some of the unfortunate language in the TLAC NPR. But to the extent that we do not get grandfathering, I guess we're then into a world of consent solicitations to address language in indentures or to exchange offers or combinations thereof. Would you care to hazard a guess as to what range consent solicitations may fall into if that's the route that issuers end up needing to go?

JAMES VON MOLTKE: Donna, I think it's far too early and I don't like guessing in a format such as this. Our hope certainly is that the final TLAC rule will include either sort of a relaxation of some of the constraints or eligibility criteria that the draft rule had, and that to the extent that there isn't a relaxation of those criteria, that they'll be grandfathering. Because my own opinion here is that the benefit in terms of bail-in eligible debt, the availability of bail-in eligible debt relative to some of these constraints and the costs that you're alluding to of having to go into consent or repurchase processes, that sort of benefit/cost trade-off is probably not a good one for the industry.

DONNA HALVERSTADT: All right. Thanks for your thoughts.

JAMES VON MOLTKE: Thanks.

OPERATOR: The next question will come from Arnold Kakuda with Bloomberg Intelligence.

ARNOLD KAKUDA: Great. Hi.

JAMES VON MOLTKE: Hi.

ARNOLD KAKUDA: I just want to go back to the callables again. And then you talked about the capital efficiency of it, but I just wanted to get your thoughts on is there a potential where let's say a regulator is looking at this and saying, hey okay, a lot of banks have issued seven non-call sixes. You know what, this is really just six-year debt. And so maybe we should start thinking about treating it as six-year debt and therefore losing its TLAC eligibility at the five year point.

So just curious to get your thoughts on that, and if you've had any dialogue with the regulators in terms of how they might think about this debt that you guys are issuing as TLAC eligible.

JAMES VON MOLTKE: So on the second part of the question, I don't want to comment on our discussions with regulators. What I'd say about the way the rule works and how the callable feature sort of fits within that rule, I think about the one and two year decay that's built into the rule as essentially providing time in the event of stress to support the required bail-inable debt at a time where the banks don't have access to the markets. And in that vein, the callable structures actually fit perfectly well with the spirit of the regulation. And theoretically, in stress, the issuers would make the decision not to call in
order to preserve that debt and not put stress on market access in stress environment. So I do think they're entirely with the spirit of the rule.

ARNOLD KAKUDA: Okay. Got it. And then I mean, do you think maybe the final rule isn't out yet, so is there a potential that the final rule might come out with something a little different where the language might change on this sort of stuff or are you fairly confident that kind of the stuff that you guys have already issued, the callable stuff, will continue to remain TLAC eligible until the point of non-call?

JAMES VON MOLTKE: It’s always hard to guess what’s going to come in a final rule. I would certainly hope that issuance up to the point of the final rules, sort of effective date, will be treated as good bailable debt.

ARNOLD KAKUDA: Okay. Got it. And then I mean, do you think maybe the final rule isn't out yet, so is there a potential that the final rule might come out with something a little different where the language might change on this sort of stuff or are you fairly confident that kind of the stuff that you guys have already issued, the callable stuff, will continue to remain TLAC eligible until the point of non-call?

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ARNOLD KAKUDA: Okay. Great. Thanks. And then I think I believe one of your U.S. peers disclosed that it did not have the regulatory approval for its internal models' methodology when calculating its Basel III fully phased-in advanced approach capital ratio. And I don't think I see similar disclosures when you report your Basel III fully phased-in advanced approach capital ratios, so is it safe to assume that you have the regulatory approval for your internal analytic models?

JAMES VON MOLTKE: So Arnold I can't comment on the peer disclosure or why it is that there was a footnote. For Citi, when we exited from the Basel parallel run in 2014, we did go through an elaborate model approval process with the regulators and for our internal models’ methodology. And so you're correct in the statement that our advanced approaches calculations relies on approved models.

ARNOLD KAKUDA: Okay. Great. And then lastly, the regulatory landscape slide on page 18 is very helpful. Maybe can you point out a potential regulation that you think is very important that analysts and investors may not be paying enough attention to? And on the flip side, can you point to one that may be getting too much attention compared to its potential impact?

JAMES VON MOLTKE: That's a good question. It's an interesting quarter, the most recent quarter, in terms of events, because I guess there were a couple of final rules that came out of Basel without a lot of new information in them so in some ways, that’s good in terms of confirming the direction we’re heading in. We obviously awaited Governor Tarullo’s comments in September and now await the NPR that will come out in January or early next year. That is I think a consequential sort of change in regulation.

Other than that, I wouldn't say there were major events that the market isn't focusing on that took place in the third quarter. I will say looking again to the future, the sort of Basel III enhanced framework discussions that are taking place in the Basel committee and at GHAS, those are I think important to the industry and so we await the calibration of those proposals, which at this point we'd expect also to be a 2017 event.

ARNOLD KAKUDA: Okay. Great. Thanks. Always very helpful.

JAMES VON MOLTKE: My pleasure.

OPERATOR: The next question will come from Scott Cavanagh with APT.

SCOTT CAVANAGH: Good morning, guys. Thanks for the call.

JAMES VON MOLTKE: Hey. Good morning, Scott.

SCOTT CAVANAGH: Good morning. So my question is, looking at the recent living will disclosures, looking at the IHC, can you kind of go into more details there? One thing that struck a number of us were looking at the point of non-viability triggers and the potential of layering at the IHC. How should we be
thinking about this IHC structure and the potential for additional debt be placed there potentially ahead of us in a resolution scenario?

JAMES VON MOLTKE: Sure. I'll try to formulate it in a way that we think about it. I think first of all, the IHC structures which you've seen a number of the firms that provided their public commentary to the October 1 submissions, those IHC structures reflect regulatory guidance and feedback that the industry received in the context of the 2017 resolution timing guidelines. So it's a move in the industry that firstly reflects regulatory feedback. As I think that commentary and the guidelines show, it's an attempt to separate the MLEs from the parent company that in this hypothetical scenario, the parent company would go into bankruptcy. There's a separation that the IHC creates between that parent and the major operating entity. So that's the structural goal that you see in the guidelines.

In terms of how our structure would work, we've outlined that we have identified an existing entity, Citicorp, to be the IHC in our structure into which we'll place some, but not all, of the MLEs that are our operating entities. I think it's important, Scott, for investors to understand that the IHC would not be an issuer of third-party debt. So it would be funded entirely by the parent, and the parent's third-party unsecured issuance that would then be channeled to the MLEs through the IHC. So that hopefully gives you some color on the mechanics as we see it.

SCOTT CAVANAGH: Okay. Is there a prohibition there or just some rule or regulation that would prohibit the layering pre-resolution?

JAMES VON MOLTKE: Well, the idea is that the restructurings that are contemplated here will happen in the very near future, so happen in a very much a BAU environment, so that all of the internal restructurings, the agreements that support the resolution mechanism as well as incidentally the triggers and the funding structures that you mentioned, all of those are in place as a BAU matter well ahead of resolution.

SCOTT CAVANAGH: Okay. Would you be disclosing the financials of the IHC and the distance to these point of non-viability triggers going forward?

JAMES VON MOLTKE: First of all, there is some discussion in the NPR about disclosure requirements, and so that's something that we're looking at, we've provided comment on and we'd expect to see evolve over time. It's too early to say what our disclosure would look like in this regard. I will say that some of the existing ratios that we published today are useful guides in terms of how you'd think about distance from a resolution scenario.

SCOTT CAVANAGH: Okay. I mean that would, I think from an investor point of view, liquidity at these individual material entities, whether it's the parent, the IHC or below would be very helpful given what's happened in one of the companies in Europe. And then on another tack, on the indentures, has there been any progress or change in your thinking on how you would present the new indenture post the final rule?

JAMES VON MOLTKE: Final TLAC rule. Yeah, Scott, as we've talked about previously on these calls, we are aware of the Credit Roundtable comments and have looked at and studied those carefully. We are awaiting the Federal Reserve Board's final TLAC rule and so that's obviously been a key gating element of the work we need to do to finalize the covenants in our indenture. We will act with alacrity once we see that final rule and focus both on the final covenants as well as again, the disclosure.

SCOTT CAVANAGH: Well thank you very much for the call as always and I believe the investors would definitely want to work with you post the final rule coming out to come up with that new indenture that would work for all parties.

JAMES VON MOLTKE: Thanks, Scott.
OPERATOR: The next question will come from David Jiang with Prudential.

DAVID JIANG: Hi, guys. On the regulatory landscape update, the revised RWA methodologies around market risk, operational risk from the Basel committee can you comment on how that may be impacting the way you think about your risk-weighted assets?

JAMES VON MOLTKE: In short, again too early. We've looked at the first set of proposals, we've obviously participated in quantitative impact studies and we've looked at industry aggregations of that QIS work. But until you see calibration of the final proposals, we think it would be too early to really start to think about capital allocation in light of a hypothetical construct.

DAVID JIANG: When do you expect more clarity on that?

JAMES VON MOLTKE: It's always hard to tell what is going on in terms of the committee processes. But as I say, our current expectation would be early next year.

DAVID JIANG: Thank you.

OPERATOR: The next question is a follow-up from Donna Halverstadt with Morgan Stanley.

JAMES VON MOLTKE: Hi again, Donna.

JOHN GERSPACH: Hello again.

DONNA HALVERSTADT: Hi, sorry about that. Yes, my follow up is actually on the response that you gave to Mark when he asked about sub debt issuance over the next 12 months. And you had said that it's really too early to tell, but broadly speaking, next year issuance should be similar to this year and that sub debt issuance would be to replace decay. When you made the comment that, broadly, next year issuance should be similar to this year, was that specific to sub debt or were you talking about debt more broadly, senior and sub together?

JAMES VON MOLTKE: Debt more broadly senior and sub together.

DONNA HALVERSTADT: Okay, thanks for the clarification.

OPERATOR: The next question will come from Jason Jones with Wells Fargo Securities.

JAMES STRECKER: Hi, good morning. It's actually James Strecker from Wells.

JAMES VON MOLTKE: Hi, James.

JAMES STRECKER: Sorry about that.

JAMES VON MOLTKE: That's okay.

JAMES STRECKER: First of all, thanks as always for doing the call. You know we appreciate it. I just wanted to circle back to the Ns for a moment and not really going to push on the likeliness of a call or not. You guys have been pretty clear on not really providing any disclosure to the market about that. But I'm just thinking about the math for a second. While these securities were definitely grandfathered as good Tier 1 capital, it was done at a sixty cents on the dollar fair value mark.

So if you start think about the cost for every dollar of Tier 1 credit to you guys, while you do get the tax advantage benefit of it being an above the line distribution, we tend to think that that's kind of negated by the fact that you're only getting that sixty cents on the dollar credit for each dollar of Tier 1 capital. And if
you think about it, with the rise in LIBOR, we view your effective funding cost for each dollar of Tier 1 credit as kind of like in the 7% to 8% range right now. Are we thinking about that the wrong way?

JAMES VON MOLTKE: It's hard to say. There are a number of ways of looking at a call decision. And again, I don't want to comment on how we analyze it economically, but the considerations you raise are among the considerations we look at.

JAMES STRECKER: Okay. And then I guess maybe a follow up, and I'll probably not get much more out of you, but John has been pretty consistent in talking about running at roughly 150 bps of RWAs in Tier 1 whereas if you include the Tier 1 credit you get from the Ns, you're a healthy amount above that. How should we reconcile those two numbers or that differential?

JAMES VON MOLTKE: We're only slightly above the 150 basis points, including the AT1 benefit we get from those securities, and we like to have a very small buffer in that regard against risk-weighted asset and potential growth in risk-weighted assets.

JAMES STRECKER: Okay. All right. Fair enough. I tried. I appreciate it, James.

JAMES VON MOLTKE: Thanks. Not at all, James.

JAMES STRECKER: Okay.

OPERATOR: That concludes the question-and-answer session. Mr. Rogers, do have any closing remarks, sir?

TOM ROGERS: Thank you all for joining us today. If you have any follow-up questions of course please don't hesitate to reach out to us in Investor Relations.

OPERATOR: Ladies and gentlemen, thank you for participating in today's conference call. You may now disconnect.