



Host

Tom Rogers, Head of Fixed Income Investor Relations

Speakers

John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer, John Gerspach. 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, Natalia. Good morning, and thank you all for joining us. In a moment, John will take you through the Fixed Income Investor presentation, which is available for download on our website, citigroup.com. Afterwards he'll be happy to take your 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 cautionary 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 John.

JOHN GERSPACH: Hey, thanks, Tom, and good morning, everyone. On today's call, I'll cover a number of topics. First, I'll briefly discuss our second quarter and first half 2017 results. Second, I'll cover the recent balance sheet trends, notably growth in cash, loans, and deposits. Third, I'll review our issuance program and provide updated issuance guidance for 2017. And finally, I'll discuss our liquidity and capital position, which remains among the strongest in the industry.

For reference, slide 3 summarizes our second quarter and first half 2017 results. In the second quarter of 2017, we reported net income of \$3.9 billion. For the first half, we reported net income of \$8 billion and achieved an efficiency ratio of 58% as well as an RoTCE of 9.7%, excluding the impact of the disallowed DTA.

On slide 4, we show average balance sheet trends over the past five quarters in constant dollars. On this basis, our balance sheet increased by approximately 4% from the prior-year period. As we will discuss in greater detail in a moment, we saw healthy loan growth in both our Consumer and Institutional businesses. And we increased cash as we built the liquidity necessary to support our resolution planning. However, we expect to reduce our cash balances over time as we optimize the balance sheet.

Slide 5 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 3% year over year and 5% in aggregate across our Consumer and Institutional businesses.

In our Consumer business, average loans grew 8% year over year, driven by 12% growth in North America. This included a 25% increase in Branded Cards, driven primarily by the acquisition of the Costco portfolio as well as modest organic growth.

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International consumer loans increased 1% year over year, as growth of 7% in Mexico was partially offset by a 1% decline in Asia, as we continued to optimize our portfolio in that region.

On the Institutional side, loans grew 3% year over year, driven by growth in lending in our Private Banking segment. Corporate lending declined 1%, as we saw a lower level of episodic borrowing needs compared to the prior-year period.

Sequentially, we saw good growth as we supported core business activity among our global subsidiary clients. TTS loans increased 4%, driven by growth in EMEA and Asia. At the same time, our loans included in Corp/Other declined by 36%, as we continued to wind down legacy assets.

On slide 6, we show credit quality trends in our GCB and ICG loan portfolios. In GCB, NCL rates improved in every region this quarter. And in ICG, total non-accrual loans declined to 64 basis points of total loans, with improvement in every region during the quarter.

Turning to slide 7, we show trends in average deposits over the past five quarters in constant dollars. Total deposits increased 3% from the prior-year period, as we saw strong customer engagement across all major businesses and regions.

Now, let me highlight our parent benchmark issuance program, starting on slide 8. Year to date, including the \$6 billion we issued earlier this week, we have issued a total of \$18 billion of parent-level benchmark debt, including over \$17 billion of senior and roughly \$1 billion of subordinated debt. While this week's issuance consisted of all callable structures, we will continue to evaluate the economics of all structures, including bullets, and expect to issue a mix of structures as well as tenors and currencies going forward.

On slide 9, let me cover our issuance and redemption expectations. In 2017 we continue to expect gross issuance of approximately \$25 billion of parent-level senior and subordinated debt, including the roughly \$18 billion we have issued year to date. \$8 billion of debt matured so far this year out of a total of \$15 billion expected for the full year. We expect buybacks in the range of \$2 billion of benchmark debt in 2017, including the roughly \$1 billion we have repurchased thus far. This combination of new issuance, maturities and redemptions would result in net issuance of benchmark debt of approximately \$8 billion this year.

In 2017, we now expect approximately \$20 billion of bank-level issuance, including the roughly \$15 billion of credit card securitizations and bank notes we have issued so far. We have increased our bank issuance plans in order to lengthen the tenor of our funding and expect a commensurate decline in our short-term borrowings.

On slide 10, we show the composition of our long-term debt outstanding. During the second quarter, our total long-term debt increased to \$225 billion, primarily due to credit card securitizations as well as benchmark issuances at both the bank and parent. And the weighted average maturity of our TLAC-eligible debt increased to 7.8 years.

Turning to slide 11, we update our TLAC requirements and ratios. As of the second quarter, we reached a long-term debt ratio of 4.7% of total leveraged exposure, relative to our requirement of 4.5%, and achieved a \$4 billion surplus – a \$1 billion increase from last quarter. While our binding constraint under the TLAC rules has changed from the long-term debt requirement as a percentage of our risk weighted assets to the long term debt requirement as a percentage of total leveraged exposure, we remain in line with our expectations for compliance and do not expect this change to impact our future issuances.

As we've noted previously, now that we have reached compliance, we are working towards establishing an appropriate buffer. While still preliminary, we currently believe a reasonable buffer would be in the range of \$7 billion to \$8 billion based on current balance sheet expectations.

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On slide 12, we show Citigroup's net interest revenue and margin trends split by core accrual revenue, trading-related revenue, and the contribution from our legacy assets in Corp/Other.

Total net interest revenue was roughly flat year over year in constant dollars at \$11.2 billion, as growth in core accrual revenue was offset by the wind down of legacy assets as well as lower trading-related net interest revenue.

Core accrual net interest revenue of \$10 billion was up 7%, or over \$600 million from last year, driven by the addition of the Costco portfolio, organic volume growth, and the impact of rate increases, partially offset by an increase in our FDIC assessment and higher long-term debt. On a sequential basis, core accrual revenue grew by over \$200 million this quarter, reflecting day count, the impact of the March rate increase and loan growth. However, we still saw a decline in the core accrual net interest margin to 344 basis points, reflecting higher cash balances.

On slide 13, we update our LCR metrics and drivers. Our average LCR was 125% in the second quarter, up from the first quarter, as an increase in average HQLA, driven primarily by the increase in cash related to our resolution planning, was only partially offset by an increase in net outflows. As we noted previously, we believe we have built adequate liquidity to meet our resolution plan requirements and will look to optimize our cash balances, and therefore our LCR, going forward.

Turning to slide 14, let me summarize our regulatory capital position, which, as we discussed, remains among the strongest in the industry. During the quarter, our CET1 and total capital ratios increased to 13% and 16.9% respectively driven mostly by earnings and partially offset by \$2.2 billion of common share repurchases and dividends. And our Supplementary Leverage Ratios were 7.2% and 6.6% for Citigroup and Citibank respectively.

Moving to our last slide, let me summarize several key points. First, we earned \$8 billion of net income in the first half of 2017, achieved an efficiency ratio of 58%, and generated an RoTCE of 9.7% excluding the impact of disallowed DTA.

Second, we continued to maintain a strong regulatory compliant balance sheet. We achieved a long-term debt ratio of 4.7% of total leverage exposure, or a \$4 billion surplus, under the TLAC rule. We maintained a highly liquid balance sheet with an average LCR of 125% and an estimated NSFR of greater than 100%. And we reported a CET1 capital ratio of 13% and an SLR of 7.2%.

Finally, we continued to maintain and further diversify our funding base.

And with that, I'll be happy to answer your questions.

QUESTION AND ANSWER

OPERATOR: Your first question comes from the line of Brian Monteleone with Barclays.

BRIAN MONTELEONE: Hey. Good morning, John.

JOHN GERSPACH: Good morning, Brian.

BRIAN MONTELEONE: So you guys released the living will plan a couple weeks ago, which had a lot of incremental information, which has been useful. There's been a lot of liquidity prepositioned across the organization now. Can you talk a little bit about that versus LCR and how you think about liquidity and binding constraints in this new world and how you maybe see LCR coming down over time as you optimize?



JOHN GERSPACH: Yes, I would say, and I think it comes across a little bit probably through the remarks that we would look at resolution planning right now as being the binding constraint. And that's just because as we approach resolution planning and we take a look at where we need to preposition the liquidity, we've built a lot of liquidity over the last six months. You can see it in our cash balances just going up. I think our cash balance year over year is up something like \$36 billion and \$26 billion of that build happened in the first six months of the year.

So it's definitely – as we're preparing for the resolution plan, and now that we've got it in place, now it's a matter of taking a look and seeing, okay, now what can we do to further optimize the liquidity and where we have it and what do we learn as far as structuring businesses. So, we'll approach all of those things. But we've got the liquidity there. And that's why I think the next move then is more of an optimization move than a continuing build of liquidity.

To get back to your LCR question, quite frankly, LCR, NSFR, those are not our binding constraints right now. And it's more everything is moving, at least for us, more in relation to how we're structured for resolution planning purposes than for LCR or NSFR purposes.

BRIAN MONTELEONE: Got it. And it's still a little early days in terms of trying to quantify some of that it sounds.

JOHN GERSPACH: Yeah. I'd say so. I wouldn't want to give you a target right now to say here's where we think that we're going to come down. Because, one, we've just finalized that plan. So we've just submitted the plan. I certainly would like to get feedback and make sure that the plan that we've submitted is as good as we think it is. And then we'll react from there.

It's not that dissimilar from how we've really reacted to almost every regulatory rule that's been put out there over the course of the last six, seven years. We make sure that we get into compliance with that rule as quickly as possible. And then we approach optimization.

BRIAN MONTELEONE: Got it. And then question on the support agreement and the prepositioning of assets in this. People kind of think about what risks could potentially come out of that. I assume that as the parent is down-streaming to three inter-company loans down to the Citicorp IHC, that the kind of interest rate and maturity dates are similar to the end securities that are issued, just to ensure proper flow of liquidity back up to the parent, in addition to some of the other mechanisms that are in place. Is that the right way to think about how those inter-company loans work?

JOHN GERSPACH: The term I would use is that the terms match.

BRIAN MONTELEONE: Okay. Perfect. And then one security question. So, post CCAR it seems like we often get questions around the old legacy grandfathered trust preferred securities, the Citi ends. I think they've been callable for a few years now, so you've had the opportunity to put in to redeem them. And it hasn't happened yet. So seems like the view then is that it's economically attractive to leave those outstanding. And I think there's some capital and returns reasons that justify that. But I think there seems to be, from time to time, confusion in the market. Can you talk a little bit about why, to date at least, that security has been viewed as something that is economically attractive to leave outstanding?

JOHN GERSPACH: Yes, I hate to get into speaking about redemption plans for a specific security. But I'll have to give it to you on this one. This one does seem to get a lot of attention. So, I'll go off my usual script by saying I don't address individual securities and I'll go down that path.

I think it's, again, it's been fairly well written about the fact that if we were to redeem this, we would take a large hit to our P&L. And that's just the way that the bookkeeping has worked on that security. And I've seen estimates in the high 800s, and that's a good – a very valid estimate to have. So, you're quite right. The decision to redeem that security is largely an economic one. Is it worth taking a large loss to redeem



that particular security with its particular coupon. And I would never say never on things like that, I've learned that over time, but you'd have to find a situation where taking a loss of that size would then mesh in with our stated goals of growing RoTCE over the next couple of years.

BRIAN MONTELEONE: Great. Thanks, John. I appreciate it.

JOHN GERSPACH: Not a problem.

OPERATOR: Your next question is from the line of Scott Cavanagh with APG.

SCOTT CAVANAGH: Good morning, guys. Thanks for holding the call as always. Very much appreciate it. I just wanted to delve further into Brian's question on the living will. Is there anything we should be taking from the FSB guidelines on internal TLAC and how the liquidity might be redistributed?

And then secondly, if we think about potential easing of regulations on some of the ratios, how do we think about issuance. Specifically, this LTD bucket going forward, and how you would react to that?

JOHN GERSPACH: On the first one, there's nothing in the FSB requirements that we find to be something on top of what we've already built into our plan. So we think that the plan that we have is a good plan of record based upon everything that's out there now. And then, as I said, we'll wait to get feedback from the Fed and the FDIC after they've had a chance to go through the thousands of pages that we've given them.

As far as how future regulatory changes and changes in ratios could impact issuance plans, I can't answer that question, because I don't know what's going to change. And I don't mean to dodge the question. It's just that there're so many different things that are out there that could possibly happen that it would really be hard for me to give you a responsible answer to kind of an open-ended question like that.

SCOTT CAVANAGH: Okay. No, I can appreciate that. On a different topic, there were some actions taken by another large trustee regarding callable securities, RMBS securities, and they took notable legal reserve expenses that was kind of an unprecedented move. How are you guys thinking about this as far as the RMBS book of business and how you want to proceed going forward?

JOHN GERSPACH: We certainly don't comment on matters of either current or proposed litigation. Any commentary we make will be in the 10-Q. So I'm not going to go any further with that right now.

SCOTT CAVANAGH: I appreciate that. And last from me, could you just kind of give us an update on your plans for Brexit and where you are at this point?

JOHN GERSPACH: Yes, we've – certainly have announced today, I think that the press picked it up a little bit earlier, that we will be looking to establish a broker-dealer in Frankfurt, which sort of would be the completion of our plans. We will be doing our banking business across the EU out of the bank sub that we have in Dublin. So our banking business will be conducted out of there.

And you may recall, that's something that we set up a couple of years ago, not necessarily in anticipation of Brexit, but just in normal good legal entity governance work. And we decided on Dublin and it turned out to be a very fortuitous decision to have made.

So basically, the banking across the eurozone will be done out of Dublin and then we will have the broker-dealer set up in Frankfurt. But exactly how we will use that broker-dealer is still of course open to exactly what the terms of the Brexit will be. What will the terms of that exit be? How will that be negotiated?

SCOTT CAVANAGH: Okay. Thank you very much.

JOHN GERSPACH: No problem.



OPERATOR: Your next question is from the line of Kevin Maloney with BlackRock.

KEVIN MALONEY: Hey. Thanks. Just a question or two. On C&I lending, it seems to have slowed and I was wondering if you could give us some insights on whether it's demand led or supply led? And whether six turns guidelines that potentially could be overturned, does that mean anything to you guys?

JOHN GERSPACH: So the two questions are separate.

KEVIN MALONEY: Yeah. They are.

JOHN GERSPACH: Okay. The answer to the second question is we are not primarily focused on growing leverage lending as a business. We provide leverage lending. We do that for our clients that need that capability, but it's not a particular area of focus for us.

One of the things that I think that we've benefited from over the course of the last seven years to nine years has been that we have really been a client-focused company as opposed to a product led company. And so we really focus on the needs of our clients and our clients have a relatively – our client segment has a relatively low need for that type of product. So we're comfortable where the rules are now. If the rules changed, it wouldn't change for us unless somehow that changed the business needs of our clients.

As far as your comment on C&I loans, for our purposes we have definitely seen a reduction in the episodic loans year over year. I tried to mention that in our prepared comments. But we actually saw good growth in our corporate clients, both in the TTS and trade loans as well as in the more traditional C&I lending during the quarter. So on a sequential basis, we had fairly good growth in our loan book. And we saw a lot of demand for working capital type loans in those clients that we serve.

KEVIN MALONEY: Okay. Great. Thanks. Just one last question. On Asia, you mentioned that you're remixing the business. And I think you've talked before about moving away from mortgages and more toward credit cards. And I was wondering, with Korea being such a large part of the Consumer business, how has that morphed? Meaning, has there been much change in Korea? And how quickly you think you'll make that mix change overall?

JOHN GERSPACH: I mean it's not something that you flip a switch and you just get out of mortgages. And we will never completely get out of mortgages. Again, we're not emphasizing mortgages as a standalone product. If we've got clients that need a mortgage, if there's a customer that as part of their borrowing needs requires a mortgage and it makes sense from a relationship point of view, we will certainly satisfy that need. But we're just not looking to grow the mortgage portfolio as a standalone product. Much more focused on trying to grow not just credit cards but also personal installment loans. So that's really where our focus is.

And with Korea. Korea's actually been doing quite well. I'm sure you've seen in the press the next round of repositioning that we're doing with that franchise as we try to make it look more like the franchises that we have elsewhere in Asia. And also responding to the fact that consumer banking is becoming less brick and mortar and much more about your digital, your mobile capabilities. We see that in the Korea marketplace. And quite frankly, we just don't need the number of branches that we have to satisfy the needs of our target clients.

KEVIN MALONEY: Okay. Thanks. That's all I have.

JOHN GERSPACH: No problem. Okay.

OPERATOR: Your next question is from the line of Robert Smalley with UBS.

ROBERT SMALLEY: Hi. Good morning. Thanks for taking my questions. Just a couple.



JOHN GERSPACH: Always a pleasure, Robert. Always a pleasure.

ROBERT SMALLEY: Thanks. Just a couple. One on card and a two-parter on margins. First on card, in the prior and the call from last week, you had said that given the lower collections rate, the full year NCL rate is going to go up to 460 basis points. Could you talk about reasons for the lower collections rate? And just talk more in generally about developments in the card landscape. Is this more of a normalization or is it a deterioration? And does this feed back into your profitability targets for the product?

JOHN GERSPACH: Okay, Robert, thanks. So with cards, one thing I just want to correct. The 460 guidance that we gave was very specific to the Retail Services portfolio. So, our Branded Cards portfolio, we had been giving guidance of 280 basis points as far as a full year NCL rate and that is where we still are with Branded Cards. And you saw a nice decline quarter on quarter in the NCL rate in Branded Cards, which actually then supports, I think, nicely our view of that NCL rate averaging out for the year something in the range of 280 basis points. And by saying something in the range of 280 basis points, I'm not giving new guidance. 280 basis points – I know everybody looks at every word. So 280 basis points is our guidance for Branded Cards.

Retail Services, what I was trying to convey in the call last week, and I think with the question has got around to, is what we're seeing in Retail Services does not appear to be a credit underwriting issue. In other words, we're not seeing an increase in the flow rate, that initial delinquency flow rate from current to being past due. Those flow rates have held constant in that business for the last two-plus years. So, if it was a credit underwriting concern, something that you would think it kind of goes along with the end of a cycle or whatever, you'd see it by seeing an increase in your current delinquency rate, that movement from current to the first bucket.

ROBERT SMALLEY: Right.

JOHN GERSPACH: Where we're seeing it is that once a borrower misses two or more payments, at that point, our ability to get them back to current is not as efficient as it was in years past. There's been a slippage there. And so the flow rate from say the 60 bucket to the 90 bucket, is increasing. It has increased. And that's why we tend to look at it as being more of a collections issue. Techniques that we've employed in the past are just not having that same effect. Now obviously we've changed some of those techniques in order to be in compliance with a lot of the new guidance that has come out over the course of the last few years from the various agencies. We've actually employed that same guidance in the Branded Cards business, but we're not seeing that.

So it could be because in Branded Cards, we're dealing with larger average balances. And therefore our customers are more protective of their FICO score and their performance. And, therefore, there's more of an interest on their part to work with us in order to bring them back to current. Whereas, Retail Services, those are traditionally smaller balance receivables. And still most of them are very store specific. About a third of our portfolio is general purpose cards. But about two-thirds of the portfolio therefore is really just store specific.

And, as I said, we're moderating techniques. We're trying new things. We're trying to find out how people, individuals, prefer to be contacted. I think I mentioned on the call last week, we've doubled our text rate just in the last couple of months. So, we're trying to reach them, however is most efficient for us and for them in an effort to try to stem this tide. We've seen some improvement. But it's just not as fast as we had originally hoped.

ROBERT SMALLEY: Okay. That's very helpful. Thank you. Second question around the margin and a two-parter. First, we saw one trust bank yesterday have a real outflow of noninterest bearing deposits. Your experience is year over year down about 10%. Not as much in the past quarter. How are you looking at



how that's going to develop over the next few quarters? How is that going to impact your margin? Number one.

And then two, I know in a prior call you said that your outlook on the margin is not necessarily rate dependent. And you're not baking in a lot of rate increases, one this year.

JOHN GERSPACH: Correct.

ROBERT SMALLEY: But which part of the curve is most impactful for you? I think a lot has been written, or a lot of people look at long rates, but is it 2s, 5s? 3s, 5s? 1s, 3s? What should we be looking at when we look at the possible implications for your margin going forward? And I realize that can change from time to time.

JOHN GERSPACH: In our case, it really shouldn't. I'm going to try to start at the end and work back to where you started. And if I leave something out, Robert, let me know. So definitely we are focused at the short end of the curve. And you can see that in the IRE disclosures that we put out there. When it comes to U.S. rates, virtually 90% of our exposure is on the short end of the curve. And so that's where we live, and that's where we're impacted. So the long end, obviously it's helpful, but it's not a big part of our story.

ROBERT SMALLEY: And you're calling that five years and in? Or three years and in? Or right around the three-year point? Just to narrow it down.

JOHN GERSPACH: Right around three years and in. But you could also say two years and in. I mean it's in.

ROBERT SMALLEY: Okay.

JOHN GERSPACH: It's in. Quite frankly, the most impactful rate for us is really the overnight rate I mean if you really wanted to look at it. So if you're thinking one year and in, that's where most of our exposure – most of our impact would be. And then it goes out from there. But so you can start with three years and in, but really focus on the one year and in.

Some of the other questions that you had, let's talk about deposits. You talked about deposit outflows, and you referenced some drops that we've had. If you look, we certainly have had a shift in our interest bearing versus noninterest bearing deposits in the U.S. I think if you look at our U.S. deposits overall, they're about flat year over year. But within there, we've had a roughly, I think it's \$15 billion shift from noninterest bearing into interest bearing. And most of that has occurred in our Treasury and Trade Solutions business. So it's on the institutional side of the house. Slightly more than half of that change was a deliberate replacement on our part of noninterest bearing deposits, moving them from noninterest bearing deposits into interest bearing deposits that had a higher liquidity value.

So as we try to manage our deposit profile, noninterest bearing and interest bearing is one way of looking at it. But we put all of that through an LCR lens. How much liquidity value do I have in the deposits? And I may be very willing to pay for a deposit through interest that has a higher liquidity value than one that has minimal liquidity value but is free.

What really matters is what's the utility value of that deposit. And then the remainder of that shift is the impact that you have over time of institutional clients reacting to the increase in interest rates by redirecting a portion of their deposits into interest bearing accounts. And all of that is consistent with higher deposit betas that we have modeled going forward.

ROBERT SMALLEY: So in terms of NIM impact, when I look at this type of flow versus, you had mentioned, larger cash – keeping larger cash balances and eventually optimizing them for the next couple quarters. Would it be this or the optimization of the cash balances that would have more of an impact on the NIM?



JOHN GERSPACH: It's going to be the cash balances because that certainly has had much more of an impact as we've built up that \$26 billion of cash over the course of the last six months. That's been the single largest driver. So, I would anticipate cash being the bigger impact. But as I said, I wouldn't – don't look for something really near term there in the third quarter. Because to the extent that we start to make any big optimization moves in cash, it's probably going to wait until after we get some of the feedback on the resolution plan.

ROBERT SMALLEY: This is all very helpful. And as always, thanks for doing the call. Greatly appreciate it.

JOHN GERSPACH: Our pleasure, Robert.

OPERATOR: Your next question is from the line of Arnold Kakuda with Bloomberg Intelligence.

ARNOLD KAKUDA: Hi, John. Thanks for the call once again.

JOHN GERSPACH: Hi, Arnold.

ARNOLD KAKUDA: So as credit analysts, I like how you now have a higher capital ratio target than a peer with a higher G-SIB surcharge. So, if I go back to what you mentioned in 1Q. And I think you mentioned that the 11.5% higher end target was based on the Fed potentially incorporating the stress capital buffer into the CCAR process. So my question is since last quarter, have you gained more conviction on the probabilities of the stress capital buffer being incorporated into CCAR? Or is it something else that made you kind of up your target?

JOHN GERSPACH: No, I – do I have more conviction? I don't think that we've changed our target in the last quarter. We've always talked about having a target somewhere between 11% and 11.5%. And, quite frankly, if you know Mike Corbat and I, you know that if we say 11% to 11.5%, we're going to live with the more conservative end of that target. So, I just view it as being, we just kind of settled on the fact that it's 11.5%. I mean we're at 13% right now so let's set our sights on trying to optimize down to 11.5%. And then if there is some new thing out there or some reason why we should go down lower or maybe even go a little higher, we'll adjust it then.

But certainly, when you look at the CET1 ratio that we're currently living at, at 13%, I think it's almost a distinction without a difference to say we're targeting at 11.5% or we're targeting at 11%. Good God, we are well above whatever one of those targets are. But, all kidding aside, the 11.5%, again, when we look at that – and we'll talk a little bit more about this at Investor Day next Tuesday – but what you'll see is that the 11.5% includes 100 basis point management buffer and an estimated SCB of 3%. So, we think that there's room within that 3% SCB as well because if you take a look at the last round of CCAR results, the way we think that you'd calculate that SCB would be certainly a number below the 3%. But rather than try to be very precise, we just round it up to the 3%.

So sorry for the rambling response. Have I touched upon any answer that you find to be connected to your original question?

ARNOLD KAKUDA: No, this is great. And thanks for the Investor Day preview. And then you talked about the excess capital. And it seems like your payout approval for this year is above 100%. So is it fair to say that maybe your capital ratios have largely peaked?

JOHN GERSPACH: I believe that they have. I believe that they have. So, again, we'll have a little bit more to say about that on Tuesday.



ARNOLD KAKUDA: Okay. Great. And then it seems like your assets have grown but yet your RWAs have kind of been on the decline. So is that likely to change going forward now that you've mostly wound down or sold the legacy Citi Holdings assets?

JOHN GERSPACH: Well, I think you've seen the – certainly the growth in the standardized RWA that matches the balance sheet growth. And that, if you notice, it's the standardized RWA that at least in this quarter has now become our binding constraint. So right now, for us, it's CET1 measured on standardized RWA, rather than CET1 measured on advanced approached RWA that's the relevant ratio.

ARNOLD KAKUDA: Got it. That's it for me. Thanks.

JOHN GERSPACH: Okay.

OPERATOR: Your next question is from the line of Mark Kehoe with GSAM.

MARK KEHOE: Hi. Good morning. Just two questions. The first one, so going back to the discussion on cards. The ROA targets both in Branded Cards and Retail Cards, they are – there's no change there, despite the more difficulties in recoveries?

JOHN GERSPACH: So when you look at the – from a Retail Services point of view, we've said that we expect to have 250 basis points of ROA in that product going forward. And so that – we haven't changed that guidance at all.

When it comes to the Branded Cards, I think on Tuesday we'll give you some new guidance there. And I'll preview it a little bit for now. When we look at Branded Cards, the Costco portfolio continues to surprise to the upside. Purchase sales, number of accounts, balances, usage out of store, revenues, ROA, all are actually higher than what was built into our business case. And we believe that this outperformance is going to continue.

Now while this will result in even higher levels of revenue and net income in future years, it does mean that our U.S. Branded Cards portfolio is likely to have a higher mix of co-brand ANR than we had previously modeled. So the change in mix, coupled with a reduced estimate of the net interest spread as our U.S. interest rate outlook now is also higher and steeper, that's caused us to lower our target ROA for the U.S. Branded Cards portfolio down to 215 basis points. And we had previously modeled 225 basis points, but now just given that slightly higher mix of co-brand and a higher and steeper interest rate environment, it's going to take it down to like 215 basis points.

The good news is that higher and steeper interest rate outlook is going to benefit the retail business. So higher and steeper interest rates, a bit of a headwind for Branded Cards but a tailwind for our U.S. retail bank.

MARK KEHOE: Okay. And just the second question I had was in terms of the issuance for at the bank level in terms of bank notes and securitizations, it was \$20 billion versus \$15 billion in the first quarter. Is that more bank notes or is it more securitizations?

JOHN GERSPACH: It's going to be a mix. And again, it's \$15 billion the first half, not the first quarter, first half.

MARK KEHOE: Sure.

JOHN GERSPACH: But that's okay. I just wanted to make sure that we had it right on the transcript. And the \$5 billion, that's going to be a mix.

MARK KEHOE: Thank you.



OPERATOR: Your next question is from the line of Pri de Silva with CreditSights.

PRI DE SILVA: Thank you John for hosting the call.

JOHN GERSPACH: Always our pleasure.

PRI DE SILVA: And for the color regarding the IHC structure as well as deposits. Just following up on Robert's question, roughly two-thirds of Citi's deposits are corporate and out of that TTS makes up the biggest chunk. How should we look at the stickiness of that deposit base generally speaking?

JOHN GERSPACH: Well, generally speaking, it's a very sticky deposit base. Because again, when we're focused on growing the deposit business, it's really linked to owning the operating accounts for our large multinational corporate clients. So, since it really is focused on their working capital accounts, it tends to be extremely sticky. Now there's going to be some element of that deposit base that will move up and down just based upon whether it's changes in rates, or changes in various things, but for the most part, it's an incredibly sticky deposit base.

PRI DE SILVA: Thank you for that. And then given how flat the yield curve is and also the tightness of the sub senior spread differential, any thoughts on kind of preloading up on subordinated debt or extending maturities?

JOHN GERSPACH: No. I wouldn't look there. Again we've laid out for you what our issuance program is. We don't try to necessarily market time things. We've given you the targets that we've got for subordinated debt as far as where that fits in with the capital structure and how we look at preferred stock and subordinated debt and we're very comfortable with the percentage relationships that we've got there.

PRI DE SILVA: Great. Thank you, John.

JOHN GERSPACH: My pleasure, Pri.

OPERATOR: Your next question is from the line of Hima Inguva with Bank of America. Hima Inguva, your line is open.

HIMA INGUVA: Hi. Can you hear me okay?

JOHN GERSPACH: Hi, Hima. How are you?

HIMA INGUVA: Oh. I'm so sorry, John. I'm good. I'm traveling so I've been having issues with the line. Apologize. But thanks a lot for the call as usual. Fixed income investors definitely appreciate all the disclosures. Most of my specific questions have been answered. I'm just going to ask a more high-level question here – a couple questions here.

So on the earnings call, Mike said he expects the Treasury report changes as early as the fourth quarter. So can you elaborate on the positive and negative effects of maybe changes to SLR, LCR, and TLAC on Citigroup, since they don't require congressional action and then could be done easily?

JOHN GERSPACH: Well, when Mike – he did say that he hopes. But as I've always said, hope is not a plan. And what we've got right now is a series of proposals. There's no assurance that even if those proposals are implemented that they're going to be implemented exactly as they are contained in the Treasury report. And so, therefore, it's a little hard for me to give you specific guidance as to how each one of those things could impact us.

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Obviously from an SLR point of view, if cash for instance or Treasury securities was taken out of the leveraged asset denominator, that would be beneficial. That could add as much as 100 basis points to our SLR. So that's pretty easy.

LCR, again our binding constraint right now on liquidity is really resolution planning not the LCR. So I really wouldn't look to changes in LCR as being impactful for us at this point in time.

And TLAC, again hard to say. Because I just don't know how they would implement everything that they've laid out and how they would think about how each would interact with the other.

So I'll just leave it with I'll give you something specific on SLR and stay away from specific guidance on the other ones.

HIMA INGUVA: Great. That's great. And then switching gears to the health care reform and the potential tax reform in the U.S. Based on your conversations at the Capitol Hill and with the administration, do you see a chance for the tax reform passing this year?

JOHN GERSPACH: There's always a chance. I'd say that it's going to be tight because there just isn't a lot of time left. But if the administration wants to get something done this year, that seems to be where they will now put their focus. So there's clearly a chance.

HIMA INGUVA: Okay. That's very helpful. So to sum up, maybe there is a chance for tax reform? And then maybe there is a chance for the Treasury report this year?

JOHN GERSPACH: Yeah. I would – again some of the things that we need – don't forget, Treasury in particular is understaffed right now. And we still have three open seats on the Fed. And as some of my colleagues always remind me, when it comes to D.C., personnel is policy. And so without having the personnel in place, it's sometimes hard to actually enact the policies.

HIMA INGUVA: That's fair. Yeah, that makes sense. Very interesting times. Well, thanks a lot, John. Really appreciate you taking my call.

JOHN GERSPACH: Okay, Hima. Thank you and safe travels.

HIMA INGUVA: Thank you much.

OPERATOR: Your next question is from the line of James Strecker with Wells Fargo.

JAMES STRECKER: Good morning, gentlemen. I will add my thanks to you both for hosting the call. We really do appreciate it. And I'm going to have to go back to Brian's question on the ends, as much as I know you're going to hate that, John. But as you said it is a popular topic with investors out there.

So if I just go back to your comments and I think about the associated quarterly interest expense you pay on the ends, which is increasing with LIBOR moving higher. And then if I think about the roughly \$880 million of common equity associated with that security on the balance sheet, and I try to square that with your drive to improve profitability over time. Just doing some back of the envelope math, it seems like it could add 50 bps of RoTCE on an ongoing basis, after you take that one quarter hit to redeem it, which you know all of us are going to graciously call a one-time non-core hit.

Is there something I'm missing from the outside? Especially for a security that gets no TLAC credit. If we think about where your Tier 1 position is versus your stated target, it's hopefully above that. I mean is there some accounting? Is there some other reason that we're missing from the outside? Just any more color there because it just doesn't seem to jive with your stated target to improve profitability.

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JOHN GERSPACH: Well, when you – it's not just a question of calling it and then saying, all work is done. We'd have to call it and replace it. So I'm not quite sure in your 50 basis point calculation that you've made an estimate for the replacement cost associated with the funding. I mean so that is clearly a variable there. And plus, it will have longer termed improvements. But the payback on a move like that is rather long. You're talking about as I said – as you said, an \$880 million-ish immediate hit against a multiyear payback. And those are things that we evaluate.

Which is also though the reason why in response to Brian, I said I'll never say never. Because I don't want to leave you with the impression that there is under no set of circumstances would we ever think about calling that. We would if the right set of circumstances came about. But I don't see those right set of circumstances coming about right now.

JAMES STRECKER: Understood. Understood. Given that it's approaching noon, I want to be respectful of your time. And plus Tom loves when we call and beat him up about this. But so maybe I'll take the rest of it offline. So thanks, guys. And we'll see you on Tuesday.

JOHN GERSPACH: Alright. Take care now.

OPERATOR: And we do have a question from the line of Michael Rogers with Conning & Company.

MICHAEL ROGERS: Yes. Good morning, John. I wanted to also mirror my compliments. Citi does set the standard, in my opinion, in terms of frequency and content of these calls. So thank you once again.

Couple of questions. A number of the questions I had have already been addressed. But do you have an opinion on the periodic discussion that we still see coming from the Republicans that they may seek to eliminate OLA under a budget reconciliation as we go further into the year?

And secondly, I don't want to get complacent about the good conditions in the U.S. housing market. But I do want to ask you what your view is presently of the conditions that you're seeing in the U.S. housing market and are you seeing any cracks or any excesses which might have begun to concern you?

JOHN GERSPACH: No. Let's start at the tail end of that. From a housing market point of view, again we don't really have a large mortgage business. So, it isn't something where it's a big area of focus for us. Obviously, we do have the capability to offer mortgages to our retail customers when they need it for their own financing. But we don't have a separate mortgage business anymore. We decided that that wasn't the right strategic move for us. It just wasn't a business that we could develop scale in. So unfortunately, it's just not a business that means a lot to us right now. But, again, we're very comfortable with where we are with it. We're not seeing any big breaks, but I can't give you a national view, alright?

And then from when it comes to OLA, obviously there's going to be a – that's going to be covered in one of the separate Treasury reports that comes out in the fall. So I don't think that you're going to see much in the way of changes or a lot of serious discussions about OLA, at least until the Treasury has had a chance to give their views in the report. So we'll see. Certainly, we will be hopeful that even if people want to move – and the bankruptcy code, changes to the bankruptcy code, make the bankruptcy code more usable for large institutions, those things are fine, but we still think that OLA is an important – the Title II is – the overall Title II is still an important element of resolution planning going forward.

MICHAEL ROGERS: Thanks very much.

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

TOM ROGERS: I'd just like to thank everyone for joining us today. And obviously if you have any follow-up questions, feel free to reach out to us in Investor Relations. Thanks.



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