TRANSCRIPT

Citi Third Quarter 2017 Fixed Income Investor Review
Thursday, October 26, 2017

Host
Tom Rogers, Head of Fixed Income Investor Relations

Speakers
John Gerspach, Citi Chief Financial Officer
Michael Verdeschi, Citi Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer, John Gerspach, and Treasurer, Mike Verdeschi. 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, Jamie. Good morning, and thank you all for joining us. As Jamie mentioned, I'm joined this morning by our Chief Financial Officer, John Gerspach, and our Treasurer, Mike Verdeschi. In a moment, Mike will take you through the Fixed Income Investor presentation, which is available for download on our website, citigroup.com. Afterwards, John and Mike will be happy to answer your questions.

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

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

MIKE VERDESCHI: Thank you Tom, and good morning everyone. On today's call, I will cover a number of topics. First, I'll briefly discuss our third quarter and year-to-date 2017 results. Second, I will cover recent balance sheet trends, notably growth in cash, loans, deposits and long-term debt. Third, I'll review our issuance program. And finally, I'll discuss our liquidity and capital position, which remains among the strongest in the industry.

For reference, slide 3 summarizes our third quarter and year-to-date 2017 results. In the third quarter of 2017, we reported net income of $4.1 billion. Year-to-date, we reported net income of $12.1 billion and achieved an efficiency ratio of 57% as well as an RoTCE of 9.8%, excluding the impact of 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 3% from the prior year period. As we will discuss in greater detail in a moment, we saw healthy loan and deposit growth in both our Consumer and Institutional businesses. Cash increased sequentially as the build we discussed last quarter was fully incorporated in the average balances this quarter. Going forward, we expect cash to stabilize in the range we have seen in recent quarters. However, we will continue to look to optimize over time.

Slide 5 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 1% year over year and 4% in aggregate across our Consumer and Institutional businesses. In our Consumer business, average loans grew 4% year over year, driven by 5% growth in North America.

International consumer loans increased 1% year over year, driven by 6% growth in Mexico, while Asia loans were unchanged as we continued to optimize that portfolio in that region.

On the Institutional side, loans grew 4% year over year, driven mostly by client-led growth 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. TTS loans increased 5%, driven by growth in EMEA and Asia. At the same time, our loans included in Corp/Other declined by 37% 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, overall credit remained broadly favorable again this quarter. And in ICG, total nonaccrual loans declined to 61 basis points of total loans.

Turning to slide 7, we show trends in average deposits over the past five quarters in constant dollars. Total deposits increased 2% from the prior year period, driven primarily by 3% growth in TTS, as well as 4% aggregate growth in Asia and Latin America GCB. North America GCB was unchanged, as we saw a shift from deposits to assets under management, as we continued to see positive results from the launch of our enhanced Citigold Wealth Management offering.

Now let me highlight our parent benchmark debt issuance program, starting on slide 8. Year-to-date, including the $4 billion we priced earlier this week, we have issued a total of $23 billion of parent-level benchmark debt, including approximately $22 billion of senior and roughly $1 billion of subordinated debt. While we have issued across multiple tenors so far this year, we have shifted much of our shorter tenor issuance to the bank note program, as we continue to diversify our investor base and optimize our funding program. Going forward, we continue to expect to issue a mix of structures, tenors and currencies.

On slide 9, let me cover our bank-level issuance so far this year. In 2017, we issued approximately $13 billion of bank notes and $11 billion of credit card securitization year to date, including the roughly $4 billion issued earlier this month. The majority of the issuances have been with tenors of three years or less. However, we maintain the flexibility to opportunistically issue at longer tenors as we calibrate our overall maturity profile.

On slide 10, let me cover our issuance, maturity and redemption expectations. With the successful execution of our transactions this month, we completed the majority of our planned issuance for 2017. However, we will remain opportunistic with regard to further issuance during the remainder of the year.

We issued approximately $23 billion of parent-level benchmark debt year-to-date, lower than the $25 billion of expected issuance we outlined last quarter, as we optimized our funding plan and shifted issuance from the parent level, given our TLAC surplus, to more efficient funding at the bank level. We have $15 billion of scheduled parent-level benchmark maturities for the full year, of which $10 billion has matured so far.

On slide 11, we show the composition of our long-term debt outstanding. During the quarter, our total long-term debt increased to $233 billion dollars primarily due to benchmark issuances at both the bank and parent levels and the weighted average maturity of our TLAC eligible debt remain at 7.8 years. While we've seen a significant increase in our long-term debt on a year-to-date basis, we expect the trajectory of our parent-level benchmark debt to level off, given our TLAC surplus.

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 declined slightly from last year to $11.4 billion, as growth in core accrual revenue was outpaced by the wind down of legacy assets as well as lower trading-related net interest revenue.

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

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

On slide 13, we provide an update of our LCR metrics and drivers. Our average LCR was 123% in the third quarter, down modestly from the second quarter, as an increase in modeled net outflows was largely offset by an increase in HQLA. These increases were predominantly driven by changes in assumptions, including changes in methodology to better align our outflow assumptions with those embedded in our resolution planning. As we noted previously, we believe we have built adequate liquidity to meet our resolution plan requirements and will look to optimize our liquidity profile going forward.

Turning to slide 14, let me summarize our key regulatory capital metrics which, as we mentioned, remain among the strongest in the industry. During the quarter, our CET1 capital ratio declined to 13%, as net income was more than offset by $6.4 billion of common share buybacks and dividends. And our supplementary leverage ratios were 7.1% and 6.7% for Citigroup and Citibank, respectively.

Moving to our last slide, let me summarize several key points. First, we earned $12.1 billion of net income year-to-date 2017, achieved an efficiency ratio of 57% and generated an RoTCE of 9.8% excluding the impact of disallowed DTA. Second, we continued to maintain a strong balance sheet. We achieved a long-term debt ratio of 4.7% of total leverage exposure or an estimated $5 billion surplus under the TLAC rule. We maintained a highly liquid balance sheet with an average LCR of 123% and an estimated NSFR of greater than 100%. And we reported a CET1 capital ratio of 13% and an SLR of 7.1%. Finally, we continued to diversify and optimize our liquidity resources.

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

QUESTION AND ANSWER

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

SCOTT CAVANAGH: Good morning, guys and thanks for holding this call. Always appreciate it. So my first question is when we're looking at the ongoing LIBOR debate and the potential changes to the base rate, how are you thinking about this within your documents? I know your recent issuance maintained the old language. But could you just go into how you're thinking about the recent changes in competitors' language with calculation agent and looking at market rates and how you might address this in the future?

MIKE VERDESCHI: Sure, happy to answer that question. And clearly, this potential with LIBOR, it's something that we're very focused on and something that's going to have a broad set of implications given how many financial instruments are currently referenced to LIBOR.

I'll note a couple of things. We have representation on the Alternative Reference Rate Committee and will continue to be actively involved in that committee, which will be critical to the implementation of alternative rates and transition planning. We're also expecting that ARRC will issue a revised transition plan by the end of the year and that's also something that we'll be very focused on in terms of new developments coming out of that.

As you know, the only change we've made to our documentation so far is to add a risk factor. But clearly we value the relationship with our investors and we're aware of the sensitivity of this item. It is something that we view as something that could potentially change as we think about the broader issue of transitioning away from LIBOR and so with that, we don't think it makes sense to address this in a piecemeal fashion. We're trying to, again, be very focused on the broader transition that needs to take place. And then we'll evaluate the documentation at that time.

SCOTT CAVANAGH: Okay. Thanks for the color. And then my second question, we have a couple of Treasury reports coming up. More specifically, there's one addressing OLA. What are your thoughts on that or have you heard anything out there?

MIKE VERDESCHI: Yeah. It's best we don't speculate about the Treasury report. But as we've discussed in the past, we believe Title II is an important component of the post crisis financial reform. While resolution through Title I in the Bankruptcy Code is our preferred approach, we still believe retention of Title II is an important aspect of it.

SCOTT CAVANAGH: Thank you very much.

JOHN GERSPACH: Thanks, Scott.

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

HIMA INGUVA: Thank you and thanks for doing the call and taking my question. Really appreciate it, John and Tom. My first question is on prefs. This is something we are getting from investors. Some high coupon prefs become callable over the next two years and your peers recently redeemed and issued a fixed-to-float pref at attractive rates. So what are your plans for prefs that are outstanding?

MIKE VERDESCHI: Sure, Hima, it's Mike. What I would say on the prefs is that once they become eligible for call, we'll review them in the context of our capital needs and evaluate the economics at that time. It's really those two items, the capital needs and the economics, that will drive our decisions.

HIMA INGUVA: Okay. Great. Thank you. And then in the sub senior ratio, where it is, do you think it makes sense to issue more sub-debt than what's being issued?

MIKE VERDESCHI: That's a good question. I think we said this in the past. We're comfortable with our Tier II capital level, given we're at roughly 200 basis points. And while we do like to remain opportunistic, you could expect that the majority of our issuance in this space will really be to offset decay and redemptions.

HIMA INGUVA: The next question is on your RoTCE targets. If you believe that tax reform would pass and then – and John, you've provided a good walkthrough of DTAs in the past but keeping that in mind how do you think about the RoTCE targets in the event there is some sort of a tax code change in the U.S.?

JOHN GERSPACH: Yeah, Hima, let's wait and see as to exactly what we get, hopefully, when we get it, and then we'll adjust accordingly. But right now, we don't really have enough information for me to give you any specifics in that other than some of the broad brush implications that I've mentioned in the past. And we know that if the tax rates go down, that means that our net income should go up. But as far as what the implications would be on some of the targets that we've set, I just can't give you anything specific now without knowing the specifics that would be embedded in the tax reform.

HIMA INGUVA: That's fair. But you still continue to think that net-net, again not knowing what would go into it, would still be favorable for banks, right? It would still be positive, net positive, and not negative?

JOHN GERSPACH: Again, based upon the framework that is out there right now, we would certainly view that as being positive.

HIMA INGUVA: Sure, that's helpful. And then the last question is around the criteria for calling a TLAC bond one year prior to maturity. Is that a purely economic decision? And what are the alternative options you would look at at that time?

MIKE VERDESCHI: Yes, it's Mike again. We certainly like these bonds because of their efficiency and flexibility in terms of managing our regulatory requirements. And once they've reach that call date, we will of course determine first whether we need that liquidity. And if we did, we would go about the normal course of evaluating our alternatives and the associated economics with those alternatives, and that would include deposits and other funding sources with perhaps a similar tenor and that could include both secured and unsecured funding.

HIMA INGUVA: That's very helpful. Thanks a lot. Appreciate it.

MIKE VERDESCHI: Thank you.

JOHN GERSPACH: Thank you, Hima.

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

PRI DE SILVA: Good morning, John, Mike, and Tom. And congratulations, Mike, on your new role.

MIKE VERDESCHI: Thank you.

PRI DE SILVA: On slide 13, Citi has $261 billion of level one HQLAs and as we think about the Fed unwinding its balance sheet, albeit at a snail pace, how do you think about the mix of the level one HQLAs? Will you just swap from one to another?

MIKE VERDESCHI: Look, in terms of the balance sheet unwind, and as you highlight, I think it's good that this is being done in a very measured fashion. I think the implications of that balance sheet unwind are not of course fully understood and I think it's going to be impacting perhaps markets and the economy in ways that are to be determined.

Now in terms of the composition of the HQLA portfolio, there's certainly some speculation that would this cause banks to buy more level one, and therefore shed some of the non – I would say, the non-HQLA. And that really remains to be seen. I think that's something that we really can't speculate on at this point. We feel good of course about the liquidity cushion that we hold and the composition of that liquidity cushion.

I think when you think about the Fed unwind, it's going to happen over many years. I think it's important to think about what else is going on at that same time, the state of the economy. Are there QE unwinds going on in other central banks? Or are they in fact still adding liquidity? So it's just something very difficult to speculate on at this point.

PRI DE SILVA: That's great. Thank you for that. And then on the deposit front. As we see interest rates rise, in Citi's case, the push to a Citigold and then the change in mix from deposits to AUM, are you seeing any deposits re-pricing higher? Or any particular type of deposit category that's re-pricing higher versus others that are just price takers?

MIKE VERDESCHI: No, I would say over the quarter, when you think about deposit pricing, we have seen a low uptick in pricing in the betas. But again, it's nothing that it's not been modeled for. I mean these are things that we've modeled for and I would say everything is in line with expectations. You've had a few Fed hikes now. You've had December. You've had March. You've had June. And I would say the betas are still operating as we've modeled.

PRI DE SILVA: And is it mostly commercial that's driving the deposit beta?

MIKE VERDESCHI: I think when you look across your deposits – and of course this is done at a very granular level. When you look at the different deposits, you're going to see pockets of where the beta is maybe slightly higher and you see other areas where it's lower but, in aggregate, in line with what we've modeled.

PRI DE SILVA: Great. Thank you very much, Mike.

MIKE VERDESCHI: Thank you.

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

ARNOLD KAKUDA: Thanks, John, Mike, for holding the call.

JOHN GERSPACH: Hey, Arnold.

ARNOLD KAKUDA: Past two quarters in FICC have been difficult for the industry with the low volatility, but your FICC business seems to be outperforming. So have you perhaps been able to pick up market share from clients from the European peers today that reported FICC revenue of down about 30%?

JOHN GERSPACH: Yes, and, Arnold, I mean, we've talked about the fact that we do believe that we are gaining wallet share and market share in FICC. And you're quite right. I think it's borne out in numbers that you're looking at.

Again we've got a FICC business that is really – especially in the rates and currencies area, which is the cornerstone of our business – it's focused more heavily I think on corporate clients than some of our competitor institutions. And the nice thing about those corporate clients is they're in the market everyday supporting their balance sheet because they've got working capital needs that they need to think about. So yes, it's a different business model that we have. And I think that the strength of that business model is being borne out in the performance that you just mentioned.

ARNOLD KAKUDA: Got it. Thanks. And then I think you've highlighted in your presentation that a lot of your numbers include the issuance you've done in October but does that also apply to that $5 billion TLAC surplus? Does that include your $4 billion of co-issuance that you've done in October?

MIKE VERDESCHI: So the TLAC surplus that we highlight of $5 billion, that is our surplus after everything that we've issued and settled.

JOHN GERSPACH: Through the end of the third quarter.

MIKE VERDESCHI: Yes, through the end of 3Q.

JOHN GERSPACH: So just to be specific, Arnold, it does not include the $4 billion plus that we just did.

ARNOLD KAKUDA: Got it, okay. And then I think you mentioned that – so you've done a lot of net parent company debt issuance over the past few years and then now that you have a TLAC surplus, your TLAC – sorry, your whole core parent debt will largely stabilize. So if you have $19 billion of maturities next year, your issuance might come around that level? Is that the way to think about that?

MIKE VERDESCHI: Yes, I think that's something come next quarter, we'll have better guidance on what that will look like. But as we've addressed those TLAC needs and as we're sitting with a surplus, we would expect the trajectory of that parent company issuance to level off.

ARNOLD KAKUDA: Okay, got it. And then lastly, so you guys were one of the pioneers of issuing this TLAC eligible debt that can be called with a year before maturity. So is there any sense in putting in these early call dates into your bank notes perhaps for NSFR purposes?

MIKE VERDESCHI: That's something – when we think about the calls that are addressing TLAC, it's really for the specific impact of what happens to that debt once you roll within that one-year period, where it doesn't count for TLAC. So it's an interesting question. I think when you think about bank debt, longer term, it helps your long-term metrics, such as NSFR. As that rolls down, you still have coverage on your LCR. But it's something that we've really not explored at this point. I think the calls related to the parent level was really a focus on TLAC.

ARNOLD KAKUDA: Okay, great. Thank you very much.

JOHN GERSPACH: No problem, Arnold. Thank you.

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

ROBERT SMALLEY: Hi. Good morning, John, Mike and Tom. How are you?

JOHN GERSPACH: All right.

MIKE VERDESCHI: Good.

ROBERT SMALLEY: I had a couple of questions following up from the call last week for John and then a couple of prefs questions. First on the follow-up, you said that in terms of the card reserve, it was appropriate to take the card reserve now rather than wait and see. I was wondering what the motivation was behind that. Was there something else you saw there in terms of what was going to go on in the fourth quarter, either in the economy or in your portfolio?

JOHN GERSPACH: No, no. It's just – again, anytime you're establishing reserves, there's a certain level of judgment that you can apply. And so there's always a band within which you're booking, "the appropriate number." And so you can take some judgment that would extend that band towards one end or the other. And we just felt it was more appropriate as we closed out the third quarter to book what we really felt was going to ultimately be the number that was going to be required.

ROBERT SMALLEY: Okay, makes sense. Also you had mentioned in response to a question on forecasting trading related net interest income. I think your response was, good luck. I understand the response.

JOHN GERSPACH: Perhaps a bit flip. I mean maybe I shouldn't have been quite as flip on that, huh?

ROBERT SMALLEY: No, no, the response makes sense I'm just wondering in the beginning of the year, how do you budget for that item, if you can at all?

JOHN GERSPACH: Well, we always budget for line items, okay? And certainly, we do have a line item budget for NIR and that includes what we think we're going to get out of our trading book. However, as you begin to measure the performance of the trading businesses, it's less about line item revenue performance and more about overall revenue performance.

I wouldn't want to hold a trader accountable to a line item revenue budget that could force him or her therefore to say, oh, my gosh. I really need to hold more securities in order to generate net interest revenue so I hit a line item budget even though it might be much more efficient to conduct a trade to position myself for client needs by holding a derivative which would be a mark-to-market instrument that would therefore go through principal transactions.

And so we always establish budgets but the more important thing from a performance related point of view is that one, we actually satisfy the needs of our clients in the most efficient and effective way possible. And whether that is through a mechanism that involves holding positions that will generate NIR or holding positions that generate principal transaction revenues, I want it to be done in the most efficient and effective way possible.

ROBERT SMALLEY: Thanks. Yeah, traders living on carry don't live that long. I agree.

JOHN GERSPACH: No.

ROBERT SMALLEY: On prefs, a couple of items. One, you do have some calls coming up. There is a substantial money center call wall in the beginning of next year, probably $12 billion plus that needs to be refinanced – called. Does that influence the timing of your issuance at all next year?

MIKE VERDESCHI: No. I think again, as I mentioned, with our prefs, when they become eligible for calls we'll evaluate our needs at that time and base that decision on our needs and the economics. But what others do is certainly not going to influence how we're thinking about our own capital structure.

ROBERT SMALLEY: Okay. And last one on prefs. With the number of your outstanding prefs, the language is quite advantageous to you as the issuer with respect to LIBOR. And if LIBOR goes away, you have the ability to have fixed rate perpetual capital at very low levels. And I think this has caused some consternation among the pref investor community. One, I think that investors would like it if we figured out some solution for LIBOR, but barring that, is that something that you look at and number one, would your regulators let you do basically an off market deal and not exercise those clauses if it should come to that? Number one.

And then number two, I know that investors always look for a consent solicitation. But it seems like the shoe is on the other foot this time and would you look at changing the language, say, in exchange for decreasing the reset on the coupon?

MIKE VERDESCHI: Yeah. Look, I don't want to speculate too much. As I mentioned earlier, we recognize that there's enormous focus on LIBOR, as there should be, given the implications of transitioning away from this. It's something that we're very focused on. As I mentioned, we have representation on ARRC. We're incredibly involved in that transition away from LIBOR and planning for the future. And so clearly we're thinking about this LIBOR rate very carefully and the broader implications it's going to have. So yeah, I don't want to speculate about what path it may take but it's something that we're very focused on and very focused on the transition.

ROBERT SMALLEY: Okay, thanks very much. Appreciate the call.

JOHN GERSPACH: No problem, Robert.

OPERATOR: Your next question is from Mark Kehoe with Goldman Sachs Asset Management.

MARK KEHOE: Hi, good morning. Thank you for the call. Just one or two questions. The first one is in terms of the recent M&A activity in Mexico. How does that change the rail positioning of Citigroup? And were you at the M&A table? Or was that largely kind of an extended family affair for the two banks involved?

JOHN GERSPACH: I don't have a great answer for that question, I'm sorry. Because – I'm sorry, I just don't know how to answer it. Like anything else, there were rankings. We were involved. But I can't answer specifically on what the implications are of M&A deals in Mexico. Sorry.

MARK KEHOE: Okay, no problem. Thank you for that. And then just on the last question then. In terms of CECL and that – how that may change the loan loss reserve within the Tier 2 bucket, with excess reserves kind of – or sorry, excess loan loss reserves potentially coming down because of CECL, would that require you to issue more Tier 2 debt?

JOHN GERSPACH: We don't think so. Again there's a lot left to be worked on CECL. As we've talked about, our view of CECL right now is that the adoption of CECL would result in about a 10% to 20% increase in our loan loss reserve, the nominal dollars of loan loss reserve that we have. We'll see how that plays out as we work through a whole bunch of operational issues. But I don't think it's going to have to result in the issuance of additional debt.

MARK KEHOE: Thank you.

JOHN GERSPACH: No problem.

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

KEVIN MALONEY: Thank you. Just a few quick questions on trading. FICC you've seemed like you've gained some share this year and is it coming geographically? In other words, was Europe stronger than it had been in the past? You've got dealer desks around the world, so you're probably more able to gather that type of revenues than others.

And second question is on equity trading. You also seem to have gained some share there. I'm just wondering if it's led by prime brokerage or whether it was derivatives related.

JOHN GERSPACH: So let's tackle FICC first. And I think our performance in FICC has been fairly well-balanced across the geographies. Different quarters, different geographies have done better performance. Of course a lot of that is related to what the performance was last year. But overall, I'd say that we're getting pretty broad-based growth in FICC. And again a lot of that has to do with the business model that we have as far as being much more heavily weighted towards our client revenues coming from corporate clients. And that gives us a nice base – gives us a lot of stability, especially in the emerging markets, where we've got a very nice local markets business that's holding up very, very well. So we like our business model in FICC. And again, it's not focused on any one particular product, although obviously, rates and currencies is extremely important to us. And it's balanced across the geographies. So that's FICC.

Then when it comes to equities, we look at prime brokerage as being sort of a foundational product in equities. So we do think that a lot of the performance is being led by prime brokerage, but not necessarily because we're getting the revenue growth just out of prime brokerage. But as we are able to provide more of our balance sheet into that prime brokerage client base, which is largely investor clients, it's enabling us to do something very similar in equity that we were successful at on the FICC side. On the FICC side, I mentioned the fact that we felt that corporate clients were really something important to give you that good, solid base. Obviously, from an equities point of view, you're looking really at those investor clients that you want to develop those deep relationships with. Prime brokerage is a great product to use in order to either begin a relationship or deepen a relationship. And then it moves on from there.

So yes, we're having I'd say a lot of success expanding the balances that we've got in prime brokerage. And then that is producing a revenue growth that is coming in derivatives, delta one, cash equities. So again, the growth that we're seeing in equities is fairly widespread across those products but it's because of that, those deeper relationships now that we're able to build with our investor clients.

KEVIN MALONEY: Okay, great. And just one last question. Equity underwriting was quite strong for you this quarter. And I was just wondering if it was led by several large deals or a bunch of smaller deals? And whether it was domestic or once again internationally focused?

JOHN GERSPACH: Again it's been fairly broad based. And I think that, if you take a look at the equity underwriting, yeah, we had a strong quarter. But even over the last 12 months, if you take a look at the growth that we've had in equity underwriting compared to some of our peers, we're moving up. Again none of us want to manage just based upon league tables but if you look on a trailing 12-month basis now, I think we're in like the third spot. And compared to where we've been, that's quite a move. So again you don't get there by having one deal. You get there by being able to support your clients in a variety of industries, in a variety of geographies. And I think that's what you're seeing us do.

KEVIN MALONEY: The move up, was it, you've changed the verticals? In other words, have you hired people and you're concentrating on tech? Or you've increased?

JOHN GERSPACH: It's everything that we've been doing for the past five years. I mean I like to say, we've worked five years to be an overnight success.

KEVIN MALONEY: Fair enough. Thanks a lot.

JOHN GERSPACH: No problem.

OPERATOR: Your next question is from David Jiang with Prudential.

DAVID JIANG: Hi.

JOHN GERSPACH: Hi, David.

DAVID JIANG: Hi John, how are you doing? On the callable structures, I noticed it's roughly 60%/40% year-to-date. Do you anticipate that we move really to callable structures as kind of the primary form of issuance?

MIKE VERDESCHI: Hi, it's Mike. I would say that we certainly like the way the callable market has evolved. It certainly, as I mentioned earlier, provides us a great amount of efficiency. But there's still great demand in bullet space. We think – as we think about our liabilities, we'd like to have multiple levers. And we very much do intend to issue both callable as well as bullet. We think that's something that we'll focus on the economics of those alternatives but we fully expect to be in the bullet space as well.

DAVID JIANG: Do you expect the callable structure to evolve further? Are there other features you're thinking about? The continuous calls, two year calls, et cetera?

MIKE VERDESCHI: No, I really think that when you think about the way they're structured today, it really allows us to optimize that funding and allows us to call the debt when there's only one year remaining because that's where really it loses value for TLAC. So I don't know that evolving further would give us that much more efficiency.

DAVID JIANG: Got it. And then have you considered issuing more in the 30-year part of the curve? I don't know if it's just purely an economic decision?

MIKE VERDESCHI: Yeah, there's a number of factors that come into play when we think about issuance. So obviously we're thinking about tenor and we're thinking about demand. We are thinking about the economics. But we like to build a good tenor ladder and therefore, an average maturity. And just as we think about issuing, whether it's dollar or non-dollar basis, several factors that come into play and again it's a function of demand. It's a function of currency and having a good tenor ladder associated with our funding.

DAVID JIANG: Got it. And then a question on the credit card portfolio. So just given the guidance and on the earnings call, you're expecting charge-offs in the private label book to go up to 5% for the full year this year and 295 for the...

JOHN GERSPACH: No, the 5% was at next year.

DAVID JIANG: Next year? Okay.

JOHN GERSPACH: 2018.

DAVID JIANG: And 295 for the Branded book?

JOHN GERSPACH: In next year, correct, correct.

DAVID JIANG: For next year, okay. Now I'm just curious about the private label book. Charge-offs have gone up by 110 basis points if we get to 5% from the beginning of the year. And the book hasn't really grown dramatically just over the recent periods. I'm just wondering, is it purely the kind of late stage delinquencies driving the higher charge-offs? Because – and when do you think those vintages will kind of normalize? Like, do you expect the charge-offs to flatten out in 2018?

JOHN GERSPACH: So the – I think that the guidance that I gave was that we would expect in Retail Services, the NCL rate to go up to about 5%, in the range of 5% in 2018, and then stabilize somewhere between 500 and 525 basis points in the medium term, consistent with the medium-term targets that we had put out for Investor Day. So think about that by 2020. And so there is certainly a flattening, therefore, of that trajectory that we do expect to happen.

You're quite right. What's hitting us right now is basically those later stage delinquencies, which are staying elevated. We do not see a significant increase, other than what you would expect with portfolio seasoning, in the initial flow from current buckets to that first bucket or second bucket that are much more indicative of issues with your credit underwriting. That's holding up very, very well.

But we are seeing those later stage delinquencies having a greater inclination to go to write-off. And that has caused us to increase our 2017 estimates of what the NCL rate would be. Going into the year, we had said our expectation was 435 basis points. And with the most recent guidance, where we expect to end, it's 470 basis points. So that's a 35 basis point increase in guidance this year and it's totally due to those later stage delinquencies.

So 470 this year. We do see that growing to 500 basis points next year. And then somewhere in that range of 500 to 525 out to 2020.

DAVID JIANG: All right, appreciate that. And then are you seeing these same type of trends in your personal installment lending book with the late stage delinquencies going to charge-offs? I'm just wondering if you're seeing any weakening in that portfolio.

JOHN GERSPACH: Not to the extent that we see it in Retail Services. We don't see it in Branded Cards either. Branded Cards, again, our current guidance is at 285 basis points of NCL rate this year. And then perhaps in that 295 figure next year. And again, that really has to do with portfolio seasoning much more than anything else. There's always movements up and down in delinquencies. Delinquencies, again, there'll be some slight increases in delinquencies. That's what's driving the move to the 295 rate for next year but that all seems to be related to portfolio seasoning rather than the issue that we're seeing in that later stage delinquencies in the Retail Services bit of the portfolio.

DAVID JIANG: Great. Thank you.

JOHN GERSPACH: No problem.

OPERATOR: Your next question is from Mandy Pan with Barclays.

BRIAN MONTELEONE: Hey, good morning. It's Brian. Can you hear me this time?

JOHN GERSPACH: Brian, how are you?

BRIAN MONTELEONE: I'm well. How are you?

JOHN GERSPACH: Okay.

BRIAN MONTELEONE: All right. Great. Thanks. So a couple questions on slide 8. The by currency, so it looks like this year is pretty much going to be 100% USD funding. And I know you guys are opportunistic in how you approach the market but I think most of your peers have come in euros a number of times. So can you talk a little bit about why you see the dollar market as more attractive?

MIKE VERDESCHI: Yeah, so this is Mike. You're right, we are opportunistic. There's a variety of things we'll consider. Of course, when we think about our funding needs, we're looking at that in the broadest context. So if we have deposits where we don't need funding in that currency, that's one of the considerations. And then of course, we look at the flexibility of issuing in foreign currency and then swapping back to dollar. We like having that flexibility. Therefore, we will take that cross currency cost into account. And so for this year, that has been an expensive source of funds relative to dollars. And while there's been terrific demand in U.S. dollars, that's where we focused our issuance.

BRIAN MONTELEONE: Okay. And then to follow-up on one of David's questions. The 60%/40% split between callables and bullets this year, is that kind of a reasonable split going forward?

MIKE VERDESCHI: Yeah, it's something that – again, because we will base it on economics, it's hard to predict exactly what that split will be. We do expect to be active in both, but it's just really hard to determine what the economics are going to tell us about that split going forward.

BRIAN MONTELEONE: Okay. And then a question on the leverage lending guidelines. There was a note out from the GAO last week noting that the guideline was actually a rule for the purposes of the CRA. I guess it seems like until it's kind of put forward as a rule by the traditional agencies, I guess it's currently not effective. So I guess two questions around that. One, I guess are you expecting whatever rule is put forward to be amended from kind of the 2013 guidelines? And then two, how do you operate in terms of leverage finance franchise in this kind of intermediate period?

JOHN GERSPACH: The guideline when it came out or rule or whatever you want to say it was had very little impact on us at the time that it came out. And should it be revised, amended, changed from a rule to a guideline or a consideration or whatever other term they're going to use, it shouldn't really impact us much going forward either.

We do not operate as a product-led business. We're in the market to really support the needs of our clients. We do have some clients that require that type of that leverage based financing but it's a relatively small section of our client base. They're important. All our clients are important and we'll continue to meet their needs. But again it doesn't really impact us all that greatly.

BRIAN MONTELEONE: Got it, okay. And then just one last question for me on Banamex. So there's some headlines over the last, I guess, few weeks and the Mexican peso has kind of been a little weak on this thought that maybe the U.S. could at some point next year pull out of NAFTA. I know part of the 2020 plan is driven by growth in Mexico. How sensitive are those assumptions to what might happen with NAFTA?

JOHN GERSPACH: Yeah. I mean, obviously, way too early to comment as to whether or not somebody is going to pull out of NAFTA and what those impacts would be but I think we covered this, or tried to cover this, in some fashion during Investor Day. And we mentioned the fact that we do think that we're fairly well-positioned with our overall global franchise to support Mexico, our Mexican clients. And we think Mexico is actually well-positioned to adjust if trade flows shift.

So if they shift out of Mexico, there's no reason to think that they couldn't therefore be as competitive elsewhere. They're still a very competitive market. And if instead of trading with the U.S. those trade flows shift to other emerging market countries. I think that'd be okay for Mexico and it would certainly be okay for us as well.

BRIAN MONTELEONE: Got it, great. Thanks, John. Thanks, Mike.

JOHN GERSPACH: No problem.

MIKE VERDESCHI: Sure.

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 the call today and obviously if you have any follow-up questions, please reach out to us in Investor Relations. Thanks and have a good day.

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