TRANSCRIPT

Citi Second Quarter 2018 Fixed Income Investor Review

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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, Natalia. Good morning, and thank you all for joining us. As Natalia 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 expectation 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 2017 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 operating results for the first half of 2018. Second, I will cover recent balance sheet trends, including growth in loans and deposits. 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.

Slide 3 summarizes our results for the second quarter and the first half of 2018. In the first half of the year, we generated revenue growth of 2% and a roughly 90 basis point improvement in our efficiency ratio. We grew EPS 26%, including the impact of share buybacks and a lower effective tax rate. Our return on assets was 96 basis points and our RoTCE was 11.1%, positioning us well to exceed our target of 10.5% for the full year 2018.

On slide 4, we show average balance sheet trends over the past five quarters in constant dollars. On this basis, we have grown our balance sheet by approximately 2% over the last year in support of our clients with growth in loans across both GCB and ICG as well as trading related assets. We funded this growth with a variety of sources. We leveraged our global footprint to raise high quality deposits around the world to fund a variety of lending activities. We also issued across a diversified set of programs largely to build a buffer under the TLAC requirement and liquidity for resolution planning as well as to maintain an appropriate maturity profile. And while long-term debt grew 8% over the last year, it has leveled off in the last several quarters as we met these regulatory requirements. Finally, we grew trading related liability in conjunction with trading related assets.

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Slide 5 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 5% year-over-year and 7% in aggregate across our Consumer and Institutional businesses. In our Consumer business, average loans grew 3% year-over-year, driven by growth across all regions. On the Institutional side, loans grew 10% year-over-year, driven by continued client engagement across our businesses, including TTS, the Private Bank and traditional Corporate Lending. At the same time, our loans included in Corp/Other declined by 30% 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, credit continued to be broadly favorable again this quarter with NCL and delinquency rates broadly stable across regions. In ICG, total non-accrual loans declined slightly to 45 basis points of total loans. On an absolute basis, ICG NAL declined 23% year-over-year to just under $1.6 billion, even as we've continued to grow loans across our businesses.

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. In our Consumer business, deposits declined 1%, as growth in Asia and Latin America was offset by a 3% decline in North America, primarily driven by a reduction in money market balances as clients put more money to work in investments. In our Institutional business, deposits grew 4%, primarily driven by continued high quality deposit growth in TTS.

Now let me highlight our parent benchmark debt issuance program on slide 8. Year-to-date, including the roughly $5 billion we just issued, we have issued $15.4 billion of parent level benchmark debt, including just under $15 billion of senior and $600 million of subordinated debt. We issued debt across a variety of tenors and have now issued three Euro benchmark transactions this year. Most of our issuance this year has been callable, giving favorable economics and strong investor demand. Going forward, we will continue to maintain the flexibility to issue a mix of currencies, tenors, and structures.

On Slide 9, let me cover our bank level issuance. Year to date, including the roughly $2.5 billion we just issued, we have issued approximately $9 billion of bank notes and roughly $4 billion of credit card securitizations. And as we've previously noted, we will continue to maintain the flexibility to opportunistically issue across a variety of tenors and structures as we calibrate the efficiency of our funding sources.

On slide 10, let me cover our issuance, maturity and redemption expectations. In 2018, we continue to expect gross issuance of roughly $20 billion of parent level benchmark debt, including the $15 billion we have issued year-to-date. $11 billion of debt has matured so far this year, out of a total of approximately $19 billion expected for the full year. We've called just under $2 billion of benchmark debt, roughly in line with our redemption expectations for the full year. However, we will remain opportunistic around buybacks for the remainder of the year. Overall, we continue to expect net benchmark issuance to be roughly flat for 2018.

At the bank level, we continue to expect gross issuance of approximately $15 billion across both bank notes and credit card securitization, including the roughly $12 billion we have issued year-to-date. And $5 billion of bank level debt has matured so far this year out of a total of $10 billion expected for the full year.

On slide 11, we show the composition of our long term debt outstanding. During the second quarter, our total long term debt remained largely flat again at $237 billion, given both our TLAC surplus and the completion of the cash build related to our resolution planning.

As you'll note on page 21 of the appendix, we ended the quarter with an estimated $11 billion surplus under the TLAC rule, comfortably above our targeted range of $7 billion to $8 billion. As we have noted previously, this cushion gives us additional flexibility to pursue other more efficient sources of funding. You saw this when, as we made progress against our TLAC requirements over the last year, we re-entered the credit card securitization market and initiated our unsecured bank note program, both of which provided efficient

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funding at the bank level to support client led growth. Going forward, we will continue to evaluate a variety of funding levers with a greater focus on economics both on the short and long end.

On slide 12, we provide an update of our LCR metrics and drivers. Our average LCR was broadly stable at 119% in the second quarter.

Turning to slide 13. Let me summarize our key regulatory capital metrics, which as we mentioned remain among the strongest in the industry. Our CET1 capital ratio remained roughly flat sequentially at 12.1%, as net income was offset by $3.1 billion of common share buybacks and dividends. And our SLRs were 6.6% and 6.9% for Citigroup and Citibank, respectively.

Moving to our last slide. Let me summarize several key points. First, we earned $9.1 billion of net income in the first half of 2018, achieved an efficiency ratio of 57.9%, and improved our RoTCE to 11.1%.

Second, we continued to maintain a strong balance sheet. We ended the quarter with an estimated $11 billion surplus under the TLAC rule. We maintain a highly liquid balance sheet with an average LCR of 119% and an estimated NSFR of greater than 100%. And we reported a CET1 capital ratio of 12.1% and an SLR of 6.6%.

Finally, we continue to further 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 Hima Inguva with Bank of America.

HIMA INGUVA: Thank you as always for all the detailed disclosures and for doing the call John, Mike, and Tom. We really appreciate it.

MIKE VERDESCHI: Sure.

JOHN GERSPACH: No problem, Hima.

HIMA INGUVA: Great. Let me start with my first question. So Citi Capital XIII has $2.2 billion outstanding at 3 month LIBOR plus 637 bps and is permanently grandfathered as AT1, as I understand. And you have talked about this in the past, but maybe if you could update us on the latest plan for the security?

MIKE VERDESCHI: Hima, it's, Mike. At this time, no change in our thinking relative to what we have discussed on prior calls related to this Cap XIII.

HIMA INGUVA: Okay. So if – at some point if it becomes economically attractive, I mean, do you look at it? Do you think that makes sense to maybe take it out or redeem? Or I mean, if it's already getting the capital treatment, right, does economics matter in the longer term?

MIKE VERDESCHI: Yeah. Economics certainly matter and as we've said before, we'll never say never. It's something that we evaluate. Just at this time, it just doesn't make sense.

HIMA INGUVA: Got it. Thank you. The second one is could you share your latest thoughts on the optimal level for TLAC LTD management buffer?

MIKE VERDESCHI: Sure. As I mentioned, we continue to target a buffer of around $7 billion to $8 billion. But as you saw, we're a few billion above that as of 2Q. So that buffer can fluctuate depending on the timing

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of issuance relative to maturity, the roll down of our debt, in addition to the pace of our balance sheet growth.

HIMA INGUVA: Great. Thank you. The third question is around Fed balance sheet unwind. So how will Citi cope with the balance sheet unwind in fall when the pace accelerates to $50 billion a month? Regardless of LCRs, how will the system in aggregate deal with this and be able to grow balance sheet while deposits are potentially pressured?

MIKE VERDESCHI: Hima, this is a topic of course that gets a lot of attention in the market, and just to take a step back, as we know, with quantitative easing, the Fed injected quite a bit of liquidity into the system as they were purchasing securities. And with that liquidity add, the industry saw deposit growth outpacing loan growth for some time.

If you look at the past year, it seems we are back to where deposit growth is in line with loan growth, much like you saw before QE. That said, there is competition for deposits and even a few months back where T-bill issuance was up. The market did have some short end pricing tension. But perhaps some of this supply demand imbalance is coming a bit sooner in the QE unwind process than maybe what the market and even the Fed may have been expecting. So with that, I'm sure this is a topic that will continue to get attention. But at this time it's not clear if or how policy may evolve based on this dynamic.

For Citi, as we've talked about, we see loan growth across our businesses and regions with our global footprint. And we've continue to source high quality deposits, such as operating accounts, to fund that growth. And being focused on these types of deposits, while there of course could be other factors impacting them, we would not expect funds from these types of accounts to be used to absorb the additional supply coming to the market as the Fed tapers their purchases.

So in addition, we talk about having multiple programs to help drive funding diversification and efficiency. So the combination of our global deposit footprint in addition to the funding levers that we have, these both will help us continue to grow our balance sheet in and meet our investor – our client needs.

HIMA INGUVA: Great. That's very helpful. Thank you. And the final question from me, how do you see macro risks, such as trade tariffs from China now? I guess you're looking better. And geopolitical risks from Iran and, say, Venezuela impacting Citi, given it's the most global bank? And how do you prepare and position for such risks?

JOHN GERSPACH: Hima, it's John. I'd say that basically everything that you mentioned are things that we get focused on every day, not necessarily trying to predict the future but we're constantly assessing stresses on our portfolio that could be – that could result from any one of those issues that you raised. So we create scenarios. We embed that all into our stress testing. Again, not trying to predict outcomes. But we're just making sure that we've got the proper protections in place for a range of outcomes.

And I think that you've seen the way that the portfolio has performed over the last several years. No matter what we've faced, whether it's Grexit or Arab Spring, the Russia situation we've – our portfolio has held up very, very well. And I think that's because of the constant stress testing that we do. And therefore, we're constantly reassessing as to what level of business and where.

So it's an ongoing process. And when you mention the trade point, I feel like I've got to mention the fact that, don't forget, the ICG business that we run, it's a client driven business. It's not a product driven business. So we're really there to supply our clients with services that they require to run their business around the world. If trade flows shift because of the imposition of some protectionist policies, we're in a great position then to help our clients adjust to those changes in the trade flows. Anything from country one to country two. I think I mentioned it on the earnings call that we just had that we've seen an awful lot of activity now just in the Asia corridor itself. And that – we're well positioned for that.

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HIMA INGUVA: Okay. Great. Thanks a lot, John, for the detailed response.

JOHN GERSPACH: No problem at all, Hima.

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

MARK KEHOE: Hi. Good morning. And thank you for the call. Just in terms of looking at the HQLA balances for Citi, it looks like you versus some peers have a higher concentration of other Level 1A assets. Is there some reason for that, that you have compelling reason to hold Level 1 excess reserves? And how do you think about the – kind of the interplay between those two levels?

MIKE VERDESCHI: Sure, Mark. It's Mike. That really is a reflection of the firm we are and we're global – that global footprint in the countries that we're operating in, if you think about the securities that we hold, they represent a need to hold a liquidity buffer in those countries as well as securities needed to manage your overall ALM activities. So really what you're seeing is that allocation largely to sovereigns and good diversification in that allocation. It's really a function of our global footprint.

MARK KEHOE: Great. Thank you. Just and the last question I have, in terms of the securities portfolio, with the hike on the higher front end rates versus IOER, are you – how are you thinking about duration within the securities portfolio? Are you adding it? Are you subtracting from it? Or are you kind of waiting for loan growth to pick up? Thank you.

MIKE VERDESCHI: We haven't done a whole lot in terms of trying to shift that portfolio. When I think about the overall allocation and looking at that shift, as we've said in the past, we've kept those securities roughly short dated. But as – and the curve has obviously flattened quite a bit. Longer term as you go through, whether it's the cycle or the QE unwind, as we've both talked about before, we'll always be looking to optimize the mix of HQLA.

We'll be looking at potentially more mortgages if we see those spreads widen. Or if even rate volatility picks up from where it is. We could be looking at munis because those potentially may be now given HQLA treatment. So in terms of duration not really looking at any changes at this point. We're always looking at the product mix. And we'll be keeping an eye on how the yield curve plays out over time as well.

MARK KEHOE: Thank you.

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

SCOTT CAVANAGH: Good morning, guys. Thanks for holding the call. Always appreciate it. So I just wanted to delve into what you're seeing on the Consumer side domestically, looking at both your Branded and Retail portfolios and looking across the FICO. So basically, just trying to get your updated thoughts on where we are in the cycle. And are you seeing any movement across the FICO bands?

JOHN GERSPACH: When you say movement, do you mean as far as, do we see a differentiation between the way different FICO bands are performing from a credit point of view?

SCOTT CAVANAGH: Yes.

JOHN GERSPACH: Okay, all right. The short answer is no. We're really not seeing that at all. Obviously, we're watching for it, so I don't want to be completely dismissive of it. But we don't see any differentiation right now. Now obviously, there is differentiation, but it's what we would expect. We're looking at the 660. They're performing like 660s. The 760s are performing like the 760s. And we don't see that there's a big change in the relative performance of those FICO bands over the last 6, 9, 12 months.

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SCOTT CAVANAGH: Okay. And then on the Retail Services, there was some commentary on the earnings call about basically the pipeline and not seeing big deals available. Could you just discuss what you're seeing on the pipeline for the next couple of years for Retail?

JOHN GERSPACH: Well, I think what we said is that we're definitely open for business where we see the right type of partnership to get involved with. Not every portfolio would be right for the way that we run our Retail Services business. And it's probably – what you're going to find is the same with other people that are involved in this space. Each firm tends to run its business somewhat differently. We tend to be a bank that looks to be highly cooperative and really run it as a partnership. And so there are things that we can bring to the table that work well in that type of relationship.

So it's a matter of supply. But it's also a matter of the quality or the – I wouldn't say quality, but the type of supply that's out there. So it's got to be the right portfolio at the right time. But we're open for business. I just don't see anything significant right now that would seem to fit our particular model being out there on the horizon.

SCOTT CAVANAGH: Okay. Thank you very much. Appreciate it.

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

ARNOLD KAKUDA: Great. Thanks for having the call. I'll echo my colleagues' comment on that. So I just want to – I think you mentioned that you filled your $2 billion benchmark redemption plan. But you said you might be opportunistic later this year on debt buybacks. Is that right?

MIKE VERDESCHI: Yes.

ARNOLD KAKUDA: And then given you didn't update the forecast, is it – could it potentially be like a rounding error on $1 billion, or could it be higher than that?

MIKE VERDESCHI: It's – again as we've said, we're always going to be focused on being opportunistic. So it's just not that much of a meaningful activity that we would anticipate.

ARNOLD KAKUDA: Okay, got it. And then is it – does it have to do with maybe you're doing a little bit better than you expected this year in terms of – I think you're running at 11% ROTE in the first half of the year. You expected I guess 10.5% for the full year. So could that be a part of it? And then would you need Fed approval on this? Like I guess as a part of your – maybe a de minimis addition to your capital plan. Or is it a separate process?

JOHN GERSPACH: Are you focused on the debt buyback still?

ARNOLD KAKUDA: Yes.

MIKE VERDESCHI: So the debt buyback, I mean, again, we think about that as a separate process. I mean, of course, you're planning for your overall balance sheet and you're looking at your capital levels and overall liquidity. But I wouldn't look at those as necessarily linked. I mean, when you're thinking about your overall liquidity need and optimizing your funding profile, you're very focused on what you need to issue, what debt you may not need outstanding. And just to drive efficiency, you may decide to buy some of that back just based on your overall liquidity needs.

ARNOLD KAKUDA: Okay, got it. And then in terms of the momentum that you're seeing in the first half, the ROTE running above target, can you continue this in the second half of the year? I mean, I think maybe your revenue might be a little softer. But I think your outlook is to improve the efficiency ratio. And I think on the equity call you commented that on the cards side, net interest revenue may rise. So are these factors that can help you kind of continue this strong ROTE momentum the second half of the year?

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JOHN GERSPACH: Yeah. I mean, Arnold, typically what happens, of course, is you tend to generate stronger returns in the first half of the year than the second. However, given where we are, we're quite comfortable right now that we will exceed the target that we set for the full year. For the full year, we set a target RoTCE of 10.5%. And given the 11.1% performance in the first half, as I said, we're quite confident that we will exceed that 10.5% target for the full year.

ARNOLD KAKUDA: Okay. Great. And then it seems like you've had a good handle on CCAR. The past few years, you've got a clean pass versus half your GSIB peers, which had either a conditional pass or like a reduced capital request. So what do you think about the test this year? Why was it so hard? And then is it fair to say you guys expect it maybe to get a little bit easier in the next round ahead of this in time for the stress capital buffer coming into play.

JOHN GERSPACH: I wouldn't know how to handicap the next scenario that the Fed designs. Some of it is going to be formulaic. If you take a look at the rules that were put in place around the whole CCAR process, there's a need to create a scenario that gets you to a 10% unemployment level. So as unemployment continues to improve, obviously there's a wider gap to bridge with the scenario.

I think this scenario was a little harsher, not necessarily because of that underlying given, but some of the other things that were complementary to it or put in there. There's no rule that says you have to go from the current unemployment rate to 10% in six months. That was a little more than – a little faster than we would have thought. That got linked then immediately with a rather tough trading stress environment. And the last thing was normally when you're going through an environment like that, high unemployment, markets are collapsing, you would have expected interest rates to fall. That was not part of this scenario.

So the scenario that we got this year, it was tough. And you have to take a look at some of the elements of it and say, is that a realistic environment that you could actually be facing? But then again, the whole purpose of a stress test is to stress you for the unexpected. And I think that they succeeded this year, because they produced an environment that none of us would have ever expected. But we were very glad that we got through the stress test the way we did.

ARNOLD KAKUDA: Got it. All right. Thanks a lot for the detail. I really appreciate it.

JOHN GERSPACH: No problem.

OPERATOR: Your next question is from the line of Brian Monteleone with Barclays.

BRIAN MONTELEONE: Thank you. Question on LIBOR and floating rate notes. So I'm sure you saw Andrew Bailey give a speech a couple weeks ago, kind of prodding market participants to move towards – away from IBORs to their replacements. And then the Fed and the ARCC had a meeting last week where they did the same. And this week Fannie Mae is doing a SOFR based new issuance. So any updated thoughts on how you guys are thinking about potentially issuing off of SOFR, timing, what needs to happen?

MIKE VERDESCHI: It's Mike. So look, I think that's a positive development. As we've talked about this last time, I think a few things need to still develop around SOFR. And we've talked about the basis markets. Of course, that's a secured overnight financing rate. And we're of course largely issuing unsecured basis for LIBOR. So they are different measures, but that being said, there's a lot of good work underway in terms of curve construction for SOFR. There's obviously talk about how a basis market can develop around that as well. But what I would say is, you're seeing positive developments with now it being used by Fannie for issuance. And we're going to continue to monitor that. And I'd say not right now in terms of issuing off that index, but we're certainly watching that very closely.

BRIAN MONTELEONE: Thanks. And a question around the national digital strategy. Citi has talked about it. Some of your peers have talked about it as well. Can you talk a little bit about how you see that

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opportunity? And with potentially a crowded field, how do you expect it to play out over the next couple years? What's going to be the competitive advantage there?

JOHN GERSPACH: It's John. I would say that we continue to expect banking to be a rather competitive industry. It's been that way for at least as long as I've been associated with the place. You see it in credit cards. You see it in retail banking. I think now that the change is with retail banking that people are no longer limited to providing retail banking services based upon a physical footprint. That's something that we've been preparing for, for some period of time. We looked at our physical footprint several years ago and began to concentrate that physical footprint where we felt we needed to have a concentration. And beyond that, we – our thought process was that we would eventually be able to serve the rest of the country through some form of a digital bank. And that time is here now.

When you ask about, what is the competitive advantage that we have, I'd say that the competitive advantage that we have over some of the others would be a national brand. We have credit card holders in every state throughout the U.S. So we are a known entity. People use our cards every day. We think that that's a natural way then of asking if they would like to deepen their relationship. And there are things therefore that we can bring to bear as the national player that we are that others can't.

So it's going to be something that is going to play out over the next several years. It's not going to be a month to month to month type of move. But again I feel really good about the capability that we have in this arena.

BRIAN MONTELEONE: Great. Thanks. And one last one on the stress capital buffer. So we obviously saw the volatility in CCAR this year again. Can you talk about what you think is the potential approach the Fed could take to maybe smooth some of that in terms of what actually goes into a stress capital buffer? And then I know you said that SCB was considered when you set the capital target and you'd potentially flex up and down your management buffer if there's maybe not any relief. But can you talk a little bit about how you think about managing capital over time if we don't have a smooth SCB?

JOHN GERSPACH: Well, my thought process would be that my baseline here is that there will be changes to the SCB as – compared to as of what's proposed in the NPR. I think that when you take a look at the various comment letters, there are several techniques that have been proposed as far as ways of dealing with a smoothing of the SCB, whether that be a three-year average, a five- year average, a one-year delay in implementing the SCB. I don't know whether we'll end up with any one of those or a combination of those. But I do think that there will need to be something done to smooth it out.

I don't think the Fed's intention is to create a capital requirement for the banks that varies greatly year to year, just based upon a stress scenario that they created. That will not do anybody any good. It will not allow banks to properly allocate capital to its businesses. And therefore, it could impact the credit that is made available to the U.S. public and corporations. So I don't think that that's the intent of the Fed. And therefore, I do believe that they will address that.

BRIAN MONTELEONE: Great. Thanks, John. Thanks, Mike.

JOHN GERSPACH: No problem.

MIKE VERDESCHI: Sure.

OPERATOR: Your next question is from the line of Gilead Spivack with CreditSights.

GILEAD SPIVACK: Hi, guys. This is Gil Spivack speaking on behalf of Pri de Silva. Thank you guys for taking our questions and hosting the event.

MIKE VERDESCHI: Sure.

JOHN GERSPACH: No problem at all.

GILEAD SPIVACK: So most of our questions have been asked and answered, but I was wondering if you could touch on your deposit base, which is rather unique. And can you elaborate on deposit costs and beta trends outside of the U.S.?

MIKE VERDESCHI: Sure. It's Mike. So I think outside of the U.S. you really have seen a different dynamic. Of course, in the U.S. where you've had rates climbing, equity markets performing strongly, you've had one dynamic. I think outside of the U.S., where interest rates have been more stable, we continue to be gathering deposits steady to fund our growth.

In terms of the costs, I would say the betas overseas have largely performed in line with what we have expected so far. Now, of course, over those cycles, as those economic conditions may change or the monetary policy in those countries may change, that can evolve over time. But right now, I'd say it's been pretty steady and largely in line with our expectations.

GILEAD SPIVACK: Great. Thank you. And I was wondering if you could also elaborate on the reasons for issuing bank level debt compared to deposits?

MIKE VERDESCHI: Sure. It's just something we've talked about quite a bit. And when you think about our balance sheet and how we fund that growth, we of course want to lead with deposits. It's an efficient source of funding. But needless to say, both bank and non-bank, we want to have multiple funding sources. And so we've talked about this in the past where we have a bank program and a non-bank, secured and unsecured. And we want to have the flexibility to issue across a variety of tenors. It just improves the participation in the debt. And so we really think this is just a complement to gathering deposits to fund our balance sheet growth. And given where spreads have been versus historical levels, it was a really cheap source of funding and a very good complement to funding the balance sheet growth.

GILEAD SPIVACK: Great. Thanks again for hosting the event.

JOHN GERSPACH: No problem at all, happy to do it.

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

ROBERT SMALLEY: Hi. A couple of questions. One on the curve and a couple on credit. First one, in the past we've talked about how you – how Citi makes money really on movements in the very, very front end of the curve, to characterize what you've said in the past. One of your competitors said that the short end of the curve in terms of movements represents about 70% of their sensitivity. Could you put a little flesh on the bone around Citi's sensitivity? How much of that – is it comparable to a 70% number?

MIKE VERDESCHI: It's Mike. I mean, I'd say it's probably even higher than that. And so as we think about our sensitivity, it has been concentrated in the front end. And as we've been thinking about how policy may evolve and thinking that rates would be taken higher, we saw that as largely an event that would take place in the front end of the curve. So we positioned that interest rate exposure based on that premise. So that exposure is going to be – the vast majority is going to be in that part of the curve.

ROBERT SMALLEY: Okay. So above a 70% number is a good number. Thanks. And then probably more of a John question around credit. First, when we look at credit extension over the past quarter or so, could you talk a little bit about line utilization and purpose? And by this I mean domestically. Specifically, what are you seeing in terms of utilization? And is new lending going for M&A? Is it going for CapEx? Is it really fueling economic growth? Or is it just refinancing what's already out there?

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JOHN GERSPACH: Well, that's – Robert, that's a rather involved question, so let me do it in piecemeal, all right? When we take a look at our Corporate Lending, all right, our Corporate Lending has been growing across all of our different Corporate Lending platforms. And I think you can see that if you look at the supplement that we give you. Back of – I don't know if it's page 20, 21, 22. There's a page back there someplace that talks about the corporate loan by product. And you'll see that as I have it in my head, we're basically – whether you're thinking about our – the lending that gets done with Markets business, which is a lot of it has to do with the prime finance type stuff, that's growing. We think that's real activity. Treasury and Trade Solutions, those are trade loans as well as credit card lending to people. That's real economic growth activity. That's growing. We've got the Private Bank that's growing. That, again, is real activity for either individuals or sole proprietors in some cases, but that is real economic growth.

And when we get to the Corporate Lending, again, we're in the business of providing people lending for both CapEx as well as M&A, but I would say M&A is real corporate – real economic growth as well. Most of the Corporate Lending demand that we would call traditional Corporate Lending, I'd say a good portion of that does go towards M&A activity in the states. Around the world, it's much more funding CapEx, because that's the way that people tend to fund themselves outside the U.S. So it's a variety of uses for the lending growth that we've had. But again, it's fairly widespread across all our array of products.

And I think on the same page we give you the array of lending growth across our various geographies. And I think the only geography where at least on a reported basis it's down a little bit would be Latin America. And that's largely just due to the U.S. dollar strengthening against the peso in the last quarter or so. So it's not – that somewhat exaggerates that decline.

ROBERT SMALLEY: Okay, that's very helpful. Last question. This credit cycle is pretty long in the tooth. I'm not going to ask you what inning we're in, because baseball doesn't have a clock. But my real question is...

JOHN GERSPACH: I don't even know, I thought you were going to ask me what game we were playing, because...

ROBERT SMALLEY: Right, exactly. But my question is, you and your institution, you're not a complacent person. So how are you looking at where we are differently? Are you trying to apply any different metrics? In an earlier question in response to Scott Cavanagh's question, an earlier answer, you said 660s are tracking like 660s. Are you kind of stepping back and saying, hey, we need to look at some of this a little differently, because it all looks the same, and we're not really getting what we need out of the data to be more predictive.

JOHN GERSPACH: The answer to that is we do a lot of stress testing to make sure that the – again, when you put on a book of business, right, you put it on with a view towards how much risk you're willing to take. So everything starts with, what's our risk appetite? And we've got a fairly well defined risk appetite based upon geography, based upon product set. And we monitor that all the time, Robert. I mean, so we are constantly looking at how we would perform in various stress situations. We don't just repeat the same stress time after time after time. We change it up. Because to your point, the stress could be coming from a different source this time or in a different way.

And then when we take a look at the underlying data, we collect so much data, I'd be hard pressed to say that we need go out and source new data to see whether or not we're getting – and from a consumer point of view, are we getting the pay-downs that we expect to get? Are the delinquencies performing the way they're supposed to be performing, not just by FICO class, but based upon the risk characteristics that we have set aside for each one of our credit card portfolios or our PIL portfolios, the personal installment loan portfolios.

So we do monitor an awful lot of data on all of those things. When we take a look at it on the corporate side, we're looking at stresses that are appearing on the balance sheets of the companies to which we've done

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lending. So it's – we're looking at industry stresses. We're looking at a lot of things. And I grant you, I don't know what inning we're in. And I don't know whether we're in a baseball inning or a cricket inning. So that's the other thing.

And when you think about it, we've never seen this before. But then again, we've never had this type of elongated recovery anymore, where for the first eight years of the recovery, nine years of the recovery, we've been dealing with 1.8%, 1.9%, 2% GDP growth. Yeah, it's a recovery, but it's been probably the most frustrating recovery certainly that I've ever lived through. So I don't know what inning we're in. I'm not quite sure again when things will turn. But we have not let down our vigilance in looking at the quality of the performance of our portfolio.

ROBERT SMALLEY: I appreciate the insight. Thank you.

JOHN GERSPACH: No problem, sir.

OPERATOR: Your next question is from the line of Scott Frost with SSGA.

SCOTT FROST: Hi, thanks. I wanted to try to unpack a little bit, touching on what Hima said and Scott as well about the TLAC surplus that you have in context of your current issuance plans. Should we see that as how you see growth in risk weighted assets that you manage or grow into? Or is it more indicative of volatility you see associated with RWAs? What should we infer from this variance?

MIKE VERDESCHI: Yes. I mean again the – versus the targeted buffer, we're only up a few billion above that. So I don't know that there's that much to read into it. And when we think about that, we're going to issue at a time where the market conditions are good, the investor demand is good. And so you can think of the balance sheet then growing into that capacity.

But of course, there will also be maturities and roll down of debt that bring that buffer down as well. So I really think it's a function of timing of issuance based on how we approach the market, which is trying to be opportunistic and respond to investor demand. And then of course as you point out growing into your balance sheet is a function as well.

SCOTT FROST: So but just – I mean it sounded like what you were saying is, if I could explore it a little bit more, you seem to be refi-ing what's coming up. Is that the right takeaway from what you've said here? Or am I being...

MIKE VERDESCHI: Well, when we look at the issuance, what we laid out for this year is $20 billion of parent benchmark issuance. And that really covers our maturity. So our net new issuance is flat for the year. So yeah, so we're not going above that in terms of what we guided.

SCOTT FROST: So again, if I say, the right way to look – is the right way to look at this, it's a $7 billion or $8 billion buffer plus/minus? Or it's we're over that now, but we're going to grow or manage to that? Which would be more accurate I guess?

MIKE VERDESCHI: Look, I think $7 billion to $8 billion plus or minus is reasonable.

SCOTT FROST: Okay. All right. Thank you. Thanks for the color.

JOHN GERSPACH: Not a problem.

OPERATOR: Your final question is from the line of Jeff Bernstein with Insight Investment.

JEFF BERNSTEIN: Hi. Most of my questions have been asked and answered. Just wanted to follow up on the earlier caller's question about deposit betas outside the U.S. Competitors have commented that betas

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within the U.S. have been below expectations. I think you had mentioned the deposit betas outside the U.S. have been in line with your expectations. Does that include anti-U.S. sentiment if that does exist?

JOHN GERSPACH: Our betas are our betas. So they reflect the way that our deposits have been performing.

JEFF BERNSTEIN: Well, how about, is it something that you stress for? You had mentioned you stress for almost everything under the sun.

MIKE VERDESCHI: I mean when we look at our deposits, of course we look at – we're looking at how we expect them to evolve, based on – again, key factor is going to be the interest rate path. And therefore, how will that evolve? And therefore, how will you have to price those deposits. When we talk about the betas and how they're performing versus what our expectation is, that's what we're focused on.

JEFF BERNSTEIN: So irrespective of where the deposits may reside, it is mainly an analysis of change in rates and alternative opportunity sets?

MIKE VERDESCHI: We'll take a – look, we take a variety of things into account as we think about our betas of course. It's rates. It is the economic environment. There's a number of things we will factor in. Competitive landscape. So all of that goes into our thinking about how to think about deposits and how that cost can evolve.

JEFF BERNSTEIN: Okay. Thank you.

MIKE VERDESCHI: You're welcome.

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

TOM ROGERS: No. Thank you. I'd just like to thank everyone for participating. And of course, if you have any follow up questions, please feel free to reach out to us in Investor Relations. Thank you.

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