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 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 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 third quarter 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 third quarter of 2018. We grew pre-tax earnings, net income and EPS. We achieved an efficiency ratio of 56.1% and our RoTCE was 11.3%, 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 3% over the last year. We saw strong growth in both ICG and GCB loans as well as in trading-related assets as we continued to support our clients.

We leveraged our global footprint to raise high-quality deposits to fund a variety of lending activities and we issued debt opportunistically across a diversified set of programs. Finally, total cash and investments increased modestly both year-over-year and sequentially given our deposit growth as well as the timing of our debt issuance relative to the maturities in the third quarter.
Slide 5 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 5% year-over-year and 6% 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. In the Institutional side, loans grew 9% year-over-year with continued momentum across our businesses including TTS, the Private Bank and Corporate Lending. Finally, loans included in Corp/Other continued to decline driven by the wind down of legacy assets.

On slide 6, we show credit quality trends in our GCB and ICG loan portfolios. In GCB, credit remained broadly favorable again this quarter. The sequential increase in the NCL rate in Latin America reflected an episodic commercial charge-off that was fully offset by a related loan loss reserve release and therefore neutral to cost of credit. In ICG, total nonaccrual loans declined slightly to 43 basis points of total loans. On an absolute basis, ICG NALs declined 25% year-over-year to just under $1.5 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 3% from the prior year period. In our Consumer business, deposits increased 1% as strong growth in Asia and Latin America more than offset a 2% decline in North America. The decline in North America was driven primarily by a reduction in money market balances as clients put money to work in investment accounts where assets under management grew 9% to $64 billion. In aggregate, North America deposits and assets under management grew slightly year-over-year as strong growth in Citigold households and balances more than offset other outflows. In our Institutional business, deposits grew 6% 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, 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 have and will continue to maintain the flexibility to issue a mix of tenors, currencies and structures.

On slide 9, let me cover our bank-level issuance. Year-to-date including the roughly $1 billion we issued earlier this month, we have issued approximately $9 billion of bank notes and roughly $6 billion of credit card securitizations. And as we've previously noted, we will continue to maintain the flexibility to opportunistically issue across of 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 now expect total gross issuance to be less than $35 billion across both our parent-level benchmark debt and our bank-level programs relative to our prior guidance of $20 billion at the parent-level and $15 billion at the bank-level.

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. We've noted previously that this cushion gives us the flexibility to pursue more efficient sources of funding. And 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.

Year-to-date, we have issued roughly $15 billion of parent-level benchmark debt. $15 billion of debt has matured so far this year out of a total of approximately $19 billion expected for the full year. We called just under $2 billion of benchmark debt, roughly in line with our redemption expectations for the full year but we will continue to remain opportunistic around buybacks.

At the bank-level, we have issued roughly $15 billion across both bank notes and credit card securitizations, and $8 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 third quarter, our total long-term debt declined modestly to $235 billion. And we expect to end the year at roughly the same level or slightly below.

On slide 12, we provide an update of our LCR metric and drivers. Our average LCR remained broadly stable at 120% in the third 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 decreased to 11.8% as net income was more than offset by $6.4 billion of common share buybacks and dividends, and we saw an increase in risk-weighted assets related to client activity. And our SLRs were 6.5% and 6.8% for Citigroup and Citibank, respectively.

Moving to our last slide let me summarize several key points. First, we earned $13.7 billion of net income year-to-date in 2018, achieved an efficiency ratio of 57.3%, and improved our RoTCE to 11.2%. Second, we continued to maintain a strong balance sheet, we ended the quarter with an estimated $11 billion surplus under the TLAC rule. We maintained a highly-liquid balance sheet with an average LCR of 120% and an estimated NSFR of greater than 100%. And we reported a CET1 capital ratio of 11.8% and an SLR of 6.5%. Finally, we continued 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: Good morning, thank you. So a few big picture questions here. First is, I would like to know your thoughts around the health of the U.S. consumer and which innings you think we are in the credit cycle?

JOHN GERSPACH: Okay, Hima, so this is where I go into my joke about what game are we playing, is it cricket or is it baseball before I get to the innings or?

HIMA INGUVA: If I can pick, I would pick cricket.

JOHN GERSPACH: Okay, well, now I don't know what inning we're in because I could never figure out how that game gets played anyway. But look, in general, the – at least our view is, the U.S. consumer remains very healthy. Especially when we're focused on the U.S. consumers that we serve, which as you know, when you take a look at some of the FICO scores that we give you on US Branded Cards and Retail Services tend to be in the 680-plus range for the FICO scores, but we're not seeing any change in the delinquency statistics. You never want to be overly confident about anything, but clearly we're not seeing anything right now that would indicate that our consumers, our consumer clients are anything but very healthy at this point in time.

As far as what inning we're in, with all jokes aside, and I know you've heard me say this before, it's really hard for me to say what inning we're in just because the game has changed so much. We've never seen a recovery go on this long, but we've never seen a recovery that for so long a period of time was sort of inching along. We had very, very low growth rates for seven years. So it's a little hard to say, oh, yeah, based upon the past, we're in the fifth inning or the eighth inning. I really don't know, because the way that this prolonged recovery has sort of rolled on, it's changed the game a little bit.

HIMA INGUVA: Got it. All right. My next question is on CECL, you highlighted a potential 10% to 20% increase in reserves when it is adopted in 2020, which is very helpful. But I wanted to know more about the
broader implications of CECL and whether you think it will impact your strategy for the business particularly on the card side?

JOHN GERSPACH: Yes, interesting question. I don't see it impacting our strategy. One, when you take a look at the information that we've given you, I think CECL is, at least for us, is manageable, the impact of CECL. And when again, you take a look at the client base that we're supporting, it's a very high FICO, very creditworthy base. So I don't see it impacting our strategy.

I do think that when you think about the impact of CECL on the lending patterns of the industry, that could have some impact as we move forward. It's one of these things where you take a look at CECL and it's in some ways, book a loan, take a loss. I think the industry will adapt to that, as it always has, but as with any type of change of this type of magnitude, I do think there will be some bumps along the road. And so it could impact individual firms, but I think more importantly, it'll be interesting to see how the industry reacts as we get later in the game that you referenced in your first question, when we do find ourselves in the eighth inning or the ninth inning. It will be interesting at that point in time. But as far as from a strategy impact, no, I don't see it.

HIMA INGUVA: Appreciate it, that's very helpful. And my final question is on issuance. So investors have been surprised by the lack of unsecured issuance from you and your peers this quarter. Maybe can you talk about some of the factors that have driven your decision to stay out of the market so far in this quarter?

MIKE VERDESCHI: Sure, Hima. As you saw in the third quarter, our average cash level did increase from the prior quarter due to both deposit growth as well as debt issuance. That had the effect of taking up LCR slightly. So given that surplus at this point, we are focused on optimizing that liquidity, we're evaluating our balance sheet growth in the quarter. So we are still evaluating that fourth quarter issuance need. I know you asked about unsecured, but I would note that we did issue $1 billion of bank ABS early on in this quarter.

HIMA INGUVA: Right. Okay. That's great. That's very helpful. Thanks a lot again, appreciate the response, also appreciate the call.

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

SCOTT CAVANAGH: Good morning, guys. Thanks for doing the call. I just wanted to thank you very much for your time working with us over the years and holding this call. I think this has helped you during good times and bad times and we all certainly appreciate it and look forward to continue under the new leadership of Mark. So going back to credit cards, given some of the changes in the retail space, how do you think of the – how big is the value proposition for bringing say branded card data to a retail relationship, and does it really make sense for there to be operators out there that are only solely focused on a retail card operator to operate at this point?

JOHN GERSPACH: Scott, I missed one or two words in your setup, so just repeat the two questions one more time?

SCOTT CAVANAGH: Yes. So when you think about the retail card space, how much value is brought to the proposition for relationships, say, Costco, with bringing your branded card business? So how much, if there is, can you kind of give, cross-sell or to leverage the data with the branded with the retail relationship? And given that proposition, does it make sense for there to be operators out there that are only solely focused on a retail relationship?

JOHN GERSPACH: Well, two interesting questions. So when you think about the first one, we do think that there's a great value proposition for partnerships. But recognize that partnerships take different forms. And not every partnership will be right for every issuer, every bank and then every retailer. You've seen us, for instance, in some of the issuer relationships that we've gone with, especially in our Retail Services product, it's companies where – it's retailers where they really are truly interested in a partnership. We can help them
with marketing ideas, I think that's one of the reasons why we've done so well with, say, Best Buy and why we were very, very interested in working with L.L.Bean. These are areas where the two firms can combine each of their strengths, each of their insights and I think produce a better overall value proposition, both for each firm and importantly for the consumer.

There are certain retailers that aren't necessarily interested in that type of partnership, and so we would have less of an interest in working with them. So I do think that there's value. That's one of the reasons why we have those things.

When you think about partnerships on the branded card side of things, again, it's two firms trying to work together to bring that improved value proposition to the consumer, but in a slightly different format. So, yeah, there are real value propositions.

Now, I think those value propositions, especially when you get into the large retailers or the larger commercial firms, they do require a little bit of scale. I think it would be hard for a small issuer to find that it is going to bring to a sizable relationship some of the ones like I just mentioned. I don't think that a small issuer can bring that same type of value that large firms clients are going to get – the advantages – that they would from working with a larger firm.

So I think it's a matter of striking the right partnership, it's making sure that the partners have got the right size so that they can bring the needed skillset to bear for the benefit of the clients, and if they do that, I think it's a win, win, win. It's a win for the firm, if it's a win for us, it's a win for our partner and it's a win for the consumer.

**SCOTT CAVANAGH:** Okay. Going back to Hima's question on CECL, what you think the prospects are for perhaps regulatory relief when we think about the capital on the switch going into reserves, do you think the regulators would adjust what the capital requirements are for the new accounting dynamic?

**JOHN GERSPACH:** It's a very interesting question and it's a bit of an unknown right now. So what we do know is the initial indications coming out of the Fed is that there will be a three-year phase-in for the capital, but that doesn't say that we won't have to meet the capital requirements. It just says banks will have three years to factor that into their CET1 ratio.

I think more importantly is going to be how does CECL get embedded or somehow related to the whole CCAR process? And until you get the final guidance that's still coming out of some these industry issues as far as what do you really do with revolving debt and what's the life on that, I don't think we're going to get a clear answer.

So I think we've got a way forward for the next year. For 2019, we know it's not going to be part of the CCAR process, but then within the next 12 months or so, we're going to need some guidance as to how to embed CECL in the 2020 CCAR cycle. And I think that's the more – that's really the question that we'll all be focusing on during 2019.

**SCOTT CAVANAGH:** Okay. And two more questions for you guys. On the issuance side, what's holding you back from doing, say, a green or social bond issuance and what's the potential for doing a floating balloon for the SOFR issuance?

**MIKE VERDESCI:** So we do plan to issue in both those spaces, so green bond as well as SOFR. Of course, we're going to take that into account in our broader funding needs, in our issuance plans. But on SOFR, that's something that, of course, that market is developing, there's still the development of a term structure, where it's just an overnight rate today. The basis market around it is developing as well.

But I would say that in terms of supporting that market, as well as ensuring our own operational capabilities, we do plan to issue off of SOFR as well. And in terms of green bond, again, issuing in that space is
consistent with Citi's commitment to sustainable finance. So that is something that we have interest in doing as well.

SCOTT CAVANAGH: Okay. And last one from me. John, given your long tenure at Citigroup and doing all of these calls, what do you think that we might not appreciate? After all these calls, there's got to be something that you think that we're just not getting. Is there anything that we could learn from – lessons learned from your tenor?

JOHN GERSPACH: I don't think you get my sense of humor all the time and it's something that I intend to work on over the next couple of months before I do leave. But no, I actually – I enjoy these calls. I know that Hima and you both have indicated that you guys get value out of it. I actually think that we get value out of it as well and that's one of the reasons why we do these calls, we continue to do these calls and I don't want to commit Mark to doing these calls, but I've got every confidence that Mark will find the same value in these calls that I do.

So when you think about what don't I think you get? I think you guys get a lot and I actually think that we're better for listening to you. I can't – I'm not going to say I agree with everything that – every one of your points of view, but you force us to think and that's always a good thing.

SCOTT CAVANAGH: Okay. Well, thank you very much for your time and we look forward to having these calls in the future.

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

ARNOLD KAKUDA: Hey, John. Yeah, we're going to miss you. You tirelessly pulled double duty with the equity and fixed income calls, really helped us understand the transformation of Citigroup, then also help us understand regulatory changes, how that might affect Citigroup and your peers as well. So we're really going to miss you.

JOHN GERSPACH: Well, thanks for that. Thank you, thank you, thank you. I'm going to miss you guys, too, every chance I get.

ARNOLD KAKUDA: I guess on the positive side, though, I guess maybe you'll help Citigroup help achieve its efficiency goal in 2019 at 200 basis points improvement with your retirement. So maybe that's a small positive there. But I guess getting more serious, let's talk about your capital ratio. Citigroup's, you've had a solid performance on the stress test and CCAR for the past two years and you're well on your way to the targeted $60 billion of capital return over three years. And the key to the capital returns, I think, was to get to a target CET1 of 11.5% in 2020.

JOHN GERSPACH: Correct.

ARNOLD KAKUDA: So today, you're at 11.8% now, and I think when you talked about these targets, you were closer to 13%, which is, I guess, over a year ago. So the question is, how do you balance the 11.5% CET1 target and the $60 billion capital return goals since maybe fulfilling the whole $60 billion may lead you to breach the 11.5% CET1 target?

JOHN GERSPACH: Well, the 11.5%, that's the target that we set out, I guess it was 16 months ago, and said that we think that that's the right level for the firm to operate. And that's still our belief. We also said that since we were at 13.1%, whatever the CET1 ratio is there, that we had excess capital return and that was all embedded in our target then of getting to that $60 billion or so capital return over the three CCAR cycles.
When you take a look at how we manage going forward, yes, as we returned capital, we are eating into that, "capital excess," but that's all part of the plan. I think that what you've seen is a gradual reduction now, getting closer to that target and we still have a bit of excess left.

And then going forward, it's going to really depend on our earnings power, which I think is improving over time. You've seen our net income grow steadily and again, that's embedded in the projections that we've given you on our increasing RoTCE over that same three-year cycle. We've set out a target, 10.5% for this year. We're coming in now at 11.2%. We should – I've got every confidence that we're going to beat the 10.5%.

We've put out a target of 12% next year. Embedded in that is our goal of continuing to grow net income. And so going forward, you've still got that combination of net income generating power, which I think we're demonstrating. Two, we continue to utilize that portion of the DTA which has been disallowed for regulatory purposes. So we've indicated that that should be – accrete about $1.2 billion or so of regulatory capital to the firm each year.

So that's two sources of capital generation that we have going forward and it's a matter then of completing the last 30 basis points or so of that, "excess capital," plus the net income, plus the DTA utilization and then thinking in terms of how much of that do we need to hold back to fund growth in the balance sheet. But the math still works for us getting that $60 billion.

And then after that, I'd say we'll operate more in line with what other firms might operate, where our payout ratio won't be the 140%, 150% that we've been doing, but it will be in a range that – I'm not going to talk about an absolute range right now because we haven't done that – but it will be in a range that will be somewhat below to somewhat above 100%.

ARNOLD KAKUDA: Okay. Great. Thank you. And then moving on to – I guess a peer mentioned that cash management is a good opportunity to get into and I think that's an area of strength for you in TTS. So can you remind us again of how – why is Citi so strong there in cash management and how sticky the clients are?

JOHN GERSPACH: Well, one of the big strengths that we have is the fact that we actually operate banks in 97 countries around the world. And by that I mean we just don't help people manage their cash and then have to deal with corresponding banking relationships in order to help them move that cash around globally, but we actually operate banks that have got – and we're connected to the clearing systems in those 97 countries.

So part of our strength is our network. And it's our proprietary network. It's one of the reasons why we've targeted providing those services to large multinational companies, because those are the firms that are in the best position to actually benefit from our network. These are firms that either have already existed as large multinationals or are growing that way.

So our strength is our network and if you're a large multinational, do you want to deal with one bank that can help you manage not just your cash but your working capital around the world or do you want to deal with another institution that can service you, but through a series of corresponding banking relationships that need to be knit together?

ARNOLD KAKUDA: Okay. Got it. And then lastly, moving on to issuance. As we start thinking ahead to 2019, I see $14 billion of benchmark maturity. So is that a good ballpark to think of in terms of benchmark issuance or should we more think about how much debt might lose TLAC eligibility? As in what things fall into the less than one year bucket or less than two-year buckets in order for your, I guess, TLAC levels to largely remain flat? And I guess you still have maybe $4 billion or so of excess TLAC that you might want to lower something, so.
MIKE VERDESCHI: So as you point out, we do have that cushion. I mean our targeted range of $7 billion to $8 billion, we’re running a little bit high on that right now. There’s, of course, the NPR outstanding as well in terms of perhaps a modification for TLAC and it’s possible that that cushion becomes more like $15 billion. So there’s definitely some room that we have there. It’s too early to really give guidance on 2019 issuance and that’s something that as we evaluate our plan and our balance sheet growth next year, we’ll have a better view on what that issuance requirement may be, but I would say next quarter would be a better time to come back with some thoughts on that.

ARNOLD KAKUDA: Okay. Great. Appreciate the call, John, Mike, Tom.

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

PRI DE SILVA: Thank you, John, Mike and Tom. Thanks for having the call. And John, really appreciate everything that you have done over the past number of years in terms of keeping the fixed income community informed and part of your engagement and dialogue.

JOHN GERSPACH: Thank you for that, Pri.

PRI DE SILVA: A couple of broad questions here. Broadly speaking, the appreciation of the U.S. dollar, how is that impacting your global businesses?

JOHN GERSPACH: It certainly has some impact on individual companies, but when you think about as the dollar strengthens, that causes every large multinational that we deal with to have to think about what the impact is on their working capital around the world. So it actually helps our businesses in the fact that it gives a nice conversation starter to, well, what are you thinking about as far as hedging FX risks? What are you thinking about as far as hedging or dealing with some of the interest-rate exposures that you have? So it actually ends up with a rather rich dialogue. It produces a rather rich dialogue between us and our clients and I think it produces an overall stronger relationship.

PRI DE SILVA: So it's a positive in terms of business volumes?

JOHN GERSPACH: More so than business volumes, it draws the relationship closer. And obviously, we like it when that produces stronger volumes, but it’s not always about the immediate volumes you get. It’s about building that relationship so that they think about you when things are going a little bit crazy from time to time, but more importantly, then when stability returns, you’re still the first one that they call for that next great idea.

PRI DE SILVA: I see. Thank you on that. And staying kind of on the big picture side, as the Fed unwinds its balance sheet, how do you see that impacting the shape of the yield curve and filtering through to what Citi does with its clients?

MIKE VERDESCHI: Yes. So obviously the balance sheet unwind has been taking place, I would say, over a modest pace and that was done purposely by the Fed such that it doesn't have a meaningful impact on markets. So if you look at the past year, the balance sheet unwind has been along the lines of $300 billion. When you look at reserve draining itself, it's more like $400 billion. And when you break down where those reserves have been coming from, it's really a combination of domestic, but actually more of that reserve draining is coming from foreign banks.

And so you’re seeing a modest pace, you’re seeing broad-based draining and so I would say overall the impact – it’s hard to know what that impact really has been so far. When you talk about markets and you talk about shape of the curve, I would say it's really been more about the fundamentals.
I think with the Federal Reserve continuing to hike interest rates, that's put upward pressure on short-term yields. When you think about the longer end of the curve, we have seen that move higher this year. I mean, I think the 10-year started the year at something like 2.40% and now, of course, we're through 3%.

But given where inflation is, it's still around the range of where the Fed would like to be, given global bond yields are still somewhat anchored, especially in Europe. I think the shape of the curve has been reflecting more the fundamentals of the things I mentioned rather than QE.

Now, that being said, as that continues and perhaps even as Europe stops their purchases, because as the Fed was draining, Europe was adding, perhaps you do see a bit more risk premium put into markets and maybe the shape the curve changing. But I think it's been on fundamentals and for our portfolio, we will continue to look at opportunities to optimize that HQLA and that could mean cash into securities or it also can be reallocation within that securities portfolio, where we may opt for other products such as agency MBS or even munis. But again, we're not seeing, I think, a whole lot yet driven by QE.

PRI DE SILVA: Got you. That's very interesting. Thanks a lot. And then one last question. What's your appetite for non-U.S. dollar issuance? Is that driven mostly based on funding differentials and cost of bringing back to the U.S. or mix of debt, as well as funding needs in overseas jurisdictions?

MIKE VERDESCHI: Yes. We take a number of things into account, but as you note, we do look at the cost of hedging that back to dollars. So we look at that cross currency basis. And if you go back to 2017, we really didn't issue anything other than dollars and it's because that cross currency basis was wide, which made funding in the overseas markets very expensive. Over the past year, we saw that cross currency basis improve and this year we did issue in euros, and quite frankly, that basis has continued to improve, so we will look to overseas markets as we assess our funding needs. We're happy with that cross currency basis improvement. That probably adds some flexibility to our activities.

PRI DE SILVA: And that's heading into 2019 as well?

MIKE VERDESCHI: Yes. We'll always be opportunistic. We do very much want to have different funding levers in different markets. We like the diversity. We also like the opportunity to issue based on the economics.

PRI DE SILVA: Thank you very much, again for hosting the call and for taking the questions.

JOHN GERSPACH: Our pleasure.

OPERATOR: Your next question is from the line of Scott Frost with State Street Global.

SCOTT FROST: Sorry. My headset must have faded or something. Sorry about that. At the risk of being redundant here, I just want to make sure I understand. It sounds like, from an issuance standpoint, you're saying that holdco senior sub issuance from now till fiscal year-end is now between zero and $5 billion. Would that be a shorthand takeaway for an issuance summary?

MIKE VERDESCHI: Yes, I think that's fair. I mean as we said, we're expecting less than what we had originally guided.

SCOTT FROST: Okay. Okay. And your comments, I think you said you noted previously that your TLAC cushion gives you flexibility to pursue more efficient sources of funding. You will continue to evaluate a variety of funding levels with greater focus on economics, both on the short and long ends. And I only got that from copying the transcript on Bloomberg. So that's – I'm not that good a note-taker, but should I assume that means the belly does not look attractive to you? And when you say a more economical or efficient funding instrument, what would an example of that be?
MIKE VERDESCHI: So when I mentioned long end and short end, I did not mean to exclude the belly. So that was more – as we will pursue our funding, we do like a nice ladder structure that gives us a pretty diversified tenor structure.

JOHN GERSPACH: We tend to live in the belly.

SCOTT FROST: All right.

MIKE VERDESCHI: In terms of efficiency, when I talk about that, obviously our benchmark issuance and as we think about TLAC, that weighted average maturity is going to be seven to eight years. So that's long-dated funding which is going to tend to cost a bit more. But there's other instruments that we've used. Of course, the bank note program is something that we've used and we tend issue that shorter dated. So one, two, three years, we're going to be in a much shorter range, which is going to reduce that cost.

Of course, we're also using ABS. So bank ABS is another issuance program and there, I would say, we have flexibility to issue across different tenors. You have both of those being in the bank, are more efficient from a cost perspective. So that's what I'm referring to.

Of course, going beyond that, we will use other wholesale programs. I mean, we have FHLB or we can do CDs, and we're always looking at other alternatives that we can utilize to diversify our funding and to optimize our cost. And again, in the past, we've had to achieve certain goals and TLAC was one of them, but now that we have a good cushion, we will continue to look to optimize the cost of our funding.

SCOTT FROST: Okay. So my takeaway would be going up in cap structure, issuing there to lower overall borrowing costs?

MIKE VERDESCHI: Yes, I would say certainly looking to issue between bank and non-bank in different parts of the curve to optimize our funding cost.

SCOTT FROST: Okay. So my takeaway would be going up in cap structure, issuing there to lower overall borrowing costs?

MIKE VERDESCHI: Yes, I would say certainly looking to issue between bank and non-bank in different parts of the curve to optimize our funding cost.

SCOTT FROST: All right. So I'm going to beat the proverbial dead horse and just one thing on issuance real quick. So it feels like me, given that everybody is TLAC – comfortably TLAC compliant, that we all should start to think about maybe, at most, refined maturities, but really a diverse mix of underlying sources with the focus on cost. But unless balance sheets really start to grow meaningfully in the next couple years that this year is going to look – or the next few years will look a lot like it did this year, so kind of just slightly below or maybe at maturities. Is that fair?

MIKE VERDESCHI: It's really hard to predict exactly what that may look like. You're right, when you look at the parent benchmark program, TLAC is going to be one of the key considerations for that program. But as you say, it's going to be a function of how the balance sheet grows, it's going to be a function of whether it's growing in the bank or the non-bank. And when we think about funding, in the non-bank there's also customer debt that will be issued as well. So I think there's a variety of factors that will influence what funding we utilize in the future, but as you point out, TLAC certainly is one of the key drivers and as always, we look to optimize and drive cost savings in our funding activities.
JAMES STRECKER: Okay. Perfect. Thanks, Mike. And then maybe, John, for you, just in terms of long-term profitability, we know where you're at versus the targets, we know how they're moving up. We're also very well familiar with the legacy headwinds, whether it's holdings, DTA, excess capital, but is there anything structurally different about Citi, whether it's your footprint, your collection of businesses, that would prevent you over time from looking a lot more like maybe some of the top-tier performers in this space or is it just a matter – a function of time?

JOHN GERSPACH: No, I think it's a matter of – and again, I think we're on the path that we need to be in order to get the businesses to the return levels that we've set as targets. If you take a look at the targets that we've set for the ICG and GCB longer-term, I think they're much more in line with where others in the industry are. When you compare individual firms, though, I do think, then, business mix will come into that.

And so a firm that's got a very large consumer business is going to look differently from a firm that doesn't have that same size business. A firm with an asset management business attached to it is going to look a little different and those differences will play out in the individual ratios, whether they are operating efficiency ratios, return on assets or return on equity. But there's nothing structural about our businesses that should prevent the individual businesses performing at or better than peers.

JAMES STRECKER: Okay. Okay. I appreciate that. And that would apply, I guess, collectively at the top of the house even with the more diverse footprint?

JOHN GERSPACH: Yes. I mean, in some ways – and again, you would think that that diverse footprint is going to be a benefit over time. Again, as we identify the client segments that we are targeting, we are targeting in the ICG, client segments that benefit from our footprint. So therefore, it should be – the footprint and the clients should match.

JAMES STRECKER: Okay. Fair enough. And then switching gears real quick to leverage lending. I'm actually surprised that's topic that hasn't come up yet given that it's all over the media these days. So obviously, it's a huge topic and we can go on and on for days about it, but there is a perception out there, and I think there's been a couple of media stories about this, that the Fed's written explanation of the differential from guidance versus actual rules has enabled the banks to be a lot more accommodating towards maybe more highly levered deals than we've been in the last few years. Do you have any thoughts on that?

JOHN GERSPACH: I would say that over the last several years, regulatory guidance, certainly it's evolved. And importantly, it's regulatory guidance as opposed to regulatory rules in most cases. And so therefore, it's more as to – I think each individual firm has to figure out what resources that firm and how deeply that firm wants to go into a leverage lending type of business arrangement.

For us, we've talked about the fact that our corporate loans are largely investment-grade and so I think it's less than 20% of our loans are not investment-grade. And so, for us, leverage lending is just not – it's not an attractive business for us because it doesn't really fit with our target client segment. Yes, we do have some sponsors that are very valuable as far as from an investor client, an institutional client point of view, but they're a small – a relatively small piece of our overall client populations. And therefore, we just don't do a lot in the space of leverage lending.

JAMES STRECKER: Actually, I think that's an important point. And then, I guess I'd ask what would you point all of us to in terms of trying to get more comfortable with maybe your profile specifically, if not the overall industry? Obviously, there's a lot of concerns out there, but we try to tamper down some of them, but it's hard given the lack of granular exposure. Do you look at it as an overall percentage of loans? Is it by industry? Is it sponsored versus non-sponsored? Is it maybe non-bank lenders now these days are a bigger concern? How would you help me help your investors get more comfortable?
JOHN GERSPACH: We take a look at all of that. Obviously one way you can take a look at it is where do we come out on the rankings as far as leverage lenders? And if you look, almost every time, every quarter those rankings come out, we're somewhere around number eight, number nine. It's just – we don't wake up in the morning and say, let's do more leverage lending. We wake up in the morning and say, what are the needs of our clients and how do we provide solutions for those needs?

And the large – you take a look at our client base and it's large investment-grade corporations and very large institutions and there just is not a lot of demand there for leverage lending. We give you disclosures on – we don't go into how many loans are leverage loans, but if you take a look at the overall statistics that we publish on our loan book, it's, like I said, more than 80% investment-grade. And I think we've been pretty consistent about coming through with the message that leverage lending is just not a big part of our book.

Not to say we don't do it, because we do have some clients, we have some very important sponsor clients that require that as part of the solution kit. But we're just not a large leverage lender and all you've got to do is look at the look at the quarterly rankings that come out and that's all the proof you need.

JAMES STRECKER: Okay. One more real quick and I promise I'll shut up. There was a media report not too long ago that you all may be the dollar correspondent bank for Danske and may have some ancillary exposure to that whole situation over there. Any comment you can offer on that?

JOHN GERSPACH: We never comment on specific client relationships, but if we had any significant exposure to that institution, we would have been forthcoming with it.

JAMES STRECKER: Okay. Great. Well, thanks a lot for the time, and we'll be sure to bring our tissues for January.

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

DAVID JIANG: I just had a quick question on North America consumer banking. Just looking at the segment data, it looks like the deposits and accounts were both down year-over-year. Just wondering what's driving that?

JOHN GERSPACH: Yes, I would focus you, I mean, accounts – we constantly clean out accounts all the time, so I wouldn't pay much attention to that. And I would look more to sequential data. I think if you take a look at the sequential data coming out of U.S. Retail, the deposits were basically flat. And I think that that's more in line with what you're seeing from some of our peer institutions as well.

DAVID JIANG: I guess maybe this goes into next question on deposit sensitivity. Are you seeing either higher betas in the core deposits and potentially moving out, is that maybe driving some of the trends here?

MIKE VERDESCHI: Yes. I mean overall for deposit sensitivity, I would say it's somewhat of a continuation of what we've seen in past quarters. I think in TTS we saw more sensitivity earlier in the rate cycle. As we look at the last quarter, we did see sensitivity pickup in our commercial deposit base with a mix shift as clients move money into interest bearing accounts.

But also keep in mind, in retail, you also see that there has been money that has been moved into Citigold Wealth Management where folks have taken advantage of investments. So I think you see a few things going on. I mean with sensitivity, we are seeing that pickup, as I mentioned, we do expect that to continue to rise, and part of that, of course, is the mix shift that I mentioned in commercial. So I think everything is continuing much in line with our projections, and as the Fed continues to hike rates during the cycle, we expect that to continue.
DAVID JIANG: Okay good. Thanks. And again, from the segment data, I think Asia investment sales were down year-over-year. I'm just wondering – and I think you might've mentioned it on the call that there was something going on there. Can you just expand on that?

JOHN GERSPACH: Well, it's market sensitive. I mean, when you take a look at our Wealth Management business in Asia, a portion of that business has to do with generating investment management revenues from servicing those large Citigold clients. And so when there are periods of market volatility, clients are less likely to put more money to work, clients tend to move assets into other types of instruments, and so those revenues have suffered over the last couple of quarters. And that's just that part of the business. I think we also gave you some slides to show that the rest of the business is actually performing really well and you take a look at some of the lending that we're doing, but in general, yes, we had some softness in investment revenues coming out of Asia consumer.

I think the other thing that we talked about on that call was that while there is that volatility in any given quarter, when you take a look at the investment revenues over a period of time, and I believe in the back of the equity deck, we gave you a slide that shows that over the last two years the compound annual growth rate of those investment product revenues is something like 6%. So, yes, down in this quarter on a comparison of year-over-year, but importantly over a two year period, a really nice growth rate. And importantly, we're building up the, what I'll call the core accrual nature items of the business at a faster rate. So that business will be less dependent on that investment revenue over time. But there is going to be some volatility in those revenue streams.

DAVID JIANG: Okay. Great. Thanks a lot.

JOHN GERSPACH: No problem.

OPERATOR: Your final question is from the line of Michael Rogers with Conning and Company.

MICHAEL ROGERS: Yes. Good afternoon, John, Michael and Tom. A couple of questions for you. Number one, how concerned are you gentlemen regarding Italy and its flaunting of the EU budgetary discipline and the potential ripple effect it could have on markets and possibly even on your business?

And secondly, John, as you ride off into the sunset, I notice you have a – still have a positive outlook at Moody's. Wouldn't it be nice if one of your final acts were to get that bumped up to single A? And I'm just wondering if you could provide any observations as to whether you think that's merited and whether you think you're closer today than you might've been 12 months ago.

JOHN GERSPACH: We certainly think that we are in a – when you take a look at the overall capital liquidity, the business structure that we have in place, we do think that we are deserving of that upgrade, and Moody's has had us on – has put us on watch. And so Moody's will go through its own process, they certainly by putting us on positive watch I think they have certainly noticed all the good that we've done, and I've got every confidence that at some point when they feel it's right for them, they will give us the upgrade.

So I feel good. Obviously, I feel good about everything we've done. I feel very good about the relationship that we've got with Moody's, and they need to follow their own process. I think we've done the work and we continue to do the work and we will continue to do the work, but they've got to run their own process and get comfortable with their own decision.

Now that we've focused on Moody's, going back to Italy, obviously, we -- I mentioned with regards to our previous question, we are operating in 97 countries around the world, and as you know, we have faced issues in those countries throughout the last 10 years. And I think whether you take a look at Arab Spring, you take a look at some of the things that have gone on with Russia, you had Grexit, you had the whole overall thing with GIIPS, we've worked our way through all of those crises and we've done so without really
any big negative impact on our franchise. And I think that's because of the very active way that we manage the risk.

When you look at Italy right now, we've managed down our exposure where we think it's appropriate, while still supporting our clients there. We always give you the top 25 exposures when we publish our 10-Q. That will be out sometime next week. You'll see Italy there will come in at number 25. So it's the 25th ranked country for exposure, excluding the U.S., for Citi. So we don't have a large exposure to Italy, and we are very proactive as to how we manage that exposure. So we feel very, very good about our exposure to the overall Italy situation. Italy will – that will be an interesting thing to see how they work their way through yet again with the EU. But rest assured we've got our balance sheet constructed so that we're prepared for almost any eventuality.

MICHAEL ROGERS: Thanks very much.

OPERATOR: We have a question from the line of Robert Smalley with UBS.

ROBERT SMALLEY: Good afternoon. Thanks for taking my call. Certainly, before the tea interval, I guess. Quickly, there's been a couple of stories on recalculating FICO, UltraFICO, sharing methodology with Credit Karma. Have you looked at those? And do you think that's a good idea at this point in the cycle?

JOHN GERSPACH: It's hard for me to say whether it's a good idea or a bad idea at a point in time in the cycle. I do think that it's a good idea to take a look at – it's always good to evolve your thinking as far as consumer health and what might work and what might not work as far as those indicators. And you certainly don't want to get overly reliant on one score. It's the FICO score, it's nothing else, and the way that the FICO score is calculated should never change. I don't think that that's healthy. So we'll see how the new FICO Ultra is finally put together. I think we'll, like everything else, we'll embed it in our thinking but not necessarily rely on it holistically. And let's see whether or not that gives us a better read on consumers. But I think change is always good, you just have to be very careful about how you adopt that change.

ROBERT SMALLEY: Okay. Thanks. And a couple of other questions. One, you always provide a good slide on OCI in the appendix, and you did again, so thank you. I know you get a lot of questions about impact of rates on the margin and deposit betas, but nobody seems to spend much time on this one. I just wanted to ask, when we look at what the impact of rates has been on OCI over the past couple of quarters, it seems that you've done a lot to mitigate the flattening that we've seen in the curve. Can you talk about that kind of management and steps you've done to do that, so while we can see fluctuations in rates, it really doesn't come through to the capital line?

MIKE VERDESCHI: Sure. We think about the OCI, as you point out, when securities fluctuate, those will go through our capital line and it's important to note that these changes in OCI are not an economic one but rather a change in valuation which will pull back to par over the remaining life of the securities. So as we've mentioned before, we do keep the tenor of the portfolio relatively short. And therefore, that has the effect of trying to, I would say, minimize some of the long-term impact of that valuation change.

For our longer-term securities, it's important to note as well where we have for example agency MBS, we do use held-to-maturity accounting on some portion of those long-dated securities. And that again, helps to minimize or I would say neutralize any impact to OCI. So as you think about that securities portfolio, it serves as a store of liquidity, it's an ALM tool, but within the management of that activity, we certainly have a risk appetite framework as we think about it around how much volatility we want to come through in terms of that OCI. So it's something that we actively think about, and it really does come through in the tenor of our portfolio and the use of HTM.

JOHN GERSPACH: And, Robert, just one last note on that, obviously we do spend a lot of time focused on this subject. And we also give you some additional disclosure in the Q and the K in – I believe it's in our market risk section where we lay out for you, gee okay, if all the curves, interest rate curves around the
world move by 100 basis points what would be the impact on the OCI? And that number, it's in there, I can't recall the number.

ROBERT SMALLEY: Right. Yeah, but what was interesting to me was we didn't have a parallel shift over the past couple quarters and you still managed to keep it pretty tight.

JOHN GERSPACH: Yes. Yes, we do. But again, it's looking at the techniques that Mike talked about. It's something that we actively risk manage because it's important to our capital base.

ROBERT SMALLEY: Shifting gears a little bit, I know you talked about value at the global network. There's been a lot of discussion about changing the SWIFT system, maybe a European version of SWIFT or an alternate version of SWIFT. If that comes to fruition, how would that change any of your TTS business or how would that impact your global network?

JOHN GERSPACH: When you think about one thing like SWIFT, we are obviously very involved with SWIFT. And I don't think anybody should think that SWIFT is another one of these things where, no, we've got it set up and it's working fine and it ain't changing. We understand that there are improvements that can be made to SWIFT and the people that are running SWIFT, we're actively engaged in making those improvements. And so it's something that again, we are very, very focused on.

ROBERT SMALLEY: And then my last question, I know Scott earlier in the call talked about different type of issuer models. When you look around at acquisitions, are you going to try and confine yourself to smaller parcels. Costco was a very large acquisition, would you look at something that size or even potentially buying something larger, even the size of a Synchrony?

JOHN GERSPACH: The answer is going to obviously depend on what the returns are and how any individual acquisition then would fit within our strategy and within our overall portfolio. So we would not look to do an acquisition just for an acquisition's sake or just to get bigger. That's not the way we would approach these things. Costco, Best Buy, L.L.Bean, those are portfolios that make sense both financially and strategically for us. You've seen other portfolios that we haven't pursued. We look at everything. And then we decide what we think would be a good fit for us and then pursue those as opposed to just going out there shopping for everything.

So it has to fit. That's the important thing. And it also has to fit not just from does it fit into the strategy, but then when we put it in with everything we have, does it still make sense? You don't want to be overweight on some of these co-brand relationships. So if you do tend to go too much on the co-brand, you then neglect your proprietary card offerings and then the business can get somewhat out of sync from an overall margin point of view. So it's got to fit. It's got to fit strategically. It's got to fit financially.

ROBERT SMALLEY: That makes a lot of sense. That's very helpful. I know you'll be on the next call, John, but appreciate all your time with these calls. I think you made everybody on these calls better. So I'm very grateful for it.

JOHN GERSPACH: Well, believe me, it's my – you guys, to the extent you want to take any credit for me, you made me better. So thank you.

OPERATOR: There are no further questions. Are there any closing remarks?

TOM ROGERS: I'd just like to thank everyone for joining the call and of course, if you have any additional questions, feel free to reach out to us at Investor Relations. Thanks and have a good day.

OPERATOR: This concludes today's Fixed Income Investor Review. You may now disconnect.
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