TRANSCRIPT

Citi Fourth 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
Mark Mason, Citi Incoming Chief Financial Officer
Mike Verdeschi, Citi Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fourth Quarter 2018 Fixed Income Investor Review. 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 instruction 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. I'm joined this morning by our Chief Financial Officer, John Gerspach; our incoming Chief Financial Officer, Mark Mason; 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, Mark 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 cautionary statements referenced in our discussions 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 afternoon, everyone. On today's call, I will cover a number of topics. First, I'll briefly discuss our operating results for the fourth quarter and full year 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 continued strong liquidity and capital position.

Slide 3 summarizes our results for the fourth quarter 2018. First, as John noted on our earnings call, this page excludes the one-time impact of Tax Reform in the fourth quarter of 2017 as well as the subsequent adjustment in the fourth quarter of 2018. On this basis, we reported net income of $4.2 billion in the fourth quarter 2018. For the full year, we reported net income of $18 billion, reached an efficiency ratio of 57% and improved our RoTCE to nearly 11%, well above 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. We leveraged our global footprint to raise high quality deposits. And we issued debt opportunistically across a diversified set of programs. Finally, total cash and investments increased modestly year-over-year but declined sequentially as we deployed cash to support loan growth.

Slide 5 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 4% year-over-year and 6% in aggregate across our Consumer and Institutional Businesses. In our Consumer business, average loans grew 3% year-over-year, with growth across all regions and businesses with particular strength in North America, driven by Branded Cards and Retail Services, including the impact of the L.L. Bean card portfolio acquisition. On the Institutional side, loans grew 8% year-over-year, with continued growth across our businesses. Corporate Lending and Private Bank loan growth remained strong on a year-over-year basis, with Corporate Lending unchanged sequentially given the episodic nature of repayments relative to originations. TTS loans grew year-over-year. However, growth moderated to 2% despite continued strong origination volumes as we utilized our distribution capabilities to optimize the balance sheet and drive returns. Finally, strong year-over-year markets loan growth was driven by Community Reinvestment Act lending activities as well as residential warehouse lending. And 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 across regions. In ICG, total non-accrual loans declined slightly to 37 basis points of total loans. On an absolute basis, ICG NALs declined 31% year-over-year to just over $1.3 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 5% from the prior-year period. In our Consumer business, deposits increased 1%, as strong growth in Asia and Latin America more than offset a 1% decline in North America. The decline in North America was driven primarily by the transfer of deposits into investment accounts as clients put money to work.

Assets under management were flat year-over-year as 5% underlying growth was offset by the impact of market movements in the equity market selloff at year-end. If you look at 2018 in total, we more than doubled our net new money inflows across consumer deposits and investments and we retained a larger dollar amount of those deposits that transferred into investments. 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. In 2018, we issued $15.4 billion of parent level benchmark debt including just under $15 billion of senior and $600 million of subordinated debt. So far in 2019, we have issued approximately $2 billion of parent level benchmark debt across two issuances, one in sterling and one in euros. And consistent with Citi's commitment to sustainability, the euro issuance was Citi's first green bond. This issuance fit well into our overall funding plans and was executed at attractive economics. 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. In 2018, we issued approximately $9 billion of bank notes and roughly $6 billion of credit card securitizations. Last week, we issued just over $2 billion of five-year bank notes as we further diversified the program in response to investor demand. Going forward, we will continue to maintain the flexibility to 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. As I mentioned, during 2018, we issued roughly $15 billion of parent level benchmark debt. Maturities for the year were $19 billion, and we redeemed just under $2 billion of benchmark debt, resulting in a net reduction of $6 billion. At the bank level, we issued roughly $15 billion across both bank notes and credit card securitizations with $10 billion in maturities.

Looking to 2019, we expect total growth issuance of $30 billion to $35 billion, roughly evenly split across both our parent level benchmark debt and our bank level programs. This includes the $2 billion of parent benchmark and the $2 billion of bank level debt issued so far this year. At the parent level, we have contractual maturities of $14 billion and potential buybacks of approximately $1 billion and therefore expect net parent benchmark issuance to be roughly flat in 2019. At the bank level, we have contractual maturities of $12 billion and therefore expect a modest amount of net issuance for the year.

On slide 11, we show the composition of our long-term debt outstanding. During the fourth quarter, our total long-term debt declined by approximately $3 billion to $232 billion as deposit growth remained healthy and we deployed cash into loan growth.

On slide 12, we provide an update of our LCR metrics and drivers. Our average LCR remained broadly stable at 121% in the fourth quarter.

Turning to slide 13, let me summarize our key regulatory capital metrics. Our CET1 capital ratio increased to 11.9%, driven by a reduction in risk-weighted assets as we continued to prudently manage the balance sheet. Our total CET1 capital declined modestly during the quarter as net income and DTA utilization were more than offset by $5.8 billion of total share buybacks and dividends. And our SLRs were 6.4% and 6.9% for Citigroup and Citibank, respectively.

Moving to our last slide, let me summarize several key points. First, we earned $18 billion of net income in 2018, reached an efficiency ratio of 57% and improved our RoTCE to nearly 11%. Second, we maintained a strong capital and liquidity position with a CET1 capital ratio of 11.9% and an SLR of 6.4%, an average LCR of 121% and an estimated NSFR of greater than 100% and we maintained a surplus above our TLAC requirement. Finally, we continued to further diversify and optimize our liquidity resources.

Before we move on to Q&A, I'd like to make a few comments regarding the LIBOR language embedded in our preferred securities. Given that a transition away from LIBOR has many implications for the industry, Citi has been actively engaged on the topic in various regulatory and industry forums including representation on the Alternative Reference Rates Committee.

And while we and our peers have begun to adjust the LIBOR provisions in our new issuances to allow for a transition to a successor rate, the industry is still in discussions regarding market-wide standards for new issuances and the language in legacy securities.

That said, we recognize that the language affecting a subset of our preferred securities is unique and is a concern for investors given the potential for dividend rates to revert to the LIBOR setting at issuance when and if LIBOR is discontinued. We are very focused on this language in the subset of our preferred securities and are actively evaluating alternatives to address it.

Each potential path forward, whether we address the issue through an exchange or an amendment or some other means, has different considerations which is what we're currently working through. Also, we want to be thoughtful and aligned with industry's best practices to make sure any decisions we make in the near-term will not be inconsistent with the ongoing work we're doing with the rest of the industry.

And so while we're not yet in a position to discuss any particular action or timing, we're very focused and engaged on the issue, recognizing that it's an ongoing concern for our investors.

And with that, John, Mark 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: Great. John, Mark, Mike and Tom, thank you for doing the call. Fixed income investors highly appreciate all the disclosures as always.

MIKE VERDESCHI: Sure, Hi, Hima.

JOHN GERSPACH: Our pleasure, Hima.

MARK MASON: Hello.

HIMA INGUVA: Hello. And hello, John. Let me start with congratulating and wishing you the best of luck. It was wonderful working with you and we will miss having you on the calls.

JOHN GERSPACH: Well, thank you very much, Hima. I've always enjoyed these calls and I've always enjoyed your questions.

HIMA INGUVA: Highly appreciate it. Thanks a lot. Thanks a lot, John. So since Mike has already made comments on the LIBOR language, that was my first question, so thank you for that. I'm going to move on to the second question which is sort of related, not exactly to LIBOR but more to prefs. So considering sizable amount of high coupon prefs outstanding set to become callable this year and next, maybe if you could outline your expectations to call these securities versus leave them outstanding. And how you're thinking about the optimal AT1 levels for Citigroup?

MIKE VERDESCHI: Sure, Hima. We still think about our capital structure including roughly 150 basis points of AT1. So when securities become callable, we'll first look at our need for retaining the capital to meet roughly that level. And if we do, then we'll of course look at the economics associated with leaving the securities outstanding or in fact calling them and replacing them with a new security. So as we've talked about before, we're going to look at the economics associated at the time of the call opportunity.

HIMA INGUVA: Okay. Great. Thank you. Got it. Now the next question moving onto FRTB. If you had a chance to look at the FRTB final standard which came out last week, two questions on that, please. First is, do you expect the Fed to implement the proposal in the near term? And then two, how a weighted average increase of 22% in market risk capital requirement would impact Citi's overall capital need.

MIKE VERDESCHI: So yes, we've seen the final standard and I understand the implementation for Basel is in January of 2022. It's hard to speculate as to what the U.S. regulators will do and what I think of is Governor Quarles recently indicated that they do wish to view the U.S. regulatory capital framework in a holistic way. And while it's not clear whether this particular standard may be included in that holistic approach, we're certainly supportive of taking that holistic approach around capital. We think that's a very sensible approach. So at this time, it's very hard to know what the Fed may wish to do with this standard. If implemented, for us it would really be something that's quite manageable.

HIMA INGUVA: Okay. Great. That's it for me. And again, John, good luck with everything. And, Mark, welcome.

MARK MASON: Thank you, Hima. Look forward to spending time with you.

JOHN GERSPACH: Thanks, Hima.

HIMA INGUVA: Thanks.

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

SCOTT CAVANAGH: Good morning, guys, and thanks again for holding the call.

MARK MASON: Hi, Scott. Good morning.

SCOTT CAVANAGH: Good morning. So just to kick it off on the green foot. Congrats on your issuance. That went really well. Have you any plans to issue similar bonds in the U.S. market?

MIKE VERDESCHI: So, look, we were very happy with that initial issuance. We know there's a deep market in Europe. As always, we're looking to expand our investor base where there's opportunities. Another factor of course was, as we always do, we look at the cross-currency basis as well. And so as that improved, that was another opportunity to issue in euros. But in U.S., yeah, we do realize there's a demand for that in the U.S. as well. And while this was our first issuance, we would look to do more and certainly, the U.S. would be a possibility.

SCOTT CAVANAGH: Okay. And then moving on to strategic direction. Just looking to get some insights from Mark on what you're looking to do different versus kind of John's reign.

JOHN GERSPACH: Be careful. I'm sitting right next to him.

MARK MASON: Right. March 1 hasn't come just yet. Thank you, Scott, and nice to meet you on the phone here. I'm keenly, keenly focused on helping to ensure that we really continue to deliver on our return targets and obviously, doing that in a responsible way, of course. There's a real sense of urgency from me and from the firm on doing that. And frankly, that means partnering with the businesses to enable client-led growth across the franchise. It means continuing a disciplined approach to resource management, capital expenses, et cetera, protecting some of our strategic investments that we have for growth areas in our businesses.

But I would point out that taking on a new role also affords me the opportunity to look at things through a fresh set of eyes and a new perspective, and that's what I intend to do. I don't anticipate any significant changes right away but I think our focus, my focus, is aligned with John's and that's ensuring that Citi does what we said we were going to do in making progress towards those important return targets.

SCOTT CAVANAGH: Okay. Well, we look forward to having you on all these fixed income calls and in the in-house meetings with your Treasurer partner because we'd love to get the insights that John has always given to us. John, any lessons learned from your tenure or things that we might be missing that we should be focusing on?

JOHN GERSPACH: No, I mean, over the nine years or so, certainly have learned a lot sitting in this seat. One thing I can tell you is you can't over communicate. And I think that that's important and I believe that's one of the reasons why these types of calls are so important and I think they've served us well on here.

I think the important thing is that you do continue to learn in the job. When I think about low points and high points. Probably the low point for me was when we failed CCAR in 2014. But importantly, I think we learned a lot from that failure as far as what to focus on. I think prior to that failure, we were too focused on just trying to replicate what the Fed would come up with in its stress tests instead of just running our own stress tests and really focusing on our own capital planning. In other words, the qualitative aspects of CCAR.

And I think that that change has served us well and I think that change in approach actually led to what I would consider to be the high point which would be where in 2016, we were the only bank to get the double thumbs up on our resolution plan from the Fed and the FDIC. And I actually think that that failure of CCAR in 2014 actually provided us with the learnings that enabled us to succeed where others didn't in the subsequent resolution plan filings. And I think that we've kept that attitude going forward. So you're always learning and you always need to communicate.

SCOTT CAVANAGH: Okay. Last topic from me. The evolving regulatory landscape, we've had a number of NPRs out there. When we think about the rules and regulations that are being proposed or altered, what is most likely to go through in your mind? Then when we think the new leadership in the House particularly the Committee on Financial Services, what do you think are the potential hot spots for the banking sector over the next, say, 12 months to 24 months from both sectors?

JOHN GERSPACH: I actually – now to get to your first question as far as what's likely to be implemented from the NPRs, I'd go back to some of the things that Mike mentioned in response to Hima's question. I actually think that Governor Quarles is going to take a look at the capital framework in a holistic manner. And therefore, I think it's unlikely that we're going get a whole series of separate one-offs. Now maybe we'll get something on NSFR. That's probably the thing that is furthest down the pike at this point in time.

But I think absent something on NSFR, you're not likely to see a rollout of one and then something and something subsequent because I do believe that Quarles has his view and it's the right view as far as I'm concerned is that we need to think about each one of these capital or liquidity initiatives and discuss how they work together.

Now, when you go down and you visit people at the Fed, in some cases you've got people that are liquidity people, you've got people that are capital people. And in capital people, you've got some that are stress capital people and some that are advanced approach capital people, some that are standardized capital people. We've got to get all of these things together in order to figure out how it actually works to produce this holistic capital framework and that includes thinking through a recalibration of the GSIB score.

So I actually think that you're not going to actually have a very heavy agenda early in 2019. It's likely to be later in 2019 or possibly even 2020 before you see some significant things coming from the Fed as far as implementing some of the new capital initiatives.

And then as far as where that House Financial Services committee goes, I don't know at this point in time. It is way too early to tell. And then, of course, there are two – you've got the House and then you've got the Senate, and it could be a very interesting dialogue over the course of the next two years.

SCOTT CAVANAGH: Okay. Thank you very much for your answers, and again, you'll be much missed and well appreciated.

JOHN GERSPACH: Okay. Thanks a lot. Appreciate it.

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

MARK KEHOE: Hi. Good morning. Just a few questions. I was wondering whether you could talk about the funding efficiency you referenced? Can you talk about where you are in the TLAC stack in terms of the buffer? And whether the buffer can actually be more optimized?

MIKE VERDESCHI: Mark, it's Mike. So for the end of the quarter, we were at roughly $9 billion in terms of that surplus. As I said before, we're targeting a range of $7 billion to $8 billion, so we're still slightly above it. I think last quarter that was more like $11 billion. In the fourth quarter, we didn't issue debt in that quarter in the parent, so we did see that come down a bit. So still a bit above that range at the moment.

MARK KEHOE: Okay. The other question I had is going into potentially the Brexit at the end of the quarter, are you hoarding cash in the UK entities in anticipation of that outcome there?

MIKE VERDESCHI: Mark, I mean, look, when it comes to liquidity management broadly, I would say that, first and foremost, we're running a very robust risk appetite framework around liquidity. And quite frankly, we're running the right amount of HQLA in the entities around the world because so many different scenarios can take place. And whether it's Brexit or some unknown, you always want to have an ample amount of liquidity on your balance sheet to be prepared for something unexpected.

So when it comes to Brexit, of course that's a topic we've been very focused on. There's been a lot of work done in advance around ensuring that we have legal entities set up to continue to support our clients, and so with that has come ensuring that we have liquidity in all the right places as well. So it's an ongoing effort that we always think about having robust levels of liquidity on our balance sheet, in our entities, and Brexit planning is no different.

MARK KEHOE: Okay. And then possibly could you talk about the year end of 2018, getting the right balance sheet size, particularly as you look at the GSIB score? Did you manage down your cross-border cross jurisdictional repo to sure that you're in the 620 GSIB score area? And did that contribute to FICC volatility, you think, or client trading engagement? And then maybe into the first quarter as you kind of come off the dais of the balance sheet whether it expands the trading opportunity into the rest of the next three quarters of 2019?

MIKE VERDESCHI: When it came to the GSIB score at the end of the year, we were comfortably within that 3% band. And so while you did see market volatility, there were things we were doing. We did reduce our RWA. We did reduce our balance sheet responding to that environment. So as we've said before, we're always going be prudently managing the balance sheet based on needs and optimizing those resources. So I think when it comes to the GSIB score, it really wasn't about that at year-end. It was more about responding to that market environment.

MARK KEHOE: My last question, in terms on the rating, the likely upgraded rating maybe from Moody's. Will that allow you to do more business? Or is it more just a funding positive?

MIKE VERDESCHI: That's an interesting question. Certainly on the funding side we expect that would help, but I think around our customer base, certainly some positive sentiment. And when you look at our clients, whether ICG or within the Private Bank, some of those clients are dependent on rating for how they think about counterparty. And that could be counterparty on entity or it could be dealing in a product such as a structured bond. So I think there's some benefit both in terms on the debt side but also perhaps within our businesses as it pertains to our clients.

MARK KEHOE: Thank you.

MIKE VERDESCHI: Thanks, Mark.

JOHN GERSPACH: Thanks.

MARK MASON: Thank you.

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

ARNOLD KAKUDA: Great. Good morning. Thanks for having the call. So, a lot of the quarter-on-quarter balance sheet – sorry, deposit increase that I'm looking at on page 7 seems to be coming from TTS. And it seems like it's a seasonal increase? So if indeed it is seasonal, do you expect a similar decline in TTS deposits in 1Q? Or did kind of the volatility in 4Q, is that going to magnify any seasonal impacts?

MIKE VERDESCHI: The TTS growth that we had, I would say, overall, it's been fairly steady. I mean, you can see some seasonality impact. But yeah, I think we've been focused on both expanding the client base and deepening that relationship. And where we do deepen that relationship, it's really thinking both domestically but also abroad. And so as we're dealing with clients overseas, it could be in local currency or it could be also dollars as well. So I think you can see some volatility in those levels but we've been quite pleased with, overall, a steady increase in that deposit base.

ARNOLD KAKUDA: Okay. Got it. And then you announced an information sharing agreement with ValueAct. And that may bode well for equity investors. But corporate bond investors may worry about potential credit impairing changes to the capital structure and also strategic changes that may sacrifice long-term investments for short-term gains. So based on your interactions with ValueAct so far, do you think it can be a win-win for both equity and bondholders?

MARK MASON: Yes. This is Mark. I would say yes. I mean, we've had a very constructive and cordial relationship and engagement with ValueAct to-date. As you've pointed out, we did announce an information sharing and engagement agreement. But that's really an opportunity for them to get to know us better, for us to provide them with information they couldn't otherwise have about Citi and for them to share perspective from now a more informed view. But we do think that that is a win-win more so than anything else for sure.

ARNOLD KAKUDA: Okay, great. And then lastly, I think you've provided guidance on any potential day one provision changes for CECL. In 4Q we saw I think more of a market volatility versus a change in fundamentals. So does your view change in terms of what you might need to provision for when CECL hits?

JOHN GERSPACH: The answer to that is no. No. When we publish our 10-K on or around the end of February, what you'll see is that we'll give you the same guidance. We still feel that we're in that range of 10% to 20% increase that we talked about, albeit at the higher end of that range, which is something we mentioned early last year. That's still where we are. There's still obviously some implementation discussions going on but we'll be ready to implement at the beginning of 2020. And as far – and our estimates are still within that – the upper end of that 10% to 20% range.

ARNOLD KAKUDA: Okay, great. Thanks a lot. Enjoy the retirement.

JOHN GERSPACH: Hey, thank you.

MARK MASON: Thanks.

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

BRIAN MONTELEONE: Hey. Good morning. Thanks.

MIKE VERDESCHI: Hi, Brian.

BRIAN MONTELEONE: A question on the TLAC disclosure. So, I know the slide got pulled out of the deck. Is there a reason for that and a plan going forward around TLAC disclosure?

MIKE VERDESCHI: I mean, look, it was a slide with no new information, no new news. We've been running above that targeted range. And like I said, we were at 9 at the end of the quarter which was down slightly from the previous. So nothing more to it than just not being a very interesting slide and not a very – not much of a change in the story.

BRIAN MONTELEONE: Okay. And then I guess the idea going forward is if it became more interesting, there would be disclosure, but if not, then kind of status quo?

MIKE VERDESCHI: Yeah, to the extent that there's a change in our thinking on this, we – certainly we will have dialogue on these calls.

BRIAN MONTELEONE: Got it. Great. And then following up on the earlier rating question, so some nice, positive momentum around the Moody's rating. Do you have any thoughts around your kind of ambitions and expectations around – obviously you can't speak for S&P, but still BBB+ stable outlook. Kind of what your goals are there?

MIKE VERDESCHI: As you can imagine, we have an ongoing and active dialogue with them as well. And, of course, you can't get into the nature of those discussions, but I think what we've been focused on is continuing to execute against our Investor Day goals and driving that – driving those returns, and while doing that in a robust risk-appetite framework. And in addition, we continue to carry robust levels of capital and liquidity. And with that progress, we do think our rating agencies will appreciate that progress.

BRIAN MONTELEONE: Thanks. And last one. Treasury and the IRS put out a guidance paper around the BEAT tax, I think in mid- December. And I know you guys have previously said you don't expect to be BEAT payers, but it looked like there was some – guidance was maybe more negative than what some people in the industry were expecting and there's some implications for BEAT taxpayer in CCAR. So can you just – do you have any update on – post that guidance, do you still expect to not be a BEAT payer?

JOHN GERSPACH: We do not anticipate being subject to BEAT, even with the guidance. And there was – there were some – there was a carve-out in there on FX derivatives that I think caught us and others a little bit unaware. We weren't – and I'm not quite sure that it was intended – as in many of these things, the language is a little bit murky and you've got to work your way through it. But whether or not FX derivatives are included in the denominator, we're fine.

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

JOHN GERSPACH: We're not subject to BEAT.

BRIAN MONTELEONE: Perfect. Thank you.

MIKE VERDESCHI: Thank you.

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

PRI DE SILVA: Thank you for having the call.

JOHN GERSPACH: Hey, Pri.

PRI DE SILVA: And, Mark, congratulations on the new role.

MARK MASON: Thank you, Pri.

PRI DE SILVA: And, John, for you in retirement. Couple of follow-up questions, but before we get to that, if you can help me understand how the TTS business, as well as the roughly $8 billion or so you spent on technology, how is that helping the company in terms of managing funding cost on the deposit side?

MARK MASON: I'm sorry, Pri. I missed the – I missed the tail-end of your question. Would you mind repeating that? I'm sorry.

PRI DE SILVA: Yes. Sure. Sorry about that. How does the TTS network as their last tech spending, which I think for Citi was roughly around $8 billion a year, is helping the company manage deposit costs? Basically help – how is it playing in the deposit beta space?

MARK MASON: So I guess I'd say a couple of things regarding TTS. So, one, we've obviously been seeing some really good momentum in our TTS franchise. And as you know already, I think, this is a business that is focused on our multi-national clients and providing them with their Treasury and Trade Solutions, both cash management, trade loans, et cetera. And so the – what Mike mentioned earlier in terms of the deposit growth is a real by-product of our focus on providing that value proposition to those clients.

What's driven the momentum that we've seen in that revenue growth is a combination of higher volumes, a combination of deepening the relationship we have with those existing clients, but also bringing on new clients onto the franchise who are looking to grow globally as well and we are uniquely positioned, I think, to do that.

Now to your point around technology, we are continuing to invest across the franchise and specifically in TTS around technology. We believe that that is one of the things that enables the competitive advantage that we have there. And we're investing in our CitiDirect digital and mobile interface with our corporate clients and think about this is allowing CFOs and treasurers to manage cash from anywhere around the world.

And this has driven, I think, the deepening of that relationship but also the appeal to newer clients relative to other players. So technology is key and core to that growth. Obviously, the deposits that we bring in from those clients help from a funding point of view, but we do think about this business as broader than just a deposit-taking business. Hopefully, that answers your question, Pri.

PRI DE SILVA: Yeah, and kind of – what I was trying to get at is to see what's the competitive advantage which, in your case TTS is a big component of that. And what do you need to maintain that competitive advantage? And how is it helping from funding as well as a new business perspective. So yeah, thank you.

Couple follow-ups from the questions that were asked before. Great color by John, I believe, in terms of the capital framework. And one of the views that we've had is under the Quarles governorship, so to speak, the Fed has been all about harmonizing U.S. capital rules with BIS guidelines. So the comment about the GSIB buffer; is that an indication that we may kind of move to a just the Method 1 and do away with Method 2 GSIB buffer? Or at least an expectation of that?

JOHN GERSPACH: I don't – I wouldn't want to go so far as to say that the Governor would consider doing away with Method 2 entirely. But I do envision a recalibration of Method 2, and that could be along any one of several lines. One is, when the U.S. introduced Method 2 back in – I think it was 2015 or 2014 even, the call was – if after a few years we would have to revisit some of the underlying assumptions as far as various ratios that it was built on. So it's time for that.

Secondly, the world has grown. The world GDP has grown. Bank balance sheets have grown as a result of supporting that growth in GDP. So if we've all grown and we've all grown together, does it still make sense then to keep those Method 2 buckets fixed where they are. Where no matter where you are, you're still stuck in the 2%, 2.5%, 3% – if all you've done is grown along with the rest of the world, does it still make sense then that you have to carry additional capital?

So there's a lot of things that they need to think through. And I don't know whether he would contemplate recalibrating Method 2 without looking at some of the other elements in that capital framework. But it's a possibility. We'll have to see.

PRI DE SILVA: Yeah, a lot of moving parts. And kind of going back to the comments around LIBOR phase out. It's – just help me clarify it, more of a question for General Counsel probably. If Citi were to change the reference rate, do you need the consent of all investors, or is it a majority?

MIKE VERDESCHI: So, Pri, I mean, as we're – what we're doing right now are evaluating our alternatives, laying out the implications, considering what approvals may be needed? What form does that take? What are the impacts on stakeholders? So we are in the process of laying all that out. I wouldn't want to get into those alternatives and what it may entail at this point.

PRI DE SILVA: Understood. Thanks. And then lastly. In terms of the euro and the sterling issuance, was it driven mostly by cost advantage, meaning local currency coupon plus net cost of the swap? Or was it driven by funding needs in the local markets?

MIKE VERDESCHI: Good question. I mean, that is – we do look at the economics associated with that cross-currency basis. So the cost of taking that back to dollars. Now, as you can imagine, overseas we have good deposit bases and that will fund the majority of our activities. So we typically look at the debt issuance on a swap-back-to-dollar basis. And so what really drives our thinking is the opportunity to expand the investor base and also looking at that basis cost. And, obviously, as those levels have improved over the past year, that has made that alternative far more attractive.

PRI DE SILVA: That's great. Thanks a lot, and thank you for taking my questions.

MIKE VERDESCHI: Sure.

JOHN GERSPACH: Thank you, Pri.

MARK MASON: Thank you.

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

ROBERT SMALLEY: Hi. Good morning. Thanks for doing the call Mark, Mike and John. John, congratulations and enjoy your retirement.

JOHN GERSPACH: Thank you, sir.

ROBERT SMALLEY: I want to first follow-up on the points you made on the preferreds, and then talk a little bit about issuance. With respect to your outstanding preferreds, there's a gap in their yield similarly structured preferreds versus your peers anywhere from 100 basis points to 130 basis points, which implies that the market is thinking that they're somehow going to be economically disadvantaged in any kind of resolution of the LIBOR language in your preferreds. So with that type of concern in the market, could you address how that informs your thinking about this? And can you give us any comfort around – and investors any comfort around the idea that they won't be economically disadvantaged as you go through this?

MIKE VERDESCHI: So as I said in my prepared remarks, this – we do recognize this as a concern for our investors. And it's something that we're actively working through to explore what those alternatives are. I mentioned that we're evaluating an exchange or a modification of the language. And so look, we recognize it's a concern and that's why we're working on it and that's why I had those prepared remarks. So it's something that we are very focused on.

And I'll also mention, as we think about how LIBOR is transitioning, we also want to ensure that those thoughts that we're having around the alternatives that we're not doing anything inconsistent with how the broader industry is evolving and transitioning away. So yes, we are quite aware of the concerns our investors – of our investors and we're working actively on this situation.

ROBERT SMALLEY: Okay. Thank you for that. In terms of issuance and cadence, last year you spread out your benchmark issuance across, really across the calendar. This year, as has been pointed out, you've done some bank issuance, some euro issuance, some sterling issuance so far. Can we expect your benchmark dollar issuance to be the same kind of 25% per quarter? Or are you going to look to front-load some of that a little bit further in Q1?

MIKE VERDESCHI: It's really going to come down to how our balance sheet evolves and how our needs may evolve. I mean, we'd like to give you all a sense of the amounts that we plan to issue. We gave you a breakdown roughly even between bank and non-bank. But how we evolve that from quarter to quarter is really going be a function of our needs and how the market may be performing and investor demand. But looking at evenly split, if you look at last year was more front loaded in that we didn't do any of the issuance in the fourth quarter. I'd say evenly split to maybe a bit more front loaded is probably how I would think about that. But, again, it's going be a function of how those needs evolve and how the markets are performing.

ROBERT SMALLEY: Okay. That's great. Very helpful. And, again, thanks for the call, and John, thanks for everything.

JOHN GERSPACH: Hey, thank you.

OPERATOR: Your final question is from the line of Keven Maloney with BlackRock.

KEVEN MALONEY: Thank you. Just a few questions. North American cards where are you in the process of the promotional stuff turning into income? Secondly, on the card business internationally, is there also a promotional basis? I know interchange fees are different, but just wondering how that product works internationally?

JOHN GERSPACH: Hi, Keven. It's John. Less focused on promotional balances in the international cards. There are some instances of it, but it really isn't a big driver as it is here in the U.S. It's much more of a relationship-based and there's little in the way of BalCons as we have here in the States.

And then regarding your earlier question as to where we are with the promo, what we're seeing now is the promo balances are going down. Those vintages that we brought on a couple – 18, 19, 20 months ago, they're now running into that roll-off period and we're seeing the promotional balances convert into interest – full rate interest-earning balances at a rate that is a little bit better than what we had originally modeled.

So while it did – this focus on promotional balances in the U.S., that did get us a little bit off track from the trajectory that we had hoped to have as far as cards' profitability, we're now solidly back on track. And you can see that in the NIR percentage that we have in the supplement where we've now...

KEVEN MALONEY: Yes, it's going up.

JOHN GERSPACH: I'm sorry?

KEVEN MALONEY: It's going up obviously.

JOHN GERSPACH: Yes, it is and it's going up nicely from whatever it was – 828 in the second quarter to 851 basis points in the third quarter, 879 basis points in the fourth quarter. I'm not suggesting that you draw a straight line through that, but that combination of expanding spread, widening spread, and growing real full rate balances is a great way then of growing your revenues in the future which is why we really like the prospects for U.S. Branded Cards going into 2019. And, again, we're doing all of that while we are maintaining our credit profile.

KEVEN MALONEY: Good. On the commercial side, do you see any concerns, whether it's domestic or international, any early stress points? I just mention it because you had a competitor that announced something along those lines and, obviously its stock got crushed, but just wondering what your thoughts are, particularly internationally in Asia.

MARK MASON: Hi, Keven. It's Mark. We continue to see a very strong credit performance across both our Consumer business and our ICG business and I would say that globally. And we're – we obviously monitor the portfolio. On the consumer side, we look at, obviously, delinquencies and loss statistics, but we also look at card usage in the way of cards and utilization and payment rates and min payments and all of those things. But, again, we continue to see stable performance.

On the corporate side, we are – continue to be skewed towards investment grade as it relates to the mix of the portfolio. And, again, when we look at the sectors and across the globe, we don't see any signs that we're concerned or alarmed about at this stage. But obviously, we will continue to monitor it. When we think about, jumping back to consumer, we're consistent with the NCL rates and ranges that we've talked about in the past. So nothing at this time, Keven.

KEVEN MALONEY: Okay. Thank you. And I'll echo the group's shout-out to John. Have a great retirement. You had an amazing run. It was great having some time with you over the last several years, learning what you know.

JOHN GERSPACH: Very kind, Keven. Thank you so much.

MARK MASON: Thank you.

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

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

OPERATOR: At this time, please disconnect.

