OPERATOR: Hello and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer, Mark Mason, 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. Also, as a reminder, this conference call is being recorded today. If you have any objections, please disconnect at this time.

Mr. Rogers, you may begin.

TOM ROGERS: Thank you, Carmen. Good morning, and thank you all for joining us. As Carmen mentioned, I'm joined this morning by our 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, 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 conditions 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 2018 Form 10-K.

With that said let me turn it over to Mike.

MIKE VERDESCHI: Thank you, Tom, and good morning, everyone. On today's call, I will cover a number of topics. First, I'll briefly discuss our operating results for the first half of 2019. 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 second quarter and first half of 2019. In the first half of the year, we reported net income of $9.5 billion, delivered positive operating leverage, and achieved an RoTCE of 11.9%.

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 4% over the last year. We saw continued high quality deposit growth driven by strong client engagement across both our Consumer and Institutional businesses. We issued debt opportunistically across a diversified set of programs, and we saw healthy growth in both ICG and GCB loans. Finally, average cash and investments increased 5% year-over-year, driven by strong deposit growth as well as the timing of debt issuance.

Slide 5 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 3% year-over-year and 4% in aggregate across our Consumer and Institutional businesses. In our Consumer business, average loans grew 3% year-over-year, driven by continued growth in North America and Asia. Average loans in Mexico declined 1% year-over-year, reflecting the current environment where we are seeing a deceleration in GDP growth and a slowdown in overall industry volumes.
On the Institutional side, loans grew 5% year-over-year. TTS loans decreased 4%, despite continued strong origination volumes as we continued to utilize our distribution capabilities to optimize the balance sheet and drive returns.

Corporate Lending loans were flat year-over-year, reflecting both the episodic nature of our clients’ strategic financing needs as well as lower activity in Asia, where corporate client sentiment has become more cautious. Private Bank loans increased 12%, driven by both new client onboarding as well as the deepening of relationships with existing clients.

Finally, continued strong year-over-year markets loan growth was primarily driven by residential and commercial real estate warehouse lending as well as Community Reinvestment Act-related lending. And loans 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 continued to be favorable again this quarter, with NCL rates broadly stable across regions. In ICG, total non-accrual loans declined both sequentially and on a year-over-year basis and remained low at 39 basis points of total corporate loans.

Turning to slide 7, we show trends in average deposits over the past five quarters in constant dollars. Total deposits increased 7% from the prior-year period with contribution across businesses and regions.

In our Consumer business, deposits increased 3%, driven by growth across all regions. In North America, we saw deposit momentum continue as we further enhanced our digital capabilities and launched new products to lay the foundation for a more integrated multiproduct relationship model.

In our Institutional business, deposits grew 9%, primarily driven by continued deposit growth in TTS.

Now, let me highlight our Parent Benchmark Debt Issuance Program on slide 8. So far this year, we have issued approximately $9 billion of parent level benchmark debt. And going forward, we’ll continue to maintain the flexibility to issue a mix of tenors, currencies, and structures.

On slide 9, let me cover our bank level issuance. So far in 2019, we have issued just under $9 billion of bank level debt which included nearly $1 billion of bank notes issued in Australian dollars. Going forward, we will continue to maintain the flexibility to issue across a variety of tenors, structures, and currencies, as we drive the efficiency of our funding sources.

On slide 10, let me cover our issuance, maturity and redemption expectations. In 2019, we continue to expect total gross 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 $9 billion of parent benchmark and the $9 billion of bank level debt we have issued so far this year.

At the parent level, we continue to expect net parent benchmark issuance to be roughly flat in 2019, including contractual maturities of $14 billion and potential buybacks of approximately $1 billion, though, as we’ve said in the past, we will remain opportunistic around our redemption activity.

At the bank level, we continue to expect a modest amount of net issuance for the year, including contractual maturities of $12 billion.

On slide 11, we show the composition of our long-term debt outstanding. During the second quarter, our total long-term debt increased by approximately $8 billion to $252 billion as we issued benchmark debt opportunistically early in the quarter at both the bank and the parent, and continued to see strong demand for our customer-related debt.
On slide 12, we provide an update of our LCR metric and components. While strong deposit growth drove overall liquidity and HQLA higher this quarter, our average LCR declined to 115% due to changes in our interpretation of the amount of bank HQLA available for inclusion in the consolidated metric. Going forward, we expect our LCR to remain in the range of around 115%.

Turning to slide 13, let me summarize our key regulatory capital metrics. Our CET1 capital ratio remains stable at 11.9% as net income was offset by $4.6 billion of total common 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 $9.5 billion of net income, delivered positive operating leverage and achieved an RoTCE of 11.9%. 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 115%, and an estimated NSFR of greater than 100%. And we maintained a surplus above our binding TLAC requirement.

Finally, we continued to maintain a diverse set of funding alternatives and robust liquidity resources.

Before we move on to Q&A, let me touch briefly on the transition away from LIBOR. As I've referenced previously, we are continuing to evaluate alternatives to address the language in the subset of our preferred securities. And while we continue to make progress, we do not yet have a chosen path or an update with respect to timing. And more broadly, we are continuing to prepare ourselves for the transition away from LIBOR working with our regulators and various industry working groups.

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

**QUESTION AND ANSWER**

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

**SCOTT CAVANAGH:** Good morning, guys. Thanks for holding the call once again. Always appreciate it.

**MIKE VERDESCHI:** Good morning, Scott.

**MARK MASON:** Good morning.

**SCOTT CAVANAGH:** Good morning. So, when we look at CECL, could you give us an update on your range that you put out in the first quarter?

**MARK MASON:** Sure. This is Mark. We actually haven't adjusted our range from the first quarter, so you'll recall on that quarter we updated our guidance for the day one impact of 20% to 30% of our total reserves. And so, that would equate to somewhere between $2.8 billion and $4.2 billion on a pre-tax basis. We have not updated that. And even at the 30% level, as I said on the first quarter, the incremental impact we view as manageable as we also benefit from the phasing in of that. So, no update beyond that.

**SCOTT CAVANAGH:** Okay. And then, going to LIBOR, when we think about it from the asset side, how far has the industry progressed in getting the language or a uniform language for the assets for loans, et cetera?

**MIKE VERDESCHI:** Yeah. So, I would say that there's been continued progress on these fronts with the LIBOR transition, much of that leadership coming out of the Alternative Reference Rate Committee. Certainly, ARRC recently provided recommended language in issuance. But we've also seen fallback language for loans. They issued a white paper for consumer-related lending. We've also seen clearing houses get involved in using SOFR for US discounting and derivatives.
So, while there’s plenty of work to be done, I would say there’s continued good progress around developing language for fallback.

**SCOTT CAVANAGH:** Okay. And on the issuance side, when we look at your surplus on the TLAC and LTD, that was up this quarter. Where is kind of an appropriate level should we be thinking that buffer? And then, when we think about issuance needs going forward, how do you think about the declining rate environment, the timing of issuance and liability management?

**MIKE VERDESCHI:** Sure. On TLAC, we talked about a range of $7 billion to $8 billion before, but clearly we’ve been running above that. And as we’ve said, TLAC is just one of the considerations. Clearly, we’ve met that targeted range and are above it. But we’re looking at issuance in terms of our overall funding need for growth of the balance sheet. So, we’re running a bit high against that.

We’ve also talked about perhaps some of the TLAC rules evolving, none of which have been implemented yet. But we could be even further above that requirement down the road. But I would say, we’re probably going to be running a bit higher than that $7 billion to $8 billion range for the time being.

In terms of the level of rates, really what drives our funding decisions is going to be a function of the growth of our balance sheet and our credit spreads. The level of rates, while we do evaluate that, we often would use swaps to really put against our debt to, for example, take a fixed rate debt instrument and float it down.

So, I would say, the level of interest rates aren’t really a main driver of that issuance activity. It’s going to be the funding needs and it’s going to be the credit spreads.

**MARK MASON:** Yeah. So, I’d just reiterate, I mean, obviously we’re a client-driven business, and so growth in the balance sheet is going to be based on those client needs that we see. And we obviously look at the economics of funding alternatives in order to meet those needs. But those are the drivers, as Mike said.

**SCOTT CAVANAGH:** And last thing from me, would you ever issue a long-dated bank note?

**MIKE VERDESCHI:** Bank notes, again, when we’ve thought about that program, we thought of it as a complement to our other funding alternatives. When we think about the longer-term issuance, we typically have kept that in the parent. The bank we’ve typically kept shorter, and really not to have one compete with the other.

So, in the bank, unsecured, I think we’ve gone out as far as five years. When we’ve done securitization, we’ve gone out a bit further than that. But I would say, typically the longer-dated paper is going to come in our non-bank program.

**SCOTT CAVANAGH:** Okay. Thank you very much, guys. Appreciate it.

**MIKE VERDESCHI:** Thanks, Scott.

**OPERATOR:** And your next question is from the line of Hima Inguva with the Bank of America.

**HIMA INGUVA:** Great. Thank you. Thanks for hosting the call, Mark, Mike and Tom, and thanks for all the color.

**MARK MASON:** Good morning.

**MIKE VERDESCHI:** Sure. Hi, Hima.

**HIMA INGUVA:** Good morning. Hey. So, the first one is the DS2 bucket decreased 40 basis points in CCAR from DFAST levels. Do you expect to undertake sub-debt redemptions?
MIKE VERDESCHI: Hima, it’s Mike. As we talked about in the past, we wanted to be in the range of roughly 200 basis points of Tier 2, and we’ve been running above that level for some time now. Clearly, we don’t need to issue at this time. And so, with some room to optimize the level of Tier 2, we did build some flexibility into CCAR. However, we’ll need to evaluate our balance sheet growth and consider the broader market conditions before taking actions.

HIMA INGUVA: Okay. Great. And then, moving on to prefs, I guess if you could share your plans for the $1.5 billion preferreds becoming callable later this year.

MIKE VERDESCHI: Sure. As we’ve done in the past, we’ll evaluate our need at that time. For AT1, we talked about the range of 150 basis points, and we’re right about there now. So, when this does become callable, we’ll evaluate our need for capital at that time. And to the extent we need to retain that AT1, we’ll evaluate the economics of calling and reissuing versus leaving it outstanding. So, we’ll consider a number of factors at that time.

HIMA INGUVA: Sure. And just a follow-up on that, in addition to economics, what are the other factors that you would consider when you’re making a decision like this?

MIKE VERDESCHI: Sure. Well, I’ll give you one example. I mean, obviously with the transition away from LIBOR now, as we build ARRC recommended language into some of our issuance, that would be a consideration as well. Obviously, through the calling and reissuing, we would have the opportunity to build in that new recommended language.

HIMA INGUVA: Sure. Yeah, that makes sense. Great, that’s it for me. Thank you very much.

MIKE VERDESCHI: Thanks, Hima.

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

BRIAN MONTELEONE: Hey. Good morning.

MIKE VERDESCHI: Good morning.

MARK MASON: Good morning.

BRIAN MONTELEONE: Thanks. Can you talk a little bit about the overall issuance target for the year is unchanged, but you guys chose not to kind of issue last week. Can you talk about kind of what the drivers of that were? I know you talked a little bit about kind of overall balance sheet growth. Was that driven by deposit growth outstripping loans or was it something else?

MIKE VERDESCHI: Sure. It’s Mike. So, as I mentioned, for the first half, we’ve already issued 18. So, that is, again, at a pace slightly above our overall target for the year.

Something that we did see in the previous quarter, we had good deposit growth across our businesses and especially in TTS. And as we’ve done in the past, this quarter we’ll be looking to optimize that liquidity that we raised in the previous quarter.

So, as we come into this quarter, we’re evaluating our needs. We like the flexibility that that deposit growth has given us, so we’re currently evaluating our needs and we’ll be determining what the most efficient sources for that funding is.
MARK MASON: Yeah. Again, it gets back to some of the earlier part of the conversation with what demand we're seeing, what kind of client needs we have that need to be met, and then how do we think about the funding of that in the most economic and optimal fashion.

BRIAN MONTELEONE: Yes. Perfect. Thanks. And then, there were kind of couple new structures introduced to the market this past quarter. One, on the preferred side, with securities that reset once every five years that are callable semiannually. And then, on the senior side, fixed to float structures that reset to SOFR instead of LIBOR. I assume you guys have looked at those. Can you kind of talk about any kind of pluses and minuses you see from your perspective and if you think those are the kind of most likely structures going forward?

MIKE VERDESCHI: Yeah, those are structures, of course, that we do think make sense. And again, every bank's going to evaluate the tenor, the structure that makes sense for them. Clearly, we've done a SOFR issuance already. And as we continue to evolve our funding, we will be considering how to further support the transition away from LIBOR and think about similar types of structures.

BRIAN MONTELEONE: Okay. Great. And then, maybe just one last one and to follow up on Scott's question earlier. Beyond just repapering contracts, can you talk a little about the work that needs to be done from an internal systems perspective to transition to be able to really handle SOFR versus LIBOR and kind of where you are in that process?

MIKE VERDESCHI: Sure, quite a bit of work. As you can imagine, an evaluation of your models, that's a key component. So, you have to obviously evaluate those models and enhance them where needed, validate those models and then, obviously building that into your overall infrastructure, both on your liability side and on your asset side.

So, you have to obviously ensure that your product processors are capable of this transition. So, I would say a lot of the systems work across the products and then even as we think about even beyond that, is how we think about transfer pricing that balance sheet internally, and how we think about the use of different benchmarks today and then evolving to a world where LIBOR doesn't exist.

So, I would say in addition to thinking about the third-party activities, there's some of the internal systems that we'll be contemplating as well. So, there's quite a bit of work involved. I would say, as part of this broader effort, there are transition teams that we've established. There's governance that we've established. And, as you can imagine, there's a particular focus on the operational elements associated with this transition and so a substantial amount of focus in that regard.

BRIAN MONTELEONE: That's very helpful. And any way to estimate kind of how far along you are on that journey?

MIKE VERDESCHI: It's a good question. And one of the challenges is exactly how this LIBOR transition takes place, meaning when does LIBOR actually cease, when does liquidity build in the other products. Because I think one of the challenges is obviously building up sufficient liquidity and building up sufficient use of these new benchmarks such that it becomes more frequent used by customers and therefore something that we're offering. And then, certainly really, I would say, embedding in all of our systems and capabilities.

So, I would say, the transition is certainly well underway. What I'm focused on is the speed of the adoption of these other rates such that we can continue to embed this in the infrastructure as needed.

MARK MASON: Yeah. I mean, as you've said, I mean, this is obviously an issue that touches multiple parts of the organization, Consumer, the Institutional obviously, what we do out of Treasury and Finance, and so we've got cross-functional, cross-business teams that are focused on this and ensuring that we get it right with the funding required to do so.
BRIAN MONTELEONE: Great. Thanks, Mike. Thanks, Mark.

MIKE VERDESCI: Sure.

OPERATOR: And your next question comes from the line of Arnold Kakuda with Bloomberg Intelligence.

ARNOLD KAKUDA: Great. Thanks for holding the call, guys. Appreciate it.

MIKE VERDESCI: Sure.

MARK MASON: Good morning, Arnold.

ARNOLD KAKUDA: So, just to be clear, it sounds like on the preferreds, you guys are leaning more towards kind of the ARRC recommended language and the waterfall fallback versus I guess you have a peer that issued a preferred that seems to be doing pretty well where the back-end float is versus a five-year U.S. Treasury. Is that right to think?

MIKE VERDESCI: Yeah. So, to the extent that we would have call and reissue, we would certainly be looking at that ARRC recommended language should the structure involve that back-end float.

ARNOLD KAKUDA: Okay. Great. Thanks. And then, shifting gears to your capital plan, so congratulations. You got approval for over the three years, get $60 billion of capital return including this year, over $20 billion. But unfortunately – but it seems like we’re hitting a soft patch in terms of NII. I guess maybe you’re less NII sensitive compared to peers, but nonetheless, it’s still a headwind. But how do we think about your capital return plan, over $20 billion this year versus your 11.5% CET1 target? Like, can you still do both of those? Or if one had to go, are you willing to go below that 11.5% CET1 this year?

MARK MASON: Yeah. No, sure. So, we are, as you know, running through the first half with the CET1 ending in the second quarter at about 11.9%. We’ve set the target at 11.5%. You will recall that that target has both the regulatory minimum in it. It also has the G-SIB score for us as a 3% bank. It also has a proxy, if you will, for the stressed capital buffer and then a management buffer as well.

And so, I think we’ve said all along, as we get further clarity on some of the regulatory proposals that are out there, we will continually take a look at what we have in our 11.5% and how we think about the management buffer, and we will certainly continue to do that over time as we gain clarity.

In terms of how to think about capital return going forward, again, we’ve come from a place where our CET1 capital was 13% and have brought it down over the past couple of years to where it is now, at this 11.9%. And so, going forward, once we get to that 11.5%, notwithstanding what I’ve said about the proposals that are outstanding, it will be a by-product of the net income that we’re able to generate, the disallowed DTA that we’re able to utilize. That net income obviously is to common after we paid out for preferreds. The DTA that we’re able to utilize, the growth that we want to put back into the business, which is very important, and then what’s left will be what we would obviously move to return.

And so, that’s kind of how we think about it. As we get clarity, we’ll look at it for sure. But short of that clarity, we’ll run at the 11.5% and manage that accordingly through the stressed scenarios that we run every year.

ARNOLD KAKUDA: Okay. Great. Thanks. And lastly, on profitability, I’m not a rounding kind of guy, but I get asked, you’re running at 11.9%. You have some headwinds and maybe some tailwinds in card. But how do you get to 12%, and is your target a 12-point – greater than 12.0%?
MARK MASON: So, the target remains 12%. We talked a little bit about – on the earnings call, we talked a little bit about continuing to generate net-interest revenue towards the target that we had set for the year, which was an increase of about 4% or $2 billion.

We've made good progress on that in the first half, about $1.3 billion of net interest revenue. And that was really a by-product of some of the things that we pointed to in the way of top line growth. So, Branded Cards continuing to perform with revenue growth. Our accrual businesses performing both – in the ICG, our TTS business, our Securities Services business, our Private Bank, and we expect to see continued momentum from those businesses contributing to that NIR going through the balance of the year.

We expect to get our non-interest revenue at flat for the year. And some of that will be aided by a fourth quarter that we hope will look obviously better than the fourth quarter we saw last year. We continue to have good dialogue with our corporate clients. We think that will continue to play out in the top line.

So, a combination of revenue growth, continued revenue growth, the expense management which you saw through the first half. We've been managing that very tightly. The benign credit environment or I should say normalization of credit levels that you again have seen through the first half. And then, obviously what we do with capital will play out in the back half as well, and that should enable us to stay focused on that 12% for the full year.

ARNOLD KAKUDA: Great. Thanks a lot, Mark and Mike.

MARK MASON: Thank you.

MIKE VERDESCHI: Thank you.

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

ROBERT SMALLEY: Hi. Good morning, Tom, Mark, Mike.

MIKE VERDESCHI: Hi. Good morning, Robert.

ROBERT SMALLEY: Thanks for doing the call. A lot of questions asked and answered, so a couple of follow-ups. But first in general, on card, you and a number of your other peers are talking about increasing card outstandings. And as I listened to the earnings calls last week, I couldn't help but being struck with the idea that the industry might be betting maybe a little bit too heavily on card growth. So, I wanted to get your feelings on that.

MARK MASON: Yeah. So, look, I'd say that we first have talked about a consumer strategy that is certainly broader than cards, but it leverages our card customer base, the 28 million U.S. cardholders that we have and leveraging that card customer base and developing broader value propositions for them that deepen our relationship with them, i.e. the deposit and retail banking relationships that we want to grow with that card – customer baser.

So, yes, we have been getting good momentum out of cards. We expect to continue to do so. But our strategy, important to point out, is broader than that and the digital capabilities that we've been implementing is in line with trying to execute against that strategy. That's one point that I'd make.

The second point that I'd make is that the momentum that we're seeing in cards is not just from purchase sales and not just from the loan growth, but also a by-product of investments that we've made in the past in promotional rewards, if you will, to card customers now converting into average interest-earning
balances, and that is giving us some tailwinds, so to speak, from the franchise – from the card business that we have.

The third point that I'd make is that as we think about our portfolio, we tend to skew higher on the FICO score in terms of the quality of the card customers that we have, and that is true in both our Branded Card business but also in our Retail Services card business, and we look very different in terms of that portfolio than we did even – well, certainly during the last crisis as we have made that type of shift.

And so, I think the combination of those things position us to see continued growth and momentum, and to the extent that things do slow down to be in a relatively safer position than certainly we would have been at the last crisis.

I'd also point out that we aren't at this point in time seeing any particular signs of major concern in either of the card portfolios that we have. So, when we look at min pay and payment rates and delinquencies and things of that sort, we aren't seeing any meaningful slowdown. So, those would be the couple of points that I'd make with regard to that, Robert.

ROBERT SMALLEY: Thanks. That's helpful. And a couple on issuance. When we look out to 2020, which may be too long, but next year in the deck you've got $22 billion in maturities. With the exception of this year, you've really matched maturities and issuance. Do you think that's where you're headed next year or could you even do a little bit less than maturities? That's one.

And the second is I was wondering if you had any comments on any issuance out of the non-bank.

MIKE VERDESCHI: 2020, it's a bit far out there to comment at this time. And you're right, when you look at this year where we're issuing our maturities in the non-bank in the guidance we provided. In the bank, we've talked about maybe slight growth, and I think in the bank, that's been a program that had been new. So, we were ramping that up, and therefore, you see some growth.

It's too early to tell as you look out, but as you can imagine, again, it is going to be about that balance sheet growth and the type of activity we're facilitating for our clients. And then, of course, looking at how we optimize our resources, and we'll obviously look at our deposit growth.

We've talked in the past about having various different funding levers to give us flexibility. We've talked about meeting a lot of our requirements and that being TLAC and resolution liquidity. So, it's hard to know exactly how it evolves at that point, but more to come on that perhaps in the months ahead as we would normally do.

ROBERT SMALLEY: And on the non-bank, anything to report even though we're in early days?

MIKE VERDESCHI: No. The same – again, our guidance at this point for the year is roughly the same. We've already done nine, so we're looking at our needs for the remainder and just don't have much more color at this point. Again, it's going to be a function of how our balance sheet is evolving and what our funding needs are.

ROBERT SMALLEY: And then, just one other question, general question. In terms of the investment bank, when I look at results and look across lines of business, in terms of peer comparisons they're at – near or at peers, in some cases exceeding them, and in some cases with some lower volatility. Do you think that you're getting enough credit from the investment community for the performance of the IB over the past couple of quarters?

MARK MASON: Look, I think we're making some good traction in our Investment Banking business. I think we – obviously, we've seen performance this quarter that certainly showed well relative to the market and frankly came in better than what I had forecasted at the last conference I spoke at. Some of that I think was
a by-product of, again, good activity. Some of which being pulled into the third quarter. And frankly, we continue to have good constructive dialogue with our corporate clients around their banking needs.

There is a sentiment out there that is a bit cautious, but I think we're making good progress. We're picking up talent where that makes sense to kind of build out sectors where we think we could be stronger, so we're taking advantage of those opportunities where we see fit, and you can expect that we'll continue to do that. And so, I feel good about the franchise. I feel as though there's more upside to us, given the nature of the relationship we have with our corporate clients, and we're looking forward to that.

ROBERT SMALLEY: That's – again, that's helpful, and thanks for the call. Greatly appreciate it.

MARK MASON: Thank you.

MIKE VERDESCHI: Thank you.

OPERATOR: And your next question is from the line of Mark Kehoe with MacKay Shields.

MARK Kehoe: Hey, good morning. You've talked about the transition away from kind of return on capital to – sorry, return of capital to return on capital. Can you briefly set out how great a dissemination on kind of fund transfer pricing throughout your organization has kind of helped increase the ROIC and kind of optimization of capital and funding that's helping drive the ROE expansion?

MARK MASON: I apologize, Mark. You broke up a little bit. Would you mind repeating that for me?

MARK Kehoe: Sure. You've talked about kind of transition away from return of capital to return on capital and the greater kind of use of fund transfer pricing and capital optimization within the business to kind of allocate capital economically. Can you talk briefly how that's changing your thinking around several businesses and whether you want to put more capital into certain businesses and take it out from others?

MARK MASON: Yeah, sure. So, first of all, just to be clear, I mean we're certainly still focused on return on and return of, both continue to be an important focus. I understand your question as we get closer to having less excess capital. Today, we still sit at 11.9%, but getting very close to the 11.5%.

We are and in many ways have always been, so to speak, focused on how we actually ensure that we are optimizing the use of the balance sheet and how we're allocating capital and the returns that the businesses are able to generate.

In many ways, that starts with understanding what the client needs and demands are across the different parts of the franchise, ensuring that we can develop competitive offerings that make sense, ensuring that the resources required to do so, both capital and expense wise, allow for us to get to return levels that are meaningful.

Starting with that as a basis, where there are opportunities to look at returns, we're looking at them, not only across products. We look at them across clients. We look at them across regions. We also look at the linkages that exist as we cover and serve clients. So, linkages that may exist from between our TTS corporate client and the FX relationship that they have with us or the rates works that we do with them out of our Markets business. And those linkages are important as we think about returns that are generated for the business through that client lens and how we think about the reallocation of capital where returns are not meeting appropriate hurdles.

Where we do find clients or products that don't meet those hurdles, we obviously work with first them to better understand the broader needs. Remember, we're obviously a financial services firm that can serve the broad needs, particularly of our corporate clients and there are often opportunities to do more with them, whether it be a TTS client where we can actually do more in different countries or whether it be a corporate
client that we’re lending to, but we don’t yet have a TTS relationship with. And our first path, if you will, is to figure out how we expand that relationship, how we deepen the wallet that we have with those clients with an eye towards better serving them, but also enhancing the returns.

And where that doesn’t work, we obviously move towards how we can redistribute that capital to other clients, other products that are higher returning. So, hopefully that gives you a little bit of a sense. We’re not going to get into the transfer pricing and what have you that happens internally, but I wanted to just give you a little bit of a sense for how we think about it.

MARK KEHOE: That’s very helpful. Thank you. Just one last question, we saw one regional bank last week look to kind of immunize its NIM from headwinds of lower rates by putting on forward starting five-year swaps. Is that something Citi could do? Are the balance sheet too big? And to that point, what’s the worst case scenario? Is it really a flat yield curve in a low rate environment? And also, are you looking at putting on floors on consumer contracts, so that you don’t end up with contracts whereby you would pay if interest rates were to go negative in the U.S.?

MIKE VERDESCHI: Mark, it’s Mike. When we’re managing our portfolio, we are looking across the balance sheet at different ways to reflect the interest rate exposure that we wish to have. We do use derivatives. Some of those derivatives could be mark-to-market, but, by and large, they’ll be accrual swaps that have accounting-friendly terms from an accrual standpoint.

And yes, we would look at forwards and have used those in the past. So, those are our tools we would be considering. Of course, something that you’ve seen us do over a year now is that we’ve been taking down that dollar sensitivity for quite some time and we probably cut it by two-thirds already.

And the way in which we do that is various. Some of that is achieved through use of derivatives. Some of that you’ve seen us by reallocating securities away from Treasuries and into agency MBS. And so, we will look at various tools to get the interest rate duration that we think made sense in this evolving environment.

And you’re talking about now floors with, again, the zero bound. And so, as you approach that, of course, you think about not just the level of interest rates, but you’re also thinking about the shape of the curve. You’re thinking about spreads. All of those things are what we would contemplate in managing the overall exposure.

MARK KEHOE: All right. Thank you for the call.

MIKE VERDESCHI: Thank you.

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

SCOTT FROST: Hi. I'm sorry if I've missed your comments on this topic. I seem to recall you commented indirectly but not directly. So, if I've got this wrong, I apologize. But to clarify, when I look at slide 20, this quarter versus last quarter, and I see the marginal build, how should I think of that? Is that a planned marginal build or is it just some quarter-over-quarter noise as you wait for more clarity on capital guidelines? What's kind of the right way to look at that?

MIKE VERDESCHI: Yeah, I would say that build in that TLAC, again, we're over the targeted range, more of an output. Again, we're raising debt in bank and non-bank. Of course, that is all part of our funding of the balance sheet. As the balance sheet evolves and our customer needs evolve, this is just one of our funding levers to meet that growth.

One of the things we have to be mindful of is obviously carrying sufficient TLAC. But I would say this has been more of an output. Clearly, we're above our targeted range and again, TLAC not necessarily the driver of all of our issuance, but a consideration.
SCOTT FROST: So, I'm hearing that – I'm taking that as more incidental that not?

MIKE VERDESCHI: Yes.

SCOTT FROST: Thank you.

OPERATOR: And your next question is from the line of Jesse Rosenthal with CreditSights.

JESSE ROSENTHAL: Good morning, thanks for holding this call. Most of my questions have been asked and answered. Just a quick one on regulations, a couple months ago, we saw Europe take a pretty big step forward towards implementation of the NSFR, and so I just wanted to get your thoughts and kind of any color you may have on the timing or potential structure for it going into effect in the U.S.

MIKE VERDESCHI: Yeah. No color regards to timing. I mean, of course, we've been readying ourselves around that metric, but it's hard to know exactly what that timing is. Of course, there has been some discussion around the calibration of that. It remains to be seen how that will be implemented and how much of a stressed metric, if you will, it plans to be. But we just don't have more clarity at this time in terms of the implementation. But of course, we will be ready.

JESSE ROSENTHAL: Okay. That's fair. I actually had a quick follow-up on the card portfolio. So it looks like some of that recent growth has really been driven by the retail book and it has picked up a little bit of share in terms of the overall North American card portfolio. And I think in the past, you've talked about not getting too over-indexed on retail relative to Citi Branded. So, I was just kind of curious what do you think the sort of right mix of that book looks like?

MARK MASON: Yeah, we've seen growth in both sides, certainly on the top line and good momentum out of the Branded Cards part of the portfolio. I do think the mix is important. Obviously, the Branded Card portfolio that we have, it's not a relationship that we have with another partner and so the economics there are more favorable, so to speak. There's not a sharing that takes place, as is the case with Retail Services. But we have seen good growth in balances from Costco and American Airlines. And so, we think the mix is about where it should be and we'll see that evolve a little bit over time. But we think it's about where it should be.


MIKE VERDESCHI: Yeah.

MARK MASON: Sure.

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

KEVIN MALONEY: So, thanks for taking my questions. On TTS, clearly the big mechanism is deposit gathering. I'm just wondering what's the duration of those deposits? Is most of it overnight? And does it – there's obviously a funding mechanism to loans, but I would imagine most of that goes into Securities as they typically go into Treasuries or Govies?

MIKE VERDESCHI: Hi, Kevin, it's Mike. So, as we raise those deposits, I mean it is going to vary. If you think about, there is a liquidity consideration and then there's an interest rate consideration. And so, depending on where we're raising those deposits, obviously we're seeing good growth around the globe, both in dollars and non-dollars.
But to the extent you're raising operating account type of deposits, then you have to consider obviously liquidity characteristics associated with that, and then as I said, interest rates. If you have the non-interest bearing aspect, then of course you will consider that you have what I would think of as a fixed liability, where if you invest that for some term, you can stabilize, for example, your net interest revenue.

But again, if you have something that floats to a short-term rate, then you may be inclined to obviously think about a floating rate instrument or perhaps just investing it shorter.

So, really the deposits are going to come in many different forms. And I would say that you have to consider both the liquidity characteristics as well as the interest rate. But again, a lot of that activity, good deposits, operating accounts, that you can use to facilitate the loan growth that we have on our balance sheet. Of course, a certain portion – getting back to that liquidity characteristic, a certain portion of that you're going to want to retain in your HQLA and that's all part of our liquidity risk management practices.

KEVIN MALONEY: Great. Thanks. And technology spend in that business, it seems like two or three other large banks want to increase their share in that, and everybody talks about technology and basically increasing the effectiveness of the payment system. Just wondering how much you're spending on technology, is it a big deal or is this being over-emphasized?

MARK MASON: So, first of all, the TTS business for us obviously is a core part of our franchise. We're a big player in the space. We've got large multinational clients. We've got new emerging clients that go global overnight. And it is a space that continues to get a lot of attention and focus and has been in the press a lot. That's not a surprise. It's been growing very nicely as I think we've evidenced over many quarters at this point. It's profitable. It's high returning. Again, we think we are nicely entrenched with many of the customers that we serve around the world.

It does require a continued investment in technology, particularly as the payment space continues to evolve. And we have been continuing to do just that. And we do it not only in developing and enhancing the technology that we have to serve those clients today, but also in partnering with other fintechs and in being responsive to where the client's business model is evolving. And so, we haven't disclosed how much tech spend we're spending in TTS, but we have disclosed that as a firm. We spend about 20% of our total expenses in that – in the area of tech, and we're continuing to grow the spend that we make in this in particular for all of the reasons that I've stated.

Now, again, we feel good about our franchise, the nature of our relationships with these clients are with the Treasurers and with the Assistant Treasurers and Deputy Treasurers that sit in some instances in the country with the local parts of their – or local subsidiaries that these large multinationals have, and these are deep relationships that we continue to nurture and try to grow.

KEVIN MALONEY: Okay. Great. Thanks. And one last question. This has to deal with ARRC language. The most recent paper which I think came out in April does allow for the waterfall to include a government instrument, a benchmark which would infer that you could use a five-year Treasury as others have done. Just wondering if – what do you see as being a better vehicle for you pushing a SOFR reset or going to what is now becoming more the standard five-year Treasury back end?

MIKE VERDESCHI: It's a good question. I would say that it's good to see the flexibility of different instruments being built into structures and that there's demand for that. But that being said, obviously as part of supporting the transition away from LIBOR and supporting SOFR, clearly we would consider use of SOFR as well to help support the build of liquidity in that instrument. So, I would say, really as we go about our funding activities, we'll be considering a variety of structures and part of that will include supporting the build of SOFR.

KEVIN MALONEY: Okay. Great. And have you issued corporate loans or other instruments to clients that are based off of SOFR? In other words, have you written into language of a corporate loan?
MIKE VERDESCHI: The efforts at this point as I referenced the leadership role of ARRC previously, a lot of that has been with relationship to the fallback language. So, I don't think we've seen any of that so far. It's been more about having conditions for fallback rather than new activity.

KEVIN MALONEY: Okay. Great. Thanks for answering my questions.

MARK MASON: Thank you.

MIKE VERDESCHI: You're obviously welcome.

OPERATOR: And your last question is from the line of David Jiang with Prudential PGIM.

DAVID JIANG: Hi, guys. On page 12 with the LCR metric, can you just go clarify a little more on the interpretation change that drove that LCR ratio lower? I think you mentioned it has to do with the bank HQLA.

MIKE VERDESCHI: Sure. So, what happens is when you think about your aggregate liquidity resources, in terms of how you then evaluate those liquidity resources for the purposes of calculating your top of the house LCR. And what's happening is that there is an interpretation of the transferability of some of those resources from the bank for the purpose of the top of the house calculation.

So what this is not is it's not a reduction in the aggregate resources that the firm has. It's simply related to the transferability interpretation. Of course, those resources remain at the bank exactly where we need them to continue to facilitate our customer activity as in the form of, for example, loan growth.

DAVID JIANG: Okay. So, it's – I guess how trapped that liquidity is at the bank.

MIKE VERDESCHI: Yeah, it's an interpretation of that transfer.

DAVID JIANG: Although when I look at the ratio, the components of the ratio, the HQLA, is actually higher but the outflows are lower, so did that manifests itself in higher outflows or...

MIKE VERDESCHI: Yeah. So, when you look at the quarter, we actually had quite a bit of deposit growth and a lot of that was used to build cash. And so with that deposit growth being strong, you did actually see a build in HQLA, but however it was less than you would have seen without that interpretation around the transferability.

DAVID JIANG: Got it. Thanks. And then, just going back to the Asia business, the loan growth there on the corporate side, I think from the main earnings call you mentioned there was some weakness there. Just wondering, how much of that was really driven by the U.S./China trade dispute versus pricing?

MARK MASON: Yeah. I mean, it's hard to parse specifically. We haven't kind of broken that out and publicly talked to that. We were obviously down about 5% in terms of the average loans and there are a couple of dynamics, right. One is just the pricing dynamic in the region where we've chosen not to originate low yielding, low returning assets.

There's also the fluctuation in volumes from the timing of draws and repayments from some of our corporate clients and their revolving credit facilities. And that's not unusual at all as you would know from a Corporate Lending business.

And then, the third piece would be we are seeing the trade tensions impact the demand, as I mentioned on the earnings call, for Corporate Lending in Asia and the sentiment there has become one that is – that is
more cautious. But we haven't broken down the reduction we saw, the level that we saw for those components but I would point to those three.

DAVID JIANG: Okay. Great. Thank you.

MARK MASON: Thank you.

MIKE VERDESCHI: Thank you.

OPERATOR: Great. And this does conclude the question-and-answer session. Mr. Rogers, do you have any closing remarks?

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

OPERATOR: Thank you. At this time, please disconnect.

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