TRANSCRIPT

Citi Third Quarter 2019 Fixed Income Review
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Host
Tom Rogers, Head of Fixed Income Investor Relations

Speakers
Mark Mason, Citi Chief Financial Officer
Mike Verdeschi, Citi Treasurer

PRESENTATION

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 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, Regina. Good morning, and thank you all for joining us. As Regina 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 in 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 year-to-date 2019 operating results. 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 third quarter and year-to-date 2019. Year-to-date, we reported net income of $14.4 billion, grew EPS by 17%, and achieved an ROTCE of 12%, in line with our target for the full year.

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 5% over the last year. We continued to leverage our global footprint to raise high quality deposits across our Institutional and Consumer businesses. And we saw strong growth in both ICG and GCB loans.

Long-term debt increased modestly year-over-year but declined sequentially, as we optimize our funding given our strong deposit growth this quarter.

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 franchise, 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 continue to see 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 5%, despite strong origination volumes, as we continue to utilize our distribution capabilities to optimize the balance sheet and drive returns while supporting our clients.

Loans in Corporate Lending increased 2%, as we continued to support our clients' strategic financing needs. Private Bank loans increased 13%, reflecting growth across regions driven by both new clients as well as the deepening of relationships with existing clients. Finally, strong year-over-year Markets loan growth was primarily driven by residential and commercial real estate 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 continued to be favorable again this quarter, with NCL rates broadly stable across regions. In ICG, non-accrual loans remained low at 42 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 9% from the prior year period. In our Consumer business, deposits increased 4%, driven by growth across all regions. In North America, deposit growth accelerated to 3% as we continued to make progress against our strategy of delivering a more integrated, multiproduct relationship model.

In our Institutional business, deposits grew 11%, primarily driven by high quality 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 $16 billion of parent-level benchmark debt across a variety of tenors, currencies and structures, including the roughly $7 billion we issued this month. 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 note issuance program. So far in 2019, we have issued just under $9 billion of bank notes. Going forward, we will continue to maintain the flexibility to issue across a variety of tenors, currencies and structures as we drive the efficiency of our funding sources.

On slide 10, let me cover our issuance, maturity and redemption expectations. In 2019, we now expect total gross issuance to be in the range of $25 billion to $30 billion, below our prior guidance of $30 billion to $35 billion for our bank and parent-level programs combined. This includes the $16 billion of parent benchmark and the $9 billion of bank level debt we have issued so far this year.

On slide 11, we show the composition of our long-term debt outstanding. During the third quarter, our total long-term debt decreased by approximately $10 billion to $242 billion, as we optimized our funding given our overall levels of liquidity and strong deposit growth.

On slide 12, we provide an update of our LCR metrics and drivers. Our average LCR declined slightly to 113% this quarter.

Turning to slide 13, let me summarize our key regulatory capital metrics. Our CET1 capital ratio declined sequentially to 11.6%, as net income was more than offset by $6.3 billion of total common share buybacks and dividends, along with an increase in risk-weighted assets. And our SLRs were 6.3% and 6.8% for Citigroup and Citibank, respectively.

Moving to our last slide, let me summarize several key points. First, we earned $14.4 billion of net income, grew EPS by 17%, and achieved an ROTCE of 12%. Second, we maintained a strong capital and liquidity position with a CET1 capital ratio of 11.6% and an SLR of 6.3%, an average LCR of 113% and an estimated NSFR of greater than 100%, and we maintained a surplus above our TLAC requirement.

Finally, we continue to further diversify and optimize our liquidity resources.

Before we move on to Q&A, let me touch briefly on the transition away from LIBOR. Broadly speaking, we are continuing to prepare ourselves by working with our regulators and industry working groups such as the Alternative Reference Rate Committee. These working groups have been established to promote and advance the development of alternative reference rates and to identify and address potential challenges from any transition to such rates.

We've established a governance structure within Citi – under our Asset and Liability Committee – and several work streams which are focused on the transition related to a number of areas including the impact on our clients, operational capabilities and legal and financial contracts, to highlight a few.

We've also made investments in our systems and infrastructure as client activity moves away from LIBOR to alternative rates. And lastly, this year we've issued benchmark bonds referencing SOFR from both the bank and the parent, as well as a preferred security which will reference SOFR once the fixed interest rate period ends.

With regard to the unique language in the subset of our preferred securities, as I've referenced previously, we are continuing to evaluate alternatives, including a potential exchange or amendment. The recent proposals from the IRS and FASB have allowed for greater insight into some of the potential tax and accounting implications associated with our alternatives. However, we are still working through additional considerations.

So while we continue to make progress working through the alternatives, we are not yet in a position to speak to a specific transaction or timing. Overall, we feel good about the progress we have made and we will continue to provide you with updates.

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

QUESTION AND ANSWER

OPERATOR: Our first question will come from the line of Scott Cavanaugh with APG. Please go ahead.

SCOTT CAVANAUGH: Good morning, guys, and thanks, as always, for holding this call. Greatly appreciate it.

MIKE VERDESCHI: Morning, Scott.

MARK MASON: Morning.

SCOTT CAVANAUGH: So just want to hit off first on CECL. Could you just give us a recap of your reserve expectations and impact on the CET1 ratio?

MARK MASON: Sure. This is Mark. Good morning, Scott. How are you?

SCOTT CAVANAUGH: Good.

MARK MASON: In terms of CECL, we've mentioned I think if not on the last call, the quarter before, that our current reserve estimates for CECL are about 20% to 30% of our total reserves, and so – and likely to be on the high end of that range, so closer to the 30%. That would result in about a 30 basis points of impact to the CET1 ratio. But as you know, that'll be phased in over multiple years.

SCOTT CAVANAUGH: Okay. And then when we think about the day two impact, I know you had mentioned it, had mentioned on the initial call. Could you go a little farther on how you're thinking about that, and how you're planning on disclosing the impacts on a quarterly basis going forward? I know there was a Federal Reserve request for comment on it. How are you guys thinking about doing it?

MARK MASON: Yeah, so I did mention it on the call and I mentioned we were obviously not prepared to talk to any additional disclosures on the day two dollar impact. There has been, you know – FASB has outlined a number of new disclosures required for financial institutions that are impacted by CECL and we'll obviously continue to work through that and ensure that we adhere to the new requirements in our 10-Q filings coming up next year.

That said, when you think about CECL and its impact, we've got to factor in a number of things in any given quarter, including what your balance sheet looks like and the loans that you have in place including a perspective on the economy at that time and including your estimate for what – or our estimate for what the lifetime reserve impact will likely be. And so all of those will be factors as we move from day one to day two and on an ongoing basis look to capture the impact of CECL in our financials.

SCOTT CAVANAUGH: Okay. And then switching topics, if we think about LIBOR/SOFR, with the recent repo market volatility, contrary to most industry research, SOFR did not behave quietly. There was quite some volatility. How should we be thinking about that, particularly in regards from an asset and liability perspective?

MIKE VERDESCHI: Yeah, I mean, I think the – basically this has gotten a lot of coverage and there was some volatility in the rate as repo market rates were volatile. Of course, the Federal Reserve has taken steps to address that repo market volatility, both in terms of addressing the level of reserves, but also enabling themselves with the capabilities to add reserves or even take reserves out of the system through open markets operations. So we think that there was some volatility, but the Fed is taking the appropriate steps.

And regarding use of SOFR, we think over the longer-term, that kind of volatility won't be problematic for the adoption of SOFR.

SCOTT CAVANAUGH: Okay. And last from me, while you weren't impacted directly from the implementation of the tailoring rule, it did impact some of the larger regional banks and the dynamics within some of the different products and the investment products. Have you seen any changes in the competitive landscape? And if so, which products are you seeing more or less demand?

MIKE VERDESCHI: Yeah, when it comes to that question, I would say that when I think about those portfolios that folks have access to, so in terms of managing that liquidity profile and those liquidity metrics, certainly some of those smaller banks will have some flexibility in terms of freeing up that liquidity and perhaps moving away from liquid securities into lending activities.

From our perspective, we haven't seen anything of an impact on the portfolio and we just don't think that will have an overall meaningful impact on the competitive landscape. And when we think about the securities portfolio and how that could impact it, the largest allocation we have are going to be to Treasurys and agency mortgages. Together, that's a $25 trillion market. So we're not looking at anything in terms of impacts around how we allocate.

SCOTT CAVANAUGH: Thank you very much, guys. Have a great day.

MARK MASON: Thank you.

OPERATOR: Your next question comes from the line of Hima Inguva with Bank of America. Please go ahead.

HIMA INGUVA: Thank you. Thank you very much, and thanks for doing the call, Mike and Mark. Appreciate it. Let me start off with a question on prefs. And I heard you say you may not be able to specifically comment on securities, but I'm going to try anyway. But I also have a follow-up to that.

So you have recently called the Citi 5.8% prefs which had a LIBOR reset and issued Citi 5s with a SOFR reset, and that makes sense from economics and LIBOR longevity standpoint.

Two questions on that, please. One, should we expect to see more of these actions in the near-term? And broadly speaking, how you're thinking about your strategy to lower exposure to LIBOR assets and liabilities.

And then second is, as we wait for the stress capital buffer to be finalized, how should we think about your pref issuance for the remainder of the year and looking into 2020?

MIKE VERDESCHI: Sure. Hi, Hima. It's Mike. Thanks for the question. At this point, and we've talked about our AT1 level in the past, and at this point we're just over 150 basis points of AT1, and that includes the impact of having redeemed or will be redeeming Series N. And as we've talked about in the past, at the time of each call, we'll evaluate the need for that capital. And if we do need it, then we'll look at the economics of calling the security and replacing it versus leaving it outstanding, in addition to looking at other relevant factors at that time.

So I would say no real change in strategy of how we evaluate that AT1 need.

HIMA INGUVA: Okay. Great. And any comments on the SCB proposal? Based on that, if you had any commentary regarding the pref issuance.

MIKE VERDESCHI: No, I think, again, that obviously the SCB, there's been a lot of dialogue around it. Once finalized, we'll evaluate what that entails. But at this point, I don't know that it would be changing how we think about the target of AT1 at that 150 basis points. But we'll certainly evaluate those final rules and what it may mean to how we manage the balance sheet and look at that capital stack.

HIMA INGUVA: Appreciate it. And around LIBOR strategy for assets and liabilities, any additional color that you can share?

MIKE VERDESCHI: No, I think, again, as we talk about the transition away from LIBOR, our focus has been supporting that transition in the many ways that we can support it, and that's through our own operational readiness and it's by supporting the development of the markets. And we've obviously been a market maker in SOFR derivatives. We've supported the transition by issuing debt that references SOFR both in the bank and the non-bank.

So again, our focus has been ensuring our readiness to transition away from LIBOR, and we will continue to do that.

HIMA INGUVA: Okay. Great. Thank you. Just a follow-up. Can you talk about your plans for TruPS, specifically Citigroup XVIIIs and Citigroup Capital IIIs? Since the bank is not Tier 2 capital constrained, any thoughts around dissolving the trust to get TLAC credit similar to what other banks have done this week and last week?

MIKE VERDESCHI: Yeah, Hima, not at this time. I mean, you are right to say that we're not Tier 2 constrained. As I mentioned in my prepared remarks, I mean, we have a TLAC buffer at this time which was $9 billion at the end of the quarter, so – and these legacy TruPS are only worth a little over $300 million of Tier 2 capital. So it really doesn't move the needle with regard to either Tier 2 or TLAC for that matter. So nothing at this time.

HIMA INGUVA: Okay. All right. Great. Thank you.

MIKE VERDESCHI: Thanks, Hima.

OPERATOR: Your next question comes from the line of Brian Monteleone with Barclays. Please go ahead.

BRIAN MONTELEONE: Hey, good morning. I appreciate the commentary that you gave regarding your latest thoughts on evaluating a potential exchange or amendment to deal with legacy preferreds. Beyond the guidance that you've now received from the IRS and from FASB, what other information are you still waiting for or do you need to be able to make a decision about how to move forward there?

MIKE VERDESCHI: Sure, Brian. Thanks for the question. So at this point, those are proposals, so obviously we still want to get greater insight into how those may be finalized. So as we look at these and evaluate, it's important that we understand the implications, not just on ourselves but our investors as well.

So really would like further insights into how those potentially are finalized, and of course, the other bookend of course is that we're still working under the assumption that LIBOR may not be available at the end of 2021. So we're working through it. We're making progress, and for everyone's benefit, we look forward to getting additional insights on the implications.

BRIAN MONTELEONE: Great. Thanks for that. And then can you talk a little bit about Citigroup's experience during the period of repo volatility in September? Was Citi able to provide incremental liquidity to clients during that period, or did you run into the same kind of resolution planning and liquidity stress testing constraints that peers have talked about or were there other constraints that you faced? Can you just provide a little color there?

MIKE VERDESCHI: Sure. Broadly speaking, we didn't experience any meaningful impact, adverse impact on our liquidity or on our earnings. Keep in mind, we retain a sizable liquidity cushion at all times. We have different funding levers that give us flexibility if actually needed during those periods of volatility.

But at the same time, we're going to maintain a liquidity cushion that serves our liquidity management requirements, and that liquidity buffer is going to be a function of our own liquidity standards as well as those which are informed through regulation. But to the extent we have liquidity over and above meeting those requirements, we do in the normal course of business, optimize that liquidity and extend that liquidity.

Really two ways in which I think about it. One is by lending that liquidity into the market through reverse repo. And during that period of stress, we did scale up the amount. We did an incremental $10 billion, roughly, of reverse repo that we lent into the marketplace. But then I've also talked about broader optimization. Of course, as we have additional cash, we also think about broader optimization of HQLA and perhaps deployment into security purchases.

So I would say at that time, though, to answer your question directly, we were in a position to lend some liquidity into the marketplace through reverse repo.

MARK MASON: That said, we are supportive of the actions that have been taken from a regulator point of view in terms of stabilizing things.

BRIAN MONTELEONE: Great. Thanks, both. And then just one follow-up. So I guess in terms of the $10 billion, is there any constraint on why you weren't able or chose not to provide more? Was there any regulation that hit a limit? You mentioned internal and regulatory expectations around liquidity. I assume that's not the LCR. So I guess was there something else there?

MIKE VERDESCHI: Yeah, I mean, keep in mind as we think about liquidity management standards, we have our own, and we have standards that really incorporate regulation. So it's a combination that really informs how much reserves we wish to hold. And so again, that incremental $10 billion was really a function of ensuring that we had sufficient liquidity on hand to meet those liquidity management standards while deploying some additional into the marketplace, both to support the market as well as to optimize our own returns.

BRIAN MONTELEONE: Got it. Thank you both.

MARK MASON: Thank you.

OPERATOR: Your next question comes from the line of Arnold Kakuda with Bloomberg Intelligence. Please go ahead.

ARNOLD KAKUDA: Hey. Morning, guys. Thanks a lot for the call. Just diving into the balance sheet I think on page 4, so I think you talked about the incremental activity and then the repo market.

So is that – so the balance sheet is growing, deposit growth is growing the balance sheet, and on the asset side, loan growth is let's say around 3%. But where the growth is there is in the trading related assets. So the incremental repo activity that you've done, is that reflected in that trading related assets?

MIKE VERDESCHI: Yeah, so it would be picked up there. You're not going to pick up that activity in your loan line. So yes, when you look at that activity, you would be picking that up on trading.

ARNOLD KAKUDA: Okay. Got it. And then I think there's headlines that I see Mnuchin says he's open to looser bank rules to ease repo stress. So in theory, if you do get some of these requirements maybe coming down in times of stress, potentially that trading-related line might go up if there is continued repo activity, repo stress?

MIKE VERDESCHI: Look, I did just see that. That came out shortly before the call started. We'll evaluate of course what that may entail. Of course, we have our own liquidity management standards. We'll evaluate what changes, if any, are in fact implemented. But again, the level of cash that we're keeping at our central bank, I mean, that's ranged from $50 billion to $75 billion. So doing an incremental $10 billion, I just don't know that there would be that much more that would really drive that trading-related line that meaningfully.

ARNOLD KAKUDA: Okay. Great. And then staying on liquidity on page 12, so you've been able to lower the LCR from about 120% down to about 113% in 2019. So can you talk about some of the drivers of that? It seems kind of coincidental with the upgrade that you got from Moody's. And are you still targeting the 110% that I believe you mentioned before? Thanks.

MIKE VERDESCHI: Yeah, I don't know that I gave a target other than we're always looking to optimize the balance sheet and optimize our funding sources. And we've also talked about how the LCR metric tends to be an output rather than being driven to a defined target.

But when you look at that coming down over time, it is a function of how we've optimized the balance sheet, optimized our funding sources, but also there's an aspect of looking at the transferability assumptions. And keep in mind, as we raise liquidity through deposits, a lot of that is going to be in our bank entities where we need that liquidity to extend loan activity for our customers, and so there's certain transferability assumptions that we evaluate as well.

But over time, yes, you've seen that ratio come down, and we're happy to take that down to the levels where it is approximately now.

ARNOLD KAKUDA: Okay. Got it.

MARK MASON: Still well above the requirements though.

ARNOLD KAKUDA: Yes. And then lastly, in terms of the stress capital buffer, you guys talked about that. I think we haven't gotten the final rule yet. So how do you guys think about – do you think we'll still get the stress capital buffer for 2020, and if not, do you see room to kind of continue to be aggressive with your share buybacks if we have no stress capital buffer and then maybe take your CET1 below the 11.5%?

MARK MASON: Yeah, so as you've heard, we've heard kind of the same thing you've heard in terms of the guidance or the expectation that we'll get clarity around the rule in time for 2020. So we're still hopeful that that is the case. That is the last that we've heard.

I think the good thing about that is obviously it would give us a bit more certainty as to how to factor that in. You've also heard probably in conjunction with that the desire to ensure that whatever proposals get put forward, they're done so in a balanced way such that the impact to the amount of capital is held at about constant from an industry point of view, and that's been a consistent view from our regulators and we think that that makes a lot of sense.

When we talk about our CET1 ratio target of 11.5%, as you know, that includes in it, in that calculation, not only the regulatory minimum and a G-SIB score of about 3%, but also an approximation of about 3% for the stress capital buffer. And we believe that that 11% – 11.5%, excuse me, is still the prudent level at which to run the firm, and so we're still planning and managing the firm against that target.

And as things change over time, we'll continue to look at it and look at our management buffer, but that is where we stand at this point. And as I said, we hope to get clarity on the SCB in due course, but hopefully to do so in a way that's balanced in terms of its impact.

ARNOLD KAKUDA: Great. Thanks a lot, Mark.

MARK MASON: Yeah.

OPERATOR: Your next question comes from the line of Mark Kehoe with MacKay Shields. Please go ahead.

MARK KEHOE: Hi. Good morning. Just a few questions. The first one is could you just talk about whether it really matters in terms of where rates are, or is it more a case of the yield curve needs to be upward sloping for Citi to be best positioned to earn a spread on its business. Thank you.

MIKE VERDESCHI: Mark, it's Mike. So look, the yield curve, I mean, there's a number of things to think about. The level of rates, of course, does have an impact on how we see the sensitivity of those rates moves coming through. So obviously we've been over the past couple of years taking down our U.S. rate sensitivity, and so as rates have been moving lower, it's had some impact.

But you talk about the slope of the yield curve. We think about our sensitivity, a lot of that sensitivity tends to be in the front end of the curve, and as you can see in our disclosures, that back-end sensitivity really has far less impact than the front.

But I think what you're getting at too is what does that mean overall. When you look at how we think about that sensitivity, we think about it in a parallel shift. We don't make any assumptions about subsequent actions we may make if the yield curve does different things. For example, if we saw a massive steepening of the yield curve, we don't make an assumption that we would go out and perhaps reposition the portfolio or buy securities in the 10-year part of the curve, which would generate additional net interest revenue.

So again, we look at things just on a parallel shift, at least in terms of how we model that sensitivity and that disclosure, and that sensitivity does tend to be more front-end rather than further out on the curve.

MARK KEHOE: All right. Thank you. On page 20 of the presentation, there is a reference to customer-related debt. Is that structured notes, and to what extent is that substitutability with TLAC institutions market debt, and whether one could displace the other?

MIKE VERDESCHI: Yes, those are the notes that are customer-related. A lot of those will have some type of structure related to those and something that may point to the performance in markets such as the rates markets or commodities or equities. And those notes really serve as a good tool for us. It's something that allows us to facilitate client needs. It also provides us with some funding diversification. But it really won't be a driver in terms of how we're issuing our parent debt. When you looked at what we issued this year, we're still in the range of what we set out to do. But the way I look at it, it's just a good funding alternative. It diversifies our investor base while at the same time facilitates our client needs.

MARK KEHOE: Great. And my last question really was there was a story in Reuters on October 17 talking about how regulators are green lighting banks to own more Treasurys and potentially less cash. And is that driving your talk of optimizing your securities portfolio, or is it really you need to optimize it would be a case of kind of a reduction and/or kind of easing of the resolution standards for liquidity?

MIKE VERDESCHI: When I talk about optimizing the portfolio, as I mentioned that earlier, Mark, that's more along the lines of the things that we've talked about in the past. And in the past, when talking about holding cash versus holding securities, that's a function of looking at what value does owning the securities present.

Obviously the securities are a store of liquidity. They're also a valuable tool in managing the interest rate risk profile, and of course, we'll also buy some agency MBS in addition to other products, and that's going to be a function of how can we optimize returns based on how we look at spreads in some of those investment options and how we expect volatilities to play out.

So really, that's just a function of us optimizing that HQLA and the mix in that pool to, again, both retain liquidity while optimizing returns.

MARK MASON: Which is a BAU activity as opposed to being driven by any one catalyst that's out there.

MARK KEHOE: Great. Thank you.

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

ROBERT SMALLEY: Hi. Good morning. Thanks for doing the call.

MARK MASON: Morning.

MIKE VERDESCHI: Good morning.

ROBERT SMALLEY: Yeah, lot of questions asked and answered. Three areas that I do want to talk about on Cards, on Hong Kong and on digital.

So first on Cards, you had pretty robust growth, especially in Branded Cards. At the same time, we've heard a number of competitor calls who are looking at the same kind of growth and employing similar kind of strategy. So where is the competitive battleground in this area? Is it in rewards? I know you had a question about giving away toasters on the other call. But where exactly is the competitive dynamic? We saw at least one UK bank that's pretty big here in cards refine its growth targets downward. And are you starting to see some winners and losers in that area?

And then the second question on Hong Kong. Just on page 22, you have on the Consumer Credit growth, it's pretty robust year-over-year. What is that, given the events in Hong Kong and the slowdown there?

And then after that, I can press on the digital stuff.

MARK MASON: Okay. Why don't I take that. So I guess I'd say a couple things. I'd say, one, in terms of our Cards momentum that we're seeing now, and we grew the top line at about 11% year-over-year this quarter. And again, that's a by-product of having invested in some of the promotional offerings a while back and now seeing that start to take hold and convert into average interest earning balances which is giving us I think some good growth momentum over the past couple of quarters.

We move to have a very balanced portfolio, both in our Branded Cards business and also more broadly, and what that means is that we'll continue to make investments towards our target customer with promotional-like offerings just to ensure that we continue to get that conversion over time.

We're also seeing good purchase sale volume growth which means people are obviously using our card and seeing good loan growth that goes in tandem with that. But I think to a large extent, I think about that Cards momentum in the context of the broader Retail strategy, and so this may get to your digital question. But in that context, the Cards platform provides us with an opportunity to build out or put to work our digital capabilities that we've been investing in.

And I think it's as we deepen the relationship with our customers, both Card and other customers, that this will start to I think feed off of itself as we become kind of the choice, if you will, or the top choice for our customers. So what I mean by that is as I think about the growth in the Consumer business, having proven the digital capabilities for on-boarding clients with new products, we'll be able to tailor offerings that help to expand that relationship. And so whether it's ThankYou Points or Double Cash rewards as a benefit to those Card customers, understanding what those customers respond to, what they value, and then subsequently being able to create value propositions that are targeted towards them, we believe will allow – will drive more business for us, either more Card business, more retail banking business, more broadly, more lending business, as we build out broader lending products like Flex Loan, and we believe that that multi-relationship type customer will fuel some of the growth that we expect going forward.

ROBERT SMALLEY: And in order to execute the strategy, are you relaxing your profitability targets in the area first, or do you model much greater profitability in years three, four, five? How do you look at that?

MARK MASON: As it relates to cards or more broadly?

ROBERT SMALLEY: Cards, and then – yeah, cards, and then the strategy of using cards and expanding the relationship.

MARK MASON: Yeah. So no, we're not relaxing our targets. Certainly not our risk targets. We're obviously investing in these capabilities, both digital capabilities, but also the creation of the rewards and the value propositions, but we're doing so with obviously return targets in mind and also forward-looking perspective as to what we think the life value of those customers are likely to be.

And we have metrics that reflect that and demonstrate that the deeper the relationship, the more products we have with our customers, the more profitable those customers tend to be. So that's part of the modeling that we do, that we factor in in order to substantiate the investment that we're making in the platform.

ROBERT SMALLEY: Okay. That's helpful. And then on Hong Kong, the growth that we've seen there, what is that?

MARK MASON: Yeah, so in Hong Kong, we saw loan growth at about 19% year-over-year, and the drivers of that growth included an increase in our mortgages that we do with customers, both new and improved marketing promotions that we put in place around a mortgage product. It also is driven by higher margin lending volumes driven by clients taking advantage of low interest rates.

And so those are two major factors that we've seen play out in Hong Kong this quarter. The leading indicators I'd say are starting to show some softness, particularly in the unsecured lending business, and including some price softness on mortgages in particular.

So we would expect that to slow a bit, but we have seen good momentum in Hong Kong thus far.

ROBERT SMALLEY: Okay.

MARK MASON: Obviously, to your broader question, we're managing closely and watching closely the situation that's happening in Hong Kong and ensuring the safety of our employees and customers, et cetera, but the business thus far has shown continued robustness.

ROBERT SMALLEY: Okay. Makes sense. And then lastly, and maybe jumping back a little bit, in the presentation you gave the other week, looking on pages 22 and 23, consumer drivers and you've got some digital metrics, international and you've got growth numbers year-over-year, 19%, active digital customers, 34%, active mobile customers. I'm a little surprised at the jump in the active mobile customers just because a lot of your jurisdictions have consumers that have been phone savvy and bank phone savvy for a long time. So could you explain that jump there?

MARK MASON: Yeah, so we've had active mobile customer growth internationally of about 34% year-over-year, and a fair amount of that has come out of Mexico. And so we've had – that's been a big driver. We are still seeing growth in Asia in particular, but we're seeing both the on-boarding of new customers as well as the take-up from a mobile point of view. And much of what we're able to do in terms of capabilities in Asia, we're able to replicate in other parts of the world, whether it be the Flex Loan product that we're offering here in the U.S., whether it be the digital capabilities that we've launched here in the U.S., or some of the capabilities that we've ported to Mexico that help to build out the offering that we have there and the mobile capabilities that we can avail to clients.

And so this is a by-product of the investments that we've been making in Mexico starting to take hold and customers being responsive to the capabilities we bring.

ROBERT SMALLEY: Great. Very helpful. Thank you, and thanks for doing the call.

MARK MASON: Thank you.

OPERATOR: Your next question comes from the line of Jeff Bernstein with Insight. Please go ahead.

JEFF BERNSTEIN: Hi. All of my questions have been asked and answered, except one item. In terms of issuance, why is it that you haven't done any long-dated bonds at the HoldCo this year?

MIKE VERDESCHI: Yeah, it's Mike. We're very happy with what we've done in terms of the program this year in terms of diversifying the investor base. You saw this year we had done more issuance in non-dollar than we had done in the past couple years, so there was opportunity to diversify away just from the U.S.

I think the long end of the curve, to be honest with you, underperformed a bit broadly in the marketplace, and so we've been focused on diversifying and also focusing on where that investor demand is coming. And we were really pleased with the sponsorship from overseas where we actually saw issuing in non-dollars either at the levels that we could issue in dollars or even better in some instances. So we tend to diversify, and that's why we took the opportunity to issue in currencies like euro and sterling and even in Aussie dollars.

JEFF BERNSTEIN: In the long end?

MIKE VERDESCHI: No, we did different parts of the curve. Again, as we look at overall funding need, we're going to look across different currencies. We're going to look across different tenors. So as opposed to in the U.S. just going out on the long end of the curve, that's one way of diversifying. But we also diversify based on our investor base as well as across the different currencies.

JEFF BERNSTEIN: Okay. Thank you.

MIKE VERDESCHI: Sure.

OPERATOR: Your next question comes from the line of Gary Kessler with Goldman Sachs. Please go ahead.

GARY KESSLER: Hi. Thanks for holding the call. Just a quick question on the Citigroup Capital XIII, given the L plus 6.37% reset and more limited Tier 1 credit at this point. How are you thinking about that security, and are you considering the retail market at all today?

MARK MASON: So look, we continue to look at the Capital XIIIs and evaluate those from time to time. But from an economic point of view, when we look at that and the gain that we had previously taken there and the resulting impact if we were to call these, it just hasn't made good economic sense for us to do so. So that's kind of how we – but Mike, I don't know if there's anything you want to add to that.

MIKE VERDESCHI: No.

MARK MASON: But that's the general – we will look at it from time to time, but given again that economic impact and given the return targets that we're managing to, that just hasn't made good sense at this point.

GARY KESSLER: Thanks. Very helpful

MARK MASON: Thank you.

OPERATOR: Your next question comes from the line of Kevin Maloney with BlackRock. Please go ahead.

KEVIN MALONEY: Thanks for taking my question. First off, the TLAC buffer seems to be running around $9 billion, $10 billion on a consistent basis. Is that what you want to be at?

MIKE VERDESCHI: Kevin, it's Mike. In the past, I've talked about a $7 billion to $8 billion range. So we're slightly above that now. Again, we have a little bit of room to allow that to come down. Of course, TLAC is going to be one of the things we look at in deciding what we're issuing and when we're issuing, but I think you can think about that $9 billion or $10 billion of having a little bit of room to allow that to come down further.

KEVIN MALONEY: Okay. Great. Thanks. And on the Card portfolio, there was a lot of talk about the promotional rates and how that's kind of in the maturing phase. And I'm just wondering if you could talk a little bit more about, does that mean marketing costs will fall also, or is that just a separate function?

MARK MASON: I'm sorry, you said marketing costs? Is that what you said?

KEVIN MALONEY: Yeah, basically mailings, other stuff.

MARK MASON: Yeah. So actually what you should expect to see, because again, the way these promotional offerings work is we'll make that investment. They start to convert to average interest earning balances. In order to strike the right balance in the portfolio, one has to continue to make those types of investments in promotional offerings.

And so we're reaching a steady state point I would say now in terms of the mix that we have, and so we'll be continuing to invest at about the pace we're investing now to ensure that we have a steady pace of promotional offerings that ultimately convert to average interest earning balances and allow for us to deliver on the NIR that we forecasted.

KEVIN MALONEY: Okay, great. And just one last question on Cards. Has the cash back rate versus receivables, has that gone up over time? In other words, do you have more people using the benefits on the card than previously, say a year ago?

MARK MASON: Do we have more people using the benefits on the card?

KEVIN MALONEY: In other words, more people using the rewards. Because we've seen other players that reward rates have gone up.

MARK MASON: Yeah, I don't have that answer in front of me, to be honest with you. We obviously have seen good continued use of the card through purchase sales. We've seen good uptake of the value proposition offerings that we've made in terms of both new offerings, but also those that have driven digital deposit sales. But I don't have the specifics around any one rewards program and increases in the uptake.

We've tailored those programs most recently, probably a quarter or so ago. The responsiveness to that tailoring and adjusting of the programs has been very good and in line with our expectations, i.e. we haven't seen a falloff of usage; we haven't seen clients shutting accounts because of the adjustments we've made to rewards. And so while I don't have a precise number for you, all the indicators that I see and that I look at here reflect that we've got continued good activity in broad use but also taking advantage of the rewards that we offer as well.

KEVIN MALONEY: Okay. Great. Just one last question about the G-SIB bucket. There was some talk earlier in the phone call on this and just wanted to ask one more question. It seems like in the second quarter you were above the 3% and so were two other big G-SIBs. And I would imagine that you want to get back into the 3% bucket. That's essentially what you said. So can we see a liquidity squeeze toward the end of the year like we saw last year and what another big bank has suggested could be the case?

MARK MASON: I can't speak to the other big bank. But what I can say is you're right, we did see an uptick this quarter in the G-SIB score. I think we were at 631. And so that's two basis points higher than the 629 bucket that would have us in the 3% bucket where we've been for some period of time now.

We obviously will want to, as you you've stated and as I stated on the earnings call, get back into that 3% bucket. What matters obviously is where we end up on December 31st. There are a lot of levers that are involved and a lot of components to that G-SIB score, I should say, rather, including the overall size of the balance sheet, the loans, the deposits, I mean, all of those things, the stock price. There are multiple factors there. And we will manage the business with the client at the center in a way that we can get back into that bucket for the year-end. There will be puts and takes to that, and I can't tell you precisely what they will be at this stage, but we will actively manage that in order to try and remain in that bucket.

KEVIN MALONEY: Okay. Great. Thanks a lot. Those are all my questions.

MARK MASON: Thank you.

OPERATOR: Your next question comes from the line of James Strecker with Wells Fargo. Please go ahead.

JAMES STRECKER: Good morning, everyone. Thanks for hosting the call.

MARK MASON: Morning.

MIKE VERDESCHI: Morning.

JAMES STRECKER: Just a quick couple follow-ups on some topics that have already been beaten to death. Trying to be cognizant of everyone's time, but I just want to get some clarification.

Going back to SCB, is there a deadline where you guys think you would need to see the final rules or the industry would need to see the final rules in order to give you enough time to get your capital plans ready to be able to submit them in April? And then related to that, do you also expect or would you need like SLR recalibration to be part of that too in order to think appropriately about your capital levels?

MARK MASON: Yeah, so we're obviously going to kick off our CCAR process as we normally would with the creation of our scenarios and running it as part of our capital planning process. We will get the Fed's scenario when they deliver on that which normally is in the early part of the year. I don't have a view as to precisely when they will provide more clarity on the SCB. We hope that it's in a time where we can make the appropriate adjustments. But out the gate, what matters obviously is our own scenario that is created and the results that are a by-product from that work. So I don't have a specific date for you by which we would not be able to factor it in. But I do know, as you know, that it's the regulators' objective for it to be out in a time that allows for us to do that.

The CCAR, that is our binding constraint at this point, and so we'll have to manage to that. And we're well above the target from an SLR point of view and we'll have to see how that would play out, but at this stage that's really all I can say on it.

JAMES STRECKER: Okay. And then on the SLR piece, are you expecting finalization around that same timeframe, or are you kind of as much in the dark as the rest of us?

MARK MASON: It's hard to say at this point. I'm unsure as to when precisely we'll get that clarity.

JAMES STRECKER: Okay. Fair enough. Switching gears, going back to LIBOR. I guess the 800-pound gorilla in the room is are amendments still on the table as a possible alternative to address securities with legacy LIBOR language in them? And I'm specifically thinking about some of your preferreds.

MIKE VERDESCHI: Yes, as I said earlier, that is one of the considerations.

JAMES STRECKER: Okay. Okay. Perfect. Thanks a lot, and appreciate the call, as always.

MIKE VERDESCHI: Sure.

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 everybody for joining the call today, and of course, if you have any follow-up questions, please feel free to reach out to us in Investor Relations. Thank you.

OPERATOR: Ladies and gentlemen, that does conclude today's conference. Thank you all for joining, and you may now disconnect.

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