Citi Third Quarter 2014 Fixed Income Investor Review

Friday, October 17th, 2014

On October 30, 2014, Citi announced that it was adjusting downward its third quarter 2014 financial results, from those reported on October 14, 2014, due to a $600 million (pretax and after-tax) increase in legal expenses recorded in Citicorp (in Corporate/Other). The financial impact of this adjustment lowered Citi's third quarter 2014 net income from $3.4 billion to $2.8 billion. The financial impact of this adjustment is **not** reflected in this third quarter fixed income investor review transcript, dated October 17, 2014. For additional information, including Citi's third quarter 2014 results of operations including this adjustment, see Citi's Form 8-K and Quarterly Report on Form 10-Q for the period ended September 30, 2014, each filed with the U.S. Securities and Exchange Commission on October 30, 2014.

Host
Peter Kapp, Head of Fixed Income Investor Relations

Speakers
John Gerspach, Citi Chief Financial Officer
Eric Aboaf, Citi Treasurer

PRESENTATION

OPERATOR: Hello and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer John Gerspach and Treasurer Eric Aboaf. Today's call will be hosted by Peter Kapp, 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. Kapp, you may begin.

PETER KAPP: Thank you, Brent. Good morning and thank you all for joining us. On our call today, our CFO, John Gerspach, will speak first; then Eric Aboaf, our Treasurer, will take you through the Fixed Income Investor presentation, which is available for download on our website, citigroup.com. Afterwards, we will be happy to take questions.

Before we get started, I would 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 2013 Form 10-K.

That said, let me turn it over to John.

JOHN GERSPACH: Thank you, Peter, and good morning, everyone. We're pleased to be hosting our Fixed Income Investor Review this quarter. Eric Aboaf, our Treasurer, will review some specifics on our balance sheet, liquidity profile and capital position, as well as an update on our funding plans for the remainder of 2014. But before I turn it over to Eric, there are some key points from our third quarter results that I would like to highlight on slide two.

We announced that we intend to exit our consumer businesses in 11 markets including Japan, Egypt and Peru, allowing us to focus on countries where our scale and network provide a competitive advantage. Sales processes are already underway in most of these markets, and we expect to substantially complete these actions by the end of 2015. We will continue to serve our institutional clients in these markets, which remain important to our global network.

Turning to the quarter, we achieved solid performance across our institutional businesses. Both Banking and Markets saw improved revenues from the prior year period, assisted by a better trading environment and a strong M&A pipeline. Global Consumer Banking had a strong quarter as well and saw loan growth throughout the regions. In North America, we had revenue improvement in each of our businesses while we continue to optimize our branch network. In our International franchise, we saw revenue improvements across every region compared to the third quarter of last year. Citi Holdings was again profitable, and we reduced assets during the quarter by 7% to $103 billion. Holdings' assets now constitute only 5% of Citigroup's balance sheet.

We also continue to be focused on both reducing the drag on earnings caused by Citi Holdings and consuming DTA. Our Basel III Tier 1 Common ratio reached 10.7% in the quarter. Our estimated SLR was 6%, and our LCR under the final U.S. rules was an estimated 111%, with $416 billion of high quality liquid assets. As Eric will cover in more detail, we maintained an efficient balance sheet and our net interest margin benefited from our focus on managing our funding base.

On slide 3, we show total Citigroup results adjusted for the items noted on the slide. We earned $3.7 billion in the third quarter, a 13% increase from last year, driven by revenue growth and lower credit costs, partially offset by an increase in operating expenses and a higher effective tax rate. On a year-to-date basis we generated positive operating leverage with modest revenue growth and flat expenses, and our return on assets improved to 83 basis points.

And with that, I'll turn it over to Eric.

ERIC ABOAF: Thank you, John.

Let me start on slide 4 with a review of how we are managing our balance sheet to drive profitability and returns and adapt to current regulations. On a reported basis, our total assets declined by $27 billion in the quarter mainly as a result of the dollar's appreciation against foreign currencies, especially the euro. To provide more meaningful insights into the trends of our underlying businesses, we've presented this slide and several others in today's presentation on a constant dollar basis.

We have held our balance sheet roughly flat around $1.9 trillion over the past five quarters, while continuing to optimize both our assets and liabilities and supporting client activity. On the asset side of our balance sheet, cash and investments were 27% of our assets, consistent with recent quarters, as we maintained a liquid balance sheet. We have grown our investment portfolio over the past year to manage our interest rate position and deploy some of our cash.

Net loans grew 1% year-over-year, as 4% loan growth in Citicorp was offset by a continued decline in Citi Holdings. Trading assets and reverses by contrast were down 3% year-over-year, as we have proactively optimized our trading book and reduced lower returning assets.

On the liability side, we maintained a diversified, stable, and low-cost funding profile. We held deposits roughly flat year-over-year while continuing to improve the quality of our deposit base and anticipating the impact of the LCR. Repo and trading-related liabilities declined 5% year-over-year, as we continued to reduce our use of secured funding at our broker-dealers. Total long-term debt increased by $4 billion year-over-year, as we continued to increase bank-level debt. And finally, our equity base grew year-over-year through both retained earnings and preferred stock issuances.

Now turning to slide 5, let me discuss our loan growth and how we continue to serve our clients. On a constant dollar basis, total Citigroup loans increased 1% year-over-year. Consumer loans grew 3% year-over-year, with growth in each of our regions. Retail banking loans grew 7%, while card loans were flattish.

Corporate loans grew 5% year-over-year. International balances remained flat while North America increased 11%. Traditional corporate lending balances grew 9%, with strong growth in North America, driven by higher investment banking transaction activity. Trade loans decreased 11%, as we maintained origination volumes, but responded to compressing trade finance spreads by increasing asset sales to optimize returns. And Private Banking loans increased 18%, with growth across all four regions.

Citi Holdings loans decreased 19% year-over-year, mainly due to continued runoff in North American mortgages as well as the sale of our consumer banking operations in Greece and Spain. North American mortgages now represent 82% of total Holdings loans.

On slide 6, I'd like to review the credit trends in Citicorp's consumer and corporate loan portfolios. The top half of the page illustrates net credit losses in Citicorp's consumer credit portfolio across four regions. In the third quarter, Global Consumer credit trends remained favorable, with net credit losses declining 230 basis points. In North America, the NCL rate continued to improve to 259 basis points. Asia remained stable with net credit losses of 82 basis points. And in Latin America, we saw another uptick in net credit losses driven by Mexico Cards, as that portfolio continued to season and consumers adjusted to fiscal reforms and the impact of slower economic growth. Looking to the fourth quarter, we expect the dollar amount of net credit losses in Latin America to be more or less stable.

Although not shown on this page, credit quality in Citi Holdings continues to improve, with NCLs in North America mortgage book declining to 140 basis points this quarter from 210 basis points in the prior-year period. All the losses in that portfolio were offset by reserve releases.

The bottom half of the page highlights the high quality of our corporate portfolio. Non-accrual loans as a percentage of corporate loans ticked up to 47 basis points at the end of the third quarter versus 41 basis points in the second quarter. Latin America non-accrual corporate loans have increased over the past two quarters, reaching 124 basis points of loans. This recent increase is predominantly due to two unrelated credits, each outside of Mexico. We have taken additional reserves against these exposures.

On slide 7, we show how we have actively managed our Markets-related balance sheet over the past few years, with a focus on serving our clients while optimizing returns. The top half of the page shows trading assets over time in constant dollars, which have trended flat to down slightly. There has been widespread discussion of how trading inventories are generally lower than pre-crisis levels and a view that Basel III has constrained dealer balance sheets.

We clearly kept capital in mind as we sized our trading assets. More importantly, however, we routinely reallocate balance sheet among products and trading desks, reflecting both tactical shifts in response to market conditions as well as strategic moves targeting higher-return businesses. For example, over the past year we've shifted balance sheet to support the increased demand for spread products, such as securitizations, consistent with the revenue performance John referenced on Tuesday. We have also strategically allocated additional capital to invest in select businesses, such as equity derivatives.

Reverse repo balances have been consciously and steadily reduced by a total of nearly $40 billion since 2011, or 5% per year on average. We've done so carefully, reallocating this scarce resource towards targeted clients. With an estimated SLR of 6%, we operate from a position of strength, which means we can allocate SLR intensive balance sheet towards clients in ways that many of our peers cannot. We believe this will further deepen and expand our franchise as the market for repo continues to shrink and participants exit.

At the bottom of the slide you can see we have more recently reduced our repo balances, while there will likely be some quarter-to-quarter fluctuations, the trend is generally downwards. As you know, we began lengthening the tenor of our repo book in 2010 and 2011. As you can see in more detail on slide 29 of the appendix, our repo book is high quality, diversified by counterparty and has a tenor structure well-tuned to the quality of the underlying collateral. We have proactively addressed the size and quality of our repo book and have a number of tools available to us to adapt to further regulatory changes.

Now, turning to slide 8, let me discuss changes in our deposit base, which continues to serve as the primary source of funding for the lending activities in our bank. On a constant dollar basis, deposits were flat year-over-year and average deposits grew 4%. Consumer deposits increased 2% with growth in both North America and internationally. We have continued to focus on growing checking and savings accounts and optimizing deposits in markets where we have excess liquidity.

Corporate deposits increased 2% year-over-year as we saw 5% growth in TTS balances offset by reductions in our Markets-related businesses. Holdings and other deposits declined year-over-year due to continued runoff of MSSB deposits. Our total cost of average deposits has been fairly stable over the past few quarters.

On slide 9, we highlight the strength of our deposit franchise. By carefully managing our deposit base to increase high quality deposits and reduce lower value deposits, we have reduced our cost of funds and improved the liquidity value of our deposits under the LCR. Our deposit base is geographically diversified with nearly 60% of our deposits outside the U.S., as you can see in the far left column. The middle column shows the composition of our deposit base by interest rate structure. And the far right column illustrates the liquidity value of our deposit base under the final U.S. LCR rules.

Under the LCR, deposits are assigned liquidity values based on their stability and the type of clients served, generally 90% to 97% for retail deposits, 60% to 75% for corporate and commercial deposits, and 0% to 75% for financial institution deposits. Focusing on the deposits that have LCR value, our consumer deposits, including retail and commercial banking deposits provide approximately 89% liquidity value, while our institutional deposits have a 73% liquidity value, reflecting regulator's view of the stability of certain types of institutional deposits. We have worked with our clients to increase balances of high quality deposits, such as corporate operating accounts and consumer checking and savings accounts. Year-over-year, Citi's deposit liquidity value increased under the final U.S. LCR rules and the Basel rules.

On slide 10, let me cover our long-term debt, which is a primary source of funding for our parent company and our broker-dealers and is a valuable liquidity management and funding tool for our banking subsidiaries. During 2014 our total long-term debt increased slightly as we work to optimize our liquidity position and anticipate potential loss-absorbing capacity requirements. During the third quarter, our long-term debt balances decreased by $3 billion to $224 billion. Sequentially, we increased our bank-level debt to strengthen our liquidity position. We continue to securitize credit card receivables and we increased long-term FHLB advances to extend the term structure of bank level funding at attractive costs. Parent company debt decreased during the quarter due to tender activity, the timing of maturities and foreign currency translation. In the fourth quarter, we expect parent company debt to increase as we continue our issuance and buyback plans while expecting fewer maturities.

Slide 11 details our debt issuance and redemption activity at our parent company. Year-to-date, we have issued approximately $14 billion of benchmark debt against expectations of $20 billion for the whole year. Additionally, we have issued $8 billion of customer-related debt and $3 billion of other issuance, primarily related to OneMain out of a total of $15 billion expected for the full year. We expect total maturities of $28 billion in 2014, of which approximately $22 billion have occurred year-to-date. Additionally, during the third quarter we completed three tender offers to redeem $3 billion of benchmark debt, bringing our year-to-date redemptions to $8 billion. Active liability management has been an important tool in reducing the cost of our long-term debt and supporting our NIM.

While not shown on this same page, this year we have issued approximately $2.2 billion of preferred stock, bringing our additional Tier 1 Capital to approximately 80 basis points of risk-weighted assets. We expect to continue to issue preferred stock between now and when the Basel III rules are fully implemented in 2019 at a measured pace. Of course, market developments and continued regulatory development could always alter our outlook for expected issuance and redemptions.

Loss-absorbing capacity has reemerged as a topic of high interest in the market and in the press. We expect international regulatory guidance on loss-absorbing capacity next month, and U.S. rules are likely to follow shortly thereafter. On slide 12, we provide an illustrative view of our loss-absorbing capacity to help dimension the impact of these expected proposals. The discussion around loss-absorbing capacity has evolved, but ultimately continues to focus on a few questions: which entities are subject to bail-in requirements; what kinds of debt may qualify as loss-absorbing capital; how much loss-absorbing capacity will be required; and against what denominator – risk-weighted assets, total leverage exposure, or something else?

Our estimates and expectations at this point are just that, given that we do not yet have a formal proposal. But based on our discussions with industry groups, we are reasonably confident that loss-absorbing capacity will include Basel III Tier 1 Common, preferred stock and senior and subordinated unsecured long-term debt issued at the parent company. Similarly, we believe it is less likely that securitizations, FHLB advances and most structured notes will qualify as loss-absorbing capital. As of quarter end, we estimate Citigroup's loss absorbing capacity at a bit more than 20% of our risk-weighted assets and a bit more than 10% of our leverage exposure.

On slide 13, we cover Citibank's recent securitization activity and our issuance plans for 2014. Our securitization activity helps us diversify Citibank's funding sources and optimize the firm's liquidity position at cost-effective pricing levels. Year to date we have issued $10 billion of securitizations against expectations of $15 billion for the full year, all backed by credit cards. We expect maturities of $4 billion in the fourth quarter, providing some natural demand. Separately, while not included in this slide, OneMain Financial successfully completed two securitizations for nearly $2 billion. OneMain is part of the parent company issuance, as I mentioned earlier.

On slide 14, you can see how our active balance sheet management has helped us gradually expand our net interest margin during an extended low-rate environment, while growing our net interest revenue. Net interest revenue was $12.2 billion in the third quarter, up 6% from last year, and NIM grew to 291 basis points. Continued reductions in the cost of deposits and long-term debt more than offset ongoing pressure on loan yields.

The cost of our long-term debt continued to decline, by 19 basis points this quarter and 87 basis points year-over-year as we refinanced outstanding debt at tighter spreads and shifted our mix to lower-cost sources of funds such as securitizations and FHLB advances. Since 2012, we have repurchased over $20 billion of benchmarked debt, equal to 17% of our current benchmark debt outstanding. Looking to the fourth quarter, given the sale of consumer loans with attractive margins in Greece and Spain, we could see our net interest margin decline by a basis point or two.

Turning to slide 15, let me summarize how we have positioned our balance sheet to create opportunities for higher revenues in a rising rate environment. We evaluate our overall interest rate position under a range of scenarios, considering the effect of interest rate changes on net interest revenue and on our capital position. On the left side of the page, you can see that we have adjusted our interest rate position progressively over time, with the intention of benefiting from potential increases in interest rates.

As of September 30, we estimate that a 100 basis point parallel rate shock upwards would increase our net interest revenue by $1.9 billion in the first year, of which $1.2 billion relates to U.S. dollar positions. This would benefit our net interest margin by 11 basis points. In this rate scenario, we estimate that the value of our securities portfolio will lead to a decline in AOCI of approximately $3.6 billion, for a reduction of approximately 41 basis points in the Basel III Tier 1 Common ratio.

In scenario 4 at the bottom right of the page, you can see that in an environment like we are seeing today where the short end remains stable and yields on longer-term bonds fall by 100 basis points, our net interest revenue would not be significantly affected.

Throughout today's presentation, I've highlighted a number of areas where we have adapted our balance sheet to new regulatory requirements. In most cases, we moved early and in advance of our competitors, while remaining mindful of the costs of preparedness.

On slide 16, let me highlight some of our initiatives to anticipate and limit the cost of compliance with regulatory changes. To manage our capital base, we've held our balance sheet at or below $1.9 trillion by limiting growth in lower return assets and reallocating capital from lower return activities to higher returning clients and products. To prepare for new liquidity standards, beginning almost five years ago we began to focus on improving deposit quality, which reduced our funding costs and helped raise LCR quality deposits. We've proactively diversified our funding sources with credit card securitizations, and we have reduced our use of CP and repo and extended tenors, which should also serve us well as we receive rules around short-term wholesale funding.

With an eye towards resolution, we have reduced our organizational and operational complexity and simplified our legal entity structure, and we have maintained substantial long-term debt at the parent. Our significant strength in the Basel III Tier 1 Common ratio, SLR, LCR and NSFR positions us to move forward with a relative advantage, continuing to support our clients as others pull back.

Turning to slide 17, I'd like to update you on our liquidity profile, including the impact of the final U.S. LCR rules approved in September. Under the Basel Committee's rules, our estimated LCR was 127% this quarter, representing a four percentage point increase over what we disclosed for the second quarter. As we had previously indicated, the final U.S. LCR rules are more stringent than the Basel proposal. While we continued to review the impact of the U.S. rules, we currently estimate that our LCR under those U.S. rules is 111%, which is in excess of the 100% minimum requirement.

The final U.S. rules were largely in line with our expectations with some important clarifications regarding the impact of “peak day” outflow assumptions and recognition of the stability of correspondent banking and collateralized deposits as examples. Factored into the 111% LCR, we have $416 billion of HQLA reflecting the U.S. rules’ exclusion of munis, covered bonds and RMBS versus the Basel rules. The Fed has indicated it intends to explore the possibility of counting some munis towards HQLA at a later date.

In addition to the LCR, we continue to assess the impact of the Basel committee's standards regarding the net stable funding ratio, which measures our liquidity under a 12-month stress scenario. Based on what we know today, we believe we are in compliance with the NSFR. We expect further clarity from the Basel committee later this year and an NPR from the U.S. regulators in 2015.

On slide 18, let me summarize our capital position, which remains among the strongest in the industry. Citi's Basel III Tier 1 Common ratio under the Advanced Approaches for the third quarter increased to 10.7% from 10.6% in the second quarter, driven by retained earnings and DTA utilization, partially offset by an increase in risk-weighted assets. Under the Standardized Approach, our Tier 1 Common ratio increased by 30 basis points to 11.1%. Our estimated SLR increased to 6% with approximately half of the increase due to the impact of revised final U.S. rules. Similarly, Citibank's estimated SLR increased to 6.3% in the quarter.

Moving to our last slide, let me summarize four major points. First, we had strong operating performance across each of our businesses, and we saw continued progress on a number of our execution priorities. Our Consumer and Institutional businesses performed well. Citi Holdings reported another profitable quarter. We utilized another $700 million in DTA and we announced further strategic actions to streamline our businesses. Second, we have actively managed our balance sheet, maintaining total assets around $1.9 trillion and optimizing our assets and liabilities to support client needs and improve returns. Credit trends remained favorable across both our consumer and corporate portfolios. Third, our deposit base remains a key strength as we continue to prioritize high-quality deposits. Our 2014 issuance plans remain on track and support the operating needs of both the bank and the parent. And lastly, we continue to prepare our business and balance sheet for ongoing evolution of the regulatory environment. Our capital and liquidity position remains strong relative to the industry.

That concludes our Fixed Income Review. John and I will be happy to take your questions.

Question and Answer

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

ROBERT SMALLEY: Hi, thanks very much and thanks for doing the call. I've got a couple of quick ones and one or two longer questions, if that's okay.

JOHN GERSPACH: Sure.

ROBERT SMALLEY: First, on slide 11, you discussed $20 billion done in benchmark debt – $20 billion as the goal, $14 billion done, so we've got $6 billion in benchmark to do five years and out across any currency. Is that what we're looking at for the rest of the year?

ERIC ABOAF: Rob, it's Eric. That's right. We've been issuing about $5 billion a quarter during the year. I think first quarter was $2 billion or $3 billion. Each of the last two quarters was about $6 billion, and we've got another $6 billion this quarter, more or less obviously depending on market conditions and the opportunities we see out there. In terms of currencies, we'll obviously continue to issue in dollars, but you've seen us issue in euros, sterling, Aussie, yen, et cetera around the world depending on how the basis shapes up in demand, so probably a mix of issuance out there.

ROBERT SMALLEY: Okay. But a little bit more skewed to dollars, I guess.

ERIC ABOAF: Yeah, historically, I think the large majority has been dollar issuance and so that will continue. And then obviously, we'll do it across a range of tenors, so nothing particularly different this quarter than what we've seen over the last few.

ROBERT SMALLEY: Okay. On page 30 in the back you outlined the tenders that have been done so far this year. I think that market can be a little confused about rationale behind some of these. Could you give us some of the basic rules of the road that you're using? What you're looking at in terms of metrics in order to – what your valuation is and when you look at going about the tender strategy? I know you said in the past you've been opportunistic, but could you put a little more flesh on the bone there?

ERIC ABOAF: Rob, it's Eric. Let me describe it probably from two angles. The first is that we routinely look at the spread on our debt across all the issuances that exist out there. And what we typically look for is bonds that are trading a little wider to the curve. And so we'll look across three years, five years, 10 years, some of the longer maturities, and sometimes they trade a little wider either because they might be smaller maturities or they've rolled down so they have an intermediate maturity. But we're literally looking for bonds that are trading wide to the curve that when we reissue, right, because that's what we're doing and we're buying back and reissuing, we can then issue on the curve and earn the differential over the future life of the bond. That's the first screen. The second screen is, because we issue both in dollars and foreign currencies, as we just talked through, the foreign currency basis matters. And when the currency basis goes against us, right, there's an opportunity to buy back and reissue at a better basis. And so we're conscious not only of the credit spreads, broadly, but also the basis, and that'll be the second driver of the heuristic.

ROBERT SMALLEY: That's very helpful, thanks. Just on a little bit broader questions, we know that a number of the rules have not been finalized. But when we look at the cumulative impact of funding rules, keeping liquid assets on the balance sheet, et cetera, this will create a giant NIM drag going forward. That part I think we do know. Have you looked at, in terms of your planning and scenario planning in the future, are you looking at how to offset that? Is that really something that you do through pricing? Have you even gotten there yet in your planning, recognizing that we still have some unknowns?

ERIC ABOAF: Rob, it's Eric. I completely agree with you. There's a long list of regulations that have already been phased in and there are more coming our way. And we as banks have to adapt actively, proactively, to those new rules.

I disagree with your hypothesis though that there's a future NIM drag. In fact, if you think about it, quite a few of these regulations have already been adopted. We're effectively on Basel III Tier 1 Common. We're effectively on Basel III SLR. We're effectively on the LCR. We've said we've been in compliance with the NSFR, so just to name four we're fully compliant with. And look at how our NIM has performed, right? Our NIM has actually flat to up some, and that's because we've actively reconfigured our balance sheet to make it workable, right, under the new rules.

And so I think what you've seen us do is adjust debt structure, debt amounts, debt levels, debt ranges. We've adjusted repo books. We've adjusted the type and form of our deposits. And our view is that we can continue to do that, but we have largely done that in such a way that NIM should actually be stable to even up a bit over the coming years.

ROBERT SMALLEY: So if we get a pickup in the overall environment, we get a more favorable interest rate picture, then you'll be able to quickly leverage that. We'll see the impact of that coming through the bottom line without an offset of a lot of other things that you have to do around regulatory regimes.

ERIC ABOAF: Rob, it's Eric. That's correct. We think most of the negative headwinds are behind us, and we've addressed those actually pretty effectively. And we think going forward there's more upside if rates pick up. Obviously, with recent market moves, the question is when and if and so on and so forth. But as we see higher rates, there is upside to the revenue line.

ROBERT SMALLEY: Last one, when we look at TLAC, by most accounts that I've seen and numbers that I've run as well as your own, you don't have a real requirement there for additional debt. Others do, however. In order that you don't get sucked up in an excess of issuance by other parties, are you looking at pre-funding any of this, or how are you looking at that overall?

ERIC ABOAF: Rob, it's Eric. I think from a TLAC standpoint, we kind of need to see how the rules shake out, exactly how stringent they may or may not be. And then obviously, there is going to potentially be for some other players some additional issuances. I think though when we think about it, there is quite a bit of investor focus on diversifying their purchases. And so just because they're going up on some other names doesn't necessarily affect us because they all have limits, so they need to keep diversified. And we also find that there is just quite a bit of demand for benchmark debt in our name relative to what we used to issue. We are issuing half of those amounts relative to pre-crisis levels and see that that demand will continue.

ROBERT SMALLEY: Thanks for answering my numerous questions.

ERIC ABOAF: Our pleasure.

OPERATOR: Your next question comes from the line of John Giordano with Credit Suisse. Please go ahead with your question.

JOHN GIORDANO: Good morning and thank you for having the call.

JOHN GERSPACH: Hi, John.

JOHN GIORDANO: Just a couple of follow-ons to Rob's questions. One, when you talked about your loss-absorbing capacity, I'm wondering if you've – you're showing it on a – sort of a consolidated basis. I know some of the talk has been about identifying major legal entities and deconsolidating. What would your loss-absorption capacity look like if you looked at it that way? Question number one.

ERIC ABOAF: John, it's Eric. Clearly, we have to see some real rules, right, before we can adequately answer that question. Given that, I think the background work that we have done is on a full firm basis but it has to do with the primary entity, right, how much parent company debt that we have, and that's really the first order of priority under TLAC.

The secondary priority that we understand is that, some of the largest individual entities that we have, and obviously we have a handful of entities below the parent, whether it's the bank and some of the dealers and some of the major bank subsidiaries, need a certain amount of cushion as well, and you can imagine we've obviously done the math on how much would they need, would that be particularly significant et cetera. For the time being it doesn't seem like it, the way the rules could be written, and again I'm speculating, right, would have a particularly significant impact on a subsidiary-by-subsidiary basis. But I'm just really talking through on an illustrative basis. We don't see any watch-outs yet though.

JOHN GIORDANO: Okay. So there's a chance that the numbers could be – would need to go up a little bit. And then I guess what would your thought be around what sort of buffer would you run, no matter what the minimum is – and let's just argue it's, at the parent level, 20%, 21%, whatever it might be – what sort of buffer would you expect to run above that?

ERIC ABOAF: To be honest, it's really too early to answer that question. We need to see some rules, we need to see what the rules say, whether the rules specify penalties for falling below. There's lots of things that we need to take a look through, and I think once we get little more clarity – hopefully that will be later this year – we'll give some thought to that question. Maybe we can pick up on that in one of the future calls.

JOHN GIORDANO: Okay, great. And I understand it's still little bit opaque, seems like it's coming pretty soon. In terms of the $6 billion or so that you have to do for the rest of the year, any thoughts in terms of the split between senior, sub?

ERIC ABOAF: Nothing particularly different than what we've done in the past. I think if you go back over the last year, you'll see we've done a mix. I think last year we did a mix. The mix is largely driven by the underlying size of the base of both senior and sub, and so nothing particularly different than the past programs.

JOHN GIORDANO: Okay. And then in terms of preferreds, you would expect to be issuing some preferreds before the end of the year as well?

ERIC ABOAF: Hard to give a quarter-by-quarter forecast. I think we've done $2.2 billion this year, we did closer to $4 billion last year, the year before we did just over $2 billion. So we're kind of in the ballpark of our paced and measured issuance per year, and I think you'll see if we see good opportunities we may continue to go this year or we'll certainly continue through next year and the year beyond.

JOHN GIORDANO: Okay, that's the last of my questions. I appreciate all the detail. Thank you very much for having the call.

ERIC ABOAF: Thanks.

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

PETER KAPP: Thank you, everyone, for joining the call today. If you have follow-up questions, please don't hesitate to reach out to us in Investor Relations. We'll talk to you again next quarter.

OPERATOR: Thank you. This concludes today's conference call. You may now disconnect.