TRANSCRIPT

Citi Fourth Quarter 2014 Fixed Income Investor Review
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Host
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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 Review materials, which are 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 condition may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings including, without limitation, the “Risk Factors” section of our 2013 Form 10-K.

With that, said let me turn it 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 our balance sheet, liquidity profile and capital position and will provide guidance on our current funding plans for 2015. Before I turn it over to Eric, however, I'd like to highlight some key points from our fourth quarter and full year results on slide 2.

Last week, we reported earnings of roughly $350 million for the fourth quarter of 2014, including the impact of $3.5 billion in legal and repositioning costs, which we had previously disclosed. On a full year basis, revenues grew slightly while core operating expenses and credit costs declined. However, higher legal and repositioning costs drove a decline in net earnings to $11.5 billion.

While these legal and repositioning charges had a significant impact on our results for the year, we believe we took important steps to resize our operations and address our legal issues. As we said in December, we believe we put a significant portion of our outstanding legal matters behind us, although, of course, nothing is certain until the matters are resolved.

At the same time, during 2014 we continued to make progress on our key execution priorities. In Consumer Banking, our U.S. franchise performed well, and we showed modest growth in International Consumer even as global economic growth remained uneven. Our institutional businesses performed well throughout the year as we focused on serving core clients. We generated solid revenue growth in Banking, driven by Investment Banking, Treasury and Trade Solutions and the Private Bank. Our Markets businesses were impacted by volatility towards the end of the year and we will continue to take steps to make sure that they are sized correctly for the environment we see going forward. For the first time since its establishment, Citi Holdings was profitable for the full year and we reduced its assets by 16% to below $100 billion. And we utilized $3.1 billion of deferred tax assets.

During the year, we managed our balance sheet carefully, grew our loan book in Citicorp and improved both our net interest revenue and margin from 2013 levels. We continued to reduce funding costs by increasing the quality of our deposits and optimizing our debt outstanding. And our capital, leverage and liquidity ratios each increased over the course of the year.

On slide 3, we show total Citigroup results adjusted for the items noted on the slide. We earned $346 million in the fourth quarter, as our results were impacted by significant legal charges and repositioning costs. Revenues declined by 1% year-over-year, as shown on the slide, but increased 2% on a constant dollar basis while credit costs continued to fall. For full year 2014, we earned $11.5 billion.

Looking ahead to 2015, we remain committed to delivering on our financial targets, including a mid-50s efficiency ratio in Citicorp and a return on assets of at least 90 basis points for Citigroup. We believe these targets can be delivered through a combination of modest revenue growth in our core business, maintaining expense discipline to offset higher regulatory and compliance costs and realizing the cost savings from the actions we took in 2014.

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 both current and expected regulations.

On a reported basis, our total assets declined by $40 billion in the quarter, mainly as a result of the dollar's continued appreciation against foreign currencies, especially the euro, yen and peso. Therefore, to provide more meaningful insights into the trends of our underlying business, we presented this slide and several others in today's presentation on a constant dollar basis.

On this basis, we have held our balance sheet roughly flat below $1.9 trillion over the past five quarters while continuing to optimize both our assets and liabilities and supporting our client activity.

On the assets side of our balance sheet, cash and investments were 27% of our assets, consistent with recent quarters, as we maintained a liquid balance sheet. Net loans were unchanged year-over-year, as 3% growth in Citicorp was offset by continued runoff in Citi Holdings loans. Trading assets and liabilities increased during the second half of 2014 as increased market volatility, particularly in rates and currencies, increased the carrying value of our existing derivative positions. We expect these values to decline in the coming months as these shorter tenured positions run off.

On the liability side, we maintain a diversified, stable and low-cost funding profile. Including the Japan retail bank deposits which were reclassified to held-for-sale during the quarter due to our announced sale agreement, deposits declined 2% as we carefully managed the quality of our deposit base under the LCR, including actively reducing zero-value deposits. Repo decreased 10% from last year as we strengthened our liquidity position and trading liabilities increased, consistent with trading assets.

At the bottom of the page, average assets grew $35 billion sequentially and were greater than ending assets, mostly due to the elevated trading assets that I just mentioned. We expect average assets to decline going into 2015, though foreign exchange rates may influence the balance.

Overall, we continue to actively manage the return profile of our balance sheet, allocating from lower-return assets to higher-return opportunities while serving our clients.

Now turning to slide 5, let me discuss our loan portfolio. In constant dollars, total Citigroup loans decreased 1% year-over-year as 3% growth in Citicorp was offset by continued reductions in Citi Holdings loans. Consumer loans grew 2% year-over-year, driven by 4% growth internationally. Corporate loans grew 4% year-over-year. Traditional corporate lending balances grew 4%, with strong growth in North America, as we supported transaction activity among our core clients. Trade loans decreased 8% as we maintained trade loan origination volumes while reducing lower spread assets and increasing asset sales to optimize returns. And Private Banking and Markets loans increased 16%, led by growth in the North America Private Bank, contributing to revenue growth in that business. Citi Holdings loans decreased 20% year-over-year, mainly due to continued runoff in asset sales in North America Mortgages as well as the sale of our consumer banking operations in Greece and Spain.

As John mentioned in our earnings call last week, on page 28 of the appendix, we have provided information on our corporate credit portfolio, including additional detail on our $60 billion of energy exposures, covering both funded loans and unfunded commitments. Approximately 70% of our exposures are in the U.S., U.K. and Canada. Funded loans for the energy industry amount to approximately $22 billion, or roughly 3% of Citigroup's total loans. And roughly 80% of our energy exposures are rated investment-grade, consistent with our target market strategy and our overall corporate credit exposures. We actively manage this risk in several ways. Loan underwriting decisions are calibrated to a through-the-cycle perspective on commodity prices. Industry limits control our aggregate exposure to the energy industry, and we actively monitor performance and manage net exposures in the event of any credit quality changes.

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 fourth quarter, Global Consumer credit trends remained favorable with net credit losses of 2.33%. In North America, the NCL rate continued to improve to 255 basis points; Asia remained stable with net credit losses of 80 basis points, and in Latin America we recorded roughly $70 million charge-off related to our homebuilder exposure in Mexico, which was entirely offset by related loan-loss reserve release. Excluding this charge-off, the NCL rate in Latin America would have improved to 467 basis points.

Although not shown on this page, credit quality in Citi Holdings also continues to improve with NCLs in the North America mortgage book declining to 130 basis points this quarter. 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 improved slightly to 41 basis points as a charge-off of an exposure in Latin America in the quarter drove a reduction in the non-accrual loans in that region.

Now turning to slide 7, 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. Including the Japan retail bank deposits, on a constant dollar basis total deposits declined 2% year-over-year. Consumer deposits increased 2%, North America consumer deposits increased 1% with a continued focus on growing checking account balances and despite selling or closing over 130 branches in the past year. And international consumer deposits, including the Japan deposits, grew 3%. Corporate deposits increased 1% year-over-year as we saw continued strong deposit growth in North America while we actively reduced lower-quality deposits. Citi Holdings and other deposits have declined year-over-year due to the transfer of MSSB deposits.

On slide 8, we highlight the quality of our deposit franchise. By carefully managing our deposit base to prioritize higher-quality deposits and reduce lower-value deposits, we have improved the liquidity value under the LCR and compressed the size of the balance sheet. Our deposit base is geographically diversified, with approximately 55% of our deposits outside the U.S., as you can see in the left column.

The right side of the page demonstrates the improvement in 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 client served, generally 90% to 97% for retail deposits, 60% to 75% for corporate deposits, and 0% to 75% for financial institutions deposits. Our consumer deposits including retail and commercial banking deposits provided approximately 87% liquidity value consistently over the past year. Our institutional deposits have a 66% liquidity value and have improved steadily, as we have reduced the 100% runoff deposits by nearly $30 billion over the past year. At the bottom of the page, you can see that our total deposits had LCR liquidity value of 73%, trending upwards, driven by the reductions in low LCR value deposits. We will continue to actively manage the quality of our deposit base.

On slide 9, we show the evolution of our net interest revenue and margin. Net interest revenue, in constant dollars, has continued to increase steadily. Our net interest margin improved to 292 basis points in the fourth quarter, reflecting two primary factors. First, we have issued long-term debt at tighter spreads than maturing or repurchased debt. This contributed to a 70 basis point improvement in our cost of long-term debt over the past year. And second, we have driven the cost of deposits down by reducing customer rates paid on deposits, mindful of both the regulatory value of the deposits and local market conditions.

Looking to the first half of 2015, we expect our net interest margin to remain more or less flat to full-year 2014 levels. As you can see in our appendix, slide 36, we continue to expect a NIM benefit from a rising rate environment. We estimate that a 100-basis point parallel rate shock would increase our net interest revenue by $1.8 billion over the first year, for a NIM benefit of 11 basis points, similar to recent quarters. Our exposures remain concentrated in the shorter end of the curve, so that we would not expect material impact from the continued decline in long-term rates that we have recently seen.

On slide 10, let me cover our long-term debt, which is the primary source of funding for our parent company and our broker-dealers, and is a valuable liquidity management and supplementary funding tool for our banking subsidiaries. During 2014, our total long-term debt was broadly stable as we worked to optimize our liquidity position, manage funding costs, and position for current regulatory requirements. We increased our bank-level debt to strengthen our liquidity position and comply with the U.S. LCR rules. We continued to securitize credit card receivables, and we increased our long-term FHLB advances to extend the term structure of the bank-level funding at attractive funding costs. Parent company debt decreased slightly during the year, and we continued to refinance high-cost debt with new issuances at lower coupons. In 2015, we expect parent company debt to increase slightly and bank-level debt to decline as we position for likely TLAC requirements.

Moving to slide 11, we cover the bank's recent securitizations activity and our issuance plans for 2015. Our securitization activity has helped us diversify the bank's funding sources and optimize the firm's liquidity position at cost-effective pricing levels. In 2014, we issued $14 billion of securitizations, primarily backed by Citi-branded credit cards. In 2015, we expect to issue $5 billion to $10 billion in the securitization market, continuing to support this important funding program while also considering the impact of TLAC requirements on our funding strategy, which I will come to in a moment.

Slide 12 details our debt issuance and liability management activity at our parent company. During 2014, we issued $21 billion of benchmarked debt and $11 billion of structured notes. Maturities for the year were $29 billion, and we redeemed $10 billion of debt through tenders and other early redemptions, resulting in net redemptions of $3 billion. Our issuance during 2014 was diversified as we maintained an active benchmark curve in dollars and we expanded our non-dollar debt to nearly a third of total issuance across a range of tenors. Our $10 billion of liability management activity in 2014 helped us maintain liquid and efficiently priced benchmark curves while managing our overall funding costs.

For 2015, we expect maturities of $17 billion. We also expect to continue to opportunistically repurchase outstanding debt, consistent with past practice, of approximately $12 billion for the year. And we expect to issue $20 billion to $25 billion of benchmarked debt in 2015 and approximately $10 billion of customer-related debt, resulting in net issuance in the range of $0 billion to $5 billion for the year.

Shown on the bottom of this page, in 2014, we issued approximately $4 billion of preferred stock, consistent with 2013 issuance levels, bringing our Additional Tier 1 capital to approximately 90 basis points of risk-weighted assets. We expect to issue approximately $4 billion of preferred stock again in 2015 as we continue to prepare for full implementation of capital requirements in 2019.

In November, the FSB released a consultative document for total loss absorbing capacity, or TLAC. While the document helps resolve some questions, many uncertainties remain and we are awaiting formal U.S. guidance. On slide 13, we update our estimate of total loss absorbing capacity which totals $264 billion. The discussion around total loss absorbing capacity continues to focus on a few questions: What qualifies as loss absorbing? How much loss absorbing capacity will be required? Against what denominator – risk-weighted assets, total leverage assets or something else – is it measured? And which entities are subject to bail-in requirements?

Consistent with our prior estimate, under the FSB's proposal, the primary components of TLAC include Common Equity Tier 1 capital, preferred stock, unsecured parent issued senior and subordinated debt with at least a year remaining until maturity, and a small portion of our customer-related debt. By contrast, debt issued by operating subsidiaries and secured debt will likely not qualify as TLAC. Additionally, certain structural features of structured notes are viewed unfavorably. We are working with industry groups to evaluate ways of improving the eligibility of these instruments.

As of quarter-end, we estimate Citigroup's loss absorbing capacity to be $264 billion or a bit more than 20% of our risk-weighted assets, and 10.6% of our total leverage exposure. All of our estimates and expectations at this point are just that, given that we do not yet have a formal proposal from the U.S. regulators.

On slide 14 we provide some context for our loss absorbing capacity relative to the potential FSB requirements. Our estimated TLAC of $264 billion represents just over 20% of risk-weighted assets as compared to the FSB's potential requirement of 20.5% to 24.5%. This range is based on the FSB's requirement of 16% to 20% to which we add the capital conservation buffer of 2.5% and our international GSIB surcharge of 2%.

As TLAC rules become clear, we expect to meet our requirements through an optimization of our regulatory capital position and our funding strategy. First, between now and 2019, we will continue to issue preferred stock and subordinated debt to satisfy our regulatory capital needs, providing roughly $15 billion to $20 billion of additional TLAC over the next four years, as we have previously communicated.

Second, as certain aspects of the rules are clarified, we may also be able to adjust the terms of our structured note issuance, allowing us to continue to serve our customers' needs without increasing our net issuance or funding costs with as much as $20 billion of benefit over the next four years.

And third, if we need additional loss absorbing capacity, we can increase our issuance of TLAC eligible senior debt and reduce our outstanding securitizations, FHLB advances and repo. The incremental cost of this issuance is marginal, driven by the spread differential between our parent company's senior debt and the funding we replace, not the full cost of the debt issued. As a result, we believe that we have a number of avenues to manage the costs of meeting potential TLAC requirements.

The Fed released an NPR for the U.S. version of the GSIB surcharge in December. On slide 15, we highlight the key features of the proposal and the drivers of the surcharge calculation. The U.S. NPR builds upon the international GSIB framework, but includes several features that make it more stringent than those standards. Most notably, the Fed's Method 2 proposal retains four of the five systemic indicator scores under the international approach, but doubles them to determine the surcharge. It then adds a short-term wholesale funding indicator, which is unique to the U.S. proposal. This last indicator was expected to increase capital requirements for firms heavily reliant on repo financing to reduce systemic risk from fire sales. Instead, however, it heavily penalizes non-operating deposits and is relatively lenient towards repo funding. Under the LCR rules, these non-operating deposits are effectively placed as cash at the Fed today, therefore presenting no fire sale risk to either the institution or the financial system.

The obvious question is: how much can banks manage their GSIB surcharge, which relates to some 64 individual line items across the five broad indicators. Some elements of the NPR are well-coordinated with other regulations, so our ongoing efforts to actively manage our LCR and SLR drivers, for example, should complement our responses to the GSIB rules. For example, non-operating deposits are discouraged under the LCR, and the SLR already encourages a smaller balance sheet, incentives consistent with lower scores under the size and interconnectedness indicators. However, other elements of the proposal are incompatible with current regulations and therefore harder to manage. The interconnectedness indicator, as an example, includes the long-term debt we use to safely fund the firm.

While we believe the GSIB surcharge was intended to provide incentives to reduce size and complexity, it is difficult for a bank to impact directly the surcharge calculation because there are additional factors outside management's control. The proportionality of the calculation means that the impact of any one institution's actions on its surcharge also depends on the collective actions of the other 74 GSIBs. Furthermore, since the aggregate market indicators are denominated in euros, U.S. institutions are disadvantaged when the dollar strengthens as their dollar-denominated balance sheet translates into a larger relative proportion of the other 74 GSIBs. In light of the recent strength of the dollar, we would currently expect a 4% GSIB surcharge under these proposed U.S. rules.

Turning to slide 16, let me summarize our capital position, which remains among the strongest in the industry. During the quarter, our Common Equity Tier 1 capital ratio declined approximately 20 basis points to 10.5%, driven by a pension-related reduction in OCI and an increase in operational risk RWA. Foreign exchange movements had virtually no impact on our Common Equity Tier 1 ratio during the quarter. Under the Standardized Approach, our Common Equity Tier 1 ratio remained stable at 11.1%. And our supplementary leverage ratio and total leverage exposure were both flat to the prior quarter. Citigroup's SLR was 6% and Citibank's estimated SLR remained in excess of 6% as well.

Turning to slide 17, I'd like to update you on our liquidity profile. We currently estimate that our LCR under the U.S. rules is 112%, in excess of the 100% minimum requirement and up 1 percentage point from last quarter, primarily driven by deposit flows and improvements in the quality of our deposit base. Factored in to the 112% LCR, we have $413 billion of HQLA, predominantly consisting of cash and sovereign debt with only 14% of HQLA categorized as Level 2 assets. In addition to the LCR, we continue to assess the impact of the Basel Committee standards regarding the net stable funding ratio, the NSFR, which measures our liquidity under a 12-month stress scenario. The Basel Committee released its final rules in the fourth quarter, which better align the NSFR and the LCR rules in several important ways. Based on what we know today, we believe we are in compliance with the international NSFR. We expect a proposed rule from the U.S. regulators in 2015.

Moving to our last slide, let me summarize four major points.

First, we saw momentum across our businesses in 2014, notwithstanding a challenging macroeconomic and market environment. We saw continued progress on a number of our execution priorities including continued utilization of our DTA and a profitable year for Citi Holdings as well as further repositioning and strategic actions to streamline our franchise.

Second, we actively managed our balance sheet, maintaining total assets below $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 credit portfolios.

Third, our deposit base remains a key strength as we continue to prioritize our high-quality deposits. Our 2015 issuance plans are designed to support our operations and position us to adapt to regulatory changes. And lastly, we have continued to actively manage our balance sheet. Our capital and liquidity remain strong.

This 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 James Ellman with Ascend Capital. Please go ahead with your question.

JAMES ELLMAN: Yes, I was hoping you could give us a little more information regarding the impact of oil's fall on the balance sheet. First of all, in terms of the CCAR stress test, will the Fed be asking you to stress oil prices down from $46 to something lower and its impact on your balance sheet?

JOHN GERSPACH: Hi, it's John. We've had no indication from the Fed at this point that they are looking to change the parameters that were already issued for CCAR.

JAMES ELLMAN: Okay. But in general – tell me if I'm wrong please – but as I understand it the Fed will take wherever prices are at the beginning of the CCAR process and ask you to stress those prices and see what happens to your balance sheet and P&L, correct?

ERIC ABOAF: Jim, it's Eric. I think the Fed routinely evolves their stress test as part of CCAR. They do it at the annual CCAR; they do it at the mid-cycle. They obviously look at current prices of commodities, of equities, of rates and you've seen that they have over the last couple of years adjusted their stress test in various ways, and so it's hard to predict what they'll do. It's not out of the question that they will touch on the current economic environment and evolve their stress test accordingly.

JOHN GERSPACH: I think more importantly is the fact that we continuously stress our own balance sheet to take a look at a variety of different changes including the impact of lower oil. So that's something that we just embed in our normal risk management processes.

JAMES ELLMAN: Okay. Very good. And in addition to just the detail you gave us on energy exposure on the balance sheet today, mostly North American related and investment-grade, could you just help us understand looking at the loans on the balance sheet, how has fallen oil or how will falling oil and other commodity prices affect your loans in exporting-oriented emerging market countries? And then on the other hand, I would imagine there is some benefit to you from falling oil on your consumer book, both credit card and other -if you could help us think about how we should frame that thought process. Thank you.

ERIC ABOAF: Yeah, it's Eric. I think clearly we have a set of changes in the global economy with the fall of oil prices, and I think you yourself have actually framed it reasonably well where you have energy and oil exporters who will have lower exports as prices fall. They may have to adjust some of their economic policies, and obviously GDP growth and thus borrowing demand for lending in those markets is likely to slow, in particular on the corporate side but even potentially on the consumer side, and that's no real surprise. We've obviously seen swings in the oil-exporting economies.

I think the other part of that that I think you hinted at yourself is that whether it's Europe as an importer of oil, or the U.S. where oil prices actually factor into discretionary consumer spending, lower oil prices tend to encourage and allow consumers to spend in other areas, and that can have positive benefits for the economy. The question will be whether, as that runs through the economy, whether consumers choose to borrow a little more or not, but we see it on the margin as positive for the developed economies. And thus, if that's the case, we will likely see perhaps a tiny bit, a little bit more borrowing, but it's very hard to predict one way or the other. And obviously, consumers with ability to service their existing loan book, and so it should not change credit quality much.

JAMES ELLMAN: Right. One last quick question, and thank you for the time. I just wanted to get an idea that, as the U.S. dollar has been strengthening and potentially continues to strengthen against many of the other currencies and countries where you do business, shouldn't we expect to see your capital ratios improve as your balance sheet in dollar shrinks? And then also, is there an impact on the P&L? Thank you.

ERIC ABOAF: It's Eric again. The answer is, there's no impact on the P&L, because in effect, the earnings are translated and we're reasonably and naturally hedged. On the capital side, think about it this way, we operate with capital in foreign jurisdictions and risk-weighted assets in foreign jurisdictions, and so we have a natural offset as the dollar either strengthens or weakens in our cap –that effectively stabilizes our capital ratio.

To the extent that we have either a little more or a little less capital in a particular jurisdiction, that we offset with vanilla foreign exchange hedges, so that we can insulate those capital movements. And as such, you can see that our capital ratios, driven by currency swings, have stayed almost flat relative to any real measure. We actually have on page 35, you see a good summary of that. You see the foreign exchange currency translation, which is the net effect of currency movements in our capital ratios, and you see we run our capital ratios within a couple basis points, even with these quite substantial swings in the dollar that we've seen over the last few quarters.

JAMES ELLMAN: Very good. Thanks again so much.

JOHN GERSPACH: Our pleasure.

OPERATOR: Your next question comes from the line of David Knutson with Legal & General. Please go ahead with your question.

DAVID KNUTSON: Hi. Good morning. I wanted to follow up on one of the earlier questions, and that's in regards to your emerging market risk exposures. In your slide deck, you break it down between consumer and corporate. And I guess, when you think about the different regions, it looks like maybe Latin America, Brazil and Mexico specifically, are probably a little bit weaker. How will your franchises, specifically the consumer franchise and then the corporate franchise – what are your expectations? Will we see weakness first in the consumer or maybe in the corporate, depending on how your exposure – what are your thoughts going forward, given that those two economies do have a fairly high reliance on oil revenues for their budgets?

ERIC ABOAF: David, it's Eric. I think the recent context, the last few years is actually helpful. We've not been living in a particularly high-growth or particularly buoyant environment. And so as a result, I think, what you see is that economies have been fairly stable. And so I don't think that this particular change is out of the ordinary of what we've seen over the last few years. We've seen quite modest growth and this kind of throws another twist in that equation. If you kind of want to play it out, I think it's easier to describe the global economy, not from an emerging market versus developed economy standpoint but from oil exporters versus non-oil exporters because I think that is where there may be a little more change in growth rates. And as I mentioned, that will likely put a bit more stress on corporate exposures to the energy industry and tend to either be neutral or positive for consumer lending folks.

OPERATOR: Your next question comes from the line of Ryan O'Connell with Morgan Stanley. Please go ahead with your question.

RYAN O'CONNELL: Thanks very much. First, just to follow up on the remarks on TLAC, which were very, very helpful; I think what you said, Eric, is that based on what's going on with the dollar et cetera, et cetera, you're now expecting that the GSIB surcharge would more likely be 4% rather than 2%. So if I heard that right, then we should really be thinking of a range of about 22.5% to 26.5%, right?

ERIC ABOAF: Ryan, it's Eric. That is correct. In the GSIB area, the international rules were set at a certain level, the U.S. rules effectively double that, and that puts us in the 4% range on GSIB. I think the question on TLAC is that for now all we have is an FSB, the Financial Stability Board document. It's quite an outline, and it's a bit unclear how that outline will evolve, how the U.S. versus international GSIB may factor in. And so I think you've mentioned one potential scenario, but I think there's a number of scenarios that are possible for TLAC as we go forward. And part of what we're trying to do here on the page in discussion is just lay out that we have a set of natural tailwinds to help us conform to certain levels of TLAC within this range, but also have tools at our disposal that aren't particularly expensive to adapt, if necessary.

RYAN O'CONNELL: Understood, and it's a very helpful layout. If I could, just, in your footnote one, what you say is that – let's say there is a 100 basis point increase, so that would be debt. Okay. That's pretty clear. And then further increases beyond the first 100 basis points would be expected with Common Equity Tier 1, so I guess maybe you could expand on that a little bit.

ERIC ABOAF: Yeah, it's Eric again. I think as you know, under the current GSIB rules we run at – we have a 9% requirement. With a buffer we run at 9.5%, or we would need to run at 9.5%. Because we already run at 10.5% as of this last quarter, we have 100 basis points there that is satisfying TLAC rules. To the extent that the GSIB just moves from 2% to 3% and we have the equity necessary, then the natural add or requirement to TLAC would effectively be 100 basis points of debt, and so that kind of flows through naturally. Any GSIB requirement over and above what might be 3% now to potentially, say, 4%, would then naturally require us to add capital to the balance sheet or retain more capital on the balance sheet of about 100 basis points, and that would directly support TLAC, and so that in a way would be the way it would factor through.

RYAN O'CONNELL: Sure. And then one last one, and apologies in advance, but just as you look at the various TLAC needs, I think what you're saying here is, let's take the senior debt for example, incremental senior debt $10 billion to $25 billion, but that's over the span of the next four years, right? That's not per year? That's over the span of the next four years in the aggregate?

ERIC ABOAF: Ryan, that's exactly right. The range here we laid out just to give you all a way to model this, $10 billion to $25 billion over the course of four years is, what, $3 billion to $6 billion per year? Right? You know that we issue typically $20 billion to $25 billion of benchmark debt per year. You know that in the past, we and other large banks have issued $30 billion, $40 billion, $50 billion of debt per year, so we know there's enormous demand in the marketplace for our debt and adding something like $3 billion to $6 billion per year on a base of $20 billion to $25 billion, while it is more, we don't think is a big – would be a particularly big change.

I think the other context is that as you know as we issue debt, we have order books that tend to be oversubscribed by a factor of 3, 4, or 5 times, which gives you a sense for the depth of the market that we have access to. So like you said, it's kind of $3 billion to $6 billion as we've modeled out per year and something that we think that while it's not zero could be easily absorbed in the marketplace.

RYAN O'CONNELL: Okay. Great. Thanks very much, Eric.

OPERATOR: Your next 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 putting together this deck. It's very informative; thanks John and Eric and Peter. Couple of questions on slide 28, and then one question or two questions to follow up on TLAC, if that's all right.

JOHN GERPSACH: Sure.

ROBERT SMALLEY: Do you have any breakdown – I'm looking down in the lower left-hand box – do you have any breakdown of midstream and downstream exposures? I see that you have E&P here. Do you break it down that way as well?

JOHN GERPSACH: No, that – this is John. E&P is about as far as we're breaking it down right now but maybe I could help you with some other question that you've got.

ROBERT SMALLEY: Okay. Well, then let me just stick with this box here. The second line item, the $14.7 billion, I'm assuming that's independent drillers, technology, services, et cetera?

JOHN GERPSACH: Yes.

ROBERT SMALLEY: Okay. So that's probably where the industry is going to see problems first, as we have a lot of new and highly levered companies there. Can you give us an idea of how much of this $14.7 billion has been classified or in any way categorized as non-performing or troubled at this point?

JOHN GERPSACH: Actually, most people have focused more on the E&P type of companies.

ROBERT SMALLEY: Right.

JOHN GERPSACH: Now the phrase that you often sometimes hear is "closer to the drill bit."

ROBERT SMALLEY: Right.

JOHN GERPSACH: And that would actually be in the top line that you're looking at which is the $6.5 billion and the $18.2 billion. So I want to make sure that I'm being responsive to your concern, but I want to make sure that I understand where your concern is directed.

ROBERT SMALLEY: Sure. Well, my concern is more with some of the smaller and mid-sized companies that may go – that may not necessarily be first order, but those that could fall away pretty quickly due to lower demand.

JOHN GERPSACH: That would actually be more in the top line then.

ROBERT SMALLEY: Okay.

JOHN GERPSACH: We're looking at the $6.5 billion and the $18.2 billion. So there when we take a look at our exposures to E&P companies as a group, they're also predominantly investment grade at over 80% and with the funded exposures to the E&P companies at about 75% investment-grade. So again, very heavily weighted towards investment grade. And when we do lend to non-investment grade E&P companies, we tend to do so under a reserve-based lending structure which allows us then to adjust the borrowing base on a periodic basis.

ROBERT SMALLEY: Right. And my understanding is that borrowing base for a lot of this will be recalculated in the spring around April or so?

JOHN GERPSACH: I don't have an exact date in mind. It's usually every six months or so, that it gets recalibrated.

ROBERT SMALLEY: But from your comments earlier, you look through that and you don't wait for that recalculation. You're doing your own work and seeing where that comes out long before the companies themselves recalculate the borrowing base?

JOHN GERPSACH: Absolutely.

ROBERT SMALLEY: Okay. One other question, commodity-related. Do you break out your mining exposure at all, coal, copper, et cetera?

JOHN GERPSACH: No.

ROBERT SMALLEY: Okay. And then I just want to follow up on Ryan's question on TLAC, understanding that your amount of debt, that incremental debt that you have to issue isn't really that much given market access and what you have outstanding, but you won't be issuing this debt in a vacuum. You'll have competitors who will be doing the same thing, and in a few cases they'll be required to do much more than you. What's your strategy in terms of issuance? Are you going to try to front-load some of this in order not to push up funding cost as a result of industry-wide supply? And do you factor the rest of the industry in when you look at your funding costs for the incremental debt in the out years?

ERIC ABOAF: Rob, it's Eric. Fair questions. I think we're going to be deliberate here on TLAC, in the sense that this is an international proposal. There isn't any U.S. guidance on that, hopefully we'll get some in the first half of this year. And I think we need to know more about what the rule's going to look like before we jump in and adapt. Obviously, we have a history of adapting, but we need to see more of the rules. I think secondly, you're going to see us adapt in a paced manner, because adding a lot of debt upfront and then just keeping it stable before we need it is expensive. Not because of the marginal cost of debt, but because you've got more debt outstanding.

ROBERT SMALLEY: Right.

ERIC ABOAF: And you've seen in the earlier slides on preferreds, we know what we need to do on preferreds, but we've been deliberate, we've been paced, we've been issuing $1 billion a quarter, and have obviously been able to do that at nice rates and without flooding the market. I think we'd expect to do that because probably we want to keep our costs of funding as low as possible, and we also don't want to disrupt holders of our debt who are – who've got positions, who want it to trade well in the secondary market.

I think the third part of it is, while there may be some uptick in industry issuance, we know that there are some GSIBs out there and large banks who are – because of their natural balance sheet structure, have enough TLAC debt, and so there's a group that won't be issuing any more. I think that's something to factor in. There will certainly be some that will be issuing. But when we talk to our investors, they tend to have not only aggregate limits for FI debt, but also single name limits, and we think that that diversification that they're looking for will suit us and will actually play to our advantage, in the sense that they really will compare us against what their capacity might be in our particular name. And we think as a result, it'll be more of a comparison as we describe, the potentially $3 billion to $6 billion per year, but off of a base that we already issue of $20 billion to $25 billion.

ROBERT SMALLEY: That's great. And, again, thanks for all the information here.

ERIC ABOAF: It's our pleasure.

OPERATOR: Your next question comes from the line of David Jiang with Prudential. Please go ahead with your question.

DAVID JIANG: Hi. My question is on TLAC. Eric, on page 14 where you break out the three different types of TLAC needs, the customer-related debt re-issuance, how do you plan to achieve that? Is it basically issuing vanilla benchmark debt to replace the customer-related structured notes, or is there something you can do to transform the customer-related notes into eligible TLAC?

ERIC ABOAF: David, it's Eric. It's more likely to be the latter because that's the area we want to explore. The very initial TLAC proposal, again from the FSB, it's not a detailed rule. It's really more of an outline than a detailed rule, effectively disallows any debt with any structural features. So any debt that might have a – that may parallel or have some reference to an equity index or a rates index or an FX index, is automatically disallowed. We find that surprising to be honest in the sense that that is good debt, it has a term structure, oftentimes of three, four, five years. And in our discussions with industry groups and with various supervisors, what we've learned from them is they have some openness to explore this and to consider certain types of customer debt or structured notes.

And part of the reason we think they have an incentive to do that is they'd like us to diversify our funding, to diversifying between benchmark notes to typically institutional investors and then structured notes that typically go to high net worth is a way for them and for us to ensure the diversification in our funding. As a result, what we're doing is we're working through with them and through the industry groups, what is it about structured notes? Is it about – is it potentially, for example, about the difficulty in valuing the structured component of the note at the time of bail-in? If that's the case, as an example, can we structure around that? For example, can we just have a knockout feature where the note reverts to par at any bail-in situation? That's the kind of adjustment we could make in our structured notes, we and others in the industry could make, and the kind of adapting that we would look to accomplish.

DAVID JIANG: Do you think these changes would diminish the capacity of that channel? The ability to issue this size?

ERIC ABOAF: It may on the margin, but on the other hand, this is a pretty robust channel through a series of institutions, high net worth. It's broad-based between the U.S. and internationally. It's a sophisticated set of investors who would naturally understand what a knockout feature is or a back to par feature. It's kind of the simplest of turning this to be a little more vanilla, and we can imagine that that is actually something that we could transition to fairly easily. But let me just remind you, we're speculating here. We don't know how the rules will be written. For all we know, the rules will say structured notes, because they provide diversification for large-sized and medium-sized firms, would be included under the U.S. rules. We're just trying to work through it, and so you've got some of our early thoughts here.

DAVID JIANG: And then lastly, given that the other lever to pull is the Basel III RWA denominator in figuring out TLAC, on page 29, I think there's about 14% of the total RWA is in Citi Holdings, and that's been shrinking consistently over the last few years. What can we expect that number to go down to in the 2018 timeframe when you calculate the TLAC number?

ERIC ABOAF: David, clearly RWA will be important and how it evolves, whether it's TLAC or capital ratios or leverage ratios, it's going to be an important factor. I think what you've seen us try to do is run with relatively flat RWA over the past. Although we've had some upticks for a bit of operational risk. We think we've got a good bit of that behind us or all of that behind us to be fair. We have some tailwinds in that holdings will reduce our RWAs over time as we sell and it matures out, so that's a benefit. And then we'll have some natural growth in our client activity, and I think what we'd like to see, at least for now – I'm not going to forecast out four or five years – but we'd like to run RWA as flattish and clearly, time will tell. It'll depend on how the economy picks up, how borrowing demand picks up, how inventories change, but I don't think we're expecting we can really predict that far out. I think for the immediate future, seeing RWA as flattish is probably a good construct.

DAVID JIANG: Gotcha. And then, sorry, one last thing. Have you thought about how you plan to issue vanilla benchmark debt in terms of your average duration? Because given that, if you can extend your durations, you can have less debt coming due each year, which obviously doesn't count as TLAC, especially when you're looking out to 2018. Is that something you would consider?

ERIC ABOAF: David, it's Eric. It's something we're obviously exploring. You know we run at good durations here. Seven years is our average WAM. We've been issuing with a WAM of that level which if you think about it in the simplest terms, if we issue five years and 10 years that averages out to 7.5 years. If we issue five years and 10 years which are the core of our issuance, that actually gets us into 2019, and into the TLAC value window, even with issuances this year. So there is a natural way we can fill up TLAC with the current issuances.

Would we try to lengthen out the WAM? We're always doing a little bit of analysis on, is the cost of the credit curve worth some other benefit? And I think you can imagine we'll continue to do that. I think for now, we feel pretty comfortable with our WAM that we have of about seven years. We think it gives us a good balance between cost, liquidity, which is obviously critical, and these new rules and are likely to stay in that range.

DAVID JIANG: Great. Thank you.

OPERATOR: Next question comes from the line of John McDonald with Bernstein. Please go ahead with your question.

JOHN MCDONALD: Hi. Good morning, guys. Thanks, this is very helpful for the equity guys as well. John, just kind of a separate comment on a different topic: a number of banks have commented about the impact of the shock to the FX markets after the Swiss National Bank currency decision, and there were some press reports indicating that Citi may have lost some money. Just wondering, do you have any appetite to comment on that, al those stories, just either specifically on those numbers or just generally in terms of the impact of that event on your FX business?

JOHN GERSPACH: Yeah. John, obviously last week's move by the Swiss central bank was unanticipated, and as a result, we did see an unusually large move in the value of the franc in a very short period of time. It's not unusual that our role as market maker to support our clients. We did have some positions, and I'd say that we did experience a modest loss.

JOHN MCDONALD: Okay. But manageable in the context of –

JOHN GERSPACH: Overall, though, since that event, we've seen good activity levels from our customers in the FX markets, and we're going to continue to work closely with our clients to help them manage their currency needs.

JOHN MCDONALD: Okay. Eric, thanks for that helpful teach-in on TLAC and the GSIB proposal from the U.S. A quick follow-up on that. On the GSIB and your estimate of the 4% surcharge, that seems higher than what was implied by the Fed's summary comments that all but one bank are currently above their minimums. I guess there's lots of reasons where your numbers could be different than what the Fed – and the Fed, of course, didn't tell us their numbers. But could some of that difference be attributable to the FX issue that you described or to asset growth since they ran their numbers and you run yours? Just any idea why your number might be a little higher than what was at least implied by their comments?

JOHN GERSPACH: Well, John, it's John. When you take a look at the significant move of the euro versus the dollar, the dollar is strengthening against the euro. That is driving a lot of things.

JOHN MCDONALD: Yeah.

JOHN GERSPACH: It's a key determinant of the whole GSIB methodology and one that is very, very difficult to control. When you look at what the Fed did, the relative nature of the proportional approach that was embedded in the original FSB calculation already caused many to consider it to be a somewhat flawed methodology. As such, it was curious that the Fed in proposing a new surcharge for U.S. banks, that they would choose to in effect double down on an arguably flawed methodology, especially one that would cause a U.S. bank's surcharge to increase merely because of the dollar strengthening. In some ways, the ECB's quantitative easing program probably added 50 basis points to every U.S. Bank's GSIB surcharge.

JOHN MCDONALD: Okay. Got it. That's helpful perspective. And one last follow-up and John, this one's for you as well, understanding that your goal of efficiency improvement for Citicorp in 2015 implies positive operating leverage for 2015 and also understanding that how your expenses actually come out will depend on revenues, what are some of the expense levers or tailwinds that you have to lean on in Citicorp for 2015, in terms of reducing the core expenses relative to the core operating expense that we saw in fourth quarter, if we looked at that as the exit rate? On the core operating expense, what kind of levers or tailwinds you have to lean on this year, depending on where revenues shake out?

JOHN GERSPACH: Well, John, a lot of it is already embedded in the – in just making sure that we get the full results of all the actions that we took throughout 2014. We took a sizable amount of repositioning charges last year, including a sizable charge in the fourth quarter itself. Those expense reductions will manifest themselves during the four quarters of 2015, and we think that that in and of itself gives us a good deal of tailwind. Beyond that, we've obviously got the ability then to – if revenues are lagging, we have investments that are baked into our 2015 budgets that we will cut back on. There are additional recapacitization actions that we can take. So we think that we've got several levers that we can pull on, but a lot of those levers have already been pulled because we're going to deliver on making sure that the repositioning savings come through in 2015.

JOHN MCDONALD: Okay. So just to understand it, if we're looking at the fourth quarter exit rate, relative to that, there's still some savings to come that's not in the fourth quarter run rate. Correct?

JOHN GERSPACH: Absolutely. As a matter of fact, I think – I don't have the – exactly what the comments were during the call. But as we indicated, we've delivered about $2.7 billion, of savings – of the full amount of savings for the repositioning actions that we've taken. We expect those repositioning actions to actually deliver about $3.4 billion. So we've got an additional $700 million of annual savings that are not reflected in that fourth quarter run rate. Now I'm not going to be able to deliver all $700 million in the first quarter, but that $700 million will be delivered during the course of the year. And so that again should give us some good movement going forward.

JOHN MCDONALD: Got it. So that's incremental to the fourth quarter. And then just one final. There also were some one-timers in that fourth quarter number as well, right? So that should help relative to the kind of printed fourth quarter number?

JOHN GERSPACH: Correct. I mean, what we said was with the additional – we had about a $200 million core operating expense increase over the third quarter. And we said about three-quarters of that was either one-time in nature or already contemplated in our 2015 expense base.

JOHN MCDONALD: Got it. Okay. Thanks very much.

JOHN GERSPACH: Okay, John.

OPERATOR: Your next question comes from the line of Scott Cavanagh with APG. Please go ahead with your question.

SCOTT CAVANAGH: Good afternoon, guys, and I appreciate the Fixed Income presentation. It's very important, and I want to recognize that you guys are the leaders for the disclosure and hopefully will be mirrored by the rest of your peers, the money centers. So first question, looking at TLAC issuance, another dive into this. When I think about the refinancing of the client, the structured notes, should we be looking at more of a run rate of around just under $12 billion versus $6 billion, if we just assume it's all issued in unsecured issuance, plain vanilla?

ERIC ABOAF: Scott, it's Eric. No, I think for now we should keep those categories as separate because it's hard for us to imagine, at least to start with, that structured notes are going to be effectively outlawed by a TLAC requirement. But as I mentioned before, they provide real diversification to funding for banks, they provide offerings for investors, they help some investors actually invest or hedge their positions. So I think for the time being, I think we probably should expect that some component of the customer-related or structured notes will count. I think the – we've given you a range, we have outstanding about $28 billion. How much of that could count? Right now, on a simplistic basis, it's $4 billion, but could it be $14 billion or $24 billion? Could be, and that's – we want to see a little more as that comes out.

SCOTT CAVANAGH: Okay. Then when we think about the timing of the NPR and the impact from the potential rating agency methodology changes, how should we be thinking about that in terms of, A, timing? Is there a duration component, so not overweighting the shorter-duration securities? And then how the rating agency methodology changes will actually impact?

ERIC ABOAF: Let me take that from the end of the question that you asked, Scott. The rating agencies have actually to their credit been in front of this question of bail-in debt at the parent versus operating company debt. They have evolved their rating systems. I think every one of the three agencies have cut over to a process where they think about debt as open to bail-in. They have tiered their ratings accordingly. They have been quite public in that. And so I think there isn't much more to come from there that is going to impact investors from the rating agencies. I think the rating agencies have actually been leaders in this area and they have properly sensed the evolution of the government and regulatory practices here.

So I think there isn't much on that front that will change the equation. And as such, the real question will be how the U.S. begins to develop a set of rules for TLAC. They're clearly going to put a set of rules out there, we expect, in the first half of the year. So there'll be proposed rules open for comments. So clearly, we're giving them some – through the industry associations, the industry is providing some initial feedback on the FSB rules to the Fed and our other supervisors in the U.S. And again, post the proposed rule, we'll do that again. So again, more to come on this one probably.

SCOTT CAVANAGH: Okay. If I could sneak in one more question switching to the energy. When I look at the E&P bucket and look at the funded versus the total exposure, is this included – when I think about the bucket of companies that you provide services to, is this – how do I think about on a size basis, is this like an Exxon type of size or is this a very small bucket type of company? When I think about the exposures there, I mean, there's some you very helpfully put out that vast majority is investment-grade, but that probably won't be for long that so many are investment-grade. How do we think about it from that perspective?

JOHN GERSPACH: It's John. The companies that would be included in that first line are of a variety of sizes. And so I can't give you a specific, but there are some that are medium and some that are large and some that you might consider small, but again 80% of the exposure is investment-grade. We do look at it on a constant basis and it's something that we are very, very closely monitoring.

SCOTT CAVANAGH: Thank you very much for your time and for doing this call. Greatly appreciate it.

JOHN GERSPACH: Okay.

ERIC ABOAF: Thank you, Scott.

OPERATOR: Your next question comes from the line of Mark Kehoe with Goldman Sachs Asset Management. Please go ahead with your question.

MARK KEHOE: Hi. Good morning. Just one more last question on TLAC. Just in terms of the $3 billion to $6 billion of additional annual debt issuance, do you think you would more likely to do larger chunkier deals or be a larger kind of more frequent issuer? And then kind of the related question is, do you think regulators will mandate the language to be included within the prospectuses of this bail-innable debt noting the fact that bondholders may be written down in the event of an adverse outcome?

ERIC ABOAF: Mark, it's Eric. We'll have to see what regulators specify. I think for now, I think they have been clear in their public statements that debt is subject to bail-in. That's how the Dodd-Frank rules are written in the law and it's not clear all that indentures need to change other than the obvious risk factors that we have in indentures that already capture a variety of different outcomes. I think rating agencies, as was just mentioned, have been quite clear on this. So we don't see a potential need to change or specify specific indentures in debt. And I think you all as investors obviously know that in the worst case that can be bailed in. And that's part of the new financial system and that's there for a reason and that will protect the taxpayer and the system as a result.

In terms of how we might adjust our issuances and we've been talking about potentially, and this is all potentially and subject to change, $2 billion, $3 billion, to $6 billion per year over and above $20 billion to $25 billion program that we have today. I think you'd see us continue to do it in the way that we have done – in a paced manner, I think was the first observation I'd make. In a disciplined manner, you've seen us do a number of deals that are in the $1 billion, $1.5 billion range. We like that because we can connect directly with investors, we can satisfy their needs of either currency or tenor. And we think it actually – doing deals of that size gives us good discipline on pricing, which obviously you know is important to us as we manage the balance sheet and to our equity owners. So I think you'll see us continue to be disciplined. We've got a good reputation of doing that. I think we have an expectation of that and that's how you could see continue.

MARK KEHOE: Great. Thank you.

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

HIMA INGUVA: Thanks a lot. I'm still new to the sector, so I apologize if I ask something basic. I do have to say that this is one of the best fixed income investors conferences or meetings I've attended. Just a quick question, I guess follow-up on slide 12, the benchmark $20 billion to $25 billion, I'm looking for a split between sub and senior. Historically, I see 2013, 2014 as being 15% to 20% between sub and senior. So any guidance there would be greatly appreciated.

ERIC ABOAF: Hima, it's Eric here. We typically don't really give much more guidance here, why, because we want to retain a little bit of flexibility in terms of the mix of issuances. What I would tell you is we tend to be relatively consistent in how we issue. We do that for obvious reasons because then our investors know more or less what to expect. And I'd point you to the past few years, I think that gives you a good range of the kind of activity you might see in senior or sub or thereabouts, I think is a good indication.

HIMA INGUVA: Thanks a lot. Again, thank you very much. Appreciate it. Very excited to be part of the community.

ERIC ABOAF: Thank you.

OPERATOR: Your next question comes from the line of Jacob Habibi with Invesco. Please go ahead with your question.

JACOB HABIBI: Thank you. Most of my questions around TLAC have been asked and answered. The only note that I would want to add is that according to some of my calculations here, just looking at the senior stack only, I come up with potential issuance of anywhere between $10 billion and $62 billion based on a range of 16% to 20% TLAC. And that's taking out all of the different CET1 buffers that have been ruled ineligible. So I'm just trying to square on the high end there, that $62 billion versus the numbers that you have on your slide 14 where it really only adds to about $45 billion on the high end of potential issuance needs. Between the restructuring of the structured notes and incremental senior debt, that would replace other forms of funding.

ERIC ABOAF: Jacob, it's Eric. I think page 14 might give you a roadmap and obviously you could follow-up with our Investor Relations team. But we label the dollar amount of total TLAC that we need, that's the various debt and equity components all together, the $264 billion. We compare that on an RWA basis and then we give a range of the potential requirements in dollar terms, the $266 billion to $318 billion. I think if you do the math there, we're guessing that total TLAC needs will be somewhere between $2 billion and $64 billion, which is in line with what I think you've estimated. But what's very important is that there's a natural tailwind from some of our existing activities in preferred and sub debts, which I think some haven't factored in previously and that may be a little bit of what you're working through.

JOHN GERSPACH: And, Jake, it's John. So even then if you took – if the U.S. additional surcharge comes through and it is an additional 2% as we indicated it could be, that would of course add another, say, $26 billion onto a TLAC requirement at the upper end of the range, it went all the way to, say, $26.5 billion. But that would get you then from what we're looking at is $54 billion to maybe $80 billion, and it's just hard to say that we need to do $62 billion of senior in order to fill up the $80 billion. But as Eric said, if you want to work with Peter in Investor Relations, he'll be more than happy to walk you through the numbers.

JACOB HABIBI: Okay. Sure. I was just trying to isolate the senior stack alone and so just sort of backing it out, that implies senior of anywhere between 8% to 12% risk-weighted assets. So I'm sort of looking at it very simplistically on that terms and just assuming that any buffers you want to build to CET1, or AT1, whatever those may be. I guess I'm not assuming that you're going to use those buffers and apply them to maintain, I guess, a smaller senior stack. But would that be an incorrect assumption? Are you going to be using some of those buffers to -?

JOHN GERSPACH: Why don't you give Peter a call in Investor Relations, and he can help walk you through all the detailed numbers rather than have us try to work through a model right here on the phone.

JACOB HABIBI: Okay.

JOHN GERSPACH: All right?

JACOB HABIBI: Thanks.

JOHN GERSPACH: Okay, great.

OPERATOR: Your next question comes from the line of Louise Pitt with Goldman Sachs. Please go ahead with your question.

LOUISE PITT: Hey. Good morning, guys. Thanks very much for the call and the additional information. It is very helpful. I know I'm going to beat a dead horse on the question on TLAC. But there is nothing in your deduction for other GSIB TLAC debt holdings. Is that just because you don't have enough information right now or because you don't have any?

ERIC ABOAF: Louise, it's Eric. Fair question. We've been working through the deductions and obviously the FSB paper is quite broad-based. I think as you had mentioned, there is a deduction that they reference for the cross holdings of debt and equity of other GSIBs. For us that would be worth potentially half a point. It's doing that calculation, is it a daily calculation, is it end of period calculation where it could be done in different ways. I think the reason we haven't explicitly reduced these amounts by that is really for two reasons. First, if there is an active deduction for that, it's one of the easiest things in the balance sheet to manage down and actually to reduce our holdings. And you can imagine like for other activities we will intervene to a reasonable amount because that might be a costly deduction.

The other is that in discussions that the industry groups have begun to have with some of our regulators, they seem to have an openness to potentially thinking about a corridor or a certain amount that is allowable for these holdings of – in inventory of debt or equity of other firms. And the reason is that obviously when we market-make in the debt or equity of another firm, we are helping create liquidity and transparency in the marketplace. That has some benefits for many investors and for the Fed as they oversee the financial system. And so we could see a way where it is possible, but again it's highly uncertain at this point because we don't have any real rules. We could see where it's possible that there is a certain reasonable amount that as long as it's diversified potentially across counterparties that we hold, that might be allowable.

LOUISE PITT: That's really helpful. Thank you. In terms of the securities that will be TLAC eligible, obviously, you've excluded anything with less than one year to maturity, but in thinking that they will still be at the hold co and while they may not be TLAC eligible, they would be bail-innable under the terms of the regulator's view of those securities. They would still be outstanding and pari-passu at the time of any resolution. So is there any move to actually require all securities with maturities of less than one year to not actually be at hold co so that there's no cross defaults and therefore fund everything in less than one year in an operating company?

ERIC ABOAF: I think we've seen some bit of chatter on that question, but it seems pretty straightforward for us that if you have debt that was issued at 10 years and nine years later is rolling down to under a year, that's debt that you have outstanding and whether regulators think of it as TLAC-eligible, it's up to their discretion. As it goes below the one-year basis, will it still get bailed in? I'm guessing probably, but they obviously don't want to count on it. So potentially that's why it's excluded. But we don't see any particular reason why having debt that either rolls down or other small amounts of short-term liabilities that may exist in the parent would create an issue. Although maybe there's – anyway, we don't see a particular reason there for that would be an issue.

LOUISE PITT: So you don't see a move to issue sort of 10 non-call 9-year securities or 11 non-call 10-year securities to give you the option to call them back?

ERIC ABOAF: Louise, that would be a little premature at this point given we have an FSB kind of white paper, that's what it feels like. And we don't even have a proposed U.S. rule. So not at this point.

LOUISE PITT: Okay. Just a couple of other questions. On your opportunistic redemptions that you've listed there, in the past it potentially hasn't just been a coupon or clearly visible to the investor-based rationale as to why certain securities have been in any LME transactions. Is there any more additional color you can give us in terms of what might drive those opportunistic redemptions?

ERIC ABOAF: Yes, Louise, it's Eric again. I think you're referring to the redemptions and liability management that you see on page 12.

LOUISE PITT: Right.

ERIC ABOAF: There are really two drivers for the bonds that we tend to choose. The first is that we tend to find that we have bonds over time that trade outside of the natural credit curve. Sometimes that's debt that's rolled down, sometimes that's debt that may have smaller outstandings or where you don't see much secondary market activity. But what we routinely do, and for those who are interested in understanding or even guessing at what we might buy back, what we routinely do is ask the question across all the outstanding debt that exists across the credit curve, what might be trading north of what would be that average or perhaps the top quartile credit curve that you could draw through that mix. So that's the first one, and you'll see that we've been – we routinely intend to retire that debt.

The second factor is the basis, and this one I think tends to be a little more volatile and a little harder to predict. But as we look at the currency basis between dollars and euros, or dollars and yen, or where we may have issued, that also gives us an ability to retire debt and then reissue, right, on a less expensive level. And so to the extent that I describe the first bit of analysis, we do a glimpse to credit curve, we do a myriad set of that analysis on a basis-adjusted credit curve. And we find that there is debt that we could buy back and then reissue at more normalized levels. So those are the two drivers, and we're happy to show you how some of our practices are pretty straightforward. I think that might give you some guidance.

LOUISE PITT: Okay. That's really helpful. Thanks again, guys.

JOHN GERSPACH: You're welcome.

ERIC ABOAF: Thank you.

OPERATOR: Your next question comes from the line of Pri de Silva with CreditSights. Please go ahead with your question.

PRI DE SILVA: Good afternoon, and thank you again for providing all this information. It's very helpful. I don't mean to beat a dead horse, I'm going to stay clear of TLAC, but I want to get a sense of how do you – how should we look at Citi's internal incremental capital buffer? Given all the movements, also based on our internal estimates, it looks like – so you have the eight U.S. GSIBs, may see a bump up in their FSB GSIB capital buckets. So given that the movement that we see due to the exchange rates, how should we look at the capital buffers? And all of this is assuming that the Fed will not implement the capital conservation and GSIB buffers into the CCAR process?

JOHN GERSPACH: Until we get some more clarity on what the final U.S. GSIB surcharge will be, we're still planning to operate with a 50 basis point buffer above our stated requirements, which would be the 9%, the 4.5% plus the 2.5% plus the 2%, which gets you to the 9%, and then we're planning to run at 9.5% with a 50 basis point buffer. And that's all I can tell you right now.

PRI DE SILVA: And, Eric, how should we look at – in the event, the Fed incorporates a capital conservation buffer and a GSIB buffer into the CCAR process, I know it'll be a long, drawn-out process, but how should we look at capital requirements for banks as a whole, not just Citi, but the eight GSIBs in that case?

ERIC ABOAF: We'll have to cross that bridge when we –

PRI DE SILVA: Great. Thank you very much, guys.

OPERATOR: Your next question comes from the line of Irving Franco with Barclays. Please go ahead with your question.

BRIAN MONTELEONE: Hey. Good afternoon. It's actually Brian Monteleone. I won't ask you guys another TLAC question, but I do have a question on the preferred stock –

JOHN GERSPACH: Thank God.

BRIAN MONTELEONE: Yeah, the preferred stock items, the $8 billion to $10 billion. When I look at the $10 billion in preferred that's outstanding and the $2 billion Citi Ns relative to RWAs, which, Eric, I think you said earlier you expected to kind of remain flat. To me that implied about $7 billion of incremental supply. So I just want to make sure are you still planning to operate at the 150 basis points, or what's driving that small divergence from kind of the $7 billion versus the $8 billion to $10 billion?

ERIC ABOAF: Brian, I think it's just a little bit of rounding, right? We're at about 90 basis points of prefs today. We need to get to a 150 basis points. We plan on operating at a 150 basis points. We obviously, because of the non-call 5-year, non-call 10-year features of some of the prefs, there's always going to be some that we consider buying back, and so we obviously always need to factor that in a little bit. But I don't think that's particularly significant as we have started more recently to issue prefs. But I think you're in the right range, $7 billion, $8 billion, $9 billion, $10 billion, somewhere in that area I think is fair to model.

BRIAN MONTELEONE: Okay. And we should assume that 150 basis points is the target and then the Citi Ns will remain part of that?

ERIC ABOAF: That's correct.

BRIAN MONTELEONE: Okay. The second question, just around energy. So you guys have kind of noted your confidence, the quality of the energy portfolio that you have. But I guess, if prices of oil stay this low for, say, a couple years, can you talk about what you see in your stress tests, maybe the pockets where you do have some concerns, then also some of the structural protections you have, your ability to take collateral, things like that, that give you comfort and kind of how you expect things to play out?

ERIC ABOAF: Brian, it's Eric. I think there's obviously intense focus here at Citi, but at every bank, as we consider oil. And you can imagine we're stressing oil from – we stressed it first down to $50, then to $40, I'm sure we're working on stressing it to $30, $20 and $10, right, for operating purposes. And then we're going stress it when it goes back up, right, because that's going to create dislocations, not just happiness in the energy industry or in the stock market. So I think first you should imagine we do a lot of stress testing in a lot of different ways across the various parts of the energy supply chain, as we talked about earlier, and around the world because it can have different impacts on different economies. I don't want to get into great detail because it's a long, long conversation.

I think at the same time, we actively risk manage these books, and I think we tried to give you a little bit of that taste in the sense that our underwriting considers not just spot rates of pricing in oil, but a range. John mentioned some of the collateral that we revalue so that we have the right amount of protection and can either call loans or have them adjusted. We clearly have limit structures, not just for aggregate energy, but multiple levels down across different sectors of energy or different quality types of energy companies.

And then obviously, we have an ability as we see any concerns or changes, we can certainly have an ability to sell certain portions of loans. We've done that before. You've seen us talk about that as we've adjusted our books. We could buy protection in the CDS markets. We could enter into a series of different actions to adjust our position. So there's, I think on one hand, significant amount of stress testing that you can imagine goes all the way up to the board, and even our supervisors are interested. But we ourselves as bankers are first and foremost interested in how our book will perform. So you can imagine there's a significant amount of work in that front in multiple different ways of the imaginable and the unimaginable, on one hand. And on the other, there's a very active risk management process that we have a lot of experience in and we'll continue to be active in.

BRIAN MONTELEONE: Thanks.

ERIC ABOAF: Thank you, Brian.

OPERATOR: Your next question comes from the line of Rob Nuccio with Income Research. Please go ahead with your question.

ROBERT NUCCIO: Hi. Thanks for taking my call, and I'll come out and say I'll beat the dead horse one more time, but just when you consider your needs of debt issuance and trying to do $1 billion $1.5 billion to keep things manageable for investors, does that change your shift in how much you'd ultimately want to issue in U.S. dollars versus other currencies?

ERIC ABOAF: Rob, it's Eric. No, the discussion of dollar versus non-dollar is really driven by investor appetite on one hand, around the world, and we find it quite broad-based. We've always been a global issuer, it's driven by the credit demands, the credit spreads you see in those individual markets which tends to be a little different, and so we take advantage of that. And then the foreign exchange basis because we naturally will swap most of the debt back to dollars and insulate it from any currency swings and as the basis moves in favor of one currency or another, we'll issue in that currency. What we do like to do is to have a diversified set of issuance across multiple currencies, multiple investor groups, multiple geographies, multiple tenors and you'll see us continue to do that because that's an optimization on one hand for the economics, and it gives us a diversification of funding opportunities from a liquidity standpoint on the other.

ROBERT NUCCIO: Okay. Great. Thanks. That's all I have.

OPERATOR: Thank you. We have no further questions in the queue at this time.

PETER KAPP: Thank you all for joining us today. If you have further questions, please reach out to us in IR.

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

