Citi Fourth Quarter 2015 Fixed Income Investor Review

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HOST
Peter Kapp, Head of Fixed Income Investor Relations

SPEAKERS
John Gerspach, Citi Chief Financial Officer
James von Moltke, Citi Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer John Gerspach and Treasurer James von Moltke. 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, James von Moltke, our Treasurer, will take you through the fixed income investor presentation, which is available for download on our website, citigroup.com.

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 2014 Form 10-K.

With 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. I'd like to begin by highlighting some key points from our 2015 results, and after that I'll turn the call over to our Treasurer, James von Moltke, who will provide an update on our balance sheet and issuance plans. Then we'll be happy to take your questions.

We earned $17.1 billion in 2015 despite a challenging environment. During the year we generated 94 basis points of ROA, achieved a 57% efficiency ratio in Citicorp, and generated a return on tangible common equity of 9.2%. For the year, we achieved positive operating leverage as we continued loan and deposit growth in our core Citicorp business. We were able to begin a meaningful return of capital to shareholders, and having finalized our analysis we were able to bring our GSIB surcharge down to 3%, reflecting our efforts to manage our balance sheet efficiently, and driven by reductions in each of the indicator scores.

Active balance sheet management has allowed us to grow loans and deposits in Citicorp, while reducing our overall balance sheet through reductions of lower return and non-core assets. Citi Holdings assets were down 43% over the past year to $74 billion, reflecting the successful sales of OneMain Financial and our Japan retail business, as well as continued reductions in the North America mortgage portfolio. And we currently have signed agreements to reduce Citi Holdings assets by an additional $7 billion in transactions which are expected to be completed during 2016.

We maintained a diversified funding profile as our deposit quality remains strong, and we continue to execute against our debt and preferred stock issuance plans. And our capital, leverage and liquidity ratios remained robust.

On slide three, we show total Citigroup results adjusted for the items noted on the slide. We earned $3.4 billion during the quarter and $17.1 billion for the full year as I mentioned a moment ago. 2015 revenues of $76.1 billion were down 2% from last year on a reported basis, but up 3% in constant dollars, driven by 3% growth in Citicorp. Expenses declined 15% driven by a significant reduction in legal and repositioning expenses, and a benefit from FX translation. And net credit losses were 19% lower than the prior year, but this improvement was more than offset by a significant reduction in net loan loss reserve releases. Net income for the year increased nearly 50% compared to 2014.

Before I hand the call over to James, let me clarify a series of comments that I made during last week's investor call with regard to ICG cost of credit and energy prices. If our view changes to one where we believe that oil would be at $30 a barrel for a sustained period of time, we would estimate that our full year cost of credit for 2016 would be $1 billion, including both the impact of incremental reserves for our energy exposure, as well as the assumption that we begin to see knock-on effects on our broader portfolio. The $600 million estimated first half 2016 cost of credit that I referenced during the call was based on this scenario. Further, should our view change to oil at $25 a barrel for a sustained period of time, then our full-year estimated impact would roughly double.

And now let me turn the call over to James.

JAMES VON MOLTKE: Thank you, John.

Beginning on slide four we show balance sheet trends over the past five quarters. We size our balance sheet based on client needs, and our strong capital and liquidity position provide the flexibility to adapt to market opportunities, while maintaining a sound financial position and improving our returns.

On a reported basis, total assets declined by over $110 billion in the past year, roughly half of which was driven by the dollar's appreciation against foreign currencies, especially the euro and the Mexican peso. To better reflect underlying business trends, we've presented this slide and several others in today's presentation on a constant dollar basis.

On this basis, our balance sheet declined by over $50 billion. We reduced Citi Holdings' assets by $55 billion, and saw continued growth in Citicorp loans. On the liabilities side, growth in deposits in our core businesses combined with a significant reduction of short-term borrowings allowed us to improve the efficiency of our funding profile.

Slide five presents trends in our loan portfolio, again on a constant dollar basis. Total Citigroup loans decreased 1% year-over-year, driven by continued reductions in Citi Holdings. We grew Citicorp loans 5% as we continued to serve our high credit quality target clients in both the consumer and the institutional businesses. Consumer loans grew 2% year-over-year driven by 3% growth in North America. On the institutional side, loans grew 8% year-over-year in total. Our corporate lending portfolio increased 9% based on new business and funding of prior commitments. TTS loans declined 3% as we continue to distribute a significant portion of our trade loan originations, allowing us to support our clients while maintaining balance sheet discipline in a continued low spread environment. And markets and private bank loans grew 14% during the year. Citi Holdings' loans decreased 43% year-over-year, driven by over $21 billion of reductions in North America mortgages, including transfers to held-for-sale, as well as the sale of OneMain Financial which was completed during the fourth quarter of 2015.

On slide six we show credit quality trends in our consumer and corporate loan portfolios. In the fourth quarter, consumer credit performance remained stable, with an overall net credit loss rate of roughly 210 basis points. Credit was broadly stable in North America and Asia again this quarter, with loss rates of 226 basis points and 84 basis points, respectively. And in Latin America, we did see an uptick in the NCL rate to 4.76%. The increase was concentrated in the commercial loan portfolio, including losses on a wind-down portfolio in Brazil, most of which were offset by the release of previously established reserves. In late 2014, we segregated this portfolio in Brazil to reduce exposure to clients who don't fit our target market. We've since reduced these loans by more than 80%, and we believe the remaining balance is well reserved.

Our target clients focus has motivated a number of actions in recent years that have helped to reduce our risk profile. We've reduced our consumer footprint to focus on markets with greater opportunities to serve the urban-based and affluent customers at the center of our strategy. We have generally tightened underwriting standards, and we also benefit from regulatory controls in many of our markets. We sold our mass market credit card portfolio in Brazil in 2013 and have sold or wound-down virtually all consumer finance portfolios globally. And the repositioning of our Korea franchise completed in 2014 enhanced our focus on more affluent customers in urban markets. These actions and others like them have contributed to the stability of our credit performance.

Turning to the corporate portfolio, non-accrual loans were roughly unchanged from third quarter levels at 53 basis points of total loans. While we built reserves against our corporate loans in the fourth quarter, the quality of our portfolio overall remains high with 84% of our total exposures rated investment grade. North America continues to show an elevated level of energy-related non-accrual loans as we disclosed in the third quarter. And the increase to non-accrual loans in Latin America in the fourth quarter was driven by a single credit outside of Brazil.

Now, let me make several points specific to our energy exposures. First, our energy portfolio remains predominantly high grade. At year-end, our total exposure, including funded and unfunded loans, was $58 billion, of which funded loans were $20.5 billion. 68% of these funded loans, and 87% of our unfunded exposures were rated investment grade. So in total, 80% of our funded and unfunded exposures were investment grade at year-end. Second, throughout 2015, we built approximately $530 million of reserves against our energy exposures, including approximately $250 million in the fourth quarter, as we noted during our earnings presentation. And we recognized roughly $75 million of net credit losses in the energy sector during the fourth quarter, bringing our total net credit losses for the year to just under $100 million.

Our allowance for loan losses related to our funded energy loans represents about 3.8% of these loans. This reserve ratio is a blend, of course, across different parts of the portfolio. The reserve ratio is higher in the exploration and production sector, as an example, at over 5%. The E&P sector represented 30% of our funded energy loans at year-end, as you can see on slide 23 in the appendix.

Turning to slide seven, we show the composition of our deposits, which fund over 50% of our assets. Total deposits increased 4% from last year's fourth quarter, despite significant reductions in Citi Holdings. Citicorp grew deposits by 5% in constant dollars with continued high-quality deposit close across our franchise. The LCR liquidity value of our deposits was 73% this quarter, down slightly from last quarter, driven by normal deposit flows. Consumer deposits increased 2%, including 5% growth in international markets. North America deposits increased 1% as we grew checking account balances strongly even as we reduced our branch footprint by 8%. Corporate deposits increased 9% year-over-year, reflecting a continued focus on growing high-quality deposits in TTS and our Private Bank. Citi Holdings and other deposits declined over 50% year-over-year, driven by the now complete transfer of MSSB deposits to Morgan Stanley.

On slide eight, we update our regulatory liquidity metrics. Our LCR was 112% in the fourth quarter, in excess of the 100% minimum requirement, and consistent with the levels we have maintained over the past year. Over time, we continue to expect to manage our LCR in the range of 105% to 110%, providing a buffer over regulatory requirements. As of December 31, our HQLA was $379 billion, down $20 billion from the prior quarter, reflecting ongoing efforts to make our balance sheet more efficient. We've maintained our LCR stable over the past year, while reducing our HQLA by reducing net outflows, including improvements in deposit quality and reductions in our short-term borrowings. On the right side of the slide you can see the composition of our HQLA as of the end of the quarter, 82% of which consists of cash and government debt.

As to the Net Stable Funding Ratio, or NSFR, we continue to expect the U.S. regulators to propose a version of these rules in the first half of 2016. We currently estimate that our NSFR under the international version of the rules is in excess of the 100% minimum requirement.

On slide nine, we show Citigroup's net interest revenue and net interest margin. Our NIM was 292 basis points in the fourth quarter, and around 293 basis points for the full year. As we discussed last week, looking to 2016, our net interest margin will fully reflect the sale of OneMain, partially offset by the benefit of debt buy-backs, for a net reduction of about 8 basis points. We should recover about 3 basis points of this impact when we acquire the Costco portfolio, which we currently expect to occur closer to the end of the second quarter.

We also expect to see a benefit from higher rates as we move through the year, but this rate benefit could be all or partially offset if trading NIM, which has been running modestly above our expectations for the past few quarters, normalizes in 2016. Our estimate of the net interest revenue benefit from a 100-basis point instantaneous parallel rate shift remains a bit more than $2 billion, of which $1.4 billion reflects the impact of U.S. rates. As we have said, most of this benefit relates to the short-end of the curve.

Turning to slide 10, the long-awaited Total Loss-Absorbing Capacity, or TLAC, rules were proposed by the Federal Reserve in October 2015. Importantly, based on our current analysis, which I will walk you through in more detail, overall, we believe the proposal's impact on our issuance plans and earnings is manageable. We expect our total incremental issuance of TLAC-eligible debt to be roughly $10 billion. However, in many ways, the U.S. proposal was more stringent than the international proposal, including the addition of a long-term debt requirement, a haircut applied to debt with one year to two years remaining until maturity, and the exclusion of debt not governed by U.S. law.

With that as a backdrop on this slide we estimate our needs based on our debt and equity outstanding as of December 31, 2015. Note that we are including certain of our currently outstanding non-U.S. law debt instruments in these estimates of eligible debt, as I will discuss in a moment. Under the U.S. proposal, TLAC includes Tier 1 capital as well as senior and subordinated debt issued by the parent company, with a remaining maturity greater than one year. On this basis we had $268 billion of TLAC, or 21.9% of risk-weighted assets, relative to a fully phased-in requirement of 22.5%. Based on this calculation, we would have had a shortfall of $8 billion at year-end, well within the range of our prior estimates of our needs under the international proposal.

The long-term debt requirement under the U.S. proposal, which applies a 50% haircut to debt maturing in one year to two years, and excludes Tier 1 capital is illustrated in the right most column. We expect to have a long-term debt requirement of 9%, including a Method 2 GSIB surcharge of 3% as John mentioned earlier. On this measure, we would have achieved a ratio of 7.8% at year-end 2015 equating to a shortfall of $15 billion. Accordingly, we expect this requirement to be our binding constraint.

We expect to address this shortfall in two ways. Over the next three years, we expect to increase the tenor of our planned issuance, extending the weighted average maturity of our outstanding debt, thereby reducing the haircut amounts. This will increase our TLAC eligible debt by roughly $5 billion without increasing our planned net issuance. We plan to meet the remaining $10 billion need with incremental new issuance between now and 2019 when the rule is proposed to be effective. And as we have said before, we would limit the impact on our overall balance sheet size and our earnings by replacing ineligible sources of funding such as securitization or structured notes.

I noted a moment ago the proposal's exclusion of debt not governed by U.S. law. While our estimates of eligible TLAC and long-term debt both include a portion of our outstanding non-U.S. law debt, I'm going to focus on the long-term debt requirement as we believe that is our binding constraint. As of year-end, our presentation includes $22 billion of this debt, mainly denominated in euros and sterling. We plan to refinance this debt as it matures, reducing the balance to $10 billion by 2019, with no incremental issuance need and no expected additional funding cost relative to our business as usual issuance. Under the current proposal, this remaining $10 billion balance would be ineligible as long-term debt and would, therefore, increase our shortfall by this amount. To the extent the final rules are adopted as proposed, we would evaluate means to redeem and replace it. Of course, our estimates are necessarily subject to the final rules once adopted.

Let me summarize by reinforcing three key points. First, our efforts are currently more concentrated on the form of our debt than the amount of it, as incremental debt issuance needs of roughly $10 billion should be manageable over the next three years. We expect the rules to be finalized around mid-year allowing us to further refine our glide path.

Second, with the rest of the industry, we will provide constructive feedback on the proposal through the comment process, particularly around the eligibility of currently outstanding debt, and the clean holding company provisions.

And third, we expect to use the time available to us to achieve compliance in a gradual and economically rational way, pursuing our regular issuance plans, while extending our maturity profile and reducing ineligible liabilities as we build eligible TLAC debt through the incremental issuances described.

On slide 11 we show the composition of our long-term debt outstanding. During the quarter our total long-term debt decreased to $201 billion. Parent company debt decreased by $11 billion during the quarter to $146 billion, reflecting significant buybacks of senior and subordinated debt. Bank level debt decreased by $2 billion as securitization maturities were not replaced with new issuance in 2015. We expect bank level debt to trend downward in 2016, with maturities in excess of issuances as we increase the portion of our debt that is TLAC eligible. Our weighted average maturity increased slightly to 6.9 years. As I just discussed, over the course of 2016 we would expect our WAM to increase as we extend the tenor of our new issuance – so we expect to end the year somewhat longer than seven years. And our total preferred stock reached $17 billion in the fourth quarter.

Turning to slide 12, let me cover our issuance and redemption expectations for long-term debt in 2016. During 2015, we issued $28 billion of senior and subordinated debt with a weighted average maturity of over seven years. Fourth quarter issuance was roughly $7 billion. Our buyback activity during the fourth quarter surpassed our expectations, reaching $11 billion as we targeted high-cost instruments in connection with the significant asset sales in Citi Holdings. Importantly, $9 billion of the debt redeemed would have become ineligible for TLAC by 2019. And with the reductions in our balance sheet in the fourth quarter, we chose not to replace all of the funding right away. Consequently, over the course of the year, we had no net issuance of benchmark debt.

Looking to 2016, based on our current assumptions around TLAC needs and fewer opportunities to redeem debt, we expect net issuance of benchmark debt of approximately $8 billion. We expect gross issuance of $25 billion of senior and subordinated debt, all of which should be TLAC eligible. We also expect customer-related debt issuance of approximately $5 billion. Contractual maturities of long-term debt are $19 billion, and we currently anticipate roughly $8 billion of buybacks between customer-related debt and benchmark debt. We expect to continue to buy back debt as opportunities arise, though not at the level we've seen in recent years. Lastly, during 2015, we issued $6.25 billion of preferred stock. We have roughly $2.5 billion of preferred stock issuance planned during 2016.

Turning to slide 13, let me summarize our capital position, which remains among the strongest in the industry. During the quarter, our CET1 Capital ratio improved to 12%, driven by a $30 billion reduction in our RWAs, and even as we returned $1.8 billion to shareholders in the form of common share buybacks and dividends. On a standardized basis, our CET1 Capital ratio improved to 12.6%, providing a strong step-off for the upcoming CCAR submission. Our Total Capital ratio increased 60 basis points to 15.2%, benefiting from the fourth quarter issuance of subordinated debt and preferred stock. And our Supplementary Leverage Ratio improved to 7.1% while Citibank's SLR was unchanged at 6.7%.

On slide 14, we show the components of our regulatory capital ratios. We've made significant progress towards filling our regulatory capital buckets as we look to optimize our capital structure under Basel III and CCAR requirements. As I indicated earlier, we expect to issue roughly $2.5 billion of preferred stock through 2016, bringing our additional Tier 1 capital to slightly over 150 basis points relative to our current RWA and further strengthening our supplementary leverage ratio. We continue to expect net new issuance of approximately $3 billion of subordinated debt over the next several years, bringing our Tier 2 capital to around 200 basis points of RWA. After we have achieved this targeted level of subordinated debt, we expect further issuance to offset amortization of regulatory capital benefit and the impact of potential future buybacks in order to maintain our targeted level of Tier 2 capital.

Moving to our last slide, let me summarize four key points. First, in terms of our operating results against our objectives, we earned over $17 billion of net income in 2015, generating a return on assets of 94 basis points, a return on tangible common equity of 9.2% and a Citicorp efficiency ratio of 57%. We reported positive core operating leverage in Citicorp and we made significant progress in winding down Citi Holdings.

Second, active balance sheet management has contributed to a reduction in total assets to $1.7 trillion while serving clients by growing deposits and loans in our core Citicorp businesses. Despite stresses in our energy portfolio, asset quality has remained broadly stable, including in the emerging markets.

Third, our funding base remains a key strength. Our deposit base is stable and high quality, and our long-term debt issuance plans are on track.

And lastly, we continue to prepare our business and balance sheet for the ongoing evolution of the regulatory landscape. We reported a CET1 Capital ratio of 12%, an SLR of 7.1% and an LCR of 112%.

With that, John and I will be happy to answer your questions.

QUESTION AND ANSWER

OPERATOR: Your first question comes from the line of David Knutson with Legal and General. Please go ahead.

DAVID KNUTSON: Hi. Thanks again for doing the fixed income call.

JOHN GERSPACH: Our pleasure, David.

DAVID KNUTSON: Thank you, John. Got a couple of questions regarding your comments. I guess first I wanted to ask you issued debt earlier not long ago just a few weeks ago, and from what I could tell it didn't have language in it that was significantly different from prior issues. And with this idea that there is a bunch of ineligible TLAC debt out there, have you changed your indenture? Or will you be changing it to issue debt this year?

JAMES VON MOLTKE: We basically decided that there was no sense in us attempting to guess what the final rules would say, David. And so we decided to stick with language that's very consistent with past documentation. And that was the decision we made.

DAVID KNUTSON: Got it. So there is I guess ultimately the expectation is that there will be, there'll have to be some kind of consent or exchange or something to cure this ineligible TLAC debt out there. Is that fair to say?

JAMES VON MOLTKE: Our hope and expectation is that in the final rule, particularly related to some of the issues around the acceleration clauses, yes, that the final rule would allow for grandfathering of that existing outstanding debt. And absent that relief, then you're right. We would need to take some action to redeem and replace that debt.

DAVID KNUTSON: Got it. The second question, it sounded like you were saying on the call that because of this ineligibility of your foreign law debt, your expectations are to, I guess, redomicile or reissue or refund maturing euro and sterling debt with dollar denominated debt. Is that accurate?

JAMES VON MOLTKE: Well, there's a couple components. First of all, there's the amount of debt that's non-U.S. law that we have outstanding today and that number is at about $28 billion. The numbers that we show on the slides for both TLAC and long-term debt are a lower amount. And that reflects the haircuts that are specific to each of those definitions, so TLAC and long-term debt. Now looking to the future, a significant component of that debt that's currently outstanding will mature, and as it matures we intend to reissue with eligible debt whether under the final rule that's U.S. law or non-U.S. law debt. And so to your question, the point I was making is that while we believe – we estimate the current net new issuing amount to be the $10 billion that I referred to, in the absence of relief in the final rule, that amount would increase by $10 billion, which is the amount of haircut non-U.S. law debt that would be outstanding on January 1 of 2019. Is that clear?

DAVID KNUTSON: Got it. Yep. Got it. Thank you very much. And then my last question is in regards to the disclosure and I appreciate your disclosure on this call and also the equity call on your exposure to oil and gas or energy. However I look at this, it doesn't look like it's going rise to a balance sheet type of impact. But there are a lot of people out there that's calling this the next financial crisis in the making. So when you look at the numbers, when you talk to the board, how does everyone get comfortable that this is, this process or this kind of maybe normalization of credit losses or change of the release, how is this not going to ultimately balloon into something much more meaningful?

JOHN GERSPACH: Well, David, this is John. So what we do is we take the board much through the same analysis that we provided you, where we take them through the various stress tests that we put. Now obviously we take the board through a lot of different stress tests on our entire balance sheet. But we also specifically take the board through a series of stress tests that we have put through the portfolio that would reflect the impact of oil at various prices. I've actually shared with you today a very summarized version of the stress test that we've shared with the board on what would happen with oil at $30 a barrel, and what would happen with oil at $25 a barrel. Not just on the reserve levels that we would have to take on our specific energy exposures but how that would translate into cost of credit impacts across the entirety of the portfolio.

And again, the board has also been through not just the stress test, but the board obviously goes through all the various aspects of our strategy, which as we have described is a strategy where in our corporate business we're really focused on large – serving large multinationals and their subsidiaries wherever they do business around the world, and some – and a very select number of top tier local corporates. So when you're comfortable with the strategy and you're comfortable with the stress test, you get comfortable then with the position that we're in.

DAVID KNUTSON: Got it. Thanks very much.

JOHN GERSPACH: Not a problem.

JAMES VON MOLTKE: Thanks, David.

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

ROBERT SMALLEY: Hi. Good morning.

JOHN GERSPACH: Hi, Rob.

ROBERT SMALLEY: Thanks for doing the call. Always appreciated. Just following up on David's question, with respect to grandfathering, James, you made the comment that bonds are likely to be grandfathered. In your assumptions and your discussions, is this grandfathering to maturity? Or is it grandfathering for a specific amount of time? And is this something that is, that you've discussed with the regulators?

JAMES VON MOLTKE: So there's – let me take into two pieces. There's this issue that I mentioned about the acceleration clauses. And given the amount of debt and what I think the regulation is aimed at, that is outstanding, we hope and expect that, that will be grandfathered sort of in its entirety given the disruptions that an attempt to amend all of that debt would entail for the marketplace.

There's a second issue related to the non-U.S. law debt. And there, our hope would be that is in fact included in the final rule as eligible TLAC debt, because we see that non-U.S. law debt as bail-inable. And the governing jurisdictions, especially ones that recognize resolution authority, would not create the complexity that I think is the concern underlying the draft rule.

ROBERT SMALLEY: Right. So – and you're looking at it as everything being grandfathered to maturity?

JAMES VON MOLTKE: To your question about the maturity, we're – we've looked at the latter after 2019, and obviously the issue, and this is focused on the non-U.S. law, the issue becomes smaller over time from that $10 billion that I referred to. And the simple answer is the more time it's grandfathered, if that's the route it goes down, the better.

ROBERT SMALLEY: Right. Okay. Understood. Thanks. Jumping over – thank you for the disclosure the other day on metals and mining. I think you said, John, that there wasn't a lot to talk about from a reserving point of view, especially given the overwhelming maturity is investment grade. But could you give us a little bit of a feeling or breakdown between coal, iron ore and copper for that portfolio?

JOHN GERSPACH: No, Robert, I can't go into that. I'm not prepared to go into that level of specificity at this point in time. But as I mentioned on last week's call, and as you I think summarized, the metals and mining book is certainly smaller than energy. $13 billion or so of total exposures and a little over $5 billion of funded –I think actually on last week's call I think I used the figure of $5.6 billion of funded exposure.

ROBERT SMALLEY: Right.

JOHN GERSPACH: And it's actually lower than that. It's $5.1 billion of funded exposure. And I think the other thing with metals and mining, our book of metals and mining loans actually also has a much shorter tenor than our energy portfolio. Within metals and mining, almost two-thirds of the funded exposure has a tenor less than one year as compared to energy where about one-third of the funded exposure is under a year. So we feel pretty good again about our metals and mining book.

ROBERT SMALLEY: Okay. Good. Thank you for that. Last one if I could on International Consumer Banking, which is always prominent in the other deck, just more of a question on credit quality. In Latin America and Asia, a lot of consumers – well, a lot of families own their businesses, and these can be pretty large. Could you talk a little bit about how you look at that from a credit point of view, and how you separate out consumer portfolio from the business part in this case, or how they all roll up?

JOHN GERSPACH: Well, that's a very interesting question. And in the – in both Latin America and Asia, but I think it's more prevalent in Latin America, obviously we have a portfolio within consumer, which is actually comprised of we call it the commercial credit book, and that's small-sized and medium-sized enterprises which largely represent exactly the type of situation that you're talking about. I mean some businesses are so small that you really just look at the credit of the proprietor, and you may not even know that they've got a small business on the side. But then again, you've got other businesses that are a little bit larger and they would be part of what we would call the SME contingent, you know, the small-size, medium-size enterprises. And then you move up to a little bit larger.

But to that extent, we look at – we do look at the credit of the business, but especially in the SME section, it really is – if God forbid the proprietor got hit by a bus, that business folds the next day. So it's a portfolio that we watch very, very closely. And that's all I can say. When we report, of course, the loss rates for both Asia and Latin America consumer, those small and medium-size enterprises are included in the NCLs that we report to you for each of those regions. So they're embedded in the 84 basis points worth of losses that we have in Asia and in the roughly 450 basis points of losses that we have in Latin America.

ROBERT SMALLEY: Can you give us any kind of idea on overall portfolio size there?

JOHN GERSPACH: I don't have that with me. I think that there is some indication though in the supplement, and I just don't have the supplement to give – the financial supplement that we publish in connection with the earnings call. But I just don't have it with me right now.

ROBERT SMALLEY: Okay. I'll catch up with Peter offline.

JOHN GERSPACH: Okay. Great.

JAMES VON MOLTKE: And Robert, it's James. In this deck, a couple of slides in the appendix to point you to are slide 20 and slide 21 which give you a breakdown of the portfolio sizes.

ROBERT SMALLEY: Right.

JAMES VON MOLTKE: Including by geography.

ROBERT SMALLEY: Right. Great. Thanks a lot. And again, thanks for doing the call.

JOHN GERSPACH: Not a problem at all. Our pleasure.

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

DAVID JIANG: Hey, guys.

JOHN GERSPACH: Hi, David.

DAVID JIANG: Just turning to the TLAC slide, which is slide 10. Is the $15 billion or the $10 billion incremental issuance assuming that the $10 billion of non-U.S. governed law is eligible or not eligible?

JAMES VON MOLTKE: It's assuming that it's eligible in the final rule.

DAVID JIANG: It is?

JAMES VON MOLTKE: Yeah.

DAVID JIANG: Okay. Got it. And to get to – the delta from $15 billion to $10 billion, the $5 billion is just extending the tenor of your issuance going forward?

JAMES VON MOLTKE: Exactly, because that means just the amount of debt that's falling under one year, so with no eligibility, or under two years with 50% eligibility of your total stack, that amount just declines over time as you extend your tenors.

DAVID JIANG: Got it. Thanks. And then do you – I mean, you've obviously issued 10-year debt during the NPR period. Do you expect to potentially look at shorter duration type maturities issuance prior to the final rule, or will you go as planned in terms of your issuance?

JAMES VON MOLTKE: No, our intention is to go as planned with the issuance. Again, to the first question, we're making the judgment that the documentation will be appropriate and grandfathered if their change is ultimately in market practice. But we feel, given the overall new issuance plans and the ladder that we'd like to build, it makes sense to get to work on it right away.

DAVID JIANG: Okay. So switching gears to slide 20 where you break out the regional credit exposure. The question I have is under other EM for corporate, is there any breakout of those countries and percentages, or is it pretty similar to the kind of consumer credit country breakouts that you have on the following page?

JAMES VON MOLTKE: I think the best place to refer to you, David, it would be page 91 of the Q where we provide some disclosure of select countries.

DAVID JIANG: Okay. Great. Thank you. And then lastly -

JAMES VON MOLTKE: Go ahead.

DAVID JIANG: Okay. Lastly on the energy slide, the unfunded portion of the exposure, have you seen that come down as you go through redetermination periods in the past? And do you expect that to go down as we're approaching another redetermination period with oil at these levels?

JOHN GERSPACH: Well, as you can tell, the exposure has gradually been reduced over time as it is. I'm not going to look ahead to see exactly how much will come down. Don't forget, reserve based lending is a rather small percentage of our overall portfolio. And so it's not a big driver at all of the unfunded exposure.

DAVID JIANG: Okay. Do you break out what portion is reserve based lending?

JOHN GERSPACH: We haven't. As I said, it's very small. The number that comes to my mind is the total exposure is somewhere under $2 billion worth of unfunded exposure, total exposure, to the reserve based lending. So total unfunded exposure to reserve based lending of about $2 billion.

DAVID JIANG: Total unfunded. Okay. And then in the funded chart where you break out oil and gas, energy process, integrated oil, other – would you say most of the non-investment grade credits are in other and E&P? Is that fair enough?

JOHN GERSPACH: I don't want to try to go with a geography as to where most of the non-investment grade credits, I just don't have that cut in my head at this point in time.

DAVID JIANG: Okay. Great. Thank you for the disclosure.

JOHN GERSPACH: No, that's okay. We're happy to provide the additional disclosure to you. And again, we really enjoy doing the call. But I just want to clarify that – because I kind of fumbled that thing, the reserve based lending, just to make sure that you've got that, the total amount of unfunded exposure to reserve based lending, it's less than $2 billion. And the overall exposure to reserve based lending clients is under $4 billion. So it's a little under $2 billion funded and a little under $2 billion unfunded, which is what I was fumbling around with before.

DAVID JIANG: Okay. $2 billion funded and $2 billion unfunded for a total of $4 billion, total exposure. Okay.

JOHN GERSPACH: Yeah, a little under, both. Exactly.

DAVID JIANG: Okay. Great. Thank you.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Sundeep Mullangi with PPM. Please go ahead.

SUNDEEP MULLANGI: I'd like to echo everybody else's comments. Thanks for the disclosure. Just a couple of comments, especially after David's questions. On the energy exposure, what I'm trying to do is trying to understand what the capital hit would be over a period of time over different stress situations. By doing that, I understand the numerator, but the denominator, as a percentage of the funded of the $20.5 billion, what is calculated for risk-weighted assets? What's the risk-weighted asset number for that?

JOHN GERSPACH: I'm sorry, but we're just not prepared to go into that level of detail.

SUNDEEP MULLANGI: Okay. And then on page 12, regarding TLAC, the $25 billion that you're going to issue, I just want to make sure that I understand that. So going forward for 2016, you will not be issuing three-year paper and in?

JAMES VON MOLTKE: We've been giving thought to what to do with three-year. Obviously, as you're pointing out, the value of three-year paper under the TLAC rule has diminished significantly for bank issuers, given that it begins to suffer from a haircut after one year outstanding. I don't want to say, though, that there'd be no issuance of three-year paper because it does play a role in the overall funding of the institution, but you can certainly expect that it would be diminished considerably versus past practice.

SUNDEEP MULLANGI: Great. Thank you.

JAMES VON MOLTKE: You're welcome.

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

HIMA INGUVA: Hi. Thank you for taking my question. Thanks a lot again for all the disclosures. Can you hear me okay?

JOHN GERSPACH: Yeah, absolutely.

HIMA INGUVA: Okay. Great. So my question is related to the pace of issuance for TLAC. Another bank has said it would wait for one or two quarters until receiving clarity on what's eligible and what's not. So I would like to know how you're thinking about it.

JAMES VON MOLTKE: Yeah. And this goes to the first question that we had. We're not taking that view. Again, we have an active program, and our intention is to continue it. So we're not considering sort of a pause of our benchmark issuance in the first half of the year while we wait for the final rule.

HIMA INGUVA: Okay. That's very helpful, I'm all set. Thank you very much.

JAMES VON MOLTKE: My pleasure.

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

ARNOLD KAKUDA: Hi. Thanks for the call again.

JOHN GERSPACH: Hi.

ARNOLD KAKUDA: Thanks. So just want to get your thoughts on where you think the CCAR tests, the rules and kind of the – how that's going to play out given it seems like you've lowered the buyback assumption on debt a little lower than last year. So are you assuming, given that your stock price is trading at 0.7 times tangible book, it might be better to increase the equity ask as opposed to debt?

JAMES VON MOLTKE: No, the answer – those two things are totally unrelated as we think about it. So debt buybacks really simply are a function of how we want to manage our liability stack and our funding curve. Whereas the equity buyback that is a component of our CCAR submission and capital return ask is driven by entirely different considerations in our capital planning process.

ARNOLD KAKUDA: Okay. Got it. And then it seems like in the fourth quarter for the full year last year, it seems like you came out a little bit ahead of your buyback target. So was there something that you guys saw in 4Q that made you want to buy back a little more?

JAMES VON MOLTKE: Not really. We were pleased with the participation levels in the tender offers that we did announce. And obviously we were seeking to achieve a number of objectives through that debt redemption activity. So it was certainly higher than we've seen it in previous quarters, a little over $11 billion of total buybacks. But to answer your question, it was focused on our financial objectives for that activity, which as I said in the prepared remarks were focused on reducing balances of some high coupon issues that were outstanding, reducing our future funding in Citi Holdings, which as John mentioned on the call last week, was a component of establishing Citi Holdings to be profitable on a go forward basis. And finally, managing the overall level of long-term debt without adversely affecting our glidepath for TLAC compliance. So those were the considerations as we thought about the amount and as I say, we were pleased with the participation.

ARNOLD KAKUDA: Okay. Got it. And then on the LCR, I know you're running a little bit higher at 112% compared to your targets. But what are some of the things that, kind of the catalysts, to get you down to closer to that 105%? I mean, you guys, in December I guess we saw the S&P downgrade. So that's kind of out of the way, and it doesn't – you haven't really commented on that, kind of saying that's been kind of an impediment. And then we're also waiting for market volatility to kind of die down before you feel more comfortable taking your LCR down a bit?

JAMES VON MOLTKE: That's a good question. As a ratio, it obviously matters a lot what the outflows look like in that 30-day stress. And so one of the things that we focus on is managing down the outflows by improving our deposit base and other actions that we take, reducing reliance on short-term funding, for example was another. As you think about the numerator, there we sort of think we've got capacity to support clients, to seek and achieve loan growth, and also growth in trading assets. But that's more a function of the environment than it is our capacity to lend to support clients.

ARNOLD KAKUDA: Got it. And then lastly, I just want to get your thoughts on some of these hung M&A deals. Just basically, credit markets have been very, very volatile, especially in the kind of leveraged loan high yield space. And just wanted to see what the impact of that's going to be on the kind of your pipeline for M&A, as well as how's that going to impact your balance sheet, where if you have finance committed to some of these deals, and perhaps you can't get it off your books, what sort of exposures do you have there, or is it just way too early to ask this question?

JOHN GERSPACH: I think you're way too early to ask that question. I mean, and even the term, a hung M&A deal, we're not – we don't have any quote hung M&A deals. We have a fairly robust M&A pipeline, and we'll see whether or not as a result of the current environment there's any delays in those deals. But at this point in time, we don't see any sort of major impact coming out of delayed M&A.

ARNOLD KAKUDA: Okay. Got it. Great. Thank you.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Steve Kolderup with Allstate. Please go ahead.

STEVEN KOLDERUP: Thank you, as well, for the call. I also appreciate the disclosure surrounding the bank's energy and metals and mining exposures, particularly the commentary about the maturity profile of these exposures. Now, on that point of the unfunded exposure amount, it appears Citi has about $46 billion that's undrawn across the energy and mining segments.

JOHN GERSPACH: You cut out just as you were getting into, regarding the unfunded exposure amount, and then you went blank for about five seconds.

STEVEN KOLDERUP: Okay. Got it. On the point of the unfunded exposure amount, it appears Citi has about $46 billion that's undrawn across the energy and mining sectors. But what I was wondering is, how much of that unutilized borrowing capacity is actually available to borrowers right now, based on existing ABL certificates and whatnot and the redetermination rates.

JOHN GERSPACH: You lumped them together, and I haven't gone through the metals and mining stuff. Let me try to give you some characterization of the unfunded book on energy. And roughly, about 70% of the $37 billion or so unfunded exposure to energy is comprised of unused loan commitments, which are mostly undrawn revolving capacity. So for an investment grade company – and remember, 87% of our unfunded exposure in energy is to investment grade companies. That typically for an investment grade company would be a commercial paper backstop, whereas for a non-investment grade company it would be typically a revolver that they would use for cash management.

STEVEN KOLDERUP: Right.

JOHN GERSPACH: And again, when you get into those facilities, generally we do benefit from greater covenant protection as you go down the ratings spectrum. So less so with the investment grade, especially the A and above investment grade, and then as you begin to move down, many more covenants come into play. And those maintenance covenants that we have are designed to protect us from the financial deterioration of the borrower, especially, as I said, for those non-investment grade companies. And those are basically – that basically involves quarterly testing of leverage ratios, interest coverage, et cetera, et cetera. And then once if, if a counterparty or one of our clients breach the covenants, that gives us then the ability to take a number of actions, including imposing tighter covenants, taking additional collateral, improving the structure of the facility, and it could also include cutting off access to unused capacity.

STEVEN KOLDERUP: Yeah, that's what I was trying to get at is, like, how much of that is really blocked by either covenants or borrowing base certificates and whatnot, where I mean, it looks like a large amount, but effectively, some of these borrowers can't actually get to it.

JOHN GERSPACH: They can't get to it if they are going to violate one of the covenants that we already have in place. And especially, if someone were to come and want to change – as I mentioned, when I talked about potentially improving the structure of the facility – each of these facilities has a very defined structure. If a borrower wants to come, and the existing structure doesn't quite do it for them, they want to extend the tenor, or maybe they even want a slightly higher amount, then that gives us the ability to revisit the whole subject of covenants and/or even whether or not we want to extend the amount in the first place. So we feel pretty comfortable with the covenant structure that we have in place against that portion of the unfunded exposure.

STEVEN KOLDERUP: Got it. My other questions have been asked and answered. So thank you.

JOHN GERSPACH: Great. No problem.

OPERATOR: Thank you. There are no more questions in the queue at this time.

PETER KAPP: Great. Thank you, everyone for joining the call today. If you have follow up questions, please reach out to us at Investor Relations. We'll talk to you again next quarter.

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

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