TRANSCRIPT

Citi First Quarter 2016 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, Regina. 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 number 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 2015 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, and I'd like to begin by highlighting some key points from our first quarter 2016 results. 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.

Last week, we reported net income of $3.5 billion, or $1.10 per share. These results reflected a more challenging macro environment than we anticipated at the start of the year. In our institutional businesses, market-sensitive products, primarily Markets and Investment Banking, suffered from weak investor sentiment during the quarter. However, our accrual and transaction services businesses posted 7% year-on-year growth in constant dollars, consistent with recent quarters. These businesses are gaining market share and now represent almost half of our institutional revenues. Investor sentiment also impacted our consumer businesses, especially wealth management, particularly in Asia.

We took a number of actions this quarter to insure Citi is appropriately sized and structured for the current environment, incurring a significant repositioning charge as a result. We expect these actions to allow us to reduce capacity in those areas where revenues are likely to remain muted, while preserving our client facing capabilities.

Despite the environmental headwinds, we continued to make progress in key areas. We grew loans and deposits in our core businesses, continued to utilize deferred tax assets, generated and returned capital to our shareholders and reduced our expenses. Our investments in U.S. Branded Cards are driving growth in loans and purchase sales, and we announced that we will no longer report Citi Holdings as a separate segment after 2016. Citi Holdings assets now represent just 4% of the total, and will continue to decline with signed agreements to sell an additional $10 billion.

We further strengthened our balance sheet and we held our net interest margin flat, fully offsetting the impact of the sale of higher-yielding assets in OneMain during the fourth quarter of 2015. Credit quality remained favorable overall, outside of energy, and consumer credit demonstrated stable to improving NCLs and delinquencies in every region. We maintained a diversified funding profile. Our deposit quality remained strong, we continued to execute against our debt and preferred stock issuance plans, and we reduced our estimated TLAC shortfall. And our capital, leverage and liquidity ratios remained robust.

On slide 3, we show total Citigroup results. As I noted a moment ago, in the first quarter, we earned $3.5 billion. Revenues of $17.6 billion were down 11% from last year on a reported basis, mostly driven by lower industry-wide activity in Markets and Investment Banking, the continued wind-down of Citi Holdings and the impact of FX translation. In constant dollars, revenues were down 9% year-over-year, including a 6% decline in Citicorp.

Expenses declined 3%, driven by the wind down of Citi Holdings, lower legal expenses and a benefit from FX translation, partially offset by higher repositioning costs and ongoing investments in the franchise. And net credit losses were 12% lower than the prior year, offset by a loan loss reserve build this quarter, compared to a net release in the prior year.

And now, let me turn the call over to James.

JAMES VON MOLTKE: Thank you, John. Beginning on slide 4, we show balance sheet trends over the past five quarters.

On a reported basis, total assets decreased by just over $30 billion in the past year, but increased $70 billion from year end. To better reflect underlying business trends, we presented this slide and several others in today's presentation on a constant dollar basis. On this basis, our balance sheet decreased by $23 billion from the prior-year period, slightly more than 1%. Cash and investments, which are predominantly high quality liquid assets, increased to 28% of total assets as we maintained a strong liquidity position. Citicorp loans and total Citigroup deposits each grew 5%, reflecting the strength of our core customer franchises. Reverse repos and trading assets decreased 8%, as did repos and trading liabilities, reflecting lower client activity and our continued focus on efficient balance sheet use.

Sequentially, assets increased $55 billion from a low point at year end 2015, while average assets were flat to the fourth quarter, reflecting the decline in assets during the fourth quarter to year end and the ramp back up over the course of the first quarter. Along with market activity levels, trading assets and liabilities, including repo and reverse repo, increased from unusually low levels at year end, and long-term debt increased following the extensive redemption activity in the fourth quarter of 2015.

Slide 5 presents trends in our loan portfolio in constant dollars. Total Citigroup loans increased 1% year-over-year, despite 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 institutional businesses.

Consumer loans grew 2% year-over-year, driven by 4% growth in North America, including a 2% increase in Branded Cards. International consumer loan growth overall was flat, as a reduction in mortgages was offset by continued growth in personal loans and cards.

On the institutional side, loans grew 7% year-over-year in total. Our corporate lending portfolio increased 10% based on new business and the funding of transaction-related commitments to target market clients. TTS loans declined 1%. And Markets and Private Bank loans grew 11% during the year as we saw continued opportunities to support client activity.

Citi Holdings loans decreased 32% year-over-year, driven by $18 billion of reductions in North America mortgages, including transfers to held-for-sale. Nearly 80% of Holdings' remaining loans are North America mortgages.

On slide 6, we show credit quality trends in our consumer loan portfolio. Consumer credit performance remained broadly favorable this quarter, with stable to improving NCLs, delinquency rates and reserve coverage.

Turning to slide 7, commercial banking is reported as part of our Global Consumer Banking segment, and accounted for roughly $80 million of cost of credit in the first quarter, driven by reserve builds related to the energy sector in North America. This slide provides additional details on these energy exposures.

On a global basis, we have energy exposure of $2.1 billion in the commercial business, with $1.4 billion of this amount funded, representing roughly 4% of total commercial loans. The credits are mostly in the E&P and services and drilling segments, are predominantly non-investment grade and are concentrated in North America. And our funded reserve ratio on these loans is roughly 9%.

Turning to slide 8. Let me discuss our corporate credit performance. As John noted earlier, outside of the energy sector, credit has remained broadly stable. During the first quarter, ICG cost of credit of $390 million was down from the fourth quarter, but up significantly from last year. Energy drove $375 million of this amount, including $115 million of NCLs and $260 million of net loan loss reserve builds.

Non-accrual loans increased 47% from the fourth quarter levels to 76 basis points of loans. Corporate non-accrual loans increased by $730 million sequentially, with roughly $500 million related to energy and $90 million related to metals and mining. The increase in non-accrual loans in metals and mining as well as other sectors outside of energy did not result in a material cost of credit, as we had collateral against many of these loans. The ratio of LLR to corporate non-accrual loans was 1.3 times as of the end of the first quarter.

Turning to slide 9. We provide more detail on our energy exposures in ICG. Total exposure, including funded and unfunded loans, was $57 billion at the end of the first quarter, down somewhat from December. The portfolio remains largely high grade, with 73% of total exposure rated investment grade, down from roughly 80% at year end. We did see ratings downgrades during the quarter, with about $3.8 billion of total exposure migrating from investment grade to non-investment grade due to sustained low oil prices as well as the impact of regulatory guidance. However, we also saw improvement in the underlying portfolio, as roughly $2 billion of non-investment grade exposure was canceled or repaid during the quarter and replaced with new credits that reflect the current environment.

Funded loans increased this quarter from $20.5 billion to $22.3 billion. We did not see material drawdowns against our RBL facilities this quarter, and the small amount that did occur was offset by paydowns. The increase in funded loans principally resulted from new business underwritten to the current environment, as well as drawdowns on non-RBL facilities, partially offset by some paydowns and loan sales. Our funded reserve ratio increased to 4.2%, including over 10% on the non-investment grade portion.

On slide 10, we provide some additional insight into our $35 billion of unfunded exposures to the energy sector. Of this amount, $11 billion relates to fronting risk and letters of credit. These exposures are generally highly rated – roughly 70% is single A-rated or better, reflecting structural protections.

Revolving credit facilities comprise the remaining $24 billion. Of this amount, nearly $9 billion is single A-rated or better – an example being a commercial paper backstop facility to a multinational client. And another $6 billion is already rated non-investment grade, so we would typically have maintenance covenants to protect us. Additionally, 25% of this $6 billion is secured.

This leaves us with $9.5 billion of BBB-rated revolving credit facilities, where there is the greatest risk of migration to non-investment grade.

So of our $35 billion of unfunded exposure, roughly 60% is comprised of exposure where we generally benefit from some combination of structural support, collateral or high investment grade ratings. These include fronting risk, letters of credit, highly rated revolving credit facilities and secured non-investment grade exposure totaling roughly $21 billion. The remaining $14 billion is comprised of BBB-rated facilities and unsecured non-investment grade exposures. And while this $14 billion is where we see the greatest potential risk, it is important to note that roughly half of this exposure, or $7 billion, is in lower-risk sub-sectors, including energy process industries and integrated oil and gas.

Turning to slide 11, we show the composition of our deposits, which fund over 50% of our assets. Total deposits increased 5% from last year's first quarter, despite reductions in Citi Holdings. Citicorp grew deposits by 6% in constant dollars, with continued high quality deposit flows across our franchise. The LCR liquidity value of our deposits remained stable. Consumer deposits increased 2%, including 4% growth in international markets. Corporate deposits increased 7% year-over-year, as TTS captured additional operating flows from new and existing clients.

On slide 12, we update our regulatory liquidity metrics. This quarter, we disclose our LCR on an average basis in anticipation of proposed regulatory disclosure requirements expected later this year. Our average LCR was 120% in the first quarter, higher than the levels we have maintained over the past year, reflecting both an increase in average HQLA to roughly $400 billion as well as lower net outflows. The increase in HQLA reflected an increase in cash and investments as the balance sheet grew from the relatively low levels at year end, and deposit growth out stripped loan growth in the quarter. Outflows declined mainly due to a lengthening in maturity of both deposits and repos. These changes helped us to manage our liquidity across our legal entity structure, consistent with our resolution planning work. We are working to deploy the additional liquidity efficiently, and expect to bring our average LCR back closer to recent levels over time, though it will remain elevated for several quarters.

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 13, we show Citigroup's net interest revenue and net interest margin. Our NIM was 292 basis points in the first quarter, flat to the fourth quarter, as the sale of OneMain was fully offset by the impact of higher rates. Our NIM remains high and stable, reflecting our focus on the productivity of our balance sheet, despite the impact of de-risking and holding elevated levels of liquidity. Funding costs continued to support our NIM stability, as deposit costs decreased year-over-year and increased by 1 basis point sequentially. And long-term debt costs declined, despite the increase in policy rates.

Our estimate of the net interest revenue benefit from a 100 basis point instantaneous parallel rate shift declined to just under $2 billion, and the portion attributable to U.S. rates remained stable at approximately $1.4 billion. We remain conservatively positioned for interest rates, consistent with market expectations for further rate moves.

On slide 14, we show the composition of our long-term debt outstanding. During the quarter, our total long-term debt increased to $208 billion. The parent company debt increased by $10 billion from year end to $156 billion. Benchmark debt increased during the quarter, as I will cover in a moment. Customer-related debt increased by $2 billion, but remained in the normal range. While this debt will not likely qualify as TLAC, it is part of an attractive customer franchise for us. As the TLAC rules are finalized, we intend to optimize this program relative to our TLAC needs.

Bank-level debt decreased by $3 billion, as securitization maturities were not replaced with new issuance. Credit card securitizations remain a cost-effective option to optimize our overall liquidity position, and we expect to issue in this market during 2016, though issuance will likely remain below maturity this year.

The weighted average maturity of our long-term debt increased slightly to seven years. Over the course of 2016, we continue to expect our weighted average maturity 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 preferred stock outstanding has reached $19 billion, including the issuance earlier this week.

Turning to slide 15, let me cover our issuance and redemption expectations. In 2016, we continue to expect gross issuance of roughly $25 billion of senior and subordinated debt, of which we issued $7 billion in the first quarter, slightly ahead of pace for the year. This included $700 million of foreign currency issuance under U.S. law, and $1.5 billion of subordinated debt and had a weighted average maturity of 7.6 years. Four billion dollars of debt matured during the quarter out of a total of $13 billion expected for the full year. We expect buybacks in the range of $4 billion of benchmark debt in 2016, though we were not active buying back debt this past quarter. This combination of new issuance, maturities and redemptions could result in net issuance of benchmark debt of approximately $8 billion in 2016, as we build towards TLAC compliance.

Our total tier 2 capital currently represents roughly 190 basis points of risk-weighted assets. We expect to issue subordinated debt to target roughly 200 basis points over the course of the next several years, as well as to offset amortization of capital credit and to replace redemptions of subordinated debt.

And finally, including the $1.5 billion preferred offering we announced earlier this week, our preferred issuance for the year totals $2.5 billion. Since late 2012, we have issued a total of $19 billion of preferred stock, with a weighted average coupon of 6.1%. This issuance brings our additional tier 1 capital to slightly more than our targeted level of 150 basis points of risk-weighted assets.

On slide 16, we update our estimates of our total loss absorbing capacity based on the Federal Reserve's October 2015 proposed rule. During the comment period, numerous industry participants contributed feedback on many elements of the proposal, including the calibration of the requirements and the various debt eligibility criteria. We remain hopeful that the final rule will reflect many of these comments through changes to the rule, the addition of grandfathering provisions, and clarifications of many of the technical details. We expect the final rule to be released in the next several quarters, which will allow us to refine our issuance plans to achieve compliance.

Based on the assumptions set forth on the slide, we currently estimate that we meet our expected requirement under the total loss absorbing capacity definition, as we show in the middle column on this slide.

Accordingly, we expect our estimated long-term debt requirement of 9% to remain our binding constraint under the TLAC rules. Our estimate of this measure is shown in the right most column. We've reached a ratio of 8.1% of our risk-weighted assets as of the end of the first quarter, equating to a long-term debt shortfall of $11 billion. The $4 billion improvement from last quarter reflects the growth in our benchmark debt outstanding, partially offset by growth in our risk-weighted assets. We can reduce our issuance needs by extending the maturity profile of our issuances. As maturities extend, the share of our benchmark debt rendered ineligible due to remaining time to maturity will decrease. So overall, we expect to increase our long-term debt outstanding by approximately $8 billion from today's levels over the 11 quarters remaining before the rule takes effect.

As we note on the slide, this estimate excludes the impact of non-U.S. law debt, which could add approximately $10 billion to our needs if the final rule is consistent with the proposal in excluding this debt. Our current estimates of long-term debt include $22 billion of non-U.S. law debt, $12 billion of which will roll off between now and 2019. Of course, our estimates are necessarily subject to the final rules, once adopted.

To summarize, let me emphasize three points. First, based on our current analysis, we believe the proposal's impact on our issuance plan and earnings is manageable. We expect our total incremental issuance of benchmark debt to be roughly $8 billion as a result of the TLAC rules. Consequently, our efforts remain more concentrated on the form of our debt rather than the amount of it. We expect the rule to be finalized later this year, allowing us to further refine our plans. And importantly, we expect to use the time available to us to build our eligible debt outstanding in a gradual and economically rational way, pursuing our regular issuance plans while extending our maturity profile and reducing ineligible liabilities.

Turning to slide 17, let me summarize our capital position, which remains among the strongest in the industry. During the quarter, our CET1 capital ratio improved to 12.3%, driven by net income, OCI movements and approximately $1.6 billion of DTA utilization, even as we return $1.5 billion of capital to shareholders in the form of common share buybacks and dividends.

Our total capital ratio increased 40 basis points to 15.7%, driven by growth in CET1 as well as our issuance of preferred stock and subordinated debt. And our supplementary leverage ratio improved to 7.4%, while Citibank's SLR improved 20 basis points to 6.9%.

Moving to our last slide, let me summarize four key points. First, despite a challenging environment, we earned $3.5 billion of net income and took a number of actions to improve our returns while investing in the core franchises. We utilized $1.6 billion of DTA. And we continued to make progress in winding down Citi Holdings, which we will no longer report separately after 2016.

Second, we've maintained total assets of $1.8 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, we've continued to prepare our business and balance sheet for the ongoing evolution of the regulatory landscape from a position of significant strength. We reported a CET1 capital ratio of 12.3%, an SLR of 7.4% and an average LCR of 120%.

And finally, 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.

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

QUESTION AND ANSWER

OPERATOR: (Operator Instructions) Our first question will come from the line of David Knutson with Legal & General. Please go ahead.

DAVID KNUTSON: Hi, good morning, guys. Thanks again for doing a fixed income call.

JOHN GERSPACH: Our pleasure.

DAVID KNUTSON: Couple quick questions. One in regards to oil and gas. Is there anything about this cycle or your exposures that would significantly change the recovery expectations on non-performing debt or debt that ultimately has to be charged off?

JOHN GERSPACH: Compared to what?

DAVID KNUTSON: Compared to the last cycle, compared to average expectations? Maybe if 40% of notional is what's expected generally on a recovery, is that going to be significantly wrong this time around or is it too early to tell?

JOHN GERSPACH: It's too early to tell. I'm not prepared to go into the expectations of what we're going to recover. We're in the process, as we've said, of establishing what we believe are the appropriate reserves. You understand that we've got a history of setting up reserves and then having NCLs actually fall far below the level of reserves that we set up. Let's hope that that's what happens again this cycle, and then we'll see about, of those NCLs, what level of recovery that we ultimately would get. But I think it's a bit early to go into any sort of detail in that.

DAVID KNUTSON: Okay. Two other real quick ones. The drawdown in the first quarter of 2016, would you characterize that as kind of chunky or diverse among your borrowers? Was it just a few folks taking down the rest of their line, or was it broadly spread out across borrowers and sub-sectors?

JOHN GERSPACH: I'd characterize it as being more broadly-based than chunky.

DAVID KNUTSON: Got it. And then the last question, with TLAC coming out, as you said, over the next few quarters or later this year, will the indenture you're issuing debt under be significantly different from the one that you're issuing debt under today?

JAMES VON MOLTKE: We do expect obviously changes to reflect the regulatory guidance that's embodied in the draft rule or the proposal. But I'd have to say, I can't predict what those changes would be, and therefore how extensive they would represent for our indentures. I think market practice will evolve, and as it evolves, we will obviously follow that market practice, and all of that awaits the final rule that we expect in the coming quarters.

DAVID KNUTSON: Got it. Thanks very much, guys.

JAMES VON MOLTKE: Thank you.

JOHN GERSPACH: Not a problem, thank you.

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

PRI DE SILVA: Good morning, John and James.

JOHN GERSPACH: Good morning.

PRI DE SILVA: In terms of the preferred stock outstanding, do you need to run your balance at 1.5% of RWAs for reported capital basis, purposes, or do you need to have a slightly higher amount given CCAR and the potential for expanded RWAs?

JAMES VON MOLTKE: I don't think we look at the 150 basis points as a required level or something that we have to manage to with precision. And frankly, where we run at higher levels of Common Equity Tier 1, obviously we can afford to have AT1 levels slightly below 150 basis points if risk-weighted assets essentially outgrow the preferred already outstanding. So in short, we would expect it to evolve over time, but we're not going to adhere to a 150 basis point level as a minimum that would drive additional issuances given balance sheet growth.

PRI DE SILVA: And is the constraint CCAR, or is it the reported levels?

JAMES VON MOLTKE: It features in the overall capital ratios that we calculated as part of CCAR, but frankly hasn't been our constraining ratio. So we look at it as a natural part of the capital structure. The regulation suggests 150 basis points is a sensible level, and so more or less, we intend to heed to that, but it isn't specifically CCAR-driven.

PRI DE SILVA: And then kind of changing gears for a second. In terms of oil and gas, the contagion effects, is that – are you seeing any effects of contagion going from direct into indirect, or has the oil patch been such a great market given a bit higher employment and now it's kind of getting back to a normal run rate?

JOHN GERSPACH: Well, I wouldn't characterize anything as normal run rate or anything like that. But as of yet – absolutes always give me a problem, so I don't want to say that we haven't seen any contagion – but we certainly haven't seen anything that we would consider to be, oh yeah, here comes the contagion impact of that. So there doesn't seem to be that contagion effect at this point in time, and we'll see how that develops. Again, there are a lot of people who benefit from lower oil prices.

PRI DE SILVA: Yup. And my last question, in terms of TLAC and given the prompt corrective actions, how do you think over time a bank should look at TLAC? They should look at the same as the risk-based capital levels, should you have a higher buffer particularly since we have a long-term debt requirement that we haven't had before? How should we look at that?

JAMES VON MOLTKE: So I guess first of all, I'd say we'll wait for the final rule before determining what a proposed buffer would look like. Among other things, we need to see how hard the floor is and what the sanctions are, and whether there are cure periods or other things that emerge in the final rule.

But ultimately, I'd also point out that the way the rule is written, essentially, there's a year-and-a-half period of time given the haircuts in the one and two years to maturity buckets that represent in and of themselves a buffer. And so how much buffer one would want to hold above that is something that we'll have to determine once we see the final rule.

PRI DE SILVA: Great, thank you very much.

JOHN GERSPACH: Very welcome.

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

MARK KEHOE: Hi, good morning, thank you for the call. Just two questions on regulation. Earlier this month, it sounds like the Treasury and the IRS issued details around earnings strip and the impact of U.S. entities making investments overseas. Does that impact your ability or your willingness to issue foreign law debt?

JAMES VON MOLTKE: The Treasury – not foreign law debt, no. Foreign law debt is something we're going to give thought to based on the TLAC rule. So there is an implication in TLAC of how much foreign law debt we would issue. But as it relates to the Treasury guidance that was issued a few weeks ago, it's obviously something we're examining. But it affects the intercompany flows rather than third-party debt, so it's an intercompany rather than third-party issue.

MARK KEHOE: So how does that inter play with TLAC? Does it have any adverse consequences for how you would fund your operations in the UK for example?

JAMES VON MOLTKE: No, I'd view the two as basically totally separate.

MARK KEHOE: Great, thank you. And the second question, really just to understand whether there will be any implications of the reproposed single counterparty limit rule and whether that will have any material impacts on your business exposure to other bank holding companies? Thank you.

JAMES VON MOLTKE: So thank you for the question. So we are looking obviously at the reproposal that was issued. We see some significant benefits in that reproposal versus the prior iterations. But obviously, we're continuing to assess whether there are implications in our business against our counterparty exposures as they exist today, and where there are exposures, what the mitigation actions might be. Overall, we look at it as not imposing significant new constraints on our business, but as I say it remains something that we're looking at carefully and evaluating.

MARK KEHOE: Great, thanks.

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

SCOTT CAVANAGH: Good morning, guys, and thanks for holding this call.

JOHN GERSPACH: Good morning.

SCOTT CAVANAGH: Always well-appreciated. So just looking at your commentary about extending the average maturity of your liabilities, and the, was it, $4 billion of expected liability management this year. Could you address one part of your curve which seems to be particularly out of whack with its peers and within its own curve, particularly the 10-year senior bucket? How are you thinking about this given the amount of debt outstanding at that particular point in the curve and looking to address that?

JAMES VON MOLTKE: Thanks, Scott. What I'd say is, whenever we issue and as we look at our issuance plans, we're obviously looking carefully at the market environment where secondary levels are and also our maturity and tenor stack. So those are considerations that we take into account whenever we issue. I don't want to talk to our specific plans in terms of tenors that we'll issue in the near term. What we have said, as I noted in the prepared remarks, is given the overall desire to extend maturities, we are issuing with a view to TLAC compliance, and that obviously features into our thinking. That's really all I'll say on that, Scott.

SCOTT CAVANAGH: Okay, and two other things. I do appreciate your commentary to David earlier in the call. I think most people in the investor community, as we get more details on the TLAC and the final ruling, will look to work with you and others on a new indenture, and what language would be appropriate given the new constraints.

And lastly, I just wanted to say congratulations on your living will results. I think that was unexpected by most, but very well appreciated. Good job.

JAMES VON MOLTKE: Thank you, Scott.

JOHN GERSPACH: Thank you very much.

JAMES VON MOLTKE: And as it relates to the indentures, we obviously also appreciate the work that the investment community has given to providing feedback to the agencies on the indenture subject. So thank you.

SCOTT CAVANAGH: Thanks.

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

HIMA INGUVA: Thanks again for doing the call. Very helpful.

JOHN GERSPACH: Our pleasure.

HIMA INGUVA: Two questions. Great. So as you had some time to review the Fundamental Review of the Trading Book, are you able to give us an idea on its effects? And then would like to know how you're thinking about it? One of your peers has quantified some impacts.

JAMES VON MOLTKE: I'd say, first of all, it's too early for us to really quantify an impact with precision. We obviously looked carefully at FRTB when it was released earlier this year, noted some improvements and some areas where the improvements were less than the industry had expected and hoped. Whenever these new rules are issued, we have to put a lot of work into our expected mitigation actions. And so estimating the ultimate RWA potential increases that would come from it really requires that we understand the full effect of those mitigation actions, and I'd say that's where we are today.

HIMA INGUVA: Okay, great. Thank you. And then making sure I understood this correctly, so sub issuance should be slim the rest of the year considering where you are at? And then there should be no more preferred issuance in the remainder of the year. Is that accurate?

JAMES VON MOLTKE: I think broadly accurate. Obviously I never want to say never on issuance. And I think the first or second question on preferred, I think, captured our view there that we're basically at our target level, and so we'll assess from here.

As it relates to sub debt, I think what we want to indicate is that we are slowly over the course of this year and next migrating or transitioning from a build mode to get up to the 200 basis points target level to more of a sustain mode, where our issuance would really address amortization and – of a capital benefit than maturities. How quickly we make that transition, it will depend on the market environment overall and our issuance plans as well as potential redemption actions. So it's hard to give you precise guidance on what that issuance calendar looks like.

HIMA INGUVA: Great. And also my congrats on living will. That was pretty neatly done. Thank you.

JAMES VON MOLTKE: Thank you.

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

ARNOLD KAKUDA: Great, thanks for holding the call, guys, and taking my call. So I'm looking at the debt buyback plan for the year, and it seems like it went down from $8 billion in 4Q to $4 billion now. And also the fact that you guys didn't do debt buybacks in 1Q and spreads kind of blew out. So just wanted to get your thoughts on why did the – why no buybacks in 1Q, and then did you actually take down your debt buyback plans for 2016?

JAMES VON MOLTKE: So one clarification to offer on that slide is that we – our presentation moved from including structured debt in the buyback expectations to capturing only the benchmark component of potential future redemptions. So part of the gap that you're that noticing reflects really the population of debt that we're talking about.

I'd say secondly, the redemption actions, as we've said before, from time to time as was in the case in the fourth quarter, reflect more strategic balance sheet positioning, but on a BAU basis are more about managing the efficiency of our funding curves in the secondary market. And so they are – I'd characterize them as more opportunistic. In the first quarter, we just didn't see the right conditions to engage in significant redemption activity, and so it was really market dependent, our decision-making in the first quarter.

ARNOLD KAKUDA: Okay, great. And then so your deposits continue to grow and LCR is really robust at 120%, so it seems like you're pretty well set up for any kind of use, using that to, I guess, potentially buy back some more equity. I think you mentioned the stronger ask in CCAR this year. But also potentially can you manage down that LCR if, let's say, the Fed were to raise rates two times this year and then you might see deposit outflows? Will that also bring down your LCR levels?

JAMES VON MOLTKE: What I'd say is we do see the 120% average level from the first quarter as elevated, and as I mentioned it reflected a number of factors that existed in the first quarter but also have been building over time. We would like to manage it down more into a 110% to 115% level, which we think is consistent with our resolution planning work, generally where we want to hold cash and investments. But that takes some time in terms of optimizing the balance sheet, and to some extent is also market dependent in terms of opportunities to grow loan assets and other illiquid assets. But it is something that we focus on, and will seek to optimize in the coming quarters.

ARNOLD KAKUDA: Okay, great. And then, James, again, so you've had a few quarters in the new role under your belt and I'm curious to hear about your impressions. So what has been the most surprising thing about being the Treasurer? And then also what has been the biggest gap between what analysts and investors focus on versus what you think is really important about Citigroup?

JAMES VON MOLTKE: That's a very broad question. I guess the first thing that I would say is, and this isn't a surprise, but the focus of our work for a number of years has been to position and evolve the balance sheet to optimize it under a series of new regulations. We've been, I think, an early adopter in terms of moving the balance sheet to LCR compliance and introducing a number of other elements into our liquidity and capital structure thinking. And I guess the short answer is, there's continued work ahead, and that is a focus, perhaps not a surprise but certainly a focus that I and the team have as we move forward.

ARNOLD KAKUDA: Okay, great. Thank you.

JAMES VON MOLTKE: Thank you, Arnold.

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

DAVID JIANG: Hi, guys. On the TLAC requirements, can you explain again how you expect to fill the $11 billion deficit? Did I hear that most of that will evolve naturally as you extend out the duration of your liability structure?

JAMES VON MOLTKE: Yes, let me comment. One thing to understand about the $11 billion is that that can move around from time to time based on the profile of, if you like, our decay, the decay that over time takes place in terms of instruments moving either from beyond two years into one to two years, or from two years into the one year and in bucket. So what matters to that long-term debt shortfall estimate is not over the absolute amount of debt outstanding, but at the margin, the amount that's coming into a decay window. So that's the first thing.

The second thing is that that number doesn't really accurately represent the shortfall, at least not on a forward-looking basis. And what we're building is issuance plans through to the January 1, 2019 effective date of the rule, and so it's managing a much longer arc of a shortfall than the quarter to quarter arc or quarter to quarter positions that we will be reporting to you each quarter. Does that make sense, is that helpful?

DAVID JIANG: Right, because each quarter you're going to have a certain amount of debt that falls into the decay bucket.

JAMES VON MOLTKE: Exactly. But the $8 billion represents a longer term glide path that's influenced by, among other things, the percentage of the total benchmark debt that is eligible, and that is driven, as we've mentioned, by the overall weighted average maturity of our issue debt.

DAVID JIANG: So you're planning – your longer-term planning is based on the $8 billion, and then that number shouldn't really change all that much quarter to quarter?

JAMES VON MOLTKE: Exactly, that's the way we'd summarize it. We'd steadily look to bring that $8 billion down to zero over the remaining 11 quarters of the period. Thank you.

DAVID JIANG: Right, right. Okay. On the energy exposure, can you tell us what portion of that is criticized and what the change was from your end?

JOHN GERSPACH: I don't have the criticized numbers in front of me. I'm sorry.

DAVID JIANG: Okay.

JOHN GERSPACH: But you can see some of the movement obviously in the non-accrual loans. We talked about that when we did the earnings call, that of the $730 million of increase that we had in non-accrual loans, about $500 million or so of that was energy-related. So you can see it there in the non-accrual loans. And again, a large portion of those non-accrual loans are still performing. I think we cited a reference of something close to or around two-thirds of those loans are still performing.

DAVID JIANG: Okay. And given – I'm not sure how far you are through the redetermination, spring redetermination – can you quantify what portion of the borrowing base has been declined or has been taken down?

JOHN GERSPACH: No, we're still going through the spring redeterminations as we said before. What we did comment on and what we did offer as commentary last week was that our expectation is that across our CCB RBL exposure as well as the ICG RBL exposure that our expectations coming out of the spring redeterminations is that we could see as much as a $500 million reduction in the borrowing capacity in our exposure.

DAVID JIANG: That's just on the RBL?

JOHN GERSPACH: That's just on RBL.

DAVID JIANG: Right, that $4 billion. Okay. Thank you.

JOHN GERSPACH: All right.

JAMES VON MOLTKE: Thank you.

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

ROBERT SMALLEY: Hi, good morning.

JOHN GERSPACH: Hi, Robert.

ROBERT SMALLEY: Hi. Thanks for doing the call as well as the industry-leading disclosure on energy. It's greatly appreciated. Couple of questions on energy, couple on the living will.

On the energy side, concern is that some of the borrowers that are stressed will, for lack of a better term, make a run at the bank in that drawdown revolvers quickly try and get their hands on as much funding as they can before they might file. Can you talk about how your efforts to secure revolvers before they're drawn or put in other covenants there so you avoid that kind of situation where stressed borrowers are kind of creating their own dip before they file?

JOHN GERSPACH: Well, let me start. One, we haven't seen that behavior at all, so there has been nothing to date to suggest that. Having said that, it's not that we don't watch that. We watch that very closely. And again, we went through – I think James did an excellent job of going through the nature of the unfunded exposure that we have. And so you can see that, as we work our way down through that unfunded exposure, there's actually a very small portion of our unfunded exposure that we really believe to be truly at risk with a big R. And we work with the companies very, very closely to make sure we've got the right covenants, that we watch their performance, so it's something that we monitor quite, quite closely. Can we prevent it 100%? No.

ROBERT SMALLEY: Right.

JOHN GERSPACH: No. But we haven't seen that type of behavior as yet.

ROBERT SMALLEY: Okay. Thank you for that. Just an information point, Pemex exposure and PDVSA, where are they captured, in GCB or ICG? Could you give me a little guidance around that?

JOHN GERSPACH: Well, we don't go into individual names, but to the extent that we've got exposure there, Pemex would be part of our Latin America exposure. So if you take a look at slide, whatever it was, slide 9.

ROBERT SMALLEY: 7 and 9, yes.

JOHN GERSPACH: It would be – well you asked that is it CCB or is it ICG? Anything to do with – virtually almost anything to do with Pemex would be in the ICG.

ROBERT SMALLEY: Okay. And PDVSA?

JOHN GERSPACH: It's a Venezuela name. If we had any exposure to PDVSA, then it would be part of Latin America.

ROBERT SMALLEY: Right. And you've written that down as well as everything else in Venezuela, I'm assuming?

JOHN GERSPACH: No, no, no. What we wrote off in Venezuela, I just want to be very clear about this.

ROBERT SMALLEY: Right.

JOHN GERSPACH: Venezuela, we took a write-off of $180 million against our capital that we have in Venezuela strictly because of the change in exchange rates.

ROBERT SMALLEY: Right.

JOHN GERSPACH: So that was exchange rate driven, that was not a credit related or anything else. However, what that results in is the fact that we now have $4 million worth of capital left in Venezuela expressed in dollar terms.

ROBERT SMALLEY: Okay. That makes sense. On living wills, could you share with us anything that was cited as reasons, more exemplary type of parts of the plan, that the regulators focused in on and said this is what they are really looking for with the plan overall?

JOHN GERSPACH: I think that the letter that was published by the Fed and the FDIC pretty much captures their views as to where they saw shortcomings, and where they saw that we had made improvements over prior submissions.

ROBERT SMALLEY: Right. And I've brought this up in the past on this call about your relationship with the regulators. Can we look at this as getting right-footed in the relationship there, and that this should translate more broadly across regulatory spectrum as well going forward?

JOHN GERSPACH: I think that we've had a very good relationship and very good and fruitful dialogue with our regulatory brethren, and both the Fed, the FDIC, the OCC, everyone. I don't want to leave out any names, so everybody – so, no names were meant to be left out. But, and I think that when it comes to things like the living will, like CCAR, like DFAST, all the agencies have been very open to and very willing to extend time to engage us in dialogue where we had questions, where we sought clarification, and I've been very happy with the relationship that we have. And I think that, again, what's up to us is to demonstrate that we are making progress and I think that we can state that we have made significant progress.

ROBERT SMALLEY: Great.

JOHN GERSPACH: It's all part of what we've been working to, which is a simpler, smaller, safer and stronger institution.

ROBERT SMALLEY: Great. Thanks very much.

OPERATOR: Your next question comes from the line of Rob Hajduch with U.S. Bancorp Asset Management. Please go ahead.

ROB HAJDUCH: Hi, thanks for taking my question. It's Hajduch, by the way. But anyway, in terms of your commercial energy exposure, what's the distinction between that and what's included in the ICG?

JOHN GERSPACH: It's basically size of company. So in other words, as we take a look at, from a commercial company type of exposure, the larger companies will be banked within the ICG. Our ICG strategy is really to serve, for the most part, large multinational companies and their subsidiaries based around the world.

ROB HAJDUCH: Right, so where would you draw the line for the commercial versus the ICG type loans or exposures?

JOHN GERSPACH: It has to do with more of a revenue base and the type of relationship. So there's a general line, but I don't want to call it an absolute line of demarcation. But what you would anticipate to be the smaller companies, those would be more in the CCB business and our commercial business, and then the larger companies would be who gets banked by the ICG.

ROB HAJDUCH: Okay. And is there a difference in maybe the underwriting process for the two different exposures? Or are they –

JOHN GERSPACH: Same rigor, different credit teams obviously. We've got credit teams that are focused on the ICG and then we've got a credit team focused on CCB. CCB would be perhaps just a bit more hands-on from time to time, because again, you're dealing with smaller types of companies.

ROB HAJDUCH: Right.

JOHN GERSPACH: But same intense process.

ROB HAJDUCH: And what about the redetermination process?

JOHN GERSPACH: That's standard.

ROB HAJDUCH: Okay. So just, I'm looking at your total exposure is about $2 billion roughly. Do you have any guidance on once you're through this process, how much of that you might take down? I thought you mentioned something earlier in the call, but I didn't catch it.

JOHN GERSPACH: What we said was that our, again, our rough estimate would be that when we get finished with the spring redeterminations that across both ICG and Consumer, the RBL exposure could come down by, say, $500 million. And if I was looking to split it, it would be $350 million, $150 million – $350 million in the ICG, $150 million in Consumer, something like that.

ROB HAJDUCH: Okay, great. Thank you.

JOHN GERSPACH: Okay, not a problem.

OPERATOR: Your next question comes from the line of Michael Rogers with Conning. Please go ahead.

MICHAEL ROGERS: Yes, good morning, John and James.

JOHN GERSPACH: Hi, Michael.

MICHAEL ROGERS: How are you?

JOHN GERSPACH: Good.

MICHAEL ROGERS: Good. I just wanted to ask you a little bit, the rating agencies have certainly been active with respect to your ratings in the last few years and we're in a fairly quiet period right now. Could you talk a little bit about where you may see them focusing of late, and either sources of concern or sources of items that could benefit your ratings in the next 12 to 18 months?

JAMES VON MOLTKE: I don't want to comment on specific potential dialogue or future actions with the agencies. I will say, they – and similar to my answer about my own focus since I've taken the job – the agencies have been quite focused on the impact of regulations on the bank balance sheet. So looking at TLAC, looking at the evolution of, among other things, living wills or resolution planning, that has been a focus for them. Other than that, I would say it's more of a BAU focus and dialogue.

MICHAEL ROGERS: Okay. In your seats, what are your chief worries right now as you look out 12 to 18 months?

JOHN GERSPACH: I think the next 12 to 18 months we'll be looking to see some level of growth coming back into the economy, or if there isn't, then what does that future hold. I think we're all focused on that right now more than anything else. We'd like to see the economies improve and regain some sense of – that sense of growth. Maybe it will come after the U.S. elections, I don't know.

MICHAEL ROGERS: Thank you very much.

JAMES VON MOLTKE: Thanks, Michael.

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

KEVIN MALONEY: Hello. Just a few questions on the credit card portfolio, because that's a key product now and you've spent a lot of time on it. When you onboard the Costco portfolio, how quickly do you contact clients? Have you already begun that process even before you've taken on the portfolio?

JOHN GERSPACH: I believe that all the clients now have been notified that they can expect new cards to be coming in the mail. So they've all been contacted about what is going to be happening, and been given some estimate of dates as to when they are going to be receiving the new Citi Costco card and what will happen with their old card, and whether it will be usable or not. So, all of that has been communicated to the Costco card base.

KEVIN MALONEY: Okay. And we heard a lot about the domestic portfolio, but there hasn't been a lot of discussion about the international credit card business. And I was wondering if you could give some growth parameters, where do you think you can move that operation?

JOHN GERSPACH: Well again, when you take a look at our international cards business, it's hard to paint it with one large brush. You really need to take a look at it a little bit on a country-by-country basis. So we gave some broad commentary certainly around the Asia cards business when we did the call last week. And that commentary is, we've been going through a period of working our way through some regulatory headwinds. The headwinds meaning that, just as the U.S. adopted things like CARD Act, almost every country in Asia over the last year, two years or so, has introduced some level of debt caps and income restrictions. So we are working our way through that. We believe that that regulatory pressure now is beginning to abate, and we do believe that our Asia cards book now should be able to exhibit revenue growth sometime in the second half of 2016. When you take a look, we've been able to grow accounts there, so we think it's got good growth aspects. It's a matter of working our way through those regulatory implications, and we think we're on our way to do that.

In similar fashion, with Mexico, we're in the process now of looking at what we want to do with the Mexico cards business. One of the things with Mexico cards is, we do very little acquisition of new cards through digital channels. We basically are almost solely reliant on our branch structure in order to attract new card accounts, to gain new card accounts. That has worked in the past, but we think that there's actually some good growth to be had if we can replicate some of the success now that we've had in the U.S. with expanding into digital channels. As of now, we get just a little over half of our new accounts in the U.S., new card accounts, through digital channels, and we're in the low single digits in Mexico right now. So, we're making the investments to be able to, again, take advantage of digital channel acquisition in Mexico, and that should have some impact on the growth prospects in Mexico, but it's likely going to be a 2017 impact as opposed to something that you'll see this year.

KEVIN MALONEY: Great. Just one last question. On the Asian credit card business, I fully understand there's been regulatory hurdles. Did that restrict your ability to market? And why would revenue speed up?

JOHN GERSPACH: No, it hasn't restricted our ability to market. But what it has done, it's meant that various consumers found out that they were at the limit, so we haven't seen growth out of some segments of the portfolio. And so, even though you're growing other segments, to the extent that you've got a larger amount of your client base that perhaps are now facing credit restrictions, it's just taken awhile for consumers to adapt to the new rules.

KEVIN MALONEY: Understand, thanks a lot.

JOHN GERSPACH: Not a problem. Our pleasure.

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

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

OPERATOR: Ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.

