## 2017 Goldman Sachs US Financial Services Conference

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**HOST**
Richard Ramsden, Goldman Sachs Analyst

**SPEAKERS**
John Gerspach, Citi Chief Financial Officer

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**QUESTION AND ANSWER**

**RICHARD RAMSDEN:** Welcome to the last presentation of the conference. We're delighted that it's John Gerspach from Citigroup. I think John is well-known to everybody here. He's played a critical role through divestitures of legacy non-core assets at Citigroup over the last 10 years, and he's played a central role more recently in improving the returns in the core parts of the business. I think this is the 8th time you being at this conference, and I think you've been at this conference and I think you've been CFO for nine years now so.

**JOHN GERSPACH:** You probably know that better than I do at this point. Actually, its eight years: July 2009. So, eight years, but this will be the 9th time I was CFO while you held this conference. So, there you go.

**RICHARD RAMSDEN:** Thank you for joining us. So, perhaps we can just start with a very, very brief recap around the Investor Day.

**JOHN GERSPACH:** A brief recap of over four-and-a-half hours.

**RICHARD RAMSDEN:** Yes, exactly. And look, I think the specific thing I just wanted to go through is, can you remind us of the macro assumptions that you built into the 2020 targets. And can you contrast them with what we see today and what your expectations are for the next one to two years?

**JOHN GERSPACH:** Yeah. Thanks, Richard. When we built the Investor Day presentations, the economic model that we had was – the economic assumptions we had basically had the U.S. continuing at a fairly subdued GDP rate, right around 2%, eventually by 2020 growing to 2.5%. So, pretty much a continuation of the environment that we have today.

From a rate perspective, at that point in time, we were looking at Fed fund increasing with a 25-basis point increase in December of this year, which I think we're pretty much on track for right now, and then a 25-basis-point increase in each of 2018, 2019, and 2020. One 25-basis-point increase in each of those years. At the point in time, we thought that was a fairly reasonable view of where rates were going to be. Based upon people's views right now, that might be viewed as being conservative, but that was the backdrop in which we had.

For the rest of the world, Mexico, similar to the U.S., a GDP gradually increasing to about a 2.5% GDP growth rate in 2020 in Mexico. And at the beginning part of the year, certainly on the heels of the U.S. election and a lot of the discussions about NAFTA, we certainly saw a drop off in the Mexico GDP. But as the year has gone on, we've seen that bit of recovery. So, we're still very constructive as far as that view in Mexico, and we feel good about Mexico going out into the future.

So, again, rest of the world, kind of a very similar continuation of what we see today. As we built that plan, what we tried to take was a very measured approach as to where we would see global growth going.

**RICHARD RAMSDEN:** Okay. And it obviously feels there's some potential upside at least to the scenario – at least on rates and U.S. economic growth if we get tax reform. Would that be a fair comment?

 

**JOHN GERSPACH:** Yeah. I'm sure you're going to ask me about tax reform, but yeah, we would think that tax reform has got the potential, certainly, to actually cause the U.S. growth rate to certainly go above where we had pegged it as part of the Investor Day scenario.

**RICHARD RAMSDEN:** Okay. So, with that as context, can you talk a little bit about what gives you confidence in the revenue component of the target. I know it was a big discussion point during the conference. I know there's various moving pieces, but in totality, what gives you the confidence as you look out to 2020 that you can get to those numbers?

**JOHN GERSPACH:** Yeah, I think beyond revenue, I mean, it's really the – the metrics that we really wanted people to focus on was the improvement in the RoTCE. And so, really looking at our ability to produce steady, sustainable improvements in our net income, but really then driving that RoTCE.

So RoTCE obviously has got a numerator and a denominator to it. From a numerator point of view and focusing on your question about revenues, again, our view was it was a balanced plan. If you look at the revenue projections, go back to Investor Day, we had revenue growing for Citi at about a 3% compound annual growth rate through the period. Slightly higher, of course, in our core businesses and then we've just got a continued run-off of legacy assets.

But it wasn't that we had something on a hockey stick. For us, it was about sustainable growth with a lot of that growth concentrated in what you would consider to be core banking businesses: TTS, where you've seen that momentum already; Securities Services; our Private Bank; Investment Banking, we've had a great year in Investment Banking. And then, some of the areas where we've been making investments: Equities, U.S. Cards, U.S. Retail Banking. And we continue with a modest growth rate as far as the revenues in International Consumer as well.

So, again, fairly balanced, not overly dependent on one product or one geography. And so we felt really good about that balance. You combine revenue growth, even modest revenue growth, with a focus on expenses, you get positive operating leverage. Positive operating leverage, good revenue, should be able to grow sustainable net income.

**RICHARD RAMSDEN:** Okay. And just briefly on the expense side. I mean things can obviously change in terms of the top line. How much of a margin did you build in into the incremental expense flexibility, if the revenue environment does deteriorate for any reason?

**JOHN GERSPACH:** Yeah. If you look at the plan, the plan has got a certain amount of, obviously, expense efficiencies that are built in there, but also a sizeable piece of investments. We've got about $1.5 billion worth of investments. So if the revenue picture looked a little bit worse than what we had been counting on, there are definitely some things that we could do. Comp would certainly be something that we would adjust, but we could also look to – obviously, if the revenue wasn't there, transactional expenses would be somewhat less. And then we could either re-pace or re-prioritize some portion of that $1.5 billion of investment. I'm not saying we could completely offset any shortfall in revenues, but we still should be able to produce something that is sustainable, consistent growth.

**RICHARD RAMSDEN:** Okay. Got it. Okay. So before we talk about some of the businesses, let's talk about the current environment. We obviously heard from a number of your peers yesterday about the capital market environment. Volatility is obviously very low. There seems to be a lack of client engagement in certain businesses. That said, your business is obviously different on the capital market side. Are you seeing comparable trends?

**JOHN GERSPACH:** We are. I mean, when you take a look – you mentioned the volatility; volatility certainly has been subdued throughout, I'd say, much of the fourth quarter. And, of course, that's in stark contrast to the more robust trading environment that we would have seen last year on the heels of the U.S. election. Now, most of that impact we're seeing in fixed income, and fixed income had the biggest benefit from last year. And so, it has seen most of the lack of volatility this year. And with our business, we are more heavily weighted towards fixed income in our trading business than equities...

**RICHARD RAMSDEN:** And towards rates and FX.

**JOHN GERSPACH:** ...and towards rates and FX. And so, when we look at it, that's really giving us a difficult comparison year-over-year.

**RICHARD RAMSDEN:** So I think the banks yesterday said down 10% to 15%. Is it comparable to you?

**JOHN GERSPACH:** We would say that, given that and given our business mix, we would probably look at the combination of fixed income and equities trading revenues being down year-over-year something in the high-teens percentage. And again, it's mostly fixed income.

And just to your point, if you look at kind of beneath the surface, it's really in the developed market products, so that G10 rates and G10 currencies, which is a large part of our business. We're seeing stability in the local markets. But in the G10 area, yeah, that's where we're seeing the bigger impact.

**RICHARD RAMSDEN:** Okay. And how does that fit into your overall outlook for the fourth quarter?

**JOHN GERSPACH:** Everything else pretty much in line with what we would have said as far as the outlook when we had the third quarter earnings. Investment Banking is performing as expected. Our expectation would be that we'd get year-over-year growth in the high-single digits. And so, when you take a look at Investment Banking -- Consumer's pretty much in line. I think what you're going to see is that, just given the shortfall in markets-related revenues, our efficiency ratio is likely to tick up in that fourth quarter perhaps to 59%. But even with that, we are on track to produce the 58% target that we had for operating efficiency for 2017.

**RICHARD RAMSDEN:** Okay. So let's talk a little bit about some of the businesses. Let's start with consumer. You've had a lot of success in acquiring portfolios in the Card business in particular. Can you talk a little bit about what you think your competitive advantage is in terms of those acquisitions and how does that set you up for future portfolio bids? What's your appetite to add to that portfolio in particular in some of the retail areas where there are obviously some concerns?

**JOHN GERSPACH:** Yeah I would say that the appetite is there for the right portfolio. Best Buy was the right portfolio. Costco was clearly the right portfolio. And so we'll see as other portfolios come in whether or not they make sense. Don't forget, we're talking about two different types of portfolios there. Costco, definitely co-brand card on our U.S. Branded Cards business. I'd say less of an appetite, quite frankly, to do another big co-brand in U.S. Branded Cards. You saw that we basically took a pass on continuing with Hilton. Just because of the success of Costco, we're more heavily weighted towards co-brand right now in U.S. Branded Cards than we had originally intended.

When you think about on the Retail Services, again, there for the right portfolio. And the right portfolio is a combination of economics, but also that partner, because you asked about the competitive advantage. One, certainly from a technology point of view, we can bring to bear the technology. We can put people on our platforms fairly easily. I think we've demonstrated that with Costco. A bit of a hiccup in the very beginning part, obviously, but then completely knocked the ball out of the park after that. Best Buy, the same thing, very easy integration. But the other thing that we bring, especially with a Best Buy situation, is we truly do partner with that retailer in order to produce marketing programs, help them drive their sales, which helps drive our revenues.

**RICHARD RAMSDEN:** Okay. So, let's talk about Costco a little bit. I mean, how has the performance of that been tracking more recently? I know the portfolio has been seasoning. How has the loss rates started to trend over the last few months as that portfolio seasons relative to your expectations?

**JOHN GERSPACH:** Relative to expectations, they're right in line with the expectations. When I say right in line, a couple of basis points higher. But when you're thinking about long-term modeling, that's pretty close. And importantly, you take a look at that portfolio, we bought that portfolio had total receivables of $10.6 billion. In the first 12 months, it grew $7 billion, and that's a combination of both growth in transactor type balances, but importantly, in full rate revolving balances. So, the engagement that we've had from the Costco card base has just been tremendous. Sales growth, balance growth, everything has been better than what we had originally modeled.

**RICHARD RAMSDEN:** Okay. So, the other initiative you've had has been growing the proprietary side of the business, and you've obviously been shifting into value products you talked about that extensively on the third quarter call. That did lead to some revenue pressure. Can you talk a little bit about how that has been progressing in the fourth quarter?

**JOHN GERSPACH:** Yeah, and I think when you take a look at what we did, as I said, Costco was actually a bigger success than what we had thought was going to be. That has produced that overweight towards the co-brand. And remember, when you're thinking in terms of co-brand and proprietary, what we set out to do was maintain a balance in our U.S. Card book. And I say balance because each area, whether it's co-brand or proprietary, it brings a different flavor into your business mix.

Co-brand, high turnover helps you to absorb a lot of fixed costs on your standardized platforms, it's great. But there's a reason – there's that “co” in co-brand which means you've got shared economics, which means that even as those balances are maturing and you're getting that good growth, that's going to mature faster, but with lower economics. The proprietary products take longer to actually mature, but when they do mature, the economics are better, higher returns all around. So, you want to maintain that balance.

Because Costco was just so successful, we needed to acquire more on the proprietary side to keep the long-term business mix in balance. Going into the year, we would have thought that we would have – to the extent we had to ratchet up the acquisition program – we would have looked towards rewards, reward products, which give you a little bit faster maturity. However, given some of the competitive dynamics in the rewards product area, we decided to shift away from rewards and go more into value products.

**RICHARD RAMSDEN:** So, the timing in terms of the promotional balances rolling off, can you talk a little bit about that? And can you talk a little bit about the competitive environment and how you see that evolving? We've heard from some of your peers that it's actually improved over the last quarter or so. Have you seen something similar?

**JOHN GERSPACH:** Well, let's start with that. From a rewards – I think that some of that has calmed down right now. Is it where we're comfortable yet re-entering the rewards market? I'll leave that to Jud to make the final decision but I'm not quite sure we're there just yet.

When you look at the value cards, and for us it's basically two products that we've got, the Diamond Preferred and Simplicity. There, you're dealing with Balcon type offers, promotional rates, that have got a variety of terms associated with them. The longest term that we're currently offering is at about 21 months. So that is going to take 21 months then to actually amortize all the way through. And as you're building up those higher amount of promotional balances, that's going to create the revenue pressure that we saw again in the third quarter. Now, when we look back at those similar type of value proposition cards that we put on in 2015 – so now we're getting through that 21-month promo period – we're getting that conversion into full rate revolving balances exactly as we had modeled. So we're seeing the card perform as we would have expected it to perform, but we've just got a higher volume right now of promotional balances.

So you asked about how is that going to play out in the fourth quarter. And I'd say, right now, when you think about U.S. Branded Cards, we'll probably have flattish revenues year-over-year for the fourth quarter. But, again, it's because we've got a higher amount of balances and a higher mix of promo balances.

**RICHARD RAMSDEN:** But the key message is the economics of that product, it's not different to what you had expected, it's just because of the growth?

**JOHN GERSPACH:** No. It's really the mix right now and the fact that it's a different type. It's that mix between proprietary and co-brand, and it's that changeover from the rewards type of acquisition into the value card type of acquisition.

**RICHARD RAMSDEN:** Okay. So let's talk a little bit about loss rates in Retail Services in the U.S. So you increased loss guidance from 500 basis points, to 510 basis points to 525 basis points. I mean, what drove that? So what changed, I guess, from July to October? And then, I guess linked to that, I mean, are you seeing any deterioration in the rates at which customers are going from current to delinquent?

**JOHN GERSPACH:** When we upped the guidance recently, so the medium-term guidance to 510 basis points to 525 basis points, it basically is just a follow-on from our increasing our near-term guidance from 430 basis points up to 470 basis points, and then to 490 basis points. And it's the same issue that we've been looking at and talking about all year. And that issue is that while we're seeing a good, consistent performance in the movement of balances from current into those early delinquency buckets – and that's important because it's that movement that really begins to give you a view as to whether or not your underwriting is holding.

If your underwriting model is holding, you should see that percentage moving from current to the near-term delinquency buckets in line with your model. And that's what we're seeing, and we're seeing very consistent performance in that. If you look at some of the information that we publish in our supplement, you're not going to see a big change in those near-term delinquency.

What we've been facing for about a year now, a little bit more than a year actually, is the fact that when you get into the later-stage delinquency buckets, and let's call that when you get into that 60-day bucket, there we've seen that the movement to full loss has been at a higher rate than what we had originally modeled. And at first, we talked about this in some of our earnings calls, I think at third quarter last year 2016 and then again in the fourth quarter, our hypothesis was, well, it's the impact of some of the new rules that are coming into play, the frequency with which you can call card members, et cetera, et cetera.

And we put changes in our policies, changes in our practices, we rewrote scripts and we thought that that would be enough then to get those loss rates then down. And we saw some improvement in the loss rates and most importantly in that movement from those mid-term delinquency buckets to the later-stage buckets, but not enough to really get to the loss rates where we thought we're going to have.

So right now, as best we can see, that is pretty much the state of the state, and we're going to continue of course to try to improve techniques and get those loss rates down and, more importantly, get those later-stage delinquency buckets more in line with what we had originally modeled. But we don't see it right now. That caused us to increase our near-term guidance for NCL and it's basically a direct flow-through to our medium-term guidance out for 2020.

**RICHARD RAMSDEN:** And based on what you've seen since October, is there any reason to believe that the 510 basis points to 525 basis points range needs to change again, or do you feel confident...

**JOHN GERSPACH:** No. That seems to be holding up right now. And again, it's actually very consistent with what we had seen six months ago. It's just that six months ago we had thought that there was a way to mitigate some of those higher loss rates. But now, it just looks like that's where we are.

And again, that is all pretty much built into the Investor Day metrics.

 

**RICHARD RAMSDEN:** Okay. So let's talk about some of the growth initiatives both in the U.S. and outside of the U.S. So within the U.S., outside of higher rates, what are the primary growth drivers within the U.S. Retail – wealth management obviously is something you've talked about. Can you update us on that? And I guess outside of the U.S., obviously you're investing in Mexico. Can you talk a little bit about where else you're seeing interesting investment opportunities across your portfolio?

**JOHN GERSPACH:** Actually, when we take a look at Consumer, we've got interesting places to invest both – well, in the U.S., in Mexico and in Asia. So, the U.S., we spent a lot of time talking about Branded Cards, move that to the side for a second. At about this time last year, we re-launched our Citigold, our wealth management proposition, for the U.S. That's been spectacular for us.

**RICHARD RAMSDEN:** So, can you elaborate on that, give us some metrics?

**JOHN GERSPACH:** Yeah. When you take a look at the growth that we've had in assets under management, more importantly, the growth in the households that we serve, you've got in excess of 20% growth now in those households just in the course of a year. So, that gives us great engagement there. You'll hear us talk more and more about that growth in U.S. Retail going into 2018. And again, that's consistent with what we put up in Investor Day where we actually said that over the course of the next three years, we see that U.S. Retail business growing at 10%, including the rate impact, but still important growth for us.

Mexico – Cards now is back on track in Mexico. We had talked about the fact that we needed to reposition that card portfolio in Mexico. You saw last quarter we actually generated year-over-year revenue growth in Cards. We had been getting excellent revenue growth in the Retail Bank. A little bit short of our projections last quarter, but other than that, pretty much steadily in that 8% range. So, we feel really good about the Retail Bank in Mexico. We needed to get Cards. Cards has now come off that J-curve and now is in position to get to that 8%, 9%, 10% growth rate on an annual basis. That would be beneficial then to our ability to hit those metrics.

And then throughout Asia, again from a wealth management point of view, I'm not going to quote every metric for every country, but again, strong engagement with wealth management. And importantly, good growth now coming in personal loans. We're doing a lot more where we're actually cannibalizing ourselves as far as identifying customers that are currently Cards customers, but that we really feel we're at either risk of losing or they'd actually even do more business with us if we could convert it into a personal loan and we're getting a lot of good growth out of that. So, a lot of good growth coming out of Asia, as well into the future.

**RICHARD RAMSDEN:** So, within Mexico, obviously NAFTA very much in the headlines. Is there any outcome on the NAFTA negotiations that would get you to go back and re-think about the value of the $1 billion investment?

**JOHN GERSPACH:** When you say things like, is there any...

**RICHARD RAMSDEN:** Okay. Reasonable scenario.

**JOHN GERSPACH:** Nothing that we see right now. Nothing that we see right now.

**RICHARD RAMSDEN:** Okay. All right. So, let's talk a little bit about the Institutional business. So again, you spent a lot of time at Investor Day talking about how you differentiate yourself in that business. A couple of points, the competitive environment does seem to have intensified a little bit. We've seen a number of firms growing their balance sheet in that area. Are you seeing that translate into bid-offer spreads starting to contract? Are you finding it harder to take market share in that business? And can you touch a little bit on the Equities business and the growth initiatives in there and where you've got to?

 

**JOHN GERSPACH:** Yeah. I'd say that our ability or anybody's ability to capture market share, it's going to ebb and flow. Fortunately for us, it's been flowing pretty well. I mean, we've been capturing market share pretty steadily across fixed income. We've been capturing wallet share in Investment Banking as I mentioned earlier, we've had a great year in Investment Banking. And it isn't just because it just happens to be a one-hit wonder; we really think we've got a great platform now built in Investment Banking.

TTS continues to be a real foundational type of product for us and that's important because, again, the way that we are focusing our ICG business, it really is starting with the client. And when you think in terms of what's foundational to the client, nothing could be more foundational than our TTS business which starts with everything from basic cash – but there we don't just go in and be the payment engine, we're actually helping treasurers set up their bank accounts around the world so they can manage their cash. From managing their cash that gets you into a discussion of, well, what are you going to do with your FX risk? That gets into, how are you going to manage your working capital? And so, you can just build up that conversation starting with the Treasurer right into the CFO, and it's given us some nice growth.

When you get into the Equities side of it, there, as we've talked about, we've been punching below our weight. When you take a look at equity markets, we've been in that number eight, or even last year we were number nine. We've built steadily now up to number seven, knocking on the door for number six. But when you take a look at the overall Equities business that we have, getting into a number five position for equity markets would be very consistent with our overall equity underwriting platform. So, again, we think it just fits the way that we are intending to manage our clients and help them.

**RICHARD RAMSDEN:** So let's talk about two very important themes to investors, corporate tax reform and capital returns. And perhaps we can start off with corporate tax reform. You touched on how you think it could impact economic growth. Can you spend a few minutes talking about the impact on Citigroup? And I guess two things. The first is, I think at the Investor Day you set out the impact of a 25% corporate tax rate.

**JOHN GERSPACH:** Yes.

**RICHARD RAMSDEN:** How does that change, if it's 20%, is it just linear or is there other puts and takes around it? What would be the potential hit both to the DTA, but also could it have an impact on regulatory capital as well and how big could that be?

**JOHN GERSPACH:** Yeah. Obviously, it's very difficult to pinpoint a very specific impact without having a tax bill that you can look at and say, okay, I understand these 17 provisions and I can do this and I can do that. But we don't have that luxury right now. We've got a House bill, we've got a Senate bill. We don't really know all the details as we would like to in each one. But if you stay with the Senate bill, and the Senate bill is the one that has a 20% tax rate for corporations beginning in 1/1/2019, it has the move to the territorial system and it's got the deemed repatriation at probably a higher rate than most of us had assumed it was going to be.

If we look, again, from what we understand in that tax bill, we would then say that, again, our best estimate would be, in the year that bill gets signed, we would probably have a upfront hit of $20 billion. Now, that $20 billion is a combination of the write-off of DTA – again, we built the DTA at a 35% tax rate. If we're going to a 20% tax rate, those losses are going to be worth less than they were when we put them on the balance sheet. So that drives probably somewhere around $16 billion to $17 billion of the $20 billion. The deemed repatriation, we would estimate costing another $3 billion to $4 billion. So you add those two together, it would be a $20 billion – again non-cash we believe, because we should be able to use FTCs in order to cover the repatriation cost. So it's a non-cash hit that would be a one-time hit to the P&L.

 

Of that $20 billion, though, you asked about capital. Because most of our DTA is disallowed for regulatory purposes, while we would take a GAAP hit – a hit to our GAAP income of $20 billion and we would certainly reduce our TCE by $20 billion, the hit to our CET1 capital would probably be a much more manageable, $4 billion. So, again, a very modest hit to our regulatory capital, which means that the capital plans that we talked about during Investor Day, which said that our view is that over three CCAR cycle – 2017, 2018 and 2019 – we should be able to return in excess of $60 billion. That stays intact. That statement, that goal to return 60-plus-billion dollars of capital over three CCAR cycles is not impacted by the Senate bill the way we understand it – or by the House bill for that matter.

**RICHARD RAMSDEN:** And in terms of the impact on the tax rate of Citigroup?

**JOHN GERSPACH:** Well, again, you really need to see the details in order to really, – one, we don't know the details, which means we haven't really been able to do any significant tax planning when it comes to that. But a very, very preliminary estimate would probably be that our tax rate would go down to 25%, maybe a little bit lower. Although, the way the bill is currently written, we might actually have a slightly higher tax rate in 2018, because again the Senate bill doesn't come into play until 2019.

Now, the combination of that lower tax rate that's going to drive higher income, the impact from writing off the DTA that's going to give us a much lower TCE going forward, which means that we should get a nice lift in the RoTCE going out in 2019 and 2020. And the combination of the lower TCE and the improved net income could drive RoTCE up by a couple hundred basis points.

**RICHARD RAMSDEN:** Right. Okay. So let's just talk briefly about CCAR. So it doesn't sound as if this would have any impact in terms of how you're thinking about CCAR-ask from what you've just said, but I guess Governor Quarles has talked about improving the transparency of that process. Are there one or two changes that he could make to the test that would get you to go back and rethink either the amount of capital or the form in which you're returning the capital, i.e., buybacks versus dividends?

**JOHN GERSPACH:** Well, there is a lot of things, okay. So if you go back to Investor Day, one of the things we assumed at Investor Day is that we should be able to run Citi at an 11.5% CET1 ratio. We felt that was the amount of capital that we needed to really prudently run Citi. But embedded in there was the assumption that we would have an SCB of 3.5% as a part of that 11%. I don't know what they're going to do as far as introducing that SCB. CCAR is clearly our constraining factor right now from capital. So anything that the Fed could do that would cause you to lower your CCAR capital requirements, that could cause us then to have even more capital available for distribution to our shareholders.

**RICHARD RAMSDEN:** By that, you mean you would lower the 11.5% number?

**JOHN GERSPACH:** Yeah. Right now everything is being constrained by CCAR. For all the discussion that we've had over the years as far as, you know, what's coming out of Basel from different rules, the Basel rules for capital, the Basel rules for liquidity, it turns out that our constraints have got nothing to do with Basel. It's resolution planning for liquidity and it's CCAR for capital. So, if the Fed changes and somewhat mollifies the CCAR requirements, that could be positive.

**RICHARD RAMSDEN:** So, you could potentially increase the capital return. In terms of the form in which you return the capital, would you rethink the mix between buybacks and dividends?

**JOHN GERSPACH:** Well, we'll take a look at that. Again, that's going to be dependent upon where the stock is trading at, what makes the most sense. But right now, we've been heavily weighted towards buyback and at least in the next cycle or so, I think we still remain very heavily weighted towards buyback, but we're not wedded to that for the long term.

**RICHARD RAMSDEN:** Okay. Let me see if there is any questions from the audience. Okay. So, we have one here.

**SPEAKER #1:** John, I'd just like clarification on one of your businesses please. Retail Services, how much of that business is tantamount to your private label type businesses?

**JOHN GERSPACH:** That is private label.

**SPEAKER #1:** All private label. So in your assumption of the loss guidance from going up to 510 basis points to 525 basis points, is there an RSA offset that you also modeled, assuming the RSA...

**JOHN GERSPACH:** I'm sorry. RSA, just want to make sure I got the initials right, the revenue sharing.

**SPEAKER #1:** Right. The agreement with your retailer or with your partners...

**JOHN GERSPACH:** No. No. The 510 basis points to 525 basis points would be our gross – our reported NCL and any impact of an RSA gets reflected in our revenue numbers.

**SPEAKER #1:** Okay. So, the RSA may change though given the profitability that book is changing with higher credit costs.

**JOHN GERSPACH:** Definitely. You've seen it as coming out of the crisis as the NCL has declined, we had revenue pressure in that business because we stopped getting share – sharing in the losses. Now, if NCLs improve – or if NCLs start to grow, we get into that 510 basis points to 525 basis points. And again, it's not every Retail Service partner that we have, but many of them do have these RSAs in them and, therefore, we actually will see higher growth rates in revenue.

**SPEAKER #1:** And you spoke of this business as a 250-basis-point type of ROA business in the past, is that through the cycle or is that just currently?

**JOHN GERSPACH:** No, that's through the cycle.

**SPEAKER #1:** Thank you.

**RICHARD RAMSDEN:** Okay. Do we have any other questions? Okay. And actually, we are up against time. So, my suggestion is we go to the breakout and we can take questions there. Okay. So, thank you very much.

**JOHN GERSPACH:** Great. Thank you all very much.