Citi Fourth Quarter 2017 Fixed Income Investor Review

Wednesday, January 24, 2018

On February 23, 2018, Citi announced that it was adjusting downward its fourth quarter and full year 2017 financial results, from those reported on January 16, 2018, due to an updated estimate for a one-time, non-cash charge of $22.6 billion, recorded within North America Global Consumer Banking, Institutional Clients Group and Corporate/Other related to the enactment of Tax Reform, which was signed into law on December 22, 2017 (previously, the entire charge was recorded in Corporate/Other). The financial impact of this adjustment lowered Citi's fourth quarter and full year net income by an aggregate of $594 million due to refinements of original estimates. The financial impact of this adjustment is **not** reflected in this fourth quarter fixed income investor review transcript, dated January 24, 2018. For additional information, including Citi's fourth quarter and full year 2017 results of operations including this adjustment, see Citi's Annual Report on Form 10-K for the period ended December 31, 2017, filed with the U.S. Securities and Exchange Commission on February 23, 2018.

Host
Tom Rogers, Head of Fixed Income Investor Relations

Speakers
John Gerspach, Citi Chief Financial Officer
Michael Verdeschi, Citi Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer, John Gerspach, and Treasurer, Mike Verdeschi. Today's call will be hosted by Tom Rogers, 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. Rogers, you may begin.

TOM ROGERS: Thank you, Natalia. Good morning, and thank you all for joining us. As Natalia mentioned, I'm joined this morning by our Chief Financial Officer, John Gerspach, and our Treasurer, Mike Verdeschi. In a moment, Mike will take you through the fixed income investor presentation, which is available for download on our website, citigroup.com. Afterwards, John and Mike will be happy to take your questions.

Before we get started, I'd 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 2016 Form 10-K.

With that said, let me turn it over to Mike.

MIKE VERDESCHI: Thank you, Tom, and good morning, everyone. On today's call, I will cover a number of topics. First, I'll briefly discuss our fourth quarter and full year 2017 operating results as well as the impact of tax reform. Second, I will cover recent balance sheet trends, notably growth in cash, loans, deposits and long-term debt. Third, I'll review our issuance program. And finally, I'll discuss our liquidity and capital position, which remains among the strongest in the industry.

For reference, slide 3 summarizes the impact of tax reform. These figures are based on our current understanding of the details of the Tax Cuts and Jobs Act and we will continue to refine our estimates over the near term. As we noted during last week's earnings call, our fourth quarter results included a one-time, non-cash charge of $22 billion. This charge resulted in a roughly $6 billion reduction to our CET1 capital, or a 40 basis point reduction in our CET1 Capital ratio.

Slide 4 summarizes our fourth quarter and full year 2017 results, excluding the impact of tax reform. In the fourth quarter of 2017, we reported net income of $3.7 billion. For the full year, we reported net income of $15.8 billion, achieved an efficiency ratio of 58% and improved our RoTCE, excluding the impact of disallowed DTA, to 9.6%.

On slide 5, we show average balance sheet trends over the past five quarters in constant dollars. On this basis, our balance sheet increased by approximately 4% from the prior year period. This growth was driven by an increase in cash to support our resolution planning, healthy loan growth in both our Consumer and Institutional businesses and growth in trading-related assets.
Slide 6 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 3% year-over-year and 5% in aggregate across our Consumer and Institutional businesses. In our Consumer business, average loans grew 4% year-over-year, driven by growth across all regions. On the Institutional side, loans grew 6% year-over-year, driven primarily by client-led growth in our Private Banking segment. TTS and Corporate Lending increased 6% and 4%, respectively, both driven by growth in Asia and EMEA. At the same time, our loans included in Corp/Other declined by 32% as we continue to wind down legacy assets.

On slide 7, we show credit quality trends in our GCB and ICG loan portfolios. In GCB, overall credit remained broadly favorable again this quarter. The NCL rate improved sequentially in both North America and Asia. And in Latin America, the sequential increase in the NCL rate reflected an episodic commercial charge-off while delinquencies improved sequentially. And in ICG, total non-accrual loans declined to 57 basis points of total loans. The sequential increase in the EMEA non-accrual loan rate was driven by the single client event referenced on our earnings call last week. On an absolute basis, ICG NALs declined 20% year-over-year to just under $1.9 billion.

Turning to slide 8, we show trends in average deposits over the past five quarters in constant dollars. Total deposits increased 3% from the prior year period, driven primarily by 6% growth in TTS as well as 4% aggregate growth in Asia and Latin America GCB. North America GCB average deposits declined 2% year-over-year with half of the decline coming from lower escrow balances due to lower mortgage activity. Checking deposits increased 4% year-over-year, driven largely by our Citigold segment. However, this growth was more than offset by a reduction in money market balances as clients put more money to work in investments. This aligns with our Citigold Wealth Management strategy with assets under management up 14% year-over-year to $60 billion.

Now let me highlight our parent benchmark debt issuance program on slide 9. In 2017, we issued a total of approximately $23 billion of parent level benchmark debt, including approximately $22 billion of senior and roughly $1 billion of subordinated debt across multiple tenures and structures. Going forward, we continue to expect to issue a mix of structures, tenors and currencies.

On slide 10, let me cover our bank level issuance in 2017. We issued approximately $13 billion of bank notes and approximately $11 billion of credit card securitizations. The majority of the issuances were with tenors of three years or less. However, we maintained the flexibility to opportunistically issue at longer tenors as we calibrate our overall maturity profile.

On slide 11, let me cover our issuance, maturity and redemption expectations. As I mentioned, during 2017, we issued $23 billion of senior and subordinated debt at the parent level. Maturities for the year were $15 billion and we redeemed roughly $1 billion, resulting in net parent benchmark issuance of approximately $7 billion. We also issued $24 billion of credit card securitizations and bank notes.

Looking to 2018, at the parent level, we expect gross benchmark issuance of approximately $20 billion of senior and subordinated debt, including the $3 billion we priced last week. This is in line with our contractual maturities of approximately $19 billion and our planned buybacks of roughly $2 billion. At the bank level, we expect combined gross issuance of approximately $15 billion between bank notes and credit card securitizations with combined contractual maturities of $10 billion as we continue to improve the efficiency of our funding sources.

On slide 12, we show the composition of our long-term debt outstanding. During the fourth quarter, our total long-term debt increased to $237 billion, primarily due to benchmark issuances at the bank. And the weighted average maturity of our TLAC eligible debt remained at 7.8 years. While we've seen a significant increase in our long-term debt in 2017, we continue to expect the trajectory of our parent level benchmark debt to level off given our TLAC surplus.

On slide 13, we provide an update of our LCR metrics and drivers. Our average LCR was 123% in the fourth quarter, unchanged from the third quarter. As we noted previously, going forward we will look to optimize the level and composition of our liquidity profile.

Turning to slide 14. Let me summarize our key regulatory capital metrics, which as we mentioned, remain among the strongest in the industry. During the quarter, our CET1 Capital ratio declined to 12.3%, driven by $6.3 billion of common share buybacks and dividends, as well as the estimated $6 billion reduction in CET1 capital due to tax reform, which as we mentioned had a roughly 40 basis point impact, and our supplementary leverage ratios were 6.7% and 6.6% for Citigroup and Citibank, respectively.

Moving to our last slide. Let me summarize several key points. First, on an operating basis, we earned $15.8 billion of net income for 2017, achieved an efficiency ratio of 58% and improved our RoTCE, excluding the impact of disallowed DTA, to 9.6%. Second, we continued to maintain a strong balance sheet. We maintained our GSIB surcharge of 3% as of year-end 2017. We achieved an estimated $7 billion surplus under the TLAC rule. We maintained a highly liquid balance sheet with an average LCR of 123% and an estimated NSFR of greater than 100%. And we reported a CET1 capital ratio of 12.3% and an SLR of 6.7%. Finally, we continued to diversify and optimize our liquidity resources.

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

QUESTION AND ANSWER

OPERATOR: Your first question is from the line of Hima Inguva of Bank of America.

HIMA INGUVA: Great. Thank you very much. Can you hear me okay? I'm traveling, I apologize again.

JOHN GERSPACH: We hear you Hima.

HIMA INGUVA: Hey, John. How are you? And thanks a lot again for doing the call, as always very helpful. I have three questions, please. So my first question is around the SLR requirements. So it looks like the Fed is getting close to easing the SLR requirement by adopting a dynamic surcharge as proposed by the Basel IV standards released last month. So under that standard, your new SLR minimum could be at 4.5% instead of 5%. Considering CCAR is your binding constraint, does this proposal free up capital for you at all?

MIKE VERDESCHI: Thanks for the question, Hima, and as you highlight, our binding constraint is CCAR. However, SLR has been a relative strength for us and we would still welcome a recalibration as it could provide additional flexibility to pursue opportunities with our clients.

HIMA INGUVA: Okay. Great. Thank you. And then switching gears to the TLAC callable bonds that you've been issuing and everyone has been issuing. Can you share with us what the key inputs are that flow into the decision of calling or not calling the TLAC callable bond?

MIKE VERDESCHI: Sure. So there would be a number of factors. So when we get to that call date, we would, of course, first evaluate whether we still wanted or needed that funding in place and then, of course, it becomes an economic consideration. If we did want funding in place, would we leave that outstanding or we would evaluate the economics on calling and reissuing. And then, of course, given its TLAC, we would always be evaluating the regulatory treatment on that as well. So I would say a number of factors, but as always, when it comes to calls, we're going to be very focused on the economics of our alternatives.

HIMA INGUVA: All right. Thank you. And the last question is around issuance for 2018. And obviously you gave really good guidance, as always. But trying to get a sense for, given your view on rate increases this year, should we expect you to issue sort of in line with what you did in 2017? Obviously in 2017, you did about $11 billion in 4 to 7 year bucket and $8 billion, so slightly less, in the 10 to 13 year bucket and really didn't issue too much, $1.7 billion in the 30 year bucket. So should we assume the distribution to be in a similar way or would it be skewed differently?

MIKE VERDESCHI: I think, as we would always do, we're going to look to keep a good tenor profile. We'll look to issue across a range of maturities. And that's going to be a function of maintaining a certain WAM. But also, we're going to evaluate investor demand and see where that demand is and therefore, that would help drive the economics. So I would say a broad range of tenors is what we would typically issue across and we would look to maintain that approach.

HIMA INGUVA: So there's really no sweet spot per se based on the rates view, right? So nothing's changed in the way you think?

MIKE VERDESCHI: No, I think our thinking is still very much the same is to maintain a good maturity mix.

HIMA INGUVA: Appreciate it. Thanks a lot John and team. Good luck.

JOHN GERSPACH: Thank you very much, safe travels.

OPERATOR: Your next question is from the line of Pri de Silva with CreditSights.

PRI DE SILVA: Thank you and good morning John, Mike and Tom, and thanks for having the call. Couple of questions. First, Citi's unique in the sense that the company has a global retail franchise, or somewhat less global nowadays then you used to, and each market is different. How are your deposit betas internationally compared to the U.S. market and what's driving the fact there?

MIKE VERDESCHI: Sure. I mean a couple of things. I would say for U.S. dollars outside of the U.S, I would say the deposit betas have been less than what we've actually modeled. So I don't think there's been as much deposit sensitivity as what we would have modeled. And of course, as you point out, we're operating across the globe and we have a lot of sources of deposits coming in, in non-dollars where rates haven't increased. So that really hasn't been a factor at all. But I would say overall, internationally, the betas have been performing better than we would have modeled.

PRI DE SILVA: Thank you and then in terms of your Tier 2 capital you have roughly $700 million rolling off next year and another probably $600-odd-million the year after. And then, when we look at what goes into standardized versus advanced approach, does the adoption of CECL change your need for Tier 2 capital because of the inclusion of loan loss reserves in Tier 2 capital?

JOHN GERSPACH: First of all, we've only got some very preliminary estimates right now for CECL, which we've published. And CECL, in and of itself, I think we've said, we looked at CECL as changing about 10%

to 15% - sorry, 10% to 15% impact on our existing reserve levels, or 10% to 20% of our existing reserve level. I guess 15% is the midpoint of our range. So it may have an impact on the way we will need to look at Tier 2 into the future, but again, we don't adopt CECL until 2020. So we still have a full two years in which to really refine the estimates and then consider whether or not there is any impact on our Tier 2 needs.

PRI DE SILVA: So in other words Citi won't be one of the early adopters?

JOHN GERSPACH: No, and we've been pretty clear about that, I think. I mean, that's our view right now. If that view changes, obviously, we'll disclose it.

PRI DE SILVA: Thank you very much John for that. And my last question is, there’s talk about like a 2% dividend payout ratio either by Citi or one of your peers kind of like a nice to have number. And does the tax bill change that frame of thought and do you think 2% is not enough going forward?

JOHN GERSPACH: When you see everyone sort of clustered around the same level, I think that that sort of says to you that everyone is targeting that. I think, in general, what we've spoken about in the past is our view is that we think the right range, given today's environment, is a dividend yield, something in the range of 2% to 2.5%. And that's sort of where we've been and what we've been thinking about, and that has formed at least part of our thinking as far as changes to the dividend. And again, that's just sort of where we are. Does the tax bill change that? I don't think so, but we'll see as the overall investment environment changes and how overall yields on stocks, which is somewhat influenced by interest rates, move over time.

PRI DE SILVA: Great. Thank you very much for taking my calls. Appreciate the color.

JOHN GERSPACH: Not a problem at all Pri.

OPERATOR: Your next question is from the line of Mark Kehoe with Goldman Sachs.

MARK KEHOE: Hi, good morning. Just a few questions. The first one, we have seen some of the Mexican subsidiaries of the likes of the Spanish banks issue Tier 2, I think in part that the regulator may be encouraging banks to issue Tier 2 and AT1 bonds down there. Are you likely to start to issue any Tier 2 or AT1s out of Banamex?

MIKE VERDESCHI: Mark, thanks for the question. We did see that and we are evaluating. We, of course, like seeing the flexibility whether it's in our capital activities or even liquidity, but at this time, not really sure that that makes sense for us economically, but we are evaluating.

MARK KEHOE: But if they were to force your hand, presumably, you'd have to comply?

JOHN GERSPACH: If someone forces your hand, then you do comply, but we have not seen that as yet.

MARK KEHOE: Okay, great. Thank you. Next question then, with the recent news from GE around the need to increase reserves for the long-term care business and your indirect exposure to Genworth’s long-term care business through that reinsurance division, are you now reassessing your exposure within the long-term care area?

JOHN GERSPACH: Mark, obviously, we put that disclosure out there several years ago now. And so, obviously, that is an exposure that we are constantly reassessing. I actually think in some ways GE's move there helps us. So we'll see how that plays out.

MARK KEHOE: So last question just in terms of the Munis. I know your Munis percentage in your securities book is relatively small. With the changes in the tax code on Munis, are you likely to change your allocations in Munis within your securities book?

MIKE VERDESCHI: Mark, that's a good question. I mean, that's something that we will evaluate as part of our allocation in securities. And as you point out, given the DTA in the past, the tax benefit of that may have not made sense in the past. But looking at it now and the potential for some Munis to be given a favorable treatment for HQLA, given some of the accounting changes as well, which makes hedging the interest rate risk associated with that easier too, there's a variety of reasons why we look at Munis and we will evaluate those.

MARK KEHOE: Great. Thank you.

OPERATOR: Your next question is from the line of Arnold Kakuda with Bloomberg Intelligence.

ARNOLD KAKUDA: Hi. Thanks for the call. I echo that as well. So looking at your capital ratio target, solid capital levels has been the hallmark of Citi's story. And so your target of 11.5%, which is 150 basis points above your requirement, that seems a little bit conservative, I guess, compared to other peers who are looking at maybe a 50 basis point to 100 basis point buffer. So if we don't go down this path of a Stress Capital Buffer in the CCAR test, will you maybe evaluate your capital ratio target?

JOHN GERSPACH: Sure. If the rules change or if the requirements change, then we'll definitely reevaluate. And again, we're always looking at things. Obviously, when we set that target out during the summer, I think we're pretty clear that it was based upon our assumption that there were going to be some changes made to CCAR, including the introduction of that SCB, and if things change with CCAR, then perhaps our target will change as well.

ARNOLD KAKUDA: Okay, great. Thank you. And then switching gears to balance sheet trends. It seems like this year, you grew your cash and liquid assets at about 7%, which is faster than your loan growth at 3%. So given now we have more clarity with tax reform, do you think maybe for 2018 and beyond you might see loan growth exceeding your liquid asset growth?

JOHN GERSPACH: Let me start and then let have Mike finish up. When you take a look at the two things, the liquidity growth this year was really being driven more by our response to resolution planning and I don't think that we are unique amongst the large banks. So as we all prepared for our July submissions, one of the things that everyone got focused on is part of resolution planning is making sure that you've got the right liquidity in the right places and you'll see, I think, the growth in the liquidity balance, especially cash, actually was in the first half of the year. So the liquidity growth this year was driven more by resolution planning than other events.

Now, as we've gotten favorable response to our plans and as you've seen us do in many other cases, once we get that favorable response, that gives us the ability then to go back and begin to optimize our liquidity balances, how much and where we have them. So in 2018, we will begin that work as far as optimizing the liquidity balances. Loan growth, again, loan growth is something which, as you correctly point out, is somewhat driven by the economy as well as each individual firm's capabilities. So we do think that we're in a very good position to respond to our client's needs in an expanding economy whether that be through providing them additional lending capabilities or in the debt or capital markets. So it is quite possible that if the economy expands, you're going to see that loan growth kick up as well.

MIKE VERDESCHI: I would just add to that. So as John mentioned the optimization of cash and, of course, we're constantly looking at the optimization within HQLA, which is cash and HQLA securities, but then also looking at, are there other investment opportunities that makes sense, so that's ongoing. As obviously, the interest rate environment changes or the spread environment changes, that's something we're constantly focused on and evaluating in terms of how to optimize.

ARNOLD KAKUDA: Okay, great. And then, lastly, you have a peer that potentially might have an increase in their GSIB supplement and so as you start maybe deploying more capital clients or increasing loan growth, how do you juggle that kind of growth versus investment versus maybe a potential higher capital requirement going forward?

JOHN GERSPACH: It's certainly all part of the evaluation that we do. All of these things have to fit together. GSIB score's impact on capital, asset growth driving capital requirements, asset growth driving liquidity requirements, so all of that would go into our evaluations.

ARNOLD KAKUDA: Okay, great. Thanks a lot John, Mike.

JOHN GERSPACH: No problem at all.

OPERATOR: Your next question is from the line of Kevin O'Donoghue with Calamos Investments.

KEVIN O'DONOGHUE: Hi, thank you. Just wanted to ask you a quick question on asset quality – remains pretty solid as you talked about earlier in the call, but the one area that kind of stuck out of me was your North America retail banking. It's kind of been in the works for the last several quarters now, but a notable pickup in your 30 to 90 day delinquencies. And I'm wondering if you guys have noticed that, if you've identified a cause and if there's anything that needs to be addressed?

JOHN GERSPACH: So when you're talking about – you're focused on just the retail banks specifically, excluding cards, is that an all-in? Help me just sort of pinpoint your question.

KEVIN O'DONOGHUE: Yeah, I'm just looking at the credit statistics that you published in your supplement.

JOHN GERSPACH: So just focus on the retail bank itself as opposed to the all-in, because with credit cards, obviously, the statistics have been improving. When you take a look at the retail bank itself, there's a couple of things. One, the loan volumes have increased a little bit. So you're talking about relatively small changes from a dollar point of view. And I take it that you're focused back on page 9 of the supplement.

KEVIN O'DONOGHUE: Let me see. Yes, that's correct.

JOHN GERSPACH: Okay. I just want to make sure I'm in the right spot. So again, we've been growing some loans and I don't think that you're seeing anything more than that that is there. But again, it's relatively small dollars and so I wouldn't read anything into that as far as underlying credit quality.

KEVIN O'DONOGHUE: So as these loans season, we should expect that probably to trend down closer to where it's been for the last three years or so. It's still at a good level, 55 basis points or something like that, but what would I guess be concerning is if it keeps getting higher.

JOHN GERSPACH: If you take a look at the 90 days, they're somewhere around the 30 basis points. We trended up to like 36 basis points. So you're seeing relatively small movements. But again, I think the movement in this book right now are somewhat exaggerated only because you're dealing with relatively small dollars and so when you've got even small movements in a small dollar book, you tend to get sometimes a larger impact on a ratio. But I think you'll agree that the credit statistics, even at 55 basis points, are pretty damn good.

KEVIN O'DONOGHUE: Right. No, absolutely. I just look at the 30 days kind of an indicator of what could be coming. And so when that jumps up it's something to notice. But it sounds like you're comfortable that that's going to normalize again.

JOHN GERSPACH: If we could quadruple this book and keep the 55 basis points or have it go to 65 basis points, I'm good.

KEVIN O'DONOGHUE: Okay. Very good. Thank you.

JOHN GERSPACH: No problem.

OPERATOR: Your next question is from the line of Jeff Bernstein with Insight.

JEFF BERNSTEIN: Hi. For those instruments that you have outstanding that could set to float to LIBOR at a time when there is no LIBOR and where the documents don't allow for a substitute, how are you thinking about that?

MIKE VERDESCHI: I mean I think the LIBOR topic is something that we've talked about in the past. We're very focused on it. We have representation on the Alternative Reference Rate Committee. It's something that were going to take some time to evolve and work through over time. So this is something that I know the industry's starting to come out with some language around what can be replacement rates. We're evaluating all of that.

So I would say it's something that we are very engaged in. We're evaluating alternatives. And it's something that, again, over the near-term we plan on evaluating how we need to incorporate perhaps some changes in documentation in some of our new activities. But again, it's a broad topic that's going to have a lot of implications and so we're very focused on it.

JEFF BERNSTEIN: So I'm aware of a lot of that as most of the people on the call are. So when you have an indenture that again doesn't allow for a substitute, you would always have the option to amend that indenture to something that might be more industry standard. But you'd also have the option to follow the indenture, which in many cases, fixes it in at the last quoted level. How would you balance that?

MIKE VERDESCHI: I mean I think – again, I think as we think about the language, there’s lots of implications. I think if you look at some of the language which goes back to the last quoted LIBOR and implies that you now suddenly have a fixed rate and, so I think, as always, we're looking to drive towards a set of language that balances the interests of the investors with our own and so which is why we're taking a very thoughtful approach to this and we're evaluating what those language options are in terms of what would be the best fit.

JEFF BERNSTEIN: So to put words in your mouth, you'd be thinking about doing an amendment that would be close to an industry standard at that time?

JOHN GERSPACH: Jeff, it's John. We're certainly looking to be fair.

JEFF BERNSTEIN: Okay. That's good enough. Thank you.

OPERATOR: Your next question is from the line with Robert Smalley with UBS.

ROBERT SMALLEY: Hi. Thanks very much for taking my question. I joined the call a little late, so I apologize if this was asked. I've got a couple of things. First on the mortgage side, could you talk a little bit about originations and where you see retention going forward because we have seen some of your competitors retaining conforming mortgages? And where do you think that goes in the light of more limited tax deductibility for mortgages as well as rising rates and how does that affect your production thoughts going forward?

MIKE VERDESCHI: A couple of things. I think for mortgages we would tend to not retain a lot. We're very focused on where the returns are and how we can maximize returns with the marginal deployment of capital. And mortgages for us, it's just not a huge part of our overall business activities and drivers.

And so, look, I think with tax reform and the impact on mortgages, it could have some impact to the industry. It's hard to know how significant that will be. Is it more the coastal areas that have impact? But that will be known over time. But again, for us, it's just not a huge driver of our activity and so something that we're watching but not a huge impact.

ROBERT SMALLEY: Okay. Thank you. And second question around debt buybacks. You still have a fair amount of high coupon debt that's trading above par. In order to tender for that, there's a fairly big cost upfront. How do you see that now as compared to in the past when you certainly have some pretty ambitious financial goals and how do you weigh that cost in all of that?

MIKE VERDESCHI: I mean I think that's something we're looking at. When we're looking at our debt issuance activities, we're looking at how much is rolling down and maturing? Does it make sense to buy back because we can reissue cheaper? That's something that we are always going to evaluate. But again, as we said, there will likely be some buyback activity, but it's hard to know what that looks like. It's always going to be a function of what the economics – the replacement cost is and what the overall economics are of that activity, but it's something we continue to evaluate.

ROBERT SMALLEY: So are there any kind of loose or formal guidelines where you may say, look, we don't want to pay more than 120, 125, 130 for a 7% or 8% issue because given the softness, it would cost too much and it would cause us to underachieve our targets? Do you have any guidelines around that at all?

MIKE VERDESCHI: No, I mean, there's nothing formal in place for that but, of course, as we manage these activities, we're always going to be driving towards issuing and maintaining as low cost as possible. But again, against a set of liquidity management objectives, which has us issuing across the curve and achieving certain tenor points and tenor goals. But there's no guidelines.

ROBERT SMALLEY: Okay. Great. Thanks very much. And again thanks for doing the call. I always appreciate it.

MIKE VERDESCHI: Sure.

JOHN GERSPACH: Our pleasure, Robert.

OPERATOR: Your next question is from the line of Brian Walker with TD Securities.

SPEAKER #1: I just have a few questions regarding securitization. On slide 11, you broke down that – expect the issuance is about $15 billion between securitization and bank notes. Could you provide a bit more clarity in terms of which it will be leaning more towards?

MIKE VERDESCHI: Yeah. I mean, at this point, we're going to be evaluating both options. And again, you hear us talk a lot about the economics of it. We like to issue across a range of tenor, the different programs, bank and non-bank, and secured and unsecured. And so we're going to evaluate where the investor demand is, we're going to evaluate our tenor needs and we'll make the selection based on those considerations. And I think, as you've seen in the past, we've issued a good amount of unsecured and we've issued a good amount of secured. So I don't think really – our approach really has not changed.

SPEAKER #1: Okay. Awesome. And then just one more question. Could you provide any clarity on origination channels for your credit cards in general, in terms of who you're statistically targeting to increase that?

JOHN GERSPACH: When you say the origination channels, we have a wide array of channels. We're targeting much more acquisition now through digital channel. We feel that's a much more efficient way of acquiring card members. And if you look at the most recent 10-Q that we've put out, and obviously we'll be publishing a 10-K in a relatively short period of time, we always give you a disclosure as far as the FICO score bands that make up both our U.S. Branded Cards business as well as our Retail Services business.

So that should give you an idea as to the basic composition of the book and you can see how that composition changes over time.

SPEAKER #1: Right. I'm a bit more concerned about consumer behavior because I can see that the FICO scores are pretty high and there hasn't been any deterioration in credit quality. But going forward, consumer behavior may change.

JOHN GERSPACH: When you say consumer behavior may change, from a card usage point of view? From a credit point of view?

SPEAKER #1: Usage, in terms of why they – like their motivation factors behind having the cards.

JOHN GERSPACH: And again, we try to offer card products that appeal to all different types of cardholders and make it easy for them to utilize their card in whatever manner they choose to utilize it, whether it's in a physical form, of actually having a swipe or insert a chip, or use it as part of a wallet. So again, I'm just struggling to understand exactly how I can help you.

SPEAKER #1: Okay. I guess the simplest way to say, are you targeting transactors as opposed to people that will be constantly carrying balances?

JOHN GERSPACH: When you take a look at the overall book that we have, our goal is to have a balanced card portfolio. And we've always talked about that balance being in a couple of different ways. One, you want a balanced portfolio between your proprietary products and your co-brand products because, again, when you have a balance there, the economics are different and your co-brand tends to – one, you have a shared economics because you have something that is co and they also tend to attract a bit more of transactors, which means you get a lot of nice throughput from there, but it's lower return.

We balance that off by having a, what we think is a very valuable, proprietary book. Which again, while it may have some transactor behavior, you tend to have a little bit more weight towards revolvers. And the nice thing about the proprietary book is we don't have a co, which means that the economics really belong to us. So again, we're looking to maintain a balanced portfolio, balance between co-brand and proprietary and also, balance between transactor and revolver behavior.

SPEAKER #1: Okay. Awesome. Thank you.

JOHN GERSPACH: No problem.

OPERATOR: Your next question is from the line of David Jiang with Prudential.

DAVID JIANG: Hi. I had a question on TLAC, slide 21, which shows, I guess, the surplus at $7 billion using the LTD as the constraint. Just wondering if that is kind of your buffer for TLAC and if you have a buffer, if that's going to kind of remain around these levels throughout the course of the year.

MIKE VERDESCHI: Yeah. I mean that $7 billion, and I think we've talked about this in the past, $7 billion to $8 billion, that is around where we would want to keep that buffer. So that's a good indication – what you see on page 21.

DAVID JIANG: Okay. Do you anticipate that there will be any changes to the way they calculate TLAC, given that the LTD component is somewhat of a kind of gold plating from the Fed? Would that be potentially reexamined?

MIKE VERDESCHI: Yeah. I mean I think that whether it's the Treasury paper, there's a lot of speculation about what types of things can be reevaluated. Can TLAC be reevaluated? Sure. But like everyone else, we'll evaluate – if that is changed, we'll evaluate what it means for us and if it needs a change in behavior, that's yet to come. But nothing that's being speculated is really factoring into how we think about and manage our activity today.

DAVID JIANG: Great. Second question, on the card portfolio, I think last quarter, you mentioned that kind of the late-stage delinquencies were impacted by collections and online payments. Is that still continuing in the book, at least in, I guess, the Retail Services part of the portfolio?

JOHN GERSPACH: Is it still continuing? It does continue. That was one of the things that we did last quarter, in the third quarter, we talked about the fact that while we thought we could mitigate some of what we saw as being collection behavior, it became apparent to us that we were not going to be able to mitigate as much as we had originally thought, which is why we built the additional reserves in the third quarter because we recognized that our NCL rates were not going to decline to the levels that we had originally thought. So we increased the guidance on the NCL rate in Retail Services and we built additional reserves and as we then operated within the fourth quarter, the delinquencies actually performed the way we had modeled and we did not see the need to build any additional reserves other than what you would expect just through normal portfolio growth and seasoning. So, the answer is yes it continues, but now, it's operating within our models.

DAVID JIANG: Great. I think you gave an outlook for loan growth in the Branded Card portfolio. Did you give one for Retail Services?

JOHN GERSPACH: You'd have to check the transcript. I don't remember getting too many questions on Retail Services a week ago.

DAVID JIANG: Okay. Great. Thank you.

JOHN GERSPACH: All right. You're welcome.

OPERATOR: Your final question is from the line of James Strecker with Wells Fargo.

JAMES STRECKER: Good morning, guys. Thanks for the call. So John, my wife likes to remind me that I could be stubborn at times and I'm guessing you may agree with her based on my question, but just want to check in and see if there's any potential change in your thinking about the old Citi ends in light of tax reform, the DTA hit, LIBOR moving higher and then, I guess, even potential SLR relief. So just an update on your thinking there.

JOHN GERSPACH: So the update on the thinking on the – I'm sorry, what was the first part of the question?

JAMES STRECKER: The old Citigroup ends the Capital XIIIs, the trust preferreds that you have outstanding.

JOHN GERSPACH: Oh, the Capital XIIIs, yes. Your wife would have talked to my wife.

JAMES STRECKER: Yeah. Actually, that's probably not a good idea for either of us.

JOHN GERSPACH: The simple answer to your question is no, not at this point in time.

JAMES STRECKER: Okay. Fair enough. All right. We'll keep it short. We appreciate the call as always. Have a great day.

JOHN GERSPACH: Okay. No problem. Thank you.

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

TOM ROGERS: I'd just like to thank everyone for joining us this morning. And of course, if you have follow-up questions, please reach out to us in Investor Relations. Thanks, and have a good day.

OPERATOR: Thank you. At this time, please disconnect.