TRANSCRIPT

Citi Fourth Quarter 2019 Fixed Income Review

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Host
Tom Rogers, Head of Fixed Income Investor Relations

Speakers
Mark Mason, Citi Chief Financial Officer
Mike Verdeschi, Citi Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer, Mark Mason; 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, Maria, good morning, and thank you all for joining us. As Maria have mentioned, I'm joined this morning by our Chief Financial Officer, Mark Mason; 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, Mark and Mike will be happy to answer 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 in capital and other financial condition may differ materially from these statements due to a variety of factors including the cautionary statements referenced in our discussion today and those included in our SEC filings including, without limitation, the Risk Factors section of our 2018 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 2019 operating results. Second, I will cover recent balance sheet trends, including growth in loans and deposits. Third, I'll review our issuance program; and finally, I'll discuss our continued strong liquidity and capital position.

Slide 3 summarizes our results for the fourth quarter and full year 2019. In 2019, we reported net income of $19.4 billion and achieved an RoTCE of 12.1%, ahead of our target.

On slide 4, we show average balance sheet trends over the past five quarters in constant dollars. On this basis, we have grown our balance sheet by approximately 3% over the last year as we continue to leverage our global footprint to raise high-quality deposits across our Institutional and Consumer businesses to fund growth as we deepen relationships with clients. Sequentially, our balance sheet remained largely unchanged.

In the fourth quarter, we continue to grow deposits and issued long-term debt to fund loan growth. Trading-related assets and liabilities declined given typical seasonality and we grew investments as we optimized the balance sheet.

Slide 5 presents trends in our loan portfolio on an average basis in constant dollars. Total Citigroup loans increased 3% year-over-year and 4% in aggregate across our Consumer and Institutional businesses. In our Consumer franchise, average loans grew 4% year-over-year, driven by continued growth in North

America and Asia. Average loans in Mexico were unchanged year-over-year, reflecting lower overall industry volumes.

Overall loans on the Institutional side grew 3% year-over-year. Breaking that down by business, TTS loans decreased 3% year-over-year as we continue to utilize our distribution capabilities to optimize the balance sheet while supporting our clients. Loans in Corporate Lending decreased 2%, reflecting the episodic nature of our clients' funding needs, as well as an active quarter in debt capital markets originations. Private Bank loans increased 13%, reflecting growth across regions, driven by both new clients as well as the deepening of relationships with existing clients. Finally, strong year-over-year Markets loan growth was primarily driven by residential and commercial real estate warehouse lending. And loans included in Corp/Other continued to decline, driven by the wind down of legacy assets.

On slide 6, we show credit quality trends in our GCB and ICG loan portfolios. As a reminder, this quarter we realigned our commercial banking business with all commercial banking activities now reported in ICG, including those previously reported as part of GCB. In GCB, overall credit trends remained favorable again this quarter. In ICG, non-accrual loans increased sequentially but remained low at 56 basis points of total corporate loans.

Turning to slide 7, we show trends in average deposits over the past five quarters in constant dollars. Total deposits increased 9% from the prior-year period. In our Consumer business, deposits increased 6%, driven by continued growth in North America and Asia. In North America, deposit growth accelerated to 7% with contribution from both traditional and digital channels. In our Institutional business, deposits grew 10%, primarily driven by high-quality deposit growth in TTS.

Now, let me highlight our parent benchmark debt issuance program on slide 8. In 2019, we issued approximately $16 billion of parent-level benchmark debt across a variety of tenors, currencies and structures. Last week, we issued just over $2 billion. Going forward, we will continue to maintain the flexibility to issue a mix of tenors, currencies and structures.

On slide 9, let me cover our bank note issuance program. In 2019, we issued just under $9 billion of bank notes. And going forward, we will continue to maintain the flexibility to issue across a variety of tenors, currencies and structures as we drive the efficiency of our funding sources.

On slide 10, let me cover our issuance, maturity and redemption expectations. As I mentioned, during 2019, we issued $16 billion of parent benchmark debt with $16 billion of maturities. At the bank-level, we issued $9 billion of bank notes with $12 billion of maturities across both bank notes and credit card securitizations.

Looking to 2020, we expect gross issuance in and around $25 billion in aggregate across our parent benchmark and our bank-level programs, including the roughly $2 billion we issued last week. And we will maintain the flexibility to optimize our funding through opportunistic redemptions.

On slide 11, we show the composition of our long-term debt outstanding. During the fourth quarter, our total long-term debt increased by approximately $7 billion to $249 billion, driven by issuance out of our non-bank entities.

On slide 12, we provide an update of our LCR metrics and drivers. Our average LCR increased modestly to 115% this quarter.

Turning to slide 13, let me summarize our key regulatory capital metrics. Our CET 1 capital ratio increased sequentially to 11.7%, driven by a decline in risk-weighted assets. And our SLRs were 6.2% and 6.8% for Citigroup and Citibank, respectively.

Moving to our last slide, let me summarize several key points. First, we earned $19.4 billion of net income and achieved an RoTCE of 12.1%, ahead of our target for the full year. Second, we maintain a strong capital and liquidity position with a CET1 capital ratio of 11.7% and an SLR of 6.2%, an average LCR of 115%, and an estimated NSFR of greater than 100%. And we maintained a surplus above our TLAC requirement. Finally, we continue to further diversify and optimize our liquidity resources.

Before we move on to Q&A, let me touch briefly on the transition away from LIBOR. Broadly-speaking, we are continuing to prepare ourselves by working with our regulators and industry working groups such as the Alternative Reference Rate Committee. As I've mentioned previously, we have several work streams which are focused on the transition related to a number of areas including the impact on our clients, operational capabilities and legal and financial contracts. We are scoping our contracts for the re-papering efforts that will be required to both transition to new rates and ensure that fallback language is robust. We are encouraging adoption of industry led protocols and solutions in order to ensure consistency where appropriate. We are making markets and new risk-free rates as well as supporting the transition of legacy derivatives portfolios. And, lastly, we've issued benchmark bonds referencing SOFR from both the bank and the parent as well as preferred securities, which will reference SOFR once the fixed interest rate period ends.

With regard to the unique language in the subset of our preferred securities, we are continuing to evaluate alternatives, including a potential exchange or amendment. As we mentioned last quarter, we continue to get more clarity on the various implications of a potential transaction, including industry feedback received from the SEC in the fourth quarter. And while we are not yet in a position to speak to a specific transaction or timing, we are continuing to make progress, working through the alternatives and we'll continue to provide you with updates.

And with that, Mark and I will be happy to answer your questions.

QUESTION AND ANSWER

OPERATOR: Our first question comes from the line of Hima Inguva of Bank of America.

HIMA INGUVA: Thank you very much for taking my question and Happy New Year to Mark, Mike and Tom. Always helpful that you do these calls and I hope that other banks definitely follow the trend.

MARK MASON: Thank you.

MIKE VERDESCHI: Thank you, Hima.

HIMA INGUVA: So I'm going to start off with actually the – I apologize if I couldn't find this, but the breakdown between parent benchmark debt and the bank-level debt, if you're willing to provide that?

MIKE VERDESCHI: Yeah, so, Hima, over the last couple of years, if you look at what we've issued, go back to 2018, we issued $30 billion and that was broken down evenly between the bank and the parent. Last year, we issued $25 billion, and we issued less in the bank than we had done in the previous year, and the benchmark was roughly the same.

This year, we are indicating in and around $25 billion, and at this point it's hard to know exactly how that split will break down. It really will be a function of how our balance sheet evolves and grows and what our client needs are. But if you look at the last two years, it gives you some sense of how those levels between those two programs can vary.

OPERATOR: Our next question comes from line of Scott Cavanagh of APG.

SCOTT CAVANAUGH: Good morning, guys.

MARK MASON: Good morning, Scott.

SCOTT CAVANAUGH: So on the issuance, specifically just looking at the maturities versus the issuance expectations on slide 10, what is the incremental issuance at the parent? Was that just balance sheet growth or how should we be thinking about that?

MIKE VERDESCHI: Yeah, Scott, it's Mike. I would say that there's a number of things that are always going to impact how we think about that issuance activity. It is going to be a function of how the balance sheet grows and how our clients engage us. Obviously, we think about TLAC as well and we're running a good-sized buffer right now. But over the course of the year, that will decay. And then, of course, we'll be thinking about market conditions, and market conditions right now are favorable. So we'll be looking at a number of factors and that will really drive how we issue over the course of the year.

OPERATOR: Our next question comes from the line of Arnold Kakuda of Bloomberg.

ARNOLD KAKUDA: Hi, guys. Once again, thanks a lot for the call. Really helpful. So this question might be a little hard to answer but – and I'll give it a shot anyway. So concerns about the coronavirus are growing. And as a global banking institution with about 12% to 19% of your loans based out of Asia, you might have a unique perspective on – currently, what are you seeing now? And maybe if you can give some context of what did you see maybe 17 years ago with SARS?

MARK MASON: Hi. It's Mark. How are you?

ARNOLD KAKUDA: Good. How's it going?

MARK MASON: Good. As you described, that is a tough question to answer. I guess I'd address it in this way: Our primary concern, as you would imagine right now, is for the health and well-being of those impacted. And we don't have any presence in Wuhan. That said we do have operations in China and across the region. We have a continuity of business plan that's in place today. We're obviously focused on the safety of our employees and have taken a number of actions regarding restricting travel in order to ensure the safety of all employees. It's a fluid situation that we continue to monitor closely and will continue to do so over the coming period of time.

With regard to the coronavirus, that's really all that we can say at this point. It's a situation that we're taking very seriously and we're very focused on health and well-being.

OPERATOR: Our next question comes from the line of Scott Frost of State Street Global.

SCOTT FROST: Hi. Thanks for taking the call. The question, I think you touched on this, the FICC-related results in last quarter that seems to be more calendar-related. We shouldn't look at that as a sustainable level. I think that's correct but correct me if I'm wrong on that.

MARK MASON: Yeah. So we did in the fourth quarter, we saw very good FICC performance on the heels of a prior year, as you know, at the end of 2018 where there was serious pressure from an industry point of view on activity in Markets broadly. And so that strong performance is a byproduct of, we think, very strong continued engagement with our clients. But on a tough comparison or a very poor comparison in terms of the prior year's performance. We do feel good about the engagement we're seeing with clients across the Fixed Income franchise and we do expect to see continued strong engagement as we grow there and take share there. But the performance is a byproduct of that rebound, in part.

OPERATOR: Our next question comes from the line of Robert Smalley of UBS.

ROBERT SMALLEY: Hi. Good morning and thanks for doing the call again.

MIKE VERDESCHI: Sure. Good morning, Robert.

ROBERT SMALLEY: Thanks. A couple of things on asset quality and one on preferreds quickly. Could you give us an update on Flex Loan and Flex Pay? How have they been performing so far, are you getting what you want out of that?

Also, in the equity call on asset quality, you spoke about episodic downgrades. When do these become a pattern? Are you starting to see any patterns there?

And then, finally, on preferreds, you have a few issues that are callable near the end of the year, given the low rate environment, the success you had with the recent issue, have you thought about bringing a call or anything like that forward on those? Thanks.

MARK MASON: Sure. So why don't I take kind of the first two, and then, Mike, you can touch on the last one. So with regard to Flex Loan, so I guess I would start by saying we feel very good about the execution we've seen in our North America Consumer strategy, in particular. We're getting, we think, very good traction in growing our penetration of our Branded Card customers. We think we're getting very good traction in the way of demonstrating our digital capabilities as we've seen our digital deposit sales grow 7%, roughly $6 billion in digital deposit sales. We also feel good about applying those digital capabilities to how we expand our lending offering.

And so as you referenced, in January we launched Flex Loan. Flex Loan allows our customers to access funds by converting a portion of their existing credit line into a fixed interest payment personal loan. The results continue to be positive. Loan originations continue to grow. We're maintaining a strong credit profile.

In April, we launched Flex Pay. That allows customers to flex certain larger purchases or groups of certain purchases and pay for them over time. And while it's still early, we also, there, see good initial results and again while maintaining a strong credit profile. So we feel good about those two products, but more broadly we feel good about the progress we're making with our North America Consumer strategy and the capabilities we're demonstrating on the heels of having made investments in our digital capabilities.

With regard to the episodic downgrades on the Corporate side that you referenced, look, when I look at the performance in our Corporate Lending portfolio and the cost of credit that we have for the full year there, it is in-line with what we've talked about in the way of a normalized level of cost of credit. So it's right in-line with that. We did see a couple of episodics in the fourth quarter but again that aggregate level is consistent with what we would have expected. And when I look at loss rates there, they are very, very low; and again, inside of the range we would have expected. We continue to have and focus on a high-credit quality customer. So north of 80% is in investment grade, in the way of the client focus that we have. And we aren't seeing anything in particular that is of major concern. We obviously continue to watch very carefully in light of where we are in the cycle, but we aren't seeing any systemic areas of concern as we continue to monitor activity and the portfolio we have.

Mike, you want to comment?

MIKE VERDESCHI: Yeah, sure. In terms of preferreds and I would say similar to how I think about the broader issuance, we're always going to be monitoring and evaluating market conditions. And that will be a factor. But then again, of course, we'll be actively looking at the balance sheet needs and the growth of that balance sheet and, therefore, what does that mean for our capital needs. And right now, we're maybe running a bit high on AT1 relative to where we could be running it but I would say that this is going to be an ongoing evaluation. We'll be looking at both issuance from an opportunistic perspective but also looking at the needs over time.

And then certainly as it pertains to our call, we'll always look at whether we do need the capital at that time and whether we wish to just call it away. And if we do need the capital, we'll look at the economics associated with leaving that particular preferred outstanding versus calling it and reissuing at the then current market levels.

OPERATOR: Our next question comes from line of Mark Kehoe of MacKay Shields.

MARK KEHOE: Hey. Good morning. Just two questions. Just, first of all, on the digital deposits gathering effort, to an extent if you are more successful there, can that help kind of credit some of the issuance at the bank-level and is that strategy there more focused on providing services rather than just kind of rate paid and being a rate-high payer?

And then my second question was with the issuance of the 20-year by the Treasury later this year, could that kind of change some of the tenors that you would focus on in terms of issuing at the holding company level? Thank you.

MIKE VERDESCHI: Thank you, Mark. In terms of our bank issuance program, again, as I said earlier, we're going to be looking at a variety of factors that can impact the bank. And we'll look at market conditions and we'll look at the needs of the balance sheet. And if you look at over the past couple of years, we did issue a bit less in the bank last year than we did in the previous year. And some of that was influenced by, I would say, the good momentum that we saw in deposits. And that was true in the retail bank, but it was also true in our other businesses that we've mentioned before.

In terms of digital, the focus really there is about engaging our Consumer customers and thinking about that as a holistic engagement of that customer base. And so what we want is a full offering of products for those customers and digital is just part of that strategy. As we think about our deposit base, we are raising deposits both from traditional channels in the six major markets that we operate in, but utilizing digital capabilities allows us to grow deposits outside of that footprint. It allows us to grow deposits with a broader customer base that we have in our Consumer Bank. So, it is not about rate; it's more about engaging our clients from a broader perspective.

OPERATOR: Our next question comes from the line of Jesse Rosenthal of CreditSights.

JESSE ROSENTHAL: Good morning.

MARK MASON: Good morning.

MIKE VERDESCHI: Good morning.

JESSE ROSENTHAL: Just a quick one for me, guys, on LIBOR. And definitely I echo everyone's appreciation for these periodic updates. But you mentioned the SEC response to the ARRC letter that came in December. And I think it was the last call, last quarter you talked about the IRS and Treasury guidance that came out. I'm just wondering what other sorts of sort of dominos may be out there that we should be looking for as the industry progresses and as you kind of contemplate dealing with the legacy securities via amendment or exchange?

MIKE VERDESCHI: Sure. It's Mike. And, look, there's been a number of factors that have come out and we're actively evaluating all of those. It's hard to know what else may come through. But I would say what we're broadly looking at is understanding the implications of our alternatives that I've talked about, an amendment or an exchange. And some of those alternatives could be the impact of whether that transaction can be deemed extinguishment or whether that's just a modification. So that was a key.

And then also the adoption of, I would say, a lot of the legacy language and the protocol. Those are all things more broadly that the industry is still working towards. And I would say that continues to be an evolution.

From the preferreds perspective, again, all of this information that continues to come in just ensures that we have a good line of sight in terms of how we evaluate our potential options, and that's both for us and our investors. So, again, we just want to make sure we're taking a thorough evaluation of it and that we continue to operate in a way that's consistent with industry standards.

OPERATOR: Our next question comes from the line of Jeff Bernstein of Insight Investment.

JEFF BERNSTEIN: Hi. Three short questions. Hong Kong exposure, would we expect in 2020 the rate of growth to decline or do you have a specific target as to what you might want to get to?

Second thing, the – plus-sized change in the FICO calculations, what kind of impact you think that will have on you guys, if at all or what kind of reaction you might have to it?

And, lastly, on the LIBOR question, a little different angle, how would you handicap the possibility that it remains quoted after the current drop dead date?

MARK MASON: Right. So why don't I start on Hong Kong. So, look, we've been in Hong Kong for over 100 years. We've monitored the situation there over the past number of months. In terms of the underlying performance, we've got our loans. If you look at kind of the top 25 country exposures that we put out in the third quarter, our loans were roughly about $15 billion or so. Our total exposure there was roughly about $53 billion. We've seen good growth in the way of our loan activity there in secured lending. And more broadly we would expect to see, notwithstanding the environment there, we would expect to see continued client engagement over the course of 2020 and it continues to be an important market for us as we move forward inside of the Asia region.

MIKE VERDESCHI: Yeah. And in terms of the LIBOR question, obviously we're still a couple of years away. It's hard to know at this point what that handicap may look like. I would say the industry clearly has been focused on the transition. I would say a lot of what's been done to-date has been planning for the broader efforts. Clearly, as we've been doing, we've been making markets in those risk-free rates. We've been issuing off of that index as well such as SOFR. And so there's a good amount of transition that still needs to take place in terms of execution, including building liquidity in these risk-free rates. There's a lot of work to be done on contracts as well. It's just hard to know right now though what the probability of banks continuing to quote beyond the end of 2021. I think the industry's focus has been and will continue to be on ensuring that by the end of 2021 that we are ready to transition away.

MARK MASON: In terms of your other question, which was around the significance of the FICO changes, we operate in markets where FICO is a factor and in markets where it's less of a factor in terms of how those markets have developed from a credit rating point of view. FICO, as a result, is one of many factors that we consider when we think about the lending activity that we do with customers but we tend to focus on the higher-end customers, whether they are corporate customers or consumer customers and how we assess their credit is a combination of things, including FICO.

OPERATOR: Our next question comes from the line of Brian Monteleone of Barclays.

BRIAN MONTELEONE: Hey. Thanks. Good morning.

MARK MASON: Good morning.

MIKE VERDESCHI: Good morning, Brian.

BRIAN MONTELEONE: Hey. So Mike, you talked about kind of the efforts that you're undergoing in terms of scoping out contracts that are in need of re-papering. Can you talk a little bit just about like what you've learned in terms of like the size of that effort? And then also just kind of do you have like a timeline in mind for kind of completing that work?

And then I know you referred to the kind of updated guidance from IRS and from FASB? Do you have any kind of timeline in mind for when you expect those proposals to be finalized?

MIKE VERDESCHI: So in terms of the re-papering efforts, again, this is pretty broad in terms of how we're thinking about that. Obviously, it's going to pertain more to, I would say, the Corporate loan books, and really that involves a lot of decentralizing of those contracts, the digitizing of those contracts to enable a smoother transition and whether that's including amendments or being able to transition to those new rates.

So it's going to take some time. I don't have the exact timeline on it because those contracts which you may want to digitize but then, of course, you may have more bespoke contracts that we'll be a little more involved. So it's hard to know exactly what that timeline looks like but clearly, as I've said before, we are operating with the assumption that we transition away from LIBOR by the end of 2021, so all of our efforts are aimed to get that work done in advance of that date.

And, again, in terms of the broader work going on, again, we're taking that information, we're evaluating it in terms of what our alternatives may be and making sure that we understand the implications very clearly on us and our investors. Again, with all of these efforts, very clear focus in terms of the timeline that we need to be operating under. We know what that transition entails, at least in terms of timing. So that just remains a key factor for us, is that ultimate transition away from LIBOR.

MARK MASON: It's a firm-wide effort.

OPERATOR: Our next question comes from the line of David Jiang of Prudential.

DAVID JIANG: Hi, guys.

MARK MASON: Hi, David.

DAVID JIANG: I had a quick question on the issuance plan. I noticed in 2019 and even in 2020, there's no securitization. Is there not a need for further securitizations out of the Credit Card Trust?

MIKE VERDESCHI: Hi. It's Mike. I would say that when we've looked at the note program, we've seen very good demand in that program and, of course, we're evaluating the economics and other factors that impact the notes, including FDIC fees. So I would say our lead has been with bank notes rather than securitization. But obviously that program is something that we still could utilize over the course of the year. It's really just been a preference for bank notes based on the demand and the economics. But we'll be evaluating all of our funding levers over the course of the year as we normally would.

OPERATOR: Our next question comes from the line of Hima Inguva of Bank of America.

HIMA INGUVA: Great. Thank you very much. I just have a couple of more questions for me. I would like to know your expectation around SCB and how you're factoring that into your plans for prefs and sub debt? So are you expecting SCB to be finalized for 2020 CCAR? That's the first question. And then your thinking around on how that factors into your overall plan that you've laid out for prefs as the last sub debt, please?

MARK MASON: Yeah, so I'll get that started. So look, I mean, just based on the public statements that are out there, we expect that we will get some version of the SCB prior to the submission for the 2020 CCAR cycle. We certainly welcome the greater clarity. We're obviously between now and then continuing to work on our CCAR process and as we've done in the past cycles, we'll submit a robust and credible plan based on our bank holding company scenarios and with, obviously, consideration for the regulatory scenario whenever they come in and whenever we get clarity on SCB, we'll incorporate that accordingly.

I guess what I'd point out is I'd point you back to some extent to our CET1 targeted level, if you will, targeted ratio of about 11.5%. We're at 11.7% now. And when we think about that target that we've set, we've factored in obviously the regulatory minimum at 4.5%, another three percentage points for the G-SIB score that we carry. And then as a proxy for the stress capital buffer, we have another three percentage points and then obviously a management buffer of about 100 basis points. And so we factored in based on what we know today and based on the output from prior-year scenarios but as we get more information, we'll obviously move to factor that into our analysis in time for the submission notwithstanding, not having received it yet.

MIKE VERDESCHI: Yeah, and, Hima, it's Mike. I think you were asking about the preferreds and all I would say is that we're really not taking a different approach. As we've talked about in the past as calls come due, we're going to evaluate the need for that capital. You could see we're running a little bit above our AT1 target now but again we'll take a view on what our capital needs are going forward and whether it's an opportunity or not to call that security.

OPERATOR: Our next question comes from the line of Scott Cavanagh from APG.

SCOTT CAVANAUGH: Thanks, guys, for putting me back in the queue. So two questions on CECL, we saw a number of your peers put out varying levels of disclosure on it, how are you guys thinking about that going forward?

And then secondly, for your private label portfolio, how do we think about the RSA agreement and I know they're all tailored but how should we be thinking about that, the balancing of the provisioning and the varying levels of flexibility under those contracts?

MARK MASON: Okay. In terms of CECL, I referenced on the earnings call that we expect the Day 1 impact to increase the reserves by about 29%, which is in-line with the guidance that I'd given in the past. That roughly equates to about $4 billion. When we look at that from a regulatory perspective, it's about six basis points on the CET1 capital in 2020. When you break down that $4 billion, given our Consumer and our Corporate businesses, the lion's share of it is out of the Consumer business due to cards and that's roughly $4.8 billion, is due to cards and you're really changing the coverage and increasing that from 14 to 23 months.

There's a decrease on the Corporate side of about $800 million and that's due to more precise usage of tenors. So rounding to the next quarter versus year, as well as incorporating estimated recoveries. And so the combination of those two get us to that roughly $4 billion. We factor that into how we thought about our go-forward targets and are comfortable managing to that.

As it relates to disclosure going forward, that's going to – obviously, there are guidelines around the disclosure and the level of CECL impact will vary from quarter-to-quarter based on the balances that we have and how they grow through the course of the year. And the mix, whether they are on the card side – Branded Cards versus Retail Services versus on the Corporate side as well as the economic assumptions that are out there, including the probability of recession and severity of recession. And so there are a number of factors that will influence kind of the Day 2 impact, and we obviously will work to ensure that we provide disclosure that is consistent with the guidelines that have been given.

And then in terms of the second part of your question, the NCLs generally impact the revenue sharing agreements and not the reserves.

OPERATOR: Our next question comes from the line of Scott Frost of State Street Global.

SCOTT FROST: Thanks for the follow. Just to touch on preferreds once again. I just want to make sure I'm getting where your head is at on preferred issuance. I mean understand low rates, tight spreads, and especially what looks like with five-year through SOFR, very low back end. Is it fair to say that you're thinking of this particular advantage of new and potential preferreds as more permanent in nature or is that a reach?

And, also, I have a follow-up for your TLAC issuance, just to clarify.

MIKE VERDESCHI: Yeah. Look, with the preferreds, I mean typically when you're issuing and you can see what we have outstanding, they will have some call feature to them, and so we embed that purposely in the structure. And I'm sorry, your second question?

SCOTT FROST: Well, it was – should we think of these as more permanent in nature or is that a reach?

MIKE VERDESCHI: Again, I would say that we've looked at all of our structures. Yeah, there is a call feature. And when that call is eligible, we'll evaluate the need for maintaining that or not.

SCOTT FROST: Okay. And on TLAC, again. Scott's questions were about rationale for issuance. But what I heard you say was growth and potential issuance at holdco could be related to balance sheet growth or for resolution purposes. There's no specificity there. Should we also weave in RoTCE targets as a factor in how you're going to issue?

MIKE VERDESCHI: Well, look, I think when we're issuing, we're again, including a variety of factors. And, first, when we think about our liability structure, we're focused on maintaining a good amount of liquidity. We want to have the right amount of liquidity for the firm, we want to have diversification of those liquidity resources. When I think about the issuance program, we want a broad investor base.

But that being said you heard me talk a lot about optimization of our funding sources. And that optimization is about both liquidity management, but also ensuring that we're also being smart and economical about those sources of liquidity. So we certainly do think about the economics and certainly manage the balance sheet in a way that is facilitating our client needs, but also optimization with a focus on returns, too.

And again, when you look at how we've issued over the past couple of years by broadening out just from dollars to overseas currencies, again, there's a play there to broaden our investor base, but also looking at the economics associated with issuing in foreign currency and swapping back to dollars. So a number of factors will play in, but returns is something, of course, that we are optimizing as well as we think about our funding.

SCOTT FROST: I appreciate the comments. Thank you.

OPERATOR: Our next question comes from the line of Doug Greiner of Wilbanks, Smith & Thomas.

DOUG GREINER: Hi. Can you just clarify on the legacy LIBOR structure for the legacy preferreds? Would it be your preference to exchange or amend that on the capital trust securities?

And secondarily, can you just review like historically the last couple years given where capital levels are, the strategic rationale for maintaining these capital trust securities? Thank you.

MIKE VERDESCHI: Yeah, I think you're talking about the N's. And as we've said before, it doesn't make sense at this time, and I think some time ago we said we'll never say never but at this time that's just not something that we are looking to pursue.

OPERATOR: And, ladies and gentlemen, we have time for one more question. Our final question will come from the line of Mark Kehoe of MacKay Shields.

MARK KEHOE: Hey. Good morning, again. Just in terms of the Treasury's plan to issue a 20-year bond, is that an area that you would like to issue at? And also, if you were to issue a 20-year, would that mean that you would reduce issuance of the 10-year or reduce issuance at the 30-year part of the curve, or does it really function of what's on the other side of the balance sheet? Thank you.

MIKE VERDESCHI: Yes. Thanks, Mark. Thanks for that question, again. And when we look at issuance, as we've done in previous years, we're going to look at a variety of tenors. Ideally, we're not issuing in just a few different tenors, but are issuing across the curve. That's going to be informed by a desire to keep a good amount of diversification across the tenors and not have it concentrated in one area. And, again, it's going to be a function of where that investor demand is, and you saw us start off the year with an 11, non-call 10. That 10-year part of the curve has traded quite well. There's been good demand there, so that's where we started the year.

In terms of 20, that is again a tenor point that we will evaluate but again we'll be looking at how good of a demand we have for that tenor point. But it's hard to know what we would do. I think your question also was, if we did some 20s, would that take away from 10s? Again, I think we're going to try to issue across a variety of tenors, but it's hard to know exactly right now what – how far out we will go and then what impact that may have on other tenors.

OPERATOR: And that does conclude the question-and-answer session for today. Mr. Rogers, do you have any closing remarks?

TOM ROGERS: I just wanted to thank everyone for joining the call today. And, of course, if you have any follow-up questions, please feel free to reach out to us in Investor Relations. Thank you.

OPERATOR: And thank you, ladies and gentlemen. This does conclude today's call. You may now disconnect and have a wonderful day.