TRANSCRIPT

Citi Fourth Quarter 2010 Earnings Review

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Host
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Speakers
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PRESENTATION

OPERATOR: Hello and welcome to Citi's 4th quarter 2010 earnings review with Chief Executive Officer Vikram Pandit and Chief Financial Officer John Gerspach. Today's call will be hosted by John Andrews, head of Citi 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. Andrews, you may begin.

JOHN ANDREWS: Thank you, operator. Good morning and thank everyone this morning for joining us. On the call today, of course, Vikram will take us through the presentation initially followed by John Gerspach, our CFO who will take you through the detailed deck which is available on our website. Afterwards, they will be happy to take your questions. Before we get started, I would like to remind you that today's presentation may concern forward-looking statements which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from the 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 factor section of our 2009 Form 10-K. With that said and out of the way, let me turn it over to Vikram. Vikram?

VIKRAM PANDIT: John, thank you and good morning everybody. Thank you for joining us today. 2010 was a very good year for Citi. We made excellent progress in executing our strategy in every major area and as a matter of fact, if you had said a year ago that we would have accomplished what we have, I'm not so sure too many people would have believed it. Yet we were profitable in each quarter, earning $10.6 billion for the year. Revenues increased for the quarter and for the year in two of our three core businesses, which are Transaction Services and Consumer Banking, and Securities and Banking had strong full-year results. Entering 2010, our primary goal was to become consistently profitable and we achieved it. Another goal was to continue to reduce assets in Citi Holdings, and we did so by $128 billion. Remaining assets are now 19% percent of our balance sheet and that's down from almost 40% of the balance sheet at their peak.

We also have been building for the future from opening branches in Asia to making new investments in technology to attracting top-notch talent to our consumer and institutional businesses. We're building a position of strength that will allow us to harness the world's growth trends. And of course, the capstone to the year was the sale of the government's remaining shares of common stock. To date, U.S. taxpayers have earned a profit of approximately $12 billion on their investment in Citigroup and we'll always be grateful for the investment they made in our company and for standing by us through this financial crisis.

Specifically for the 4th quarter, our client business and flows were solid across the board and we saw strong growth in our consumer franchise, especially outside the U.S. On the institutional side, although Transaction Services and banking performed well, revenues in markets reflected weaker trading performance. And of course, we're happy to see our credit spreads improve as much as they did. That is a good sign not only of our progress, but also it'll reduce our cost of borrowing over time. But of course it means that we had to take a billion one charge due to CVA. For 2011, we'll build on the foundation we've put in place and accelerate our strategy for Citicorp. We'll make investments to increase our lead in the emerging markets. We'll seek to become a leader in digital banking and mobile payments. And we'll continue to recruit top talent, building on the key hires we made last year. And we'll do, we'll do so despite a challenging economic backdrop. The effects of the financial crisis are still working their way through the system and I think that macro trends will dominate micro trends, especially for the next few quarters. And although there are positive signs in the U.S. economy, the housing market yet has to recover, job creation has been weak, and internationally excessive government leverage is still hampering recovery in the Euro zone. We continue to build our capital base, our Tier 1 Common ratio now stands at 10.7% up from 9.6% at the beginning of the year. Through earnings and reduction of Citi Holdings, we have built a robust loan loss reserves of $40.7 billion. We have participated in the stress test with the regulators and subject to their guidance, we still expect to be in a position to return capital to our shareholders in 2012. Summing up, I believe we have the right business model, the right strategy for our company's present and future and we are executing with discipline. The economic environment remains uncertain but our path for the future is clear. We've steadily built a foundation capable of producing consistent profitability and our focus now is on achieving sustained and responsible growth. With that, I'd like to turn this over to John Gerspach and then we'll come back later and take some of your questions.

JOHN GERSPACH: Okay, thank you, Vikram and good morning everyone. Starting on slide two, on a full-year basis, Citigroup reported revenues of nearly $87 billion for 2010. Operating expenses totaled $47.4 billion. Credit costs were $26 billion down 50% from prior year levels on a comparable basis. And for the full-year, we earned $10.6 billion in net income or $0.35 per diluted share. We earned nearly $15 billion in our core Citicorp business with earnings in Asia and Latin America contributing more than half of the total. Citi Holdings generated a loss of $4.2 billion.

Now turning to the quarter, on slide three, Citigroup reported 4th quarter net income of $1.3 billion or $0.04 per diluted share. These results were significantly affected by three factors. First, CVA was a negative $1.1 billion as Citi spreads tightened in the 4th quarter, particularly following the U.S. Treasury's sale of its remaining Citi shares in December. Second, revenues in Securities and Banking were lower due to weaker trading performance in the fixed income and equities businesses. And third, expenses were $12.5 billion, up 8% from the last quarter and above our prior guidance. Of the expense increase, more than half was due to the combined impact of foreign exchange and higher legal and related costs while the remainder was attributable to severance, volume-related growth in certain businesses and continued investments. On the positive side, credit continued to improve in the quarter with net credit losses declining 11% to $6.9 billion and we recorded a net loan loss reserve release of $2.3 billion.

Turning now to Citicorp and Citi Holdings on slide four. Credit costs continued to decline in each segment driven by improvements in both consumer and corporate credit. Citicorp reported revenues of $14.3 billion and net income of $2.4 billion. The underlying business drivers for Citicorp continued to show momentum in the 4th quarter. As an example, for the second consecutive quarter, we grew both consumer and corporate loans in Citicorp, primarily in the emerging markets. Sequentially, end of period consumer loans were up 3% and corporate loans grew 4%. Citi Holdings reported revenues of $4 billion and a net loss of $1 billion. Citi Holdings ended the year with $359 billion of assets down $62 billion during the quarter and $128 billion for the year including the sale of Student Loan Corporation.

On slide five, we show a nine quarter trend for Citicorp's results. CVA was negative $1 billion for Citicorp in the 4th quarter compared to a positive $99 million last quarter. Excluding CVA, Citicorp's revenues were $15.3 billion down 6% versus the prior quarter due to lower revenues in Securities and Banking. Operating expenses of $9.4 billion were up 6% versus the prior quarter. Roughly a quarter of the increase was due to the impact of foreign exchange. The remainder was primarily due to higher legal and related costs, volume-related growth and continued investments in our core businesses. Citicorp's net credit losses were $2.7 billion, down 12% from the previous quarter driven by Citi-branded cards in North America and lower corporate net credit losses. We released $741 million in net loan loss reserves, up from $426 million in the third quarter as higher net releases in Citi-branded cards and our corporate portfolio were partially offset by lower releases in our international consumer businesses. Excluding CVA, earnings before taxes declined 16% to $3.9 billion.

Slide six highlights our North America Consumer Banking business. Revenues of $3.6 billion were down 5% sequentially. Lower revenue in cards reflects a charge for enhancements to our Thank You Rewards program as well as the continued impact of Card Act. Lower retail revenue was mainly due to lower refinancing gains in the mortgage business. Expenses were up 7% to $1.6 billion reflecting a one-time benefit in the prior quarter as well as higher legal and related costs. Credit costs declined 29% to $1.4 billion. Net credit losses were down 10% to $1.8 billion due to continued improvement in Citi-branded cards and we recorded a $348 million net loan loss reserve release. Net credit margin increased 1% to $1.8 billion as the decline in net credit losses more than offset lower revenues. While average loans were flat to slightly down versus the prior quarter, end of period card loans were up 1% sequentially and retail loans were up 4%. In cards, open accounts were stable versus the prior quarter and purchase sales grew 4% sequentially. While overall purchase sales declined versus last year due to a lower account base, sales per active account grew year-over-year for the 4th consecutive quarter.

Turning to slide seven. Our International Consumer Banking businesses had revenues of $4.6 billion, up 4% sequentially with growth across all regions. This growth reflects strong momentum in underlying business drivers as well as the impact of foreign exchange. Underlying revenue drivers were positive again this quarter, however revenue growth was muted as spreads remained under pressure. We grew our average deposits in every region during the quarter and average loans grew 5% sequentially in both Asia and Latin America. Card purchase sales were up 14% sequentially and investment sales grew 11% as strong growth in Asia and EMEA was offset by a decline in Latin America as customers continued to shift to longer term securities. Expenses were $2.8 billion, up 10% from the prior quarter reflecting the impact of foreign exchange and continued investments in the business. Credit costs were up 70% to $593 million, driven by a lower net loan loss reserve release during the quarter. NCL dollars were stable. These credit trends reflect these regions being substantially further along in their economic recovery and hence much closer to a normalized credit environment than North America. On a rate basis, international net credit losses continued to improve and NCL dollars were flat against the growing loan balance. Net credit margin increased 5% sequentially to $3.8 billion in the 4th quarter driven by revenue growth.

Slide eight shows nine quarters of business drivers and financial performance for International Consumer Banking. Following a period of repositioning in 2009, we returned to growth across every significant metric in 2010, reflecting both economic recovery in these regions as well as our renewed investment spending. Year-over-year, average loans and deposits were up 12% and 11% respectively. Trends in card purchase sales and investment sales were also up, with full-year 2010 results above 2008 levels. This growth in underlying business drivers is reflected in our financial results. On a full-year basis, net credit margin of $14.3 billion in 2010 was up 21% over the prior year and net income more than doubled, reflecting the additional benefit of loan loss reserve releases.

Slide nine shows our Securities and Banking business. Excluding CVA, revenues of $4.6 billion were down 17% from the 3rd quarter; driven by weaker revenues in fixed income and equity markets, partially offset by growth in investment banking and lending revenues. In investment banking, revenues grew 25% to $1.2 billion as significantly higher equity underwriting revenues driven by Asia IPO activity and stable debt underwriting revenue were partially offset by a decline in M&A fees. Ex CVA, equity market revenues were $808 million. The $254 million sequential decline primarily reflects weaker trading revenues linked to our derivatives business and principal positions. Fixed income market revenues ex CVA were down 32% to $2.3 billion. The decline was primarily attributable to weaker performance in market making activities to facilitate client needs. Lending revenues were $185 million, compared to a negative $18 million in the prior quarter driven by smaller hedge losses on continued spread tightening for corporate credits. Private bank revenues excluding CVA were up 3% to $506 million. On a regional basis, revenues excluding CVA grew 8% sequentially in Latin America and 3% in Asia. Total operating expenses were up 2% versus the prior quarter. Credit costs were a benefit in the 4th quarter as net credit losses declined 54% to $132 million and we released $194 million in net loan loss reserves.

Moving to Transaction Services on slide 10. Revenues of $2.6 billion were up 1% from the 3rd quarter driven by growth in Asia and Latin America. Treasury and Trade solutions went down 1% as higher trade revenues, increased deposits and higher fees were more than offset by spread compression. Securities and Fund Services grew 6% sequentially driven by higher volumes. Overall, transaction volumes and new mandates remained strong across both businesses during the quarter. Asset growth was driven by trade finance with end of period trade assets up 14% sequentially and nearly double versus last year. Average deposits grew 4% sequentially to $353 billion and assets under custody were up 2% to $12.6 trillion. Expenses of $1.3 billion were up 7% from last quarter, reflecting both higher volumes and continued investment to support the business.

Slide 11 shows Citi Holdings assets. We ended the quarter with $359 billion in Citi Holdings or 19% of total Citigroup assets. The $62 billion reduction in the 4th quarter was comprised of $48 billion of asset sales and business dispositions including $31 billion from Student Loan Corporation and $10 billion of sales from the Special Asset Pool, approximately $12 billion of net runoff and pay downs and $2 billion of net cost of credit and net asset marks.

On slide 12, we show a nine quarter trend for Citi Holdings results. We narrowed the loss of Citi Holdings to $1 billion in the 4th quarter. Revenues were up 3% to $4 billion as higher revenues in Brokerage and Asset Management and the Special Asset Pool were offset by a decline in Local Consumer Lending. Expenses were up 7% to $2.4 billion and credit costs were down 13% to $2.9 billion.

Looking at Citi Holdings in more detail on slide 13, revenues in Brokerage and Asset Management were up sequentially to $136 million reflecting a higher contribution from the Morgan Stanley Smith Barney joint venture. In Local Consumer Lending, revenues were down 4% sequentially to $3.4 billion as gains on asset sales were more than offset by lower revenues on a declining loan balance as well as a refund reserve build related to our consumer finance business in Japan. In the Special Asset Pool, revenues were up 36% to $426 million in the 4th quarter mainly due to higher gains on asset sales during the quarter. Expenses were up 7% sequentially to $2.4 billion reflecting higher legal and related costs and severance. Credit costs were down 13% sequentially as credit trends continued to improve in both our consumer and corporate portfolios. Total net credit losses were down 10% to $4.2 billion and the net loan loss reserve release was down slightly to $1.5 billion. Local Consumer Lending continues to drive the earnings performance of Citi Holdings with $1.1 billion net loss for the quarter.

Slide 14 shows the results for the Corporate/Other segment. Revenues declined by $450 million sequentially reflecting lower gains on sales of AFS securities. Net income also reflects higher operating expenses during the quarter. Expenses were up by $286 million sequentially mainly due to legal and related costs. Assets of $272 billion include approximately $92 billion of cash and cash equivalents and $124 billion of liquid available for sale securities.

Slide 15 shows total Citigroup net credit losses and loan loss reserves. NCLs continued to improve, down 11% sequentially to $6.9 billion. And the net loan loss reserve release grew 14% to $2.3 billion. We ended the year with $40.7 billion of total loan loss reserves, and our LLR ratio was 6.3%. Consumer NCLs declined 8% sequentially to $6.2 billion and we released $1.3 billion in net loan loss reserves. Corporate credit was a benefit of $256 million in the 4th quarter compared to a cost of $347 million last quarter. Corporate net credit losses declined 28% to $664 million and the net loan loss reserve release grew to $920 million. Corporate non-accrual loans of $8.6 billion were down 13% versus the prior quarter.

Moving to consumer credit trends on slide 16, as I mentioned, consumer net credit losses of $6.2 billion were down 8% sequentially with continued improvement in North America cards and real estate. Our net credit loss ratio declined again this quarter to 5.3% and our loan loss reserve ratio was 7.8%. In North

America, net credit losses declined 9% to $5.1 billion while international net credit losses declined by 6% to $1.1 billion.

Slide 17 shows our international consumer credit trends. In Citicorp, NCL improvement on a dollar basis is slowing down as we grow our international loan portfolios. However, on a rate basis we continued to see NCL improvement in both Asia and Latin America. In Asia, India continued to show the most significant improvement in both NCLs and delinquencies. For the region, 90+ day delinquencies were relatively flat on a dollar basis and down as a percentage of loans. In Latin America, NCLs improved on a rate basis driven by cards in Brazil and Mexico and 90+ day delinquencies also improved.

Now on slide 18, we focus on North America cards. Trends for both Citi-branded and Retail Partner cards continue to reflect the improving credit quality of these portfolios. In Citi-branded cards, NCLs declined for the 3rd consecutive quarter. NCLs decreased by 11% to $1.7 billion and 90+ day delinquencies were down 12% to $1.6 billion. In Retail Partner cards, NCLs were down for the 6th consecutive quarter. NCLs decreased by 10% to $1.4 billion and 90+ day delinquencies declined by 8% to $1.6 billion. For both portfolios, early stage delinquencies also continued to show improvement.

Turning to the mortgage portfolio in Citi Holdings on slide 19, NCLs and 90+ day delinquencies in both first and second mortgages improved again this quarter. We continued to manage down these portfolios. Compared to the 4th quarter of last year, we reduced our first mortgage portfolio by almost 20% to $80 billion. And second mortgages were down 14% to $44 billion through a combination of sales, runoff and net credit losses. Our total loan loss reserve balance for mortgages in Citi Holdings currently represents over two years of NCL coverage.

Slide 20 provides more detail on the delinquency trends in first mortgages in Citi Holdings. Thirty-plus day delinquencies were down for the 5th consecutive quarter. Delinquencies declined by 15% to $9.9 billion with improvement across all buckets. Similar to last quarter, the sequential decline in delinquencies was due entirely to asset sales and trial mods converting to permanent modifications absent which delinquencies would be up slightly. During the 4th quarter, we sold $1.5 billion in delinquent mortgages bringing our total sales of delinquent mortgages for the year to $4.8 billion. Mortgage sales served to reduce our overall delinquency inventory. They also eliminate any future risk of default as compared to modifications. Through the end of the year, we had converted a total of $4.8 billion of trial mods to permanent modifications, more than three quarters of which were HAMP. We continue to believe that re-default rates for HAMP-modified loans will be significantly lower versus non-HAMP programs. The first HAMP mods have now been on the books for about 12 months and to date, are exhibiting re-default rates of less than 15%.

On slide 21, we provide an update on rep and warranty issues. The chart on the left shows claims and repurchase activity on a unit basis. Over the past three years, we have received claims on roughly 20,400 unindemnified loans. At year end, nearly 4,600 of those claims remained pending which was slightly lower than our pending claim volume at the end of the 3rd quarter. Of the roughly 15,800 claims which have been resolved, approximately 7,600 or nearly 50% were actually repurchased or made whole. Based on our current expectations, we believe claims volumes should peak in the latter part of 2011. The right side of the slide shows a roll forward of the repurchase reserve for our consumer mortgage business. We begin the 4th quarter, we began the 4th quarter with approximately $952 million of repurchase reserves. We added approximately $4 million of reserves arising from new mortgage sales in the 4th quarter and another $248 million related to changes in our estimate of average loss per claim. These additions to the reserve were charged to our P&L during the quarter as contra revenue. We realized approximately $235 million of losses during the quarter which were charged against the reserve. As a result, we ended the year with $969 million in mortgage repurchase reserves.

Slide 22 shows the trend in our key capital metrics. We ended the year with a Tier 1 ratio of 12.9% and a Tier 1 Common ratio of 10.7%. Our Tier 1 Common ratio grew approximately 40 basis points during the quarter reflecting a 1% increase in Tier 1 Common capital to $105 billion and a 2% reduction in risk-weighted assets due in part to the continued wind down of Citi Holdings. On-a-year over year basis, our GAAP assets grew 3% while we reduced our risk- weighted assets by 10%.

In summary, our performance in 2010 creates a strong foundation for sustainable growth. Where 2009 was focused on recapitalizing the firm and putting into place our new strategy, 2010 saw our return to profitability as we earned nearly $15 billion in our core Citicorp business while we cut losses in Citi Holdings by more than half. The strength of our international franchise was particularly apparent in 2010 with Asia and Latin America earning over $8 billion, a 14% increase versus 2009. And that growth and profitability was achieved while continuing to invest in these regions. We made significant progress in reducing Citi Holdings, with assets declining $128 billion or 26% versus 2009. Today Citi Holdings represents only 19% of total Citigroup assets. Two consistent themes drove our performance in 2010. First, global credit continued to recover with six consecutive quarters of sustained improvement in credit costs. And second, we began increasing our investment spending in international businesses as the pace of economic recovery accelerated in these regions resulting in strong growth in our underlying business drivers. Finally, our consistent profitability combined with the ongoing wind down of Citi Holdings contributed to our strong balance sheet. We ended 2010 with a Tier 1 Common ratio of 10.7%, up approximately 110 basis points from last year, making us one of the best capitalized large banks in the world. We remain confident, based on what we know today, that we will be well above the Basel III capital requirements and above 8% to 9% on a Tier 1 Common basis in 2012.

Now I'd like to discuss some factors which may affect our results in 2011. In Regional Consumer Banking, we believe results will be driven by different trends in North America versus our international businesses. In North America, if economic recovery is sustained, revenues are expected to grow modestly as loan demand begins to recover, particularly in the second half of the year. However, net credit margin recovery will likely continue to be driven primarily by improvement in net credit losses. As always, loan loss reserve balances will continue to reflect the losses embedded in the portfolio. Internationally, we have seen the improvement in net credit losses slowing as the loan portfolios grow. Given continued economic expansion in these regions, net credit margin is more likely to be driven by revenue growth, particularly in the second half of the year as our investment spending should continue to generate volume growth to outpace spread compression. International credit costs are likely to increase in 2011, reflecting a growing loan portfolio. In Securities and Banking our continued investments serve to build on an already strong foundation for future growth. The strength of our franchise should be evident in 2011 as it was in our full 2010 results. Overall, Securities and Banking will continue to reflect trends in client activity and global market conditions. In Local Consumer Lending in Citi Holdings, revenues should continue to decline given a shrinking loan balance resulting from pay downs and continued asset sales. Based on current delinquency trends and ongoing loss mitigation actions, we expect credit costs to continue to improve in Local Consumer Lending. Regarding expenses, we expect 2011 expense levels to be in line with our 2010 guidance at $48 to $50 billion for the year with some variability across quarters as we continue investing in Citicorp while rationalizing Citi Holdings. That concludes our review of the quarter and Vikram and I will now open up the line for questions.

OPERATOR: [Operator Instructions] Your first question comes from the line of Guy Moszkowski with Bank of America-Merrill Lynch.

GUY MOSZKOWSKI: Good morning.

JOHN GERSPACH: Good morning, Guy.

GUY MOSZKOWSKI: I was hoping that maybe you could quantify how much of the linked quarters increase in expenses actually was litigation, which was one of the primary factors you noted.

JOHN GERSPACH: The link, if you think in terms of the way it breaks down, about $150 of the increase was due to foreign exchange, about $400 more or less was legal and related matters, $100 was severance and restructuring and about $150 each of investment and volume driven growth.

GUY MOSZKOWSKI: Got it, thanks. And within Securities and Banking, did the expense increase in comp, which I know you don't break out, did that pretty much reflect, well actually, I should phrase it differently. Did the comp reflect the decline in revenue or was it also up sequentially?

JOHN GERSPACH: Well, you know, as you said, Guy, we don't break out comp for any of our individual businesses but obviously our comp considerations reflect performance for the full year. You know, throughout the year we do our best to estimate what we think we're going to be paying out. So we take all of that into consideration.

GUY MOSZKOWSKI: I guess what I'm trying to get at is whether there would have been a significant increase in litigation-type expenses within S and B.

JOHN GERSPACH: There was some contribution in S and B of litigation, but I wouldn't say that S and B was the primary driver behind the $400 that I talked about earlier.

GUY MOSZKOWSKI: And is it fair to assume that a fair amount of that litigation expense would be reserve building related to, you know, things like private label securities? I know that one of your competitors has talked about not really being able to build for that use through the reserve but that litigation reserves can be billed for that type of thing.

JOHN GERSPACH: You know, we, as we said, I think it was last quarter, you know, we believe that the private label, the types of claims associated with private label securitizations are going to manifest themselves in the context of litigation. You know, we made that statement last quarter and that kinda holds true. You know, but as we said last quarter, to date we have not received a significant number of claims in connection with private label securitizations. Obviously, you know, we continue to monitor all the activities associated with this, but given the relative lack of historical experience, it naturally kind of follows on that it's difficult to estimate future claims here. So you know, as with all such matters, we're continuing to evaluate our litigation reserves and at the end of the quarter, overall, we feel that we're appropriately reserved and we're going to continue to monitor everything that's going on with private label securitizations. The other thing, Guy, is I think you have to put our position of private label securitizations, you know, a bit in context. When you think in terms of the issuances that were done in '05 through '08, we had about a 3% market share and near as we can tell, we probably rank 8th among issuers during that time period. You know, some of our peer institutions have market shares that are five or eight times higher than that. So, you know, well private label securitizations is something that we obviously are continuing to monitor. It quite frankly isn't as big an exposure for us as it might be for others.

GUY MOSZKOWSKI: Thanks. And then moving to another subject just to explore a little bit further the revenue side in Securities and Banking during the quarter, we saw pretty significant falloff in fixed income and I was wondering if you could give us a little bit more of a sense first of all, was a lot of that in December after a more successful first couple of months? Or was it a little bit more spread over the period? and can you give us a sense for whether some of the product-related declines that you alluded to in terms of rate were because of the shock that happened in long term interest rates or was it just more because of a decline in customer activity levels?

JOHN GERSPACH: Yeah, I'm gonna take a pass on going through month-to-month performance, but the decline was not due to a decline in customer volume levels. Customer activity stayed pretty solid during the quarter and as we tried to indicate, it really did reflect just weaker trading performance in, especially in the fixed income business. As far as, you know, what products may have driven it, I would say that G10 rates probably contributed two-thirds maybe of the decline due to the weaker trading performance.

GUY MOSZKOWSKI: That's helpful. The final question I have for you is on the net interest margin which declined pretty much in line with the guidance that you had given us early in the quarter. And I was wondering if you could give us a little bit more of a sense for what you thought might happen with net interest margin based on things that can see now.

JOHN GERSPACH: Yeah. You know, my comment, Guy, about half of that decline that we had in the quarter, half of the 12 basis points was due to the building of the reserve for customer refunds in our consumer finance business in Japan. So absent that, the decline in NIM would have been closer to six basis points. And I think that pretty much forms my view as to what might happen, you know, going into the first quarter. We could be looking at something in the mid-low digits as far as a decline in NIM and then, and then maybe it'll stabilize beginning in the 2nd quarter.

GUY MOSZKOWSKI: Okay, great. Thanks very much for your answers. Appreciate it.

JOHN GERSPACH: Not a problem, Guy.

OPERATOR: Your next question comes from the line of Glenn Schorr with Nomura Securities.

JOHN GERSPACH: Hi, Glenn.

GLENN SCHORR: Hello there. Question on deposit trends. So U.S. was up, non-U.S. was down in the quarter. [INDISCERNIBLE].

JOHN GERSPACH: Hey, Glenn, you're breaking up so I'm having a difficult time listening to your question. I'm sorry. I guess he really broke up. Glenn?

GLENN SCHORR: Better?

JOHN GERSPACH: Yeah, better, Glenn.

GLENN SCHORR: Sorry about that.

JOHN GERSPACH: That's okay.

GLENN SCHORR: So a question on deposit trends. U.S. deposits were up, non-U.S. were down and non-interest bearing deposits were up and interest-bearing were down and it's just kind of counterintuitive. I didn't know if that's a re-pricing thing and conscious effort on your part or a client trend. I don't know how to read into that.

JOHN GERSPACH: A conscious effort on our part. One of the things that I think we mentioned, you know, last time is that, you know, we are looking at improving the quality of the deposits that we have so we've actually adjusted our pricing to try to capture more of non-interest bearing. We've got such good demand for non-interest bearing that there's no need to go out and continue to be in the middle of the pack as far as time deposit pricing. So we've pretty much moved our time deposit pricing down, you know, down in virtually all regions. There was also, you know, in North America, there was a bit of a one-time shift that we had in NOW accounts that used to be part of interest bearing and are now classified as far as non-interest bearing. So that contributed in the, in North America, to about $9 to $10 billion of the growth there. So it's a conscious trend on our part but the NOW account shift is a significant one time item in North America.

GLENN SCHORR: 'Kay, I appreciate that. With the clear credit improvement, and especially on the cards side, I'm just curious if you had any thoughts about the private label card business in general on whether or not you wind up hanging on to that or is that in the potential disposal list.

JOHN GERSPACH: Well, you know, don't forget when we set up Citicorp and Citi Holdings it wasn't set up on a good bank, bad bank strategy. It was actually set up, you know, Citicorp represented those businesses that fit the strategy that we had going forward and the businesses that we placed in Citi Holdings including Retail Partner cards were those businesses that just didn't fit. So, you know, I would never say never but what we'd have to look at is to see whether or not, you know, Retail Partner cards or some elements of Retail Partner cards are now really fitting in with the Citicorp strategy based upon the re-underwriting of the book and the way that business, or portfolios in that business are now being managed.

GLENN SCHORR: Okay, I appreciate it. Last one's a quickie. At the high level, and I very much appreciate the extra commentary on the expenses quarter to quarter...

JOHN GERSPACH: Sure.

GLENN SCHORR: But as a general comment, I think people looking at this and say, "Hmm, revenue's a little weaker." Albeit it was a trading thing, but revenue's weaker and expenses still in that same range and you were kind enough to give us expense guidance for 2011, people wanna hear if revenues come in a little softer, do you have expense flexibility considering the legal and the investments and the things like that that are going on? I think that's one of the disappointments in today's results.

JOHN GERSPACH: Yeah, and we will tend to pace our investment spending, you know, based upon the way we see those, the other investments playing out. So the short answer is, yes, we do have flexibility in our expense base.

GLENN SCHORR: Okay. I appreciate that. Thank you.

JOHN GERSPACH: All right, Glenn.

OPERATOR: Your next question comes from the line of Matt O'Connor with the Deutsche Bank.

MATT O'CONNOR: Hi guys.

JOHN GERSPACH: Hey, how you doing, Matt?

MATT O'CONNOR: I guess just a bigger picture question on trading. You know, I can appreciate that it's volatile for everyone and it can depend on the mix quarter to quarter, but just in general, it seems like your trading's a little more volatile, you know, a very weak quarter here, and then all of a sudden a very strong quarter, and is that just a difference in the product mix or something else that you could point to, you know, could we see a little less volatility going forward?

JOHN GERSPACH: You know, I'm not so sure of the underlying thesis in your question which is why I'm having a difficult time answering it, Matt. I'm not sure that our trading is any more volatile than anybody else's, especially when you eliminate the impact of CVA from it. I mean, I think CVA certainly throughout 2009 and now in the 4^{th} quarter of 2010 maybe has been a bigger contributor to us than to others. Otherwise, I'm not quite sure that we really fall outside the band necessarily.

MATT O'CONNOR: Okay, I mean obviously we're still getting results this quarter, but okay, I guess we can see at the end of the quarter. But just, it's felt like it's been a little more volatile.

JOHN GERSPACH: Well, you know, one quarter doesn't make a trend and so I think you need to take a look at the overall trading performance over several quarters if not several years.

VIKRAM PANDIT: I think its, Matt, it's also fair to say that we have, you know, a smaller equity business compared to some of the other firms on the street and we're building that out and we also have a smaller commodities business. That also is being built out. So a lot more of our revenues are driven by the fixed income business.

MATT O'CONNOR: Yep, okay. And then just a couple of model questions going forward. You had a very modest tax credit this quarter. How should we think about the tax rate next year?

JOHN GERSPACH: Well, you know, tax rates on a normal basis, if you look at us over time, our expectation is that our tax rate, you know, should be in the upper 20's. 27%-28% would be the right range. But as long as we're in periods where more of our income is going to be driven, you know, by our performance in lower tax rate jurisdictions, in other words, as we're continuing to rebuild the North America business, particularly the earning stream in North America consumer, our tax rate will be below the numbers that I just quoted.

MATT O'CONNOR: Okay, that's helpful. And then just lastly, another follow-up on the expenses. As we think about 2011 expenses, you mention some of the puts and takes in terms of investment spend as well as assets, you know, freeing up, or as you run off assets, that frees up some expenses. Should we think about the first half of expenses being higher or lower than the second half or more of a steady throughout the year?

JOHN GERSPACH: I would look at it more as a steady, you know, steady state, that type of thing. I'm not gonna say that our expenses are gonna be back-end loaded or front-end loaded. I think we'll have a little, you know, obviously we will look to pace investments based upon where we are so if anything, the expenses might tend to be a little back-end loaded but I don't think it's gonna be a huge trend.

MATT O'CONNOR: Okay. All right, thank you very much.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of James Mitchell with Buckingham Research.

JAMES MITCHELL: Hey, good morning.

JOHN GERSPACH: Hi Jim, how are you?

JAMES MITCHELL: Good. A couple of questions, one on the loan loss reserve in cards. You guys, I think, over the year to date have probably released just a little bit over $300 million in reserves. Where some of your peers, I think, even though they're slightly larger in the card business have released, you know, multiple billions. You've had two quarters in a row of improvement. When should we start to see a more significant release on the Citi card portfolio?

JOHN GERSPACH: Well, you know, as we've always say, our, when we take a look at reserves, we try to make sure that the reserves reflect the losses that are embedded in those individual portfolios so as we get more confidence that the losses embedded in that portfolio are truly declining, you're likely to see continued reserve releases. I can't tell you that you're suddenly going to see a $1 billion reserve release. We don't tend to build them in big increments like that and we don't tend to release them in big increments like that.

JAMES MITCHELL: But your reserve ratio is quite high relative to peers obviously, right? And they seem a lot, pretty confident in releasing, so but obviously that's fine. On the I-Bank side, I mean maybe getting to the expense question another, in another way, year to date, I think if you normalize the DVA or CVA, however you want to define it, your revenues are down close to 19% in S&B, but expenses were up, I think, 11%. Obviously you've put a lot of investment into this year. Should we start to see, I mean, assuming we have a better revenue environment some operating leverage on that expense base in 2011 and beyond?

JOHN GERSPACH: Yeah, I'm not gonna predict operating leverage, especially in a business like Securities and Banking. One thing I'd say is, you know, 2009, I do think that we had somewhat outsized performance coming out of the first quarter in 2009 so that, that clearly is a difficult point of comparison. And as we said, our view is that we had weaker trading results in the 4th quarter, so, you know, we'll see how we perform and our expectation is that we'll pick up that performance during 2011. You know, as far as investments, we've also been, I think, pretty clear that we had made significant investments in building out our Corporate Banking franchise and, you know, earlier in the year, we were still building out equities. You know, we think a lot of equities is now done. The corporate banking franchise is still an area where we've got, I think, some work to do, but I think most of the investment work in Securities and Banking now is behind us.

JAMES MITCHELL: Okay, great. That's helpful. And one last question on the securities. The securities investment portfolio was down, I think, $21 billion on a period-end basis. Is that sort of positioning for the rate environment? You know, what is your stance vis-à-vis rates at this point?

JOHN GERSPACH: You know, the, when you take a look at the, you're talking about the investment portfolio, the investment securities, the AFS, right?

JAMES MITCHELL: Correct.

JOHN GERSPACH: Okay. We did, you know, we are in the position, we are in the midst of repositioning that book given the rate environment. I'm not going to make a public statement as to where we think rates are going, but it's just obviously we did take some of the securities off the table and that's one of the reasons why our cash balances are higher right now.

JAMES MITCHELL: Right.

JOHN GERSPACH: And so you'll see the results of that repositioning as we get further into the first quarter.

JAMES MITCHELL: Okay. Thanks a lot.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Betsy Graseck with Morgan Stanley.

BETSY GRASECK: Hi, good morning.

JOHN GERSPACH: Good morning, Betsy.

BETSY GRASECK: Couple of questions. One was back on the sales and trading commentary, you were giving one of the reasons for the down quarter was market making as well as principal positions. I'm wondering how to read that in terms of what might be permanent versus cyclical. Is part of this your positioning for the Volker exit versus just market making, missing the market or what have you?

JOHN GERSPACH: Yeah, well you know, we've always said that proprietary trading or principal positions is a relatively small part of our overall business. You know, we've said publicly that, you know, proprietary trading represents less than 2% of our firm revenues and there is a small prop business that's in equities. During the 3rd quarter, it generated revenues of about $150 million and virtually generated no revenues in the 4th quarter. So, you know, that's $150 million out of the $250 million overall decline in our equity markets revenues ex CVA quarter on quarter.

BETSY GRASECK: Okay, thanks. Separate question on capital. I know that the proposal period is ongoing right now with the regulators and you probably can't talk about what you've asked for, but I just wanted to ask if you are thinking about whether or not you can do anything this year. I know that, Vikram, when you opened up in your opening remarks, you discussed returning capital to shareholders in 2012. Is that the earliest date that you're anticipating a return of capital to shareholders?

VIKRAM PANDIT: Well, Betsy, obviously all of us still have to go through the process with the regulators and that's gonna be informative for us, all of us, but as importantly, you know, we want to make sure that we are exactly in the right place on Basel III and including, by the way, as I've said in the past, we think it's always prudent to carry a little bit of cushion. You take all that into account and we still think 2012's the right year for us to return capital.

BETSY GRASECK: I would think you're looking at your business as well as to how much capital you think you need to hold to run your business. Can you talk to what you think those numbers are over time?

VIKRAM PANDIT: Well, I mean, I think some of that is, let's just start the other way. A lot of that is the decline in Citi Holdings and the risk that goes on down through that and that's a continual process. You know, we're still in the process of selling a couple of business there that should take risk down. We've got assets in SAP that are gonna come down as well and so when you look at risk-weighted assets coming down, that's gonna be the biggest contributor. And we've said in the past that some of that we'd like to reinvest in building out Citicorp, although that depends on how and where the opportunities to help our clients are gonna be. So, you know, that is part of our thinking in what drives us to say, what John Gerspach said earlier, that if 8%-9% is the kind of range we want on Basel III, 2012 is a year that we ought to be able to achieve that.

BETSY GRASECK: Okay, so did you ask for capital action in the proposal to the regulators?

VIKRAM PANDIT: Well, you know we can't tell you what we say to our regulators and what they say to us, but what I can tell you is what I've said again. 2012 is the year we think we'll have the ability to return capital, of course, based on our discussion with our regulators.

BETSY GRASECK: Okay. On Retail Partner cards, you know, I noticed that you retained the Zales account. Would you be able to bring Retail Partner cards from Citi Holdings into Citicorp before those marketing agreements are up? Or would it be a re-bid at marketing agreement, you win, you keep them in Citicorp, is that, how should I think about that?

VIKRAM PANDIT: Well, I think the way to, let's start the very big picture. Card business is very different than when we moved the partner cards into the Citi Holdings and that is a consideration that we're well aware of. Having said that, the biggest consideration for us is to run the partner cards in a very optimal way and Zales is a indication of that 'cause there's a lot of franchise value in that and there's a lot of value in that particular business and we're building that out. We've done nothing to change our view that is still in Citi Holdings. And that remains a driving concern. But I'll also tell you that as with everything we've done through Citi Holdings, our primary goal still continues to be we won't do anything with assets that's not in our shareholders' interests and we have clearly that in mind and I don't think that has really, that is not gonna be impacted by which portfolio we have or how it turns over or any of that. It really comes down to the kind of value we think that card business represents to us and we wanna recognize it for you.

BETSY GRASECK: Right, so if it's, if it's positive, you would bid for it. Right? I mean, if you think there's gonna be an accretion to your...

VIKRAM PANDIT: Well, again you know that again, what I would say on that is we haven't changed our mind. It's still in Holdings and it is still part of the assets that we wanna rationalize, but obviously, as we do that, we will look at every other option before we make a decision.

BETSY GRASECK: Okay, and then last, on ROA outlook, Vikram, in the past, you've talked about what your ROA outlook is for Citicorp. Has there been any change to that?

VIKRAM PANDIT: We're still exactly what, where we said we were before and, you know, if you look at how Citicorp is growing, the international consumer business has done well. We also thank the GTS business with the book of business we're building, you know, especially as interest rates change, we'll start showing some of that through as well. So when you put all of that together and really the change in the business models in our Securities Banking business, we think of all of that still takes us back to point and quarter point and a half on assets. That we ought to be able to recognize on a longer-term basis and of course, interest rate environments are also important in terms of where and how we get to that.

BETSY GRASECK: Higher rates is a function of your 1.25 to 1.50?

VIKRAM PANDIT: Well, I think we've said that that's the kind of business that should be able to earn a point and a quarter, point and a half in much more of a normalized environment and normalized we were talking about is of course credit taking account but as credit changes, you know, that's one of the factors. And you've gotta say interest rates are another factor, too.

BETSY GRASECK: Okay, super. Thanks so much.

OPERATOR: Your next question comes from the line of John McDonald with Sanford Bernstein.

JOHN MCDONALD: Hi, I wanted to try to just ask Betsy's question on the capital, just maybe a slightly different angle. It's a question comes up a lot in investor conversations. I guess what we struggle with is you're at the high end of peers on all of the capital ratios and a number of, most of the other big banks are talking about kind of mid-year hopes of capital deployment so as we look at it, we kinda ask the question, you know, to what degree is perhaps Citigroup just being conservative, or is your implementation of the various Basels more complicated or less certain due to the international aspect of your businesses? Could you help us get a little closer to reconciling that?

VIKRAM PANDIT: Let me take a crack at that and John will add to that as well. I think the first part I would say is that for us, for anybody else, some of the definitional issues still have to be worked through. A lot of the measurement issues are still, they're gonna have to be worked through and we've said in the past and I'll say again, we think 2011's a year where a lot of those details get worked out. That's an important part to it and the second part of that is that we do wanna manage our business in a prudent way which is why we said we wanna carry a cushion and, you know, putting all of those things into account, we think it's prudent to think about returning capital in 2012.

JOHN MCDONALD: Okay, and is there any light you could shed on whether the international aspect of the business changes the Basel implementation or is that just getting too deep?

VIKRAM PANDIT: No, I'd, there are no systematic issues other than those that are generic for everybody.

JOHN MCDONALD: Okay. Okay. Thank you, Vikram. John, quick question on the tangible book value impacts. Could you just walk through how the AOCI and maybe the DTA [INDISCERNIBLE] impact affected the tangible book value this quarter?

JOHN GERSPACH: You know, when you take a look at the other comprehensive income, the AOCI, as you say, two big drivers there, one would be losses, you know, on the AFS securities that that was about a billion three, a billion four of a negative and then we had some, you know, a positive pickup on the on the currency translation adjustment. That was worth about $400 million going the other way.

JOHN MCDONALD: Okay. And then regarding regulatory capital ratios and DTA recapture, now that you're, you've been profitable for a few quarters, what's needed to allow for the consumption of DTA to where your regulatory capital might grow faster than your net income at some point?

JOHN GERSPACH: The single largest driver would be net income in our North America operations. You know, when you take a look at the breakdown of the DTA, we ended the quarter with DTA of about $52 billion. $5 billion of that is state and local, $5 billion of that is international, so $42 billion is really, you know, U.S. federal tax and the single largest driver there is generating more profits in North America.

JOHN MCDONALD: Okay. So it's that geographic mix really. Okay, last thing is on reg reform question. Do you have any initial thoughts on the potential changes in the methodology for calculating FDIC premiums, the so-called Tester amendment?

JOHN GERSPACH: I'm sorry, do I have any what?

JOHN MCDONALD: Any, have you done any calculations that you could share or any thoughts on how that change in the FDIC methodology might affect you in 2011 or ‘12?

JOHN GERSPACH: Well, the way they, you know, what we've said is that at least, you know, from the impacts of Dodd-Frank that are measurable right now, the change in FDIC assessment is the single largest impact on us. You know, we don't have much of an impact on debit card interchange or, you know, or overdraft fees, those are really small impacts on us, but the way that the FDIC has proposed changing its formula will impact all the large banks, you know, dramatically. They had a greater dramatic impact on the large banks than it will on the small banks. So, you know, our assessment right now is based upon the rules, you know, we're looking at almost a doubling of the FDIC assessment.

JOHN MCDONALD: Okay, just from '10 to'11, absolute dollars doubling potentially?

JOHN GERSPACH: Yeah, of course it depends upon exactly when in '11 it goes into effect.

JOHN MCDONALD: Right.

JOHN GERSPACH: You know, and so depending upon if it's a 2nd quarter item, then it would be three quarters, you know, you can do the math.

JOHN MCDONALD: Yeah, okay, great. One quick final item, John, could you just tell us where the DTA ended up and how much of that was allowable? I might have just missed it in the disclosure.

JOHN GERSPACH: Yeah, no, we ended with about $52 billion of DTA and $35 billion of that was disallowed in coming up with our Tier 1 Common ratio.

JOHN MCDONALD: Great, thank you.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Jeff Harte with Sandler O'Neill.

JEFFREY HARTE: Morning guys.

JOHN GERSPACH: Hi Jeff.

JEFFREY HARTE: Bigger picture question. I mean, we look at all the data we're getting on kind of the emerging markets and the international franchise and it seems loans are growing, revenues are growing, credit seems okay, but there's a lot of things going on in the world from currencies to what's going on in Europe. You know, what do you, can you give us any sense for what you're seeing kind of on the ground of some of the emerging markets as far as the kind of near term continuation of growth prospects?

VIKRAM PANDIT: Well, there are, first of all, I mean, the emerging markets that is a broad group. We know what's happening in certain areas. You see it in South Africa. You see it in China, which is the growth in inflation there. And especially those countries that don't have a flexible currency are seeing more of that and there is growth adjustment there as a result of these changes. But I would say that the underlying dynamics of the consumers in these markets and the growth models actually finding a real kind of a solid development model has not really changed and so we expect to see a continued increase in loan demand. We expect to see continued increase in capital markets activities. We expect to see continued growth not only in the Asian markets but also in the Latin American and South African markets. The, some of the Eastern European markets are still linked to Europe and that is a longer process. But, you know, we remain constructive on the emerging markets understanding that monetary tightening and other kind of brakes may have to be put on from time to time to manage the overheating that can occur and the inflation that occurs. I think the real question still keeps coming back to the U.S. economy, in our view, and what kind of growth you're gonna see and what's gonna happen to housing prices and it is still the largest economy in the world and that is going to be something the markets are gonna have to watch over the next 2-3 quarters and that's why I think when I started I said that the macro is still gonna dominate the micro here for the next 2-3 quarters.

JEFFREY HARTE: Can you maybe specifically comment a little bit on Mexico? I mean, it seems to be your biggest non-U.S. market now.

VIKRAM PANDIT: Sure, I mean I think our, first of all, you see our account activity is pretty strong in terms of account opening, our loan growth that continues there. We have seen the linkage between Mexico and the U.S. turn around the GDP and we still think that leverage is pretty powerful and so if the U.S. economy starts doing better, you're gonna start see that in Mexico as well. Everybody knows the more macro social issues that are occurring there, you know, when you look at our mix of branches, we happen to be in a lot of the major sort of areas. Although we're everywhere, obviously, in Mexico, but we feel that given some of the social issues, we're in the right places for capturing the right kind of population there. And so I don't know if there's anything specific you had in mind, but we continue to be, you know, very constructive on our business with Mexico and we're, we're also expecting that business to continue to grow as a result of some of these fundamental turnarounds in the GDP numbers of the country.

JEFFREY HARTE: Okay, and then a little more detail, the equity trading in the corridor, I don't know, the press release sited derivatives activity in principal positions. In an environment where equity markets were up so much in most areas, I'm a little surprised to see principal positions be one of the drivers of the decline. Can you give us any more color on that?

JOHN GERSPACH: No, I'm not gonna go into the individual strategies that that particular desk had employed, but as I said, it generated about $150 million of revenue in the 3rd quarter and virtually zero in the 4th, so.

JEFFREY HARTE: Okay, thank you.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Chris Kotowski with Oppenheimer.

CHRIS KOTOWSKI: Yeah, I guess I'd like to go back at the trading question a little bit if you said take a longer view of it and, you know, fixed income went from $21 billion in full-year '09 to $14 billion this year and I'm curious is that kind of all geographies, all products or is it primarily the impact of the, you know, European peripheral country credits?

JOHN GERSPACH: I wouldn't say that the European, you know, peripheral countries were a significant contributor to, you know, to any of our trading results. So you can sort of take that one off the table.

CHRIS KOTOWSKI: Okay.

JOHN GERSPACH: When, again, when you take a look at, you know, the trading performance, first quarter '09, I think, we all had the same thing, a very, very strong quarter in the first quarter of '09 and that one, you know, kind of, that's gonna be something that's gonna be very difficult to replicate. So...

CHRIS KOTOWSKI: All right.

JOHN GERSPACH: And then each quarter sort of tends to tell its own story. As I mentioned, this quarter, you know, our weaker trading was actually concentrated in the rates and currency business, you know, particularly the G10 rates business, you know, in fixed income. And, but there's no indication that there's anything, you know, systemic in those numbers.

CHRIS KOTOWSKI: Okay. Is, was there an impact just from long rates rising during the quarter? Is that the primary impact?

JOHN GERSPACH: You know, it's primarily associated with, you know, our market making activities as we were trying to facilitate client needs and if clients were reacting to rising rates, then, you know, we were certainly on the other side of that.

VIKRAM PANDIT: Let me put it the other way, if you're trying to read anything more systematic into it, there isn't, I mean, it's a very, these are strong businesses. We've got very strong franchises in the local currency areas as you know. We've got a very strong G10 business. We're building out our equity business. So, you know, we actually remain very positive in terms of amount and the size of our client flow. Client activity continues to be robust. You put it all together again; this is a business that we continue to believe is gonna be a big contributor going forward.

CHRIS KOTOWSKI: Okay, and then on the $255 million net interest income adjustment, is that something that we should think of as a one-time reserve or is that an ongoing item, or how long does it go on for?

JOHN GERSPACH: Well, we've been, you know, this, in the $255 that you're talking about is the adjustment that we made to build additional reserves for potential client refunds in our CFJ business. That's a reserve that we have adjusted periodically for four or five years now at this point in time. So again that just adds, as we see changes in the market this particular quarter, the build is really associated with what we thought might be an uptick in refund requests related to the Takefuji bankruptcy that occurred. So it was really a response to a specific event.

CHRIS KOTOWSKI: Okay. And then finally, your expense guidance, I believe, previously was 11 and a half billion a quarter, give or take, and now we're at 12 to 12 and a half. I mean, should we assume that that comes straight out of pre-prevision earnings or is that, is that, do we expect revenues to, revenue increases to offset that to at least some degree?

JOHN GERSPACH: Well, I just gotta correct you just a little bit, Chris, you know, going into 2010, our guidance was full year expenses of $48 to $50. By the second half of the year, we said we thought individual quarters for the second half of 2010 would be $11 and a half to $12, so we really weren't at an $11 and a half guidance. And so as we look ahead to next year, you know, again we're just trying to be consistent with where we were, quite frankly, at the beginning of last year, which is as we look at the overall year, it's $48 to $50 of total expense. We ended this year with $47 and, $47.4. So...

CHRIS KOTOWSKI: Okay.

JOHN GERSPACH: It's not all that much different.

CHRIS KOTOWSKI: All right, fair enough. That's all for me.

JOHN GERSPACH: All right. Thanks, Chris.

OPERATOR: Your next question comes from the line of Moshe Orenbuch with Credit Suisse.

MOSHE ORENBUCH: Great, thanks. Could you talk a little bit maybe about how you think about, once you do get to capital return, how you think about the pace or mix as it relates to, you know, things like the, you know, shrinkage of the balance sheet from Citi Holdings and the like.

VIKRAM PANDIT: Well, you know, Moshe, that's an important question. The good news is we've got a few quarters to think about it 'cause as we said before, this is a 2012 thing and, of course, the usual discussions will apply on stock repurchases versus dividends and all that kind of stuff. And, you know, the sort of thing we should pick up a little bit later.

MOSHE ORENBUCH: Okay, I just, very quickly on the proprietary trading commentary before, that wasn't that you changed the focus of the business, the just, that was the revenues, the revenue output in the quarter, right, John?

JOHN GERSPACH: That's correct.

MOSHE ORENBUCH: Great. Thank you.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Ed Najarian with ISI Group.

ED NAJARIAN: Good morning. Most of my questions have been answered, but maybe just two quick ones. Would you be willing to disclose some approximation of what your Basel III based Tier 1 Common ratio is today? And then how would you advise us to think about the pace of shrink of Citi Holdings over the next 12 months?

JOHN GERSPACH: Okay. On the first one, no. You know, we're, as I said, we're targeting to be at that 8% to 9% range in 2012. As far as the second, look, if you take a look at the assets that are left in Citi Holdings, and we lay them out for you in the deck, we're gonna, we're not likely to maintain the same pace that we had in 2010. You know, specifically, again, Brokerage and Asset Management which has got roughly $26-$27 billion of assets, that's virtually all tied up in the Morgan Stanley Smith Barney joint venture and so that's, you know, that's an event as opposed to something that we're just gonna wind our way down over the next several quarters. Special Asset Pool is about $80 billion of assets now. You know, we've taken that down dramatically. But now, roughly a third of the remaining Special Asset Pool assets are hold-to-maturity assets. And so the pace of, you know, the reduction in the Special Asset Pool is also going to slow because we just don't have as much inventory, quite frankly, to push out. And then you get to the last component and, you know, the Local Consumer Lending and, you know, more than half of the remaining assets are tied up in U.S. mortgages. And I don't see a big one-time sale of U.S. mortgages. We will continue to, you know, sell down assets at a pace, but it's not likely that we're going to find a, you know, $20 to $30 billion sale on our doorstep in any sort of, you know, rational terms in the near term. So the pace is going to slow from where we've been in 2010.

ED NAJARIAN: Okay. That's helpful. And then, you know, obviously as we get to the end of this quarter, you get some sense from the regulators we think of, or in terms of what your discussions with the regulators are and what they come back to you with in terms of your capital planning. Do you expect to give us more detail on capital planning and on your Basel III based Tier 1 Common ratio when you report first quarter earnings in your, and we'll be in April at that time?

JOHN GERSPACH: You know, that's kind of unlikely. I mean, you know, unless we significantly change our position as to our view towards, you know, 2012 being the year that we'd be looking to return capital, it's not likely that we'd be changing anything else.

ED NAJARIAN: Okay. Thank you.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Mike Mayo with CLSA.

MIKE MAYO: Good morning.

JOHN GERSPACH: Good morning, Mike.

MIKE MAYO: In November, Citi gave a presentation where you guys said you'll increase investment spending for consumer by $3 to $4 billion over the next three years. And can you give us some more color, when we should see that hit, how much it hit this quarter. I know you said $150 million of the linked quarter increase was due to increase investments and volume-related matters, so I'm guessing it hasn't really hit yet. And how much of your expense guidance for the year includes some of this additional investment spending?

JOHN GERSPACH: Yeah, the $3 to $4 billion, you know, still holds. We actually have been, you know, or have begun that investment spending. I think we mentioned the fact that as early as the first quarter of this year, of 2010, we had some elements of it in place. Although, you know, it certainly picked up pace as we got later into the year. When you look at the 4th quarter, Mike, I mentioned $150 million being the, you know, the linked quarter on quarter impact of investment spending, it's safe to say that something on the order of $300 to $400 million of our expense base in the 4th quarter represented investment spending.

MIKE MAYO: So we should see that increase by another $2.6 billion over the next three years?

JOHN GERSPACH: Well, $3 billion would be, $3 to $4 billion would be the total amount of spending.

MIKE MAYO: So you're at a run rate now, of what, $1.2 billion?

JOHN GERSPACH: That's about it.

MIKE MAYO: Okay, so you have another $2 billion more for this investment spending. Is that fair to say?

JOHN GERSPACH: Well, if you're at a run rate of $1.2 billion by, for a quarter, that would, for a year I should say, that would mean that over something like three years then you would be within that $3 to $4 billion range, right?

MIKE MAYO: Oh, okay. So this is just a one-time step up and you maintain that higher level.

JOHN GERSPACH: Exactly.

MIKE MAYO: Okay. And then separately, it came out last week that you have an MOU with the regulators. And is this, how big a deal is this in your mind? Is this simply backwards looking for some of the problems from a couple years ago or is this still something you need to wrestle with that highlighted some risk-management issues that you still had to resolve?

JOHN GERSPACH: You know, Mike, as you probably know, we can't comment on any conversations that we have with our regulators.

MIKE MAYO: Okay. And then a separate question would be for the DTAs. You earned $10 billion last year on GAAP earnings. But the DTA level still went up to $52 billion as you pointed out. In layman's terms, why does the DTA keep going up even while you have positive GAAP earnings? I know you mentioned some of that is geography. Is, you know, what are some of the other reasons why it still goes up?

JOHN GERSPACH: Well, the biggest impact for us was the adoption of 166, 167 in the first quarter. That, you know, added $4.3-$4.4 billion to the DTA asset.

MIKE MAYO: Okay, but it still is leaking upward here even the past couple quarters.

JOHN GERSPACH: Well, don't forget then also besides earnings, you've got the impact of the AFS portfolio. We had losses on the AFS portfolio this quarter. I mentioned that in response to another question. When you think about driving down the DTA, the single, you know, the key component for us is actually to reduce the amount of the DTA that's represented by net operating loss carryforwards. And we've actually taken that down during the year. We started the year with, I think, just a little bit north of $5 billion of NOL carryforward and we'll end the year with about $2.3, maybe $2.2 billion of NOL carryforward. And so once we work our way through that, and actually in the Q, I believe, the 3rd quarter Q, we actually gave you a disclosure that our expectation is that we will be through the NOL carryforward during 2011. And once we work our way through that, then it'll become easier to deal with the foreign tax credit carryforwards which are the largest piece of our DTA.

MIKE MAYO: And then last question for Vikram. You led off the conference call saying that macro trends should dominate micro trends the next couple quarters. I was just curious why you mentioned the next couple quarters in particular.

VIKRAM PANDIT: Well, look, I mean I think we're all, I said the next few quarters, now it could be a couple quarters. But let me say that, again, we've gotta watch what happens in the U.S. And that's still the biggest economy. We see a lot of constructive signs. Credit seems to be getting better as well, but we wanna see employment rise. We wanna see GDP grow correctly and these are all gonna be important things. If at some point the economy feels like whatever the rate it is at, it's more stable and recovering and it is on a trajectory that takes down a little bit of the uncertainty in the marketplace. Of course, I'm also hoping the next 2-3 quarters shed some more light on some of the leverage-related issues in Europe as well and so it just feels to us that when you look at the world and the growth in the emerging markets and we look at kinda what's going on in Europe and the U.S. that these next few quarters are gonna be really important. Now, you know, that's not a prediction, that's just a perspective.

MIKE MAYO: All right, thank you.

JOHN GERSPACH: Okay, Mike.

OPERATOR: Your next question comes from the line of Carole Berger with Soleil.

CAROLE BERGER: Thanks for taking the call. My question was really on foreign exchange. You mentioned in a couple of places how expenses were impacted by exchange rates but you didn't mention anywhere where revenues were similarly impacted. Are there places where you're not, you know, matched in terms of where your revenues and expenses are coming from?

JOHN GERSPACH: I didn't catch the last question. Are we appropriately masked?

VIKRAM PANDIT: Matched.

CAROLE BERGER: Matched.

JOHN GERSPACH: Oh, matched, oh, I'm sorry. I'm sorry. I'm sorry. The impact on revenues and expenses has got, you know, less to do with matching assets and liabilities. I mean, the assets and liabilities...

CAROLE BERGER: No, I meant in terms of, you mentioned a couple of places where expenses were up because of the exchange rate. And my question is why aren't revenues also up because of...

JOHN GERSPACH: I think in some of the commentary that we gave you on the international, the Regional Consumer Banking franchises, we mentioned that FX changes drove, you know, some of the revenue increase. You know, the revenue was up about 4% and, you know, FX probably drove more than half of that. But you know, when you take a look at all of our businesses, we operate in many different currencies around the world and so FX overall has really got a very small impact on our bottom line. And it tends to work its way out as far as revenues, expense and NCLs. But when you get into individual lines, FX can be a driver of variance just in those individual lines.

CAROLE BERGER: Okay, and my second question was, is there any reason, you said that 19% of your assets were, remained in Holdings, is there any reason to believe that a greater proportion of those assets are risk-weighted? In other words, are your, are more than 19% of your risk-weighted assets in Holdings?

JOHN GERSPACH: Yeah, and Carole, as a matter of fact, you know, what we've done in the past, we indicated at the end of June that the risk-weighted assets in Citi Holdings represented about 40% of our risk-weighted assets at that point in time. We then in September told you that Citi Holdings risk-weighted assets were down to 37% of our total risk-weighted assets. And by the end of the year, our current estimate is that the Citi Holdings risk-weighted assets will be about 34% of our total risk-weighted assets. So think in terms of Citi Holdings representing 19% of our GAAP assets and roughly estimated 34% of our risk-weighted assets.

CAROLE BERGER: Thank you.

OPERATOR: Your next question comes from the line of Richard Bove with Rochdale Securities.

RICHARD BOVE: Hi. Thank you for spending so much time on this call with us.

JOHN GERSPACH: Not a problem.

RICHARD BOVE: I'd like to ask you the same question I asked JP Morgan, but in the opposite direction. They've got a negative federal funds plus cash position when divided by assets. You now have roughly 12.9% of your balance sheet on the asset side in cash plus a positive net fed funds position. Why is it so big? I mean, you're only getting about a 79 basis point return on that money which must be having an impact on your net interest margin. Could you kind of give me your thinking on this?

JOHN GERSPACH: Well, you're right. We do have a lot of cash on the balance sheet. And you know, in response to one of the earlier questions, we touched on the fact that there's actually been a decline in our available for sale securities during the quarter as we've begun to reposition that portfolio, you know, given the current rate environment. So a little bit of the incremental cash that we have on the books right now is really being driven just because we're in the midst of repositioning that AFS portfolio, Dick.

RICHARD BOVE: Yeah, but, you know, if we go back in time, you know, that percentage should be somewhere around 3% or 4%, you know, and it would be because generally speaking, Citigroup always had a net negative federal funds position. It's almost shocking to see it with a $57 billion net positive federal funds position and cash has never been this high as a percentage of assets, so one might argue that you, on a ratio basis, you're three times higher as a percentage of assets than you would normally be. So just selling off some securities last quarter had no real impact on what I'm talking about.

JOHN GERSPACH: Yeah, well, as we, you know, as we entered 2010, we comment on the fact that we were deliberately liquid at that point in time and we felt that it was prudent to remain liquid throughout 2010. That gives us a certain amount of flexibility for two things. One, you know clearly as our debt now begins to mature and we do have, you know, debt, sizeable amounts of our long term debt maturing during 2011, we'll have less of a need to roll over that debt so one of the things that you'll see is our long term debt begin to go down. That will consume some of that cash. The second is, you know, we are open for business and we're looking for, we're looking to build the loan book in both in our consumer and our corporate businesses and so we, our expectation is that we'll begin to put some of that liquidity to work in 2011.

RICHARD BOVE: But it's fair to state that if you start to utilize that excess cash to lend, and if you're loan-to-deposit ratio starts to move up, I'm gonna say again, to more normal levels, that this represents tremendous excess earnings capacity at the moment.

JOHN GERSPACH: Yeah, I mean our deposit-to-loan ratio I'd, I tend to think of it the other way right now, is about 139% or 140%. That's higher than we would expect to be on a long-term basis.

RICHARD BOVE: Yeah. Okay. Thank you.

JOHN GERSPACH: All right, Dick.

OPERATOR: Your next question comes from the line of Andrea Jao with Cowen.

ANDREA JAO: Good morning.

JOHN GERSPACH: Morning.

ANDREA JAO: Two quick questions. First, on trading equities and, fixed income and equities trading businesses, have there been changes in your appetite for taking risk or committing capital as you facilitate, you know, customer transactions? Then I have a follow-up regarding the balance sheet.

JOHN GERSPACH: No, there's been no change in our appetite.

ANDREA JAO: Okay, now how should I think about the balance sheet by the end of 2011? Just, you know, thinking back to the previous question by Dick, excess liquidity will replace, will be replaced by higher loans and less borrowings, how about deposits in your securities book?

JOHN GERSPACH: You're breaking up pretty badly there, Andrea, but I think you asked about, you know, deposits. We, you know, right now, again, given where we are from a liquidity point of view, you know, we obviously will be there for our customers to accept deposits but one of the things that we're focused on right now is addressing, I'm gonna call it the quality and the pricing of our deposits. So we are deliberately shifting out of pricing to capture time deposits and I think you've seen some of the beginnings of that in some of the shifts in our, in our interest bearing deposits both in the U.S. and in our branches outside the U.S. that's reflected on the face of the balance sheet right now. So we'll look to maintain steady deposits but try to improve the mix.

ANDREA JAO: Got you. Thank you so much.

JOHN GERSPACH: Okay. Quite all right.

OPERATOR: There are no further questions at this time. I would like to turn the conference back to Mr. John Andrews.

JOHN ANDREWS: Thank you everyone for committing so much time this morning on a rather lengthy call. Obviously, this will be available for replay on the website later this afternoon and if you have follow-up questions, contact the IR team here at Citi. Thank you.

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