TRANSCRIPT

Citi Second Quarter 2010 Earnings Review
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Host
John Andrews, Head of Investor Relations

Speakers
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John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Second 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 for joining us. On our call today, our CEO Vikram Pandit will speak first, then John Gerspach, our CFO, will take you through the earnings presentation, which is available to download on our website, Citigroup.com. Afterwards, we will be happy to take questions. Before we get started, I'd like to remind you that today's presentation may contain forward looking statements, Citi's financial results may differ materially from these statements, so please refer to our SEC filings for a description of the factors that could cause our actual results to differ from expectations. With that said, let me turn it over to Vikram.

VIKRAM PANDIT: John, thank you, and good morning everybody. I'm very pleased that we have produced solid operating results for the second consecutive quarter. We continue to execute diligently on our strategy and our plans. There were some very tough decisions we had to make in 2008-2009 and we're seeing the results, including the wind down of our non-core assets in Citi Holdings. During the second quarter, we reduced holding assets by $38 billion. These assets now stand at $465 billion and are now less than 25% of Citigroup's total assets. At the same time, Citicorp, our core operating business, earned $3.8 billion this quarter. And while we have maintained expense discipline, we are reinvesting in our core businesses-- that is Citicorp's businesses, including making significant investments in technology. We're also seeing a number of positive trends in our businesses. First, credit losses improved for the fourth consecutive quarter and are down 31% from the second quarter 2009 peak, and we had a loan loss reserve release this quarter. We feel good about the credit story internationally. In the U.S. we're all watching job creation closely.

Second, in line with our growth in emerging markets, we continue to see good underlying performance in Citicorp's international businesses, particularly in Regional Consumer Banking and Transaction Services. And despite the market environment and the impact of the UK bonus tax, Securities and Banking still earned $1.7 billion this quarter and $4.9 billion for the first half. And our profitability is a positive to our capital strength. We remain one of the best capitalized large banks in the world with a Tier 1 ratio of 12% and Tier 1 common ratio of 9.7%, loan loss reserves of $46.2 billion and we continue to maintain significant liquidity. Going forward, Citi is well in line with the economic growth trends we see around the world, and despite economic conditions, I believe that decisions and executions by our management team have put in place all the elements for sustained profitability.

I'll come back at the end before we take questions, but with that, let me turn it over to John Gerspach.

JOHN GERSPACH: Thank you, Vikram and good morning everyone. Starting on slide two, Citigroup reported second quarter net income of $2.7 billion or earnings per diluted share of $0.09. Our Securities and Banking results were in line with market conditions and activity. Revenues of $22.1 billion were down 13% sequentially, mainly due to lower revenues in Securities and Banking in Citicorp and lower positive net marks in the Special Asset pool and Citi Holdings. Expenses of $11.9 billion were up from last quarter, primarily related to the UK bonus tax of approximately $400 million, as well as continued investments in Citicorp businesses, partially offset by a decline in Holdings. Net credit losses of $8 billion improved for the fourth consecutive quarter, and we recorded a net loan loss reserve release of $1.5 billion pretax as credit continued to improve. Also, please remember for comparison purposes that the second quarter of last year included the $11.1 billion pretax gain on the sale of Smith Barney.

Now, turning to Citicorp and Citi Holdings on slide 3, both segments benefited from a continued improvement in credit costs. Citicorp reported revenues of $16.5 billion and net income of $3.8 billion. Citi Holdings showed sustained improvement in expenses and credit costs and recorded a $1.2 billion loss. We also made good progress on asset reduction in the quarter, with Citi Holdings assets down $38 billion to $465 billion. On slide 4 we show a nine quarter trend for Citicorp's results. CVA on the derivatives book and on our own debt was $255 million, essentially unchanged from last quarter. Excluding CVA, Citicorp's revenues were $16.2 billion, down 11% sequentially, reflecting the weak environment for Securities and Banking.

Outside of North America, Transaction Services revenues increased 4% and consumer banking revenues increased 1%. Expenses were up 7% to $9.1 billion. Excluding the UK bonus tax, expenses were up 3% primarily due to our continued investments in Asia and Latin America. Citicorp's net credit losses were $3 billion and were down for the third quarter in a row, both in Regional Consumer Banking and in the Institutional Clients Group. In the quarter, we released $665 million in net loan loss reserves, approximately 60% of which related to international consumer loans. Excluding CVA, earnings before taxes declined 31% to $4.8 billion.

Now, let's turn to the individual businesses within Citicorp.

Slide 5 highlights our North America Regional Consumer Banking business. Revenues of $3.7 billion were down 3% from last quarter, mainly due to lower volumes and the impact of the CARD Act. We continue to estimate CARD Act will have a net pretax impact of $400 million to $600 million this year in this business. Average card loans declined 4% sequentially as a 9% increase in purchase sales was offset by higher payment rates and fewer accounts. Expenses were down 7% sequentially, but, excluding the impact of a litigation reserve we had last quarter, expenses were up slightly as we increased our marketing spend. Net credit losses declined 1% to $2.1 billion as credit quality in the branded cards portfolio improved.

Turning to slide 6, our international Regional Consumer Banking businesses had revenues of $4.3 billion, up 1% sequentially. Cards purchase sales were up 3% driven by Asia and Latin America. Investment Sales declined 3% as growth in Asia was offset by a decline in Latin America. Average deposits and total average loans were each up 1%.The growth in our international consumer businesses reflects the continued economic recovery in these regions to date. Expenses were $2.5 billion, up 7% from the prior quarter as we continue to invest in card acquisitions, branches and advertising in Latin America and Asia. Credit continued to improve in international consumer with credit costs down 44% sequentially. NCLs declined in every region with the most significant improvement in Mexico and India. We continue to see the benefits of the repositioning of our businesses in both of these countries. We also had net loan loss reserve releases in every region.

Slide 7 shows our Securities and Banking business, which, as you know, faced an interesting market environment during the second quarter. Excluding CVA, revenues were $5.7 billion, down $2 billion or

26% from the first quarter. Our Fixed Income and Equity Markets results reflected increasing investor uncertainty and volatility during the quarter, which reduced market- making opportunities. Ex-CVA Equity Market Revenues dropped 49% to $620 million due to a widespread drop in market and client volumes and an increase in volatility. Fixed Income Market Revenues ex-CVA were down 31% to 3.5 billion with rates and currencies experiencing a significantly smaller decline than credit and securitized products. Rates and currencies revenues were down 13% from the prior quarter. In Investment Banking, revenues declined $383 million to $674 million as clients' market activities were lower. Private Bank revenues, excluding CVA, were slightly up in the quarter to $514 million, mainly driven by deposit re-pricing. Lending revenues more than doubled to $522 million, reflecting hedging gains due to widening spreads, compared to losses in the prior quarter. Excluding the impact of the UK bonus tax and last quarter's legal reserve release, expenses were flat sequentially. Credit costs continued to improve as net credit losses dropped to $42 million and we released $218 million in net loan loss reserves.

Moving to Transaction Services on slide 8. Revenues of $2.5 billion were up 3% from last quarter. Securities and Fund services grew 6% driven by higher fees and increased activity in depository receipts and securities finance. Treasury and Trade Solutions was up 1% sequentially, primarily reflecting growth in cards and trade. In addition, GTS had a strong quarter of new mandates across both SFS and TTS. Revenues increased across all international regions with Asia growing the fastest at 7%. Expenses of $1.2 billion were up 2% reflecting higher volumes and continued investment in the business.

On slide 9 we show a nine quarter trend for Citi Holdings results. Revenues declined 25% to $4.9 billion, driven by lower positive marks in the Special Asset Pool and lower revenues in Local Consumer Lending. Expenses were down 6%, partly reflecting the deconsolidation of Primerica and continued expense discipline during the quarter. Credit costs were lower by $1.5 billion, mainly the result of an $845 million net loan loss reserve release compared to a $314 million net build in the prior quarter. More than half of the loan loss reserve release this quarter was driven by Retail Partner Cards.

Slide 10 shows the asset trends in Citi Holdings. We ended the quarter with $465 billion of assets, a reduction of $362 billion or 44% from the peak in the first quarter of 2008. We have made significant progress in reducing Citi Holdings' assets, particularly since this includes the impact of adopting FAS 166 and 167 last quarter, which added $43 billion of assets to Citi Holdings in the beginning of this year. The $38 billion reduction in assets in the quarter was driven by $19 billion of asset sales and business dispositions, including $6 billion from the Primerica IPO and $4 billion from the liquidation of sub-prime CDOs, approximately $15 billion of net runoff and pay-downs and $4 billion of net credit losses and net asset marks. Local Consumer Lending drove approximately 60% of the asset decline, while the Special Asset Pool accounted for the other 40%.

We remain focused on reducing the assets in Citi Holdings as quickly as practicable, yet in an economically rational manner. As part of this effort, we reclassified $11.4 billion in assets from Held-to-Maturity to Fair Value at the end of the quarter. This re-class was in response to the FASB's recent changes to FAS 133 that allowed a one-time movement of certain assets classified as Held-to-Maturity or Available-for-Sale to the trading book. The $11.4 billion that we reclassified included $4.1 billion of Auction Rate Securities that were in HTM. The remaining $7.3 billion were securities in the Special Asset Pool for which prices have largely recovered and which we believe we will now be able to sell over the short to medium term rather than wait for them to runoff. In fact, in the first two weeks of July, we have already sold approximately half of the $7.3 billion.

Turning to Brokerage and Asset Management on slide 11. Revenues were down 59% sequentially to $141 million, reflecting the absence of last quarter's gains on the sale of Habitat and Colfondos, as well as a lower equity pick-up of our share of the Morgan Stanley Smith Barney joint venture. Expenses were down 3%.

Slide 12 shows Local Consumer Lending. Assets decreased $23 billion in the quarter. The main drivers of the decline were the Primerica IPO, the sale of $3 billion in mortgages, of which $1.1 billion were delinquent, $9 billion in net runoff and $4.5 billion in charge-offs. Revenues were down 10% sequentially. The decline was driven by a $347 million repurchase reserve for U.S. mortgages, lower loans and the absence of Primerica. Looking forward, we have increased our estimate of the effect of the CARD Act on Retail Partner Cards to reflect the impact of the recently finalized penalty fee provision. We now estimate that net of mitigation, Retail Partner Cards revenues will be lower by approximately $150 to $200 million in 2010. This is an increase from our previous estimate of $50 to $150 million. Expenses in LCL were down 6% to $2 billion due to the Primerica divestiture and lower credit- related expenses, partly offset by restructuring costs in CitiFinancial. Credit costs continued to decline. NCLs of $4.5 billion were down for the fourth consecutive quarter driven by our international portfolios, as well as improvement in U.S. mortgages and Retail Partner Cards. In the quarter, we released $421 million in net loan loss reserves driven by Retail Partner Cards.

We have included a page in the appendix that shows the quarterly trends in earnings before taxes for the businesses within Local Consumer Lending. You'll clearly see that consistently over the last few quarters, the North America real estate business has been the biggest driver of losses for Local Consumer Lending.

Moving to the Special Asset Pool on slide 13. During the quarter, we reduced SAP assets by $14 billion, down to $112 billion. We sold approximately $8 billion of assets primarily through CDO liquidations. Our exposure to the ABCP CDO super senior positions has been reduced to zero, although SAP retains exposure to a deminimis amount of underlying collateral assets. All of the 17 ABCP CDO deals structured by Citi have now been liquidated; the last six during the second quarter.

SAP revenues decreased $968 million driven by lower positive net revenue marks and the absence of gains on asset sales recorded in the previous quarter. Additionally, we recorded $176 million of negative revenues from the reclassification of assets in Held-to-Maturity to fair value that I mentioned earlier, $70 million of which were included in the net revenue marks. Expenses were down 8% and credit costs were down significantly to $47 million.

Slide 14 shows the results for the Corporate/Other segment. The sequential improvement in revenues was mostly due to improved hedging results. Assets of $262 billion include approximately $100 billion of cash and cash equivalents and $108 billion of liquid Available-For-Sale securities.

Moving to slide 15, it shows total Citigroup net credit losses and loan loss reserves. NCLs continue to improve, down 5% sequentially to $8 billion. And we recorded a net loan loss reserve release of $1.5 billion, roughly half related to consumer loans and half related to corporate loans. Consumer NCLs declined 7% sequentially to $7.5 billion, and we released $827 million in net loan loss reserves, mainly for Retail Partner Cards and Latin America and Asia consumer banking. The release this quarter compared to a net build of $224 million last quarter. Despite this reserve release, the coincident months of coverage of our consumer portfolio increased from 15.5 to 15.9 and is significantly above the 12.7 level from a year ago.

Corporate credit was a $211 million benefit this quarter. Net credit losses increased 30% to $472 million, principally from the charging off of loans for which we had previously established specific FAS 114 reserves, which were then released during the quarter. We also recorded a net loan loss reserve release which reflected the continued general improvement in the credit quality of our corporate loan portfolio. Corporate non-accrual loans of $11 billion were down 15% versus the first quarter.

Moving to consumer credit trends on slide 16. Consumer net credit losses of $7.5 billion were down 7% this quarter - the fourth consecutive reduction - as credit continued to improve particularly across most businesses in Citi Holdings where the bulk of our consumer credit exposure resides. Our net credit loss ratio declined again this quarter to 5.8% while we maintained a loan loss reserve ratio of 7.9%.

While international charge-offs improved by 13% in the quarter, the fact is that 80% of the consumer NCLs continue to be generated in North America. Therefore, continued improvement in North America consumer credit will have a significant impact on our future results.

Slide 17 shows the main components of Citigroup's North America consumer loan portfolio and its net credit losses. The chart shows that mortgages and credit cards represented over three quarters of the portfolio with 44% and 34% of end-of-period loans, respectively, in the quarter. These two portfolios are also the main drivers of net credit losses in North America to date. Cards in particular accounts for a disproportionate amount of the credit losses since it's an unsecured portfolio. In the second quarter, Cards accounted for 34% of North America consumer loans, but 62% of charge-offs. Nevertheless, we have seen the underlying credit metrics in the cards portfolios improve noticeably.

On slide 18 we focus on the credit trends of our North America cards portfolios. As we have disclosed in the past, we have been very focused on loss mitigation, such as tightening underwriting criteria, closing inactive accounts and decreasing high risk credit lines. As a result, we have seen an improvement in the credit quality of the underlying portfolios. In Citi-branded cards within Citicorp, NCLs declined 2% from the prior quarter to $2 billion. On a percentage basis, however, NCLs were up slightly due to a decline in loans. In Retail Partner Cards within Citi Holdings, NCLs declined for the fourth consecutive quarter, down 8% to $1.8 billion. Early- and later-stage delinquencies improved this quarter across both portfolios, though the pace of improvement has been faster in Retail Partner Cards than in Citi-branded. Retail Partner Cards have a shorter account life and lower credit lines and balances, which allow for the portfolio to turn faster. As a result, the current portfolio reflects more recent vintages which are of better credit quality given the tightening of underwriting criteria I just mentioned. Historically, the improvement in 30 to 89 and 90+ days past due in credit card portfolios has been a positive sign for future NCL trends.

Additionally, during the quarter we've placed fewer accounts into forbearance and the results of these programs have remained positive. We continue to see the cumulative loss on accounts that were put into forbearance to be 1/3 lower compared to similar accounts that did not go into these programs.

Turning to the mortgage portfolio in Citi Holdings on slide 19. 90+ day delinquencies in both first and second mortgages declined again this quarter, leading to lower net credit losses.

Slide 20 shows the delinquency buckets for first mortgages in Citi Holdings. 30+ day delinquencies were down 13% to $12.7 billion, as all buckets declined again this quarter. The sequential improvement in total delinquencies was entirely driven by asset sales and HAMP trials converting into permanent modifications.

In the quarter, we sold $1.3 billion in delinquent mortgages. As of the end of the quarter, we have converted $2.5 billion of HAMP trial mods into permanent mods. This is up from $1.6 billion at the end of the first quarter. Consistent with what we said last quarter, early results continue to indicate that re-default rates for HAMP modified loans will likely be lower than for non-HAMP mods. Our loan loss reserves continue to reflect the impact of modifications, including expected re-defaults.

Slide 21 shows the sustained improvement in our international consumer credit trends. The trends remain very similar to last quarter with net credit losses and delinquencies down in every region. In Asia, credit trends in all the countries remained stable, while India showed the most significant improvement in both NCLs and delinquencies. In Latin America, Mexico remained the main driver of improving credit trends. In EMEA, charge-offs and delinquencies improved across most markets. And, the international consumer portfolios within Local Consumer Lending sustained their improvement as we continued to sell assets in EMEA.

Slide 22 shows the trend in our key capital metrics. We ended the quarter with a Tier 1 ratio of 12% and a Tier 1 Common ratio of 9.7%, both up significantly from the first quarter. And, we had Tangible Common Equity of $121 billion.

So slide 23, in summary, despite the challenging market environment of the second quarter, we had net income of $2.7 billion or $0.09 per share. Regional Consumer Banking and Transaction Services outside of North America had sequential growth in revenues offsetting some of the decline in Securities and Banking.

We had positive marks in the Special Asset Pool again this quarter and we continued to make progress on reducing assets in Citi Holdings. We also continued to make selective investments in our international franchises while maintaining strong expense discipline across the firm. And we benefited from positive credit trends, both internationally and in North America.

As usual, I'd like to discuss a few factors which may affect our results in the future. On the revenue side, as we saw in the second quarter in Securities and Banking, the global economic and capital markets environment will drive revenue levels in the third quarter.

As we've said before, CARD Act will have a negative impact on U.S. credit card revenues.

On the Citi-branded side, we continue to expect the net impact for the full year of 2010 to be approximately $400-to-$600 million, including the impact of the recent penalty fee provision. In Retail Partners, however, as I said earlier, we have increased our estimate to approximately $150-to-$200 million given the new provision. In each of these portfolios, the vast majority of the 2010 impact will occur in the second half of the year.

Net revenue marks in the Special Asset Pool, which have been positive for the last five quarters, will remain episodic, but we continue to substantially de-risk this portfolio as evidenced by the CDO liquidations in the quarter.

On expenses, as we have previously indicated, we continue to expect Citi's quarterly expenses to be in the range of $11.5-to-$12 billion for the balance of the year. Citicorp's expenses may increase as we continue to invest in the business while Citi Holdings should continue to decline and we reduce assets.

Credit costs will remain a key driver of our earnings performance for the rest of the year. Assuming the U.S. economy continues to recover, and the international recovery is sustained, consumer credit costs should continue to decline. Internationally, we expect credit will continue to improve, but at a moderating pace. In both North America cards portfolios, we expect NCLs to improve modestly, but will likely remain elevated until employment levels improve significantly. In North America mortgages, NCLs and delinquencies continue to improve largely as the result of loss mitigation efforts we are undertaking, including sales of delinquent mortgages and modifications. However, the underlying credit quality of this portfolio has not been improving in the same manner as the cards portfolios. Mortgages, in particular, are at risk to many factors such as unemployment trends, home prices, government modification programs and state foreclosure regulations. Therefore, we will continue to pay particular attention to this portfolio and will continue our efforts to mitigate losses.

Our consumer loan loss reserve balances will continue to reflect the losses embedded in our portfolios, given underlying credit trends and the impact of forbearance programs. Corporate credit is difficult to predict. Though we've generally seen a continued improvement in our corporate loan portfolio, credit costs will continue to be episodic. Now, I'll turn it back over to Vikram.

VIKRAM PANDIT: John, thank you. So before going to questions, I want to talk about two items: one is investments and the second is regulatory reform. On investments, we have many opportunities given our international footprint, the business mix we have and the client relationships. We're starting to invest aggressively in Asia and Latin America; we're already making very substantial investments in technology, which by the way are self-funded; in our North American Consumer business, Manuel Medina Mora is running it and we are increasing investments in Cards; we're starting our investments in the Retail Bank, we see opportunities there. We also continue to invest in our Equities business, in Securities and Banking where we believe we can achieve a lot more than we're doing, and we keep hiring some very great people, great talent in every one of our businesses.

Let me talk about regulatory reform. As you know, I've been an advocate of strong regulatory reform and I'm quite pleased that we are moving forward. Our focus is now on Basel and, while there seems to be discussions on changes that are going in the right direction, we are still concerned. On the U.S. reform, you all know that there are a lot of details that we still have to see, and the ultimate impact won't be clear until we know some of these. But you also know that we've been managing our businesses and selling assets and businesses in line with the principles of the reform. And by the way, there is a little bit more clarity in consumer banking. Here are some initial thoughts: on the Credit Card Act, we've already talked about the impact. On fees such as overdraft fees, et cetera, we never had the excesses; and in addition, our overdraft revenues are not material for us as we generally did not allow our debit card holders to overdraft their accounts in the first place. On the debit interchange, debit purchase is not a significant business for us. Our volumes show that, and we're about 1/10th of the volume size of market leaders.

Another key point on consumer reform is that our Regional Consumer Bank is much more international than most. 53% of first-half revenues came from outside the U.S. and they reflect a substantial part of our profitability. On the institutional side on prop trading and funds, we have continued to sell many prop trading and fund businesses and assets. And on the derivative side, the vast majority of the derivatives we did in the bank, we can continue to do in the bank. Our bookings were already in line with the reform thinking. On the broader issue of changes in markets because of the derivatives legislation, we're all going to have to see both the regulations and their impact. So with that, let's open it up for questions.

QUESTION AND ANSWER

OPERATOR: Our 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: First question I wanted to ask you was just about SAP. Maybe if we could talk a little bit more about how you could achieve the positive net revenue marks that you did in what was a general environment of widening credit spreads?

JOHN GERSPACH: Okay. You know, when you take a look at the SAP marks, I think I'd say the preponderance of the positive marks came as a result of the CDO liquidations that we did in the quarter, and it just turned out that as we -- when you break open the CDO and then you give people access to the underlying collateral, in many cases it turned out that the underlying collateral was actually worth more than we had estimated when we put an overall mark on the CDO structure itself.

GUY MOSZKOWSKI: Right. So it just speaks to the conservatism of the marks that you were carrying the assets at that point.

JOHN GERSPACH: Well, you know, Guy, I never-- talk about our marks being conservative or not conservative. Our marks are our marks. If it turns out that people see more value, that's great.

GUY MOSZKOWSKI: Now, you talked about some sales that you've been able to do recently of SAP assets. Of the $8 billion that you completed in the quarter, were they sort of evenly over the quarter or were a lot more of the sales completed earlier in the quarter when markets were presumably a little bit more liquid?

JOHN GERSPACH: No, actually, the sales were pretty much evenly distributed over the course of the quarter. I can't tell you exactly a third, a third, a third-- but it was pretty even distribution over the three months of the quarter. And, you know, as I mentioned in the remarks, we put $7.3 billion of assets out of Hold-to-Maturity into Fair Value and into the trading book on July first, and in the first two weeks we've already disposed of almost half of those as well.

GUY MOSZKOWSKI: Right. Okay, just turning to cards, and in particular the Branded Card business, I'm just wondering why you chose not to release any reserves there given that you did see a decline in delinquency.

JOHN GERSPACH: Yeah, that's --

GUY MOSZKOWSKI: Your overall consumer coverage I think is up to 16 months, which seems like a lot.

JOHN GERSPACH: Well, you know, Guy, I'd say that I think you see a fairly consistent pattern— we like to see, you know, some sustained evidence of improved credit performance. And we certainly saw it in the first quarter, but one quarter doesn't quite make a trend. And so let's make sure that the second quarter performance confirms what we saw in the first quarter.

GUY MOSZKOWSKI: Thanks. And the final question I have for you is just on the mortgage repurchase reserve. You mentioned that you added to that reserve. Could you quantify that for us and could you give us a sense for what the scale of that reserve might be at this point and a sense for what kind of claims you're seeing currently relative to what you saw last year?

JOHN GERSPACH: Sure, Guy. The provision in the quarter was about $345 to $350 million and the reserve now stands at roughly $750 million. We saw a decline in claims towards the end of last year and at the very beginning of this year, and now I'd say that claims have increased more down to the level that we saw in the third quarter of last year, maybe up a little bit. For both the first and the second quarter, the actual repurchases that we've made have been right around the $210 million range.

GUY MOSZKOWSKI: Great, that's very helpful. Thank you very much.

JOHN GERSPACH: Okay, Guy.

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

JAMES MITCHELL: Hey. Good morning.

JOHN GERSPACH: Good morning.

JAMES MITCHELL: Quick, just maybe more broadly on Holdings, can you just sort of give us a sense of: are you ahead of plan, in line with your plan, in terms of the divesting of the assets? It seems like it's been a little bit ahead of plan in terms of how rapidly you've been winding down Holdings and are you seeing any freeing up, or ability to accelerate dispositions as the environment gets a little better?

JOHN GERSPACH: Very difficult questions, Jim. One, you know our plan is to dispose of these assets as quickly as we can in an economically rational fashion, and so we're progressing and we're executing against that plan all the time. And as opportunities present themselves, we're disposing of these assets as fast as we can. You know, from a market condition point of view, it's not so much about market conditions right now, other than, you know, when -- and we've had this conversation before -- when you take a look at some of the larger businesses now that are still remaining in Holdings -- CitiFinancial, Retail Partner Cards, Student Loans -- those are our sales or dispositions that the current lack of liquidity in the market -- the lack of funding in the market -- make challenging.

Even if we can find purchasers that can come up with an equity raise in order to fund the purchase, finding the source of consistent funding, you know, to fund the business on a daily basis is proving a challenge.

JAMES MITCHELL: Right, okay. But would you say your pace has been sort of in-line or ahead or behind, at least what you've seen year-to-date?

JOHN GERSPACH: You know, Jim, I would say that in general we are very pleased with the progress that we've made.

JAMES MITCHELL: Right, okay. Fair enough, and maybe a simpler question: how much, if at all, did you use up DTAs this quarter?

JOHN GERSPACH: The DTA declined slightly, I believe it is now $49.9 billion.

JAMES MITCHELL: Okay. And I don't know if you saw: Bank of America's taking a write-down on their DTA in Europe related to the UK's reduction in tax rates. Is that something that would impact your DTAs?

JOHN GERSPACH: We don't see that.

JAMES MITCHELL: Okay. All right. Well, that's all I've got. Thanks a lot.

JOHN GERSPACH: Okay, Jim.

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

MOSHE ORENBUCH: Thanks. I'm hoping maybe you could kind of expand a little bit on the discussion about the investing in the international businesses. Maybe talk about both what the resources are that you're going to deploy and how much is available, and perhaps what -- how we should think about the payback periods for those investments over what amount of time and, you know, what kind of multiple of the amounts that you invest.

VIKRAM PANDIT: Let me just start by saying that, you know, there are investments that are occurring across the board and so obviously some of the answers to your questions are going to be different by different areas. But we see a number of opportunities to grow our retail banking businesses. And they are in not only Latin America, but we're doing it in Hong Kong, we're doing it in other parts of Asia; in some places these are regulated markets, so we've got to get permission, and we seem to have gotten a few permissions and so we're increasing our presence there. Generally speaking, these are markets where we have a great clientele and our belief is that these new branches will attract the kind of clientele that we believe we can serve. I don't have any further metrics for you at this point on these, but suffice it to say, we wouldn't be doing these things unless we thought that the return is very attractive.

I'd also say that, generally speaking, if you look at kind of financial sector companies that are only in the emerging markets, these kinds of investments are positively valued in the marketplace, as well. I don't need to tell you where they trade on a price to book value, et cetera, basis and we are investing at book value. Now, you know, we're also making investments in our cash management and other businesses. So, again, lots of plans. My message to you is we've got a lot of these opportunities and we're going after them very diligently, and we feel kind of fortunate that we've got the footprint and the business that we have that we can do this.

MOSHE ORENBUCH: Great, thanks.

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

MATT O'CONNOR: Hey, Vikram, John.

JOHN GERSPACH: Hey, Matt.

VIKRAM PANDIT: Hey.

MATT O'CONNOR: A few questions. First, your FICC revenue held up well, versus in the banks that we've seen so far report this quarter, and I know there's always a lot of comparison noise, but just-- any reason? You know, is it a different revenue mix, different positioning, any lumpy losses or gains that you would highlight?

JOHN GERSPACH: You know, Matt, as you just said, there's always noise especially when you're dealing with comparability. And what we saw in our FICC business, and I think we mentioned it during the presentation, is that rates and currencies certainly performed better than some of the other components in FICC. And when you take a look at rates and currencies, one of the other aspects of rates and currencies that held up in particular was our local markets business. So, you know, we have a very strong franchise around the world and that was an area of strength for us-- relative strength for us.

MATT O'CONNOR: Okay. And presumably that's a bigger component for you guys, obviously, than some of the ones we've seen so far.

JOHN GERSPACH: I'd say that we're unique compared to what you've seen so far.

MATT O'CONNOR: Okay. And then separately, I guess I was a little surprised that Wells Fargo announced that it was shutting down Financial, which I think is the equivalent of your CitiFinancial or has some similar characteristics. And I was just wondering, I guess, why do you think it's a viable business to stay into and hope that you can monetize more down the road, versus I guess their decision-- they figured it was cheaper just to shut it down.

JOHN GERSPACH: You know, Matt, you're going to have to ask Howard about Wells Fargo's decision.

MATT O'CONNOR: Okay, maybe I'll ask the question a different way. I think one reason banks have been reluctant to get into non-prime lending is the Consumer Protection Agency and just the limitations on pricing for risk. And, you know, you're one of -- your franchise is one of two or three that's out there. So it's unique, which is positive, but it's also a kind of contrarian view staying with it. So why keep it versus just shutting it down?

VIKRAM PANDIT: You know, let me address it. I don't think it's a contrarian view. Look at what's happening in the consumer business with the Credit Card Act, with a lot of the changes on the regulatory side. If you were to think about that clientele, which is least banked, it's exactly the clientele against CitiFinancial. And we're kind of seeing a different trend here, which is that we're one of the last ones standing to serve an entire clientele that really doesn't have access to those products and services that we've got to provide that they really can't get from too many other places.

So our dynamics here are relatively straight forward. Our dynamics in terms of that business are that this is a clientele which is going to continue to need credit and our services. They don’t have places to go and by the way, these are long relationships that we have and in order to be successful at this business, what is really important is that you have scale and that you are diversified, and we've got that.

I don’t know about others, but we've got about 1,300 branches, and so in a very different way, we think this is an extremely valuable business from a business perspective, but most importantly from an American citizen perspective. My God, you don’t want to shut this down, you want to keep growing it.

MATT O'CONNOR: Yeah. I guess big picture I would agree. I mean if I was going to start a business from scratch, this would be one I'd consider, but it is part of Citi Holdings, so I guess the hope is that at some point someone else will believe what you believe and buy it.

VIKRAM PANDIT: Well, and if they don’t, we have plenty of funding, plenty of capital, we're operating this business on a going-forward basis. You must have seen we restructured it in a way that we can keep driving our core part of CitiFinancial businesses. As John said before, we're in no hurry to sell anything, although obviously, there are people who are interested. If the right value, understanding the future we see, we're happy to talk to them.

But in the meantime, this is by no means an orphan. As a matter of fact, it's a business that we continue to like and while it may or may not fit -- as we said, it may not fit in our ongoing strategy, certainly it’s extremely valuable to somebody and we're not inclined to do anything unless we find somebody else who sees the value.

MATT O'CONNOR: And then lastly, as we think about your capital ratios, looking out just a couple of quarters, you're probably going to be approaching 11% Tier 1 Common. How should we think about what you start doing with the capital, whether it's more aggressively selling some of your assets or just letting it build to ridiculously high levels or -- I mean I know it seems silly to ask about buybacks, but there's a lot of stock for sale by the government so it could be interesting if you're in a very over capitalized situation. Is there an opportunity to buy some of that stock they're selling?

VIKRAM PANDIT: The thing we can do and that we're executing on right now is invest. And we're doing that in our businesses. As I said, again, we see a lot of opportunities, and almost uniquely so, in many ways. And so, that you can count on us doing. You can count on us doing prudently, correctly, and I think that's a good way to put capital to work.

As I said earlier, in many of these opportunities the market valuation of the opportunity is a lot higher than the book values at which we invest in these businesses. That's a big part of it. For all the other questions, you know, we have a lot of clarity we need to get not only from the U.S., but from Basel and all of that. I think it's optimistic for anybody to believe that we're going to have clarity on what is the right amount of capital from a regulatory perspective, what's the right amount of liquidity from a regulatory perspective for a while.

MATT O'CONNOR: Okay. All right. Fair point. Thank you very much.

JOHN GERSPACH: Okay, Matt.

OPERATOR: Our next question comes from the line of Chris Kotowski with Oppenheimer and Company.

CHRIS KOTOWSKI: Good morning. Most of my questions have been asked. But a couple of things: one is just looking at your average balance sheets, the liquidity keeps going up and I see if you look at the Fed funds and deposits with banks on the left-hand side it's over $400 billion and the purchase funds and short-term borrowings is almost $400 billion. I mean, wouldn't -- why not have a more compact balance sheet with less of these kinds of discretionary non-core assets there?

JOHN GERSPACH: What? I'm really not grasping the full impact of your question, Chris, and I'm sorry. When you're talking about a more compact balance sheet--

CHRIS KOTOWSKI: Well, I'm just looking at your average balance sheet and you see more than $450-- or $430 odd billion of inter-bank deposits and Fed funds sold and just the liquidity balances seem to keep going up all the time. And it seems like, you know, it's fully offset by – or, there's an equal amount of borrowing on the other side.

JOHN GERSPACH: All right. Well, let me try-- obviously, as we continue to sell down Citi Holdings assets, we continue to generate cash. We're generating, cash at either an equal or slightly faster rate than we can actually put it to use, but we are, as Vikram said, we're trying to put the cash to use in growing our Citicorp businesses.

The -- on the liability side of the balance sheet, we're letting-- you can see that our long-term debt decreased by I think it was $25 billion this quarter, and we don't really have the need for that long-term funding right now, so we are letting -- and we've said this to people -- that we expect our long-term issuances this year to be at a much lower amount than the current maturities of the long-term debt. So what it really is is that we've got, you know, as you point out, we've got a highly liquid balance sheet and we're -- right now we've got a lot of flexibility as far as being able to put that cash to use as opportunities present themselves.

CHRIS KOTOWSKI: All right. I'll leave it there. Thanks.

JOHN GERSPACH: All right.

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

MIKE MAYO: Good morning.

JOHN GERSPACH: Good morning, Mike.

MIKE MAYO: My question relates to your financial target. We've talked before about this. Your financial target to grow assets at Citicorp by 5%-- my question is not so much to the exact 5% number, but why have any financial target at all that's focused on asset growth especially when Citigroup one could say grew assets too aggressively last decade? And just one other side point. Vikram, I know we ran into each other in the street in Boston a couple weeks ago and I said I hadn't been in to meet with senior management for 20 months even when many of my peers have been in, or sometimes multiple times. So I'd still love to get in and talk to you about this and some other issues, but for right now the asset growth question.

VIKRAM PANDIT: And let me say, you're right, it's not a target, it's an outcome of what we think is going to happen because of the markets that we're in and what the organic growth rate of what it is. Believe me, I'm not managing this business to that. I'm managing this business to risk adjusted profitability as you'd want it, and making sure we're doing the right businesses. But, on the other hand, if we didn't have that, I know Mike, you'd be the first one to ask, which is, what do you think your assets are going to grow at? Well, that doesn't mean it's a target. It is an outcome of what we think would be the natural thing that we could assume that would come out.

MIKE MAYO: But to be crystal clear, what are Citigroup's or Citicorp's financial targets?

VIKRAM PANDIT: Well, I think we've said that for the Citicorp plus the other part, the financial target that we know that we can be clear about is 1.25% to 1.50% return on assets. That's one.

JOHN GERSPACH: That is the target that we have put out there.

VIKRAM PANDIT: Yes.

MIKE MAYO: Okay. That's -- that's the sole target and just -- I asked this last quarter, to the extent that that target is ¼ to ½ above where the industry has been for the past couple of decades, a few short reasons why you think you can achieve that after a decade that hasn't been so good?

JOHN GERSPACH: I think , Mike, just as I -- and I can't remember if we talked about this when we saw each other in the lobby in that building in Boston, but, you know, you need to take a look at the return on assets that we're able to generate today in our Citicorp businesses in Latin America and Asia, and if you take a look at the business mix that we have put out for Citicorp, which is, you know, roughly 1/3, 1/3, 1/3 -- 1/3 in banking; 1/3 services, primarily Transaction Services; 1/3 Consumer Banking, with most of our growth coming in the emerging markets. That kind of gives you the pathway then as to why we think that 1.25 to 1.5% ROA is achievable.

MIKE MAYO: All right. I look forward to potentially coming in and meet with someone there at some point. Thank you.

VIKRAM PANDIT: Thank you.

OPERATOR: There are no further questions at this time.

JOHN ANDREWS: Great. This is John Andrews. Thank you, again, for listening in today and participating in the call. This call will be available on replay later on the Citigroup website. Thanks again, and have a good weekend.

OPERATOR: Thank you, ladies and gentlemen, for your participation. You may now disconnect.

Certain statements in this document are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors. More information about these factors is contained in Citigroup's filings with the U.S. Securities and Exchange Commission.