TRANSCRIPT

Citi 2011 Financial Services Conference
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Host
Keith Horowitz, Citigroup

Speakers
Vikram Pandit, Citi Chief Executive Officer
John Gerspach, Citi Chief Financial Officer

PRESENTATION

KEITH HOROWITZ: I'm very pleased today to introduce our keynote speaker, Vikram Pandit. Since taking over as CEO of Citigroup in December of 2007, Vikram has tackled a whole host of issues, including cutting expenses, slimming down the balance sheet, strengthening risk management and refocusing the firm on our core global consumer and institutional client franchises.

As an employee and shareholder, I've been proud to see many of these efforts beginning to bear fruit. As we begin 2011, Citi starts from a position of strength with a Tier 1 common equity base of 10.7% and a unique global footprint that will serve as a foundation for a new phase of growth for the company.

Here to tell us more about the vision for the company going forward, CEO Vikram Pandit and also CFO, John Gerspach.

VIKRAM PANDIT: Keith, thank you. I appreciate it and thank you for not having any music this year for the introduction. It's great to have you all join us today. I want talk to you a little bit about the growth drivers in the world, their impact on financial services and particularly on Citi's strategy.

This work is based not only on a lot of good data but it's also based on a lot of personal travels. I've managed to get around to a lot of our operations around the world and I'll share some thoughts with you. As I often say to people in America, whenever you go around the world there are only two places you really need to know. One is where is the U.S. Embassy and the other is where is the Citibank, after all we are America's global bank.

Let me start by reviewing where we are. A lot has happened at Citi in the year since I last stood here. We're profitable. We have a solid financial foundation. We are uniquely positioned to capture global growth trends particularly in the emerging markets and we're laying the ground work for sustainable growth by focusing on our clients and by investing in our business.

2010 was an important year for Citi. We returned to profitability with four consecutive quarters of operating profits. We increased investments in Citicorp that contributed to strong growth in key business drivers like loan growth. We reduced Citi Holdings to $359 billion, or less than 20% of total assets. We maintained a strong balance sheet and the U.S. Treasury fully divested its common equity stake. In total, the government realized over $12 billion in profit on its investment in Citigroup.

Slide 2 shows the results for total Citigroup. We generated nearly $87 billion of revenues in 2010, down versus 2009 on lower Securities and Banking revenues and declining assets in Citi Holdings. Operating costs were down slightly as higher investments and other costs in Citicorp were offset by expense reductions in Citi Holdings. The biggest driver of earnings growth was a dramatic reduction in credit cost in 2010 as credit improved across every business and every geography. We generated $10.6 billion in net income in 2010. Citicorp, which is our core operating business, generated nearly $15 billion of earnings including over $8 billion in Asia and Latin America while the loss from Citi Holdings was cut by more than half from nearly $9 billion in 2009 to $4 billion in 2010.

On slide 3, some key metrics show the execution of our strategy. We renewed our investment spending in Citicorp in 2010 which contributed to loan growth of 6% year-over-year with the bulk of that growth coming from the emerging markets. We also reduced Citi Holdings assets by more than $170 billion, including over $100 billion of asset sales at well over 99% of carrying value. We grew our Tier 1 Common ratio by over 100 basis points to 10.8% and we had nearly $41 billion of loan loss reserves or 6.3% of total loans.

As you can see, we're a fundamentally different company than we were three years ago. We're moving forward with a clear focus on sustainable earnings growth, leveraging our unique capabilities and most importantly, investing in our business.

Slide 4 shows several trends that are driving opportunities for Citi. First, we expect sustained higher GDP growth in emerging markets for several decades which has several implications. One is the rapid growth of EM multi-nationals. Fifteen years ago none of the companies in the global Fortune 500 were domiciled in the emerging markets. Today, that number has grown to 74 companies or 15% of the total.

We're also seeing the rise of a powerful emerging markets consumer block. For example, total consumer spending in fast growing Asian economies is likely to exceed spending in the Euro area during the next two years and it could exceed the U.S. by 2025. These trends are driving increasing trade and capital flows, particularly within emerging markets. Additionally, population and GDP are concentrating in major emerging market cities, which has many strategic implications, particularly in our consumer business.

Second, we expect significant and growing demand for credit and investment capital in emerging markets. These demands should drive growth in capital markets volumes and products; however, we believe that institutional client needs will be largely met by traditional banking products such as lending and cash management.

Finally, technology will continue to transform our business. Consumer preferences are changing with a generational shift in behavior to digital channels and less dependence on physical branches. Within the next ten years, mobile and internet interactions are expected to represent half of all customer interactions with banks; and in fact, in Asia, the least developed markets are showing the strongest rates and adoptions rates for online banking and mobile payments. Technology is also lowering operating costs and enabling us to store and use data more effectively.

Let me take you through some of these trends in a little bit more detail.

Slide 5 highlights the structural shift between the emerging and developed economies. The developed markets now have the highest national debt to GDP and the slowest economic growth. That's everything in gray. By contrast, higher growth emerging markets are currently in a much better fiscal condition creating an ideal environment for continued economic expansion. Of course, growth will not occur in a straight line and each country's base of growth will depend on political stability and policies to encourage investment spending. For example, investment rates in China and India as a percentage of GDP were 2-3x the U.S. rate in 2009.

Slide 6 shows expected growth in GDP by region. While world GDP is forecasted to grow at 5% annually through 2030, the composition of GDP is expected to change dramatically. Emerging markets comprise just over 50% of global GDP today and could rise to 70% in 2030. In every region, we expect increasing GDP per capita as wealth generation accelerates in the emerging markets. Globally, GDP per capita is expected to grow 3.6% per year and over 6% in emerging Asia.

The world is experiencing a fundamental role reversal. For the last few decades, consumer demand in the developed world helped fuel the emerging markets growth. Going forward, the developed economies have a huge opportunity to export to the growing emerging market consumer block in the process of boosting their own economies.

Slide 7 shows the growth of emerging markets in its trade flows. During the last decade, trade among mature economies grew at an annual rate of less than 5%, while trade between the developed and emerging markets grew at over 10% annually and most importantly, intra-emerging market trade grew by nearly 18% per year. In total, emerging markets trade has grown from 28% of total activity in 1990 to 44% today. The composition of import and export activity is also changing and that's shown on the right. Import activity and internal consumption are growing in emerging markets relative to export activity and developed markets are becoming more export driven.

Slide 8 shows the expected rise of the middle class by region. In China and India alone, there are 100 million households today with income over $10,000 a year and middle class households are expected to grow by more than 300 million over the next decade, overtaking the US and Western Europe. Not only are populations becoming wealthier in emerging markets but they are also concentrating in major metropolitan areas. Roughly 1.5 million people move to a city each and everyday with most of this occurring in emerging markets. About 30% of the world's GDP is already concentrated in 150 cities around the world and this concentration will likely only increase. This has important implications for how we are building our consumer franchise and explains our focus on key cities. It also has important implications for infrastructure investments. In China alone, it is estimated that 170 mass transit systems will soon need to be built and that five billion square meters of roads need to be paved.

All of these trends imply significant need for investment capital, as shown on slide 9. Total demand for investment capital in emerging markets is expected to grow from $3.5 trillion to nearly $13 trillion by 2030. Of the expected $9 trillion EM growth, almost $4 trillion will be needed for infrastructure.

This very high demand for capital will require bank loans, the deepening of debt and equity capital markets and growth in project finance, all of which will drive expansion of the institutional revenue pool. While we expect capital markets and investment banking revenue pools to grow significantly, we also believe that traditional corporate banking products will likely play a dominant role. EM institutional revenue pools are expected to grow 10% annually over the next decade to $1.8 trillion, over 80% of which is related to lending and cash management.

Turning now to our core business, Citicorp on slide 10. Let me review our strategy and how we're uniquely positioned to capture these global growth trends. Over nearly 200 years, we built an unparalleled global network with exposure to the world's fastest growing economies. We serve clients in over 160 countries and we have done business in many of these countries for over 100 years. We're focused on our three core businesses – Global Transaction Services, Securities and Banking, and Consumer Banking. Over time, our goal is to have a balanced contribution from each segment.

As we've said before, our long term goal is to reach an ROA of 1.25% to 1.5% for Citicorp and Corporate/Other which together represent the future of Citigroup.

Slide 11 shows our unique global footprint. The backbone of our global franchise is Transaction Services with a physical presence in nearly 100 countries around the world. We connect the globe everyday on behalf of our clients. For the developed market companies, we provide unparalleled local market knowledge and capabilities in the emerging markets. For emerging market companies, we provide the global infrastructure to expand beyond their home countries. And for emerging market-to-emerging market flows, the fastest growing segment of the market, we have an unmatched network across Asia, Africa, the Middle East and Latin America.

On slide 12, I want to show you an example of our franchise in India. This is where I spent a week last week. Citi opened its first branch in India in 1902 and that was well before almost all of the local competitors. With over 100 years on the ground, we have unique experience, deep relationships, local insights and local market DNA which is very difficult to replicate. Today we're the largest foreign bank in India employing nearly 8,000 people. We're integrally connected to the trade and capital flows in the region touching 17% of nationwide foreign exchange flows and 8% of trade flows. We're also playing a leading role in helping multi-nationals expand in India and also helping Indian companies grow overseas. Over the past three years, Citi has helped raise close to $60 billion from the capital markets for our clients in India and we have advised nearly $25 billion of India-related M&A.

On the consumer side, we have 42 full-service Citibank branches in 30 cities and we have over 20% market share in credit cards. India is not unique; it's just one example of what we have throughout the emerging markets.

Slide 13 shows revenues and net income by region for our core business Citicorp. In 2010, nearly 45% of Citicorp revenues and 60% of its net income were generated in the emerging markets, mostly in Asia and Latin America.

Slide 14 highlights our Institutional Clients Group which includes Transaction Services, and Securities and Banking. ICG is our most global business with a physical presence in nearly 100 countries, Securities and Banking offices in over 90 countries, and trading floors in over 75 countries.

Many of our relationships begin with our global capabilities, particularly our services business. This generates significant flow driven revenue and naturally extends to markets and advisory services as these clients conduct business around the world. Globally, we're focused on a core group of 5,000 corporate and institutional clients. These clients tend to be multi-national with complex global needs. Our strategy is to grow our wallet share amongst this client base as both developed market companies extend further into the emerging markets and emerging market companies outgrow the capabilities of their local banks. Where we can serve our clients in more places around the world, we grow our wallet share in a disproportionate way. We serve our largest clients in an average of 41 countries and across 13 products.

Slide 15 describes our Transaction Services business. We have the largest proprietary network of any financial institution in the world. We move over $3 trillion worth of payments and securities each day in 135 currencies. We're a leader in Treasury and Trade Solutions with over $7 billion of revenues in 2010. We're growing our Securities and Fund Services business with nearly $3 billion of revenues last year and a leading custody and clearing network in nearly 60 countries.

The total GTS market space is highly fragmented and we believe we can continue to gain share. We have been investing roughly $1 billion a year on technology for GTS and have also increased headcount for new products and new mandates. Despite the low interest rate environment, GTS remains a high return business with consistent performance. Over the past four years, we've grown revenues and net income by 13% and 23%, respectively. Adjusted return on assets in GTS remains strong at over 5% in 2010, down from the prior year as we continued to invest in the business and doubled our emerging market trade assets.

We have the #1 ranked global cash management platform as shown in the Greenwich survey results on slide 16. We are uniquely able to serve large corporations in every region around the world. This chart shows that a majority of large corporations in each region considers Citi to be their lead bank for international cash management.

Continuing on slide 17, Citi is uniquely positioned to intermediate the growing trade and capital flows in emerging markets. Roughly half our revenues and over 60% of net income was generated in emerging markets in 2010.

Now, turning to our Securities and Banking business on slide18. A differentiating factor for Citi is our significant emerging markets presence. We operate trading floors in over 75 countries and capture significant flow driven business from our Transaction Services platform. We're investing to develop both regions and products. For example, while overall banking headcount has remained fairly flat over the last two years, we now have roughly half our direct staff in emerging markets. We already have a strong franchise in rates and currencies and we're investing to get to a similar place in other products. Our business will also expand with the development of EM capital markets. For example, the CDS market is developing in markets such as India and China. Similarly, we're growing our EM equities platform. On a broader basis, we continue to invest to build investment banking, prime finance and commodities.

Continuing on slide 19, over one third of our Securities and Banking revenues and nearly half our net income were generated in the emerging markets in 2010.

Let's turn now to our Consumer Banking franchise on slide 20. We have a unique global network with 4,600 retail branches in over 40 countries. We're the #1 card issuer internationally. We have over $300 billion in retail deposits. Our strategy focuses on the segments and geographies where we have a competitive advantage including retail banking in the world's largest cities and a broader approach in cards where we serve customers on a nationwide basis. We're leveraging technology and marketing to create outsized brand awareness while optimizing our physical branch network. Importantly, we're investing to grow organically, opening branches and making new investments at book value with our established global franchise.

Slide 21 shows our Consumer Banking results by region. Nearly half of our revenues and over 70% of net income were generated in emerging markets in 2010, mostly in Asia and Latin America. The net income split mostly reflects the economic recovery in emerging markets where credit cost improved earlier than the U.S. Over 40% of year-end deposits and nearly half of loans were also in emerging markets.

Slide 22 looks at our strategy in North America which is consistent with our global Consumer Banking strategy. In the U.S., we operate retail branches in major metro areas and we are the #3 cards issuer nationwide.

North America is a key part of Citi's global consumer network and an important source of deposits. Our client segments result in much higher deposits per branch versus our top three peers. We have a valuable franchise today. We also have an enormous opportunity to execute better in this business. This is a turnaround story.

Historically, our U.S. retail bank was product focused, not structured around the client. We're changing that today with a new management team, including Cece Stewart in Consumer Banking and Jud Linville in Cards. Together, they are focused on delivering an integrated product offering and improved customer experience. With a clear strategy in place, we have begun reinvesting in the U.S. consumer business, including account acquisition, marketing, technology and infrastructure. While it may take some time for these investments to create growth, credit cost should continue to decline in the near term as we work our way through the credit cycle.

In 2010, our adjusted ROA remained stable in the U.S. retail bank while returns were negative in Cards reflecting elevated credit costs, a declining account base and the impact of the CARD Act.

Let's look at international Consumer Banking on slide 23. Our international brand is very strong and 90% of revenues are from emerging markets. We began increasing our international investments in 2010 driving significant growth in revenues, loans, deposits and card purchase activity. Higher investments were offset by significantly lower credit costs in 2010 as these regions approach credit normalization earlier than the U.S. In 2010, adjusted ROA was relatively flat for the international retail banking business at over 1.5% while Cards improved significantly to over 2.7% driven by credit improvement.

Across Citi, roughly two-thirds of our spending is on direct revenue generating investments with the remainder being infrastructure and efficiency spending.

We have already discussed some of our initiatives in our ICG business, and I'll spend a few minutes on the Regional Consumer Banking slide, which is slide 25.

In Consumer Banking as we've said earlier, over the next three years we plan to invest an incremental $3-4 billion on initiatives such as marketing, new account acquisitions, branch optimization and technology. In 2010 for example, investments included perceptual scale initiatives across Asia, to maximize our brand awareness relative to the size of our branch network.

On a gross basis, we added over 20 million new retail and card accounts in 2010, including roughly 5 million in the U.S. and over 15 million internationally. Most of our branch building was also international. In total, we opened nearly 150 new branches in 2010.

Finally we're focused on our Consumer Banking infrastructure. We're at the midpoint of a multi-year investment to put all of our regions on a single consumer banking platform. Significant progress has been made so far with full implementation in Southeast Asia. The U.S., Latin America, North Asia and EMEA will follow soon. We also have more than 30 countries running on a common internet banking platform.

We first increased our investment spending in international markets where we are already seeing results as we are showing on slide 25. In 2010, we generated significant growth in every major business driver and that's loans, deposits, card purchase sales and investment sales. As a result, revenues grew 9% year-over-year even with continued spread compression in most markets.

Let me turn to return on assets. On slide 26, we summarize ROA by business. In total, Citicorp generated an adjusted return on assets of 1.1% in 2010. GTS was well above that level at over 5%, reflecting the scalable asset-like nature of the business. International consumer banking improved at 1.75%, reflecting lower net credit losses partially offset by higher investment spending. North America consumer banking at 34 basis points includes elevated credit costs, a smaller cards portfolio and the impact of CARD Act. Finally, Securities and Banking at 74 basis points largely reflects the market environment in 2010.

Securities and Banking returns will continue to be more volatile. It is important to note however that Securities and Banking does not have to reach our overall adjusted ROA target of 1.25% to 1.5% in order for Citicorp to reach these levels.

Over time, we expect those businesses with greater exposure to higher growth emerging markets such as consumer banking and GTS to grow faster than the rest. This should result in a better balance among the consumer bank, our service business and other Securities and Banking products.

Slide 27, we look at ROA by region. Every region outside of North America is above 1.25%.

On slide 28, we combined returns for Citicorp and Corporate/Other. Corporate/Other includes global staff functions, operations and technology, treasury and other corporate activities. This segment also houses over $200 billion of cash and liquid securities. Including Corporate/Other brings our total return down from 1.1% to 90 basis points for 2010.

Slide 29 shows our capital and our reserves. As I mentioned earlier, we have a Tier 1 Common ratio of 10.8%, amongst the highest of any large financial institution. We also have nearly $41 billion of loan loss reserves. By any measure, Citi is well capitalized and while Basel III is increasing capital requirements for Citi and the industry, we intend to operate in the 8-9% Tier 1 Common range in 2012. Assuming we have clarity on capital rules, we also believe that's the year we can begin returning capital to our shareholders.

Let me conclude by saying that we have made enormous progress at Citi over the last few years. We're a fundamentally different company than we were three years ago. Today we have a solid financial foundation and a clear strategy. We'll continue to reduce the assets in Citi Holdings. We'll manage our capital to maintain our financial strength and expect to be in a position to return capital to shareholders in 2012 and our clear focus in Citicorp is now on sustainable growth.

We are uniquely positioned to capture growth opportunities around the world and particularly in the emerging markets. We believe the global trends are playing to our business model including growth of the emerging market consumer block, the rise of emerging market multi-nationals, significant emerging market investment capital needs and growth in global trade and capital flows.

We also have a significant opportunity to gain wallet share from our institutional clients as they require more financial services around the world. And we expect to drive significantly better performance from our North American consumer business as the turnaround takes hold. Importantly, we're making the right investments in our people, our businesses, our infrastructure to support sustainable earnings growth.

I appreciate you joining us today for lunch. John Gerspach and I are here. We're happy to take your questions and for those of you who travel around the world and don't have a Citi account, we've got somebody waiting out there to take your name as well.

Questions? Let me start here.

SPEAKER 1: Vikram, can you give us some sense of how much more investment you need to make especially in the international consumer business? You talked about being halfway through the platform consolidation project. I don't recall that you've put any numbers out as far as how much you're spending or how much you expect to spend going forward but anything you can do to help us understand this better would be appreciated. Thanks.

VIKRAM PANDIT: I think that's the $3-4 billion number, but you want to talk about it, John?

JOHN GERSPACH: Larry, if you remember – maybe you don't remember but I think at a conference that we had Manuel Medina Mora speak at in November, the figure that we put out then was about $3-4 billion, which is again what we talked about here, spread out over, say, the next three years. That still is our view. We've got a portion of a year behind us in the fact that we began to make those investments in 2010, so we still have some more to go.

VIKRAM PANDIT: I'll just add one more thing, Larry, which is that we are in a rapidly changing regulatory environment as well. There are some countries that were closed that we're trying to open up and if we're there on the ground and if we think it's a growing market, we want to take advantage of that too. So a lot of that is work in progress. Particularly one of the BRIC countries, when they open up, that's a big opportunity for us.

SPEAKER 2: You've done a great job turning around Citi but one of the biggest things left to fix is the share count issue, and I know you put up the slide where your capital plus reserves is perhaps the biggest in the world. Why do you say 2012? Every bank at this point, at least in the U.S., is returning capital or are going to be soon. Why do you still stick to 2012? Thanks.

VIKRAM PANDIT: Again, we agree. We think we're extremely well capitalized. We believe we've got a lot of reserves. We also said we think we have capital well and above what we would consider to be the right amount of capital to get to a position where we can pay it out and all of that is true. We're all going through a regulatory process here and there'll be more clarity on that, I hope, by the middle of the year. You know every time you sort of look at what's happening with Basel or regulators around the world, they keep talking about, "Well maybe we should have less here and more here." So the dynamics, the measures and the metrics and the calibration keeps changing as well.

Now, nobody is more impatient than I am in returning capital to you. Having said that, what I'd say is we need more clarity on these things. To be really prudent and to give you a good sense of sort of – or rather setting right expectations, we think 2012's the year. And I know that's going to require some patience on everybody's part here, but that's still where we are.

Let me also say by the way that one of the things we have to do when we get to that point is set the right kind of dividend policy on a long term basis as well. I mean we're one of the few growth stories in this industry. We need to have a dividend policy and a payout that's commensurate with having the right kind of – by being the right kind of growth story as well. All of that I think is for us to look at in 2012.

SPEAKER 3: If I listen to your story I only get more excited about the emerging market investments I've got but I still struggle to sort of make it work for investing in Citi and I guess that's what's making me sort of think of maybe you should do something, as I proposed on Monday during your breakfast meeting also, and make it available to us directly through a part IPO. It seems to be difficult to do that but maybe you can comment on it.

VIKRAM PANDIT: The one thing I know is that globalization is a bigger trend than it was ever before. As we talked about our franchise, it's a global franchise. Our GTS franchise is a global franchise. Our Securities and Banking business is a global business and yes, the consumer banking business is, as well, support the rest of our businesses through the deposit raising capability, the financing capability and funding they have on the ground. I think it's for us to show you over time that the emerging market story does create growth and it's for you all to then look at what the stock price should be -- where it ought to be -- as we create that growth over time. We think this is a very exciting story and it's best executed by executing it as one global company.

SPEAKER 4: What's your near time outlook for the emerging markets? Some of the biggest emerging markets are showing signs of overheating; China, India, Brazil, Indonesia are all taking measures to tackle inflation. So what does that mean for your business?

VIKRAM PANDIT: Yeah, I mean, look, I think a lot of the emerging markets are operating at or above full capacity right now and that's actually a result of a successful story. It's the success they've had that's gotten them to this point. A lot of the countries are looking at exactly what kind of supply side policies could help them move that supply curve out to the right so they create more capacity and grow these markets. And every one of the finance ministers and central bankers I've talked to all understand that they need supply side policies. Those things take a little bit of time but they're focused and they're on it as well.

Of course on a shorter term basis, they're doing exactly what they ought to. They're doing everything they can to make sure that the inflation rates are much more manageable. India is a case in point and even so much so that some of these countries may have an inverted yield curve.

You all know what it means in banking to have an inverted yield curve. I don't need to take you through that but again, that's on a piece of the business, etc. I urge you to keep coming back to the fact that the underlying secular story is really strong in a lot of these markets and that they have shown a capacity over the last few years of increasing that supply side capacity faster than people have thought in the past. What we're doing is what you'd expect us to do which is we're investing against that secular growth story. We're also cognizant of the fact that on a shorter term basis there could be some impact on our liquidity portfolio or in certain countries we're expected to carry government securities in our portfolio. There could be an impact on that as a result of the moves they make to tighten inflation rates and all of that but we believe those are not secular trends.

SPEAKER 5: [INDISCERNIBLE] time of maybe slowing revenue growth in these emerging markets.

VIKRAM PANDIT: The question is, is it fair to expect a very high cost growth in the time of slow revenue growth? We haven't experienced that and as of now we are not experiencing that. And having just again been on the ground in one country, there is a lot going on in that country. The underlying growth dynamics are still fast. I mean they may slow down but you may talk about going from 9% growth to 7.5% growth or 8%… you're talking about a change in magnitude which may be meaningful to some extent but really not in the grand scheme of the secular story.

SPEAKER 6: Hi, Vikram. Just a follow up on the returning of capital issue and I'll put it to bed. A lot of your competitors – international competitors – seem to have the clarity. I mean they've come out publicly in saying they can't wait to return capital to the shareholders, etc. So what do you think gives them more clarity, or is it more that you're more concerned about what our expectations are in the capital return policy?

Secondly, only because it was written last week, one of the sell-side analysts was talking about trading for the first quarter. Do you have any comments on that versus the fourth quarter versus last year? Thank you.

VIKRAM PANDIT: No comments on trading. Let's get to the first one. The question about capital, again, we still believe there is a lot of calibration that needs to get done. That's number one.

Number two, we still believe that even the underlying rules are still moving around. There are lots of other parameters that are not set, so when you look at all of those things, our view is still that we want to wait to see what happens with the Fed and the regulators in terms that all is stressed with everything else before we provide more clarity in terms of where we are. I urge you a little bit more patience. What can I tell you?

SPEAKER 7: Good afternoon, Mr. Pandit. Just a quick – I live in an emerging market, one which is commonly overlooked and it's a small part of Sub-Saharan Africa. I go to a lot of these conferences. We hear about emerging markets all the time: Latin America, sometimes Turkey and of course Asia and almost nothing on Africa. I'd be intrigued to know what your outlook is on Africa, particularly Sub-Saharan Africa and perhaps what your investment intentions might be. I know you have a branch in Uganda and in Kenya. I've been there and quite a big trading floor in Johannesburg which I've been to as well so I'd just like to know what other intentions you may or may not have. Thank you.

VIKRAM PANDIT: Well, I appreciate that. Let me start by saying we are on the ground in 16 countries in Africa. We have ability and we do business for our clients, serve clients in 34 countries in Africa. As Africa goes, we're both in Anglophone and Francophone countries. We're in North Africa. We're in South Africa. We're in West Africa. We're in East Africa. It's a lot of traveling and I was just there, by the way, in South Africa. I was in Nigeria. I was in Ghana as well, and there were a lot of interesting things going on. I'll tell you one thing that is interesting is trade zones are emerging. When you go to South Africa, they're actively looking at working on and developing trade zones like NAFTA in the U.S. and it's across South Africa. It's all the surrounding countries in that region and that's for infrastructure investments, for trades, for capital flows. That's one.

Two, the same thing is happening in Western Africa. I know there are exceptions with the Ecowas and the common currency and the regional zones there and the trade going back and forth. And so Africa is a different story than it was ten years ago. Our core view is still that you cannot have what you have happening in China, in India and Brazil and leave Africa behind. It can't happen. It defies laws of economics to have that happen and so our core view continues to be that Africa is a strong growth story. It's young in the sense that certain governance structures are still getting decided, as we know, in Africa but that with the right kind of governance structure, there is a big growth. So yes, we are investing in Africa. That's one.

One of the reasons why we're doing that, I'll give you an example. We just opened a set of China desks in Africa. We also have India experts in Africa. We also have a Brazilian contingent in Africa. What we're doing there is we're connecting Africa to the rest of the emerging markets there and there's been some talk of how it's BRIC + South Africa as well. These are all generalities but they're important in the sense of saying that while it's a small base, while it is a smaller contributor to our net income, we expect it to grow and we are investing against it. Let's also keep in mind, if Africa's got a billion people by 2050, I think the number's going to be two billion in 2050 – two billion out of 9.5 billion people, so it's an area that as I said, we're investing in, we're watching. We're also looking at are we in the right countries… do we need more – all those kind of things but again, this is a long play out versus some of the other markets we've talked about where it's happening right now.

We've got two questions here.

SPEAKER 8: This is kind of a follow on to the last question. If you think back to the international consumer history, I mean acquisitions played a meaningful role particularly I'm thinking of Mexico and Poland, a few other places and I think you still have some stakes even in banks like in Turkey and such. As we get into more of an excess capital position, how much of this is going to kind of morph from de novo, which is what you've mostly been talking about, to potentially you going back into the bank acquisition game in some of these emerging countries?

VIKRAM PANDIT: Let me be very clear. Our core strategy is organic growth and that's clear and let me tell you why. When you look at the demographics I showed, cities are really important to those. I'll take an example being India. As I said, I was there last week. You can do straight line projections, whatever, but if you did do straight line projections, in 20 years the five larger Indian cities will be bigger than Malaysia is today. Now, the population we can naturally serve are urban, globally minded, affluent –that kind of population and the right way for us to do it is to densify in those cities and capture that growth as it comes along. That's an example of just one country.

Go back to our core strategy. We think a lot of the GDP of the world is going to be in 150 major cities. A lot of those cities are in the emerging markets and our core organic growth plan is to grow in these cities and we've been very successful in doing that in that past. We think we can keep doing that. It's going to be very hard to find acquisitions that help you do that.

SPEAKER 9: Hello, Vikram. We heard the word investing a lot and it's nice to have opportunity, I get that. What would you say to the skeptics on your expenses and when do you think we'll start to see some other revenue generated from the investments you've made? I mean I hear it's like two thirds is for growth but if you give us – that would help us there.

VIKRAM PANDIT: Let me be very clear. I mean you all have seen this. I think we've shown enormous discipline in bringing down expenses from where they were two, three years back to where they are today, and I can assure you we have exactly the same discipline in place. Somebody at my table asked me about Mark Rufeh as an example. I mean he's not a guy you deal with in a cavalier manner when it comes to how you spend money. That's just one example of the discipline. The point I'm saying there is we've got the expense discipline in place. I'll also tell you that we have all the kind of re-engineering programs you would expect to have in a place like ours and we've had a great deal of success and technology and operation. We've got a lot more work to do but we're doing that as well.

The expense pressures are twofold. The first is investments. You want us to invest. When you look at this franchise and where we are and where the world's going, including by the way, what we believe to be the biggest part of financing needs, are going to be served by basic corporate banking, lending and the kind of bread and butter business. You want us to invest and you want us to invest because these are different emerging markets than we've been used to in the 80's. This is not the 80's. This is not the 90's. It's not '97. I mean this is a fundamentally different emerging market game and we're uniquely positioned to take advantage of that so investments is one pressure on expenses because it comes through that line. You talked about that but I want you to know that. I also want you to know that we are investing at book value which is really important because you buy the same franchise somewhere else, you'll pay multiple of book. And the question is how fast the revenues come through. I'll get to that in a minute but there is another pressure. As much as we were – and we continue to be – a proponent of regulatory reform, there's a cost associated with that. It's in systems, it's in people, it's in lawyers. There's a cost structure that goes with that as well. Those are the two big pressures on expenses.

Our guidance still stands for the year that we've given you. That's the first point I'd make. And the second point is that the investments we're making should start showing through in the revenue line.

I think, John, you had talked about how some of the international investments we've made, we ought to be starting to see. I mean we've been seeing some results here already but we should start seeing it by the end of this year. Is that right or…?

JOHN GERSPACH: Well if you think about the timing of these types of investments, normally when you're investing in consumer-type businesses, you think in terms of beginning to see results 9-12 months out. We began modest investments in the second quarter of last year and then picked up pace in the third and the fourth quarter. I think if you think in terms of the normal cycle of expectation as far as expense investments in consumer businesses transitioning into revenues, again our view is that we're still pretty much on that timeframe but again, we've only just really begun to deal with that investment in any sort of earnest fashion.

VIKRAM PANDIT: Anybody else? Well, I appreciate your time. Thank you for coming by. We're excited with this. Thank you.