On February 9, 2012, Citi announced an adjustment to its fourth quarter and full year 2011 financial results to reflect an additional $209 million of after-tax ($275 million pre-tax) charges to increase its litigation reserves related to the announced agreement in principle with the United States and with the Attorneys General for 49 states and the District of Columbia to settle a number of related investigations into residential loan servicing and origination practices, as well as the resolution of related mortgage litigation. These charges are not reflected in the investor presentation dated February 8, 2012. For additional information, see Citi's 2011 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on February 24, 2012.

citi

TRANSCRIPT

Credit Suisse Financial Services Forum 2012

February 8, 2012

Host
Moshe Orenbuch, Credit Suisse

Speakers
John Gerspach, Citigroup Chief Financial Officer

PRESENTATION

MOSHE ORENBUCH: I'm Moshe Orenbuch. I follow the large banks and specialty finance companies here at Credit Suisse, and I'm very glad to see all of you here.

We're also very glad to have the management of Citigroup with us. Citigroup's made remarkable progress over the last three years as it's repaired its balance sheet and demonstrated significant progress towards improving both the level and the quality of earnings. I think it probably is no secret that that coincides with John's tenure as CFO and his attendance at our conference each of the last three years. So, I think what we find most impressive about Citigroup is the ability to actually -- we think the Company's ability to demonstrate revenue growth prospectively. And I think what will distinguish it in 2012 is it's beginning to return capital to shareholders.

So, as I mentioned, we're very pleased to have John Gerspach, the CFO of Citi with us. We look forward to his presentation, after which time he'll take our questions.

JOHN GERSPACH: Thank you very much, Moshe, and good afternoon, everyone. Just keep eating. Don't let me disturb your lunch.

Starting on slide 2, 2011 was certainly a challenging market environment – particularly in the second half of the year, as economic uncertainty in the U.S. and Europe weighed heavily on investor and corporate confidence. This contributed to the decline in our Securities and Banking revenues, as market activity slowed and clients de-risked.

We made progress, however, in our other businesses in Citicorp – including Consumer Banking, both internationally and in the U.S., as well as in Transaction Services. As we enter 2012, our goal is to continue our momentum in these businesses, while watching both the operating environment and our performance in Securities and Banking.

In terms of expenses, we expect them to decline by $2.5 to $3.0 billion this year, excluding the impact of foreign exchange and significant unanticipated episodic costs, driven mainly by lower incremental investment spending and ongoing efficiency savings as well as the continued wind-down of Citi Holdings.

The lower investment spending in 2012 reflects our having largely completed the heavy investment cycle in International Consumer Banking, which we began in 2010, while we continue significant investment spending in North America Consumer Banking, which we only began last year. We do not anticipate any meaningful investments in Securities and Banking this year and, as I have noted before, we are prepared to additionally restructure this business if needed. We believe we will continue to build capital and book value and will maintain a strong and highly liquid balance sheet.

Let me quickly review our financial results on slide 3. For full year 2011, revenues were over $78 billion. Operating expenses were $50.7 billion. And credit costs were $12.8 billion, down over 50% from the prior year. The continued dramatic decline in credit costs in 2011 drove an increase in earnings, up slightly to $11.3 billion. Citicorp generated over $14 billion of earnings, with roughly half of that coming from Asia and Latin America. And the loss in Citi Holdings narrowed to $2.4 billion, although that included retail partner cards which, as you know, is moving to Citicorp.

On slide 4, we take a closer look at our revenue trends. While our 2011 revenues partly reflected the difficult operating environment, the biggest driver of the decline was the continued wind-down of Citi Holdings. Citi Holdings revenues were down by $6.4 billion, or 33%, in 2011, and more than $20 billion, or over 60%, since 2009. Citicorp, on the other hand, was down $1 billion, or 2% in 2011 and less than $4 billion since 2009, as the pressure in Securities and Banking was offset by growth in Consumer Banking and Transaction Services.

On slide 6, we take a closer look at what remains in Citi Holdings, adjusted for the transfer of retail partner cards into Citicorp that took place this quarter - that's the first quarter of 2012.

Starting with the smallest segment, Brokerage and Asset Management, they had $27 billion of assets at year-end, almost entirely related to the Morgan Stanley Smith Barney joint venture. The value of our equity stake in the JV is roughly $10 billion and we hold $2 billion of preferred securities. Most of the remaining assets in Brokerage and Asset Management are margin loans and other related assets, most of which we expect will transfer to the JV by this year-end.

The next segment, the Special Asset Pool, had $41 billion of assets at year-end. Nearly half were mark-to-market assets and available for sale securities. Another $10 billion of securities were held-to-maturity. About $5 billion of assets were equity positions. And the remainder was accrual loans and other assets.

Local Consumer Lending is by far the largest remaining segment in Citi Holdings with $157 billion of assets. This is primarily a run-off portfolio with the exception of our OneMain consumer finance operation and some small remaining businesses in Europe which we intend to sell. The largest component of Local Consumer Lending is the legacy North America consumer mortgage portfolio. And 10% of Local Consumer Lending is international assets including our Belgium consumer business which, as we announced, will be sold later this year.

Turning to our results on slide 7 - first, I should note these numbers are also adjusted for the transfer of our profitable retail partner cards business out of Citi Holdings and into Citicorp. For the past two years, losses in Citi Holdings have been driven by Local Consumer Lending, as pre-tax earnings for Brokerage and Asset Management and the Special Asset Pool combined were positive in both 2010 and 2011. Within Local Consumer Lending, pre-tax losses were increasingly concentrated in the mortgage portfolio, as shown here on the right.

We provide more on Local Consumer Lending on slide 8. U.S. mortgages were nearly 70% of Local Consumer Lending assets at year-end and generated the bulk of the losses in Citi Holdings over the past two years. As such, we are focused on reducing our mortgage risk, including selling current and delinquent mortgages. Since the end of 2008, our Citi Holdings U.S. consumer mortgage portfolio is down by nearly 40%, to $108 billion at year-end 2011. Additionally, we have allocated roughly $10 billion of loan loss reserves to this portfolio. We also have a significantly smaller third party servicing portfolio and private label RMBS issuance than peers.

Turning to Citi Holdings expenses on slide 9, as I've said before, our goal is to bring Citi Holdings assets and expenses down at a similar pace over time. Adjusting for the transfer of retail partner cards, assets declined by 28% in 2011. However, expenses were down only 16%, mostly due to higher legal and related costs. We also continued to incur expenses related to transition services agreements on assets sold, but those expenses are offset by fees paid to us and recorded as revenues.

On a core operating basis, we reduced expenses by $1.7 billion, or 26%, to $4.7 billion in 2011, which is roughly in line with the asset decline last year. While we are likely to incur some level of episodic legal and related costs over time, we remain confident that the expenses in Citi Holdings will be reduced to essentially zero once the wind-down is completed.

On slide 10, we show details on the wind-down. From 2009 to 2011, we have reduced GAAP assets and risk-weighted assets in Citi Holdings at a similar pace. Adjusted for the transfer of retail partner cards, Citi Holdings ended the year with $225 billion of assets, or 12% of total Citigroup, and risk-weighted assets in Citi Holdings were 21% of the total.

Turning now to our core franchise in Citicorp - as you know, Citicorp includes our Global Consumer Banking business, Transaction Services and Securities and Banking. We serve clients in over 160 countries and are physically present in nearly 100 countries across all regions of the world. In Consumer Banking, we are focused on the world's 150 most important cities and we are already the leading global issuer of credit cards.

In our Institutional businesses, we are focused on serving the largest multi-national corporations and investors globally with a unique ability to facilitate trade and capital flows across regions. Our strategy is to take Citi back to its unique historical strength of serving the global needs of our clients in ways we believe no competitor can match. And we believe that our focus on traditional lending and facilitation for our customers is well aligned with both the regulatory environment and the proposed capital regime under Basel 3.

Turning to slide 13, our revenues in Citicorp are well-diversified with roughly half coming from Consumer Banking in 2011 and half from our Institutional businesses. As discussed earlier, our Securities and Banking results reflect, in part, the significant economic uncertainty and volatility of the markets, particularly in the second half of 2011. However, the remaining two-thirds of Citicorp revenues in Consumer Banking and Transaction Services have shown consistent growth over time, even in a stubbornly low interest rate environment. In Transaction Services, we've been able to offset spread compression with new client mandates and higher transaction volumes which have enabled us to maintain our net income through this cycle. And in Consumer Banking, our results are improving globally, which I'll cover in more detail later.

Now turning to Securities and Banking on slide 14, as you can see, over half of our Securities and Banking revenues in 2011 were in fixed income markets, which continued to decline from 2010 primarily driven by a difficult environment for credit and securitized products.

In Investment Banking and Equity markets, Citi has traditionally had a smaller franchise, and in 2011, these businesses faced lower market activity in the face of waning investor and corporate confidence. However, our equities results in 2011 were also affected by Citi-specific factors including losses arising from the wind-down of our proprietary trading platform - which is now complete - as well as weak trading performance in equity derivatives. Lower revenues and slightly higher expenses drove negative operating leverage and a decline in earnings year-over-year.

On slide 15, we address the expense trends in Securities and Banking. On a constant dollar basis, our core operating expenses in 2010 were $15 billion. In 2011, we increased our investment spending by roughly $800 million, primarily as a result of decisions made in the early part of the year. These investments included mostly new hires, as well as technology spending and they were funded, in part, with efficiency savings of around $300 million.

As the year progressed, and it became clear that revenues would not meet our expectations, we took action by reducing incentive compensation by roughly $800 million. We also ultimately made the decision to reduce headcount, and we incurred a repositioning charge of nearly $300 million in 2011. Effectively, while we took around $1.1 billion of expenses out of our core operating base during the year, this reduction was entirely offset by investment spending and severance charges.

Going into 2012, we believe we have much greater expense flexibility and will not be investing as in 2011, and we expect to achieve approximately $600 million of efficiency savings in Securities and Banking. As I've said before, however, we are not oblivious to the fact that our cost structure must match the opportunities that we see in Securities and Banking, and we will further restructure the business if we do not see meaningful recovery in revenues this year.

Slide 16 shows our results in Transaction Services, including Treasury and Trade Solutions and our Securities and Fund Services businesses. We are a leader in Treasury and Trade Solutions with nearly $8 billion of revenues in 2011. We are 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, particularly as trade flows accelerate in the emerging markets. We have also grown our trade finance assets by over 50% in the last 12 months and we are well-positioned to continue to gain share globally, particularly as many European banks continue to pull back in this area.

Turning now to our Consumer Bank on slide 17. In 2011, Citi's Consumer Bank generated nearly $33 billion in revenues and over $6 billion of net income. Our Retail Bank operates 4,600 branches in 40 countries with over $300 billion in deposits. And we are the #1 cards issuer globally. Over three-quarters of our branches are outside the U.S., and our loans, deposits, revenues and net income are well distributed over the regions.

On slide 18 we show our recent results. International Consumer Banking revenues have grown consistently over the past two years as our investments, particularly in Asia and Latin America, have generated steady expansion in loan and deposit volumes. I should note, in the fourth quarter of 2011, the decline in reported international revenues was driven by the appreciation of the U.S. dollar. On a constant dollar basis, we continued to grow revenues both sequentially and year-over-year. Importantly, we achieved positive operating leverage in Asia in the third quarter of 2011 and for total International Consumer Banking in the fourth quarter, with year-over-year revenue growth exceeding expense growth.

In North America, our Consumer Banking revenues largely reflect the impact of regulatory change such as CARD Act, as well as consumer de-leveraging. However, in 2011, we also began to show sequential progress in the U.S. as revenues, card accounts and card loans each grew in the second, third and fourth quarters.

Turning to net income, international earnings grew significantly in 2010, driven in part by loan loss reserve releases as credit normalized in these regions earlier than in the U.S. These reserve releases slowed significantly in 2011 as we grew international loans, putting pressure on net income comparisons. In North America, we began releasing credit reserves in the fourth quarter of 2010, which had a significant positive impact on net income in 2011.

We show these credit trends in more detail on Slide 19. While underlying credit continued to improve in both portfolios, the reserve releases slowed in International Consumer Banking in 2011, driven by portfolio growth. In North America, we had a significant amount of reserve releases in 2011, and this will affect net income comparisons in 2012 and 2013 as we expect credit costs to normalize.

Because loan loss reserve actions can obscure net income trends in Consumer Banking, we gauge performance by looking at pre-tax earnings before the impact of loan loss reserve builds or releases, shown here on slide 20. In total, our Consumer Bank began to recover and show earnings growth in the early part of 2010, leveraging the economic recovery in Asia and Latin America even while the U.S. continued to lag. And over the past year, all regions showed strong growth as international markets continued to charge ahead and we are seeing tangible results from the turnaround of our U.S business.

Now I'd like to spend a few minutes on our total Citigroup expenses. We showed this slide in the fourth quarter earnings presentation. What we've tried to do is isolate core operating expenses in 2010 and 2011, excluding episodic legal and related costs, repositioning and the year-over-year impact of foreign exchange.

Adjusting for these items, core operating costs on a constant dollar basis were roughly $47 billion in 2010. In 2011, investment spending was roughly $3.9 billion higher for the full-year, and we funded nearly half of these incremental investments with efficiency savings of $1.9 billion. All other variances in core operating costs, including higher volume-related expenses in Citicorp, were more than offset by lower costs in Citi Holdings. Therefore, on a constant dollar basis, core operating expenses of $48.0 billion in 2011 were approximately $1.0 billion, or just over 2% higher versus the prior year.

In 2011, episodic legal and related costs were roughly $2.0 billion and repositioning charges were around $700 million, bringing total expenses to $50.7 billion. While some level of episodic expenses will likely continue, we remain highly focused on managing our core operating expense trends.

As I said earlier, for 2012 we continue to expect that Citigroup's operating expenses, excluding the impact of foreign exchange and any significant unanticipated episodic items, will be between $2.5 and $3 billion lower than the reported 2011 expenses of $50.7 billion. We expect this reduction will be driven by lower incremental investment spending, continued efficiency savings, and reduced expenses in Citi Holdings, as well as lower expected episodic legal costs.

On slide 23, we summarize our investment spending for the year. Total investments were $4.7 billion in 2011, up $3.9 billion from the prior year. Nearly 60% went to revenue generating investments, such as incremental cards marketing campaigns, new branches and key hires. And another 20%, or nearly $1.0 billion, related to investments in risk management, finance, and compliance systems, as well as the need to respond to new regulations.

On slide 24, we show the incremental investment spending in 2011 by business. In total, investment spending, again, was $3.9 billion higher versus the prior year. Roughly $1.0 billion of the incremental spending occurred in North America Consumer Banking as we ramped up our investments, particularly in the back half of the year.

Around $600 million was in International Consumer Banking as we completed the first full year of investments, having started in the back end of 2010. As we discussed earlier, around $800 million of the incremental spending was in Securities and Banking and $600 million went to Transaction Services. Incremental spending in Citi Holdings included investments in retail partner cards as well as mortgage related regulatory requirements.

Importantly, we funded roughly half of this incremental investment spending with efficiency savings, as shown on slide 25. On an ongoing basis, our efficiency goal is to eliminate 3% to 5% of our expenses each year. On a base of roughly $48 billion to $50 billion, this equates to around $2 billion of savings annually. And in fact, we generated $1.9 billion of cost reductions in 2011. Roughly $900 billion was generated in Consumer Banking, both in the U.S. and internationally, representing roughly 5% of the expense base. Another $500 million was generated in our Institutional businesses which averaged a little less than 3% in efficiency savings. And the remainder was roughly split between Citi Holdings and Corporate/Other.

Finally, I want to discuss our tangible book value and capital position. Following our significant recapitalization in 2009, we have consistently grown our tangible book value and regulatory capital. Our tangible book value per share is up 12% year-over-year, while Tier 1 Common has grown to $115 billion, or 11.8% of risk-weighted assets.

Going forward, we have three sources of capital generation, as we expect our core Citicorp franchise to generate earnings in excess of the capital needs to grow the business and we have unique additional sources of capital in the wind-down of Citi Holdings and the monetization of our DTA. Only $11 billion of our $51 billion in deferred tax assets is currently included in Tier 1 Common, and we can grow our capital by utilizing DTA and therefore reducing the amount of the disallowed DTA.

Additionally, a significant portion of our regulatory capital is supporting risk-weighted assets in Citi Holdings. As I mentioned earlier, adjusting for the transfer of retail partner cards into Citicorp, roughly 21% of our risk-weighted assets are in Citi Holdings, and therefore the math would suggest that about $24 billion of our regulatory capital should be eventually released as Citi Holdings winds down. Or put another way, between $40 billion of disallowed DTA and another $24 billion of capital supporting Holdings, over $60 billion of capital is either supporting wind-down portfolios or is simply unleverageable because it is excluded from our regulatory capital.

This excess capital will depress our reported return on GAAP equity, as only about half of our total shareholder equity of nearly $180 billion is supporting Citicorp, which is producing all of our profitability. The rest is either supporting Citi Holdings, which is producing losses, or cannot be leveraged because it is disallowed from our regulatory capital base.

While we remain confident that we can deliver this excess capital back to our shareholders – and thereby improve returns – it will take some time to monetize, and the pace will depend on a number of factors, including our level of earnings. DTA usage, in particular, will be affected by the amount of our U.S. taxable earnings, which remain under pressure in the current capital markets environment, as well as by the continued losses in Citi Holdings.

All that being said, however, we continue to believe that we will be in a position to begin returning capital this year, with a Tier 1 Common ratio under Basel 3, as fully implemented, of at least 8% by year-end.

On slide 28, we update our prior estimates for the impact of Basel 3 on risk-weighted assets as of the end of 2012. Last year, we estimated that Basel 3 would result in an increase in risk-weighted assets for total Citigroup of approximately 35% by the end of this year, including a 20% increase in risk-weighted assets for Citicorp and 75% for Citi Holdings. With the transfer of retail partner cards out of Citi Holdings and into Citicorp, we now expect the remaining risk-weighted assets in Citi Holdings to increase by about 95% under Basel 3 as of the end of this year.

We continue to expect Citicorp risk-weighted assets to increase by 20%, and our estimate for total Citigroup also remains the same, at a roughly 35% increase under Basel 3 by year-end. Of course, we will continue to refine our estimates of risk-weighted assets under Basel 3 as additional clarity and guidance becomes available.

In summary, while macro and regulatory concerns will continue to be an overhang in the near-term, we remain focused on executing our strategy, and continue to see momentum in many of our businesses.

Our Consumer Banking franchise has an unmatched global reach, with the opportunity to grow organically with the expanding consumer base in emerging economies.

In International Consumer Banking, we believe positive operating leverage is sustainable going forward. And in the U.S., we continue to see signs of growth with the goal of positive operating leverage by the end of this year.

Similarly, in Transaction Services, we believe revenue growth from higher volumes and new client mandates should be able to outpace expense growth, resulting in positive operating leverage by the second or third quarter of this year.

Finally, in Securities and Banking, we are fully aware of the challenges facing the industry, as well as our execution priorities here at Citi. And we are prepared to restructure, cut capacity and cut expenses as necessary if revenues continue to underperform versus our expectations.

And while we grow Citicorp, we continue to wind-down Citi Holdings in an economically rational manner.

Credit trends remain stable to improving globally, and we believe we are prudently managing our risk exposures.

We are focused on reducing overall expenses in Citigroup this year, and on continuing to build our capital levels.

And finally, we will continue to maintain a highly liquid balance sheet in the current environment.

Thank you. And I'm now happy to take your questions.

MOSHE ORENBUCH: I'll start with the first one. John, you alluded to contingency plans if Securities and Banking doesn't materialize, but you also said that there were some -- the prop trading losses in 2011 and some changes you made in equity derivatives and the adds you made in Investment Bank. Could you talk like in terms of the offensive moves that you've made, how you see the outlook for that, and anything you can kind of tell us about the current environment also?

JOHN GERSPACH: Well, the nice thing about shutting down a business like we did with the prop trading business is, when you shut down a business, it shouldn't produce losses anymore.

MOSHE ORENBUCH: Well, that's good to know.

JOHN GERSPACH: That should work out nicely for us.

Equity derivatives, as I mentioned, when you take a look at our overall equity revenue performance last year, equity revenues were down about $1.3 billion year-over-year. About half of that decline was directly tied to that prop trading book that is now gone. The other half really stemmed from equity derivatives. Equity derivatives just underperformed last year. We've changed out some management and we're quite confident that performance will improve in 2012.

As far as the rest of the business, as I mentioned, we did take repositioning charges in the second half of the year. We eliminated roughly 1,200 heads, both directly in the business as well as in supporting functions. And so, we think that we're positioned appropriately going into 2012. If 2012 continues to be -- if we get a little bit more clarity on the secular versus cyclical argument in 2012, we'll take more actions as needed.

MOSHE ORENBUCH: Do we have a mic for the room? Okay, over here. Well, we'll repeat the question if you -- oh, mic's right behind you, Larry.

Unidentified Audience Member: Thanks. Hi, John. How are you?

JOHN GERSPACH: Hi, Larry. How are you doing?

SPEAKER 1: Okay. Not to draw a parallel, but -- .

JOHN GERSPACH: But you're going to do it anyway.

SPEAKER 1: But I'm going to do it anyway.

JOHN GERSPACH: Okay.

Unidentified Audience Member: HSBC are going around the world and reassessing where they have pins in the map, if you will. And where they don't think they can make their hurdle rates of return. They are, in effect, pulling the pins out of the map. What's the process that you guys are going through with respect to where you have pins in the map?

JOHN GERSPACH: Yes. We actually like where we have pins in the map, not to say that there couldn't be a change here or there. But, what you've really got is two organizations with two completely different strategies. HSBC advertises themselves, or advertised themselves, as the world's local bank and they ran it that way - as a local bank in each country.

With the exception - and I'm talking from a consumer point of view, because that was the focus of your question, Larry - that's not that way that we're approaching the consumer business. With the exception of four countries where we actually bought local banks - Korea, Mexico obviously, Taiwan, and Poland - we do not have a mass market strategy in consumer.

It really is a highly focused strategy on a very particular customer segment, and that customer segment is one that is either affluent or emerging affluent. It's urban-based. That's why I mentioned the focus on the 150 cities that seem to matter around the world. And it's a customer base with a global mindset.

So, we intend to operate our consumer business on one global platform. We're already - that's part of the investment spending that we've been doing. So, this is a global consumer business. It's not trying to replicate being a local bank in every country. Different strategies.

SPEAKER 2: It seems that Citi, despite lower residential risk than some of the other large U.S. integrated banks, is still involved with the potential AG settlement that's on again/off again. My sense is that it's getting nearer, but can you maybe give us your thoughts?

JOHN GERSPACH: I know what I read in the papers, and it could be any day now according to various news reports. I constantly say - every time I've asked for an update from Sanjiv Das, who runs our mortgage business - and I've been asking Sanjiv for updates now for over a year - Sanjiv always tells me the same thing: I'll know more in two weeks. And that seems to be about the best way to approach that settlement.

SPEAKER 2: You were not included in AG Schneiderman's lawsuit that he announced earlier this month. So, is that - is the lawsuit specifically excluding you for underwriting purposes, or what's the takeaway there?

JOHN GERSPACH: Frankly, since we weren't named, I really haven't focused on Schneiderman's lawsuit.

SPEAKER 2: Last question on Moody's. After the downgrade, what do you expect in terms of their outlook - if this is a leveling of the tide in terms of overall ratings for integrated banks? Most of the banking sector still is negative, but my sense is that maybe there's a reevaluation there. Do you have thoughts on that?

JOHN GERSPACH: Yes. The rating agencies are in a particular -- they're in a strange mode right now. They really seem to be focused on what happened two years ago and less focused on what happens today. And it's almost as though they've got to catch up in their own way of thinking. So, it's hard to gauge exactly what message the rating agencies are trying to send to anybody.

I continue to look at the ratings of some of the European banks and compare that to some of the ratings of U.S. banks. And you sort of have to scratch your head and wonder why certain banks in Europe might command ratings three, four notches, five notches higher than some of the U.S. banks. So, it's really hard to interpret anything that's coming out of the rating agencies.

SPEAKER 3: John, can you go back to the Citi Holdings portfolio? You've got - I think it was in the slide - $108 billion of U.S. mortgages on the books. And can you give us a little bit more detail on that portfolio both in terms of the pace of the run-off and also the assumptions on the $10 billion reserve you've got against that?

JOHN GERSPACH: Sure. As the slide, I think, laid out, that $108 billion roughly breaks down to be $68 billion of first mortgages and then $40 billion worth of home equity loans. And in both portfolios, the delinquencies are holding up pretty well.

Now, we have taken the first mortgage portfolio - I think the first mortgage portfolio came down by $17 billion or $18 billion this past year. Part of that was fueled by asset sales. We have been sellers of delinquent mortgages. We've done about $11-$12 billion worth of mortgage sales over the last couple of years. And about $7 billion of those sales have been delinquent mortgages. And we still think that's the best way to manage the risk in a mortgage portfolio.

A mortgage portfolio - completely different than credit cards. Credit cards, you get to 180 days past due, you write it off. It goes to zero, and you're back to where you were. The mortgage book - as they continue to age, you take a write-down at 180 days. But, then it's totally dependent on what you estimate your loss to be based upon the recovery value of the property.

Now, in days when it used to take six months, maybe nine months to foreclose on a property, you had some sense as to what value you would get. Now with foreclosures - to the extent that they can actually be done - taking two to three years, it's a little daunting to try to estimate what your losses are in those books of business.

So, we feel pretty good about the fact that we have dramatically held down those mortgage loans in our books that are 180 days and more past due.

MOSHE ORENBUCH: John, you talked about $60 billion of capital between the disallowed DTA and the capital in Citi Holdings that should be coming back to you. How do you think about where to allocate that as it comes back? Like where is that?

JOHN GERSPACH: Well, Moshe, actually we believe that Citicorp should be generating enough capital to sustain Citicorp. Matter of fact, we believe Citicorp generates more than enough capital to sustain Citicorp. And therefore, we really look at the wind-down of Holdings and the monetization of the DTA over time to be additional sources of capital to be returned to shareholders.

MOSHE ORENBUCH: Have you discussed that concept with the Fed?

JOHN GERSPACH: We've discussed that concept with everybody who'll listen.

MOSHE ORENBUCH: Take one from the room, anybody. Questions? Over here.

SPEAKER 4: John, you alluded to, if Securities and Banking revenues remained weak, that there's more you can do on the expense side. Can you give us an idea or a sense of magnitude and whether it would be enough to move the needle? Thank you.

JOHN GERSPACH: Well, I'm not going to get into what we would cut if. We're going to wait and see. We're monitoring it now, how revenues are performing. If it doesn't look like revenues are coming back in certain businesses, we will take action on those expense bases.

But, I don't want to tell you right now that it's going to be $300 million, it's going to be $400 million, it's going to be $500 million. It'll be the action that we think is appropriate to resize the business for the opportunity that we see.

MOSHE ORENBUCH: John, I saw - I was struck on the slide that you had on the North American Consumer business going from $600 million pre-tax before the reserve changes to $1.3 billion in 2011. But, it seems like that the investments - I mean, you made some comments about where the investments were. It seems like probably about $1 billion of those investments, maybe even a little more, were in that business.

JOHN GERSPACH: Right.

MOSHE ORENBUCH: So, that business - and those being increases from the year in which you earned the $600 million. So, it is fair to look at that business as kind of having a trajectory of north of $2 billion kind of before you start in 2012?

JOHN GERSPACH: Well, don't forget - I mean, we are getting some benefit through mortgage refinancings at this point in time. And I'm not quite sure how long that would continue.

But, we do think we've got reasonable momentum in that North America Consumer business, and therefore it gives us a good feeling about reaching that positive operating leverage by the end of this year, and then continuing that momentum out into the future.

MOSHE ORENBUCH: Got a question over there.

SPEAKER 4: You've had a very strong performance in the trade finance as the Europeans were in trouble on that type of thing. I'm just wondering if that momentum continues and what's your capacity to continue growing it.

JOHN GERSPACH: Yes, the momentum does continue. And again, trade finance is one of those businesses that we like. The nice thing about trade finance is it fits into our overall strategy. It's not just that we're making a loan to somebody. These are customers that we can bank around the world.

For the most part, these are customers that have got economic activity in two, three, four different countries. That's our sweet spot. You get into a trade finance situation, it gives you a better chance to capture some of their treasury management business, enabling them to move that cash around those different countries where they're operating.

The closer you get a relationship to them on those types of grounds, that puts you in a position then to do vendor financing deals with them where you can become a credit supplier to their suppliers, since you know exactly where the payments to those suppliers are coming.

So, we see trade finance not just as an opportunity to make a loan, but actually as an opportunity then to build a closer relationship with many of our clients. So, we think it's a great opportunity going forward.

And I'm sorry. You had one other follow up.

SPEAKER 4: Well, just with the LTRO in place, have things slowed down?

JOHN GERSPACH: No. No. No, not as yet. And I can't speak for Monday, but -

SPEAKER 4: And the only other thing I'm wondering about is just the level playing field as far as risk weighting of assets globally. What are you hoping for?

JOHN GERSPACH: Well, what we'd like to see - I mean, Vikram has been out there publicly. We'd like to see the regulators come up with an agreed upon model portfolio and then have the various financial institutions tell you their risk weights on the different aspects of that model portfolio. We think that's about the only way that investors will actually be able to calibrate how the different financial institutions are calculating the risk weights.

Absent that, I mean, there has been no attempt on the part of the regulators at this point in time to calibrate the risk-weighted models within the U.S., let alone try to calibrate the risk weighting models across different countries around the world.

So, everybody got really excited about Basel 3. This is great. This is a really strict capital regime. You're going to have 9% capital, 10% capital, 19% capital - but 9%, 10% of what? When I meet with investors, they look at your balance sheet and they always get very concerned about how much of your fair value assets are level 3 assets. They like level 1 assets. They'll tolerate level 2. They hate level 3.

When you look at Basel 3, our entire regulatory balance sheet is a level 3 asset. Everything is model driven, and yet there's been no attempt to calibrate those calculations.

MOSHE ORENBUCH: So, actually I think that's pretty much all the time we have. John and his team will be here for a little while longer in this room. Please join me in thanking John for his presentation.

JOHN GERSPACH: Thank you. Thank you, Moshe. Thank you.