Citi Fourth Quarter 2011 Fixed Income Investor Review
TRANSCRIPT
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Host
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Speakers
John Gerspach, Citi Chief Financial Officer
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PRESENTATION

OPERATOR: Hello and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer, John Gerspach, and Treasurer, Eric Aboaf. Today's call will be hosted by Ilene Fiszel Bieler, Head of Fixed Income Investor Relations. We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. Also, as a reminder, this conference is being recorded today. If you have any objections please disconnect at this time. Ms. Fiszel Bieler, you may begin.

ILENE FISZEL BIELER: Thank you, operator. Good morning and thank you all for joining us. On our call today, our CFO, John Gerspach, will speak first. Then, Eric Aboaf, our Treasurer, will take you through the Fixed Income investor presentation, which is available for download on our website, www.citigroup.com. Afterwards, we will be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings, including without limitation the Risk Factors section of our 2011 Form 10-K. With that said, let me turn it over to John.

JOHN GERSPACH: Thank you, Ilene and good morning everyone. We're very pleased to be hosting our fixed income investor review this quarter. Today we're going to update you on our continued execution and progress in several areas including our liquidity and balance sheet management. Eric Aboaf, our Treasurer, is going to take you through some specifics on our balance sheet progress, our liquidity profile, and our capital position, as well as review our recent issuance activity and current funding plans for the coming year. Many of you may have joined us for last Monday's earnings call, and there are some key points from that call that I would like to highlight to start us off here on slide 1.

This quarter we reported net income of $2.9 billion for the first quarter of 2012. Ex-CVA, and excluding the net gain for minority investments, we earned $3.4 billion in net income or $1.11 per share. This is a significant increase both from the first, and fourth quarters, of 2011. While our businesses operated in an improved environment in the first quarter, we also saw the benefit of our investments.

We generated revenue growth and had positive operating leverage across Citi's core businesses, Global Consumer Banking, Transaction Services, and Securities and Banking. Key drivers such as loans in Citicorp grew by 12% from the prior year, while we deepened client relationships and improved market share in several businesses. Global Consumer Banking generated $10 billion in revenues in the quarter, up 5% from the previous year. Securities and Banking revenues rebounded, driven by particularly strong performances in fixed income.

In Transaction Services, revenues were a record $2.7 billion, reflecting strong growth, particularly in trade finance, where our unique global footprint gives us a meaningful competitive advantage. Overall, net income ex-CVA for our Institutional businesses increased 12% compared to the first quarter of 2011, and was 4.5 times larger when compared to the fourth quarter of 2011. We reduced our legacy assets in Citi Holdings by 7% during the quarter, and Citi Holdings' assets are now at $209 billion, or just 11% of our

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total assets. While the operating environment improved in the first quarter, there is still much macro uncertainty, and we'll continue to manage risk carefully.

Now, let me turn to capital and liquidity. First, let me share with you some numbers, since we further added to our capital base during the first quarter. We ended the quarter with $122 billion of Tier 1 Common capital at a ratio of 12.4% under Basel I, up from 11.8% at the end of the fourth quarter. And, for the first time, we shared our Tier 1 common ratio on a Basel III basis, which stood at an estimated 7.2% at the end of the quarter. Now, keep in mind that Basel III requires the deductions of certain minority holdings on a dollar-for-dollar basis from an institution's capital base, and the 7.2% figure reflects that. In aggregate, our minority investments in unconsolidated financial institutions such as Akbank and Morgan Stanley Smith Barney, amount to 120 basis points of deduction. As you know, we expect to reduce certain of these stakes over time.

While we're at 7.2% now, we still expect to exceed 8% by the end of this year, and have various paths to do so. In fact, based on current analyst consensus estimates of our earnings for the remainder of 2012, and our anticipated actions, including the reduction of our stake in Akbank, we expect to be above 8% even if Morgan Stanley doesn't exercise its option to buy 14% of the MSSB joint venture this year. On liquidity, more than 25% of our balance sheet is in cash or liquid securities, and even though the Basel III liquidity coverage ratio doesn't come into effect until 2015, we are at an estimated LCR ratio in excess of 125% at quarter end. As a result, we have already exceeded the proposed requirement. As you can see, our capital and liquidity numbers are amongst the strongest in our industry globally.

Turning to slide 2. I'd like to re-emphasize some of our key earnings results from the first quarter. There are a few significant items I'd like to mention that affected our results. First, on the revenue side, CVA and DVA were negative $1.3 billion in the first quarter, as Citi's credit spreads tightened, and we also benefited from a pre-tax gain of nearly $500 million related to minority investments.

And on the expense side, legal and related expenses remained elevated at over $500 million. However, repositioning charges declined to $66 million, from over $400 million in the prior quarter. Citigroup reported net income of $2.9 billion, or $0.95 per diluted share. Excluding CVA, DVA, and the minority investment gain, earnings were $3.4 billion, or $1.11 per diluted share. Revenues of $19.4 billion were down 2% versus the prior year on a reported basis. However, excluding CVA, DVA, and the minority investment gain, revenues were up 1% from last year, as revenue growth in Citicorp outpaced the decline in Citi Holdings.

Expenses of $12.3 billion were roughly flat year-over-year on a reported basis. Excluding the impact of foreign exchange translation, and the significant expense items I just mentioned, operating expenses were up less than 1%. Incremental investment spending was more than offset by efficiency savings. Credit costs of $3 billion were down 5% versus last year. Net credit losses of $4 billion were down 37% year-over-year, including incremental charge-offs of approximately $370 million in the first quarter, related to previously deferred principal balances on modified mortgages. As we discussed in more detail on last week's earnings call, these charge-offs were related to the national mortgage settlement.

Excluding these incremental charge-offs, NCLs would have been down 43% from last year. Virtually all of this incremental $370 million of charge-offs was offset by a reserve release specific to the deferred principal amounts, and so the net impact was essentially earnings neutral. Excluding this specific release, the net reserve release in the first quarter would have been roughly $800 million, down from $3.3 billion in the prior year. Citigroup end-of-period loans were up 2% from last year, to nearly $650 billion, as strong loan growth in Citicorp continued to outpace the wind-down of Citi Holdings. And deposits grew 5% to over $900 billion.

And now, let me turn it over the to Eric.

ERIC ABOAF: Thank you, John. While the operating environment improved in the first quarter, we've continued to manage our business and our balance sheet carefully given the macroeconomic uncertainty. Both our capital and liquidity are robust no matter which measure you use. We have a Basel I Tier 1 common ratio of 12.4%, and a Basel III Tier 1 common estimate of 7.2%, which includes 120 basis point impact from minority investments, certain of which we intend to divest. We have ample liquidity with $421 billion in aggregate liquidity resources, and our current Basel III LCR estimate of above 125% is comfortably in excess of the 100% proposed minimum.

We continue to make progress in reshaping the balance sheet which provides us with additional capital and liquidity to strategically deploy in our Citicorp businesses. Year-over-year, our lending growth is up a healthy 12% in Citicorp and 2% in total, after taking into account the Holdings wind-down. Our total deposits are up 5%.

We are seeing continued improvement in credit trends with net credit losses down 37% from a year ago, and we are well reserved with loan loss reserves of $29 billion, or 4.5% of loans. Net loan loss reserve releases are down approximately 65% year-over-year, which demonstrates significant improvement in the quality of our earnings this quarter.

With this strong balance sheet, we have the resources and the capabilities to continue to grow as we help our global clientele navigate the current environment.

Please turn to slide 4. Let me describe how we are managing our balance sheet for the current environment and investing to grow the Citicorp businesses. On the left you see assets for Citicorp and Corp/Other, which are up 5% year-over-year as we continue to reinvest in the franchise. Here you can see how we have deployed our balance sheet to support our customers over the past year in Citicorp.

For example, net loans which is our largest asset category, is up approximately $61 billion year-over-year, and approximately $8 billion quarter-over-quarter, as we continue to lend to both consumer and corporate clients in a disciplined manner. Similarly, we've increased our trading assets by $18 billion quarter-over-quarter, and in line with the prior-year period in response to customer demand during the improved operating environment we saw in the first quarter.

On the right, you see Citi Holdings assets which are down 29% year-over-year, as the wind-down continues to free up capital. Our Citicorp/Citi Holdings strategy continues to provide us the flexibility to redeploy that capital and take advantage of growth opportunities, particularly in our lending businesses, while also giving us the ability to size our market-making balance sheet to the current economic environment.

Turning to slide 5. Given our healthier balance sheet we have been deploying our capital in the Citicorp lending businesses in a disciplined manner, as I just mentioned. So let me describe what we are seeing in loan volumes. In Citicorp, loans grew $514 billion, up 12% year-over-year, including 6% growth in consumer and 23% growth in corporate loans. This quarter's results represented the seventh consecutive quarter of Citicorp loan growth.

In our Institutional businesses, lending increased 45% in Transaction Services, from the prior year, driven by trade finance lending in Asia, Latin America, and Europe. And we saw 15% growth in our Securities and Banking corporate loan book with increased borrowing across all client segments and geographies. International consumer banking loan volumes increased 8% year-over-year overall, led by growth in Asia and Latin America.

These trends reflect the underlying economic growth in these regions, as well as the results of our investment spending, which are driving growth in both cards and retail loans. North America consumer loan volumes were up modestly at 4%, driven by retail banking loans, as the cards market continues to reflect consumer de-leveraging, as well as CARD Act and other regulatory changes. Our overall increase

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in Citicorp loan volume provides a powerful engine of year-on-year growth in net interest income and accrual earnings.

Turning to slide 6. Having just discussed our loan trends, let's turn to deposits. This page shows how our deposit base is continuing to grow. Deposits around the world are our primary source of funding in the bank, which I will discuss with you further in a moment. Company-wide, deposits increased 5%, for a $40 billion year-over-year, and increased a robust 7% in Citicorp.

As I've said before, deposits are one of our lowest-cost sources of funds. And you can see that while deposits have grown, the overall cost of funds on deposits is down year-over-year and significantly more from prior periods. This reflects both the low-rate environment and our ability to lower price points which widens our margins, given abundant customer liquidity, while still remaining competitive and attracting deposits.

We would, however, expect to see some pressure on deposit rates due to competitive pricing in certain regions or when interest rates increase. This quarter, in keeping with our client-focused model, we saw healthy deposit growth across all our deposit-taking businesses, including Consumer Banking, the Private Bank in our Securities and Banking business, and in Transaction Services.

Turning to slide 7. This page shows how we continue to improve the quality of our deposit base. You can see on the page that we have been actively changing the composition of our deposits, within both Global Consumer Banking and our institutional businesses, meaning Transaction Services and Securities and Banking. Time deposits, where rates are fixed for the term of the deposit, and which have lower margins are becoming a smaller proportion of our base in both businesses whereas, operating balances are becoming a larger proportion of our deposits. These checking and savings accounts for individuals and cash management accounts for corporations are providing wider margins and have exhibited stickier behavior.

Year-over-year, our deposit mix has shifted positively within each business. Operating balances are now 76% and 73% of the total for the Global Consumer and our institutional businesses, respectively. On a firm-wide basis, operating balances now represent 74% of our overall Citicorp deposit base, whereas last year they represented approximately 71%, and two years ago they were at 62%.

On slide 8, I want to show you how the balance sheet activity that we just reviewed is contributing to our net interest margin. This quarter we saw NIM remain flat which was largely due to a few offsetting factors. As I mentioned, we rebuilt our trading book after the fourth-quarter decline and those assets came at lower yields. That offset the NIM tailwind that typically comes as loans become a larger proportion of our asset base.

At the same time, as you have heard me say before, we have been focused on reducing our borrowing costs. In the bank, we have been substituting maturing long-term debt, which is a more expensive source of funding with deposits, our lowest-cost source of funds. This has a positive impact on NIM. And finally, we had a reserve release in Japan Consumer Finance, which had a positive impact on NIM this quarter.

Looking forward, absent any other significant changes, our NIM will likely continue to reflect the pressure of a low interest rate environment and subsequent changes in our portfolio. As such, we expect we'll probably see a NIM ratio closer to approximately 2.85% next quarter, and after that we would expect that NIM should be stable, or perhaps grow slightly.

Turning to slide 9. Looking at Citi Holdings, let me describe our progress in reducing the amount of our higher-risk assets in general. Holdings assets have declined by 74% from their peak in 2008 to $209 billion, and now stand at just 11% of our balance sheet. The $16 billion reduction in the first quarter was comprised of roughly $4 billion of asset sales and business dispositions, approximately $11 billion of net runoff and pay down, and $1 billion of net cost of credit and net asset marks.

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This slide shows you the key businesses within Citi Holdings where those reductions occurred. Importantly, the two largest components of Citi Holdings, Special Asset Pool and Local Consumer Lending are down 51% and 24% respectively from the first quarter of 2011. And as I've said before, our Local Consumer Lending U.S. mortgage business is a fraction of the size of that of our large U.S. bank peers. Clearly, we are continuing to make significant progress executing on our Citi Holdings asset reduction strategy. And, as we have stated, we believe the pace of reductions will continue at approximately this rate.

Given the interest in GIIPS countries, we wanted to update you on our exposures on page 10. At the end of the first quarter, Citi's gross funded credit exposure to GIIPS was $20.5 billion, roughly flat to last quarter. Netted against our gross funded credit exposure, we have margin posted under legally enforceable margin agreements, collateral pledged under bankruptcy remote structures, and purchased credit protection from financial institutions predominantly outside of these five countries. These amounts totaled $14.5 billion.

So net of this margin collateral and purchase credit protection, our net current funded exposure to GIIPS at the end of the first quarter was $9.1 billion. This was up a bit from the $7.7 billion last quarter, due primarily to normal fluctuations in the trading book while the banking book itself was down slightly. You can also see that the majority of our exposure in these countries is to corporates, not to the sovereign itself. We continue to carefully manage these exposures while serving our important clients in these countries. Importantly, since the end of the second quarter of 2011, we have decreased our net current funded GIIPS credit exposure by half, down 50% from $11.9 billion to $6 billion.

Now moving to slide 11. Having discussed balance sheet trends in some detail, now let's review Citi's liquidity and funding strategy, which has been a cornerstone of strength. Our current strategy is designed to provide ample high-quality liquidity to make sure that we are well- positioned to grow our Core business and navigate various market conditions. In both the bank and Non-Bank, we carry a healthy liquidity buffer, which is generally held in cash and highly-liquid securities, such as treasuries and agencies, and other G-7 instruments.

We execute on this funding strategy in both our Bank and Non-bank businesses, by accessing a spectrum of funding sources. In our Bank businesses, our funding is primarily in the form of stable, diversified deposits from around the world, which I discussed earlier. In our Non-bank businesses, we use a modest amount of short-term funding, such as repo, to finance liquid assets. We then use a range of long-term debt instruments to cover our broader business needs.

Our funding strategy has served us well over the last few years, and has prepared us easily to meet the proposed Basel III liquidity requirements as we show on slide 12. The Basel III Liquidity Coverage Ratio or LCR, is designed to ensure banks maintain adequate level of unencumbered cash and highly liquid securities that can be converted to cash, to meet liquidity needs under an acute 30-day stress scenario.

As you are aware, the proposed minimum requirement for the LCR is 100%. The Basel committee recently disclosed results from its Quantitative Impact Study exercise, which was conducted in the second quarter of 2011. The average LCR for all large Group 1 banks was 90%, while the European large bank average was 71%. While we are still waiting final guidance on the Basel III Liquidity Coverage Ratio, we believe that we are already comfortably in compliance given the current rules as we understand them, and we are running an estimated LCR ratio above 125%.

Given that the industry average is below the proposed minimum requirement, it appears certain banks will need to reposition themselves in order to achieve compliance with the LCR minimum. Industry repositioning will likely take the form of issuing more long-term debt to close liquidity gaps, selling less liquid securities inventory and replacing them with government and agency securities, and in raising additional customer deposits, or reducing customer lending. Since Citi's current LCR estimate is more

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than 25% above the proposed minimum, we believe we will be able to avoid any potential repositioning costs I just outlined.

Part of the reason we scored well on the Basel III LCR is the size of our liquidity buffer, which is defined as cashed and highly-liquid securities on slide 13. It stood at approximately $421 billion at the end of the first quarter. This quarter our high level of Bank liquidity is up as deposits have increased. At the same time, our Non-Bank liquidity to support our Parent and Broker-Dealer activities decreased slightly.

We continue to believe that this range is proportionately calibrated to the size of our balance sheet and current market conditions. In addition, as of the first quarter, we currently estimate that other entities and subsidiaries held approximately $93 billion of cash and unencumbered liquid securities. When you include this additional liquidity our total liquidity buffer is approximately $421 billion. And finally, it is also worth mentioning that we only include our on-balance sheet liquidity buffer here. As such, we don't include borrowing capacity at the Fed discount window, or international central banks, or with the FHLBs, as part of our aggregate liquidity resources. That capacity is over and above what you see on this page.

Turning to slide 14. Let me describe for you the current status of our ratings, a topic we have discussed quite a bit over the last year and-a-half. As you are aware, S&P and Fitch resolved their industry-wide reviews in the fourth quarter of 2011 and announced their rating changes at that time. You may recall that during this previous rating action we estimated that less than 1% of our funding could be impacted, and the actual impact was far less and was not material. We are rated “A/A-1” with S&P at our key operating entities, Citibank N.A., CGMI, and CGML, and “A-/A-2” at the Citigroup holding company. Also we are rated “A/F1” with Fitch at both the operating and holding company levels.

As you are also aware, on February 15 of this year Moody's announced an industry-wide review and placed 17 global banks and securities firms on review for downgrade along with many more local banks around the world. As you could imagine we have been in active dialogue with Moody's during the review time period and have been discussing Citi's strong capital and liquidity position, ever improving asset quality, and overall franchise strength. We have also discussed our relative standing and strength as compared with the other U.S. and European banks on review.

Now, given this potential action, we have carefully thought through the potential impacts. In this context we're often asked about funding requirements related to derivatives. As we have disclosed in our filings previously, in the event of a downgrade Citi may have to post additional funding in the form of cash obligations and collateral. Specifically in the event of a two-notch downgrade by Moody's, Citi could be required to post additional funding in the form of cash obligations and collateral of up to approximately $2 billion. This is a subset of what we shared with you in the 10-K, which represented a two-notch downgrade across all three agencies at once.

Further, in terms of the derivatives business, that activity is predominantly conducted on the Bank today and we do not believe that downgrade to the “A3” level will have a material impact, as this remains above the counterparty threshold for the vast majority of our clients. In general, these are very small numbers in the context of our $1.9 trillion balance sheet, as well as when compared to our liquidity buffer, which as we just discussed, is more than $420 billion.

Turning to slide 15. I wanted to take a moment to talk about what we have been hearing and seeing from our clients and investors regarding credit assessments and how that's changed over the years. In the past, when information was limited and infrequent, ratings often served as the only available measure of creditworthiness. This suited an era of smaller, simpler banks with limited disclosures, as well as a nascent investor marketplace.

Today investors and clients have become increasingly sophisticated, and are typically assessing banks on multiple indicators rather than solely relying on ratings from two agencies, no less a single agency. In

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fact, investors and clients are looking for an investing edge and have effectively built internal teams to take on the credit assessment process.

In contrast to the past, clients and counterparties today are looking at a variety of metrics to assess bank creditworthiness. These measures include financial metrics such as a bank's equity base, regulatory capital levels, liquidity profile and loan loss reserves; market metrics which are available in real-time, such as bonds and CDS spreads and stock price, are also being included in valuations; and finally business metrics, such as business strategy, geographic diversification, and risk concentrations, are also key drivers of the assessment process for today's complex multinational banks.

We believe this shift to a more integrated approach to credit evaluations is appropriate in an increasingly complex market environment and have expanded our disclosures accordingly. In keeping with our discussion of the changing market environment, Citi has significantly shifted its funding mix over the last few years, away from short-term sources to deposits, and long-term debt and equity.

Slide 16 shows the funding composition that we have for the Bank and Non-Bank. Within our Bank, we believe our deposit base is one of the most stable and lowest-cost funding source. And you can see that approximately 80% of our Bank is funded by deposits, compared to 72% in the first quarter of 2010. In the Non-Bank businesses, long-term debt represents the most significant component of our liability mix. The vast majority of this funding is comprised of senior term debt along with subordinated instruments and trust preferred securities.

As of the first quarter, long-term debt comprised 35% of the funding in the Non-Bank. While long-term debt was lower over the course of the past year, so is the levels of assets, especially illiquid assets, it is meant to support. Approximately 30% of our Non-Bank liabilities are secured financings, often referred to as repos, which provide funding in a carefully calibrated manner for liquid securities at modest haircuts. Finally, our large base of book equity supports both the Bank and Non-Bank entities.

On slide 17, let me turn to long-term funding and our liability management initiatives. The top half of the page shows our long-term debt outstanding by category over time including senior debt, TLGP, and credit card securitizations. The bottom half of the page segments the amount of long-term debt in the bank and Non-Bank entities. So, the bottom is just another cut of the top to provide you with some further texture. As you can see here, our long-term debt outstanding has decreased year-over-year in most long-term debt categories as we have deleveraged the balance sheet especially in the Bank. In the Bank, we have consciously reduced debt funding as we have grown our deposit base.

Looking at the Non-Bank at the bottom half of the page, longer-term debt has decreased as we have let TLGP roll off while keeping a healthy amount of funding for our Broker-Dealer. In the Non-Bank, assets have been reduced at a corresponding pace, especially as we wound down Holdings and took actions to reduce higher risk, and less liquid, Basel III assets in the Dealer. As you can see here with our current estimate for the fourth quarter of 2012, we believe that this trend will continue and expect a decline in the amount of long-term debt that we have outstanding, particularly in the Bank.

Turning to slide 18. Let me review with you the liability management strategy that we have been executing over the course of the last two years. As we have discussed on past calls, we have successfully de-risked our balance sheet and reduced Holdings assets, thereby creating ample liquidity. Through selective public tender offers and open market purchases we've reduced outstanding debt, both short and long-term, with either excess cash or by replacing it with new issued debt at lower spreads.

The chart on the left-hand side of this page shows our quarterly liability management activity in the Non-Bank. As you can see, we've been consistently active in the senior benchmark and structured space. This quarter our buybacks of structured and benchmark paper allowed us to lower our overall funding cost. On the right-hand side of this page, you can see that we carefully managed the weighted average maturity of our long-term debt. Over the last year, WAM increased to approximately 7 years from 6.2 years in 2010.

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On the Bank we have consciously allowed TLGP to run off as we have replaced it with stable deposit funding. You can see at the end of last year with TLGP rolling down, we no longer have unsecured benchmark debt with maturity greater than one year in the Bank. On the Dealer Non-Bank we've used our liability management efforts, coupled with our issuance strategy, to consciously maintain the maturity of our debt.

Moving on to slide 19. You can see our expected maturities for the full year 2012 and also our expected maturities of long-term debt over the next two years. This chart clearly shows that maturities peak in 2012, and come down in 2013. As we see in light blue atop the first column, TLGP debt represents the bulk of the maturities in 2012. Many observers have noted that this wave of maturities is an industry-wide situation, which came about as many banks issued TLGP and other government guaranteed debt in 2008 and 2009. As I've said before, for us at Citi, we do not expect to replace TLGP maturities. As we have demonstrated and reviewed on prior slides, the reason is clear: as we continue to reduce our Citi Holdings balance sheet in both our Bank and Non-Bank entities, our need for long-term debt is coming down.

During the first quarter we issued approximately $7 billion in long-term structural debt. We issued across multiple tenors in both benchmark and structured notes. As we stated last quarter, we continue to expect to issue approximately $15 billion to $20 billion of long-term debt during 2012, although this number may change based on market conditions or other factors. At this time, we believe we will be at the low end of this range, and the balance of our issuance program will be a mix of benchmark and structured debt.

Moving on to slide 20. As many of you know, as part of the CCAR process, Citi received approval to redeem certain series of outstanding trust preferred securities. Let's take a moment to review the securities that we have outstanding. You can see on the bar charts below that we have grouped our outstanding trust preferreds into two categories based on their call features. Those that are currently callable, and those that are not currently callable, but we believe would be callable under a regulatory capital event. These securities are ordered in each category by coupon, and the smaller bar shows the notional amount for each security, as well.

Many of you have asked about our current strategy with regards to our trust preferred securities given the regulatory changes pending under Dodd-Frank and Basel III. For the issues that are not callable now but would be at the time of regulatory capital event, we, along with many others in the industry, are awaiting the expected forthcoming NPR from the regulators. In general, we will consider various factors when evaluating each of our trust preferred and enhanced trust preferred securities, including aspects such as coupon, currency, and the optional and regulatory call features of the securities I just reviewed, and the timing of such options. You can expect that Citi will make the appropriate economic decision.

So, turning to slide 21, let me talk about capital which continues to be an area of significant strength for us and supports lending growth that I just described. Our Basel I Tier 1 common capital stands at $122 billion, and our Basel I total capital is $172 billion. At the end of the first quarter, our Basel I Tier 1 common ratio was 12.4%, significantly up from a year ago, and also up from the fourth quarter.

Our risk-weighted assets stand at $978 billion, and Citi Holdings risk-weighted assets now represent approximately 19% of the total. And as I mentioned earlier, our Basel III Tier 1 common estimate was 7.2% at the end of the first quarter, and we still expect to exceed 8% Tier 1 common under Basel III by the end of this year. As you can see, our capital base is one of the strongest in the industry, both as compared to U.S. and international banking peers.

Moving to our last slide, let me summarize four major points. First, as I've said, our capital base continues to be one of the strongest in the industry, and this is reflected across every one of our significant capital ratios.

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Second, we have significantly improved our structural liquidity by increasing our capital base and deposits, and reducing Citi Holdings assets. We believe that we have ample liquidity and our estimated Basel III LCR is over 125%, which is significantly above the estimated industry average and the proposed required minimum.

Third, we will have a significantly lower proportion of wholesale funding going forward. We currently have modest long-term debt issuance plans over the next year. We will not be replacing the maturing TLGP debt. Thus, we expect that our long-term debt outstanding will continue to decline.

And fourth, while the environment remains uncertain, we saw continued strength in our core lending and deposit-taking businesses, as well as in our market businesses this quarter. As we stated earlier, we achieved positive operating leverage again in our Asia and Latin America Consumer Banking businesses this quarter, and Transaction Services achieved positive operating leverage, as well. That concludes our fixed income review. John and I will be happy to take your questions.

OPERATOR: [Instructions]. Your first question comes from Ryan O'Connell, Morgan Stanley Investment Management.

RYAN O'CONNELL: Appreciate the call as always. Two questions, if I could. One, thanks for all the detail on the possible impact of the Moody's downgrade. What I'd like to zero in on is the preparations you've made with respect to your repo funding base. I take your point very much that people are not going to be just following Moody's blindly, but as you know some 2a-7 funds and all that are limited what they can do, assuming that Moody's makes a mistake, and would take the rating down to Prime 2. Could you talk a bit about what you've done to maybe diversify the counterparties in your investor base there?

ERIC ABOAF: Sure, Ryan. It's Eric here. We've done several things that are relevant to the repo base. But first, I've got to remind you that the preponderance of our repo activity is handled on the Dealer which is part of the Citigroup chain, and thus has a different set of ratings than the bank. In fact, already has a "P-2" rating by Moody's. That's important because that investor group, the repo counterparties, have already dealt with the potential situation, and as you know, Moody's has reaffirmed our "P-2" short-term rating on the -- at the Citigroup and Dealer level.

That said, we've done several things over the past couple years on repo to ensure that it is carefully calibrated and that includes the following list. I think number one, we have significantly lengthened the tenor of the repo base. Historically repo had been done on a multi-week, one-month basis and we've significantly lengthened the tenor across fixed income repo and equity repo to make sure that it is a robust and a dependable source.

Secondly, we've diversified the client base. We had gone through an assessment probably over two years ago to identify which counterparties were more sensitive, or less sensitive to ratings, and we adjusted that mix so that it would be a robust source regardless of what might change in the external environment. And third, we actually specifically put in place very tight limits on any sensitive counterparties like the 2a-7 funds. I think I've told you before, those funds against the repo base that we have are really a low-single digit portion of our funding today.

RYAN O'CONNELL: Okay, that's very helpful. Then the next question really has to do actually with operating business. And that is with Securities and Banking: if we look at the geographical mix, North American revenues -- year-over-year. This is year-over-year. North American revenues were down about 17%, whereas EMEA was up about 16%. Now, I notice too that FICC was up a lot. Equity -- this is true for everybody – equity was down a lot. Is it that just one business is more FICC-centric than the other? Is that's what's driving the difference between the U.S revenue trends and the EMEA ones?

JOHN GERSPACH: It's a little hard when you get into -- this is John, Ryan.

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RYAN O'CONNELL: Hi, John.

JOHN GERSPACH: When you look at the geographic split, there's a lot that goes into that. A lot of our G10 rates business is conducted actually out of Europe. G10 rates had a very strong quarter in the first quarter so you might see a little bit more growth than in Europe. And some of our more credit-sensitive businesses are done more out of North America and, as I think we indicated last year, we had repositioned some of those businesses to be more in line with the Basel III environment, and therefore had actually reduced the balance sheet that we had devoted to those businesses. I think that is more what you're seeing in those revenue figures, when you try to compare the geographies.

RYAN O'CONNELL: Okay. Thanks very much.

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

ROBERT SMALLEY: Hi Eric, hi John, good morning. Couple of quick questions. I'm going through the supplement here that you put out last week and I'm looking in the liability section on page 4. I want to continue the conversation on deposits. I see that from last year to this year, most of the growth in deposits, there's a lot of growth in deposits in non-interest bearing deposits in the U.S. offices. I'm guessing that that's a continuation of something that we've spoken about before. The unlimited FDIC coverage for transaction and non-interest bearing accounts that ends at the end of this year. How are you looking at that going forward and how are you going to keep that money in the bank?

ERIC ABOAF: Robert, it's Eric. Let me take that one. I think the first context I'd give you is that we have deposit insurance programs not only in the U.S. but around the world, and so this is one of many sources of funds for us. Secondly, we are not actively and we've never really actively marketed an insurance-protected deposit account as a lead product. And you can imagine why, because of exactly the risk that you've raised. If you suddenly add a lot of those deposits and then something changes, you're open to risk. And so we've not actively done that. What we've done is literally just continued to build our deposit base. We've done it a balanced way. And what you'll notice is most of those non-interest bearing deposit accounts are actually an operating balances, which are the stickier and more reliable deposit balances. And thus, we have a fair amount of confidence that while there may be some changes that come and go in the insurance program, we don't expect much of a change as that happens.

ROBERT SMALLEY: Okay. And I see that on the deposits outside the U.S., that's fairly flat over the period. Is that something that you expect to grow? Are you picking up share from, say, European banks that are leaving emerging markets? And is that a push for you? And furthermore, can we see more self-funding of those type of entities going forward?

ERIC ABOAF: Robert, it's Eric. Good question. I think we are seeing some in-flows of deposits as customers and corporates and different clients of various types are evaluating their various banks, and clearly see us as a very healthy and strong bank, and part of a flight-to-quality as they look at some of the dislocations in Europe or in other parts of the world. I think what we have continued to do is carefully calibrate the pricing on deposits to make sure that we're not pricing up. In fact, I think we've consciously let pricing flow downwards, because really we're not in the business of raising large amounts of time deposits or discretionary deposits. What we really try to accomplish within our Transaction Services business in particular is a cash management type of program, which has local cash management, international cash management, custodial clearing operations, and deposits just happen to be a productive by-product of that activity, which really makes them in the end a fairly low-cost and sticky funding source for us.

ROBERT SMALLEY: Okay. But we won't look forward to you gathering more deposits or even issuing medium- and longer-term debt out of these type of entities, like an HSBC or Santander?

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ERIC ABOAF: No. Let me put that differently. We're not expecting to issue much long-term debt in the Bank entities, specifically because we are rich in the deposit liability source. What we are doing, and we've always done, is actually had very balanced balance sheets with regards to deposits relative to loans, in every one of our entities. In fact, you can imagine we run 100 entities plus around the world. Every one of those is run at a very high standard of liquidity. It's not as if we ask one entity or one country to fund another, because that would not make for a robust local franchise. And as you know we run a global franchise that is across our businesses, but every one of those also is run on a local basis, and that's really been done that way for many years.

ROBERT SMALLEY: Okay. Thank you. One more, if I could sneak it in on page 20 on the TruPS. The graphic here implies that you may have approval to – depending on the NPR but you got approval from the CCAR process to redeem all of these. Is that the case or is there a certain dollar hurdle that you got approval for?

ERIC ABOAF: Robert, it's Eric again. We did not ask, and did not get approval for, redeeming all of our TruPS. As you know we need some of the TruPS as part of the Tier 1 requirements and they don't phase out until -- by year starting in 2013 and going for five years hence. So we need some of these. What I can tell you is that we got approval to redeem a substantial amount. We're not at liberty to say because that's obviously part of the discussions that we've had with the Fed. But I can tell you that.

ROBERT SMALLEY: Okay. So you can't elaborate on what a substantial amount would be?

ERIC ABOAF: Not at this point. I mean, as soon as we see more of -- as soon as we see an NPR and have a regulatory call event then we can actually act in the market and disclose, which we would like to, and have gotten approval to call. But at this point just given the obvious confidentiality requirements of the CCAR process, we can't elaborate further.

ROBERT SMALLEY: Okay. Great. Thanks very much.

OPERATOR: Your next call comes from David Knutson at Legal & General Investment Management.

DAVID KNUTSON: Got a couple of questions. One on Moody's. Is there any sense that after this review is completed, will Moody's continue to have a negative outlook regarding Citi's credit or do you anticipate a stable outlook?

ERIC ABOAF: David, it's Eric. I really don't know and it's probably best place to ask them. They're re-rating the entire global banking industry, country by country as well as the large banks, and probably best that you just ask them directly about that.

DAVID KNUTSON: Yes. And then on the long-term debt issuance plans, $15 billion to $20 billion for 2012. You've done $7 billion so really the amount is $15 billion to $20 billion minus the $7 billion, just to clarify I, right?

ERIC ABOAF: Yes, that's correct.

DAVID KNUTSON: And then the economic basis that you talked about regarding the TruPS redemption; is the right way to think about the economic valuation of it, if you have a TruPS which has less regulatory capital, therefore starts to look like senior debt, should we consider when we're thinking or trying to understand your perception of the economic value or the economic trade-off here, should we look at the TruPS cost relative to an equivalent senior debt cost, perhaps a short-dated senior or longer-dated senior, maybe you could describe a little bit more what is the economic valuation perspective you have regards to your TruPS.

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ERIC ABOAF: David, it's Eric. I think that's a good construct and in the direction of how we approach it. These trust preferreds will become in effect senior debt as they have less and less capital content, and so we literally need to compare the borrowing cost of new issue debt, or existing debt, with these trust preferred coupons, and just make an economic decision between the two. Do we think about it as the equivalent of a short one- and two-year debt? No, I think you really need to compare this to medium-term and benchmark debt issuance cost, and then we do the analysis from there.

DAVID KNUTSON: And then one last question. With the news regarding Argentina and YPF, does this impact any of your international development or growth plans, with this ex-appropriation?

ERIC ABOAF: David, we've always been very careful around the emerging markets and as you know, we've been operating the emerging markets for hundreds of years. We've been through governments and government changes in Latin America, in Argentina specifically, but in every part of the world. And you can imagine we have a pretty elaborate playbook on how to operate in these kinds of environments that change and could change in different ways. That said, the balance sheet is quite healthy in Argentina. It's been a good country for us, but not a particularly high-growth country for us. And we've not seen any balance sheet changes over the last couple weeks or month that give us any concern at this point. But, it's obviously one that we're very careful about, and are actively watching and managing.

DAVID KNUTSON: One last thing. The capital action plan that you're seeking, the $8 billion, when I think about the overall projected capital that Citi will have relative to the other large integrated banks in the U.S., it seems to be a bit aggressive. So I guess I'm curious, the view regarding the unsecured credit ratings of the firm, what is the value of being the upper band of your peers? When I say your peers, I'm saying the other large integrated U.S. banks. Is it -- do you find that you would have significant -- is there significant value from an issuance perspective to be in the upper band or is where you're at a way to help -- to operate healthy in the future?

JOHN GERSPACH: David, it's John. I just want to make sure that I understand your use of the term upper band. Which upper band are you talking about? The upper band of –

DAVID KNUTSON: Well you could say JPMorgan is probably at the top of the ratings relative to, I think, your peers. So is there --

JOHN GERSPACH: So, you're looking at it from a rating agency point of view.

DAVID KNUTSON: That's correct, yes.

JOHN GERSPACH: Okay. That’s exactly what we're in discussion with Moody's about right now and that's exactly what we discuss with all the rating agencies, and try to understand how they actually determine their rating. And as we determine how they actually produce these ratings, then we get the ability then to make decisions.

DAVID KNUTSON: So the business can operate efficiently, given the ratings that you have now or is it something that you would hope to migrate up towards the top of your peer group?

JOHN GERSPACH: We would like to be rated higher than we are. We think that the underlying fundamentals that we exhibit today are actually deserving of higher ratings.

DAVID KNUTSON: Okay. Thanks very much, guys.

OPERATOR: Your next question comes from Matt Burnell, Wells Fargo Securities.

MATT BURNELL: Again, thank you for the call. Couple of bigger picture questions, perhaps. Eric, you spent some time on Citi's strength in terms of the Liquidity Coverage Ratio and made the obvious point

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that you all sit above the 100% number, and above many of your domestic and international peers. There was some concern when the LCR was first announced that that would have a very negative or upward bias to corporate loan pricing and I'm just curious if that's been the case so far. We haven't heard a lot of commentary about it. So I just wonder if that issue was a little over-hyped when the LCR first came out.

ERIC ABOAF: Matt, it's Eric. The LCR, I think by and large, is designed thoughtfully by our regulatory agencies. We have had discussions -- the industry has had discussions, with them about refining the LCR. One of the discussions I think are less around corporate loans themselves, but more about the treatment of corporate deposits, and the runoff rates that they assume. If that's what you're referring to, I think those discussions are ongoing. We'll see what decisions the agencies make, and obviously we'll operate on that basis. And if that has some impact on our willingness as an industry to pay different amounts on corporate deposits versus retail deposits, I think we're going to have to see that as it plays out. It's very hard to predict it. But certainly folks have surmised that that could very well change on the margin some of the pricing that banks have for deposits.

JOHN GERSPACH: Matt, it's John. With regard to your question on corporate loans, I think one of the things that Eric mentioned when he was going over the LCR is that given our current ratio, we don't really need to think in terms of repositioning our portfolio to come in to compliance with the LCR. There are many other institutions that have yet to actually reposition their portfolio in order to drive their ratio up higher. What could very well happen as they reposition their portfolios, is that they will jettison corporate debt that they would otherwise carry as part of their investment portfolio today. And it's those types of activities, that could then have an impact on corporate debt pricing in the marketplace. So, I think Eric is quite right as far as his commentary on the impact of corporate deposits. But the impact, the potential impact, on the cost of corporate debt and the impact on corporate issuers, is something that I think that we have yet to really see what that impact is, because we still haven't had the general repositioning that's going to be required by the industry.

MATT BURNELL: That's helpful. And if I could, just a question on the TruPS repurchases. You said that you plan to call a substantial amount of the $21 billion or so that you listed on slide 20 today. I'm just curious as to in the longer term, what potential beneficial effect that might have on your net interest margin, given if I assume that you replace all those with 10-year unsecured debt, (which is probably an overly simplifying assumption), but if we assume that, it looks like about a 300 basis point benefit in terms of the weighted average coupon on the TruPS versus your 10-year unsecured debt.

ERIC ABOAF: Matt, it's Eric. I think it's a little more complicated than that, because you actually have to think about our total debt outstanding. Which I think we showed on one of the pages and has trended towards about $250 billion of debt. That includes these TruPS where -- and on this page we see about $16 billion of TruPS. So yes, there is going to be some optimization between those two sources. I think on a weighted average, it will be a slight improvement on our net interest margin, our funding cost, and that will be a benefit to the shareholders of the Company. But I don't quite see how you get to the math you did. Maybe we could follow up offline, if you'd like.

JOHN GERSPACH: And the other consideration that has to be brought into the mix is, of course we still think -- of course, we don't have an NPR but we still believe there will be not just a Tier 1 Common requirement under Basel III, but also a Tier 1 Capital requirement. If you look at the BIII rules as they're currently drafted, at least in general, there's about another 150 basis points of capital that you need to carry between your Tier 1 Common and total Tier 1.

So calling of the TruPS is one thing because the TruPS will no longer count as Tier 1 Capital. But what is yet to be determined is what do you need to carry then, in order to bridge that extra 150 basis points of capital requirement.

MATT BURNELL: Okay. Thanks for taking my questions.

OPERATOR: Your next question comes from David Havens, RBS.

DAVID HAVENS: Good morning, guys. As we think about long-term capital planning and regulatory changes, and things like the loan loss reserves probably declining because of a hopefully a better economy, is there more room for sub debt in the capital structure down the road?

ERIC ABOAF: It's Eric. That's a very good question because up until now most of the discussions among the Basel Committee and the regulatory community has been around Tier 1 Common capital which is only common equity, and then Tier 1 which as John just mentioned will be some type of preferred, although we still need to get more data about that and more information. What has gone unsaid and is unclear, to be honest, until we get a U.S. NPR or more work is done by the Basel Committee, is regarding sub debt and what we generally think of as Tier 2 Capital. What will qualify, how much exactly and what are there any subcomponents of sub debt in Tier 2 Capital. At this point we have not -- we I think as an industry don't know very much and so we're obviously going to maintain some of our sub debt, but we don't have enough information as yet to do that much long-term capital planning for that part of the structure.

DAVID HAVENS: Darn, I was hoping you would have more information than me on that one.

ERIC ABOAF: Sorry about that.

DAVID HAVENS: The other question I had, it's not really a question, I'm just wondering whether you could maybe, as best you can, maybe characterize the discussions you've had with Moody's from a qualitative perspective. They seem to be hearing it from all sides -- from banks, from investors, that maybe this action that they're considering undertaking is not -- is perhaps not the most accurate representation of bank financial strength at this point in time. I'm just wondering whether from your discussions whether you feel that they're willing to give ground on maybe some of the commentary they've put out thus far or whether they've put a line in the sand and it is what it is.

JOHN GERSPACH: This is John. Moody's obviously prizes their independence, but at the same point in time, they certainly listen to input, but ultimately they'll be the ones that make their own decisions and you're really going to have to direct your questions to them.

DAVID HAVENS: Yes. Okay. Thanks very much.

OPERATOR: Your next question comes from Dave Macgown, MSSB.

DAVE MACGOWN: Calling from Morgan Stanley. Couple questions, guys. First in Securities and Banking, I'm sure there will be more detail when the Q comes out, but could you talk about what the risk metrics specifically VAR look like in the quarter relative to previous quarters.

JOHN GERSPACH: I think what you're going to see is that the published VAR will actually be down from the prior quarter. I don't have the numbers in front of me, but I do believe that you'll see that the trading VAR is down both year-over-year as well as down from the fourth quarter.

DAVE MACGOWN: The reserves number you mentioned, that 4.5%, I think you're still higher than -- on reserves to loans than some of your peers. I think the peak was somewhere over 6%. Do you have any view on how low this can go if trends continue?

JOHN GERSPACH: I think the significant -- when you look at the various disclosures that we've given you, out of the $29 billion worth of loan loss reserves that we have, we allocate $10 billion of those loan loss reserves to our mortgage book, both first and the junior liens. And so I think that the answer to your question really is going to be dependent on what happens with the mortgage book at this point in time.

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DAVE MACGOWN: Understood. And then I'll slip in a last quick one. Lot of questions about TruPS and the NPR and what you do there. I presume your financing plan that you disclosed, the $15 billion to $20 billion is inclusive of what your expectations are on taking out TruPS.

ERIC ABOAF: Dave, it's Eric here. Yes, that's correct. The financing plans are complete, inclusive of anything we need to do for the TruPS.

DAVE MACGOWAN: Thanks for the clarification, Eric. Appreciate it.

OPERATOR: Your next question comes from John Carolan, Hartford Investment Management.

JOHN CAROLAN: Hi. I just was wondering if you could share with us to what extent any potential stake sale of Morgan Stanley Smith Barney was incorporated into either your submission under CCAR or the Fed's analysis of the results in CCAR given that it represented --

JOHN GERSPACH: Hi, John, it's John. Don't forget, the stress test that the Fed conducted was really conducted on a Basel I basis so the investment in the Morgan Stanley Smith Barney joint venture really has very little impact on our Basel I ratios.

JOHN CAROLAN: I was under the impression that it also included the path for Basel III compliance though, as part of the analysis.

JOHN GERSPACH: There was a submission but it wasn't part of the stress test at all.

JOHN CAROLAN: So the key driver of the stress test was purely Basel I?

JOHN GERSPACH: That's correct.

JOHN CAROLAN: The next year's stress test, do you envision to continue to be Basel I?

JOHN GERSPACH: You'll have to ask the Fed. I'm not trying to be cute, I don't know. The Fed is the one -- I think in the absence of having an NPR it would be a little difficult for them to do the stress test on Basel III.

JOHN CAROLAN: Could it be under Basel II?

JOHN GERSPACH: We don't even have an NPR on Basel II, do we, from a U.S. point of view?

JOHN CAROLAN: Okay. Thank you.

OPERATOR: Your next question comes from Matt Eva, Aberdeen Asset Management.

MATT EVA: You have a Euro-denominated lower Tier 2 bond approaching its first call date. Wonder if you can talk through your call policy, especially with respect to observing local market conventions, and any potential consequences of not observing those conventions. Thank you.

ERIC ABOAF: Matt, it's Eric. Are you referring to the lower Tier 2 sub debt as it's referred to in Europe? Is that what you're referring to?

MATT EVA: That's right, yes.

ERIC ABOAF: We'll certainly evaluate those as part of our capital structure and funding needs. Clearly, sub debt performs multiple roles, both as capital and as debt. And in line with how we think about the TruPS, we have to take an economic view with regard to those issuances, if they're at a certain coupon

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that relative to other sorts of debt instruments, then that are beneficial to us, we'll have to respect that and if obviously they're at a high coupon we might take a different action. So it will really depend on the economic situation of the individual deals.

MATT EVA: Okay. So it's purely on economics? There's no reputational risk or anything like that that comes into the equation at all?

ERIC ABOAF: I think -- it's hard to talk about reputational risk I think in that -- in the way you describe. There's reputational risk if we don't take economically rational actions, and so we really need to balance a host of factors.

MATT EVA: Okay. Thank you.

OPERATOR: Ron Perrotta, Goldman Sachs has your next question.

LOUISE PITT: It's actually Louise Pitt here with Ron. Our questions have all been answered but I did want to thank you guys again for providing the additional information and for holding the call for fixed income. It is really helpful. So thanks.

JOHN GERSPACH: Our pleasure.

OPERATOR: And now we'll hear from David Jiang, Prudential.

DAVID JIANG: First question is on page 19 on the long-term debt issuance, can you just remind us the different entities that issue long-term debt, and I think it shows in the footnote that you have Citigroup Inc. and CFI as the two primary issuers. How do you decide on which entity to issue from, and what is it supporting mostly? Is it the Broker-Dealer?

ERIC ABOAF: David, it's Eric. Let me tackle that in the two questions that you've asked. The two issuing entities are there in the footnotes as you described, there's Citigroup Inc. and there's Citigroup Funding Inc., so CFI. The general approach that we have taken, and have moved to over the last couple of years, is to issue benchmark debt out of Citigroup and the structured debt, or structured notes, out of CFI. Just to create good clarity in the investor base as to those types of debt and the issuing entity. That said, what happens is that debt is available to support the activities in the Parent which have some of the old entities like the CitiFinancial entities and to support the entities of the Dealer and so that debt is then ascribed to different entities, often times on an MIS basis or otherwise. To support those entities, the economics are transfer priced into those entities and it's done in a way that the major entities that we operate are effectively funded, and have the right amounts of liquidity.

DAVID JIANG: So the CFI issuance of $1.8 billion is all structured notes?

ERIC ABOAF: It's primarily structured notes; that's correct.

DAVID JIANG: Okay. Do you have the comparable number that was issued last year?

ERIC ABOAF: I don't think it's on the slide but we can see if we can get that for you if you speak with our Fixed Income Investor Relations team.

DAVID JIANG: Okay. Great. My second question is on the MSSB joint venture. Was there any OTTI impairment taken on that year end? I know it's carried at $10 billion; right?

JOHN GERSPACH: There's been no impairment taken on that investment.

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DAVID JIANG: Okay. Does that impairment test occur every quarter? And I'm asking that in terms of the next tranche of sale, the call option to buy the 14%.

JOHN GERSPACH: We take a look at the carrying value of that investment every quarter.

DAVID JIANG: And then the 7.2% Tier 1 Common on a Basel III basis, does that take into account the holdings of -- the MSSB holding?

JOHN GERSPACH: Full deduction. As we said in some of the opening comments, that 7.2% is net of 120 basis point deduction from our capital base as a result of the various investments that we've got in unconsolidated financial institutions, such as MSSB and Akbank.

DAVID JIANG: Okay. Thank you. And then last question is regarding the analysis on calling the Euro lower Tier IIs, if you choose not to call on the first call date, will you provide a communication to the market?

ERIC ABOAF: It's Eric, David. I'll have to check with the exact process, but let me do that and maybe we can follow up offline. Certainly, we prefer to be transparent and very clear about our actions, both positive actions we take and actions we take not to do something, so we'll do the best we can. But let me just check the exact protocol that we have.

One other thing, you did ask about CFI. There is a minority of debt that we issue in CFI that is not structured, and also not benchmark size, so it's not the $750 million or $1 billion deals. It tends to be some of the smaller, vanilla deals, and sometimes we put those in CFI because they have been designed as more as a one-off placement or a one-off deal, and it keeps the benchmark debt very clearly at the Citigroup level and some of the more tailored debt in CFI. So that you'll see some of those deals as well.

DAVID JIANG: But that's very small, relative?

ERIC ABOAF: Yes, it's relatively small; that's correct.

DAVID JIANG: Okay. Thank you.

OPERATOR: Your last question comes from Michael Rogers with Conning and Company.

MICHAEL ROGERS: Bigger picture question. Is it ever conceivable in the post Dodd-Frank world that Citi or any of its top five, top four, top five competitors could be allowed ever to acquire a large depository in this environment?

JOHN GERSPACH: Hi, Michael. It's John.

MICHAEL ROGERS: Hey, John.

JOHN GERSPACH: That's an interesting question. Don't forget, when you talk about post Dodd-Frank, we're still in the process of actually trying to implement so much of what is already in Dodd-Frank. I'm not quite sure that it's very clear what a post Dodd-Frank environment is going to look like.

But secondly, you're still going to be faced with some of the current rules as far as concentration of deposits in various institutions, and I think that certainly in a post Dodd-Frank world as you put it, that's something that people will look at with even more vigor than perhaps they looked at previously.

MICHAEL ROGERS: Okay. If I could ask a separate question about how concerned are you gentlemen about a potential increase in risk coming out of Europe? We've got the French elections to be resolved, I guess on May 6, and appears as if there may be some fiscal austerity fatigue setting in not only in maybe

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France but in other parts of Europe. Do you believe that the overall risk quotient coming out of Europe in let's say the second half or the last three quarters of this year, could indeed be poised to increase meaningfully?

JOHN GERSPACH: We've been conscious of the risk around Europe for going on two years now, and I don't see anything that would cause us to let down "our guard" as it were, regarding Europe. It's still very much a situation that needs a lot of work. What we've constantly said is that the Europeans have the ability to handle the situation if they so choose, but this is still an ongoing situation, and one that is certainly going to weigh somewhat on the world's economy for a good time yet. So we continue to watch Europe very closely, and we manage our risks appropriately.

MICHAEL ROGERS: Thanks very much.

OPERATOR: That concludes the question-and-answer session. Ms. Fiszel Bieler, do you have any closing remarks?

ILENE FISZEL BIELER: Thank you, everyone, for joining our call today. If you have follow-up questions please don't hesitate to reach out to us in Fixed Income Investor Relations. We'll talk to everyone again soon.

OPERATOR: Ladies and gentlemen, that does conclude our conference call for today. Again, thank you for your participation. You may now disconnect.

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