TRANSCRIPT

Citi Fourth Quarter 2012 Earnings Review
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Host
Susan Kendall, Head of Investor Relations

Speakers
Michael Corbat, Citi Chief Executive Officer
John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's fourth quarter 2012 earnings review with Chief Executive Officer, Mike Corbat, and Chief Financial Officer, John Gerspach. Today's call will be hosted by Susan Kendall, Head of Citi Investor Relations. We ask that you 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. Kendall, you may begin.

SUSAN KENDALL: Thank you, Marley. Good morning and thank you all for joining us. On our call today, our CEO, Mike Corbat, will speak first, then John Gerspach, our CFO, will take you through the earnings presentation, which is available for download on our website, 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 in capital and other financial conditions 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 Mike.

MIKE CORBAT: Susan, thank you, and good morning, everyone, and welcome. As you know, we reported earnings of $1.2 billion for the fourth quarter of 2012. Excluding DVA and our repositioning charge, net income was $2.2 billion, or $0.69 per share. These earnings were below expectations, reflecting the high level of legacy costs, most notably in legal and related expenses. We also had a reserve release, which was significantly smaller than in previous quarters, as our credit trends are normalizing, and we've not yet begun to release mortgage reserves. To be clear, we're not satisfied with these bottom line earnings; and our focus is not only on putting the drag of legacy issues behind us, but also in optimizing the efficiency and returns of our business as a whole.

Despite the disappointing bottom line, our businesses generally performed well during the quarter. Investment banking increased its wallet share and loans grew in our core businesses, such as Latin American consumer where we saw double-digit growth. In addition, we decreased Citi Holdings assets by 9% during the quarter, for a 31% reduction for the year. Our capital strength improved during the quarter, with the Tier 1 Common Ratio increasing to an estimated 8.7% on a Basel III basis. Although the environment has shown signs of improvement, we believe it's likely to remain challenging, with continued spread compression, the introduction and implementation of new or evolving regulation, as well as the costs associated with putting legacy issues behind us. This puts even greater importance on getting our operating efficiency to a level we're satisfied with, and on allocating our resources to opportunities, with the greatest risk-adjusted return.

Regardless of the environment, Citi needs to be recognized globally as an indisputably strong and stable bank. We believe the proper essentials are the combination of a strong balance sheet made up of high-quality assets, supported by the appropriate levels of capital and liquidity. Along with our risk profile, our necessary levels of capital and liquidity are a function of the consistency of the quantity and quality of our earnings. And as a company, we need to deliver on our commitments.

When I became CEO in October, I stated three main objectives to accomplish by early in the new year. First, conduct business reviews and prepare the 2013 budget, which drove our repositioning charge in the fourth quarter. Second was to structure my management team, which was announced on January 7. And third was to finalize and submit our CCAR, which was submitted on the same day. Throughout this period, I spent a good amount of time meeting with stakeholders, our clients, investors, regulators, and of course, our people.

Let me make a few points based on those conversations. First, our strategy is to focus on our core banking businesses by trying to provide best-in-class products and services to people and institutions, leveraging our global footprint, which includes the world's fastest-growing markets and cities. We believe our strategy has aligned with the dominant secular trends. Second, we'll continue to seek ways to refine and optimize the execution of our strategy, and focus on operating efficiency. As a Company, we need to show expense discipline, and that we can be smart allocators of our resources, driving them where they can catalyze strong, risk-adjusted returns. For example, the $900 million in expense reductions we expect to realize in 2013 from the repositioning actions we announced in December was driven by a bottoms-up review of where and how we're going to allocate our expense dollars. That said, improving operating efficiency needs to be BAU, not just an annual event.

Third, we're very focused on Citi Holdings, considering the disproportionate drag it places on net income and returns. In 2012, we reduced the size of Citi Holdings by 31%, and it now makes up 8% of our balance sheet. With that being said, there is no silver bullet which will immediately resolve Holdings. We'll continue to manage these assets and our associated expenses in an economically rational way, while taking advantage of any reasonable opportunities to reduce them more expeditiously. And as you know, our North American mortgage portfolio makes up the majority of Holdings assets. Trends in that portfolio were favorable in the recent quarter, and we continue to watch the U.S. economy and housing market very closely.

But before I turn it over to John, I would like to emphasize that we recognize our net income today doesn't yet reflect either the amount or caliber of earnings our shareholders expect, and that our franchise is capable of. It will take some time to work through the challenges of the current environment to realize this potential. Improving our operating efficiency, returns on assets, and tangible equity in a risk-balanced manner, and returning capital to our shareholders are critical goals going forward. I'm a believer in “you are what you measure,” and I intend to set clear goals and hold my management team accountable for them. Similarly, we'll share key metrics with you in the coming months, so you can hold me accountable as well. Now, John will go over the slides, and then we would be happy to answer any of your questions. Thank you.

JOHN GERSPACH: Thank you, Mike, and good morning everyone. To start, I would like to highlight some significant items affecting our results this quarter. First, CVA and DVA were negative $485 million pre-tax, and $301 million after-tax in the fourth quarter, for a negative impact on EPS of $0.10. In addition, as previously announced, we reported a $1 billion pre-tax repositioning charge in the fourth quarter, or $653 million after-tax, for a negative impact on EPS of $0.21. For comparison purposes, in the fourth quarter of 2011, CVA and DVA had a minimal impact at negative $40 million pre-tax, and repositioning costs were $428 million pre-tax, or $275 million after-tax, for a total negative impact of $0.10 per share.

Adjusting for these items, we earned $2.2 billion in the fourth quarter of 2012, or $0.69 per share, as compared to $0.41 per share in the fourth quarter of 2011. Throughout today's earnings presentation, I will be discussing our results, excluding both CVA/DVA, as well as the higher than normal repositioning costs in the fourth quarters of 2011 and 2012, to provide comparability to prior periods. I will also discuss prior quarters excluding the impact of gains and losses on minority investments, as well as the tax benefit in the third quarter of 2012. A full schedule of repositioning charges by business is included in the appendix.

In addition, as shown on slide 4, there are a few other significant items which are included in our results. First, operating expenses in the fourth quarter included legal and related costs of nearly $1.3 billion, compared to $529 million last quarter, and $832 million in the prior year. Legal and related costs in Citicorp, including Corp/Other, increased significantly from prior periods to $735 million, driven primarily by U.S. consumer-related matters. And Citi Holdings' legal expenses were roughly $550 million, including the previously-announced $305 million charge related to the foreclosure review settlement.

Second, the net loan loss reserve release of $86 million this quarter was significantly lower than prior periods. Year-over-year, about half of the decline in the reserve release was driven by Citicorp, mostly in North America cards, and about half was driven by Citi Holdings, reflecting declining loan and reserve balances versus last year. In Citi Holdings, we recorded a net reserve build in the fourth quarter, as a significantly lower net reserve release was more than offset by the impact of losses on loan sales. This compares to a reserve release of $663 million last year.

On slide 5, we show total Citigroup results for the quarter. Revenues of $18.7 billion were up 8% from last year, while operating expenses of $12.8 billion were roughly flat, as higher legal and related costs were offset by a 3% decline in core operating expenses. Credit costs of $3.2 billion increased 11% versus last year. Net credit losses of $3.1 billion declined by 25%; however, as I just discussed, the net reserve release of $86 million was down significantly from $1.5 billion last year.

We earned $2.2 billion of net income in the fourth quarter, or $0.69 per share, up from $0.41 per share last year on a comparable basis. This was driven by loan growth, lower core operating expenses, and lower net credit losses, partially offset by the increase in legal and related expenses and a lower net loan loss reserve release. Citigroup end of period loans grew 1% year-over-year to $655 billion, as loan growth in Citicorp continued to outpace the wind-down of Citi Holdings, and deposits grew 7% to $931 billion. We saw an expected decline in deposits during the fourth quarter, reflecting the runoff of episodic deposits which came in at the end of the third quarter, as well as the expiration of the Transaction Account Guarantee, or TAG program. This decline was partially offset by continued growth in core operating account balances.

On slide 6, we show full year results, including the split between Citicorp and Citi Holdings. Throughout today's earnings presentation, I will be discussing Citicorp results including our operating businesses (Global Consumer Banking, Securities and Banking, and Transaction Services) as well as the Corporate/Other segment. Full year 2012 revenues for Citigroup were $77 billion, up slightly from 2011, with less than 5% of revenues coming from Citi Holdings. Operating expenses were down 2%, and credit costs also declined as a significant reduction in net credit losses was offset by a smaller loan loss reserve release in 2012 versus the prior year. For the full year, Citigroup earned nearly $12 billion in net income, up 18% from last year.

On slide 7, we showed quarterly results for Citicorp and Citi Holdings. Citicorp generated fourth quarter revenues of $17.6 billion and net income of $3.2 billion. Year-over-year, revenues grew 9%, and expenses were up 3%, as higher legal and related costs were partially offset by a 2% decline in core operating expenses. And, for the eighth consecutive quarter, we grew loans year-over-year in every business in Citicorp. Total Citicorp loans grew 7%, with consumer loans up 3%, and corporate loans up 11%. Citi Holdings had revenues of $1 billion and a net loss of $1 billion. Citi Holdings ended the quarter with $156 billion of assets, down 15% during the quarter, and $69 billion, or 31% year-over-year. At quarter-end, Citi Holdings accounted for 8% of total Citigroup assets.

On slide 8, we show a nine quarter trend for Citicorp's results. As I noted, Citicorp's revenues of $17.6 billion were 9% higher year-over-year, and down 4% sequentially, mostly reflecting seasonally lower capital markets revenues. Expenses of $11.3 billion were up 3% from last year and 2% sequentially, due to the higher legal and related costs. Citicorp's net credit losses of $2.1 billion continued to decline in the fourth quarter, down 19% from last year, driven by improvement in North America cards. And the net loan loss reserve release in Citicorp was $137 million, down significantly from the prior quarter and prior year, mostly reflecting a decline in the net reserve release in North America cards. Year-over-year, we grew Citicorp's earnings in every quarter of 2012.

On slide 9, we show Citicorp's pre-tax earnings by business, excluding the impact of loan loss reserves. For the full year 2012, earnings grew to just over $20 billion, up 40% from 2011, driven by Consumer Banking and Securities and Banking.

Slide 10 shows the results for North America Consumer Banking. Total revenues of $5.3 billion in the fourth quarter were up 3% year-over-year, largely driven by higher gains on sales of mortgage loans, partially offset by a decline in card revenues. Total cards revenues were down 3% from last year, as lower average loans were partially offset by an improvement in spreads. Lower Retail Services revenues also reflected improving credit and its impact on contractual partner payments. Total operating expenses of $2.6 billion were down 3% year-over-year, primarily due to efficiency savings. On a sequential basis, the increase in expenses was primarily driven by higher legal and related costs.

Credit costs of $1.1 billion increased 10% year-over-year and were up 25% sequentially. Net credit losses declined by 27% year-over-year to $1.3 billion, driven by improvement in cards. However, the net loan loss reserve release was significantly lower than prior periods, at $215 million this quarter, compared to $784 million in the prior year, and $518 million last quarter. Looking ahead to 2013, assuming a continuation of the current economic environment here in the U.S., we expect the average quarterly net reserve releases in cards to roughly approximate the fourth quarter level.

Earnings before tax, excluding the impact of loan loss reserves, nearly doubled from last year to $1.5 billion. Overall, we continued to see progress in our North America consumer franchise. Average deposits grew for the seventh consecutive quarter, up 9% year-over-year, including double-digit growth in checking account balances. In branded cards, accounts also grew for the seventh consecutive quarter, up 3% year-over-year. And for both card portfolios, net credit margins continued to expand year-over-year.

On slide 11, we show results for international Consumer Banking in constant dollars. On this basis, both revenues and expenses grew 4% year-over-year. In Latin America, both revenues and expenses grew 7% from last year. And in EMEA, we generated positive operating leverage with revenue growth of 11% and expense growth of 5% year-over-year. In Asia, revenues were down 2% from last year, while expenses were up 1%. However, on a sequential basis, revenues were flat as we began to move past the headwinds in both Korea and Japan. I'll talk more about Asia in a minute.

Most drivers for international Consumer Banking continued to grow in the fourth quarter. Total average loans grew 5% from last year, card purchase sales were up 10%, and investment sales grew 36% year-over-year. Credit costs of $869 million in the fourth quarter were up 12% from last year, driven by 12% growth in net credit losses, due mostly to loan growth, as well as some specific commercial loan charge-offs in Latin America.

On slide 12, we show our Asia consumer results in a bit more detail. Total revenues remained under pressure in the fourth quarter, due to the continued low rate environment and the impact of regulatory head winds in certain markets, most notably Korea. Our underlying business volumes, however, reflected continued franchise strength, and importantly, credit performance remained very good, reflecting the high quality of our portfolio. We also maintained expense discipline across the region, while still investing in important markets such as China.

Looking first at the cards business, revenues grew 2% year-over-year, with significant growth in card purchase sales. In total, purchase sales grew 8% from last year, and, excluding Korea, purchase sales were up 9% versus prior periods. Investment sales revenue showed strong performance, up 14% year-over-year, and down moderately from a particularly good third quarter, as retail investors sentiment improved and we continue to attract high quality customers. Revenue pressure was most evident in our retail lending and deposit businesses, down 10% year-over-year, as spread compression offset volume growth.

Volumes were muted in Korea in particular. Excluding this market, average retail loans grew 8% year-over-year. Our overall outlook for Asia remains positive, and we continue to believe we can grow 2013 revenues at an annual rate of 4% to 6% from current levels. We also believe that longer term, as customers become less risk averse and interest rates normalize, revenue growth in Asia will converge with the existing driver growth; and that should feed through to earnings, given our efficiency, portfolio quality, and strong market position.

Slide 13 shows our international consumer credit trends. Credit quality in our international consumer portfolio remained strong in the fourth quarter. For total international Consumer Banking, the NCL rate increased 17 basis points from last quarter to 215 basis points, driven by Latin America, while 90-plus-day delinquencies were fairly stable at just above 90 basis points.

In Latin America, the increase in the NCL rate reflected a $50 million sequential increase in retail net credit losses. Roughly a third of this increase was related to two specific commercial loan charge-offs in Mexico, and the remainder primarily reflected seasoning of the portfolio, mainly personal loans in Mexico, Colombia, and Brazil. In Latin America, we expect retail banking NCL rates should normalize in the range of 2.5% by the second half of 2013. The cards NCL rate in Latin America remained stable in the fourth quarter at 7.7%. However, we would expect this portfolio to normalize to a level of around 8.5% in 2013 as the portfolio seasons. On a combined basis, therefore, we expect the NCL rate in Latin America to normalize in the range of 4.5% by the second half of 2013, based on what we see today. In Asia, both the NCL and delinquency rates remain fairly stable, at 1% and 50 basis points respectively.

Slide 14 shows our Securities and Banking business. Revenues of $4.8 billion grew 47% from last year, and were down 14% from the prior quarter on seasonally lower capital markets revenues. Investment banking revenues of $996 million grew 56% from the prior year, and 8% sequentially, with higher revenues in all major products. Overall, our wallet share in investment banking improved this year in most products and regions. Equity market revenues of $455 million nearly doubled from last year, driven by improved derivatives performance, as well as the absence of the prior period's proprietary trading losses. However, sequentially, equity market revenues were down 11% on lower derivatives revenues.

Fixed income market revenues of $2.7 billion grew 58% from last year, driven by significant improvement in credit and securitized products, as well as higher revenues in rates and currencies. Sequentially, fixed income revenues declined 27% from a strong third quarter. Lending revenues, excluding the impact of gains and losses on hedges related to accrual loans, were $397 million in the fourth quarter, up 17% from last year on higher loan balances and improved spreads and down 11% sequentially on loan sale activity. Total operating expenses of $3.4 billion were down 2% from last year, driven by efficiency sales. Credit costs were $78 million in the fourth quarter, and net income grew substantially year-over-year to $1.1 billion.

Moving now to Transaction Services on slide 15, revenues of $2.6 billion were up 1% from last year. Treasury and Trade Solutions was up 1% year-over-year, driven by continued growth in deposits and trade loans, partially offset by ongoing spread compression. Securities and Fund Services revenues were flat to last year, as growth in fee revenues was also offset by continued spread compression. The drivers for Transaction Services continued to show strong momentum. End of period trade loans were up 24% from the prior year, average deposits were up 16%, and assets under custody grew by 10%.

Expenses of $1.5 billion were up 2% from last year, due mostly to higher legal and related costs, as well as certain episodic items, which also drove part of the increase from the prior quarter. We experienced negative operating leverage in Transaction Services in the fourth quarter, reflecting both spread compression in revenues and the increase in expenses. While we currently expect client volumes to continue to grow, revenue pressure from spread compression is likely to persist in the near term. Quarterly expenses, however, should be somewhat lower than fourth quarter 2012 levels as we go forward. As such, we expect to return to positive operating leverage in Transaction Services on a full year basis in 2013.

Slide 16 shows the results for Corporate/Other. Revenues of negative $76 million were down from the prior year, driven by the absence of last year's hedging gains and lower investment yields. Expenses of $805 million were significantly higher versus last year, mainly due to higher legal and related expenses. Assets of $249 billion included approximately $46 billion of cash and cash equivalents, and $144 billion of liquid available for sale securities.

Slide 17 shows Citi Holdings' assets. We ended the quarter with assets of $156 billion in Citi Holdings, or roughly 8% of total Citigroup assets. The $15 billion reduction in the fourth quarter reflected $4 billion of asset sales, $10 billion of net pay downs, and roughly $1 billion of cost of credit.

On slide 18, we show Citi Holdings' financial results for the quarter. Total revenues of $1 billion were down 2% year-over-year, as declines in Local Consumer Lending were largely offset by higher revenues in the Special Asset Pool, reflecting an improvement in asset marks. Citi Holdings expenses were down 15% year-over-year to $1.5 billion, mostly due to the reduction in assets; and on a sequential basis, the increase mostly reflects the $305 million charge related to the foreclosure review settlement. Credit costs increased 14% year-over-year to $1.2 billion. Total net credit losses of $972 million were down 36% year-over-year. However, we recorded a net loan loss reserve build in the fourth quarter, as a significantly lower net reserve release was more than offset by the impact of losses on loan sales. This compared to a net reserve release of $663 million last year.

Looking at the past five quarters of Citi Holdings results on slide 19, rep and warranty reserve builds, legal and related costs, and repositioning charges continued to weigh on Citi Holdings in the fourth quarter. On an operating basis, however, excluding these items, we maintained a modest positive operating margin again in the fourth quarter, and our goal is to continue to generate positive margin, although there may be quarter-to-quarter fluctuations arising from periodic gains or losses, as we continue to wind-down the assets. Credit trends remain favorable this quarter, with North America mortgages comprising 75% of total net credit losses. We ended the quarter with $8.4 billion of loan loss reserves allocated to North America mortgage loans in Citi Holdings, or 33 months of loss coverage.

On slide 20, we show mortgage loan and adjusted net credit loss trends over the past two years. Since the fourth quarter of 2010, we have reduced the North America mortgage loans in Citi Holdings by 27%, driven by $19 billion of pay downs, $6 billion of asset sales, and $9 billion of net losses. In the recent fourth quarter, we sold nearly $600 million of delinquent loans. We have also significantly reduced the quarterly net credit losses on the portfolio, down 40% since the fourth quarter of 2010, to $762 million, even while roughly $60 million of losses were accelerated into the recent quarter as a result of the continued actions we are taking to fulfill our commitments under the National Mortgage Settlement, or NMS. We currently expect NMS to continue to have an impact on net credit losses through the second quarter of 2013. Delinquency trends improved as well through the fourth quarter, in both residential first mortgages and home equity loans. Assuming the continuation of the current economic environment here in the U.S., the net credit losses on these portfolios should generally decline over time, as the portfolio continues to shrink.

On slide 21, we show our net interest margin and revenue trends. Our net interest margin expanded in the fourth quarter by 7 basis points to 2.93%, with about half of the improvement driven by our trading book, and the remainder reflecting lower funding costs, partially offset by lower loan yields. Net interest revenue also increased from last quarter, as growth in Citicorp net interest revenue offset the ongoing wind-down of Citi Holdings. On a full year basis, our net interest margin remained relatively stable versus last year, at 288 basis points. And we currently believe we can maintain our net interest margin at roughly this level for 2013, with some quarterly fluctuations.

Turning to total Citigroup expenses on slide 22, while reported operating expenses of $13.8 billion in the fourth quarter were 5% higher than last year, core operating expenses, excluding legal and related costs and repositioning charges, declined 3% in constant dollars to $11.5 billion. We currently believe $11.5 billion is an indicative base for quarterly operating expenses, going into 2013. From this level, Citi Holdings expenses should decline over time, with the ongoing reduction in assets.

We will continue to pursue ongoing reengineering opportunities, and we continue to expect to achieve $900 million of expense savings in 2013 related to our announced repositioning actions, with full year expense savings of $1.2 billion beginning in 2014. These total expense savings will likely be offset in part by volume-related costs, particularly as we seek to grow client volumes in the low interest rate environment. Overall, however, we expect core operating expenses in 2013 to be lower than full year 2012. Of course, legal and related costs will likely continue to be elevated and somewhat volatile, although we would not expect our fourth quarter levels to be the new norm.

On slide 23, we show our key capital metrics through the fourth quarter. Under Basel III, our estimated Tier 1 Common Ratio increased to 8.7% versus 8.6% in the third quarter. And our Basel I Tier 1 Common

Ratio remained flat at 12.7%. Adjusting for the final market risk rules that became effective this month, our Basel I Tier 1 Common Ratio would have been approximately 11.2%.

In summary, our results in the fourth quarter reflected the challenging operating environment, as we face elevated legal and related costs and continued spread compression, particularly in the U.S. and Asia. In Consumer Banking, we continued to see strong loan growth in Latin America; and in Asia, we began to move past some of the regulatory head winds, which slowed volumes in the second half of the year. Importantly, the credit trends in our global consumer portfolio remained favorable, with net credit losses and delinquencies at historically low levels. In Securities and Banking, we demonstrated our ability to grow revenues, while maintaining expense discipline, and our investment banking franchise showed good progress. And finally, in Transaction Services, we faced a continued low interest rate environment in many global markets, but we showed positive operating leverage for the year, as higher volumes offset spread compression.

We continued to reduce Citi Holdings, which represented only 8% of total assets at year end. We also ended the year with demonstrated strength in both capital and liquidity. As we go into 2013, we are keenly aware of the challenging rate environment but remain positive in our ability to grow volumes to offset this headwind, given our unique global footprint. We are also highly focused on efficiency and optimizing our core businesses in order to drive improved returns. With that, Mike and I are happy to take any questions.

SUSAN KENDALL: Operator, can we get the first question, please?

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

GLENN SCHORR: Hi, thanks very much. John, you gave some good detail on some of the improving credit trends in Holdings and on the mortgage portfolio. I guess the blunt question, and I know we've asked it in the past, is what more do you need to see to start freeing up the reserves? This $8.4 billion, you have 33 months now, it's a big difference because it goes hand in hand with the question of how do we get that P&L impact of Holdings lower. So just curious on your thoughts, there.

JOHN GERSPACH: Glenn, your observations are absolutely right, as far as - and we have pointed this out before - as far as being able to begin charging those NCLs against the reserve is one way of driving Holdings towards break-even. But, as we said last quarter, we wanted to make sure that those trends, and we do see some strong, positive trends in the housing market, we want to make sure that they are sustainable. And at the end of last quarter, we pointed out to - we wanted to see the U.S. get past the whole fiscal cliff issue. Well, unfortunately, at the end of the year, the resolution of the fiscal cliff was basically kicking the can down the road. So I think that what we would like to see now is how the U.S. deals with the ongoing debt ceiling debate, and the upcoming sequester on expense reductions. We get through that, and we see how the economy performs, we see whether or not those trends that we see now are sustainable, and then we've got decisions to make.

GLENN SCHORR: Crystal ball, that's a 2013 event, though?

JOHN GERSPACH: You tell me how we're going to come through the debt ceiling…

GLENN SCHORR: They're going to put another Band-Aid on it. Okay.

JOHN GERSPACH: We'll take a look.

GLENN SCHORR: Okay. The $10 billion in pay downs this quarter that you mentioned, is that a - are there specifics to the portfolio that would make fourth quarter more or less, or is $10 billion a quarter fair enough to think about?

JOHN GERSPACH: Glenn, I just want to make sure that we're focused on the same items. When we were talking about that net pay down, so that's not an overall in the mortgage portfolio.

GLENN SCHORR: I'm with you, but - correct. But it's inside Holdings' assets, correct?

JOHN GERSPACH: Okay. That's fine. That's fine. Look, we've guided you for some time now that the pace of reduction in Holdings is going to slow and it won't necessarily be smooth quarter after quarter. So I wouldn’t look at that $10 billion of net pay downs necessarily as being indicative. But we don't anticipate that it should drop off dramatically in the next quarter or two.

GLENN SCHORR: Got it. Back in slide 26, in the appendix you gave us the Basel I, the Basel III walk-through. And I guess there's a 24% increase when you go from one to the other, and that's been consistent. What we've seen at some of the competitors is as portfolios have reduced and as credit has continued to get better, some changes to the models, therefore Basel III assets go down, therefore your Basel III cap ratio goes up. Curious on what would be different on Citi's portfolio, that we wouldn't see something similar?

JOHN GERSPACH: Assuming that we continue to reduce the risk in the portfolio and if there's an improving environment, that is the way the model should work.

GLENN SCHORR: So bottom line is at year end, you didn't make big changes to the models for what you've seen on credit. And so therefore, no big reduction of Basel III?

JOHN GERSPACH: No, no, no, the reductions that you see in Basel III primarily reflect, again, movement in the actual books themselves.

GLENN SCHORR: Yes, I appreciate that. One last quickie is you mentioned on the $1.3 billion of legal costs this quarter related to some consumer management. Not sure - I can take a guess, but I wouldn't mind just a little bit more color there. This way, we can make our own decisions on whether or not we think that's the appropriate run rate, or if fourth quarter was unusually high.

JOHN GERSPACH: Glenn, we don't go into detail on specific reserving actions unless it's in connection with a settlement that we're announcing. But, look, many different aspects of US consumer-related products and offerings are the focus of reviews across the industry - including several of our regulators. I don't think it's any secret that the CFPB has been reviewing various consumer products, and in fact, they are currently reviewing us. But I'm really not going to say anything more about individual regulator discussions.

GLENN SCHORR: Okay, thank you.

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

JOHN MCDONALD: Hi John, a couple of clarifying questions about your outlook comments. So you indicated that you hope to keep the net interest margins stable. Would that imply that you expect to have some expansion of net interest income dollars, given that the balance sheet is growing?

JOHN GERSPACH: Yes, the answer to that is it somewhat depends, and I'm going to have to fudge this a little bit, only because of the impact of the trading book and how that impacts net interest. So when you look at our core banking operation, we should have some improvement in net interest revenue. The difficult thing to project always, though, is the exact movements of net interest revenue, and therefore NIM, on the trading book.

JOHN MCDONALD: Okay.

JOHN GERSPACH: Both in this quarter, for instance, I mentioned as roughly half, 4 basis points of the 7 basis point improvement came about as a result of the trading portfolio.

JOHN GERSPACH: Okay, that's fair enough. And then on the expense outlook, you said core operating expenses should be trending at the $11.5 billion per quarter, right?

JOHN GERSPACH: I said that's a good base on which to start to think about it.

JOHN MCDONALD: Okay, and for the year, you expect that core operating expense to be lower in 2013 versus 2012. What's the amount in 2012 you are looking for when you say it will be below that?

JOHN GERSPACH: Take a look at the full year reported operating expenses for Citigroup.

JOHN MCDONALD: Okay. Do you have the number that you're looking at?

JOHN GERSPACH: I think there's a slide in the appendix.

JOHN MCDONALD: 46, 47?

JOHN GERSPACH: How about 29. So it's $46 billion, $46.3 billion.

JOHN MCDONALD: Okay, okay. So you expect the core operating expense to come in below that in 2013. That's what you're shooting for? And that's before the $900 million in repositioning saves? Just how does that - how do we think…?

JOHN GERSPACH: I rolled it all together. I'm trying to stay away from giving you a specific number. But think in terms of the $11.5 billion, as I said, as being an indicative base for moving forward. Off that $11.5 billion base, we're going to deliver the $900 million of expense saves coming off of the repositioning. We're going to drive down expenses in Citi Holdings. We're going to have to spend some amount of money off of those two reductions in order to fuel volume growth that we'll see in the business, but we're also anticipating continuing our reengineering program, and therefore, driving out more expenses on top of the $900 million.

JOHN MCDONALD: Okay, and then finally, we heard you say legal and related costs a lot today, as you went through your remarks. Just a little bit of color on what's included in that type of category? Because that was - there was a lot of expense increase in this quarter attributed to legal and related. And what are your thoughts as we go through? It's obviously tough to predict this stuff. Do you expect to make some improvement on that front in 2013?

JOHN GERSPACH: As I said, we don't - legal and related, what does it include? Let me get to one of your specific questions. It certainly includes the results of announced settlements. We call that out for you, just as we did with the $305 million settlement that we reached in connection with the foreclosure review settlement, right? It would include other reserves that we take in relation to ongoing legal and regulatory matters, for which we don't comment because they are just things we're not going to comment on publicly until they become a fact.

So given that, those are the types of items that you look at. And given the environment that we're in, that's why we would expect legal and related expenses to remain somewhat elevated as we move forward. Legal and related for this year ran about $2+ billion and closer to $3 billion - $2.9 billion. It's a $600 million or $700 million increase off of where we were last year. I think you're going to be looking at those types of levels, going at least in the near term.

JOHN MCDONALD: Okay, and one final specific question, can you tell us how much you had in expenses related to mortgage look-backs? And that might be ending with the independent foreclosure review settlement?

JOHN GERSPACH: Yes, one of the good things coming out of that settlement is that we can stop incurring those expenses. Those expenses were running us just south of $200 million a year.

JOHN MCDONALD: Okay, and were they disproportionately in Holdings?

JOHN GERSPACH: They were all in Holdings.

JOHN MCDONALD: Okay, great. Thanks a lot.

JOHN GERSPACH: Not a problem.

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

JAMES MITCHELL: Good Morning John, can I ask about the LCR? You guys have disclosed in the past that you, even under the more stringent criteria, you had, I think in the third quarter, had 116% LCR. With the new changes, have you had a chance to look at that, and where you might be, and does that give you an opportunity to free up some cash?

JOHN GERSPACH: Yes, it's a very timely question. Actually during the quarter, we actually did reduce the amount of excess cash that we were carrying towards the end of the quarter.

JAMES MITCHELL: That was my next question. Thanks.

JOHN GERSPACH: Whereas we were running levels of a little bit north of $400 billion, we're currently at about a $350 billion level on the excess cash. But even at that reduced level, under the new rules, we're running an LCR ratio of something to the tune of either 116% or 118%. So we still think that we are certainly in compliance with the new rules as fully rolled out, as we understand them.

JAMES MITCHELL: Okay. Fair enough. When we look at your balance sheet down, on a period-end basis down $70 billion, is that a function of the fact that you used a lot of that cash to pay down debt? Obviously you did have a decline in Citi Holdings as well, but was a good chunk of that used to pay down debt?

JOHN GERSPACH: Yes, a fair chunk of that went to pay down debt. We also had, as we said, some deposit runoff, largely the runoff of those episodic deposits we talked about coming into to us at the end of the third quarter. And then we also made some additional investments in available for sale securities. So I would say roughly on the $60 billion, it's probably 50% going towards long-term debt, 25% due to the deposit rundown, and 25% or thereabouts on the growth in AFS securities.

JAMES MITCHELL: Okay. Fair enough. Maybe the last one, I guess I'll take a shot at capital return. Obviously, there's been a lot of chatter. You can't really say exactly, but can you maybe discuss just broader view of how you think about this CCAR?

JOHN GERSPACH: I'm going to turn that one over to Mike.

MIKE CORBAT: Hi Jim. The way we approached CCAR was probably not surprising to most. It's really job one, or mission one, really to put a submission in where we could get approval. And so, we're obviously focused on doing that. I think second thing we were focused on, is in 2013, giving ourselves the goals of getting to and breaking a 9.5% Basel III Tier 1 Common Ratio. Those two things were the guiding principles of our submission, and I'll leave it at that.

JAMES MITCHELL: Okay. Thanks a lot.

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

MATT O’CONNOR: Thanks for taking the question. It sounds like you're not ready to comment on future cost saves, although there was a comment earlier that some additional efficiencies should be coming, so I do want to just prod a little bit there. As we think about the $1 billion or so savings that you disclosed last month, is that kind of a down payment on something that's going to be pretty big? Or is this a pretty big chunk of what the overall pie might be?

MIKE CORBAT: Matt, I think that what you described as the down payment was, as I described, the results of our budget process. And I think as we went through the budget, we came to some conclusions that we had expenses, people, businesses in places that we didn't think we were going to be able to earn the requisite returns on those businesses over the intermediate period, and chose and made decisions to exit, downsize, rescale those activities.

I think as an institution, and you heard me mention it, that from an operating efficiency perspective our businesses and geographies need to be focused, really BAU, on the way they think about and run their businesses. And so we're trying to drive, as we come out of this budget process, a mentality that rather than having one-off events or annual events around repositioning charges, people need to have specific metrics by which they are going to be held accountable for delivering against their businesses, and that they need to make real-time decisions in terms of how they choose to make that happen.

MATT O'CONNOR: And in terms of the timing of some of the metrics that you'll provide us, and I guess just the overall strategic review - I can appreciate you're a couple or few months into this -- what's the timing of that in terms of when you'll communicate to investors on the Street?

MIKE CORBAT: We're working through it and I think over the next coming months, we're going to come out with that.

MATT O'CONNOR: Okay, and I realize it's still being formed, but as we think about which metrics are important to you - I'm not going to pin you to the level - but in terms of whether it's the ROA, the ROE, the efficiency, or all of them, are there a couple of key ratios that you think about?

MIKE CORBAT: Yes, I mentioned in my opening remarks, I mentioned a few that I think are critical, and my guess is, as we refine this we'll speak to, in no particular order - I've mentioned operating efficiency. I think ROA is one of those things. I think that return on tangible common equity is a ratio that we should probably be out speaking and measuring ourselves to.

MATT O'CONNOR: Okay, and then just lastly, if I can, maybe a question for John. If we look at some of the capital markets revenues and I guess specifically FICC, last quarter, you had a very good quarter, and maybe the first three quarters, you gained a lot of share. And it seems like at least so far, we've seen report this quarter you might have given back a little bit this quarter. Is there just something different in your mix, because it's more global or just a product set, that maybe explains some of the relative weakness in 4Q?

JOHN GERSPACH: I'm not going to - I'm going to defend the FICC. I wouldn't call it weakness in the fourth quarter at all. I actually think we had a very good fourth quarter in our FICC business. For the full year, you've got FICC revenues up 28%, that's good performance. And I think that ongoing performance reflects a lot of the repositioning that we did in the business in 2011. So relatively speaking, we probably had more of an outperform in the third quarter and therefore, it makes the fourth quarter, when you're doing quarterly sequential comparisons, look a little small therefore, but I think that if you judge the year in its entirety, that's really the way to look at the business. I think the business had an excellent 2012.

MATT O'CONNOR: Okay, agreed. Thank you.

OPERATOR: And your next question comes from the line of Brennan Hawken with UBS.

BRENNAN HAWKEN: Good morning, thanks for taking the question. Just wanted to follow up, first, on something Glenn hit on, the reserves and Holdings. I just want to make really clear, there's nothing that you're seeing there in the data. I mean, given your comments, John, I wouldn't assume so, but just want to make sure here, that would be preventing you from releasing any reserves there?

JOHN GERSPACH: I think we've been pretty clear that we feel pretty good about the underlying credit data in that mortgage book. Delinquencies continue to improve. The NCLs, as you can see, continue to go down. We put up some data for you at the financial services conference I spoke about in December that point to some of the improvements that we've seen in the portfolio related to the dollars and the percentage of the portfolio, FICO scores over 660, and the amount of loans that had either FICO scores less than 580 or an LTV over 100% - and all of those trends are showing favorable movements. The book looks pretty good.

BRENNAN HAWKEN: Yes, agreed. It just seems - then you combine that with the home price improvements that we've seen now over the last three quarters, it just seems really odd that we wouldn't get some reserve release. Dysfunction in Washington is something that we're probably going to be able to count on until we normally would have been able to collect Social Security. God knows whether that will happen. I guess I'm just trying to figure out what's really preventing the release there, especially given the DTA?

JOHN GERSPACH: If we end up with a sustainable stalemate that then produces sustainable trends, maybe that will give us the basis then to make some other decisions.

BRENNAN HAWKEN: Okay. And then could you quantify the impact that the loan sale had on the Holding reserve build this quarter? It sounds like there was a little bit of noise there.

JOHN GERSPACH: Yes, we - there was a little over $100 million worth of losses that we took, net losses that we took on loan sales in the quarter. And that flows into that LLR line.

BRENNAN HAWKEN: Got it. Okay. And then also on reserve, in Asia, we switched to a build there. Are we seeing a cyclical - any reason to believe that's now a cyclical shift where there will be some build for a while, or is that more one time in nature?

JOHN GERSPACH: I don't think it's one time, but I think if you look at Asia over the last three or four quarters, we're bouncing around a level of reserves. I think we had a reserve build in Asia, I can't remember if it was the first quarter or the second quarter. Then we had some small releases. Now we've got a small build. So I would just look at it as fine-tuning the reserve levels.

BRENNAN HAWKEN: Okay. Then just a couple quick ones on cap markets. You don't provide comp ratios in Securities and Banking, but when you look at the expense ratio delta, it didn't show the improvement there that some of the peers, particularly as reported yesterday, showed. Could you give some color on what's going on there? Is there any reason why those would diverge, or is there any noise that might imply that the actual trends didn't diverge as much as the reported numbers would imply?

JOHN GERSPACH: When you take a look at the business, you have to take a look at the full year results in order to really get a true measure of performance. I don't have the full year Securities and Banking numbers in front of me, ex-CVA and everything else. But I believe that we did show improvement in the efficiency ratio in Securities and Banking during the course of the year. And I think even now, if you would just take a look at Securities and Banking, our efficiency ratio compares pretty well with the efficiency ratios of some of our peers. Having said that, and as Mike indicated in his opening remarks, we're still not satisfied with where we are, and we intend to drive for improvements in efficiency ratios in all of our businesses.

BRENNAN HAWKEN: Okay, and then last one, the DCM pipeline, can you maybe give some color on where that stands for you? We had a pretty terrific end of the year. Are we going to be looking at a typical sequential uptick here as we head into the typically seasonally strong 1Q?

JOHN GERSPACH: I really can't comment on the pipeline at this point in time. I'm sorry.

BRENNAN HAWKEN: Okay. Thanks.

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

BETSY GRASECK: Hi, good morning, couple of questions. One, at a recent conference, I think you mentioned mid-term goal on ROTCE of about 10%.

JOHN GERSPACH: Correct.

BETSY GRASECK: I was wondering if you could give us some color or clarity behind timing on that and how much the announced changes that you've made get you to that goal?

JOHN GERSPACH: Yes, I think that we would wrap up the timing, more specific timing on that in Mike's opening comments, where over the next coming months, we'll get you more specifics on that goal, as well as improvements in ROA and operating efficiencies.

BETSY GRASECK: Okay, and then on the comments around investing to get the revenue share that you're looking for. How do you think through the timing - just as you go throughout the year in 2013, you generate the expense saves and the $900 million that you discussed - and then you're investing that along the way? Or are you needing to see some revenue improvement first to have a business units self-invest?

MIKE CORBAT: I think it's when we talk about operating efficiency, Betsy, it's the want to have the balance between strong focus on expenses, but understanding that you can't cut yourself to where you need to be. And that we have businesses we need to make investments in, but understanding that expenses are the things that you can control. So we're going to be looking across the Company in terms of where and how we make those investments. And we're going to have a set of parameters and understanding around those investments as they come for people to make them, but we need to be in a position to be able to make those on a regular basis and drive that in a BAU way.

BETSY GRASECK: Got it. Okay, thanks.

OPERATOR: Your next question comes from the line of Erika Penala with Bank of America.

ERIKA PENALA: Good morning. My first question is actually a follow-up to Matt and Betsy's questions. Mike, specifically regarding GCB in Asia and LatAm, we appreciated John's comments with regards to revenue growth potentially starting to converge into earnings growth in Asia. Now we have a public comparable in terms of looking at credit growth trends in Mexico, now that Santander is public. I guess I'm wondering, have you gotten a chance to evaluate whether or not the infrastructure in those two regions are right-sized to potentially reap the revenue acceleration? Or is it still unwieldy relative to the secular changes of retail banking generally? And tell me if you need clarity on the last part of the question.

MIKE CORBAT: Sure. I think if I understand your question right, I think, Erika, it's important to understand the way we think about it, and the way we have asked Manuel to drive our consumer business. And that is, that we operate a consumer business in roughly 40 countries around the world, and that we recognize that aside from a few individual countries, our scale is not going to come from any one particular country. That our scale's got to be driven on a global basis, so as we think about our lending platforms, our card platforms, the mundane things of account openings, we've got to make sure that the systems and the way we approach things allows us to recognize that scale on a global basis. So I don't think of our consumer business as being constrained in the intermediate term, in terms of any individual geographies. But it's making sure that we have this drive to comment on our platform so that can occur. I'm not sure if that answers your question.

ERIKA PENALA: I guess just to be clear, there are not any additional investments that you would have to make in specific countries in those regions? I know you're focusing on China, but in Mexico, for example, to reap the credit growth and the revenue growth, if the Mexican economy's picking up as much as folks down there are saying. There's no additional reinvestment coming?

MIKE CORBAT: Yes, we've been making investments. We started making reasonable investments into Asia last year and around the world, Asia, Mexico, and other places. We have continued to invest, and I expect we'll continue to invest in some of those higher growth areas into the future.

ERIKA PENALA: Okay, and just a quick one that's not on Holdings' reserves. If I look at the provision levels in GCB North America, it was up quarter-over-quarter, but flat, flattish year-over-year. I mean, is the bump-up just simply seasonal, as the volume spend is higher in the fourth quarter? And could potentially come down in a dollar level in the first quarter?

JOHN GERSPACH: You are talking about the overall provision or just the NCL rate? I just want to make sure…

ERIKA PENALA: The overall provision in GCB North America.

JOHN GERSPACH: When you get into the overall provision, you get a little bit into loan loss reserve releases. Let's talk a little bit about credit losses, separate from loan loss reserve releases. I think we've given you the guidance on the loan loss reserve releases that, specifically in cards going forward, we would expect the loan loss reserve releases to be roughly at the level where we are in the fourth quarter, at least into 2013. When you take a look at the NCL rates, though, the net credit losses have been improving. The net credit loss rate has been improving in both our branded and our retail services portfolios throughout the year.

I don't have the numbers right in front of me, but we've got 3.92%, or something like that, NCL rate in branded cards. That's pretty low. I would anticipate that you'll see some increase in that rate during 2013, just because it's at a historically low level. But I think, even in 2013, you're looking at a level that's going to be in the low 4s. So we're not looking for some change in the underlying credit dynamics of either of our card portfolios.

ERIKA PENALA: Okay. That was helpful. Thanks for taking my questions.

JOHN GERSPACH: Not a problem.

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

MIKE MAYO: John, if you could just clarify, what was the return on tangible equity for Citigroup? However you look at it, excluding all the noise, what was ROTE for last year or for the fourth quarter or both?

JOHN GERSPACH: I don't have that number in front of me, Mike. I'm sorry. It's somewhere in the 5% range, I believe, for the full firm, for the full year.

MIKE MAYO: Okay.

JOHN GERSPACH: Just don't have it specific.

MIKE MAYO: That's fine. And I assume it's 5% for the whole firm. What would it be just for Citicorp?

JOHN GERSPACH: We don't break out TCE - we don't apportion the TCE, as you know, to the various operating segments.

MIKE MAYO: Okay. And, John, just in very simple terms, maybe it's a summary comment, your reserve release declined from around $900 million down to $100 million, or $0.19 down to $0.02. Why was reserve release so much less?

JOHN GERSPACH: Unfortunately, Mike, it's not going to be a very simple comment. But I guess if I was going to break it down, it would be that there were some episodic releases in the third quarter, which did not repeat. Don't forget, in the third quarter, we called out that we had a $600 million reserve release in that third quarter, specifically related to increased net credit losses that we were, the rest of the industry was forced to incur by some new guidance issued by the OCC. The loan loss reserve release associated with cards has been tracking down as we talked about. I think if you take a look at the cards book, we released about $800 million of reserves in the second quarter, about $550 million in the third quarter, and now we're down in that $200 million to $300 million range in the fourth quarter. And that's where we think we're going to be going forward. So we sort of reached where we're going to be in cards.

And the rest of it is just a lot of, a lot of individual noise around the portfolios. Take a look at international consumer. Our international consumer, we had a $100 million net reserve build in that business in the quarter. That's due to the growth in those portfolios. So unfortunately, there isn't a one sentence answer that I can give you on that. It's just a collection of how we take a look at, it's a collective view and an individual view of each portfolio.

MIKE MAYO: Okay, and then for Mike, I asked this question when you first got the CEO job. If in five years from now, you were to look back at your performance, what would you want to see to show that you were successful?

MIKE CORBAT: I think probably going back to your first line of questioning, we've got to get to a point where we stop destroying our shareholders' capital. That would certainly be at the top of the list - that we run a smart and efficient business that's good at its allocation of its resources around its customer and client segments; that it has continued to have the ability to lead and accompany those clients around the world; that it’s served a social purpose. There are several things in there.

MIKE MAYO: And then for us, the investors, I guess that in turn would lead to a higher stock price. Is that a secondary focus, if you do everything else right?

MIKE CORBAT: I wouldn't call it a secondary focus. We understand why we come to work and it's a primary focus.

MIKE MAYO: The reason I ask, as a new CEO, you have so many options of what you could do with the stock price. You could have the whole, all the Directors take a lot of stock and you've had some CEOs take their personal net worth and buy extra stock and as investors, I think that's a huge focus. I guess whenever you've done your review, perhaps we would hear more about what you might do along those lines. Is that a safe assumption?

MIKE CORBAT: Yes.

MIKE MAYO: Okay, and would you ever consider having a target of where you would want a stock price to be? In other words, if you're looking for higher returns on equity and you get the business mix that you ultimately want and the efficiency and the capital allocation, would you have a target in mind, or is that just left up to the stock market to let the valuation fall wherever it will?

MIKE CORBAT: I think we need to look at all the metrics that are out there. You talked to one of the challenges of that particular metric, in terms of how the market is approaching certain things. But it's obviously something we need to keep in mind.

MIKE MAYO: All right, thank you.

OPERATOR: Your next question comes from the line of Gerard Cassidy with RBC Capital Markets.

GERALD CASSIDY: Thank you and good afternoon. Can you share with us on the sale of the assets out of Citi Holdings, the pricing trends that you're seeing compared to the sales, the delinquent mortgage sales, for example, that you've sold in the past? I think through the third quarter, it was over $14 billion. Are you seeing better pricing now that the markets have improved a bit?

JOHN GERSPACH: Pricing did improve slightly in the fourth quarter, I'll tell you that. I wouldn't say it went up by leaps and bounds, but it definitely improved over the levels, certainly that we saw at the beginning of the third quarter. I would say the pricing on some of those asset sales improved towards the end of the third, and then held up in the fourth, is the way I would characterize it.

GERALD CASSIDY: Okay, and did you finance any of the sales of the assets in the quarter?

JOHN GERSPACH: No.

GERALD CASSIDY: Would that be a consideration of yours on a go-forward basis, to help accelerate the disposition of some of those assets?

JOHN GERSPACH: Well, actually we've done that in the past. If you look at some of the deals that we've announced, we've actually taken on those financing, in certain amounts.

GERALD CASSIDY: Right.

JOHN GERSPACH: …in order to make sure the deals would go. So that is not something that we would shy away from. Again, it's a matter of being right deal, right price, and I think in terms of what we always say, economically rational.

GERALD CASSIDY: Sure. Shifting away for a moment to the net interest margin, your interest-bearing liability costs in the quarter, when we look at it with and without the FDIC insurance, is higher than some of your competitors. Is there an opportunity to bring those costs down? Or is it just because of your global footprint, you just need to pay higher costs in markets outside the U.S.?

JOHN GERSPACH: I think that especially on the international deposits, I still think we've got some opportunity. We've probably got some more opportunity on the international deposits to bring some pricing down than we do on the domestic deposits. So I wouldn't say that we have completely - as long as we stay in low interest rate environments in those countries, I do think that we have still got some opportunities. We continue to reposition those books away from time deposits.

Even when you take a look at what goes on in Asia, in particular, or specifically, even what we would consider to be normal checking accounts here in the States, which don't bear interest, a lot of the checking accounts in foreign countries do bear interest. So as you start to grow those checking balances, even though they are operating accounts, you're going to see an increase in your interest bearing. The trick is to make sure that you're growing the real operating accounts and shifting the mix away from time deposits, which have much higher rates than just the base checking account. So even within something that gets reported as interest-bearing deposits, there's a mix shift that you can still work on. We're certainly in the process of doing that.

GERALD CASSIDY: And one last question on the balance sheet, what's the duration now of the securities portfolio?

JOHN GERSPACH: I'm sorry, Gerard. You just broke up just for a second. What was the question?

GERALD CASSIDY: Duration of the securities portfolio in years?

JOHN GERSPACH: When we look at - I'll focus on the AFS portfolio that we have used for the excess liquidity. I think that we used to say it was slightly under two years. Now I would characterize it as being slightly over two years. But it's still roughly in that two year tenure.

GERALD CASSIDY: Okay, and then one final question for Mike. In looking out over the next two to three, maybe even five years when you look to increase shareholders' wealth, is there - would you consider ever spinning off or selling parts of some of your assets such as your bank in Mexico, for example? We all know how well Mexico is doing and doesn't seem like Citigroup is getting enough credit for its position down there. How do you try to capture those good assets that might not be recognized today by the market?

MIKE CORBAT: Well, I think when you look at the way we come to work, we think our strength comes from our global network and the interconnectivity of our network, and our ability as we describe it, to lead and accompany our clients and customers around the world. And that's products, that's businesses, and we think that the value lies in that - point one. Point two, I would say in many ways, our model is becoming more unique, and has the ability to even become more valued over time. So if you look at where I just came from in Europe, the deleveraging, regulation in many cases - in some cases are forcing some firms to abandon global strategies, in some cases to abandon regional strategies, and I think that the importance of a bank that can do the things we do for its global clients is only becoming more valuable, and we think that the future lies in that. So we're committed to that, and that's what we're going to continue to invest in.

GERALD CASSIDY: Thank you.

OPERATOR: Your next question comes from the line of Marty Mosby with Guggenheim.

MARTY MOSBY: Good afternoon. I wanted to ask you a couple specific questions, and then ask Mike a very broad, strategic question. If you look at the $1.3 billion of expenses related to the litigation and the foreclosure settlement, can you break that out between Citi Holdings and what was then Citicorp?

JOHN GERSPACH: I think that's already broken out for you on one of the first slides that we've got in the presentation package. I think if you look at slide 4…

MARTY MOSBY: I'm sorry. I do see that there. I got that. Then if you look at the loss improvement that you saw in Citi Holdings, we talked a lot about the release of allowance, but when you're starting to look at the actual charges and the losses coming down, can you give us a little bit more color about what's driving that and how sustainable this new low level of losses would be?

JOHN GERSPACH: When you're talking about the low level of losses, Marty, I assume you're referring to the net credit losses?

MARTY MOSBY: That's correct, yes - about a 46% drop that we saw there this quarter.

JOHN GERSPACH: Yes, and as we said, we try to give you a little bit more color on that on the following slide, slide 20, where we break out the net credit losses on mortgages, which constitute certainly the vast majority of the NCLs in that business. Mortgages basically constitute three quarters of the NCLs that we have in Holdings. I think you see a fairly clear trend on that page. Now we certainly again, given the current environment and where we see things today, we would anticipate some continued improvement in those trends.

MARTY MOSBY: And then lastly, the strategic question, as we have structured the management team, it's kind of a traditional consumer versus business type of structure. How do you foresee kind of driving the businesses such that you can make sure that the focus in those two units in the cross-sell and the relationship building continues to move forward, and maybe evolves a culture that is a little bit more traditional banking in nature as you continue to build out the new direction?

MIKE CORBAT: If you look, Marty, what we announced, we announced co-Presidents of the Company, Jamie and Manuel, each running in essence global product and coverage organizations - Manuel on the consumer side, Jamie on the institutional side. And in those roles, they have got all of the products reporting into them. So you can then go to the next level and look at what we did as part of the reconstructive operations & technology. Obviously, operations & technology are critical parts of the operating businesses that we're in. In 2008 and 2009, we actually pulled operations back from being embedded in the businesses, I think, to reset the functions around the controls we saw necessary, going into the more challenged environment, as well as to be mindful around costs and bloat that we thought had existed.

I think we're at a point today, after making what I would characterize as good progress against those, whereas we look at business decisions that need to be made, and where we want to make investment, and how we're going to spend those dollars. I think those become not just operations, technology, safety and soundness decisions, but they become more broadly business decisions, and I want Jamie and Manuel thinking about that. So in my earlier comment, that Manuel has got to take our consumer business to scale around a drive towards common, in our consumer franchise, and that Jamie's got to continue to ring the synergies of what I call adjacencies amongst our businesses and client sets out, to make sure that we can provide the things we need. We can develop the things we need, but we can do them in an efficient way.

And so I think that part of the organization attempts to dictate and drive that. From a geographical perspective, I had the four large region heads reporting to me, as well, and when you think about the balance in an organization, you want the balance between your products and your geographies, and obviously the third piece around your clients, and you're just going to make better decisions. When I can look at what's going in the products, I can measure what's going on in the geographies, and I can see what our clients, and in particular our global clients are doing around the world, we can just make better decisions about where we want to be, how we want to be there, and where we want to use our resources.

MARTY MOSBY: Would you see profitability kind of as we manage, or monitor that being focused on those two big pieces primarily, meaning consumer and commercial, or still a matrix approach across all the different geographies, products, all that? Or are those two business units really, with what you're breaking out, going to drive the profitability overall?

MIKE CORBAT: No, I think as a Company that comes to work in a hundred countries around the world every day, we've got to have a balance between geography and product. Our products are global. Many of them are world class. We've got to make sure that gets celebrated and used in the right way. We come to work, and I'll go back to the example I've used before, that when we think of EMEA where I came from, we operate in 55 countries, and we come to work very differently in most of those countries.

And so if you're going to make sure you get the most out of your franchise, you've got to be mindful of that and make sure that you're driving the metrics and holding people accountability for the things that you need to do. If not, what you tend to see is you tend to see styles drift or you tend to see the business start veering into activities that really aren't core to its overall mission and principles. Having spent three or four years trying to clean that up, I'm not anxious or willing to go back there.

MARTY MOSBY: And then lastly, and thanks for your time here, when you look at just the business lines and segments that are reported, do you see any changes related to that in relation to the changes that you made here in management? Thanks.

MIKE CORBAT: I think right now we're focused on the metrics that really drive these businesses. I think over time, as always, we need to make sure that our reporting structure matches our management structure. And I think today it does, so I'm comfortable with it. Over time, we'll continue to reassess that.

MARTY MOSBY: Thank you.

OPERATOR: Your next question comes from the line of Vivek Juneja with JPMorgan.

VIVEK JUNEJA: Mike, along the lines of some of those questions that you've been getting, are there significant countries, businesses that you consider exiting? And as you think about savings, do you see them more U.S. or non-U.S., following this down payment that you talk about?

MIKE CORBAT: You characterized it as a down payment. I didn't. I think we went through an extensive, exhaustive amount of work around the work for the 2013 budget. And again, I think we made a number of decisions in terms of what it was we felt we needed to do, and what were the right choices around those things. Again, I think, as we go forward, I don't want to be in a position, or the Company to be in a position where we do these in one-offs. It's got to be BAU. We've got to continually be assessing how and where and with whom and in what ways we're using our resources, and that has to be driven and compared at the business level, and I think that's got be something that's ongoing rather - either being done on an occasional basis or in a step function basis.

VIVEK JUNEJA: When you talk about individual country, when you talk about having all these metrics that you're going to put out, are you going to vary them by country? Because obviously, individual country dynamics vary a lot, your market position varies a lot. In some countries, based on that, you're not going to be able to have the same efficiency ratio as the most efficient banks. Are you going to be customizing in that way? Are you going to drive more top of the house and if so, what level do you intend to share with us when you do?

MIKE CORBAT: Well, I think that we need to, and we've already started the work around the country strategies. And again, we come to work, as you describe, in many places in very different ways, and therefore the things that we want to hold people accountable for and the things we want to measure need to vary, and that's the direction that we're taking the firm. I think in terms of sharing those metrics at a granular basis, being in 100 countries, I don't think that's something that we would care to do, or probably in some ways you would find worthwhile. But certainly at the top of the house, which will be a roll-up rather than drive down, we'll be choosing those metrics with that we want to share with you.

VIVEK JUNEJA: But maybe like at a continent level like you do right now, like Asia, Latin America, that?

MIKE CORBAT: Again, we're working on metrics and over the next couple months, we'll be out with some things.

VIVEK JUNEJA: John, a couple of questions for you. When you look at your Basel III capital ratio, your assets seem to have come down more than RWA. Did something change to cause the fact that the RWA didn't come down as much, especially given that you've reduced assets in Citi Holdings, which should actually have a higher risk weight associated with them?

JOHN GERSPACH: Except, Vivek, that not every asset in Citi Holdings is weighted the exact same. So I would say that this quarter, when you take a look at the total amount of $15 billion that came down, some of it was in lower risk-weighted assets, or more favorably risk-weighted assets than at the higher end. It's simply that. It's a matter of mix.

VIVEK JUNEJA: Okay. But on top of that, you came down $50+ billion at Citicorp. I would have thought that at the very least, you would have come down by I guess what you're saying is what you are coming down is much lower risk weighted even in Citicorp, that's why your RWA is not coming down that much?

JOHN GERSPACH: Think about the reductions that we made in cash.

VIVEK JUNEJA: Right. Got it.

JOHN GERSPACH: $60 billion, so…

VIVEK JUNEJA: Yes, yes, got it. DTA, the disallowed amount, John, went up by $2 billion. What did the total amount of DTA do?

JOHN GERSPACH: Total amount of DTA in the quarter increased by about $2 billion.

VIVEK JUNEJA: Okay, and that's now, what, $56 billion?

JOHN GERSPACH: I'm sorry, sir?

VIVEK JUNEJA: Is that about $56 billion now?

JOHN GERSPACH: About $55.3 billion, I think, will be the number that will be in the K.

VIVEK JUNEJA: Okay. And lastly, just a clarification on a comment you made earlier. You expect legal-related charges to top near a fixed $600 million to $700 million rate going forward? Did I hear that correctly?

JOHN GERSPACH: I don't think that's what you heard at all, Vivek. What I said was that the legal and related expenses are going to stay elevated and somewhat volatile, but that we certainly didn't expect the $1.3 billion of expense that we had in the fourth quarter to represent a new norm.

VIVEK JUNEJA: Okay. Okay, alright. Thank you.

OPERATOR: Your next question comes from the line of Eric Wasserstrom with SunTrust.

ERIC WASSERSTROM: Thanks very much. John, just - this is just more of a structural question, but if I, if I did my numbers correctly in each of the major business lines within Citicorp, generated between let's call it 1% and 9% in positive operating leverage year-over-year. Do those figures sound about correct to you?

JOHN GERSPACH: Yes, roughly, I don't have it in my head, but each one was positive.

ERIC WASSERSTROM: Right. So I guess my real question is this - those numbers, the only adjustment that I've made was to exclude CVA and DVA, but nothing else about what we might consider nonrecurring or otherwise diminishing environmental expenses?

JOHN GERSPACH: The only difference between the way that I would have explained is the way I would think of it is, I would also adjust for the fourth-quarter repositioning, which ran $1 billion or so in the fourth quarter this year compared to $400 million, but is that the only adjustment that we're differing on, we're not going to get that wide of a gap.

ERIC WASSERSTROM: So the heart of my question is this, since we sort of generally agree on that point. It would seem, then, that given what you have articulated, with respect to additional expense initiatives and some of the benefits of the repositioning action and some of the things being undertaken in Asia, et cetera, even in the context of a difficult rate environment, how - doesn't it then suggest that we're going to see continued operating leverage across these business lines over 2013 in, let's call it, a static environment?

JOHN GERSPACH: The answer to that is I'm not going to say in business-by-business, because spread compression is going to hit you differently in different businesses, and I think we've seen that. Certainly in Transaction Services, if you're not able to offset spread compressions, but the volume, you can have the impact of the spread compression, it will take away revenues without impacting your level of volume. And so therefore, you're really running the same stuff through your shop, so your ability to take expenses out is then just limited to your ability to generate reengineering savings, which may or may not be enough to offset the impact of the spread compression. So in general, you're thinking about it the right way, but it is somewhat dependent business-by-business and it's also dependent upon the magnitude of the spread compression that is impacting each business.

ERIC WASSERSTROM: Great. And then just to follow up on that, outside of spread compression, which is obviously something that you probably - what then would be, in your mind, the other big risk factors that would disrupt the realization of positive operating leverage across the various businesses?

JOHN GERSPACH: Well, general economics.

ERIC WASSERSTROM: Sure.

JOHN GERSPACH: If, if we're not - if our customers aren't growing their businesses, if our customers are not - have a change in sentiment as far as how they view the general economy, and cut back on either savings or borrowing or any of that, that can certainly have - that certainly is a risk factor.

ERIC WASSERSTROM: Sure. So it sounds like outside of deterioration in the broader macro environment, what you're suggesting is the spread issue remains a serious one to look at, but other than that, we should probably be thinking about continued low single-digit operating leverage expansion?

JOHN GERSPACH: Yes, although I probably will be directing you to make sure that you do a thorough reading of every risk factor we publish in the 400-page 10-K that we'll be delivering to you at some point in time in the next 60, next 45 days or so.

ERIC WASSERSTROM: I look forward to that. Thanks, John.

OPERATOR: Your next question comes from the line of Andrew Marquardt with Evercore Partners.

ANDREW MARQUARDT: Just following on that line of questioning, I guess on expenses, can you talk about the areas that you're most focused on investing in? You talked about obviously the cost saves, and there's more to come, sounds like after this first cut. But the investment spend that you need to focus on, to drive the volume and the revenue, can you talk a little bit about where that's focused?

MIKE CORBAT: Sure. We're focused in a few areas. One is in the operations and technology area, in terms of continuing to combine, streamline, develop and roll out common systems around our global network. I think that would be one significant area where we've made investment, we're going to continue to make investment. We're always investing in our people in terms of wanting to continue to retain and attract talent, and in particular, in our institutional parts of our business, we'll be continuing to invest in the build-out of our commodities businesses around the world. We'll continue to be investing in digital and digitization around our Consumer Banking. Those are probably a few of the more significant investments.

ANDREW MARQUARDT: Thanks. And then regionally, if we were just to focus on the Global Consumer Bank, it sounds like you're turning the corner in terms of revenue in Asia and LatAm remains very strong. How should we think about revenue in North America?

MIKE CORBAT: I think from a North America, and in particular, I would say a U.S. consumer perspective. I think the environment, while John spoke to some of the positive attributes, I think that needs to be balanced with some of the realities of the low interest rate environment. I think that as others have forecasted, and I think we see a slowing in terms of the mortgage refinance boom and the economics that have been associated with it. I think those are two reasonable headwinds that we'll have to overcome in 2013 in North America consumer.

ANDREW MARQUARDT: Outside of mortgage, can the cards business, should we think about that actually growing this year, or is it still needed?

MIKE CORBAT: We've done a lot of work, we've made progress, and we've stabilized the portfolio. We've got to get growth back into it and that's going to be a focus.

ANDREW MARQUARDT: Got it, thanks. And then just lastly, as you're going through your ongoing business reviews and work on the operational efficiencies, have you had a chance to get a sense of longer-term, the all-in earnings power of the franchise? Will you also be updating us on your views on that longer-term. I guess historically, you had talked about kind of an ROA, 1.25%, 1.50%. Is that still applicable or should we wait for an update?

MIKE CORBAT: I think, addressing those questions in reverse order, the ROA 1.25% to 1.50% in this environment is not a practical goal to set out there in the short-term. We'll be resetting that. We'll be coming out over the next coming months, as I said, with some things that we're going to be measuring against, and we'll try and lay that out as best we can and show you, best we can, the path for the company going forward.

ANDREW MARQUARDT: Great. Thank you.

OPERATOR: And you have no further questions. Do you have any closing remarks?

SUSAN KENDALL: Yes, thanks, Marley. Thank you everyone, for joining us today. If you have any follow up questions, please call the investor relations team here. Thanks.

OPERATOR: And that does conclude today's conference call. You may now disconnect.