TRANSCRIPT

Citi Fourth Quarter 2013 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 2013 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 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. Kendall, you may begin.

SUSAN KENDALL: Thank you, Brent. 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 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 2012 Form 10-K.

With that said, let me turn it over to Mike.

MIKE CORBAT: Thank you, Susan. Good morning, everyone. Earlier today we reported earnings of $2.7 billion for the fourth quarter. Excluding CVA and DVA and impact of the Credicard divestiture, net income was $2.6 billion or $0.82 a share. In our Institutional business, our fourth quarter markets performance reflected an ongoing challenging environment. Sequentially, while our rates and currencies revenues were relatively stable, our credit and securitized products revenues were lower due to reduced client activity. And while in equities, client flows were relatively stable, we underperformed in trading. In contrast, investment banking showed positive momentum during the quarter, driven by strong M&A and equity underwriting, and we increased our overall wallet share for the year.

Transaction Services products demonstrated resilience in the low interest rate environment and regained positive operating leverage for the second half of the year. Importantly, we continued to grow both our client volumes and market share while demonstrating strong fee revenue growth on a year-on-year basis.

Our Consumer Bank performed well internationally, with Latin America showing continued revenue growth. The ongoing efforts to reposition our franchise in Korea continue to impact our Asia results, but the region had good performance otherwise. Our U.S. business saw a revenue boost from the acquisition of the Best Buy portfolio, we saw positive drivers in our Citi branded cards business, and mortgage revenues broadly stabilized during the quarter.

For the full-year, 2013 was every bit as challenging as we thought it would be when we entered the year. Low interest rates, changing expectations regarding the tapering of quantitative easing and the increasing cost of legal settlements all had significant impacts on our bottom line. However, while we didn't finish 2013 as strongly as I would have liked, I'm very pleased with the progress we made over the course of

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the year, especially in regard to several critical areas I highlighted in my first earnings call with you last January.

As a company, we improved our efficiency, completing the repositioning effort we announced last December. We reduced our operating expenses by 2% and our head count by 3% in 2013, while exiting segments that didn't fit our strategy. Key metrics such as ROTCE and ROA also improved as we made progress towards the targets we announced in March. We also began to tap into our deferred tax asset, with $600 million of DTA utilized in the fourth quarter, which brought the total amount utilized to $2.4 billion for the year.

Turning to Citi Holdings, with a $39 billion reduction in assets, we shrunk its size by 25% in 2013. We narrowed its annual loss by half when compared to 2012, making good progress for getting to breakeven. We also managed to put several legacy issues behind us through settlements with Fannie Mae and Freddie Mac.

By focusing intently on our clients, we grew loans in Citicorp by 7% over 2012 and improved our market share across our institutional businesses. And our net income of $13.8 billion was 15% above 2012 and the highest since before the financial crisis.

Higher net income helped to accelerate the growth of capital during the year, and we exceeded our goal of ending 2013 with an estimated Basel III Tier 1 Common Ratio of 10% by 50 basis points. We also received no objection to the capital plan we submitted to our regulators in early 2013. In addition, our Supplementary Leverage Ratio increased to an estimated 5.4%, exceeding the regulatory requirement.
But being pleased with our progress doesn't make us satisfied, and I know our shareholders aren't either. We still have work to do to generate the results that our shareholders expect and deserve.

Looking to 2014, we expect to be tested again as we believe the environment, while improving, will remain challenging. We believe short-term interest rates will remain low for the foreseeable future. And although we're working hard to put the remaining legacy issues behind us, legal headwinds will remain with us and the industry. And while we do see an improving economic environment, growth won't be robust really by any means. We believe the deceleration of growth in Asia has bottomed out and the Eurozone is continuing to recover, but albeit slowly.

Our projections for key markets such as Mexico, India and Korea call for improvements over 2013 levels. In the U.S., we believe our mortgage revenues have stabilized. And we're working to reduce the costs associated with legacy assets in Citi Holdings, as the recently announced sale of certain mortgage servicing rights shows.

We've entered 2014 as a strong and stable institution, as we work to leverage our unparalleled global network to the benefit of our clients. We're completely focused on executing our strategy, and remain committed to the targets we announced last year as well as our objective of returning capital to our shareholders.

With that, I'll now turn it over to John and he can go through the deck, and then we'd be happy to answer your questions. John?

JOHN GERSPACH: Thank you, Mike, and good morning, everyone. To start, I'd like to highlight some significant items affecting our results this quarter.

First, CVA and DVA were negative $164 million pre-tax and $100 million after tax in the fourth quarter, for a negative impact on EPS of $0.03 per share. We also recorded an after-tax benefit of $189 million related to the Credicard divestiture this quarter, for a positive impact on EPS of $0.06 per share. For comparison purposes, in the fourth quarter of 2012 CVA and DVA were negative $485 million pre-tax or $301 million after tax, for a negative impact of $0.10 per share. In addition, last year we recorded a large

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repositioning charge of over $1 billion pre-tax or $653 million after tax, which had a negative impact on EPS of $0.21 per share. Given the size of the repositioning charge in the fourth quarter of 2012, I will be discussing our results today excluding this item. However, we have continued to incur smaller repositioning charges as part of our ongoing expense initiatives, and these charges are included in our expense numbers for 2013.

Adjusting for CVA/DVA and the impact of the Credicard divestiture and the fourth quarter 2012 repositioning charges, we earned $2.6 billion in the fourth quarter of 2013 or $0.82 per share, as compared to $0.69 per share in the fourth quarter of 2012.

On slide 4 we show total Citigroup results. We earned $2.6 billion in the fourth quarter, up over 20% from last year, as lower operating expenses and lower credit costs were partially offset by a decline in revenues and a higher effective tax rate. The effective tax rate was 32% for the fourth quarter of 2013, somewhat above the prior quarter and full-year tax rate, primarily due to the amount of legal accruals estimated to be non-deductible.

On a full-year basis, revenues grew 1% while operating expenses were 2% lower. And credit costs also declined by over $2.8 billion, driving earnings growth of 15%. Citigroup end-of-period loans grew 2% year-over-year to $668 billion, as 7% growth in Citicorp was partially offset by the continued decline in Citi Holdings. And deposits grew to $968 billion.

On slide 5, we provide more detail on fourth quarter revenues in constant dollars. In Consumer Banking, revenues grew by over $200 million sequentially, driven by the Best Buy portfolio acquisition and continued growth in Latin America. And year-over-year, the decline mostly reflected lower U.S. mortgage refinancing activity. Securities and Banking revenues declined by over $450 million sequentially, reflecting lower markets revenues, partially offset by growth in investment banking. And year-over-year, fixed income revenues were down; however, both equities and investment banking showed improvement. In Transaction Services, revenues have been fairly stable, as growth in volumes and fees continued to be offset by lower spreads. Citi Holdings revenues improved year-over-year, mostly reflecting the absence of rep and warranty reserve builds. Finally, foreign currency translation accounted for roughly $260 million of the reported revenue decline year-over-year.

On slide 6, we show more expense details. Core operating expenses of $10.9 billion in the fourth quarter declined by roughly $340 million year-over-year in constant dollars, driven by efficiency savings and the decline in Citi Holdings assets, partially offset by volume-related expenses. Sequentially, costs were down by roughly $50 million, reflecting additional repositioning savings, partially offset by seasonal marketing expenses, deal-related costs in Securities and Banking, and higher than anticipated expenses in Retail Services this quarter related to the integration of the Best Buy portfolio.

Legal and related costs were just over $800 million in the fourth quarter. And as we had disclosed previously, repositioning costs were somewhat higher than recent quarters at $234 million. In addition, we incurred an incremental $33 million of compensatory fees to Fannie Mae related to the sale of servicing rights out of Citi Holdings we announced yesterday.

On a full-year basis, core operating expenses of $44.3 billion in 2013 declined by nearly $900 million, driven by firm-wide efficiency savings and asset reductions in Citi Holdings, partially offset by volume-related growth and investments in Citicorp as well as higher regulatory-related expenses. However, legal and related expenses continued to be elevated at roughly $3 billion.

On slide 7, we show the split between Citicorp and Citi Holdings. In Citicorp, pre-tax earnings grew 4% year-over-year in the fourth quarter, as the decline in revenues was more than offset by lower operating expenses and an improvement in credit. And on a full-year basis, pre-tax earnings improved by 5%, with revenues roughly flat and expenses down by 4%, partially offset by lower loan loss reserve releases versus the prior year.

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Turning to Citi Holdings, revenues were $1.3 billion in the fourth quarter, and the net loss was roughly $400 million. For the full-year, Citi Holdings losses declined by nearly half, from $3.7 billion last year to $1.9 billion in 2013, driven by a significant improvement in credit and declining assets, partially offset by higher legal and related costs. Citi Holdings assets declined by 25% during the year to $117 billion or 6% of total Citigroup assets.

Turning to Citicorp on slide 8, we show results for international Consumer Banking, again in constant dollars. On this basis, revenues grew 2% year-over-year in the fourth quarter while expenses increased by 3%, driven entirely by repositioning charges of roughly $80 million. International Consumer revenues continued to reflect spread compression as well as the impact of regulatory changes and the repositioning of our franchise in certain markets, particularly Korea. However, most key drivers remain positive, with both average loans and card purchase sales up 6% from last year. On a full-year basis, revenues increased by 3%, driven by Latin America, while expenses grew 1%, resulting in positive operating leverage. Credit costs increased in 2013. However, the NCL rate remained stable, and loan loss reserve builds were mostly driven by portfolio growth as well as specific builds for Mexico homebuilders during the year, as we have previously discussed.

On slide 9, we show revenue details for Asia Consumer. Lower retail banking revenues in the fourth quarter reflected the continued impact of regulatory changes, spread compression, and the repositioning of our franchise in Korea. Investment sales revenues remained muted in the fourth quarter in line with investor sentiment. And cards revenues improved slightly both year-over-year and sequentially, with continued growth in purchase sales across the region.

Korea remains a headwind. However, we continue to believe revenues in Korea should begin to stabilize in early 2014. Importantly, credit trends have remained stable in Korea. And Korea's drag on year-over-year loan growth for total Asia has diminished in recent quarters. Over time, Korea should better reflect our consumer franchise elsewhere around the world, with a footprint more concentrated in the major cities, a focus on high-quality consumer segments and improved returns.

Slide 10 shows the results for North America Consumer Banking. Total revenues were down 8% year-over-year and grew 3% sequentially. Retail banking revenues of $1.1 billion declined by 35% from last year, mostly reflecting the lower mortgage refinancing activity. Sequentially, mortgage revenues have begun to stabilize, but will continue to present a drag on year-over-year comparisons through at least the first half of 2014.

Branded cards revenues of $2.1 billion were flat versus last year and up 2% from last quarter, driven by continued improvement in net interest spreads and growth in purchase sales, offsetting the impact of lower average loans.

Retail Services grew 9% versus the prior quarter and prior year, driven by the Best Buy portfolio acquisition. Average loans grew 18% year-over-year. However, spreads declined as promotional balances increased. Total operating expenses of $2.4 billion were down 6% year-over-year, reflecting lower legal and related costs, ongoing efficiency savings and the resizing of the mortgage business, partially offset by the impact of the Best Buy acquisition. Credit costs declined modestly year-over-year but grew 19% sequentially, driven by lower reserve releases in branded cards and the impact of Best Buy.

Overall, our North America business executed well in 2013 in the face of many significant changes, from the resizing of our mortgage business to the continued revitalization of the branded cards franchise and the Best Buy portfolio acquisition; and we continue to see momentum in the fourth quarter. Average deposits were up 5%. Commercial market loans grew by 10%. And purchase sale growth improved in branded cards, reflecting the impact of investments in that business as well as an acceleration of growth in the American Airlines portfolio since the merger with US Airways was approved. We are pleased that

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we were recently awarded exclusive rights to issue new credit card accounts in support of American Airlines following the planned merger of the American and US Airways frequent flier programs by mid-2015.

Slide 11 shows our Global Consumer credit trends in more detail. Credit remained favorable in North America in the fourth quarter, with the decline in the NCL rate reflecting both underlying improvement as well as the impact of the Best Buy portfolio, which was acquired late in the third quarter. Looking forward, we currently anticipate the NCL rate in North America to be in the range of 3% for full-year 2014, as new loans continue to season in the Best Buy portfolio.

In Asia, credit trends remained stable in the fourth quarter. And in Latin America, we saw an uptick in both NCL and delinquency rates. The higher NCL rate in the fourth quarter primarily reflected the impact of portfolio seasoning in Mexico.

Looking to full-year 2014, we currently expect this portfolio seasoning to continue, with the NCL rate in Latin America being broadly in the range of the levels we saw in the second half of 2013. However, the NCL rate may be somewhat higher in the first quarter, as we typically see a seasonal decline in card loan balances.

In addition, as we've said previously, we took loan loss reserves in 2013 related to our exposure to Mexican homebuilders as well as the hurricanes in Mexico in the third quarter. Any losses from the homebuilders or the impact from the hurricanes may increase our NCL rate in the current quarters. However, we would expect these losses to be charged against the reserve, and therefore they should be neutral to the overall cost of credit. The increase in the delinquency rate in the fourth quarter was mostly driven by our exposure to homebuilders in Mexico.

Slide 12 shows our Securities and Banking business. Revenues of $4.6 billion declined 5% from last year and 9% sequentially. Investment banking revenues of $1 billion were up 3% from the prior year and 23% from last quarter, driven by M&A and equity underwriting, partially offset by lower debt underwriting revenues. Full-year investment banking revenues of $4 billion grew by 8%, as we continued to gain overall wallet share.

Equity market revenues of $539 million in the fourth quarter were up 16% from last year, reflecting improved client activity in both cash and derivatives. Sequentially, equity market revenues declined 24%, as trading performance was weaker and client activity slowed somewhat in December. However, we still made significant progress on a full-year basis, with equity market revenues up 22%, reflecting market share gains, improvements in derivatives execution and a more favorable environment.

Fixed income market revenues of $2.3 billion in the fourth quarter declined 15% from last year and 16% sequentially. Overall trading conditions remain muted for fixed income, as the government shutdown in the early weeks of the quarter as well as continued speculation around the timing of Fed tapering resulted in an environment similar to the third quarter, where it was more difficult to generate incremental trading revenues on client flows. In addition, both the year-over-year and sequential decline reflected the absence of any significant revenues from our Citi Capital Advisors business, which we continue to wind down. This business was not a material revenue contributor historically, but did have a strong fourth quarter in 2012.

And finally, while our rates and currencies business showed resilience in the fourth quarter, with revenues down only slightly from the third quarter, we did see a decline in spread products, particularly in securitized products. For the full-year, fixed income market revenues of $13 billion declined by 7%. Our full-year results reflected market share gains across most products, including strong performance in credit and securitized products. However, we saw fewer market opportunities in rates and currencies.

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Private bank revenues of $599 million were up slightly from last year and down 2% sequentially, driven by lower capital markets activity. Lending revenues, excluding the impact of gains and losses on hedges related to accrual loans, were $393 million in the fourth quarter, up from prior periods, as higher volumes and lower losses from loan sale activity were partially offset by lower spreads.

Total operating expenses of $3.4 billion were down versus the prior year, driven by lower compensation expenses, partially offset by higher legal and related costs and repositioning charges in the recent quarter. On a sequential basis, expenses were flat, as lower compensation expenses were offset by higher deal-related and legal and related costs, as well as the impact of foreign exchange. On a full-year basis, the franchise continued to show momentum, with revenues up 4% driven by equities, investment banking, and our private bank, while expenses declined by 3%, resulting in 16% growth in pre-tax earnings.

Moving to Transaction Services on slide 13, revenues of $2.6 billion were up 1% from last year in constant dollars, as strong fee income growth more than offset a decline in net interest revenues. Treasury & Trade Solutions was flat year-over-year, as volume and fee growth was offset by the continued impact of spread compression globally. And Securities & Fund Services revenues were up 5%, as higher settlement volumes and fees more than offset lower spreads.

Client activity grew across the franchise. Trade loan originations were up 12% year-over-year. Average deposits grew 9%. Assets under custody were up 10%. And SFS settlement volumes grew by 15%. Despite these volume gains, expenses of $1.4 billion declined 3% year-over-year in constant dollars, driven by efficiency savings as well as lower legal and related costs. Given the modest revenue growth and expense decline in the fourth quarter, Transaction Services achieved positive operating leverage for the second half of 2013.

On slide 14, we show expense and efficiency trends for the total institutional franchise. On a trailing 12-month basis, we have lowered our operating expenses every quarter for the past two years, driving the total efficiency ratio from 67% in 2011 to 58% in 2013. Compensation has been a significant contributor, with the comp ratio for the total institutional franchise improving to 29% in 2013.

In Securities and Banking, we have reduced the annual cost base by $1 billion since 2011. And while we have additional work to do, on a full-year basis for 2013, our efficiency ratio in Securities and Banking was 59%, within our 2015 target range of 55% to 60%. And in Transaction Services, the efficiency ratio was 54%, somewhat above our 48% to 52% target. However, as you can see here, we have been able to keep expenses flat at $5.7 billion, even as we have gained market share and built significant volumes. This should position us well for margin expansion in the future, as we look to continue increasing the fee component of our revenues, as spreads stabilize, and we begin to see the cost savings from repositioning actions taken in 2013.

Slide 15 shows the results for Corporate/Other. Revenues were up versus the prior year, mainly driven by hedging activities, partially offset by lower AFS sales; while expenses declined, mostly reflecting lower legal and related costs. Assets of $314 billion included approximately $116 billion of cash and cash equivalents and $141 billion of liquid available-for-sale securities.

Slide 16 shows Citi Holdings assets. We ended the quarter with assets of $117 billion in Citi Holdings or 6% of total Citigroup assets. The $5 billion reduction in the fourth quarter reflected $4 billion of net paydowns and $1 billion of asset sales. These sales included roughly $400 million of North America mortgages, most of which were non-performing.

On slide 17 we show Citi Holdings financial results for the quarter. Total revenues of $1.3 billion were up year-over-year, primarily driven by the absence of rep and warranty reserve build this quarter. Citi Holdings' expenses decreased 4% year-over-year to $1.5 billion, driven by the decline in assets, partially

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offset by higher legal and related costs. Excluding legal costs, operating expenses declined 16% to roughly $825 million, with North America mortgages comprising over a third of these operating expenses. As I mentioned earlier, yesterday we announced the sale of mortgage servicing rights for loans with a balance of roughly $10 billion. While this is only about 10% of our third-party servicing portfolio in Citi Holdings, the sale includes the majority of the delinquent loans we serviced for Fannie Mae. And it represents nearly 20% of the total loans currently serviced by CitiMortgage that are 60 days or more past due. This sale should benefit our mortgage expenses in Citi Holdings beginning in the second quarter.

Net credit losses continued to improve year-over-year. And we released $540 million of loan loss reserves, substantially all of which was related to North America mortgages. Mortgage net credit losses in the fourth quarter included $184 million of incremental charge-offs related to three items: first, a change in charge-off policy for mortgages originated in CitiFinancial to more closely align to policies used in the CitiMortgage business; second, the acceleration of accounting losses associated with modified home equity loans determined to be collateral-dependent; and third, a change in the estimate of net credit losses related to collateral-dependent loans to borrowers that have gone through Chapter 7 bankruptcy. These incremental charge-offs were almost fully offset by related loan loss reserve releases during the quarter.

Looking at the past five quarters of Citi Holdings results on slide 18, excluding legal and related expenses, the operating margin in Citi Holdings was positive again this quarter while credit cost continued to improve. The pre-tax loss in Citi Holdings was roughly $500 million, driven by $647 million of legal and related expenses. Legal and related costs remained elevated during 2013, driven largely by legacy private label securitization and other mortgage-related issues. It remains difficult for us to determine the ultimate timing and cost of resolving these issues. However, as we've said previously, we are hopeful we will have better clarity by sometime this year.

On slide 19, we show North America mortgage trends in Citi Holdings. We ended the quarter with $73 billion of North America mortgages, down 20% from a year ago, while net credit losses declined by 50% and the loss rate improved by roughly 120 basis points.

Here we show the breakdown of residential first mortgages originated in CitiMortgage versus the legacy CitiFinancial business. As you can see, while loan balances and net credit losses are declining in both portfolios, the loans originated in CitiFinancial are becoming a larger proportion of the total. Given the borrower profile in CitiFinancial, these loans tend to have higher loss rates at around 5% versus a loss rate of around 1% for CitiMortgage first mortgages.

We ended the quarter with $4.9 billion of loan loss reserves allocated to North America mortgages in Citi Holdings, or 39 months of NCL coverage. Looking at 2014, assuming the U.S. economic environment remains favorable, we continue to expect to utilize loan loss reserves to offset a substantial portion of our mortgage net credit losses.

On slide 20, we show Citigroup's net interest revenue and margin trends. Net interest revenue grew to $12 billion in the fourth quarter, driven by growth in average interest earning assets and a sequential improvement in margin. Our net interest margin grew by seven basis points in the fourth quarter, reflecting lower funding costs as well as stable loan and investment yields. We currently expect our net interest margin in 2014 should be at or around the 285 basis points we achieved in 2013, with fluctuations quarter to quarter.

On slide 21, we show our key capital metrics. Quarter-over-quarter, our estimated Basel III Tier 1 Common Ratio remained roughly flat at 10.5%, as our Tier 1 Common Capital continued to grow, driven by retained earnings and DTA utilization, but our risk-weighted assets also increased by approximately $40 billion. Our DTA utilization this quarter was roughly $600 million, bringing our total utilization for the year to roughly $2.4 billion, approximately $2 billion of which was comprised of foreign tax credit carry-forwards.

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The increase in risk-weighted assets quarter-over-quarter is entirely driven by an increase in our estimated risk-weighted assets associated with operational risk. We continue to further refine and enhance our models under Basel III. And given the evolving regulatory and litigation environment, we felt it prudent to increase our operational risk RWA during the quarter. Any changes to operational risk RWA, however, do not have an impact when calculating our estimated Basel III Supplementary Leverage Ratio, which increased to 5.4% in the fourth quarter. As we continue to move towards full Basel III implementation, we expect there could be additional refinements or required enhancements to our Basel III models as well as further regulatory implementation guidance. In addition, our Basel III models remain subject to regulatory review and approval. Any such changes or requirements could result in additional increases in our risk-weighted assets or changes to other elements involved in the calculation of our Basel III ratios.

In summary, we clearly faced a difficult environment in the fourth quarter, with continued challenging trading conditions and low interest rates. However, against this backdrop, we did make progress on several fronts. Investment banking revenues were strong, driven by M&A and equity underwriting. Our Consumer business returned to growth quarter-over-quarter, driven by Latin America and the Best Buy portfolio acquisition. In Citi Holdings, we continued to drive towards breakeven. And we ended the year with a strong capital position at an estimated Basel III Tier 1 Common Ratio of 10.5% and a Supplementary Leverage Ratio of 5.4%. On a full-year basis, we improved on each of our key financial targets, with better operating efficiency in Citicorp and higher Citigroup returns on both assets and Tangible Common Equity.

Looking forward to 2014, in Consumer, we expect the low interest rate environment to continue. However, some of the headwinds that affected us in 2013 should abate as we go through the year. In the U.S., we believe that mortgage revenues have broadly stabilized, while the impact of capacity reductions will result in lower expenses. Branded cards is beginning to show visible improvement, and we will benefit from a full-year of Best Buy revenues. And for international, we believe revenues in Korea should begin to stabilize early this year, alleviating the drag on Asia while Latin America should continue to grow.

Our Securities and Banking results will likely continue to reflect the overall market environment, with a goal of steadily gaining wallet share over time with our target clients. And in Transaction Services, we expect continued volume and fee growth to help offset the ongoing pressure of the low rate environment.

Turning to expenses, core operating expenses, excluding legal and related as well as repositioning costs, were roughly $44.3 billion for full-year 2013. Looking forward, our goal is to continue improving Citicorp efficiency while winding down the assets and expenses in Citi Holdings. Our core operating expenses will vary with the revenue environment. But as an example, looking at a low single-digit revenue growth scenario in Citicorp, we would expect our core operating expenses in 2014 to come in at or somewhat below the level of 2013, as continued productivity efforts offset by volume related growth investments and a continued increase in regulatory related expenses. And of course, there would be variability quarter to quarter, particularly driven by our markets businesses.

Repositioning expenses are expected to remain elevated in the first half of 2014, roughly in line with the levels we incurred in the fourth quarter. Finally, legal expenses, which totaled approximately $3 billion for full-year 2013, are expected to remain elevated into 2014.

In this environment, we remain focused on execution, gaining share with our clients, improving our efficiency, maintaining our credit discipline, and winding down Citi Holdings in an economically rational manner.

And with that, Mike and I are happy to take any questions.

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OPERATOR: (Operator Instructions) Your first question comes from the line of John McDonald with Sanford Bernstein. Please go ahead with your question.

JOHN MCDONALD: Hi. I was wondering if you could discuss the roadmaps to the 2015 financial targets. On the efficiency side of the targets, can you remind us of the levers that you can pull to get Citicorp to the mid-50% efficiency ratio? Because when we include the repositioning expenses, it just doesn't feel like we're experiencing major progress on the core expenses. So you mentioned ICG [Institutional Clients Group]. As long as you're there, John, maybe you could talk about that. What can you do to get to these efficiency targets in 2015?

JOHN GERSPACH: We did make progress on those efficiency targets in 2013. As I said, when you take a look at the overall efficiency target that we said was going be in the mid-50%, we came down to 58% for Citicorp during 2013. And as I said, I didn't say that ICG is largely there, John. I meant to say if I didn't say it that Securities and Banking is at least within the range right now, but we do still have more work to do.

In Transaction Services, we have been investing in that business, and we haven't had as much repositioning effort necessarily in Transaction Services as we did in Securities and Banking during 2013. So I still think that there are things that we can do there. There are levers that we can pull, as you put it, going into 2014.

And finally on Consumer, Consumer is the one where we didn't make – at least from the reported numbers, we didn't necessarily make progress during 2013. Consumer is at about a 54% efficiency ratio for both 2013 and 2012. There, we think that as we begin to get more of a rollout of our drive to common efforts, rolling out Rainbow and standardizing the platforms for the retail banking and cards businesses, we think then that that's where you're going begin to see some more efficiency improvements in Consumer. So that is something that you should continue to see – you should start to see in 2014 and then continue into 2015.

JOHN MCDONALD: Could you remind us on these repositioning expenses? What are the nature of these and why are they persisting at such a high rate? I think you indicated they might stay in the $250 million range for the first half of the year and then you expect them to come down.

JOHN GERSPACH: Yes, let's just focus – the first half of the year we still think is going be elevated. And when you take a look at what we anticipate and what we still need to do in the first half of the year, we still are looking to reduce our global real estate footprint. We still have facilities that are just larger than we currently need based upon how we've been able to reduce head count. And there are still facilities; there are leases that we need to exit.

Part of the issue when it comes to real estate, John, is you can't just book reserves in advance of exiting the premises. Your reserve has to be taken after or in the same period that you've actually left the building. And so there will be more of that. We're still in the process of rationalizing our branch network in the U.S. You've seen some of the announcements that we've made regarding branches in Texas and elsewhere. Again, we can make announcements that we're closing down the branches, but the repositioning expenses to get out of those branches only happen when we've actually left the premises.

And as I mentioned, as we roll out Rainbow and we move towards standard platforms in Consumer, certainly throughout 2014 there are going be repositioning costs that we take as we continue to streamline the operations. It's not just about moving onto standard platforms. Now once you move onto standard platforms, you want to standardize your processes across the globe. And so that is going to incur some level of repositioning as we move forward. And then we'll continue to look at delayering and rationalization of management structure throughout our businesses.

JOHN MCDONALD: When you talk about getting to the efficiency targets in 2015, that includes repositioning expenses, right?

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JOHN GERSPACH: Yes, when we've given you the targets for 2015, they've been all-inclusive.

JOHN MCDONALD: Okay.

JOHN GERSPACH: Go ahead.

JOHN MCDONALD: On the ROA and ROE side of the targets, the 1% ROA average and the ROE of 10%, those goals for 2015, what are the drivers there? Are you relying on a hope that the legal costs come down to get you there, or what else can help you get to those profitability goals?

JOHN GERSPACH: Don't forget, as we continue to improve the efficiency, that should improve results in Citicorp. And the biggest driving or one of the big driving factors that I think we've mentioned because don't forget those goals that we've laid out for ROA and ROTCE were at the Citigroup level. And so we continued to look to drive Citi Holdings close to breakeven.

JOHN MCDONALD: Okay, and one other question, John. On net interest income, you mentioned that the margin outlook for the year flattish at 285 basis points of 2013. But you ended the year higher than that and you added Best Buy in the fourth quarter. Just thinking about net interest income dollars, was there anything one-time-ish about that strong $12 billion NII number that you're exiting the year at, and is there any reason that's not a good starting point to try to grow off of this year?

JOHN GERSPACH: No, John. I'm a little cautious always when it comes to trying to forecast out NIM. There is a component of NIM that gets impacted by our trading business, and that can have some variability in it. So I think by – if you think about where we started this year, my guidance coming into this year was that I expected NIM to be at or around the 282 basis points that we had for overall 2012. And we actually finished a little higher at 285 basis points. I feel pretty comfortable just then establishing the fact that we will try to keep it constant going into next year. But obviously, if loan yields can improve a bit and if we can continue to lower the cost of our funding profile, there could be some upside to that number. But let's leave it at our expectations being at or around the 285 basis points for now.

JOHN MCDONALD: I was really thinking about the dollars, John. Your full-year NII dollars were $46.8 billion, but you ended the year with a $12 billion quarter and you have Best Buy now. So is there a reason on a dollar basis that NII wouldn't be higher in 2014 versus 2013 with the Best Buy portfolio?

JOHN GERSPACH: No, you're absolutely right. The NII dollars should continue to be there. But again, when it looks at NIM, you have to take that over your average earning assets.

JOHN MCDONALD: Yes.

JOHN GERSPACH: And so right now we're saying NIM would stay about flat. But the NII should be – there's no reason to think that it's going to decline from where we were in 2013.

JOHN MCDONALD: Right. The $12 billion you did this quarter is a good starting off point on dollars, it seems like.

JOHN GERSPACH: It's a good starting off point, John, but there's always likely to be some variability. And don't forget, when you get into things like NII, you get impacted by day count and everything else. So certainly as you look towards the first quarter, just the way the calendar works, there happened to be two less days in the first quarter compared to the fourth quarter. So you can look at the fourth quarter of $12 billion, but that's 92 days and there aren't 92 days in the first quarter.

JOHN MCDONALD: Got it, thanks.

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JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Glenn Schorr with ISI. Please go ahead with your question.

GLENN SCHORR: Thanks. So I want to ask a big picture question about Securities and Banking, and it goes towards John's question towards building towards those 2015 targets. And I guess the first part of it is, if you think there's seasonality component that's heavily weighted in the first half because if you look at your progression, it's there. So when you look at fourth quarter, it looks like you underperformed peer group. When you look at the full-year, your revenues are in line, your expenses are down, and you should be happy. But the problem is getting from current earnings to what people need to see to hit your targets in 2015. These are my words; I think the investment bank is a huge contributor of whether or not you get there. So I'm curious to see if, A), you think there's big seasonality that we should be expecting. And B), what specifically at the IB is going help us drive towards those targets now that you're doing your job on the expense side, or so it seems?

JOHN GERSPACH: I'm going to turn it over to Mike. But when you talk about seasonality, there is certainly some seasonality involved, but I think you have to take a look at the big change in environment that happened first half versus second half this year. We started out with a much more positive environment. And then the second half as we got into the whole concept of Fed tapering, government slowdown, that changed the environment and made it a much more cautious environment in the second half of the year and certainly beginning in the third quarter. And that certainly contributed I think a lot to what we saw as far as revenue production in the third and the fourth quarter. Mike, I don't know...

MIKE CORBAT: I agree with that. I think, Glenn, when you look at the year and as we go through our numbers, I think you've got to look that you can't just take a quarter like the fourth quarter, you can't take a quarter like the first quarter and simply annualize them. I think you've got to look at the environment. And I think as we looked at the second half of the year, probably really starting in some ways with Bernanke's May 22nd talk and then through the summer on EM concerns and then as we entered the end of the third quarter and went into the fourth quarter in terms of government shutdown, we had a number of factors that we had to deal with in there.

As I look at our S&B franchise and in particular as I look at our fixed income businesses, there's nothing in here that causes me concern in terms of our positioning. I think that we're going to – through a transitioning policy environment and through a transitioning rate environment, my guess is we'll have better quarters. We'll have less good quarters. But our goal over the longer term is to continue to take market share. And again, I think when you look at our full-year, we've done that. Clearly, we didn't do that when we isolate the fourth quarter.

I think when you look at our path to the targets that, in spite of the environment we're in, we did grow revenues 4% across S&B. And I think that while you could have more challenging parts of the fixed income environment, I think you've seen the work and the investment that we've put in the investment bank starting to pay. I think that you can see that some of the work we've done around equities starting to pay. But I think in each of those, we've got more to do. But I think from that, through being focused on market share gains, expense disciplines, I think we've got the ability to continue to grow bottom line in that business.

GLENN SCHORR: Just one follow up on S&B, you had mentioned the 4% revenue growth in that environment, Mike, and I hear you on change in environment. Can you talk about comp specifically? Because it's a big piece of expenses and you guys disclose differently, or should I say don't disclose comp ratio and comp dollars. Just given the improvement in efficiency, I was just curious on how people should be thinking about, if the environment does get a little bit better, the operating leverage in S&B.

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JOHN GERSPACH: Glenn, let me pipe in for a second. The efficiency ratio in ICG, as we've said, has been steadily coming down. And what I thought I mentioned when I was running through the slides is that compensation definitely played a role there. And when you take a look at ICG, we actually had a comp ratio of 29% for 2013.

GLENN SCHORR: And what was that last year, just in 2012, just so we have the comparisons?

JOHN GERSPACH: It's down from last year. Again, this is the first time we've disclosed it, so let's just establish the fact that it's at 29%.

GLENN SCHORR: Okay, I appreciate that. The comment on Korea caught my attention. Correct me if I'm wrong, it sounded like a little bit better timing-wise in terms of when that might flatten out and improve. Is that correct? And does that make much of a difference on the P&L because it's obviously been weighing down the rest of Asia, which has been fine?

JOHN GERSPACH: I'd say it's more of a firming of the timeline. When we mentioned at the end, back in October, that it should stabilize sometime in early 2014, it sounds like it's six months way. I think now when you hear it and you're sitting in January, it's something that could happen within the next three months. So it certainly – we have reaffirmed I think the guidance that we gave you last year as far as our belief that those Korean revenues should stabilize. And we think that's going to have impact on the overall growth trend in Asia.

If you go back, Glenn, to the beginning of 2012, at that point in time consumer loans in Korea represented 34% or so of the loans that we have in the Asia consumer franchise. Since that time, we've been reducing the loans in Korea. Korea loans have come down about $5 billion during those ensuing eight quarters, while you've seen the loan growth that we've had in Asia. That's now because of the loan growth we're getting out of Hong Kong, out of Singapore, out of India. So we're getting loan growth. And so now Korea loans represent something like 27% of the loans that we have in our Asia Consumer franchise. And the reductions – the sequential reductions in the Korea loan book have begun to slow. And so we see the revenue stabilizing early in 2014, and then you should get a much better view then as far as the underlying growth that we're actually generating in some of those other geographies, those other countries in Asia.

GLENN SCHORR: Okay, last one. I appreciate that, John. The Springleaf IPO, that's similar to something you've got inside Holdings. And I know you've been asked questions on this in the past. But now that it's public, now that the stock has done well, does that mean there's a potentially better funding environment to do something strategic there, whether it be sale, partnership, or IPO in a similar manner?

MIKE CORBAT: Glenn, as you may know, we've been pretty closely involved with Springleaf in terms of helping them go out and raise funding as well as being a lead in terms of the IPO, so I think we've got a pretty good sense of that. And I think it goes back to what we've talked about; that when we think the environment is right such that we can be paid value for that business, it's a business that is a terrific business but is a business that's non-core to really what Citi is. So we're continuing to explore options with that business. And when the time is right, we're certainly going be prepared to move on it.

GLENN SCHORR: Okay. I appreciate the answers, thanks.

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

MATT O'CONNOR: Hi, guys.

JOHN GERSPACH: Hi, Matt.

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MATT O'CONNOR: Just drilling down on the expense outlook of flat to down, can you give us a sense of how much savings are still to come from the various repositioning that you've done and how much might be natural expense creep and if there's a component that's discretionary in terms of investment spend? Or if that's not the right way to think about it, how should we think about the components?

JOHN GERSPACH: The only savings that we've actually talked about, that we've talked publicly about that's specifically linked to the repositioning was the $1 billion charge that we took in the fourth quarter of last year. And we said that the anticipation was that that would generate savings of about $1.2 billion annually, $900 million or so in 2013 with an annual run rate of $1.2 billion, and we've hit that. So you've got that in the numbers.

The rest of the repositioning actions that we've taken, and we've showed you at least the amounts that we've done, they've been much smaller actions as we've gone through the year, other than the fourth quarter where we went up to $234 million. I think the average run rate for the other three quarters was something in the $100 million to $115 million range. But it's all these types of actions that I laid out as far as the types of things that we would be looking to do in 2014; it's delayering, it's taking out management layers, it's repositioning the branch footprint, et cetera, et cetera. And all of those things are contributing to the expense base, the overall expense base.

We have had some, as you've put it, expense creep. I wouldn't necessarily refer to it as creep, but we do continue to invest in expanding our marketing programs, of expenses associated with new product launches and development. So all of that we would think about as being investment spending as far as going into – which will eventually yield to growth in revenues. So I think on a going-forward basis, the expectation would be that as long as we're in, as we would say, a low single-digit revenue growth environment, we're going to continue to make some investments to achieve that revenue growth. But overall, the impact of the repositioning actions should offset the cost of those investments.

On top of that, we haven't really spelled this out in any great degree of specificity, but we have had and we have been absorbing higher amounts of regulatory related expenses. I think I mentioned that during the script. But if you take a look at our regulatory expense build, year-over-year I think we grew our regulatory related expenses, expenses associated with everything from AML to compliance, et cetera, et cetera, by about $300 million, so that's expense growth that we've got this year. That has been more than offset by some of the efficiency programs. Over two years, it's probably – there was probably an additional $200 million to $300 million that we had in expense growth in 2012 over 2011 levels. And just based upon the way we're looking at 2014, we're likely to have an additional $200 million to $300 million of incremental regulatory expense in 2014, all of which we expect to be able to cover. So when I say expenses flat to down, it means covering the incremental regulatory expenses, it means covering the incremental investment spend all with repositioning actions.

MATT O'CONNOR: Okay.

JOHN GERSPACH: And obviously, if the environment changes, if we end up with an environment that doesn't look like we're going get any revenue growth, then we'll take other actions.

MATT O'CONNOR: Okay, that's helpful color. And then just separately, within equity trading, you have been gaining a lot of momentum there the last few quarters. I can appreciate in any one given quarter there can be some noise. But just – is it just a blip you think in terms of the progress that you have made there, especially on the equity driven side, or is there something else that we should be thinking about?

MIKE CORBAT: Matt, you're referring to the quarter-over-quarter performance? I think as we look, I think on a relative basis as you look across, and we'll see where everybody finishes, I think we're appearing to be roughly in line in terms of our equity performance, albeit coming from a lower base. But from our perspective, as John described, I don't think on the derivatives side yet we've got trading where we'd like

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it to be. And so I think that, unfortunately, none of this is linear, but I think we're making progress. And I think in 2014 we'll continue to make progress on that.

MATT O'CONNOR: Okay, thank you very much.

JOHN GERSPACH: Okay, Matt.

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

JIM MITCHELL: Hi, good morning.

JOHN GERSPACH: Hi, Jim.

MIKE CORBAT: Good morning.

JIM MITCHELL: Hey, just maybe a quick question maybe following up on a prior question on fixed income in a couple of ways. If we look at the last couple of quarters, ex-Citi Holdings, your balance sheet really has been pretty flat. Given your capital strength – and I think trading assets were down - given our capital strength and the potential that some of your peers overseas are deleveraging, why shouldn't we start seeing that part – that grow? What needs to get – what needs to happen for you to get more comfortable in growing your balance sheet given your capital strength?

MIKE CORBAT: I think as you look at a couple pieces, I think one is I think that some of the transition or uncertainty coming through the summer months around some of the transition of rates in the EM and whether it's against the BITS (Brazil, India, Thailand, South Africa) economy and some of those that came under pressure. I think that we've had some of our trading desks probably trading closer to home and probably for parts of the second and the half of the year have been more risk off. But again, I think as our trading desks see opportunities, they're free to go after them. So I'd say there's nothing prescribed here, but I think our trading desk in parts of the world decided to take some risk off as we got into the second half of the year.

JIM MITCHELL: That makes sense. Just maybe as a follow-up to that, we have had the Fed decide to taper. We do have a budget deal. Do you think that has changed at all the tone when you talk to your trading desks of things feeling a little bit better as we go into 2014, or no?

MIKE CORBAT: Yes, I think so. I think you have conversations probably, Jim, that range from things feel less bad to conversations that actually things are feeling better. And I think when you look around the world, I think in some ways 2013 probably surprised itself in terms of what happened from growth. We had a number of revisions out of some of the big countries, big regions down. And I think as you look across the globe in 2014, you've got most of those areas at a minimum stabilized and in many areas coming back up. So I think that people feel, and you can look at the way on the fixed income side they're trading, I think people certainly feel much more comfortable with the taper, the $10 billion a month taper today versus where we were five or six months ago. So the answer I think is yes. I think the environment is better.

JIM MITCHELL: Okay, great. That's helpful, and just one last question on Transaction Services. I appreciate the challenging rate environment, but I guess I'm just struggling with big volume growth but flat revenues across the board. It seems like your NIM overall has been pretty stable. What is unique to that business that you're still seeing big compression in spreads?

JOHN GERSPACH: I wouldn't say it's anything unique to that business. When you take a look at our Transaction Services business, it really is dissimilar to any other deposit business where you've seen the

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impact of spread compression. And it's just – one of the ways that we get paid for doing cash management work is through balances that people leave with us.

JIM MITCHELL: No, fair, but I think it seems like if we look at your competitors and disclosures, deposit spreads have been pretty stable the last one or two quarters. Just wondering why we're not starting to see a little bit more impact on revenues from volume growth?

JOHN GERSPACH: Actually, all I can tell you is that we're continuing to see the volume growth just able to offset the spread compression.

JIM MITCHELL: Okay, fair enough. Thanks.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Guy Moszkowski with Autonomous Research. Please go ahead with your question.

GUY MOSZKOWSKI: Thank you, good morning.

MIKE CORBAT: Hi, Guy.

GUY MOSZKOWSKI: I guess probably by now good afternoon. I just wanted to dig in a little bit on the decline in FICC. You talked about spread products in particular, securitized, but I guess also credit. And I just wanted to get some clarity on how much of that decline was emerging markets as opposed to more domestic stuff?

JOHN GERSPACH: Guy, when you mean talk about the decline, I just want to make sure that I answer your question. Are you talking about the sequential decline?

GUY MOSZKOWSKI: Actually both, the sequential and the year-over-year.

JOHN GERSPACH: All right. Then from a sequential – I'll be very specific. On a sequential basis, as I said, when we take a look at rates and currencies and the environment in which it was operating in, in the fourth quarter, very similar to the third quarter, low single-digit reduction in revenues and no real noticeable fall-off with anything to do with the emerging markets because the environment was the same. When you take a look at year-over-year, we did have a bit more of a drop-off in rates and currencies on a year-over-year basis. And the bulk of that drop-off would have been seen in the emerging markets. It's just a change in sentiment from where we were at the tail end of last year to where we were the end of 2013 regarding emerging markets, and that has been reflected in our year-over-year rates and currencies.

MIKE CORBAT: And I think if you go back and if you remember when I said it, I was probably a year ago and probably in the first quarter pretty complimentary of our trading desks saying I felt our trading desks in particular in the EM, had done an exceptional job in terms of trading QE, of the intermediation between central banks, financial institutions, corporate users, et cetera. And I think clearly, really from midyear on, we've seen a slowing of that QE related activity.

GUY MOSZKOWSKI: Got it, that's helpful. And I think I heard John say that the linked-quarter increase in RWA density and I guess just RWA was pretty much all driven by operational risk. In turn would that just be the higher litigation costs over the last year?

JOHN GERSPACH: Yes, that's right, Guy, you did hear that correctly. And it's driven by the higher level of litigation-related activity throughout the industry. It's much more of an assessment of what's going on in the industry. When we take a look at operational risk in our various businesses, we have to look both at

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ourselves but also at the industry as far as measuring the type of operational risk that our businesses face. So it's very much our view as to what's happening not just with us, but with some of the other things that you've seen hit the press as far as the industry.

GUY MOSZKOWSKI: Got it. So if a couple of your very large competitors have some outsized issues, ultimately that does impact to some extent your own operational risk?

JOHN GERSPACH: That is correct, Guy.

GUY MOSZKOWSKI: Okay, that helps too. As we think about those litigation costs, I think I heard you hinting that going forward into 2014, we should probably keep something like the same run rate. Is that all the way through the year?

JOHN GERSPACH: I'm just going to leave it that we think that, given the current environment, you should anticipate legal and related expenses staying at elevated levels.

GUY MOSZKOWSKI: And how does that intersect with the baseline $44.2 billion or $44.3 billion of operating expense? That should come above and beyond that as we think about that? I just want to make sure I'm clear on what you're telling us.

JOHN GERSPACH: Yes, Guy, that would be above the $44.3 billion number that I talked about.

GUY MOSZKOWSKI: And ongoing low level but persistent repositioning charges, those are outside of that number too or in it?

JOHN GERSPACH: Those are outside of that number that I was specifically talking about, but they are in when we talk about achieving the efficiency ratios for 2015.

GUY MOSZKOWSKI: Got it, by which time, of course as you pointed out, you should be getting some of the benefit of the earlier ones?

JOHN GERSPACH: Correct, correct.

GUY MOSZKOWSKI: And then a final one for me. The runoff in Holdings slowed – continued, but it did slow in the quarter quite a bit, any sense that you can share with us as to why that happened?

MIKE CORBAT: Yes, I think it's – again, we're opportunistic in terms of what the market offers us. And in this case, again, we'll take advantage of any prices out there where we think that the sale of that and the combination of reduced expenses, de-risking, give-up in terms of revenue where those tradeoffs make sense. I think in the fourth quarter, there was probably less of those. But again, I think as we think about the Holdings portfolio, I would say from a primary objective it is to drive Holdings to breakeven as soon as practically possible. And again, at this point we've got Holdings assets below 6% of GAAP assets for the firm. It's not a meaningful number in terms of the overall area of the firm. And again, it's the optimization of how we continue to wind that down with an emphasis on getting it to breakeven.

GUY MOSZKOWSKI: Okay, fair enough, so you're still obviously exploring opportunities as they make sense to sell chunks?

MIKE CORBAT: Absolutely.

GUY MOSZKOWSKI: Great, thank you.

JOHN GERSPACH: Thank you, Guy.

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OPERATOR: Your next question comes from the line of Marty Mosby with Guggenheim. Please go ahead with your question.

MARTY MOSBY: Thanks. I wanted to ask you a little bit about just an accounting technical question. Is there any way that you could have, since Citi Holdings is getting smaller, take that and almost put into discontinued operations as you're really looking to make it be breakeven and then it just comes off the income statement?

JOHN GERSPACH: Marty, no. The answer to that is no.

MARTY MOSBY: So there's no way that you can envision being able to ring fence it enough to separate it out?

JOHN GERSPACH: No, no.

MARTY MOSBY: Okay.

JOHN GERSPACH: There isn't.

CHRIS KOTOWSKI: The other thing was, as we saw some of the securities and capital markets revenues come in, we haven't seen the expenses come down as quickly. Does that reflect more of a fixed base there a little bit more than the variable base? And as you see the pop back up in revenues, will expenses stay relatively flat and not offset a lot of that rebound you might see in the first half of the year?

JOHN GERSPACH: Marty, when we tend to look at these things, we tend to look at full-year efficiency ratios. And again, I think if you take a look of what we've done with Securities and Banking over the course of the full-year, we have taken expenses down. Expenses have come down, as we said, by 3% as we've actually grown revenues 4%. And when you take a look at the efficiency ratios that we now have in Securities and Banking, we've gone from something north of 60% to where this year, for 2013, we've now reduced the efficiency – or improved the efficiency ratio to 59%. So we're very conscious of taking expenses out. You may not see the variability quarter to quarter, but you should certainly see it year-over-year. And we think that we've been able to make fairly steady progress on that front in Securities and Banking.

MARTY MOSBY: I think we can see that efficiency coming through the numbers. I was just wondering on the variability, tying one to the other versus setting a base then you build in efficiencies given what you think you're going to produce, and then you get the positive variability and upticks that you might get in revenue.

JOHN GERSPACH: Yes, and again, when you take a look at ICG overall, as we said, our comp ratio – and that certainly is a lot when it comes to the extent that you've got variability, you might think of it at least traditionally in terms of comp – our comp ratio right now in our institutional business is at 29%. And of course, embedded in that would be the truly variable aspect of it, which would be incentive compensation, which is obviously lower than 29%. So you have to think in terms of variability with some of those constraints.

MARTY MOSBY: And then just lastly, the steepening of the yield curve, what kind of things are you seeing that might help get the net interest margin to be able to remain with some of the gains that you've seen here recently? Are there some favorable either spreads on the trading account or just reinvestment yields being higher that might, if we can keep the yield curve at this level, be positive going into 2014?

JOHN GERSPACH: Obviously, as far as we're concerned, the biggest help would be some movement on the short end of the curve.

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MARTY MOSBY: Sure.

JOHN GERSPACH: We've begun to see some movement in the five-year and the ten-year, maybe as low as the three-year, but the short end of the curve has been pretty flat. And we are positioned to benefit from a rise in rates, but it's really going to have to come more on the short end to really get the lion's share of the benefit.

MARTY MOSBY: Thanks.

JOHN GERSPACH: Okay, Marty. Thank you.

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

BETSY GRASECK: Hi. How are you?

JOHN GERSPACH: Hi, Betsy.

BETSY GRASECK: So a couple of questions. One, you indicated earlier the mortgage MSR sale that you are just beginning to do. Can you just give us some color on how you're thinking about how that's going be impacting expenses? I know you indicated it was predominantly delinquency related. So if you could help us out there, that would be helpful. Plus RWA reduction in Holdings, is it going to have some noticeable impact there?

JOHN GERSPACH: Let me take the second one first, no.

BETSY GRASECK: Okay.

JOHN GERSPACH: You're not going to see – because it's mortgage servicing. These aren't on-balance sheet assets, so you're really not going to see a change in the Holdings RWA.

BETSY GRASECK: Sure. No, I was just hopeful on operational risk or something like that, but I guess not, okay.

JOHN GERSPACH: When you think in terms of operational risk, I wish it was simply as easy as you take an action and you see a result. What happens with operational risk is someone else takes an action and that causes you to really need to add to your operational risk. And then it takes three, five years for that operational risk to eventually wash out. So unfortunately, operational risk has a long half-life.

BETSY GRASECK: Okay.

JOHN GERSPACH: And it's just going to be with us for a while. But getting back to your original question, Betsy, as far as the mortgage sale, I think the biggest benefit you're going to see there would be from an expense point of view. When it comes to processing or servicing delinquent loans, other than foreclosed loans, that's the most expensive loan processing that we have. And just to give you a frame of reference, a non-performing loan, you can have annual servicing fees of 15, 20, 25 times the size of the annual servicing fee for a performing loan. So it may sound like it's a small sale. But again, it's 20% of the 60-plus day delinquent loan book in CitiMortgage, and so that's pretty important.

BETSEY GRASECK: Okay. Then on repositioning charges that you indicated the first half of 2014 could be running similar to 4Q'13, are those repositioning charges for first half 2014 related to things you've already announced like the Texas sale and the Philadelphia exit, or does that also include things you haven't yet announced?

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JOHN GERSPACH: It would include things that we have not yet announced.

BETSEY GRASECK: Okay. And then lastly just on – I want to make sure I understood what you were saying about the American Airlines credit card. Are you saying that you won that going forward for American and US airlines merger?

JOHN GERSPACH: What we have right now is an agreement with our partner, American Airlines, that when they merge the two frequent flier programs, and they anticipate doing that around mid-2015, at that point in time we will have exclusive rights to issue cards.

BETSEY GRASECK: Okay, so did you have to pay anything to get those rights?

JOHN GERSPACH: We're not releasing terms of the agreement at this point in time, okay?

BETSY GRASECK: Okay, but anything that was is in this quarter's run rate?

JOHN GERSPACH: Exactly.

BETSY GRASECK: Great, okay. All right, thanks.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Mike Mayo with CLSA. Please go ahead with your question.

MIKE MAYO: Hi. Just to confirm, John, so are you committing for Citi to show positive operating leverage in 2014? I know you said expenses should be flat to lower, but is that assuming revenues will be higher?

JOHN GERSPACH: I didn't say anything about committing Citi to positive operating leverage for 2014. That's not something that I'm going to talk about right now, Mike.

MIKE MAYO: Okay. Is that because you aren't sure if you'll get it or don't give that sort of forecast?

JOHN GERSPACH: Mike, that's rather a long-range forecast. We don't do things like try to guide you quarter by quarter on earnings. So I'll give you general expense guidance as far as what we're trying to do with expenses. And expenses again, and I couched it assuming there was going be a low single-digit revenue growth rate in Citicorp that we would expect that operating expense to be at or below. But there's a whole other slew of items such as things that we don't know about and we're not going to talk about as far as the legal environment. Right now, we would anticipate that being continued elevated. But I'm certainly not going to forecast where legal expenses are going to be for the year, and that would certainly drive into a lot as to whether or not we're going to have positive operating leverage going into next year.

MIKE MAYO: Okay, maybe my follow-up is for Mike. I think your message has resonated with a good group of people in terms of managing Citigroup more as a portfolio of businesses where you have optionality. You have that chart with resource allocation with your four buckets: optimize and grow, invest to grow, optimize/restructure, stay the course. So I'm just wondering when you're going to take another move. As you say, it's uncertain and challenging environment and it's tough to make too strong a forecast. Citigroup has missed earnings expectations two quarters in a row. Citigroup is the only big bank that trades below tangible book value, and it's been not quite a year since your March 5 presentation. So as an analyst, I feel as though I've been watching this movie. And personally, I've liked what I've seen for the first year, but I feel like I'm at intermission now on the second box of popcorn waiting for your next act. And when do we get to see more about the restructuring at Citigroup?

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MIKE CORBAT: I think when you look, Mike, if you look at 2013 and you look at what we managed to accomplish in essence in the first half of your movie or in your first box of popcorn, we had revenues up. We had expenses down. We grew EBIT by 28%, net income by 15%. We grew loans. We grew deposits. We shrunk Holdings by 25%. We significantly increased our capital. We used DTA. We explicitly used foreign tax credits that are on the clock. And so when we look at, and as we've described for 2014, as John has used the words, we're going continue to be focused on our execution. And we think the environment economically, while getting better, remains challenging, low single-digit revenue growth. We've got to be mindful of expenses. And I think when you look at the drivers in our business, we are making progress against them. And whether that's deposit growth, loan growth, purchase card sales, you go through the checklist of those things and the fundamentals are there. And for 2014, we're going to stay focused on doing that.

MIKE MAYO: John mentioned that some of the repositioning charges ahead are for some actions not yet taken. Can you give us any preview of where you're looking?

MIKE CORBAT: The way I would describe it, Mike, and we've talked about it before, is that what we're really trying to do is drive the mentality into the business of our businesses making decisions of how and where and with whom they should be doing their business. And rather than having these series of one-offs, I want them to come to work towards in essence, as you've described it, this portfolio of businesses that we need to make sure we're optimizing and running in the right way. And I think in there, what you would see is a continued series of business moves. I don't think I would sweep it all together and ascribe a big fundamental change to the company or to the strategy.

JOHN GERSPACH: No, but it builds on the optimization bucket. A lot of the actions, Mike, that we're talking about doing early in 2014 would fall into that bucket of optimize. We've got countries where we can still rationalize our branch footprint and take out expenses. And so it really is just continuing the execution on the strategy that Mike talked about last March.

MIKE MAYO: Maybe as a follow-up and more specifically, page five of your March 5 presentation from last year, Mike, you talked about the execution priorities. And Citi Holdings wind-down, you made great progress year-over-year. It's kind of like if I look at the year, it seems like big progress but the quarter wasn't great progress. The question is, are you temporarily stalled, or should we see a resumption of greater DTA utilization in the quarters ahead, greater Citi Holdings wind-down ahead, and greater expense reductions ahead?

MIKE CORBAT: Again, I think that we've got to look what's obviously in the best interest of our stakeholders and shareholders. And when you look what would the world like, would our shareholders want us to destroy value simply to get a headline gap reduction in Citi Holdings? As John said, I think we've made real progress in terms of reducing that drag. And today largely what we're faced with is the legal build around legacy issues. We can't control those. So we're not going to make silly choices to simply sell assets to get a reduction in assets as opposed to really trying to manage in the round risk reduction, expense reduction, against give-up of income and net income against that.

JOHN GERSPACH: Mike, when you talk about the DTA, this is building on what Mike just said. When you look at our DTA utilization for the year, and I mentioned the number of $2.4 billion, that basically all came out of earnings. When you take a look at the impact on DTA utilization through other comprehensive income, it was basically nothing. It was just flat. But if you break the earnings component down, we had our Citicorp businesses utilize $3.3 billion of DTA. And the losses that we continue to have in Holdings actually created $900 million. That's one of the reasons why driving Holdings down to breakeven is so important because we think, again, that will allow our investors to see the full capacity that our franchise has for utilizing that DTA.

MIKE MAYO: And then last follow-up, you have said this before. To the extent that housing has improved, liquidity has improved, stock market has improved, that should improve your optionality to take

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more aggressive action. So that better environment combined again with the stock trading below tangible book value, doesn't that want to make you be a lot more aggressive or at least a little bit more aggressive?

MIKE CORBAT: Again, I think that we've got a footprint, as I've spoken about, that is unique, and it's up to us to get the most out of it. You saw us during the course of the year, Turkey, Paraguay, Uruguay continuing to rationalize the consumer footprint. And again, I think we'll continue to look at those things on the edges. But I don't want to mislead you, Mike. We're not looking for any big move here in terms of the strategy of the firm.

MIKE MAYO: All right, thank you.

JOHN GERSPACH: Thank you, Mike.

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

GERARD CASSIDY: Thank you.

JOHN GERSPACH: Hey, Gerard.

GERARD CASSIDY: John, in your comments about your FICC trading numbers on a full-year this year versus last year, you mentioned that there was a change in sentiment in the emerging markets, which caused the trading to be weaker. Was that due to the U.S. government shutdown in the middle of the year? What do you think caused the change in the sentiment in the emerging markets?

MIKE CORBAT: Gerard, it's Mike. I think we pointed to a couple things. I think, one, I think clearly there was a concern or a sentiment shift for a period of time after Chairman Bernanke's comments on May 22. I think that for a period of time, people were uncertain as to how they were thinking about that. I think we then went into a period of time where people were worried about this rate transition, in particular, in essence those budget deficit economies. We had the evolution of the BITS (Brazil, India, Thailand, South Africa) or the five that came out of that, and some concerns reemerged around the emerging economies. I think as we then went into September and October, we started to really enter into some of the Washington impasse around budget, et cetera. And I think it was a combination of those things really throughout the latter half of the second into the third and fourth quarter that I think weighed on people.

GERARD CASSIDY: Thank you. In regards to your comments on the operational risk, how it's increased the denominator in the equation, can you guys quantify for us the basis points, how much it's costing you in the ratio from a basis point perspective? Is it 30 basis points?

JOHN GERSPACH: No, when you work it all the way through, it's somewhere in the vicinity of 50 basis points.

GERARD CASSIDY: Okay. And, John, you guys pointed out you had some success in selling some of those mortgages, I believe, inside of Citi Holdings. What did you receive in term of price versus your carrying value?

JOHN GERSPACH: Are you talking about the sale that we just announced as far as the non-performing loans because that was the sale of our servicing portfolio? Are you back to $400 million or so of loan sales that we had during the quarter? I just want to be...

GERARD CASSIDY: Yes, the $400 million that you mentioned, correct, in the fourth quarter.

JOHN GERSPACH: Yes, there are not significant economics associated with that sale.

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GERARD CASSIDY: Okay. And in terms of the Basel III sin buckets that all the banks are dealing with, what do you have left to monitorize so you can reduce some of them?

JOHN GERSPACH: I'm sorry, the Basel III sin bucket? I want to make sure.

GERARD CASSIDY: Sure, where you've got to deduct that from your capital. Obviously, the DTA is the big one, but all the ownerships.

JOHN GERSPACH: Okay, exactly. We still have the equity ownership that we have through our partnership with LQIF, so that's our ownership interest in Banco de Chile. That is still there. The other one of size would be our investment in Guangfa Bank in China.

GERARD CASSIDY: Okay. And I guess final one is, any color or refinement you can give us about the CCAR, how it went in terms of how you guys got your arms around that, and what you think the expectations are?

MIKE CORBAT: No, other than we've made our submission, and we'll be waiting like everybody else for the early March results.

GERARD CASSIDY: Thank you.

JOHN GERSPACH: Thank you.

OPERATOR: Your next question comes from the line of Andrew Marquardt with Evercore. Please go ahead with your question.

JOHN GERSPACH: Hi Andrew.

ANDREW MARQUARDT: Hey, guys, a couple of maybe ticky-tack questions. In terms of the regulatory costs that you mentioned in terms of being embedded in that $44-plus billion core run rate, each year $200 million – $300 million incrementally, this year as well, are those costs that are permanent each year, or are we coming to an end in terms of this year, at least as far as you can tell that might be the last of it? And are those permanent, or will those then reverse at some point?

JOHN GERSPACH: I would say very, very few of them will reverse. I think that those are just the incremental costs of doing business now for banks, and I don't think we're the only bank that's going through that. So those are just costs that are going be embedded in our expense base going forward as we need to meet new requirements. And there still is some expense build. I don't want to categorically say that 2014 is the last build in that expense base, but I guess we're all hopeful that certainly in the near term you'll start to see some of those incremental expenses, the growth rate abate.

ANDREW MARQUARDT: Got it, that's helpful. So it sounds like those are in response to new evolving regulatory burdens rather than catch-up, and so they may be related to the changed guidelines on CCAR, CLAR, counterparty credit risk, et cetera. Is that fair versus a catch-up?

JOHN GERSPACH: I'd say it's a combination of – it depends on how you think about the catch-up. But it's in the areas that you noted, but it's also in other important areas as far as anti-money laundering and KYC [Know Your Customer] and some of the mortgage-related expenses where we've got enhanced requirements. So I'd say it's a combination of new things as well as I guess what you could say are enhanced expectations on the part of various regulatory bodies as to how you're going to comply with various regulations.

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ANDREW MARQUARDT: Thanks, and then I'll try another way at it in terms of the expense base on a core basis. You mentioned that on a low revenue-type backdrop. If the revenue environment ends up being ultimately worse than that, if it's flat or down, could it be down even more, or are there additional levers in the drawer to pull if that were to play out?

JOHN GERSPACH: Yes, I would say that certainly the first thing that you would do if the environment looked like it was going to be even more challenging than we think it was going be, the first thing you would stop is you'd stop a certain amount of investment spending. And so that would be an immediate lever that you could pull. If you thought it was going to go deeper than that, you would re-pace other things. We might re-pace some of the other systems work that we're doing. You would then also take a look at various – the capacity that you've got in different businesses. So there are many levers that you can pull depending upon your view of the economy and the degree to which you think that the economy will differ from what you've got baked into your base plan.

ANDREW MARQUARDT: Thanks. And then separately, around the operational risk factor going out for you and others this last quarter in the capital calculation, I hear you on legal factors for all. Is it also related potentially to counterparty credit risk that was a new factor thrown in for the CCAR this upcoming process in terms of top 20, top 50 in terms of monitoring that on a pretty regular basis? And how do you think that that may or may not impact the CCAR process generally? And maybe for you maybe, just as a reminder that it seems like you'd probably be in a better position, especially now that you have the government out of your house on the FDIC TruPS as well for the first time? Thanks.

JOHN GERSPACH: Just to start with one of the questions that you posed, the new requirement that got baked into this year's CCAR, that didn't contribute anything towards our reassessment of our operational risk-weighted assets. That didn't play a role in that at all. That was really just taking a look at the legal and regulatory environment that we currently see.

ANDREW MARQUARDT: Right.

JOHN GERSPACH: As far as how that particular requirement, that particular added requirement impacted the CCAR test, we factored it in and we didn't see that it posed any significant constraint on us. But it was just another one of these interesting twists that we're going to have to deal with I think in each CCAR. I think it's good on the part of the Fed that they're constantly changing things up and making you think about new, different risks. And so I'd actually think that putting in new requirements like that benefits the industry.

ANDREW MARQUARDT: All right, thanks. And then just lastly on S&B, you mentioned how the environment muted in the fourth quarter and maybe third quarter as well last year. Maybe I missed it. Have you commented in terms of has that turned early this year so far? And how does that – does maybe specifically the FICC business get impacted from QE tapering near term, long term? Is it a net positive, net negative? How should we think about it?

JOHN GERSPACH: It's a little difficult to judge a quarter or a year based upon the first ten or so trading days.

ANDREW MARQUARDT: Yes.

JOHN GERSPACH: I don't want to go too far out there. But I would say certainly the first ten days of January look a lot better than what we saw in December and November, so I'll go that far.

ANDREW MARQUARDT: And QE tapering, does that have an impact in a meaningful way one or the other or higher long rates?

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JOHN GERSPACH: The difficult – again, rates shot up for a while. Just when everybody got comfortable with say the ten-year being something at around 3% or higher, you had the jobs report come in last Friday. And suddenly the ten-year rate drops down to something with a 2.8% handle. So I think that we'd all would like to see a rate view that settles out. And it's better when everyone has a view towards rates gradually increasing or gradually decreasing, whichever you can deal with. The problem is we're still dancing around things, and so there's a little bit more volatility than I would say is optimal at this point in time. That just continues the general uncertainty regarding the economy.

ANDREW MARQUARDT: Thanks, John.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Fred Cannon with KBW. Please go ahead with your question.

FRED CANNON: Great, thanks. I just had a follow-up on some of the DTA comments. I guess one broad one is the DTA was down $2.4 billion, as you suggested. It's still above year-end 2011 levels. And I was wondering if we could see an acceleration of the utilization next year. And in line with that, one of the things Mike had said was that you did make progress against the foreign tax credit portion of the DTA that does start to run out meaningfully in 2017 – or excuse me, 2016 and 2017. And I was wondering if you could give us some numbers behind that, how much of that was foreign tax credit utilization.

JOHN GERSPACH: Yes, sure, Fred. Let's start with the last one. As far as the foreign tax credit utilization, as Mike and I said, we utilized about, during the year, $2 billion of the FTC carry-forward. And all you have to do is just open up last year's 10-K, and it's $2 billion off of the schedule based upon when they run out. So I think there was $400 million or so that was due to expire in 2016. That would now go away.

FRED CANNON: Okay.

JOHN GERSPACH: And then there was $6.6 billion I believe that was due to expire in 2017. So then that now would be reduced by $1.6 billion, so we'd be down to $5 billion there, so it pretty much just follows the schedule.

FRED CANNON: Okay, great. That's helpful.

JOHN GERSPACH: All right? And then as far as what can we do next year on DTA and some of your other comments, again, I'd point you to some of the comments I made earlier. When you take a look at the $2.4 billion that we utilized this year, $3.3 billion of that came from Citicorp earnings and then we had the Citi Holdings losses actually work against us to the tune of about $900 million. So what we can certainly do to continue to increase the utilization of DTA is really get those Holdings losses closer to breakeven, and that would allow more of that $3.3 billion of Citicorp utilization then to drop through to the bottom line.

FRED CANNON: And I think just as a follow-up, you have talked in the past about needing North American earnings to utilize the DTA. Is that more related to getting Citi Holdings down, or is it other activity in North America?

JOHN GERSPACH: It's also growing North America earnings. So certainly as we begin to see our branded cards business revitalize, as we hopefully get some earnings out of the Best Buy acquisition, all of those things should be positive towards our North America earnings as well.

FRED CANNON: All right, thanks very much.

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JOHN GERSPACH: Not a problem, Fred.

OPERATOR: Your next question comes from the line of Derek De Vries with UBS. Please go ahead with your question.

DEREK DE VRIES: Thanks, it's Derek here, a couple questions. Just coming back to Securities and Banking and the glide path to your 2015 targets – you're at 75 basis points ROA in the division for the full-year, and I'm just wondering where does that number have to be to get you with the business mix and everything to your 90 to 110 basis points? Does it have to be at 90 basis points or is it 75 basis points or 100 basis points? Where does that have to be?

JOHN GERSPACH: Derek, we didn't give specific targets business by business because again, we wanted to make sure that people understood that what we were focused on was improving the ROA for Citigroup as a whole. But you're quite right. We would need to do some incremental ROA improvement out of Securities and Banking, but quite frankly it isn't significant. Don't forget, our target overall for the firm is 90 to 110 basis points by 2015. You've got Securities and Banking at 75 basis points. It quite frankly doesn't take – you don't need to get Securities and Banking up into that 90 to 110 basis point range in order for the full firm to produce the 90 basis points.

DEREK DE VRIES: Yes, and that was my question there. And just to follow on that, I guess the 75 basis points is being impacted by some litigation expense and some things that probably fall out at some point, maybe not 2015. But can you just give a broad sense as to how much falls out of that 2013 number, if you will? What's the non-core operating expenses that's in there for this year?

JOHN GERSPACH: I don't want to tell you that legal and related expenses are non-core.

DEREK DE VRIES: I know what you mean.

JOHN GERSPACH: You're always going to have some level. And we really haven't specified business by business what we would consider to be normal legal and related expenses, so I'd just prefer not to go into that. There are some repositioning expenses that we've taken in that business that are probably higher this year. But I think you're talking about $50 million-plus in 2013 expenses that you might look at and say that gee, they're related to repositioning and they could go away. But we still think that there are ways of improving the overall efficiency of Securities and Banking, of ICG, and we still intend to hit those targets in 2015.

DEREK DE VRIES: Okay, and then just the last question on this area. The assets, the average assets in the business were at $917 million in Q4 of last year and ended the year at $883 million. And is that just a reflection of when and where you see opportunities, you're thinking we'll be somewhere around the $900 million level, or is that a thought process on evolution of business mix?

MIKE CORBAT: I think it's probably a combination of a couple things. One, as I've said, I think that again our desks decided in parts of the latter year to de-risk the positions. And again, they're free to put those back on as they see fit, obviously, within our risk parameters. But I also think that one of the things we've tried, and I think the ROA mentality or the ROA target has helped, is we want to become more efficient in the usage of our balance sheet. So I think we certainly had, at least in my opinion, some lazy assets that were on the balance sheet that just don't make sense there. And I'd like to in essence reuse that capacity for better earning usage of the balance sheet around client flows, and I think we're probably going through a bit of that recycling now.

DEREK DE VRIES: Okay, that's fine. And then just totally changing gears on you, but the delinquencies in the North American Consumer business ticked up in Q4, which I guess surprised me a little bit. How should we think about that going forward? Is the message look, it got as good as it gets and we probably

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just tick very slowly up from here, or is it like you're one quarter, don't read too much into it, we could tick back down again next quarter?

JOHN GERSPACH: I would say it's somewhere around that – look, it's one quarter, don't read too much into it. But obviously, we've had a real good performance when it comes to delinquencies and credit in North America. At some point in time, you're going to get some increase in delinquencies in that book. We don't think that that leads itself to dramatic increases in NCL rates. We gave you some guidance as far as where we see the NCL rate somewhat stabilizing for North America. And so I wouldn't read too much into it, but you're going to get some natural creep. The important thing is that the overall dynamics of the business, we're still focused on maintaining credit discipline there.

DEREK DE VRIES: Okay, that's helpful. Appreciate it.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Ken Usdin with Jefferies. Please go ahead with your question.

KEN USDIN: Thanks, good morning. John, just following on the credit side, obviously there have been continued really strong results that have led you to release reserves a little bit above and beyond just four charge-offs. Can you talk about how we can think about the direction of reserve release, and do you think it's possible that the overall Citigroup provision could be still down next year over this year?

JOHN GERSPACH: Let me separate that into two different answers, actually three. When you look at the provision, I think we've already seen in our international Consumer business that we're not releasing reserves anymore. As a matter of fact, as our portfolios build because we've got the loan growth, the 8% growth in revenues in Latin America, continued growth elsewhere in Asia besides Korea, you're going to see loan loss reserve builds, and we actually had a build of something like $75 million I think in the fourth quarter. So the international Consumer has already made that turn.

When you look at the U.S. Consumer, there's probably still some level of reserve release to go through in some of our Cards business, but that is drawing to a close. And we'll probably see the end of that sometime in 2014.

And then the third piece would be in Holdings. What I would say in Holdings is we anticipate being able to offset the U.S. mortgage NCL, substantially offset the U.S. mortgage NCLs with continued reserve releases. But I don't see reserve releases over and above the NCLs that we have in the business. As a matter of fact, our reserve releases will probably on an ongoing basis be just slightly less than the NCLs that we're seeing in that U.S. mortgage business and Holdings.

KEN USDIN: Okay. And the second question just relates to the top line. If we're in a low single-digit revenue growth environment, it does seem like there's a better trajectory to be able to grow NII on a year-over-year basis. So I just wanted to ask you if you can help us separate – can you get growth in both NII and on the fee side, or what do you think will contribute a greater amount to the overall top line performance?

JOHN GERSPACH: I do think that you can – especially if the economy continues to improve and it doesn't have another one of these growth and back off and then growth and then back off and everybody gets concerned again, even if we can just get the economy moving in a steady direction, I do think that you can get growth in both NII as well as fee. I don't think – I'm trying in my mind to figure out whether or not you can actually do a percentage where you get 50% of your growth here and 50% there, but I'll just leave it with the fact that you can grow both.

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When it looks something like our Transaction Services fees business and our cash business in Transaction Services, we're actually focused on moving more of that business away from an NII business and onto a fee-based business. And that's going be important for us because, again, we're continuing to capture market share in our cash management business. And there's just a limit to how much more deposits that we can attract while still trying to keep our overall balance sheet somewhat flat at that $1.9 trillion range or thereabouts. And so it's important then as we attract new clients and we grow the volumes with existing clients, that we move some of that business into fee-based business as opposed to just being paid for it with increasing levels of deposits.

KEN USDIN: And the last thing then for 2014 though, you think that even with the year-over-year tough comp in Mortgage Banking and whatever we'll end up getting out of trading that that's a reasonable expectation, that there's still a good chance that we could see some fee growth?

JOHN GERSPACH: Yeah. Again, I'm thinking about fee growth in Transaction Services and fee growth in things other than mortgage. Obviously, the mortgage comp in the first half of the year will be a challenge because, as I said, the mortgage revenues certainly have stabilized. So if you think in terms from a sequential basis, on a sequential basis I do believe that you can see growth in both NII and fees. You're going to be challenged year on year with that comparison, certainly in the first half of the year.

KEN USDIN: Okay, got it. Thanks very much, John.

JOHN GERSPACH: Okay, not a problem.

OPERATOR: Your next question comes from the line of Erika Najarian with Bank of America Merrill Lynch. Please go ahead with your question.

ERIKA NAJARIAN: Yes, good afternoon. My questions have all been asked and answered. Thank you.

JOHN GERSPACH: Okay. Thank you, Erika.

OPERATOR: Your next question comes from the line of Moshe Orenbuch with Credit Suisse. Please go ahead with your question.

MOSHE ORENBUCH: I've really only got two things, given that I think we're in our second movie, forget second box of popcorn at this point. You talked a lot about the legal costs. Given that you've settled some things that a number of your peers haven't yet, could you talk where these costs are arising from?

JOHN GERSPACH: Certainly when you take a look at Holdings, and we've talked about this, still the single largest piece there would be legacy issues related to private label securitizations and mortgages. And that seems to still – that certainly is an area that is still out there and there are a lot of issues surrounding that.

MOSHE ORENBUCH: Okay. Just last thing is that you've talked a lot about trying to get Holdings down to breakeven. What about – if you could structure a transaction with OneMain that would separate earnings out but would actually create book value, would that be of interest, or is that not of interest to Citigroup?

MIKE CORBAT: I think, Moshe, we look at it in a few ways. One is what's the value, the residual value, or the present value of the earnings of that business and can we get paid for that. Second thing is that if somebody's not willing to pay for that, we've obviously got a good use of that around DTA utilization, and again in that path of getting in essence that one-for-one benefit of Holdings from doing that. We've looked at a number of different structures that could be accomplished there. I think we're open to those. But what we don't want to find ourselves in a position is where we're in essence giving away earnings, being forced to finance it for a period of time, and giving away the upside and the oversight of the business. So if we

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could accomplish the things we want to accomplish, we'd be open to it but we haven't seen that structure yet.

MOSHE ORENBUCH: Got it. Just as a comment, not a question, I would just say that selling at a discount to tangible book reflects some concern about the book value of that, and there's an asset that's clearly undervalued. So thanks very much.

MIKE CORBAT: Thank you.

JOHN GERSPACH: Thank you, Moshe.

OPERATOR: Your next question comes from the line of David Hilder with Drexel Hamilton. Please go ahead with your question.

DAVID HILDER: Hi, thanks very much for your patience, two unrelated questions. One, I assume some of that increase in regulatory cost is Volcker Rule compliance. Do you see any potential exit of businesses or downsizing of businesses as a result of the final Volcker Rule?

JOHN GERSPACH: I think that we've taken the actions that we need to take really associated with Volcker. As far as we already ceased proprietary trading activities, sometime in 2012 I think was the last proprietary trading business that we had. And as you've seen in various press stories, we're in the process of winding down our Citi Capital Advisors business, which is where we would have most of our private equity funds, so we've got both those actions well in hand.

As far as your comment as far as are some of those costs related to Volcker, yes, there are some. Volcker, there's a data requirement, a metrics requirement that one would look at and say it's – I've heard some people describe it as burdensome. I would never use a word like that. But there certainly is a data requirement that we're going to have to gear up for and that we are in the process of gearing up for.

DAVID HILDER: Okay, thank you. And any sense of timing on when you might achieve break even for Citi Holdings?

MIKE CORBAT: I think that a lot of that – again, as we've talked about Citi Holdings, the big drag there is around legal. And as we've said, unfortunately, we can't control our timing in that. We'd love to continue to get these legacy legal issues behind us as quickly and as practically and as reasonably as possible.

DAVID HILDER: Okay, thanks very much.

JOHN GERSPACH: Thank you.

OPERATOR: Your next question comes from the line of Matt Burnell with Wells Fargo Securities. Please go ahead with your question.

MATT BURNELL: Thanks, Molly, and thank you all for joining us here today. If you have follow-up questions, please reach out to the Investor Relations team. Thank you.

JOHN GERSPACH: Thank you for participating in today's conference call. You may now disconnect.

MATT BURNELL: Thanks for taking my question. I've got a few other follow-ups that I'll work on offline. But the bigger picture question I want to ask is in terms of the emerging markets trends. It sounds from your characterization, John, that you're a bit more positive about the future trends of economic growth across your emerging markets countries. That's in line with GDP expectations that are more positive for 2014 and 2015 than they were for the past couple of years. And yet investors continue to be concerned about the growth trajectory in the emerging markets. I guess I'm just trying to get a sense as to – am I

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hearing you correctly about Citigroup being more optimistic about the growth trends within the emerging markets and what benefit that might have for potential revenue opportunities within Transaction Services outside of just short rates going up?

MIKE CORBAT: Matt, it's Mike. I think you've described our economic outlook correctly that I think we see a better world in terms of 2014 than 2013. I think the overhang or the challenge to that is when you go back and you look, so we're in a tapering phase and ultimately we'll be in a policy transition phase around interest rates. Those transitions, at least in my history, have never happened smoothly.
I think the world is in a better place today in terms of the probability of that happening at least smoother around floating rate exchange regimes, around bigger foreign currency reserves, around better markets, around better external access that these countries have. And so I think as we look at that, I think we probably think from a historic basis, this transition is probably smoother, growth looks better, the economies continue to heal, a number of countries from the ways I've just described things. In fact, you saw this summer really five singled out in terms of concern. And again, the big concern or the theme around those five was current account deficit. And further away from that, I think people felt the transition of the rest of the economies was probably going to be pretty reasonable. So again, I think we're cautiously optimistic on it and, again, think that our businesses are well positioned in that transition to take advantage of that growth, both from a fundamental basis as well as hopefully from an interest rate basis as well.

MATT BURNELL: Thanks for taking my question.

JOHN GERSPACH: Not a problem, Matt.

OPERATOR: Your next question comes from the line of Eric Wasserstrom with SunTrust. Please go ahead with your question.

ERIC WASSERSTROM: Thanks very much.

JOHN GERSPACH: Hi, Eric.

ERIC WASSERSTROM: Hi, how are you? I'll try to keep it tight. At this point, you're somewhat ahead of the curve with respect to your peer group in terms of Basel III compliance and SLR compliance on both a holding company and bank level. So I'm wondering at this point, as you look across the international capital liquidity regimes, where are your biggest concerns at this stage? And what would you consider to be the binding operational constraint for you?

MIKE CORBAT: I think that, Eric, as we look, some things, and you can imagine with our business model, some things that we're focused on is around the concept of a level playing field, around harmonization. And what makes it difficult for us is when you operate in multiple jurisdictions, geographies, countries where you've just got an almost unlimited number of things you're trying to solve for. And so again, I think that as we look at our metrics, we think not just in the U.S. but globally, we're at standards that serve us well. But again, it's around trying to get some of these things lined up so that there's a level playing field around the world and that there's actually a level playing field within those jurisdictions and countries between domestic and international institutions.

ERIC WASSERSTROM: And is there any particular piece of proposed regulation or legislation that is concerning to you with respect to your current capital liquidity position?

JOHN GERSPACH: I think the, and we've commented on this in the past, it really is – it's not any individual piece, it's how all the individual pieces actually fit together. And again, to Mike's comments that he made earlier as far as harmonization, you can take a look at harmonization in one case and say you'd like all the different regulatory bodies around the world to view things the same way. But in the same fashion, amongst all the different rules, you'd like to see harmonization as well. You'd like to see a little bit

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perhaps a better interaction between the SLR ratio with the standardized approach, with advanced approach, with OLA requirements. There's just a bunch of these things out there. And I think they do get harmonized over time, but until that happens, it makes things a bit challenging.

ERIC WASSERSTROM: And so then operationally, is CCAR your binding constraint, or is it something else?

JOHN GERSPACH: CCAR is certainly a consideration. CCAR becomes a piece of it. But still you run your business based upon risk returns and your ability to monitor risk through some of the other things that I talked about. I wouldn't say that CCAR is the ultimate, but it becomes the year-end pass/fail test on a few things.

ERIC WASSERSTROM: And just one quick cleanup question. Citi Holdings is 6% of GAAP assets. But at what percent of risk-weighted assets does it represent at this stage?

JOHN GERSPACH: It's about 19% of our risk-weighted assets.

ERIC WASSERSTROM: 19%, great. Thanks very much.

JOHN GERSPACH: Not a problem.

OPERATOR: We have no further questions in the queue at this time. I'd like to turn the call back over to management for any closing remarks.

SUSAN KENDALL: Hi, this is Susan Kendall. Thank you so much for spending so much time with us today. If you have follow-up questions, please reach out to Investor Relations. Thank you.

OPERATOR: Thank you. This concludes today's conference call. You may now disconnect.

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