

**Host**

John Andrews, Head of Investor Relations

Speakers

Vikram Pandit, Citi Chief Executive Officer

John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's first quarter 2010 earnings review with Chief Executive Officer Vikram Pandit and Chief Financial Officer John Gerspach. Today's call will be hosted by John Andrews, 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 questions, please disconnect at this time. Mr. Andrews, you may begin.

JOHN ANDREWS: Thank you, operator. Good morning, everybody, and thank you for joining us today. On our call today, our CEO Vikram Pandit 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 your questions. Before we get started, I would like to remind you that today's presentation may contain forward-looking statements. Citi's financial results may differ materially from these statements, so please refer to our SEC filings for a description of the factors that could cause our actual results to differ from expectations. With that said, let me turn it over to Vikram.

VIKRAM PANDIT: John, thank you very much, and good morning, everyone. Thank you again for joining us today. You've seen our results. They were clearly helped by strong capital markets and improving credit, but net income of \$4.4 billion also reflects the hard work we've done to put the company in order. We've been completely focused on serving our clients' needs, and that has helped drive revenue growth. We have retained our expense discipline, and we've continued to reduce the risk and size of many of our legacy portfolios. The results of these efforts, combined with an improved operating environment, are reflected in these results, these first quarter results. \$25.4 billion in revenue and operating costs of \$11.5 billion. Net credit losses were down for the third consecutive quarter. Nonperforming assets were down for the second consecutive quarter, and we had no net build or net release of our loan-loss reserves.

Securities and Banking produced a net income of \$3.2 billion. As you know, we have significantly restructured this business and today I believe we have the right business model and we're executing well. I see further opportunities in Securities and Banking in the future. GTS made almost \$1 billion of net income this quarter and continues to operate at or near record levels despite the low interest rate environment. International Regional Consumer Banking business also made almost \$1 billion of net income this quarter. Revenues were up 11% versus a year ago and credit costs declined by 47%. We like the client momentum and the credit trends we see in our international markets.

North America Regional Consumer Banking was about breakeven, as credit losses in Cards remain high. Our core businesses in Citicorp produced over \$5 billion of net income this quarter, earning attractive financial returns. Our non-core businesses in Citi Holdings lost \$887 million. Those losses were far less than the \$2.6 billion loss last quarter and the \$5.5 billion loss of a year ago. The results reflected improving credit, asset reductions, and lower risk. I want to reiterate the comment that I made at the Citi

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Financial Services conference last month about our Local Consumer Lending portfolio, which is the main driver of losses in Citi Holdings. Assuming the U.S. economy does not deteriorate, we currently believe that the expected cumulative pre-provision net revenues plus existing loan-loss reserves should be sufficient to cover expected net credit losses over time.

Finally, our financial strength is substantial with a Tier 1 common ratio of 9.1%, Tier 1 of 11.2% and total allowance for loan losses of nearly \$49 billion or 6.8% of total loans. Our results today are a reflection of all the progress we've made at Citi. None of this success would have been possible without the people of Citi. I would like to take this opportunity to thank my 265,000 Citi colleagues for their hard work, dedication, and commitment. That is what has gotten us to this point. Looking forward, sustainable profitability is still my number one goal. The first quarter is a good sign that we are making progress towards that goal, but realistically, the operating environment is critical, particularly the recovery of the U.S. economy and the continued improvement of credit quality and, most importantly, job growth.

There's still uncertainty about the economy and job growth, so our near-term performance will continue to reflect the pace of economic recovery and the level of activity in capital markets. However, the long-term picture is clear. Citi is well-positioned to take advantage of all the long-term growth trends we see in the global economy. Our franchise is strong, our global footprint unique, and we're having great success attracting talent, and we're building momentum. With that, let me turn it over to John Gerspach, who will take you through this quarter in detail. John?

JOHN GERSPACH: Thank you, Vikram, and good morning, everyone. Let me start with our quarterly results on slide 2. As you know, results of the first quarter of 2010 include the impact of the adoption of FAS 166/167, which resulted in the consolidation of certain off-balance-sheet assets, including securitized credit card receivables. Therefore, GAAP results for the first quarter should be compared to managed numbers for prior quarters. In the first quarter, we reported revenues of \$25.4 billion. Operating expenses were \$11.5 billion, down 6% from the fourth quarter.

Provisions for credit losses, claims, and benefits were \$8.6 billion, consisting primarily of net credit losses of \$8.4 billion. Net credit losses were down 16% from the fourth quarter on a comparable basis. And we recorded a modest net loan-loss reserve release of \$53 million in the first quarter. We reported net income of \$4.4 billion, or earnings per share of \$0.15, based on average diluted shares outstanding, of 29.3 billion. This \$4.4 billion represents the highest quarterly net income since the second quarter of 2007.

On slide 3, we summarized the balance sheet impact of FAS 166/167. As of January 1st, 2010, we consolidated approximately \$137 billion of assets and \$146 billion of liabilities onto our balance sheet, the majority of which was related to credit card securitizations. This translated into \$10 billion of additional risk-weighted assets. We also added \$13.4 billion to our loan-loss reserves, which decreased our Tangible Common Equity by \$8.4 billion. And in total, these adjustments lowered our Tier 1 Common Ratio by 138 basis points. Importantly, we were able to largely offset the impact on TCE and Tier 1 Commons during the quarter.

On slide 4, we show the results for Citicorp and Citi Holdings. Citicorp reported \$5.1 billion of net income in the first quarter while the loss in Citi Holdings narrowed to \$887 million. Both segments benefitted from a decline in net credit losses during the first quarter, and the net loan-loss reserve release in Citicorp was partially offset by a net build in Citi Holdings.

On slide 5, we show the results for Citicorp. Excluding CVA, revenues of \$18.2 billion were up 17% from the fourth quarter, driven primarily by Securities and Banking. Operating costs declined by 3% to \$8.5 billion and net credit losses declined again this quarter by 5% to \$3.1 billion. We also recorded a \$367 million net loan-loss reserve release. Excluding CVA, earnings before taxes almost doubled to \$6.9 billion. Now I'll turn to the businesses within Citicorp.



Slide 6 shows results for our North America Regional Consumer Banking business. Revenues were \$3.8 billion in the first quarter, up 5% sequentially on a comparable basis. Retail banking revenues of \$1.3 billion were up 4% quarter over quarter. These results primarily reflect higher mortgage revenues offset by lower deposit volumes and loan balances. Card revenues were \$2.5 billion, up 6% versus the prior quarter, as pricing actions offset a sequential decline in purchase sales and average receivables. While pricing actions were able to offset the impact of CARD Act in the first quarter, we expect the negative impact of CARD Act to increase as additional changes are implemented during the year.

We continue to estimate that CARD Act could reduce revenues by a net pre-tax amount of approximately \$400 – 600 million this year. Operating expenses of \$1.6 billion were up 7% quarter-over-quarter. Excluding the impact of a litigation reserve in the first quarter, expenses were down slightly. On a comparable basis, net credit losses were up 6% this quarter to \$2.2 billion, reflecting an expected increase in net credit losses in our branded cards business.

Slide 7 shows the results of the International Regional Consumer Banking businesses. International revenues of \$4.3 billion were flat sequentially. We saw continued growth in investment sales of 11%, with improvement in every region. And, average deposits and total loan balances each grew modestly by 2% in the quarter, driven by Asia and Latin America. However, these trends were offset by deposit spread compression as well as seasonally lower card purchase sales. While we experience some variability in drivers on a sequential basis, year-over-year comparisons remain strong, reflecting the continued economic recovery in these regions. Operating expenses were \$2.3 billion, down 9% from the prior quarter, and international credit costs were \$735 million down 39% sequentially. Credit costs declined across all regions again in the first quarter, with the most significant improvement in Latin America.

Turning to Securities and Banking on slide 8, excluding CVA, revenues were \$7.7 billion, up 48% versus the fourth quarter. The sequential increase in revenues reflects strong growth in our fixed income and equity markets businesses. Excluding CVA, fixed income market revenues were up 77% to \$5.1 billion, with widespread growth across rates and currencies, credit products, and securitized products. In equity markets, revenues excluding CVA grew 66% to \$1.2 billion this quarter, with particular strength in derivatives. In investment banking, revenues declined by roughly \$400 million to \$1.1 billion as higher debt underwriting revenues were offset by lower equity underwriting fees.

The advisory business was down from the fourth quarter on lower completed deal volume. We achieved a number three ranking in announced global M&A in the first quarter, with cross-border deals representing approximately 30% of market volume. Citi's global presence gives us a unique ability to advise clients on these transactions, particularly as an increasing number of deals are taking place in developing markets.

Private bank revenues, excluding CVA, were \$496 million in the quarter. And in lending, we saw a \$462 million improvement, reflecting lower market-to-market losses on hedging activity. Operating expenses of \$3.4 billion were down modestly versus the fourth quarter, and credit costs improved again in the first quarter. Net credit losses were down 50% to \$101 million and we recorded a net loan-loss reserve release of \$169 million.

Slide 9 shows the quarterly results of our Transaction Services business. Transaction Services revenues were \$2.4 billion in the first quarter, down slightly from last quarter, driven by the absence of the fourth quarter gain on the sale of Nikko Citi Trust. Average deposits of \$319 billion declined 5% versus the fourth quarter as we targeted a reduction in higher cost deposits. And, assets under custody declined 2% to \$11.8 trillion due to the impact of foreign exchange. Expenses of \$1.2 billion in the first quarter were down 5% sequentially.

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On a year-over-year basis, revenues for both TTS and SFS grew in the first quarter by 2% and 5% respectively, driven by growth in average deposits of 15%, growth in assets under custody of 12%, and higher client volumes across both businesses. We continue to invest in technology to support our clients. On average, we invest roughly \$1 billion annually on technology in Transaction Services to remain on the forefront of client service and product innovation.

We show the results for Citi Holdings on slide 10. Revenues were up 26% to \$6.6 billion, driven by positive marks in the Special Asset Pool. Operating expenses were down 14% to \$2.6 billion. Net credit losses declined 21% to \$5.2 billion and the net loan-loss reserve build was down 59% to \$314 million.

Slide 11 shows asset trends in Citi Holdings, which ended the quarter with assets of \$503 billion. In the first quarter, we reduced these assets by \$27 billion, driven by \$14 billion of net organic runoff, \$9 billion of asset sales and business dispositions, not including the impact of the Primerica IPO and sale, which closed in the second quarter, and \$4 billion of net credit losses and net asset marks. However, these reductions were offset by \$43 billion of assets, which came on balance sheet with the adoption of FAS 166 and 167, mostly related to credit card receivables and student loans. At the end of the first quarter, Local Consumer Lending had \$346 billion of assets, or over two-thirds of Citi Holdings. The Special Asset Pool had \$126 billion of assets. And Brokerage and Asset Management was the smallest segment, with \$31 billion of assets, primarily related to the Morgan Stanley Smith Barney joint venture.

Turning to Brokerage and Asset Management on slide 12, revenues were up 25% sequentially to \$340 million driven by first quarter gains on the sales of Habitat and Colfondos, two pension fund managers in Latin America. And expenses were down 9% sequentially to \$265 million, as costs associated with Smith Barney declined.

Slide 13 shows the Local Consumer Lending segment. Revenues of \$4.7 billion were up slightly versus the prior quarter on a comparable basis and operating expenses were down 13% to \$2.2 billion. Credit costs improved again in the first quarter. Net credit losses of \$4.9 billion were down 14% from the fourth quarter, driven by improvements in U.S. mortgages and international consumer credit. And our net loan-loss reserve build was down 56% to \$386 million.

Turning to the Special Asset Pool on slide 14, positive net revenue marks of \$1.4 billion drove reported revenues in the first quarter. Operating expenses were down 36% to \$131 million. And, credit costs declined 73% to \$227 million, driven by a decline in net credit losses. During the quarter, we executed over \$6 billion of asset sales.

Slide 15 shows the results for the Corporate/Other segment. The sequential improvement in revenues and net income is primarily driven by the absence of \$10.1 billion of pre-tax losses associated with TARP repayment and the exit from the loss-sharing agreement in the fourth quarter. Assets of \$263 billion include approximately \$107 billion of cash and cash equivalents and \$103 billion of available for sale securities.

Slide 16 shows total Citigroup net credit losses and reserve provisions. Net credit losses of \$8.4 billion were down 16% versus the prior quarter, and we recorded a modest net loan-loss reserve release of \$53 million versus a net build of \$755 million in the fourth quarter. Corporate credit costs were \$87 million in the first quarter, down 89% sequentially. Net credit losses were down 66% to \$364 million and we recorded a net loan-loss reserve release of \$277 million. The decline in credit costs reflects continued stabilization and credit quality across most segments of our corporate loan portfolio.

Corporate non-accrual loans of \$12.9 billion were down 4% versus the fourth quarter. The majority of credit costs are generated by our consumer businesses in Regional Consumer Banking and Local Consumer Lending. Consumer net credit losses of \$8 billion declined 10% versus the fourth quarter and the net loan-loss reserve build of \$224 million was down 78%.



Slide 17 shows total Citigroup loan-loss reserves. Loan-loss reserves were \$48.7 billion at the end of the first quarter or 6.8% of total loans.

Slide 18 shows consumer credit trends for Citigroup. Net credit losses of \$8 billion were down 10% this quarter, driven by lower losses in Citi Holdings and our net credit loss ratio declined again this quarter to 6.1%. Our consumer loan-loss reserve ratio increased to 7.8%, driven by FAS 166/167 and the resulting consolidation of securitized credit card receivables on our balance sheet. Over 80% of our consumer net credit losses were generated in North America, concentrated in the Citi-branded and Retail Partner Cards portfolios and in U.S. consumer mortgages. Net credit losses in North America declined 7% to \$6.5 billion during the quarter and international net credit losses also improved significantly down 20% to \$1.5 billion.

Slide 19 shows consumer credit trends in our international markets. Net credit losses and delinquencies were down in the first quarter in every region. In Asia, credit trends in Korea remain stable to improving while India showed the most significant decline in both net credit losses and delinquencies. In Latin America, improving credit trends were driven by Mexico and Brazil. In EMEA, net credit losses in 90+ day delinquencies improved across nearly all markets. And, for the international consumer businesses within Local Consumer Lending, net credit losses and 90+ day delinquencies were also down, driven by asset sales in EMEA.

Slide 20 shows North America credit trends for Citi-branded cards in Citicorp and Retail Partner Cards in Citi Holdings. We continue to see stable to improving credit trends across both portfolios. In Citi-branded cards, higher fourth quarter delinquencies created an expected increase in net credit losses, up 7% to \$2.1 billion. However, dollar delinquencies declined in the first quarter in both early- and later-stage buckets. On a percentage basis, delinquencies are up in Citi-branded cards due to a declining loan balance. In Retail Partner cards, net credit losses declined for the third consecutive quarter, by 2%, to \$1.9 billion, driven by loss mitigation efforts and a declining loan balance. Both early- and later stage delinquencies also improved in the first quarter.

Slide 21 shows the historical trends for net credit losses and 90+ day delinquencies in our mortgage portfolio in Citi Holdings. Both first and second mortgages experienced lower net credit losses and lower 90+ plus day delinquencies in the first quarter. Net credit losses on first mortgages declined 24% to \$819 million, driven by HAMP loan conversions, an improvement in loan-loss severity, and roughly \$1 billion of asset sales during the quarter. For second mortgages, net credit losses were down 14% to \$851 million, driven by roll rate improvement.

Slide 22 provides more detail on delinquency trends in first mortgages in Citi Holdings. Total delinquencies were down 15% to \$14.3 billion in the first quarter, driven by lower delinquencies across all buckets. The most significant drivers of improvement this quarter were asset sales and the impact of HAMP trial mods moving to permanent modification. While we continue to evaluate the impact of HAMP, we are somewhat encouraged by our results to date. Through the first quarter, we converted over \$2 billion of HAMP trial mods in our on-balance-sheet portfolio to permanent modifications with many more borrowers continuing in active trials. And early results indicate that re-default rates are likely to be lower for HAMP modified loans versus non-HAMP programs.

Slide 23 shows the delinquency trends for second mortgages in Citi Holdings. Total delinquencies were down 9% to \$2.5 billion in the first quarter, driven by lower delinquencies in all buckets. However, 30-89 day delinquencies have remained fairly stable.

Slide 24 summarizes our quarterly asset trends. We ended the quarter at \$2 trillion in total assets, up 8% from the fourth quarter, primarily driven by the impact of FAS 166/167. Citi Holdings now represents approximately 25% of our total assets. Our NIM increased by 67 basis points during the quarter. Nearly

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three-quarters of the increase was due to the impact of FAS 166/167, and the remainder was driven by the absence of interest payments on trust preferred securities repaid in the fourth quarter as well as the deployment of cash into higher-yielding investments.

Slide 25 shows the trend in our key capital metrics. At the end of the first quarter, our Tier 1 and Tier 1 Common ratios were 11.2% and 9.1% respectively, up significantly from year-end, adjusted for FAS 166/167.

So in summary, our first quarter net income of \$4.4 billion was the highest for Citigroup since the second quarter of 2007. Strong revenues in our institutional businesses reflect the continued strength of our client franchise. Drivers of our Regional Consumer Banking businesses showed continued growth internationally. And losses in Citi Holdings narrowed during the quarter as we continued to reduce these assets.

We also demonstrated continued expense discipline across the firm. And we benefitted from positive credit trends both internationally and in North America. Earnings growth contributed to strong capital ratios at period end, even after the adoption of 166/167. Looking forward, I'd like to discuss a few factors which may affect our results. On the revenue side, while we believe Securities and Banking first quarter results were largely representative of our core business, the first quarter is historically the strongest period of the year, particularly in fixed income.

Additionally, as I mentioned before, CARD Act is expected to have an increasingly negative impact on U.S. credit card revenues. Net revenue marks in the Special Asset Pool will continue to be episodic. On the cost side, operating expenses may increase in Citicorp going forward as we continue to invest in the business. We will also absorb the cost of the U.K. bonus tax in the second quarter and, of course, credit costs will continue to be a significant driver of earnings performance.

In the first quarter, we saw an accelerated decline in international consumer net credit losses. And in North America, the decrease in consumer net credit losses exceeded our initial expectations mostly due to the improvement in U.S. mortgages. Looking forward, we currently expect consumer net credit losses to continue to modestly improve. Internationally, we expect consumer credit trends to continue to improve at a moderating pace as long as economic recovery in these regions is sustained. And in North America, we also expect consumer credit trends to continue to improve based on the stable to improving delinquencies we are seeing in our major portfolios as well as early signs of economic recovery. However, significant uncertainty remains in the U.S., particularly with regard to employment levels and the risk of future legislative actions.

Our consumer loan-loss reserve balances will continue to reflect the losses embedded in our portfolio due to underlying credit trends as well as the impact of forbearance programs. That concludes the review of the quarter. However, before I turn it back over to Vikram, let me be clear about one issue that has attracted a lot of attention since Friday. So, let me state the following.

Citi is not involved in the matter the SEC announced on Friday. It has been widely reported that the SEC, among other regulators, is conducting an industry-wide investigation into a wide range of subprime related issues. As we disclosed at our 10-K, we are fully cooperating with these investigations and it would not be appropriate for us to comment further. So with that, Vikram, now back over to you.

VIKRAM PANDIT: John, thank you very much. This is an important quarter for us. We've come a long way. The most important thing is that we're continuing to execute well across the entire company, and that is due to the great people of Citi, who have worked extremely hard. We have more work to do, particularly to deliver on the potential of this great franchise, and that's exactly what we're going to be focused on. With that, Operator, can we open up the lines to questions?



QUESTION AND ANSWER

OPERATOR: At this time, if you would like to ask a question, please press star and the number 1 on your telephone keypads. Your first question comes from Guy Moszkowski with Bank of America Merrill Lynch.

GUY MOSZKOWSKI: Good morning. My first question is on expenses. You did have another significant decline, but it was only about 1% lower in aggregate terms than first quarter a year ago, and after the first quarter expenses did rise off that level for the remainder of the year. Where should we look for the expense run rate to be? Where are you finding any further cutbacks that we're seeing here in the first quarter? Maybe you can give us a sense for what sort of compensation or accrual rate you were using in Securities and Banking as a percentage of revenues?

JOHN GERSPACH: I'll try to take it from the top down. If you take a look at the expense run rate and what it's being impacted by, I think you clearly see declines in Citi Holdings, which you should expect as we continue to work our way out of those assets. We are, as I think we've been mentioning for the last couple of quarters, continuing to invest in our Citicorp businesses. Now, on a going-forward basis, I think that for the balance of the year, you can expect that you'll continue to see some rise in Citicorp expenses and how much Citi Holdings comes down depends really upon additional actions we would have against these assets.

But given where we are right now, I would say that you could expect expenses to sort of stay within the \$11.5 billion to \$12 billion range for the balance of the year.

GUY MOSZKOWSKI: Thanks, that's helpful for the modeling. Now, you alluded to some of that being driven by a reduction of assets – further reduction of assets in Holdings, and actually a follow-up question that I have is: in Special Asset Pool, you did complete \$6 billion in asset sales, and your assets fell I think \$12 billion on a pro forma basis, but it was a quarter in which pricing on distressed assets seemed to improve quite a bit, and obviously you reflected some of that on a mark-to-market basis. I wonder why we didn't see more asset sales, given the improvement in the market. Are there sales under negotiation and that we might expect to see a pick-up in asset dispositions in the second quarter?

JOHN GERSPACH: Now, Guy, you can sort of assume that we are active with all of our assets in Citi Holdings, and particularly that with the Special Asset Pool. So there are always discussions underway. Obviously, each quarter is somewhat dependent upon what we can actually close on in the quarter as well as the depth of markets to accept various types of assets. The marks that you noted, those marks also reflect some realized gains. For instance, you'll note in one of the appendices that we provide to the deck, I think the number is we took the subprime asset marks up by about \$800 million this quarter. But somewhere between 15% and 20% of that number actually represents realized gains, so it's a combination of both marks and realized gains in all of these portfolios.

GUY MOSZKOWSKI: And would you say that the depths of markets and the marketability of some of those assets increased towards the end of the quarter? Again, just trying to look forward and see whether we might expect an acceleration of disposition as the year progresses.

JOHN GERSPACH: You know, I can't comment, Guy, as to whether or not something improved in the last two weeks of March or declined in the first two weeks of February. As I said, you can expect that we are actively working all of the assets in Citi Holdings.



GUY MOSZKOWSKI: Okay, and then I'm just going to ask one final question on the sort of Central Corporate Treasury portfolio. In the Corporate and Other unit, you had about \$350 million dollars of net revs. Most of the swing, obviously, as you pointed out, came from the TARP costs not being there as they were in the fourth quarter. But we have seen at JP Morgan, significant realized gains on that Central Treasury portfolio over the last couple of quarters as they batten down the hatches for higher rates. Are you doing something similar to try to reduce your exposure to rates, and was there, within that unit in the quarter, a significant realized gain from taking some of that rate risk off the table?

JOHN GERSPACH: You can count the fact that we always monitor our exposure to interest rates, but there was not some unusual amount of gains that resided in Corporate/Other for this quarter.

GUY MOSZKOWSKI: Okay, thanks very much for taking my questions.

JOHN GERSPACH: Not a problem, Guy. Thank you.

OPERATOR: Your next question comes from Glenn Schorr with UBS.

GLENN SCHORR: Hi, thanks. Could you provide any other color on card repricing? I mean, I kind of know what it is conceptually, but just curious on average rate going from what-to-what, or dollar impact on the quarter on net interest income in Cards?

JOHN GERSPACH: I'm trying to think about "going from what-to-what" I mean, we have repriced the entire, now, Branded Cards portfolio, and our rates have gone up across the portfolio. I don't have in my head right now, Glenn, what the increase is overall. Just in general, it's a pricing up.

And don't forget, as we were pricing up, we also introduced the fact that consumers who made their payments would then see, in effect, a rebate of their interest. So there's a lot of ups and downs across the portfolio, but I just can't give you, on average, what the rate increase was.

GLENN SCHORR: How about revenue contribution in the quarter, because you did note it, but is it big, small, medium?

JOHN GERSPACH: Well, it was enough to offset the impact of the CARD Act in the first quarter, so the net of the two was clearly a plus in this first quarter.

GLENN SCHORR: Okay, that helps. Normally not a question that I'd focus on, but 20% tax rate, longer-term, it's – historically, it's much higher than that, but you have a huge DTA that people should feel better about. How do you think about the tax rate on the go-forward?

JOHN GERSPACH: You know, I think as we've seen for the last several quarters, our tax rate right now is still being impacted by the geographic distribution of our earnings, and our earnings now are still more concentrated in low tax rate geographies, and so we're getting an increased benefit from there. You know, so 20%, arguably, is not a rate that we would think would be sustainable over time. I think that as we work our way through this transition period, somewhere in the future, you would expect the more normalized tax rates for us to be in the 28-29% range.

GLENN SCHORR: Okay, thank you. The IB revenues were great for all the reasons that you mentioned, but actually, expenses were down. I don't know how to read that, because in the first quarter, usually a comp accrual would kind of go in line-ish with the direction of revenues. And – fat chance on this, but I'll ask it anyway – any way to distinguish between marks versus just strong flows in revenues booked?



JOHN GERSPACH: No, I'm not going to comment on that, but obviously, the market volumes were up. Our customer flows, I thought, were excellent this quarter, and our underlying comp accruals reflect the performance of this quarter.

GLENN SCHORR: It is a break from years past, though, when a huge increase in revenues was not an increase in total expenses.

JOHN GERSPACH: I'm sorry, you faded there just for a second.

GLENN SCHORR: It's different, though – you're saying it reflects, but revenues are up huge and expenses were flat. It is a break from the past; when you'd have huge flows, especially customer-related flows, usually comp would drift up with it.

JOHN GERSPACH: Yeah, and I think if you take a look, certainly year-on-year, our expenses have been up. I probably should mention that in the first quarter, we did have in this business a release of a historic litigation reserve, which tended to drive the expenses down below the fourth quarter levels. Maybe that's what you're seeing in the numbers.

GLENN SCHORR: Okay, last quickie. Do you have any Wells notices outstanding? I feel like I am supposed to ask every company I cover that now.

JOHN GERSPACH: And I think, Glenn, I probably covered everything we're going to say by my opening comment.

GLENN SCHORR: Okie-dokie. Thanks very much.

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

BETSY GRASECK: Hi, thanks. Good morning. A couple questions. One is on – I just want a clarification on the CARD Act comments that you made. \$400-\$600 million pretax this year versus '09, how much of that is in the run rate in 1Q?

JOHN GERSPACH: You know, obviously, the impact of CARD Act will increase as the year goes out as the year goes on. And the \$400-\$600 million is a net impact, so net of the impact of our repricing. The first quarter, as I mentioned to – I can't remember who asked the question before – we actually saw a slight increase, a benefit, where our pricing, our change in terms impact, outweighed the impact of CARD Act in the first quarter. And what you're going to see for the remaining quarters is CARD Act will eventually catch up and then probably overtake the impact of the increased pricing.

BETSY GRASECK: Right, but you didn't indicate how much the benefit was on a net basis in 1Q, right?

JOHN GERSPACH: No, I didn't. You know, all of these things, you take a look at static portfolios, and they're somewhat tough to lay out with any sort of specificity, so I think the best guidance we can give right now is that on a full-year basis, our expectation is exactly what we said. The net impact of all of this will be about a \$400-\$600 million negative impact on revenues.

BETSY GRASECK: Sure, okay. And then on common Tier 1 ratio, up very nicely relative to the FAS 166/167. And then you also indicated that you are shifting from cash into higher-yielding assets at the margin. I just wanted to kind of square the circle here, and understand how you lowered the RWA in the quarter at the same time you were able to reinvest cash into higher-yielding assets. Could you just give us some color as to what was the backdrop for all of that?



JOHN GERSPACH: Well, sure. I mean, don't forget, the risk-weighted assets are exactly what they say they are – risk-weighted. So as our loan portfolios continue to decline, you're taking off 100% risk-weighted assets. And so even substituting them with high-quality interest-earning assets, you can still get a pick-up or decline in your net risk-weighted assets.

BETSY GRASECK: Sure. Core is what, 100% risk-weighted and mortgage is 50%, right?

JOHN GERSPACH: Well, it also depends on the mortgage and where it is and aging and everything else.

BETSY GRASECK: Right, okay. Could you just give us a little bit of color as to how much more room you have for reinvesting the cash into the higher-yielding assets? How far along that process do you feel you are?

JOHN GERSPACH: Well, I think some of that really depends upon how our cash generation continues to be paced. That's also somewhat driven by our ability, then, to actually grow more earning assets in our Citicorp businesses. And I personally would think that we would be more focused on growing those interest-earning assets in the near future than as the most natural outlet for increased cash that we would generate.

BETSY GRASECK: Okay. And lastly, when does capital management start to kick in with 9.1% common Tier 1? What are the triggers that you see for dividend reinstatement or share buybacks?

JOHN GERSPACH: Wow, I haven't heard dividend reinstatement in awhile. I have to absorb that for a second. You know, Betsy, right now, I think what everybody is waiting for is some sort of clarity as to where the capital requirements settle out. And I think that's probably an answer you're getting from every institution at this point in time.

BETSY GRASECK: Sure, and that was the BIS stated out there today - or over the weekend what everybody's commentary was, so I read through your commentary that Citigroup indicated, and there is obviously a lot of moving parts and challenges to the BIS – or questions, with regard to how they are triangulating. Maybe you can just give us a sense as to what you think your common Tier 1 ratios are that you feel that you need to run the business and absorb the risk in the business.

JOHN GERSPACH: Well, right now, we're very happy at 9.1% and if we continue with the performance – you know, any sort of performance like this, you're going to see our Tier 1 common ratio grow.

BETSY GRASECK: Sure, but you have to triangulate against returns versus capital and – I guess you're not going to give an answer at this stage.

JOHN GERSPACH: That's exactly right.

BETSY GRASECK: All right, that's fine. Thank you.

JOHN GERSPACH: Okay, thank you.

OPERATOR: Your next question comes from Jim Mitchell with Buckingham Research

JAMES MITCHELL: Hey, good morning. Getting back to the Local Consumer Lending business, there is a couple of distinct businesses in there, including consumer finance in the U.S., outside the U.S., and the partner cards. Can you at least give us any inkling on whether those, given the drop in credit costs that we've seen this quarter, are they getting close to breakeven or profitability, which would obviously, I would



think, make them a little bit more attractive to sell, and therefore could we see an acceleration of maybe some of these asset sales?

JOHN GERSPACH: Yeah, I can't comment right now, Skip, on the profitability –

JAMES MITCHELL: Jim.

JOHN GERSPACH: I'm sorry?

JAMES MITCHELL: Jim.

JOHN GERSPACH: Did I say Skip? I'm sorry, Chip.

JAMES MITCHELL: Jim.

JOHN GERSPACH: Jim, sorry.

JAMES MITCHELL: That's okay.

JOHN GERSPACH: That's Jim, Chip, I apologize.

JAMES MITCHELL: You can call me Pete.

JOHN GERSPACH: All right, Pete. Uh, Pete, I'm not going to comment on the profitability of any of those individual businesses at this point in time.

JAMES MITCHELL: Okay, fair enough. Maybe outside of that, can you talk a little bit about – at least give some clarity on the amount of the expense from the loss-sharing agreement, because obviously that was a big part of the driver, sequentially? Just trying to get a handle on what was driven by that versus other cost savings.

JOHN GERSPACH: Jim, I think that each quarter, the loan-sharing arrangement was somewhere in the vicinity of \$150 to maybe \$200 million, but I'd also then ask you to call our IR team, and they can give you a more specific answer, all right?

JAMES MITCHELL: Yeah, fair enough. And lastly, on the DTA, clearly you had some increase related to the FAS 166/167 charge. How much, now that you, with the profit, were you able to use up this quarter? Can you give us a sense of how we should think about the pace of using those up, going forward?

JOHN GERSPACH: Well, I can't comment on the pace going forward.

JAMES MITCHELL: Fair enough, but can you talk about the pace this quarter?

JOHN GERSPACH: Yeah, sure. With the adoption of FAS 166/167, we added about \$5 billion to the DTA, so that would bring us up to about a \$51 billion number, and then with the activities of this first quarter, it's now settled back down to \$50 billion.

JAMES MITCHELL: Okay, great. Thanks a lot.

JOHN GERSPACH: Okay, not a problem, Jim.

OPERATOR: Your next question comes from John McDonald with Sanford Bernstein.



JOHN MCDONALD: Good morning. John, you commented on some of the outlook on the consumer credit and corporate as well. Just wondering at what point and what will drive your consumption of reserves. You obviously have a lot of reserves now, even more after 166. What will be the drivers of your – we started to see some consumption from some other big banks. What will drive that for you guys as we look ahead?

JOHN GERSPACH: Yeah, well, actually, I think you had a pretty good answer in our results. You know, we have been releasing some reserves for several quarters now. For the last three quarters, we've actually had small loan-loss reserve releases on our corporate loan book, where we've seen good underlying credit trends and got a sense that the book was in good shape. You'll see this quarter that we've released reserves in the consumer businesses in both Asia as well as Latin America. And Asia, we've had, I think it's three consecutive quarters now of declining NCLs and good underlying delinquency trends as well as a sense that the underlying economy is performing well. And it's a similar story, then, with Latin America. A couple of quarters in a row of declining credit losses, good underlying delinquency trends, and solid economic performance. So that's kind of the mix to look at as far as what might signal any other reserve actions.

JOHN MCDONALD: And you've seen some of that in the U.S.; you maybe just need to see a little bit more of it, a couple more quarters, or...?

JOHN GERSPACH: Well, we certainly haven't seen anything right now that would suggest that we would be releasing reserves otherwise we would have.

JOHN MCDONALD: Okay. Separate question. In terms of derivatives and thinking about derivatives regulation, have you ever sized your derivatives revenues, either in absolute terms or as a percent of FICC or equity trading revenues?

JOHN GERSPACH: No, we've never actually just taken – I mean, because derivatives cut across so many different activities, and they've got a wide variety of uses, as well, so to say that derivatives represent any specific percentage of revenues in any one of our specific businesses, it's just not something that we've attempted to do.

JOHN MCDONALD: Okay. And I guess too early to take a rough stab at how the potential changes that are being discussed in Washington might impact you.

JOHN GERSPACH: I would say you're absolutely right.

JOHN MCDONALD: Okay. Last question about– thinking about your goal of self-funding the credit losses in LCL with reserves and pre-provision earnings.

JOHN GERSPACH: Yeah.

JOHN MCDONALD: It looks like -- first of all, how can we think about a reasonable timeframe of winding down of Holdings?

JOHN GERSPACH: You know, we will continue to wind down Holdings as fast as we are able to in an economically rational manner. And it's something that Michael Corbat and his team are focused on every single day. But I can't give you a timeframe.

JOHN MCDONALD: Okay. And finally, it looks like the pre-provision earnings in LCL is about \$10 billion annualized this quarter. Going forward, you will have some shrinking balances and maybe the CARD Act



has an impact. What are the puts and takes in terms of what the pre-provision earnings power is in LCL as we go forward?

JOHN GERSPACH: I think that you've got a pretty good handle on it right now. It's how fast do the earning assets come down? What are the yields on the earning assets? And we will continue, of course, to drive expenses down as we continue to get out of certain businesses. Those are the drivers.

JOHN MCDONALD: Okay, thank you.

JOHN GERSPACH: All right. Thank you, John.

OPERATOR: Your next question comes from Moshe Orenbuch with Credit Suisse.

MOSHE ORENBUCH: Great, thanks, John. Could you talk a little bit about either seasonality or kind of big trends in terms of consumer losses? Any changes in the coming quarters? I'm thinking about bankruptcies being somewhat seasonally high in the second quarter and then the impact on the mortgage and home equity from the modifications.

JOHN GERSPACH: Yeah, you know, from a bankruptcy trend point of view, there's a couple of things to look at. Right now, I'd say bankruptcies are probably trending a little bit higher than we would have thought going into the year, but our share of bankruptcies is not as high as we would have thought, either. So we've got somewhat mixed news on the bankruptcy front. As far as seasonality, with regard to mortgages, I can't really comment on that. Obviously, what's driving mortgages and I think that's what the second part of your question kind of hinted at - is all of the HAMP programs and how that's impacting, and you start to see some of that in some of the delinquency numbers that we talked about during the presentation.

MOSHE ORENBUCH: As kind of a separate issue, do you have any kind of indication from the Treasury yet as to when they are planning to begin when the registration statement will be filed for the shares and that process?

JOHN GERSPACH: You know, Moshe, all I can say is that their lock-up agreement expired in mid-March. They've made their statement as far as their intention to fully dispose of the 7.7 billion shares that they have over the course of 2010 and as to any decision regarding either the method or the timing, you've got to really contact the U.S. Treasury.

MOSHE ORENBUCH: But it's you that would file the registration statement, right?

JOHN GERSPACH: Yes, we would certainly be filing the registration statement.

MOSHE ORENBUCH: Got it. Thank you.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from Chris Kotowski with Oppenheimer.

CHRIS KOTOWSKI: Yeah, I think most of us probably have a handle on the sluggish revenue growth and long drivers in the United States, but looking at your Latin American and Asian consumer businesses, I see asset growth up about 20% year-over-year, and return on assets for both those companies is now over 200 basis points. So I guess I'm curious, what is the secret sauce there in terms of driving the growth and that level of profitability?



JOHN GERSPACH: Well, don't forget we've been actively working those portfolios. Plus, both in Asia and in Latin America, the economic recovery took hold a bit earlier and is certainly proceeding at a much greater pace.

CHRIS KOTOWSKI: And do you see like is a 200 basis point kind of level of profitability for consumer banking in those markets is that something that you find extraordinarily good or is that kind of to where you target it?

JOHN GERSPACH: No, I'd say that we're comfortable with the levels where we are. We'll take a look at where things kind of pan their way out. Don't forget, especially in Latin America, we still have some de-risking that we're doing in some of our Mexico card books, so we will see how the whole thing shakes out over the course of the next couple of quarters. And when it comes to operating in both Latin America and Asia, we've been there for a long time and this is just a situation where right now, the credit is getting better than it has been for the last couple of years.

CHRIS KOTOWSKI: Okay. And then also, just sort of given the general economic improvement and the improvement in asset quality that we've been seeing here in the reports from the last couple of days, are you rethinking any of the other businesses in Citi Holdings? The student loan business or mortgage business? And are you thinking any of those may be, in the cold light of day with an economic recovery more or less in hand- might be businesses that you would want to keep?

JOHN GERSPACH: Not at this time, and I think we've been pretty clear on what our Holdings strategy is. And all those businesses, as we look at it – you know, they just don't make sense going forward for the way that we want to run Citicorp.

CHRIS KOTOWSKI: Okay. And then finally, the share count, you had – last quarter, you talked about 30 billion shares, and it came in, I think 29.3, a bit less than what you had indicated. What is the difference there?

JOHN GERSPACH: Well, there's still some shares that will be issued as we finalize the employee comp. Don't forget we issued some of the employee comp this year in share equivalent units, and so depending upon what happens over the next couple of weeks, there will be some additional shares that actually get issued just to finalize the year-end '09 comp.

CHRIS KOTOWSKI: Okay, thank you.

JOHN GERSPACH: Okay, not a problem.

OPERATOR: Your next question comes from Jason Goldberg with Barclays Capital.

JASON GOLDBERG: Thanks. Most have been addressed, but let me just ask one more. A bunch of the rating agencies have come out and said a bunch of banks, including yours, could experience multiple-notch downgrades upon the enactment of certain of the proposed regulatory measures. I guess, have you kind of looked at the impact of any such actions, and I guess, what steps you are taking to kind of mitigate that?

JOHN GERSPACH: Well, the rating agencies certainly are looking at things. Obviously, I think it's a little bit too early for anybody to take a look at what legislation is out there because there has been a lot of talking, so far, but certainly nothing finalized. And what some of their ratings were talking about were the short-term ratings. And I think historically, when you take a look at how rating agencies assess short-term ratings, they get primarily focused on liquidity and capital. And I think if you take a look at our liquidity and capital, they're in pretty good shape.



JASON GOLDBERG: I guess in respect to liquidity, two of your other big peers reported last week kind of a light liquidity increase. And you guys, have started to reinvest some of that. Any thoughts around that?

JOHN GERSPACH: No. I'd say I still think that we have got ample liquidity and I think we're well-positioned.

JASON GOLDBERG: Fair enough. Thank you.

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

MICHAEL MAYO: Good afternoon. The expenses I just wanted to follow up on that, with the expenses being down, which is good, but some of that's in Other and it comes when firm-wide revenues are up a lot. So can you just give a little more color about that relationship?

JOHN GERSPACH: Sorry, Michael, which relationship in particular?

MICHAEL MAYO: Well, just – it is great linked-quarter operating leverage. Some of that is due to Other expenses being down. Why were Other expenses down so much? And I know someone else asked this question – is there anything else going on with the compensation?

JOHN GERSPACH: You know, Mike, I'm sorry, but the Other expenses – we get a lot of stuff that flows through Corporate/Other. If there was anything really unusual in the expense items this quarter, I'd call it out to you.

MICHAEL MAYO: Okay. And when you give guidance that the expenses might go up in future quarters, the main categories where that might go higher...?

JOHN GERSPACH: Would be in Citicorp, depending upon the pace of investments that we would have in those Citicorp businesses. And the other thing that I mentioned, and let's not forget about this, is in the second quarter, we know that we will have to record the impact of the U.K. bonus tax.

MICHAEL MAYO: Right. That's more one-time.

JOHN GERSPACH: That's a one-time.

MICHAEL MAYO: And then just a more big-picture question. What are your financial targets? Would that be the 1.25-1.5% ROA and 5% asset growth in Citicorp assets?

JOHN GERSPACH: That's exactly what Vikram laid out at the conference in March, and again, those are still our long-term goals. That's not any predictor that that's exactly what we're going to do in 2010. And it's – Citi, it's the way we would take a look at the company, combining Citicorp and Corp/Other, which is really what we think the business – you know, once we exit ourselves from Holdings, that will really be the business that we'd have going forward, and we think it's reasonable to expect an ROA of between 125 and 150 basis points on those assets, and yes, we said it would not be unreasonable to expect a 5% compound annual growth rate in those assets.

MICHAEL MAYO: And I guess my follow-up to that is it just seems as though that ROA target I recognize you have a lot more non-U.S.; you are getting rid of some of the problem assets, but that ROA target, it is just so much more than where the company has been historically and so far above where the industry has been. And does that sort of high ROA target encourage a similar type of excessive risk-taking that the company had last decade?



JOHN GERSPACH: No, excessive risk-taking is not part of our strategy going forward. Our strategy going forward is certainly to be a client-focused set of businesses, and I think that certainly, in the March conference, Vikram did a very good job – it's nice of me to say that, since he's sitting next to me – very good job of laying out the strategy of both where Securities and Banking, Transaction Services, and our Regional Consumer Banking businesses – and I think we also laid that out at that point in time that if you look historically at the ROA that we actually have on Citicorp, that 125 to 150 is really not out of reach.

MICHAEL MAYO: And when do you think you could potentially get there?

JOHN GERSPACH: Well, like I said, that's going to depend a little bit on several things – certainly the pace at which we would exit ourselves from Holdings, and the pace at which we would actually get economic recovery to take hold here in the U.S. So, we'll see.

MICHAEL MAYO: All right, thank you.

JOHN GERSPACH: All right.

OPERATOR: And at this time, there are no further questions. I would like to turn the call back over for closing comments.

JOHN ANDREWS: Hi, this is John Andrews again. We'd like to thank you all for taking the time today. Obviously, if you have any follow-up questions, feel free to contact the helpful IR team. Otherwise, enjoy the rest of the day. Thank you.

OPERATOR: Thank you, ladies and gentlemen, for your participation. You may now disconnect.

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