



**Host**

John Andrews, Head of Investor Relations

**Speakers**

Vikram Pandit, Citi Chief Executive Officer  
John Gerspach, Citi Chief Financial Officer

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**PRESENTATION**

**OPERATOR:** Hello and welcome to Citi's Third 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 objections, please disconnect at this time.

Mr. Andrews, you may begin.

**JOHN ANDREWS:** Thank you, operator, and good morning and thank you all for joining us today. On the call today our CEO, Vikram Pandit, will speak first, followed by John Gerspach, our CFO, who 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:** Thank you, John, and good morning, everybody. As you saw, we earned \$2.2 billion this quarter. This was our third consecutive quarter of operating profitability, and we have earned \$9.3 billion for the first nine months of the year. Achieving our third straight quarter of positive operating earnings is continued evidence that we are successfully executing our strategy, and we believe we have put in place all the elements for continued profitability.

We remain completely focused on serving our clients to the best of our abilities and capturing the growth potential inherent in the core businesses within Citicorp. Overall, Citicorp earned \$3.5 billion this quarter.

Consumer banking improved from the previous quarter in the US and internationally. International deposits, loans, and accounts all grew during this quarter. I am also pleased that we continue to attract top talent to the business, as recently highlighted by the hiring of Cece Stewart and Jud Linville who will take key leadership roles by running our US consumer bank and Citi Cards, respectively.

On the institutional side, investment and corporate banking improved as Citi executed transactions such as the Petrobras offering and the Tomkins LBO. In the third quarter, Citi won mandates for several key transactions which are scheduled for this quarter. Among them are the Michelin equity capital raise and four out of five of the largest Asian IPOs, including AIA and GLP.



While our fixed income trading was impacted by lower volumes, our equity trading rebounded strongly. And despite a low rate environment, our Global Transactions Services business continued its strong performance, as highlighted by its designation as paying agent and corporate trustee for BP's \$20 billion compensation fund.

We also continue to make consistent progress in reducing the size of Citi Holdings as quickly and economically practical. With the completion of the sale of our student loan business currently anticipated in the fourth quarter, we expect that the total assets in Holdings will be less than 20% of our balance sheet by the end of this year versus almost 40% at the beginning of 2008.

Now regarding Basel, while we recognize there is a lot more work to be done, including the calibration of risk models, Citi will meet every capital requirement as the implementation details and guidelines are finalized. Once we have more clarity on the rules and definitions, we face important questions. How much capital do we need to have? When do we need it? And when can we begin returning capital to our shareholders?

In my view, the answers to these questions are not driven by what can we do, but what should we do. We believe our customer-focused and service-oriented business model is well suited to Basel's capital standards. We also believe it is prudent to operate above the minimum capital standards.

Given our businesses, our strategy, and our current understanding of Basel requirements, we believe the right level at which Citi should operate long-term is at a Tier 1 Common ratio of 8% to 9%. We currently expect to exceed these levels in 2012.

As we have been saying, we believe that 2011 will be a year of rule making in the US and model calibration across the industry. As a result, we anticipate that we should be in a position to return capital to our shareholders in 2012, of course subject to our regulators providing additional guidance to the industry.

As far as the liquidity coverage ratio called for under Basel, with our current liquidity positions we believe that we are already in compliance with the requirements that are scheduled to come into effect in 2015, as we currently understand them.

Overall, I am very pleased with the progress we are making as our team continues to execute the strategy. Our unique footprint in the emerging market has us well aligned with the growth trends we see globally, and we continue to make investments in our franchise so we can serve our clients and our customers at the highest level all over the world.

I am going to turn it over now to John Gerspach, and after that we will be very happy to take your questions.

**JOHN GERSPACH:** Thank you, Vikram, and good morning everyone. Starting on slide 2, Citigroup reported third quarter net income of \$2.2 billion or \$0.07 per diluted share. Net income from continuing operations was \$2.6 billion or \$0.08 per diluted share. Discontinued operations includes the announced sale of Student Loan Corporation.

Revenues of \$20.7 billion were down 6% sequentially, driven primarily by lower revenues in Citi Holdings. Citicorp revenues were down 1% sequentially.

Expenses of \$11.5 billion were down 3% from last quarter, primarily due to the UK bonus tax of approximately \$400 million in the second quarter. Excluding the UK bonus tax, expenses were up 1% as continued investment spending in Citicorp was partially offset by expense reductions in Citi Holdings.



Net credit losses of \$7.7 billion improved for the fifth consecutive quarter, and we recorded a net loan loss reserve release of \$2 billion, primarily in Citi Holdings. Consumer credit trends continued to improve.

Turning now to Citicorp and Citi Holdings on slide 3, both businesses continue to benefit this quarter from lower cost of credit in our consumer portfolios.

Citicorp reported revenues of \$16.3 billion and net income of \$3.5 billion. And Citi Holdings reported revenues of \$3.9 billion and a net loss of \$1.1 billion. We reduced assets in Citi Holdings by \$44 billion to \$421 billion in the quarter, not including the impact of selling Student Loan Corporation, which is currently expected to close by year-end.

On slide 4 we show a nine-quarter trend for Citicorp's results. CVA on the derivatives book and on our own debt was \$99 million, down from \$255 million in the second quarter. Excluding CVA, Citicorp's revenues were \$16.2 billion, essentially flat versus the prior quarter. While Securities and Banking revenues were down 4%, Regional Consumer Banking was up 2% and Transaction Services revenues increased 1%.

Expenses of \$8.9 billion were down 2% versus the prior quarter. Excluding the UK bonus tax in the second quarter, expenses were up 2%, reflecting continued investment spending across our core businesses.

Citicorp's net credit losses were \$3 billion, up 2% versus the prior quarter, almost entirely due to a loss on a specific corporate credit. Citicorp's consumer net credit losses were down 7% to \$2.7 billion in the third quarter. We released \$426 million in net loan loss reserves as credit continued to improve in our international consumer businesses.

Excluding CVA, earnings before taxes declined 3% to \$4.7 billion, primarily as a result of lower loan loss reserve releases.

Slide 5 highlights our North America Consumer Banking business. Revenues of \$3.7 billion were up slightly from last quarter, reflecting strong mortgage origination activity. Mortgage originations were up 66% to \$19 billion, driven by refinancings. The vast majority of these loans were originated for sale. Total end-of-period retail loans were down 3% sequentially.

Branded card revenues remained stable quarter over quarter, as the continued impact of CARD Act was largely offset by lower write-offs of accrued interest as credit continued to improve. We currently estimate CARD Act will have a net pre-tax impact on Citi branded cards this year at the lower end of our previously disclosed range of \$400 million to \$600 million.

Average loans were fairly stable during the quarter, and card accounts were roughly flat as new account acquisitions offset account write-offs and closures.

Expenses were flat sequentially as increased investment spending was mostly offset by a one-time benefit relating to the renegotiation of a third-party contract. And net credit losses declined 7% to \$2 billion as credit quality improved in branded cards.

Turning to slide 6, our International Consumer Banking businesses had revenues of \$4.4 billion, up 2% sequentially due to higher volumes, partially offset by spread compression. We grew our loans, deposits, and accounts in every region during the quarter.

Average retail loans and card loans were each up 4%, and average deposits grew 3%. Card purchase sales were up 8%, driven by Asia and Latin America. And investment sales declined 9% as growth in Asia was offset by a decline in Latin America, as customers shifted to longer-term securities.



Expenses were \$2.6 billion, up 4% from the prior quarter, as we continued to invest in these regions. Credit costs were down 16% sequentially to \$349 million, reflecting a sustained improvement in international consumer credit.

NCL dollars declined again in every region, albeit at a moderating pace, as we continued to grow international loans. We also had net loan loss reserve releases in every region.

Slide 7 shows our Securities and Banking business. Excluding CVA, revenues of \$5.5 billion were down 4% from the second quarter as strong growth in equity markets and investment banking was more than offset by hedge losses in our lending book and slightly lower fixed income revenues. Ex-CVA, equity markets revenue grew 71% to \$1.1 billion with particular strength in derivatives. Fixed income market revenues ex-CVA were down 3% to \$3.4 billion, as growth in our local markets business was more than offset by muted market activity across most other products.

In investment banking, revenues grew 38% to \$930 million on significantly higher advisory revenues and strong debt underwriting activity. Private Bank revenues excluding CVA were down 4% to \$492 million. And lending revenues were negative \$18 million compared to positive \$522 million last quarter, driven by hedge losses due to spread tightening on corporate credits.

While overall market activity remained muted for Securities and Banking in the third quarter, we continue to benefit from consistent growth in emerging markets, which represented well over a third of our business for the quarter. Emerging markets generated double-digit revenue growth with particular strength in rates and currencies, equities, and credit products. Excluding the impact of the UK bonus tax, expenses were flat versus last quarter.

Credit costs in the third quarter included net credit losses of \$288 million, up \$42 million in the prior quarter -- up from \$42 million in the prior quarter. The increase in net credit losses was due to the restructuring of a specific corporate credit. Overall, the credit quality of our corporate loan book continued to improve.

Moving to Transaction Services on slide 8, revenues of \$2.5 billion were up slightly from last quarter driven by growth in Asia and Latin America. Treasury and Trade Solutions was up 2%, reflecting strong deposit growth and higher trade and cards activity. Securities and Fund Services were down 1% compared to a seasonally strong second quarter, and up 4% year-over-year as a result of higher assets under custody and fees from increased client activity. Average deposits grew 6% to \$340 billion sequentially, and assets under custody grew 10% to \$12.4 trillion.

Overall, client activity remained strong and the business had another robust quarter of new mandates across both SFS and TTS. Trade activity was particularly strong during the quarter, with trade finance driving a 7% increase in total average assets. Over 75% of our trade revenues in the third quarter were generated in emerging markets.

Expenses of \$1.2 billion were up 5% reflecting higher volumes and continued investment to support new mandates and product enhancements.

On slide 9 we show a nine-quarter trend for Citi Holdings results. Revenues declined 22% to \$3.9 billion in the quarter primarily due to lower revenues in Local Consumer Lending and lower positive net revenue marks in the Special Asset Pool.

Expenses were down 9% to \$2.2 billion reflecting the further decline in Holdings assets and continued expense discipline during the quarter. And credit costs were down 24% to \$3.3 billion driven by lower net credit losses and a \$1.5 billion net loan loss reserve release.



Slide 10 shows the asset trends in Citi Holdings. We ended the quarter with \$421 billion of assets, down \$44 billion, not including the sale of Student Loan Corporation, which is expected to close in the fourth quarter and reduce assets by an additional \$31 billion. The \$44 billion reduction in assets this quarter was comprised of: \$32 billion of asset sales and business dispositions, including \$15 billion of sales from the Special Asset Pool; approximately \$9 billion of net run-off and pay-downs; and \$3 billion of net cost of credit and net asset marks. Holdings now represents 21% of Citigroup assets. The Special Asset Pool is now below \$100 billion of assets, and Local Consumer Lending is under \$300 billion.

Turning to Brokerage and Asset Management on slide 11, revenues of negative \$8 million, as well as the decline from the second quarter, mainly reflect markdowns on private equity positions. Expenses were down 14% sequentially. Performance of the Morgan Stanley Smith Barney joint venture in the third quarter was comparable to the second quarter and reflected weakness across the industry.

Slide 12 shows Local Consumer Lending. Assets of \$298 billion were down \$25 billion in the quarter, including \$16 billion in asset sales across our student loan, commercial and residential real estate, auto, cards, and international consumer portfolios. Revenues were down 16% sequentially to \$3.5 billion, reflecting a declining loan balance and pre-tax losses on continued asset sales.

Expenses in Local Consumer Lending were down 9% to \$1.9 billion, and credit costs continued to decline. Net credit losses of \$3.9 billion were down 13% this quarter due to improvement in North America cards and real estate as well as our international consumer portfolios. In the quarter we released \$953 million in net loan-loss reserves, up from \$421 million in the second quarter, mainly driven by Retail Partner Cards.

Moving to the Special Asset Pool on slide 13, we reduced SAP assets by \$17 billion to \$95 billion in the third quarter, including \$15 billion of asset sales, which represents our highest quarterly sales activity. SAP revenues decreased 45% to \$314 million due to lower positive net revenue marks versus the previous quarter.

Credit costs were up by \$58 million to \$105 million, reflecting higher cost of loan sales and higher net credit losses on loans for which we had previously established specific FAS 114 reserves, offset by a higher net loan loss reserve release.

Slide 14 shows the results for the Corporate/Other segment. The sequential decline in revenues reflects hedge losses offset by gains on sales of AFS securities. Assets of \$279 billion include approximately \$88 billion of cash and cash equivalents, and \$138 billion of liquid available-for-sale securities.

Slide 15 shows total Citigroup net credit losses and loan loss reserves. NCLs continued to improve, down 4% sequentially to \$7.7 billion. And we recorded a net loan loss reserve release of \$2 billion, over three-quarters of which was attributable to Citi Holdings.

We ended the quarter with \$43.7 billion of total loan loss reserves; and our LLR ratio of 6.7% was essentially flat with the second quarter. Consumer NCLs declined 10% sequentially to \$6.7 billion. And we released \$1.4 billion in net loan loss reserves mainly for Retail Partner Cards and international consumer lending.

Corporate Credit costs were \$347 million compared to a benefit of \$211 million in the prior quarter. Corporate net credit losses nearly doubled to \$922 million. In Citicorp, higher net credit losses were due to a loss on a specific corporate credit. In Citi Holdings net credit losses were driven by higher cost of loan sales and the charging off of loans for which we had previously established specific FAS 114 reserves, which were then released during the quarter. We recorded a net corporate loan loss reserve release of \$575 million reflecting both FAS 114 releases as well as a continued general improvement in



corporate credit quality. Corporate non-accrual loans of \$9.9 billion were down 10% versus the second quarter.

Moving to consumer credit trends on slide 16, consumer net credit losses of \$6.7 billion were down 10% this quarter, reflecting continued improvement in North America cards and real estate. Our net credit loss ratio declined again this quarter to 5.5%, and we increased our loan loss reserve ratio to 8.2%.

Despite a consumer loan loss reserve release in the quarter, the coincident months of coverage of our consumer portfolio increased from 15.9 to 16.7. While North America continues to represent over 80% of our total consumer net credit losses, for the first time, this quarter losses in North America improved at a faster rate than in our international portfolio. North America net credit losses were down 11% to \$5.5 billion, while international credit losses declined by 7% to \$1.2 billion.

Slide 17 shows the sustained improvement in our international consumer credit trends. NCLs declined in every region for the fourth consecutive quarter, albeit at a moderating pace as we continued to grow international loans. In Asia, Korea credit trends remained stable; and India continued to show the most significant improvement in both NCLs and delinquencies. For the region, 90+ day delinquencies were up slightly on a dollar basis but declined as a percentage of loans.

In Latin America, Mexico remained the main driver of improving net credit losses. In EMEA, charge-offs and delinquencies improved across most markets.

On slide 18, we focus on the credit trends of our North America cards portfolios. Both Citi-Branded Cards in Citicorp and Retail Partner Cards in Citi Holdings continued to show improvement in net credit losses and delinquencies this quarter.

In Citi-Branded Cards, NCLs declined for the second consecutive quarter. NCLs decreased by 8% to \$1.9 billion, and 90+ day delinquencies were down 15% to \$1.8 billion. In Retail Partner Cards, NCLs were down for the fifth consecutive quarter. NCLs decreased by 15% to \$1.5 billion, and 90+ day delinquencies declined by 13% to \$1.7 billion. For both portfolios, early-stage delinquencies also showed improvement on a dollar basis. We believe these trends reflect the improving credit quality of these portfolios as we have tightened underwriting criteria, closed inactive accounts, and decreased high-risk credit lines.

Turning to the mortgage portfolio in Citi Holdings on slide 19, NCLs and 90+ day delinquencies in both first and second mortgages improved again this quarter.

Slide 20 provides more detail on the delinquency trends in first mortgages in Citi Holdings. 30+ day delinquencies were down for the fourth consecutive quarter. Delinquencies declined by 8% to \$11.6 billion, with particular improvement in the later-stage buckets. The sequential decline in delinquencies was due entirely to asset sales and HAMP trial mods converting to permanent modifications, offset by the continued backlog in foreclosures in process.

During the quarter we sold \$1 billion in delinquent mortgages, and through the end of the third quarter we had converted a total of \$4.1 billion of HAMP trial mods to permanent modifications. We continue to see encouraging results for HAMP modified loans, indicating that re-default rates for HAMP mods will likely be lower as compared to non-HAMP programs.

Beyond HAMP there are obviously several other mortgage-related issues that are getting a lot of attention in the market recently. Much of the concern seems to be focused on three main issues: first, the validity of the securitization process as it relates to the legal transfer of loans; second, the foreclosure documentation or "robo-signing" issue; and finally, the potential for losses related to reps and warranties on loans sold to both GSEs and private investors.



Regarding the validity of securitization, while there has been a lot of speculation on this topic, we believe, based on our review with our counsel, that the well-established securitization loan transfer processes are an effective means to transfer ownership in the mortgage loans. We note that the American Securitization Forum released a statement on Friday affirming their view that securitization processes are sound.

On the second issue, regarding foreclosures, as we have been saying publicly, we continuously review our document handling procedures, and we believe the integrity of Citi's foreclosure process is sound. While we use external attorneys to prepare documents, each package is reviewed by a Citi employee who verifies the information and signs the foreclosure affidavit in the presence of a notary. When errors are found, the documents are returned to the attorney, who revises the package and re-submits the documents for review. We have intensified our ongoing process reviews, and on that basis, have not identified any systemic issues.

Now turning to the rep and warranty issue on slide 21. On the left we show the loan balance and number of loans in our consumer mortgage servicing portfolio by vintage. These are loans serviced, but not held, which best represents our outstanding loan originations held by third parties.

Our total portfolio was \$504 billion at the end of the third quarter, of which approximately 3% represents loans securitized to private investors. The reps and warranties are generally issues that arise out of the delinquent portfolio. So, to size that, 8.1% of the portfolio is currently 30 or more days delinquent.

Approximately 22% of the servicing portfolio is covered under indemnification agreements related to acquired portfolios, and another 24% of the portfolio was originated in 2005 or before. So, only a third of the portfolio represents unindemnified loans originated in 2006 through 2008, which have generated the bulk of our claim and repurchase activity.

In the center, we show the claims experience for our consumer mortgage business. The unindemnified portion of the servicing portfolio is comprised of approximately 2.5 million loans. From 2008 through the third quarter of 2010 we received claims on a total of approximately 17,500 loans. Currently, nearly 4,700 of those claims remain pending. Of the approximately 12,800 resolved claims, roughly 6,300, or around 50%, were actually repurchased or made whole. In the third quarter of 2010 we received claims on roughly 2,000 loans, up from 1,800 in the third quarter of last year and down versus nearly 2,800 in the second quarter of 2010.

Slide 22 shows a roll-forward of the repurchase reserve for our consumer mortgage business. We closely monitor initial requests for documentation, claims rates, and rescission rates in order to establish appropriate repurchase reserves.

We began the third quarter with approximately \$727 million of repurchase reserves. We added approximately \$3 million of reserves arising from new mortgage sales in the third quarter, and another \$322 million related to changes in our estimate of potential future repurchase activity. These additions to the reserve were charged to our P&L during the quarter as contra-revenue.

We realized approximately \$100 million of losses related to repurchases and make-wholes during the third quarter. This \$100 million was charged against the reserve. As a result, we ended the period with \$952 million in mortgage repurchase reserves.

In addition to our consumer mortgage activities, our Securities and Banking business also securitizes mortgages. The Securities and Banking mortgage activity represents a smaller portion of our overall mortgage business as compared to the consumer business we just discussed.

During the period 2005 through 2008, Securities and Banking issued approximately \$70 billion in mortgage-backed securities, of which approximately \$30 billion remains outstanding. As a general matter,



these mortgage securitizations include mortgages that were purchased from third parties, not originated by Citi. Additionally, Citi does not service the vast majority of these loans.

To date, we have not received significant mortgage repurchase claim requests relating to the loans in these securitizations, but obviously this is something we will continue to monitor closely.

Slide 23 shows the trend in our key capital metrics. We continue to strengthen our capital ratios with a Tier 1 ratio of 12.5% and a Tier 1 Common ratio of 10.3% at the end of the third quarter.

So in summary, despite a continued challenging environment, Citigroup achieved net income of \$2.2 billion. Revenues in our core Citicorp franchise remained strong, with lower Securities and Banking revenues offset by growth in Regional Consumer Banking and Transaction Services.

Overall, we maintained our expense discipline, with continued investment spending in Citicorp being largely offset by expense reductions in Citi Holdings. And we benefited again this quarter from improvement in consumer credit trends, both in North America and internationally. Citi Holdings now represents 21% of our total assets, and we believe we are on track to reduce Holdings assets to below \$400 billion by year-end.

We continue to maintain very strong capital and liquidity positions, and, based on what we know today, we expect to be well above the Basel III requirements without issuing additional equity.

As we look to the fourth quarter, I'd like to discuss a few factors that may affect our results. On the revenue side, Securities and Banking will likely continue to reflect overall trends in client activity and global market conditions. In Regional Consumer Banking we expect continued headwinds in North America from CARD Act implementation. Internationally we believe consumer banking should begin to reflect the growth we are seeing in the underlying revenue drivers.

Local Consumer Lending revenues should continue to decline given a shrinking loan balance resulting from pay-downs and continued asset sales. Net revenue marks in the Special Asset Pool, which have been positive for six quarters, will remain episodic.

Regarding expenses, we remain comfortable with our previous estimate of \$11.5 to \$12 billion per quarter. We continue our strategy of investing in Citicorp while rationalizing Citi Holdings.

Credit costs are expected to remain a significant component of earnings performance in the fourth quarter. In North America cards, we expect NCLs to continue to improve modestly for both portfolios, but will likely remain at elevated levels until employment recovers in the US.

In North America mortgages, we remain cautious, as the improvement in our NCL and delinquency metrics to date reflects asset sales and loss mitigation efforts. Mortgages also remain at risk to economic factors including unemployment, home prices, government programs, and foreclosure regulations.

Internationally, we expect consumer net credit losses to remain fairly stable in the fourth quarter. Consumer loan loss reserve balances will continue to reflect the losses embedded in our portfolios, given underlying credit trends and loss mitigation efforts.

Corporate credit is difficult to predict. The recognition of credit losses and the build or release of loan loss reserves will remain episodic.

And with that, Vikram and I will now be happy to answer your questions.





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**QUESTION AND ANSWER**

**OPERATOR:** Your first question comes from the line of John McDonald with Sanford Bernstein.

**JOHN MCDONALD:** Yes, hi. Good morning. John, I was wondering if you could comment on -- the growth in tangible book value is a bit more than we had been modeling. Was there some recapture in DTA this quarter? And did some of the asset sales, the cash there, how did that contribute as well to the growth in book value?

**JOHN GERSPACH:** I think if you take a look at the growth in book value, we did benefit this quarter from ADIA. We had an additional \$1.875 billion come into our equity base from ADIA. And also, we had a big improvement in the OCI component of our equity base. If you look, I think that went up by about \$4 billion quarter on quarter; roughly a third of that increase was due to improvements in AFS securities, the FAS 115 adjustment, and the other two-thirds was driven by currency translation adjustments.

**JOHN MCDONALD:** Okay, that's helpful. And on the DTA, did you recapture any of that this quarter? And where did the DTA stand at the end of the quarter?

**JOHN GERSPACH:** At the end of the third quarter, John, the DTA was about \$50.8 billion. So it actually increased slightly during the quarter. That was primarily driven by -- there was about \$400 million of FX impact on the reserve balance. We have maintained some of that DTA in foreign currencies, and then we generated about an additional \$1 billion of foreign tax credits in the quarter. And then that would be offset by about half-a-billion improvement in the timing differences.

**JOHN MCDONALD:** Okay. Do you know if the disallowance-- the percent of disallowed changed?

**JOHN GERSPACH:** You mean what we include in the Tier 1?

**JOHN MCDONALD:** Correct. Yes.

**JOHN GERSPACH:** That stands at about \$14 billion at the end of the quarter.

**JOHN MCDONALD:** Okay, thanks. And John, just a separate question. Thoughts on the change in FDIC premiums; do you have clarity on how your FDIC premiums are going to change into 2011 and how Dodd-Frank impacts the basis for calculating that?

**JOHN GERSPACH:** John, our estimate -- all we know is we believe they are going to go up. But there still is -- we are not quite sure what the base is going to be, what the rate will be. So all I can say right now is we are fairly confident that they are going to increase; but I can't comment on either the rate or increase or what will drive it.

**JOHN MCDONALD:** Okay. Not clear yet. Last thing for me, just on the NPAs in Citicorp, were up quarter to quarter. And it looks like that was all in the corporate, John. Can you just comment on that, the non-accrual increase?

**JOHN GERSPACH:** Yeah, if you recall, John, during -- we mentioned the fact that one of the things that drove the increase in NCLs during the quarter was one loss on one specific credit in Citicorp. That specific credit then also contributed to the non-accrual loan growth in Citicorp.



**JOHN MCDONALD:** Okay, thanks. One more thing on RWA and Holdings, can you comment on that? Where -- how much of the risk-weighted assets are currently in Holdings and how that has changed maybe from the asset sales that occurred this quarter?

**JOHN GERSPACH:** You know John. I don't have an update on that number. If you recall in the second quarter we said it was roughly 40%; and I just don't have the breakout between Corp and Holdings today. We will definitely have that obviously before we publish the Q, but I just don't have that right now.

**JOHN MCDONALD:** Okay. Thank you.

**OPERATOR:** Your next question comes from Glenn Schorr with Nomura.

**GLENN SCHORR:** Thanks very much. I wonder if you could just spend a quick second on-- you had mentioned that you have not received significant repurchase requests on the private side. Just curious as you look at this, because on the agency side it has been ongoing for the last two years, why you think that is?

**JOHN GERSPACH:** I can tell you I would say it is probably because investors from the private side -- there is a chain that they have got to go through before they even -- before they can make requests for claims. So it is a bit more problematic, and I think you have seen that commented on in the press, and I really can't give you much more than that. Again, we don't have--again, the outstanding private issuance volume on our consumer book is about \$17 billion; and we have got about \$30 billion in Securities and Banking. And it just hasn't generated a significant amount of claim interest at this point in time.

**GLENN SCHORR:** Interesting. Okay, cool. You mentioned on the expense side how you continue to invest in Corp and shrink on Holdings. And you have been spot-on on your guidance on the whole, \$11.5 billion to \$12 billion a quarter. When we see significant swings on the revenue side, whether it be seasonality or market conditions, it is interesting; we should not expect to see expenses float up and down. In other words, we can't see, say, comp at the IB anymore, but I would expect when revenues shrink you would get some expense shrinkage. But you are saying that is not going to be the case?

**JOHN GERSPACH:** I wouldn't say -- again, we don't break-out the comp for the Investment Bank. But I wouldn't say that if revenues completely tanked that we would then keep it in the \$11.5 billion to \$12 billion. But I am not forecasting having a negative revenue quarter. So therefore I would think that the \$11.5 billion to \$12 billion is still a very good target for the fourth quarter, based upon what we see right now.

**GLENN SCHORR:** Okay. In Holdings, on the runoff, a few quarters back I think the, quote, natural runoff was thought of to be \$15, maybe \$20 billion. As you have jettisoned some pieces of that, any update on what we should think of as a natural run rate?

**JOHN GERSPACH:** Yeah, I can't give you an exact number at this point in time. But that natural runoff rate certainly would be lower, given the sales activity that we had this quarter. I will try to get you a number and an update right now. So it certainly is off a smaller base. So that natural runoff -- let our IR people give you a specific number after we have had a chance to take a look at it.

**GLENN SCHORR:** No worries. No worries. All right, I appreciate it, John.

**JOHN GERSPACH:** Okay Glenn.

**OPERATOR:** Your next question comes from the line of Guy Moszkowski, Bank of America Merrill Lynch.



**GUY MOSZKOWSKI:** Good morning.

**JOHN GERSPACH:** Good morning, Guy.

**GUY MOSZKOWSKI:** I was wondering, first of all, if you could just walk us through in a little bit more detail the asset sales in Special Asset Pool and LCL? And just give us a sense for the major areas in which those asset sales took place in terms of asset class, but also the degree to which the sales took place within reserves. It is a little bit hard to tell from the disclosure.

**JOHN GERSPACH:** Alright, Guy. If you'd think in terms of the Special Asset Pool, you may recall that what we mentioned at the end of the second quarter was that we were transferring about \$11 billion of assets out of our previously held-to-maturity portfolio into the trading book. So that fueled -- I think what we said was there was about \$4 billion of that was ARS securities that we would most likely hold onto, but that other \$7 billion, we basically pushed out in the quarter. So you will see a significant drop in the hold-to-maturity -- I'm sorry, in the AFS assets -- that you would see-- I think if you look back on slide 33 in our earnings deck; you will get a good sense of where we had declines in the SAP assets. Slide 32 and 33.

As far as on Local Consumer Lending, I think we disclosed the asset sale that we did to GE coming out of Retail Partner Cards, we have a couple of other smaller portfolios that we mentioned, and then of course we had the Student Loan sale. So to the extent we took any significant hits, I think that we certainly disclosed the loss on student lending. The only other significant transaction is we did have a sale of CREF loans to JP Morgan that we announced during the quarter. I don't think we disclosed the loss on that, but you can think of that as being a couple of hundred million dollars.

**GUY MOSZKOWSKI:** Okay. With respect to the nature of the loss on the Student Loan, is it just as straightforward as those assets are to be sold at a price that is below carrying value? Is there something more complex with respect to, like, reserve builds or anything like that?

**JOHN GERSPACH:** I guess it is slightly more complex. Just to be clear, there is a part of the loss for student lending that is included in continuing ops, and then a part of the loss that is in the disc ops.

In the discontinued operations, you see the loss from moving to hold-for-sale accounting for what we are going to sell to Discover and Sallie Mae. In continuing ops we did reflect that on the retained portion of the portfolio, we did increment some loan loss reserves that we needed against that portfolio. And that was due to the fact that that portfolio had been covered by insurance, but the insurance is with the legal vehicle. And since we are selling the legal vehicle, we lose the benefit of the insurance, and therefore we needed to increment the loan losses. And that added about \$100 million.

**GUY MOSZKOWSKI:** Okay. So there is a portion of that loss that may eventually come back if the reserves prove unnecessary; and the rest of it is sort of a realized loss on the book.

**JOHN GERSPACH:** That's exactly right.

**GUY MOSZKOWSKI:** Okay. Thanks for that. On the credit card, the part of the credit card portfolio which is the branded business in Citicorp, we are continuing to see reductions in the delinquent balance. Your coverage overall of the Citicorp consumer stuff seems to be up to many months, 16 months or so of losses, versus maybe 14 at the beginning of the year. I'm just wondering, what is it about your reserving policy that is causing you not to be releasing reserves in that part of the book? Have you changed policy to reflect expected changes in regulatory reserving requirements or something?

**JOHN GERSPACH:** No, actually Guy, I think we have been pretty consistent -- and I think we have mentioned this on prior calls, but we like to see two to three quarters in a row of continued improvement in credit losses and delinquency trends before we start releasing reserves. You'll notice that on the



branded cards portfolio, this is now our second quarter of improved both delinquencies and NCLs. So we just had the second one. Let's see what the next quarter looks like.

**GUY MOSZKOWSKI:** Oh yeah, that's fair enough. Then finally, your net interest margin came down a few basis points overall, but obviously there is a lot of pressure there. I was wondering if you have any forward-looking guidance you can give us on the direction of net interest margin, based on what you can see ahead in terms of pricing trends or what you can see in terms of how your funding costs will evolve.

**JOHN GERSPACH:** Yeah I actually-- I think we have at least one more quarter of close to a double-digit decline in NIM. And we still haven't seen the pricing for loans build. And don't forget; even as we are putting on new loans we are going after a slightly -- especially in our consumer businesses overseas -- we are going after a more upscale market. So we are not getting that same rich pricing on the loan. The net credit margin should improve, but the net interest margin is likely going to have at least one more quarter of pressure.

**GUY MOSZKOWSKI:** Got it. That is all very helpful. Thank you very much, John.

**JOHN GERSPACH:** Okay not a problem.

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

**MATT O'CONNOR:** Hi guys. Just firstly a follow-up on the net interest margin question. As we think about longer-term and some of your long-term debt starts to roll off, is there a natural lift to the NIM? And I guess the way I am thinking about it is -- you are running off some higher yielding assets right now in Citi Holdings; but the higher-cost funding isn't going away since it might be a little longer-dated. Do you get some natural lift from that over time?

**JOHN GERSPACH:** I think that the way to think about it is -- as we continue to run off the Citi Holdings assets, our funding strategy going forward for Citicorp is going to be -- especially since the bulk of Citicorp's business will be in the bank, most of the bank should be able to be funded out of deposits. Whereas, the assets that are in the non-bank chain are really the assets that we require a lot of wholesale funding against. I mean obviously, you will have some mix in the bank of some wholesale funding of more long-term debt; but it is really the Citi Holdings assets that are driving the need to retain some of that wholesale funding that is in the long-term debt.

So to your point, as those Holdings assets run off and then you get the natural maturity of the long-term debt, you could see where there could be a lift to the NIM.

**MATT O'CONNOR:** Right, because essentially the assets are running off quicker than the higher cost funding is right now, right?

**JOHN GERSPACH:** Yeah, in a lot of cases that is correct.

**MATT O'CONNOR:** Okay. Then just separately, I thought there were a lot of good details on Basel III, which has been a topic out there of concern, besides the mortgage stuff. Just a couple of follow-ups on that. I guess the first thing is this 8% to 9% that you expect to be at some time, I guess by the end of next year. I guess the first thing is -- how are you arriving at 8% to 9% to be at a reasonable level to operate at? There is still some uncertainties going on what the systemically important banks will need to operate, what the local countries will adopt. I mean it seems like a pretty reasonable level above the 7% required; but I am just wondering how you're getting comfortable with that.

**JOHN GERSPACH:** Well, you know Matt, we actually -- we are kind of where you are. We are looking at what we know right now and taking a look at our business and our business model going forward. We just



recognize the fact that seven percent is a minimum. You would want to run at something above that and based upon our view of our business and some of the other discussions that we've seen, right now our guesstimate is 8% to 9% in 2011, 2012 is about the right target to look at.

**MATT O'CONNOR:** Are you making any assumptions in that 8% to 9% by the end of next year, in terms of the minority interests that you laid out well? Just are you making any adjustments in terms of what the exclusions might be?

**JOHN GERSPACH:** Yeah. Matt, before you -- I just want to -- we didn't say, and I just want to be clear. What we have said is 8% to 9% in 2012. We have not put a specific time frame around that.

**MATT O'CONNOR:** Okay.

**JOHN GERSPACH:** It's in 2012. I don't want you to read that as necessarily it is hard-line December 31, 2011.

**MATT O'CONNOR:** Okay. No, that's fair. But are there any meaningful adjustments you get to get to that number, in terms of minority interests or anything on the DTA? Obviously most of the DTA is excluded right now. But, just any meaningful assumptions of either of those two helping out?

**JOHN GERSPACH:** Well, obviously when you look at any ratio, it becomes important to take a look at both the numerator and the denominator. So what we have tried to do is we have given you some of the considerations on -- and again I don't remember if it is slide 35, 36, 37, but someplace in the back of the deck -- as far as some of the things that might be impacting the numerator of that Basel III calculation.

So we clearly are looking at the minority interest that we have. The single largest component of those, the investments in unconsolidated financial institutions, is our investment in Morgan Stanley Smith Barney joint venture. That has a natural exit built into the contractual arrangement that we have. So you can see how the runoff of that will assist the numerator of the ratio.

And then, taking a look at the denominator, we will take a look at rationalizing some of our inventory positions and our trading books etc. But it is nothing that is-- we are going to completely change business models or anything else like that in order to achieve that ratio in excess of 8% to 9% in 2012.

**MATT O'CONNOR:** Okay. All right. Thank you very much.

**JOHN GERSPACH:** Alright.

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

**JIM MITCHELL:** Oh hey, good morning. Maybe just a quick follow-up on that Basel III question. Just to confirm, besides the natural sales, I think the first tranche to be sold from Smith Barney JV is in 2011 -- I mean 2012. Are you assuming any other change in that \$20 billion of investments at this point? Is that built into it or not? I guess just to confirm it.

**JOHN GERSPACH:** I can tell you we have considered some mitigating actions that we might take against those other investments. But I am certainly not going to go down investment by investment.

**JIM MITCHELL:** Okay, fair enough. On the NIM, just back to that, asset yields for most of the categories you disclose were actually up. Where you really saw the contraction was in the securities portfolio; I think you dropped 70 bps. Was that a concerted effort to shorten the duration of the portfolio? Or was that just run off of higher-yielding stuff? How should we think about that?



**JOHN GERSPACH:** It was actually three things. One is a runoff of the higher-yielding. Two is the fact that our activities during the quarter, including deposit taking, caused us then to have to buy additional amounts of AFS securities. And you can see where interest rates are right now; so we weren't exactly adding in high-yielding securities. And third, we deliberately shortened the duration of the portfolio.

**JIM MITCHELL:** Okay, great. One last question on the mortgage issue, because you had talked about the three issues out in the marketplace right now. I think within a subset of number one in terms of the issue of the validity of the securitization pools, people are worried about not just the documentation issue but the poor quality of the underwriting of the loans. Does that somehow cause the prospectus to be -- break the representation warranties in the prospectus? And therefore investors can put the whole securitization back, not just on documentation but on loan quality issues? Did you have a discussion with your counsel on that?

**JOHN GERSPACH:** We had several counsels. I couldn't find anyone that indicated that there was this big red button that gets pushed and completely blows up a transaction based upon underwriting quality. But I am going to leave that one up to all the lawyers in the world to argue about.

**JIM MITCHELL:** Okay, fair enough. Thanks.

**JOHN GERSPACH:** Alright.

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

**BETSY GRASECK:** Okay thanks, good morning. A couple questions, just one on the RWA side with Basel III. I just want to make sure; you are not giving specific guidance around what RWAs are likely to go up and then mitigate back down to, but over time you anticipate being at the 8% to 9% on the Basel III in 2012. Right? That's the --

**JOHN GERSPACH:** Yeah, and Betsy, let me just give you a little bit more color on that then. Again, as with most of our results, you need to think in terms of Citicorp versus Citi Holdings. And if you take a look at Citicorp, given Basel III and some of the mitigating actions that we can see as far as looking at trading inventories and whatnot, we would expect that after the mitigating actions you would see our Citicorp risk-weighted assets grow somewhere in the low-to-mid-30s percentage, 30% to 35% increase over where our risk-weighted assets now are for Citicorp. Citi Holdings has a much higher impact. But again Citi Holdings will be running down over time.

**BETSY GRASECK:** Okay, all right. That's helpful. That point in time when it goes into place and then obviously you have got the mitigation in the forward years?

**JOHN GERSPACH:** Exactly.

**BETSY GRASECK:** Okay. Then just one question: Vikram mentioned at the beginning of the call you did hire two very strong people, Jud Linville and Cece Stewart. I just want to understand what your objectives are for them in coming in. And could you speak a little bit about the growth element of the objectives for them?

**VIKRAM PANDIT:** Okay, let's start with Cece. She has not yet started. She will at some point, and she will be running the US consumer bank. You know we have got 1,000 branches. And our strategic objectives are straightforward, which is to continue executing on turning the model from a product-based model to a consumer-based model, where we cover clients holistically in the cities we are in. We believe that there is an opportunity to do that and execute on that a lot better than what we have been doing, and that is one of the primary goals for her.



Obviously along with that there have been a lot of changes from a regulatory perspective under Dodd-Frank and some that will come out of Basel that requires us to fine-tune that model. But again, I think the basic role is to run the US consumer bank, and she is terrific at the retail business and we are actually looking forward to having her with us.

Now Jud is here. He has already started. He is running the credit card business for us in the US and coordinating our global approach to the card business, as well. There, other than the objectives we already have had in terms of turning over the portfolio, tightening underwriting standards, getting through loss mitigation, other activities, the losses go in the right direction -- which I believe we have done -- a big part of the shift in the card business comes from what the nature of that business is going to be going forward. Right from the clientele that we are serving, because of the changes in the CARD Act; the size of the portfolio that will come from that; as well as we do believe that the card business is not only going to be about outstanding balances and ARs, but in addition to that it is really a payments business in addition to the loan side. And there are a number of technological and other changes that are going to occur there in line with changes in consumer behavior, and some of that is guiding them to the right place. His mandate is to bring the card business to the new era, the new regulatory era but also the new technological era. And he is exactly the right person to do that.

So, those are the two things. Let me also point out -- you didn't ask about this, but we asked Paul Galant to run our global payments business, and that is very much in line with the technological changes and the payments changes we see happening in the business. His role is going to be to work with Jud on one hand, also with Francesco Vanni who runs GTS on the other side, because some of the big opportunities come from harnessing our retail and our corporate footprint in the payments business and he's going to be focused on that. So we're really very pleased to have all three of them with us and we think there's a restructuring opportunity in these businesses for us, like the consumer bank, but they're also a redefinition opportunity. We're going to go after both.

**BETSY GRASECK:** Is there a thought towards keeping some of the private-label that is currently in the Citi Holdings? I mean, I saw with Zales you are extending that as opposed to getting out of that relationship, and I'm wondering if there is a thought towards retaining the private-label.

**VIKRAM PANDIT:** The private label card business is still in Citi Holdings; that is where it is. As with any other Holdings asset, we wouldn't do anything that we didn't think created the right value for our shareholders. And that's still the intent. But if your thoughts were, broadly speaking, that channels of distribution may be different to our credit card customers, especially with the CARD Act and the technological changes, we are actively looking at those channels of distribution, and obviously we look at those things holistically in light of all the businesses we have, including some of the capabilities we have in the private-label card business.

But the more important point on that business though, a good part of our goal in that business was to turn over the portfolio, making sure that the underwriting standards were in line with the current environment. Make sure the portfolio is in line with what we believe credit appetite ought to be for the company. We have done that very successfully. In addition to that, the portfolio therefore is down in size from approximately \$70 billion to approximately \$50 billion as a result of those activities. The FICO score is higher as a result. Lines outstanding are lower as a result. And we are actually pretty pleased with the ANRs we have got in that portfolio right now.

**BETSY GRASECK:** Okay. Then just lastly, I mean, it does look like you are sitting on a lot of capital. You indicated at the beginning of the call that 2011 is going to be a year of calibration; return to shareholders starts in 2012. Is that a function of what you have kind of talked about with regulators and the feedback you are getting from them? Or is it a function of the numbers that you're running and what you are comfortable holding?



**VIKRAM PANDIT:** I think we have made -- and John made it very clear. I talked earlier-- we have given you our view as to what we ought to hold. Not we can hold, but what we should hold, right? And we think 8% to 9% Tier 1 Common is about the right number to reflect Basel as we understand it. And obviously you know, I know, that there are a lot of moving parts. Calibration; what are level playing fields; and all those things we've got to look at. But that is sort of the number that we think is prudent given our business model, which is much more of a services and a customer-friendly model for a bank.

So that is clear. But there is also -- it is also very clear that as these Basel rules and calibrations and guidelines become clearer I have got -- I wouldn't -- I think it would not be unusual to expect guidance from the regulators for the industry in terms of how they are thinking about dividend policy and return to our shareholders. I think that to us is going to be the key driving guideline in terms of timing of return.

But as I said, 2011 is going to be a year where a lot of this stuff is going to be determined. So really 2012 is the year where we think we would be in position to return capital -- of course, given any guidance we get from the regulators.

**BETSY GRASECK:** Thanks very much.

**OPERATOR:** Your next question from the line of Jason Goldberg with Barclays Capital.

**JASON GOLDBERG:** Thank you. Maybe I'll ask this question a different way. But you are talking about targeting Tier 1 Common of 8% to 9%; and then under Basel III obviously currently Tier 1 Common is 10.3%. Any sense what that 10.3% figure would be today under Basel III as we know it?

**VIKRAM PANDIT:** You know I think that is sort of -- how shall I say this? The relevant question to me is: one, given the guidelines that have been put out about when should you meet what guidelines, there is plenty of room obviously, over time, to get there. But we don't believe that -- that is what could be expected of a bank; but that is not what we think, where we think we should be. So the 10.3% is the right number today, and that measure is no longer the right measure steadily over time. But we are also saying the right measure for us is Tier 1 Common as defined by the Basel II and Basel III of 2.5%. All of that stuff coming together. And that is 8% to 9%. So 10.3% is relevant today; and 8% to 9% is going to be relevant for us in 2012. And those are the two points.

**JASON GOLDBERG:** Alright because I was just trying to get a sense in terms of how much work you think needs to be done versus where we are today.

**VIKRAM PANDIT:** We already have plans with Citi Holdings that are already out there. As we keep earning money, DTA monetizes. We already have plans with the Smith Barney joint venture, and that starts coming off in 2012. So there are a lot of plans are already in place in addition to everything else that one normally does to optimize one's portfolio.

**JASON GOLDBERG:** Okay. Then in terms of return on capital in '12, I know it is a little bit ways off. But how should we think about your priorities? Is there a thought -- kind of return to the acquisition game? Is dividends before buyback, and buyback over dividends, and just how should we be thinking about that?

**VIKRAM PANDIT:** I think we will think about it collectively towards the end of next year and early 2012.

**JASON GOLDBERG:** Okay, thanks.

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

**MOSHE ORENBUCH:** Great, thanks. I was just hoping that we could talk for a minute about the consumer banking business in Latin America and Asia. You have had, I would say, in Latin America the





revenues have steadily improved some, and so have the earnings. In Asia they have been a little more stagnant. Are there things that you're going to be doing? Are there currency differences? Could you talk just a little bit about those two businesses?

**JOHN GERSPACH:** Yeah, excuse me Moshe I'm just clearing my throat here. I obviously, you can take a look at the numbers, and you mentioned stagnating revenues. I think both of these businesses are in the same process of still dealing with a little bit of portfolios that they are trying to run off, and then build on the new loan growth. You may not be seeing it right now in revenues in Asia, but I would ask you to take a look at the underlying drivers. You will see loans in the retail bank, year on year, growing by 17%; loans in credit cards in Asia growing by 12% -- by 2%? 12%. So there is double-digit growth in Asia in the loans, deposits are increasing, so we've got all those key drivers working for us, and it's a matter now of just finishing the final runoff of some of the old portfolios. They're still working through some portfolios in India. Korea now is stabilizing with some of the sales finance business we have there. And then moving on to Latin America, we're still dealing with some of the runoff issues in Mexico. So those runoff portfolios, the impact of those portfolios should begin to abate in the next quarter or two, and then we think that what you'll see is the revenues reflect the strength that is now evident in the underlying drivers.

**MOSHE ORENBUCH:** Great. Then just a follow-up. As you think about the capital requirements, how do you think about them differing country by country, where you have on-the-ground operations?

**JOHN GERSPACH:** Well, again, we run to one overall capital requirement. So there is -- when we talk about either the 8% to 9% that we are looking at in 2012 or the current 10.3%, that is the total capital that we have for all of Citigroup. Obviously in each of the legal entities, depending upon the country in which they operate, we need to make -- we need to meet the local requirements. If there is a business that attracts more capital locally or less capital locally, that could influence the way we conduct the business in that country. We will make the appropriate changes. But ultimately it all comes down to -- how much capital do we have to support all the businesses for Citigroup? And that is at the top holding company level.

**MOSHE ORENBUCH:** Thank you.

**OPERATOR:** Your next question comes from the line of Ron Harlan Mandle with GIC.

**RON MANDLE:** Thanks. I have a couple of questions. I was wondering one thing that you referred to, private equity write-downs in the brokerage business. It seemed like it was a pretty good quarter, if you could comment on that, and also comment as well on the gains on sales of investments, which -- around \$750 million -- was larger than you had in prior quarters.

**JOHN GERSPACH:** Ron, you broke up a little bit. I heard one question was on the extent of private equity write-downs in Brokerage and Asset Management.

**RON MANDLE:** Yes, and the related part was the investment security gains of \$750 million or so.

**JOHN GERSPACH:** I'm sorry the related--?

**RON MANDLE:** Yes, investment security gains of \$750 million.

**JOHN GERSPACH:** Oh, okay. Most -- two questions, sorry. So, on the private equity gains -- the private equity losses that we took in Brokerage and Asset Management, think of those as being something in the \$100 million range.



And as far as the securities gains, you may recall that when we were going through Corp/Other we mentioned the fact that there was about \$600 million worth of gains on the sale of available-for-sale securities that is in the Corporate/Other segment.

**RON MANDLE:** Okay. Then to ask a broader question about the loan loss reserve and provisioning. The reserve was over the 6%; your rate of charge-offs is likely to decline something like maybe 100 basis points this year and hopefully continue to decline sharply. And if normal is considerably lower, what do you see as the relationship between the reserve and some level of charge-offs? And how do you see getting there?

**JOHN GERSPACH:** Well again, I think you have got to separate the reserving question. And unfortunately, Ron, there is no one answer for the firm as a whole. Corporate loans are different than consumer loans, obviously. And then our situation in our Citicorp businesses is slightly different than the situation that we would have in, say, Holdings, where a lot of the releases that we are doing in Holdings is driven by the fact that the assets are declining. So, unfortunately I just can't give you one answer for the overall firm as far as a relation between our change in NCLs and our reserve balance.

**RON MANDLE:** Well, I guess I was thinking more broadly, that if at some point Citi Holdings is quite a bit smaller even than where it is now, and so you are dealing mainly with Citicorp, what is the -- what are you hearing from the regulators? And in your own modeling, what do you think the right relationship is between the reserve and charge-offs?

**JOHN GERSPACH:** Well we're not getting any guidance from the regulators on specific levels of reserves. Obviously they review everything we do, I mean, but just as with any bank. But when you think in terms of the reserve levels that we currently have now, as far as the \$44 billion, roughly \$26 billion of the \$44 relates to Holdings. So there is \$17 and change on the Citicorp side and there is \$26 on the Holdings side.

**RON MANDLE:** And hopefully they are both going to go lower.

**JOHN GERSPACH:** You know, as our embedded losses change in our portfolio, so shall our reserve balances change.

**RON MANDLE:** Just one last quick question. In talking about the net interest margin you said you can see another double-digit drop in the fourth quarter. But the drop was actually a little under double digits this quarter.

**JOHN GERSPACH:** I know, it was 8 basis points this quarter. I think I said roughly double-digit; if I didn't that's what I meant.

**RON MANDLE:** Okay. So you are thinking somewhere in that area; you are not saying it is going to be a lot bigger drop in the fourth quarter?

**JOHN GERSPACH:** You know, NIM is inherently difficult to forecast when you are dealing with some of the trading book. Don't forget, the trading book contributes to NIM as well. So I would think of a decline in NIM -- and I am going to give you a very broad range, Ron -- somewhere between what we had this quarter of 8 basis points and perhaps double out to say 15 basis points in the fourth quarter. And I really can't do better than that just because of the trading book.

**RON MANDLE:** Thanks very much.

**JOHN GERSPACH:** Okay, Ron.



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

**MIKE MAYO:** Good afternoon.

**JOHN GERSPACH:** Good afternoon, Michael.

**MIKE MAYO:** A couple of questions about any noise. How much was your gain on the sale of mortgages?

**JOHN GERSPACH:** Gain on the sale of mortgages?

**MIKE MAYO:** Yeah, was there anything?

**JOHN GERSPACH:** Which -- the delinquent loans that we sold?

**MIKE MAYO:** Any. My general question is -- you highlighted \$600 million of gains on securities, and you highlighted a couple of hundred million dollars of loss on some loan sales. Are there any other unusual gains or losses more generally? And also with regard to the weakness in the dollar, what was the benefit to revenues this quarter? I am just trying to get to a core number.

**JOHN GERSPACH:** Yeah, I think that we would have -- we basically gave you the large gains and losses on various loan sales. Obviously in the North America consumer banks some of the revenues that were generated was due to the mortgage originations that we said. And most of those mortgages were originated for sale, so you can take a look at the retail bank revenues, there was some element to gain on sale because we're not holding a lot of mortgages on our books at this point in time. So a large part of that, \$19 billion of mortgage origination we would have sold. I'm sorry, I'm losing track, what else were you looking for?

**MIKE MAYO:** And then how much did the weak dollar help your non-US revenues this quarter? You mentioned the OCI benefit. But what was the earnings benefit or--?

**JOHN GERSPACH:** Actually the impact on revenues quarter on quarter was basically zero as far as the change in the dollar. I am just looking; the overall -- quarter on quarter, I'm sorry, about 3%. I'm sorry, revenue, 0%. I was right. Every once in a while. So there you go. It is zero on revenues quarter on quarter as far as changes in FX rates. Don't forget a lot of our revenues are denominated in dollars especially in our Securities and Banking business.

**MIKE MAYO:** Okay. Then my more general question if Vikram is still there, I guess you are giving guidance for returning some capital by the end of 2012. So let's say there is almost 800 days until the end of 2012. Why go ahead and give guidance that is so far out, with all the uncertainties out there?

I guess I will give you part of the answer -- or you help me with this. The ROE this quarter was 5%. Where do you think the ROE goes over time? You talked about your ROA target of 1.25% to 1.5%. What does that equate to in terms of an ROE target? So I understand you want to return capital eventually to get the ROE up; but isn't it a little bit early to telegraph that?

**VIKRAM PANDIT:** Mike, I couldn't agree with you more, not knowing exactly what the Basel rules are and not knowing exactly what the calibration is going to look like, you are right, I don't know how anybody would give you any real guidance as to dividend policy or any of that. That is not what we are trying to do here. We are not trying to say that.

We are saying that in 2012 we believe our Tier 1 Common will be in excess of the 8% to 9% that we think is a long-term rate. We are also saying that, given that, we believe we are in a position to return capital in



2012 -- and obviously, subject to a lot of calibration; obviously subject to the fact that I guess it would not be unusual for the regulators to have a point of view for the industry on that, but subject to all of that we also thought it would be the right thing to share with you our thinking on that. That's all we're trying to do.

**MIKE MAYO:** Have you spoken with regulators yet about that possibility?

**VIKRAM PANDIT:** Mike, you know as well as anybody else we don't tell you about our conversation with regulators. But again as I said, we believe we will be in a position to return capital in 2012 based on everything we know today.

**MIKE MAYO:** As far as an ROE target, with the ROE of 5% this quarter, where do you think that eventually goes?

**VIKRAM PANDIT:** You know that's something we and everybody else in the industry is trying to figure out. Especially given the fact that a lot of the fine tuning on Basel has not yet been completed, and there is no question that some of it will have an impact on certain parts of the business and the business model, because of the optimization that happens around it. All of that we need to take into account before we are in a position to share that with you. In the mean time our guidance on return on assets is the same-- not guidance but our perspective on return on assets has been, is really, what it's been, it hasn't changed.

**JOHN GERSPACH:** For Citicorp.

**VIKRAM PANDIT:** For Citicorp rather, yes.

**MIKE MAYO:** Alright, thank you.

**VIKRAM PANDIT:** Sure.

**OPERATOR:** Your next question comes from the line of Ed Najarian with ISI group.

**ED NAJARIAN:** Good afternoon. Most of my questions have been answered, but just a quick one back to page 37 of the slide deck. Could you remind us what the carrying value of the joint venture is that makes -- that comprises over 50% of that \$20 billion of minority investments in financial institutions? And then could you also remind us what the other several big pieces are that comprise the rest of the \$20 billion?

**JOHN GERSPACH:** You know, Ed, if you -- given the \$20 billion number, all we are going to say now is that MSSB would be more than 50% of that. So you can think in terms of it being more than \$10 billion.

As far as other significant pieces, obviously we have investments in institutions such as Akbank over in Turkey that would be in that as well; as well as an investment in the holding company for Banco de Chile down in Latin America; and the Guangdong Development Bank in China. Those would be the principal components.

**ED NAJARIAN:** Okay, thank you. You don't have a specific number for where you are carrying the JV?

**JOHN GERSPACH:** Not that we are going to put out there just as yet.

**ED NAJARIAN:** Okay, thank you very much.

**JOHN GERSPACH:** Alright? Okay, thanks.



**OPERATOR:** And there are no further questions at this time. I would like to turn the call back to John Andrews.

**JOHN ANDREWS:** Thanks, everybody, for taking the time today. The call obviously will be available for replay later this afternoon on our website; and otherwise, thanks again.

**OPERATOR:** Thank you, ladies and gentlemen. This concludes today's conference call. You may now disconnect.

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