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Host
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Speaker
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PRESENTATION

KEITH: I'm very pleased to introduce our next speaker, Vikram Pandit. Vikram took over as CEO of Citigroup in December of 2007 and since then has spearheaded a half a trillion reduction in our balance sheet, reduced the expense run rate by 20%, significantly enhanced our risk management infrastructure, and most importantly, has provided strategic clarity to our business model, including the exit of several businesses, all while maintaining focus on our clients and building on our solid international platform. So, essentially, he's taken a total restructuring of our business in the midst of one of the worst economic environments of our time to better position us for the next cycle. Here to tell you more about the Citi story is CEO Vikram Pandit.

VIKRAM: Thank you. Thank you, Keith, and good afternoon. Thanks all for joining me today. I appreciate this opportunity to speak to you about Citi and where we are.

Over the last few months, I've had the opportunity now to go to around approximately twenty countries where Citi is located. And when I go around, I get a chance to meet government officials, obviously our clients, and of course our people And what is striking to me is regardless of where I go, how deeply rooted Citi is in these countries. And we've known these markets well for a number of years because we've been in these countries for decades, and some of them for more than 100 years.

And the result of all of that is an experience that's unmatched. We have local knowledge that's unmatched. We have deep relationships and really a unique ability to serve clients in more places than any bank can. So this is the strength that we have as a company; the globality is the core strength around which we've built our strategy. And what I want to do today is talk to you about our strategy focused on this, and talk about the core businesses that are in Citicorp.

The Citi of the past was a much different company. We had a product-focused strategy. We were spread along disparate businesses and we were designed to be all things to all clients. Overexposure to the U.S. consumer credit risk has been the dominant driver of our performance over the last two years. My priorities over the last two years have been threefold: first and most importantly to put our financial house in order; second, to set a clear strategic path; and third, to reshape our culture.

And in order to address strategy and culture, we first had to get Citi back on a solid foundation, which we did by increasing our Tier 1 common by $82 billion, nearly to $105 billion, through a number of very painful but very necessary capital raises in 2009. We've also reduced our assets, with a focus on the riskiest parts of our portfolio. We have improved efficiency and productivity. We have completely overhauled risk management. And to execute on these plans, we've formed a new management team and added significant board-level talent.

And it’s as a result of all of these efforts through the entire year that we were able to repay TARP at the end of last year and exit the loss-sharing arrangement with the government. Slide three highlights the results of all those moves – capital and reserve levels. We ended 2009 with a Tier 1 common ratio of 9.6% or 8.2% pro forma for the adoption of FAS 166 in the first quarter. Our Tier 1 capital ratio grew to 11.7% or 10.3% on a pro forma basis. We continue to maintain a very strong reserve level of $36 billion at year-end. And including the impact of FAS 166, pro forma reserves are now nearly $50 billion or 6.6% of managed loans.

Slide four shows our progress on expense and asset reductions. Our quarterly expenses are down 20% from early 2008 and we continue to improve efficiency and productivity. These cost savings are a very important source of reinvestment dollars as we drive our growth in our core businesses. Assets are down significantly, by more than half a trillion dollars from their peak in 2007.

While we were putting our financial house in order, we also had to set a new strategy for Citi. The drivers of global economic growth are shifting towards the emerging markets as their growth increasingly decouples from that of the developed world. Growing wealth and increasing flows in these regions are driving the demand for banking services. At the same time, the shrinkage of wholesale funding markets underscores the importance of having local deposit bases around the world.

Other important trends we see are urbanization, technology-driven ubiquity, and the need for customized solutions. These trends underscore the growing opportunity to provide banking and technology services to the growing affluent population in key metropolitan areas around the world. So, it is our clear focus on clients, the ability to serve them globally, and the interconnectivity between our consumer and institutional businesses, that will drive Citi's future growth. That strategy is reflected in our Citicorp and Citi Holdings structures. Citicorp is our future, designed to leverage these key long-term trends and Citi's competitive strengths. Citicorp includes transaction services, Securities and Banking, and regional consumer banking. These businesses comprise nearly 60% of our total assets and close to 90% of our deposits at year-end, and generated nearly $67 billion of managed revenues and $14.7 billion of net income in 2009.

Citi Holdings, on the other hand, includes assets which are non-core to our franchise either because they are more product- rather than client driven, more dependent on wholesale funding, or represent non-core client segments. Today, Holdings has less than 30% of our assets but houses most of our consumer credit risk. Over the past year, we've spent a lot of time discussing Holdings and our progress in winding down this portfolio. At year-end, Citi Holdings had $547 billion of assets, of which nearly two-thirds were in local consumer lending. We will continue to reduce Citi Holdings over time through business dispositions, asset sales, and organic runoff. And, as we have previously disclosed, approximately $61 billion of assets will be transferred from Citi Holdings to Citicorp – that's this quarter – and comprised mostly of high-quality U.S. mortgages, corporate and commercial assets.

As you can see on slide eight, results for the special asset pool have roughly tracked the performance of our net revenue marks over the last 12 quarters, with roughly break-even net income over the past two quarters. Our CFO John Gerspach recently provided a lot of granularity on the SAP portfolio, so I'm not going to spend much time on it here today. What I do want to do is to spend a few minutes on local consumer lending, or LCL, which was the biggest driver of performance in Holdings in 2009.

LCL has been generating losses primarily driven by elevated net credit losses and LLR bills. You can see how our net credit losses increased over the past three years. You can also see some early signs of improvements as credit trends are slightly different in the past two quarters. In 2009, we had managed pre-tax, pre-provision earnings of nearly $12 billion offset by managed net credit losses of $24 billion and an LLR bill of nearly $6 billion. We have significant loan-loss provisions against this portfolio of $27 billion pro forma for the adoption of FAS 166.

In these existing LCL portfolios, we currently believe that the combination of expected cumulative PPNR plus existing loan loss reserves should be sufficient to cover expected net credit losses over time, assuming that the economic conditions in the U.S. remain stable and do not deteriorate further. Many of these portfolios remain in operating businesses including partner cards or Citi Financial, which could also be valuable to buyers in a more favorable environment.

So having taken concrete steps to address the issues in Citi Holdings on a long-term basis, it is time to shift our focus to the future, which is Citicorp. Citicorp is America's global bank. And frankly, our clients around the world know we're their global bank as well. No one can serve clients the way we can. Many of our relationships begin with our global capabilities, particularly in the services businesses. This naturally extends to markets and advisory services, as these clients conduct business around the world. Our global presence allows us to extend this network of consumer banking, gathering deposits and generating attractive assets which enhance both our funding as well as our returns.

This together is what makes us the global bank for institutions and individuals. Over nearly 200 years, we have built an unparalleled global network with exposure to the world's fastest growing economies. We serve clients in over 140 countries and we've done business in many of these countries for over 100 years. What this means for us is twofold: first, our international business has a substantial presence in the emerging economies outside the G10. And second, we are a long-established local institution in these markets with deep connections and local knowledge formed by operating there for decades, unlike many firms who have recently focused on the emerging markets, expecting to parachute in and be competitive immediately.

We are uniquely positioned from the emerging markets growth as we already have meaningful scale in these markets. In 2009, nearly 50% of Citigroup's reported revenue and net income were generated in the emerging economies. Looking forward, the emerging market's revenue pool is expected to grow over twice as fast as developed markets, representing the majority of potential revenue growth in coming years.

Now let me turn to the individual businesses in Citicorp. Let's start with our Institutional Clients Group, or ICG, which is comprised of transaction services and Securities and Banking.

In 2009, ICG generated over $37 billion of revenues and nearly $13 billion of net income. ICG is the backbone of our global franchise with a physical presence in nearly 100 countries, Securities and Banking offices in nearly 90 countries, and trading floors in 75 countries.

Our transaction services business is the most global and diversified network of any financial institution in the world. This platform took decades to build and is not easily replicated. We serve our clients in over 140 countries and operate a proprietary network in nearly 100 countries. Many peers subcontract in the major emerging markets, frequently to us, because our proprietary network gives us unmatched local market knowledge and infrastructure.

This network is linked together globally to support our clients with the best possible real-time information across geographies to help them manage risk on a global basis. Our client base includes leading corporations, financial institutions, governments, and investors around the world. In 2009, we generated nearly $10 billion of revenues and $3.7 billion of net income. Nearly 75% of the revenue and nearly 85% of net income was generated outside North America.

Transaction Services is a high-return business with consistent performance. Over the past five years, our revenues and net income have outperformed competitors with annual growth rates of 20% and nearly 30% respectively, driven by our exposure to the faster growing markets, our unique global payments network, product innovation, and the inherent scale of this business. The business is also an important source of deposit funding, with deposits of $324 billion at year-end, 75% of which were outside of North America.

Our clients value this global network; we're the leading user of SWIFT by volume. Over 430 clients use Citi's global network in 21 or more countries and over 60 of these clients use Citi in over 50 countries. And importantly, these Transaction Services relationships help generate significant revenue across Citicorp's other businesses, which I'll talk about a little bit later in my presentation.

Our strategy for transaction services is to deepen our wallet share with existing clients, continue to develop under-penetrated markets, and remain on the forefront of product and technological innovation.

Let me turn to the other part of ICG, which is Securities and Banking, which generated nearly $28 billion of reported revenue and over $9 billion of net income in 2009. Despite the enormous challenges of 2009, S&B's record results reflect the strength and resiliency of our client franchise and the benefit of our global footprint, with over 65% of the revenue and nearly 75% of net income generated outside of North America. A differentiating factor for Citi is our significant emerging markets presence. We operate trading floors in 75 countries and execute transactions in over 90 countries. Revenues from our top ten emerging markets grew at an annual rate of nearly 17% for the past three years. We have the leading local markets FX business, with annual revenue growth of nearly 30% over the past three years. And we're the leading debt underwriter in Latin America, and number two in Central Eastern Europe, the Middle East, and Africa.

Going forward, we'll continue to invest in talent and technology. We have integrated our client coverage across the investment bank and the corporate bank. We're making many key hires in technology investments in our markets business. We're closing industry coverage graphs to improve our share of investment banking revenues.

And while the majority of the revenues are in fixed income, both equity markets and investment banking grew significantly last year despite the challenges we faced in 2009. Equity markets revenues, excluding CVA, nearly doubled to $5.4 billion and investment banking revenues grew by 47% to $4.8 billion.

Our results demonstrate the global reach and product depth of our relationships. While we continue to serve those clients who need us around the world, our focus today is on a smaller, more profitable client base with complex global needs. Less than 5000 corporate institution clients generate over 85% of our ICG revenues, and not surprisingly, the most profitable clients use Citi across multiple countries and products.

For example, amongst our corporate clients, nearly 1,000 companies currently use our services in over 10 countries. These clients average over $10 million in annual revenue. And for those clients using our services in more than 50 countries, revenues average over $30 million. Nearly 1,200 corporate clients use at least eight products with significant overlap across Transaction Services and Securities and Banking. These clients also average $10 million in annual revenue. and, for those clients using at least 14 products, revenues average over $50 million. Our strategy for Securities and Banking is to continue to grow underrepresented products to leverage our unique global platform for the benefit of our clients and to deepen our relationships with these clients across more products and more markets around the world.

Let me now turn to our consumer business. Our consumer and institutional businesses are completely interrelated in local markets and this gives us both deposit and asset diversification. Regional consumer banking is in 39 countries spanning North America, Asia, Latin America, Central and Eastern Europe. Regional consumer banking generated over $29 billion of managed revenues and nearly $2 billion of net income in 2009, despite the challenge in consumer credit cycle.

Over 50% of the revenues and over 80% of net income was generated outside of North America. Over three-quarters of our branches and 50% of our deposits are also overseas. This global presence allows us to immediately benefit from emerging markets growth. For example, as emerging market economies recovered, our international loan balances grew 13% from the first quarter of 2009.

Let me summarize our regional consumer banking strategy: with the exception of a few markets, we target a globally-minded, affluent consumer base in key metropolitan areas within each country. This segment-led strategy allows us to reach the greatest number of target customers with the most efficient branch network. The largest 150 metropolitan areas in the world account for approximately 30% of global GDP. and 1/3 of this metro GDP is in emerging markets with another 1/3 in the U.S.

In emerging markets, GDP tends to be concentrated in metropolitan areas. In fact, China, Brazil, India, Mexico, and South Korea all rank amongst top ten countries in the world by metro GDP.

Moreover, the characteristics of our target customers are very similar across these markets. These affluent, urban customers have similar needs for saving, investment products, and banking technology. This enables us to develop and transfer products, technologies, and cost savings across regions. Success of this strategy is most apparent in our growing Citigold franchise, which targets higher-wealth savers and investors with premium banking services.

Let's turn to North America. By the way, even in North America, we employ a focused metropolitan strategy. Similar to our international businesses, in the U.S., we target a mass affluent, urban customer with a higher propensity to save and invest. We outperform the market in deposit gathering with twice the level of deposits per branch, versus our peers. In addition, the North America business is an important source of deposit funding. Deposits were nearly $144 billion at year-end, and grew 13% in 2009.

I believe we can do a much, much better job in this business. As you know, I've asked Manuel Medina-Mora, who used to lead our Latin American business, to also lead North America consumer banking, and I expect that within a few months, we'll have a lot to talk to you about in terms of how we plan to optimize this business.

In the cards business, we're the third largest issuer in North America with 23 million open accounts and $83 billion of managed loans at year-end. The cards business in the U.S. is undergoing a very significant structural shift with the implementation of the Card Act and continued economic uncertainty. What we know today is that the size of the U.S. credit card industry is likely to be smaller in the future, but we're confident that an attractive and profitable business model remains. We also have valuable portions of our business, including the American Advantage portfolio, which we will build upon going forward.

This business model is evolving, but we are working to refine our customer segmentation, improve profitability, and develop a more convenience-based payment solution. Outside North America, our regional consumer bank is primarily focused on higher growth emerging markets. International consumer banking generated over $15 billion of revenues and $1.5 billion of net income in 2009. And approximately 90% of these revenues were in the emerging markets, concentrated in countries with the largest potential revenue pool.

As you can see on top-right of this slide, twenty countries represent over 80% of the potential emerging markets revenue pool in consumer banking. And, as you can see on the bottom-right, we're well-positioned in most of these markets today with the potential to grow in countries such as China, as regulatory restrictions evolve. In most countries, we operate a focused branch network in metropolitan areas. We then leverage our footprint with local distribution partners and alternative banking channels to reach our target consumers. We are a leader in cards internationally, with a top three position in twenty countries and a 10% market share in emerging markets. We serve our mass affluent customers through Citigold, which targets higher wealth consumers and represents around 60% of our international deposits.

One important driver of our consumer banking growth is what we call our Citi at Work program. This actually is a good example of how we leverage our Transaction Services corporate commercial banking relationships to also establish a retail foothold in developing markets. For example, because we handle payrolls for so many corporate clients, we're also able to offer direct deposit to their employees, which generates relationships for our consumer bank.

We currently provide services to 4,000 institutional clients, as well as many local commercial banking clients, through which we reach 5.7 million customers across 35 countries. In Russia, for example, we have a relatively new consumer franchise, but we've been serving corporate clients for nearly twenty years. In this market, Citi At Work drove approximately 80% of new-to-bank retail relationships in 2009 and represented 27% of deposits at year-end.

Citi At Work has also driven substantial growth in other markets, including India, Mexico, and Brazil. and, I believe we've just begun to see the power of Citi At Work, and other similar programs, through which we can leverage our institutional relationships to grow our consumer businesses.

Let me now turn to profitability, or return on assets, for each of our businesses.

For the next several slides, I'll look at an adjusted return on managed assets, which excludes loan loss reserve belts and the impact of net revenue marks to get to a more normalized return. The adjusted returns for Citicorp and Citi Holdings do not reflect our Corporate/Other segment, which I'll discuss in a minute. The decline in Citi Holdings returns over the past three years has been driven by high consumer net credit losses on a declining pool of assets. These reflect the concentration of U.S. consumer credit risk in Citi Holdings and elevated credit costs, which will eventually normalize. We have substantial pre-provision earnings, and we maintain strong reserve levels of $31 billion against this portfolio pro forma for FAS 166.

Citicorp returns, on the other hand, grew in 2009 to 1.6%, reflecting earnings growth, asset discipline, and a shift towards more productive businesses. And this is despite elevated net credit losses in our credit card business, particularly in the U.S.

Citicorp returns in 2009 showed continued growth in Transaction Services, which achieved a return on assets of over 6%. We also had strong earnings in Securities and Banking. Higher S&B returns reflect our current focus on profitability and more efficient use of assets.

In consumer banking in 2009, the earnings mix shifted towards high-return international regions. our 2009 results reflect elevated net credit losses in all markets, and you can also see the historical returns in these businesses. We continue to see economic recovery in international markets, particularly Asia and Latin America, where credit trends improved materially in the second half of 2009. We expect returns for North America consumer banking to remain under pressure in 2010, reflecting the U.S. economic environment and the impact of the Card Act.

The attractiveness of our international franchise is apparent when you look at the regional return on assets. North America generated an adjusted ROA of 1% last year – again, reflecting our exposure to U.S. consumer credit – while Asia, Latin America, and EMEA each generated returns of 1.8% or greater. While consumer net credit losses affected all markets in 2009, certain regions benefitted from strong performance across ICG, specifically North America and EMEA generated strong growth in Securities and Banking in 2009 and Asia and EMEA continue to represent a significant share of Transaction Services.

Now, on this slide, what we've done is we've combined Citicorp and Corporate/Other to approximate our business model going forward. Corporate/Other includes global staff functions, operations and technology, treasury, and other corporate activities. This segment also houses our liquidity, including $183 billion of cash and cash equivalence, and available for sale securities as of year-end. These operations, as well as the large liquidity pool, currently support both Citicorp and Citi Holdings. While we continue to believe it is prudent to maintain higher than normal levels of liquidity in the current environment, these actions have inflated the assets in Corporate/Other and diluted our returns. In total, putting Citicorp and Corporate and Other together brings down adjusted returns on Citicorp from 1.6% to approximately 1.2% for 2009.

Our asset trends reflect the continued wind-down of Citi Holdings, growth in Citicorp in the blue, and buildup of liquidity assets in Corporate/Other, which is in the green. At year-end, Citicorp and Corporate/Other combined had nearly $1.4 trillion of managed assets. We expect to grow these core assets organically. This reflects what we believe to be Citicorp's strong growth prospects and the reinvestment of a portion of the capital freed up by the wind-down of Citi Holdings.

Importantly, we also expect the asset mix to change, with growth in our international operations and the redeployment of liquid assets back into the businesses. In summary, Citicorp and Corporate/Other ended the year with nearly $1.4 trillion of assets and generated nearly 1.2% adjusted return on managed assets in 2009, which included the impact of high consumer net credit losses and a drag on returns from our higher than normal liquidity. Now, over time, we believe a compound annual growth rate for these assets of around 5% is not unreasonable, particularly given our growth opportunities in emerging markets. We also believe, over time, that we can generate a total return on assets of between 1 1/4 and 1 1/2%. And as I discussed earlier, for Citi Holdings, we currently believe that the combination of expected cumulative PPNR for the LCL segment plus existing loan loss reserves should be sufficient to cover expected net credit losses in the LCL portfolio over time, assuming economic conditions in the U.S. remain stable and do not deteriorate further.

Let me wrap up by saying that Citi today is indeed a fundamentally different company than it was two years ago. In Citicorp we have a very clear strategy and that is to serve our clients in three businesses: Transaction Services, Securities and Banking, and Regional Consumer Banking. We have a singular focus on our clients with a unique ability to bring the world to them through our global network and product innovation. Nearly 50% of our business is in emerging markets, giving us significant exposure to the world's fastest growing economies.

In Holdings, we have the funding, we have the liquidity, and we have the capital to unwind this portfolio methodically, which is exactly what we've been doing. We have a solid financial foundation, and we're well-positioned to return to sustained profitability.

I appreciate your time today, this afternoon. I'm going to have John Gerspach come up and join me up here. I know a few of you are going to have questions, and John will be delighted to answer them.

First question for John.

QUESTION AND ANSWER

SPEAKER 1: Getting to Share Count, before I came down this morning, I looked on Bloomberg and it said 29 billion shares. What's the potential for further dilution from warrants and conversion of preferred, and what's the worst-case scenario for that share count?

VIKRAM: John, I don't know – I think it's 28 and change – but why don't you talk about what's already outstanding?

JOHN: The simple answer to your question is, compared to where we have come from, from 5.5 billion shares outstanding to 28 1/2, the odds of further dilution are fairly small on that scale. So, warrants and the conversion of certain shares are really going to have very little impact on the 28.5 billion shares outstanding.

SPEAKER 1: I mean, could you see 31, 32 billion shares in total, or is it more like 29-30?

JOHN: It's more like 30-ish.

VIKRAM: That includes what?

SPEAKER 1: Well, a billion is a lot, so –

JOHN: I understand, but you're trying to get me to 31-32, and I don't see us going that high, but then again, if you had asked me five years ago, I never would have said we'd be at 28 1/2, either.

VIKRAM: That's why John gets to answer the questions.

SPEAKER 2: You had mentioned both at the outset, in your comments, and at the end of it, that you're becoming less product-focused and more customer-focused, but I didn't see a lot on that in between. Could you talk about how what specifically you're going to be doing beyond the words to become more consumer, more customer-focused?

VIKRAM: Okay, that one's easy. So, let's separate that out – let's start with our institutional client businesses. And a big part of what we're doing is focusing on these 5,000 clients who represent 85% of the revenues of ICG, and we're doing it by making sure that every client has one relationship manager point, where that person's responsibility is to deliver all of Citi to that client and make that happen internally. Not a new idea, but it just has to be implemented, and we're in the process of doing it.

One of the results of that is we're combining our corporate and investment banking people so that we have a unified face to corporate clients. That becomes the coverage force, and what I can tell you is I'm seeing this work on the ground, and we believe, by the way, the potential of doing that correctly is significant.

So we've started. It's not where I want it to be, and that represents, to me, good potential going forward. Now, when you get to – let me get to the consumer side. And what I will tell you is a Citigold proposition outside of the U.S. has almost always really thought about the client first. And they're really very good with their platforms, their products, of serving every individual client the way they ought to be, with one point of contact and a holistic view. In the U.S., over the last many years in the consumer bank, we went to a product-based strategy. There was a bank, then there was a card business, and then there was a mortgage business, and then there was a student loan business, then there was an auto loan business. Every one of them runs separately as products and the bulk of that is in Citi Holdings, and the bulk of those businesses are really not the businesses that we believe are going to be profitable for us in the right environments or really not core, is more the better way of saying that.

And the result of all of that is what we're doing in the U.S. consumer bank is we're shifting that to completely being focused on clients but to do that, in a consumer bank, it requires back-end technology, it requires front-end technology, it requires retraining, it requires segmentation of clients. Now that work was started extremely well by Terri Dial and she's done a good, good amount of it, but we've got a ways to go on that, which is one of the reasons why I said this is one of those businesses where I think we can do a lot better, and Manuel is exactly the right person to get us there.

Now, Citi At Work is an interesting example. The reason I put that up there is that's One Citi At Work, meaning that it is the institutional corporate client working with our consumer bank on the other side, putting it all together so that we can deliver not only institutional products, but institutional consumer products for our clients. So, as much as this is talked about – and you sitting out there are never going to know how well it's going to be executed on – but what I can tell you is we think just harnessing what we have and putting it all together and delivering in one Citi is a big opportunity for us.

SPEAKER 3: (inadudible) --determine what the exact core earnings per share are. I've kind of gotten lost in the math; pre-tax, pre-provision, per share.

VIKRAM: Well, we purposely didn't give you those numbers. But we gave you a roadmap. And then it gets to share count, and then it gets to when: this year, now, next year, when, etc. ? So there are lots of things that you are going to have to think through. I mean, one of the things that I've said, and I say internally, is that when the cycle turns, it really turns. And when you have $50 billion in reserves, and when you have our growth strategy being pre-funded because we're selling down Citi Holdings to grow Citicorp - and so it's not an aggregated increase in balance sheet – and then when you have the capital levels we have, and the earnings power we think we're going to have, at some point down the road, we're going to have to figure out what to do with all this capital.

And that then gets to, you know: where are you going to put it to work? How are you going to put it to work? And of course nobody, today, wants to talk about anything about excess capital. But it is still out there, so we're going to leave that one to you.

SPEAKER 4: Okay so, going back to the excess capital question: I mean, if Citi Holdings is, what $540 billion, roughly –

JOHN: 547.

SPEAKER 4: Right, so if you just pretend like it was capitalized at 6% or 5% or something like that, it's actually more on a Tier 1 basis. You know –

JOHN: 5%, 6%?

SPEAKER 4: Okay, 8. That's $30 billion, potentially, in excess capital. If Citi Holdings winds down in itself without any incremental loss, because you said the pre-tax, pre-provision and the reserves would fully offset any potential loss, cumulative loss content –

JOHN: Under a stable economic condition without further deterioration.

SPEAKER 4: Right, but I mean, is that the right thinking--?

JOHN: For LCL.

SPEAKER 4: No, that's for Citi Holdings in aggregate.

VIKRAM: Right.

SPEAKER 4: Okay, right. Okay, so there's two questions, then: number one, what's the potential for loss content in Citi Holdings outside of LCL? And it also gets to my second question, which is: who's going to buy some of these stranded assets, like Citi Financial and you mentioned that's not core, you'd like to sell it, but it's wholesale funded, and I'm not sure exactly who's capable of doing something like that. Or, is it just going to wind down over a long period of time?

VIKRAM: Let me see if I can take a crack at that, and then John, see what you want to do here. The other parts of Holdings, other than LCL, which we just talked about, is brokerage, and you know the dynamics on that, so we don't need to spend time on that; then the rest of the SIP portfolio, which is why the slide up there was really important, because the net income follows net marks, and you've seen what's been happening there. And so, which therefore was the reason why I focused on LCL and gave you the prospective we have on the LCL and what's going on with reserves in the PPNR versus expected net credit losses.So, that's the story, okay? Now, you and I know these are economically sensitive assets. As jobs start getting created in the U.S., there's going to be an impact on these assets, and that is the impact, by the way, that everybody's going to have. Now, we call this Citi Holdings. There are other institutions who'd call them core, because these are the same kind of assets, not too dissimilar from what people have on their balance sheets, so I can't imagine that as the economy changes, we're going to be any different, from that perspective.

The wonderful thing about something like Citi Financial we talked about Cards, and said, "Okay, Cards balances are going to go down across the industry because of the Card Act and redoing of credit standards. There's going to be a huge part of America that's not going to be served. Who's going to provide them credit? Where are they going to go?" And by the way, the household version has been shut down slowly. Does American General still have one? I don't know if they did, but then the only one left of this kind in any size is Citi Financial, as an example. And so, it's something that we believe could be valuable over time, but you're right – it's an asset generation machine; it's not a funding generation machine.

And if the markets remain in the state they are, where funding is hard to get for a very long period of time, and if the jobs picture improves, then we've got a great asset on our balance sheet that's going to perform well by throwing out earnings and having value. If on the other side, as that happens – as the economy improves and the jobs improves – if it unlocks funding markets, then I don't think it's that much of a stretch to imagine there are a lot of people who would like the ROA generation capability of a business of that sort, given how much it can serve the underserved part of America going forward. That's sort of the plan.

Okay right there, first.

SPEAKER 5: You had mentioned in the past that one of your goals was a return to sustained profitability. So I was curious if you can update us on the timing of that and also your comfort around when it happens, if it is indeed sustainable and how to think about those things.

VIKRAM: So, think about profitability as being the equation that matches earnings on Citicorp against performance of Citi Holdings. Those are the two dynamics. We just talked about Citicorp today in detail; I wanted you to know last year we earned $14.7 billion in that business. And so, it is: what happens to these earnings versus what is the performance of Citi Holdings. Which is why we also talked about LCL today, as well. So our view is on any long-term basis, as Citi Holdings assets start coming down, as the economies around the world start doing what we think they're starting to do, that there should be a crossover. But, I can't tell you exactly when; on a short-term basis, I'm still at saying that it's the earnings against losses here. Longer term picture is very clear. You want to add anything there?

JOHN: I'm not going to give a date, no.

VIKRAM: A couple down here. Oh, there's one here, go ahead.

SPEAKER 6: [inaudible] --the government sale of shares. Was the preferred offering this week part of that in any way, shape, or form, or have you had discussions with them? And do you think they'll handle it in a more-- in a better way than perhaps they handled it– the potential sale in the fall?

VIKRAM: Yeah, no. The raising of the preferred had nothing to do with the government's ownership of stock; they're completely unrelated. As far as the government is concerned, they've made it very clear they want to settle, and they want to be selling over the next year or 12 months is what they said last – a couple months ago. And they have a lock-up, and the lock-up expires on March 16th. And after that, they're free to do what they want to do. And I think given what the economy is, given where the stock is, I wouldn't be surprised if they would actively think about doing something like that.

JOHN: They'll certainly have to file a Shelf Registration Statement before they do anything, so – you'll know.

SPEAKER 7: Yeah, in your presentation, you mentioned your revenues and net income coming from outside North America, I think. Given that the politics are driving a lot of risk in the banking sector, what in your mind are the pros and cons of not really having a U.S. franchise that is close to home?

VIKRAM: The one thing that is emerging around the world is a clear sense of the interrelationships of the global economies; as much as we thought they were interrelated, it's nothing compared to where it's going. When you look at what's driving our GDP growth, of course it's the stimulus, of course there's some inventory restocking, but where is it coming from? A lot of it is also coming from exports. We're exporting more around the world.

And so, we can't escape – all of us here, whatever we want to believe – the fact that we're going to have to rely on the foreign consumer, and the emerging markets consuming more and being a market for our products if we want to grow, and that our growth is going to be linked to somehow linking our wagon to global economic growth. That's a fact. That's where we are.

Now, anything can happen, as I said. There can be ten Googles, or lots of different things that can change that picture, but that's where we sit; that's what it looks like. And by the way, if you want to do that, you want an ally, and we're the best ally an American business has when they want to think about the world outside of the U.S. And we're putting this to work.And I'm not talking about the large businesses and the big numbers, I'm talking about small businesses. We have commercial banking clients who are saying, you know, "Can I get a connection in Singapore?" And guess what? Yeah, we have a commercial banking client on that side; let me connect you to that person. It can actually work.

So, a lot of these things are very important. So, for anybody who wants to look beyond the headlines and get into a thoughtful discussion, we're a real asset as a company to a lot of our clients who are here in the U.S. who realize they need to tap foreign markets. By the way, similarly, here in the U.S., we still need to tap foreign capital flows. We do both. It's a core part of our model, and I think when you sit down and really go through it, most people understand that.

JOHN: I'd actually argue we have a very strong U.S. franchise.

VIKRAM: In addition.

JOHN: Yeah.

VIKRAM: Anybody else?

JOHN: There's one way over there.

VIKRAM: It's hard to see with the spotlights in our eyes up here.

SPEAKER 8: Could you just tell us a little bit about your tax-paying status going forward? Assuming you're profitable in '10 and going over the next several years, I imagine you have a lot of deferred tax assets from the previous losses to shield taxes going forward; it would help us modeling what the earnings potential could be.

JOHN: We closed the year with 46 billion of net deferred tax assets, so you're right – we've got a sizeable deferred tax asset. But that's not going to really come into play from an earnings point of view. That will help from a cash flow point of view, but we'll still have to put tax provisions up against the earnings that we have. They will just knock down that deferred tax asset.

VIKRAM: Alright. So we appreciate all of you coming together today. Thank you very much, and hope to see you again. Thanks.