Citi Fourth Quarter 2010 Fixed Income Investor Review

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Host
Ilene Fiszel Bieler, Head of Fixed Income Investor Relations

Speakers
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Eric Aboaf, Citi Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi Fixed Income Investor Review with Chief Financial Officer, John Gerspach; and Treasurer, Eric Aboaf. Today's call will be hosted by Ilene Fiszel Bieler, Head of Fixed Income Investor Relations. We ask that you please hold all questions until the completion of the formal remarks at which time you will be given instructions for the question-and-answer session. Also as a reminder this conference is being recorded today. If you have any objections, please disconnect at this time. Ms. Fiszel Bieler, you may begin.

ILENE FISZEL BIELER: Thank you, Operator. Good morning and thank you all for joining us. On our call today our CFO, John Gerspach, will speak first, then Eric Aboaf, our Treasurer, will take you through the investor presentation which is available for download on our Web site, www.citigroup.com. Afterwards, we will be happy to take questions. Before we get started, I would like to remind you that today's presentation may contain forward-looking statements which are based on management's current expectations and subject to uncertainty and changes in circumstances. Actual results may differ materially from these statements due to a variety of factors including the precautionary statements referenced in our discussion today and those included in our SEC filings, including without limitation the Risk Factor section of our 2009 forms 10-K. With that said, let me turn it over to John.

JOHN GERSPACH: Thanks, Ilene, and good morning, everyone. We're very pleased to be hosting our fixed income investor review this quarter. Last quarter we discussed some of our key accomplishments, particularly our strong capital position, robust structural liquidity and disciplined balance sheet management. Today we're going to update you on our continued progress in those areas. Eric Aboaf, our Treasurer, is going to take you through some specifics on credit fundamentals. our capital position and liquidity profile. He'll also review our recent issuance activity and current funding plans for the coming years.

Many of you may have joined us on Tuesday's earnings call and there are some key points from that call that I'd like to re-emphasize to start us off on Slide 1. 2010 was a very good year for Citi. We made excellent progress in executing our strategy in every major area. We were profitable in each quarter earning $10.6 billion for the year.

Revenues increased for the quarter and for the year in two of our three core businesses, Transaction Services and Consumer Banking while Securities and Banking had strong full year results. Entering 2010 our primary goal was to become consistently profitable and we achieved that. Another goal was to continue to reduce assets in Citi Holdings and we did so by $128 billion. Remaining assets are now 19% of our balance sheet. That's down from almost 40% at their peak.

We have also been building for the future. From opening branches in Asia to making new investments in technology, to attracting top-notch talent in our consumer and institutional businesses, we're building a position of strength that will allow us to harness the world's growth trends. For 2011, we will build on the foundation we have put in place and accelerate our strategy for Citicorp. We will make investments to increase our lead in the emerging markets. We will seek to become a leader in digital banking and mobile payments. And we will continue to recruit top talent, building on the key hires we made last year.

Turning to Slide 2, I'd like to highlight some of our key earnings results for the year. And for those of you who may not have joined us on Tuesday, we have also provided our fourth quarter results for you in the appendix of this presentation.

On a full year basis, Citigroup reported revenues of nearly $87 billion for 2010. Despite the fourth quarter increase, operating costs totaled $47.4 billion, which was below the full year guidance we gave at the beginning of the year.

Credit costs were $26 billion down 50% from prior year levels on a comparable basis. For the full year, we earned $10.6 billion in net income or $0.35 per diluted share. We earned nearly $15 billion in our core Citicorp business with earnings in Asia and Latin America contributing more than half of the total. And we cut lossed in Citi Holdings by more than half from the prior year.

Summing up, I believe that we have the right business model, the right strategy for our company's present and future, and we are executing with discipline. The economic environment remains uncertain but our direction is clear. We've built a foundation capable of producing consistent profitability. Our focus now is on achieving sustained growth.

And now, let me turn it to Eric.

ERIC ABOAF: Thank you, John. Citi is a fundamentally different company today than it was just two years ago. Our results in 2010 demonstrate this clearly as you can see here on Page 3.

Our capital base is strong no matter which capital measure you use. We continued to make progress in reducing and de-risking the balance sheet through asset dispositions which provides us with the ample liquidity to strategically invest in the future. Citi Holdings assets have declined by more than half from their peak in 2008 to $359 billion and now stand at less than 20% of our balance sheet.

We are seeing continued improvement in credit trends with total managed credit costs in the fourth quarter down 56% from the same period last year and non-accrual assets are down 37% year-over-year. We are well-reserved with robust loan loss reserves at $40.7 billion. With this strong balance sheet, we are uniquely positioned in the industry to capitalize on our strong presence in emerging markets and our global capabilities. As an example, for the second consecutive quarter we grew both consumer and corporate loans in Citicorp. And with this foundation we believe we can deliver sustained growth in our three core businesses: Securities and Banking, Transaction Services, and Regional Consumer Banking.

Let me start out by taking you through our credit trends which showed continued improvement for the sixth consecutive quarter. Slide 4 shows total Citigroup net credit losses and loan loss reserves. NCLs continued to improve down 11% sequentially to $6.9 billion and the net LLR release increased 14% to 2.3 billion.

Let me describe our credit trends in three broad buckets: corporate, international consumer and North American consumer. The first major area, corporate credit, which is at the top right, had a benefit of $256 million in the fourth quarter compared to a cost of $347 million last quarter. Corporate net credit losses declined 28% to $664 million and we continued to see improved corporate credit performance in every region, including a 13% sequential decline in non-accrual loans. As a result, we recorded a net corporate LRR release of $920 million, reflecting the continued general improvement in corporate credit quality.

At the bottom right of the page, you can see that the majority of our credit costs continue to be generated by our consumer businesses. Consumer NCLs declined 8% sequentially to $6.2 billion and we released $1.3 billion in net loan loss reserves. More on this in a moment. Along the bottom of the slide, you can see that we ended the year with $40.7 billion of total loan loss reserves which is 6.3% of loans.

Turning to Slide 5, you see the second major area of credit, international consumer, where we are seeing sustained improvement in credit trends. In Citicorp, NCL improvement on a dollar basis is slowing down as we grow our international loan portfolios. However on a rate basis, we continued to see NCL improvement in our major international markets.

More specifically, in Asia, 90-day delinquencies were relatively flat on a dollar basis and down as a percentage of loans, and India continued to show the most significant improvement in both NCLs and delinquencies. In Latin America, NCLs improved on a rate basis driven by cards in Brazil and Mexico, and 90-day delinquencies also improved. In Europe, NCLs were generally flat and 90-day delinquencies decreased. Additionally, international local consumer lending credit trends continued to decline for the sixth consecutive quarter.

Slide 6 shows the third major area of credit, North American Consumer. This includes our card portfolios at the top and our Citi Holdings mortgage businesses on the bottom. Both Citi-branded cards in Citicorp and the 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 third consecutive quarter. NCLs decreased by 11% to $1.7 billion and 90-day delinquencies were down 12% to $1.6 billion. In Retail Partner cards, NCLs were down for the sixth consecutive quarter. NCLs decreased by 10% to $1.4 billion and 90-day delinquencies declined by 8% to $1.6 billion. For both portfolios, early stage delinquencies also continued to show improvement.

Within our Citi Holdings mortgage portfolios, NCLs and 90-day delinquencies in both first and second mortgages improved again this quarter. We continued to manage down these portfolios. Compared to the fourth quarter of last year, we reduced our first mortgage portfolio by 18% to $80 billion and second mortgages are down 14% to $44 billion through a combination of sales, runoff and net credit provisions. Our total loan loss reserve balances for mortgages and Citi Holdings currently represents over two years of NCL coverage.

Now that I have covered credit trends, let me describe our progress in reducing the amount of higher risk assets. Slide 7 shows the asset trends in Citi Holdings. In 2010, we reduced Citi Holdings assets by $128 billion. We ended the quarter with $359 billion of assets, which represents a reduction of $291 billion or approximately 45% from the fourth quarter of 2008. As John mentioned, Citi Holdings now represents only 19% of our total assets.

Turning to Slide 8, we have a breakdown of the three segments of Citi Holdings. As you just saw on the previous slide, we brought Citi Holdings assets down by approximately $128 billion in 2010. This slide shows you the key businesses within the Citi Holdings where those reductions occurred. Our two largest categories that comprised Citi Holdings are down as well. At $80 billion, the Special Asset Pool is now well below $100 billion and down 40% from the beginning of the year. Local Consumer Lending is approximately $250 billion down 20% from the beginning of 2010.

In the fourth quarter, the $62 billion reduction was comprised of $48 billion of asset sales and dispositions, including $31 billion from Student Loan Corporation and 10 billion of sales from the Special Asset Pool. Approximately $12 billion of net runoff in pay downs and $2 billion of net credit costs and net asset marks. Clearly we've made significant progress executing on our Citi Holdings assets reduction strategy.

Turning to Slide 9, given our healthier balance sheet, let me describe for you the current status of our ratings, a topic we've discussed quite a bit over the last year with many of you. On the top half of the chart, you see our senior debt and commercial paper ratings for Citigroup and on the bottom half, senior and short-term ratings for Citibank. As you are aware, the rating agencies are reconsidering their rating methodologies following the passage of the Dodd-Frank act, particularly assumptions in government support. Of course we're following it as well and we'll continue to do so as things develop, including as the various rule makings commence or are completed during the year.

You'll also recall that since late in the fourth quarter of 2008, and nearly the first quarter of 2009, our supported ratings at the Citigroup level have been unchanged at A3 for Moody's, A for S&P and A+ for Fitch. In 2010, however, in recognition of our progress, our unsupported ratings have improved at two of the three major agencies, thereby narrowing the gap between our supported and unsupported ratings. Twice in 2010, in the first quarter and then again in the fourth quarter, S&P upgraded our stand alone credit profile, or our unsupported rating, by a notch. As such, our unsupported ratings were increased by two notches in 2010 by S&P and, on October 22, 2010, Fitch upgraded our unsupported rating as well. As you can imagine, we are in ongoing discussions with the rating agencies and provide them with continuous information about our progress across many dimensions including our lower credit losses, higher reserves, the smaller holdings balance sheet, and more capital.

So turning to Slide 10, let me talk about capital, which continues to be an area of significant strength for us. This slide reflects our strong capital levels at the end of the third quarter, with $129 billion intangible common equity and $126 billion in Tier 1 Capital. Compared to the pre-crisis era of 2006, our capital measures are up between approximately $26 and $53 billion across these four major capital measures. Our capital base is one of the strongest in the industry.

Turning to Slide 11, at the end of the fourth quarter, Tier 1 and Tier 1 Common ratios were 12.9% and 10.7% respectively, up from a year ago and also from the third quarter. Our Tier 1 Common ratio grew approximately 40 basis points during the quarter, reflecting an increase in Tier 1 Common to $105 billion and a reduction in risk-weighted assets to $980 billion. On a year-over-year basis, our GAAP assets grew 3% while we reduced risk-weighted assets by 10%, largely due to the continued wind down of Citi Holdings.

With our strong capital ratios and declining risk-weighted assets, we're ready and able to deploy in our Citicorp businesses. Let me take a moment to describe what we are seeing in loan volumes here on Slide 12. You see that Citicorp loans grew to $407 billion or approximately 4% from second quarter to third quarter and 3% from third to fourth quarter. This represented the second consecutive quarter of loan growth.

For example, International Retail Lending was up 3% sequentially and international cards increased 6% sequentially. In North America, end of period Retail Loans were up 4% sequentially. In our institutional businesses, Trade Finance is seeing growth due to an increase in import finance in Asia and Latin America. And we have begun to see some growth in our funded corporate loan book, particularly in the emerging markets. We are optimistic that if general economic conditions continue to improve and corporate climbs pursue capital expenditure and expansion plans, demand for loans will continue to increase.

Moving to Slide 13, having discussed capital and lending opportunities, now let's review Citi's liquidity and funding strategy. Our current strategy is designed to provide ample high quality liquidity to make sure that we are well positioned to grow our core businesses and navigate various market conditions. In both the bank and non-bank, we carry a healthy liquidity buffer, which is generally held in cash and highly liquid securities, such as treasuries and agencies and other G7 instruments. We execute on this funding strategy in both our bank and non-bank businesses by accessing a spectrum of appropriate funding sources. In our bank businesses, our funding is primarily in the form of stable, globally diversified deposits. In our non-bank businesses, we use a modest amount of short-term funding, such as commercial paper and repo to finance liquid assets. We then use a range of long-term debt instruments to cover our broader business needs.

On Slide 14 you see our aggregate liquidity resources or our liquidity buffer defined as cash and highly liquid securities. It stood at approximately $324 billion at the end of the fourth quarter. We have maintained these resources at this level over the past year in both the bank and the non-bank and currently believe they are proportionally calibrated to the size of our balance sheet. In addition to successfully building this high level of liquidity, let me take a minute to talk about the fungibility of our liquidity at Citi. In general, Citigroup can freely fund legal entities within our bank vehicles and Citigroup non-bank vehicles can fund our bank entities. In addition, under Section 23 A of the Federal Reserve Act, as of the end of the year, our bank can fund our non-bank entities with as much as $27 billion as long as it is collateralized appropriately.

Turning to Slide 15, to create the liquidity buffer that I just reviewed, we have funding strategies tailored to the bank and the non-bank. Within our bank, we view our deposit base as our most stable and lowest cost funding source. And as you have heard me say in prior quarters, we focus on maintaining a geographically diverse retail and corporate deposit base. And you can see that close to 75% of our bank is funded with deposits. In addition, long-term debt, including securitizations comprised about 10% of the bank's funding.

In the non-bank, long-term debt represents the most significant component of our funding profile. The vast majority of this funding is comprised of senior term debt, which is both fixed and floating along with subordinated instruments and trust preferred securities. A little over a quarter of our non-bank liabilities are secured financings, often referred to as repos, which provide funding in a carefully calibrated manner. The majority of this secured financing is collateralized by highly liquid government and government-backed securities.

Of the remainder, a portion relates to matched-book transactions that are part of the asset business of secured lending to customers, these matched-book transactions have matching tender profiles, resulting in minimal funding requirements. The balance of the secured financings that is not matched-book is carefully calibrated by asset quality, tenor and counter party exposure and supplements or other sources of funding. And finally, our large capital base supports both the bank and the non-bank entities.

Now turning to Slide 16. The components of capital, including stockholders' equity and various other types of securities that comprise it, will be important in the future as well. You can see in the bar chart on the middle of the page how this breaks out by capital instruments with qualifying Tier 1 Common of $105 billion, preferred stock of $0.3 billion and trust preferred securities of $18 billion. As we discussed last quarter, the so-called Collins Amendment under the Dodd-Frank Act generally eliminates trust preferred securities as Tier 1 capital with a three-year phase-out period commencing in January of 2013. Basel III eliminates trust preferredS starting in January of 2013 with a 10-year phase-out.

We will carefully balance U.S regulatory interpretation, the Dodd-Frank Act and the Basel requirements in reviewing our outstanding trust preferred and enhanced trust preferred securities. We will also consider various factors when evaluating each of our trust preferred and enhanced trust preferred securities including financial terms, such as coupon, currency, rate and optional and regulatory call options and the timing of such options.

Similar to other financial institutions, with these types of securities outstanding, there are regulatory call options on virtually all of these securities. We have been discussing with legal counsel the various regulatory events that could trigger these call options, such as the proposal or adoption of rules to implement the Collins Amendment or other possible triggering events and are continuing to review our options.

In order to continue to optimize our capital structure and maximize our financing flexibility, this morning we announced a consent solicitation to eliminate the replacement capital covenant applicable to our enhanced trust preferred securities in two series of our preferred stocks, series AA and T. We believe the elimination of this covenant will give us more flexibility in managing our capital structure and enable us to take advantage of a variety of options at the appropriate time as the regulatory landscape related to the phase-out of these securities begins to take shape during the next couple of years.

Turning to Slide 17, you can see how executing on our funding strategy has fortified our balance sheet liquidity. We strengthened our structural liquidity as measured by one of the traditional metrics shown here. Together, equity, long-term debt and deposits form the heart of the bank's liquidity. This combination of structural funding has risen from 62% to 73% as a percentage of total assets during the nearly three-year timeframe that you see here. In fact we have consistently been in the 70% range since the end of 2009.

Before I turn to our plans for this year's debt issuances, let me put it in the context of our liability management strategy that we've been executing on over the course of the last few years, here on page 18.

On the top left-hand panel, you can see our issuance volumes over the past three years. After issuing substantial amounts of debt in 2008 and 2009, and successfully de-risking the balance sheet and reducing Citi Holdings assets, we had ample liquidity going into last year.

As such, in 2010 we issued about one-third of the amount issued in 2009. Because of this deleveraging, we could also afford to buy back debt and on the top right panel, you can see that we had a number of tender offers, both in senior and subordinated debt. We would like to do more buybacks in 2011.

The bottom left of the page shows our 10-year cash secondary spreads. Over the past two years, our spreads have come in approximately 445 basis points since the peak in early 2009. And as you have heard me mention previously, we have also systematically reduced our dependence on short-term wholesale funding including commercial paper. Since 2008 we have reduced our commercial paper outstandings by approximately two-thirds.

Moving onto Slide 19, you can see our actual long-term debt maturities for last year and the expected maturities of long-term debt over the next three years. This chart clearly shows that maturities peak in 2011 and come down in 2013. As we see in the light blue atop each column, TLGP debt represents a significant amount of maturities in 2011 and 2012. Many industry observers have noted that this wave of maturities is an industry-wide situation which came about as many banks issued TLGP and other government-guaranteed debt in 2008 and 2009.

As I've said before, for us at Citi we do not expect to replace TLGP maturities. The reason is clear as we continue to reduce and de-risk our Citi Holdings balance sheet in both our bank and non-bank entities, our need for long-term debt is coming down. For 2010, we issued approximately $21 billion of long-term debt across multiple tenors and multiple currencies. In the coming few years we currently expect that our issuance levels of long-term debt will stay consistent at approximately $20 billion.

Moving to our last slide, let me summarize four major points. First, our capital base is one of the strongest in the industry and this is reflected across every one of our significant capital ratios. As we have stated, we currently anticipate returning capital to our shareholders in 2012.

Second, we have significantly improved our structural liquidity by increasing our capital base and deposits, reducing assets and extending liability duration as appropriate. We believe we have ample liquidity and have begun to lend more to our clients.

Third, we will have a significantly lower proportion of wholesale funding going forward. We currently expect modest re-issuance needs and do not expect to replace TLGP debt that is coming due.

And fourth, we see continued credit improvement across both corporate and consumer. We believe these trends position us for sustained growth in our three core businesses: Securities and Banking, Transaction Services and Regional Consumer Banking.

That concludes our fixed income review. John and I will be happy to take your questions.

OPERATOR: [Operator Instructions] Your first question comes from the line of Robert Smalley with UBS.

ROBERT SMALLEY: Hi. Good morning. A couple quick questions. One on the readings and then on cap structure. We saw S&P come out with new criteria, which I guess, which you had alluded to, new rating methodology. Have you had discussions with them on specifically, I guess they're going to have a much larger country component to their ratings. What country would you guys consider yourselves in? What country would they consider you in? And while your emerging markets exposure is a real enhancement to the bottom line, is this something you envision as maybe being detriment in terms of your discussions with them and how they look at the world?

ERIC ABOAF: Robert, It's Eric Aboaf. Good question. I think as you know, the new S&P preliminary methodology is actually out for comment, right. It's going to, they're going to be soliciting comment the next couple months and then they'll be finalizing. So it's actually hard to anticipate with great clarity exactly how it's going to shake out. I think with that I'd make a couple observations. We clearly appreciate good, clear, transparent, rigorous methodologies and this could certainly evolve in that direction.

On your specific question, our current understanding is that the underlying ratings are big for us for Citi, for us as a company. It will be based on the weighted average of where we do business. At least that's how we understand it today.

What I'll also tell you is that, if you recall, the S&P RAC capital rating methodology also has capital ratios that are both with and without diversification. And that diversification benefit, obviously, because of the breadth of our geographic presence and our business mix is actually a significant portion of the capital ratios that they ascribe to us.

ROBERT SMALLEY: Okay. It makes sense. On cap structure, where do you see the roll of subordinated debt in your capital structure going forward? I think that we're all shaking our heads a little bit at what Basel said about sub debt and I know that you've retired some, you'll probably do a larger scale liability management exercise down the road. Where do you see the role of bullets sub debt in your capital structure?

ERIC ABOAF: Robert, that's a good question. I don't think there are any clear answers at this stage. I think the – certainly the regulatory community is thinking it through, both in the U.S. and the Basel level in Europe, as you saw recently through some of their papers. I think there's clearly more clarity on, on Tier 1 Common as the base of capital. There's some clarity around what qualifies as uncommon Tier 1. I say some clarity, not full, right? The – which is driving the shift overtime of the TruPS to some other instruments, potentially like preferred, but the rest of the capital structure I think is really open-ended.

I think it could be – it could take different shapes, different forms. There are a number of regulatory papers out for comment. So I think we're going to have to see and I think it's going to literally take years to, to solidify and obviously, as that happens or as we learn more, we'll certainly share our views of that with you as soon as we can.

ROBERT SMALLEY: Thank you.

OPERATOR: Your next question comes from the line of Louise Pitt with Goldman Sachs.

LOUISE PITT: Yeah. Hi. Good morning, guys. Thanks, again, for doing the call. I just had a couple of quick follow-ups to Robert's questions. The first one is, if the ratings were to be downgraded and obviously we're still in the period of consultation and comment gathering from the rating agencies, but have you quantified what impact that may have if you were to be taken down to the next rating levels, for example with respect to how repos would be affected, et cetera?

ERIC ABOAF: It's Eric Aboaf. That's something we've done for years. We've done it routinely, because the way we manage and structure our liquidity is literally by running a wide array of stress tests. We run those regularly. We run some of them daily. We run some of them monthly. We run some of them quarterly. They tend to cover the wide range of different possibilities, even very remote ones and as a result, you can imagine that rating actions is one of those that we've considered.

LOUISE PITT: Are those numbers, I've seen some numbers published in the Ks, is that the overall impact or should we be using those numbers as a guidance for overall impact if your ratings to be downgraded?

ERIC ABOAF: I think it's a good quantitative estimate as to the direct impact that some of those potential rating changes, right? So a – to be very concrete in our Q, I think it's Page 43, there's literally information on our inability to issue commercial paper were we to lose our senior, drop the senior rating grade by a notch at the Citigroup level and were we not to have an A1/P1 rating. And so we quantify that as approximately $9 billion. We cover derivative triggers in some of our derivative transactions, which is quite modest at a couple billion dollars. And so those are the very direct impacts.

Obviously, there are indirect impacts, which we have modeled in a variety of different ways and as a result, what we've done is configured our funding structure so that it's robust, it's reliable and can take – and takes that into account so that we would be comfortable operating, right, under a wide variety of different scenarios.

LOUISE PITT: Okay. Perfect. Thank you. And then second question is on the consent solicitation that you announced this morning, that you talked a little bit about, I just have one quick question as to why is the 0.5% only being paid to the holders that own less than 10,000 shares?

ERIC ABOAF: It's Eric again. I think we structured an approach that we thought was fairly typical as an industry offer. Obviously we'll evaluate it during the time of the consent. But we thought it was both fair and industry standard.

LOUISE PITT: Okay. Perfect. Thank you. That's it for me, thanks.

OPERATOR: Your next question comes from the line of Ryan O' Connell with Morgan Stanley.

RYAN O'CONNELL: Thanks so much for taking the call. It's on the same subject that Rob and Louise are talking about. And let me try to phrase it another way. First of all, I don't think S&P should downgrade you all, but God knows what they're going to do. If they were to, in my view, [make] a mistake, and downgrade you, just to put a finer point on the whole repo issue. Are you confident that you've got enough repo counterparties out there who would look to the inline collateral or whatever? Basically continue to provide you financing for the sales and trading book even if you're a two. Are you confident you've got enough people to do that? Or do you think you've got other ways in which you could economically continue to fund the trading operations?

ERIC ABOAF: Ryan, it's Eric Aboaf. The answer to your question is we are comfortable. What we have done is if you go back to Page 14, right? We hold an enormous amount of liquidity at the top of the house in cash and liquid securities so that we have liquid funds available that can absorb any stress in either the commercial paper book or any stress in the repo book. What we've done in the repo book is carefully calibrated it. And one of the things that we have consciously done, for example, over the last year is become much, much less dependent on any rating-sensitive counterparties. Clearly the 2a-7 funds are very rating sensitive. And so it doesn't make any sense economically for us to do repo with them at this point in any material ways.

And so what we've done is we've calibrated the repo book by counterparty. We have a very good sense for counterparties that are very reliable and those that might be less so. And clearly we've shied to the former, not the latter, right? We've calibrated by amount so that we're not overexposed. We've calibrated by industry. And then we've calibrated by tenor, all of which is a way to structure it in a careful way. So that it is a reasonably robust funding source under different circumstances.

RYAN O’CONNELL: Okay. Thanks. That's very helpful. And then the other question I had is just on the business side. Now I understand that this is not a great quarter for anybody, particularly income trading. But as you look at it, how are your market shares evolving with respect to trading – I know it's hard considering the counter market, but fixed trading, equity trading and then just investment banking?

JOHN GERSPACH: Hi, it's John. The – that is a difficult question, especially in these kinds of quarters. We look at it this way. I think we've been pretty public that from a overall investment banking point of view, and when I say investment banking, I'm talking about our underwriting and our advisory businesses, that that is a franchise that we are continuing to build out, especially on the M&A and equity side of things. So you've seen the rankings in the league tables, we've fallen off a bit and we're still well-represented in things like investment grade debt, investment-grade loans. But we still have some work to do on other product classifications.

From an equities trading and fixed income trading, equities trading is a platform that we began investing in as far as changing over our teams in late '09 and that continued into 2010. So we feel pretty confident that we've got the right team in place there and that – our performance in equity trading will pick up. And as far as fixed income, I continue to think we're holding our own. When we did our earnings call, there weren't a lot of comps out at that point in time. And we did get a lot of questions on that. I think as the comps have come out, our performance in the fourth quarter on fixed income, on the trading side, well, the numbers still are in grade on a comparable basis, we look pretty good.

RYAN O’CONNELL: So you weren't down 39%? Or even 49%?

JOHN GERSPACH: No. We, our record is, no, no, no, I said on a comparable basis.

RYAN O’CONNELL: Right. Right. Yeah.

JOHN GERSPACH: Okay. So I can't tell you that we're happy. As I said, we were pretty forthright in our Tuesday call that we looked at the fourth quarter as weaker trading results. And I think we characterized it that way from the start.

RYAN O’CONNELL: Oh, no. Sorry. John, what I'm saying is that unlike other people, you weren't down 39% or 49% quarter-over-quarter.

JOHN GERSPACH: We, our results were down 32%.

RYAN O’CONNELL: Yeah. Yeah. There were others who were down 39% or 49%.

JOHN GERSPACH: I understand. I understand. I'm just talking about our book. But yes, I appreciate it. We were not down 39% or 40%.

RYAN O’CONNELL: Okay. Thanks a lot.

JOHN GERSPACH: All right.

OPERATOR: Your next question comes from the line of Mark Kehoe with Goldman Sachs.

MARK KEHOE: Hey. Good morning. More trivial questions, really. Just in terms of the ADIA remarketing, is there one more deal to come in this quarter?

ERIC ABOAF: There's an equity closing this quarter, and then there is one more remarketing coming six months hence from that one.

MARK KEHOE: Okay. And then the last question, just in terms of, you mentioned debt repurchases and the mix. Given that, the proposed rules from the Fed on the TARPs may come out at the beginning of the third quarter, around the third quarter, does that mean that you may hold off your repurchases until then, and then more likely have a higher waiting more towards TARP repurchases at that point?

ERIC ABOAF: Mark, it's Eric Aboaf. It's really hard to tell, right? We're really awaiting guidance. We also just need to understand the economics as they evolve during the coming months. So, we certainly have an intention to begin this process. But it's, I just don't have a, our plans haven't firmed up as, kind of as precisely as you've just asked. And obviously as they do, we'll certainly share that with you either in one of these calls or in another form.

OPERATOR: Your next question comes from the line of Tom Chistolini with Fidelity Investments.

TOM CHISTOLINI: Oh. Hi. On the high level of defects, on the mortgages sold to Freddie, I guess. Can you guys comment why we're still at relatively high levels there, the 15% that was out earlier this week? And can you give us some color about goals to get those defect levels down?

JOHN GERSPACH: Yeah. Hi, Tom, it's John. Actually, Freddie didn't issue anything earlier this week. I think what you probably saw was a news report written off of a, some sort of leaked document that people really haven't even seen. Based on the information that we have, our defect rates are actually trending extremely well. Since we've completely re-engineered our quality control processes in 2009, our view is we continue to see significant improvements, and frankly, we believe that we're among the top performers in the industry.

The other thing that you should be aware of is, in the information that was provided in that news report, they lumped together a whole series of defects. There are actually three different tiers of defects. Everything from, you're missing one little document or you've got something misspelled, to something which is far more significant. And so, I, you really just can't look at the totality of the defects as it at least was portrayed in that news release. It's really only, well Tier 1 defects are the ones that have got the higher possibility of being put back. And our Tier 1 defects are reduced tremendously at this point in time. For the most things, defects can be cured after they are identified, and they don't result in repurchases.

TOM CHISTOLINI: Okay. So you would be within, then, it seems like the hierarchal point of the 5% is the level that, at least someone from Fannie has said is the target level. And your performance would be consistent with that, then?

JOHN GERSPACH: Well, we're not going to, I'm not going to give you precise numbers, because we haven't gone public with that. But as I said I think if you asked the question directly of Freddie, I think you'd get a fairly favorable response on our performance.

TOM CHISTOLINI: Okay. And then, I guess on the earnings call, it sounded like you guys are revisiting the Retail Partner cards business. Is that, I mean any additional color you can provide on that? Is it something, within a year, it could be something that finds its way into the core of Citicorp business?

JOHN GERSPACH: Yeah. I think what you heard is most of the analysts on the call were questioning whether or not, they were opining that we should be revisiting the Retail Partner cards decision. And as we said on the call, when we set up Citicorp and Citi Holdings, it was based upon the strategy we wanted to put in place and the businesses that ended up in Citicorp were the businesses that fit the strategy going forward. And the businesses that we put in Holdings were the ones that just didn't fit.

So it's not so much that, oh my God, Retail Partner cards, it's performance is improving, let's move it over. What we'd have to do is take a look at the strategy that we've got for Citicorp and at the now, either entire Retail Partner Cards business or certain portfolios of the Retail Cards business based upon the way the portfolios are now being underwritten and see whether or not they fit the strategy. So what we said on the call was basically, look, never say never, but it's not something that we anticipate doing, certainly in the next quarter or two.

TOM CHISTOLINI: Okay. I mean you mentioned on a call, you said you're in a much different space today with the Partner Card business. I mean I guess, what did you mean by that?

JOHN GERSPACH: Well. The Partner Cards business, the underwriting standards have changed. The way that the business is being operated. The – certainly the loss rates. There's a lot of changes that have been done in that business. You can see the way the delinquencies are trending down. It's again, you have to take a look at it portfolio by portfolio, but there are a lot of portfolios in that business that are much healthier than they were two years ago when we set up retail partner cards. Having said that, we're still, if you'd like to put an offer in on any of those portfolios, give us a call.

TOM CHISTOLINI: Okay. Thanks.

OPERATOR: Your next question comes from the line of Michael Rogers with Conning Asset Management.

MICHAEL ROGERS: Yes. Good morning, gentleman. Back to this issue of ratings for a second if I could. How concerned are you about the long-term say franchise value and long-term profit potential of securities and banking in the wake of any down grade that could happen at some point in the next number of months or quarters?

ERIC ABOAF: Michael, it's Eric Aboaf. The way to think about that is that if there is a rating action of some sort, right, our strong hypothesis would be that it would be industry-wide for the three or four banks that are kind of being evaluated in a similar way and have similar ratings, right? And so I think the first thing you have to think about is what happens as a group of institutions change and how will that actually potentially mitigate any revenue impacts because it's not as if one or another is an outlier, but there's a group and so will customers materially change their behavior? That said, clearly some very rating-sensitive counter parties will choose to operate differently or choose to interact with some of those, some of us as banks differently and our view is that, while that might have – it's got to have some impact. We don't see it as, as particularly significant at this point and we'll kind of take things as they come.

MICHAEL ROGERS: Do you think it would prompt you to change let's say your long-term ROE potential for that business?

ERIC ABOAF: I mean, you're asking a very quantitative question. I think not at this point. It doesn't, we don't have enough evidence that it would change our view of the profitability or the returns that we should expect to earn.

MICHAEL ROGERS: Thanks very much.

OPERATOR: Your final question comes from the line of David Knutson of Legal and General.
DAVID KNUTSON: Hi. Thanks for the call. Follow-up to the question just asked, have you looked over your CP book and ABCP and repo book and come up with an estimate of guidance you could help with in terms of the rating sensitivity of the counterparties or the investors in those kind of short-term rating sensitive areas?

ERIC ABOAF: David, it's, it's Eric. What we've done is we've run a wide range of different scenarios, right? So it's very hard to pinpoint in any one particular way. What I'd tell you is a little bit of how we described our funding structure on Page 15, right? Of the repo book, we've been quite clear that a majority, right, and I didn't say just barely a majority, a majority is class A repo, right, so governments and agencies and that you'd expect to be fairly, would be by and large, unaffected by ratings or could be done with counterparties or unaffected by ratings, right?

Then we said that of the minority, right, the next piece is really a matched-book, right, where there are reverses on the other side, on the asset side of the balance sheet, which are typically calibrated with shorter maturities, right, so that that, so that both the repo and the reverse can be unwound, right, so that there's no net liquidity drain.

And if you can imagine, we carefully calibrate the tenors on both sides of that book, we calibrate the collateral types, the counterparties so that if there is some sort of event and we don't know how much it will affect that match book, we have a shock absorber. And clearly we would expect that would be an industry-wide effect.

And so now you get to not only the minority, but the last piece of that minority, right, which is the repo that's done for– to continue to fund some of our trading inventory. If you go through the math that started with 182, you calculate majority versus minority and then the second piece of the minority, you get to a number that I think then you can say, "What are the range of scenarios?" I think you could come up with your estimates, we could come up with ours. What I'd encourage you to do is say what are the range of scenarios that you could imagine on that last piece?

And then what we do, and what I'd encourage you to do is I'd compare that to the liquidity resources we showed you on Page 14, which is the $95 billion of excess liquidity we carry on the non-bank and one could even add the $27 billion of cross funding that we could potentially do with the bank. I think if you can go through that, you'll – you can actually develop some ranges of scenarios, and that'll give you some construct. But I think as you do that, you actually get to – you would – you'll probably come to a conclusion that there's quite a bit of liquidity that's there just to absorb a wide range of those scenarios.

DAVID KNUTSON: One follow-up question, then a comment. The follow up is you've been looking at the Citi Holdings portfolio for a while, and aren't you able to come up with an expectation on the timeframe that it is going to be completed? The wind-down and kind of the expectation more or less of bracketed at least of the losses you expect to occur? It seemed like you were a bit more – you were a bit less optimistic on the pace of the wind down in '11 versus '10 on your call earlier in the week. And then the comment again, that – the fixed income call thing, it would be helpful if it was held closer to the equity call so we have a chance to address management instead of several days later.

JOHN GERSPACH: Noted – this is John. Note it on the comment, we did it three days after the earnings call this time. It's hard to schedule them back-to-back, but we strive to make continuous improvements. So we'll see what we can do.

Regarding your question on Holdings, again, we tried to be clear that the pace of future reductions and holdings is going to be less than the pace that we had in 2010 just so that, again, that was fairly clearly understood. I think if you look at what is left in Holdings, the ability to give you a solid date becomes problematic, as far as exactly the date we will have holdings wound down. If you just look at the Special Asset Pool, there's $80 billion of assets in the special asset pool, $27 billion of that is in hold-to-maturity securities. Those hold-to-maturity securities have maturities that extend out, some of them, up to 10 years. So we're going to be holding those securities, and that's going to take a while.

On the LCL, the Local Consumer Lending, which – the single largest piece that's left in Local Consumer Lending now would be our U.S. mortgage portfolio, the legacy mortgage portfolio, which is about $129 billion, I believe.

I don't want to be cavalier about it, but I don't see somebody walking in offering to buy $40 billion, $50 billion, $60 billion of those mortgages at a price that we would believe to be economically rational. So it's likely that those mortgages will take some time to work their way down. We do continue to do asset sales. We did in 2010, we did about $8.8 billion of sales of mortgages, about $4.8 billion of that was delinquent loans. But that's going to take some number of years to just work its way down. I'm just sorry, I can't give you a very precise year. As far as the losses in the portfolio, we've been clear in the past, and let me reiterate again, that our belief is that as far as Local Consumer Lending – with the combination of the pre-provision net revenues that we'll be able to generate off that portfolio, added to the existing loan loss reserves that we have, we believe that we are covered for any NCLs that are embedded in that portfolio.

DAVID KNUTSON: Thank you.

JOHN GERSPACH: All right.

OPERATOR: Speakers, do you have any closing remarks?

ILENE FISZEL BIELER: Thank you, Operator, and thank you, everyone, for joining the call today. If you have follow-up questions, please don't hesitate to reach out to us at Fixed Income Investor Relations. We'll talk to you again soon.

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

