MOSHE ORENBUCH: Good morning everyone, thanks for joining us. We're very pleased to have the management of Citigroup with us this morning. It's been a very, very exciting past year for Citi as they've made some tremendous strides in terms of demonstrating their ability to sustain profitability, and finish having the government exit its ownership stake. And we're very pleased to have John Gerspach, the CFO of Citi. John was named CFO of Citi in July of 2009, kind of smack in the middle of all of the festivities, and previously, actually had been with the company for 20 years, right? Twenty years...21, there you go. And had been the Controller before, and had a number of positions around the globe for Citi. We look forward to his comments, after which time, he'll take our questions.

JOHN GERSPACH: Thank you, Moshe. And good morning everyone. In 2010, Citigroup achieved several strategic objectives. We returned to profitability with four consecutive quarters of operating profits; we continued investing in our core Citicorp franchise, funded primarily by expense reductions in Citi Holdings; we reduced Citi Holdings’ assets by 26% to $359 billion, or about 19% of our total assets; and finally, we maintained a strong and liquid balance sheet. Our Tier 1 Common ratio grew to 10.7% and risk-weighted assets were down 10% versus the prior year. Today I'll review the performance of each business and discuss certain factors which may affect our results in 2011.

The next slide shows the results for total Citigroup. Revenues were down 5% to $87 billion in 2010, driven by lower Securities and Banking revenues and lower assets in Citi Holdings. While expenses grew in Citicorp, which we'll discuss in more detail, the increase was offset by expense reductions in Citi Holdings, resulting in slightly lower operating costs for the year. The biggest driver of earnings growth was the 50% reduction in credit costs, as credit improved across every business and geography. Net credit losses were down 27% to $31 billion, and we released nearly $6 billion in net loan loss reserves, compared to an $8 billion build in 2009.

Slide 4 shows the results of our strategy. As we renewed our investment spending in Citicorp in 2010, we also grew our loan assets, up 6% year-over-year on a comparable basis. Consumer loans grew 3%, driven by Asia and Latin America; and corporate loans were up 10% due to trade finance growth in Transaction Services. Now at the same time, we significantly reduced the assets in Citi Holdings. Including the impact of adopting FAS 166 and 167, which consolidated $43 billion of assets on to the balance sheet in the first quarter, Citi Holdings’ assets were down over $170 billion in 2010, including over a $100 billion of asset sales and divestitures, and $50 billion of net run-off and pay downs. Importantly, we made this progress while growing our Tier 1 Common ratio by over 100 basis points to 10.7%.

Finally, we maintained a strong loan loss reserve position at nearly $41 billion, or 6.3% of total assets. Roughly 60% of those reserves are attributable to Citi Holdings.

Turning to Citi Holdings in a little more detail on slide 6: excluding the gain that we had on the sale of Smith Barney in 2009, Citi Holdings’ revenues were down 13% to $19 billion in 2010 and expenses were down over 30% as assets declined. Credit costs were down nearly $20 billion in 2010 as net credit losses declined 35%, and we released $3.6 billion in net loan loss reserves. That's compared to a net...
build of roughly $5 billion in 2009. As a result, the net loss in Citi Holdings narrowed by more than 50% to $4 billion in 2010. For the past six quarters, the losses in Citi Holdings have been largely driven by Local Consumer Lending, as net revenue marks have remained positive in the Special Asset Pool.

On slide 7, we show more detail on Local Consumer Lending. As shown on the left side of the chart, in 2010 the pre-tax loss in Local Consumer Lending narrowed to $8.3 billion, nearly 70% of which was attributable to our legacy CitiMortgage portfolio. The legacy CitiMortgage portfolio is separate from the mortgages in CitiFinancial, and on the right, we show the loan balances for each segment. The improvement in the pre-tax loss for CitiMortgage in 2010 was driven by lower credit costs, in part due to the declining loan balance. Net credit losses in CitiMortgage declined over a third to roughly $5 billion in 2010. And the net loan loss reserve build was down significantly from the prior year.

In total, first and second mortgages were down 18% to $109 billion in CitiMortgage through a combination of sales, run-off, and net credit losses. At year-end, loan loss reserves for CitiMortgage represented over two years of net credit loss coverage.

Slide 8 shows the assets in Citi Holdings. We have made great progress in reducing Citi Holdings' assets. However, we expect the pace to slow as an increasing portion is in run-off, with the exception of a few large operating businesses.

Brokerage and Asset Management has $27 billion of assets, mostly in the Morgan Stanley Smith Barney joint venture. The Special Asset Pool is the second-largest segment with about $80 billion of assets. The Special Asset Pool declined by $56 billion in 2010. However, the decline is likely to slow as now only $29 billion of assets are either trading or available for sale securities. The remainder is mostly hold-to-maturity or accrual assets which will run-off over time.

Finally, the largest segment in Citi Holdings is Local Consumer Lending, with $252 billion of assets. Nearly half of Local Consumer Lending is legacy CitiMortgage assets, which, despite the fact that we will continue to pursue sales, will mostly run-off. The remaining assets include two large businesses in North America: Retail Partner Cards and CitiFinancial, as well as some international consumer portfolios. While these businesses are for sale, the ability to close a very large transaction will depend on buyer interest and a favorable financing market.

For Local Consumer Lending, we continue to believe that the combination of expected cumulative pre-provision net revenues, plus existing loan loss reserves should be sufficient to cover expected net credit losses in the Local Consumer Lending portfolio over time, assuming economic conditions in the U.S. remain stable.

Now I'll turn to Citicorp on slide 10. Citicorp is our core franchise, focused on serving large, multi-national corporations, institutions, and consumers around the world. In 2010 Citicorp generated $15 billion of net income on nearly $66 billion in revenues. Nearly half of our revenues in 2010 came from Regional Consumer Banking; roughly 35% was from Securities and Banking; and the remainder, or roughly 15%, was generated in Transaction Services. Expenses were up year-over-year to nearly $36 billion in 2010, including increased investment spending and volume-related growth, which we'll discuss more in a minute.

Higher operating expenses were more than offset by lower credit in 2010, as credit improved across every business and in every region. Net credit losses declined 10% to less than $12 billion, and we released $2.2 billion in net loan loss reserves, compared to a net build of nearly $3 billion in 2009.

Slide 11 shows Citicorp results by business and region. As I just mentioned, nearly half of our revenues in 2010, or over $32 billion, was from Regional Consumer Banking. Over half of the Regional Consumer Banking revenues were outside of North America, with Asia and Latin America together representing over $16 billion.
Securities and Banking generated $23 billion of revenue in 2010. Nearly 60% of Securities and Banking revenues were international, most significantly in EMEA and Asia. Finally, Transaction Services had $10 billion of revenue, 75% of which was international, reflecting our physical presence in nearly 100 countries. In total, nearly 60% of Citicorp revenues in 2010 were from outside North America, roughly split among Asia, Latin America, and EMEA.

The bottom two pie charts show net income by region and segment. Asia and Latin America contributed more than half of Citicorp earnings in 2010, or a little over $8 billion. Over time we expect the percentage of earnings generated by Consumer Banking and Transaction Services to increase, given their significant exposure to higher growth emerging markets.

Slide 12 shows more detail on Securities and Banking. In 2010, Securities and Banking generated $23.5 billion of revenue, excluding CVA, and $6.6 billion of income from continuing operations. Year-over-year comparisons in 2010 were affected by the overall market environment, as well as the out-sized fixed income results in the first quarter of 2009. Compared to 2007 and 2008, we improved our margin in Securities and Banking with relatively stable revenues against a lower expense base. We continue to make investments in Securities and Banking, particularly to build our Equities and Investment Banking franchises. Both our revenues and net income reflect the global nature of our business with the majority generated outside of North America.

Slide 13 highlights our Transaction Services business. GTS is a global provider of transaction services to the largest multi-national corporations, financial institutions, and public sector clients around the world. We have the largest proprietary network of any financial institution on the ground in over 100 countries. We move over $3 trillion worth of payments and securities each day in 135 currencies.

While top-line growth has been muted for the past two years as a result of the low interest rate environment, we have steadily grown our client volumes, which has offset the impact of spread compression. As an example, average deposits have grown 10% annually over the past three years, and end-of-period trade assets nearly doubled in 2010. We continue to invest in Transaction Services to support new products and mandates. While higher operating expenses resulted in a slightly lower margin in 2010, we believe these investments position the business for higher growth in a normalized rate environment.

Now I'd like to spend some time on our Consumer Banking franchise beginning on slide 14. Consumer Banking is not only an integral part of Citi, on its own, it's also one of the largest consumer businesses in the world. We have an unparalleled global network, serving 60 million customers in 40 countries. Our retail bank operates 4,600 branches with over $300 billion in deposits. We're the #1 cards issuer globally. In total we have retail and cards loans of over $230 billion. By region in 2010, 50% of our revenues and 85% of our net income were generated in Latin America and Asia.

Turning to slide 15, our Consumer Banking strategy can be summarized in four basic principles. First, we are following a customer-centric strategy. Our goal is to deepen our customer relationships and wallet-share by delivering integrated products with improved customer service. We'll also focus on markets where we have a competitive advantage, including Retail Banking for the affluent and emerging affluent segments in the world's top cities; a broader approach in cards, where we serve customers on a nationwide basis; a broader approach, as well in deep-footprint geographies, where we will deepen our presence in markets such as Mexico, Poland, Korea and Taiwan, where through acquisitions, we are effectively a local bank.

We will invest to grow organically, including growing our physical branches and mobile channels, improving our technology infrastructure, focusing on product innovation, investing in our brand equity and marketing, and attracting and developing the best people. Finally, we will leverage our unique global footprint to deliver the best of our products and services around the world.
Turning to slide 16, our strategy in North America is entirely consistent with our Global Consumer Banking strategy. In the U.S., we operate retail branches in major metropolitan areas, and we're also a top-three cards issuer nationwide.

Historically, our U.S. Retail Bank was operated as a number of product silos. Our business today is being restructured to focus on the client and we are investing to improve the customer experience. The top two charts on slide 16 show our results on a trailing 12-month basis. In 2010 revenues were down 3% versus full year 2009, driven by the cards business as we reduced accounts, customers continued to deleverage, and we absorbed the impact of the CARD Act.

On a quarterly basis, however, trends began to stabilize in 2010. For example, average card and retail loans were relatively flat in the second half of the year; and end-of-period loans grew sequentially in the fourth quarter. Net credit losses also improved at an accelerating pace in the second half of 2010. Therefore, while net credit margin was down in 2010 on a full-year basis, we did see improvement in the back half of the year. Looking forward to 2011, depending on the economic recovery in the U.S., net credit margin is likely to continue to be driven primarily by improving net credit losses.

Slide 17 shows the International Consumer Banking. Following a period of repositioning in 2009, the international business returned to growth in every significant metric in 2010. Revenues grew year-over-year by nine percent to nearly $18 billion, and net income more than doubled to $4.2 billion. This growth reflected both economic recovery in these regions as well as the impact of our renewed investment spending.

Year-over-year, average loans and deposits were up 12% and 11%, respectively. Card purchase sales and investment sales also recovered to above their 2008 levels. Net credit losses improved throughout 2010, albeit at a moderating pace as we began to grow our loan portfolios. We generated net credit margin expansion in every quarter last year, driven by our recovery in revenues and lower credit costs.

Looking forward to 2011, assuming continued economic expansion in these regions, we expect net credit margin to be driven primarily by revenue growth, rather than lower net credit costs, as these markets are closer to normalization.

Turning to slide 19, I'd like to spend a few minutes on our expenses. At the Citigroup level, operating costs declined by 20% from 2008 to 2009, and then were roughly flat in 2010. For the past eight quarters, we've had expenses in the range of $11.5 to $12.5 billion per quarter. However, the composition of these expenses has changed significantly over time. Citicorp expenses were up 10% to nearly $36 billion in 2010, while Citi Holdings expenses were down over 30% to $9.6 billion reflecting the wind down of Citi Holdings assets.

On slide 20, we provide more detail on expense growth in Citicorp. In total, expenses were up $3.3 billion in 2010. Roughly 40% of the increase was due to higher investment spending in our core franchise. Around 30% was due to FX (foreign exchange impact) and inflation. Another 20% was episodic in nature, including the U.K. bonus tax and higher legal and related costs, and around 10% was volume-related.

Investment spending in Regional Consumer Banking was primarily in emerging markets and focused on client acquisition, marketing, and branch optimization. We also began investing in North America in the second half of the year.

In Securities and Banking, our investments were primarily focused on people, including a net increase of over 100 managing directors, 60% of which were outside the U.S. In Transaction Services, we continued to invest in technology and increased headcount to support new client mandates. Looking forward to 2011, we expect a moderate increase in Citicorp expenses with higher investment spending and volume-related growth, partially offset by continued cost efficiencies. FX will continue to affect expenses but is difficult to predict.
On slide 21, we show Citigroup's capital and reserve positions, which remain among the highest of any financial institution. As I said earlier, we ended the year with a Tier 1 Common ratio of 10.7%, up over 100 basis points versus 2009 as we grew our capital base while reducing our risk-weighted assets. Our year-end loan loss reserves were nearly $41 billion or 6.3% of loans, of which $24 billion was attributable to Citi Holdings.

In summary, 2010 was an important year for Citi, as we returned to profitability and made significant progress in executing our strategy. Looking forward, we will continue investing in Citicorp, leveraging our global footprint and the unique exposure that we have to the higher-growth emerging markets. We expect to fund these investments in part through reductions in Citi Holdings as well efficiencies as in our core businesses. We will continue to focus on reducing Citi Holdings in a rational manner, although the pace is likely to slow as I discussed earlier.

Credit trends are likely to diverge in 2011 with dollar costs bottoming in international markets as these regions return to a normalized credit environment. In North America, credit costs are likely to keep improving subject to continued economic recovery. Finally, we will continue to maintain a strong and liquid balance sheet. Thank you and now I'd be happy to take questions.

MOSHE ORENBUCH: Great. Thanks John. You've talked a lot about the asset reduction in Citi Holdings. I guess one of the things that we've discussed in the past is the company has...and you've alluded to this in terms of the $24 billion of reserves...and if you think about the capital that's allocated to it, and while you haven't mentioned a specific number, I think in the last 10-Q, the risk-weighted assets was slightly over a third. So you're talking about probably $60 billion or so of capital and reserves that are invested in there. That probably didn't decline as rapidly as the assets. Is that going to decline more rapidly as we go into 2011 and 2012?

JOHN GERSPACH: Well, when you think about the...And I want to make sure I understand the...I think what you're asking is, what's going to happen with the capital asset pool. We've been doing a lot of work to reduce the risk-weighted assets that relate to Citi Holdings. And if you look at the second quarter, we had at that point in time, 40% of our risk-weighted assets in Citi Holdings. By year-end, the risk-weighted assets in Citi Holdings have now dropped to 34%. That might be the roughly one-third. It was a little higher than that at the end of the third quarter.

So if you look, the pace of reduction in the RAP assets from Citi Holdings has outstripped the reductions that we've been doing on the GAAP asset side. And that is simply because, in a lot of cases, specifically in the Special Asset Pool, the risk weightings of those assets are fairly high. If you just think about it, 19% of our GAAP assets are invested in Citi Holdings, even now 34% of our risk-weighted assets. So the impact on regulatory capital is one of the things that we consciously think about as far as pacing the investments, or the dispositions, and actually gauging the economics of one of those dispositions as well. I don't know if that...

MOSHE ORENBUCH: No, that's good. Questions from the floor?

JOHN GERSPACH: I think we got one right here.

MOSHE ORENBUCH: Mike? Yeah.

JOHN GERSPACH: It might be better if you wait for a microphone.

SPEAKER 1: I've got a question in regards to...You mentioned several times during your presentation the slow-down in the disposition rate of Citi Holdings. What ultimately do you think will have to happen with the residual assets? If the slow-down takes years, shouldn't you start to consider perhaps bringing the assets back on or putting capital with those assets exclusively before they wind down?
JOHN GERSPACH: Yeah, it's a good question. Eventually, I do believe we're going to get to a rump of Citi Holdings. There's just going to be something that will be left that will work itself out over a number of years. Now I think we've still got some good dispositions to come in 2011 and 2012. But when you look at the assets that are left, and let's focus on the $27 billion of hold-to-maturity assets that are in the Special Asset Pool, those assets are going to be on our balance sheet until they mature. And the maturities in some of those assets are more than ten years.

So there will be some small residual piece. The other large component of assets would be the residential mortgages. And we'll continue to pursue asset sales as we have been, but you're dealing in asset sales. Last year we did about $8 billion of sales of mortgages, including $4.8 billion of delinquent loans. So we'll continue to sell those assets down. But you're going to get down to a portfolio of some size, I can't tell you exactly what it is. And it's going to be there for a couple of years. Hopefully, what we're trying to do is get Citi Holdings down to that point in size where it really doesn't matter anymore.

SPEAKER 1: What's that threshold?

JOHN GERSPACH: I don't have an exact dollar amount for you. Investors will sort of tell us where it is when it doesn't matter. Because it may not matter to us at a different level that it would matter to you. And we're very conscious of the way everybody would look at it.

SPEAKER 1: And one quick follow-up question: with the stock price where it is today, is there anything that you think inhibits you from realizing your objectives with a stock price that's in the fives, as opposed to some of the other peers which is a multiple of that?

JOHN GERSPACH: No. I mean, the stock price…Obviously, everybody would like to see the stock price move up. That's certainly fine. But you take a look at our market cap, and even at a $4.90-$5 stock, it's a pretty rich market cap. So we feel like we're pretty well-positioned against people. So the absolute price of the stock itself doesn't really stop us from doing anything right now as far as doing the two things we're trying to do, which is execute on the Citicorp strategy and continue to wind down Citi Holdings in an economically rational fashion. Anybody else?

MOSHE ORENBUCH: You had mentioned that in terms of the expense growth in Citicorp, roughly half of it was a combination of FX and episodic things. So kind of toss that out. The other half was kind of 80/20 between kind of investing and volume-related. And so that investing piece, is that going to be a relatively constant piece? How much variation is that? And maybe as you look forward over the next two years, what are the areas that that's going to be devoted to?

JOHN GERSPACH: Yeah, thanks Moshe. If you take a look at the level of investment spending that we will continue to do, I would say most of our investment spending on a go-forward basis is going to be focused on the Regional Consumer Banking businesses. And we had Manuel Medina-Mora present at a conference, who is the head of our Consumer Banking strategy. What we said at that conference was that you can expect that over the next three or so years, we will need to invest $3-to-$4 billion in our Consumer Banking businesses. And that is on a variety of levels.

It certainly is branch expansion. We do want to grow our physical presence in those countries where we're operating, specifically in those 150 cities that we think are really economically important around the world. We're not looking for a mass-market approach in any country, other than the four countries I mentioned: Taiwan, Korea, Poland and Mexico where we're already effectively a local bank. So we'll be investing in physical expansion, marketing, as we continue to attract customers and roll out new products and services for those customers. And most importantly, we'll be investing in technology.

One of our goals is to put our Consumer Banking business on a common platform around the world; one common platform for our cards business, one common platform for our retail banking business. There's a difference between being in all of these countries and actually operating the business as a global
franchise. And that is going to be…it’s underway, but that is going to be a multi-year effort in order to get those two common platforms rolled out around the world.

From transaction services, that's a business that is primarily a technology-driven business. In any given year, we average about a $1 billion that we invest in maintaining and enhancing the technology in Transaction Services. And I certainly don't see that declining. And then from a Securities and Banking point of view, there's a little bit more build out that we need to do on our, as I mentioned, Investment Banking and Equities businesses. But I think the big expenditure bills in Securities and Banking are largely behind us at this point in time. Anybody else? Yes, Larry.

SPEAKER 2: Hi, John. How are you?

JOHN GERSPACH: Good.

SPEAKER 2: One thing you did mention was inflation as an influence on your costs globally, and with inflation measures picking up in some of the markets where you operate, I’m wondering how you guys are thinking about the effect of that on your expenses going forward and if you're starting to get a little bit more nervous about that.

JOHN GERSPACH: I wouldn't have mentioned it if I wasn't getting a little more nervous about it. So that's a good call, Larry. Normally, we need to look at inflation in the countries in which we operate, normally what you see as inflation is ticking up, rates are rising and, therefore, you get currency depreciation. And so the two normally hedge each other. And you rarely get the phenomena that we saw in 2010 in several countries where we had both inflation and currency appreciation. If you look at Mexico, India, Brazil, those three countries certainly, each country had inflation above 4%, and currency appreciation of 4% or more.

And so it was a little bit of a different dynamic. And it is something that we continue to watch in 2011. And to the extent that things take their normal course where countries increase rates, the currency then devalues against the dollar. It should be back to where we're normally operating. But if we continue to see an environment where we get a combination of both that inflation, plus currency appreciation, that could put pressure on the expense base. Anybody else? Okay.

MOSHE ORENBUCH: All right. Please join me in thanking John for his presentation. He will be available in the break-out room in Hong Kong for a period after this. And in this room, you'll have Affiliated Managers in five minutes, and Texas Capital Banks Shares down the hall. Thanks, John.

JOHN GERSPACH: Thank you.