TRANSCRIPT

Citi First Quarter 2011 Earnings Review
April 18, 2011

Host
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Speakers
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PRESENTATION

OPERATOR: Hello and welcome to Citi's First Quarter 2011 Earnings Review with Chief Executive Officer, Vikram Pandit and Chief Financial Officer, John Gerspach. Today's call will be hosted by John Andrews, Head of Citi Investor Relations. We ask that you please hold all questions until the completion of the formal remarks at which time you will be given the instructions for the Q&A session. Also as a reminder, this conference call is being recorded today. If you have any objection, please disconnect from the line at this time. Mr. Andrews, you may begin.

JOHN ANDREWS: Great, thank you Celeste. Good morning and thank you all for joining us today. On the call our CEO Vikram Pandit will speak first, and then John Gerspach, the CFO, will take you through the earnings presentation which is available for download on our website, citigroup.com. Afterward we'll be happy to take your questions. Before we get started I would like to remind you that today's presentation may contain forward-looking statements which are based on management's current expectations and are 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 factors section of our 2010 form 10-K. With that out of the way let me turn it over to Vikram.

VIKRAM PANDIT: John, thank you and good morning everyone. Thank you very much for joining us today. As you know last year was our first year of profitability since the financial crisis and we continue to make progress in 2011. We earned $3 billion this quarter; more than double what we earned last quarter. Revenues were up 7% and expenses were down 1%.

The environment has been challenging. Low interest rates are compressing spreads and we continue to carry large amounts of liquidity. But we believe this is a cyclical, not a secular issue. Our core businesses performed well despite the environment, with Citicorp earning $4.1 billion for the quarter. And Citicorp consumer and corporate loans grew on a combined basis by 10% year-over-year. And pre-tax earnings in Citicorp were almost evenly split between the emerging and developed markets reflecting our deep roots in the 160 countries where we do business.

On the institutional side, our client business in Securities and Banking was strong. Although down from one year ago, revenues in lending, equities and fixed income rebounded strongly from the previous quarter. Client activity in our Global Transactions Services was also strong. We had higher transaction volumes, deposits, trade finance loans, and we have a strong pipeline going forward.

In both U.S. and international consumer banking, net income was up from the last quarter and the first quarter of 2010. Net credit losses declined 31% from the first quarter of last year. Internationally, average deposits and loans increased 13% and 14%, respectively, from a year ago and credit trends continued to improve. Throughout our franchise, we're focused on adding high performance assets and we remain very selective about the assets we put on our books.

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We continued to divest non-core assets in Citi Holdings with a $22 billion decrease in the first quarter. Total assets in Holdings stand at $337 billion, down 33% from one year ago. Citi Holdings' assets are now at about 17% of our total balance sheet. And losses in Citi Holdings this quarter were $608 million, down 31% from the prior year.

These results helped improve our financial strength. Our Tier 1 Common Ratio increased to 11.3% and our tangible book value increased to $4.69 per share, up $0.24 per share from last quarter, and up 15% from a year ago. We're also building for the future. We're making substantial investments in our businesses in Citicorp. In the first quarter, investments exceeded $500 million, including technology, branches, marketing, and new corporate and investment banking hires. In addition, we're building our commercial banking business.

Lastly, we announced a 1-for-10 reverse stock split to be effective on the morning of May 9th. We also announced our intention to reinstate a dividend of a penny per share in the second quarter. These are meaningful steps as we anticipate returning capital to our shareholders next year. We will continue to execute our strategy with discipline, reduce assets in Holdings, and invest in key markets in our core businesses. I believe that we've demonstrated that we're consistently profitable and we're now focused on responsible growth. Let me turn it over to John Gerspach and we'll come back and answer questions at the end.

JOHN GERSPACH: Thank you Vikram and good morning everyone. Starting on slide 2, Citigroup reported first quarter net income of $3 billion, or $0.10 per diluted share versus $0.15 in the first quarter of 2010. This quarter's results included a $709 million net pre-tax loss on the transfer of certain securities in the Special Asset Pool from held-to-maturity to trading assets, which I'll discuss later. We also saw a negative CVA of $256 million from Citi spreads tightening, compared to a positive $308 million last year. Revenues of $19.7 billion were down 22% versus the first quarter of 2010, due primarily to lower Securities and Banking revenues, declining assets in Citi Holdings, and the loss on the asset transfer. Expenses were up 7% year-over-year to $12.3 billion, driven by higher investment spending, volume-related costs, the impact of foreign exchange, and higher legal and related costs; all of which were partially offset by continued productivity savings and declining expenses in Citi Holdings. Net credit losses declined for the seventh consecutive quarter to $6.3 billion, 25% lower than the first quarter of 2010. We also released $3.3 billion of net loan loss reserves compared to a $53 million net release last year.

Turning now to Citicorp and Citi Holdings on slide 3, Citicorp reported revenues of $16.5 billion and net income of roughly $4 billion in the first quarter. Results were lower than the first quarter of 2010 which benefited from a stronger trading environment. We continued to show progress in growing Citicorp with loans up 10% year-over-year including 6% growth in consumer and 16% growth in corporate loans. Citi Holdings reported revenues of $3.3 billion and a net loss of $608 million. Citi Holdings ended the quarter with $337 billion of assets, down $22 billion during the quarter and down $166 billion year-over-year.

Now, on slide 4 we show a nine quarter trend for Citicorp's results. Excluding CVA, Citicorp's revenues were $16.7 billion, down 8% versus the prior year and up 9% sequentially, driven by higher fixed income and equity markets revenues versus the fourth quarter. Operating expenses of $9.6 billion were up 12% versus the prior year. More than half of the increase was due to higher investment spending. The remainder was roughly split between the impact of foreign exchange and inflation, and higher legal and related costs. Higher volume-driven expenses were offset by continued productivity savings. Citicorp's net credit losses were $2.3 billion, down 26% from the prior year, driven by Citi-branded cards in North America. We released $1.3 billion in net loan loss reserves, up from $367 million last year, mostly due to higher net releases in Citi-branded cards and the corporate portfolio. Excluding CVA, earnings before taxes of $6 billion declined 12% year-over-year and were up over 50% from the prior quarter.

Citicorp continued to benefit from a strong emerging markets franchise in the first quarter, as shown on slide 5. Excluding CVA, emerging markets contributed 44% of Citicorp's revenues and over 50% of earnings before taxes in the first quarter. We have generated year-over-year growth in emerging markets

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revenues for four consecutive quarters, driven by both our consumer and institutional businesses. This growth reflects consistent strength in underlying business drivers with average deposits up 8% year-over-year and loans up 20%. While expenses have grown as we've ramped up investments in these regions, we have also benefited from credit improvement as emerging markets recovered earlier than developed markets. As a result, while increasing our investments we also maintained year-over-year earnings growth in emerging markets in each quarter of 2010 and the first quarter of 2011.

Slide 6 shows results for our North America Consumer Banking business. Revenues of $3.3 billion were down 12% versus last year, mainly due to a decline in average loans and the impact of CARD Act. Expenses were up 4% year-over-year to $1.7 billion as we continued to invest, largely through higher marketing and technology spending. Credit costs declined 63% from last year to $797 million. Net credit losses were down 33% to $1.4 billion driven by Citi-branded cards and the reserve release was $649 million this quarter. Net credit margin grew by 15% year-over-year to $1.9 billion. Sequentially, total accounts remained stable in the first quarter of 2011, while card purchase sales reflected a seasonal decline versus the fourth quarter. On a year-over-year basis, card purchase sales were up slightly on a smaller account base reflecting 4% growth in sales per account.

Turning to our International Consumer Banking businesses on slide 7, international revenues were $4.6 billion in the first quarter, up 8% year-over-year, driven by growth in Asia and Latin America. Revenue growth reflects both an improvement in underlying drivers as well as a benefit from foreign exchange, partially offset by spread compression. We also had a $70 million charge to revenues for the anticipated repurchase of certain securities sold in Asia. Year-over-year, average deposits and loans grew by 13% and 14% respectively. Investment sales were up 5% versus last year and card purchases grew 20%. Expenses were $2.8 billion in the first quarter, up 18% versus last year with roughly a third of the increase due to the impact of foreign exchange and inflation. The remainder primarily reflects higher investment spending and volume-related costs, partially offset by continued productivity savings. Credit costs of $493 million were down 33% versus last year, driven by a decline in net credit losses. Higher revenues and lower net credit losses resulted in net credit margin expansion again in the first quarter, up 16% year-over-year to $3.9 billion.

On slide 8 we show revenue growth trends for international Consumer Banking in more detail. Sequentially, we have grown average loans and deposits every quarter for two years and we saw progress again this quarter in card purchase sales and investment sales. These trends reflect the economic environment in these regions as well as the results of our investment spending. With growing revenues and improving credit costs, we have increased our net credit margin year-over-year for six consecutive quarters.

Slide 9 shows our Securities and Banking business. Excluding CVA, revenues of $6.2 billion were down 19% from the first quarter of last year, driven primarily by fixed income markets. In investment banking, revenues were down $206 million to $851 million, primarily driven by lower debt underwriting. Ex CVA, equity market revenues were down 9% versus last year to $1.1 billion. Cash equity revenues and client volumes grew year-over-year but were more than offset by lower trading revenues on principal positions. Fixed income market revenues Ex CVA were down 22% year-over-year to $4 billion. While client volumes remained strong, trading revenues on market-making activities were lower versus 2010, reflecting, in part, tighter bid-offer spreads across most trading products as additional liquidity entered the market since last year. On a sequential basis, total markets revenues for equities and fixed income were up 64% in the first quarter, driven by higher volumes across most products and a more favorable trading environment versus the fourth quarter. Lending revenues were $244 million, flat versus last year. Private Bank revenues, excluding CVA, were up 5% year-over-year to $520 million. Total operating expenses of $3.8 billion were up 11% from last year. Roughly half of the increase was due to the absence of a litigation reserve release in the first quarter of 2010. The remainder mostly reflects investment spending and higher volume-related costs, partially offset by productivity savings. Credit costs were a benefit again in the first quarter as net credit losses were more than offset by net reserve releases in the corporate portfolio.

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Moving to Transactions Services on slide 10, revenues of $2.6 billion were up 5% from the first quarter of last year, driven by growth in Asia and Latin America. Treasury and Trade Solutions was up 3% on higher trade revenues and increased deposits, partially offset by spread compression. Securities and Funds Services grew 9% year-over-year, driven by higher volumes. Overall, transaction volumes and new mandates remained strong across both businesses during the quarter. Asset growth was driven by trade finance with average trade assets up over 80% from last year. Average deposits grew 11% to $355 billion and assets under custody were up 10% to $13 trillion. Expenses of $1.3 billion were up 14% versus last year, reflecting higher volumes and continued investment to grow the business, partially offset by productivity savings.

Slide 11 shows Citi Holdings assets. We ended the quarter with $337 billion in Citi Holdings, or 17% of total Citigroup assets. The $22 billion reduction in the first quarter was comprised of over $7 billion of asset sales and business dispositions, approximately $13 billion of net run-off and pay downs, and $1.3 billion of net cost of credit and net asset marks.

On slide 12, we provide more details on the transfer of nearly $13 billion of assets in the Special Asset Pool from held-to-maturity to trading. The majority of these securities had originally been classified as available-for-sale and they were transferred to held-to-maturity in the fourth quarter of 2008. We have moved the securities to trading assets, allowing us to sell them as a mitigating action in anticipation of adopting Basel III. These $13 billion of securities would have had a disproportionately higher Basel III risk-weighting compared to the remainder of the Citi Holdings assets. The transfer resulted in a net $709 million pre-tax charge to revenues, resulting from the recognition of $1.7 billion in net pre-tax losses which were previously reflected in OCI, partially offset by $946 million of mark-to-market and realized gains. OCI increased by $1 billion, representing the reversal of net unrealized losses after tax. To date, we have sold nearly 75% of these assets at prices generally at or above our marks.

On slide 13, we show a nine quarter trend for Citi Holdings results. We narrowed the loss in Citi Holdings again this quarter to $608 million. Revenues were down 50% year-over-year to $3.3 billion, due to declining assets, lower positive marks in the Special Asset Pool, and the loss on the asset transfer this quarter. Expenses of $2 billion were down 22% versus last year, and total credit costs were down 64% to $2.1 billion.

Looking at Citi Holdings in more detail on slide 14, revenues in Brokerage and Asset Management were $137 million this quarter, down from the first quarter of 2010 which included gains on the sale of Habitat and Colfondos. In Local Consumer Lending, revenues were down 32% versus last year to $3.2 billion, driven by declining loan balances, a higher mortgage repurchase reserve build and a higher refund reserve build related to our consumer finance business in Japan. In the Special Asset Pool, revenues were negative $7 million in the first quarter, down significantly from last year due to lower positive revenue marks and the $709 million loss on the asset transfer. Credit costs were down 64% year-over-year to $2.1 billion as credit costs continue to improve in both the consumer and corporate portfolios. Total net credit losses were down 25% to $4 billion as lower consumer net credit losses were partially offset by higher corporate losses. Credit losses in the Special Asset Pool more than doubled year-over-year to $670 million, reflecting higher costs of loan sales and higher net credit losses on loans for which we had previously established specific FAS 114 reserves, which were then released during the quarter. We released $2.1 billion of net loan loss reserves in Citi Holdings in the first quarter, nearly half of which was attributable to the corporate portfolio. Local Consumer Lending continues to drive the earnings performance of Citi Holdings with nearly $600 million of net loss for the quarter. Within Local Consumer Lending, the net loss was mostly attributable to the mortgage portfolio.

Slide 15 shows the results for the Corporate Other segment. Revenues declined by $410 million versus last year, reflecting lower investment yields and net losses on hedging activities. Net income also reflects higher operating expenses during the quarter. Expenses were up by $356 million versus last year, mainly due to legal and related costs. Assets of $281 billion include approximately $80 billion of cash and cash equivalents, and $146 billion of liquid available-for-sale securities.

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Slide 16 shows total Citigroup net credit losses and loan loss reserves. NCLs continued to improve in the first quarter, down 9% sequentially to $6.3 billion and the net LLR release grew nearly 50% to $3.3 billion. We ended the quarter with $36.6 billion of total loan loss reserves and our LLR ratio was 5.8%. Consumer NCLs declined 12% sequentially to $5.4 billion and we released $2 billion in net loan loss reserves. Corporate credit was a benefit of $520 million in the first quarter, compared to $256 million last quarter. Corporate net credit losses grew 28% sequentially to $849 million, driven by charge-offs for loans for which we had previously established specific reserves, which were then released during the quarter. We released $1.4 billion of net corporate loan loss reserves in the first quarter, up from $920 million in the fourth quarter. Corporate non-accrual loans of $5.5 billion were down 36% versus the prior quarter, the majority of which was attributable to EMI.

Moving to consumer credit trends on slide 17. As I mentioned, consumer net credit losses of $5.4 billion were down 12% sequentially, due primarily to North America cards. Our net credit loss ratio declined again this quarter to 4.9% and our loan loss reserve ratio was 7.5%.

Slide 18 shows our international consumer credit trends. In Citicorp, NCLs continued to improve on both a dollar and a rate basis in the first quarter, while dollar delinquencies grew in some markets as we continued to grow our international loans. In Asia, India continued to show the most significant improvement in net credit losses. For the region, 90+ day delinquencies were flat, but down as a percentage of loans. In Latin America, net credit losses continued to improve driven by Mexico cards, and our 90+ day delinquencies improved on a rate basis.

On slide 19, we show Citi-branded cards in Citicorp and retail partner cards in Citi Holdings. Credit trends for both portfolios continued to improve. In Citi-branded cards, NCLs declined for the fourth consecutive quarter. NCLs decreased by 19% sequentially to $1.4 billion and 90+ day delinquencies were down 10% to $1.4 billion. In retail partner cards, NCLs were down for the seventh consecutive quarter. NCLs decreased by 18% sequentially to $1.1 billion, and 90+ day delinquencies declined by 19% to $1.3 billion. For both portfolios, early stage delinquencies also showed improvement on both a dollar and a rate basis.

On slide 20, we show the North America mortgage portfolio in Citi Holdings, split between residential first mortgages and home equity loans. 90+ day delinquencies in both portfolios improved again this quarter. In residential first mortgages, we ended the quarter with $76 billion of loans, down 21% from a year ago. Sequentially, 90+ day delinquencies declined by 18% to $4.5 billion and were down more than 50% from last year. Net credit losses increased slightly from the fourth quarter due to lower recoveries, but were down 26% versus a year ago. The sequential decline in first mortgage delinquencies was mostly due to asset sales and trial mods converting to permanent modifications. During the first quarter, we sold $1.1 billion in delinquent mortgages. Over the past 8 quarters, we have converted $5.3 billion of trial mods to permanent modifications. More than three quarters of these trial modifications were HAMP, and we continued to experience re-default rates on HAMP-modified loans of less than 15%. The remainder were modified under other Citi programs and to date, the re-default rate on these modifications has been less than 25%. In North America real estate lending and Citi Holdings, our total loan loss reserves represent two years of coincident NCL coverage.

Slide 21 shows the trend in our key capital metrics. We ended the quarter with a Tier 1 Capital ratio of 13.3% and a Tier 1 Common ratio of 11.3%. Our GAAP assets declined 3% year-over-year, while we reduced our risk-weighted assets by 7% to $990 billion. Citi Holdings represents roughly 31% of our total risk-weighted assets.

So in summary, the first quarter showed continued execution of our strategy. While Securities and Banking faced a less favorable environment as compared to the first quarter of 2010, our markets business grew significantly from the fourth quarter with robust client activity across fixed income and equities. Year-over-year, we generated strong growth in both International Consumer Banking and Transaction Services. Importantly, we accomplished these results in a challenging environment as low interest rates continued to compress spreads. We continue to invest in Citicorp and we are seeing results

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across our major business drivers, including loans, deposits, transaction volumes, and card purchase sales.

In Citi Holdings, we ended the quarter with $337 billion of assets, representing 17% of total Citigroup. Assets were down by a third from a year ago and Citi Holdings expenses declined by 22%. Credit remained a significant contributor to earnings in the first quarter as net credit losses continued to decline particularly in North America cards. During the quarter, we grew our tangible book value per share by $0.24 cents to $4.69 per share, and our Tier 1 Common ratio grew over 50 basis points to 11.3%. We also have over $36 billion of loan loss reserves. Based upon what we know today, we remain confident that we are on track to operate in the 8% to 9% Tier 1 Common range under Basel III in 2012. And assuming we have clarity on capital rules, we still expect to be in a position to begin returning capital to shareholders next year.

Now, I'd like to discuss some factors that may affect our results for the remainder of 2011. In North America Consumer Banking, we continue to expect net credit margin to be primarily driven by improvement in net credit losses. As credit continues to improve, we will further increase our investments in the business. In International Consumer Banking, net credit margin is more likely to be driven by revenue growth, particularly in the second half of the year, as our investment spending should continue to generate volume growth to outpace spread compression. International credit costs are likely to begin to increase in 2011, reflecting a growing loan portfolio. In Local Consumer Lending in Citi Holdings, revenues should continue to decline given a shrinking loan balance resulting from paydowns and continued asset sales. However, as we've seen in the first quarter, the pace of decline in Citi Holdings assets has moderated. Regarding expenses, we continue to expect full-year Citigroup expenses of $48-50 billion this year, with some variability across quarters as we continue investing in Citicorp while rationalizing Citi Holdings. Certain expenses, particularly legal costs and the impact of foreign exchange will remain difficult to predict.

Now that concludes our review of the quarter and Vikram and I will now open up the line for questions.

OPERATOR: Ladies and gentlemen at this time if you'd like to ask a question please press star then the number one on your telephone keypad. Again that's *1 to ask a question. Your first question comes from the line of John McDonald with Sanford Bernstein.

JOHN MCDONALD: Yes. Hi, good morning. John, just a question to follow up on the expense outlook that you just gave. Just to be clear, the FX and legal costs are difficult to predict, but those are included in your outlook of the $48 to $50?

JOHN GERSPACH: They're included in the $48 to $50, based upon what we've seen to date. But you know, John, I can't predict where the dollar is going to trade against all the different local currencies for the remainder of the year. So again, if the dollar continues to decline, we may have to be outside that range.

JOHN MCDONALD: Okay, and in terms of regulatory costs, the higher FDIC expenses. Is that baked into the guidance as well?

JOHN GERSPACH: Well, we account for FDIC assessments as contra revenue, and so, that would not be part of our expense guidance, but that would be baked into what you would think about for a revenue performance for the balance of the year. Now, if I can anticipate your next question, based upon what we understand, the assessments will be working, we anticipate that the additional FDIC tax on us would amount to an annual increase of about $550 million, and we'll start reflecting that in our results in the second quarter.

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JOHN MCDONALD: Okay. The question on Corporate Other, just kind of wondering longer term, do you think Corporate Other will always be a net cost center or, when you're not carrying as much liquidity and legal expenses, should that have a modest positive contribution over time? Or is it too difficult to predict?

JOHN GERSPACH: I think that's a little difficult to predict. We tend to hold some expenses in Corporate Other, some of the more significant legal expenses, as we lay out for you when we have them. From a revenue point of view, Corporate Other varies. Our hedging activities over time, at least over the last several quarters, tend to be somewhat on the negative. We carry some macro hedges in Corporate Other, trying to address some fat tail risks in some of our businesses, particularly consumer business. So, it's more likely to be negative, but the size of the negative pre-tax income should vary.

JOHN MCDONALD: Okay. One last follow up on that. Just in terms of an expense rump from Holdings. Is there a piece of unallocated expenses at Holdings that would come back to Citicorp after Holdings has wound down? Is there any way to help us think about sizing that?

JOHN GERSPACH: Well we're actually very focused on what we would call stranded costs in Citi Holdings, and so, as we wind down Citi Holdings, we're trying to eliminate all the costs in Citi Holdings so we end up with zero stranded costs. I think we've demonstrated a pretty good discipline doing that. You can pretty much track the decline in Citi Holdings expenses against the decline in assets. If you pull apart the decline in assets in the Special Asset Pool and Brokerage and Asset Management, our expenses as a percentage of assets in each of those businesses has held pretty steadily during the last six or so quarters. We had a slight uptick in expenses in Local Consumer Lending against the assets and that's mostly reflective of additional expenses that we'd be incurring in our mortgage business related to foreclosure activities, modifications, etc.

JOHN MCDONALD: Okay, but your goal is to not have any stranded costs once Holdings completely wound down and that feels a reasonable goal to you?

JOHN GERSPACH: That is the goal.

JOHN MCDONALD: Okay, thank you.

OPERATOR: Your next question comes from the line of Glenn Schorr with Nomura.

GLENN SCHORR: Hi John, thanks.

JOHN GERSPACH: Hi, Glenn.

GLENN SCHORR: So, first one is just conceptual. On slide 21, you showed that total risk-weighted assets went up, and I love the non-U.S. growth in loans, but all in, you had a little bit of shrinkage in loans. You shrunk Holdings as well. Is it fair to assume that the increase in risk-weighted assets is some form of ratings creep?

JOHN GERSPACH: No. It's not really ratings creep. If you just take a look at our overall, our GAAP assets did grow from the fourth quarter to the first quarter. So, if you take a look at brokerage receivables, that was one of the accounts that sort of grew. So, it really just reflects the overall growth in the GAAP balance sheet.

GLENN SCHORR: Okay. I appreciate the comments on operating and getting towards the 8-9% in 2012. Would you be able to tell us where you're at in the Basel III equivalent today? Because my guesstimation is somewhere around the six level. Which is doable. It means you'd have to grow maybe 30 basis points from here to there, per quarter. Which seems about right.

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JOHN GERSPACH: Yeah, you know, Glenn, all I'm going to say is, as I've said in the prepared comments, we remain on track to being in that 8% to 9% range for Basel III next year.

GLENN SCHORR: Okay. In the appendix, on slide 35, you could look at what was transferred out and sold, and it looks like mostly Alt-A and prime mortgages. If that's correct, I'm just curious on what you're thinking in terms of housing in general. I mean, you have less mortgage exposure than some other big banks, but you've got some, and you seem to be selling down those positions. Is that more risk-weighted asset commentary and mitigation? Or is it just as much a view of the markets in general?

JOHN GERSPACH: I want to make sure I answer your question, so if I stumble a little bit Glenn, get me back on track. Specific to the transfer in SAP, those obviously are assets that since they're in Holdings, those are not core to us. We're looking to get rid of those assets. We had them originally in held-to-maturity. The decision we reached on that transfer was solely Basel III-related, again as part of our staying on track to get to that 8-9% range next year. These are assets- this $12.7 billion, these are assets that just had a disproportionately high risk-weighting under Basel III, and so we took the opportunity this quarter to move them to a portfolio where we could get them off our books. So, that's what's going on with the Holdings. Regarding our other mortgages in Citi Holdings, in the real estate book we continue to actively manage that. As I said, we've been active sellers of those mortgages over the last five quarters. The last five quarters we've had something like $10 billion of sales out of the mortgage book. Roughly $6 billion, I think a little bit slightly over $6 billion of that $10, was on delinquent loans. We continue to think that the best way to manage the severity risk that you have in that business is by selling delinquent mortgages. So, we are still active sellers of mortgages in that business.

GLENN SCHORR: Okay. Maybe- thank you for that. One last question. On the NIM, it came in 6 basis points, and my gut is there's a bunch of obviously puts and takes, but as you have some of the Holdings wind down and some of the higher yielding stuff runoff, I would think that the natural effort- or natural runoff however, at some other banks you're seeing some mortgage extension help support the NIM. Just curious what your efforts are behind the scene. If it's on your mind that you need to support that, or do you let it drift lower and actually the benefit is the de-risking of the portfolio.

JOHN GERSPACH: I'm probably going to disappoint a whole bunch of NIM-ites out there. I don't wake up in the morning and actively worry about what's going on with my NIM, specifically. Don't forget NIM, when it comes to our trading books, NIM in a trading portfolio can be plus and minus, and so it kind of varies all over the place. What we're focused on is executing the strategy that we put in place back in the beginning of 2008, and that is really managing the Holdings assets down. And you're right, as those assets runoff, that's going to put some pressure on our NIM because those are some higher earning assets. At the same point in time, I think now what you're seeing is some good growth in the assets in Citicorp. We've mentioned the fact that Citicorp loans grew 10% year-over-year, and we continue to see good growth coming out of our international Regional Consumer Banking businesses. Latin America loans were up 17% year-over-year. Loans in Asia were up 16% year-over-year. The spread that we get on those loans will gradually help to mitigate the NIM pressure that we're getting from winding down Citi Holdings.

GLENN SCHORR: Excellent, thanks very much John.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Guy Moszkowski with Bank of America.

JOHN GERSPACH: Hey how are you Guy?

GUY MOSZKOWSKI: Good. Just to follow up on the NIM question for a second. I don't want to beat the horse to death. I appreciate that you don't wake up in the morning thinking about this, but last quarter you gave us a near-term outlook and you came in just about exactly in line with that near-term outlook this

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quarter. So, I guess I should ask the question again. Over the next quarter or two, what should we expect in terms of the directionality there?

JOHN GERSPACH: I think that we're going to have some pressure on NIM in the second quarter. The additional FDIC assessments that I mentioned in response to one of the earlier questions, we do account for that in our revenues; that does impact our NIM. So, that'll give us some downward impact. And we still have spreads that are under pressure. So, my expectation would be maybe similar to this quarter, as far as downward pressure.

GUY MOSZKOWSKI: In terms of the downward pressure. So just sort of a continuation of that trend?

JOHN GERSPACH: Exactly.

GUY MOSZKOWSKI: And just to go back to the Citi Holdings…

JOHN GERSPACH: I do think about NIM every day. I just don't wake up thinking about it.

GUY MOSZKOWSKI: Fair enough. Just to go back to the discussion of the Citi Holdings expense. It seems like a fairly chunky step-function decline from the fourth quarter and that was taking a little bit of noise in the fourth quarter there, to the $2 billion run rate. Should we think of $2 billion as a run rate for the next two quarters, before another step function? Or are you really going to try and manage it more downward gradually in line with the asset decline?

JOHN GERSPACH: As I said, the chunkiness will come as we do, perhaps, some of the larger property sales. To the extent that we could sell a business, that would obviously take a bit of a step function that comes down. Otherwise, the decline in Citi Holdings expenses should pretty much track, as the assets are coming off the books.

GUY MOSZKOWSKI: And can you update us on the attempt to sell Citi Financial, since you brought up the potential for asset sales there? And some of the press reports have indicated $13-$14 billion of assets being discussed as a part of that sale. Is that about the right order of magnitude?

JOHN GERSPACH: I'm not going to comment on the press reports. We did, as we mentioned earlier last year, restructure that business into a legacy portfolio that it would be more likely that we would retain in any type of sale and then an asset portfolio that really goes with the ongoing business. So you're in the ballpark.

GUY MOSZKOWSKI: Okay, fair enough. Just a follow-up on the comments that you've made about FX driving a fairly meaningful portion of the expense structure increases. I mean, that's fair, but should it have a comparable impact on the revenues?

JOHN GERSPACH: Yeah. Absolutely. When you take a look at FX impact overall, it not only has an impact on revenues, obviously it's got an impact on net credit losses as well. So, if you want to think about the net impact of FX on Citicorp, net of the impact on revenues, on expenses, on NCLs, FX changes added about $50 million of pre-tax earnings to Citicorp in the quarter. And then if you take a look at Citigroup, when you factor in the FX impact on some of the international NCLs in Holdings, and the expenses in Holdings, it actually ends up being pre-tax neutral.

GUY MOSZKOWSKI: About neutral, okay. Finally, let me just ask one more question which is, if you can give us a sense for the costs that were carried in the P&L this quarter to account for litigation stemming from foreclosures and loan repurchase, and all of the like.

JOHN GERSPACH: Yeah, we've never commented exactly on the exact amount of accruals that we put up for foreclosure litigation. That's not something that we've deliberately set aside. When you take a look

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at mortgage repurchases, we did set aside an additional $122 million this quarter for mortgage repurchase reserves. And I think there's a page in the appendix of the supplement that, page 29, that lays that out. So, we added $122 million to the reserve, and I think the reserve now stands at something like $940-$950 million.

GUY MOSZKOWSKI: Okay great. Thanks very much for answering the questions.

JOHN GERSPACH: Not a problem.

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

JAMES MITCHELL: Hey, good morning John.

JOHN GERSPACH: Hi, how are you.

JAMES MITCHELL: Good. Two questions. Maybe one just on the DTA. If I do the math, it looks like you essentially break even in North America. Is it fair to assume that the DTA was pretty flat? Or, with reserve releases there was some decline? How should we think about that?

JOHN GERSPACH: Jim, the DTA actually came down $1 billion this quarter. So, the DTA reduced from $52 down to $51.

JAMES MITCHELL: And that probably comes right off the top in the Tier 1 Common, right? The deduction gets shrunk right?

JOHN GERSPACH: Yeah. In other words, the disallowed DTA against Tier 1 Common improved by roughly $1 billion.

JAMES MITCHELL: Okay. That's helpful. Thanks. And just on the asset transfer again, you may be thinking about it in a different way. Was it mostly, I guess mortgage backed securities that were transferred? And is it fair to assume that the majority of those were below investment grade? So, we can kind of back in to what the risk-weighted asset benefit would be?

JOHN GERSPACH: Yeah, we lay it out on page 35. We didn't specify it completely, but you can see how the securities that were under held-to-maturity accounting declined by $13 billion in the quarter. And the asset transfer was $12.7 billion. So…

JAMES MITCHELL: Understood. But in the detail on trading assets, you have corporate in there. You've got auction rate securities and you've got mortgages. Obviously those all have different risk-weightings. I'm just trying to get a sense of-

JOHN GERSPACH: I'm saying Jim, you can see on page 35, the declines in the HTM securities should give you…so, in other words, corporates came down. Corporate loans came down by $3.5 billion.

JAMES MITCHELL: Right. Okay. Gotcha.

JOHN GERSPACH: Prime and non-U.S. MBS came down by $3.2 billion. Alt-A came down by $4.6 billion.

JAMES MITCHELL: Right. Okay.

JOHN GERSPACH: So, that should give you a pretty good picture as to what the components of the $12.7 billion were.

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JAMES MITCHELL: Right and we can probably assume that the mortgage backs were in the highest risk-weighted category?

JOHN GERSPACH: That would not be a bad assumption.

JAMES MITCHELL: Okay, fair enough. Alright, thanks a lot.

JOHN GERSPACH: Okay.

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

ED NAJARIAN: Good morning.

JOHN GERSPACH: Hi, Ed.

ED NAJARIAN: Most of my questions have been answered, but hopefully just two more quick ones.

JOHN GERSPACH: Sure.

ED NAJARIAN: You talked about as you get into 2012, beginning to return capital. I was just wondering if you could give us any sense of your desire to focus more on dividends or buybacks. I'm thinking with the stock around tangible book, or under tangible book, you'd be very focused on buybacks but wondered what your sense of that is.

VIKRAM PANDIT: Well let me take a crack at that, Ed. I think over time we do want to get to some sort of a normalized dividend policy reflecting that we're really a higher growth bank than many other large banks. So, that is one goal we've got. Secondly, I don't disagree with you. With the stock trading below book value, it becomes awfully interesting to think about share repurchases as well. And I suspect, depending upon the kind of regulatory clarity we get, that our approach would be a combination of the two. And it's a little early to talk about it. As we've found out, we've all found out, we need to wait for clarity from regulators before we move.

ED NAJARIAN: But at this point, other than saying it's a combination of the two, you can't give me a sense of a preference for one versus the other as you start to return capital?

VIKRAM PANDIT: Again, as I said to you, I think our preference would be to do both. We want to all look at where the regulators come out. I do think that when you look at the shareholder base, and when you look at the signaling aspect of what one does, you've got to be mindful that a dividend policy is also important. Now, I can't tell you exactly how we will approach a normalized dividend policy yet. But don't get me wrong. We completely appreciate the value of the stock and the fact it's trading below book value, that will be a significant influence in our decision.

ED NAJARIAN: Okay. Thanks. And then just a quick follow up. As we are seeing in the other big card banks, we're seeing your credit card losses continue to come down very rapidly. Both JPMorgan and BofA have given some outlook in terms of where they would expect card losses to go, say over the next 12 months, or on a sort of more normalized basis. Are you willing to give us any sense of that? How much more of a decline we might see in card losses?

JOHN GERSPACH: Obviously we do believe that, assuming conditions stay where they are, credit losses should continue to improve. We're probably looking where, on a normalized basis, you think about our cards business, and I'm not going to tell you the time frame but branded cards should be somewhere in the 5- 5.5% range. Maybe a little bit higher than 5.5%, but say 5.5% range.

ED NAJARIAN: Okay. And anything on partner cards?

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JOHN GERSPACH: I'm not really focused as much on partner cards, quite frankly, since it's in Citi Holdings.

ED NAJARIAN: Okay that's helpful. Thank you very much.

JOHN GERSPACH: Okay.

OPERATOR: Your next question comes from the line of Chris Kotowski with Oppenheimer & Co.

CHRIS KOTOWSKI: Yeah. I wonder, in Asia and Latin America, with the number of those economies raising interest rates and taking other steps to try to slow down what's been a very hot economy, your credit metrics still look good there. We saw a little uptick in the delinquencies in Latin America, but is it your expectation overall that you end up with a soft landing there? And then continued growth? Or should one look for some significant deterioration in asset quality and portfolio loan growth slowdown in those markets?

JOHN GERSPACH: No, we're not anticipating a crash and burn scenario in those economies. There's a couple of them where they have high inflation rates. I think there's every evidence that the central bank in each of those countries is focused on that and they're all enacting policies to contain the inflation impact along with trying also to continue to promote their growth. There's a certain cycle that goes on in those economies. And we're in one of those cycles right now.

VIKRAM PANDIT: Don't underestimate the reason why these economies are the way they are. It's part of a "something's working" kind of story, in the sense that they are growing. Consumer incomes are rising. Consumers have more money to spend. And so understanding that growth and inflation have to be traded off in the right way, we're here because something underlying in these economies is heading in the right direction. And that's still our secular view.

CHRIS KOTOWSKI: Okay and then, as a follow-up, was there any major fallout in Japan from the tsunami and all the subsequent turmoil? And is there any ongoing impact on your business?

JOHN GERSPACH: Yeah. Quite frankly the impact on us was somewhat muted. I mean, the secondary effects, I guess people are still trying to sort through. But specific to us, we took some trading hits the first couple of days after the tragedy. Those losses were pretty much recovered within a week or so. The other significant impact that we saw was in our Citi Financial business in Japan. We do have a mortgage portfolio; we tried to isolate those mortgages that were located in the five prefectures that were most impacted by the tsunami. So, we put up an additional $55-$60 million worth of loan loss reserves against that. And we had some private equity investments that, again, they're in Holdings that were looking to sell down. I think we took marks of maybe $30 to $40 on those things. So overall on the quarter, maybe $100 million worth of impact all in Holdings.

CHRIS KOTOWSKI: Okay. Alright, that's all for me, thank you.

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

BETSY GRASECK: Hi, a couple of questions. One on the NIM. Could you just give us a little bit of a sense as to how the NIM is trajecting in the EM versus the DM space. Can you talk about the fact that there's inflation in the EM side. How are you dealing with that? Is that a net positive or a negative?

JOHN GERSPACH: Betsy, I'm sorry, I really- I don't have it in my head as far as how NIM is going EM versus DM. I apologize.

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BETSY GRASECK: Well I guess the broader question is in the inflation oriented economies where you're invested, are you seeing an opportunity or challenge as it relates to the profitability of those businesses?

JOHN GERSPACH: Well, we have to see an opportunity. As I said, you can see the results of the investments that we've already begun to make in some of those countries as far as growth in loans and deposits. All of that should point to the fact that revenues should be doing quite nicely. The issue for us—you can see in just about every one of our international consumer businesses where we're benefiting as I said, increased investments and the improvements in drivers—but each one of those businesses are contending with other factors at the present time. They're tending to mitigate the impact of the drivers on the top line. Latin America cards for instance. If you take a look at what's going on in Latin America cards, we do have lower spreads on the new business and that has clearly had an impact on NIM. Year-over-year our NIM in that business is down about 125 basis points. But a larger impact on the revenue dynamics in Latin America cards really results from the fact that we're still experiencing the effects of a repositioning in our Mexico cards portfolio. So, Mexico cards represents about 40% of both our ANR and our revenue stream in Latin America cards. Now, outside of Latin America, cards revenues are increasing year-on-year at 20%, while within Mexico revenues have actually dropped 4% year-on-year. ANR outside of Mexico in Latin America is growing at 19%, while Mexico cards ANR grew 1%. Now, we're actually encouraged by the fact that Mexico cards grew 1%. It actually demonstrates that we're getting through that repositioning. And so, the impact of that repositioning is starting to abate. As Mexico cards now begins to grow, I think you're going to see a boost to the revenue growth in the region.

BETSY GRASECK: Right. So, volumes are beating spread, I guess is the point. I'm just wondering from a NIM perspective…you indicated second quarter is going to be down a bit. When do you see the inflection point there? Is it going to be in the second half? Because in the past you've talked about second half NIM going up.

JOHN GERSPACH: I would say we're looking towards the second half of the year for NIM to stabilize.

BETSY GRASECK: Okay. Second thing is on the 8%-9% Common Tier 1 next year. In your commentary, are you thinking about specific kinds of actions…are specific actions included in your expectation you're going to be in the 8%-9%. In other words, are you incorporating into that comment things like Citi Financial getting sold and other potential assets that you might have in the docket to be sold? Or is that just from organic changes in the current business model?

JOHN GERSPACH: Betsy, it basically reflects our continuing to execute along our plans, and our plans include winding down Holdings in an economically rational fashion.

BETSY GRASECK: Right, okay. Thanks.

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

MATT O'CONNOR: Hi guys.

JOHN GERSPACH: Hi Matt, how are you?

MATT O'CONNOR: Good, thanks. Today might not be the best day to talk about bringing down excess liquidity just given some of the macro issues out there but, you did mention it earlier again today. I appreciate we don't even know what the liquidity rules are out there for you or for other banks. But as you think about what you need, in your opinion, maybe you could size what the excess liquidity is and what some of the opportunities might be going forward.

JOHN GERSPACH: Virtually 25% of our balance sheet is in some form of liquid asset; whether that be cash in the bank or highly liquid AFS securities. That's clearly higher than I would expect we need to be

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on a long term basis. We'll have to see how some of these rules clarify before I could tell you whether that's 5% too high, 10% too high. But it's obviously higher than we would expect it to be right now. That's a lot of cash that we can put to work. And as we continue to grow the loan book in Citicorp, hopefully that's one good outlet. Obviously as we continue to wind down Citi Holdings, Citi Holdings keeps on filling up our cash coffers and so it's somewhat of a push and shove as far as we want to get rid of Citi Holdings, but it's generating excess liquidity that we've got to find a place to put to work. The other thing that you should start to see, especially in the second half of this year, as we've said publicly, we're going to let a lot of our maturing debt just runoff. And so in the second half of the year, there's probably $15 billion or so, of…I mean it's $12 billion of TLGP debt that we'll just allow to runoff. So that will also be a way of siphoning off some of the excess cash.

MATT O'CONNOR: Okay. For all the NIM questions that we got, that's obviously slightly positive for the NIM as that rolls off, I would assume?

JOHN GERSPACH: Yes it is.

MATT O'CONNOR: And then just separately on the investments spend that you're doing in the core franchise, as you think beyond this year, is it still at an elevated pace? Is it more of a normal pace? How should we think about how much you doing now versus how much you'd be doing going forward?

JOHN GERSPACH: I'm not going to give you a specific answer, which is probably no surprise. It's going to be somewhat dependent on how successful we are being able to demonstrate the fact that we can actually tie the increased investment spending to revenue growth. North America, I think you will see some in North America consumer. We will have heightened investment spending there compared to what we're doing. You can certainly hear that in some of the public comments that have come out. So, it will be certainly at the levels that we can justify based upon the results that our investment spending that we made to date can justify.

MATT O'CONNOR: Okay. Alright, thank you very much.

OPERATOR: Your next question comes from the line of Richard Bove with Rochdale Securities.

RICHARD BOVE: Hey. I'm a little bit confused as to where future earnings are going to come from. 62% of your revenue is coming from net interest income. It looks to me like that's going to continue to decline because you're indicating that earning assets and net interest margins are going down. On the expense side, it would appear if you're going to have $48 to $50 billion that you're looking at flat to up expenses. So, 52% of your revenues come down. Your expenses go up slightly. That squeezes you in to getting future earnings out of non-interest income, which really brings you down to trading and probably reducing the reserve further. So, is that where the future earnings are going to come from? Trading and reducing, if you will, loan losses? Or is there some other area of the bank which is going to be able to generate higher interest income?

JOHN GERSPACH: Yeah somewhere along the line Dick, I think I confused you and I apologize for that. When you take a look at the future earnings, what you're going to see over the course of the next year, year and a half, we're going to continue to wind down Citi Holdings. Unfortunately, Citi Holdings will be a drain on our income for a while, specifically on the revenue line. As we continue to wind down those assets, you're going to see reduced income from Citi Holdings assets. Now at the same point in time, we are actively growing the earning assets in Citicorp: loan growth in Citicorp, 10% year-over-year; loan growth in our consumer business in Latin America, 17% year-over-year; loan growth in Asia, 16% year-over-year. So, all of those are earning assets that you should start to see replacing the interest revenue that's being lost by Citi Holdings. It's a matter of pacing as far as the rate of decline in one and the rate of growth in the other. But we would actually think that over time, the mix of our business is going to be more towards the model that Vikram laid out 2+ years ago, which is roughly a third from Securities and Banking, what you would I guess call trading, a third from a consumer business, and then a third out of

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services, call services transaction services, private bank, etc. So, that is the Citicorp that we are trying to grow. And I'm sorry if I confused you.

RICHARD BOVE: No. I understand. But right now almost 2/3 of the revenue are coming from one source and that's net interest income. From what I've heard, I don't see how net interest margins are going to go up anytime soon. And if the reduction in the size of Citi Holdings is equal to or greater than the increase in the loans from emerging markets, your earning assets are going to continue to decline. So, you've got a 15% year-over-year decline in net interest income, and at some point that number has simply got to go up, or your earnings aren't going to go up.

JOHN GERSPACH: Let's talk about two separate concepts: net interest revenue, gross dollars; and net interest margin, percentage. Net interest margin, as I said before, I think will stay under pressure for at least the next quarter, due to some factors, whether that's the continued spread compression that we're seeing, then also I've got the FDIC additional assessments. But then- in answer to somebody else, net interest margin should look to stabilize. That's the percentage. Net interest revenue, and again I don't want to start forecasting net interest revenue, but net interest revenue, as we grow those loan volumes in Citicorp, as that growth, the absolute growth begins then to overtake the declines in the Citi Holdings assets, then you should start to see some growth even on the net interest line.

RICHARD BOVE: Okay thank you.

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

MIKE MAYO: Just some clarification on the OCI. It went up a lot this quarter and that helped tangible book value. What's the key driver there? And should we expect similar volatility in OCI in the future?

JOHN GERSPACH: Yeah. Mike, two big drivers on OCI. One is the asset transfer that I mentioned earlier. Alright. That was $1.1 billion favorable impact to OCI. And then the other significant impact on OCI would be cumulative translation adjustments, FAS 52 adjustments. That benefited us about $0.04 in tangible book value.

MIKE MAYO: And then a separate question: Why are you guys doing the reverse stock split. We all have our reasons why you might be doing it. But I'm not sure we heard directly from you.

VIKRAM PANDIT: I think we're pretty clear in our public press releases and other communications. We've got a couple of reasons and one of them is that- you've got to talk about not only the stock split but also our intention in the second quarter to reinstate a, albeit a nominal, dividend. And there are some clientele reasons. One, there are a number of clients who can't buy stocks either $5.00 or $10.00 per share, or below those. There are some who can't buy a stock without some dividend. Those are sort of the obvious ones. In addition to that, we do think that it could have an impact reducing volatility of the stock as the stock prices at a different level. I would also tell you that post the reverse split, both the number of shares outstanding and the stock price are closer to our peers.

MIKE MAYO: And then lastly S&P put on negative watch U.S. government debt. How do you think about the potential implications of that change and that would go to maybe the securities you have on your balance sheet, or some other activities? How do you think about protecting yourself?

VIKRAM PANDIT: Well we're glad we're in 100+ countries to start with because there is a level of diversification that goes with that. And in line with what our clients need because what that says is that we really look at our entire balance sheet. That's the first point. The second point is that I haven't really looked at what S&P said this morning so I don't really have any deeper insight against what we said but I'd also tell you I have full confidence in our administrative and our legislative policies to get our country to the right place.

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MIKE MAYO: Alright thank you.

OPERATOR: Your next question comes from the line of Carole Berger with Soleil Securities.

CAROLE BERGER: Good afternoon.

JOHN GERSPACH: Hi Carole.

CAROLE BERGER: Bank of America took a charge on their MSRs this quarter citing the settlement with the regulators and the higher costs going forward for servicing. I know you didn't discuss it but, how do you view higher servicing costs, was there an embedded charge that was material or immaterial in the quarter?

JOHN GERSPACH: Yeah. Carole, we've taken a look at the consent order and frankly we identified improvements that needed to be made in our mortgage servicing operation back in 2009, and so we're actively working on improving servicing dating back to the fourth quarter of that year. As a matter of fact, we had most of the improvements in place by February 2010. Now, the consent order does contain some additional things that we'll have to address, but as we've looked at the impact of the consent order, we've estimated that it'll have about a $25-$30 million annual increase in expenses for us. So really, not that much and we don't expect it to have much of an impact on our MSR asset.

CAROLE BERGER: And what are you carrying your MSRs at now?

JOHN GERSPACH: The cap rate I think is 1.15%. So, we've got a mortgage servicing book of about $440 billion. It's like $4.7 billion.

CAROLE BERGER: Thank you.

JOHN GERSPACH: Thank you.

OPERATOR: And you have no further questions at this time.

JOHN ANDREWS: Great, thank you everyone this is John Andrews again. We appreciate the time you took this morning. The call will be available on replay later this afternoon on the website. And again thanks.

OPERATOR: Ladies and gentlemen this concludes today's Citigroup Earnings Conference Call. You may now disconnect.

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