TRANSCRIPT

Citi Second Quarter 2011 Fixed Income Investor Review
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Speakers
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PRESENTATION

OPERATOR: Hello and welcome to Citi's 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 Fixed Income investor presentation, which is available for download on our website, 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 are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition 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 said, let me turn it over to John.

JOHN GERSPACH: Thank you, Ilene, and good morning, everyone. We are very pleased to be hosting our Fixed Income Investor Review this quarter. Last quarter, we discuss some of our key accomplishments, particularly our strong capital position, robust structural liquidity and disciplined balance sheet management. Today, we are 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, balance sheet progress, our liquidity profile, our capital position, as well as a review of our recent issuance activity and current funding plans for the coming quarter and year.

Many of you may have joined us for last week's earnings call and there are some key points from that call that I would like to re-emphasize to start us off here on slide 1. We announced earnings of $3.3 billion for the second quarter, bringing our total net income for the first half of 2011 to $6.3 billion. It was another solid quarter of operating performance as we continue to execute our strategy and invest in our franchise.

Loans grew throughout our core businesses in the second quarter at a level that more than offset the reduction in Citi Holdings. Revenues from our international Consumer Banking operations increased from the previous quarter and year as did the net income from the North America consumer bank.

In our institutional businesses, investment, corporate and private banking revenues improved. Global Transaction Services performed very well as net income increased from the previous quarter despite continued low interest rates. However, our markets business was clearly impacted by the trading environment.

In Citi Holdings, we continued the reduction of assets in an economically rational manner. Holdings' assets were reduced by $29 billion during the quarter from $337 billion to $308 billion and they now make up less than 16% of Citigroup's balance sheet. We remain on track to meet the Basel III capital requirements through the optimization of our assets and generation of capital. We continue to expect that

Citi will be in a position to return capital to shareholders in 2012 and still have an 8% to 9% Basel III Tier 1 Common capital ratio at the end of that year.

As we discussed in more detail during our call last week, earnings and the utilization of deferred tax assets create a multiplier effect on regulatory capital formation. In the first half of this year, this generated $9 billion of Basel III regulatory capital on $6.3 billion of earnings and $1.5 billion of DTA utilization. Looking forward, while we are comfortable with the broader macroeconomic trends underpinning our strategy, we remain cautious regarding the near-term environment and its impact on the industry for the second half of the year. That being said, we are consistently profitable and remain focused on growing responsibly.

Turning to slide 2, I would like to highlight some of our key earnings results from the second quarter. As I just mentioned, Citigroup reported second-quarter net income of $3.3 billion. Revenues of $20.6 billion were down 7% versus the prior year as strong growth in international Consumer Banking and Transaction Services was more than offset by lower revenues in Citi Holdings, Securities and Banking and North America Consumer Banking. Expenses were up 9% year-over-year to $12.9 billion, which I will describe in more detail in a moment.

Net credit losses declined again in the second quarter to $5.1 billion, 35% lower than the second quarter of 2010. We also released $2 billion of net loan loss reserves compared to a $1.5 billion net release last year and $3.3 billion in the first quarter. On a sequential basis, end-of-period loans grew 2% for Citigroup, as strong loan growth in Citicorp more than offset the decline in Citi Holdings.

Turning to expenses in more detail on slide 3, for the first half of 2011, Citigroup expenses were $25.3 billion, up $2.3 billion versus 2010, excluding the impact of the UK bonus tax last year. Nearly 70% of the increase resulted from the impact of the weakening US dollar, as well as higher legal and related costs.

As I am sure you know, a significant portion of our revenues, operating expenses and cost of credit, are incurred in currencies other than the US dollar. We translate these items to US dollars for reporting purposes and therefore, currency price movements affect our reported financial results. The impact of the weakening US dollar resulted in roughly $700 million of higher expenses in the first half of this year, compared to the first half of 2010. However, the net impact of foreign exchange on earnings was fairly small as a positive impact on revenues was largely offset by an increase in operating expenses and cost of credit.

For the first half of 2011, when compared to prior-year conversion rates, the impact of the weakening US dollar on our earnings before taxes was a net positive of approximately $100 million. We provide more details on the impact of foreign exchange in the appendix slide 24.

Legal and related costs were approximately $900 million higher in the first half of 2011 as compared to last year. Now excluding the impact of foreign exchange and legal and related costs, first-half operating expenses were up roughly $700 million, or 3% year-over-year. This increase in operating expenses was driven by investment spending.

As I mentioned on last week's call, the increase due to investment spending was roughly $1.5 billion. To date in 2011, we have funded nearly half of these investments through productivity savings and lower expenses in Citi Holdings more than offset growth in volume-related and other costs in Citicorp.

And now, let me turn it over to Eric.

ERIC ABOAF: Thank you, John. This quarter, we continued to build a foundation for growth. Our results demonstrate this clearly as you can see here on page 4. Both our capital and liquidity are robust, no matter which measure you use.

We continued to make progress in de-risking the balance sheet through asset dispositions, which provides us with the ample capital and liquidity to strategically invest in the future. In fact, Citi Holdings assets have declined by more than 60% from their peak in 2008 to $308 billion and now stand at less than 16% of our balance sheet.

We are seeing continued improvements in credit trends with net credit losses in the second quarter down 35% from a year ago, and non-accrual assets down 45% year-over-year. We are well reserved with loan loss reserves of more than $34 billion, or 5.4% of loans.

With this strong balance sheet, we are well-positioned to capitalize on our significant presence in emerging markets and our global capabilities. As an example, for the fourth consecutive quarter, we grew both consumer and corporate loans in Citicorp. And as John just mentioned, with this growth, we expect to begin returning capital to shareholders in 2012 and still operate in a Tier 1 Common ratio range of 8% to 9% under Basel III by the end of 2012.

Let me start out by taking you through our credit trends, which show continued improvement for the eighth consecutive quarter. Slide 5 shows total Citigroup net credit losses and loan loss reserves. NCLs continued to improve in the second quarter, down 18% sequentially to $5.1 billion and the net LLR release was $2 billion versus $3.3 billion in the prior quarter.

Let me describe our credit trends in two broad buckets -- corporate and consumer.

The first major area is corporate credit, which you see at the top right. Corporate credit was a benefit of $107 million in the second quarter compared to $520 million last quarter. We saw improved credit trends across geographies and industries.

At the bottom right of the page, you can see the second major area, consumer credit. Consumer NCLs declined 11% sequentially to $4.8 billion and we released $1.5 billion in net loan loss reserves.

Along the bottom of the slide, you can see that we ended the quarter with $34.4 billion of total loan loss reserves.

On to slide 6, while I usually review credit in each of our major portfolios, this quarter, with all of our portfolios trending in the same positive direction, we have decided to include our usual credit slides in the appendix.

Given investor interest in mortgages, however, I wanted to spend a moment reviewing our entire North America consumer mortgage portfolio, notwithstanding that our portfolio is significantly smaller than that of our other large US banks.

To be clear, we are including Citicorp and Citi Holdings' mortgage portfolios together. In the past, we typically only showed Citi Holdings' mortgages because of its status as a liquidating portfolio, but many of you are trying to do full firm comparisons.

For our mortgage portfolio, NCLs and 90-day delinquencies improved in both residential first mortgages and home equity in the second quarter. Year-over-year, residential first mortgage 90-day delinquencies declined by close to 50% to $4.1 billion, as mortgage loans in Citicorp continued to generally perform well. And sequentially, 90-day delinquencies were down 13%. The sequential decline in first mortgage delinquencies was mostly due to continued asset sales as we sold nearly $800 million in delinquent mortgages.

Net credit losses in residential first mortgages were down 32% year-over-year to $477 million and down 16% sequentially. Year-over-year home equity 90-day delinquencies declined by 24% to $1.1 billion, and sequentially 90-day delinquencies were down 12%. Net credit losses in home equity were down 26%

year-over-year to $634 million and down 11% sequentially. For our total North America consumer mortgage portfolio, our reserves cover over 27 months of NCLs.

Now that I have covered our improving credit trends in both corporate and consumer and spent some time on the mortgage portfolio, let me describe our progress in reducing the amount of our higher risk assets in general.

Slide 7 shows the asset trends in Citi Holdings. This quarter, we reduced Citi Holdings assets by $29 billion. We ended the quarter with $308 billion of assets, which represents a reduction of $274 billion, or approximately 47% from the second quarter of 2009, and down $157 billion year-over-year. As I mentioned, Citi Holdings now represents less than 16% of our total assets.

Turning to slide 8, we have a breakdown of the three segments of Citi Holdings -- Brokerage and Asset Management, Local Consumer Lending and the Special Asset Pool. The $29 billion quarter-over-quarter reduction occurred across many portfolios and businesses and was comprised of nearly $21 billion of asset sales and dispositions, over $7 billion of net runoff and pay-downs, and roughly $1 billion of net cost of credit and net asset marks.

This slide shows you the key businesses within Citi Holdings where those reductions occurred. Importantly, the two largest components of Citi Holdings, the Special Asset Pool and Local Consumer Lending, are down 53% and 29% respectively from the second quarter of 2010. Clearly, we are continuing to make significant progress executing on our Citi Holdings asset reduction strategy. Although, as we have stated, we believe the pace of the reductions will moderate.

Turning to slide 9 now, we often talk about de-risking Citi Holdings, but I wanted to put that in the context of investing to grow the Citicorp businesses. This is especially pertinent now that Citicorp and Corp/Other represent 84% of our balance sheet.

On the right, you see Citi Holdings assets, which are down 34% year-over-year. On the left, you see Citicorp, which is up 14% year-over-year as we continue to reinvest in the franchise. Here you can see how we have deployed our balance sheet to support our customers over the past year. For example, net loans in blue, which is our largest asset category, is up approximately $64 billion year-over-year as we lend to both consumer and corporate clients. The combination of trading assets and secured lending is up approximately $70 billion so that we have ample market-making capacity to facilitate transactions to support both our investor and corporate clients. Our Citicorp/Citi Holdings strategy provides us the flexibility to recycle and re-deploy capital and take advantage of growth opportunities around the world.

Turning to slide 10, given our healthier balance sheet, as I just explained, we have already been deploying capital in our Citicorp businesses. Let me take a moment to describe what we are seeing in loan volume. In Citicorp, loans grew to $440 billion, up 16% year-over-year, including 11% growth in consumer and 22% growth in corporate loans. This quarter's results represent the fourth consecutive quarter of Citicorp loan growth.

In our institutional businesses, lending increased more than 50% in Global Transaction Services from the prior year, driven by trade finance lending in Asia, Latin America and EMEA. And we saw 15% growth in our Securities & Banking corporate loan book, which increased borrowing across all client segments. International Consumer Banking loan volumes increased 22% year-over-year overall, led by Asia and Latin America. These trends reflect the economic growth in these regions, as well as the results of our investment spending.

North America consumer loan volumes were up slightly, driven by retail banking loans as the cards market continues to adapt to CARD Act and other regulatory changes.

Overall, what is notable is that we are reaching an inflection point. For the first time, loans grew 2% for total Citigroup quarter-over-quarter, as strong loan growth in Citicorp more than offset the quarterly decline in Citi Holdings. We expect this trend to continue.

Moving to slide 11, having discussed credit and balance sheet trends, now let's review Citi's liquidity and funding strategy, which has been a cornerstone in our efforts to reshape the balance sheet. 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 also navigate various market conditions.

In both the bank and the 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 G-7 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 repo to finance liquid assets. We then use a range of long-term debt instruments to cover our broader business needs.

On slide 12, you can see the size of our liquidity buffer, which is defined as cash and unencumbered highly liquid securities. It stood at approximately $328 billion at the end of the second quarter. This quarter, bank liquidity is down modestly as we have consciously deployed some of that excess liquidity into loan growth. At the same time, we have maintained our non-bank liquidity at similar levels over the past year to support our broker-dealer, and continue to believe that this range is proportionally calibrated to the size of our balance sheet and current market conditions.

In addition to these high levels of liquidity, let me take a minute to remind you 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 also fund our bank vehicles. In addition, under Section 23A of the Federal Reserve Act, as of the end of the second quarter, our bank can fund our non-bank entities with as much as $23 billion as long as it is collateralized appropriately.

Turning to slide 13, 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 you can see that approximately 78% of our bank is funded with deposits. In addition, long-term debt, including securitizations, comprises about 9% of the bank's funding.

In our non-bank businesses, long-term debt represents the most significant component of our liability mix. The vast majority of this funding is comprised of senior term debt, which is both fixed and floating-rate 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.

As you may have heard me say before, the majority of this secured funding is collateralized by highly liquid government and government agency securities. The minority of secured financing is collateralized by less liquid collateral and supports both our trading assets, as well as the business of secured lending to customers, which is also part of our matched book activity. The secured financing is carefully calibrated by asset quality, tenor, counterparty exposure in order to increase its reliability and supplements our other sources of funding. And finally, our large base of book equities supports both the bank and the non-bank entities.

Let's turn to our largest funding category and talk about deposits. Looking at slide 14, firm-wide deposits were up approximately 6%, or $52 billion, compared with the second quarter of 2010 to $866 billion at the end of the second quarter of 2011. As I have said before, deposits are one of our lowest-cost sources of funds.

You can see that while deposits have grown year-over-year, the overall cost of funds on deposits is relatively flat quarter-over-quarter, excluding the FDIC assessment and deposit insurance and significantly down from prior periods. This reflects both the low rate environment and our ability to lower price points, which widens our margins given the abundant customer liquidity while still remaining competitive in attracting deposits. As interest rates increase, however, we would expect to see some pressure on rate.

Part of the way that we have managed to lower the cost of funds is to have a healthy amount of balances in non-interest deposits, which you can see has increased from $106 billion to $149 billion over the last year. Even more importantly, within our interest-bearing deposits, we continually seek out pockets of balances that provide us with lower cost funding, which I will review in more detail in a moment.

Turning to slide 15, this page shows how we are actually improving the quality of our deposit base.

You can see on the chart that we are actively changing the composition of our deposits. Time deposits, where rates are fixed for the term of the deposit and which generally have lower margins, are becoming a smaller proportion of our base. Whereas operating accounts are becoming a larger proportion of our deposits. Operating accounts are checking and savings accounts for individuals, and cash management accounts for corporations. They provide wider margins and exhibit stickier behavior. Year-over-year, our deposit mix has shifted significantly. Operating accounts now represent 73% of overall Citicorp deposit base, whereas last year they represented approximately 65%.

This quarter, in keeping with our client-focused model, we saw operating deposit growth across almost all of our deposit-taking businesses, including retail, private bank and Global Transaction Services. We continue to see inflows based on the strength of our product and service offerings, as well as due to the highly liquid position many corporate clients find themselves in.

In summary, we continue to focus our pricing strategy to minimize our borrowing costs, and believe we have a high-quality diversified and stable deposit base across our businesses and across the globe.

Turning to slide 16, let's review our long-term debt trends and our liability management initiatives.

The top half of the page shows our long-term debt outstanding by category over time, including senior debt, TLGP, credit card securitizations and so forth. The bottom half of the page segments the amount of long-term debt in the bank and non-bank entities. So the bottom is just another cut of the top to provide you with some further texture.

As you see here, our long-term debt outstanding has decreased meaningfully year-over-year in most long-term debt categories as we have deleveraged the balance sheet. Looking at the non-bank, at the bottom half of the page, long-term debt has decreased modestly as we have let TLGP roll off while keeping a healthy amount of funding for our broker-dealer. Approximately $11 billion of TLGP debt matured in the non-bank last year and we have not replaced this debt.

In the bank, we have consciously reduced debt funding as we have grown our deposit base. While securitizations remain an important franchise for Citigroup, during the quarter, we had the opportunity to reduce interest expense in our card securitization programs and we successfully tendered for approximately $4.9 billion of that debt. We also let an additional $3 billion of TLGP run off over the last year in the bank.

As you can see here, with our current forecasts for year-end 2011, we believe that this trend will continue and expect continued declines in the amount of long-term debt that we have outstanding, in particular in the bank vehicle.

Moving onto slide 17, you can see our actual maturities for the first half of 2011 and expected maturities of long-term debt over the next three years. This chart clearly shows how maturities peak in 2012 and come down in 2013 and 2014. As we see in 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 have said before, for us at Citi, we do not expect to replace the 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 has come down.

During the first half of 2011, we issued approximately $9 billion of long-term debt. We issued across multiple tenors and currencies in both benchmark and structured notes. Our full-year forecast currently remains unchanged at approximately $20 billion. This leaves approximately $11 billion of issuance left for the rest of 2011.

Turning to slide 18, given our healthy balance sheet, let me describe for you the current status of our ratings, a topic we have discussed quite a bit over the last year. On the top half of the chart, you see our senior debt and commercial paper ratings for Citigroup, and on the bottom half are the 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 their assumptions of government support.

You will also recall that since late in the fourth quarter of 2008 and early in 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 and earlier this year, however, in recognition of our progress, our unsupported ratings have improved at two of the three major agencies -- S&P and Fitch -- thereby narrowing the gap between our supported and unsupported ratings.

Fitch has indicated that regardless of possible future lowering, or even the elimination of government support from our ratings, as long as our credit portfolio remains stable or improves, we would retain our long-term rating in the “A” category and short-term rating of at least “F1”. And recently S&P's proposed methodology stated that there will be a government support framework for a number of countries, including the US.

As I am sure you are aware, Moody's recently placed Citi, as well as four of our peers, under review due to the reassessment of their government support assumptions. At the same time, Moody's explicitly indicated that they will assess improvements in our standalone financial strength, which could offset any potential actions from the review of our supported ratings. We welcome this review of our unsupported financial strength. Moody's has not changed our bank financial strength or our baseline credit assessment since the first quarter of 2009, more than 2.5 years ago. As you all know, Citi is a fundamentally different company today than we were in early 2009.

So, turning to slide 19 let me talk about capital, which continues to be an area of significant strength for us and supports the lending growth that I have described earlier today. This slide reflects our strong capital levels at the end of the second quarter with approximately $142 billion in Tangible Common Equity and $135 billion of Tier 1 capital. Compared to the pre-crisis era of 2006, our capital measures are up between $36 billion and $62 billion across these four major capital measures as our capital base is one of the strongest in the industry and provides us with the ability to expand our lending to our customers as I have described.

Turning to slide 20, at the end of the second quarter, our Tier 1 and Tier 1 Common ratios were 13.6% and 11.6% respectively, up from a year ago and also from the first quarter. Our GAAP assets increased

1% year-over-year and our risk-weighted assets stand at $992 billion, and Citi Holdings now represents roughly 28% of that total.

Turning to slide 21, I would like to summarize our understanding of recent capital updates. Most recently, the Basel committee put forward a proposal setting out measures for acquiring additional capital for global systemically important banks, or G-SIBs. These measures include the methodology for assessing systemic importance, as well as additional required capital, and the related phase-in timeframes.

While the U.S. regulators have yet to adopt these new standards, as we understand it, G-SIBs will be determined based on five factors, which you see here -- size, interconnectedness, lack of substitutability, global or cross-jurisdictional activity, and complexity.

And earlier this week, the Basel committee announced its view that initially 28 banks will be deemed G-SIBs though the committee also indicated that the list could evolve over time. As we understand it, if adopted by U.S. regulators, banks will be obligated to use core Tier 1 Common capital to meet these surcharge rules.

Given this information, Citi expects to operate in a Tier 1 Common ratio range of 8% to 9% under Basel III by the end of 2012, including the impact of returning capital to shareholders during the year.

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

Second, we have significantly improved our structural liquidity by increasing our capital base and deposits and reducing assets. We believe we have ample liquidity and as you saw, our lending activities to clients have increased and we believe the Company will exhibit year-over-year loan growth by the end of 2011.

Third, we will have a significantly lower proportion of wholesale funding going forward. We currently expect modest re-issuance needs and we expect that our long-term debt outstanding will continue to decline.

And fourth, we see continued strength in our core businesses. We believe these trends position us for sustained growth in our three businesses -- Securities & Banking, Global Transaction Services and Regional Consumer Banking. And as we stated in our earnings call last week, we currently expect to achieve positive operating leverage in our Asia and Latin America Regional Consumer Banking businesses in the fourth quarter of this year.

That concludes our Fixed Income review. John and I would be happy to take your questions.

OPERATOR: [Operator Instructions]. Your first question comes from Ryan O'Connell at Morgan Stanley.

RYAN O'CONNELL: John, Eric, good morning. Thanks again for the presentation. I have got two questions. Now one of them frankly is a doomsday scenario, but I am sure that you guys probably have done contingency planning. If things in Washington don't move ahead, if we were to get a government default for whatever period of time, what impact, if any, do you think there might be on the availability of repo funding? That is the first question.

ERIC ABOAF: Ryan, it's Eric Aboaf. There's a lot of different directions this can go. And I think clearly it is going to depend on how market players interpret a technical default if it were to happen. And that is actually hard to gauge, right, because funders in the market are investment managers, they are in the U.S., there are foreign players and obviously the various securities firms. So it is hard to answer your question with a simple answer.

Clearly, the repo markets for government securities are good size and we, like many other securities firms, participate in that. What I think you also know is that repo markets operate on a haircut structure, right? Government repo is typically around 1%. We have seen that expand during the past crisis to 2% or 2.5%, something of that range. And so certainly haircuts may adjust under a certain set of actions in Congress, or inactions. It could go either way.

I think the other thing that you probably know is that the government security repo book tends not to be long-dated. We run reasonably matched books with repos on one side and reverses on the other, as do many other players, and that helps us both lend to customers and intermediate and let others borrow from us. And I think what we may see is some shortening up of those books, but given how short they are in the first place, it is kind of hard to directly see to know how much that would be.

RYAN O'CONNELL: Okay, well thanks. That is helpful and believe me I appreciate there are a lot of uncertainties. Just wanted to sort of get your thinking on that. And then the other matter is really just a clarification and that is with respect to the Section 23A inter-affiliate lending. So you all certainly have the right to do that, assuming that is appropriately collateralized. I guess the only question is there would be no issues with your regulators if you had to resort to that?

ERIC ABOAF: Here is how I would frame that, Ryan, is 23A has been set up for a variety of different purposes by the regulatory community and has actually been in place for decades. So this is nothing new. Typically, with a bank, there is always a modest amount of 23A lending that actually occurs sometimes as part of customer margin, or otherwise. So it is not as if it is a black-and-white "never used" versus "used."

I think the other perspective I would give you is that 23A is obviously there for a purpose, to provide collateralized lending across vehicles, but with very high quality collateral. So it is not as if it exposes a vehicle to any significant risk. And as a result, you can imagine that as we build contingency funding plans and I have described that we have a slew of plans by vehicle, by country, by business, that we reference that kind of 23A capacity. We have views on when we would use it and obviously we review all those plans with our supervisors as part of our normal course of business. So I don't think of it as anything surprising or black-and-white. And I think that should give you a little bit of context.

RYAN O'CONNELL: Great, thanks very much.

OPERATOR: Your next question comes from Robert Smalley at UBS.

ROBERT SMALLEY: Hi, good morning. Two quick questions, unrelated. One, if we can go back to a discussion we had on the last call on trust preferreds and the FDIC holdings, you talked about returning capital next year to shareholders. My understanding is that as long as the FDIC is holding some trust preferreds then you can't raise the dividend. So are you rolling all that discussion into your comprehensive capital assessment review for next year? Or is this something that you are actively talking to the FDIC about now (inaudible), about amending?

JOHN GERSPACH: It's John. Rob, any banker at this point in time, certainly the 19 or the top 26 banks, I think the Fed has expanded this thing, we all need to submit capital plans to the Fed I'm going to say later this year, although they haven't exactly established the timeframe, but it is either going to be later this year or early next year. And so every bank is going to have to have the Fed review their capital planning before they are able to do anything as far as dividend or repurchase activity in 2012. So that is part of every bank's process path, at this point in time, as far as being able to declare dividends or establish buyback programs.

When the Fed conducts those reviews, they do it in consultation with all of the regulatory bodies, both the OCC, as well as the FDIC. That is certainly what happened this year. So our expectation as far -- and we said that our expectation is that we will be able to return capital next year. It is again based upon what we know today and based upon the process that has at least been outlined to us; and as part of that process, the Fed will consult with the FDIC and that is actually what is required right now under the TruPS agreements that you reference. It isn't a prohibition, just a flat-out you can't declare dividends. It just says that if you are going to declare dividends more than a $0.01 a share, you need to have the FDIC approval.

ROBERT SMALLEY: Good. Thanks for the clarity on that. The other question I had, somewhat unrelated, was new classification for TDRs next quarter. Could you shed some light on differences that you are going to see, differences in presentation potential for taking any other additional reserves there?

JOHN GERSPACH: As we have looked at the changes that are proposed that take effect, I guess it's this quarter now, it is the third quarter, we don't see any real significant impact in the way that we have been handling our TDRs from a reserving point of view. There may be some additional disclosure that we need to make as far as bucketing the TDRs, but from a financial statement impact, we don't see anything significant.

ROBERT SMALLEY: Thank you.

OPERATOR: Your next question comes from Jeffrey Spencer, M&G Investments.

JEFFREY SPENCER: Hi, John, hi Eric, just a few questions if I could. And I apologize for asking a repeat question in some sense, but can you catch me up a bit on the discussion, to the extent that there has been any, on the exercise of calls on dated subordinated debt? If there's any kind of particular component of that along with the elements of Tier 2 that are still to be determined? I have a couple of questions then after that as well.

ERIC ABOAF: Jeffrey, it's Eric here. I don't think there is anything particularly new on the sub debt, the Tier 2 debt. As you recall, some of those have call provisions, some don't. And as you recall, the value of Tier 2 debt begins to roll down a schedule where it is 80%, 60%, etc. valued over a five-year time period for regulatory capital purposes. So there is pretty good clarity I think in the market as to when that begins based on the maturity structure. So I don't think there is anything particularly new there.

JEFFREY SPENCER: Right, okay. So it'd be fair to characterize that as basically being a decision that you will take based on the economics at the time of the call?

ERIC ABOAF: Yes, yes that is I think a good way to put it.

JEFFREY SPENCER: Okay, fair enough. The second one is on slide 13 and again, sorry if I am covering old ground on this one, but just to clarify, the $96 billion in the bank stack there, if my color coding is correct, that corresponds to long-term debt. I just wondered -- I guess I just wanted to confirm that that is actually senior unsecured or does that include what kind of shows up in the 10-Ks as other long-term debt like FHLB advances?

ERIC ABOAF: Yes, on page 13, I think you are reading on the left bar, the one with $1,058 billion. You have got deposits at the very bottom, $824 billion and then you are reading the next row up, which is the $96 billion. The $96 billion is comprised of a couple pieces. The biggest one is the card securitizations are in the $96 billion and I believe we may have the -- I'm sorry, in the TLGP bank debt. Remember we issued debt out of the bank and the non-bank and this is the bank component of that.

JEFFREY SPENCER: Okay, that is very good, thank you. And then finally, just wondering, I guess there has been some scratching of heads around -- not yours particularly, but your competitors' costs in repo funding. I just wondered if, from your involvement in the market, if you have seen sort of any movements to increased tenor of any repo facilities or any kind of particular movements in collateral or anything of note that you have seen as a participant in the repo markets.

ERIC ABOAF: Jeff, it's Eric again. I don't think there is anything that I would flag in particular this quarter versus last quarter. I think that, more broadly, as we and others reviewed our repo funding structure, in the midst of the crisis we came to the view, for example, that the tenor of the repo book is quite important to calibrate. We always had some calibration on it. But, given that we live in an uncertain world, we have been pretty thoughtful and disciplined about the tenor of those books, which part of the book, the class A versus Class B and C, should have longer tenors; the distribution of those tenors so that they are not just barbelled but they literally provide good solid financing. My guess is others may have done that assessment, but I can't really speak for others.

JEFFREY SPENCER: Okay, that's very good. Thank you.

OPERATOR: That concludes the question-and-answer session. Ms. Fiszel Bieler, do you have any closing remarks?

ILENE FISZEL BIELER: Thank you, everyone, for joining us today. If you have any additional questions, please get in touch with us at Fixed Income Investor Relations. We will speak with you again soon.