TRANSCRIPT

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Speakers
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PRESENTATION

RICHARD RAMSDEN: Okay, I think in the interest of time we're going to start with the next speaker. This is the final speaker for today, and we're absolutely delighted to have Vikram Pandit, CEO of Citigroup, with us today. Citigroup has, without doubt, been one of the most successful restructuring stories in financials over the last couple of years. They've shed almost $600 billion of assets from Citi Holdings since 2008, and they've continued to grow their footprint both in Asia and in Latin America. Citi has also done a great job rebuilding their capital base. It's grown by over 250 basis points in the last 18 months, and we think they're in an excellent position to start returning capital in 2012. To give their thoughts both on the outlook for next year, as well as for the Citigroup story, it's a great pleasure to hand it over to Vikram.

VIKRAM PANDIT: Good. Thank you. Richard, I appreciate that. It's nice to be here with all of you, to talk a little bit about Citi, but we can talk a little bit about the environment as well, if you'd like. As you know, the financial services industry faces an extremely challenging operating environment. It's a combination of market uncertainties, sustained economic weakness in the developed economies, and as well, the most substantial regulatory changes we've seen in our lifetime. Needless to say, when you put all these three trends together, the competitive landscape is going to likely be very significantly affected for a number of years in the future.

But at Citi we believe the strength of our franchise, and the global diversity of our businesses will serve us well as we navigate these challenges, and at the same time produce long-term growth. That growth will be driven by our Citicorp franchise, which is extraordinarily well-positioned for where the world is headed with a diversified portfolio of high quality corporate and consumer clients, and an unparalleled global presence, particularly in the emerging markets.

Let me start briefly by reviewing our financial results this year through the third quarter. We generated over $60 billion of revenues and $10 billion of net income in Citigroup. While revenue growth has proven hard to achieve because of the difficult environment, you've seen material improvement in credit quality and that has driven our growth in net income.

Our results over the past three years reflect the consistent execution of our strategy. One of our most important goals has been the wind-down of our non-core Citi Holdings, and I'm proud of what we've achieved. Since early 2008 we've reduced Citi Holdings' assets by over half a trillion dollars. We're also investing in our core franchise, Citicorp, where we believe we have substantial growth opportunities. We already see those opportunities bearing fruit as international revenues, particularly in consumer banking and Transaction Services are the fastest-growing components of Citicorp, and we are prudently investing in these businesses. At the same time, we are focused on achieving our goal of positive operating leverage in our Latin America consumer business this quarter, in Transaction Services in the second or third quarter of next year, and in North America consumer by the end of 2012. As you know, we achieved our positive operating leverage target in Asia consumer banking last quarter.

Finally, we are growing our capital. Tangible book value per share is up 11% year-over-year. Our Tier 1 common ratio is up 140 basis points to 11.7%, and we still intend to be in a position to begin returning capital to shareholders next year - of course, subject to regulatory approval - with the intent to operate with a Tier 1 common ratio under Basel III, as fully implemented, of 8%-9% by the end of 2012.

Let me start by talking about our strategy and execution in some detail, but starting with Citi Holdings first. From its peak of more than 1/3 of our GAAP assets in 2008, Citi Holdings at the end of third quarter was just 15% of our assets, and just 13% adjusting for the transfer of Retail Partner Cards into Citicorp that will occur in January. Looking at risk-weighted assets, Citi Holdings with the transfer of Partner Cards is approximately 22% of risk-weighted assets under Basel I. And, equally importantly, we've also narrowed the losses in Citi Holdings as credit provisions, particularly in the Local Consumer Lending portfolio had declined dramatically.

Losses in Citi Holdings have been predominantly driven by the Local Consumer Lending segment, whose largest asset is the legacy U.S. mortgage portfolio. If you exclude Local Consumer Lending, pre-tax income for the rest of Citi Holdings was positive for 2010 and thus far in 2011 as well. And within Local Consumer Lending, pre-tax losses in these periods were driven primarily by U.S. mortgages, as shown here on the right.

So let's take a look at the Local Consumer Lending portfolio in a little bit of detail. The portfolio was $218 billion, or 75% of Citi Holdings, in the third quarter. Over half of these assets are legacy U.S. mortgage loans, which we continue to believe are amongst the biggest risks facing U.S. banks, particularly in face of an uncertain economic environment. As such, we've taken aggressive steps to reduce our mortgage risk including selling current and delinquent mortgages, and the results are clear. Since the end of 2008, our Citi Holdings U.S. mortgage portfolio is down by over one third, at $111 billion, representing the smallest on-balance sheet mortgage portfolio of any of our banking peers. Additionally, we have allocated roughly $10 billion of loan loss reserves against this portfolio. We also have a significantly smaller third-party servicing portfolio and private label RMBS issuance versus peers, and therefore, we believe, relatively less risk exposure to these issues.

Let me now turn to our core Citicorp strategy. As you know, Citicorp includes our Global Consumer Banking business, Transaction Services and Securities and Banking. And the core strength of Citicorp is its globality. We have an unparalleled ability to serve clients in over 160 countries, and are physically present in nearly 100 across all regions of the world. Our local market presence, and in many markets, our having a local deposit base, gives Citi a unique competitive advantage to serve clients, and also to capture future opportunities from the rise of emerging markets. In consumer banking, we're focused on the world's 150 most important and largest cities, in which we are already present in over 120, and we are already the leading global issuer of credit cards. Our strategy is to take Citi back to its unique historical strength of serving the global needs of our clients in ways, we believe, no other competitor can match. And in a world where capital requirements are increasing dramatically, particularly for the investing and other risk businesses, a strategic focus on traditional lending and facilitation for our customers is very capital-efficient with attractive returns.

Slide 8 shows results in Citicorp. Year-to-date, Citicorp generated over $50 billion of revenues and over $12 billion of net income, as continued investments in our core franchise were more than offset by lower credit costs. If we include the recently announced transfer of Retail Partner Cards next year, Citicorp generated over $55 billion of revenues year-to-date, and nearly $14 billion of net income.

Slide 9 shows the unique breadth and scope of our businesses. The backbone of our global franchise is Transaction Services, with a physical presence in nearly 100 countries around the world, and ability to serve clients in over 140 countries. Each day we move over $3 trillion through our Transaction Services businesses. Our operating relationship with the largest multi-national corporations and emerging local market leaders provides a significant flow of transactions to our foreign exchange and liability management businesses, and also provides the basis for more strategic banking relationships. In addition, our local banking infrastructure and corporate relationships facilitate the expansion of consumer banking businesses in key cities around the world.

Let's turn to the emerging markets. Our business in emerging markets is not only growing faster than in developed economies, but it's also big enough to move the needle for our franchise. As shown on Slide 10, emerging markets have steadily grown as a percentage of Citicorp revenues with nearly half of year-to-date revenues in 2011 generated in faster-growing regions. Likewise, our net income is well distributed globally with more than half coming from the emerging markets. And we believe diversification is a very powerful asset in these uncertain economic times, as we have unique opportunities for growth even in today's environment. And more importantly, we can mitigate concentration risk in any given region.

As I discussed earlier, the world is undergoing a dramatic and secular shift. Developed economies are undergoing a very long period of de-leveraging of the consumer, financial, corporate and government balance sheets, and that's going to drive slow growth for years to come. By contrast, emerging markets are growing and are expected to grow, fueled by population growth, the rise of a powerful consumer base in the middle class and a growing share of world trade. Emerging markets are still expected to grow at nearly 6% compound annual growth rate to 2015, led by China and India, while developed markets are expected to grow at less than 2% per year.

Over the next decade we expect emerging market trade flows to grow at over 10% annually, or more than twice the pace of developed market trade. In fact, the fastest-growing trade flows in the world are between the emerging markets. That intra-emerging market flow has enormous implications for multi-national corporations; both those that are from the G20, but also increasingly the multi-nationals that are arising out of the emerging markets, who are seeking to harness these opportunities. These trends undoubtedly play to Citi's core strengths as we are virtually the only bank who can service our clients' needs across every major emerging market.

The businesses in Citicorp are all focused on serving the increasingly global financial needs of our clients. Our revenues are well diversified, with half coming from consumer banking year-to-date, and half from the institutional banking businesses. And while our Securities and Banking results reflect the significant economic uncertainty and volatility of today's markets, the remaining two-thirds of revenues in consumer banking and Transaction Services have shown consistent growth over time, even in a stubbornly low-rate environment that obscures their underlying revenue power. In Transaction Services we've been able to offset spread compression with new client mandates and higher transaction volumes which have enabled us to maintain our net income through the cycle. In consumer banking, our earnings are improving globally, and I'll cover that in a little bit more detail.

Let me first start with Transaction Services. This is a slide that shows you what we're doing, including Treasury and Trade Solutions and our Securities and Fund Services businesses. We're a leader in Treasury and Trade Solutions with over $7 billion of revenues in 2010. We're growing our Securities and Fund Services businesses with nearly $3 billion of revenues last year, and a leading custody and clearing network in nearly 60 countries. The total GTS market space is highly fragmented, and we believe we can continue to gain share, particularly as trade flows accelerate in the emerging markets. We have also grown our trade and finance assets by over 50% in the last 12 months, and we're positioned to continue to gain share as the ability of some international competitors to provide U.S. dollar financing is constrained in this environment. Over half our Transaction Services revenues and over 60% of net income was generated in emerging markets year-to-date.

Now, turn to Securities and Banking on Slide 14. As you can see on the left, the largest component of our Securities and Banking business is fixed-income markets. Not coincidentally, this is also the business with the most direct and significant flows coming from Transaction Services, particularly in local market foreign exchange. Citi has traditionally been smaller in businesses such as equities and investment banking, and these markets have also contracted in the current environment. However, we believe over time that our local market knowledge and expertise in faster-growing regions, coupled with these markets' expected demand for investment dollars positions us well to gain share across all major products. We already have a sizeable and fairly stable emerging markets component to our business, and year-to-date over a third of Securities and Banking revenues and nearly half of our net income were generated in these faster-growing economies.

Now, let me turn to consumer banking on Slide 15. Over the last 12 months, Citi's consumer bank generated over $30 billion in revenues and over $6 billion of net income. Our retail bank operates 4,600 branches in 40 countries with over $300 billion in deposits. We are the #1 card issuer globally, and as I described earlier, our consumer strategy focuses on the segments and geographies where we have a competitive advantage, including retail banking in the world's largest cities, and a broader approach in cards, where we serve customers on a nationwide basis. Over three-quarters of our branches are outside the United States, and our average assets, deposits, revenues, and net income are well distributed across the regions. Importantly, outside the U.S., our business is predominantly in the emerging markets. Over half of our average assets and 40% of our deposits are in emerging markets. We also generate over half of our revenues and net income in these regions. The diversification of this business is powerful.

On Slide 17 we show pre-tax earnings for our consumer business before the benefit of loan loss reserve releases. In total, our consumer bank began to recover and show earnings growth in the early part of 2010, leveraging the economic recovery in Asia and Latin America, even while the U.S. continued to face earnings pressure. And over the past year, both the international and North America businesses showed strong strength in earnings growth, as international markets continue to charge ahead, and we're starting to see tangible results from our U.S. turnaround.

As I discussed earlier, the economic and fiscal backdrop in these international markets is dramatically different than in the G20 countries. It's a really interesting slide because on the left and on the top it shows the developed markets, and on the right and the bottom, you see the emerging markets. Not only are they faster-growing, but they have lower national debt. Not only are the developed markets slower-growing, but they have enormous amounts of national debt, and that's going to drive the growth cycle.

Now, let's overlay that against our consumer loans. Outside the U.S., nine of our ten top international portfolios are in markets with significantly higher growth prospects and stronger fiscal positions. This provides further evidence that our high-quality portfolios in these markets should also benefit from the tail end of economic expansion.

In summary on Citicorp, we believe that our model is very well-positioned for where the world is headed. From an economic perspective, we have a significant diversified and high-quality portfolio in the fastest-growing regions of the world, and competitively, it's very difficult to replicate this long-standing local market knowledge and expertise. In fact, under the new regulatory and capital rules, the ability to replicate our model through acquisition, even when market conditions improve, is likely to be very limited. And we believe we're well-positioned to win more mandates, particularly in trade finance and corporate banking, as some competitors are focused on de-leveraging.

From the regulatory perspective, we are less exposed to consumer regulatory changes in the U.S. versus our domestic peers, given the relative size of our U.S. consumer bank. And while the ultimate rules around Volcker and its impact on the trading markets have yet to be finalized, the pure proprietary trading businesses, which we know are going to be restricted, are already immaterial to us. Finally, the Citicorp business is inherently capital-friendly, with an expected minimal impact on risk-weightings under Basel III for our consumer and transactions services businesses.

Turning briefly to our expenses on Slide 21. Excluding foreign exchange and episodic-driven costs, our expenses year-to-date were up less than 3% versus 2010, even as we made significant investments in our franchise. Roughly half our new investments year-to-date were funded with productivity savings. I want to spend a moment describing how we have delivered these results. On an ongoing basis, our efficiency goal is to eliminate 3%-5% of our expenses each year. And on a base of roughly $48-$50 billion, this equates to around $2 billion of savings annually. In fact, we generated $1.4 billion of cost reductions in the first nine months of 2011.

And this is the slide that shows you some more detail on these savings. Three quarters are coming from our Operations and Technology area, mostly in IT infrastructure, labor re-engineering and improving the efficiency of functions such as call centers and collections. Most of these savings are allocated back to the businesses, and in total, over 70% of our efficiency savings year-to-date are in Citicorp, with roughly 2/3 in the consumer bank, and 1/3 in our institutional businesses.

Finally, I want to discuss our tangible book value and capital positioning. Following our significant re-capitalization in 2009, we have consistently grown tangible book value and regulatory capital. Our tangible book value per share is up 11% year-over-year, while our Tier 1 common has grown to $115 billion, or 11.7% of our risk-weighted assets.

Going forward, we have three sources of capital generation, as we expect our core Citicorp franchise to generate earnings in excess of the capital needs to grow that business. In addition, we have unique additional sources of capital, both in the wind-down of Citi Holdings, as well as the monetization of our deferred tax asset. Only $11 billion of our $50 billion in DTA is currently included in Tier 1 common. We can grow our capital by utilizing our DTA and reducing that disallowed amount. Additionally, a significant portion of our regulatory capital is supporting risk-weighted assets in Citi Holdings. And, as I mentioned earlier, adjusted for the transfer of Retail Partner Cards into Citicorp, roughly 22% of our risk-weighted assets are in Citi Holdings, and therefore about $25 billion of our Basel I regulatory capital should be eventually released as Citi Holdings winds down. Or, put another way, between $39 billion of disallowed DTA and another $25 billion of capital supporting Holdings, there's nearly $65 billion of capital, supporting either wind-down portfolios, or simply unleverageable, because it is excluded from our regulatory capital. And so, it shouldn't come as a surprise that I'm excited about the prospects of delivering this excess capital back to our shareholders over time.

Let me summarize where we are. While the operating environment has been challenging, we at Citi remain focused and are balancing risk management with a view to the future, and investing where we believe the world is headed. In uncertain times, you need to protect the franchise, and to that end we remain highly liquid, with nearly a quarter of our balance sheet in cash and liquid securities. We continue to contain our exposure to Western Europe, while making sure that we can support our important clients in the region. We continue to aggressively mitigate the risks in our legacy U.S. mortgage portfolio. At the same time, we're excited about the future of Citicorp, and how our business dovetails with the global growth drivers for the future decades. We serve the largest multi-national corporations in more areas of the world than any of our peers, and we're growing a diverse, high-quality consumer portfolio across the emerging markets. Importantly, we are making these investments in a rational way, and controlling our cost by largely self-funding these initiatives. And we're committed to this disciplined approach and are confident in our ability to deliver financial results over time.

Let me take a moment now to address a few things about this coming quarter, the fourth quarter. First, we started a firm-wide reduction of head count this quarter, and that will affect nearly 4,500 positions and will be completed over the next few quarters. We anticipate recording a charge in the fourth quarter for severance and other expenses related to this of approximately $400 million.

Second, lawmakers in Japan recently passed legislation that lowers Japanese corporate tax rates as part of a policy response to the impact of the earthquake they suffered earlier this year. As a result of those lower tax rates, we'll be booking a non-cash valuation adjustment against our DTA in Japan of approximately $300 million in the fourth quarter. We had previously disclosed the possibility of this tax rate change and its potential impact on our DTA, but more importantly, this has no impact on our regulatory capital.

And third, credit spreads have broadly tightened this quarter, which as you know, will affect our reported financial results. While credit spreads tightening is generally positive for our underlying business, it will likely result in a negative charge for CVA in the fourth quarter. You may recall that we were required to book a positive $1.9 billion of CVA last quarter, driven by Citi's credit spreads widening. In this particular quarter, if the quarter had ended yesterday at the existing spreads, we would have recorded an estimated negative $200 million dollars of CVA, as our spreads have tightened in this timeframe. I should note, however, that this number can vary significantly and will be based on our spreads in the last day of the quarter.

Additionally, our lending business in Securities and Banking benefited from hedging gains of approximately $650 million in the third quarter, reflecting wider credit spreads. So far this quarter, credit spreads have tightened. So if we had ended the quarter yesterday, we would have recorded a hedging loss of roughly $300 million. In total, in the third quarter, CVA and hedging gains in our lending business resulted in a positive impact of nearly $2.6 billion on revenues. To date in the fourth quarter, based on yesterday's spreads, these same items would result in a negative $500 million impact on revenues. Excluding the sequential change in hedging results in the lending business and CVA, the remainder of our securities and banking business is performing roughly in line with the third quarter, acknowledging, of course, we still have three weeks more left to go in the quarter.

Excluding these episodic and spread-driven financial costs, our underlying business continues to perform well, given a challenging macro environment. And, as I discussed here today, consumer credit trends remain good. We continue to see steady growth in our emerging market businesses. Our North America consumer turn-around continues to gain traction, and we remain on-track to achieve our operating leverage targets in consumer banking and Transaction Services over the next year.

I thank you very much for being here, and John and I are very happy to take any questions you have on this or any other environmental issues.

RICHARD RAMSDEN: Vikram, let me kick off with a couple of questions. The first is, the Fed is going to be publishing the results of the stress test this time around, which is different to what they did last year. Do you think that that in any way will change your flexibility in terms of your ability to return capital given that they will be making public their view of the stress capital position of Citigroup in - what I think most people would agree is- a fairly extreme scenario.

VIKRAM PANDIT: Yeah. So let me start by saying, I think transparency is a good thing. We are in favor of putting out information exactly of that sort so you get to see what that information suggests. And we've actually gone one step further to say, you know, these stress tests are not necessarily comparable. And why don't we even have a benchmark portfolio where everybody stress tests a given benchmark portfolio, so not only can we put out our stress tests, but then you get everybody to put a stress test out against this benchmark so that you can actually compare apples to apples. So we're in favor of this kind of disclosure. I think the banking system, Richard, in general, is in much better shape than it was the last time the Fed went through this exercise. So in general, I think the banking system is going to look – it's going to do fine through this particular stress test. For us, we have 11.7% Tier 1 common. When you look at the details of the stress test - and you not only have to look at the detail of the stress test, but you've got to array it against their assumptions - we have a large emerging market portfolio. They think, in a stress, that the emerging market grows at 4%-6%. We have a smaller mortgage portfolio, which is reflective of some of the stresses here in the U.S. they want, and so, you know, I think we haven't done the work – we've started doing the work – but we're happy with being able to publish those numbers and sharing what those numbers say with everybody.

RICHARD RAMSDEN: How do you balance getting to Basel III or this fully loaded Basel III number early, versus returning capital in the current environment?

VIKRAM PANDIT: So that's part of all the equation that we go through, and it's part of the thinking that we've gone through, and it's our view that the combination of mitigating actions we have taken and are yet to take, together with the calibration of models and our earnings will get us to that position. And so, it's really the math that takes you there. And it's exactly the kind of math that we and others are going to have to share with our regulators in this C-CAR process which is due in January, and they will take a look at that and the results will be known by the end of March, and that's when we hope to be in that position where we can start sharing capital with our shareholders. There's a slight nuance here; this is actually a different C-CAR in the sense you actually are going get two bites of the apple. If you don't like the first answer, you can go back again, or another time, and you have 30 days to re-file as well. So that's kind of where we are.

RICHARD RAMSDEN: Okay. Since you've reported we've seen the voluntary restructuring increase where CDS hasn't triggered. What does that tell you – if anything – about the effectiveness of sovereign CDS as a hedge against the gross positions that you have?

VIKRAM PANDIT: I don't think that event in itself tells you anything that should change your mind about how CDSs should work. These are voluntary, which is important. And so if you didn't put the bond in on voluntary bases, then you've got the bond and you've got the CDS if it's a matched pair. And one of two things is going to have to happen: either the bond gets repaid or the CDS gets triggered. And so the way the markets work is that CDSs have to migrate to people who own bonds who are not part of the voluntary restructuring, and if you own that paired position, then you've got a hedge. Okay. And so it is – I think it's an important issue from a lot of different perspectives. You think what about reserving? What about accounting and all that, but on a CDS basis, I don't think this in itself is a test of that. And if you think markets speak loudly, then when you look at the way some of these CDSs are trading, they tell you that. They tell you essentially that if you have a paired bond and a paired CDS, that's a pretty good hedge.

RICHARD RAMSDEN: Are there any questions from the audience? Go ahead.

SPEAKER 1: Could you talk about the potential benefits that you see to yourselves from the de-leverage by the European banks, and whether you'll be picking up assets –

VIKRAM PANDIT: Yep.

SPEAKER 1: Either by buying portfolios, or just kind of higher organic growth?

VIKRAM PANDIT: Yeah. So I think it's important to think about the European banking systems in very different ways. The Italian banks are primarily domestically focused, some in Eastern Europe, but they've been pulling back. The German banks – you know, there's really one large global bank, and then – Commerzbank is very big but it's very much domestically focused. The rest of Germany is domestically focused. The British banks are already de-leveraging, that process has been going on, so you're really talking about the French banks and what about them, and where does that take you?

Now, you should know that they've been very large in a lot of different businesses, particularly the kind of businesses we're in. They are very large in trade finance. They are very large in infrastructure and project finance. They're very large in certain types of long data-derivatives kind of businesses. And of course they are as a corporate bank in terms of corporate lending.

Let's talk about what's going on. You saw – I said earlier our trade finance book had grown by 50% in the last 12 months. That's an important number. We think that trade finance – which by the way, includes a lot of different things, including tankers of oil that need to be financed when they go from one place to the other. And the French have been very active at that, and we think that's an opportunity for us, not only to finance it, but I think the location of where some of those activities are occurring is going to change. Rotterdam is your big hub; it's likely to move. Some of that activity could go to Brazil, it could go to

Singapore, and that favors us, given our presence there. Infrastructure of project finance is a little bit trickier in the sense that there are going to be opportunities, but they have to be Basel III-friendly. If there's one area that really gets hurt dramatically, it is project finance under Basel III, because cash flow negative loans are a real problem.

So I don't know where that goes; it may not go anywhere, or there may have to be other vehicles that come up. And of course, I'd think, broadly speaking, the benefit we have of actually having those relationships on the ground with a number of the French multi-nationals for decades, some of them for more than 100 years, is beneficial, because we're already seeing the need to step in and help some of those clients as some of the banks are pulling back for all the right reasons. This does create an opportunity for a core corporate bank like ours, particularly one that's global.

RICHARD RAMSDEN: Have you actually seen spreads widen in some of those businesses, as the French banks have been getting out? Or is it too soon?

VIKRAM PANDIT: Yeah, I think it's a little too soon to talk about pricing. I'll tell you the terms are important too. You know, we just like to be very careful about tail risk. I mean, if you want to move a cargo of oil, it's not only a cargo of oil but you actually are taking collateral risk. Oil prices could go down - right? - in the meantime. And so you are not only pricing out a trade finance project, but you are pricing out a put. And so those kinds of things are changing where we can actually price in the right counter-risk, and that's a good thing for our business.

RICHARD RAMSDEN: Go ahead.

SPEAKER 2: Given your sizeable liquidity, why don't you capture some of that CVA, or why didn't you, by buying in some discount bonds or discount trust-preferreds, or preferreds?

VIKRAM PANDIT: Well, so…the answer to all of that is we have very clear plans for asset liability management over time. And that's all the kind of stuff that we've been – we are working through. By the way, we have been buying bonds. I don't know if you've noticed, I mean, we've done a lot of tenders. Now, what have we done recently?

JOHN GERSPACH: We've done a couple of small tenders, but I think the biggest part of your question is really on the trust-preferreds themselves. And obviously, I think the biggest opportunity for us when it comes to trust-preferreds, are – certainly our biggest coupon trust-preferreds are callable when there is a regulatory event. And we've been waiting for the NPR to come out on Basel III. We want to keep our powder dry so we're in position to take advantage of one of those capital calls at the appropriate time.

RICHARD RAMSDEN: Good.

SPEAKER 3: Okay, so a lot of the strategy for Citi is focused on the emerging markets. And the emerging markets have had a very nice sort of ten-year boom. Have you thought about sort of what things look like if maybe the next ten years aren't like the past ten? I mean, there's evidence in China that maybe there's going to be a hard landing. I mean, how do you think about the company in those circumstances?

VIKRAM PANDIT: Yeah. Big part of our strategy is based on two things; of course the emerging market growth and the emerging market consumer and what that implies; but also, we believe, a growth in trade and capital flows because those markets are getting larger, and the money goes back and forth. Those are the two big drivers. And so I can certainly tell you the next ten years are not going to look like the last ten years here in the U.S. That much I know. And I think that's true in Europe as well. You start with that, and then you look at relative growth. So there's no question that there are likely to be cycles in the emerging market areas. I mean, there are always questions of moving a little too fast, moving a little too slow.

Having said that, when you look at the underlying trends, the secular change is real. Okay. And so, if you think they're going to grow at 6%, well, maybe they don't. If they grow at the Fed stress test of 4%-5%, so what? Okay. At the end of the day, that's where the growth is, and so I think we're pretty well-positioned to capture that.

Now, it's not only the direct growth. The real growth, which the world hasn't caught up with yet, is that it's the south-to-south flows. The multi-nationals of the future are coming from there. And it's going to be hard for certain G20 multi-nationals to figure out how to sublimate themselves and go from a developed market multi-national to one that intermediates the south-to-south flows. So the amount of activity that gets generated, not only because of the growth, but the change in the nature by which business gets done, change in financial services is quite significant – that's what we're going after, and whatever the growth rate is, it's higher than the 0%-2% in the West.

SPEAKER 3: Is there any risk of sort of, if there's a downshift in that growth; is there a risk of loan losses that are sort of unanticipated? Any thoughts on that?

VIKRAM PANDIT: Yeah. So, you know, I think that's an important question, which is why at the end of third quarter, we put out a lot of information on our portfolio. And I urge you to look at that. Look at the quality of that portfolio. And you know, what would you rather have? A mortgage portfolio here? Or that portfolio? Tell me what other diversified portfolio of loans you would rather have than the portfolio we showed you, third quarter. I don't know of any. By the way, if there was one, I'd go after it. So I feel pretty good about the nature of that portfolio.

We happen to be in a little bit of a different place than a large bank in India, or a large bank in China that has to go vertical all the way down. We don't. We go horizontal. And we go to a certain set of clientele and a certain type of individual or corporation. And that naturally leads itself to the kind of portfolio that is a little bit different than the general risk of the country. That's the first point.

And the second point is, as big as we are in China, all of foreign banks have 2% of the market in China. Okay. And so, for the 4%-5% growth and GDP, etc., our implicit growth rate is a lot higher, because we're so far away from being on that efficient frontier, that the implied growth rate is a lot higher from us. When you put all that together, that's the kind of stuff you see coming through the kind of disclosure we made last quarter.

SPEAKER 3: Thank you.

RICHARD RAMSDEN: Do we have another question, sure.

SPEAKER 4: I realize this is a delicate subject, but you mentioned the issue of staff reductions. As you look at your trading business – now, I appreciate you're not doing a lot of prop trading, but obviously a lot of pressure is on that business. Is that a business that you're thinking of downsizing significantly?

VIKRAM PANDIT: Some of those 4,500 are in those businesses; there's no question about that. I think that's part of it. That business for us, and everybody else, is getting restructured. And I think the restructuring is because of the secular reasons. And the secular reasons are really Volcker, and Dodd-Frank and Basel III, which really affect securitization and derivatives and project finance, so there are secular issues that cause you to re-structure that business, but that's something we've been doing already. And then there's a little bit of the cyclical aspect of where the markets are. But let me go one step further on that. That particular business – if you think that business is about moving capital and trade flows around the world, which it is, for us – if you think that business is about market making and helping clients, volumes are going to grow. They may not grow this quarter, next quarter, it may be a year – I don't know when. You all would know as much as anybody else in terms of what the cyclicality is of what we're going through. But secularly, we're absolutely convinced that the flows, volumes, are going to increase dramatically around the world and so it's an important business for us.

We're just making sure that we're structurally in line with the regulatory changes, and where the world's going. We're also structuring in line with where the world's going, meaning a little bit more in the emerging markets, little bit more investment there. Maybe a little bit less in the developed markets. And then of course, you would expect us to do exactly what we should be doing, which is be mindful of the fact that cyclical can turn out to be something for a longer period of time than people anticipate. And so, you put it all together, those are the numbers.

RICHARD RAMSDEN: I think we have time for one more question. Go ahead.

SPEAKER 5: You mentioned the increase in trade finance, and I'm curious, is that – you're picking up more trade finance flow from - I'm assuming continental, European banks that are losing it. And I'm curious, are they losing it because of the client concern of their counterparty risk? Or is it the bank is pushing out the exposure to reduce RWA?

VIKRAM PANDIT: Let me talk about our - our trade finance is growing for a number of different reasons. One, trade is growing! I mean, if you look in – go look inside the emerging markets. Look what's happening between Singapore and China, or Thailand and – you look at that, that trade is growing. And it's true in Latin America, and it's true back and forth. So, a lot of the growth is coming from – historically, the 50% number has been coming from the fact trade's just growing. And we're there, which is a good thing. But the other part of the deleveraging, I think it's very clear, it's a dollar-based business. And dollar-based financing is very difficult for some of the European banks right now, and by the way, they don't have dollar-based deposits. As a matter of fact, their deposit base is not in line with the size of the balance sheet. It's very much wholesale funded model. They're having to squeeze that back, and I'm not saying they're exclusively going after trade finance. It's just one of those things out of everything else they're going after that's going to benefit us.

RICHARD RAMSDEN: Okay. Okay, we will take one more. From the top and then we'll have to end it there. Go ahead.

SPEAKER 6: Greetings from the upper level.

VIKRAM PANDIT: There you go. Voice from God.

SPEAKER 6: Hardly. Are you concerned about a regulatory backlash from the events surrounding MF Global?

VIKRAM PANDIT: Look, I think it's a valid question. How could MF Global happen? How many regulators do we have in the U.S.? I mean, I think there's – god, I don't know, but with everything around, how could it happen? And by the way, I consider MF to be part of the shadow banking system. Okay? And we've been talking about how you can't ignore the shadow banking system just because it's here and it's – so look, one of the issues in the U.S. is regulation is still institutional. Meaning that you regulate institutions. And then you go to the other extreme and you regulate disclosure or products like the SEC, and some of these entities can fall through the cracks and they don't have – they may have product regulation, but they don't have supervisory regulation – that's what it's called – for the entire company. And I think it brings to bear that issue. Meaning, you know, where do you draw the line on supervisory regulation versus just product regulation? And I'm sure there are a bunch of people looking at that. The other thing, I think it gets to disclosure. And I know, we keep coming back to, that every financial institution should be required, every three months, to put out their stress test. Not only under their own scenarios, but in terms of those that are given by the Fed, and with a benchmark portfolio at the same time. Whether or not you're regulated as a supervisor with a supervisory regulator, just put the information out. If you did that, and you did that consistently, over a lot of institutions, over a period of time, I think the markets would take care of the lot of this stuff as well. So I don't know if there's regulatory backlash, but there's certainly a lot of head scratching going on in terms of what happened, and I think that's a good thing. It's a good thing; it can lead to a safer system, and a safer system means that not all the onus on the safety of the financial markets is on the large banks. And that's a good thing.

RICHARD RAMSDEN: Okay. Vikram, thank you very much.

VIKRAM PANDIT: Thank you, Richard. I appreciate it.