KEITH HOROWITZ: …Vikram Pandit, CEO of Citigroup.

VIKRAM PANDIT: …and John Gerspach, our CFO, who will take your questions. Keith, thank you. I appreciate that introduction and appreciate your inviting me, even if it is our own conference, so… And thank you all for joining us today.

This is a milestone year for us at Citi. 2012 is our 200th anniversary as a bank. Our span of history, this 200-year history, is extraordinarily rich and interesting. But through that entire span of two centuries, there’s one constant, and that is that we’ve always looked across international borders helping clients to expand their businesses globally. That is our historic advantage and remains our greatest strength to this day. It is also the foundation of our strategy – returning Citi to its historical strengths of facilitating international trade and capital flows, providing consumers with financial services in the world’s top cities, and helping companies build their businesses around the world.

We believe our capabilities in this respect are without peer and are well aligned for the macro trend of increasing globalization. We are investing to grow our core businesses in Citicorp while carefully managing risk in today’s uncertain environment, maintaining a strong and liquid balance sheet, and managing expenses. While we have achieved much in the past three years, there is still much more to do. Our focus now is on continuing to grow Citicorp, winding down the remaining assets in Citi Holdings, and improving the returns for our shareholders.

But let me take a moment to reflect on Citi’s history. As I mentioned, 2012 is our 200th anniversary. It’s a heritage that no other global bank can match. We started in 1812 as a trade finance bank financing commerce between New York and Liverpool and, since then, we have financed some of the world’s most transformative projects, including the first Transatlantic cable. Emerging markets have always been core to our franchise. For example, Bank Handlowy in Poland opened in 1870, Citi Brazil in 1915, and we’ve operated in China, India, and other markets in Asia for over 100 years. And at the start of the last century, Citi helped fund the construction of the Panama Canal and served as the first depository of official funds for the project.

For two centuries we’ve also applied our passion for innovation to solving clients’ problems. In the U.S. we pioneered the use of ATMs and unattended branches some 40 years ago and, more recently, we’re transforming the way we serve our customers with new smart banking branches featuring some of our most advanced technology, including media vaults, interactive touch screens, and video conferencing facilities.

Let me turn very quickly to our financial results for 2011. For the full year, revenues were over $78 billion. Operating expenses were $50.9 billion. Credit costs were $12.8 billion. They were down over 50% from the prior year. And while revenues were down last year, the decline in credit costs drove earnings up to over $11 billion.

But Citigroup’s performance cannot be understood without looking at diverging trends between Citicorp
and Citi Holdings. Total Citigroup revenues declined by 10% in 2011, largely driven by continued wind-
down of Citi Holdings. Citi Holdings’ revenues declined by a third in 2011 to approximately $13 billion as
we made progress in winding down these assets. Citicorp revenues, on the other hand, were down by
less than 2%, to $65 billion in 2011, as growth in Consumer Banking and Transaction Services was more
than offset by Securities and Banking.

We believe our core strengths and heritage position us very well for the trends that are shaping the world
today. First, developed economies are just beginning a long period of deleveraging which will slow
economic growth for many years as governments adopt austerity measures to address their
unsustainable fiscal situations and as consumers deleverage, spend less, and save more. As an
interesting consequence, we expect to see developed world economies shifting more to exports to
replace the relative declines in consumer consumption. Second, we expect emerging markets to enjoy
sustained higher GDP growth driven by key factors such as better fiscal situations in most emerging
economies, growing trade volumes, expanding middle-class populations, and increasing consumer
demand. Third, these emerging market populations are increasingly urban, which is driving meaningful
concentration of GDP in major cities and creating significant investment infrastructure needs there as
well. And finally, technology and digitization are transforming the very way in which we as banks serve
our clients. Consumer preferences are changing and a generational shift in behavior is driving to new
digital channels. Technology enables us to improve our efficiency and, importantly, it is likely to create
new opportunities as non-financial firms emerge as potential partners and, of course, as potential
competitors.

Let me take you through each of these trends in a little bit more detail. On this slide, slide 8, we show total
debt in the world's largest developed economies as a percentage of GDP. And while I've spoken before
about the correlation of high government debt to low projected GDP growth, this chart shows that the high
leverage is not just a government issue. And with few exceptions, these debt levels continue to grow even
through the time of the financial crisis, and we're now just beginning a prolonged period of deleveraging
which we believe will hamper GDP growth for years to come. This, by the way, is in stark contrast to our
expectations for emerging markets. In total, we expect world GDP growth of approximately 3% annually
over the next five years. Developed economies are expected to grow at less than 2% annually for all the
reasons we just talked about – although, if you look at the U.S., it probably stands out as a potential bright
spot. Emerging markets, by contrast, are expected to grow at nearly 6%, fueled by population growth, the
growing share of world trade, and the rise of a very powerful consumer base in the growing middle-class.

Over the next decade we expect emerging market trade flows to grow by nearly 11% annually, or more
than twice the pace of the developed markets. In fact, the fastest-growing trade flows in the world are
intra-emerging market trade, which we expect to comprise a quarter of all trade flows by 2020. That intra-
emerging market flow has enormous implications for multinational corporations. Whether they are based
in New York, London, anywhere in the world, each multinational is going to have to figure out how they
get into intermediating those intra-emerging market flows. These trends all play to Citi’s core strength, as
we are virtually the only bank in the world who can service our clients’ needs across every major
emerging market.

Much of this growth in intra-EM trade will be fueled by the rise of the middle-class, which is already driving
significant demand for both goods and financial services. As shown here on the left, in China and India
alone, there are around 100 million households today with income over $10,000 a year, and middle-class
households are expected to grow by more than 300 million over the next decade, overtaking the U.S. and
Western Europe. Not only are populations becoming wealthier in emerging markets, but they are also
concentrating in major metro areas. Approximately 30% of GDP is already concentrated in 150 cities
around the world. Over three-quarters of these cities are in the emerging markets and they represent over
half of this metro GDP. This has very important implications for how and where we build our consumer
franchise and explains our focus on the key 150 cities.

And finally, technology and digitization are defining global trends of our lifetimes. Across the world, nearly
5 billion people are using mobile phones. That’s two and a half times more than the number of bank accounts, with the differences especially pronounced in emerging markets. This has important implications for our consumer franchise, as we not only see a generational shift in how consumers want to access financial services, but we’re also witnessing the development of highly digital consumer banking in markets which are already predisposed to using mobile technology rather than bricks-and-mortar branches.

Given these global trends, we believe Citicorp is extraordinarily well-positioned. First, we have an unparalleled, longstanding presence in the fastest-growing regions of the world that is virtually impossible to replicate. Our global footprint enables us to facilitate direct EM-to-EM trade and capital flows. This is important as flows migrate from a hub-and-spoke of the past approach, where most trades went through either New York or London, to a direct network. In total, almost half of Citicorp’s revenues and nearly 60% of our net income in 2011 was generated in the emerging markets. Second, both internationally and in the U.S., our retail strategy is geared to the growing population and GDP concentration in metro areas, those 150 cities we talked about. Third, Citi is leveraging its technology and infrastructure to shape the development of mobile payment systems. In Mexico, we were the first to launch a mobile banking platform, where we are joining forces with America Movil, one of the largest mobile companies in the world, to pioneer the m-wallet concept in Latin America. Citi’s also the lead bank in Google Wallet, offering the latest smartphone tap-and-pay technology, and we were named the Best Mobile Corporate Bank in 2011 by *Global Finance* magazine.

And finally, Citicorp is well-suited for the proposed regulatory and capital regime. 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 banks. And while the ultimate rules around Volcker and its impact on trading markets have yet to be finalized, we have essentially completed the wind-down of our pure proprietary businesses. The Citicorp model is also inherently capital-friendly under Basel III, with an expected minimal impact on risk weightings for our consumer bank and Transaction Services.

Let’s take a closer look at our businesses. In Global Consumer Banking, we operate 4,600 branches in 40 countries. We’re also the leading global cards issuer. As discussed earlier, our retail strategy is focused on major cities around the world, and we’re seeking to leverage our global scale with one common technology platform. We’re growing our consumer loans in a disciplined manner, with a focus on prime borrowers in each market. Our consumer bank is integrally linked with our institutional franchise as we leverage our payments infrastructure in GTS and our corporate relationships through programs like Citi at Work, where we offer payroll and other services to employees of our corporate clients.

Transaction Services is the backbone of Citicorp. We offer the single largest proprietary banking network in the world, being on the ground in roughly 100 countries, and we seamlessly connect these markets for our clients through a single global Internet-based proprietary platform. These unique strengths have made us a leader in global Treasury and Trade Solutions and are contributing to our strong growth in Securities and Fund Services. And finally, in Securities and Banking, we serve the largest global multinationals and investors around the world, and our business is focused on traditional lending and flow facilitation for our clients. We also have a unique ability to capture flows that stem from our Transaction Services and Securities Fund Services businesses.

This slide shows the breadth of our businesses, serving clients in over 160 countries. Globally we operate as a universal bank serving consumers, corporations, and investors, providing us with unique revenue synergies, scale of operations, and local funding advantages. In fact, in Citicorp, we generated more than $1 billion of revenues in 12 different countries in 2011, including China, including India, and our total revenues from Africa also approached $1 billion. And every day we find more ways to connect the world for our clients. For example, we employ Mandarin and Portuguese speakers on our desks in South Africa to execute intra-EM trades between Africa, Brazil, and China.

The emerging markets have steadily grown as a percentage of Citicorp revenues, with nearly half of 2011...
revenues generated in faster-growing regions. Likewise, our net income is well-distributed globally, with more than half coming from these emerging markets. We believe diversification is a powerful asset in these uncertain economic times, as we have unique opportunities for growth even in today's environment, while we can mitigate the concentration of risk in any one given region.

Our revenues in Citicorp are also well-diversified by business, with roughly half coming from consumer banking in 2011 and half from our institutional franchise. Our Securities and Banking results in 2011 reflected, in part, the significant economic uncertainty and volatility of the markets, particularly in the second half of the year. However, the remaining two-thirds of Citicorp revenues in consumer banking and Transaction Services have shown consistent growth over time, even in a stubbornly low interest rate environment. In Transaction Services, we have been able to offset spread compression with new client mandates and higher transaction volumes, which have enabled us to maintain our net income through this cycle. And in consumer banking, our results are improving globally.

Let's turn to Securities and Banking. As you can see on the left, the largest component of our business is Fixed Income markets. And that's not a coincidence, because this is also the business with the most direct and significant flows coming from Transaction Services, particularly in local market foreign exchange. Fixed Income revenues remained under pressure in 2011, mostly due to difficult markets for credit and securitized products. In Investment Banking and Equity markets, Citi has traditionally had a smaller franchise, and in 2011, these businesses faced lower market activity in the face of waning investor and corporate confidence. Also, as I have discussed previously, in equities we faced some challenges in the back half of our year, as we completed the wind-down of our proprietary trading businesses and saw weaker trading performance in derivatives. However, we believe over time that our local market knowledge and expertise in faster-growing markets, coupled with these markets expected demand for investment dollars, positions us well. In 2011, over one-third of Securities and Banking revenues were from the emerging markets.

Slide 19 shows our results in Transaction Services. We're a leader in Treasury and Trade Solutions, with nearly $8 billion of revenues in 2011. 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. Total GTS market space is very 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 finance assets by nearly 50% in the last 12 months, and we believe we're positioned to continue to gain share as the ability for some international competitors to provide U.S. dollar financing is constrained in this environment. Over half of our Transaction Services revenues and 65% of net income were generated in the emerging markets in 2011.

Strong client activity in Transaction Services has driven revenue growth, despite the low rate environment. Over the last two years, we have more than doubled our total loans driven by trade finance, and deposits are up by over $50 billion, all on a constant dollar basis. Total transaction volumes also reflect the strength of our franchise.

Turning now to our consumer bank, in 2011 we generated nearly $33 billion of revenues, over $6 billion of net income, with over half generated in the emerging markets. While total revenues were roughly flat to the prior year, our international revenues were up 8%. We also achieved positive operating leverage in our international consumer banking as planned in the fourth quarter. Our consumer banking results reflected underlying volume growth, most notably outside of the U.S. Internationally our average loans, deposits, accounts, and card purchase volumes have grown steadily over the past two years on a constant dollar basis, while credit trends have improved. In North America, 2011 represented a turning point as many key drivers returned to growth. While revenues were down year-over-year on a sequential basis, we grew total revenues, card accounts, card loans in each of the second, third, and fourth quarters.

This diversification of our consumer banking model is quite powerful. On slide 23, we show pre-tax earnings for our consumer business, excluding the impact of loan loss reserves. In total, our consumer
bank began to grow earnings—began to show earnings growth in the early part of 2010, leveraging the economic recovery in Asia and Latin America, even while the U.S. faced continued earnings pressure. And over the past year, both the international and North America businesses showed strong earnings growth as international markets continued to charge ahead, and we are seeing tangible results from our investments and from our U.S. turnaround.

While we continue to grow our businesses in Citicorp, we’re also very aware of the challenges facing all firms in this uncertain environment. The macro environment still has challenges, and in order to protect our franchise, we’re focused on several things. First and foremost, we are vigilantly managing our risk exposures, including our legacy U.S. mortgage portfolio in Citi Holdings, our Western European exposures, and the quality of our growing loan portfolio in the emerging markets. Second, we’re maintaining a strong and highly liquid balance sheet. Third, as I mentioned earlier, we’re keeping a very close eye on our expenses. And finally, we continue to build our tangible book value and capital.

Let me start with a closer look at what remains in Citi Holdings, and we’ve adjusted this for the transfer of retail partner cards into Citicorp that took place this quarter. As you can see, Local Consumer Lending is by far the largest remaining segment in Citi Holdings. We’ve got about 157 billion of assets, most of which are U.S. residential mortgages. Local Consumer Lending is primarily a run-off portfolio, with the exception of our OneMain consumer finance operation and some small remaining businesses in Europe, which we do intend to sell. The Special Asset Pool had $41 billion of assets at year end. Nearly half were mark-to-market assets and available-for-sale securities. Another $10 billion of securities were held-to-maturity, and the remainder was equity positions, accrual loans, and a variety of other assets. The smallest segment, Brokerage and Asset Management, had $27 billion of assets at year-end, almost entirely related to the Morgan Stanley-Smith Barney joint venture.

For the past two years, losses in Citi Holdings have been driven by Local Consumer Lending, as pre-tax earnings for Brokerage and Asset Management and the Special Asset Pool, combined, were positive in both 2010 and 2011. And within Local Consumer Lending, pre-tax losses were increasingly concentrated in the mortgage portfolio. As such, we remain focused on reducing our mortgage risk, including selling current and delinquent mortgages. And since the end of 2008, our Citi Holdings U.S. mortgage portfolio is down by nearly 40%, to $108 billion at the end of 2011. Additionally, we’ve allocated roughly $10 billion of loan loss reserves to this specific 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 talk about the Eurozone. This slide provides you a summary of our net funded exposure to entities in Spain, Italy, Greece, Ireland, and Portugal. Our net funded exposure is comprised of $6.4 billion of net credit exposure and an additional $1.3 billion of net trading assets in AFS, for a total of $7.7 billion. And as you can see from this chart, the majority of this exposure is to corporations in the region and mostly to the large multinationals that we serve. Our financial institutions exposure is mostly to entities that are headquartered in Spain, but it includes deposits held in non-GIPS branches of these banks, and our total sovereign exposure is modest, at less than $1 billion. We believe these exposures are manageable in the context of our balance sheet, and we remain committed, by the way, to supporting our important clients in this region.

And we continue to believe it’s prudent to maintain a strong and highly-liquid balance sheet in this environment and, as such, we have over $400 billion of aggregate liquidity resources. This provides us with enormous flexibility in terms of balance sheet management and funding. Last year we refinanced only a very small amount of our long-term debt maturities, and again this year, we expect to reissue only a quarter to a third of our upcoming maturities.

Let me talk about expenses. We expect our 2012 full-year expenses, excluding the impact of foreign exchange or any significant unanticipated episodic costs, to decline between $2.5 to $3 billion versus our reported level of $50.9 billion in 2011. This decrease has four primary drivers. First, our incremental...
investment spending in 2012 should be materially lower than the $3.9 billion last year, as we had a full year of run rate investments in 2011 in most of our businesses, with the exception of North America consumer. Second, we should be able to achieve the same or higher level of efficiency savings through reengineering in 2012. Third, we expect core operating expense from Citi Holdings to continue to decline along with assets. And fourth, we do not anticipate the same level of episodic legal and related expenses we experienced in 2011, although we all know some of these things are very hard to predict.

Finally, I want to talk about our tangible book value and our capital position, and also shareholder value creation. During the past two years we have consistently grown our tangible book value and regulatory capital. Our tangible book value per share is up 12% year-over-year and 20% since 2009. Tier 1 common capital has grown to $115 billion or 11.8% of risk-weighted assets.

Going forward, we have three primary sources of capital generation. We expect our core Citicorp franchise to generate earnings that are in excess of the capital needed to grow that business. Second, we have unique additional resources of capital in the wind-down of Citi Holdings, and third, in the monetization of our DTA. While our $51.5 billion DTA is fully included in our tangible equity, only $11 billion is currently included in Tier 1 Common capital due to limitations on the amount of DTA that can be included in regulatory capital. This is important, because as Tier 1 Common is the only capital that we can effectively leverage to support our businesses and generate return for our shareholders, not having that ability is a limitation. So we have to monetize our DTA in the coming years and that will decrease our disallowed DTA, which will effectively increase our Tier 1 Common capital.

Additionally, a significant portion of our current regulatory capital is supporting Citi Holdings. Adjusted for the transfer of retail partner cards into Citicorp, roughly 21% of our risk-weighted assets are in Citi Holdings, and therefore the math would suggest that about $24 billion of regulatory capital should be eventually released as Citi Holdings winds down. Or put another way, between $40 billion of the disallowed DTA, another $24 billion of capital supporting Citi Holdings, over $60 billion of capital is either supporting the wind-down of portfolios or is simply unleverageable because it is excluded from our regulatory capital. This excess capital will continue to depress our reported return on GAAP equity, as only about half of our total shareholder equity of nearly $180 billion is regulatory Tier 1 Common that supports Citicorp, which is producing all of our profitability. In 2011, Citicorp and Corporate/Other combined generated an approximate return of 16% on this capital, and we estimate that this return would be similar under Basel III, but I’ll come back and discuss that with you in a minute.

While we remain confident that we can deliver excess capital back to our shareholders and thereby improve our GAAP equity returns, it will take some time to monetize this excess and the pace will depend upon a number of factors, including the level of our earnings. DTA usage in particular will be affected by the amount of our U.S. taxable earnings, which remained under pressure in the capital markets environment in the fourth quarter and really the second half of last year, as well as by the continued losses in Citi Holdings. All that being said, however, we continue to believe that we have the capacity to begin returning capital this year while still achieving a Tier 1 Common ratio under Basel III, as fully implemented, of 8% or better by year-end.

Now, as I mentioned just a moment ago, our return on capital for Citicorp and Corporate/Other, which is really our operating business, in 2011 was roughly 16%. We estimate the return on this business under Basel III will be roughly equivalent, as the risk-weighted assets would increase by roughly 20%, but then we would only carry 9.5% or 10% of capital under that RWA under Basel III requirements as compared to nearly 12% that we are carrying under Basel I today. Turning to risk-weighted assets, the return on Basel I risk-weighted assets was approximately 200 basis points in Citicorp and Corporate/Other combined in 2011. This return would be lower, of course, under Basel III, as we expect our risk-weighted assets to be roughly 20% higher compared to that under Basel I.

So to summarize, while the macro and regulatory uncertainty will likely continue, we at Citi remain completely focused on the strategy we talked about today, on prudently managing our risk exposures and
the balance sheet, always to make sure we protect the franchise. Importantly, we believe the core strengths and the global footprint of our model are extremely well-aligned with global trends and should give us higher growth and opportunities than our domestic-focused peers over time. And as we commemorate this 200th anniversary, we do have a chance to reflect on Citi’s history in good times and bad over the last two centuries. In the last three years, we’ve worked diligently to define who we want to be as a firm and to simplify our operations as we enter our next century. We’re committed to this disciplined approach and we’re confident in our ability to deliver improved returns to shareholders over time.

I appreciate your time today, and certainly John and I are delighted to take your questions at this time. Feel free to applaud. It’s okay. I’m just kidding. Okay, questions?

SPEAKER 1: As far as Citi Holdings was concerned, when you guys first created it, you said that it would never be separated. But given our stock price doesn’t give us any credit for the capital that’s tied up in that and given that it’s substantially smaller than it was – and I assume most of the stuff now is in run-off, which is going to take a couple of years – have you given any further thought to actually spinning that off to shareholders so we could decide whether or not we want to stay with it for a couple of years as the capital comes out? Thank you.

VIKRAM PANDIT: As you can expect, we’ve looked over the years at a lot of different ways of thinking about these assets, and every time we looked at it, we came to the conclusion that actually these assets are so diverse, there’s not one natural buyer, not one natural way, to actually think about them as a combination. And even today, you’ve got the Smith Barney portion in there. Even today, you’ve got some of the other things like OneMain, et cetera. So continually over time as we’ve looked at it, we became convinced the best way to deal with it is to find buyers or homes for these things one at a time. Now, that perspective has not really changed, and so we do have OneMain and a couple other businesses for sale. We’re down to a very small number, given everything we’ve done. And then, as I said, there’s about $108 billion as of year-end of mortgages, and certainly a big part of those mortgages require funding as well. And when you get through that, you come to a very quick conclusion that, given the reserves we have against it and given the funding we have and our cost of funding from your perspective, I know it’s not fully reflected in the stock price – believe me, we know that extremely well – it still is the best value creation opportunity for you. I know it takes some patience and the markets don’t always have that. But that, we think, is still the right path.

SPEAKER 2: Given your large DTA, isn’t OneMain Financial worth more to Citigroup than to any other buyer?

VIKRAM PANDIT: Well, let me state it this way. We like the OneMain business. We think it’s a great business. That’s a business that serves a sector in America that actually needs credit today, and especially given all the regulatory changes, it’s exactly the right kind of business, and so we all appreciate it. But what I’ll also tell you is that we will sell it when we believe we get the right value for it. And that’s really important, because getting the right value contributes to DTA on a present-value basis. So just as earnings over time, if you get the right value and you get the right gains, that does go against DTA. So the answer to that question really comes down to, what do you expect to get for it? And as you know, there were rumors about this business getting sold and it’s still with us, and I hope that’s evidence of the fact that we’re going to be very careful with how we sell it, who buys it, and at what price they buy it, because we do think it’s a valuable asset, and if it’s bought at the right price, we think it will have a positive impact.

So one more thing. This is always difficult in any company, any institution you all are, everywhere. It really is not part of our core strategy, which means that it actually, if at the right price, if it finds a better home, that’s a better place for it.
SPEAKER 3: There are some in the investment community who still believe that Citigroup’s risk management/risk controls are still lacking. Could you please respond to that and maybe cite some specific examples over the last few years of how that’s been corrected and the outlook there?

VIKRAM PANDIT: Yeah. So let me go at it another way. We’ve tried very hard to work with the regulators and other people to say, let’s create more transparency, how about it? And actually I wrote a small little op ed in the Financial Times on this. Let’s create some benchmark portfolios out there. And the reason I want to do this is, first, I think that all of you should know what the risk is in our assets, not only on the basis of what we say it is, but you ought to be able to measure it vis-à-vis everybody else. And today there’s so much model-driven stuff that you should be able to gauge and know exactly whether this person is looking at this a little too conservatively, a little too aggressively, et cetera. So I hope that, over time, that we get a greater consensus on having valid, credible, comparable measures out there which then you can look at and say that, okay, well, they mean what they say and they’re doing what they say as well, and hopefully that convinces you. I don’t know when that will happen. In the meantime, what I can tell you is you can just take a look at some of the slides we put up there. You take a look at the European exposure. That’s not what you get to unless you have a very thoughtful process of where the risks are going to come from and how you manage towards them. So that’s, I think, one example of that. Certainly not this time, but we’ve shared with you in the past our emerging market loan portfolio, and take a look at how we’re building that and with what parameters. It certainly shows you the approach we’re taking to managing risk at the company. And most importantly to me, when you look at the liquidity we’re carrying on our balance sheet, the diversification of our portfolio, you look at the numbers and you really have to carry a significant amount of biases to get to a point to say that, hey, they really haven’t improved. Our entire organizational structure is different, the people are different, the approaches are different. And really when I came in, we were the first bank that started saying we ought to look at stress losses as a way to measure capital.

So what you will never know is the risk not taken. How can I tell you that this is a risk that we could have taken, we didn’t. So there’s no way to prove that you’re a good risk manager, which is why I have talked a lot about saying, let’s make sure we get to a level playing field and let’s get the information out in the marketplace so they can decide exactly where we are. I really hope that happens. That will be good for us, I know.

SPEAKER 4: Hi. Can you talk about how you think about capital management and prioritize the different avenues for it? Obviously the CCAR is soon and I’m not going to ask you what you asked for, but I would like to know how you think about it going forward. You mentioned all the capital that you have coming from DTA and Holdings wind-down. With the new Basel III rules, some of the businesses, especially in the investment bank, obviously, have a low return now. So I would like to know, given where your stock is, over the next two or three years how you think about dividend versus buyback and whether or not there are some places within the investment bank in particular that are no longer good returns where you can just get out of those businesses and buy back your stock that has a lot higher ROE.

VIKRAM PANDIT: Yeah, and I think that’s a good question. Let me take a couple of minutes to answer that, and here’s how I would start. We think about returns as, every business should generate an acceptable rate of return based on its Basel III capital usage, because that’s usually more conservative than any economic measure, or what I call economic capital, risk capital, if it turns out for some reason for a AAA there may be zero risk-weighting. You and I know that AAAs have been zero and they really didn’t all turn out to be zero. So the higher of risk capital or Basel III capital is a good measure to start with, as that’s the amount of capital in the businesses. That’s one.

Two, you’ve got to have an acceptable rate of return. Now, we haven’t yet – and at some point we will, I guess – tell you what those hurdles are. But there’s no reason – I don’t know what you think the return equity requirement is in the market on banks, but whatever it is, there’s no reason we can’t earn a premium on that, given the kind of franchise we have. It’s not going to be 20%, but it’s going to be somewhere in between those things. There’s no reason why we can’t do that. And certainly if you look at
last year’s numbers, the 16% I talked about, that’s kind of an important number to sort of talk about kind of what one did earn in that kind of year. But that’s sort of on the methodology in some ways. Then you get to your question, which is right. I think the secular change in those businesses is the capital change – that is the big change – and the secular change in those businesses is regulatory change. And in certain parts of the world, if you go to certain jurisdictions like in the UK, the regulatory change is quite pronounced. You’ve got to separate out the banks. That’s the Vickers report. In certain other parts like Switzerland, the capital requirements are way higher. So some firms have a lot more secular impact because of regulatory change versus others, but every one has to deal with that secular change in capital requirement, and that’s what we’ve been doing.

So what are the businesses that we’ve been dealing with as a result of that? Securitization is a business that doesn’t earn you what it should, given the new capital requirements. Counterparty risk businesses, which are not collateralized, they don’t give you that kind of return. Certain market risk businesses don’t get you there. And so when you look at those businesses and say, on Basel I you earn great returns, on Basel III you don’t, then you’ve got to change those, and that’s the process that we’ve been going through as a firm, very importantly, and that’s the restructuring really in those businesses. That’s not only us, but everybody else is going to do that, as well as these businesses.

Then you get to your third point, which is the stock price and where it is and all of that. And you look at where the stock is trading, clearly, as was said before, we’re not getting credit for Citi Holdings nor are we getting credit for our DTA. If you look at the amount of capital, as I talked about before, we’re not getting credit for those two – we understand that – and we think they’re valuable. And if that’s the case, if we have the capacity to and the opportunity to return capital to you, then we ought to make a good investment decision, too, with that. And to me, share repurchases would look extremely attractive at that point, from the point of view of shareholders, because it will get to try to internalize some of that value that we have on our balance sheet.

So that, to me, is a three-way approach of getting at some of the questions that you talked about. I think part of the reason for where the stocks are also have to do with the fact that there is still some regulatory uncertainty out there. We don’t have everything completely defined yet, and some of that we’re not going to know for a little bit. And the other is the fact that some of the macro uncertainties we’ve gone through have not been exactly minor as a marketplace.

SPEAKER 5: Vikram, I’m going to ask a P&L question so, which, on expenses, which is kind of a good thing, because we’re getting past the whole—talking about credit.

VIKRAM PANDIT: That’s a good question for John Gerspach.

SPEAKER 5: Right, right. I recently got to meet with Gene McQuade and I asked him if he had gotten religion on expenses, and he told me he was an atheist but that he did have religion on expenses, and I wondered if you shared that same fervor and if we can see the same kind of execution on expenses that we’ve seen on the credit side?

VIKRAM PANDIT: Look, I think—let me start it this way. We had to do a lot of things as a company in 2009, and that was the environment. I don’t need to share history with you. You all know exactly where we were as a bank. We did a lot of things. For example, in our credit card businesses, we took marketing down to almost nothing compared to where it was before. You know, I know that’s not sustainable if you want to keep your earnings stream going. So we call these things investments we made last year, but some of that is just renormalization of what it takes to keep the process going, and these are important things. And we decided, by the way, it was time to make sure the foundations were right in the business. Example: It’s no use having a wonderful global consumer franchise where every country has its own system, and then in the U.S. you have 11 different systems. It’s the worst of all worlds. You can’t serve your clients correctly and it’s expensive, but you’ve got to spend money to get to the other side. Well, those are foundational things you’ve got to do. You’ve got the foundational things of cleaning up to get to
Basel III risk weightings that are better because, frankly, some of it is systems-related, model-related, those kind of things. So we put money to work where we thought we needed to in order to create the foundations for everything else we’ve been talking to you about. That’s really important to appreciate/understand, because when expenses go up, it’s quite rightly human to say, oh, my God, they can’t control their expenses, what’s going on? I think the first thing I would say to you is, don’t necessarily confuse the level of investments or the level of expenses with the rigor we have against where we are spending money. That’s the first point.

The second point, which is a more important one, is we do believe they’re coming down, because we did do a lot of catch-up. And, by the way, we have a very strong reengineering program in place – some great people, great approaches to that – and we’ve still got money to take out. And so we are going through that process and John feels it every day, everybody else as well. I think if there is a level higher than religion, we have it.

SPEAKER 6: Hi, Vikram. You have spoken in the past about a range of return on assets at Citicorp, if I remember correctly, of 125 to 150 basis points. Today you’re speaking of, in a historical context, 16% return on allocated capital at Citicorp. Can you reconcile the two? And are you sticking with your previous target, or have you changed that or backed off from it at all?

VIKRAM PANDIT: Yeah, I think that’s a very good question. So look, I think—we talked about that, and I think it is an important target for us. It continues to be a target. Given the mix of businesses, we should be able to achieve that. Here’s the thing. We are in a zero interest rate environment, and so when you look at a lot of these businesses, right from retail to GTS, anything that is deposit-intensive – and we’ve got a lot around the world – just to start with, they’re affected by where the level of interest rates are. So I would say that in a normalized environment, that’s still a target that we can achieve.

Now, the other part of that is a discussion that is an important one, is, where do the markets settle out in terms of where the interest rates go, where re-pricing goes, post-everything that happens with Volcker or regulatory stuff, so there are still a lot of unknowns out there. We need to know some more of that before we can get to more specific targets for you, and I’d rather do that more informed than where we are today.

SPEAKER 7: Over the past couple of years we’ve seen numerous regulatory changes occur. Some would say they’ve already gone too far, others say haven’t gone far enough. From your vantage point, how do you see some of the unintended consequences that could develop based on the things that have either been done or things that are being proposed at this particular point in time?

VIKRAM PANDIT: So look, I think it’s fair to acknowledge that for all of us who take safety and soundness of the financial system for granted when we come into work or do whatever we do, that there needed to be changes in order for us to get there. That’s a very important point. I think it’s also an important point to appreciate/understand that when those things happen, sometimes the pendulum does swing a little bit more the other way, and that to me is more of an issue of calibration than it is necessarily an issue of regulation per se. So how do you want to calibrate it? And the most important calibration issues are those on capital requirements, basically. It’s capital requirements. I happen to believe that a lot of the things that are being talked about by some of the other areas like the Consumer Protection Bureau, et cetera, they’re the right things. I think we need to make sure consumers have more choice, more control, more transparency. Those are all good things. They make better markets. So these are less philosophical issues now, as much as now they’re coming down to say, what should the calibration be?

That is really compounded by the following fact. They said when they put Basel III into place, you don’t have to get there until the end of 2018, and guess what’s happening? We’re all rushing to exceed that tomorrow. Now, why is that important? Here’s why that’s important. Because when you measure risk-weighted assets today in the Basel formulas, you measure them pro-cyclically. You look at the last three years more than you look at years before that. We’re coming off one of the worst crises in history, and therefore your risk-weighted assets are at peak and your capital required has peaked. So not only are we
rushing to get to 7% and 8% or whatever the numbers, but you’re doing it at a timeframe when the calibration, based on pro-cyclicality, is at its peak. You can imagine, as I can, when that happens, there are issues that are out there. We’ve argued, we should really go through the cycle rather than pro-cyclical measurement, because I don’t know what happens with that, but what happens as a result of that? Well, what happens as a result of that is obvious, which is to say, higher-rated consumers get great rates because, frankly, under Basel III, the capital requirement on a higher-rated mortgage is less than the capital requirement that used to be. And not only that, if you go to a lower-rated borrower and mortgages, the capital requirement goes up multiple times, so the difference has gone this way. And if you’re a bank and you want to earn a return on capital for you all, you tend to swerve more towards the highly-rated versus not. You can see those patterns everywhere. And if you think that’s bad, take a look at the highly-rated credits. So the general pattern of what’s happening in the marketplace is shorter assets, more liquid assets, less risky assets. It’s compounded by the fact that there’s a smaller pool of risk-free assets, which means people are holding more cash equivalents rather than longer-dated securities, and it’s compounded by the fact that these risk weightings are really high.

So those are the kind of consequences that occur. You can’t put it solely at the feet of regulators, because they said you really don’t have to get there until 2018. But the industry decided that’s like a little thing hanging out there, and if that’s going to be the case, let’s do it right now, and that’s going to create some consequences for the general economy. I think they’re cognizant of that. Same thing’s happening in Europe. If you think about regulatory consequences, you can look at Europe and what’s happening in terms of their balance sheet sizes as well. So I don’t think there’s a short-term answer to this, but we’re just going to have to work through. And the safer we are over the next year or two, the more the pro-cyclicality disappears, maybe you get to better capital allocation. Long answer, sorry.

SPEAKER 8: Mr. Pandit, my question involves the part of Citi Holdings which is the joint venture with Morgan Stanley, the Smith Barney. I understand Morgan Stanley has the option of buying out your 47% interest, but is there a timeframe on that? And does Citi have any flexibility in getting their capital out, like spinning it out to shareholders, selling the 40% to a third party? Maybe you can talk about that.

VIKRAM PANDIT: John?

JOHN GERSPACH: Vikram? Morgan Stanley has got a three-tiered or a three-pronged option. Their options actually extend over June 2012, June 2013, and June 2014, so this coming June they have an option to buy the first 14% of the 49% that we own. If at the end of that period they have not fully exercised their option, then, beginning with June 2015, we have the option of doing an IPO or a sale to a third party, but our option to do that does not kick in until 2015.

SPEAKER 8: Okay, thank you.

VIKRAM PANDIT: And that’s important, because the amount of capital that’s tied up in that on a Basel III basis is what?

JOHN GERSPACH: The entire $10 billion that we have….

VIKRAM PANDIT: So under Basel III, the entire $10 billion valuation of that is deducted from our Basel III capital. That’s a huge number. It’s there; it’s just on this side of the balance sheet rather than this side of the balance sheet.

All right. Well, thank you all. We appreciate your time today, and have a great conference. Thank you.
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