

**Host**

John Andrews, Head of Investor Relations

Speakers

Vikram Pandit, Citi Chief Executive Officer
John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's first quarter 2012 earnings review with Chief Executive Officer Vikram Pandit and Chief Financial Officer John Gerspach. Today's call will be hosted by John Andrews, Head of Citi Investor Relations. We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given 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. Mr. Andrews, you may begin.

JOHN ANDREWS: Thank you, Operator. Good morning, everybody, and thank you for joining us this morning. As usual on our call today, our CEO Vikram Pandit will speak first, then John Gerspach, our CFO, will take you through the earnings presentation in some detail, which is available for download on our website, citigroup.com. Afterwards, we will be happy to take your questions. Before we get started, I would like to remind you that today's presentation may contain forward looking statements which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from those statements due to a variety of factors including the precautionary statements referenced in our discussion today and those included in our SEC filings and including, without limitation, the risk factors section of our 2011 form 10K. With that said, let me turn it over to Vikram.

VIKRAM S. PANDIT: John, thank you, and good morning everybody. Thanks for joining us today. As you know, earlier today, we reported net income of \$2.9 billion for the first quarter of 2012. Ex-CVA/DVA, and excluding the net gain from minority stakes, we earned \$3.4 billion in net income, or \$1.11 per share. This is a significant increase, both from the first and fourth quarters of 2011.

While our businesses operate in an improved environment, we also saw the benefit of our investments. We generated revenue growth and had positive operating leverage across all three of Citi's core businesses, that is, Global Consumer Banking, Securities and Banking, and Transaction Services. Key drivers, such as loans in Citicorp grew by 12% from the prior year while we deepened client relationships and improved market share in several businesses. Global Consumer Banking generated \$10 billion in revenues in the quarter, up 5% from the previous year. Securities and Banking revenues rebounded, driven by particularly strong performances in fixed income. In Transaction Services, revenues were a record \$2.7 billion, reflecting strong growth particularly in trade finance, where our unique global footprint gives us a meaningful competitive edge. Overall, net income ex-CVA/DVA for our institutional businesses increased 12% compared to first quarter 2011 and was four and a half times larger when compared to the fourth quarter of 2011. We reduced our legacy assets in Citi Holdings by 7% during the quarter, and Citi Holdings' assets are now at \$209 billion, or just 11% of our total assets. While the operating environment

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improved in the first quarter, there is still much macro uncertainty, and we'll continue to manage our risk carefully.

Let me now turn to capital and liquidity. First, let me share with you some numbers since we further added to our capital base during the first quarter. We ended the quarter with \$122 billion of Tier 1 common capital and a ratio of 12.4% under Basel I, up from 11.8% at the end of fourth quarter, and for the first time, we're sharing our Tier 1 common ratio on a Basel III basis, which stood at an estimated 7.2% at the end of the quarter. Keep in mind that Basel III requires the deductions of certain minority holdings on a dollar for dollar basis from an institutions capital base, and the 7.2% figure reflects that. In aggregate, our minority investments in unconsolidated financial institutions such as Akbank and Morgan Stanley Smith Barney amount to 120 basis points of deduction. As you know, we expect to reduce certain of these stakes over time. While we are at 7.2% now, we still expect to exceed 8% by the end of this year and have various paths to do so. In fact, based on our current analyst estimates of our earnings for the remainder of 2012, and anticipated actions, including the reduction of our stake in Akbank, we expect to be above 8% even if Morgan Stanley doesn't exercise its option to buy 14% of the MSSB joint venture this year.

On liquidity, more than one quarter of our balance sheet is in cash or liquid securities, and even though the Basel III liquidity coverage ratio doesn't come into effect until 2015, we are at an estimated LCR ratio in excess of 125%. We have already exceeded the proposed requirements. As you can see, our capital and liquidity numbers are amongst the strongest in our industry globally.

That leads me now to the CCAR process. While several capital actions were approved, such as redeeming certain series of outstanding trust preferred securities, we have to resubmit our capital plan to the Fed. However, we do understand that new factors may need to be taken into account in the resubmission, and that in any event, we need to understand the process going forward in order to make a determination on what to include in our resubmission. At this point, we expect to receive additional information from the Fed this month, and we're required to submit our revised plan by mid-June. The Fed then has 75 days to review the plan, and that time frame stretches almost to the end of the third quarter.

As we consider our resubmission for this year, we also have to keep in mind that we will be resubmitting the 2013 capital plan to the Fed a short time later. We're having the conversations with the Fed which will inform what we submit and what we ask for, and obviously, for all of us on the phone, that could range from resubmitting exactly what we asked for before all the way to waiting until the 2013 submission. We, that is, the management of the board, will make a decision which takes all of these factors into account, and of course, we'll have more to say later in the process. In the meantime, what I can promise you is that we expect to keep building our capital, we'll keep executing our strategy, and we'll take every step we can to generate strong returns for our shareholders.

Finally, as many of you know, we're commemorating our 200th anniversary this year. The central mission of our bank throughout has been support economic progress. Our historic strengths, facilitating international trade flows, maintaining a strong presence in the world's largest cities, and focusing on the emerging markets are well suited for today's connected world. We see positive signs throughout our businesses, and we're going to serve our clients by putting our unique capabilities to work for them. Now, let me turn this over to John, who will review our results in detail, and then of course, we'd be happy to take your questions at the end of that.

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JOHN GERSPACH: Okay, thank you, Vikram, and good morning everyone. Before I go into more detail on the quarter, I'd like to highlight a few significant items affecting our results. First, on the revenue side, CVA and DVA were negative \$1.3 billion in the first quarter as Citi's credit spreads tightened. We also benefited from a pre-tax gain of nearly \$500 million related to minority investments. On the expense side, legal and related expenses remained elevated at over \$500 million. However, repositioning charges declined to \$66 million from over \$400 million in the prior quarter.

Now on slide 4, we show first quarter results. Citigroup reported net income of \$2.9 billion, or \$0.95 per diluted share. Excluding CVA/DVA, and the minority investment gain, earnings were \$3.4 billion, or \$1.11 per diluted share. Revenues of \$19.4 billion were down 2% versus the prior year on a reported basis. However, excluding CVA/DVA, and the minority investment gain, revenues were up 1% from last year, as revenue growth in Citicorp outpaced the decline in Citi Holdings. Expenses of \$12.3 billion were roughly flat year-over-year on a reported basis. Excluding the impact of foreign exchange translation and the significant expense items I just mentioned, operating expenses were up less than 1%. Incremental investment spending was more than offset by efficiency savings. Credit costs of \$3 billion were down 5% versus last year. Net credit losses of \$4 billion were down 37% year-over-year, including incremental charge offs of approximately \$370 million in the first quarter related to previously deferred principal balances on modified mortgages, which I'll discuss later. Excluding these incremental charge-offs, NCLs would have been down 43% from last year. Virtually all of the incremental \$370 million of charge-offs was offset by a reserve release specific to the deferred principal amounts, and so the net impact was essentially earnings neutral. Excluding this specific release, the net reserve release in the first quarter would have been roughly \$800 million, down from \$3.3 billion in the prior year. Citigroup end of period loans were up 2% from last year to nearly \$650 billion as strong loan growth in Citicorp continued to outpace the wind down of Citi Holdings, and deposits grew 5% to over \$900 billion.

On slide 5, we show results for Citicorp and Citi Holdings, excluding the impact of CVA/DVA. Citicorp generated first quarter revenues of \$19.4 billion and net income of \$5.2 billion. Year-over-year, Citicorp's revenues and expenses grew by 6% and 1% respectively, with positive operating leverage in every business. Pre-provision net revenues in Citicorp were over \$9 billion for the quarter, up 12% from last year. And for the fifth consecutive quarter, we grew loans year-over-year in every business in Citicorp. Citicorp's loans grew 12% with consumer up 6% and corporate loans up 23%. Citi Holdings had revenues of \$786 million and a net loss of \$1.1 billion. Citi Holdings ended the quarter with \$209 billion of assets, down \$16 billion during the quarter and \$86 billion, or nearly 30% year-over-year. At quarter end, Citi Holdings accounted for just under 11% of total Citigroup assets.

On slide 6, we show a nine quarter trend for Citicorp's results. Excluding CVA/DVA, Citicorp's revenues of \$19.4 billion in the first quarter were up 6% from the prior year and up 23% from the prior quarter, driven by growth in each of our core businesses. Operating expenses of \$10.3 billion were up slightly versus the prior year on a reported basis. Excluding the impact of FX and the significant expense items I noted earlier, expenses were up 2% on higher volumes in consumer banking and Transaction Services. Incremental investment spending was more than offset by efficiency savings. Citicorp's net credit losses were \$2.2 billion, down over 30% from the prior year, driven by improvement in North America cards. The net loan loss reserve release in Citicorp was significantly lower this quarter, at \$588 million compared to \$1.8 billion last year. This reflects lower net releases in North America cards as well as reserve builds in International consumer banking and the corporate portfolio, primarily driven by loan growth. Excluding CVA/DVA, earnings before taxes of \$7.4 billion were up 12% versus last year, and more than double from the prior quarter, driven by higher revenues and lower net credit losses, partially offset by a lower net reserve release.

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On slide 7, we show results for our Global Consumer Bank. In the first quarter, we generated \$10 billion in revenues up 6% year-over-year on a constant dollar basis. International revenue growth has accelerated in recent quarters, reflecting our investments, while in North America, the turnaround continued. Excluding loan loss reserves, we have steadily grown our pre-tax earnings each quarter for over two years with strong recent growth in North America.

Slide 8 shows the results for North America Consumer Banking, which now includes retail partner cards in Citi retail services. Total revenues of \$5.2 billion were up 5% versus last year, largely driven by higher gains on sales of mortgage loans. Card revenues declined year-over-year, reflecting spread compression in branded cards due to the continued impact of the look back provisions of CARD Act, and the higher promotional balances, as well as lower average card loans. Expenses of \$2.3 billion were up 3% year-over-year, as incremental investments were partially offset by efficiency savings and the absence of a litigation reserve in the prior year. Credit costs declined by nearly a third from last year to \$802 million. Net credit losses were down 31% to \$1.6 billion, driven by cards, and the net reserve release was \$841 million this quarter, compared to \$1.2 billion in the prior year. Earnings before tax, excluding the impact of loan loss reserves, grew to \$1.2 billion from less than \$300 million last year. Overall, we continued to see progress in our North America consumer franchise. Average deposits grew for the fourth consecutive quarter, up 4% year-over-year, including double digit growth in checking account balances. In branded cards, accounts also grew for the fourth consecutive quarter up 5% year-over-year, and purchase sales grew 3%. And, in retail services, purchase sales were up 2%.

Turning to international Consumer Banking on slide 9, in total, the international consumer businesses achieved positive operating leverage for the second consecutive quarter, with reported revenue and expense growth of 4% and 2% respectively. On a constant dollar basis, revenues grew 7%, and expenses were up 5%. Revenue growth continued to reflect improvement in most underlying drivers, offset by spread compression due in part to the continued migration to higher quality borrowers. Accounts grew 6% year-over-year, and on a constant dollar basis, we grew average deposits, average loans and purchase sales in every region in the first quarter. Investment sales remained lower than the prior year; however, we saw a rebound from the fourth quarter as retail investor sentiment improved. As I noted, expenses of \$2.9 billion were up 5% on a constant dollar basis, driven by volume related costs as modest incremental investment spending was more than offset by efficiency savings. Credit costs were \$799 million in the first quarter as compared to \$490 million last year. While net credit losses declined modestly to \$649 million, we recorded a net reserve build of \$106 million in the first quarter, principally due to portfolio growth versus a net release in the prior year. Earnings before tax, excluding the impact of loan loss reserves, grew 15% year-over-year to \$1.3 billion.

On slide 10, we show growth trends for international Consumer Banking in more detail. On a constant dollar basis, average loans grew 12% over the prior year, average deposits were up 3%, and purchase sales grew 13%. As reported, on a trailing 12-month basis, we have grown both net credit margin and pre-tax earnings, excluding the impact of loan loss reserves, each quarter for over two years.

Slide 11 shows our Securities and Banking business. Excluding CVA/DVA, revenues of \$6.7 billion were up 6% from last year, and more than double the revenues of the prior quarter. Investment banking revenues of \$865 million were up 2% from the prior year on strong debt underwriting activity, and up 36% sequentially as both equity and debt underwriting rebounded from fourth quarter levels. While M&A activity remains under pressure in the current environment, Citi has gained share in announced M&A year-to-date. Ex-CVA/DVA equity market revenues of \$902 million were down 18% from the prior year on lower market volumes. However, sequentially, revenues were up significantly on improved trading

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performance in derivatives and higher cash equities revenues. Fixed income market revenues, ex-CVA/DVA, of \$4.7 billion, were up 19% year-over-year, and more than double from fourth quarter levels, driven by strong performance in G10 rates and local markets foreign exchange. Lending revenues of \$56 million were down significantly versus prior periods, as strong growth in net interest revenues was more than offset by over \$500 million of losses on lending hedges in the first quarter, driven by spread tightening. Private bank revenues, excluding CVA/DVA, were \$576 million, up 11% versus each of the prior periods on growth and deposit and loan volumes, as well as stronger capital markets activity. Total operating expenses of \$3.7 billion were down 2% from last year, driven by efficiency savings, and credit costs were \$58 million in the first quarter versus a benefit of \$187 million last year.

Moving to Transaction Services on slide 12, revenues of \$2.7 billion were up 7% from last year as strong growth in Treasury and Trade Solutions more than offset a decline in Securities and Fund Services. Treasury and Trade Solutions was up 11%, driven by strong growth in deposits and trade loans. Securities and Fund Services was down 4% year-over-year. However, revenues grew 5% sequentially as activity levels began to rebound from the fourth quarter. The underlying drivers for Transaction Services continue to show strong momentum. End of period trade loans were up nearly 60% from the first quarter of last year, and average deposits were up 6%. Assets under custody were flat year-over-year, but up 4% from the prior quarter. Expenses of \$1.4 billion were up 3% versus last year on higher volumes as incremental investment spending was more than offset by efficiency savings. Importantly, we achieved positive operating leverage in Transaction Services in the first quarter, and this should be sustainable going forward. Strong revenues combined with a modest increase in expenses drove 10% earnings growth year-over-year to over \$900 million.

On slide 13, we show a nine quarter trend for Citi Holdings. The reported loss in Citi Holdings was \$1 billion in the first quarter, slightly higher versus last year, but improved from the prior quarter. Revenues, excluding CVA/DVA, were down over 50% year-over-year to \$786 million, due primarily to lower assets as well as the absence of positive private equity marks in the prior period. Operating expenses of \$1.2 billion were down 16% versus last year, and total credit costs were down 21% to \$1.3 billion.

Looking at Citi Holdings in more detail on slide 14, revenues in Brokerage and Asset Management were negative \$46 million this quarter, down from last year due to a lower contribution from the Morgan Stanley Smith Barney joint venture, as well as higher funding costs. In Local Consumer Lending, revenues were down 13% versus last year to \$1.3 billion, driven by declining loan balances. In the Special Asset Pool, revenues ex-CVA/DVA were negative \$494 million in the first quarter. Net interest revenue was negative \$102 million as interest earning assets continue to represent a smaller portion of the Special Asset Pool while we continue to incur funding costs on the total portfolio. Non-interest revenue, excluding CVA/DVA, was negative \$392 million, down \$353 million from prior year, driven by the absence of positive private equity marks in the prior year period, as well as a reserve build of \$150 million related to private label mortgage securitizations. Citi Holdings operating expenses were down 16% year-over-year to \$1.2 billion, mainly due to declining assets partially offset by higher legal and related costs. Credit costs were down 21% year-over-year to \$1.3 billion. Total net credit losses were down 43% to \$1.7 billion, reflecting a significant reduction in loans in the Special Asset Pool, as well as a declining loan balance and improved credit trends in Local Consumer Lending. On a sequential basis, net credit losses were up \$222 million driven by an increase in North America mortgages. As I noted earlier, in the first quarter, we recorded roughly \$370 million of incremental charge-offs related to previously deferred principal balances on modified mortgages, virtually all of which was offset by a specific reserve release. These charge-offs were related to anticipated forgiveness of principal, largely in connection with the National Mortgage Settlement. Excluding the incremental charge-offs, net credit losses in Citi Holdings would have declined

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10% sequentially. In total, we released \$576 million of net loan loss reserves in Citi Holdings, compared to \$1.5 billion in the prior year.

Slide 15 shows Citi Holdings assets. We ended the quarter with \$209 billion in Citi Holdings, or just under 11% of total Citigroup assets. The \$16 billion reduction in the first quarter was comprised of roughly \$4 billion of asset sales and business dispositions, approximately \$11 billion of net runoff and pay-downs, and \$1 billion of net cost of credit and net asset marks.

Slide 16 shows the results for the Corporate/Other segment. Revenues of \$500 million were up significantly from last year, mainly driven by the \$477 million net gain related to minority investments, which I described earlier. Expenses were up \$148 million versus last year, driven by higher legal and related costs. Assets of \$312 billion included approximately \$121 billion of cash and cash equivalents, and \$135 billion of liquid available for sale securities.

Turning to total Citigroup expenses on slide 17, first quarter expenses of \$12.3 billion were roughly flat to the prior year, with both periods including a similar combined level of legal and related costs and repositioning charges of around \$600 million. Adjusting for these items, as well as the impact of foreign exchange, core operating expenses grew less than 1% in the first quarter. Incremental investment spending of \$400 million was more than offset by nearly \$600 million of efficiency savings. We continue to be highly focused on managing our core operating expenses.

Slide 18 shows total Citigroup net credit losses and loan loss reserves. NCLs continue to improve in the first quarter, down 4% sequentially to \$4 billion, and the net loan loss reserve release was \$1.2 billion, down from \$1.5 billion in the fourth quarter. Excluding the incremental mortgage charge-offs I mentioned earlier of roughly \$370 million, NCLs would have been down 13% sequentially, and the net reserve release would have been roughly \$800 million. We ended the quarter with \$29 billion of total loan loss reserves, and our loan loss reserve ratio was 4.5%. Consumer NCLs were stable versus the fourth quarter at \$4 billion, even with the incremental mortgage charge-offs, and we released \$1.3 billion in consumer loan loss reserves. Corporate credit costs were \$29 million in the first quarter compared to a net benefit of \$158 million last quarter as we recorded a net build in reserves this quarter, versus a release in the prior period.

Slide 19 shows our international consumer credit trends, which generally remain stable to improving in Citicorp in the first quarter, as loans continue to grow. In Asia, the NCL rate continued to improve in the first quarter, and 90+ day delinquencies were fairly flat at around 50 basis points. In Latin America, the sequential decline in NCL rate reflects, in part, the absence of adjustments in Central America, which resulted in higher credit losses in the fourth quarter. However, even excluding these adjustments from the prior period, the NCL rate would have been improved sequentially. In Local Consumer Lending in Citi Holdings, net credit losses were down quarter over quarter on a dollar basis. However, the NCL rate increased on a lower average loan balance. The increase in the 90+ day delinquency rate was also primarily driven by the decline in loans.

On slide 20, we show the North America mortgage portfolio in Citi Holdings split between residential first mortgages and home equity loans. Regarding the incremental charge-offs of about \$370 million in North America real estate, approximately \$315 million was attributable to residential first mortgages with the remainder in home equity loans. Excluding this action, total net credit losses for North America real estate in Citi Holdings would have been down slightly versus the prior quarter. In residential first mortgages, we ended the quarter with \$65 billion of loans, down 14% from a year ago. Excluding the

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incremental charge-offs in the first quarter, net credit losses would have increased by 4% from the fourth quarter. 90+ day delinquencies remain stable in the first quarter at just over \$4 billion. However, we continue to watch these trends closely. In home equity loans, we ended the quarter with nearly \$39 billion of loans, down 13% from a year ago. Excluding the incremental charge-offs in the first quarter, net credit losses would have been down 5% sequentially, and 90+ day delinquencies were also down versus the prior quarter at roughly \$900 million. In total, we continue to allocate nearly \$10 billion of our total loan loss reserves to North America real estate lending and Citi Holdings, and excluding the incremental NCL action this quarter, we maintained over 30 months of coincident NCL coverage.

On slide 21, we show our key capital metrics. Our total Tier 1 capital ratio was 14.2% as of the first quarter, and our Tier 1 common ratio was 12.4%, up 60 basis points from year end. We also grew our tangible book value to \$50.90 per share. As Vikram noted, at the end of the first quarter, our estimated Tier 1 common ratio under Basel III was 7.2%, and this included approximately 120 basis points of impact from our non-consolidated minority investments in financial companies, including the Morgan Stanley Smith Barney joint venture and Akbank. We continue to expect to be above our 8% Basel III target, even if Morgan Stanley does not exercise its option to buy 14% of the JV this year.

Now, let me close with some comments about the outlook. First, Global Consumer Banking, our largest business, continues to produce good growth in revenues and earnings as well as in key drivers like loans and deposits. Credit quality remains good in Asia and Latin America and continues to improve in the U.S. We produce positive operating leverage across all major regions in Consumer Banking in the first quarter, although we do not expect to see sustained positive operating leverage in North America until the end of the year.

Transaction services also continues to produce strong revenue and earnings growth, and had positive operating leverage a quarter earlier than we had previously expected. Treasury and Trade solutions is driving the growth in Transaction Services, reflecting our ongoing expansion and trade finance, where our unique and large global footprint gives us an unmatched competitive advantage. We are optimistic that Transaction Services will have sustained growth and positive operating leverage in the coming quarters.

In Securities and Banking, there were a few key takeaways this quarter. First, we believe our underperformance in equities in the second half of last year is behind us. Our proprietary trading business is gone, and our equity derivatives business recovered well, which we believe reflects changes we made to that business, including new leadership. Second, our investment banking franchise is beginning to see market share gains in M&A and equity underwriting, while our strong debt underwriting business continues to perform. We think those gains could be an early sign that the investments we made in investment banking resources are beginning to pay off. And finally, our fixed income business continues to perform well and had a particularly strong first quarter.

Overall, we continue to remain highly focused on managing expenses while still investing in key areas. Expenses were relatively flat year-over-year, and we are still targeting 2012 expenses to be \$2.5 to \$3 billion lower than the 2011 reported numbers, excluding, of course, any large impact resulting from foreign exchange or any significant unanticipated items.

In Holdings, the wind down of assets will continue, and our primary focus remains the mortgage portfolio. While our portfolio is smaller than our peers, we continue to believe that mortgages represent the greatest risk to any major bank balance sheet, and a number of headwinds remain.

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More broadly, while the macro environment has improved compared to the second half of last year, there is still much uncertainty which has been underscored by the recent spate of mixed economic data and rekindled Eurozone fears. So we will continue to manage risk carefully and to maintain a strong balance sheet. We remain very optimistic about our prospects, given our client franchise, our unique mix of businesses, and our unparalleled footprint. Vikram and I will now be happy to answer your questions.

OPERATOR: Ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone keypad. To withdraw your question, press the # key. We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Glenn Schorr of Nomura.

GLENN SCHORR: Hi, thanks very much. Curious, in the whole CCAR process, I'm curious what you've learned now that you've gotten some qualitative impact detail back from the Fed, on what you learned on the international loss rates, how the Fed feels about them, and if you've made any, have any thoughts on the way you managed the business differently going forward as a result of the CCAR process.

VIKRAM S. PANDIT: Let me address that, Glenn. First, the one comment I'd make is if you take a look at CCAR and the stress test, and kind of understanding, as you know well, stress tests are tail risk events, and tail risk events implicitly tell you what kind of capital you should have against businesses. If you think about it that way, the weightings coming out of the CCAR process are very different than the weightings that come out of the Basel III risk weighted asset process. That's a significant learning for all of us in the industry. Another way of saying that is the risk weighted assets in Basel III overweight risk in trading businesses while the CCAR is much more in line with what true risk might be, and on the consumer side, the CCAR weightings are higher than the risk weightings from the Basel III process, so for all of us, obviously, the questions are around, well, you know, how do you dovetail the two? We've always been of the point of view at Citi that our capital charges should be the higher of risk capital or risk weighted assets, and frankly, risk capital's shape, not the magnitude, but the shape of risk capital is much more in line with where the CCAR comes out than where the Basel III numbers are. I think that's probably the single biggest determinant of where you'd want to put capital to some extent. Although it's early, I can also tell you you can't necessarily take one year's CCAR as given, because as we've all learned, these stress tests can keep changing, scenarios will change, but it is an indication that when you think about capital allocation in your businesses, you need to think about not only Basel, but risk capital, CCAR being one of the measures. That's the big picture kind of issue. On the narrower issues, Glenn, we continue to talk to the Fed, and we're going to continue to do that. We stand by our numbers, our stress test numbers, and we stand by our submission, and there's a lot more we need to do to get closer to understanding exactly how the next part of the process is going to work. Stay tuned. We'll have more to say later.

GLENN SCHORR: Okay. On Holdings, so many moving parts this quarter with partner cards moving out, and all the things that you noted in prepared remarks, but long story short, revenues are shrinking faster than expenses, and we're still at about a billion a quarter of run rate loss, is there anything besides just the mortgage world getting better that can improve that loss rate over the next couple of quarters?

JOHN GERSPACH: Well, you know, Glenn, as we said in the prepared remarks, a lot of the interest earning assets now from the Special Asset Pool have shrunk, so what we're left with in the Special Asset Pool now would be much more episodic revenue events, private equity marks up or down, and so I'm not quite sure that you're going to see a great relation between, a tie-in, between revenues and expenses. As we've been saying, we think that expenses should come down in Holdings as the assets come down, and if you adjust, as we gave you last quarter, if you take a look at what we've done on a year-over-year

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basis, if you take a look at trailing twelve months, we've taken assets down somewhere around 29%, almost 30%. And adjusted operating expenses, removing litigation reserves and whatnot, are down roughly 22% over the same timeframe. So again, we're bringing expenses down roughly in connection with the asset reduction.

GLENN SCHORR: Okay, cool. Last one. If you look at your expense slide and you took that core operating costs running a little bit below \$47 billion run rate, that's -- if I remember the math correctly, that's below the range of the \$2 to \$3 -- \$2.5 billion to \$3 billion below last year's operating run rate. Is there anything in particular that's running better? Because this was the -- first quarter's typically a pretty good investment bank quarter, so if anything, the thought was maybe first quarter's going to be on the high side of expenses, but it wasn't. Not complaining, it's a good thing, but just curious.

JOHN GERSPACH: As we said going into the year, we felt that we could bring the reported numbers for this year down \$2.5 billion to \$3 billion. We still think that we're on track for that. We talked to you in the past about our ongoing program to generate efficiency savings of between 3% and 5% on our businesses last year. For the full year, we ran \$1.9 billion. You see that we already generated \$600 million of savings in the first quarter. So we think that we've got good expense discipline in place, and at this point in time, we're going to stay with our full year view.

OPERATOR: Your next question comes from the line of John McDonald of Sanford Bernstein.

JOHN MCDONALD: One follow-up to Glenn's question on Holdings, John. I guess, you still -- in terms of your guidance, you still expect over the life of Holdings for the existing reserves and PPNR to be sufficient to absorb the losses, something you said before.

JOHN GERSPACH: Yes, John, absolutely.

JOHN MCDONALD: Okay, so you're losing \$1 billion a quarter now, but that comes down as the charge-offs come down and I guess...

JOHN GERSPACH: Let me be specific because the guidance that we've given in the past and the guidance that I'll reiterate is that for the Local Consumer Lending, the combination of the PPNR, plus the existing reserves, will more than offset the lifetime NCLs that we have.

JOHN MCDONALD: Okay. Over the life of all of that, all of your assets?

JOHN GERSPACH: Correct.

JOHN MCDONALD: And on the mortgage, additional charge-offs that you had this quarter in Holdings, in LCL, is there a onetime catch-up component to that on these TDRs? Or is that something that episodically will come up again as you go through these restructurings?

JOHN GERSPACH: Well, this is, if you want to call it a catch-up, it's really an advance of where we see -- what we see happening under the National Mortgage Settlement, where we will be generating a certain amount of principal forgiveness in response to our commitments under the National Mortgage settlement. And so when we looked, there's deferred principal on some of our modified loans that will be forgiven as we get into this process. And so what you can expect, as most institutions get into the national mortgage settlement, should be an increase in both net credit losses, as well as reserve releases in their mortgage business. And what you see in our results today is basically the first installment of what you could expect to see on our part.

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JOHN MCDONALD: Okay. And that you said that, that was P&L neutral, but the provisions still went up in Holdings. Is that just that you had less reserve release elsewhere in Holdings?

JOHN GERSPACH: Yes, that's exactly right, John.

JOHN MCDONALD: Okay. Another question on Holdings, just in terms of the Smith Barney Morgan Stanley joint venture. Just curious why does it not show up on your income statement as making money, even though it makes money for Morgan Stanley and it's a business that, obviously, we'd expect is profitable. Is there some accounting going on there, I guess?

JOHN GERSPACH: Yes, that's exactly right. There's accounting that goes on there. When we account for it, it's not just the equity pickup that we have. We also reflect the funding costs that we have on the investment itself. There's some intangibles that we created in connection with the sale that we continue to amortize. So our reported numbers off the Morgan Stanley Smith Barney joint venture are more than just the reported results of the entity itself.

JOHN MCDONALD: Okay. And given the drag on Basel III capital that it presents, is there any reason why you wouldn't be open to selling the entire stake if Morgan Stanley was? Does that just come down to price?

JOHN GERSPACH: Well, we have our investment in the joint venture, in Holdings, so by definition, we're looking to exit that business. It's not part of our core operations going forward.

VIKRAM PANDIT: Having said that, the capital numbers we're at and the progress we're making in the business also suggest that there is not a need to do that either, which is important to appreciate and understand. We've got plenty of time.

JOHN MCDONALD: Right. Like you mentioned you'd be above 8% even including it by the end of this year.

JOHN GERSPACH: That's right.

JOHN MCDONALD: Okay, and then just on the DTA itself, John, can you update us where that was at quarter end and whether you consumed anything this quarter in terms of DTA and just as you look out, what your expectations are, maybe to capture some DTA in 2012?

JOHN GERSPACH: John, the DTA for this quarter actually went up by about \$400 million, and that reflects two specific headwinds that we had in the quarter. Number one, there is a component of the DTA that is expressed in foreign currency, and the FX impact on that particular asset caused a \$200 million increase in that portion of the DTA. Secondly, virtually all of the CVA and DVA losses are incurred either in North America or in vehicles that consolidate into the North America consolidated tax return. And therefore, with those CVA losses, we actually generated an additional \$500 million of DTA, so that's two items that add up to a \$700 million headwind on DTA in the quarter. Absent those two items, we would have consumed about \$300 million worth of DTA.

JOHN MCDONALD: Okay. Any outlook in terms of this year, in terms of what you'd like to do aspirationally in terms of digesting some of that?

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JOHN GERSPACH: Well, we don't anticipate consuming a lot of DTA this year. That is not something that is with our plan this year, but that is going to be highly dependent upon the profitability of our North America businesses and our ability to continue to wind down Holdings.

JOHN MCDONALD: Okay. And that's the long-term driver just getting more profitable in the U.S. and having that Holdings loss go down?

JOHN GERSPACH: That's correct.

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

GUY MOSZKOWSKI: I wanted to start off with just a question on North America Consumer Banking. Clearly, a real positive that you were able to generate the positive operating leverage there in the quarter well ahead of when you were talking about doing it. But of course, there were some things that might not be completely sustainable there, and I was wondering if you could give us a sense of the order of magnitude of the improvement in the mortgage revenues because of the gains on sale.

JOHN GERSPACH: Yes, we had roughly -- close to \$500 million worth of gains on sale in mortgages this quarter. So again, that certainly added to the revenue stream in that business.

GUY MOSZKOWSKI: And could you talk little bit about the dynamic in the market that -- besides the increase, obviously, just in demand, but what was driving the spreads there and how sustainable might that trend be?

JOHN GERSPACH: Well, the spreads did increase this quarter. Most of that, for our purposes, we've shifted our production to be much more based in our branches. So we use our branches now much more as a source of those mortgages, and we tend to get better production statistics out of mortgages originated in the branches than we do from third party.

GUY MOSZKOWSKI: So it sounds like what you're trying to say is, that some of that spread improvement is presumably sustainable because of mix shift in how you actually originate the mortgages.

JOHN GERSPACH: As we shift the production to retail branches, some of the spread improvement should be sustainable. But I think anything to do with mortgages right now is one of these things that you have to take a look at with a certain amount of caution.

GUY MOSZKOWSKI: Yes, that's fair. All right, moving on to your ratings. Obviously, Moody's has talked about proposed changes to its rating methodology, and there's the potential for a downgrade to as low as Baa at the holding company level, and I just wanted to know what are you doing to mitigate some of the potential impacts from that happening, specifically with respect to your OTC derivatives business.

JOHN GERSPACH: Guy, that's a good topic. But I think it's important to remember that the Moody's review is -- it's really an industry-wide re-weighting. It's not just focused on Citi, and it's an industry-wide re-rating globally at this point in time. As we take a look at it, we've got, as we mentioned in our prepared comments, incredibly strong capital and robust liquidity. And as we think about it, as our investors and our counterparties -- people are less and less solely relying on ratings of a single agency in making their decisions. Some might note changes in ratings from Moody's, but at this point in time, we don't think that the impact on us would be material. We think that we have prepared our business for whatever impact could be out there.

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GUY MOSZKOWSKI: And if I can just follow up on that thinking specifically about impact on derivatives businesses. To what extent do you think you can mitigate whatever impact there might be on that part of your business by novating derivative trades to the bank from the broker? Is there any reason that we would think that actions like that might be precluded in any way?

JOHN GERSPACH: When you get into those types of movements, they generate their own complexities, and so that's not something that we're looking at right now.

GUY MOSZKOWSKI: Got it. Okay, final question that I have for you is just with respect to reps and warranties. You obviously showed some numbers in the appendix, I guess, to your slides about how those evolved during the quarter. And clearly, on the private label side, those are up. And I was wondering if you could talk a little bit about that. And also, should we relate that increase in some of those demands essentially to the litigation reserve build that I think we can detect in the Corporate and Other segment?

JOHN GERSPACH: I wouldn't do any great linkage as far as trying to link reserve builds in one area to reserve builds in another, but that's up to you. From the reps and warranties slide that we've got back in the back of the earnings deck, as we've said, most of our experience to date has been in receiving rep and warranty claims from the GSEs, Fannie and Freddie, and we've built up a pretty good reserve on that. We continue to believe that the private label securitizations, different from the whole loan sales that we've done with the GSEs, those private label securitizations will largely be settled through litigation. But as we get claims -- specific rep and warranty claims in, we will take a look at them and then add to our reserves on an episodic basis.

OPERATOR: Your next question comes from the line of Brennan Hawken of UBS.

BRENNAN HAWKEN: So first question is the \$0.8 billion in nonaccrual -- second liens that you moved into nonaccrual this quarter, was your existing reserves fully reflected that move? And was that just for the regulatory shift?

JOHN GERSPACH: Yes. It's actually -- we shifted about \$840 million or thereabouts of junior lien -- high-risk seconds, junior liens into the nonaccrual status in response to some regulatory guidance that the entire industry got. And all of that was already reflected in our reserves.

BRENNAN HAWKEN: Terrific. And then, moving on to MSSB, thanks for the disclosure on that 120 bps for MSSB and Akbank. What I was curious about was if as we think about the sale from MSSB, and obviously, timing is a big question mark and price. But if all of MSSB is sold, would that be completely dollar for dollar, net of any gains or losses that all accrete to capital, that full amount that you carry via the JV at?

JOHN GERSPACH: The simple answer to your question is yes.

BRENNAN HAWKEN: Okay, great. And then, how would we think about the sale -- corresponding sale of deposits to MS? What are the prices generally that are tied to deposits in brokerage accounts? And how much of that is a gain?

JOHN GERSPACH: I don't want to go into any specifics of what might be. As we get into it and we have something to announce on any of these transactions, we'll let you know.

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BRENNAN HAWKEN: Okay. Is it right, though, to think that maybe those sales or deposits could be a somewhat meaningful portion or unlikely to be so?

JOHN GERSPACH: Those deposits would be part of the business. They're part of the original agreement that we made, and we'll have more to say about the joint venture if and when there's anything to say about any potential sale.

BRENNAN HAWKEN: Okay. Last one for me. There were some reports -- some press reports that some banks were considering securitizing trade finance receivables. Is that something that Citi had looked at? And if so, could you sort of walk us through maybe how the economics -- how that would change the economics of that business for you?

JOHN GERSPACH: Well, we like that business. Again, as we look at our balance sheet, we have got -- as Vikram said in his remarks -- 26% of the balance sheet right now tied up in cash and liquid securities. We have over \$200 billion of cash. So we still have capacity to grow loans on our books. Having said that, any time you have asset concentrations, you're always looking at ways of reducing those or potentially reducing those concentrations. And so that could be a potential use of something like a securitization. But it's not something that we really need to engage in at this point in time.

VIKRAM S. PANDIT: But that's not where we are today either, on the concentration point. Don't forget these are very short-term assets, I mean. So on a securitization basis, it creates a lot of other complications. The best use for some of the deposits and cash we have on hand is these trade finance receivables.

BRENNAN HAWKEN: Okay, okay. And actually, I'm sorry, I have one more quick one here. You had indicated that the \$3.7 billion expense base in Securities and Banking reflects efficiency saves. So is it a good idea for us to assume that, that's a decent run rate now going forward?

JOHN GERSPACH: I don't want to get into specific forecasting of individual business run rates. We'll stay with the guidance that, overall this year, you should expect the full firm expense base to reflect \$2.5 billion to \$3 billion lower than 2011.

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

JIM MITCHELL: Quick question on the deposits. You guys were up, on a period-end basis anyway, \$40 billion, a lot of that internationally and in the institutional side. I would have thought you would have seen outflows after the big flight to safety trade in the fourth quarter. So what's driving that? Was there anything episodic about the end of the quarter? Or was that just good sort of new business wins?

JOHN GERSPACH: No, most of it was -- I'd say it's continuing of existing business. We did change our deposit pricing slightly at the end of the quarter, particularly to deal with competitive pressures in Asia. But that would be the only place where we modestly changed deposit pricing, and we still think that we are well below where the industry is. So this is just good customer activity that we have at this point in time. What we're focused on is continuing to improve the mix of our deposits. And when you take a look at that \$900 billion of deposits, about 70% of that would be core operating accounts. So we feel pretty good about the deposit mix.

JIM MITCHELL: Okay, fair enough. And maybe if we look at fixed income, we didn't really talk about that, but you guys were up 20% almost year-over-year. Someone like JPMorgan was down modestly. Is

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that simply a function of your mix being more leveraged to macro strategies like rates in FX? Or do you think there was some market share pickup from European banks pulling back? And how do we think about it in the context of Moody's shot across the bow, if you guys are still doing quite a bit of business in the derivatives space? It seems like it hasn't really affected your ability to grab share.

JOHN GERSPACH: No. Derivatives are not a large part of our business. To the extent that we're involved in derivatives, it's particularly flow product, as opposed to having an out-weighted segment on OTC or structured derivatives. That's not a big part of our business. So we just -- our franchise performed very well this quarter, and we're very happy with it.

JIM MITCHELL: Was it more a function of positioning? Or do you think there was some share gains?

JOHN GERSPACH: I can't comment on share gain at this point in time after one quarter.

JIM MITCHELL: Okay, fair enough. And one last question on the expense side. You guys are targeting \$2.5 billion to \$3 billion. I just want to make sure I understand what the base is. Are we excluding the legal costs in the first quarter to look at the run rate? Or is that inclusive of that higher legal cost in the first quarter in terms of the \$2.5 billion to \$3 billion?

JOHN GERSPACH: What we've said is that excluding unanticipated large items. There's nothing necessarily in the first quarter that I would put into that category at this point in time.

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

MATTHEW O'CONNOR: Thanks for the commentary on Basel III, and I think you were helpful in giving us some of the deductions from the capital point of view. But any commentary on the increase in RWAs, as well as how you think you can mitigate that over the next couple of years, to be helpful?

JOHN GERSPACH: What we had said, I believe, is that our target for the end of this year would be to be at a Basel III RWA multiplier of like 1.35 times Basel I risk-weighted assets. And we're already operating slightly below that, so we think we've made some good progress already on the mitigations, although we still think that there's room for further mitigations as we go along.

MATTHEW O'CONNOR: And how well -- as you look out more than just the near term, how much can you bring them in line with Basel III, do you think -- or sorry, Basel III and Basel I RWA, like how much can they converge?

JOHN GERSPACH: Well, the good thing is, from our consumer and our Transaction Services businesses, and I think we mentioned this in the past, we think that given the structure of our business, we can bring those amounts pretty much into parity. I'm not going to tell you we can do it exactly dollar for dollar, but the multiplier would be in the point 0 something range. So we feel pretty good about the assets in consumer and Transaction Services, and so the area of focus becomes Securities and Banking. And again, when you take a look at our construct of our Securities and Banking business, we think that, that fits well into a Basel III environment also. So previously, we would have said that the Citicorp businesses in total would have had a Basel III multiplier of 1.2. So in other words, of that 1.35 that I had given you for the full firm, about 1.2 would be for Citicorp. And looking at our business today, we're already slightly below that again for the Citicorp segment.

OPERATOR: Your next question comes from the line of Moshe Orenbuch of Credit Suisse.

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MOSHE ORENBUCH: A couple of things. First, your comment about -- and it was earlier question about the mortgage sales kind of driving or smaller gains on sale driving a lack of positive operating leverage perhaps, where did you start the first quarter versus where are you starting the second quarter in terms of your pipeline on that? I mean, do you have a smaller amount available for sale for the second quarter?

JOHN GERSPACH: No, no, no, Moshe, let me just try to be -- I want to make sure that we're going back to the same starting point. And what I mentioned is that we had \$500 million or thereabouts of gain on sale in the first quarter. And what I further said was that we're just not ready yet to declare that we're going to have sustainable positive operating leverage in North America for the balance of the year until we get to the end of the year, as we had previously stated. Most of that is because in the first quarter, we also benefited from the lack of a litigation reserve that we had taken in the first quarter of last year. So if I pull that litigation reserve out, we actually had expense growth in North America year-over-year, as you would expect, since we are still in the process of investing in that business.

MOSHE ORENBUCH: Got it. So it's more -- it's just a normal investment in the business as opposed to...

JOHN GERSPACH: Yes, yes. You shouldn't read anything into that, that we suddenly see our mortgage origination pipeline, or mortgage modification pipeline, or mortgage refinance pipeline suddenly drying up.

MOSHE ORENBUCH: Got it. And just on Holdings and the expense change. I mean, I understand the one or two things that you highlighted. It still seems like a very large drop. And how sustainable is that because obviously, that would, at this level, would be much more favorable?

JOHN GERSPACH: Well, don't forget, if you're looking at sequentially, that drop sequentially would include the fact that in the fourth quarter we had some rather sizable litigation reserves taken in Holdings, and we didn't repeat that at the same level in the first quarter of this year.

MOSHE ORENBUCH: And that was in the neighborhood of what, a couple of hundred million dollars?

JOHN GERSPACH: Yes, I don't have the exact amount in front of me, Moshe, but...

OPERATOR: And next question comes from the line of Gerard Cassidy of RBC Capital Markets.

GERARD CASSIDY: Can you guys give us some color -- you've done a good job with the net interest margin over the last twelve months, can you give us some color on how you see it shaping up for this year?

JOHN GERSPACH: I'm sorry, Gerard, but you broke up just a little bit. I want to make sure we got the right question.

GERARD CASSIDY: Sure. On the net interest margin, you guys have done a good job keeping it around that 2.88 to 2.90. Can you give us some color on where you see it going as we move forward?

JOHN GERSPACH: Yes, when you take a look at our net interest margin, we had, I think, previously said that we had thought that the net interest margin might decline this quarter. And there's a couple of things that are working through the numbers, one of which is, from quarter-to-quarter, we did rebuild our trading book, and we get lower yields on the trading book. That actually cost us about 4 basis points on NIM against what we would have thought would have been a 6 basis point or more decline. But at the same point in time, we've benefited from lower funding costs of about 2 basis points. And then, we also

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had a reserve release in our Japan Citi finance business that benefited us for about 2 basis points. So basically, you had a 4 basis point decline on the rebuild of the trading book and then two 2 basis point good guys. So we basically held NIM at 2.90. I still think that in the second quarter, as we get a little bit more of a build in the trading book, and what I'm assuming is going to be an absence now of the good guy as far as the Japan reserve release, what you're likely to see is a slight decline in NIM in the second quarter, and NIM could decline in the second quarter to perhaps 2.85 thereabouts. And after that, what we would expect is that NIM should either be stable or perhaps grow slightly from there on out.

GERARD CASSIDY: Another question. You guys gave us good disclosure on the GIIPS exposure that you have. And if I read the numbers correctly from the fourth quarter, it looks like your unfunded commitments, which is on Slide 33, came in at \$8.1 billion this quarter, and your corporates unfunded was \$7.5 billion. Last quarter, I think it was \$6.7 billion. Can you share with us -- I assume those are multinational companies, good credits. Are you taking market share? How are you winning that new business?

JOHN GERSPACH: I wouldn't say that we're taking market share. What we're trying to do is support our customers in those countries, and that's something that we've said all along as we approached our exposure to the GIIPS. We're much more focused on direct exposure to sovereigns and FIs. We intend to be there for our customers.

GERARD CASSIDY: Sure. And then, finally, coming back to the CCAR process, you guys mentioned that by mid-June, you'll resubmit, and then the Fed has 75 days to respond. If you resubmit before mid-June, let's say, it's end of May, early June, will the Fed still have 75 days from mid-June? Or can we hear something earlier from the Fed?

VIKRAM S. PANDIT: No, they have 75 days. And I want you also to know that this is going to be based off of March end numbers and we've got -- from what we understand, we've got to go through another full stress test in our resubmission. So this is the time frame, I think. It's a realistic time frame for everybody to be aware of.

GERARD CASSIDY: Okay. And I think you also mentioned you guys will decide whether you want to do it versus just waiting until next year. Will you all disclose to us that, yes, you have resubmitted it? Or how will we find out about that?

VIKRAM S. PANDIT: We'll have our quarterly calls. We'll let you know next quarter.

OPERATOR: Your next question comes from the line of Vivek Juneja of JPMorgan.

VIVEK JUNEJA: A couple of questions. One is on this whole CCAR thing. Vikram, you just said you'll be resubmitting it based off of March numbers. Do you know if the assumptions that the Fed had used, would those change at all?

VIKRAM S. PANDIT: Well, that's exactly, Vivek, what we're waiting for. Those are exactly the conversations we're having. And as I said, we are likely to get more information from them between now and the end of the month, so it's still early in the process. And I wish I could share more with you, but that's kind of where we are.

VIVEK JUNEJA: Okay. A couple of other quick ones, probably for John. John, the mortgage gain on sale, just to go back to that, which you had about \$500-ish million this quarter. Your originations went

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down about 35% linked quarter, yet your gains went up quite a bit. Was any of that coming from MSR hedge gains that went up?

JOHN GERSPACH: No, no, no. When you take a look at the gains that we get, gains get booked when we lock in rates, so that timing isn't always associated with how we report the origination results.

VIVEK JUNEJA: Okay, got it. Next one, LCL expenses, you were down to a little under \$1 billion, a pretty sharp reduction. Should we assume sustainability at these levels? Or is there anything at all that's nonrecurring in that?

JOHN GERSPACH: No, I don't believe there's anything nonrecurring in the first quarter expense level. As I mentioned to another questioner, the sequential drop, though, has to do, at least a certain amount, with the lack of litigation reserves that we had taken in the fourth quarter.

VIVEK JUNEJA: Right, right. I guess I'm just assuming you won't have to keep taking litigation reserves every quarter, but I guess we'll have to wait for that.

JOHN GERSPACH: Exactly.

OPERATOR: Your next question comes from the line of Matt Burnell of Wells Fargo Securities.

MATTHEW BURNELL: A couple of quick questions. One, just, first of all, John, in terms of the recent data we've heard coming out of Asia and China, specifically in terms of the potential slowing of growth there, has that presented you any concerns about some of your expectations for revenue or loan growth coming out of your Asian platform?

VIKRAM S. PANDIT: Well, let me answer that this way. One is that when you look at these economies, there is still substantial amount of growth. Even if the growth possibilities could be a little bit less than what they might have been, these are significantly growing countries. They're also countries that don't have the same consumer market penetration and consumer loan penetration as we do in the U.S., so there is a secular aspect to this as well. And then the kind of clientele we serve is a clientele that is well inside that growth -- that secular growth aspect as well. And so a lot of what we're seeing is really driven by what's happening in the markets. For example, in the investment sales area, Europe has an impact on whether or not you see the right kind of robust investment sales. On the other hand, on the loan growth side, we still continue to see from the kind of people, kind of customers that we have as clients, a good amount of loan demand.

MATTHEW BURNELL: Okay. And then just, John, a quick one on the home equity reclassification, it appears that just given the numbers in the supplement that most of that, about 2/3 of that, was in Holdings. Is that correct?

JOHN GERSPACH: Actually the entirety of the \$840 that we moved to non-accrual was all in Holdings.

OPERATOR: Your next question comes from the line of Todd Hagerman of Sterne Agee.

TODD HAGERMAN: John, just a couple of quick ones. Not to beat to death the expense question, but it just was interesting or I found it curious that really across the board your numbers were quite a bit lower than what we've seen or did see in 2011, whether it's the legal, the cost saves or the incremental investment spend. So with your outlook for the year, I mean, how should we think about just the trend? It seems to me that given the numbers this quarter, it's more of kind of back-end loaded, if you will.

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JOHN GERSPACH: I think you would say it's slightly back-end loaded in order to get there. And if you go back to what we had said going into the year, we had said that the heaviest amount of incremental investment spending was behind us, and so that is clearly the case. But what continues is our continued refocus on driving those efficiency saves out of each of the businesses. So we will get somewhere between 3% and 5% efficiency saves out of each of the businesses. So that level of roughly \$600 million or so of efficiency saves that we produced in the first quarter should be sustainable throughout the year, and what you should see as the year progresses would be less growth in the investment build.

TODD HAGERMAN: Okay. Because, again, I mean it dropped off to \$600 million this quarter. I think last quarter it was nearly \$2 billion. And just the delta...

JOHN GERSPACH: No, no, no. The \$1.9 billion that we had, that was for all of last year. That was the reengineering saves, the efficiency saves for all of last year.

TODD HAGERMAN: Okay. And do I read anything into the fact that you dropped the word episodic on the legal side?

JOHN GERSPACH: No, don't. You shouldn't read anything into that at all.

VIKRAM S. PANDIT: Hopefully, all legal is episodic.

JOHN GERSPACH: Yes, I'm sorry; I didn't go back and see what we had called it in the last time.

TODD HAGERMAN: I just thought perhaps there was a couple of some of those miscellaneous items that were now behind you.

JOHN GERSPACH: No.

TODD HAGERMAN: Okay, and then just quickly on the -- between LCL and the Special Asset Pool, I think you mentioned on some of the -- it was the private equity or whatnot just in terms of the marks, could you just remind us what the marks were this quarter, and whether it was in the Special Asset Pool or LCL, how that compared to last quarter?

JOHN GERSPACH: Any private equity mark that we take will be in the Special Asset Pool because that's where we have the private equity investments. You can see the private equity investments on one of the schedules that we've got at the back of the earnings deck. It's somewhere on page 43, 44, somewhere in there. But I'm not going to comment on any specific marks that we've taken.

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

BETSY GRASECK: A couple of quickies. One on the liquidity, you indicated huge amount of liquidity 26% or so of assets. Could you just give us a sense as to how much you could drive that down if you had all the lending -- high-quality lending that you could do out there?

JOHN GERSPACH: Well, I would say that on a normalized basis, if and when we ever get to a normalized environment, you'd probably have -- that 26% would be something in the high teens, probably -- certainly no more than 20%. So that gives you a range right there.

BETSY GRASECK: Sure. And that is, in part, going to be a function of the LCL book coming down as well because I'm assuming you're having to hold liquidity against that portfolio. Is that right or no?

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JOHN GERSPACH: Well, we hold liquidity against the entirety of our book.

BETSY GRASECK: Sure, I'm just -- okay. Then on LCL, are you in process of considering the buy-to-rent program that many others are -- in other words, pooling together some of the properties that you have for sale to private equity or alternatively renting some of the homes that you have right now as per the recent Fed rulings that allows banks to do that?

JOHN GERSPACH: Well, I don't see us becoming landlords, Betsy. But at the same point in time, you know that sales of mortgages has been a particular focus of ours. And so you can assume that we will continue to explore various means of taking those mortgages off our books. And if we can find people who would like to buy those mortgages and think that they've got other ways of utilizing the properties, we'll be happy to have those conversations.

BETSY GRASECK: And then, lastly, there was an article in the FT today about counterparty exposures, and I think we all know there was some regulation that was put out a while back on how much exposure anybody could have to counterparties and for the larger institutions cap out at 10% of capital. So a suggestion out there today that many of the big five are above this 10% limit. Just wondering if that makes sense to you, if there's anything that you're doing to try to either limit that exposure or work with regulators to understand what the impact could be on the industry.

JOHN GERSPACH: Much more the latter. I mean, let's remember, it's not regulation, it's a proposed rule. So it is not regulation as yet, and so as any proposed rule, the proposed rule comes out and then there is a period where both we and various industry associations comment on it and engage in meaningful dialogue with the regulators so we can just make sure that they fully understand some of the impacts of what they're proposing.

OPERATOR: Your next question comes from the line of David Konrad of KBW.

DAVID KONRAD: I just had a follow-up question on FICC given its strength this quarter. I know it's too soon given not everyone's reported results to figure out market share, but can you give us any color on client flow versus marks in the inventory or how -- the bottom line strength for the quarter?

JOHN GERSPACH: Yes, I'd say that the FICC performance that we had in the first quarter had very good -- had good client flow. Importantly, volumes overall in FICC were probably up on the order of 10%, so we did see incremental volumes in the market, good two-way flow from clients, so it was a good quarter from a client point of view, not heavily weighted towards recovery marks in any way. It was good solid performance by the guys in the business.

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

MICHAEL MAYO: On Slide 3, where you have the significant P&L items and you have the expense items related to legal and repositioning, would that be recorded in Corporate/Other?

JOHN GERSPACH: Not necessarily. Most of what we've booked this quarter from a legal and related would be in Corp/Other, but it's not exclusively. It's probably heavily weighted towards Corp/Other, and then the remainder would be in Holdings.

MICHAEL MAYO: And the repositioning charges last quarter, was that in Corporate/Other?

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JOHN GERSPACH: No. The repositioning charges would be in the businesses that are actually engaged in the repositioning, so every one of those repositioning charges would be in a business.

MICHAEL MAYO: Okay. So maybe take half of the decline from the fourth quarter to the first quarter in legal, and so maybe it's about \$150 million in Corporate/Other?

JOHN GERSPACH: No. I was giving you an answer, Michael, on the \$545 million itself. Of that \$545 million, most of that is in Corp/Other. Last quarter, most of the charge would have been in Holdings as opposed to in Corp/Other.

MICHAEL MAYO: Okay. What I'm getting to is Slide 16, the Corporate/Other. And you had almost \$800 million of expenses, and that was up quite a bit from the fourth quarter.

JOHN GERSPACH: Exactly. That's because, this quarter, we would have had -- as I said, the bulk of almost \$400 million of that \$545 million would be in Corp/Other. Whereas last quarter, I can't tell you off the top of my head how much of the \$832 million would have been in Corp/Other, but it would have been a very small amount.

MICHAEL MAYO: What I'm eventually trying to get to is if you spread the Corporate/Other revenues and expenses over the 3 key areas of Citicorp: Global Consumer, Securities and Banking and Transaction Services, how would the operating metrics look if you were to do that?

JOHN GERSPACH: It would still look very strong for the quarter.

MICHAEL MAYO: One last way, the ROA as reported in your supplement for Citicorp is 1.25%. And I think if you overlay Corporate/Other to the ROA that you report there, then the ROA goes down to 93 basis points.

JOHN GERSPACH: And I think that if you further adjust that for both the asset sales and the CVA/DVA, you come up with a number of like 1.07%.

MICHAEL MAYO: Okay. And then, when you look at that 1.07% versus your target of 1.25% to 1.5%, what areas are underperforming relative to where you eventually want to get?

JOHN GERSPACH: I think one of the single largest contributing factors is still the low interest rate environment. When we set the target of 1.25% to 1.50%, I mean let's be fair, we actually had an upper limit on it. We were anticipating an environment where interest rates would be close to zero. So the biggest piece of work that we have yet to do is to get back to a more normal interest rate environment. I think you'll also see the share of our consumer business as a percentage of overall Citicorp, plus Corp/Other, both revenue and net income grow from here out. Then, the consumer businesses, in total, produce much higher ROA type of numbers. So it's not necessarily, at this point in time, that things are underperforming. It's a matter of we need to get some more growth in consumer, which, again, we've laid out as what we're trying to do. And secondly, we need to get back to a more normal interest rate environment.

MICHAEL MAYO: And then last unrelated, EMEA loans are up a little bit, the way I'm looking at it from the fourth quarter, does that make sense to be expanding those loans? And are you simply being opportunistic because others are retreating? Or what's happening there?

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JOHN GERSPACH: Michael, I got to tell you, I just -- I don't have an EMEA loan story in my head right now. Maybe if you give John or Susan a call in Investor Relations, they can impact you. But don't forget, when we talk about EMEA, EMEA is a much larger region than just Western Europe. It includes the Middle East and Africa, as well as Eastern Europe. So I'm sure that the growth is probably in those areas. But I just don't have that on the top of my head.

OPERATOR: Your next question is a follow-up from the line of Moshe Orenbuch of Crédit Suisse.

MOSHE ORENBUCH: You had mentioned just, and this was news to me, that you were going to resubmit the stress test on March numbers. Aren't your Basel capital numbers kind of up 40 basis points? So I mean, wouldn't that in and of itself just kind of, with the same assumptions both on stresses and on capital, kind of put you 40 basis points higher? Or is there something I'm missing?

VIKRAM S. PANDIT: Actually, it's 60 basis points. That's the starting point on that. But that's the math. We understand that. Having said that, Moshe, what I said was, there's a possibility we -- and quite a significant possibility, we actually may have to run a real new stress test, and we don't know the scenarios either. And so it's going to be very hard to look at this on an apples-to-apples basis, and frankly I just don't have that information right now to go through it.

MOSHE ORENBUCH: All right, thank you.

VIKRAM S. PANDIT: Okay? Thanks.

OPERATOR: There are no further questions at this time.

JOHN ANDREWS: Great, thank you. This is John Andrews again. We'd like to thank you for listening today. The call will be available on replay later today on our website. And if you have any follow-up questions, please contact the Investor Relations department here. Thank you.

OPERATOR: Thank you, again, for participating in today's conference call. You may now disconnect.

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