TRANSCRIPT

Citi Second Quarter 2012 Earnings Review

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Host
John Andrews, Head of Investor Relations

Speakers
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John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's second 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: Great, thank you very much. Good morning everybody and thank you for joining us this morning. On the call today, our CEO Vikram Pandit will speak first, then John Gerspach, our CFO will take you through the earnings presentation, which is available to 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 these statements due to a variety of factors, including the precautionary statements referenced in our discussion today, and those included in our SEC filings including without limitation the "Risk Factors" section of our 2011 Form 10-K. With that said, let me turn it over to Vikram.

VIKRAM S. PANDIT: John, thank you, and good morning everybody and thank you for joining us today. As you know, we reported earnings of $2.9 billion for the second quarter of 2012, and excluding CVA and the loss from the partial sale of our stake in Akbank, net income was $3.1 billion. That amounts to a $1.00 per share. Overall, I'm pleased with our performance in light of the economic environment we faced during the quarter.

The investments we've made continue to show encouraging results. Loans and deposits in Citicorp had solid growth. Our market businesses were resilient despite volatility and we increased market share in investment banking. Revenue in Transaction Services set another record as we leveraged our unique global footprint especially in trade finance.

While our consumer businesses were impacted by the slower economies, we still saw positive operating leverage in both Latin America and Asia, excluding Japan.

We are managing our expenses closely and making sure we are right-sized for the environment we anticipate. Expenses decreased from both the first quarter of this year and second quarter of last year.

For the first half of the year, we had positive operating leverages in each of our core businesses. In Securities and Banking, revenues excluding CVA and DVA increased 2% and expenses decreased 5%. In Transaction Services, revenues increased 6% and expenses increased 2%; and in Global Consumer Banking, revenues increased 2% and expenses increased 1%.

More broadly, we've been managing our risk very tightly throughout the organization. Citi Holdings assets are now $191 billion, or approximately 10% of our total assets, as we reduced our legacy assets in Citi Holdings by 9% during the quarter. Citi remains highly liquid with over $400 billion in cash and government securities and our capital levels continue to be among the strongest in the industry. As of the end of the second quarter, our Tier 1 Common Ratio was 12.7% under Basel I and was an estimated 7.9% under Basel III. We still expect to exceed 8% under Basel III this year.

When you put it all together, we are generating solid returns in our core businesses. For the combined Citicorp and Corporate/Other, our return on Tangible Common Equity was 14.7% excluding CVA/DVA and Akbank. On the same basis for Citigroup, our return on Tangible Common Equity for the quarter was 8.2%.

Given the amount of disallowed DTA, the return on Basel III becomes an important measure of capital. On the fully implemented 9.5% basis, our return on Basel III capital in Citigroup was an estimated 10.3%. And our return on Basel III capital on the combined Citicorp Corporate/Other was 18.4%, excluding CVA/DVA and Akbank. And while the environment is uncertain and we continue to optimize our portfolio, we have the capacity to earn similar returns on Basel III going forward.

On a macro level, we believe the Eurozone overhang will continue. Our on the ground sense of the emerging markets leaves us more positive than we were a few months ago and maybe even better than some market perceptions. In the U.S, consumer demand and thus loan demand remain low, as consumers continue to deleverage. And as Federal banks have lowered interest rates, the margin from lending has decreased and it is expected rates will stay low for the near future.

That said, our strategy is showing results and we are executing it diligently. Our focus on capital flows between the world's top 150 cities, on serving multinationals globally, as only we can, and on the faster growing emerging markets are right for the times and the capabilities of our bank. We are diversified, and while the negatives will pop-up here and there, our footprint and strategy will serve us well over time. In short, we're on top of the things we can control.

John will now take you through our slides and then we'll come back at the end, and take questions together. John?

JOHN C. GERSPACH: Hey, thank you Vikram and good morning everyone. To start, I'd like to highlight a few significant items affecting our results.

First, on the revenue side: CVA and DVA were a positive $219 million in the second quarter. We also recorded a pre-tax loss of $424 million related to the partial sale of our investment in Akbank, compared to a gain on sale of nearly $200 million on HDFC last year.

On the expense side: legal and related expenses remained elevated at $480 million and repositioning charges were $186 million, roughly half of which was related to Securities and Banking.

In addition to these items, our reported results were affected by foreign exchange translation, as the U.S. dollar generally strengthened in the second quarter against local currencies in which we generate revenues and incur expenses and credit costs.

While FX translation had no material impact on our earnings or regulatory capital ratios, it did affect individual line items and reported business drivers, which I will discuss more as we go through the presentation.

On Slide 4 we show second quarter results. Citigroup reported net income of $2.9 billion, or $0.95 per diluted share. Excluding CVA/DVA and the loss on Akbank, earnings were $3.1 billion, or $1.00 per diluted share.

Revenues of $18.6 billion were down 10% versus the prior year on a reported basis. Excluding CVA/DVA and the impact of minority investments, revenues were down 7% from last year, as revenue growth in Citicorp was offset by the impact of foreign exchange and the continued decline in Citi Holdings revenues.

Expenses of $12.1 billion were 6% lower than the prior year on a reported basis. Excluding the impact of foreign exchange and the significant expense items I just mentioned, core operating expenses declined nearly 3%.

Credit costs of $2.8 billion were down 17% versus last year. Net credit losses of $3.6 billion were 31% lower than the prior year. And the net reserve release was $984 million, down 50% from last year.

Citigroup end of period loans grew 1% year-over-year, to $655 billion, as continued loan growth in Citicorp outpaced the wind-down of Citi Holdings – and deposits grew 6% to $914 billion.

On Slide 5 we show results for Citicorp and Citi Holdings, excluding the impact of CVA/DVA. Citicorp generated second quarter revenues of $17.8 billion and net income of $4.2 billion. Year-over-year, Citicorp's reported revenues were flat and expenses declined 3%, and we maintained positive operating leverage in each of our three core businesses. Excluding FX, Citicorp revenues were 5% higher than last year and expenses were roughly flat. Pre-provision net revenues in Citicorp were $7.4 billion for the quarter, up 5% from last year.

For the sixth consecutive quarter, we grew loans year-over-year in every business in Citicorp. Total Citicorp loans grew 10%, with consumer up 2% and corporate loans up 22%. Excluding FX, Citicorp loans grew 13%, with consumer up 5%.

Citi Holdings had revenues of $903 million and a net loss of $933 million. Citi Holdings ended the quarter with $191 billion of assets, down $18 billion during the quarter and $74 billion, or 28%, year-over-year. At quarter end, Citi Holdings accounted for approximately 10% of total Citigroup assets.

On Slide 6 we show a 9 quarter trend for Citicorp's results. Excluding CVA/DVA, Citicorp's revenues of $17.8 billion were flat to the prior year and down 8% from last quarter on a reported basis. Operating expenses of $10.3 billion were 3% lower than the prior year.

Citicorp's net credit losses of $2.2 billion declined 25% from last year, driven by improvement in North America cards. And the net loan loss reserve release in Citicorp was $715 million, down nearly 50% from last year. This reflected lower net releases in North America cards, as well as a net reserve build in international consumer banking, primarily driven by loan growth.

Excluding CVA/DVA, earnings before taxes of $5.9 billion grew 7% versus last year, driven by lower operating expenses and lower credit losses, partially offset by a lower net reserve release.

On Slide 7 we show Citicorp's pre-tax earnings by business, excluding CVA/DVA and the impact of loan loss reserves. As you can see from this chart, our earnings excluding LLR are increasingly steady and are diversified across the franchise, with a growing contribution from Consumer and Transaction Services.

On a trailing twelve-month basis, through the second quarter, Consumer Banking generated 46% of Citicorp's earnings, and together with Transaction Services, these businesses represented nearly three - quarters of pre-tax profits.

On Slide 8, we show Citicorp's pre-tax earnings, excluding CVA/DVA and the impact of loan loss reserves, for the first half of the year. On this basis, pre-tax earnings increased by 34% from the first half of 2011, driven by lower net credit losses as well as an improved operating margin.

Slide 9 shows the results for North America Consumer Banking. Total revenues of $5.1 billion were up 4% versus last year, largely driven by higher gains on sales of mortgage loans. Total card revenues declined 6% year-over-year.

In branded cards, average loans declined, reflecting an increase in the payment rate, and spreads remained under pressure due to the continued impact of the look-back provisions of Card Act and higher promotional balances. In retail services, net interest revenues were stable, while non-interest revenues declined, driven by improving credit and its impact on contractual partner payments.

Total operating expenses of $2.5 billion were up 5% year-over-year, driven entirely by an increase in legal reserves related to interchange litigation. Credit costs declined by over 20% to $716 million. Net credit losses were down 29% to $1.5 billion, driven by improvement in cards, and the net reserve release was $814 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 $468 million last year.

Overall, we continued to see progress in our North America consumer franchise. Average deposits grew for the fifth consecutive quarter, up 5% year-over-year, including double-digit growth in checking account balances. In branded cards, accounts also grew for the fifth consecutive quarter, up 5% year-over-year. And for both card portfolios, net credit margins continued to expand year-over-year.

Turning to international Consumer Banking on slide 10. In total, the international consumer businesses achieved positive operating leverage for the third consecutive quarter – with declines in reported revenues and expenses of 4% and 5% respectively. In constant dollars, revenues grew 4% and expenses were up 3%.

Latin America achieved positive operating leverage for the third consecutive quarter, with revenues up 8% and expenses up 3% in constant dollars. Asia, however, had negative operating leverage, with revenues roughly flat and expenses up 2% in constant dollars. Most of the revenue pressure in Asia was due to lower investment sales, given continued weak investor sentiment.

Cards revenues continued to grow, on higher average loans and strong purchase sales. And lending and deposit revenues were flat versus last year, as growth in certain markets was offset by pressure in Korea and Japan. Korea, in particular, is being affected by consumer regulatory changes. We show more information on these trends in the appendix.

Despite these headwinds, most drivers for international Consumer Banking continued to grow in the second quarter. Accounts grew 6% year-over-year. And on a constant dollar basis, we grew average deposits, average loans, and purchase sales in every region.

Credit costs were $730 million in the second quarter, up 16% from last year. Within credit costs, net credit losses continued to decline, down 12% to $613 million. However, we recorded a net reserve build of $86 million in the second 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 3% year-over-year to $1.1 billion.

On Slide 11, we show growth trends for international Consumer Banking in more detail. On a constant dollar basis, average loans grew 10% over the prior year and average deposits were up 1%, including 7% growth in checking account balances. Card purchase sales grew 10%. As reported, on a trailing twelve month basis, we have grown pre-tax earnings, excluding the impact of loan loss reserves, each quarter for well over two years.

Slide 12 shows our Securities and Banking business. Excluding CVA/DVA, revenues of $5.2 billion were down 2% from last year, and down 22% versus the prior quarter. Investment banking revenues of $854 million were down 21% from the prior year on lower underwriting activity, and generally flat sequentially as growth in M&A and equity underwriting offset lower debt underwriting revenues. Overall, our wallet share in investment banking has improved year-to-date in all major products.

Ex-CVA/DVA, equity market revenues of $550 million were down 29% from the prior year and 39% sequentially, on lower market activity in both cash and derivatives.

Fixed income market revenues, ex-CVA/DVA, of $2.8 billion were down 4% year-over-year and down 41% sequentially from a strong first quarter. Year-over-year, revenues in rates and currencies grew at a double digit pace, driven by particularly strong performance in our foreign exchange and local markets businesses. Credit and securitized products were down year-over-year, due to weaker market conditions.

Lending revenues of $608 million were up significantly versus prior periods. Year-over-year, loan growth and improved spreads drove higher net interest revenues – and we had $42 million of gains on lending hedges this quarter, compared to a loss of $85 million last year. Total operating expenses of $3.6 billion were down 8% from last year, driven by efficiency savings and lower incentive compensation, partially offset by nearly $100 million of repositioning costs.

Net income, excluding CVA/DVA, grew 16% year-over-year to $1.3 billion.

Moving to Transaction Services on slide 13. Revenues of $2.8 billion were up 5% from last year, as growth in Treasury and Trade Solutions more than offset a decline in Securities and Fund Services.

Treasury and Trade Solutions was up 9%, driven by strong growth in deposits and trade loans. Securities and Fund Services was down 6% year-over-year on lower market volumes; however, revenues did show an increase sequentially.

The drivers for Transaction Services continued to show strong momentum. End of period trade loans were up over 50% from the prior year, and average deposits were up 8%. Expenses of $1.4 billion were flat versus last year, as incremental investment spending was offset by efficiency savings. We achieved positive operating leverage in Transaction Services for the second consecutive quarter, driving 6% earnings growth year-over-year.

On slide 14 we show a nine quarter trend for Citi Holdings. Citi Holdings' reported loss was $920 million in the second quarter. Revenues, excluding CVA/DVA, were down over 62% year-over-year to $903 million, due primarily to overall lower assets, as well as the absence of gains on the sale of held-to-maturity securities and other assets in the second quarter of last year. Operating expenses of $1.2 billion were down 25% versus last year, and total credit costs were down 31% to $1.2 billion.

Looking at Citi Holdings in more detail on Slide 15. Revenues in Brokerage and Asset Management were $87 million this quarter, versus $47 million last year, driven by a higher contribution from the Morgan Stanley Smith Barney joint venture.

In Local Consumer Lending, revenues were down 31% versus last year to $931 million, primarily due to declining loan balances.

In the Special Asset Pool, revenues ex-CVA/DVA were negative $115 million in the second quarter, compared to a positive $1.0 billion last year. Net interest revenue was negative $77 million, as interest earning assets remained a smaller portion of the Special Asset Pool.

Non-interest revenue, excluding CVA/DVA, was negative $38 million, compared to a positive $1.1 billion last year, which included the significant gains on the sale of held-to-maturity securities and other assets. We also booked $85 million of reserves related to private label mortgage securitizations in the second quarter.

Citi Holdings operating expenses were down 25% year-over-year to $1.2 billion, mainly due to declining assets, as well as lower legal and related costs. Credit costs were down 31% year-over-year to $1.2 billion.

Total net credit losses were down 39% to $1.3 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. We released $269 million of net loan loss reserves in Citi Holdings, compared to $583 million last year.

Slide 16 shows Citi Holdings assets. We ended the quarter with $191 billion in Citi Holdings, or roughly 10% of total Citigroup assets. The $18 billion reduction in the second quarter included roughly $11 billion of sales, approximately $6 billion of net run-off and pay-downs, and $1 billion of net cost of credit and net asset marks.

Slide 17 shows the results of Corporate/Other. Revenues of negative $265 million were down from the prior year, driven by the $424 million pre-tax loss on the partial sale of Akbank compared to a gain of nearly $200 million on the partial sale of HDFC last year. Expenses of $597 million were down 3% versus last year, mainly due to lower legal and related expenses. Assets of $289 billion included approximately a $101 billion of cash and cash equivalents and $135 billion of liquid available for sale securities.

Turning to total Citigroup expenses on slide 18. Total operating expenses of $12.1 billion in the second quarter were 6% lower than last year – while core operating expenses, excluding legal and related costs and repositioning charges, declined nearly 3% in constant dollars to $11.5 billion.

As I mentioned earlier, legal and related costs remained elevated through the second quarter, and we also incurred nearly $200 million of repositioning costs. However, we also benefitted from FX translation as the U.S. dollar strengthened in many markets. In total for the first half of 2012, we reported expenses of $24.5 billion.

As we look to the third and fourth quarters, we currently believe that our core quarterly operating expenses should be roughly at or below the $11.5 billion we incurred in the second quarter. Additionally, however, we will continue to incur legal and related costs and repositioning charges, which on a combined basis have exceeded what we would otherwise consider to be a normalized level of roughly $250 million per quarter. Obviously these charges have been running at an elevated level and will continue to be difficult to predict, particularly in this environment.

Slide 19 shows total Citigroup net credit losses and loan loss reserves. Net credit losses continued to improve in the second quarter, down 10% sequentially to $3.6 billion, and the net loan loss reserve release was $984 million. We ended the quarter with $27.6 billion of total loan loss reserves, and our LLR ratio was 4.3%.

Slide 20 shows our international consumer credit trends, which generally remained stable to improving in the second quarter. In Asia, the NCL rate remained below 1.0%, and 90+ day delinquencies were flat at around 50 basis points. In Latin America, the NCL rate continued to improve to 4.1%, while delinquencies were fairly stable.

On Slide 21, we show the North America mortgage portfolio in Citi Holdings, split between residential first mortgages and home equity loans. In residential first mortgages, we ended the quarter with $63 billion of loans, down 14% from a year ago. Excluding the incremental mortgage charge-offs of $315 million in the first quarter, net credit losses were roughly flat sequentially at $426 million. And 90+ day delinquencies were down 3% to $3.8 billion, driven by continued loan sales.

In the second quarter, we sold approximately $500 million of delinquent mortgages. Thirty to eighty-nine day delinquencies were up slightly versus the prior quarter, as expected, driven by re-defaults of previously modified mortgages.

In home equity loans, we ended the quarter with $37 billion of loans, down 13% from a year ago. Excluding the incremental charge-offs of $55 million in the first quarter, net credit losses were down 11% sequentially, and 90+ day delinquencies were also down versus the prior quarter at $864 million. In total, we allocated roughly $9.5 billion of our loan loss reserves to North America real estate lending in Citi Holdings, and we maintained over 30 months of coincident NCL coverage.

On Slide 22, we show our key capital metrics. As of the second quarter, our Basel 1 Tier 1 Common Ratio was 12.7%. Adjusting for the final market risk rules recently adopted by the U.S. regulators that will be effective in January 2013, our Basel 1 Tier 1 Common Ratio would be approximately 11.3%.

Under Basel 3, our estimated Tier 1 Common Ratio as of the second quarter was 7.9%, up from 7.2% in the first quarter. These estimates both include the impact of the final market risk rules and are based on the proposed advanced approach for calculating risk-weighted assets under the recent NPR.

As you may be aware, the regulatory proposals also require Citi and other banks to calculate its risk-weighted assets under a newly defined standardized approach and to use the lower of the two resulting ratios for our reported Basel 3 Tier 1 Common Ratio.

We continue to review the implications of the standardized approach, but based on preliminary data – and I want to stress that this is preliminary – our estimated Basel 3 Tier 1 Common Ratio for the second quarter, as calculated under the standardized approach approximates the ratio under the advanced calculation; however, the risk-weighted asset components are somewhat different. We continue to expect to be above an 8% Basel 3 Tier 1 Common Ratio later this year.

Slide 23 shows the components of our Basel 1 and estimated Basel 3 capital ratios. As of the second quarter, our Tier 1 Common capital under Basel 1 was $124 billion, compared to an estimated $99 billion under Basel 3. Over half of the difference reflects the disallowance of our minority investments in unconsolidated financial institutions, with the remainder driven by pension liabilities within Other Comprehensive Income and deferred tax assets.

Turning to the denominator, our total risk-weighted assets under Basel 3, as calculated using the proposed advanced approach, were an estimated $1.25 trillion, or 28% higher versus Basel 1.

Looking at Citicorp and Corporate/Other, our risk-weighted assets increase by only 15%, reflecting the strong credit quality of our loan portfolio, the low asset-intensity of our services business, and our focus on flow facilitation in capital markets.

The impact of Citi Holdings on our total risk-weighted assets will decrease over time, as we continue to wind down those assets.

On Slide 24, we show our returns on Tangible Common Equity, assuming TCE is allocated based on estimated Basel 3 risk -weighted assets. On this basis, the return on Tangible Common Equity for Citicorp plus Corporate/Other for the first half of 2012 was an estimated 15.9%. And including Citi Holdings, Citigroup generated a return of nearly 9%.

On Slide 25, we highlight our returns under Basel 3, again using risk-weighted assets as calculated using the proposed advanced approach. Citigroup's return on Basel 3 assets for the first half of the year was an estimated 1.0%, including a 1.8% return for Citicorp plus Corporate/Other. And if we assume Tier 1 Common capital levels of 9.5% of Basel 3 risk-weighted assets across each business, the return on Basel 3 capital for Citigroup would have been an estimated 10.6% for the first half of 2012, including a 19.3% return for our core businesses in Citicorp plus Corporate/Other.

Let me close with some comments about the outlook. First, Global Consumer Banking: overall credit quality remains good, with continued improvement in North America and stable credit in Asia and Latin America. We expect these trends to continue for the remainder of the year assuming no meaningful downturn in the global economy.

Latin America, despite the noise this quarter from FX, was the fastest growing of our regions in Consumer, and we expect that to continue, particularly in Mexico given both market growth and the strength of our franchise.

Asia consumer revenue growth has slowed, reflecting the two principal issues I mentioned: first, investment sales remain weak as retail investors in Asia have de-risked given the same global macro concerns that have slowed institutional activity; and second, specific country slowdowns, most notably in Korea, where policy actions by the government have trimmed the availability of consumer credit in that market. We see these trends continuing in the near term, which would imply some revenue headwinds for Asia into the third and fourth quarters.

North America consumer benefited from another quarter of strong mortgage activity, which we currently expect will continue into the third quarter. However, in cards, high payment rates from consumers, reflecting ongoing economic uncertainty and deleveraging, and our shift to higher credit quality borrowers, continues to weigh on loan growth. This trend will likely remain into the third quarter absent a meaningful improvement in the U.S. economy.

Transaction Services continued to produce strong revenue and earnings growth, and had a second consecutive quarter of positive operating leverage that we expect will be sustainable going forward.

In Securities and Banking, there were a few key takeaways this quarter: first, the biggest challenge we and the industry face is the ongoing macro uncertainty, reflected in low levels of client activity. Without meaningful signs of accelerating economic growth or a credible resolution – as perceived by the market – to the European issues, the reduced activity is likely to persist into the third quarter. Having said that, the strength and breadth of our fixed income franchise, particularly our rates and currencies business, was evident in the second quarter and first half of the year.

Turning to equities, we believe our business is past the problems of the second half of last year, and we continue to execute well, although low levels of client activity remain a substantial challenge and that will likely continue into the third quarter. Our investment banking franchise continued to see momentum, with wallet share gains in every major product, although overall market activity remained muted. Based on that, we are cautiously optimistic that our investments in our banking franchise are showing results.

Given the current operating environment, we remain very focused on rightsizing our businesses in Securities and Banking for the opportunity we see, and we are keeping a tight rein on expenses, as the positive operating leverage we produced in the second quarter and the first half of 2012 demonstrated.

In Holdings, the wind down of assets will continue, and our primary focus remains the mortgage portfolio. Mortgages continue to face a number of challenges, including the substantial foreclosure backlog, ongoing political headwinds, and the risk from any weakening of the U.S. economy. As such, we have not released any general loan loss reserves against our mortgage portfolio to date and have maintained robust coverage ratios.

In summary, one of the biggest issues we face remains the uncertain macro environment and in particular, the European sovereign debt issues. As such, we will continue to run our risk exposures very tightly while serving our clients. Basically, we will continue to manage what we can control and limit our exposure to what we cannot control. Nonetheless, we remain optimistic about our prospects given our client franchise, our unique mix of businesses, and our unparalleled footprint. Now, let me turn it back over to Vikram.

VIKRAM S. PANDIT: John, thank you and before we go to questions, I do want to point out to everybody that this is John Andrews' last earnings call. As you know, he'll be moving to the institutional clients business and he'll be heading up our client content development there. John has been with Citi for over three years and, as all of you know, it's been an interesting three years. Throughout that time, John has served this company and our investors extraordinarily well. He's not only a consummate professional who understands our business, but he's also been a strong advocate to the outside world and he's provided wise counsel internally. But, he'll still be at Citi and so we'll continue to be able to work together. In the mean time, Susan Kendall will be the acting Head of Investor Relations. John, thank you.

JOHN ANDREWS: Thank you.

VIKRAM S. PANDIT: And with that we'd be happy to take your questions.

OPERATOR: To ask a question, please press star 1 at this time. If you are using a speaker phone, please make sure your mute function is turned off so that we may receive your signal. Again, that's star 1 to ask a question. And we'll go to Glenn Schorr with Nomura.

GLENN SCHORR: Thanks very much. Quick numbers – one first, tax rate as reported was low but I'm just curious on how much the Akbank sale or DVA/CVA might have been impacted and what you think the core might be over the next four quarters?

JOHN C. GERSPACH: Four quarters is a little bit far to go out, Glenn, let me try to help you after the…

GLENN SCHORR: Sure.

JOHN C. GERSPACH: …balance of the year anyway. The effective tax rate in the second quarter was down about 500 basis points, I guess, from the first quarter. And there's two factors that impact the tax rate in the second quarter; first, as you mentioned, the loss in the sale of Akbank. It does carry a higher rate certainly as it produces a higher tax benefit for us; but the second factor is, overall, we've got a downward revision in our expected tax rate for 2012 due to a forecasted change in the mix of our earnings. So if you look at the first half of the year now, our effective tax rate is roughly 22% and that's the rate that you should expect us to have for the balance of the year. And if you look, it's basically the same tax rate as we had last year if you adjust the taxes for the Japan DTA write-off that we have. So we are roughly at 22% going forward.

GLENN SCHORR: Got it. Okay, cool. On the MSSB potential, 14% transaction, assuming we get a price, whether it be agreed upon or through arbitration that's anything lower than what you have it marked, I'm just checking, do you take the full mark on the full position, but you only get the partial capital benefit is that how I remember correctly?

JOHN C. GERSPACH: Well, it depends on exactly what charge we take, how far off, if any, let's call it the third party appraiser comes in, but whatever mark that we would potentially have to take in the third quarter that would be probably a full mark and we would get the full benefits of the payment. Don't forget, from a Basel III point of view, any mark is irrelevant against our Basel III capital ratio.

GLENN SCHORR: Yeah.

JOHN C. GERSPACH: From a Basel III point of view, we basically have written the entire investment off at this point in time as required under the rules for investments and unconsolidated financial subs above10%. So, any mark will have zero impact on Basel III ratio.

GLENN SCHORR: Fair point, and I know you're going to be limited here, but if you could help us with anything on LIBOR. I know back in December you settled in Japan and then you had specific comments about internal investigations in the U.K. at the time of the Barclays release. Just curious, what you could share with us, whether it be internal investigation or anything else?

VIKRAM S. PANDIT: Well, let me take that Glenn. And yes, we are a member of a number of inter-bank rate-setting panels. And we, as well as other banks, have received requests for information and we're cooperating with them. These are confidential requests, but we are fully cooperating with government authorities on these matters. The only thing I can say to you is though we cannot discuss any details, do not infer from the situation of one LIBOR submitting bank that every bank is in the same or a similar position and I think it's not the case you can draw conclusions about the regulatory consequences for any one particular bank. That's about all I can say at this point. We did make a statement when – or rather there were clarifications when there were issues that came up in the U.K. and you already know about the investigation that was ongoing in Tokyo.

GLENN SCHORR: Okay, thanks Vikram. Thanks, John.

JOHN C. GERSPACH: Okay, Glenn.

OPERATOR: And we'll go to John McDonald with Sanford Bernstein.

JOHN E. MCDONALD: Yes, hi, John. I was wondering if we could just clarify the expense comments that you made. I think you said that you expect the kind of core of $11.5 billion - you think you could hold that for the rest of this year each quarter? Is that right?

JOHN C. GERSPACH: Yeah, as I said John, at or below the $11.5 billion for each of the next two quarters.

JOHN E. MCDONALD: Okay. And then on the other stuff, the litigation and the repositioning, the episodic stuff…Did you say that you kind of see $250 million as what you would might call a regular occurrence of that and you've been above that?

JOHN C. GERSPACH: Yeah, that's exactly right. If you go back on a more normalized level, we would expect those types of expenses to run something about $250 million or so a quarter - call it a $1 billion a year. Obviously they have been running at elevated levels for the first half of the year and for last year as well. And it's a little bit difficult to predict exactly where those types of expenses are going to go for the second half.

JOHN E. MCDONALD: Okay. So is it your hope that they're in that $250 million range each quarter and that's combined those two things combined in the next two quarters but obviously you can't know for sure.

JOHN C. GERSPACH: I wouldn't put hope, I would say that our expectation of normalized level to put them at $250 million, from the – third and the fourth quarter, I think that it's likely due, you should assume that they will continue to run at somewhat elevated levels.

JOHN E. MCDONALD: Okay.

JOHN C. GERSPACH: Although, I can't predict what they are going to be.

JOHN E. MCDONALD: Okay, got it. That's helpful. And then on the net interest income and the net interest margin, the margin down 9 basis points is a little more than you had thought it might be a few months ago. What were the drivers of that and what kind of outlook might you have on the margin and net interest income potential?

JOHN C. GERSPACH: Yeah. I think we had said that it would be probably around 2.85% plus or minus one or two basis points. We're somewhere around three, maybe four basis points off that guidance that we had given. And basically the entire – this three basis points of it, the entire short fall is just about entirely due to some higher than anticipated levels of prepayments that we've got in our branded cards portfolio in April of this quarter. The prepayments were higher than what we would have normally anticipated. I can tell you that the payment rate has stabilized, so it's not something where we can see that throughout the balance of the quarter. So I would say that, consistent with our previous guidance, I would expect NIM to more or less stabilize at the second quarter level for the balance of the year. Again, as always, plus or minus two or three basis points.

JOHN E. MCDONALD: Okay. And that includes the benefit of TruPS redemptions and any other actions around the debt footprint that you've talked about?

JOHN C. GERSPACH: Yeah, if you remember, I think even back in the second quarter, I had mentioned that the continued reduction in long-term debt would be one of the tailwinds that we saw as far as benefiting NIM.

JOHN E. MCDONALD: Okay. And then separately, could you update us on where the DTA stood at quarter-end John? And whether you consumed or built any DTA this quarter and any expectations you have for the rest of this year on that?

JOHN C. GERSPACH: In the second quarter, DTA came down roughly $1 billion from where we were at the end of the first quarter. There's about three factors that play into that. Roughly $200 million of that decline comes from components of OCI. There is another $300 million that is really just the FX impact on DTA that we have on our balance sheet that's carried in foreign currencies. And then there is a $0.5 billion due to a balance sheet adjustment for some purchase of foreign NOLs.

JOHN E. MCDONALD: Okay. Okay, great. And then, last question for me on the equities, does the weakness this quarter have anything to do with the weakness in the second half of this year or is it more just a pure volume and cash equities issue this quarter. Could you just give us some color on what happened this quarter and compare it to the back half of last year please?

JOHN C. GERSPACH: Actually the client volumes in the second quarter were up a little bit perhaps from the fourth quarter of last year. And so we actually against where the revenues were from the equities business in the second half of the year, the second quarter, by comparison, looks pretty strong. So we actually think that the business did fairly well in the second quarter. There is always room for improvement. We'd like to be able to grow our prime finance business a little bit more so that we're somewhat less susceptible to changes in market volumes, but the business did okay given the market volumes that were out there this quarter.

JOHN E. MCDONALD: Okay. Thank you.

OPERATOR: Thank you. Jim Mitchell, Buckingham Research.

JIM MITCHELL: Yeah, hi, good morning. Firstly, maybe we could just talk about Asia. You've highlighted that things were slowing. Not surprising. Does it change the way you think about the investment spend over there? I know you've been bulking up pretty aggressively in China on the retail footprint in Asia ex/Japan. Has it changed at all?

VIKRAM S. PANDIT: What I would say is we got to split Asia into a variety of different parts, and John talked about that briefly. The shift in Korea is a regulatory shift. We have a fairly decent sized presence in Korea. And that's not a place where we've been investing. In any case, it's an adjustment to a new regulatory phase, just as the U.S. businesses are doing that on the retail side.

In Japan, we've had our own issues there, and that's also been reflected there, and we really haven't been investing in Japan either. I said a little bit earlier, I think we believe that at least we feel better about a lot of the Asian economies than we did a few months back. And frankly we feel better about it than some of the market perceptions out there. Our ability to grow in China is important to us, and we'll continue to do that. Our ability to do whatever we can in India is important, although there are regulatory constraints in what we can do. So a big part of what we wanted to do, we got done last year in terms of investments in Asia. Here on, in terms of our growth, it's going to be country by country depending upon where we have regulatory permission and where we see growth. Some of that may continue, although it will be at a very different pace than it was last year.

JIM MITCHELL: Okay, that's helpful. And John maybe the mortgage business, I know you've perennially been negative. What is it going to take as we hear more and more anecdotal evidence that things are at least maybe you're stabilizing people are getting more optimistic. What do you need to see the release reserves?

JOHN C. GERSPACH: I think what people see right now would be pockets of improvement. And to the extent that there are some green shoots out there that – that's great. We're still very focused, as I said in the prepared remarks, as far as the risk of the foreclosure overhang, I mean there are still an awful lot of foreclosures in process that have yet to hit the market. So I don't look at this yet as being a robust housing situation, and maybe a little bit of it comes from the fact that I lived through the mortgage issues of the early 90s and it took years for that to clear up. And in comparison, the early 90s were small potatoes compared to what we're going through now. So I need to see a little bit more evidence and I think I speak for Brian Leach**,** our Chief Risk Officer, as well as far as that.

JIM MITCHELL: That's fair. Okay, thanks.

OPERATOR: Brennan Hawken with UBS.

BRENNAN HAWKEN: Hi, thanks. So just real quick following up on the question in Asia. It's certainly encouraging that you guys are feeling better than you were a few months back. It might be helpful if you could give us a bit more color on what you're seeing there that's giving you that confidence. From my end, I was kind of surprised to see the continued strong purchase sale growth. So, maybe if you could let us know if there was something specific that was driving that…certain markets that were stronger than others. Just maybe give a little bit more color because I think there are a great deal of investors who are quite concerned about growth in the region?

VIKRAM S. PANDIT: Yeah, let me start by saying overall comment in Asia, given the low amounts of fiscal or government debt and kind of the strong overall nature of the economies still, I mean we're arguing whether China grows at 7%, 8% or 7.5%, 8.5% rather than 8%, 9%. So given the strong nature of the underlying fundamentals, you've got ample policy room, that's the first thing to keep in mind and they've actually been using it, and that's an important prospective to keep in mind in terms of the trajectory of this economy.

Secondly, some of the growth issues have been affected by the supply side issues. Asia needs a lot more infrastructure. We are seeing signs in certain countries where that's changing as well. And so if the impact on Asia was because of Europe slowing down and the impact on Asia was because of a lack of the export markets. Some of that is being made up for with policy alternatives, a shift towards consumers consuming, and infrastructure spending and we see that sort of stuff on the ground, I mean that's important. The broader trend which gets to what are the clientele or what is the clientele we serve, we are largely an urban bank in Asia and cities are growing. Despite all of these things, urbanization is a very powerful trend, middle class is growing, people are coming into the cities - that's what drives our business. So yes, the macro is important, as I said, I'm feeling better about the macros than I did myself a few months back. It's the micro that's really important, our clientele, urbanization, rise of the middle class there, that's where it's coming from. And then when you look at, well, what part of Asia? Yes, there are some country differences, no question about that and we talked about that, Korea has the country difference where – it has the regulatory driven country difference. But when you get to the urban centers, they have a lot more in common with each other than we believe. And so that's really what's driving it, and the urbanization theme is really a powerful driver, it transcends the GDP growth theme. We don't have numbers for that to share with you on a macro basis, but that's what drives the business and we continue to be very comfortable if that theme continues for a long time.

BRENNAN HAWKEN: Okay.

JOHN C. GERSPACH: And just to your question on cards, I think the region overall again under ex-FX basis, had purchase sales growing about 7% year-over-year. And we saw purchase sales growing in most of the countries, quite frankly. Off the top of my head: Australia, India, Singapore and Hong Kong would all be countries where we had reasonably good purchase sale growth year-over-year. So it's not concentrated in just one market.

BRENNAN HAWKEN: Okay, that's great. Quick question, just basically a clarification. Vikram was quoted in the press regarding return of capital over the weekend. And I just wanted to make sure, as far as the timing that was referenced in that article, were you just referring to the standard CCAR process that's going to kick back in for 2013 or was that actually something outside that standard process?

VIKRAM S. PANDIT: Well, first of all, let me tell you exactly where we are, that's the better way to start. One, it is about the CCAR process, but more importantly even whether before you get there, our priority right now is earnings generation, it's capital creation and we've been doing that, and that's the reason why we expect to be above 8% and maybe more by year-end. And that's what's driving us, I have also said, we are committed to creating returns for you and return in capital. Especially as you look at the stock, this price presents a compelling value. Having said that, we have to go for the CCAR process. This is a decision that's made by us with the regulators. And frankly at this point, we really haven't decided what we're going to do and we will decide on that when we get closer and when we get closer to submitting CCAR that point we will make it clear to you.

BRENNAN HAWKEN: Great, okay. And then last one from me, Visa and MasterCard settled on Friday, I think you all have been, certainly the results have reflected some reserve in there. So my guess is that you are fully reserved, but if you could maybe able to give some color there now that we see the actual settlement in writing. And then separately, when you think about, it seems as though they are basically making a bet that consumers - there won't be a big change in behavior and that there won't be much momentum behind separately charging for credit card. Can you talk about what your view is on that and how much, remind us how much of the $3.6 billion in credit card fees that you all had in 2011is credit card fee versus debit and then what your view is on the higher end consumer and whether or not maybe if there is an additional charge those folks could start to balk at that?

JOHN C. GERSPACH: Okay. There is about 10 question there, I'm not quite sure I wrote them all down but I'm going to answer whatever I remember and then whatever I leave out come back at me, all right. For the settlement that got announced I'm not going to go into the details of the merchant settlements. We're actually not allowed to do that. There is actually confidentiality restrictions that have been posed by the court. I can tell you that we were fully accrued as of the end of the second quarter for our expected share of the settlement. And as far as future impacts of the proposed network rule changes, it's far too early to try to guess what those may be, I mean the documents are…I think the ink is still wet in front of the court. So it's a little hard to sit there right now, and come to some sort of judgment as the what the impact could be on Citi Card's businesses. Whatever impact it will be – it will based upon factors really outside of our control, including merchant behavior in response to the new rules. So all of this is a little bit hard to judge right now. You asked the question about credit card fees, don't forget debit fees are a very, very small percentage of our overall fees, which is why we didn't have as much impact on the Durbin amendment as other institutions. I'm not quite sure what I'll say left out from the question.

BRENNAN HAWKEN: That was the big thing there. So that 3.6 from last year we should basically assume it's pretty much all credit?

JOHN C. GERSPACH: I think the debit fees run a couple of $100 million.

BRENNAN HAWKEN: Perfect. Okay, thanks.

OPERATOR: And we'll go to Moshe Orenbuch with Credit Suisse.

MOSHE ORENBUCH: Great, thanks. Hi John, could you talk a little bit about whether the credit or revenue trends that you're seeing in the consumer bank in Asia and Latin America kind of are consistent with the local markets better, are they any where they're weaker, can you just talk about how you see them kind of competitively positioned and I've got a follow-up.

JOHN C. GERSPACH: Moshe don't forget, we have are very specific target market in that region. And we are focused with the most part on what we would say is a very highly credit worthy customer base. And we're also very cautious as far as how we extend credit cards as well. Even if the secured lending we do on mortgage, we actually benefit from a lot of the regulatory rules in those countries which insist on a very, very low loan to value type of requirement. So we think that certainly from a Asia point of view, again we've got some extraordinary performance at this point in time, but we think that it is running in line with what we would anticipate from the market segments that we choose to serve.

MOSHE ORENBUCH: Just kind of a going at the question about the reserve on the mortgage kind of a different way, I understand your kind of reluctance from a kind of how you feel about how robust the recovery is, but one would think kind of point to point the quality of the portfolio has improved relative to those reserves and there must be a trigger at least from an accounting standpoint that would say, if it was adequate before it's got to be more than adequate now. I mean, are we at least approaching something like that?

JOHN C. GERSPACH: Hard for me to say what we're approaching, we feel that we maintain adequate reserves and they are appropriate given the current economic performance.

MOSHE ORENBUCH: One of your large competitors did report on Friday and kind of made the comment that they felt like they were at the point where they're kind of were passing through that tipping point as it were from that standpoint.

JOHN C. GERSPACH: Moshe, not to be disrespectful, but maybe you really want to direct your question at them.

MOSHE ORENBUCH: Right, and you've got more months coverage too, so anyway.

JOHN C. GERSPACH: Yeah. Moshe, one thing I just wanted to be clear. The one thing you will see as we have said, as we begin to incur credit losses in connection with the national mortgage settlement, we will release reserves to cover those losses because those loans have been fully reserved for. And so we will be doing some level of reserve releases now, those amounts at least to date have been fairly modest…

MOSHE ORENBUCH: Got it, thanks a lot.

JOHN C. GERSPACH: But if your question is more towards general reserves, then we're not prepared to release those yet.

MOSHE ORENBUCH: Thanks.

JOHN C. GERSPACH: Okay.

OPERATOR: Chris Kotowski with Oppenheimer & Company

CHRISTOPH KOTOWSKI: Yeah, good morning. First, your Basel III ratio went up and two other larger banks that reported went down. Is that just the impact of winding down Citi Holdings?

JOHN C. GERSPACH: No, I don't think so. I can't comment on why other institutions had their ratio go down. As we've commented and I've specifically commented on this, until the NPR came out, everybody was just estimating what their Basel III ratios are. And as I had mentioned, we were trying to be very conservative in how we were estimating our Basel III ratio. So, we had communicated to you that our Basel III ratio was 7.2% in the first quarter, and after we went through the volumes of the NPR in the final rule-making, we came out and we were still at 7.2%, which is – but it reflected a certain amount of conservatism on our part going into calculating that 7.2%.

CHRISTOPH KOTOWSKI: Okay.

JOHN C. GERSPACH: And so now when you look at the growth from 7.2% to 7.9%, I'd say, there is some impact in there of course from Akbank. The Akbank sale generated 23 basis points or so of improvement, but the lion's share of the improvement is really due to income.

CHRISTOPH KOTOWSKI: Okay. And then secondly, Vikram in his opening comments said he'd become more encouraged in the last several months. And I'm just curious what are you looking at that gives – what's changed that makes you more encouraged about emerging market trends?

VIKRAM S. PANDIT: Okay. I think – and I think it's important to qualify it that way. We continue to be concerned about Europe and we are managing our risk extremely tightly as a result of that and obviously you see what's going on in the U.S., you all are as close to it as we are as well, we would all like to see more job creation in the U.S. The emerging market story to me is again what we see on the ground and we see a lot of policy alternatives being put into place, a lot of actions being taken by government, we see move in the different parts of the world to make those investments and infrastructure, which raises investment spending in these countries and we see a lot of these economies are very actively managed and they too felt the impact of the European slowdown and they are doing what they can to deal with that. And so whereas a few months ago, we had the impact of the euro zone coming at it and not clear what the policy alternatives or what the active management of these economies were going to be, we are seeing that right now and in addition to that, as John talked about, we are seeing that in our consumer businesses as we talked about purchase sales and what's happening with the key trends, the key trend in the emerging markets is urbanization, when you sort of cut through all of that, that's where the growth is coming from and that trend continues. So it's piecing together a lot of data points, that's one of the unique advantages we have at Citi. I mean, we are in just about every country that's in the emerging markets, and we have the manners to be able to talk to our people in the ground, get the information pieces all together, that's what drives my thinking.

CHRISTOPH KOTOWSKI: Okay. And then, if I can come back at the credit card settlement question in a different way. It seems to me the big structural change really is the ability for merchants to have a surcharge on credit card transactions. And at least you must have done some analysis around the merchants' proclivity to do that and maybe look at the case study of gas stations which have been able to do it for years, right? So have you done any analysis around how likely merchants or hotels are to introduce a surcharge?

JOHN C. GERSPACH: There is analysis that our card guys have done on that, but I am not prepared to comment on that analysis at this point in time.

CHRISTOPH KOTOWSKI: Okay. And then lastly just a small question. On page sixteen, on the Citi Holdings asset summary, the assets listed next to the MSSB venture are $20 billion and it had been $25 billion for the last couple of quarters. Is that in any way revolved around the buy down or why is that?

JOHN C. GERSPACH: No, no, as you may recall, we had mentioned in the past there were certain margin loans that we've been carrying on our books as the joint venture has begun to set-up, it was in process of setting up their own systems. Those systems now have begun to come online and so we are starting to see a shift in those loans being moved off of our books on to the books of the joint venture itself.

CHRISTOPH KOTOWSKI: Okay, great. That's it for me. Thank you.

JOHN C. GERSPACH: Okay.

OPERATOR: Matt O'Connor, Deutsche Bank.

MATTHEW O'CONNOR: Thanks for taking my question. If I could follow-up on expenses, a lot of talk about right sizing for the expected environment and it kind of like specifically within S&B where we have seen some expenses management, especially looking year-over-year [INAUDIBLE] If you could just give some color in terms of how much of the decline in expenses that we've seen and as you think about going forward it's coming from lower compensation, how much is bringing down the headcount and then – and then just all conceptually, obviously, I could use all the numbers, but also like certain businesses that you may look to prune. How should we think about those two components in terms of both driving the expense progress so far and what might on the table going forward?

JOHN C. GERSPACH: Matt, I was having a hard time following all of your questions and so I apologize, but in general, we target a 3% to 5% reduction in expenses in every business going into each and every year. That's our expectation that businesses are going to be able to produce operating efficiencies and I think that you see that in one of the slides that we got on the deck here. For the quarter I think we've generated about I think it's $700 million worth of efficiency savings and we've done about $1.3 billion for the first half, which is in the slide that's somewhere in the back of the deck. So these are things that we work all the time. Specifically, you take a look at compensation costs, you take a look in the supplement that we provide you, we breakout compensation cost, compensation cost for the first half of the year are down something on the order of 4% or 5%, I don't recall the number just off in the top of my head. So there certainty is a good element of headcount reduction that is contributing to the overall expense reduction.

MATTHEW O'CONNOR: Yeah, specifically within the Securities and Banking segment, obviously the question that I'm sure you guys were asking yourself and a lot of other of your peers. How long will revenues remain in pressure and what are some levers that you can pull. Going forward how do we think about potential savings from lower comp, lower headcount or actual businesses that you might just add to that?

JOHN C. GERSPACH: Yeah. And Matt, as we had said in the past and as we continue to say we are very focused on making sure that we've got the right resources in that business to deal with the opportunities that we see. You've seen expenses coming down in the business year-on-year that now had two consecutive quarters of lowering expenses. And we're going to continue to look at that business and make sure that we've got it sized appropriately, but I'm not going to tell you that you should expect to see two more quarters of expense reduction coming out of Securities and Banking.

MATTHEW O'CONNOR: Okay, and then just separately as we think about the Basel III Tier 1 Common target of greater than 8% obviously you're getting by the end of the year, you are already within striking difference of that. Is there anything unusual that might limit kind of the capital built or from here is it just a matter of you make money and with RWAs continue to do what they do? Is there anything that would I guess, it seems like you are being pretty conservative because you are pretty close to the 8% now and I just want to make sure is that thing that might offset that next couple of quarters?

JOHN C. GERSPACH: No, I mean, it really is down to a – to the extent they represent anything that's a simple formula. It really is about making money and adding to your capital base. And that is very much what we're focused on.

MATTHEW O'CONNOR: Okay, then just lastly on the Libor, both you and JP Morgan have said that you can't really comment on it, but both of you have also said, don't assume that all banks are the same, which I think some people are interpreting as a positive that you might be less exposed. So I guess I'll ask again, is there anything more that you can say, and if not when will investors and analysts have a better sense of what's going on, the timeline if you could offer anything there?

VIKRAM S. PANDIT: It's hard to say. I think these are all government investigations around the world, they're going to take their time. The – one thing I can assure you is you will know at the same time we will. And beyond that really there is nothing more to add on that.

MATTHEW O'CONNOR: Okay, thank you.

OPERATOR: Gerard Cassidy with RBC.

GERARD CASSIDY: Thank you. Good morning. John, you talked about the securities business and the outlook for third quarter, and barring any major changes in the economy or in the capital markets, you thought that the activity would be similar to the second quarter. The question, would this, is it similar in the sense that we should see a flat sequential numbers in Q3 to Q2 or are you suggesting that a decline on a sequential basis could be equivalent in the third quarter versus the second quarter – to the first quarter?

JOHN C. GERSPACH: Gerard, we feel pretty good about the performance, very good about the performance that our Securities and Banking business had in the second quarter given the market environment in the second quarter. And there's nothing unusual about the revenues that we put up in the second quarter in that market environment. So as you start to think about what market environment you may be modeling for in the third and the fourth quarter. You could look at our second quarter performance as being reflective of the environment that we had in the second quarter.

VIKRAM S. PANDIT: Let me just add to that. We have made changes to that business since the fourth quarter last year, structural changes, cost changes, re-engineering changes, and some of them obviously you've seen in the expense numbers not all of them are completely done yet. And that's just to provide you little bit more color on what John just talked about.

GERARD CASSIDY: Okay, thank you. On the mortgage business where you guys had the gains this quarter from the basis point standpoint. What were the spreads on the sales of mortgages in the second quarter versus where they were in the first quarter? Did they widen out or shrink?

JOHN C. GERSPACH: The overall gain on sales spreads were down a little bit in the second quarter compared to the first quarter. I want to say they were down something on the order of – maybe 40 basis points or something like that, 30 basis points, I just don't have that number off the top of my head.

GERARD CASSIDY: Would you say that the gains still though are materially above historical spreads that you would be in the type of in the sales activity?

JOHN C. GERSPACH: Yes, I would definitely say there's still well above the historical levels.

GERARD CASSIDY: Do you think that, I hate to say this is the new norm, but if rates stay where they are, and the Fed has suggested they want to see to the end of 2014, that we don't know why volumes will be, of course, but do you think that spreads could actually say at these initially high levels for a longer period of time?

JOHN C. GERSPACH: That's a little hard to predict that it could go on until, did you say 2014?

GERARD CASSIDY: I was..INAUDIBLE.

JOHN C. GERSPACH: Let's stay focused on the third and the fourth quarter.

GERARD CASSIDY: Yeah, sure.

JOHN C. GERSPACH: Yeah, as we said we think that the current levels of that refinancing activity should stay high certainly into the third and probably into the fourth quarter. But once you get beyond the third of the fourth quarter, you're somewhat testing my ability to forecast.

GERARD CASSIDY: Sure, understandable. The other question I had was you guys mentioned that's in the structural changing Korea, in terms of the consumer banking business. Can you share with us, what percentage of Asia is Korea? And also could you tell us if the revenues be smaller as we go forward as a percentage of Asia because of these changes?

JOHN C. GERSPACH: We give you a breakout in the back of the investor presentation as far as key countries and the revenue component that we have for those countries, and you can see Korea's revenues broken out – Korea's portfolios, the asset level in Korea broken out and you can compare that to overall Asia and draw your own conclusions as far as the percentage that Korea might contribute.

GERARD CASSIDY: Great, and then finally, what's the duration now of the securities portfolio, the investment securities portfolio?

JOHN C. GERSPACH: Overall it's still fairly short and it's something right around – I think we've said this in the past, but it's somewhere around two years.

GERARD CASSIDY: Thank you.

OPERATOR: Ed Najarian with ISI Group.

EDWARD NAJARIAN: Yeah, good morning. I was wondering if you could just comment on where you stand in your negotiations with Morgan Stanley on the 14% sale of the joint venture, we haven't seen a deal yet. Are discussions progressing, have they moved to an arbitrator? Is there anything you can tell us about, sort of the timing, do you still expect to complete that sale, potentially say in the third quarter or just what can you tell us given that we haven't seen a deal yet?

JOHN C. GERSPACH: Well, it's actually pretty simple, later today I believe we should be exchanging values with Morgan Stanley. And our expectation is that the two firms will be more than 10% apart and that means that the process will then go to a third party appraiser. That's laid out in the contract. Third-party appraiser, I think there is – five or six days that we get to –see the appraiser and then the appraiser has a certain amount of time, but the expectation is that the appraiser needs to complete their work by somewhere around August 30th, and the contract, I believe that the transaction closes no later than September 7th by contract.

EDWARD NAJARIAN: Okay. Very helpful, thank you.

JOHN C. GERSPACH: Okay.

OPERATOR: Peter Ganucheau with Carlson Capital.

PETER GANUCHEAU: Hey guys, I made it in. John Andrews, I just wanted to thank you, you've always been extremely responsive and thoughtful and then very helpful, from my part I hate to see you move on, but I know it's the bigger and better things.

On the LIBOR issue, let me try it a different way, is it unreasonable to infer that since you have the TIBOR issue in Japan, that you have internally reviewed other areas such as LIBOR. I am just trying to get a sense for if I can even put that in, I can feel a little better about this issue or would you have me take no weight into that?

VIKRAM S. PANDIT: I really don't want to go beyond what we said. I was rather complete in answering at the first time. I understand you are wanting to no more, but having said that, let's just – let these things play out.

UNIDENTIFIED ANALYST: That's fair. Thanks guys.

OPERATOR: Betsy Graseck with Morgan Stanley.

BETSY GRASECK: Hi, thanks.

JOHN C. GERSPACH: Hi, Betsy.

BETSY GRASECK: Hi. Thanks for the detail on page 23, just one question, I'm wondering if it's possible all to get the numbers for 1Q 2012 for Basel III, maybe the RWAs are tough, but the capital might be more doable?

JOHN C. GERSPACH: I'm sorry. You completely got me off. The RWA's for the first quarter of '12 associated with Basel III?

BETSY GRASECK: Yeah.

JOHN C. GERSPACH: Broken up by Citicorp and Holdings? Let me think about it and we will get back to you.

BETSY GRASECK: Okay. And also the numerator?

JOHN C. GERSPACH: Yeah, don't forget, if you're talking about Slide 23, just remember that those are averages on Slide 23.

BETSY GRASECK: Right.

JOHN C. GERSPACH: I'm just turning to Slide 23 just to make sure.

BETSY GRASECK: Sure.

JOHN C. GERSPACH: So, it's not going to be the – but okay, that's based upon end-of-period . You can take a look at the end-of-period amounts that we've gotten for Basel III laid out on Slide 23, I'm sorry, Slide 23 is the end-of-period. Okay, I just want to make sure I was in the right – had the right, right frame of reference.

BETSY GRASECK: Okay. So, I will follow-up later on that.

JOHN C. GERSPACH: Yeah, why don't you call IR?

BETSY GRASECK: Sure.

JOHN C. GERSPACH: Call Susan.

BETSY GRASECK: Got it. And then the second question, just on Citi Holdings and LCL obviously coming down nicely. Just a question is how much is the decline in LCL and Citi Holdings active versus passive?

JOHN C. GERSPACH: Betsy, help me understand active and passive.

BETSY GRASECK: So is it just pay downs from your current holders or are you benefitting from being able to sell some of your assets more actively to investors potentially realizing some gains or losses as you're disposing them more rapidly than just P&I payments?

JOHN C. GERSPACH: No, we're active sellers, I mean even in the mortgages as we said, we sold $500 million worth of delinquent loans this quarter. And in virtually every one of the businesses we certainly look for sales wherever we can get it, one of the things that you should have seen, the business in Belgium came out this quarter. So that was part of the reduction, so that represents a sale and you'll see that basically it's a difference on the international line. At least $3 billion of international line difference relates to the sale of Belgium. So we're still looking to sell portfolios, it certainly is an active part of what's the people in Holdings look to do every day.

BETSY GRASECK: Okay. And then lastly on Holdings, is there anything else in Holdings that you'd want to be retaining or should we expect that everything in Holdings right now is slated for elimination over time, and if there's any commentary around the CitiFinancial that one point was going to be in…

JOHN C. GERSPACH: You should think that is everything in Holdings we are looking to either sell or wind down. And I don't have any update specifically to CitiFinancial.

BETSY GRASECK: Okay, thanks.

JOHN C. GERSPACH: Okay.

OPERATOR: Matt Burnell, Wells Fargo Securities.

MATTHEW BURNELL: Good morning, thanks for taking my question. First John, you mentioned that you continued to be focused on the events in Europe. It looks from this disclosure in the slide deck today that your net funded exposure in the GIIPS countries has not really moved very much from the end of the first quarter. I guess I'm just curious given that one of your large competitors did sound a bit more cautious on Europe this quarter versus last quarter. Have your unfunded exposures in Europe given that they are larger than some of your competitors, have those come down over the course of the past three to six months?

JOHN C. GERSPACH: I think if you compare the information on page, if 36 is where we got the GIIPS then 37 the slide following that, I believe that we actually give you what the current unfunded commitments are for the GIIPS countries. And I believe the unfunded commitments actually increased by maybe a billion dollars over the course of the last three months. But again, all of this is well within, what we believe is our risk appetite for these countries. And you'll also notice that when you look at the GIIPS, the funded credit exposure, the total current funded exposure actually came down by about $700 million or so that's largely due to trading assets and AFS exposure. The funded credit exposure was flat, but I think if you look at the table, we give you the components of the exposure broken out between sovereigns, financial institutions and corporate. And what you'll see is that while the exposure remains flat that was a change in mix to that more of that flat exposure now was directly related to corporate customer, and again this is where we're in the business serving our customers in those countries, we want to make sure that we are there for our clients.

VIKRAM S. PANDIT: Let me just add one thing. We've been cautious on Europe for the last 18 months, and maybe some of our competitors are just catching up to that cautiousness. And by the way takes a long time to bring exposures down. What one thing that John said is really important, when you look about it, think about Europe you've got to separate out the multinationals that are all over the world, and some of them higher qualities than their host countries. And so our exposure reports try to break those out as much as possible, but we are on top of this constantly.

MATTHEW BURNELL: Okay, that's helpful. And John, just a follow-up on the DTA question. You mentioned about a half billion dollars of the DTA benefit this quarter came from the purchase of foreign NOLs, is it your expectation that you will continue to purchase those foreign NOLs or is that a more episodic event?

JOHN C. GERSPACH: No, actually what I thought I said, it's a balance sheet adjustment for purchases of NOLs we had done in the past. In other words, we had in the past, purchased some foreign NOLs. We didn't pass the benefit through the income statement. So we had an increase to deferred tax assets, and then a deferred liability, not deferred tax liability, but an unearned income liability sitting on the balance sheet. And we just don't feel that's something that we need to have at this point in time. So we just took the opportunity to reduce both the asset and the liability side of the balance sheet.

MATTHEW BURNELL: Okay. Thanks for the clarification there. And then finally, it sounds like you've got a somewhat heightened competence of operating leverage trends within the North American GCB. And I'm curious as to how much of that is driven by the relatively strong performance now and it sounds like you expect it to continue in the third quarter in the mortgage business versus some of the other businesses within North America?

JOHN C. GERSPACH: Yeah, a good question. In the past, we had said that we expected to have North America at sustainable positive operating leverage in the fourth quarter. I think that given where mortgages are, we are likely to have positive operating leverage in North America now in both the third and the fourth quarter. Although I have to admit that going into next year then those elevated levels of mortgage sales will give us some difficult comps that we will have to take a look at.

MATTHEW BURNELL: Okay. Thanks for taking my question.

JOHN C. GERSPACH: Not a problem.

OPERATOR: Todd Hagerman, Sterne Agee.

TODD HAGERMAN: Good morning, everybody. John, just a quick question on the North American consumer, what we've seen in the last couple quarter again with the reserve release you guys again have been fairly conservative as the coverage ratios remain very strong. I'm just thinking as particularly with the card business being a big bulk of the reserve release, it seems to be either at or past kind of more normalized levels if you will, whereas the consumer mortgage or retail piece seems to be trending now more at stabilized levels. So how should we think about kind of the magnitude of reserve release going forward as you bounce between the card improvement into more stabilization on the consumer side mortgage?

JOHN C. GERSPACH: Yeah, I wouldn't sit here and start forecasting where we are going to be as far as loan loss reserve releases in the future. I can tell you that both of our card portfolios in North America both the Branded as well as Retail Services, the credit trends remain very positive and our view is that you should continue to see improvement in the level of NCLs and in the NCL rate in both of those portfolios through the end of the year.

TODD HAGERMAN: Okay, and so at this point you're not thinking necessarily any necessarily change near-term in terms of the pace, what we've been seeing in the last couple of quarters?

JOHN C. GERSPACH: I don't want to get into a quarter-by-quarter pace. But you should anticipate that NCL rates coming – still declining in both portfolios.

TODD HAGERMAN: Okay, and then just separately you guys put out the statement on the Moody's downgrade. Just how should I think about with the ongoing deleveraging on the debt side? Your comments previously about spread margin, how should we think about that financial impact at this point as it has become more significant at this stage of the game?

JOHN C. GERSPACH: I kind of lost the drift of your question. Can you tell one more time?

TODD HAGERMAN: Well, again – yeah, with the recent Moody's downgrade, you put out a statement challenging that downgrade from your perspective in terms of how the rating agencies have drifted over the past year or so? It appears now that we're now likely to see a more meaningful impact at this stage. But I'm just trying to think how I weigh that downgrade or where we've come over the last 12 months relative to your ongoing deleveraging efforts and your comments related to spread and margin?

JOHN C. GERSPACH: Yeah, I actually I think one of the things that you could take a look at is, take a look at some of our bond – our cash spreads and how they have performed. If you take a look at our ten-year rate or five-year rate, I think what you'll see is that if you go back to February when Moody's first – the day after Moody's announcement, they were going to downgrade banks. And then take a look at how our bond spreads or cash spreads have performed from that day, the day after the initial announcement to the day after they finally then announced the actual downgrade, our bond spreads have actually improved. And I think that's been what speaks for the way that the market is looking at the strength of our balance sheet. They can see the capital. They can see the liquidity. They can see the improved risk metrics. I think that that's a much bigger driver of our bond spreads at this point in time than the Moody's rating.

VIKRAM S. PANDIT: Just to add to that, ultimately bond spreads are going to be influenced by 7.9% Basel III capital now going higher, as we said going forward, it's sustainable earnings. Slides 7 and 8 I think are really important, they talk about earnings power of the Company. And the markets know that sometimes more than people who analyze these things from the outside do, and I think that's going to have a bigger impact.

TODD HAGERMAN: I think that's a fair point. and I guess, I was more saying, I think the longer-term debt has widened a bit over the last couple of months, and that sort of I guess I was more focused on than the short-term cash spreads.

JOHN C. GERSPACH: Yeah. I think to the extent that if you look at what's happened with the long-term debt, and I tend to look at it from Moody's announcement to post-Moody's to the final Moody's announcement, and then during the last couple of weeks. During the last couple of weeks, our bond spreads have widened a bit, but I think that that's much more of a focus as to what was happening in the market from a Euro point of view as opposed to a Moody's reaction.

TODD HAGERMAN: That's helpful, thanks very much.

JOHN C. GERSPACH: Not a problem.

OPERATOR: And we'll go to Andrew Marquardt with Evercore Partners.

ANDREW MARQUARDT: Thanks guys. Just a couple of questions to clarify, on expenses it sounds like in North America positive operating leverage should still be achieved by year end and if anything actually third quarter, and then how you feel better about. And should we still expect LATAM consumer to continue to provide positive operating leverage within Asia, it sounds like might be tougher, is that fair?

JOHN C. GERSPACH: That's very fair.

ANDREW MARQUARDT: Okay, got it. And then GTS do you still feel that the positive operating leverage is achievable going forward, and obviously S&B it's going to be dependent on the market, and how much right sizing you can achieve and how quickly?

JOHN C. GERSPACH: I think those are all fair comments.

ANDREW MARQUARDT: Okay, great. And then in terms of the margin outlook that was helpful to hear that kind of stable from where we are today, 2.81%-ish, but just on the NII maybe, I missed it, should spread income also hold up or should there still be kind of a natural drift lower, because of the runoff portfolio lower for longer. How should we think about that?

JOHN C. GERSPACH: Yeah, I think that you've got that pegged as well. We're still, we're going to continue to see NII under pressure, as we got some of the higher yielding portfolios continuing to run off. And the benefit that we should be getting would be from things like the TruPS redemptions and the lower level of long-term debt as we've replaced a lot of those funding costs with deposits. And you've seen our deposits have a nice steady rise over the last couple of quarters including this quarter, where we've been able to grow average deposits and end of period deposits at some fairly healthy rates.

ANDREW MARQUARDT: Great, thanks guys.

JOHN C. GERSPACH: Okay.

OPERATOR: And Mike Mayo, CLSA.

MICHAEL MAYO: Hi, a follow-up on the margin. You said the margin should be stable at least lower than expected levels, but if the rates stay this low, how much more drag might there be to NII or the corporation as a whole, say over the next one or two years?

JOHN C. GERSPACH: Well, if the NIM stays at roughly let's call it 2.80%, as opposed to 2.81% and anything like that, we are still looking to see the loan book continuing to grow and so it may be at a lower NIR or lower NIM, but we still see overall nominal margin dollar expansion. I don't know if I answered your question Michael.

MICHAEL MAYO: Let me put it differently. What inning are we in for the pain from this low rate environment. I don't think you or anybody really expected the 10 year rates to be this low and global rates are also low. So have you adjusted to this or if the 10 year stays down to this low level, do you have to revise your revenue expectations?

JOHN C. GERSPACH: Revenue expectation this year, five years from now?

MICHAEL MAYO: Over the next one to two years?

VIKRAM S. PANDIT: Well, look I mean unless you know something, I don't see long-term rates going up for the next one year or two years, especially from everything I see going on in Europe, but frankly the only place of growth we see is the emerging markets. So our revenue expectations are very realistic that we're going to have low interest rates for a long period of time. Definitely at the short end, but also at the long end for the next year or two.

MICHAEL MAYO: Okay. And then as it relates to emerging markets, I guess I was a little surprised too that you said on the ground you feel better about emerging markets over the past few months, and you've highlighted many secular trends. Do you also feel more positive from a cyclical standpoint?

VIKRAM S. PANDIT: The cyclical standpoint comes completely from the list of policy actions that have been taken and they've not worked their way through yet. And that's an important perspective to have in mind. The other is that as I said, these emerging markets, both the business people and governments act faster. They try to fine tune their economies to changes. And the big change here was the European picture – while some of them anticipated not everybody did, and they are doing that as well. And so as I say, we just feel better about the environment in total. They have a plan. They're acting on it, and I think we're start seeing some results. Obviously, that's not only true on a secular basis, but we think that's got a lot of merit in the cyclical basis as well. Having said that, Europe still continues to be an issue and it could be the dominant factor affecting all economies.

MICHAEL MAYO: And then last follow-up, what signal would you rather send? So John said expect revenue headwinds for Asia, and you're saying you feel a little bit better about the opportunities. Is the signal that you as a firm you're sending is to be cautious with Asia, don't mess up, because revenues are slowing or is the signal that hey, don't miss that on the opportunity, things are better than people realized?

VIKRAM S. PANDIT: Yeah, the signal is very clear. I think what John is saying is that there are some specific issues in Asia at this point in terms of our consumer business. It's Korea, it's Japan, it's investment sales, and that we want to remain cautious with respect to all of those. The signal both John and I are saying is when you cut through those, look at the underlying purchase sales, credit card volumes, what we see on the ground, we like that.

MICHAEL MAYO: All right. Thank you.

JOHN C. GERSPACH: All right, Michael.

OPERATOR: Thank you. And there are no further questions.

JOHN ANDREWS: Great. This is John Andrews. As I did the calculations just now, this is my 65th quarterly earnings call in an IR capacity. So with a sense of relief that I say, if there is any follow up feel free to call the team. Otherwise I look forward to continuing the dialog with a lot of you in the future in my new role. Thank you.

VIKRAM S. PANDIT: Thank you, John.

OPERATOR: That concludes today conference. We thank you for your participation.

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