Host
Susan Kendall, Head of Investor Relations

Speakers
John Gerspach, Citi Chief Financial Officer
Eric Aboaf, Citi Treasurer

PRESENTATION

OPERATOR: Hello and welcome to Citi’s Fixed Income Investor Review with Chief Financial Officer, John Gerspach, and Treasurer, Eric Aboaf. Today’s call will be hosted by Susan Kendall, Head of Investor Relations. We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. Also, as a reminder, this conference is being recorded today. If you have any objections please disconnect at this time. Ms. Kendall, you may begin.

SUSAN KENDALL: Thanks, Allie. Good morning and thank you all for joining us. On our call today, our CFO, John Gerspach, will speak first. Then, Eric Aboaf, our Treasurer, will take you through the Fixed Income investor presentation, which is available for download on our website, www.citigroup.com. Afterwards, we will be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from these statements due to a variety of factors, including the precautionary statements referenced in our discussion today and those included in our SEC filings, including without limitation the Risk Factors section of our 2011 Form 10-K. With that said, let me turn it over to John.

JOHN GERSPACH: Thank you, Susan and good morning everyone. We're pleased to be hosting our Fixed Income Investor Review this quarter. Today we're going to update you on our continued execution and progress in several areas: including the strength of our liquidity and balance sheet, as well as our management of each. Eric Aboaf, our Treasurer, is going to take you through some specifics on our balance sheet, liquidity profile and capital position, as well as review our recent issuance activity and current funding plans for 2013.

Before I turn it over to Eric, however, there are some key points from our fourth quarter results that we announced last week that I’d like to highlight to start us off here on slide 1. As you know, we reported earnings of $1.2 billion for the fourth quarter of 2012. Excluding CVA, DVA and our repositioning charge, net income was $2.2 billion. These earnings were below expectations, reflecting a high level of legacy costs, most notably in legal and related expenses. We also had a reserve release, which was significantly smaller than in previous quarters, as our credit trends are normalizing and our global consumer banking loan portfolios are growing. And we’ve not yet begun to release mortgage reserves. To be clear, as our CEO Michael Corbat stated on last week's earnings call, we’re not satisfied with these bottom line earnings. Our focus is not only on putting the drag of legacy issues behind us, but also on optimizing the efficiency and returns of our business as a whole.

Despite the disappointing bottom line, our businesses generally performed well during the quarter. Our net interest margin expanded to 293 basis points. Loans and average deposits grew year-over-year in each of our core businesses. And we decreased Citi Holdings' assets by 9% during the quarter, for a 31% reduction for the year. Credit trends remained very favorable across our portfolios. We also purposefully managed down our liquidity resources; optimizing our balance sheet, while still maintaining our Basel III LCR at an estimated 118%, under the revised guidelines, published earlier this month. Lastly, our capital position remained strong during the quarter, with a Tier 1 Common ratio increasing to an estimated 8.7% on a Basel III basis.
Although the overall environment has shown signs of improvement, we believe it's likely to remain challenging, with continued spread compression, new or evolving regulation, as well as the continued costs associated with putting legacy issues behind us. This puts even greater importance on getting our operating efficiency to a level with which we are satisfied. And on allocating our resources to opportunities with the greatest risk-adjusted return.

Before we look at our financial results, on slide 2 I'd like to review some significant items affecting results this quarter. First, CVA and DVA were negative $485 million pretax, and $301 million after tax in the fourth quarter. In addition, as previously announced, we recorded a $1 billion pretax repositioning charge in the fourth quarter, or $653 million after tax. For comparison purposes, in the fourth quarter of 2011 CVA and DVA had a minimal impact, at negative $40 million pre tax. And repositioning costs were $428 million pre tax, or $275 million after tax. Adjusting for these items, we earned $2.2 billion in the fourth quarter of 2012, and a full schedule of repositioning charges by business is included in the appendix.

In addition, as shown on slide 3, there are a few other significant items which are included in our results. First, operating expenses in the fourth quarter included legal and related costs of nearly $1.3 billion compared to $529 million last quarter, and $832 million in the prior year. In Citicorp the higher legal and related costs were mostly driven by U.S. consumer-related matters. While, in Citi Holdings, the increase reflected the previously announced foreclosure review settlement. Legal and related costs are likely to remain elevated and somewhat volatile. However, we do not expect the fourth quarter level of $1.3 billion to be the new norm.

Second, the net loan loss reserve release of $86 million this quarter was significantly lower than prior periods. Year-over-year, about half of the decline in the reserve release was driven by Citicorp, mostly in North America cards. And about half was driven by Citi Holdings, reflecting declining loan and reserve balances versus last year. In Citi Holdings, we recorded a net reserve build in the fourth quarter. As a significantly lower net reserve release was more than offset by the impact of losses on loan sales. Importantly, our underlying credit trends remained favorable through the fourth quarter. The lower reserve release reflected credit trends which we believe are normalizing, as well as a growing, high quality loan portfolio, which Eric will review in a moment.

Turning to slide 4, we show total Citigroup results for the quarter. Revenues of $18.7 billion were up 8% from last year, while operating expenses of $12.8 billion were roughly flat, as higher legal and related costs were offset by a 3% decline in core operating expenses. Credit costs of $3.2 billion increased 11% versus last year. Net credit losses of $3.1 billion declined by 25%. However, as I just noted, the net reserve release of $86 million was down significantly from $1.5 billion last year.

We earned $2.2 billion of net income in the fourth quarter, driven by revenue growth, lower core operating expenses, and lower net credit losses, partially offset by the increase in legal and related expenses, and a lower net loan loss reserve release. Fourth quarter assets were less than $1.9 trillion. Through efficient balance sheet management over the last two years, we've reduced the overall size of our balance sheet, and expect to be able to continue to run our balance sheet at approximately $1.9 trillion, or below, going forward.

And with that, let me turn it over to Eric.

ERIC ABOAF: Thank you, John. To start us out this quarter I'd like to discuss our credit trends and the quality of our consumer and corporate portfolios. Turning to slide 5, we show net credit losses and changes in loan loss reserves. Overall, as John mentioned, the net credit losses of $3.1 billion were 25% lower than prior year, and 8% lower than the prior quarter, (excluding the incremental charge-offs related to the OCC industry guidance which occurred in the third quarter), as we continue to see improvements across our major portfolios. If you look at the top right, corporate credit losses have remained small as we continue to build high quality corporate loans across our geographies and major industry segments.
At the bottom right, our consumer credit losses are down versus prior year and prior quarter, driven by improvements in cards and mortgage loans in the U.S., as well as continued favorable credit trends in our international portfolios, generally. As John noted earlier, the net loan loss reserve release of $86 million in this quarter was significantly lower than prior periods, as credit trends are normalizing in most portfolios, and we have not yet released reserves allocated to North American mortgages. At the bottom of the page, you can see that we ended the quarter with $25.5 billion of total loan loss reserves or approximately 4% of loans.

Turning to slide 6, I’d like to take you through the credit trends in our consumer portfolios in a bit more detail, so that you can see how our geographically diverse portfolios have performed over time, and how they are performing today. At the top, we show credit trends from their peak during the crisis through today. You can see that net credit losses peaked at different points in each region, starting with Asia in the second quarter of 2009, and ending with the U.S. in mid-2010. In the most recent quarter, our total consumer credit losses fell to 2.77% of the portfolio, which reflects the high quality of our loans. At the end of the fourth quarter, we had $12 billion of loan loss reserves allocated to our Citicorp consumer portfolio, or 18 months of coincident NCL coverage.

On the bottom of the page you can see a similar trend in delinquencies. 90-day delinquencies peaked in the first half of 2009 in both our U.S. and international markets, and have been trending well since. Our current ratio of LLR to delinquencies is close to 4 times. Lastly, our consumer portfolio is highly diversified. Excluding the U.S., no country is greater than 10% of total Citicorp consumer loans.

On slide 7, let’s turn to our corporate loan portfolio. This slide shows you the trends in our corporate non-accrual loans as a percentage of corporate loans over time. As there is no industry standard for non-accrual loans, let me take a moment to clarify how Citi defines them for you here. Non-accrual loans are loans in which the borrower has fallen behind in interest payments, or those loans for which Citi has determined that the payment of interest or principal is doubtful and therefore considered impaired. Using this definition of non-accrual loans, it is important to note that roughly 45% of these non-accrual loans are current, paying both principal and interest.

The amount of non-accrual loans as a percentage of corporate loans has decreased significantly from the peak in late 2009, to just under 100 basis points at the fourth quarter of 2012. We believe our corporate portfolio is exhibiting healthy credit trends. Current loan loss reserves allocated to our corporate loan portfolio provide a non-accrual loan coverage of approximately 1.2 times. We would also describe this portfolio as high quality and well diversified. Over two-thirds of the portfolio is investment grade, while the rest is largely BB and B credits. The portfolio is well distributed by region and country, with no country outside the U.S. or U.K. greater than 6% of the total corporate loan portfolio.

Turning to slide 8, looking at Citi Holdings, let me describe our progress in reducing the amount of these assets. Holdings total assets have declined by 80% from their peak in 2008 to $156 billion, and now stand at approximately 8% of our consolidated balance sheet. The $15 billion reduction in the fourth quarter reflected $4 billion of asset sales, $10 billion of net paydowns, and roughly $1 billion of cost of credit. This slide shows you that the reductions have literally occurred in every business and product within Citi Holdings.

Let me now take a moment to talk about our largest segment, Holdings' mortgages, which are down 15% year-over-year to $92 billion. Net credit losses for mortgage were down nearly 20% year-over-year, and we have a slide in the appendix that provides further details. Assuming a continuation of the current economic environment here in the U.S., the credit losses on this portfolio should generally decline over time as the portfolio continues to shrink. Of the total $10.8 billion reserve allowance for Citi Holdings, $8.4 billion is allocated to North America mortgage loans, or 33 months of NCL coverage.
When we do begin to release mortgage reserves, such that mortgage losses are charged against these reserves as opposed to impacting the bottom line, then we should be able to materially offset the net credit losses in Citi Holdings. Clearly, we continue to make significant progress in reducing Citi Holdings, both in GAAP assets and risk-weighted asset terms. However, as we have previously stated, the Holdings wind down is likely to continue at a slower pace going forward.

Moving to slide 9, let me describe how we are managing our balance sheet for the current environment. Over the last two years we've purposefully sized our balance sheet in line with our core business and client needs and down from the $2 trillion average we had been running. On an end of period basis, you can see that we've steadily reduced the size to below $1.9 trillion at the end of the fourth quarter, while still consciously growing both loans and deposits in a disciplined manner. While the overall size is down, we shifted the mix of our balance sheet to better suit our business needs.

On the asset side, we've modestly trimmed our liquidity, which we hold in cash and investment securities, to under 24% of the total balance sheet. While we've grown total loans, we've shifted the mix of loans within our overall portfolio. Citicorp lending has increased and Citi Holdings has shrunk, as we've continued to wind down certain portfolios. On the liability side, deposits have grown, while we've significantly reduced our long-term debt outstanding. This shift has ensured a stable funding mix, and has had a positive impact on our funding costs, which I'll describe more in a moment. And, our equity base has grown. As John mentioned earlier, we've consciously executed specific actions to deleverage and reposition the balance sheet, while decreasing the overall size. Looking ahead to 2013, we expect to continue to run our consolidated Citigroup balance sheet at approximately $1.9 trillion, or below.

Turning to slide 10, given our strong balance sheet, we have been deploying capital in our Citicorp lending businesses in a disciplined manner. So let me describe what we are seeing in loan volumes. In Citicorp, we grew loans year-over-year in every business. Total Citicorp loans grew to $540 billion, up 7% year-over-year, and approximately 1% quarter-over-quarter. Lending in our institutional businesses was up 11% year-over-year, and down 1% quarter-over-quarter. Lending increased 25% in Transaction Services from the prior year, driven by trade finance lending despite global economic and market slowdown. And we saw 6% growth in our Securities & Banking corporate loan book, which increased borrowing across all client segments in most regions.

The quarterly contraction in Securities & Banking was driven by market factors, including strong bond issuance, as well as our loan sale activity. International consumer banking loan volumes decreased 7% year-over-year on a reported basis, led by growth in Latin America. North America consumer loan volumes were down slightly year-over-year, and up modestly quarter-over-quarter, as the cards market continues to reflect both consumer deleveraging, as well as other regulatory changes. Overall, the $33 billion growth we saw in Citicorp lending year-over-year was largely offset by $25 billion of reductions in Citi Holdings loans, resulting in a 1% net overall growth.

Turning to slide 11, and having just discussed the lending side of our balance sheet, let's turn to liabilities and spend a moment looking at deposits, which serve as our primary source of funding. This page shows our deposit growth by business on an average basis, with the end of period amounts along the bottom. Similar to our trend in Citicorp loans, average deposits also increased. Year-over-year, average deposits were up 8%, with growth in all three of our main businesses. At the same time, we saw an expected decline in end of period deposits during the fourth quarter, reflecting the runoff of approximately $12 billion of episodic deposits which came in at the very end of the third quarter, (and which we mentioned in our last investor call), as well as $10 billion for the expiration of the Transaction Account Guarantee (or “TAG” program). This was expected, and partially offset by BAU growth across our businesses. We consciously targeted this lower overall deposit level to reduce excess liquidity, which I'll discuss in a few minutes, and to lower our funding costs.

Moving to slide 12, let me provide some further detail about how we are actively managing our funding costs. This page shows another view of our average total deposit balances, split into categories. While
we’ve increased our total average deposit balances over the last two years, we’ve also shifted our deposit mix towards more operating accounts, and also towards non-interest-bearing accounts within those operating account balances. This demonstrates both the non-price driven product propositions that we emphasize, as well as the stickier funding sources that we focus on. As of the fourth quarter of 2012, operating accounts represent 79% of our total average deposits.

We’ve grown our deposit funding while also reducing our average deposit cost, from 86 basis points in the fourth quarter of 2010, to a new low of 64 basis points in the recent fourth quarter. This translated into a $345 million reduction in quarterly interest expense over the past two years. As you look at the bottom of the page, in 2011 we substantially reduced deposit costs in the U.S., while in 2012 we reduced deposit costs internationally. As U.S. interest rates fell in 2011 we systematically reduced our deposit costs on both consumer and corporate funds. In international markets, interest rates actually rose modestly during 2011 before central banks lowered them again in 2012, at which point we were able to substantially lower our cost of funding internationally.

On slide 13, I want to show you how some of the balance sheet actions that we just reviewed are impacting our net interest margin. This quarter we saw NIM increase by 7 basis points to 293 basis points. On a full-year basis, our net interest margin remained relatively stable versus last year at 288 basis points. So let me give you some context. We and other banks continue to see pressure on loan investment portfolio yields, given the low rate environment. In aggregate, this pressure cost us approximately 17 basis points in 2012 versus the prior year. But this pressure was offset as we continued to pay down higher cost long-term debt, and call trust preferred securities, which together had a positive impact on NIM, and was worth roughly 10 basis points for the year. Some of this debt was replaced by lower cost deposits.

In addition, as I mentioned, we systematically reduced deposit funding costs, especially in international markets, in sync with prevailing interest rates -- which gives you a sense of our pricing power, and the strength of our client product propositions. This was worth approximately 10 basis points of NIM benefit in 2012. Looking forward, absent any other significant changes, our NIM will likely continue to reflect the pressure of a low interest rate environment and subsequent changes in our portfolio. However, we believe we can largely offset this pressure with continued improvements in our cost of funds. As such, we currently believe we can maintain our 2013 net interest margin at roughly the full year level of 288 basis points, with some quarterly fluctuations.

Moving to slide 14. You can see the size of our liquidity buffer, which is defined by unencumbered cash and highly liquid securities. It stood at approximately $354 billion at the end of the fourth quarter. As we’ve discussed on prior Fixed Income calls, during 2011 and the first half of 2012, we were consciously running a significant excess liquidity position. Given the uncertain economic outlook and the uncertain pace of balance sheet deleveraging, we felt that maintaining significant levels of excess liquidity was prudent. In July, as the economic outlook began to improve in both the U.S. and Europe, and capital continued to build, we began reducing our excess liquidity primarily through longer-term debt reductions, including the final TLGP roll-off in December, and by limiting our deposit growth.

At the same time, some excess liquidity was deployed towards increased lending to our client base, both on the consumer and corporate side. By managing down our liquidity resources, we’ve been able to reduce our cost of funds, and thus improve our net interest margin, as I just mentioned. We will continue to take market conditions into account, as always, when adjusting our liquidity buffer.

Our liquidity strategy has prepared us to meet the proposed Basel III liquidity requirements ahead of schedule, as we show on slide 15. The Basel III Liquidity Coverage Ratio, or LCR, is designed to ensure banks maintain an adequate level of unencumbered cash and highly liquid securities to meet liquidity needs under an acute 30-day stress scenario. The LCR calculation includes highly liquid unencumbered government, government-backed, and corporate securities, as well as unencumbered cash in the numerator, and net outflows in the denominator. The net outflows are calculated by applying an assumed
As you are all likely aware, earlier this month the Basel committee amended the LCR requirement. The key changes include an expanded definition of liquid assets, and a reduction in outflow estimates for certain types of deposits and commitments. These changes were positive for the industry and for Citi, and added about 10 percentage points to our ratio for the fourth quarter. We have thus restated our previous estimates for you on this page; and, at the fourth quarter of 2012, our LCR estimates, based on the updated rules, was approximately 118%. On a dollar basis, the 118% represents additional liquidity of roughly $55 billion above the required 100% threshold. We believe that our LCR may decrease modestly from this level, and depending on the environment, we could be comfortable operating with an LCR in the range of 110% over the coming year, which is still meaningfully above the requirement.

Slide 16 shows the funding composition that we have for the Bank and Non-Bank. As you have heard me say before, Citi has significantly shifted its funding mix over the last few years, away from short-term sources to deposits and equity, to ensure strength and stability. Within our Bank, we view our deposit base as our most stable and lowest cost funding source. And you can see that approximately 78% of our Bank liabilities are deposits, compared to 75% as of the fourth quarter of 2011, and 72% at the fourth quarter of 2010.

In the Non-Bank businesses, long-term debt represents the most significant component of our liability mix at 40%, as of the fourth quarter of 2012. The vast majority of this funding is comprised of senior term debt, along with subordinated instruments. While the long-term debt decreased significantly over the course of the past year in the Non-Bank, so did the level of assets, especially illiquid assets it was meant to support. Lastly, our equity base, including preferred stock, has also become a larger proportion of both the Non-Bank and the total balance sheet funding.

On slide 17, let me turn to long-term debt, which is a primary source of funding for our broker-dealer and parent. The top half of the page shows our long-term debt outstanding by category over time, including senior, subordinated, trust preferreds and credit card securitizations. The bottom half of the page segments the amount of long-term debt in the Bank and Non-Bank entities. So the bottom is just another cut of the top to provide you with some further texture. As you can see here, our long-term debt outstanding has decreased by $84 billion to $239 billion at year end, as we have deleveraged the balance sheet, lowered our cost of funds, and let TLGP roll off completely.

In our Bank, the long-term debt balances that you see at the bottom panel have continually decreased over the past year, as card securitizations, in particular, have matured and been replaced with deposit funding. Our Non-Bank, including our broker-dealer, is supported by long-term debt where we have required less funding over time as the amount of assets in Citi Holdings has significantly declined. We expect to continue to reduce our long-term debt footprint throughout 2013, but likely at a slower, more moderate pace compared to 2012, in line with the needs of our business, and consistent with potential new regulatory guidelines under OLA, which I'll discuss more in a moment. We currently expect long-term debt outstanding to decrease to approximately $205 billion by the fourth quarter of 2013. Some of this net reduction will occur through natural maturities, and some will result from our continued targeted tender offers, debt buybacks and trust preferred redemptions – as long as the economic environment remains favorable.

Turning now to slide 18, I'd like to spend a few moments discussing the potential for long-term debt requirements, as driven by the FDIC's Orderly Liquidation Authority (OLA) under Title II, or the Fed in its supervisory role. While the FDIC has yet to set forth any formal requirements under OLA, over the last year they have conducted various road shows which prompted many of you in the investor community to consider potential outcomes for bank capital structures. The Orderly Liquidation Authority could require banks to hold a prescribed amount of debt at the holding company level to recapitalize the bank, or operating subsidiary, in the event of bankruptcy. There are several ratio/constructs being discussed: long-
term debt plus equity as a percentage of total assets; long-term debt at the parent company to equity; and long-term debt and equity as a percentage of risk-weighted assets, just to name a few.

As you know, we've taken significant steps to reduce our long-term debt footprint, in line with both our asset reductions in Citi Holdings, as well as our conscious desire to run a smaller balance sheet. Going forward we expect the pace of reductions to moderate, as I mentioned earlier. Currently, we have long-term debt plus equity equal to 23% of our consolidated GAAP assets. We believe we are well positioned for possible FDIC or federal requirements in this area, as they are currently being discussed, especially relative to our peer institutions who tend to run with less long-term debt than we do. We welcome more guidance from the FDIC and Fed, and we're closely monitoring the situation for new developments.

Moving on to slide 19. This page demonstrates how the combination of the issuance activity and expected maturities continues to reshape our long-term debt footprint. This chart highlights that maturities peaked in 2011 and 2012 as the TLGP bonds came due, and then returned to lower, more normalized levels of maturities in 2013 and 2014. During 2012, we had $66 billion in maturities, and executed approximately $17 billion in redemptions, tenders and buybacks, which further reduced our long-term debt outstanding. The $17 billion of liability management actions included $5.8 billion of trust preferred redemptions, as well as $11 billion of tenders and open market purchases. Throughout 2012, we issued approximately $15 billion of long-term structural debt. We issued across multiple tenders in both benchmark and structured notes. The composition of our liability management activities and lower issuance activity resulted in net reductions in benchmark and structured debt of approximately $68 billion during 2012.

Looking forward to 2013, we expect more moderate reductions in long-term debt, as we expect approximately $25 billion of maturities. We've given a range for expected tenders, buybacks and redemptions of approximately $10 billion to $15 billion for 2013, absent any unforeseen circumstances. Our expected issuance levels for 2013 are approximately $20 billion. When considering the issuance of long-term debt, we'll also increasingly factor in the amount of preferred stock we issue. While not technically considered long-term debt, we consider preferred stock as a longer-term funding source.

Turning to slide 20, let me talk about capital, which continues to be an area of significant strength for us, and supports the balance sheet trends I just described. Our Basel I Tier 1 Common capital stands at $123 billion. And our Basel I Total Capital is $168 billion. At the end of the fourth quarter, our Basel I Tier 1 Common ratio was 12.7%, significantly up from a year ago, and flat to the third quarter. Adjusting for the final market risk rules recently adopted by the U.S. regulators, that were effective January 1, our Basel I Tier 1 Common ratio would be approximately 11.2%.

You can also see that under Basel III our estimated Tier 1 Common ratio, as of the fourth quarter, was 8.7%, up from 7.2% in the first quarter, and 8.6% in the third quarter. More than half of the increase from the first quarter was driven by operating earnings, in addition to the Morgan Stanley Smith Barney and Akbank transactions, and lower risk-weighted assets. The quarter-over-quarter increase of approximately 10 basis points was due to lower risk-weighted assets in the fourth quarter. Our capital base is one of the strongest in the industry, both as compared to U.S. and international banking peers.

On slide 21, let me give you some context for how we are optimizing the components of capital, including stockholders equity and various other types of securities that comprise it, as we prepare to meet Basel III requirements on a fully phased-in basis. The first panel illustrates our current capital structure under Basel I, where we had 12.7% Tier 1 Common capital and 17.3% Total capital as of year end 2012. The middle panel illustrates our estimated Basel III capital ratios on a fully phased-in basis, including our outstanding trust preferreds as Tier 2 capital. Under the Collins amendment, our trust preferreds will generally begin to lose qualifying Tier 1 capital treatment in 2013, with a three year phase-out period, but continue to qualify as Tier 2 capital. Thus, we've redeemed $5.8 billion of trust preferred securities so far. In anticipation of this change in qualifying regulatory capital, we issued $2.25 billion of preferred stock during the fourth quarter of 2012.
The third panel shows the capital structure proposed in the Basel III NPR. Looking ahead to 2019, six years is a substantial amount of time to make further adjustments to our capital structure. With an estimated 8.7% Basel III Tier 1 Common going into 2013, we're well on our way to meeting the proposed 9.5% required minimum.

Moving to our last slide, let me describe four major points. First, while the environment remains challenging, we saw continued growth in our core lending and deposit-taking businesses. We were able to offset lower loan and investment yields, and our net interest margin generally remained stable throughout the year.

Second, our capital base continues to be one of the strongest in the industry, and this is reflected across every one of our significant capital ratios, including Basel III. Our liquidity remains strong. We consciously reduced our excess liquidity position by deploying excess cash to pay down debt and increase investments. Our estimated Liquidity Coverage Ratio is approximately 118% under the new guidelines, which is comfortably above the estimated industry average and the proposed required minimum.

Third, we've maintained robust reserves, and our credit trends remain favorable, reflecting the high quality of both our consumer and corporate portfolios.

Fourth, we've efficiently managed our balance sheet to approximately $1.9 trillion, and expect to run at or below this level going forward. While we've managed down the overall size, we've also shifted the mix into loans, deposits and equity. As a result of these purposeful actions, we've reduced our long-term debt footprint substantially in 2012. 2013 reductions will occur, but at a more measured pace.

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

OPERATOR: (Operator Instructions). Your first question comes from Ryan O'Connell with Morgan Stanley.

RYAN O'CONNELL: Good morning, John and Eric. Thanks for the in-depth presentation. I've got questions on two areas. One, I had the sense that there's been something of a shift in tone in your discussion about possibly releasing mortgage reserves. The equity people obviously talked about this a lot on the earnings call. And to be fair, since then -- you talked about macro uncertainty -- and since then we've had some progress on the debt ceiling issue.

I'm not asking for a hard core time frame, because I know you can't do that. But maybe if you could just walk us through again some of the key criteria you might be thinking of, in terms of when you might start to move on that reserve release. And then the second thing is, just in terms of the level of coverage, the 33 months, is that management discretion or is that informed at all by regulatory guidance? So anyway, that's the first area I'd like to explore.

JOHN GERSPACH: Sure, thanks. This is John. Let me talk to the second point first. The 33 months is not informed by any regulatory guidance. It just happens to be a calculation based upon the amount of reserves that we have -- based upon our view of the appropriate amount of reserves to have -- divided by the current losses. But there's no regulatory guidance, or whatever, at play there.

Regarding, then, your first question, what we're trying to determine, before we begin to commit to utilize the existing reserves, is just to ensure that the housing recovery that seems to be underway is sustainable. And so I wouldn't look at it as being a series of hard core, you know, once this barrier is reached, then everything is just find and dandy. We're just making sure that this recovery is sustainable. We would say that -- gee, there's some question about the sustainability of the recovery if the economy were to falter at this point in time.
I think, even as you look at some of the indicators, there's still, I would call them, hiccups in some of the indicators. Some days housing sales looking to be all progressing in one way, and then -- hmm, all of a sudden the housing starts and housing sales are somewhat less than people had otherwise projected. So, it's really a matter of just gaining confidence that the underlying housing market really is in the midst of a sustained recovery.

So, we mentioned things like making sure that we got past the debt ceiling; making sure that you got past the fiscal cliff; making sure that Congress is dealing with various other issues; all of which are not necessarily issues unto themselves, but merely issues that, if they fail to be resolved, could have a negative impact on the economy, and therefore, a follow-on negative impact on the housing market. And it's merely just getting to that point in time where that housing recovery is sustainable.

RYAN O'CONNELL: Okay, thanks. That's very helpful, John. And then if I could just pivot -- credit overall, a very good story. Just if we could talk a bit about Latin America. That's been a very good growth area for you all. Over the last couple quarters the NPLs have ticked up a bit there. And you said on your news call that you expected the card NPLs to tick up a bit.

So, two things. One, if you could talk a little bit about what's driving that. Secondly, I just want to clarify the statement you made on the earnings call. I think you said that overall NCLs for Latin America would normalize during the course of this year at 4.5%. So just so I get that right. So, in other words, about the same level where we were in Q4, about 4.6%. Did I get that right?

JOHN GERSPACH: That is correct. There will be obviously some fluctuations, really driven by two things, and I think we mentioned both of them on the call. I'm talking about now the overall credit picture in Latin America. One is, you do have certain periodic charges for commercial loans that will require a write-off. Those commercial loans tend to, obviously, be a little bit larger than your average personal installment loan. And, therefore, they will have periodic blips in the NCL rate itself.

Secondly, the overall portfolio in Latin America, and specifically in Mexico, is in the process of seasoning. We've added to that the credit card portfolio. We've added to the personal installment loan portfolio over time. And as you well know, when it comes to consumer credit, there's a certain amount of seasoning that goes into the portfolio. But we see getting past that seasoning during the middle stages, I would say, of 2013. And, therefore, that's why we mentioned on the call that, on a combined basis, we would expect the NCL rate in Latin America to normalize at around that 4.5% that you mentioned.

RYAN O'CONNELL: Okay, great. Thanks. That's good color. Appreciate it.

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

ROBERT SMALLEY: A couple of things, John, Eric. First off, and I'm looking at 21, with respect to Basel Tier 1 requirements, are you looking at any kind of management discretionary buffer above the minimum? We've seen some other banks start to talk about wanting to keep at least some minimum above the 9.5% down the road. Is that something that comes into your thinking yet?

JOHN GERSPACH: I would say on that score, we're still waiting to see where the rules get finalized. And exactly what are the consequences of falling below the 9.5%. As you see the consequences, that would go into your thinking as far as what level of a buffer to maintain. I think it's logical that you'd retain some level of buffer, but really I think the amount of that buffer is going to be driven based upon the final rules.

ROBERT SMALLEY: Okay. And also, in looking at your Tier 2 capital, part of that is -- and I think we talked about this on the call last time, John -- part of that is excess reserves. And then going back through the slides, you have $25.5 billion in total loan loss reserves -- about 50% are for consumer, and I think the number was $2.8 billion for Holdings. So it seems like there are reasonable amount of excess reserves in the bank. I'm wondering how much are applying here to capital? And then when you do look at a reserve
release for mortgages, do those reserves go away and you have to replace those excess reserves and capital with the issuance of subordinated debt?

ERIC ABOAF: It's Eric. Let me try to answer that question, looking at page 21. If you look carefully in the middle panel, on a fully phased-in basis, we have sub debt worth about 1.6%. And then the effective amount of excess reserves that count are the other 0.4% percentage points. And that's what gets you to the Tier 2 amount there in the schedule. I think the way to think about the excess reserves is that the excess reserves calculation is an ongoing calculation. It's always excess reserves are the total reserves at a point in time, against a set of formulaic calculations on the reserve needs. Remember, the PD, LGDs, EADs, and so forth.

And so it's a calculation that will change over time. In economic environments that are more benign, the requirement will come down, as will the typical reserves that you hold. And in environments that are less benign, you have the reverse. And so it will tend to normalize through different points in the cycle. But what you could imagine we'll do is we'll always be refining and making sure that we have the right amount of Tier 2 to satisfy the requirements.

ROBERT SMALLEY: Okay. Last one, if I can. You brought CFI to the Holding Company. So I'm guessing that the numbers -- that was a December 31 event -- so I'm guessing the numbers reflect that. Did that help in terms of your levels for unsecured debt at the Holding Company? How much was that? Was that some of the reason for it? Maybe you could elaborate on that.

ERIC ABOAF: Yes, it's Eric. On an ongoing basis, as you can imagine, we review our capital structure, our legal entity structure, and there's always opportunities for simplification and alignment. And so at the end of the year, we took the opportunity to combine CFI, which was an issuing entity that we had established years ago for a subset of our debt, which didn't make a lot of sense in the end. You, as investors, are buying Citigroup debt and would just as soon buy it out of one entity with one simple brand and one set of books and records.

And so we went ahead and did that. That was worth -- there was about $35-$40 billion of debt in CFI, we can get you the exact amount that we moved into the Holding Company. And, in a way, it simplified the structure. What it doesn't do is it doesn't change the overall long-term debt picture for Citi. It's the same amount. It's just consolidated now into one entity.

ROBERT SMALLEY: Right. Okay. Thanks very much. Appreciate it.

OPERATOR: Your next question comes from David Knutson with Legal and General.

DAVID KNUTSON: Quick question on competitive forces in the market. I notice that Citi has improved underwriting, particularly in high yield and globally in the U.S. and foreign bonds. I'm wondering, is Citi putting more of its balance sheet at risk to achieve this? Or not? Or is it just markets that have become easier because few people are involved?

JOHN GERSPACH: Yes, hi, it's John. Our basic strategy, as we laid out, is to provide solutions for our clients. We also, at the same point in time -- I think we talked about this on various calls -- back in 2011 and the early stages of 2012, we began to make more investments in growing out our banking capabilities to get them back to somewhat to the competitive levels where they were before.

So, we're there to serve our clients. We'll put the appropriate balance sheet to work for our clients, whether that be through loans or committed underwritings. But it's just part of our continued strategy as far as serving our clients. And in the case of the Corporate Bank, it's our ability to serve those 5,000 global clients that can take the best advantage of our global capabilities.
DAVID KNUTSON: Then a couple of questions on Orderly Liquidation Authority. I appreciate you putting in a slide on the long-term debt considerations. It seems that what I was taking away here is that you feel that Citi has an appropriate, or an amount of unsecured debt that would not be criticized by the regulators. Or it doesn't seem like you were trying to suggest that you may have to issue a lot more debt to follow some kind of regulatory -- I'm just trying to make sure I'm taking away what I should be in this regard.

ERIC ABOAF: Yes, it's Eric. I think we have confidence in the sense that we have healthy amounts of long-term debt from a liquidity standpoint. And we've always geared that over the last couple years in line with our asset base, the types of assets we carry on our balance sheet, and so forth. So that's the first part. The second part of it is, if you go through the logic of the Orderly Liquidation Authority, and actually run some of the ratios -- and I mentioned some of those earlier as I went through the slide -- whether it's long-term debt plus equity to assets, or long-term debt plus equity to Basel III risk-weighted assets, we actually seem to have healthy amounts when you go through the calculation. And we seem to have healthy amounts when we compare ourselves to some of the large bank peers in the U.S. So, that obviously gives us some confidence.

That said, we continue to be engaged with all of our supervisors, and particularly the FDIC and the Fed on this topic. We're open to their guidance. There's not been much formal guidance, and as that comes through, we'll obviously adjust. We just don't yet get a sense that we are at a place that is uncomfortable. And, as such, we're continuing to carefully gear our balance sheet to what we think is appropriate.

DAVID KNUTSON: Through buybacks and other things, it isn't like you're concerned about not touching sub debt or senior debt this year. You're talking about buybacks, so the message I'm getting is that it doesn't seem to be a concern right now for you. Also, in that regard, you mentioned there hasn't been a lot of guidance, but is there any expectation that this is something that you're going to face this year or is it more 2014 or...?

ERIC ABOAF: It's not clear when we're going to expect to see some more information on it. I wouldn't be surprised if it were later this year. I think as we get guidance we'll obviously adjust. Clearly we, as bankers, have an interest in learning what potential guidelines will be. And our supervisors, appropriately, would certainly like to stay ahead of topics, and I can imagine they'll want to get guidelines out there before folks are likely to breach potential levels that they're going to expect. But we don't really know when that clarity will come out here.

DAVID KNUTSON: One last question. You mentioned potentially more legacy costs during the presentation. I'm just wondering how many more quarters should we expect legacy costs to be significant or meaningful? Are we more than half, two-thirds, four-fifths done with legacy costs? Or is it something we can expect for at least a few more quarters or --?

JOHN GERSPACH: That's a great question, almost an impossible answer. Unfortunately, it's not like a baseball game where I can tell you there's nine innings and we're in the sixth inning. I do think that, as we said during our earnings presentation, that the legal and related costs will remain high. Of course, somewhat volatile, at least through 2013. Beyond that, I'm not prepared to make any other statement.

DAVID KNUTSON: Thank you.

OPERATOR: Your final question today comes from David Macgown at Morgan Stanley.

DAVID MACGOWN: A couple follow-up questions this morning, guys. First on Ryan's mortgage reserves question. John, you pointed to a number of what I'd characterize as environmental factors that are shaping your views on the sustainability of the market. To follow up, I'm wondering if there's anything more specific, say, to the regulatory environment, such as GSE reform, or anything like that, that you're looking for that's shaping your comfort about the sustainability of the market.
JOHN GERSPACH: No, I think GSE reform is something that is so long-term, that if we were going to wait to get clarity on GSE reform, I'm not quite sure when we would begin discussing releasing reserves. So, I wouldn't throw that out there. I think that your characterization as to some of the things we discussed as environmental factors is appropriate. But it's near-term environmental factors. I'm not worried about environmental factors that are going to be hitting in 2015 or 2020.

DAVID MACGOWN: That's helpful color. And then on Tier 2, Eric, you gave us a good slide, I think, that gives us a picture of how you line up versus the requirements. One of the things I think that was in the U.S. NPR, which I guess is still in limbo, was no limitation on Tier 2, different than Basel I. And, so, if that is ultimately the construct that gets rolled out as initially proposed, how do you see lining up your cap structure against a less restrictive Tier 2 guideline?

ERIC ABOAF: David, just to clarify the question, when you mean no limitation, you mean no limitation of the types of instruments? Or just specifically what are you asking about?

DAVID MACGOWN: I think specifically not necessarily the instruments, because I think there are still some limits on what instruments qualify for Tier 2, but I think the amount of Tier 2 capital is less restricted under the U.S. NPR.

ERIC ABOAF: Let me answer the question this way. I think so far we have an NPR and, like you say, it's not final, it will get finalized. Clearly, there is six years before it actually steps in and gets fully in effect. My first reaction to your question, is we are going to learn more over time, and we'll obviously adapt to that.

The second thought that I have is that clearly having more capital than any of the requirements, whether it's in the Tier 1 Common bucket, the Tier 1 un-common bucket, or the Tier 2 bucket, is healthy. It's attractive for supervisors, and, to some extent, for bankers -- to the extent that we want to run a very reliable and safe institution. And so what you can expect we'll be doing is assessing how much we'll really want to run at in each of those buckets. And clearly, as we have more understanding of how those rules develop, and then the benefits or the penalties as John mentioned of falling in and out, we'll certainly share our views with you as they develop, as well.

DAVID MACGOWN: Great, Eric. Thanks a lot.

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

SUSAN KENDALL: Thank you, everyone, for joining our call today. If you have any follow-up questions please don't hesitate to reach out to us in Investor Relations. We'll talk to you again soon.

OPERATOR: That will conclude today's conference. Thank you for joining. You may now disconnect.

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