Host
Susan Kendall, Head of Investor Relations

Speakers
Michael Corbat, Citi Chief Executive Officer
John Gerspach, Citi Chief Financial Officer

PRESENTATION

OPERATOR: Hello and welcome to Citi's first quarter 2013 earnings review with Chief Executive Officer, Mike Corbat, and Chief Financial Officer, John Gerspach. Today's call will be hosted by Susan Kendall, 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. Ms. Kendall, you may begin.

SUSAN KENDALL: Thank you, Regina. Good morning and thank you all for joining us. On our call today, our CEO, Mike Corbat, will speak first, then John Gerspach, our CFO, will take you through the earnings presentation, which is available for download on our website, 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 in 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 2012 Form 10-K. With that said, let me turn it over to Mike.

MIKE CORBAT: Thank you, Susan. And good morning, everyone. This morning we reported earnings of $3.8 billion for the first quarter of 2013. Excluding CVA and DVA, net income was $4 billion, or $1.29 per share. During the quarter, we benefited from seasonally strong results in our markets businesses, sustained momentum in investment banking, and continued year-over-year growth in loans and deposits in Citicorp in a more favorable credit environment. As I've said, achieving consistent, high-quality earnings is one of my top priorities, and these first quarter results are encouraging. However, although this was a good start for 2013, the environment remains challenging and we're sure to be tested as we go through the year ahead.

In addition to our performance across business lines, there were several other areas that I'd want to point out. First, our capital strength again improved during the quarter, with the Tier 1 Common Ratio increasing to an estimated 9.3% on a Basel III basis. And we now expect the ratio to reach at least 10% by the end of this year. After a very thorough process, we were pleased that our regulators did not object to the capital plan we submitted. And although the requested returns were modest, the permission to do so, which was based on both quantitative and qualitative analysis, is meaningful. As I said on my first earnings call, it's critical that Citi be viewed as an indisputably strong and stable institution. And we made progress towards that goal during the first quarter.

Next, as I've highlighted, we have two areas of intense focus for our Company -- to reduce the drag on earnings caused by Citi Holdings and to utilize our deferred tax assets. We made progress on both fronts. We reduced our assets in Citi Holdings by $7 billion. Holdings assets now total just under $150 billion, or 8% of our balance sheet. And, more importantly, the loss in Holdings was reduced to less than $800 million, driven by improvement in credit costs, including a $375 million reserve release related to North American mortgages. We began utilizing reserves as the mortgage portfolio continues to shrink, credit performance continues to improve, and we become more comfortable that the housing recovery is
sustainable. As a result, we will continue to analyze this portfolio and adjust our reserve levels accordingly.

We also did consume a small amount of our DTA during the first quarter. Seven hundred million dollars of DTA was utilized, and we’re focused on generating sustainable U.S. taxable earnings, which are the primary driver of DTA consumption.

Lastly, I said on my first earnings presentation that I would soon announce the metrics by which you can measure our progress. Last month I presented three targets we aim to reach by the end of 2015. First is achieving an efficiency ratio in Citicorp in the mid-50% range. Second, we want to generate a return on Citigroup’s Tangible Common Equity of over 10%. And third is reaching a return on Citigroup’s assets of between 90 and 110 basis points in a risk-balanced manner. These goals will not be easily reached on a full-year basis, but they’re the right ones for our Company, given the environment. And as I’ve said, you are what you measure your and we will hold ourselves accountable.

We’re executing the repositioning plan we announced in December. But as I’ve said, driving efficiency needs to be business as usual and we’re working hard to ingrain that into the organization. To that end, as you may have heard last week, we’ll remove a layer of management in our Institutional Clients Group so that our six principal lines of businesses will report directly to Jamie Forese. This simplification preserves the businesses which are core to our unparalleled global network, and will lead to better integration in service of our institutional clients.

Looking ahead, I believe the environment is going to remain challenging. Europe’s issues, as the situation in Cyprus shows, still have the potential to rattle the markets and impact investor confidence. At best, the Eurozone is in a period of austerity instead of growth. And the ongoing low-rate environment, new regulation, and cost of putting certain legacy issues behind us will continue to put pressure on our earnings. But I am confident we’re on the right course. And I look forward to sharing our progress with you in the coming quarters.

Now John will go over the slides and then we’d be happy to answer any of your questions. John?

JOHN GERSPACH: Thank you, Mike, and good morning everyone. To start, I’d like to highlight some significant items affecting our results this quarter. First, CVA and DVA were negative $319 million pretax, and $198 million after tax in the first quarter, for a negative impact on EPS of $0.06. For comparison purposes, in the first quarter of 2012, CVA and DVA were negative $1.3 billion pretax, or $800 million after tax, for a negative impact of $0.27 per share. In addition, in the first quarter of 2012, we recorded a pretax gain of roughly $475 million related to the sale of minority investments, which had a positive impact on EPS of $0.10 per share in that quarter. Adjusting for CVA/DVA, we earned $4 billion in the first quarter of 2013, or $1.29 per share, as compared to $1.11 per share on an adjusted basis in the first quarter of 2012. Throughout today's earnings presentation, I will be discussing our results excluding CVA/DVA, and gains or losses on the sale of minority investments to provide comparability to prior periods.

In addition, as shown on slide 4, there are a few other significant items which are included in our results. First, operating expenses in the first quarter included legal and related costs of over $700 million, compared to nearly $1.3 billion last quarter, and $545 million in the prior year. Legal and related costs in Citicorp were down significantly in the first quarter, to $66 million. However, Citi Holdings’ legal expenses increased to over $600 million, primarily reflecting higher legacy legal expenses in the Special Asset Pool. Legal and related costs will likely continue to be elevated and volatile as we continue to put our legacy issues behind us.

Second, repositioning costs were $148 million in the first quarter, compared to $1 billion in the fourth quarter of 2012, and $66 million in the first quarter of last year. Given the higher than normal repositioning costs in the fourth quarter, today I’ll be discussing our results excluding the charges in that quarter, to provide comparability. And, finally, the loan loss reserve release in the first quarter was $652 million, including a release of roughly $375 million related to the North America mortgage portfolio in Citi.
Holdings. In total, the net reserve release was $86 million in the prior quarter and nearly $1.2 billion in the first quarter of last year.

On slide 5, we show total Citigroup results for the quarter. Revenues of $20.8 billion grew 3% from last year, while operating expenses of $12.4 billion increased 1%, driven by the higher legal and related costs in Citi Holdings. Excluding legal and related costs and repositioning charges, core operating expenses were $11.5 billion in the first quarter, down slightly from the prior year. Looking forward, core operating expenses should decline as we begin to see the benefits of the repositioning actions announced last December.

Credit costs of $2.5 billion declined 16% versus last year. Net credit losses of $3 billion were down 25%. However, the loan loss reserve release also declined by nearly half, to $652 million. We earned $4 billion of net income in the first quarter, or $1.29 per share, up from $1.11 per share last year on a comparable basis, driven by revenue growth and lower net credit losses, partially offset by the increase in legal and related expenses, and a lower net loan loss reserve release.

Our effective tax rate was also higher in the first quarter, at 29% versus 27% last year. We expect our full-year tax rate to be in the range of 30% in 2013, as a result of both higher expected earnings in North America, as well as a higher tax rate on international operations. The increased rate on earnings outside North America is due to a change in our assertion that earnings in certain entities would be permanently reinvested outside the U.S. As we have built up capital in these entities that is adequate to support future investments, we now believe that current and future earnings in these entities could be repatriated at some point. Citigroup end-of-period loans were flat year-over-year at $646 billion in the first quarter, as growth in Citicorp was offset by the wind-down of Citi Holdings, and deposits grew 3% to $934 billion.

On slide 6, we show the split between Citicorp and Citi Holdings. Citicorp generated first-quarter revenues of $19.9 billion, and net income of $4.8 billion. Year-over-year, revenues grew 2% and expenses declined by 2%, driven by lower legal and related expenses in Citicorp. Credit costs increased modestly year-over-year as the decline in net credit losses was more than offset by lower reserve releases. And we continued to grow loans year-over-year in each core business. Total Citicorp loans grew 5%, with consumer loans up 1% and corporate loans up 9%. Citi Holdings had revenues of $910 million, and a net loss of $788 million, a significant improvement from prior periods, driven by lower credit costs. Citi Holdings ended the quarter with $149 billion of assets, down $60 billion, or 29% year-over-year. At quarter end, Citi Holdings accounted for just under 8% of total Citigroup assets.

Turning now to Citicorp on slide 7, we show Citicorp's pretax earnings by business, excluding the impact of loan loss reserves, on a trailing 12-month basis. Through the first quarter, pretax earnings grew to $21 billion, an increase of nearly 30% over the prior 12 months, driven by Consumer Banking and Securities and Banking.

Slide 8 shows the results for North America Consumer Banking. Total revenues of $5.1 billion in the first quarter were down 1% year-over-year. In retail banking, revenues were down 3%, as loan and deposit growth was more than offset by spread compression in this low-rate environment. Cards revenues, on the other hand, were flat versus last year, as lower average loan balances were largely offset by an improvement in net interest spreads, as we benefited from both an improvement in yields as well as lower funding costs. Sequentially, total revenues declined 4% on lower mortgage gain on sale margins, as well as seasonally lower cards revenues.

Total operating expenses of $2.4 billion were up 4% year-over-year, reflecting higher volume related costs and repositioning charges, partially offset by efficiency savings. On a sequential basis, expenses declined on lower legal and related costs. Credit costs of roughly $900 million increased 12% year-over-year. Net credit losses declined by 23% to $1.3 billion, driven by an improvement in cards. However, the net loan loss reserve release was significantly lower at $370 million this quarter. Earnings before tax, excluding the impact of loan loss reserves, increased by nearly 20% to $1.4 billion.
Overall, we continued to see progress in our North America consumer franchise. Average deposits continued to grow, up 10% year-over-year, including 17% growth in checking account balances. In Branded Cards, accounts also grew, up 3% from last year. And for both card portfolios, we saw continued expansion in net interest spreads.

On slide 9 we show results for international Consumer Banking in constant dollars. On this basis, both revenues and expenses grew 3% year-over-year. In Latin America, revenues grew 6% and expenses were up 7% from last year, as spread compression slowed revenue growth, while volumes remained strong. In Asia, revenues were down slightly versus last year, and expenses were flat. And in EMEA, revenues grew 2%, with a 2% decline in expenses.

While international consumer revenues continued to reflect spread compression in certain markets, as well as the impact of regulatory changes, particularly in Asia, most underlying drivers showed sustained momentum in the first quarter. Total average loans grew 4% from last year. Card purchase sales were up 7%, and investment sales were up 24% year-over-year. Based on this continued volume growth as well as expected efficiency savings, we currently believe both Latin America and Asia will return to positive operating leverage on a full-year basis in 2013. Credit costs of $829 million in the first quarter were up 6% from last year, on higher net credit losses due mostly to loan growth and portfolio seasoning.

Slide 10 shows our international consumer credit trends in more detail. Credit quality in our international consumer portfolio remained strong in the first quarter, with stable to improving credit trends on a sequential basis across each region. In Asia, the NCL rate returned to below 1%, with 90-plus day delinquencies at around 50 basis points. And in Latin America the NCL rate was fairly stable at 4.6%. We continue to believe that the NCL rate in Latin America should normalize around 4.5% by the second half of 2013.

Slide 11 shows our Securities and Banking business. Revenues of $7.3 billion grew 8% from last year, and 50% from the prior quarter. Investment banking revenues of $1.1 billion were up 22% from the prior year, with higher revenues in all major products. Revenues increased 6% sequentially. And overall investment banking wallet share continued to improve in the quarter.

Equity market revenues of $826 million were down 10% from last year, due in part to the impact of lower volatility on derivatives revenues. And increased 78% from the fourth quarter on higher cash equity volumes and improved derivatives performance. Fixed income market revenues of $4.6 billion declined 3% from last year, as rates and currencies revenues were down from a very strong prior year period, partially offset by growth in securitized products. Sequentially, fixed income revenues were up 69% on improved results across all products. Lending revenues, excluding the impact of gains and losses on hedges related to accrual loans, were $333 million in the first quarter, down 7% from last year, primarily related to loan sale activity, and down 12% sequentially on lower average loans and a slight decline in spreads. Total operating expenses of $3.6 billion were down 4% from last year, and up 4% sequentially, reflecting higher incentive compensation. Net income of $2.5 billion grew 17% year-over-year, and more than doubled versus the prior quarter.

Moving to Transaction Services on slide 12. Revenues of $2.6 billion were down 4% from last year on a reported basis, and down 2% in constant dollars. Treasury and Trade Solutions was down 3% in constant dollars, as loan as deposit growth was more than offset by the impact of spread compression globally. And Securities and Fund Services revenues grew 2% in constant dollars, as higher settlement volumes and fees more than offset lower spreads. While spread compression dampened revenue this quarter, the volume drivers for transaction services continued to show momentum.

Average trade loans grew 20% year-over-year. Average deposits were up 10%. Assets under custody grew by 8%. And SFS settlement volumes grew 5%. Expenses of $1.4 billion were up 3% from last year on a reported basis, and up 4% in constant dollars - mainly on higher volumes - and down 5% sequentially due in part to lower legal and related costs. While spread compression is likely to continue to impact revenues in the near term, we believe we can achieve revenue growth and a return to positive operating leverage on a full-year basis in 2013.
Slide 13 shows the results for Corporate/Other. Revenues were flat versus the prior year, while expenses of $568 million declined 28% on lower legal and related expenses. Assets of $280 billion included approximately $83 billion of cash and cash equivalents, and $143 billion of liquid available-for-sale securities.

Slide 14 shows Citi Holdings assets. We ended the quarter with assets of $149 billion in Citi Holdings, or roughly 8% of total Citigroup assets. The $7 billion reduction in the first quarter reflected $2 billion of asset sales, $4 billion of net paydowns, and roughly $1 billion of cost of credit. As you can see on the slide, other assets in Local Consumer Lending increased during the quarter by nearly $3 billion. These are primarily loans held-for-sale where we were in the process of a transaction but had not yet closed as of quarter end.

On slide 15, we show Citi Holdings financial results for the quarter. Total revenues of $910 million were up 15% year-over-year as higher revenues in the Special Asset Pool were partially offset by a decline in Local Consumer Lending, driven by declining loan balances. Citi Holdings expenses increased 23% year-over-year to $1.5 billion, driven by higher legal and related costs in the Special Asset Pool. Excluding these higher legal costs, core operating expenses declined 18% year-over-year to roughly $860 million. This decline reflects declining assets, as well as the expiration of certain transition services agreements related to prior sales activity. Credit costs declined 44% year-over-year to roughly $750 million. Net credit losses declined significantly to $930 million. And the net loan loss reserve release was over $350 million, including a release of roughly $375 million related to North America mortgages.

Looking at the past five quarters of Citi Holdings results on slide 16, rep and warranty reserve builds and legal and related costs continue to weigh on Citi Holdings. On an operating basis, however, excluding these items and repositioning, we maintained a modest positive operating margin again in the first quarter. Credit trends were particularly favorable with North America mortgage NCLs declining to $630 million, roughly 60% of which were offset by reserve releases. We ended the quarter with $7.5 billion of loan loss reserves allocated to North America mortgage loans in Citi Holdings, or 36 months of coverage.

On slide 17, we show mortgage loan and adjusted net credit loss trends over the past two years. Since the first quarter of 2011, we have reduced the North America mortgage loans in Citi Holdings by 28%, driven by $18 billion of paydowns, $8 billion of asset sales and $8 billion of net losses. In the first quarter, we sold $2.8 billion of loans, including $1 billion of delinquent mortgages and $1.8 billion of current loans. A significant portion of the current loans were reperforming mortgages where we had previously modified the loan and it subsequently remained current. While we are, of course, encouraged by the sale of these reperforming mortgages in the quarter, it is still unclear whether buyers will have an appetite for additional sales of this nature. And we will continue to test the market.

We have also significantly reduced the quarterly net credit losses in the portfolio, down 50% since the first quarter of 2011, to $630 million, even while roughly $76 million of losses were accelerated into the recent quarter as a result of the continued actions we are taking to fulfill our commitments under the National Mortgage Settlement or NMS. We expect to fulfill our obligations under NMS in the second quarter. However, we will continue to modify loans under the OCC foreclosure review settlement announced last quarter, which we estimate will pull forward $30 million to $40 million of losses into each quarter for the remainder of 2013.

On slide 18, we show delinquency trends, including both residential first mortgages and home equity loans. Thirty-plus day delinquencies improved by 19% sequentially to $6.1 billion, with improvement in both portfolios. Residential first mortgage delinquencies fell 20% sequentially to $4.8 billion, driven by asset sales, as well as fewer new entries into the early buckets. And home equity delinquencies also improved by 15% to $1.2 billion.

On slide 19 we show our net interest revenue and margin trends. Net interest revenue was roughly flat year-over-year at $11.9 billion, and declined 2% sequentially due to a lower day count. Our net interest margin increased by 1 basis point to 294 basis points in the first quarter. On a full-year basis, we believe
we should be able to maintain our net interest margin above the 288 basis points we achieved last year. However, there will be quarterly fluctuations. And, in particular, we expect the net interest margin to decline sequentially in the second quarter by a few basis points.

On slide 20 we show our key capital metrics through the first quarter. Under Basel III, our estimated Tier 1 Common Ratio increased to 9.3%, versus 8.7% last quarter. And our Basel I Tier 1 Common Ratio was 11.8% - including the impact of the market risk rules which became effective at the beginning of the quarter - up from 11.1% on a comparable basis last quarter.

In summary, our results for the first quarter reflected a continued challenging operating environment, with spread compression globally and elevated legal and related costs remaining as headwinds. Against this backdrop, we continued to grow our core business, while beginning to reduce the earning drag from Citi Holdings. In Securities and Banking, we again demonstrated our ability to grow revenues while keeping expense discipline. And in Consumer Banking and Transaction Services, we continued to grow loans and deposits year-over-year, while maintaining a high quality credit portfolio. In Citi Holdings, assets are now less than $150 billion. And the net loss was less than $800 million this quarter, even as we continued to face elevated legal and related costs. And finally, our liquidity and capital positions remain strong, with estimated aggregate liquidity resources in excess of $370 billion, and an estimated Basel III Tier 1 Common Ratio of 9.3% at quarter end.

Looking forward, we remain confident in our ability to grow volumes to compensate for the impact of the low interest rate environment. And we remain on track to achieve the $900 million of efficiency savings expected this year from our previously announced repositioning actions.

With that, Mike and I are happy to take any questions.

OPERATOR: (Operator Instructions) Your first question will come from the line of Glenn Schorr with Nomura.

GLENN SCHORR: Hi. Thanks very much. I like this disclosure. On 17, you showed us that 60% NCLs were offset with loan loss reserve releases. Between the sales and then just improving conditions in general, should we be thinking 60% offset is the right number? Or should that grow over time as the portfolio shrinks and the market keeps getting better?

JOHN GERSPACH: I would say that if the portfolio continues to demonstrate improving credit trends, and if the housing market remains stable, you should assume that we would likely increase that percentage coverage as we move through the year.

GLENN SCHORR: Okay, cool. The comment, John, that you made earlier related to the tax rate in certain international entities, is that a comment on thoughts on repatriation? I guess it's the same question -- is it at all related to what I think is a growing subsidiarization trend, meaning the U.S. pushes foreign banks to hold more capital in the U.S.? Now are other markets doing that? How much of that is a risk that we should be thinking of, trapped capital around the world for you guys?

JOHN GERSPACH: That is an ongoing area that I think everyone is looking at. But that's not what's driving this decision. Glenn, when you look at the requirements under APB 23, one of the things that you've got to assert is that the capital in the offshore legal entities is to be permanently reinvested outside the States. And in specific legal entities -- and here, think in terms of our bank in Singapore and our bank in Ireland -- we've built up now substantial capital. And as you look at the capital levels, we have enough capital to meet the investment requirements that we see out into the future. And so it's likely that at some point in time current earnings and the future earnings in those legal entities could be repatriated into the States. And, therefore, we're going to provide the U.S. taxes, the differential between the U.S. tax rate and the local tax rate, on those earnings.

GLENN SCHORR: Okay, I got that. That's very helpful. Thanks. Last one. So post stress test where you had super high capital ratios after the stress test, you have very high Basel III now and growing pretty
quickly. That leads people towards getting real excited about next year's CCAR. The question I have is, how are the rating agencies thinking about removing some of the implicit government support and the OLA coming rules play into your role about Citi's ideal capital structure?

JOHN GERSPACH: Those are all things that are developing and maybe will get further developed as 2013 unfolds. For now, we're waiting to see what rules come out regarding OLA.

GLENN SCHORR: Have there been any pre-funding of it? In other words, I thought I saw you do some sub debt issuance. And your funding costs have come way down, given your good performance.

JOHN GERSPACH: To the extent that we've had debt maturities, we've rolled over some of those maturities, although we've been in the process of reducing long-term debt. I think you've seen us issue some preferred stock in the last couple of quarters. You take a look at the capital structure. We think preferred stock is a piece of that structure that we need to do some issuance with, as we think ahead to what the Basel III capital requirements are, both not just for Tier 1 common but also for Tier 1.

GLENN SCHORR: Okay. I appreciate it. Thanks a lot, John.

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

JOHN MCDONALD: Good morning. John, on the expenses, was wondering, you mentioned that on the core expenses, about $11.5 billion, we should start to see those start to come down as you get the repositioning benefits. Is there a new range of core expenses we should think about over the next couple quarters?

JOHN GERSPACH: No, John, we're staying with what we said at year end. And you should expect, as we just said, to see the core expenses decline over the next couple of quarters.

JOHN MCDONALD: From that $11.5 billion -- is that right?

JOHN GERSPACH: Correct.

JOHN MCDONALD: Okay. And then on the legal repositioning side, I think you just said volatile and likely to remain elevated. Is this the neighborhood we should think about? Or too tough to predict?

JOHN GERSPACH: I'd say it's too tough to predict. I think if you take a look at legal expenses, though, what did we run last year? -- $2.8 billion for the full year, or something like that? And now you've got $700 million or so in the first quarter. I'll leave it at that.

JOHN MCDONALD: Okay. So you're running at the same pace as last year.

JOHN GERSPACH: Roughly, on average.

JOHN MCDONALD: Okay. And then in terms of the net interest income, your net interest income dollars fell in the first quarter. I assume there was some day count pressure. And you mentioned the NIM outlook. I was just wondering, though, do you hope to grow the net interest income dollars in 2013, given the earning asset expansion you're doing?

JOHN GERSPACH: I'm sorry, John, what was the --?

JOHN MCDONALD: Do you expect the net interest income dollars to grow this year in 2013? You were down on NII in the first quarter, sequentially. I was just wondering -- you mentioned the NIM outlook. I was wondering, do you think --?
JOHN GERSPACH: John, I don't give net interest revenue outlooks. That gets into really going forward-looking. On a day count basis, though, if you take a look at the average net interest revenue for us, it was about $132 million in the fourth quarter, and the same number in the first quarter.

JOHN MCDONALD: Okay. Got it. And then last thing from me on the DTA, could you give us some sense of the drivers of the consumption, how much from improving just U.S. net income versus other factors that might have been at play?

JOHN GERSPACH: Yes. If you look at the moving pieces of the DTA, there's about $100 million of DTA that was actually added by the CVA/DVA loss. Citi Holdings losses added about $500 million of DTA. And then Citicorp earnings actually consumed, enabled us to consume about $1 billion of DTA this quarter. And then the balance of $300 million basically came out of OCI.

JOHN MCDONALD: Okay. So hard to run rate this or to give an outlook I guess. Will still bounce around a little bit. Do you have any outlook on the consumption or the ability to consume?

JOHN GERSPACH: No. You have to think about it this way. As long as we can continue to do some growth in U.S. earnings, that should be helpful. And that includes further wind-downs in the Citi Holdings losses. And also the change in the APB 23 assertion, that change in the effective tax rate, on a dollar-for-dollar basis, those incremental taxes will also serve to offset the DTA.

JOHN MCDONALD: Okay. And where do we stand at year end, John? Do you have the numbers with you? Sorry, at the quarter end, in terms of the total.

JOHN GERSPACH: It's down about $700 million, John, off the $55.3 billion. So that makes it $54.6 billion.

JOHN MCDONALD: Okay. Got it. Thanks very much.

OPERATOR: Your next question comes from the line of Guy Moszkowski with Autonomous Research.

GUY MOSZKOWSKI: Good morning, just wanted to drill into the litigation charge which went into SAP. As you pointed out in that slide at the beginning, on the significant P&L items, at least in the comparable periods, most of those significant legal charges were in Citicorp. And I think you were carrying them in Corp and Other, if I remember right. So the change in the geography, to put it in SAP, indicates that there's something related to the type of assets that are in SAP. Could you tell us a little bit more about what the probably $500 million or so implicit in SAP in those litigation charges are? And is it a reserve build or is there something specific that you're dealing with there?

JOHN GERSPACH: Guy, we don't comment on specific legal accruals unless we're announcing a settlement of some sort. But think in terms that we certainly put the legal accruals in the business, that they're in the segment that is going to be impacted by the matter for which we're setting aside the legal reserves.

GUY MOSZKOWSKI: Okay. Fair enough. If we look at the operating expenses in LCL and we look through some of the noise there, that's been running around $1 billion a quarter, and it came down to about $825 million. Is that a step function that we should think about run rating as you are seeing meaningful reductions in, for example, foreclosure servicing and the like?

JOHN GERSPACH: Certainly as we continue to sell off non-performing loans, one of the benefits that we look to achieve by the sale of the non-performing loans is to be able to bring down the servicing expenses on those loans. I'm not going to encourage you to necessarily run rate $825 million, but you can assume that one of the things that we aim to do through the loan sale is to target those loans that not only are producing higher levels of NCLs but that come with them a higher level of servicing costs.
GUY MOSZKOWSKI: Great. That's helpful. Turning to Citicorp and looking at global consumer in North America, I know it's not a real big thing but you've sustained a pretty steady growth rate of commercial markets loan assets. I think you're up almost 20% year-over-year to over $8 billion. Again, it's not huge when you put it in the context of, say, some of your competitors but it's a pretty significant growth rate. Is this an area that you've been targeting for much more significant loan growth? And how are you doing that?

JOHN GERSPACH: Actually, Guy, that's true. That is an area that Cece and her team have put particular focus on over, I'll say, the last year. Maybe it's been the last 15 months. But that's definitely an area where we see an opportunity to expand. And we've grown both deposits and loans in that market.

GUY MOSZKOWSKI: And is it targeted at particular industries? Is it largely branch-based?

JOHN GERSPACH: It's definitely branch-based and there is certainly -- there are certain industries that we have targeted. I believe that, at least in the last couple of months, the small energy companies have been a particular standout for us.

GUY MOSZKOWSKI: Okay, that's helpful. Thanks. A final question is just on the cautious commentary. Mike said something like -- we're sure to be tested. I'm just wondering if there's anything specific that he's looking at there that is giving him pause?

MIKE CORBAT: Guy, I would say that, as we look around the world, that you can just look at growth rates around the world and continue to see the world's a very uneven place with growth rates in the emerging markets around 5%, growth rates in the developed markets space around 1%. And you can see the volatility in reactions whether it's to slowing growth in China this morning, or whether it was Cyprus issues. So I think the world continues to be somewhat of a fragile place and I expect the markets to remain volatile.

GUY MOSZKOWSKI: Okay. Great. Thanks very much.

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

JIM MITCHELL: Good morning. Quick question on the long-term debt. You guys reduced it about $85 billion last year. It's certainly been helpful to the margin. With OLA or anything else like that, do you see that slowing this year? What's your outlook on long-term debt?

JOHN GERSPACH: Yes, we'll give a little bit more perspective on that when we do the fixed income call next week. But I think you can already see some slowdown. I believe end-of-period long-term debt only came down about $5 billion or so quarter on quarter. So we're not quite at the pace that we were last year.

JIM MITCHELL: Okay. So expect that sort of slower reduction from here.

JOHN GERSPACH: It certainly is not going to be at the pace it was last year, that's for sure.

JIM MITCHELL: Got you. And just maybe on the capital side, is it still expected that when you transfer or finalize the deal with Morgan Stanley on the JV, it would add around 30 to 40 basis points to your Basel III ratio?

JOHN GERSPACH: Assuming that Morgan Stanley were to call the entire 35%, yes.

JIM MITCHELL: Okay. Fair enough. And then, lastly, as the mortgage environment continues to look better, the housing environment, is there any improved outlook on some of the discrete assets in
Holdings, like OneMain? Clearly the profitability seems to have been improving there. But I don't know how you guys feel about the funding markets and the ability for someone to buy that.

MIKE CORBAT: Jim, we continue to look at all those. And as you've seen, when the prices and the terms are right, we'll act against that. Clearly, the recovery in housing helps not just the mortgage portfolio, but also helps on the consumer side in general. So we continue to watch that, but we've got no reaction today to plans there.

JIM MITCHELL: Okay. Fair enough. All right. Thanks, guys.

OPERATOR: Your next question will come from the line of Betsy Graseck with Morgan Stanley.

BETSY GRASECK: Hi, good morning. Couple questions. One is on the S&B expense ratio posted a very low 49%. I'm just wondering how you're thinking about what a normalized expense ratio should be in that segment.

JOHN GERSPACH: I think that as we looked ahead and you look out for 2015, we've already given some degree of where we think the expense ratio should be longer term for Securities and Banking. We said overall for Citicorp we would expect an efficiency ratio of 55%. And I believe that embedded in that was an expense ratio less than 60% for Securities and Banking.

BETSY GRASECK: Okay. And the low ratio this quarter, does that suggest you're not paying -- you don't pay out on mark-to-market gains. Is that right?

JOHN GERSPACH: I think it's awfully hard to judge long-term efficiency ratios on one quarter. There is always going to be revenues that don't repeat. And there's an expense base that's fixed and all things to be that. I'd love to have four quarters strung together like the first quarter. But that's not the way we've actually built the expense base.

BETSY GRASECK: Right. Okay. I just wanted to clarify that. And then on the capital ratio, obviously strong increase this quarter -- 50 bps up in common Tier 1. And rolling the camera forward, it looks like you'll be significantly north of 9.5%, obviously by year end. As long as the long end of the curve doesn't move up too much. The question is, how do you think about using some of that capital. And a two-part question. One, would you have any interest in buying portfolios? I know you can't buy depositories but maybe assets and put some of the capital to work that way?

MIKE CORBAT: Sure. So Betsy, a couple things. One is from a capital perspective, you're right, we'll continue to build capital as we go through the year. As I said in my opening remarks, I think that we should probably finish the year on a Basel III basis somewhere probably north of 10%. I think we'll continue to look opportunistically at things out there. I think the Best Buy transaction was an example from a portfolio that we saw. And we thought it made sense from a business fit, from a credit profile, from a synergistic perspective with other parts of our business. We'll continue to look for those situations as they present themselves. But nothing really too overt in terms of being aggressively on an asset purchase perspective.

BETSY GRASECK: Okay. And if something did come up and you had to choose between doing something that made sense for you from an acquisition perspective versus hitting the 10%-plus at year end, does the 10% matter? Is that a goal that you -- is that the primary goal?

MIKE CORBAT: I think the 10% does matter. What we know is we know that the 9.5% is a real number. What we don't know today is we don't know what the right buffer is because we don't know what it means to be above or below the 9.5%. So I think we would certainly look at any opportunities with a balanced eye towards those things we think that make sense for the intermediate and longer term versus the shorter-term capital tradeoff. Tough to say. We'd have to look at the situation.
BETSY GRASECK: Okay. Then just lastly, would you have any interest in going back and asking the regulators for an additional buyback request over and above what you were granted in March this year, in this calendar year?

MIKE CORBAT: This calendar year, no.

BETSY GRASECK: All right. Thanks.

OPERATOR: Your next question will come from the line of Mike Mayo with CLSA.

MIKE MAYO: First, a couple of specific questions, then one broader question. What is your Tier 1 Basel III common target?

JOHN GERSPACH: From a target point of view, Mike, two things. One is we said that we expect to end the year above 10%. And I think what Mike just said is he thinks 10% -- we think 10% is a reasonable figure to think about right now, just as we're trying to assess what is the appropriate level of buffer to have or maybe not have above 9.5%. But right now we're thinking in terms of 10% overall.

MIKE MAYO: Does that expectation include the 30 to 40 basis points from the sale of the rest of the joint venture?

JOHN GERSPACH: No. In order to finish the year, Mike's numbers, as far as being above 10%, that doesn't require Morgan Stanley to call the entire 35%.

MIKE MAYO: So that would be bonus on top of the 10% if it happens?

JOHN GERSPACH: Yes. Let me just be very clear. We do expect Morgan Stanley to at least call the 15%, which is due this year. We're not counting on them calling the additional 20%.

MIKE MAYO: Separately, you mentioned repatriation. Is that part of your tax planning strategy so that you can use more of the DTA?

JOHN GERSPACH: No. Repatriation of the earnings that we're applying the taxes on doesn't really involve the DTA. By providing the taxes, we're driving down the DTA. If we were to dividend those earnings, that could provide a little bit of a benefit perhaps in the actual utilization against the foreign tax credits. But that's not something that we're actively planning on right now.

MIKE MAYO: And then lastly, a question for Mike. This is the first conference call since the March 5 announcement about the longer-term positioning. And on the March 5 call, Mike, you said -- we've got to prove the value of our model. And I was wondering how you would see evidence of that proof.

MIKE CORBAT: I think if you look at all the operating aspects of our model in this quarter, markets in banking, CTS, consumer, I think all had reasonable to better than reasonable quarters. I think if you look at both from an absolute perspective, and importantly from a relative perspective, on the banking side of things, we continued to grow market share, which is an important approach to how we look at the value, the increasing value of our franchise. And I think, importantly, Mike, what we've done, as John showed in one of the slides, the sequential growth that we've actually shown in our markets and banking businesses, as well as our consumer businesses over a reasonably extended time period. And so I think the business has performed well. And I think that we've shown this quarter a good sample of when the franchise performs right, what value it can drive.

MIKE MAYO: As a follow-up, I agree, the numbers beat consensus, the stock's up 3%, but the stock's still down 90% pre-crisis. The ROE, with all the encouraging signs, is still only 8% versus 20% before the
crisis. If we look back, say, in two or three years, what would be the larger evidence that proves the value of the model?

MIKE CORBAT: I think you've got to really separate a couple things in there. One is, the numbers that you're citing, and appropriately so, are inclusive of the drag of Citi Holdings. And so, again, one of the things that we're focused on, reducing assets, reducing that drag. And as we go forward, we will hopefully see some of those things get behind us. I think, as Betsy said, we did hit some fairly robust efficiency ratios out of parts of our markets businesses and other places. And so we'd like to take what is happening in one quarter and continue to build on that and create more sustainability around it. So I think those would be good milestones of progress.

JOHN GERSPACH: And we've laid those things out as far as the targets that we've got on the table for 2015, both from an efficiency goal point of view in Citicorp and then ROA and ROTCE targets for Citigroup.

MIKE MAYO: So is it fair to say those three targets will ultimately be the proof of the value of the model?

JOHN GERSPACH: At least the value of the model up through 2015.

MIKE MAYO: Okay. All right. Thanks a lot.

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

MATT O'CONNOR: A couple of questions to clarify what's been talked about so far. Just on the repatriation of foreign earnings into the U.S., I know you talked about the DTA impact of that a little bit, but I just wasn't totally clear. If that were to happen, that does lower DTA; correct?

JOHN GERSPACH: By providing the tax, the U.S. tax, we've already lowered the DTA. Let's just work through an example, Matt. If I've got earnings in a legal entity that has a 12.5% tax rate, like in Ireland, and I have no intention of repatriating those earnings, they're going to be permanently reinvested outside, the only tax expense that would hit the P&L would be the 12.5% local tax. Now what we're saying is current and future earnings out of that legal entity could be repatriated. They could be dividended back into the States at some point in time. Which means now that you would need to provide the differential between the 35% statutory U.S. rate and the 12.5% local rate. So that 22.5% incremental tax that we're providing is both an income tax expense that is impacting the P&L, you see it reflected in our effective tax rate, and because it's a U.S. tax provision, it serves to reduce the DTA.

MATT O'CONNOR: Okay. So it's helping you right now, whether or not you actually repatriate the earnings.

JOHN GERSPACH: That's correct.

MATT O'CONNOR: Okay. Helpful. And then just another follow-up question. In the beginning comments you said something like, you laid out the three targets for 2015 and then said you won't reach these on a full-year basis. Did you mean full year in 2013 or full year 2015? What was that comment?

JOHN GERSPACH: Those are targets that we set out, Mike set out a month ago, for the performance of the franchise for the year 2015. Those are our targets. We wanted to get Citicorp efficiency ratio at 55% or better. We wanted to drive for Citigroup a return on tangible common of 10% or better. And a return on assets, average assets for Citigroup between 90 and 110 basis points. Those are the targets that we are still working towards.

MATT O'CONNOR: Okay. Got it. And then separately, sorry to put you on the spot here a little bit but we've had a very big move in certain commodities the last couple of days. I know you guys had
significantly reduced that business, broadly speaking, within your FIC areas a couple years ago. Are you sensitive to big price swings in some of these commodity prices out there?

JOHN GERSPACH: Not really.

MATT O’CONNOR: Okay. Thank you.

OPERATOR: Your next question will come from the line of Brennan Hawken with UBS.

BRENNAN HAWKEN: Good morning. A couple questions on the decline in delinquency in North America mortgage within LCL. I think you guys said that $1 billion was in sales. Was the rest primarily in charge-offs?

JOHN GERSPACH: Let's just go over the numbers. We did about $2.8 billion of sales in the quarter. About $1 billion of those were for delinquent loans. And the other $1.8 billion would be current loans.

BRENNAN HAWKEN: Right. The delinquent loans were down 140 bps in the quarter, linked quarter.

JOHN GERSPACH: Correct.

BRENNAN HAWKEN: That's $1.4 billion-ish. So $1 billion was in sales. So was the rest charge-offs of the decline?

JOHN GERSPACH: Some of it was charge-offs. Some of it was just an improvement in delinquency trends.

BRENNAN HAWKEN: Okay. Great. How did that break down? Was it primarily charge-offs?

JOHN GERSPACH: I don't have that. I'm sorry.

BRENNAN HAWKEN: Okay. And then in the sales of the loans at this point, what kind of discount is necessary to sell those loans at this point? And how would that flow through the P&L?

JOHN GERSPACH: Actually on some of the sales that we've done, we did it at book value or above. So those don't really have a loss associated with them. In general, Brennan, I would say it's going to be different for every tranche of sale that you do, because every tranche is a different point in the delinquency spectrum. And so depending upon the quality of the loan, where it's delinquent, is it a modified loan, you're going to get a different discount rate. We did see an improvement in pricing this quarter, though. I'd say that basically across the entire spectrum of mortgage loan sales that we looked at, I would say that pricing improved somewhere between 5% and 10 percentage points higher this quarter compared to similar activity that we would have been looking at in the fourth quarter.

BRENNAN HAWKEN: Okay. And I think you mentioned that you've got $3 billion in other that is basically loans that are available-for-sale that you're in the process of selling. Is that similar to the $2.8 billion -- a mix of delinquent and current mortgage?

JOHN GERSPACH: Brennan, some of that $3 billion is the $2.8 billion. In other words, when we enter into a contract to sell loans, let's say mortgage loans, we would take those loans then out of the mortgage portfolio and move them in the held-for-sale. It's not available-for-sale. It's held-for-sale. So these are transactions where we've got a signed contract, we just haven't closed as yet. So some portion of the $2.8 billion of mortgage sales that I referenced in the period, some of that is in the held-for-sale account and will be cleared out by the end of this month.
BRENNAN HAWKEN: Okay. And for these sales, the delinquent mortgage, did that have a lot to do with -- I think on a Basel III basis RWAs within Holdings dropped somewhere around $6 billion. Was a lot of that driven by these sales or were there other factors going on? Could you lay that out, too?

JOHN GERSPACH: When we look at doing a sale of any asset in Holdings -- and I think Mike has talked about this -- we look at it both -- and especially when it's a delinquent mortgage -- you look at it as far as what's the level of expected future credit losses that we expect on that mortgage. What's the cost of servicing that mortgage. And clearly a component of it would be what are the capital costs associated with continuing to hold that mortgage. So we look at all of those various aspects of it. I think if you looked as far as the drop in the Basel III assets for this quarter, it's probably a little bit heavily weighted towards the SAP portfolio again, as opposed to the LCL portfolio.

BRENNAN HAWKEN: Okay. That helps. And then last quick one. The pending sale of the Turkish operations, is there anything we can think about as far as expectation for operating expense declines on the back of that?

JOHN GERSPACH: Again, I think what we said in the press release is this is not a material transaction. It will have some -- you'll see some drop off in revenue, you'll see some drop off in expenses, but it's not material.

BRENNAN HAWKEN: Okay. Thanks a lot.

OPERATOR: Your next question will come from the line of Jeffrey Harte with Sandler O'Neill.

JEFFERY HARTE: Good morning, guys. It may be a bit nitpicky, but looking at the international consumer loan growth, 4% year-over-year is quite a bit lower than we had been seeing, sometimes north of 7%. Can you talk a little bit about what appears to be a declining growth rate in the international consumer loan business?

JOHN GERSPACH: Yes. I think you've got two different drivers. Jeff, what you may want to do is, in the investor deck, if you go back to one of the pages that we have in the appendix, slide 29, and we actually break out the various drivers in constant dollars, split by region. And I think what you're going to see is a little bit of a different story depending upon the region. If you look at it, we're still getting, I think, reasonable growth in Latin America. Latin America, it slowed down a little bit in the first quarter as primarily the Mexican economy slowed down a little bit. But you still, on a sequential basis, you take a look at the average loans, we're still growing card loans. And there's some seasonality. Normally you're going to have a little bit of a lower first quarter anyway. So we're still getting growth in Latin America out of cards and the retail banking loans.

The issue for us remains Asia. And if you stay on that same slide, 29, and take a look at Asia, on an average card basis it's flat. And, quite frankly, you can go back to the first quarter of 2012 and we have flat average loans. You're looking at $19.7 billion, $19.8 billion, $19.7 billion, $19.8 billion. And then you take a look at the retail bank average loans and, again, they're flat. So we're getting growth in some of the countries in Asia. We're getting decent growth in Hong Kong, in Singapore. The issue -- and I hate to keep bringing it up -- Korea is just, it's a drag on us right now, and it's one that we just have to work our way through.

JEFFERY HARTE: Okay. Tough to quantify, I know, but looking at Securities and Banking, a good quarter, maybe some of the trading not up year-over-year. We've been conditioned recently to see a big drop-off in activity levels in the second quarter. As we see other things like better pricing in the North American mortgage loan portfolio when you're selling, can you give any color or insight into what you're seeing as far as risk appetites by investing clients out there?
MIKE CORBAT: I think, Jeff, clearly a lot of the stance of the central banks out there and the availability of credit, I think we through the first quarter continued to see risk on. I think if you looked at the underlying dynamics of the business, first quarter 2012 was a terrific quarter in terms of G10 rates and currencies. This first quarter, strong performance in terms of our securitization revenues. In particular in North America, I think, as well as pretty good contributions out of our local markets and FX businesses. So I think a good mix there.

But I think, as you see in the securitization markets and some of the robustness there, and I think you look at the calendar, clearly there's an appetite for people and their willingness to continue to put on credit risk here. So we saw that through the first quarter. But as I said, the world, I think, remains a challenging place and you can just see in some near-term moves when you get a Cyprus or you get certain things, investors do have the tendency to pull back pretty quickly from the markets when those situations arrive. So I think we're going to have to watch that carefully.

JEFFERY HARTE: Okay. And, finally, the North American mortgage portfolio, the delinquencies has gotten a lot better sequentially. Have you -- and I missed it -- or could you give us any thinking on what might be a more normalized level of losses in that portfolio? I'm trying to just get maybe a feel for how much better you think things can theoretically get credit-wise in that portfolio.

JOHN GERSPACH: Jeff, I'm not going to be able to giving any forward guidance as to where we think a normalized rate is in the Holdings mortgage portfolio. We do see, as you can see, the credit performance is improving. And if you go back to one of the slides that we've got in there, slide 17, you can see that we've seen credit losses continue to decline in that portfolio. And we would expect to see declining losses into the future. But I can't give you a, quote, normalized rate on this particular portfolio.

JEFFERY HARTE: Okay. Thank you.

OPERATOR: Your next question will come from the line of Moshe Orenbuch with Credit Suisse.

MOSHE ORENBUCH: Great. Thanks. Not to beat the North American mortgage to death, but do you have a sense, could you tell us how much of the portfolio you think would be saleable at or above book value?

JOHN GERSPACH: No, I can't.

MOSHE ORENBUCH: Okay. But in the same -- you had previously talked about the average life of the portfolio. I'm assuming with the sales and such that the average life is declining. Is that fair?

JOHN GERSPACH: I have to tell you, Moshe, I haven't tried to -- I haven't even tested the guys on what they now think the average life is.

MOSHE ORENBUCH: The reason I'm asking is, as the number of months of coverage goes up, if the average life is coming down, it seems like the two of those are going both in the right direction and one should be eating into the other pretty aggressively at this point.

JOHN GERSPACH: If the average life is coming down, I would agree with you. I just don't know that right now.

MOSHE ORENBUCH: Okay. All right. And you addressed a couple questions ago about the growth in consumer loans in Asia a little bit. Anything else in terms of programs or things that you've got to show better results in parts of that? Are there any things that we can talk about?

JOHN GERSPACH: When you talk about programs --.
MOSHE ORENBUCH: I mean, are there parts of the portfolio that you're seeing any kind of better results?

JOHN GERSPACH: Yes. I would say in a lot of Asia, and I think I called out, before, Singapore and Hong Kong, we are seeing good sustained growth, 8% to 10% range for revenues. And you can see growth in some of the key drivers there, as well. But there's just a lot of different countries. I mentioned Korea before. But it's not just Korea. There's deleveraging. There are regulatory constraints being put on several countries throughout Asia. And so we're facing some headwinds in Australia, in Taiwan, and in Korea, as well. One item that I think will help us later in this year, we can begin card sales again in Indonesia, beginning next month. And so that's a market that we've been limited in for the last two years.

MOSHE ORENBUCH: Got it. Thanks very much.

OPERATOR: Your next question will come from the line of Fred Cannon with KBW.

FRED CANNON: Thanks so much. I just wanted to refocus a little bit on the North American mortgage operations of Citicorp. I note you did ramp up the originations quite a bit over the last year at around $18 billion in the last quarter. However, at the same time, the servicing portfolio continues to decline and I don't see any additions to the size of the mortgage portfolio in Citicorp. I was wondering if you could give us a little bit of color of what you see there. And are you planning to try to increase your market share in Citicorp in mortgage?

JOHN GERSPACH: Mortgage for us is not a big business. We're very focused on executing on the mortgages for our retail banking customers. So as we've looked at a lot of the mortgage origination so far, it's really been more heavily weighted towards our branch business than anything else. But as you've seen, the rate lock volume that we put through in the first quarter, it actually is down slightly year-over-year. And it was up a bit from the fourth quarter. But the mix is very heavily weighted towards our branch operations.

FRED CANNON: Okay. So there's no re-emphasis to try to earn more money in that sector.

JOHN GERSPACH: No, we're not looking to significantly grow share in mortgages, other than with our existing retail banking base.

FRED CANNON: Okay. Thanks. And then just quickly, I was wondering if there's any impact in the quarter on the appreciation of the Japanese yen.

JOHN GERSPACH: There certainly is, but from an overall point of view, if you take a look at both the impact of the yen, the peso strengthening, overall the FX impact on our EBIT is zero.

FRED CANNON: Okay. Great. Thanks.

OPERATOR: Your next question comes from the line of Chris Kotowski with Oppenheimer.

CHRIS KOTOWSKI: Two questions on your Latin American business. First is on page 10 where you show the 90 days past due. And they seem to be coming down steadily but the charge-off level is staying high. So I'm curious, what is the dynamic? Is there something unusual going on there? And then the second question is, on Friday there was a Dow Jones news story about you were looking to sell the Brazilian credit card business. I was wondering if you could comment on that. Is that business part of Citicorp or Holdings? And I would have thought Brazilian credit cards would be pretty core.

JOHN GERSPACH: It's a lot of questions. Brazilian cards is part of Citicorp. We don't comment on newspaper musings. Regarding the delinquencies and the NCLs in Latin America, we have had a bit of an increase in the NCLs. And that's primarily been due to the seasoning that we've had in certain credit
card portfolios in Mexico. And so we understand that the NCLs are a bit elevated right now. That's why they've grown to that 4.6% that is on one of those slides. But we do believe that by the second half of the year, the overall NCL rate in Latin America should normalize at around 4.5%. So we don't see that as being a continuing upward trend. And I think if you look at some of those statistics, let me give you the 90-plus days past due, you can see the fact that in Latin America the 90-plus has either been flat from a cards point of view or it's actually been improving in the retail banking business.

CHRIS KOTOWSKI: That was my question. Why the delinquencies were down and the charge-offs were flat. It's not a pattern we normally see.

JOHN GERSPACH: It's just the seasoning of some large credit card portfolios in Mexico. But that should all settle out by the second half of the year.

CHRIS KOTOWSKI: Okay, thank you.

OPERATOR: Your next question will come from the line of Matt Burnell with Wells Fargo Securities.

MATT BURNELL: Just a quick question, a couple of quick ones. To focus on Korea, is there anything in the recent activity going on in Korea that has you more worried about the potential for, quote, unquote, fixing Korea in the time frame you've been talking about over the last six to nine months?

JOHN GERSPACH: No, not really.

MATT BURNELL: Okay. And then it does sound a little bit as if you are a bit more hopeful of the possibility of selling assets out of Holdings. But at this point it's still a little uncertain as to the potential investor or buying demand. Did I hear that correctly?

JOHN GERSPACH: Yes.

MATT BURNELL: Okay. And then just quickly in terms of the mortgage market, can you give us any indication in terms of -- you mentioned a little bit about the focus on that business relative to the branch population. Do you have any metrics you can provide us in terms of what percentage of that population you're currently serving in terms of mortgages and where you'd like to get? And as mortgages decline, how should we think about the operating costs in that business coming down?

JOHN GERSPACH: Yes, I can't give you any statistics. I don't have anything with me that would point towards potential penetration of the retail banking client base for mortgages. I'm sorry.

MATT BURNELL: Okay. That's it for me. Thank you.

OPERATOR: Your next question will come from the line of Erika Penala with Bank of America.

ERIKA PENALA: Good afternoon. Most of my questions have been asked and answered. But I just had one on capital return. Clearly, with a very positive stress test result behind you, and you mentioning that your Basel III Tier 1 common will likely be above 10% at the end of the year, how should we think about the progression, the mid-term progression of capital return? Should we assume a more gradual increase in your payout ratios or is there a possibility of a larger stair step next year, given your excess capital positioning?

MIKE CORBAT: I think, Erika, right now it's early to call that. Clearly, one of the things that is important in this is not just the quantity but the quality of earnings. And I think as we go through the year and that makes itself more transparent, that will probably dictate how we think about that.

ERIKA PENALA: Okay. Thank you.
OPERATOR: Your next question will come from the line of Vivek Juneja with J.P. Morgan.

VIVEK JUNEJA: Hi. Couple of questions. Mike, you mentioned that things have slowed down a little bit with Cyprus, or Cyprus had an impact. How have the first two weeks of this quarter been, given Cyprus, et cetera, from a trading standpoint?

MIKE CORBAT: I would say certainly slower than the very fast start to the year, but volumes are decent.

VIVEK JUNEJA: Okay. Because the slowdown started in March. So from March, have we seen things improve a little bit or still just steady-ish to where it was in March?

JOHN GERSPACH: Vivek, it's a little hard to go week to week. We had a reasonably good quarter, the first quarter. I don't think that April looks like January.

VIVEK JUNEJA: Okay. John, I have a question for you. Just to follow up on the Latin American question that came up earlier. Early delinquencies in Latin America seem to be up pretty sharply in retail loans. They were up 21% linked quarter. How does that square with your outlook for losses coming down back to 4.5%, given the sharp jump?

JOHN GERSPACH: Beautiful question, Vivek. If you take a look at that page 15 in the supplement, and where you see those increases, go back to the third quarter and you're going to see a similar increase in the third quarter. There is a mortgage book of business in Mexico that we actually operate through payroll accounts, but they're on a 60-day payment schedule. So we get a payment every other month. So you're going to see some variability in the delinquencies as you move from the first quarter, where we get a payment in February, to the second quarter, where we get payments then in April and June. And so by the end of June the delinquencies are back to where you would normally expect them to be. They'll rise again in September and they'll decline again in December. It all has to do with that one mortgage portfolio in Mexico.

VIVEK JUNEJA: Very helpful. I have one last question for you, John, which is the comp to revenue ratio in the first quarter of '13. Can you give me a sense of what that was and what your full-year target is for 2013? Either you or Mike on that full-year target.

JOHN GERSPACH: No, we don't comment on comp ratios.

VIVEK JUNEJA: Okay. Thanks.

OPERATOR: Your next question comes from the line of Gerard Cassidy with RBC.

GERARD CASSIDY: Thank you. A couple of questions. First, on the legal costs, I know they're legacy legal costs and they're very lumpy and hard to predict. Can you guys tell us, is there a statute of limitations? Has it run out on all those legacy problems? Or is there still potential for new litigation that could add to those monthly legal costs?

JOHN GERSPACH: The one thing that you have to assume is that the legal community is very creative. And so I would say that there always is the opportunity for additional litigation, even in matters that you might otherwise think would have passed the statute of limitations. I don't think lawyers have statute of limitations.

GERARD CASSIDY: Okay. Another question was, your cost of funding obviously improved this quarter. When you look at your deposits, and recognizing you have more of a global footprint than the two big banks that reported on Friday, but even still, their cost of funding for their deposits is about one-third of
yours. Do you think we could see yours fall meaningfully over the next 12 to 18 months as the outlook improves for Citigroup?

JOHN GERSPACH: You're talking about deposits specifically?

GERARD CASSIDY: Yes. You're at 73 basis points and they average about 25.

JOHN GERSPACH: Don't forget, a lot of what you're probably looking at from a peer institution, they would be operating in the U.S. and in the U.S. environment. We have a much more global deposit base. So even though we're dealing with a rather low interest rate environment around the world, a low interest rate environment in the U.S. is going to be different than a low interest rate environment in, say, Mexico.

GERARD CASSIDY: Very good. Moving on to credit. I notice in the non-performing asset page, or your non-accrual page, there was an uptick in the corporate non-accrual loans in Citigroup. What was that due to?

JOHN GERSPACH: A couple of a hundred million dollars, or something like that?

GERARD CASSIDY: Right.

JOHN GERSPACH: It's just, there's a few -- you're always going to have a little bit of an episodic increase or an episodic decrease. There's nothing really there.

GERARD CASSIDY: Okay. And then, finally, you mentioned about Asia and the impact that Korea is having on that business. What percentage is Korea as a percentage of the balances, the loan balances in your Asia portfolio?

JOHN GERSPACH: I can't give you the exact percentage but you'll get a glimpse of that. We've got a page in the back of the book that lays out -- I don't have the page reference -- but there's a page that will lay out -- I think its page 32 -- that will actually give you the amount of loans that we have in key countries. And so if you look, in the consumer credit, consumer loans, Korea comprises about $24 billion of our consumer loan book.

GERARD CASSIDY: Okay. Great. Thank you.

OPERATOR: Your next question will come from the line of David Hilder with Drexel Hamilton.

DAVID HILDER: Thanks very much. My questions about DTA have been asked and answered.

OPERATOR: Your next question will come from the line of Andrew Marquardt with Evercore Partners.

ANDREW MARQUARDT: I had a question on expenses. You guys had -- it was helpful if terms of talking about positive operating leverage expected this year for Latin America, Asia in consumer and GTS. How should we think about North America consumer? What do we need to see happen before we get to see positive operating leverage there?

JOHN GERSPACH: I'd say we still have -- we've got to get more revenue production out of the U.S. card businesses.

ANDREW MARQUARDT: And any idea in terms of the timing? Or higher rates required, as well?

JOHN GERSPACH: I think it's a function of, again, it's a business that we're in the process of repositioning. I think that still-and-all, you take a look at the U.S. consumer, there's a decent amount of deleveraging still underway. I certainly don't see any re-leveraging necessarily on the part of the U.S.
consumer, other than refinancing mortgage loans and perhaps taking out more student lending, maybe auto loans a little bit. We're not really in that business. But from our point of view, getting more growth in the revolving balances, that's going to be a challenge over the course of the next couple of quarters.

ANDREW MARQUARDT: Thanks. And then in terms of the expense savings that you've previously laid out, and you were targeting $900 million for this year, how much of that, if any, has been realized in the first quarter?

JOHN GERSPACH: There's just a very small amount of that that's actually been realized in the first quarter. A lot of the people that have been notified to date, they exit beginning in March. There's a 60-day notice period. And so those are savings that will accrue more towards the latter half of the year.

ANDREW MARQUARDT: Got it, thanks. Then in terms of just the backdrop, as Mike had laid out early on, in terms of things still challenging and perhaps a little bit tougher, are there more levers to pull beyond the 1/1 savings that you've already laid out, if indeed things are worse? How should we think about that?

MIKE CORBAT: I think, as we said, we're focused on really trying to manage expenses in terms of BAU, and trying to get more efficiencies into the business. We recently announced that we've brought somebody in externally to help us do that. The businesses are going to be focused on that. So we're mindful of the environment, clearly with an eye towards the expense side of things. But today we're not going to talk about any big levers.

ANDREW MARQUARDT: Thanks. A couple ticky-tack questions. In the Corporate/Other line, sequentially, in your slide deck, page 13, you had mentioned how linked quarter revenue improvement was less negative this quarter versus last, partly driven by hedging activities. What was that and how should we think about that going forward?

JOHN GERSPACH: Hedging activities are something that is very difficult to predict. I think you'll see that we end up with some fluctuation in that line all the time. And this is where we have some macro hedges against elements of the business. But it's very difficult to predict.

ANDREW MARQUARDT: And that was a net positive meaningfully this quarter?

JOHN GERSPACH: I don't have a huge positive feeling in my head about it but I just don't have the information in front of me. I'm sorry.

ANDREW MARQUARDT: Okay. And then the last ticky-tack is just on liquidity continues to be pretty strong. Do you have your actual LCR ratio handy? I think last quarter maybe it was around 1.18.

JOHN GERSPACH: Yes, I think we actually ended last quarter at 1.22. I think we estimated it at 1.18 at the point in time we did the call. And then when the calculation was finalized, it actually increased. And we're in the process still of doing those calculations so I don't have a comparable figure in front of me at this point in time.

ANDREW MARQUARDT: And do you have a target for that? Will that drift lower as you deploy excess liquidity since you're already well above the required?

JOHN GERSPACH: What we've said is that certainly from where it was, when it was above 1.22, we said that it could drift somewhat lower. But again, this is another one of these ratios where the minimum requirement is 100%. And so we need to maintain some buffer above that 100%, just in order to be sure that you're not going to pierce it at some point in time. We haven't formalized exactly where we want to set that buffer.

ANDREW MARQUARDT: Got it. Thank you. That's helpful.
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