Host
Peter Kapp, Head of Fixed Income Investor Relations

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

PRESENTATION

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

PETER KAPP: Thank you, Regina. 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'll 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 John.

JOHN GERSPACH: Thank you very much, Peter and good morning everyone. We're very 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. Eric Aboaf, our Treasurer, is going to review some specifics on our strong balance sheet, liquidity profile, and capital position, as well as review our recent issuance activity and current funding plans for the remainder of 2013.

Before I turn it over to Eric, however, there are some key points from our first-quarter results we announced last week that I would like to highlight to start us off here on Slide 2. As you know, last week we reported earnings of $3.8 billion for the first quarter of 2013. Excluding CVA and DVA, net income was $4 billion. During the quarter we benefited from seasonally strong results in our markets businesses, sustained momentum in investment banking, continued year-over-year growth in loans and deposits in Citicorp, and a more favorable credit environment. Additionally, we utilized $700 million of our DTA during the first quarter, and continue to be focused on generating sustainable US taxable earnings, which are the primary driver of DTA consumption.

We continued our focus on efficient, disciplined balance sheet management, and reduced our assets in Citi Holdings to just under $150 billion, or 8% of our balance sheet. We also reduced the earnings drag caused by Citi Holdings with a net loss of less than $800 million, driven by improvement in credit costs, including a $375 million reserve release related to North America mortgages. We began utilizing these reserves as the mortgage portfolio continues to shrink, credit performance continues to improve, and we are becoming more comfortable that the housing market continues to show evidence of recovery. We will continue to analyze this portfolio and adjust our reserve levels accordingly.

Our liquidity position remains strong, with $376 billion of liquidity resources, and an estimated LCR of 116%, which is still comfortably above the 100% requirement. Our capital strength again improved during
the quarter, with a Tier 1 common ratio increasing to an estimated 9.3% on a Basel III basis. We now expect this ratio to reach at least 10% by the end of this year.

We remain focused on achieving the 2015 financial targets that we set out in March. First, is achieving an efficiency ratio in Citicorp in the mid-50s% 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 risked balanced manner. In summary, we are encouraged by our first-quarter results but the environment remains challenging, and we're sure to be tested as we go through the balance of the year.

Turning to Slide 3, 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 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 50% to $652 million. As I mentioned, excluding CVA and DVA, 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, a lower net loan loss reserve release, and a higher effective tax rate. And with that, let me turn it over to Eric.

ERIC ABOAF: Thank you, John. I'd like to start on Slide 4 by reviewing our credit trends and comment on the reserve releases we reported last week. Overall, in the first quarter we reported net credit losses of $3 billion. NCLs decreased 17% year over year on an adjusted basis and were slightly lower than in the fourth quarter. The dark blue bars represent the performance in Citicorp, which has continued to improve steadily with NCLs down 9% year over year. The gray bars show the improvement in NCLs at Citi Holdings, which are down 32% year over year, and down nearly two-thirds from the first quarter of 2011. I'll provide more detail regarding Holdings' credit trends in a few moments.

Given the improving trends in both net credit losses and delinquencies, we released reserves in both Citicorp and Citi Holdings. As John noted earlier, we released a total of $652 million of loan loss reserves in the quarter, including $361 million in North American cards. Significantly, we also released $375 million of reserves related to the North American mortgage portfolio in Citi Holdings, offsetting roughly 60% of the mortgage related net credit losses during the quarter. If the mortgage portfolio continues to demonstrate improving credit trends and the housing market remains stable, we would expect this proportion to increase with a resulting benefit to credit costs. Along the bottom of the slide you can see that we ended the quarter with total loan loss reserves of $24 billion or approximately 3.7% of loans. Of this total, $14.3 billion are attributed to Citicorp and $9.4 billion to Citi Holdings.

Turning to Slide 5. Looking at Citi Holdings, let me describe our continued progress in reducing the amounts of these assets. Holdings' assets have declined by 81% from their peak in 2008 to $149 billion, and now represent less than 8% of our consolidated balance sheet and 23% of our estimated Basel III risk-weighted assets. During the first quarter, Holdings' assets declined by approximately $7 billion, reflecting $2 billion of asset sales, $4 billion of net paydowns, and roughly $1 billion cost of credit. Holdings' North American mortgages are down 17% year over year to $86 billion, and 6% or $6 billion quarter over quarter. This quarter we signed deals to sell $2.8 billion of residential first mortgage loans, including $1 billion of delinquent mortgages and $1.8 billion of current loans. You may notice that other assets in local consumer lending increased during the quarter by $3 billion. Some of the loan sales we signed had not yet closed at the end of the quarter, so they are transferred to held for sale and other assets.
Regarding the Morgan Stanley Smith Barney, we have not yet received a formal update from them. With that said we carry the total investment including other financing we have provided at approximately $8 billion on our balance sheet. We also hold deposits related to the MSSB customers, which Morgan Stanley would assume in stages starting shortly after completing their purchase of the investment stake. The initial deposit transfer would total roughly $15 billion, with the rest transferring over the subsequent two years. In the months following the sale and depending on a number of decisions we could make, we expect Holdings' assets to decline by approximately $8 billion. The net liquidity outflow, however, will be less than $10 billion, which includes the transfer of deposits offset by cash inflows for the investment stake. At the same time, based on what we know now, we estimate that the sale of the remaining 35% interest will add approximately 40 basis points to our Basel III Tier 1 capital ratios.

On Slide 6 we show credit trends in the largest part of Holdings, the North American mortgage portfolio. This data includes both residential first mortgages and home equity loans. Net credit losses in this portfolio have steadily declined. Credit trends were particularly favorable in the first quarter, with net credit losses declining to $639 million, down 33% from last year, and 50% of what they were in the first quarter of 2011.

We've also witnessed a significant decline in the delinquencies in this portfolio, with 30-day delinquencies down by 29% since last year and 19% sequentially to $6.1 billion, with improvement across all of our delinquency buckets. The first-quarter reduction in delinquencies was driven by asset sales I just mentioned, as well as reduced flows into the early buckets across our portfolios, which we attribute to continued improvement in the housing market. We continue to evaluate opportunities to reduce this portfolio at attractive economics. Our current reserves against this portfolio are $7.5 billion, representing 36 months of NCL coverage and 123% of delinquent loans, both reflecting modest improvements from last quarter.

Having covered credit trends, let me turn to Slide 7 to discuss how we are reshaping our balance sheet to support our client activities. Over the last two years, we've managed our balance sheet down from the $2 trillion average we had been running while adding both customer loans and deposits in a disciplined manner. This quarter, we again maintained our average and end-of-period GAAP as assets at around $1.9 trillion. We believe that by managing a more compact balance sheet we can better focus on our customers' needs while improving our profitability, consistent with the ROA and ROTCE targets our CEO shared with the market.

On the asset side, we maintained our cash and investment securities at roughly 24% to 25% of the total balance sheet. Year over year, total loans were flat but we've continued to shift the mix of loans within our overall portfolio. Citicorp lending has increased as we lend to our core client base, and Citi Holdings has shrunk as we've continued to wind down those portfolios. On the liability side, our deposits and capital have grown while we reduced our long-term debt outstanding. This shift has enhanced our stable funding mix and reduced our funding costs as I'll describe more in a moment.

Turning to Slide 8. Given our strong balance sheet, we have been investing capital in our Citicorp lending businesses. So let me describe what we are seeing in loan volumes. In Citicorp, loans grew 5% year over year, and were essentially flat quarter over quarter as underlying growth was offset by seasonality. Lending in our institutional businesses was up 9% year over year and 2% quarter over quarter. Lending increased 13% in transaction services from the prior year, driven by trade finance in North America, EMEA, and Latin America. We saw 8% growth in our securities and banking loan book year over year, driven by growth in corporate lending in North America and Latin America, and private banking loans in North America and Asia.

In our consumer businesses, we saw growth in some markets, offset by continued customer deleveraging in North America. International consumer banking loan volumes increased 4% year over year, led by 12% growth in Latin America. North American consumer loan volumes were down 2% year over year, and 4% quarter over quarter, as the cards market continues to reflect both consumer deleveraging and the normal
post-holiday repayments. Later in 2013, when our announced acquisition of the Best Buy portfolio is completed, which is currently expected in the third quarter, we will add approximately $7 billion of receivables to our balance sheet and a new partner for our retail services business.

On Slide 9, let's spend a moment looking at deposits, which serve as our primary source of funding. This page shows average deposit trends by business with the end-of-period amounts below. Overall, our average deposits grew by 6% year over year and were down 1% quarter over quarter, reflecting the previously mentioned $10 billion of TAG related runoff which occurred at the end of the fourth quarter, offset by continued growth in consumer deposits. Going forward, we would expect modest growth in average deposits in Citicorp, but with a potential for some quarterly period-end fluctuations. As I mentioned earlier, when Morgan Stanley exercises their call, we would see a reduction of approximately $15 billion of deposits, offset by our underlying deposit growth in that quarter.

As you can see from the table at the bottom of the page, we've continued to shift our deposit mix towards operating accounts, which now represent 80% of our average total deposits. This mix shift, combined with market conditions, has helped us reduce our deposit costs from 85 basis points in the first quarter of 2011 to 58 basis points in the first quarter of 2013, as we continue to demonstrate pricing power and strong demand for our operating account products and services. In fact, our US deposit costs reached a low of 23 basis points in the quarter and our international deposit costs declined to 83 basis points. Both of these are important factors in driving our overall funding costs lower.

On Slide 10, I want to show you how some of the balance sheet growth that we've just reviewed is affecting our net interest revenue and margin. This quarter we saw NIM increase slightly to 2.94%, up 1 basis point from the prior quarter and 4 basis points from last year. Let me give you some context. We and most other banks continue to see pressure on loan and investment portfolio yields in this low rate environment, but we are seeing favorable yield trends in some of our portfolios. In aggregate, this pressure costs us approximately 20 basis points year over year.

But this pressure was offset in two ways. First, as I mentioned, our deposit costs continued to decline, which was worth approximately 14 basis points year over year. Second, we reduced our long-term debt, which was with an additional 12 basis points through tenders, buybacks, and maturities. We have continued those liability management activities, which I'll discuss in a moment. As a result, our improved funding costs reflect a mix shift towards a greater proportion of deposit funding. Deposits now fund 56% of our earning assets, up from 50% in the first quarter of 2011, while long-term debt funding has declined from 21% to 13% over that time. On a full-year basis, 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. We believe we can largely offset the effects of the challenging interest rate environment through continued liability management and a continued focus on deposit pricing.

On Slide 11, I'd like to discuss the sensitivity of our net interest revenue to interest rate movements. This chart illustrates the estimated annual effect of 100 basis point shift in interest rates on our net interest revenue. Now, I would point out that disclosures on interest rate exposures are not standard across the industry.

With that said, we believe that the upward trend here is informative. As you can see, we believe we are modestly positioned for rising rates. If rates were to rise by 100 basis points across the curve and across our major currencies, we estimate the annual increase in our net interest revenue to be approximately $1 billion or 6 basis point improvement in our NIM. In contrast to our current position, back in 2010 we were positioned for falling rates and a double dip recession and would have gained if rates fell. Importantly, the scenario shown here is just one of numerous scenarios we model routinely as part of our balance sheet stress testing and risk management processes.
Beyond the effect of net interest revenue, we are also conscious of how rate movements would impact the AOCI component of our equity, especially in the light of the proposed Basel III capital rules. The value of our high-quality available-for-sale securities portfolio would be marked down on the balance sheet in a rising rate environment but the value of our deposits would not be correspondingly marked up under GAAP. We currently estimate that 100 basis point parallel shift in rates would result in a decline of slightly less than $3 billion in our equity account, including the effects on available for sale securities, cash flow hedges, and our pension liability. This corresponds to less than a 2% reduction of our tangible common equity and roughly 40 basis point decline in our estimated Basel III Tier 1 common ratio, all based on quarter-end amounts.

Importantly, given the relative short duration of our AFS portfolio, we estimate that approximately 50% of the OCI mark would creep back over 2.5 years. In addition, as we just discussed, we would expect rising rates could yield $1 billion of additional net interest revenue over the first year, which would replenish capital further.

Now that we've described loans, deposits, and net interest revenue, let me turn to Slide 12 to describe in more detail our long-term debt, which is the primary source of funding for nonbank subsidiaries. This chart shows the composition of our long-term debt outstanding over time, including senior debt, subordinated debt, trust preferreds, and credit card securitizations. As you can see here, our long-term debt outstanding has decreased by $77 billion year over year, and $5 billion quarter over quarter to $234 billion. At the same time, we have maintained our weighted average maturities in the seven year range to help ensure a stable funding base.

As we said in January, we continue to expect our long-term debt outstanding to decrease, but at a slower pace this year. Some of this net reduction will occur through maturities and some will result from our targeted tender offers, debt buybacks, and redemptions. Much of this reduction corresponds directly to the runoff of Citi Holdings assets and from the measured use of liquidity. Generally speaking, any reductions in our long-term debt will be scaled to the funding needs of our business and will also be dependent on a favorable economic environment. We will also be cognizant of potential new regulatory guidelines under OLA, which I will discuss more in a moment.

Moving to Slide 13. This page demonstrates how the combination of issuance activity and expected maturities continues to reshape our long-term debt footprint. In 2012, we significantly reduced debt outstandings, maturities were driven by the last of our TLGP bonds coming due, and were complemented by significance buybacks, tenders, and redemptions. We issued $15 billion of long-term structural debt, almost all at the parent Company.

Throughout 2013, we currently expect long-term debt maturities of approximately $28 billion, and as we previously stated we are targeting buybacks, tenders, and redemptions of another $10 billion to $15 billion with an expected total issuance volume of approximately $20 billion. Of course, these plans are absent any unforeseen circumstances or any regulatory guidance, for example, on OLA.

During the first quarter of 2013, we issued approximately $8 billion of long-term debt in dollar, euro, and Aussie denominations and for terms of 3, 5, and 10 years. We repaid $6 billion of maturing debt and retired approximately $2 billion of long-term debt through tenders or buybacks. Next quarter you'll see the reductions associated with the redemptions of $3 billion of high-cost trust preferreds, which we just completed this month. And last week we also launched a tender offer for two of our outstanding subordinated notes.

In addition, while not technically considered long-term debt, our issuance of preferred stock also influences our overall funding plan, as it complements our long-term debt funding and will play an increasing role in our capital structure. We completed a $575 million preferred stock offering in the first quarter, bringing our total preferred stock outstanding to a little over $3 billion.
Turning now to Slide 14. I'd like to discuss the pending regulatory guidelines for OLA against the backdrop of our funding and liquidity position. The implementation of the orderly liquidation authority under Title II of the Dodd-Frank Act is of significant interest to many of our fixed income investors and is an important factor in developing our funding plan. We generally support the concept of single-entry receivership as a way to limit future government bailouts, and believe that OLA requirements could improve the overall stability of the financial system. Recent discussions of potential OLA requirements have focused on holding a prescribed amount and type of debt at the holding company level to recapitalize the banking subsidiaries in the event of a crisis.

Based on what we know now, we believe that our capital structure positions us well to adapt to a potential OLA requirement, especially relative to our peer institutions, many of whom tend to run with less long-term parent company debt than we do. Whatever final form the rules take, we will adjust our capital structure accordingly just as we have done with all prior regulatory developments. That said, many questions about the implementation of OLA remain, including the timing of the proposed rules, guidance on the types of debt that may be used for bail-in, and required bail-in capacity relative to assets, that is, the denominator and the required ratio.

Given the uncertainty surrounding implementation, we've presented what we believe to be some relevant data points for evaluating our preparedness for the potential requirements under OLA. On this page we've listed the amounts and components of debt at our parent Company, which is a subset of the consolidated amounts shown on Slide 12. Given that our parent Company has historically been our primary issuance entity for both senior and subordinated debt, we run with a healthy amount of bail-in capacity based upon a few of the ratios calculated by industry analysts and that we've included here. We obviously welcome more guidance from the Fed and the FDIC and we're closely monitoring the situation for new developments.

Now that I've covered both deposit and long-term debt funding, I'd like to discuss our liquidity resources on Slide 15, which includes unencumbered cash and liquid securities. We currently have $376 billion of liquidity resources, down from the peak of $427 billion at year end 2010. As we've discussed on prior Fixed Income calls, during 2011 and the first half of 2012, we deliberately maintained a substantial liquidity buffer. Given the uncertain economic outlook and the uncertain pace of balance sheet deleveraging, we felt that maintaining significant levels of liquidity was prudent at that time.

During the second half of 2012, we began to consciously manage down our liquidity portfolio, reflecting the improving economic outlook in the markets where we operate and our evolving financial position, including our growing deposit and capital base. We reduced our liquidity buffer primarily by reducing long-term debt, limiting deposit in-flows, and actively deploying cash by lending to our client base. And by managing down our liquidity resources, we've been able to reduce our cost of funds and improve our net interest margin. Our outlook continues to be flattish to down slightly during the remainder of the year, but we expect that our liquidity levels may fluctuate day to day and quarter to quarter, due to episodic deposit flows and business-driven assets.

Our liquidity strategy allows us to meet the proposed Basel III liquidity requirements ahead of schedule as we show on Slide 16. The Basel III liquidity coverage ratio, or LCR, is designed to ensure banks maintain adequate liquidity to withstand an acute 30-day stress scenario. The LCR calculation includes unencumbered cash and highly-liquid unencumbered government, government-backed and corporate securities in the numerator, and net outflows in the denominator. The net outflows are calculated by applying assumed outflow factors as prescribed in regulatory guidance to various categories of liabilities such as deposits, secured financing, and unused commitments.

As you recall, in January of this year the Basel committee amended the LCR requirement. The key changes included an expanded definition of liquid assets and a change in the outflow estimates for certain types of deposits and commitments. The rules will phase in from 2015 to 2019. The Basel LCR rules remain in a formative stage and continue to evolve, and we'll still need to see US rules once they
are written. Based on our current interpretation of the proposed LCR regulatory guidance, we've continued to refine our estimates for this quarter and prior quarters as you see on this page. At the end of the first quarter, our estimated LCR was 116%, flat to year end 2012, and representing additional liquidity of roughly $52 billion above the required fully phased-in 100% threshold.

Finally, turning to Slide 17, let me summarize our capital strength both on a Basel I and Basel III capital basis. As of the first quarter, we estimate that our Basel I Tier 1 common capital stands at $128 billion, and our Basel I total capital is $174 billion. Our Basel I Tier 1 common ratio was 11.8%, including the impact of the US market risk rules, which became effective at the beginning of the quarter, up from 11.1% on a comparable basis last quarter. Under Basel III, our estimated Tier 1 common ratio as of the first quarter was 9.3%, up 8.7% in the fourth quarter of 2012, with the increase driven predominantly by our earnings and DTA utilization. Our capital base is one of the strongest in the industry as compared to both US and international banking peers. As John mentioned, we now expect to reach at least 10% Basel III Tier 1 common ratio by year-end 2013.

On Slide 18, let me give you some context for how we are optimizing our regulatory capital structure as we prepare to meet the Basel III requirements on a fully phased-in basis. The left panel illustrates our current capital structure under Basel I, including the effect of the final US market risk rules where we had 11.8% Tier 1 common capital and 16.1% total capital as of the first quarter. The middle panel illustrates our current 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 begin to lose qualifying Tier 1 capital treatment this year with a three-year phase-out, but continue to qualify as Tier 2 capital. As a result of this phase-out, we have begun to redeem our trust preferreds, including the $3 billion which settled last week, and will be reflected during the second quarter. We will continue to evaluate opportunities to redeem further series of TruPS.

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. We issued $2.25 billion of preferred stock in 2012, and an additional $575 million in the first quarter of 2013, bringing our total preferred stock outstanding to approximately $3.1 billion. We expect to continue to take actions based on the proposed Basel III standards, including redeeming additional trust preferred securities and issuing preferred stock as market opportunities arise in the coming years. The long implementation time line to 2019 allows us to pace ourselves when accessing the market.

Moving to our last slide, let me summarize four major points. First, while the environment remains challenging, we grew both revenues and net income in the first quarter, including a reduced drag for Citi Holdings. We also continued to grow deposits and loans year over year in our core businesses. 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 our estimated Basel III Tier 1 common. We now expect this ratio to reach at least 10% by the end of the year. Our liquidity remains strong, and our estimated liquidity coverage ratio is approximately 116%, which is comfortably above the proposed required minimum.

Third, we're well reserved and our credit trends remain favorable, reflecting the high quality of both our consumer and corporate portfolios. And fourth, we've efficiently managed our balance sheet to approximately $1.9 trillion and continue to expect to run at this level this year. While we've managed down the overall size, we've also shifted the mix into loans and deposits. As a result of these purposeful actions we've reduced our long-term debt footprint substantially in 2012. By comparison, 2013 reductions will occur at a more measured pace. That concludes our Fixed Income review. John and I would be happy to take your questions.

OPERATOR: (Operator Instructions). Our first question will come from the line of David MacGown.

DAVID MACGOWN: Good morning. Deposit question and then a Dodd-Frank question. So I think this is for you, Eric, and you were talking about this. Could you talk a little bit about how the Morgan Stanley
Smith Barney deposits that are being transferred over are captured in the LCR today, and what impact that will have on the LCR going forward?

And then the Dodd-Frank question, is there was some new guidance put out I think by the FDIC last week around living wills. I wonder if you have you any perspective for us on how we should be thinking around that.

ERIC ABOAF: David, it's Eric. Let me start with deposits. The current deposit treatment for -- let me start back. The deposits for Morgan Stanley Smith Barney totaled about $55 billion. I think as I mentioned earlier on, about $15 billion will flow out up front and then subsequent to that, about $5 billion per quarter. So it kind of flows out in a measured way.

Those deposits right now are treated primarily as retail deposits and under the outflow factor that you find in the LCR for that, so they're reasonably high quality. And what our intention would be would simply be to continue our deposit growth plans, both in consumer and in corporate deposits, right, each of which are roughly 50% of our deposit base and we think that will over time offset any of the outflows.

DAVID MACGOWN: Thanks. Then the living will question?

ERIC ABOAF: Do you want to be a little more specific?

JOHN GERSPACH: David, it's John. Look, the FDIC did come out with -- actually it was the Fed and the FDIC together -- came out with some new guidance last week, which we're still in the process of working our way through. But I think it's more indicative of the fact that this is, as we always thought it would be, much more of an iterative process, and we would just expect that it's just something else then that we'll have to put into our submissions and we'll work our way through it. Again, we're still going through some of the details from last week's changes.

DAVID MACGOWN: Thanks, John.

OPERATOR: Your next question will come from the line of Robert Smalley.

ROBERT SMALLEY: Hi. Good morning. Thanks for doing the call. With respect to Slide 14 on Orderly Liquidation Authority, thanks for putting that in. Could you talk a little bit about how you guys see the optimal mix between senior and subordinated debt? There's been a lot talked about with the idea of having a layer of sub debt that should support the senior debt and impact funding positively for senior debt. On the other hand, we have the ongoing Moody's review, and does that complicate matters?

ERIC ABOAF: Rob, it's Eric here. I think there are a couple answers to those questions. First, on the optimal mix, the optimal mix is primarily driven by the regulatory requirements here in banking. That means that we need a certain amount of total debt to fund our nonbank activities, primarily, and that is scaled to the size of those activities.

On the other hand, we need sub debt from a Tier 2 capital perspective, and you see there's a page in the back there where we dimensioned how much sub debt we have under the Basel I framework, which is quite healthy. We have enough sub debt under Basel III so far, and so the sub debt effectively becomes scaled to those regulatory requirements.

ROBERT SMALLEY: Okay. And does this -- does the Moody's review complicate that at all in terms of how you see cost of funding going forward, assuming that there's a high possibility that subordinated debt at the holding Company could get downgraded to below an investment grade rating?

ERIC ABOAF: I don't think we expect very significant changes in terms of impact on cost of funds or liquidity from Moody's. If you remember, Moody's is one of three rating agencies. It is doing an industry-
wide review, and I think the rating agency impact would have been a lot higher 10 or 20 years ago, when rating agencies were really the only methods to really understand the strength of a banking institution. Now many of you on the Fixed Income investor side do your own proprietary evaluation, and clearly there's an enormous amount of market data.

So we don't see very much impact. We can also turn back to some of the Moody's announcements in January, February of last year. Remember where they did a very large and significant industry review with multi-notch potential changes in January and February. We had an immaterial impact on our liquidity and quite marginal impact on credit spreads. Then in June of last year, they announced their final decisions and again, an immaterial impact on liquidity and quite a modest or even marginal impact on credit spreads. So we don't see a lot of changes specifically from that action.

ROBERT SMALLEY: Great, thanks.

OPERATOR: Your next question will come from the line of Ryan O'Connell.

RYAN O'CONNELL: Good morning. Couple questions on the business, please. John, you talked about Asia on the earnings call but I'd just like to revisit that a little bit. There's yet another journal article today about rapid growth in Asia. You said that Korea's a drag. So that's been very clear.

I guess two questions, though. One, you mentioned, I think, that Citi was out of Indonesian card market for a few months. I guess I didn't have the background on that. Two is a sort of broader question. Obviously you've got very good franchises over there. Are you hanging back a little bit? Do you think your competition's getting too conservative? Is that part of what's going on?

JOHN GERSPACH: Let me try to address -- the first question was on the Indonesia cards. We've essentially been out of the market in Indonesia as far as being able to access new credit card customers for almost two years now. We're allowed to re-enter that market beginning in May. So that's one of the things that we talked about.

And secondly, as far as holding back, I don't view it as -- we're not holding back. We are sticking of course to our defined target market, which is a much more of an affluent or emerging affluent customer throughout Asia. And so the growth that we've been able to generate in Asia so far is in tune with that strategy. Now, you need to remember, we said that Korea and Taiwan were both drags, and you take a look at some of the data that we give you, Korea in and of itself has got something of almost 30% of the loans that we have in the consumer business in Asia is in Korea. So when you're undergoing a drag in Korea, it certainly is going to have a much larger impact then on your franchise. We do continue to see good growth coming out of Singapore, out of Hong Kong. So it's a mixed bag for our franchise right now in Asia.

RYAN O'CONNELL: Okay. Thanks. That's helpful. And then the other one, and I think this is probably just a numbers geography question, but as Eric pointed out, your corporate loans were up about 9% year over year which is -- that's impressive, frankly. But then if I look at the Securities and Banking lending revenues, they were down about 7% year over year. So I'm just trying to square that.

JOHN GERSPACH: When you take a look at the revenues themselves, and I guess you're looking at the revenues excluding the impact of the loan hedges.

RYAN O'CONNELL: Yes, this is on Page 11 of the slide deck for the conference call, the earnings conference call.

JOHN GERSPACH: Yes, yes. You've also got -- yields for the most part have come down slightly from, again, last year. It's not that we're seeing a resurgence in yields on the corporate loans. And beyond that, I really don't have much other commentary to offer.
RYAN O'CONNELL: Okay. That's alright. Thanks a lot.

JOHN GERSPACH: Alright.

OPERATOR: Your next question will come from the line of David Knutson.

DAVID KNUTSON: Hi. Couple questions have been asked but maybe a follow-up then. On Orderly Liquidation Authority, it seems that you can meet the requirement or some kind of requirement through issuance but also RWA management. So when you think about a potential rule, does RWA -- decreasing your RWAs or issuance, how does that balance out? Will you favor RWA reductions or favor meeting any kind of requirement through issuance?

JOHN GERSPACH: Hi. It's John. I guess first and foremost, we still need to understand whether the rule is RWA-based or GAAP asset based. We don't know. So again, there is no real formal guidance at this point in time on what the OLA mandate might be based on. So it's a little difficult to respond to the question as to what we might favor. You're asking for a hypothetical answer to a hypothetical situation. So I think I'll just hypothetically say I really can't answer that right now.

DAVID KNUTSON: Fair enough. In that same vein, then, on a time line, so there's been some Fed talk, and you've included a couple quotes here in the slide deck, but if they come out with some kind of NPR later this year the rule doesn't probably get written until well into '14. Do you think you get a Basel time line to implement or do you think it will be a little more accelerated?

JOHN GERSPACH: When you say a Basel time line, you mean all the way out to 2019? I do anticipate that whatever -- assuming that there is additional guidance, I would anticipate that we will have some time frame beyond a year or two to come into compliance. This could be a significant shift especially for others in the industry where they don't have any significant amount of long-term debt currently at the parent company level. For us, I think you're looking at we might need to make an adjustment here or there. Others, it could be a much more significant impact.

DAVID KNUTSON: One last question. Last week there was some more Fed speak on the idea that some of your peers have different business styles or structures or risks. So would you expect Citi to favor or to come out of this kind of review or this rule favorably relative to other guys, or unfavorably due to your business mix, your international exposure perhaps or something else?

JOHN GERSPACH: I'm actually drawing a blank as to what you might be referring to, so I apologize.

DAVID KNUTSON: Well, the idea is if everyone is required to have let's just say 30% of something --

ERIC ABOAF: Back on OLA again?

DAVID KNUTSON: Right. Yes. I'm sorry. Do you expect Citi will have more or less, given its unique business mix versus some of your peers?

JOHN GERSPACH: Again, I'm not quite sure 30% of what. I don't know what the 30% is, so I'm sorry, I just can't give you an answer.

DAVID KNUTSON: Fair enough. Thanks, John.

JOHN GERSPACH: Okay.

OPERATOR: Your next question will come from the line of Mark Kehoe.
MARK KEHOE: Good morning, just two questions. First question, if you could talk about the impact of the FDIC assessments on CLO Holdings, and whether that has changed your appetite to hold CLOs in the bank or your kind of perception around that area, please.

ERIC ABOAF: Mark, it's Eric. The FDIC calculation is pretty complicated from a number of different respects, and in fact if you go deeply through the calculation, there are a number of parameters that CLOs and other areas fall into, whether it's your concentration top 20 exposures, whether it's some of your market risk and so forth, and those all kind of blend together. And so we don't see any large impact from that rule generally on our book. I think in addition, I think as you know, we run a pretty pristine book of liquid assets for our liquidity portfolio. We may have $2 billion of CLOs but we don't have a significant position which would be impacted one way or the other.

MARK KEHOE: The next question I had was can you discuss whether you've seen any changes in the large corporate deposit area, particularly in the Transaction Services area with the ending of TAG and corporate deposits generally moving toward the too big to fail bank versus others say short-term money market instruments? Related to that is whether you're more comfortable taking some of these short-term large corporate deposits.

ERIC ABOAF: I think the only material -- or the only item that has really changed is the TAG deposits, right? There were clearly a set of deposits around the system that were in individual banks. We had $10 billion of that, so on our $900 billion base, a 1%, fairly immaterial. I think that's been recirculated to other banks in some cases, and then we had below the surface some in-flows from others undoubtedly. Beyond that one-time move, I don't see a lot of changes in the corporate deposit base. I think our corporate deposit clients primarily leave their deposits with us because of cash management accounts, custodial accounts, clearing accounts, and they continue to do that. They leave them in a mix of operating balances and time deposits, and over time, I think you can see that we have shifted that mix. So we are purposely less price oriented in terms of attracting corporate deposits. I think there's a page in the appendix where we literally describe that mix shift and you see it as a pretty positive trend for our corporate deposits.

I think in terms of money market accounts, I don't think there's a lot of shift right now from corporate depositors, whether it's large corporate or middle market players, into the money market system. I think the banking system deposits, if you look back over the course of the last two decades have built corporate deposits in a pretty stable way and we expect that to continue as GDP continues to expand. There's more deposits in the system. There's more money supply and that money supply invariably ends up at banks in a pretty stable and sort of a year-on-year increase as time comes by.

MARK KEHOE: Thank you.

OPERATOR: Your next question will come from the line of Louise Pitt with Goldman Sachs.

LOUISE PITT: Hey, good morning, guys. Thanks for holding the call again. Just a couple of questions. They've been asked to some degree already but I just wanted to ask again about this Orderly Liquidation Authority slide. First of all, thanks for including it. I understand that there aren't very many details available, but how are you guys thinking about whether -- two things, it's GAAP or risk weighted assets, what do you think makes sense and whether it's Tier 1 common or whether it's obviously debt plus equity? Those ratios that you provided here obviously if you change the numerator and denominator can change pretty aggressively depending upon how you put that together.

My second question is on the liquidity coverage ratio. These numbers that you show on Slide 16 I assume these are consolidated. Do you think that that's the way the LCR ratio is going to go, or are they going to split LCRs among regulated NCS and holding companies the way they're looking at bail-inable debt. And then I guess just a very quick question on bail-inable debt going forward. Is your non-dollar issuance, if
you do any depending on jurisdiction of legal entity and market that it's issued in, expected to be bail-

able at the holding Company level?

ERIC ABOAF: Louise, those are three substantive questions. Let me try each one of them and then if
you have follow-ups, well, we'll take those as well.

First on OLA, I think as John said, we just don't know. And so we are doing several things to make sure
that we stay out ahead of this topic. First, we're doing the calculation any way we can think of doing it.
You and others in the publishing and the credit publishing community have come up with calculations.
We've done GAAP. We've done risk weights in the denominator, we've done different types of risk
weights in the denominator. In the numerator, we've done parent long-term debt, we've done total long-
term debt, we've done sub debt. We've added preferreds or common and you see that, and I think the
general approach that we're taking is let's consider all the possibilities and let's keep track of how we fare
under those.

One of the tests of how we fare that we're keeping track of is how we are -- how we score on those ratios
relative to peers. Right. Knowing that the whole industry may need to adapt, but we want to be ahead of
the game here, and I think in most of those ratios, at least all the ones that we've calculated, we do quite
well and so we're keeping an eye on the relative performance. And then finally, we are in constant contact
with our regulators. We've read all of the published speeches. We talked to our on-site teams and we'll
continue to do that and as we hear more we'll know more. But that's the approach we've taken, given the
uncertainty.

On the LCR question, I think the initial LCR rules will clearly be implemented and imposed on a full firm
basis. That's the place rules typically start and that's to be expected here. You can also, though, I think be
assured that it will be implemented over time on a legal entity or a country basis. We see that already
explicitly mentioned in the Basel rules. We've had local regulators selectively ask about LCRs for
individual entities, and you can imagine as a multinational firm and a multi-entity firm, we've done our
calculations for many entities. We're aware of our positions. And as I've said before and I think this was
probably a year or two years back, we tend to run our liquidity from a self-sufficiency standpoint by entity
and by country. We've always had that approach. And as such, we feel we're pretty prepared for the LCR,
not only in aggregate but also on an entity basis and/or a country basis.

LOIUSE PITT: Okay. And on the FX debt question?

ERIC ABOAF: I think the bail-in rules are still -- still need to be written, and so we really don't know. I
think we will certainly be mindful of how international legal standards impact those. And we're going to
stay current. Primarily our issuances tend to be US dollar denominated. We have some international
issuance. I think we'll continue that. But as we learn more, we can certainly adjust some of our issuance
plans accordingly, if it's something that's important to do.

LOIUSE PITT: Okay. That's great. Thanks.

OPERATOR: Your next question will come from the line of David Jiang with Prudential.

DAVID JIANG: I have a quick question, a follow-up. On the liquidity resources, we saw that the dollar
amount has gone down $51 billion from its peak but up $16 billion from year end. A little surprised at that.
Is it just opportunistic issuance in the first quarter? And do you -- I know you have some guidance around
it going down to being flat in 2013. Is that versus 2012 numbers or versus 1Q ending numbers?

ERIC ABOAF: Let me answer the -- I think the two-part question you've asked there, David. It's Eric
speaking. Overall, we expect the liquidity resources to trend down from the end of '11, which was the
$400 billion level, into the $360 billion, $370 billion, $350 billion, some area around that. And I think that's
still pretty healthy given that we run well above the 100% level. That said, we are going to see some
period, end-of-quarter volatility. The LCR's calculated literally on one day. That one day is at the end of the quarter. Clearly, our balance sheet shifts a bit on any particular day. If you look at the end of ’12 versus the first quarter of ’13, it's up $16 billion. Some of that was period-end deposit growth which is up $4 billion or $5 billion. Part of that is loans coming down as that comes -- as loans come down we generate cash. That ends up in the cash account, and then there was a few billion from the equity build. The three of those factors are the main drivers of the quarterly changes. And I think that's an example of the kind of quarter-end changes we may see in any particular quarter, and so clearly we'll want to run within a band here.

DAVID JIANG: Got you. Thanks. On Page 14 on OLA, there is a Section E for other debt, that $61 billion. Now, that's not included in your calculations because that's intermediate Company debt that may not qualify?

ERIC ABOAF: That's correct. Right. The early views of OLA, which are all supposition, right, because there are no rules, are primarily focused on parent Company debt. If you go back a page or two, you see that we had $234 billion of total debt in the Company, $174 billion is parent Company, which is lines A, B, C, and D added together, and then there's $61 billion that is outside of the parent Company, primarily in the bank. There's some securitized borrowings there. There's a little FHLB borrowing and so forth. And what we've done is just categorized is so that you can do the calculations either total or parent only, given that we just don't know at this point how any calculation would actually get done.

DAVID JIANG: Right. Could you have legal structure optimization there to kind of re-cast that debt at the holding -- at the parent Company, if you wanted to?

ERIC ABOAF: At this point, that debt is pretty well separate. If you think about it, $61 billion out of the $234 billion is material, but it is primarily in the bank. So it's securitized. It's securitized issuances. It's FHLB. Those are really bank-level funding structures and really couldn't be moved one way or the other. The bottom line, though, is when we do the calculation on the core parent Company, it actually is pretty healthy when you look at the percentages lower down on the page and obviously compared to some of the others in the industry.

DAVID JIANG: Got it. One last final one. On the Citi Holdings RWA you've done a pretty good job of getting that number down on a Basel III basis, I think it went from 28% to 23%. Is there a point where it just kind of slows down unless you continue to sell more assets? And then on the Citigroup side, which is what the 80% of RWAs that's remaining on a Basel III basis, are there any plans for active RWA mitigation there that you can guide to?

JOHN GERSPACH: Hi, it's John. On the Holdings side of the RWA question, I'd say we're at that level now that you were referring to as far as when things could begin to slow. Where we see the most leverage as far as the ability to reduce risk-weighted assets in Citi Holdings is really in the SAP portfolio. And that is becoming an increasingly smaller segment then of Holdings. So you're going to see it slow except for those episodic sales or reductions that we may get out of that portfolio.

As far as the overall -- the balance of the risk-weighted assets, we'll always continue to attempt to make sure that we are using risk-weighted assets in the most efficient means possible. But I don't envision any large scale mitigations that you could expect to see in our ongoing Citicorp risk-weighted asset structure.

DAVID JIANG: Great, thank you.

OPERATOR: Next question will come from the line of Don Jones with Sterne Agee.

DON JONES: Good morning. And this deck is very informative. Thanks for hosting this call. Couple things. I think you'd said earlier in the discussion that preferreds will continue to play an increasing role within the cap structure, and I'm curious how you'll think about that given the focus on common Tier 1
ratio as well as OLA debt measures and how everyone has been looking at what, again is bail-inable. Is preferred useful in a meaningful sense, beyond the amounts you've already issued?

ERIC ABOAF: It's Eric here. I think the best page to really turn to is Page 18 where we try to lay out the current position under Basel III in the middle panel there and then the eventual position. Clearly, when Basel III is fully phased in, now that's 2019, so that's more than half a decade from now, we need up to a 1.5 points of preferreds and clearly we'll comply with this sort of requirement. That said, to the extent that we continue to build some Tier 1 common and it's above the 9.5%, that fills in that 1.5 percentage point bucket, so we could satisfy that 1.5 percentage point bucket at the far right with a little bit of common, plus preferreds.

But this is really the guiding fact base. Right now you see that we have preferreds of about $3 billion, call it 0.3 percentage points. Over time we'll build that. We've got some time. We've got half a decade plus to go and we'll clearly fill that out accordingly.

JOHN GERSPACH: And then obviously -- this is John. There's a lot more rules yet to be written. So that's why as Eric said, we'll continue to look at it. We'll continue to do some level of issuance. But we're not rushing into anything at this point in time.

DON JONES: Sure. Okay. Thank you. And then secondly, a question was asked earlier about the Moody's review in a couple cases, and obviously Citi did very well within its global securities division. What sensitivity do you think there would be in terms of the ability to do business in the securities division if Moody's were to in fact take down implicit support or notch down for some reason or another?

ERIC ABOAF: Don, it's Eric. We really don't see any material impact from a Moody's review in terms of our ability to trade, write derivatives, interact with clients, hold their deposits, and so on and so forth. I think there was a lot of interest on the topic last year, the first half of last year. I think there was a lot of speculation, January, February, and we just didn't have any changes in our client activity when the possibility of a multi-notch downgrade was put out, and obviously we actually didn't know how many notches would change, and we had quite a bit of an overhang in terms of not knowing for what was five months. And I think if that five months didn't really create an impact on our business, I just don't see that this current review is going to have any material impact that we can find.

DON JONES: Okay, thanks again.

OPERATOR: Our final question will come from the line of Michael Rogers with Conning Asset Management.

MICHAEL ROGERS: Could you comment on the burgeoning debate about this apparent G8 government accountability office study, which talks about trying to put a number on the size of the implicit regulatory subsidy enjoyed by the too big to fail banks and how that could translate into fuel for the two senators who are clearly trying to exact an even higher capital requirement from the big too big to fail banks.

JOHN GERSPACH: This is John. I think you've actually captured it as far as the fact that it is an ongoing debate. You've also seen some commentary that came out last week from -- I think it was Mary Miller, Treasury, wondering whether or not there actually was any, in fact, subsidy. So I think you're going to continue to have some elements say there is and some elements say there is not, and it's just a debate that we're tracking.

MICHAEL ROGERS: Okay. If I could follow up with one more. On the sub debt issue, if Moody's indeed did bring down your sub debt rating to let's say BA1. Isn't it maybe still -- isn't it a little bit short-sighted to think that with the universe of potential buyers of your sub debt narrowing possibly considerably if that were to happen, that the cost of your sub debt would not go up potentially, rather meaningfully if it crossed the big divide from BAA3 to BA1.
ERIC ABOAF: Michael, it's Eric. I think there's always a possibility that a small negative event will push spreads a touch wider. I think the full context, though, is that we and many other banks haven't been issuing debt in the size that we used to pre-crisis. There's enormous appetite every time we go out to issue, whether it's senior or sub debt, books are three, four, five times oversubscribed. And I also think we have a set of very interested investors who have done very well in investing in our senior debt over the last few years. I think they are looking for the yield advantage that you get in sub debt which right now is 40, 50, 60 basis points, so they are -- they've been asking us about when we'll issue. We've issued a little bit as you saw this past quarter and we continue to see demands there.

And then we see demands further down on the capital structure with the preferreds, which are wider still, but have come in quite a bit here over the last year. And so there is just such a significant demand for those instruments relative to the supply. We just don't see a material dislocation. Could there be a few basis points, sure, there could always be. We just don't see much change.

MICHAEL ROGERS: Okay. Thank you both, gentlemen.

JOHN GERSPACH: Thank you.

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

PETER KAPP: Thank you, everyone, for joining the 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: Ladies and gentlemen, this does conclude today's conference. Thank you all for joining and you may now disconnect.