

**Citi Fourth Quarter 2015 Earnings Review**

Friday, January 15, 2016



**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 Fourth Quarter 2015 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, Brett. 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'll be happy to take your questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results 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 2014 Form 10-K.

With that said, let me turn it over to Mike.

**MIKE CORBAT:** Thank you, Susan. Good morning, everyone.

Earlier today we reported earnings of \$3.4 billion for the fourth quarter of 2015, or \$1.06 per share, excluding the impact of CVA and DVA. And for the full year, we earned \$17.1 billion or \$5.35 per share. I'll go into more detail on the year after making a few points about the quarter.

Overall, our institutional businesses saw improved performance from the fourth quarter of last year. Revenues increased in Treasury and Trade Solutions, Investment Banking and our Private Bank, as well as across our Equities and Fixed Income businesses. In Consumer, our North American performance continued to be impacted by investments we're making in our branded cards business, but we saw continued underlying growth and efficiency gains in retail banking. And internationally, market sentiment clearly affected our investment sales, contributing to lower overall revenues from a year ago. However, we did continue to see growth in deposits, loans and card purchase sales, and credit continued to be stable in our cards and our retail portfolios.

We had a substantial decrease in Citi Holdings assets during the quarter, largely driven by the closing of the sale of OneMain and consumer franchises in several countries. Holdings assets ended the year at \$74 billion, or a 43% reduction from the previous year. And importantly, we believe the actions we took this quarter will enable Citi Holdings to be marginally profitable in 2016. Overall, we had strong performance in 2015. The \$17.1 billion we generated in net income was the highest since 2006 when our company was very different in terms of head count, footprint, mix of business and assets.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

Over the last year, we grew revenues 3% in constant dollars while holding our core operating expenses flat. And as we committed, we significantly reduced our legal and repositioning costs, and we drove loan and deposit growth of 5% in Citicorp while reducing the overall size of our balance sheet. We also made significant progress on DTA utilization, generating significant regulatory capital and ending the year with a Common Equity Tier 1 ratio of 12% on a fully implemented basis.

I'm especially pleased with our progress over the last three years. In early 2013, in addition to announcing my execution priorities, we set several financial targets we hoped to reach by the end of 2015 in terms of return on assets, a Citicorp efficiency ratio, and a return on tangible common equity. At 94 basis points, we reached our target in terms of return on assets, while at 57.1%, the Citicorp efficiency ratio was just over our target, and it was more than 300 basis points lower than in 2012. Excellent progress that I think compares very favorably to that of our peers.

Although we weren't able to begin to return meaningful capital to our shareholders until 2015, we were still able to increase our return on tangible common equity to 9.2% for Citigroup, and we reached 11% excluding the capital which supports our disallowed DTA.

In addition to these financial targets, we made significant progress against each of my execution priorities. We've become a simpler and smaller company. We've made the tough decisions regarding what businesses couldn't generate the returns our shareholders expect and deserve, and as an example, we have exited, or are in the progress of exiting from 19 consumer markets.

We said we'd wind down Citi Holdings and drive it to break even, and now it consists of only 4% of our balance sheet, and not only has Holdings broken even, it's been profitable for six straight quarters.

Overall, we've reduced head count by 28,000 people, assets by over \$130 billion and reduced our legal entities by over one-third. We've shrunk our real estate footprint by almost 20%, including 182 operation centers as part of our efforts to establish shared service centers and mind the efficiencies in our opportunities of our business model.

The other side of the coin is to make sure that we allocate these finite resources to where they can get the best returns. In our institutional businesses, we've successfully focused on our target clients, achieving wallet share and market share gains. In Global Consumer, we've reduced our branch footprint by 25% to concentrate our presence in the fastest-growing cities while investing in our mobile channels.

We've simplified our branded cards portfolio, reducing our offerings by 60% and are preparing to launch the Costco card this year. Our customer satisfaction, as measured by Net Promoter Scores, has improved meaningfully. We are unquestionably a safer and stronger company. As 2015 shows, we've significantly improved both the quality and consistency of our earnings.

We said we would begin to consistently utilize DTA and after it had increased to \$55 billion in 2012, we've utilized over \$7 billion of DTA in the last three years. This contributed to the generation of \$50 billion of regulatory capital over the last three years. Last year, we were able to begin returning some of that capital to our shareholders, and we've reduced our outstanding common shares by over \$70 million and increased our common dividend.

We've already exceeded regulatory thresholds for the Common Equity Tier 1 and Supplementary Leverage Ratios. We continue to invest in our capital planning process to ensure that it's sustainable and can meet the increasing expectations placed on a bank of our scale and scope. We've also made the necessary investments in our compliance, risk, and control functions which are critical to maintaining our license to do business. Every day we work to be an indisputably strong and stable institution.

While as the early days of 2016 have shown, the environment hasn't gotten, and isn't likely to get, any less challenging. And while there are bright spots such as the U.S., Mexico or India, growth globally remains

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

muted and makes other factors, whether they be the price of oil or interest rates, difficult to predict. Volatility may present some trading opportunities but more often keeps investors on the sidelines and dampens consumer sentiment.

As I discussed earlier, we've worked hard to transform our company and the changes we've made have put us in a strong position to navigate the current environment. We've continued to reduce our exposure to lower return consumer markets. We run a very balanced and tightly risk managed loan book, we've become even more disciplined in our focus on target clients, and our capital and liquidity are amongst the highest in the industry.

John, will now go through the presentation and then we'd be happy to take your questions. John?

**JOHN GERSPACH:** Hey, thank you, Mike, and good morning, everyone.

Starting on slide three, we highlight the impact of CVA / DVA on our reported results. Excluding this item, we earned \$1.06 per share in the recent quarter compared to \$0.06 in the fourth quarter of 2014.

On slide four, we show total Citigroup results. In the fourth quarter, we earned \$3.4 billion. Revenues of \$18.6 billion grew 4% from last year, mostly driven by gains on asset sales in Citi Holdings as well as growth in our institutional franchise, partially offset by the impact of FX translation. In constant dollars, revenues grew 9% year over year, including 3% growth in our core Citicorp business. Expenses declined 23% year over year, driven by lower legal and repositioning charges as well as a benefit from FX translation. And net credit losses continued to improve, offset by a significant loan loss reserve build this quarter, largely in Citicorp, compared to a net release in the prior year.

On a full year basis, the total efficiency ratio for Citigroup, including Citi Holdings, was 57.3%. Net income grew by nearly 50% year over year. We generated an ROA of 94 basis points and our return on tangible common equity was 9.2%. In constant dollars, Citigroup end of period loans declined 1% year over year to \$618 billion, as 5% growth in Citicorp was more than offset by the continued wind down of Citi Holdings, and deposits grew 4% to \$908 billion.

On slide five, we show the split between Citicorp and Citi Holdings. Citicorp revenues of \$15.7 billion were down 2% from last year on a reported basis. In constant dollars, as I mentioned, revenues were up 3% from last year, driven by growth across our institutional franchise. Citicorp expenses declined 24%, reflecting significantly lower legal and repositioning charges as well as a benefit from FX translation. And cost of credit grew 29% from the fourth quarter of last year, driven by the net reserve build.

Turning to Citi Holdings. We accomplished a lot this quarter. We completed the sales of OneMain, our Japan retail and cards businesses and other assets, driving a \$36 billion reduction to end the year with \$74 billion of assets. We executed buybacks for roughly \$10 billion of outstanding debt and we positioned Citi Holdings to remain at or above breakeven going forward. The net result of these actions was a pre-tax contribution from Citi Holdings of \$1.3 billion this quarter, better than we had previously expected, driven by higher net gains on asset sales as well as improved credit. While Citi Holdings did outperform our expectations in the fourth quarter, the greatest driver of earnings growth for the full year was our Citicorp franchise. Citicorp earned \$16 billion in 2015, an increase of over \$4.8 billion from the prior year, driven by growth in our operating margin as well as a continued decline in net credit losses, partially offset by the impact of changes in loan loss reserves.

On slide six, we provide more detail on Citicorp results for full year 2015 in constant dollars. Now, going into the year, our goals were to generate top line growth, to deliver modest positive operating leverage on our core expense base, and to significantly reduce the earnings drag from legal and repositioning costs. And, as you can see on the slide, even in a continued challenging environment, we did achieve each of these objectives for the full year.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

Citicorp revenues grew 3% while core operating expenses grew only 2%. And our total legal and repositioning expenses fell from over 900 basis points of revenues to roughly 200 basis points. As a result, our operating efficiency improved from 65% to 57% for the full year 2015. And importantly, we were able to deliver results that better reflect the underlying earnings power of our franchise.

Turning to each business. On slide seven, we show results for International Consumer Banking in constant dollars. In total, International Consumer Banking revenues declined 2% year over year. In Latin America, revenues were flat to last year as a modest increase in loan and deposit balances was offset by continued spread compression in cards.

Card purchase sales continued to grow, up 10%, but card loans were flat year over year in Latin America, driven by higher payment rates in our Mexico cards portfolio. We expect the cards payment rate in Mexico to remain elevated as we continue to focus on higher credit quality segments of the market. We were able to offset this impact, however, with growth in personal loans and other retail banking products.

Turning to Asia, Consumer revenues declined 4% year over year, driven by continued pressure on investment sales revenues as well as continued high payment rates and ongoing regulatory pressures in cards. We saw slightly better momentum in card volumes in the fourth quarter. Payment rates remained fairly stable sequentially and we continued to work through the impact of regulatory changes across the region. And in retail banking, we continue to see year-over-year revenue growth in lending, insurance, and deposit products. However, this was more than offset by the lower investment sales revenues.

In total, average international loans grew 2% from last year, card purchase sales grew 5%, and average deposits grew 5%. Operating expenses grew 3% as higher regulatory and compliance costs, technology investments, and certain one-time items were partially offset by lower legal and repositioning costs as well as ongoing efficiency savings. And credit costs increased 8% from last year and 17% sequentially.

In credit cards and other retail loans, our NCL and delinquency rates remained broadly stable versus last quarter across the emerging markets. However, we did see an uptick in net credit losses in certain markets in our commercial business, which serves small and midsize companies. And we had a modest reserve build this quarter as reserve releases are largely behind us as credit has stabilized.

Slide eight shows the results for North America Consumer Banking. Total revenues declined 6% year over year and were flat sequentially. Retail banking revenues of \$1.3 billion declined 6% from last year, including the impact of a \$130 million gain on the sale of a mortgage portfolio in the prior period. Excluding this gain, retail banking revenues grew 4%, reflecting continued loan and deposit growth and improved deposit spreads. In branded cards, revenues of \$1.9 billion were down 9% from last year, driven by a modest decline in average loans and an increase in acquisition and reward costs, as we have continued to ramp up new account acquisitions in our core products.

We continue to feel good about the investments we are making, with 8% year-over-year growth in active accounts, and 13% growth in purchase sales in our core products. We achieved modest year-over-year loan growth this quarter in our core portfolios, which account for roughly 80% of our total U.S. branded card loans. And with continued momentum, we believe we should return to growth in both total loans and revenues in the latter part of 2016 before the benefit of acquiring the Costco portfolio.

Finally, turning to retail services, revenues declined 1% from last year, mostly reflecting the continued impact of lower fuel prices on both loan growth and purchase sales. Total expenses of \$2.4 billion in North America declined 6%, driven by lower repositioning costs and ongoing efficiency savings as we continued to capture scale benefits in cards and rationalize our branch footprint.

As previously announced, we plan to exit roughly 50 branches in the first quarter of 2016, including our Boston area branches. With these actions, over 90% of our branch footprint will be concentrated in our six

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

key markets, where we are investing to deepen our customer relationships and continuing to adapt to a significant shift in customer behavior in digital channels.

Slide nine shows our Global Consumer credit trends in more detail. Credit was broadly stable in North America and Asia again this quarter, with loss rates of 226 and 84 basis points, respectively. And in Latin America, we did see an uptick in the NCL rate to 4.8%. But as I described earlier, the increase was concentrated in the commercial portfolio, including losses on a wind down portfolio in Brazil, most of which were offset by the release of previously established reserves. Our overall credit outlook remains favorable in Latin America, driven by continued stability in our Mexico card portfolio and the benefit of ongoing credit discipline across the region.

Slide 10 shows the expense trends for Global Consumer Banking. The total efficiency ratio for Global Consumer Banking in 2015 was nearly 54%, above our previous outlook of roughly 53%, driven mostly by lower than expected revenues in our international business, particularly in Asia.

Turning now to the Institutional Clients Group on slide 11, revenues of \$7.4 billion in the fourth quarter grew 4% from last year, with broad-based growth across the franchise. Total banking revenues of \$4.2 billion, excluding the impact of loan hedges, grew 3%.

Treasury and Trade Solutions revenues of \$2 billion grew 9% from last year in constant dollars, driven by growth in high-quality deposits and spreads. This represents the eighth consecutive quarter that we've generated both revenue and operating margin growth in TTS on a year-over-year basis.

Investment Banking revenues of \$1.1 billion increased 6% from last year. While our equity underwriting revenues rebounded somewhat from the third quarter, they were down 18% from last year on lower overall industry activity. Debt underwriting revenues were up 12% from last year, with share gains across debt and loan origination, and M&A revenues grew 15%.

Private Bank revenues of \$691 million grew 3% year over year, driven by higher loans and deposits, and Corporate Lending revenues of \$401 million were down 7% on a reported basis. In constant dollars, lending revenues declined 2% from last year, as higher volumes were more than offset by lower spreads.

Total Markets and Securities Services revenues of \$3.2 billion grew 9% from last year. Fixed Income revenues of \$2.2 billion were up 7% from last year, with growth in both macro and spread products, but were down 14% from the prior quarter, reflecting seasonally lower activity as well as the impact of continued macro uncertainty.

Turning to equities, revenues grew 29% from a difficult fourth quarter a year ago, driven by growth across products and improved performance in EMEA. And in Securities Services, revenues grew 2% on a reported basis and were up 12% in constant dollars, reflecting increased activity and higher client balances.

Total operating expenses of \$4.8 billion declined 1% year over year, as higher regulatory and compliance costs as well as compensation expense were more than offset by lower repositioning costs, incremental efficiency savings, and the impact of FX translation. Total credit costs were \$641 million, up from \$309 million last quarter, mostly reflecting the impact of loan loss reserve builds. A little more than half of the cost of credit this quarter was energy-related. We incurred roughly \$75 million of net credit losses on a limited number of credits in the energy portfolio this quarter, about two-thirds of which was offset by related reserve releases. Excluding the impact of these specific reserve releases, we built roughly \$300 million of energy-related loan loss reserves this quarter, reflecting our view that oil prices are likely to remain low for a longer period of time. And we built a similar amount of reserves for other areas of our portfolio, about half of which was related to volume growth and overall macro adjustments, roughly a quarter was related to non-energy credits in Brazil, and the remainder was dispersed across other regions and sectors with no particular concentration.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

With these actions completed, we currently believe ICG cost of credit in the first half of 2016 should be more in line with the run rate we saw in the third quarter of 2015 or, in other words, credit costs of roughly \$600 million in total for the first half.

Taking a step back and looking at the full year for ICG, we feel good about the progress we are making in our core products. In fixed income, despite the volatile backdrop, our rates and currencies revenues grew 4% over the prior year, with momentum in both local markets and G10 products. Our local markets rates and currencies business was a remarkably stable and profitable franchise again in 2015, generating revenues in the range of \$1 billion per quarter.

In equities, we grew 13% year over year, with revenues approaching our near-term goal of \$800 million to \$900 million per quarter. M&A revenues grew 16%, with sustained wallet share gains for the year. And we saw mid to high single-digit revenue growth across TTS, Securities Services, and the Private Bank. So while we face certain industrywide headwinds in areas like credit and securitized products, we remain focused on our target clients and continued to gain wallet share across the franchise in 2015.

On slide 12 we show expense and efficiency trends for the institutional business. The total efficiency ratio for ICG in 2015 was 56.7%, a little higher than our previous outlook of roughly 56%, mostly driven by lower than anticipated revenues in the fourth quarter as well as higher repositioning costs. And our comp ratio was 27%, down from 28% in 2014.

Slide 13 shows the results for Corporate/Other. Revenues were higher year over year, due in part to gains on debt buybacks. And expenses were down, mainly reflecting lower legal and related costs.

Slide 14 shows Citi Holdings assets. GAAP assets totaled \$74 billion at year end, down over 40% from a year ago. Risk-weighted assets in Citi Holdings came down significantly as well by over \$50 billion to \$134 billion, with more than a third of this year-end amount relating to operational risk. As of today, we have signed agreements to reduce Citi Holdings GAAP assets by an additional \$7 billion in 2016 and will continue to pursue other sales as well.

On slide 15, we show Citi Holdings financial results for the quarter, which reflect the net gains on asset sales as well as the impact of our debt buyback activities, legal and repositioning charges, and other episodic items. As I described earlier, the net result of these actions was a pre-tax contribution from Citi Holdings of \$1.3 billion in the fourth quarter, greater than we had anticipated, driven by higher net gains on asset sales as well as improved credit.

But even more important than the fourth quarter impact is what we believe these actions will enable us to achieve in 2016. We currently expect the benefits of lower funding costs, the exit of loss-making portfolios, and other repositioning efforts to offset virtually all of the operating earnings previously contributed by OneMain. As a result, we believe Citi Holdings should be marginally profitable in 2016, and the assets should continue to come down as well, with a corresponding benefit to RWA.

On slide 16, we show Citigroup's net interest revenue and margin trends. The bars represent net interest revenue per day for each quarter in constant dollars, showing consistent growth year over year in Citicorp, while Citi Holdings has continued to shrink. Our net interest margin was 292 basis points in the fourth quarter, somewhat higher than we had anticipated, due mostly to trading net interest margin. And our net interest margin for the full year was 293 basis points.

Looking to 2016, our net interest margin will reflect the loss of OneMain earnings, partially offset by the benefit of debt buybacks, for a net reduction of about eight basis points. We should recover about three basis points of this impact when we acquire the Costco portfolio, which we currently expect to occur closer to the end of the second quarter.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

We also expect to see a benefit from higher rates as we move through the year, but this rate benefit could be all or partially offset if trading NIM normalizes in 2016. Given all of these factors, we would expect our net interest margin to be in the range of about 285 to 290 basis points for the first half of 2016, and then it will reflect Costco in the second half.

On slide 17 we show our key capital metrics on a fully-implemented basis. During the quarter, our CET1 capital ratio increased to 12%, driven by net income and a reduction in risk-weighted assets, partially offset by movements in OCI as well as \$1.8 billion of common share buybacks and dividends.

Our DTA balance grew in the fourth quarter by approximately \$600 million, driven by movements in OCI, partially offset by operating earnings. But on a full-year basis, we utilized \$1.5 billion of DTA. And importantly, within our DTA, we reduced our foreign tax credits by roughly \$2 billion, thereby fully utilizing FTCs that would have expired in 2017. Our supplementary leverage ratio increased to 7.1%, and our tangible book value grew to \$60.61 per share.

To conclude, I'd like to spend some time on our outlook for the coming year. As we look to 2016, we see both opportunities and challenges. We expect the operating environment to remain difficult with uneven global growth, sustained low commodity prices, and a slow trajectory for U.S. rate increases. But even with this backdrop, similar in many respects to 2015, we believe we can achieve low single-digit revenue growth in Citicorp, while staying disciplined around our target client strategy.

We also believe we can drive continued efficiency gains in our core businesses as we continue to streamline our operations, adjust capacity, and capture the benefits of scale. However, we need to carefully balance these ongoing efficiency efforts with the opportunities we see to invest, particularly in highly efficient, higher ROA segments of our franchise.

The most significant of these planned investments for 2016 are in U.S. cards, including the continued effort to grow active accounts and ANR in branded cards, which as I said earlier, should allow us to return to growth in both loans and revenues by the latter part of 2016, the completion of the Costco portfolio acquisition for which we are already ramping up operations, but do not expect to acquire the portfolio until around midyear. And finally, the impact of renewing some important partnership programs in a competitive environment.

Together, we believe these investments are important for growing our cards business and for improving our overall Citicorp efficiency and returns over time. However, they will cause a near-term drag on our results. We currently believe the efficiencies we can drive in our core businesses combined with certain other actions will be enough to fully offset the impact of these investments on our efficiency ratio in 2016. This would mean that our Citicorp efficiency ratio should remain relatively unchanged at around 57% this year before improving in 2017 and thereafter.

Turning to credit in Citicorp. We do expect credit cost to be higher in 2016 as loan loss reserve releases are largely behind us now. But the run rate for full year 2016 should be somewhat lower than we saw in the fourth quarter of 2015. As I noted earlier, we believe Citi Holdings should be marginally profitable for the year. And we expect our tax rate to remain in the range of around 30% to 31%. Finally, we expect our ROA to remain at 90 basis points or above.

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

---

**QUESTION AND ANSWER**

**OPERATOR:** (Operator Instructions) Your first question will come from the line of Jim Mitchell with Buckingham Research. Please go ahead.

**JIM MITCHELL:** Hey, good morning, guys.



**JOHN GERSPACH:** Good morning, Jim.

**JIM MITCHELL:** Maybe just to follow up on credit, I think if you look at the last two quarters and then your guidance for the next two, it seems like you're adding, depending on what we assume for charge-offs, \$1.3 billion, \$1.4 billion of reserves in the corporate book. That seems a little bit bigger than your peers. Generally, we've talked about your exposures to larger multinationals that we wouldn't expect to see this kind of stress. So just if you could just walk us through what you're seeing in your portfolio, where the stress is, maybe more specifics, that would be helpful?

**JOHN GERSPACH:** Thanks, Jim. As you can imagine, most of the stress that we're seeing obviously is in the energy portion of the portfolio. And the guidance that I gave you as far as the roughly \$600 million worth of cost of credit in the first half of the year, that's really based on a scenario where oil prices remain at these current levels when I walked into the meeting of around \$30 a barrel, and staying there for a sustained period. Beyond that, the portfolio is in excellent shape and mirrors the overall strategy that we have. But obviously, there is some pressure in the energy-related markets at this point in time.

**JIM MITCHELL:** Can you help us with a sense of what you view as the worst case if we stay at \$30 a barrel for 18 months to two years with how much more there might be beyond that?

**JOHN GERSPACH:** I'm not going to go into scenario by scenario. The scenario I've given you is what our costs would be with oil at \$30 for a sustained period, and think of sustained period as being something over a year, okay. If oil were to drop to say \$25 a barrel, and then stay there for a sustained period of time, then that first half cost of credit number that I gave you might double.

**JIM MITCHELL:** Okay, all right, that's helpful. And maybe just one other question on the balance sheet. I think outside of the asset sales, it came down pretty nicely. Is that just the environment? Or do you think is that real progress in tricking the balance sheet, and we saw one of your competitors lower their surcharge, any update on that or ability to shrink your surcharge?

**JOHN GERSPACH:** We've been managing our balance sheet carefully for some time. You've seen our balance sheet gradually reduce. One as we've wound down Holdings, and then as we always adjust our balance sheet to the needs of our clients. And as we continue to try to make the balance sheet more efficient, and that's clearly been something that we have worked on for several years. You've seen us address the LCR ratio, we've got – I know others that are talking about massive reductions this year in their non-operating deposits. We came into the year with less than \$100 billion dollars of non-operating deposits, and we exit the year with less than \$50 billion of non-operating deposits. So I can't reduce my balance sheet by hundreds of billions of dollars of non-operating deposits because they're not there.

As far as from a G-SIB point of view, if you recall, I'm doing this a little bit from memory, in 2014, when the topic of G-SIB first came out, our estimate was that we would actually be in the 4% bucket. However, the continued efforts that I just referenced to improve the efficiency of our balance sheet resulted in us actually appearing in the 3.5% bucket by last year end. And as you can see, we've continued to make progress in 2015 on improving the efficiency of the balance sheet and those efficiency efforts, naturally, also do have some impact on our key G-SIB drivers. So I would now estimate that our score puts us very deep into the 3.5% bucket.

If you want some specifics, during 2015, we reduced our OTC derivative notionals by 21%. We reduced our level three assets by 21%. And I think I remember we reduced our short-term wholesale funding score by 19%. Now there are still elements of the calculation that are still being finalized such as our cross jurisdictional claims and liabilities, so I can't comment on the final surcharge calculation today. But clearly, our continued efficiency efforts have had an impact.

**JIM MITCHELL:** Okay, great. That's very helpful. Thanks.



**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

**OPERATOR:** Your next question comes from the line of Glenn Schorr with Evercore ISI. Please go ahead.

**GLENN SCHORR:** Hi, thanks.

**MIKE CORBAT:** Hey, Glenn.

**JOHN GERSPACH:** Hi, Glenn.

**GLENN SCHORR:** Hello there. I know this is a tough one but I just want to see how you think about it. With the benefit of hindsight, obviously we look back in 2008 and saw the hidden leverage, now see the hidden leverage related to a decline in housing. And obviously, there was a lot of products in CDO-land and things like that that led to the disruption that we saw. This is not the same. There are not products like that. However, I'm curious to see how you think about the potential hidden leverage or maybe the follow-on impacts in other sectors of the lower oil prices. So while I think you're doing a conservative job the way you described it in reserving for specific energy credits, I'm just curious on how you even begin to stress and think about it across the rest of the portfolio.

**JOHN GERSPACH:** Fair question, Glenn, and it's something that we look at constantly and we're constant, we're always doing that. One of the reasons – we haven't seen any real knock-on effects as yet broadly across the rest of the portfolio. But frankly, part of what I had commented on earlier, I mentioned that we had a \$600 million reserve build, about half of that had to do with energy, and then of the other \$300 million, roughly half of that is money that we've put away just for macro concerns where we don't see specifics in portfolios. But we're trying to make sure that we've got something there because, again, just as you, there may be knock-on effects that appear later that just aren't there right now. And that's one of the reasons why we do things like put up macro reserves.

**GLENN SCHORR:** Okay, I appreciate that. And then there were specific declines in one of the slides that you showed in your appendix, the specific declines in consumer credit receivables in both Korea, Brazil, and I guess Russia. But I'm just curious, are those specific actions you're taking to manage risk? Or is there a paydown charge-off? Just curious on those specific markets.

**JOHN GERSPACH:** Let's start with the last one that you mentioned, Russia. Obviously, as you know, Russia has been going through a bit of turmoil over the last – well, anyway, several years probably at this point in time, at least two years. And we've been tightly managing our book there. We actually feel very good about the way the credit portfolio has performed in Russia over that period of time. Yes, we've had some elevated losses compared to what we would assume to have in normal times. But the portfolio in general has actually performed much better than we had originally modeled.

And again, I think that's by and large a theme that you will hear as I talk about every country and whether I'm talking about consumer or the ICG is that overall our very tightly focused customer strategy in each of our businesses gives us a credit portfolio that is quite resilient when it comes to times of trouble. Doesn't mean that we're going to be completely immune from having to take some losses, but we think that it's a – it produces a very resilient book of business.

So with Russia, it's a little bit of just, there's less business there. We're carefully managing credit lines and really nothing more than that. With Brazil, there's certainly – that's another country that we look at very, very closely. And again, the reductions in Brazil, some of that comes out of a wind down of a commercial portfolio that we have in Brazil. You'll recall that I mentioned the uptick in Latin America NCLs in the fourth quarter. The largest part of that uptick is related to some losses that we took in the CCB on our commercial business and that is really centralized in Brazil and it's this portfolio. We're winding it down. Those NCLs were offset by reserve releases. And again, we feel pretty good about the way the overall portfolio is operating in Brazil.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

**MIKE CORBAT:** John, if I can chime in, when you think about, Glenn, that the countries that you mentioned, interestingly, they fall into some different buckets. So you've heard us on this call for quite a while talk about the restructuring in Korea. And I think you see the balance sheet in Korea reflect the tightening branch closures, tighter target market in Korea. In Russia's case, there's a couple levers that naturally occur. One naturally occurs and the other come as an after of that. And so you've had a currency depreciation. So, in dollar terms, your loans, your local currency loans tend to naturally shrink.

But at the same time, as those economies slow and you stay focused around your target client, your client acquisition, your asset acquisition, your lending just tends to naturally slow as part of those economies. And as you stay disciplined, that's what you would expect to see, and in the case of Brazil, in some ways, a combination of those restructuring of what's going on there. John talked about the commercial portfolio. You've heard us talk historically about the sale of our Credicard business which was the mass merchant card business, which didn't fit, which in hindsight was a terrific sale, and just staying disciplined around those things. So I think it's part of our natural credit and business process.

**GLENN SCHORR:** Okay, well I appreciate it, and I guess the bottom line is you're still able to grow International Consumer a couple of percent a year right now. So I guess stay disciplined. Thank you.

**MIKE CORBAT:** Okay, thank you.

**OPERATOR:** Your next question comes from the line of Brennan Hawken with UBS. Please go ahead.

**BRENNAN HAWKEN:** Thanks. Good morning, guys.

**JOHN GERSPACH:** Hey, Brennan.

**BRENNAN HAWKEN:** So could you give some color? Obviously, there's a lot of investor concern over emerging market health. Maybe given your unique position, allows you to comment on it. Could you give some color on what you've seen as far as spending trends and in credit trends in Asia and LatAm? Obviously, John, you already weighed out very clearly that the majority of the uptick in the credit losses was the wind down in Brazil, so we need to half that roughly at least. But maybe some additional color and some spending color might be helpful too.

**JOHN GERSPACH:** Let me start. Again, what I mentioned earlier is in – I talked about Latin America specifically regarding CCB credit, but we also saw a slight uptick in Asia. You'll see that the uptick got us from 79 bps to 84 bps, but it was there.

And again, when you take a look at what's going on in the commercial portfolio, certainly, outside of Brazil, we've got some deterioration in SMEs. But most of that is in areas that are really tightly related to either commodity prices or perhaps some GDP concerns coming out of China. So it's – but we really haven't seen globally yet any clear patterns of consumers being stressed due to any of these weaknesses. Lower oil prices in particular are a benefit to customers on a broader scale probably than any impact on the SMEs. So we just don't see that there.

Now, obviously, if the economies go south due to the fact that, and driving higher unemployment, then we'll likely see some natural follow-on in the consumer portfolios. But we don't see that today. And as I mentioned in response to Glenn's question, even if that were to happen, we still expect our consumer portfolios to be more resilient than the broader market given our focus on higher quality segments, and which we think is really the right strategy for us.

So, when you take a look at our EM consumer exposures around the world, we continue to feel good about the underlying credit quality overall. And again, that's driven by our target client strategy. We took actions early on. Mike mentioned the sale of the Credicard portfolio in Brazil. We've exited other portfolios in other countries. We reshaped the portfolios in India, in Mexico, in Korea. And there's a lot of good also regulatory

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

controls that exist in Asia that while it may dampen our revenue prospects from time-to-time, they actually form a pretty good basis then for a solid credit story.

And when you think about Asia, Asia accounts for 70% of our total international consumer portfolio, and we've seen loss rates under 100 basis points in Asia for the past four years. And even as we've seen slowing economic growth and other pressures in the region, we're under 100 basis points. And again, I hate to bore you, but that's a function of our target client strategy. Over 80% of our originations are to borrowers that would be comparable to 700+ FICO scores in the U.S. And as I mentioned, we've tightened the client focus in Korea and India to really focus again on these higher-quality segments.

I've mentioned about benefiting from some of the strict regulatory issues. Mortgage loan-to-value is probably a good example of that. Our mortgage portfolio in Asia, the mortgage outstandings have got an updated LTV of less than 50%, and our historical NCL rate on our Asia mortgage portfolio is close to zero. So again, I feel pretty good overall about the consumer picture, and if you want to go in Latin America, Mexico is by far and away the largest market for us in that region. And even though we've got more mass-market borrowers in Mexico, it's – the credit story has really improved because we've really, again, tightened the focus to a much narrower client segment over the years. So again, pretty good.

**BRENNAN HAWKEN:** And spending patterns?

**JOHN GERSPACH:** You've seen the growth in purchase sales. It's still there. It's somewhat muted because of the overall economic environment, but it's still there.

**BRENNAN HAWKEN:** Great. Great. Thanks for that, John. And then, switching over to maybe to Holdings, I know there's a lot of noise this quarter, but could you maybe set for us what – how we should think about now at this point from where we are – and I know it is a fluid situation because, as you announced, that you still got several billion dollars of sales already inked here for 2016, but what's the right way to think about the revenue and expense rate jumping off point from here in Holdings?

**JOHN GERSPACH:** It's a great question, and I'm sure it frustrates you as you are trying to come up with how you want to model Holdings out into the future. And the truth is Holdings is somewhat – it just doesn't lend itself to a good model. A lot of what goes through Holdings, as you can imagine, is episodic. There's just episodic numbers that hit, whether we have a gain on sale, we move something into a – when you look at the cost of credit line in Holdings this quarter, and it looks extremely high and it's like, wow, how can you have such a high cost of credit in Holdings? Well, we moved a couple of large, about \$8 billion of loans into held-for-sale. We expect to be able to get rid of these loans somewhere in the first half of the year. But the way accounting works, the loss that I expect to take on that loan sale, I have to run through my loan-loss reserve.

So there was \$160 million of loan-loss reserve build that I had to have in Holdings this quarter just because I took \$8 billion of loans and moved them into held-for-sale. So it's really tough. The best guidance I can give you, Brennan, is the guidance that I tried to give you during the call, which is think in terms of Holdings being marginally profitable on a EBT point of view in each quarter next year. That's really what we are striving for.

**BRENNAN HAWKEN:** Okay, thanks for taking my questions.

**JOHN GERSPACH:** Not a problem.

**OPERATOR:** Your next question comes from the line of Matt O'Connor with Deutsche Bank. Please go ahead.

**MATT O'CONNOR:** Hi, thank you.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

**JOHN GERSPACH:** Hey, Matt.

**MATT O'CONNOR:** Can you talk about the outlook for DTA consumption and maybe some of the levers to pull if there are continued headwinds either related to OCI or just macro environment impacts, the actual earnings?

**JOHN GERSPACH:** Our look at Holdings, if you take a look at DTA for the full year this year, consistent with what we've said, we got about \$2.5 billion of DTA reduction out of our core – out of our businesses, so our earnings consumed \$2.5 billion of the DTA. And when we take a look at our DTA planning for a given year, we're focused first and foremost on what are we going to get out of the core businesses. So that was pretty good, I thought, and then I can't do much to control OCI. But don't forget, what happens through OCI really impacts timing differences of DTA. And so that will – especially when you think about the impact on our available-for-sale securities, those are losses that we need to take today that will largely accrete back to us over time. And so that's just merely a timing difference.

The more critical elements for us in DTA are the foreign tax credits because those are items, as we've said before, that have got a time slot connected with them. There's an expiration date associated with that. And so we felt really good about our ability to utilize \$2 billion of net foreign tax credits during 2015. Probably maybe the better story within that is I mentioned that we fully utilized the \$1.9 billion of FTCs that we had coming into the year that was going to expire in 2017. But we also utilized \$0.5 billion of the FTCs that would otherwise expire in 2018.

So we've gotten a little bit of a head start on 2018 as well, and that's really from a DTA planning point of view. That is our, first and foremost, most important objective, utilize FTCs and focus on utilizing FTCs that have a near-term expiration date. The one thing that we never want to do is we never want to go into a year and have FTCs set to expire that year. So that's really how we think about DTA planning.

**MATT O'CONNOR:** Okay. And then just separately, you mentioned about investing in high ROA businesses and obviously spent some time going through the U.S. credit card effort. Are there other businesses that may not be as high in the pecking order or not represent as big of an investment that you would highlight? I think there had been an article in one of the papers recently about the equities business, if that's one or if there are other areas that you had mentioned?

**MIKE CORBAT:** So, Matt, you're right to call out equities. Equities is one of those places where we think we've got continued upside. We talked about wanting to get equities in that \$800 million to \$900 million per quarter range. We got real close to that. We think we've got more we can do. And so we're investing in there in people and research, electronic trading platforms and other things you've probably seen and read about.

Obviously, our Treasury and Trade Solutions business we think continues to be an area where we can continue to take share around our target clients. We think some of the disruptions amongst the European banks and other things out there, given people may have more balance sheet constraints than we do, that we can use our balance sheet smartly around some investments in parts of that business, our Securities Services businesses, our Private Bank, a lot of the things where you've seen this year, where we've had good growth but think there's more.

**MATT O'CONNOR:** Okay. And then just lastly, if I can squeeze in, you've obviously made a lot of progress, huge progress derisking, a lot of progress refining the portfolio of businesses. You probably wouldn't tell us which ones they would be. But is there another cut at looking at the geography, looking at the businesses overlaying those, and coming up with another handful of businesses or handful of markets to reposition?

**MIKE CORBAT:** We've consistently talked about we've got a methodology that we've applied consistently to our businesses around our invest to grow, optimize and grow, stay the course or restructure mentalities that we've applied towards businesses. And what we've said is we need to see our businesses and our

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

geographies on the right trajectory to be accretive to our company and to our shareholders. And we are constantly reviewing that, and those buckets and businesses continue to evolve around capital and balance sheet efficiencies. And that's work I think in some ways that never ends. So we've made progress. And as I said to our team, I'm pleased but not satisfied in terms of where we are, and we've got more work to do.

**MATT O'CONNOR:** Okay, thank you.

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

**BETSY GRASECK:** Hi, good morning.

**JOHN GERSPACH:** Good morning.

**BETSY GRASECK:** A couple quick questions, one is on the outlook for capital, excess capital and capital return. I don't think we spoke too much yet about that. And with the OneMain sale, could you speak to how much RWA you were able to move off, and to the degree that you can speak to, how much excess capital you think it generates that you could potentially ask for in the upcoming CCAR?

**JOHN GERSPACH:** Betsy, this is John. Let me talk to OneMain, and then Mike can talk to the capital distribution broadly. When you take a look at OneMain, we said it was about \$9 billion worth of GAAP assets, but it was actually part therefore of the GAAP asset reduction that you saw in Holdings. And in the same fashion, it was part of the roughly \$30 billion – \$23 billion worth of reduction in RWA that we had in Holdings this quarter. So overall, the risk-weighted assets in Citi Holdings came down \$23 billion this quarter, and OneMain was part of that. So when you look, we've made continued progress in driving down Holdings. We've made continued progress on the rest of the balance sheet as well, and all of that leads us to the 12% CET1 ratio that we have at the end of this year. And, Mike...

**MIKE CORBAT:** And so, Betsy, what we do know is we know our numbers, we know our ratios. You've seen our capital generating capacity. Net of approximately \$6 billion capital return, we still generated 140 basis points of CET1 in the course of 2015. And we think we continue to have significant capital generating power going forward. So we feel like from where ratios are, we're coming into this year's exercise or this year's submission in a stronger place. We also know that we're going to be using – the industry is going to be using a Jan. 4 balance sheet. We think that's for us a good balance sheet. But what we don't know is we don't know the scenarios.

And so we feel good about our drivers. But until we know the scenarios and how those impact us, it's tough to put any kind of number on that. But going back to what we've said before, we recognize our capital generating capacity and power, and we've got to position the institution and the firm to continue to ramp up and more meaningfully be returning capital to our shareholders. Otherwise, we're just going to be faced with a denominator problem.

**BETSY GRASECK:** Okay, and I appreciate that, and then just one cleanup question on energy. Did you give a ratio of your energy reserves to your energy exposure? And if you could split it between oil and gas and Metals & Mining, I'm wondering if you have that handy.

**JOHN GERSPACH:** One, Betsy, I didn't give that ratio, and I don't really intend to give that ratio. But obviously, we've taken what we think are the appropriate reserving actions for it. Metals & Mining is actually outside of energy. Metals & Mining would not be specifically covered in any of the energy-related comments that I gave. But consistent with the energy story, we've also taken a good look at Metals & Mining. Now don't forget, Metals & Mining, we don't report that separately. Metals & Mining is part of a larger sector that we report. But when you think about Metals & Mining, our exposure overall to Metals & Mining is about \$14 billion, and that includes about \$5.6 billion worth of funded loans. And again, it's another portfolio that, as you can imagine, is run consistent with the overall strategy. So good investment-grade rating, I think it's

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

somewhere around – over 70% in Metals & Mining. And there's nothing special to talk about from a reserving point of view in Metals & Mining this quarter.

**BETSY GRASECK:** Okay, thank you.

**OPERATOR:** Your next question will come from the line of Gerard Cassidy with RBC. Please go ahead.

**GERARD CASSIDY:** Thank you. Good afternoon, guys.

**MIKE CORBAT:** Hi, Gerard.

**GERARD CASSIDY:** Mike, can you share with us – obviously, you guys have a very strong capability of generating capital as you just explained. We don't know what the final capital ratios will be for our G-SIFIs, but what buffer do you think you're comfortable with? Once – maybe it's two years from now, again, we don't know what these final numbers will be, but what – how much are you going to carry in capital above whatever the final requirement is for you guys?

**MIKE CORBAT:** I think that, based on what we know today, we think the buffer is somewhere in the range of 50 basis points to 100 basis points. It obviously could evolve over time, but I would say based on what we know today, we think for a company with the construct of our balance sheet risk profile, et cetera, that's probably the right range for now.

**GERARD CASSIDY:** Okay, thank you. And then, John, you mentioned in the equities business that you might be taking some market share from some of your competitors or potentials, particularly the European banks. I saw in your slide 33 in the appendix, how your local markets, rates and currencies are doing well there. Are there any banks that you are seeing that you are able to take market share from in Europe or Asia?

**MIKE CORBAT:** We are not going to – it's Mike, Gerard. We're not going to get specific, but obviously around a number of those banks, that there's questions in terms of strategy going forward. Often times in those banks, what you see is the binding constraint around leverage and rates in currencies very often is one of the areas where leverage, for obvious reasons, causes some of the tougher challenges, and where I think we've seen people pulling back balance sheet. So again around scale or around local presence, we've had the ability to take some of that share, and I think that the slide you call on, on page 33 is a great illustration of one of our franchises that happens to sit in a trading business but has tremendous stability to its revenue generating capacity and capabilities.

**GERARD CASSIDY:** Good, thank you. And then you mentioned I think you're going to close 50 branches right off here, a bunch of them up in Boston. Can you guys talk to us about the success you've had in other areas where you've just shut branches down, but you talked about – or touched upon the mobile channel, how you are able to probably keep some of these customers because of mobile banking inroads that everybody is making? What kind of success are you seeing in keeping these customers where maybe you physically have left the market?

**JOHN GERSPACH:** So far we've, as you know, exited a few markets across the country. And in general, we find that we are now able to retain slightly over 50% of the deposits from those customers even as we pull back on the branch banking in those areas. That's one of the reasons why we are trying to make an even bigger push into digital or mobile banking. We think that that's more responsive to the way people are really going to access their bank in the future. And so we think that that gives us a lot of opportunity and it is something that we are spending money trying to improve our capabilities there.

**GERARD CASSIDY:** Great. And then just finally, I know, John, you talked about the pre-tax contribution that your actions in Citi Holdings had in the quarter, about \$1.3 billion. What was the actual gain on the sale of OneMain? I don't think I heard you say that. I don't know if you are going to disclose it.



**JOHN GERSPACH:** You've never heard me say it, and we are not likely to disclose it. So, it's in the results for Holdings for the quarter, and again, we utilized a fair portion of that gain to buy back high coupon debt that was supporting the rest of the Holdings business. So again, to us, it's not whether or not we made a big gain on that, it's overall, what is the cost of exiting everything that we've got in Holdings.

**GERARD CASSIDY:** Okay, thank you. I appreciate it.

**JOHN GERSPACH:** Not a problem.

**OPERATOR:** Your next question comes from the line of Mike Mayo with CLSA. Please go ahead.

**MIKE MAYO:** Hi. I mean I think I heard the positive comments about 2015. You had an ROA of 94 basis points, an RoTCE of 9.2%, efficiency of 57%, and your tangible book is up to \$61. I just – I don't think anybody cares today. And that leads to my question. John, you mentioned you're not seeing a knock-on effect from what's taking place, I guess, in China and commodities, at least not enough to change the reserve guidance more than you've already done. But I just think it would be helpful to have some more data on the exposures in energy, in China and just to, perhaps, Mike, a bigger picture perspective on what you think is taking place in the markets right now.

**MIKE CORBAT:** Sure. John, do you want to start on China and just we can talk a little bit about – and I think of – I'd love, to that point, to call everybody's attention. I think the information we've got on the combination of slides 29 and 30, if you spend a little bit of time with it, is in some ways quite informative. We talked a bit about some of the consumer numbers earlier and the diversifications there in the mix between North America and international. I think it's interesting when you take that consumer exposure and you transition to page 30, and as you look at the balance, look at the balance of our portfolios, the lack of concentrations, the mix of loan composition.

And so when we go to the EM exposure, I'd actually call your attention to the \$113 billion of loans in the EM where actually, over a third of those are in the Treasury and Trade Solutions space. So in the Treasury space, they're very short-term natured. They're largely to multinationals. In the Trade Solutions space, they're largely collateralized. So, a little bit in my mind, Mike, like going back to when we went through all the disclosure in GIPS. A dollar of loan can take on – or a dollar of exposure can take on very different meanings.

And I think in our case, you really need to drill into these and see that of the \$113 billion in EM, actually \$49 billion is in corporate lending, and John has talked historically about the multinationals and what the credit quality of that book looks like. 37% or \$42 billion of that is in short-term or collateralized space, and \$23 billion of that happens to be probably in the private banking or private banking-related space. So don't think of those loans as being all the same and...

**MIKE MAYO:** Right.

**MIKE CORBAT:** ...we take comfort from that. John, do you want to add to that before we go?

**JOHN GERSPACH:** And again, Mike, just to close out on Mike's thought, when we take a look at the way that we run our business in the emerging markets, is the same way that we run our business everywhere else around the world. And it's focused on those large multinationals and some very top tier large local corporates. And the overall portfolio has got – it's over 80% investment grade. So we do think it's a resilient portfolio.

You mentioned China, though, so let me – you mentioned China, let me try to build off of what Mike talked about a little bit in China. One of the things that we do, Mike, in our 10-Qs and 10-Ks is we lay out for you, the top 20 emerging market countries as far as where we've got a lending exposure. And we've put that –

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

it's on page 91 of our September 30<sup>th</sup> 10-Q and we we'll update that when we file our 10-K. And if you take a look at page 91 of the 10-Q, it says that we've got \$20.5 billion of aggregate exposure to China. And then we break it out for you as far as how that is between trading account assets and investment securities. And you'll see that as of September 30, those two amounts totaled about \$6.8 billion. And those were largely dealing with the – with sovereigns. So, again, it's a pretty good book. And the sovereign securities in this quarter came down by about \$1 billion. So you will see that reflected when we update this page in the 10-K.

When you then take a look at the consumer loan book, the consumer loan book is about \$5 billion, and I think that's pretty much what you'll see when we update it. But you heard me mention before about the high-quality mortgage portfolio that we have throughout Asia. Well, about half of that \$5 billion is a high-quality mortgage portfolio. Now, the difference between what I gave you for Asia and China is that I mentioned that Asia, in aggregate, has an updated LTV of less than 50%. In China, the updated LTV is less than 40%. And again, it's underwritten to a high FICO equivalent, 700+. That leaves you with about \$1 billion in credit cards and personal loans. Same thing, very high FICO equivalent in excess of 700 and very good loss performance.

And then we've got about \$1 billion of commercial loans in China, and we have been reducing the commercial exposures to China year over year as we've seen the economy slow. But again, even here, this portfolio has been broadly stable. So that leaves me with the last category that we give you, which is the ICG loans of \$8.8 billion. And the corporate book was flat to last quarter as well. And as we said in the past, more than half of that portfolio is – Mike talked about the way it works around the world, it works the same way in China. More than half of that portfolio is either TTS loans, which are generally short-term secured financings, or they're in the Private Bank. So that leaves about \$4 billion in what you would consider to be a traditional corporate lending book. And over 90% of that corporate loan book in China is to either subsidiaries of large multinationals domiciled outside of China or to large state-owned Chinese companies. So as you would expect, with a portfolio of that nature and consistent with our overall ICG strategy, the vast majority of this portfolio is also investment grade.

**MIKE MAYO:** That's helpful. Can we move to energy, though? I don't want you being the only bank not disclosing reserves to energy – oil and gas loans. I mean, I think most others have disclosed that who have reported so far. And I mean, your stock's down 7%. The whole market's down a whole lot, but I don't – even if it's a low number, it can't hurt too much more from here. And so can you – how much in oil and gas loans do you have, and what are the reserves taken against that? I know you were asked this already, but I'm going back for a second try.

**JOHN GERSPACH:** When you take a look at the overall portfolio, Mike, we've reduced the amount of exposure. Our funded exposure to energy-related companies this quarter is down 4%. It's about \$20.5 billion. The overall exposure also came down about 4%. The overall exposure now is about \$58 billion, that includes unfunded. When you take a look at the composition of the funded portfolio, about 68% of that portfolio would be investment grade. That's up from the 65% that we would have had at the end of the third quarter. And the unfunded book is about 87% investment grade.

So while we are taking what we believe to be the appropriate reserves for that, but I'm just not prepared to give you a specific number right now as far as the amount of reserves that we have on that particular book of business. That's just not something that we've traditionally done in the past.

**MIKE MAYO:** If I can just test your conviction, you gave guidance of \$600 million in loan loss provisions for ICG for the first half of the year. And so that would be half the run rate from the fourth quarter. So something – I guess you're feeling pretty positive in contrast to the market about those expectations, unless if oil goes to \$20, as you said before. What's your level of confidence in that guidance?

**JOHN GERSPACH:** That level – I feel very confident at that level of guidance with oil at \$30 a barrel. And I feel very confident about the additional guidance that I gave you should oil fall to \$25 a barrel.



## Citi Fourth Quarter 2015 Earnings Review

Friday, January 15, 2016



**MIKE MAYO:** And then last follow-up, and maybe this is back to you, Mike. One theory that was put out there is that we are in a vicious cycle of liquidity, not due to Citigroup, not due to the banks, but you have a lot of bond investors that have invert, whether it's junk bond or private equity or liquidity funds. And to the extent that liquidity dries up, you could have pressure on some of your borrowers even though it's not due to you. Do you think we are in a vicious cycle of liquidity? Are you seeing any evidence of that?

**MIKE CORBAT:** I think, Mike, that liquidity today, I would break into strata by credit segments. And I think you've seen that the bond markets throughout this big financing done the other day, almost record-setting financing in the investment grade space. So I think around investment grade credits, the market is open. It will have its ups and downs, but those windows will continue to largely stay open.

I think as you go down the credit spectrum, and on the back of the Fed, on the back of uncertainties and unevenness in the world, I think you're going to see lower segments of the credit spectrum continuing to be challenged, and that will certainly be challenged in various forms of liquidity, and most notably, illiquidity in some of those instruments.

**MIKE MAYO:** All right, thank you.

**MIKE CORBAT:** Thank you.

**OPERATOR:** Your next question comes from the line of Ken Usdin with Jefferies. Please go ahead.

**KEN USDIN:** Hi, good afternoon. Just one question, John. I believe you were talking about – still seeing the ability to grow Corp revenues this year, and I'm just presuming you're talking constant dollar basis. So I was just wondering, just obviously a lot of uncertainties that we can caveat, but as it stands now, how much do you expect rates to inform that growth, and how would you break the growth potential between NII and the fee side?

**JOHN GERSPACH:** Well, let me try to answer that in a couple of different ways. One, again, we're talking about low single digits, and that's somewhat consistent with what we have here. There's not a heavy rate component in that guidance of 3% revenue growth. So we've had about – we certainly have had the first 25 basis point increase and that's good and we're counting on that and that's performing pretty much the way that we would have expected as far as the impact on our businesses. We've got a modest level of rate increases built into the tail end of the year, maybe a rate increase somewhere towards the middle of the year, and one right at the very end of the year. So again, there's not a heavy increase in rate element of that low single-digit number. Equivalent to effect the – we had 3% this year. We'll see what low single-digits will look like next year.

**KEN USDIN:** Okay. And then one question just on balance sheet size. Still things coming out of the averages after the sales this quarter and the pending sales going forward. Do you have some type of view on where average earning assets balances out? Where the kind of settle out point is after you work through the last part or the lingering parts of what you're planning on getting rid of?

**JOHN GERSPACH:** You mean for the overall for Holdings or the overall firm? I just want to be sure.

**KEN USDIN:** I was thinking more of overall firm because I would presume that Holdings kind of just dwindles back to the point where at some point you just put it back into the overall firm but just – I'm thinking more just big picture, top of the house.

**JOHN GERSPACH:** From the top of the house, I think what you've seen is that we adjust the size of our balance sheet based upon the opportunities that we see. And more importantly, the need that our clients have. And so, neither Mike nor I have ever put an absolute cap that says we will not grow the balance sheet. Where we see that our clients have needs and we can provide solutions, we're more than happy to

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

put our balance sheet at work. It's one of the advantages that we have given the capital level that we have and more importantly given the supplemental leverage ratio that we have and given the LCR that we're currently running at, which is at 112%. So we do think that we've got a lot of capacity to put to work if and when we get faced with client need.

**KEN USDIN:** Right, okay, so we'll see a little bit of push-out but you're not necessarily seeing a major shrinkage and you would give yourself room for it to grow again. You're not capped out.

**JOHN GERSPACH:** No. But – what you will consider, continue to see us do is we try to make our balance sheet ever more efficient. And that means running off the low ROA assets and trying to gather more of the high ROA assets. That's the exact theory behind and the plan behind the investments that we're currently making in the U.S. branded cards book.

**KEN USDIN:** Understood, thank you very much.

**JOHN GERSPACH:** Okay.

**OPERATOR:** Your next question comes from the line of Matt Burnell with Wells Fargo Securities. Please go ahead.

**MATT BURNELL:** Good afternoon. Thanks for taking my question. John, a question for you on the Asia Regional Consumer and sort of the year outlook there for operating leverage improvement. It looks like on a year-over-year basis, you were able to generate some operating leverage with revenues down a little bit less than costs. But I guess I'm curious given your comments about continued challenges on the regulatory front and the potential for slowdown in many of those economies, what's your thinking about potential operating leverage within the Asia Consumer business in 2016?

**JOHN GERSPACH:** I'd prefer to – Asia and Latin America are going to be interesting next year. And from a revenue perspective, they both kind of have the same story, which is more of revenue-stabilizing in the first half of the year and then, as volumes grow during the balance of the year, we'll begin to see then a sequential growth in revenue, which will get us then to year-over-year revenue growth in the latter part of 2016.

And when I think about the expense story, again, I'm trying to manage – we're trying to manage the two together. And so from an international, overall International Consumer point of view, I'd expect as we continue to make investments and selected growth investments, whether it's technology or I mentioned digital and infrastructure, I'd say that we're going to pace the revenues against the revenue growth. And for the International GCB overall, we would look to return then to positive operating leverage in the latter half of the year.

**MATT BURNELL:** Okay, so it sounds like that guidance really hasn't changed very much.

**JOHN GERSPACH:** No.

**MATT BURNELL:** Okay. Okay. And then just back stateside, given your strong capital levels and where you sit relative to your minimum requirements, I guess I'm just curious if you're thinking even more aggressively about potentially using some of that capital to focus on nonorganic growth in some of your U.S. businesses as a way of accelerating use of the DTA?

**MIKE CORBAT:** Matt, what we've said there is that we don't and will not look at transactions and rationalize a transaction or a purchase around DTA utilization. DTA utilization is the benefit that comes out of good transactions, and that was the case with Best Buy, we believe that's the case in Costco. And we're wide open. As John said, we've got the resource, balance sheet, capital capability around things that are accretive to our firm to step into large situations, and we're open to that. Unfortunately, in this environment

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

there's not a lot of those out there. But we'll continue to look and again, staying true to our strategy, staying true to our target client base, if those opportunities present themselves, we'll try to take advantage of it.

**MATT BURNELL:** Okay, fair enough. And then just finally, maybe an administrative question. John, you've mentioned in the past when Holdings was a much bigger portion of the overall balance sheet, that maybe at around 5% of assets you would think about folding Holdings back into at least the reporting of the company. How are you thinking about that now that you're at about 4%?

**JOHN GERSPACH:** Yeah, and actually we've had conversations like that. The question always becomes where would we put it? I don't want to take the assets that are in Holdings and simply put them back into the businesses "from whence they came". Otherwise we'd spend the entire call with you explaining how much of anything that happened was related to legacy assets. The alternate construct would be to just to take it – put it all into Corp/Other, but I almost get to the same point where I think then you'd all want to have more detail as far as what is in Corp/Other related to those legacy assets.

So it's still something that Mike and I talk about all the time. And at some point, we will likely collapse it into, say, Corporate/Other, but it's probably still just a little bit too big to put into Corporate/Other just to avoid basically splitting it all out again, just so that you guys will have a clearer picture of it. So it's a bit annoying to have it out there as something separate, but we're not ready to combine it yet with Corp/Other.

**MATT BURNELL:** Okay, thanks for taking my questions.

**JOHN GERSPACH:** Not a problem.

**OPERATOR:** Your next question comes from the line of Brian Kleinhanzl with KBW. Please go ahead.

**BRIAN KLEINHANZL:** Thanks.

**JOHN GERSPACH:** Hey.

**BRIAN KLEINHANZL:** A quick question on Costco. Was it right that you said you were expecting – the portfolio acquisition is expected to close late in the second quarter?

**JOHN GERSPACH:** Yes, but as we've said, later in the second quarter, that's right.

**BRIAN KLEINHANZL:** Okay. Is there any risk though that since it's an April 1 cutoff for the contract that you started the contract without actually acquiring the portfolio? And why did you guys get pushed back past the contract date?

**JOHN GERSPACH:** No, as you can imagine, we're involved in a rather intense discussion with both the current owner of the portfolio as well as Costco. And as we have gone down, trying to figure out what is the best way to affect the handover, what we determined in running down this process is that a date where we can get a concurrent closing of the portfolio as well as then a conversion of all the operations is probably the simplest and the most efficient solution for everybody, and it's probably the best way to ensure a seamless customer experience as well.

And so then as we looked at various dates, something in June just seemed to work best as far as a date that we could point to when we could not only transfer the portfolio but then also make sure that there's a nice clean handoff of all the operational aspects of the portfolio as well.

**BRIAN KLEINHANZL:** Okay, and then just a second question. I know we laid out the macro conditions and how they're deteriorating somewhat across the globe. But doesn't that argue for a period of belt-tightening as opposed to renewed investment? I know there are attractive opportunities you're saying. But aren't there other places that should be cutting as well at the same time on expenses?

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

**MIKE CORBAT:** As you look around the globe, we're forecasting somewhere, depending how you build China into the forecast, somewhere GDP growth, somewhere between 2.5% and 2.8%, 2% out of developed markets, 4% out of developing markets. And if you look at the U.S., the U.S. has a candidly pretty good feel to it, and so I wouldn't argue to belt-tightening there. If we look at what's going on in Europe, and we talked about what we see, not just some of the absolute but some of the relative opportunities there, that feels pretty good. And then you start to look at pieces and parts of the rest of the franchise. A lot of these franchises on the ground are TTS franchises in different parts and pieces there, so we're going to continue to be very mindful.

You've seen us, we talked about the overall head count reduction, which is net of significant investment into controls. And we're going to continue to be mindful and to make sure that we are scaling and sizing our company to what we think the opportunities are. And I think that we've shown we haven't been afraid at the right times to make the investments, and we haven't been afraid at the tougher times to pull things back, and I think that will be the case in 2016.

And don't forget, with the investments that we're planning, our guidance is that we intend to hold the operating efficiency ratio constant with this year. So therefore, our goal is to fund those investments through additional operational efficiencies. And as I mentioned, we're constantly looking to make the place more efficient and adjust the capacity levels, so all of that will continue. And all we're saying is that we're going to use those savings to fund these investment programs which we think are beneficial for the future.

**BRIAN KLEINHANZL:** Okay, great. Thanks for taking my questions.

**JOHN GERSPACH:** Okay.

**OPERATOR:** Your next question comes from the line of Erika Najarian with Bank of America. Please go ahead.

**ERIKA NAJARIAN:** Hi. I just wanted to slip one quick question in as a follow-up to Betsy's question on CCAR. Mike, we appreciate that you're coming into this year's CCAR with strong ratios, and of course we don't have the parameters yet. You've always talked about the progress on the qualitative side as just that, progress. And I'm wondering if you're satisfied enough with your progress in terms of your qualitative report card to feel confident about a step-up in ask this year.

**MIKE CORBAT:** Again, I think that the ask, there are a couple of components there that you lay out to the ask, and one is what do your numbers tell you and second how do you feel from your process. We have continued to make progress qualitatively against what we've laid out as things that we think are the right things for us to be focused on in terms of improving our capital planning process. That is work that continues. We didn't finish it in 2015. Parts of it probably won't be finished in 2016, so it's ongoing work. We feel good about that progress, but it's certainly not an end state, and whether that really ever gets to an end state, we'll see. But I feel better today than I felt a year ago given our investments about where we are qualitatively, and I hope I feel better a year from today than I feel today around that. So a long-winded answer of saying feel better about where we are qualitatively, but more work to do.

**ERIKA NAJARIAN:** Great, thank you.

**OPERATOR:** Your next question will come from the line of Steven Chubak with Nomura. Please go ahead.

**STEVEN CHUBAK:** Good afternoon.

**MIKE CORBAT:** Hey, Steven.

**JOHN GERSPACH:** Hey, Steve.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

**STEVEN CHUBAK:** I have actually a follow-up to Erika's question. Just thinking about the upcoming CCAR submission, recognizing it's still early days, but within the submission itself, Mike, you mentioned that you like how the fourth quarter balance sheet looks. But does Costco and the additional receivables have to be contemplated as part of your submission?

**JOHN GERSPACH:** Steven, we'll assume in CCAR that we go ahead with the Costco acquisition. We think that that is responsive to the rules as they currently exist. But again, the acquisition date will be somewhat later in June. And so we'll have to see what stress tests look like as far as what the condition of the portfolio would be in when we acquire it in June.

**STEVEN CHUBAK:** Understood. And just switching over to the risk-weighted asset side within capital, I appreciate a lot of the guidance that you've given in terms of the Holdings trajectory and the reduction that we're expecting on the coming year, but it appears as though that benefit is now going to be exhausted or largely exhausted in terms of RWA shrinkage, and yet you're going to be continuing to grow Citicorp on a core basis. And I just want to get a sense as to how should we be thinking about the RWA trajectory for 2016 given all those moving parts.

**JOHN GERSPACH:** We rarely give guidance on the RWA, but again there are several things that would go on there. One, as you mentioned, we will continue to wind down Holdings and we will continue to get some benefit there. Currently, we would look to see that that should more or less give us some ability then to manage growth in the rest of Citicorp, with the exception of course of the addition of the Costco portfolio. But then you've got on the other hand, we continually, as I said before, are looking to make sure that we're running even a more risk-efficient balance sheet. So I think you might see some increase in RWA coming into 2016, but I wouldn't guide you to some huge amount of growth.

**STEVEN CHUBAK:** Understood. And just given the market risk proposal that came out and recognizing you only had a mere 24 hours to digest the release from Basel, do you have any preliminary expectations or takeaways from what came out yesterday? And what's a reasonable expectation for even a range of potential market risk inflation?

**JOHN GERSPACH:** My initial impression, not that I have gone through the whole thing, but from people that I've spoken to here that actually have begun to go through it, is that they still need to do a lot more work. And so we will continue to try to pass appropriate commentary on to the right parties to see that that work is done. But if you take a look, don't forget, our risk-weighted assets coming out of market risk currently are \$77 billion. It's roughly 6% of the total RWA. So while this proposal could have a significant impact on our market risk RWA, you've got to gauge it in the fact that we're talking about 6% of our total RWA.

**STEVEN CHUBAK:** Got it, and then just one quick ticky-tack question on the NIM guidance. John, you mentioned that any rate benefit, which sounds like it will be relatively modest as contemplated within the guidance for 2016, is going to be offset by a reduction in trading NII. I just wanted to get a sense as to what's driving that. Is it a function of lower inventory levels, issuance tied to TLAC or is it something else?

**JOHN GERSPACH:** No, trading NIM is something that is largely variable. And only because the composition of your portfolios change constantly, and so this year, I would just say that we've had a larger than expected contribution to NIM coming off the trading book than we would have experienced in the years past. And I haven't gotten yet to the point where I'm comfortable saying that that's the new norm. And so if trading NIM reverts back closer to where it was in the past, then it could offset some of the – all or some of the benefit that we expect to get out of rates.

But I may get – I'll certainly have more to talk to you about as we get further into 2016 and we see whether or not we've actually got the trading NIM really working consistently at this point in time.

**STEVEN CHUBAK:** Thanks for clarifying that, John, and I appreciate you taking my questions.

**Citi Fourth Quarter 2015 Earnings Review***Friday, January 15, 2016*

**JOHN GERSPACH:** Not a problem.

**OPERATOR:** Your next question comes from line of Eric Wasserstrom with Guggenheim Securities. Please go ahead.

**ERIC WASSERSTROM:** Thanks very much.

**JOHN GERSPACH:** Hey, Eric.

**ERIC WASSERSTROM:** Hi. How are you? Mike, I just want to bring together some of your comments to make sure I understand the – sort of the strategic imperatives as it comes to a lot of the repositioning that's occurred. So on the four quadrants slide that you first introduced that seems to still describe your approach, is the bar getting higher for the businesses that are in the upper-left hand quadrant, or is that more or less a static standard?

**MIKE CORBAT:** I would say at the time we introduced that, we also introduced – at the time we introduced that firm-wide was also coincided with it at the point in time we put our targets in place. So I would say that those have largely been the same or consistent over the three years. Clearly leverage has been introduced. Supplemental leverage has been introduced since then. There's been the evolution of CCAR and CCAR returns. And so today I would say that actually Eric we're looking at it in some ways consistently but in other ways with the additional view of some of the lenses I just mentioned.

**ERIC WASSERSTROM:** Okay. And is anything that's going on in the broader macro economy causing some business lines or geographies to fall out of that segment and into the lower rate segment?

**MIKE CORBAT:** No, I would say not right now. You'll get some things that have some aberrations. So an example I would give you is we have in parts of our cards portfolio, we've got gasoline cards. So simply, spend on gasoline cards have come down by a third when volumes are the same. And so you're not necessarily going to take a short-term view and say that, gee, gas cards is a bad business. It may not be what we wanted at this point of the cycle or at this inflection point in oil prices, but again, in here, we're not taking short-term views around these. So I would say at this point, not.

**ERIC WASSERSTROM:** Okay. And, John, one quick balance sheet question. You talked about the debt buyback as a consequence of the OneMain sale and the fact that you have so little non-operational deposits left. At this stage, is there any real balance sheet optimization opportunity left to you, or have those been largely exhausted?

**JOHN GERSPACH:** I'd say that there's always some opportunity. I mean, obviously we've taken a good chunk of the opportunity so far and become more and more efficient. But there's still ways of optimizing the balance sheet, so not necessarily making it more efficient by making it smaller, but there's still elements of balance sheet optimization such as shifting parts of the – more of the balance sheet towards those higher ROA businesses. So I'd say that maybe the word going forward will be optimization rather than making it more efficient. But in any way, it's still targeting our focus on improving the overall ROA.

**ERIC WASSERSTROM:** Got it. Excellent. Thanks very much.

**OPERATOR:** Thank you. I have no further questions in queue at this time.

**SUSAN KENDALL:** Great. Thank you, Brett. And thank you all for spending the time with us today. If you have any follow-up questions, please reach out to Investor Relations. Thanks.

**OPERATOR:** Thank you. This concludes today's conference call. You may now disconnect.

**Citi Fourth Quarter 2015 Earnings Review**

*Friday, January 15, 2016*



Certain statements in this document are “forward-looking statements” within the meaning of the rules and regulations of the U.S. Securities and Exchange Commission. These statements are based on management’s current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from those included in these statements due to a variety of factors, including the precautionary statements included in this document and those contained in Citigroup’s filings with the U.S. Securities and Exchange Commission, including without limitation the “Risk Factors” section of Citigroup’s 2014 Annual Report on Form 10-K.