CITIGROUP INC
Form 10-Q
May 05, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

Commission file number 1-9924

Citigroup Inc.

(Exact name of registrant as specified in its charter)

Delaware	**52-1568099**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
399 Park Avenue, New York, NY	**10043**
(Address of principal executive offices)	(Zip code)

(212) 559-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Common stock outstanding as of March 31, 2011: 29,206,440,560

Available on the web at www.citigroup.com

1

CITIGROUP INC.

FIRST QUARTER 2011 FORM 10-Q

Table of Contents

OVERVIEW

Introduction

Citigroup operates, for management reporting purposes, via two primary business segments: Citicorp, consisting of Citi's *Regional Consumer Banking* businesses and *Institutional Clients Group*; and Citi Holdings, consisting of Citi's *Brokerage and Asset Management* and *Local Consumer Lending* businesses, and a *Special Asset Pool*. There is also a third segment, *Corporate/Other*. For a further description of the business segments and the products and services they provide, see "Citigroup Segments" below, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 3 to the Consolidated Financial Statements.

Throughout this report, "Citigroup", "Citi" and "the Company" refer to Citigroup Inc. and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q should be read in conjunction with Citigroup's Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Annual Report on Form 10-K). Additional information about Citigroup is available on the company's Web site at *www.citigroup.com*. Citigroup's recent annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, as well as its other filings with the SEC are available free of charge through the company's Web site by clicking on the "Investors" page and selecting "All SEC Filings." The SEC's Web site also contains periodic and current reports, proxy and information statements, and other information regarding Citi at *www.sec.gov*.

Certain reclassifications have been made to the prior periods' financial statements to conform to the current period's presentation.

Within this Form 10-Q, please refer to the tables of contents on pages 2 and 80 for page references to Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements, respectively.

Table of Contents

As described above, Citigroup is managed pursuant to the following segments:

The following are the four regions in which Citigroup operates. The regional results are fully reflected in the segment results above.

(1)
Asia includes Japan, *Latin America* includes Mexico, and *North America* comprises the U.S., Canada and Puerto Rico.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FIRST QUARTER 2011 EXECUTIVE SUMMARY

Citigroup

Citigroup reported first quarter of 2011 net income of $3.0 billion, or $0.10 per diluted share. Citigroup's income declined $1.4 billion from the first quarter of 2010, but more than doubled from the prior quarter.

Citigroup revenues, net of interest expense, were $19.7 billion, down $5.7 billion, or 22%, from the first quarter of 2010. Net interest revenues of $12.2 billion were 16% lower than the prior-year period, largely due to declining loan balances in *Local Consumer Lending* within Citi Holdings. Net interest revenues also included a $245 million pre-tax charge during the first quarter 2011 to increase reserves related to customer refunds in Japan Consumer Finance. Non-interest revenues were $7.5 billion, down 31% from the prior-year period, principally driven by lower *Securities and Banking* revenues, negative credit valuation adjustments (CVA), and a $709 million net charge resulting from the transfer of certain assets in the *Special Asset Pool* from held-to-maturity to trading assets (see " Citi Holdings *Special Asset Pool* Reclassification of HTM Securities to Trading" and Note 11 to the Consolidated Financial Statements).

Citicorp

Citicorp net income of $4.1 billion declined 19% from the prior-year period, but was up 69% from the prior quarter. Year-over-year, lower revenues and increased expenses were partially offset by improvement in credit costs. Citicorp's international operations accounted for 72% of first quarter 2011 net income.

Citicorp revenues were $16.5 billion, down $2.0 billion, or 11%, from the first quarter of 2010. Net interest revenues of $9.5 billion declined 4% from the prior-year period, principally driven by North America *Regional Consumer Banking* and *Securities and Banking*. Non-interest revenues declined 19% to $7.0 billion, largely due to the decline in *Securities and Banking* revenues, including negative CVA.

Regional Consumer Banking revenues of $7.9 billion were 2% lower year-over-year, mostly due to lower cards balances in North America, the impact of The Credit Card Accountability Responsibility and Disclosure Act (CARD Act), and continued spread compression in Asia and Latin America. Average retail banking loans increased 11% year-over-year to $121.4 billion, and average deposits increased 6% to $307.0 billion, both driven by Latin America and Asia. Citi-branded cards average loans declined 2% year-over-year to $110.3 billion, as growth in Latin America and Asia was offset by lower balances in North America. Cards purchase sales grew 8% from the prior-year period to $64.9 billion, and international investment sales increased 5% to $25.4 billion.

Securities and Banking revenues declined 25% year-over-year, driven principally by lower revenues in fixed income markets and CVA of negative $229 million in the current quarter (compared to positive $285 million in the prior-year period). Excluding CVA, fixed income markets revenues decreased 22% year-over-year, largely due to declines in revenues from rates and currencies and credit and securitized products, and equity markets revenues were 9% lower mainly driven by lower trading revenues related to principal positions. Investment banking revenues were down 19% from the prior-year period, primarily reflecting lower revenues from municipal and investment grade debt underwriting.

Transaction Services revenues were $2.6 billion, up 5% from the prior-year period, driven by growth in Latin America and Asia. Average deposits and other customer liabilities grew 11% year-over-year to $355 billion, with growth in every region. Strong growth in business volumes was partially offset by continued spread compression.

Citicorp end of period loans increased 10% year-over-year to $418 billion, with 6% growth in consumer loans and 16% growth in corporate loans.

Citi Holdings

Citi Holdings net loss of $608 million was 31% less than the net loss of $886 million in the first quarter of 2010, and down 40% from the net loss of $1.0 billion in the prior quarter, as continued improvement in credit costs and lower expenses more than offset the decline in revenues, as discussed below.

Citi Holdings revenues declined 50% to $3.3 billion from the prior-year period. Net interest revenues declined 40% year-over-year to $2.6 billion, largely driven by lower loan balances in *Local Consumer Lending* and the higher reserve build related to customer refunds in Japan Consumer Finance during the current quarter. Non-interest revenues declined 70% to $653 million from the prior-year period, reflecting the $709 million net pre-tax charge related to the asset transfer in *Special Asset Pool*, lower positive marks on subprime related direct exposures, and a repurchase reserve build of $122 million related to North America residential real estate in *Local Consumer Lending*, partially offset by gains on private equity investments.

Citi Holdings assets declined 33% from the first quarter of 2010 to $337 billion at the end of the first quarter of 2011. The decline reflected $106 billion in asset sales and business dispositions, $49 billion in net run-off and amortization, and $10 billion in net cost of credit and net asset marks. Sequentially, Citi Holdings assets declined 6% from $359 billion in the fourth quarter of 2010. At the end of the first quarter of 2011, Citi Holdings assets comprised approximately 17% of total Citigroup GAAP assets and 31% of risk-weighted assets.

Table of Contents

Credit Costs

Citigroup total provisions for credit losses and for benefits and claims of $3.2 billion declined $5.4 billion, or 63%, from the prior-year period. Net credit losses of $6.3 billion were down $2.1 billion, or 25%, from the first quarter of 2010. Consumer net credit losses declined $2.6 billion, or 32%, to $5.4 billion, driven by continued improvement in credit in North America Citi-branded cards in Citicorp, and retail partner cards and residential real estate lending in Citi Holdings. Corporate net credit losses increased $485 million to $849 million year-over-year, primarily due to higher cost of loan sales as well as losses from loans to specific counterparties for which reserves had previously been established and were released in the current quarter.

The net release of allowance for loan losses and unfunded lending commitments was $3.3 billion in the first quarter of 2011, compared to $53 million in the first quarter of 2010. The $2.0 billion net Consumer reserve release was mainly driven by retail partner cards and North America Citi-branded cards. The $1.4 billion net Corporate reserve release reflected releases for the overall portfolio, as credit trends continued to improve, as well as the release of previously established reserves for specific loans that offset charge-offs taken in the current quarter.

Operating Expenses

Citigroup expenses increased $808 million, or 7%, year-over-year to $12.3 billion, reflecting higher legal and related costs, the impact of foreign exchange and inflation, continued investment spending and increased business volumes, partially offset by a decline in Citi Holdings as well as productivity saves across the firm.

Citicorp expenses of $9.6 billion grew 12% from the prior-year period. More than half of the increase in Citicorp expenses was due to higher investment spending, with the remainder roughly split between the impact of foreign exchange in the translation of local currency results into U.S. dollars for reporting purposes (as used throughout this Form 10-Q, FX translation) and inflation and higher legal and related costs. Higher expenses from increased business volumes were generally offset by continued productivity saves.

Citi Holdings expenses were down 22% year-over-year to $2.0 billion, principally due to the continued decline in assets and therefore lower operating costs.

Citigroup continues to expect variability in its operating expenses during the remaining quarters of 2011 as it continues investing in Citicorp while rationalizing Citi Holdings. Certain expenses, particularly legal costs and the impact of foreign exchange, will remain difficult to predict.

Capital and Loan Loss Reserve Positions

Citigroup's Tier 1 Capital ratio was 13.3% at quarter-end, and its Tier 1 Common ratio was 11.3%.

Citigroup's total allowance for loan losses was $36.6 billion at quarter-end, or 5.79%, of total loans, down from $48.7 billion, or 6.80%, in the prior-year period. The decline in the total allowance for loan losses reflected asset sales, lower non-accrual loans, and overall improvement in the credit quality of the loan portfolio.

The Consumer allowance for loan losses was $32.7 billion, or 7.47%, of total Consumer loans, at quarter-end, compared to $41.4 billion, or 7.84%, at March 31, 2010.

Citigroup's non-accrual loans of $14.8 billion declined 48% from the prior-year period. At the end of the first quarter of 2011, the allowance for loan losses was 247% of non-accrual loans.

Table of Contents

RESULTS OF OPERATIONS

SUMMARY OF SELECTED FINANCIAL DATA

Citigroup Inc. and Consolidated Subsidiaries

In millions of dollars, except per-share amounts, ratios and direct staff	First Quarter 2011	2010	% Change
Net interest revenue	**$ 12,224**	$ 14,561	(16)%
Non-interest revenue	**7,502**	10,860	(31)
Revenues, net of interest expense	**$ 19,726**	$ 25,421	(22)%
Operating expenses	**12,326**	11,518	7
Provisions for credit losses and for benefits and claims	**3,184**	8,618	(63)
Income from continuing operations before income taxes	**$ 4,216**	$ 5,285	(20)%
Income taxes	**1,185**	1,036	14
Income from continuing operations	**$ 3,031**	$ 4,249	(29)%
Income from discontinued operations, net of taxes(1)	**40**	211	(81)
Net income before attribution of noncontrolling interests	**$ 3,071**	$ 4,460	(31)%
Net income attributable to noncontrolling interests	**72**	32	NM
Citigroup's net income	**$ 2,999**	$ 4,428	(32)%
Less: Preferred dividends Basic	**$ 4**	$	
Less: Dividends and undistributed earnings allocated to participating securities, applicable to Basic EPS	**35**	28	
Income allocated to unrestricted common shareholders for basic EPS	**$ 2,960**	$ 4,400	(33)%
Add: Incremental dividends and undistributed earnings allocated to participating securities, applicable to Diluted EPS	**1**		
Income allocated to unrestricted common shareholders for diluted EPS	**$ 2,961**	$ 4,400	(33)%
Earnings per share			
Basic			
Income from continuing operations	**$ 0.10**	$ 0.15	(33)%
Net income	**0.10**	0.15	(33)
Diluted			
Income from continuing operations	**$ 0.10**	$ 0.14	(29)%
Net income	**0.10**	0.15	(33)
At March 31:			
Total assets	**$ 1,947,815**	$ 2,002,213	(3)%
Total deposits	**865,863**	827,914	5
Long-term debt	**376,541**	439,274	(14)
Mandatorily redeemable securities of subsidiary trusts (included in long-term debt)	**17,940**	21,682	(17)
Common stockholders' equity	**170,725**	151,109	13
Total stockholders' equity	**171,037**	151,421	13
Direct staff *(in thousands)*	**260**	263	(1)
Ratios:			
Return on average common stockholders' equity(2)	**7.3%**	12.0%	
Return on average total stockholders' equity(2)	**7.3**	12.0	

Tier 1 Common(3)		**11.34%**		9.11%
Tier 1 Capital		**13.26**		11.28
Total Capital		**16.98**		14.88
Leverage(4)		**7.00**		6.16
Common stockholders' equity to assets		**8.76%**		7.55%
Total stockholders' equity to assets		**8.78**		7.56
Book value per common share	**$**	**5.85**	$	5.28
Tangible book value per share(5)	**$**	**4.69**	$	4.09
Ratio of earnings to fixed charges and preferred stock dividends		**1.70x**		1.82x

(1) Discontinued operations primarily reflects the sale of Nikko Cordial Securities, the sale of Citigroup's German retail banking operations, the sale of CitiCapital's equipment finance unit to General Electric, and the announced sale of the Egg Banking PLC credit card business. See Note 2 to the Consolidated Financial Statements.

(2) The return on average common stockholders' equity is calculated using net income less preferred stock dividends divided by average common stockholders' equity. The return on total stockholders' equity is calculated using net income divided by average stockholders' equity.

(3) As defined by the banking regulators, the Tier 1 Common ratio represents Tier 1 Capital less qualifying perpetual preferred stock, qualifying noncontrolling interests in subsidiaries and qualifying mandatorily redeemable securities of subsidiary trusts divided by risk-weighted assets.

(4) The Leverage ratio represents Tier 1 Capital divided by adjusted average total assets.

(5) Tangible book value per share is a non-GAAP financial measure for SEC purposes. For additional information and a reconciliation of this measure to the most directly comparable GAAP measure, see "Capital Resources and Liquidity Capital Resources Tangible Common Equity" below.

NM Not meaningful

Table of Contents

SEGMENT, BUSINESS AND PRODUCT INCOME (LOSS) AND REVENUES

The following tables show the income (loss) and revenues for Citigroup on a segment, business and product view:

CITIGROUP INCOME (LOSS)

	First Quarter		
In millions of dollars	2011	2010	% Change
Income (loss) from continuing operations			
CITICORP			
Regional Consumer Banking			
North America	**$ 551**	$ 15	NM
EMEA	**49**	24	NM
Latin America	**484**	367	32%
Asia	**461**	567	(19)