CITIGROUP INC
Form 10-Q
August 02, 2013

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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 June 30, 2013

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	**10022**
(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 June 30, 2013: 3,041,026,489

Available on the web at www.citigroup.com

CITIGROUP INC
SECOND QUARTER 2013 FORM 10-Q

OVERVIEW

Citigroup's history dates back to the founding of Citibank in 1812. Citigroup's original corporate predecessor was incorporated in 1988 under the laws of the State of Delaware. Following a series of transactions over a number of years, Citigroup Inc. was formed in 1998 upon the merger of Citicorp and Travelers Group Inc.

Citigroup is a global diversified financial services holding company whose businesses provide consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management. Citi has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions.

Citigroup currently operates, for management reporting purposes, via two primary business segments: Citicorp, consisting of Citi's *Global Consumer Banking* businesses and *Institutional Clients Group*; and Citi Holdings, consisting of *Brokerage and Asset Management, Local Consumer Lending* and *Special Asset Pool*. 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, 2012 filed with the U.S. Securities and Exchange Commission (SEC) on March 1, 2013 (2012 Annual Report on Form 10-K) and Citigroup's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 filed with the SEC on May 3, 2013 (First Quarter of 2013 Form 10-Q). Additional information about Citigroup is available on Citi's website at *www.citigroup.com*. Citigroup's recent annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, as well as other filings with the SEC, are available free of charge through Citi's website by clicking on the "Investors" page and selecting "All SEC Filings." The SEC's website also contains current reports, information statements, and other information regarding Citi at *www.sec.gov*.

Within this Form 10-Q, please refer to the tables of contents on pages 2 and 108 for page references to Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements, respectively.

Certain reclassifications have been made to the prior periods' financial statements to conform to the current period's presentation. For information on certain recent such reclassifications, see Citi's Forms 8-K furnished to the SEC on April 5, 2013 and June 28, 2013.

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

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

EXECUTIVE SUMMARY

Second Quarter of 2013 Summary Results

During the second quarter of 2013, Citi saw growth in its core businesses in Citicorp versus the prior-year period, driven principally by strong results in its markets businesses within *Securities and Banking* as well as an improved credit environment. Despite this growth, Citi's results for the second quarter of 2013 also reflected a continued challenging operating environment, including slowing growth in the emerging markets, continued spread compression(1) globally impacting its *Global Consumer Banking (GCB)* and *Transaction Services* businesses and elevated legal and related expenses as Citi continues to work through its "legacy" legal issues. Legal and related expenses are expected to continue to remain elevated and somewhat volatile as Citi works through these issues, although Citi was able to resolve a portion of its legacy representation and warranty issues during the second quarter of 2013, with its announced agreement with Fannie Mae (see "Managing Global Risk Credit Risk Citigroup Residential Mortgages Representations and Warranties" below).

Citigroup

Citigroup reported second quarter of 2013 net income of $4.2 billion, or $1.34 per diluted share. Citi's reported net income increased by 42%, or $1.2 billion, from the second quarter of 2012. Results for the second quarter of 2013 included a positive credit valuation adjustment (CVA) on derivatives (counterparty and own-credit), net of hedges, and debt valuation adjustment (DVA) on Citi's fair value option debt of $477 million ($293 million after-tax), compared to $219 million ($140 million after-tax) in the second quarter of 2012, reflecting a widening of Citi's credit spreads and a tightening of counterparty spreads during the quarter. Second quarter of 2012 results also included a net loss of $424 million ($274 million after-tax) related to the sale of a 10.1% stake in Akbank T.A.S (Akbank).

Excluding CVA/DVA in both periods and the Akbank loss in the second quarter of 2012,(2) Citigroup net income increased 26% to $3.9 billion. Earnings per share of $1.25 increased 25% compared to $1.00 in the prior year period. The year-over-year increase in earnings per share primarily reflected higher revenues and lower net credit losses, partially offset by higher legal and related expenses, a lower loan loss reserve release and a higher effective tax rate as compared to the prior-year period. Citi's higher effective tax rate in the second quarter of 2013 reflected higher earnings in *North America*, a higher effective tax rate on its international operations due to the previously-disclosed change in its assertion surrounding the indefinite reinvestment of earnings in certain of its international entities as well as the resolution of certain tax issues in the current quarter (for additional information, see "Income Taxes" below).

Citi's revenues, net of interest expense, were $20.5 billion in the second quarter of 2013, up 11% versus the prior-year period. Excluding CVA/DVA and the Akbank loss in the second quarter of 2012, revenues were $20.0 billion, up 8% compared to the prior-year period, as revenues in Citicorp and Citi Holdings grew by 7% and 17%, respectively. Net interest revenues of $11.7 billion were 3% higher than the prior-year period, as growth in *Securities and Banking* in Citicorp and an increase in *Local Consumer Lending* in Citi Holdings was partially offset by the ongoing impact of spread compression in *Transaction Services* in Citicorp, which Citi expects will likely continue to negatively impact net interest revenues in the near term. Non-interest revenues were $8.8 billion, up 25% from the prior-year period, driven by growth in *Securities and Banking* revenues and the absence of the Akbank loss in the second quarter of 2012. Excluding CVA/DVA in both periods and the Akbank loss in the second quarter of 2012, non-interest revenues of $8.3 billion were 15% higher than the prior-year period.

Operating Expenses

Citigroup expenses increased 1% versus the prior-year period to $12.1 billion, driven by higher legal and related expenses in Citi Holdings (see below), partially offset by lower repositioning charges of $75 million in the second quarter of 2013 compared to $186 million in the prior-year period. Citi incurred legal and related expenses of $832 million (compared to $480 million in the prior-year period). Excluding legal and related expenses, repositioning charges and the impact of foreign exchange translation into U.S. dollars for reporting purposes (as used throughout this report, FX translation),(3) Citi's operating expenses were $11.2 billion, a 1% reduction versus the prior-year period. This expense decline reflected approximately $200 million of repositioning savings, partially offset by higher performance-based compensation expense as compared to the prior-year period given the improved operating performance.

Citicorp's expenses were $10.6 billion, down 2% from the prior-year period, largely reflecting lower legal and related expenses. Citicorp legal and related expenses were $131 million in the second quarter of 2013, compared to $278 million in the prior-year period. Citi Holdings expenses increased 25% from the prior-year period to $1.5 billion, principally due to the higher legacy legal and related expenses, which were primarily reflected in the *Special Asset Pool*. Citi Holdings legal and related expenses were $702 million in the second quarter of 2013, compared to $202 million in the prior-year period.

(1) As used throughout this report, spread compression refers to the reduction in net interest revenue as a percentage of loans or deposits, as applicable, as driven by either lower yields on interest-earning assets or higher costs to fund such assets (or a combination thereof).

(2) Citigroup's results of operations, excluding the impact of CVA/DVA and gains/(losses) on minority investments, are non-GAAP financial measures. Citi believes the presentation of its results of operations excluding the impact of CVA/DVA and gains/(losses) on minority investments provides a more meaningful depiction of the underlying fundamentals of its businesses.

(3) FX translation decreased reported operating expenses by approximately $0.1 billion in the second quarter of 2013 as compared to the prior-year period. For the impact of FX translation on second quarter 2013 results of operations for each of *EMEA Regional Consumer Banking (RCB), Latin America RCB, Asia RCB* and *Transaction Services*, see the table accompanying the discussion of each respective business' results of operations below.

Credit Costs and Loan Loss Reserve Positions

Citi's total provisions for credit losses and for benefits and claims of $2.0 billion declined 25% from the prior-year period. Net credit losses of $2.6 billion were down 25% from the second quarter of 2012. Consumer net credit losses declined 23% to $2.6 billion reflecting improvements in mortgages in Citi Holdings *Local Consumer Lending* and *North America* Citi-branded cards and Citi retail services in Citicorp. Corporate net credit losses were $45 million in the second quarter of 2013, compared to $154 million in second quarter of 2012.

The net release of allowance for loan losses and unfunded lending commitments was $784 million in the second quarter of 2013, 22% lower than the prior-year period, with $705 million related to Consumer and the remainder in Corporate. Of the $784 million net reserve release, $311 million was attributable to Citicorp, compared to a $740 million release in the prior-year period. The decline in the Citicorp reserve release principally reflected lower releases in *North America RCB* largely related to cards. The $473 million net reserve release in Citi Holdings increased from $269 million in the prior-year period and included a reserve release of approximately $525 million related to *North America* mortgages.

Citigroup's total allowance for loan losses was $21.6 billion at quarter end, or 3.4% of total loans, compared to $27.6 billion, or 4.3%, at the end of the prior-year period. The decline in the total allowance for loan losses reflected asset sales, lower non-accrual loans, and overall continued improvement in the credit quality of Citi's loan portfolios.

The Consumer allowance for loan losses was $18.9 billion, or 5.0% of total Consumer loans, at quarter end, compared to $24.6 billion, or 6.0% of total loans, at June 30, 2012. Total non-accrual assets decreased 12% to $10.1 billion as compared to June 30, 2012. Corporate non-accrual loans declined 17% to $2.1 billion, reflecting continued credit improvement. Consumer non-accrual loans declined 9%, to $7.6 billion, versus the prior-year period.

Capital

Citigroup's Basel I Tier 1 Capital and Tier 1 Common ratios were 13.2% and 12.2% as of June 30, 2013, respectively, each reflecting the final U.S. market risk capital rules (Basel II.5) which became effective on January 1, 2013. Citi's estimated Tier 1 Common ratio under Basel III was 10.0% at the end of the second quarter of 2013, up from an estimated 9.3% at March 31, 2013. Citi's estimated Basel III Supplementary Leverage Ratio for the second quarter of 2013 was 4.9%.(4)

Citicorp(5)

Citicorp net income increased 23% from the prior-year period to $4.8 billion. CVA/DVA in *Securities and Banking* was $462 million ($284 million after-tax), compared to $198 million ($127 million after-tax) in the prior-year period. Excluding CVA/DVA and the Akbank loss in the second quarter of 2012, Citicorp net income increased 12% from the prior-year period to $4.5 billion, as revenue growth, lower operating expenses and lower net credit losses were partially offset by lower loan loss reserve releases and a higher effective tax rate.

Citicorp revenues, net of interest expense, were $19.4 billion in the second quarter of 2013, up 11% versus the prior-year period. Excluding CVA/DVA and the Akbank loss in the second quarter of 2012, Citicorp revenues were $18.9 billion in the quarter, a 7% increase versus the prior-year period, as growth in *Securities and Banking* and *GCB* revenues was partially offset by a decline in *Transaction Services* revenues.

Global Consumer Banking revenues of $9.7 billion increased 2% versus the prior-year period. *North America RCB* revenues of $5.1 billion declined 1% from the prior-year period, driven by a 4% decline in retail banking revenues with total cards revenues (Citi-branded cards and Citi retail services) unchanged. The decline in retail banking revenues was driven by lower mortgage servicing revenues combined with ongoing spread compression, partially offset by a gain of approximately $180 million on the sale of a mortgage portfolio during the current quarter. Citi expects retail banking revenues will continue to be negatively impacted due to the current interest rate environment as historically high mortgage origination volumes are expected to decline and gain on sale margins to reduce. Spread compression in the deposit portfolio is also expected to continue to negatively impact retail banking revenues. *North America RCB* average retail loans of $41 billion grew 2% and average deposits of $165 billion grew 8%, both versus the prior-year period. *North America RCB* cards revenues remained unchanged, as a 1% increase in Citi retail services revenues to $1.5 billion was offset by a 1% decline in Citi-branded cards revenues to $2.0 billion. Average card loans of $104 billion declined 4% versus the prior-year period, driven by increased payment rates resulting from ongoing consumer deleveraging. Citi retail services revenues were also negatively impacted by higher contractual partner payments due to the impact of continued improving credit trends. Card purchase sales of $60 billion increased 2% versus the prior-year period.

International *GCB* revenues (consisting of *Asia RCB*, *Latin America RCB* and *EMEA RCB*) grew 6% versus the prior-year period. Excluding the impact of FX translation, international *GCB* revenues grew 5%, driven by 8% revenue growth in *Latin America RCB* and 2% revenue growth in each of *Asia RCB* and *EMEA RCB*. While international *GCB* revenues continued to reflect spread compression in certain markets, as well as the impact of regulatory changes, particularly in *Asia*, most underlying business metrics continued to exhibit growth. International *GCB* average retail loans increased 5% versus the prior-year period, investment sales grew 36%, average card

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(4) Citi's estimated Basel III Tier 1 Common ratio and estimated Basel III Supplementary Leverage ratio as of June 30, 2013 are based on the U.S. banking agencies proposed Basel III rules (Basel III NPR). In July 2013, the U.S. banking agencies adopted the final U.S. Basel III rules. Citi continues to review these and other recent developments relating to the future capital requirements of financial institutions such as Citi. In addition, Citi's estimated Basel III Tier 1 Common ratio, Supplementary Leverage ratio and certain related components are non-GAAP financial measures. For additional information on these matters, see "Capital Resources and Liquidity Capital Resources" below.

(5) Citicorp includes Citi's three operating businesses *Global Consumer Banking, Securities and Banking* and *Transaction Services* as well as *Corporate/Other*. See "Citicorp" below for additional information on the results of operations for each of the businesses in Citicorp.

loans grew 3%, and card purchase sales grew 9%, all excluding the impact of FX translation.

Securities and Banking revenues were $6.8 billion in the second quarter of 2013, up 25% from the prior-year period. Excluding CVA/DVA,(6) *Securities and Banking* revenues of $6.4 billion increased 21% from the prior-year period, driven principally by growth in equity and fixed income markets and investment banking revenues.

Fixed income markets revenues of $3.4 billion, excluding CVA/DVA, increased 18% from the prior-year period with strength in all major products. Equity markets revenues of $942 million in the second quarter of 2013, excluding CVA/DVA, increased 68% from the prior-year period, driven by an improvement in derivatives performance as well as higher cash equity volumes.

Investment banking revenues rose 21% from the prior-year period to $1.0 billion with higher revenues in all major products. Private Bank revenues of $645 million, excluding CVA/DVA, increased 9% from the prior-year period, with growth in all regions. Lending revenues decreased to $424 million from $571 million in the prior-year period, reflecting $23 million of mark-to-market gains on hedges related to accrual loans as credit spreads widened less significantly during the second quarter of 2013 (compared to a $156 million gain in the prior-year period). Excluding the mark-to-market impact on hedges related to accrual loans, core lending revenues declined 3% to $401 million versus the prior year, as lower volumes were offset by slightly higher spreads.

Transaction Services revenues declined 1% to $2.7 billion versus the prior-year period. *Treasury and Trade Solutions* revenues declined 3%, as the impact of spread compression globally was only partially offset by loan and deposit growth. *Securities and Fund Services* revenues increased 5% (6% excluding the impact of FX translation), as higher settlement volumes and fees offset lower net interest spreads. Despite the continued negative impact of spread compression on revenues in *Transaction Services*, underlying volumes continued to grow, with average deposits and other customer liability balances up 7% and assets under custody up 10%, each versus the prior-year period.

Citicorp end of period loans increased 3% from the prior-year period to $544 billion, with Consumer loans flat and 7% growth in Corporate loans. Excluding $3.2 billion of Consumer loans as of the end of the second quarter of 2012 (related to Citi's agreement to sell Credicard, which was moved to discontinued operations in *Corporate/Other* in the second quarter of 2013), (7) Consumer loans grew 1% versus the prior-year period. Growth in Corporate loans included the impact of adding approximately $7 billion of previously unconsolidated assets during the second quarter of 2013, reflected in *North America Transaction Services* (for additional information, see "Balance Sheet Loans" as well as Note 19 to the Consolidated Financial Statements). Excluding this consolidation, Corporate loans increased 4% compared to the prior-year period.

Citi Holdings(8)

During the second quarter of 2013, Citi continued to make progress on its goal of reducing the negative impact of Citi Holdings on its overall results of operations. Citi Holdings net loss was $570 million in the second quarter of 2013, compared to a net loss of $910 million in the second quarter of 2012. Excluding CVA/DVA,(9) Citi Holdings net loss decreased to $579 million compared to a net loss of $923 million in the prior-year period, as growth in revenues and lower credit costs were partially offset by higher expenses. Expenses increased 25% from the prior-year period reflecting the higher legal and related costs discussed above. Excluding legal and related costs, expenses declined 18% versus the prior-year period.

Citi Holdings revenues increased 16% to $1.1 billion from $938 million in the prior-year period. Excluding CVA/DVA, Citi Holdings revenues increased 17% to $1.1 billion versus the prior-year period, as higher revenues in *Local Consumer Lending* and the *Special Asset Pool* were partially offset by a decline in *Brokerage and Asset Management* revenues.

Local Consumer Lending revenues of $1.1 billion increased 13% from the prior year primarily due to lower funding costs. *Special Asset Pool* revenues, excluding CVA/DVA, were $42 million in the second quarter of 2013, compared to $(102) million in the prior-year period, primarily reflecting lower funding costs and improved asset marks. *Brokerage and Asset Management* revenues were $(20) million, compared to $87 million in the prior year, reflecting lower Morgan Stanley Smith Barney (MSSB) joint venture equity-related revenues. As previously announced, Citigroup completed the sale of its remaining 35% stake in the MSSB joint venture during the second quarter of 2013. Net interest revenues increased 32% to $784 million versus the prior-year period, driven predominately by improvements in *Local Consumer Lending* and the *Special Asset Pool*. Non-interest revenues, excluding CVA/DVA, declined 9% from the prior-year period to $293 million, driven by lower *Brokerage and Asset Management* revenues.

Citi Holdings end of period assets declined 31% from the prior-year to $131 billion at the end of the second quarter of 2013 (for additional information on the drivers of the asset decline during the current quarter, see "Citi Holdings" below). At the end of the quarter, Citi Holdings assets comprised approximately 7% of total Citigroup GAAP assets, 12% of risk-weighted assets (as defined under current regulatory guidelines), and 21% of its estimated risk-weighted assets under Basel III. *Local Consumer Lending* continued to represent the largest segment within Citi Holdings, with $115 billion of assets as of the end of second quarter of 2013, of which approximately 70%, or $80 billion, were related to mortgages in *North America* real estate lending.

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(6) For the summary of CVA/DVA by business within *Securities and Banking* for the second quarter of 2013 and comparable periods, see "Citicorp *Institutional Clients Group*" below.

(7) For additional information, see "Citigroup *Global Consumer Banking Latin America Regional Consumer Banking*" below and Note 2 to the Consolidated Financial Statements.

(8) Citi Holdings includes *Local Consumer Lending, Special Asset Pool* and *Brokerage and Asset Management*. See "Citi Holdings" below for additional information on the results of operations for each of the businesses in Citi Holdings.

(9) CVA/DVA in Citi Holdings, recorded in the *Special Asset Pool*, was $15 million in the second quarter of 2013, compared to $21 million in the prior-year period.

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RESULTS OF OPERATIONS

SUMMARY OF SELECTED FINANCIAL DATA Page 1

Citigroup Inc. and Consolidated Subsidiaries

In millions of dollars, except per-share amounts and ratios	Second Quarter 2013	2012	% Change	Six Months 2013	2012	% Change
Net interest revenue	**$ 11,682**	$ 11,343	3%	**$ 23,312**	$ 23,059	1%
Non-interest revenue	**8,797**	7,044	25	**17,394**	14,449	20
Total revenues, net of interest expense	**$ 20,479**	$ 18,387	11%	**$ 40,706**	$ 37,508	9%
Operating expenses	**12,140**	11,994	1	**24,407**	24,173	1
Provisions for credit losses and for benefits and claims	**2,024**	2,696	(25)	**4,483**	5,596	(20)
Income from continuing operations before income taxes	**$ 6,315**	$ 3,697	71%	**$ 11,816**	$ 7,739	53%
Income taxes	**2,127**	718	NM	**3,697**	1,715	NM
Income from continuing operations	**$ 4,188**	$ 2,979	41%	**$ 8,119**	$ 6,024	35%
Income (loss) from discontinued operations, net of taxes(1)	**30**	7	NM	**(3)**	19	NM
Net income before attribution of noncontrolling interests	**$ 4,218**	$ 2,986	41%	**$ 8,116**	$ 6,043	34%
Net income attributable to noncontrolling interests	**36**	40	(10)	**126**	166	(24)
Citigroup's net income	**$ 4,182**	$ 2,946	42%	**$ 7,990**	$ 5,877	36%
Less:						
Preferred dividends Basic	**9**	9	%	**13**	13	%
Dividends and undistributed earnings allocated to employee restricted and deferred shares that contain nonforfeitable rights to dividends, applicable to Basic EPS	**83**	69	20	**155**	123	26
Income allocated to unrestricted common shareholders for Basic EPS	**$ 4,090**	$ 2,868	43%	**$ 7,822**	$ 5,741	36%
Add: Interest expense, net of tax, and dividends on convertible securities and adjustment of undistributed earnings allocated to employee restricted and deferred shares that contain nonforfeitable rights to dividends, applicable to diluted EPS	**1**	4	(75)	**1**	8	(88)
Income allocated to unrestricted common shareholders for diluted EPS	**$ 4,091**	$ 2,872	42%	**$ 7,823**	$ 5,749	36%
Earnings per share						
Basic						
Income from continuing operations	**1.34**	0.98	37	**2.57**	1.96	31
Net income	**1.35**	0.98	38	**2.57**	1.96	31
Diluted						
Income from continuing operations	**$ 1.33**	$ 0.95	40%	**$ 2.57**	$ 1.90	35%
Net income	**1.34**	0.95	41	**2.57**	1.91	35
Dividends declared per common share	**0.01**	0.01		**0.02**	0.02	