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Citi Struggles Even as Other Banks Show Strong Profits

By [ERIC DASH](#)

After pulling off two consecutive quarterly profits, [Citigroup](#) slipped to a loss of \$3.2 billion in the third quarter as spiraling consumer losses overwhelmed its strong trading results.

The bank's headline number, net income of \$101 million, came before it accounted for \$288 million in preferred dividends and a debt exchange that gives Washington 34 percent of its earnings.

The results add to the mounting pressure on Citigroup's chief executive, [Vikram S. Pandit](#), to turn around the troubled bank, which is one-third owned by taxpayers. Mr. Pandit has been trying to shrink the bank's balance sheet in the worst financial crisis since [the Great Depression](#).

All the while, he is trying to find a way to repay part of the \$45 billion in federal aid and get out from under the government's thumb. That has made it crucial for the bank to show investors it had a gain in the quarter, no matter how it eked it out — hence, stressing the \$101 million in income from continuing operations.

Citigroup's shares fell 25 cents, or 5 percent, to close at \$4.75 on Thursday.

The results came on the coattails of its trading operations, which cranked out good results from its bond and currency businesses. Still, its [credit card](#) and mortgage units are losing money, contributing to about \$9.4 billion in consumer losses. And the bank added another \$802 million to its reserves, about half as much as [JPMorgan Chase](#) set aside on Wednesday, as it braced for several more quarters of losses. Both banks now have loss reserves of over 5 percent of their loan portfolios.

"This was an important quarter for us; sustainable profitability remains our primary goal in the near term," Mr. Pandit [said in a statement](#). "While consumer credit trends are improving in international markets, the U.S.

consumer credit environment remains challenging.”

It was another messy quarter for the company. Revenue increased to \$20.39 billion, from \$16.25 billion. But including a list of special items, the loss to stockholders was 27 cents a share, or \$3.2 billion, compared with a loss of 61 cents a share, or \$2.9 billion, in the third quarter a year ago.

Beyond widely diverging figures between its reported loss and operating profit stemming from accounting treatment, the bank suffered a \$1.7 billion hit to its revenue from another adjustment, because of narrowing credit spreads.

It also booked a \$1.4 billion gain associated with an exchange offer with the government that reduced income to ordinary shareholders, and a \$1.97 billion gain on the value of some of its troubled mortgage-related investments, known as [collateralized debt obligations](#).

Citigroup broke its results into two segments. Citicorp, its core consumer and corporate banking operation, had a \$2.2 billion profit in the third quarter. Citi Holdings, which contains the money-losing businesses and troubled assets the bank plans to sell, showed a \$1.9 billion quarterly loss. It was weighed down by the heavy losses tied to private-label credit cards, mortgages and consumer loans.

John C. Gerspach, Citigroup’s chief financial officer, said the bank was adequately reserved and presented a mixed picture of conditions in the United States. Mortgage losses, for example, began to slow in the quarter, in part because of the government’s mortgage modification program, while more credit card borrowers fell behind on their loans.

But Mr. Gerspach pointed to marked improvement overseas, causing losses to moderate. “We have seen improvements particularly in Asia, where it seems like it has already turned,” he said in a conference call. Latin America, he added, also seems to be on the rebound.

Mr. Pandit now seems to recognize that the clock is ticking, even if he got off to a slow start. In the quarter, he raced to sell businesses, including the bank’s Norwegian consumer finance arm, its Portuguese credit card division and a Japanese brokerage unit. He has lightened the bank’s balance sheet and eliminated thousands of jobs, and the bank said it was outperforming regulators’ revenue projections from the spring’s stress test.

But in spite of the progress during the quarter, Citigroup's executives acknowledged they were constrained.

"We are not doing heavy investment in Citicorp businesses," Mr. Gerspach said. "We are still de-risking the business."

Citigroup also remains heavily constrained by its awkward relations with the government. A week ago, the bank sold a lucrative energy trading unit to [Occidental Petroleum](#) to avoid a public showdown with the federal compensation specialist over a nine-figure bonus. Regulators, who are insuring some \$306 billion of troubled assets, have ordered Citigroup's senior executives to undergo a management review.

What is more, the bank seems to be months, if not longer, away from being healthy enough to start repaying the \$45 billion it received in federal assistance. To do so, it must not only prove to regulators that it has recovered sufficiently to raise fresh capital, but it also must navigate a thicket of tax issues.

Mr. Gerspach said Citigroup now had the capacity to repay the money from the [Troubled Asset Relief Program](#) but was awaiting guidance from the government. "Repaying TARP as soon as possible is clearly one of our stated goals," he added.

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