CITIGROUP INC
Form 10-Q
October 30, 2014

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 September 30, 2014
Commission file number 1-9924
Citigroup Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	52-1568099 (I.R.S. Employer Identification No.)
399 Park Avenue, New York, NY (Address of principal executive offices)	10022 (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 x	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 September 30, 2014: 3,029,488,232
Available on the web at www.citigroup.com

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CITIGROUP INC. THIRD QUARTER 2014 — 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, trade and securities 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 businesses and portfolios of assets that Citigroup has determined are not central to its core Citicorp businesses. 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, 2013 filed with the U.S. Securities and Exchange Commission (SEC) on March 3, 2014, including the historical audited consolidated financial statements of Citigroup reflecting certain realignments and reclassifications set forth in Citigroup's Form 8-K filed with the SEC on June 13, 2014 (2013 Annual Report on Form 10-K), and Citigroup's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014 filed with the SEC on May 2, 2014 (First Quarter of 2014 Form 10-Q) and August 1, 2014 (Second Quarter of 2014 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.

Certain reclassifications, including a realignment of certain businesses, 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 Note 3 to the Consolidated Financial Statements.

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

* On October 14, 2014, Citigroup announced that it intends to exit its consumer businesses in 11 markets as well as its consumer finance business in Korea. For additional information, see “Executive Summary” and “Global Consumer Banking” below. Effective in the first quarter of 2015, these businesses will be reported as part of Citi Holdings. Citi intends to release a revised Quarterly Financial Data Supplement reflecting this realignment prior to the release of first quarter of 2015 earnings information.

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

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

EXECUTIVE SUMMARY

On October 30, 2014, Citi announced that it had adjusted downward its third quarter of 2014 financial results, from those previously reported on October 14, 2014, due to a $600 million (pretax and after-tax) increase in legal expenses recorded within Citicorp (within Corporate/Other). For additional information, see Citi's Form 8-K filed with the SEC on October 30, 2014. Citi's results of operations and financial condition for the third quarter of 2014, as reported in this Quarterly Report on Form 10-Q for the period ended September 30, 2014, reflects the impact of this adjustment.

Third Quarter of 2014—Solid Business Performance and Continued Progress on Execution Priorities
Citi's third quarter of 2014 results reflected solid performance in both Global Consumer Banking (GCB) and the Institutional Clients Group (ICG) as well as positive earnings in Citi Holdings. In GCB, revenues, loans and deposits grew in every region, and in ICG, revenues increased across markets, investment banking and treasury and trade solutions from the prior-year period.
Citi also continued to make progress on its execution priorities during the third quarter, including:

- Efficient resource allocation and disciplined expense management: Citi continued to benefit from savings resulting from its previously-announced repositioning actions, as well as ongoing efforts to simplify and streamline the organization. As part of these efforts, on October 14, 2014, Citigroup announced strategic actions to accelerate the transformation of GCB by focusing on those markets where it believes it has the greatest scale, growth potential and ability to provide meaningful returns to its shareholders. As part of these actions, Citigroup intends to exit its consumer businesses in 11 markets, plus its consumer finance business in Korea (for additional information on the markets included in these actions, see "Global Consumer Banking" below). Upon completion of these actions, which Citi expects to be substantially completed by the end of 2015, the new GCB footprint will continue to serve nearly 57 million clients in 24 markets that capture over 95% of GCB's revenue base as of September 30, 2014. Citi will also continue to serve its institutional clients in these markets, which continue to be an important part of Citi's global network.
- Wind down of Citi Holdings: During the current quarter, Citi completed the sales of its consumer businesses in Greece and Spain, which contributed to a 7% decline in Citi Holdings assets during the quarter. Citi Holdings' assets declined by $19 billion, or 16%, from the prior-year period.
- Utilization of deferred tax assets (DTAs): Citi further reduced its DTAs by approximately $700 million during the third quarter of 2014, and has utilized approximately

$2.9 billion year-to-date in 2014 (for additional information, see "Income Taxes" below).

During the remainder of 2014, Citi intends to remain focused on its execution priorities while also being mindful of the continued challenging and somewhat volatile macroeconomic environment, including geopolitical tensions, slower growth in certain markets (including in the emerging markets) and uncertainty over the timing of interest rate increases. Further, while Citi has made progress on its expense reduction efforts, legal and related expenses are likely to remain elevated and Citi expects to continue to incur higher regulatory and compliance costs (see "Expenses" below).

Third Quarter of 2014 Summary Results

Citigroup
Citigroup reported third quarter net income of $2.8 billion or $0.88 per diluted share, compared to $3.2 billion or $1.00 per share in the third quarter of 2013. Results in the third quarter of 2014 included negative $371 million

(negative $228 million after-tax) of CVA/DVA, which included a $474 million one-time pretax charge related to the implementation of funding valuation adjustments (FVA) on over-the-counter derivatives (for additional information, see "Fair Value Adjustments for Derivatives and Fair Value Option Liabilities" below and Note 22 to the Consolidated Financial Statements), compared to negative $336 million (negative $208 million after-tax) in the third quarter of 2013. Third quarter of 2013 results also included a $176 million tax benefit related to the resolution of certain tax audit items recorded in Corporate/Other.

Excluding CVA/DVA in both periods and the tax benefit in the third quarter of 2013, Citi reported net income of $3.1 billion in the third quarter of 2014, or $0.95 per diluted share, compared to $3.3 billion, or $1.02 per share, in the prior-year period. The 6% year-over-year decrease was driven by higher expenses and a higher effective tax rate, partially offset by increased revenues and a decline in credit costs (for additional information, see "Income Taxes" below).

Citi's revenues, net of interest expense, were $19.6 billion in the third quarter of 2014, up 9% versus the prior-year period. Excluding CVA/DVA, revenues were $20.0 billion, up 10% from the third quarter of 2013, as revenues rose 8% in Citicorp and 30% in Citi Holdings. Net interest revenues of $12.2 billion were 6% higher than in the prior-year period, mostly driven by lower funding costs. Excluding CVA/DVA, non-interest revenues were $7.8 billion, up 16% from the prior-year period, driven by the higher revenues in ICG and GCB in Citicorp and higher non-interest revenues in Citi Holdings.

Expenses

Citigroup expenses increased 11% versus the prior-year period to $13.0 billion, largely driven by higher legal and related expenses and repositioning costs in Citicorp. Citi incurred legal and related costs of $1.6 billion (compared to $677

million in the prior-year period) and repositioning charges of $382 million (compared to $133 million in the prior-year period).
Excluding the impact of legal and related costs, repositioning charges and the impact of foreign exchange translation into U.S. dollars for reporting purposes (FX translation), which increased reported expenses by approximately $13 million in the third quarter of 2014 as compared to the prior-year period, expenses were $11.0 billion compared to $10.9 billion in the prior-year period. The modest increase from the prior-year period primarily reflected an adjustment to incentive compensation expense driven by better than anticipated performance year-to-date in ICG as well as higher regulatory and compliance costs, partially offset by continued cost reduction initiatives and the overall decline in Citi Holdings assets.
Citicorp's expenses were $12.1 billion, up 17% from the prior-year period, primarily reflecting higher legal and related expenses, largely in Corporate/Other ($1.4 billion in the current quarter, compared to $82 million in the prior-year period), higher repositioning costs ($374 million in the current quarter, compared to $130 million in the prior-year period), higher regulatory and compliance costs and the adjustment to incentive compensation expense in ICG noted above, partially offset by efficiency savings. Citi expects legal and related expenses in Citicorp will likely remain elevated and episodic going forward. Further, consistent with its execution priorities, Citi currently expects its repositioning charges in the fourth quarter of 2014 to remain at approximately the same level as those recorded in the third quarter of 2014.
Citi Holdings' expenses were $892 million, down 36% from the prior-year period, reflecting lower legal and related expenses as well as productivity savings and the ongoing decline in Citi Holdings assets, partially offset by $59 million of costs related to the sales of the consumer operations in Greece and Spain.

Credit Costs and Allowance for Loan Losses
Citi's total provisions for credit losses and for benefits and claims of $1.8 billion declined 11% from the third quarter of 2013. Net credit losses of $2.1 billion were down 14% versus the prior-year period. Consumer net credit losses declined 9% to $2.1 billion, reflecting continued improvements in the North America mortgage portfolio within Citi Holdings, as well as North America Citi-branded cards in Citicorp. Corporate net credit losses decreased to negative $18 million in the third quarter of 2014 compared to positive $96 million in the prior-year period, reflecting improvements in ICG.
The net release of allowance for loan losses and unfunded lending commitments was $552 million in the third quarter of 2014 compared to a $675 million release in the prior-year period. Citicorp's net reserve release increased to $408 million, due to higher reserve releases in North America GCB, international GCB and ICG, reflecting improved credit trends. Citi Holdings' net reserve release, decreased 79% to $144 million, primarily due to lower releases related to the North America mortgage portfolio.
Citigroup's total allowance for loan losses was $16.9 billion at quarter end, or 2.60% of total loans, compared to

$20.6 billion, or 3.16%, at the end of the prior-year period. The decline in the total allowance for loan losses reflected the continued wind down of Citi Holdings and overall continued improvement in the credit quality of Citi's loan portfolios.
The consumer allowance for loan losses was $14.6 billion, or 3.87% of total consumer loans, at quarter end, compared to $17.9 billion, or 4.63% of total loans, at September 30, 2013. Total non-accrual assets fell to $8.0 billion, a 19% reduction compared to September 30, 2013. Corporate non-accrual loans declined 38% to $1.4 billion, while consumer non-accrual loans declined 13% to $6.3 billion, both reflecting the continued improvement in credit trends.

Capital
Citi continued to grow its regulatory capital during the third quarter of 2014, primarily through net income and a further reduction of its DTAs. Citigroup's Tier 1 Capital and Common Equity Tier 1 Capital ratios, on a fully implemented basis, were 11.4% and 10.7% as of September 30, 2014, respectively, compared to 10.9% and 10.5% as of September 30, 2013 (all based on the Advanced Approaches for determining risk-weighted assets). Citigroup's estimated Supplementary Leverage ratio as of September 30, 2014, based on the revised final U.S. Basel III rules, was

6.0% compared to 5.3% as of September 30, 2013 (on a pro forma basis to conform to the current period presentation). For additional information on Citi's capital ratios and related components, see "Capital Resources" below.

Citicorp

Citicorp net income decreased 22% from the prior-year period to $2.6 billion. CVA/DVA, recorded in the ICG, was negative $316 million (negative $194 million after-tax) in the third quarter of 2014, including a $430 million one-time pretax charge related to the implementation of FVA, compared to negative $332 million (negative $206 million after-tax) in the prior-year period (for a summary of CVA/DVA by business within ICG for the third quarters of 2014 and 2013, see "Institutional Clients Group" below). Excluding CVA/DVA in both periods and the tax benefit in the prior-year period described above, Citicorp's net income was $2.8 billion, down 17% from the prior-year period, as higher expenses, a higher effective tax rate and lower income from discontinued operations were partially offset by higher revenues and continued improvement in credit.

Citicorp revenues, net of interest expense, increased 8% from the prior-year period to $18.0 billion. Excluding CVA/DVA, Citicorp revenues were $18.3 billion in the third quarter of 2014, up 8% from the prior-year period. GCB revenues of $9.6 billion increased 4% versus the prior-year period. North America GCB revenues rose 5% to $5.0 billion, reflecting higher revenues in each of retail banking, Citi-branded card and Citi retail services. Retail banking revenues rose 9% to $1.2 billion versus the prior-year period, reflecting continued volume growth and abating spread headwinds, as well as higher revenues in the U.S. mortgage business driven by a repurchase reserve release of approximately $50 million in the current quarter. Citi-branded cards revenues of $2.1 billion were up 1% versus the prior-year period as purchase sales grew and an improvement in spreads mostly offset the impact of lower average loans. Citi retail services revenues increased 8% to $1.6 billion, mainly reflecting the impact of the Best Buy portfolio acquisition in September 2013. North America GCB average deposits of $170 billion grew 2% year-over-year and average retail loans of $47 billion grew 9%. Average card loans of $109 billion increased 3%, and purchase sales of $63 billion increased 5% versus the prior-year period. For additional information on the results of operations of North America GCB for the third quarter of 2014, see “Global Consumer Banking-North America GCB” below.

International GCB revenues (consisting of EMEA GCB, Latin America GCB and Asia GCB) increased 3% versus the prior-year period to $4.6 billion. Excluding the impact of FX translation, international GCB revenues rose 5% from the prior-year period, driven by 6% growth in Latin America GCB, 4% growth in Asia GCB and 1% growth in EMEA GCB (for the impact of FX translation on the third quarter of 2014 results of operations for each of EMEA GCB, Latin America GCB and Asia GCB, see the table accompanying the discussion of each respective business’ results of operations below). This growth in international GCB revenues, excluding the impact of FX translation, mainly reflected volume growth in all regions and higher investment sales revenues in Asia GCB, partially offset by the ongoing impact of regulatory changes and the Korean franchise repositioning in Asia GCB, as well as the previously-disclosed market exits in EMEA GCB. For additional information on the results of operations of EMEA GCB, Latin America GCB and Asia GCB for the third quarter of 2014, see “Global Consumer Banking” below. Year-over-year, international GCB average deposits increased 3%, average retail loans increased 6%, investment sales increased 29%, average card loans increased 2% and card purchase sales increased 4%, all excluding the impact of FX translation.

ICG revenues were $8.4 billion in the third quarter of 2014, up 14% from the prior-year period. Excluding CVA/DVA, ICG revenues were $8.7 billion, or 13% higher than the prior-year period. Banking revenues of $4.3 billion, excluding CVA/DVA and the impact of mark-to-market gains on hedges related to accrual loans within corporate lending (see below), increased 11% from the prior-year period, primarily reflecting growth in investment banking revenues. Investment banking revenues increased 32% versus the prior-year period, driven by a 90% increase in advisory revenues to $318 million, a 51% increase in equity underwriting to $298 million and a 9% increase in debt underwriting revenues to $632 million. Private bank revenues, excluding CVA/DVA, increased 8% to $663 million from the prior-year period, as growth in client volumes was partially offset by the impact of spread compression. Corporate lending revenues rose 130% to $533 million, including $91 million of mark-to-market gains on hedges related to accrual loans compared to a $147 million loss in the prior-year period. Excluding the mark-to-market impact on hedges related to accrual loans in both periods, corporate lending revenues rose 17% versus the prior-year period to $442 million, reflecting growth in average loans and improved funding costs, partially offset by lower loan yields.

Treasury and trade solutions revenues increased by 1% compared to the prior-year period as volume and fee growth was partially offset by the impact of spread compression globally.

Markets and securities services revenues of $4.3 billion, excluding CVA/DVA, increased 8% from the prior-year period. Fixed income markets revenues of $3.0 billion, excluding CVA/DVA, increased 5% from the prior-year period, reflecting higher securitized products revenues as well as an improvement in rates and currencies. Equity markets revenues of $763 million, excluding CVA/DVA, were up 14% versus the prior-year period, reflecting improved client activity in derivatives. Securities services revenues of $600 million increased 8% versus the prior-year period primarily due to increased volumes, assets under custody and overall client activity. For additional information on the results of operations of ICG for the third quarter of 2014, see “Institutional Clients Group” below.

Corporate/Other revenues decreased to $8 million from $42 million in the prior-year period, driven mainly by hedging activities. For additional information on the results of operations of Corporate/Other for the third quarter of 2014, see “Corporate/Other” below.

Citicorp end-of-period loans increased 3% versus the prior-year period to $576 billion, with 2% growth in consumer loans and 3% growth in corporate loans.

Citi Holdings

Citi Holdings' net income was $238 million in the third quarter of 2014 compared to a net loss of $115 million in the third quarter of 2013. CVA/DVA was negative $55 million (negative $34 million after-tax) in the third quarter of 2014, including a $44 million one-time pretax charge related to the implementation of FVA, compared to negative $4 million (negative $2 million after-tax) in the prior-year period. Excluding the impact of CVA/DVA, Citi Holdings net income was $272 million, reflecting higher revenues, the lower expenses and lower net credit losses, partially offset by a lower net loan loss reserve release.

Citi Holdings' revenues increased 26% to $1.6 billion from the prior-year period. Excluding CVA/DVA, Citi Holdings revenues increased 30% to $1.6 billion from the prior-year period. Net interest revenues increased 11% year-over-year to $858 million, largely driven by lower funding costs. Non-interest revenues, excluding CVA/DVA, increased 61% to $785 million from $486 million in the prior-year period, primarily driven by gains on sales, the most significant of which were the sales of the consumer operations in Greece and Spain, partially offset by losses on the redemption of debt associated with funding Citi Holdings assets. For additional information on the results of operations of Citi Holdings for the third quarter of 2014, see "Citi Holdings" below.

Citi Holdings' assets were $103 billion, 16% below the prior-year period, and represented approximately 5% of Citi's total GAAP assets and 14% of its risk-weighted assets under Basel III as of quarter-end (based on the Advanced Approaches for determining risk-weighted assets).

RESULTS OF OPERATIONS
SUMMARY OF SELECTED FINANCIAL DATA—PAGE 1
Citigroup Inc. and Consolidated Subsidiaries

	Third Quarter			Nine Months		
In millions of dollars, except per-share amounts and ratios	2014	2013	% Change	2014	2013	% Change
Net interest revenue	$12,187	$11,511	6 %	$35,892	$34,823	3 %
Non-interest revenue	7,417	6,393	16	23,178	23,817	(3)
Revenues, net of interest expense	$19,604	$17,904	9 %	$59,070	$58,640	1 %
Operating expenses	12,955	11,679	11	40,625	36,116	12
Provisions for credit losses and for benefits and claims	1,750	1,959	(11)	5,454	6,442	(15)
Income from continuing operations before income taxes	$4,899	$4,266	15 %	$12,991	$16,082	(19)%
Income taxes	1,985	1,080	84	5,873	4,777	23
Income from continuing operations	$2,914	$3,186	(9)%	$7,118	$11,305	(37)%
Income (loss) from discontinued operations, net of taxes [1]	(16)	92	NM	(1)	89	NM
Net income before attribution of noncontrolling interests	$2,898	$3,278	(12)%	$7,117	$11,394	(38)%
Net income attributable to noncontrolling interests	59	51	16	154	177	(13)
Citigroup's net income	$2,839	$3,227	(12)%	$6,963	$11,217	(38)%
Less:						