# Citigroup Inc., 2015

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Headquartered in New York City, Citigroup is a diversified financial services holding company formally divided into Citicorp and Citi Holdings. Citi Holdings contains the noncore businesses and comprises only about 6 percent of the overall company. The Citicorp segment provides global banking, advisory services, derivative services, brokerage, mortgages, auto loans, and much more. Citigroup is the largest banking enterprise in the world based on geographic coverage with operations in 160 nations and over 16,000 offices worldwide with 251,000 full-time employees. Citigroup is world's largest credit card issuer with over 900 million retail accounts with various well-known brands.

Senator Elizabeth Warren in December 2014 took to the Senate floor and gave a barn-burning speech attacking Citigroup for being unethical. Warren's rhetoric called out by name Citigroup for economic problems in the United States, and blamed Citi for costing millions of Americans their jobs and homes. Warren stated that Citi was bailed out with half a trillion dollars of taxpayer money, and then used their fortunes to buy Congress, and make it more likely they will be bailed out again. There are numerous business ethics issues associated with Citigroup, but Senator Warren pointed out that five top economic advisors to Presidents Bush and Obama were/are Citi alumni.

During Q2 of 2015, Citigroup continued to wind down its Citi Holdings division by reducing that segment's assets another $32 billion, or 22 percent, from the prior-year period. In Q2, Citi sold about $32 billion of the remaining assets in Citi Holdings, including OneMain Financial, the largest business remaining in Citi Holdings. Citi Holdings maintained profitability in Q2 of 2015, contributing to Citigroup's reported net income of $4.8 billion, compared to $181 million in the prior-year period. Citicorp revenues, net of interest expense, increased 2 percent from the prior-year period to $17.8 billion.



## History

Citigroup traces its roots to 1812 when the Citi Bank of New York was formed with $2 million in assets. The bank was founded by Samuel Osgood, who served as the nation's first postmaster-general as well as a soldier, and legislator, and is associated with the founding fathers of the United States. Osgood was keen on foreign trade with nations. His bank financed much of the War of 1812 against England and also the railroad advancement in the middle 1800s. Citi was instrumental in financing the transatlantic cable that brought New York and London instant communication in 1866. By 1895, the bank was the largest in the United States. Citi was the first American bank to surpass $1 billion in assets and eventually became the largest bank in the world in 1929. In 1976, the bank was officially named Citibank and in 1998 it merged with Travelers Group to create a $140 billion firm with assets of $700 billion, changing its name to Citigroup. However, Travelers Group was divested in 2002. Still under government oversight following the subprime mortgage crisis in 2008, Citi failed Federal Reserve stress tests in 2012 and 2014. Citi reported net income of $13.7 billion in 2013 and had a market capitalization of $162 billion in late 2014.

In 2015, Citigroup sold its Japanese retail operations to Sumitomo Mitsui Banking Corp. for $400 million, ending this Citigroup problematic, money-losing segment. With this divestiture, Citigroup lost 740,000 customers in Japan.

## Internal Issues

### Organizational Structure

Citigroup operates from a hybrid, complex organizational structure, but it most resembles a strategic business unit (SBU) design, with the two groups being Institutional Clients and Global Consumer Banking. Citigroup's probable chain of command is illustrated in Exhibit 1.

### Vision/Mission

Citigroup does not have a vision statement. However, at the corporate website, Citigroup provides a mission statement, as follows: "Citi works tirelessly to serve individuals, communities, institutions and nations. With 200 years of experience meeting the world's toughest challenges and seizing its greatest opportunities, we strive to create the best outcomes for our clients and customers with financial solutions that are simple, creative, and responsible. An institution connecting over 1,000 cities, 160 countries, and millions of people, we are your global bank; we are Citi."

### Strategy

Citigroup has recently resolved a significant portion of its mortgage litigation, and cut Citi Holdings annual loss in half. Citi Holdings now accounts for only 6 percent of the balance sheet. CEO Corbat has shifted his strategy from selling assets in Citi Holdings to cutting costs, in an attempt to break even in the near future. Recently, all 101 countries Citi does business in were sorted into four categories, or buckets, to better help prioritize resources.

In late 2014, Citigroup was close to fully spinning off OneMain Financial, which would remove Citi's exposure to its U.S. subprime-lending unit. Although the unit suffered major losses during the financial crisis, it has been profitable since 2012. OneMain targets customers that may not qualify for traditional bank loans, so divesting this business would help Citi avoid any unnecessary scrutiny from the government or stakeholders. This is the second time since 2009 that Citi has tried to sell OneMain, but the price was not right at the time. Subprime lending, contrary to public opinion, has become a more attractive business of late. If Citi is successful in the divesture, it will take several years to fully divest 100 percent of its holdings in OneMain.

### Ethical Issues

Citigroup incurred charges of $3.5 billion in Q4 of 2014 to cover legal and restructuring costs. The bank allocated $2.7 billion of that amount to cover legal costs associated with investigations into currency trading, the manipulation of a key interest rate, as well as anti-money laundering and related probes. The remaining $800 million was spent reducing the bank's headcount and reducing the number of its physical branch offices. Investigators at Citi recently found $235 million in falsified invoices reported through a financing program in Mexico. Citi's problems in Mexico go hand in hand with the Federal Reserve in 2014 citing Citi for failing a stress test. In late 2014, it was speculated that Mr. Medina-Mora, the head of the consumer-banking unit in Mexico, plans to step down amid further scandal at Banamex (Citi's Mexico Unit). Citigroup was stricken with another $400 million in fraud by the oil services firm Oceanografia (also tied to Banamex) in 2014. Citi fired 12 Banamex employees over the Oceanografia incident. Banamex remains one of Citigroup's best assets and is the second largest bank in Mexico. Banamex has earned Citi over $1 billion in net income over the last several years, even during the financial crisis.

### Segments

Citigroup reports in two segments: Citicorp and Citi Holdings. The Citicorp business includes Global Consumer Banking, Securities and Banking, and Transaction Services. Citi Holdings accounts for only 6 percent of the total balance sheet for Citigroup and the firm is currently cutting costs further in this segment. Note in Exhibit 2 that Citi Holdings had a loss of $3.3 billion in 2014. Citicorp specializes in providing global bank operations for consumers and businesses and is also closely tied to many emerging markets, with a heavy focus on Latin America.

Citigroup's Global Consumer Banking (GCB) segment is the largest in terms of revenues of any other segment and includes Citigroup's four geographical Regional Consumer Banking (RCB) businesses. The segment reported $37,753 million in sales during fiscal 2014. These banks provide services to retail customers, commercial banking, credit cards, and other financial services. As of January 2014, Citi had 3,729 branches in 36 different countries. As of January 2015, Citi operated 3,280 branches in 35 countries. The main strategy of the GCB is to become the top bank of choice among the affluent worldwide, with a focus on metropolitan areas. Retail banking accounted for $17 billion and cards accounted for $21 billion in 2013 across all geographic markets in GCB.

Citigroup's Institutional Clients group consists of Securities and Banking (S&B) and Transaction Services. The segment focuses on offering products for corporations, governments,

**EXHIBIT 2 Segment Data for Citigroup (in millions of USD)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Revenues | Income | Revenues | Income |
| **Global Consumer Banking** | | | | |
| North America | $ 19,645 | $ 4,421 | $19,778 | [illegible] |
| EMEA | 1,358 | (7) | 1,449 | [illegible] |
| Latin America | 9,204 | 1,204 | 9,318 | [illegible] |
| Asia | 7,546 | 1,320 | 7,624 | [illegible] |
| Total | 37,753 | 6,938 | 38,169 | 6,763 |
| **Institutional Clients Group** | | | | |
| North America | 12,345 | 3,896 | 11,473 | 3,143 |
| EMEA | 9,513 | 1,984 | 10,020 | [illegible] |
| Latin America | 4,237 | 1,337 | 4,692 | 1,628 |
| Asia | 7,172 | 2,304 | 7,382 | 2,211 |
| Total | 33,267 | 9,521 | 33,567 | 9,414 |
| Corporate/Other | 47 | (5,593) | 121 | (630) |
| Citi Holdings | 5,815 | (3,366) | 4,566 | (1,917) |
| **Citi Totals*** | $76,882 | $ 7,313 | $76,419 | $13,673 |

*Reflects discontinued operations removed.
Based on Citigroup Financial Supplement, http://www.citigroup.com/citi/investor/qer.htm

institutions, and high net worth individuals and reported $33,267 million in revenues for fiscal year 2014. S&B offers customers cash, fixed income, foreign currency, equity, and commodity products. The segment also offers corporate lending, prime brokerage, derivative services, and many other services. Fixed income markets earned $13 billion, followed by total investment banking and equity markets earning $4 and $3 billion, respectively, in 2013 across all geographic markets in S&B. The Transaction Services business serves corporations, financial institutions, and the public sector worldwide. Most all business in the segment is related to foreign transactions, with most income coming from fees and the spread in interest revenue on trade loans. In total, the Transaction Services business serves institutions in the United States and 140 countries, with $3 trillion in global transactions daily. The business serves 85 percent of the Fortune 500 companies, through 10 regional processing centers.

### Finance

Citigroup's recent income statement and balance sheet are provided in Exhibits 3 and 4, respectively. Note the decline in net income in 2014. The statements are condensed somewhat from the company's actual statements in its *Annual Report*.

## Competitors

A comparative analysis of Citigroup with rivals J. P. Morgan and Bank of America is provided in Exhibit 5. Note that Citigroup trails both J. P. Morgan and Bank of America on every statistic presented, except total number of employees, with all three banks roughly equal on employment numbers.

### J. P. Morgan Chase (JPM)

Founded in 1799 and headquartered in New York City, JPM is the largest bank in the United States, with 2013 revenues of $96 billion and assets over $2.4 trillion. The firm employs over 242,000 people. The firm divides its operations in two distinct areas: (1) Consumer and Community Banking and (2) Corporate and Investment Bank. Services offered under the consumer and community banking include credit cards, auto loans, student loans, home mortgage, business mortgages, and banking for both individuals and businesses. J. P. Morgan's Corporate

**EXHIBIT 3** Citigroup's Income Statement (in millions of USD)

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Revenues | $76,882 | $76,419 |
| Operating expenses | 55,051 | 48,408 |
| Operating income | 21,831 | 28,011 |
| Other expenses | 7,467 | 8,514 |
| EBIT | 14,364 | 19,497 |
| Interest expense | – | – |
| EBT | 14,364 | 19,497 |
| Tax | 6,864 | 5,867 |
| EAT | 7,500 | 13,630 |
| Other items | (187) | 43 |
| **Net income** | **7,313** | **$13,673** |

*Source:* Based on Citigroup's 2014 *Annual Report* p. 134.

**EXHIBIT 4** Citigroup's Balance Sheet (in millions of USD)

| Report Date | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Cash | $402,767 | $455,927 |
| Accounts receivable | 28,419 | 25,674 |
| Total current assets | 431,186 | 481,601 |
| Property, plant & equipment | – | – |
| Goodwill | 23,592 | 25,009 |
| Intangibles | 4,566 | 5,056 |
| Trading account | 296,786 | 285,928 |
| Total investments | 333,443 | 308,980 |
| Net loans | 628,641 | 645,824 |
| Other assets | 124,316 | 127,984 |
| **Total assets** | **1,842,530** | **1,880,382** |
| Current debt | 231,773 | 262,456 |
| Accounts payable | 52,180 | 53,707 |
| Other current liabilities | 899,332 | 968,273 |
| Total current liabilities | 1,183,285 | 1,284,436 |
| Long-term debt | 362,116 | 329,878 |
| Other liabilities | 85,084 | 59,935 |
| **Total liabilities** | **1,630,485** | **1,674,249** |
| Common stock | 31 | 31 |
| Preferred stock | 10,468 | 6,738 |
| Retained earnings | 118,201 | 111,168 |
| Treasury stock | (2,929) | (1,658) |
| Paid in capital and other | 86,274 | 89,854 |
| **Total equity** | **212,045** | **206,133** |
| **Total liabilities & equity** | **1,842,530** | **1,880,382** |

*Source:* Based on Citigroup's 2014 *Annual Report* p. 136.

**EXHIBIT 5 Citigroup versus Rival Firms (Net Income, Revenue, and Mark... (in millions of USD))**

| | Citigroup | J. P. Morgan | Bank of Ame... |
|---|---|---|---|
| # Employees | 241,000 | 241,000 | 223,000 |
| $ Net Income | 7,313 | 17,923 | 11,431 |
| $ Revenue | 76,882 | 96,381 | 101,697 |
| $ Revenue/Employee | 319,012 | 399,921 | 456,040 |
| $ EPS Ratio | 2.20 | 5.29 | 0.36 |
| Market Cap. | 142,000 | 202,000 | 159,000 |

*Source:* Based on company documents and a variety of sources.

and Investment Bank deals with investment banking, securities, equity markets, fixed inco and other corporate related financing related activities.

Exhibit 6 reveals JPM's 2013 financial breakdown by segment. The largest revenue income driver is the Consumer & Community Banking. Top services provided here are AT online banking, business banking, mortgage banking, credit cards, student loans, among oth The worst performing segment was Corporate/Private Equity, which serves to monitor the other segments. The bank was scheduled to divest $3.5 billion of is physical commodities bu ness to Swiss trading firm Mercuria in 2014, but the deal was cut to an all-cash $800 mill deal, including JPM's Henry Bath & Sons Ltd., which is a chain of metals warehouses. JPM actively looking to divest the full $3.5 billion of its physical commodity assets and is currently search of potential suitors. Despite the sale, JPM plans to remain trading commodities, includ storing precious metals.

J. P. Morgan continues to pay out $4 billion in consumer aid required with its settlement w the Justice Department in 2013 largely over the subprime mortgage issues. The bank announc in 2014 it should receive credit for $869 million from actions that include lower mortgage de for low-income homeowners and lending to similar potential buyers. The $869 million in cre steams from providing $7.6 billion in mortgage relief.

In 2014, JPM suffered a security breach that released contact information for 76 milli households and 7 million small businesses. Fortunately, no sensitive account data was breach CEO Dimon has pledged to double the bank's security measures in the next 5 years from $2 million to $500 million. Although a potential risk for other big banks, there is no evidence a other large banks were affected by breaches.

### Bank of America

Headquartered in Charlotte, North Carolina, Bank of America is a huge bank in the both United States and the global banking industry. Its top brand name is Merrill Lynch. Bank America does business in all 50 states and in 40 countries, with 230,000 full-time employe The bank had year-end 2013 revenues of over $100 billion and total assets over $2 trillion. T bank's real estate segment has lately been the poorest performing, with a net loss in 2013 of

**EXHIBIT 6 JPM's Segment Data (in millions of USD)**

| Segment | 2013 Revenues | 2013 Income |
|---|---|---|
| Consumer and Community Banking | $46,026 | $10,749 |
| Corporate and Investment Bank | 34,225 | 8,546 |
| Commercial Banking | 6,973 | 2,575 |
| Asset Management | 11,320 | 2,031 |
| Corporate/Private Equity | 1,254 | (5,978) |
| **Total** | **99,798** | **17,923** |

*Source:* Based on J. P. Morgan's 2013 *Annual Report*, page 85.

$5 billion. The bank's Global Banking segment is its investment bank and the Global Markets segment focuses on fixed income and equity markets. The Global Markets segment also includes a high concentration in energy and commodities markets.

Bank of America continues to be plagued by litigation stemming from the subprime era. The bank has faced nearly twice the litigation than either J. P. Morgan or Citigroup. The bank estimates that litigation demands have cannibalized 30 percent of profit in 2013 and 2014. Further troubling for Bank of America is the SEC debating on whether the bank should face further business restrictions after meeting its agreed upon litigation requirements. In particular, the SEC is considering how quickly Bank of America should be able to issue stocks and bonds without a SEC review. As of 2014, the bank had spent $75 billion to settle lawsuits, pay fines, and other litigation processes, much related to the 2008 purchase of Countrywide Financial and in the process acquiring many bad loans.

### Online Banks

Online banks are growing rapidly in number and taking market share from large banks. The website http://www.mybanktracker.com/best-online-banks rates 30-plus online banks in the United States in terms of having low fees, low interest rates, excellent technology, and great customer service. Exhibit 7 reveals in rank order the top 5 Internet banks in the United States. The only bank to remain in the top 5 since 2011 is Ally Bank, which held the #1 spot in 2011. With low interest rates, some online banks such as Ally Bank are offering interest payments on money market funds around 1,000 percent more than many brick-and-mortar banks. As of November 2014, Ally was offering 0.80 percent on money market funds with many tradition banks offering interest rates of 0.01 percent.

## External Issues

### U.S. Investment Banking and Securities

The investment banking and securities business is a $148 billion operation in the United States, dominated by Bank of America, J. P. Morgan Chase, Citigroup, Morgan Stanley, and Goldman Sachs, with U.S. market shares of 12, 11, 8, 8, and 8 percent, respectively. Approximately 53 percent of the industry revenues are derived from other firms. The industry is currently improving from the subprime loan era where, from 2009 to 2014, revenues declined industry wide at an annualized rate of over 4 percent. However, the outlook moving forward from 2014 to 2019 is for a growth rate over 4 percent. Replacing the subprime loan market as key growth initiatives are underwriting of equity services and mergers and acquisitions (M&A) advising fees. Large banks have enjoyed many new IPOs and a high level of M&A activity in the last 2 years. Underwriting equities and M&A advising fees account for around 15 and 17 percent of total U.S. bank revenues. Underwriting debt and trading and related services account for about 30 and 24 percent of total U.S. industrywide revenues.

Firms also use investment banks to aid in raising capital by issuing bonds (debt). Trading services account for 24 percent of the investment banking and securities business and include principal trading and market making, proprietary trading, and prime brokerage. Principle trading and market making is what most people think of when they think of trading. Here, the bank takes the client's money and buys a stock or some other security and the client then waits for the security to appreciate (hopefully) in value before selling. Banks charge a fee for this service, much like any online stockbroker would. The investment banks also are able to capitalize on the differences in the "ask and bid," known as the *spread prices*. Proprietary trading is also considered part of the trading services portfolio of many banks; however, its use is declining. Simply, proprietary

**EXHIBIT 7 The Top Five Online Banks in the United States**

1. Sally Mae Bank
2. Ally Bank
3. Bank of Internet
4. Capital One 360
5. Discover Bank

trading is when the bank places its trades on a particular security before the trade... ents, ensuring a better price for itself. However, the Volcker Rule in the Dodd-Frank W... Reform and Consumer Protection Act of 2010 places limitations on proprietary tradi... future of proprietary trading impact on overall revenues for investment banks should ... reduced. Banks also engage in lending to hedge funds in order to buy securities on mar...

With the increase in mergers and acquisitions in recent years, along with divestit... other restructurings, investment banks have made significant profits on financial adv... vices. Mergers and acquisitions alone account for over 17 percent of U.S. banking and se... revenues, and other advisory fees account for about 5 percent of total revenues. Corporate f... cial services on various loans generate 9 percent of industry revenue. Low rates worldwide limited higher returns in this business.

Unlike commercial banks, many U.S. investment banks also control a significant po... of the global investment banking business. Bank of America, Citigroup, and J. P. Morga... account for approximately 12 percent each of total revenues. Two large non-U.S.-based ba... Barclays and Deutsche Bank AG, each account for around 6 percent of total revenues.

## U.S. Commercial Banking

The U.S. commercial banking industry provides loans to commercial and consumers from fi... deposited in the bank. The industry makes money from fees and from the spread on mo... deposited compared to a higher interest rate of the same money loaned back out. Interest r... are affected by Federal Funds Rate, Prime Rate, and the respective consumers' credit sc... In the United States, there is a $426 billion industry that is just now starting to grow gain, ... annualized growth rates less than 2 percent from 2009 to 2014. Approximately 40 percent o... loans are considered to be based on real estate, and another 27 percent for depository serv... (bank accounts and other similar services). Individual loans and loans to commercial operat... account for about 15 percent each of the market. Most loans to individuals are in the form ... auto, marine, or recreational vehicles. Personal loans for housing are not included under ... industry.

In the global commercial banking industry, large U.S. players have very little market sh... and no single player has more than a 4 percent market share. Key players include the Indus... and Commercial Bank of China, Bank of America, J. P. Morgan, and Wells Fargo. The balanc... competitors account for over 85 percent of total revenues generated.

## U.S. Credit Card Industry

The U.S. credit card business is a $90 billion industry with profits in excess of $30 billion ... growth rates expected to be around 2.5 percent annualized through 2020. The industry is slo... recovering from an annual negative growth rate of 3.5 percent from 2009 to 2014. The ... major players in the market control nearly 85 percent of revenues, with American Express ... the single market leader with a 20 percent market share. Capital One, Bank of America, ... J. P. Morgan all enjoy market shares between 15 and 18 percent; Citigroup and Discovery h... market shares of 9 and 7 percent, respectively. The industry makes money from three key ... interest income, interchange fees, and cardholder fees. All three revenue streams accoun... approximately one third each of total revenues. Interest charged on U.S. credit cards now r... from 12 to 19 percent and is largely dependent on the customer's credit score. Interchange f... are the fees firms like MasterCard and Visa charge merchants for accepting a customer's c... The higher the fees, the higher the profits for banks, and MasterCard and Visa often raise fee... attract banks into selecting their particular card. The United States has some of the highest c... card fees in the world, and with increased competition from other credit card players, the... expected to be downward pressure on card fees in the future.

A growing trend in the United States is the use of mobile payments through providers s... as Apple and Google, which use processing firms Visa and MasterCard. It remains to be s... if new players such as Apple and Google can create their own brands and bypass the banks ... gaining access directly to the major credit card companies. However, consumers in Europe ha... been using mobile phone payments for around a decade now with growing popularity and u... The new technology does bring growing awareness to security issues and the perceived dang... of a digital currency as data is increasingly stored on Internet accessible systems. Recent secur... breaches, such as Home Depot and J. P. Morgan, are examples of potential problems that co...

escalate in the future. New competitors—for example, Bitcoin and PayPal—also may increasingly take market share away from the larger banks, along with possibly Apple and Google, if they can enter into direct agreements with MasterCard and Visa, and totally bypass the banks all together.

### U.S. Loans

The loan business in the United States is a $90 billion industry with profits of $14 billion. The industry is largely dependent on the health of the housing market. With low interest rates, many homeowners have refinanced lately. The extended outlook for the industry is to generate $95 billion by 2019. The industry is heavily fragmented with Bank of America, Citigroup, J. P. Morgan, and Wells Fargo, all accounting for just over 26 percent of the total industrywide revenues, fairly evenly distributed among the four. The balance of 75 percent is comprised of thousands of other banks, mostly regional in nature. There are currently over 5,500 different commercial banks in the United States.

### Latin America Growth Slows

Latin America is expected to have its slowest growth in 2014 at 1.2 percent having grown only 2.5 and 3 percent, respectively, in 2012 and 2013. The World Bank projects 2015 growth of 2.2 percent. Much of the drawdown can be explained by a rising U.S. dollar and lower commodity prices, which many Latin American nations rely on heavily. Slowdown is also contributed to China, a large buyer of many Latin American commodities, along with the United States tapering and then ending its Quantitative Easing programs. Venezuela, largely dependent on oil, is experiencing inflation of over 60 percent, and Argentina has double-digit inflation itself. Both nations are expected to experience gross domestic product contractions of 2.9 and 1.5 percent, respectively. Highlights in the region include Mexico, which grew 2.5 percent in 2014. Mexico is also a large business partner for Citigroup and should remain strong moving forward. The largest-growing country in Latin America, with respect to gross domestic product, is Colombia, with nearly 5 percent growth in 2014.

## Future

Banks, including Citigroup, are largely dependent on the spread between short- and long-term interest rates, referred to as the yield curve. When short-term rates are low, and long-term rates are high, bank profits tend to be higher, as they are able to pay relatively low interest rates on CDs and savings, while charging higher rates on automobile, housing, business and other loans. This spread is where the banks make money. In 2015, interest rates have been rising slowly in the United States.

Automobile sales were up in both 2014 and 2015 as customers are buying new and larger vehicles as the price of oil has dropped. This is a potential windfall for banks but only to the extent that rates start to increase. With the European Central Bank, Japan, Australia, and other top economies are engaging in their own quantitative easing programs, rates will not likely move higher in these regions throughout 2015. While the U.S. Federal Reserve plans to start raising rates in late 2015, they may be unable to do so because the increasing dollar value has already put a burden on U.S. corporations, hurting profits in overseas markets. One aspect that is positive for Citigroup moving forward is that the firm receives over 50 percent of revenues from its Global Consumer segment from the United States, with rates likely to rise in the nation quicker than in overseas markets.