

## **Citigroup Loses \$7.8B in Fourth Quarter**

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*By Stephen Bernard*

NEW YORK (AP) -- Citigroup Inc. became the latest bank to take a cautious view of consumers' credit problems, reporting a \$7.77 billion fourth-quarter loss due to failed loans and the costs of repaying \$20 billion in government bailout money.

Even with the loss, Citigroup, the hardest hit of the big U.S. banks during the credit crisis and recession, plans to give big bonuses this month to its top employees.



The earnings report Tuesday, which met analysts' expectations, reflected Citigroup's struggles and changing status in the banking industry. The company was forced to set aside \$8.18 billion to cover the loans consumers can't repay, joining other big lenders who are still losing money on loans. But Citigroup, having been forced to shed its big investment banking and brokerage

businesses during the banking crisis, lacked those buffers against losses that other major financial companies still have.

The company's focus, therefore is on loans, which are deeply troubled but showing some very early signs of improvement. For example, the addition to Citigroup's loan reserves was down 10 percent from the third quarter, and 36 percent from a year earlier.

And John Gerspach, Citigroup's chief financial officer, noted during a conference call with the media that the number of mortgage and credit card loans that were newly delinquent, or between one and three months past due, had started to stabilize and even drop in some of its lending portfolios.

However, "the U.S. credit story is still very much developing," Gerspach said.

Gerspach's caution was similar to that of JPMorgan Chase & Co. when it reported Friday that it earned \$3.28 billion during the fourth quarter thanks to its strong investment banking unit. JPMorgan said it set aside \$7.28 billion for failed loans during the quarter, nearly identical to the amount it reserved for bad loans during the final quarter in 2008. It also warned that it didn't know when it would be able to stop adding to its loan reserves.

**Gregg Smith, a senior managing director at restructuring firm Conway MacKenzie, said Citigroup's results show the lending business is stabilizing. But he also noted it will be a long time before banks like Citigroup are strong enough to lend at historical norms. Many economists and investors are concerned that this trend could slow the economic recovery.**

**"They're just crawling out of the ditch now," Smith said of banks.**

2009 was a year of drastic change at Citigroup, and it may turn out to have the poorest fourth-quarter showing among the big banks because it lacks the big investment bank and trading operations that have helped other companies like JPMorgan Chase offset their losses from bad loans.

The bank's loss after accounting for payment of preferred dividends came to almost \$7.77 billion, or 33 cents per share. That compared with a loss of \$18.16 billion, or \$3.40 a share, a year earlier. In the third quarter of 2009, it lost \$3.24 billion after paying dividends. The latest results were in line with analysts' expectations, according to Thomson Reuters.

"They're trying to keep up with firms in a much better position," Alois Pirker, a research director at consultancy Aite Group, said of Citigroup. "Because of that, (Citigroup is) in a higher risk position."

Pirker said the bank has done well in recent quarters to control costs. Now its profitability will turn on how its loan portfolios perform this year, he said.

By repaying the bailout money, Pirker said Citigroup is betting the economy will recover this year because it is removing a safety net of government support.

But paying the government back also frees Citigroup of restrictions on how much it can pay its employees. Like other banks that received bailout money, Citigroup had to win approval for its 2009 compensation from federal pay czar Kenneth Feinberg.

The bank said previously it will issue \$1.7 billion in additional stock as part of a restructured compensation program; the stock is being issued instead of cash payments employees would have received in the past.

Gerspach said average compensation per employee, which includes salary, benefits and bonuses, in 2009 was about \$90,000, about 1 percent lower than in 2008. In total, Citigroup spent \$25 billion on compensation costs in 2009, down 20 percent from the year before. The average compensation per employee did not decline as fast because of the job cuts.

JPMorgan said Friday that its average compensation per employee rose to \$121,124 in 2009 from \$101,110 a year earlier.

Citigroup did not disclose the size of the bonus pool or how big cash bonuses would be for 2010. The company will no longer be under compensation restrictions this year because it repaid the bailout money.

The bank, which received \$45 billion in government bailout money, repaid \$20 billion during the fourth quarter and raised an equal amount of capital to fund the repayment.

Citigroup said it recorded an after-tax loss of \$6.2 billion for expenses related to the bailout repayment. The government has converted the remaining \$25 billion of the bailout money it gave Citigroup into a 34 percent stake in the bank. The government is planning to sell its stake in the bank during the next year.

Citigroup shed 100,000 jobs during the year and completed 14 asset sales, including the Smith Barney brokerage and Japanese units Nikko Cordial Securities and Nikko Asset Management.

The bank's stock rose 12 cents, or 3.5 percent, to \$3.54 in afternoon trading. The stock price is perhaps the clearest indication of how far Citigroup fell during the banking crisis and recession; at the stock market's peak in October 2007, it traded at \$45 a share.

For the full year, Citigroup lost \$1.61 billion, or 80 cents per share. It lost \$27.68 billion, or \$5.61 per share in 2008.