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Citi's Commercial Bank Can't Overcome I-Bank Slump

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Citigroup Inc.'s commercial bank is recovering from the financial crisis — just not fast enough. The No. 3 bank by assets on Tuesday said it would slash $2.5 billion to $3 billion of expenses in the coming year, after reporting a worse-than-expected 7% drop in revenue in the fourth quarter from a year earlier.

A slump in Citigroup's investment bank was the culprit. That business line was problematic for most large financial companies in the second half of 2011. But unlike some of its rivals, Citigroup still cannot fully rely on its more traditional banking businesses to pick up the slack for a weak quarter in securities and trading.

"The results looked good from global, traditional banking - but is that going to be enough to offset the cuts elsewhere? Clearly not this quarter," says Timothy Ghriskey, co-founder of the asset manager Solaris Group, which owns Citigroup shares.
"They've got to make better progress both improving traditional banking as well as reducing costs quickly," he says.

Three years after the financial crisis sent Citigroup into the government's arms for $45 billion of bailouts, the bank on Tuesday posted its second full year of profits. Chief Executive Vikram Pandit has slimmed down the company from the financial behemoth cobbled together by Sandy Weill, but he has done so by focusing largely on investment banking and international markets — both of which are being hit by the European debt crisis and global economic uncertainty.

Pandit's strategy has largely won praise from investors and industry members, although what he calls the "macro environment" has made it difficult for him to return Citigroup to the level of profitability the bank enjoyed before the financial crisis.
"I'm not happy with those revenues" in investment banking, Pandit told analysts on a separate conference call on Tuesday. "A lot of that's related to the market."

There were some bright spots, particularly from some of those international markets. Loans in what Citigroup considers to be its main unit grew 14% from a year earlier, especially in Latin America and Asia. But loan growth was flat overall when also accounting for the Citi Holdings unit of assets the bank is trying to sell or wind down.

Consumer banking revenues in Citigroup's main unit also inched up 1% from a year earlier, to $8.2 billion.
"Things seem to be picking up when it comes to loan demand," Chief Financial Officer John Gerspach told reporters on a conference call Tuesday. He cited increased demand, especially for corporate loans, "pretty much spread around the world and in every geography [where] we operate."

But that growth has not been enough to propel Citigroup through the prolonged slump of investment banking. Consumer banking "is still a touch-and-go space for all the banks — it's not an area that I have optimistic feelings about," says Jason L. Ware, an analyst with Salt Lake City-based Albion Financial Group.
"If you go in with lower expectations, it will be adequate. If you expect we're going to see a return to the glory days of the mid-2000s, then you're going to be disappointed," he says.

Now Citigroup, like its main rivals, is resorting to cost cuts. On Tuesday, the bank said it would compensate for an increase in expenses in 2011 by cutting them in 2012.

Citigroup has already laid off 5,000 people by the end of 2011, including about 1,200 in its securities and banking group, Gerspach said on Tuesday. Pandit told analysts on the call that Citigroup will "continue to right-size our businesses for the opportunities we see."
The expense cuts will be deeper at Citigroup than at its rival Wells Fargo & Co., which also announced roughly $1.5 billion worth of cost-cutting measures while reporting fourth-quarter results on Tuesday.
"They're all looking to prop up that bottom line, because the top line is so anemic," Ware says.
Ghriskey applauded Citigroup's cuts but says he expects the bank to slim down even more in the future.
"There are a lot of costs that can still come out of this company," he says. "There's more cutting to go here, so we can look forward to that."
Citigroup's fourth quarter profit fell 11% from a year earlier, to $1.17 billion, or 38 cents per share. Its quarterly revenue fell to $17.17 billion.
