CITIGROUP INC
Form 10-Q
October 31, 2016

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, 2016
Commission file number 1-9924
Citigroup Inc.
(Exact name of registrant as specified in its charter)

Delaware	52-1568099
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
388 Greenwich Street, New York, NY	10013
(Address of principal executive offices)	(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 x 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 x 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 x
Number of shares of Citigroup Inc. common stock outstanding on September 30, 2016: 2,849,730,248

Available on the web at www.citigroup.com

CITIGROUP'S THIRD QUARTER 2016—FORM 10-Q

OVERVIEW

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, 2015, including the historical audited consolidated financial statements of Citigroup reflecting certain realignments and reclassifications set forth in Citigroup's Current Report on Form 8-K filed with the SEC on June 17, 2016 (2015 Annual Report on Form 10-K), and Citigroup's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 (First Quarter of 2016 Form 10-Q) and June 30, 2016 (Second Quarter of 2016 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 have been made to the prior periods' financial statements and disclosures to conform to the current period's presentation. For additional information on certain recent reclassifications, see Note 3 to the Consolidated Financial Statements in Citi's 2015 Annual Report on Form 10-K.

Throughout this report, "Citigroup," "Citi" and "the Company" refer to Citigroup Inc. and its consolidated subsidiaries.

Citigroup is managed pursuant to the following segments:

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

(1) Asia GCB includes the results of operations of GCB activities in certain EMEA countries for all periods presented.

(2) North America includes the U.S., Canada and Puerto Rico, Latin America includes Mexico and Asia includes Japan.

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

EXECUTIVE SUMMARY

Third Quarter of 2016—Solid Performance Across the Franchise
As described further throughout this Executive Summary, Citi reported solid operating results in the third quarter of 2016, reflecting underlying momentum across the franchise, notably in several businesses where Citi has been making investments.
In North America Global Consumer Banking (GCB), Citi's ongoing investments in Citi-branded cards generated revenue growth, primarily reflecting the first full quarter of revenues from the acquisition of the Costco portfolio but also modest growth in average loans and purchase sales in the remainder of the portfolio. International GCB generated positive operating leverage driven by year-over-year growth in Mexico and Asia (excluding the impact of foreign currency translation into U.S. dollars for reporting purposes (FX translation) and the impact of a previously disclosed $160 million gain (excluding FX translation, $180 million as reported) related to the sale of Citi's merchant acquiring business in Mexico in the third quarter of 2015). In Institutional Clients Group (ICG), Citi continued to support its clients around the world, generating year-over-year revenue growth in treasury and trade solutions, despite the continued low-interest rate environment, investment banking and fixed income markets, particularly in rates and currencies and spread products.
In Citicorp, loans increased 6% and deposits increased 5%. Excluding FX translation, Citicorp loans increased 7% and deposits increased 5%. (Citi's results of operations excluding the impact of FX translation are non-GAAP financial measures.) Citi Holdings' impact on Citi's results of operations and financial condition decreased further with Citi Holdings constituting less than 2% of Citigroup's net income in the current quarter and 3% of Citigroup's GAAP assets as of the end of the third quarter of 2016. While Citi's deferred tax assets (DTAs) were unchanged during the current quarter (for additional information, see "Income Taxes" below), year-to-date, Citi has utilized approximately $2.4 billion of its DTAs which contributed to a net increase of $3.2 billion of regulatory capital as fewer DTAs were deducted from regulatory capital.
In the third quarter of 2016, Citi began implementing its $10.4 billion capital plan (see "Executive Summary" in Citi's Second Quarter of 2016 Form 10-Q) and returned $3.0 billion of capital to common shareholders in the form of dividends and the repurchase of 56 million common shares. Outstanding common shares declined 2% from the prior-quarter and 4% from the prior-year period. Despite the increased return of capital to its shareholders, each of Citigroup's key regulatory capital metrics remained strong as of the end of the third quarter of 2016 (see "Capital" below).
During the remainder of 2016, Citi expects that many of the uncertainties that have impacted the operating environment and macroeconomic conditions year-to-date will continue, including significant uncertainties arising from the vote in

favor of the United Kingdom's withdrawal from the European Union as well as the outlook for future rate increases in the U.S. For a more detailed discussion of these risks and uncertainties, see each respective business' results of operations and "Forward-Looking Statements" below as well as the "Risk Factors" section in Citi's 2015 Annual Report on Form 10-K.

Third Quarter of 2016 Summary Results

Citigroup
Citigroup reported net income of $3.8 billion, or $1.24 per share, compared to $4.3 billion, or $1.35 per share, in the prior-year period. Results in the third quarter of 2015 included $196 million ($127 million after-tax) of CVA/DVA. Excluding the impact of CVA/DVA in the prior-year period, Citigroup reported net income of $3.8 billion in the third quarter of 2016, or $1.24 per share, compared to $4.2 billion, or $1.31 per share, in the prior-year period. (Citi's results

of operations excluding the impact of CVA/DVA are non-GAAP financial measures.) The 8% decrease from the prior-year period was primarily driven by lower revenues, partially offset by lower cost of credit and lower expenses. Citi's revenues were $17.8 billion in the third quarter of 2016, a decrease of 5% from the prior-year period driven by a 1% decline in Citicorp and a 48% decline in Citi Holdings. Excluding CVA/DVA in the third quarter of 2015, revenues were down 4% from the prior-year period, as a 49% decrease in Citi Holdings revenues was partially offset by a 1% increase in Citicorp revenues. Excluding CVA/DVA in the third quarter of 2015 and the impact of FX translation (which increased the reported decline in revenues versus the prior-year period by approximately $223 million), Citigroup revenues decreased 3% from the prior-year period, driven by a 49% decrease in Citi Holdings, partially offset by a 2% increase in Citicorp revenues versus the prior-year period.

Expenses

Citigroup expenses decreased 2% versus the prior-year period as lower expenses in Citi Holdings and a benefit from the impact of FX translation were partially offset by volume growth and ongoing investments in Citicorp (including those referenced above). FX translation increased the reported decline in expenses versus the prior-year period by approximately $194 million.

Citicorp expenses increased 3% reflecting volume growth as well as the ongoing investments in the franchise, partially offset by efficiency savings and the benefit from the impact of FX translation.

Citi Holdings' expenses were $826 million, down 40% from the prior-year period, primarily driven by the ongoing decline in Citi Holdings assets.

Credit Costs

Citi's total provisions for credit losses and for benefits and claims of $1.7 billion decreased 5% from the prior-year

period. The decrease was driven by a lower provision for benefits and claims due to lower insurance-related assets within Citi Holdings and a decrease in net credit losses, partially offset by a net loan loss reserve build, largely driven by North America cards within Citicorp, compared to a net loan loss reserve release in the prior-year period.
Net credit losses of $1.5 billion declined 8% versus the prior-year period. Consumer net credit losses declined 8% to $1.5 billion, mostly reflecting continued improvement in the North America mortgage portfolio and ongoing divestiture activity within Citi Holdings, partially offset by higher net credit losses in North America cards in Citicorp due to volume growth. Corporate net credit losses decreased 20% to $40 million and were largely offset by the release of previously established loan loss reserves (for additional information, see "Institutional Clients Group" and "Credit Risk—Corporate Credit" below).
The net build of allowance for loan losses and unfunded lending commitments was $176 million in the third quarter of 2016, compared to a $16 million release in the prior-year period. Citicorp's net reserve build was $298 million, compared to a net reserve build of $174 million in the prior-year period. The larger net reserve build in the third quarter of 2016 was primarily related to the North America cards franchise, driven by the impact of the Costco portfolio acquisition, volume growth and the estimated impact of newly proposed regulatory guidelines on third party debt collections (see "Global Consumer Banking—North America GCB" below), partially offset by a net reserve release in ICG. The net reserve release in ICG largely reflected ratings upgrades, reductions in certain exposures and improved valuations. Citi's credit quality largely remained favorable across the franchise during the current quarter.
Citi Holdings' net reserve release decreased $68 million from the prior-year period to $122 million, primarily reflecting the impact of asset sales.
For additional information on Citi's consumer (including commercial) and corporate credit costs and allowance for loan losses, see "Credit Risk" below.

Capital
Citigroup's Tier 1 Capital and Common Equity Tier 1 Capital ratios, on a fully implemented basis, were 14.2% and 12.6% as of September 30, 2016, respectively, compared to 12.9% and 11.7% as of September 30, 2015 (all based on the Basel III Advanced Approaches for determining risk-weighted assets). Citigroup's Supplementary Leverage ratio as of September 30, 2016, on a fully implemented basis, was 7.4%, compared to 6.9% as of September 30, 2015. For additional information on Citi's capital ratios and related components, including the impact of Citi's DTAs on its capital ratios, see "Capital Resources" below.

Citicorp
Citicorp net income decreased 12% from the prior-year period to $3.8 billion. CVA/DVA, recorded in ICG, was $221 million ($143 million after-tax) in third quarter of 2015 (for a summary of CVA/DVA by business within ICG, see "Institutional Clients Group" below). Excluding CVA/DVA in

the third quarter of 2015, Citicorp's net income decreased 9% from the prior-year period, primarily driven by the higher expenses and higher cost of credit, partially offset by higher revenues.
Citicorp revenues decreased 1% from the prior-year period to $16.9 billion, driven by lower revenues in Corporate/Other, partially offset by a 1% increase in GCB revenues. Excluding CVA/DVA in the third quarter of 2015, Citicorp revenues increased 1% from the prior-year period, driven by a 1% increase in GCB revenues and a 2% increase in ICG revenues. As referenced above, excluding CVA/DVA in the prior-year period and the impact of FX translation, Citicorp's revenues increased 2% versus the prior-year period, as growth in the GCB and ICG franchises was partially offset by lower revenues in Corporate/Other.
GCB revenues of $8.2 billion increased 1% versus the prior-year period. Excluding the impact of FX translation, GCB revenues increased 3%, driven by an increase in North America GCB, partially offset by a decrease in international GCB revenues. North America GCB revenues increased 7% to $5.2 billion, with higher revenues in each of Citi-branded cards, Citi retail services and retail banking. Citi-branded cards revenues of $2.2 billion increased 15% versus the prior-year period, reflecting the addition of the Costco portfolio as well as modest revenue growth in the remainder of the portfolio driven by higher volumes. Citi retail services revenues of $1.6 billion increased 1% versus

the prior-year period, as higher average loan growth in the portfolio was largely offset by the impact of previously disclosed renewals and extension of several partnerships as well as the absence of revenues from portfolio exits. Retail banking revenues increased 2% from the prior-year period to $1.4 billion, on higher average loans and checking deposits.

North America GCB average deposits of $184 billion grew 1% year-over-year and average retail banking loans of $55 billion grew 9%. Average Citi retail services loans of $44 billion increased 1% versus the prior-year period while retail services purchase sales of $20 billion declined 1% versus the prior-year period. Average Citi-branded card loans of $79 billion increased 24%, while Citi-branded card purchase sales of $73 billion increased 57% versus the prior-year period, each including the impact of the Costco portfolio acquisition. For additional information on the results of operations of North America GCB for the third quarter of 2016, including the impact of the Costco acquisition to North America GCB’s loans and purchase sales, see “Global Consumer Banking—North America GCB” below.

International GCB revenues (consisting of Latin America GCB and Asia GCB (which includes GCB activities in certain EMEA countries)) decreased 7% versus the prior-year period to $3.0 billion driven by a decline in Latin America GCB (19%) partially offset by an increase in Asia GCB (4%). Excluding the impact of FX translation, international GCB revenues decreased 2% versus the prior-year period. Latin America GCB revenues decreased 7% versus the prior-year period, reflecting the absence of a previously disclosed $160 million gain (excluding the impact of FX translation, $180 million as reported) related to the sale of Citi’s merchant acquiring business in Mexico in the third quarter of 2015.

Excluding this gain, revenues would have increased 5% in Latin America GCB, driven by growth in retail banking loans and deposits, partially offset by a decline in cards revenues driven by the continued impact of higher payment rates.

Asia GCB revenues increased 3% versus the prior-year period, driven by growth in wealth management and cards revenues, partially offset by product repositioning away from lower-return mortgage loans in the retail lending portfolio. For additional information on the results of operations of Latin America GCB and Asia GCB for the third quarter of 2016, including the impact of FX translation, see “Global Consumer Banking” below. Excluding the impact of FX translation, international GCB average deposits of $119 billion increased 7%, average retail loans of $87 billion decreased 2%, investment sales of $14 billion increased 2%, average card loans of $23 billion increased 2% and card purchase sales of $23 billion increased 2%.

ICG revenues were $8.6 billion in the third quarter of 2016, unchanged from the prior-year period as a 6% increase in Markets and securities services was offset by a 6% decrease in Banking revenues (including the impact of a $218 million mark-to-market loss on hedges related to accrual loans within corporate lending, compared to a gain of $352 million in the prior year period). Excluding CVA/DVA in the third quarter of 2015 and the impact of mark-to-market gains/(losses) on loan hedges, ICG revenues increased 9% driven by an 11% increase in Markets and securities services revenues and a 7% increase in Banking revenues.

Banking revenues of $4.3 billion (excluding CVA/DVA in the third quarter of 2015 and the impact of mark-to-market gains/(losses) on loan hedges) increased 7% compared to the prior-year period, primarily driven by growth in treasury and trade solutions and debt underwriting revenues within investment banking. Investment banking revenues of $1.1 billion increased 15% versus the prior-year period. Advisory revenues were largely unchanged at $239 million. Equity underwriting revenues decreased 16% to $146 million, reflecting a decline in wallet share resulting from continued share fragmentation. Debt underwriting revenues increased 32% to $701 million, largely reflecting strong industry-wide underwriting activity.

Private bank revenues increased 5% (4% excluding CVA/DVA in the third quarter of 2015) to $746 million from the prior-year period, primarily driven by loan growth, improved spreads and higher managed investment revenues.

Corporate lending revenues decreased 70% to $232 million. Excluding the impact of mark-to-market gains/(losses) on loan hedges, corporate lending revenues increased 4% versus the prior-year period, mostly reflecting higher average loans. Treasury and trade solutions revenues of $2.0 billion increased 5% from the prior-year period. Excluding the impact of FX translation, treasury and trade solutions revenues increased 8% reflecting continued growth in transaction volumes.

Markets and securities services revenues of $4.5 billion (excluding CVA/DVA in the third quarter of 2015) increased 11% from the prior-year period. Fixed income markets

revenues of $3.5 billion increased 26% (35% excluding CVA/DVA in the third quarter of 2015) from the prior-year period, driven by improvement in both rates and currencies and spread products. Equity markets revenues of $663 million decreased 37% (34% excluding CVA/DVA in the third quarter of 2015) versus the prior-year period. The third quarter of 2015 included a previously disclosed positive valuation adjustment of approximately $140 million related to certain financing transactions. Excluding this adjustment, equity markets revenues decreased 23% driven by lower market activity as well as the comparison to strong performance in Asia in the prior-year period. Securities services revenues of $536 million increased 4% versus the prior-year period. Excluding the impact of FX translation, securities services revenues increased 6% as increased client activity, higher deposit volumes and improved spreads more than offset the absence of revenues from divested businesses. For additional information on the results of operations of ICG for the third quarter of 2016, see “Institutional Clients Group” below.

Corporate/Other revenues were $28 million, down 87% from the prior-year period, mainly reflecting the absence of the equity contribution related to Citi’s stake in China Guangfa Bank, which was divested in the third quarter of 2016. For additional information on the results of operations of Corporate/Other for the third quarter of 2016, see “Corporate/Other” below.

Citicorp end-of-period loans increased 6% to $599 billion from the prior-year period, driven by a 7% increase in consumer loans and a 5% increase in corporate loans. Excluding the impact of FX translation, Citicorp loans grew 7%, with 7% growth in consumer loans and 6% growth in corporate loans.

Citi Holdings

Citi Holdings’ net income was $74 million in the third quarter of 2016, compared to a net loss of $1 million in the prior-year period. CVA/DVA was negative $25 million (negative $16 million after-tax) in the third quarter of 2015. Excluding the impact of CVA/DVA in the prior-year period, Citi Holdings’ net income was $74 million, compared to $15 million in the prior-year period, primarily reflecting lower expenses and lower credit costs, partially offset by lower revenues.

Citi Holdings’ revenues were $877 million, down 48% from the prior-year period. Excluding CVA/DVA in the third quarter of 2015, Citi Holdings’ revenues decreased 49% from the prior-year period, mainly reflecting continued reductions in Citi Holdings assets. For additional information on the results of operations of Citi Holdings for the third quarter of 2016, see “Citi Holdings” below.

At the end of the current quarter, Citi Holdings’ assets were $61 billion, 48% below the prior-year period. Citi Holdings’ risk-weighted assets were $114 billion as of September 30, 2016, a decrease of 30% from the prior-year period, and represented 9% of Citi’s risk-weighted assets under Basel III (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	2016	2015	% Change	2016	2015	% Change
Net interest revenue	$11,479	$11,773	(2)%	$33,942	$35,167	(3)%
Non-interest revenue	6,281	6,919	(9)	18,921	22,731	(17)
Revenues, net of interest expense	$17,760	$18,692	(5)%	$52,863	$57,898	(9)%
Operating expenses	10,404	10,669	(2)	31,296	32,481	(4)
Provisions for credit losses and for benefits and claims	1,736	1,836	(5)	5,190	5,399	(4)
Income from continuing operations before income taxes	$5,620	$6,187	(9)%	$16,377	$20,018	(18)%
Income taxes	1,733	1,881	(8)	4,935	6,037	(18)
Income from continuing operations	$3,887	$4,306	(10)%	$11,442	$13,981	(18)%
Income (loss) from discontinued operations, net of taxes[1]	(30)	(10)	NM	(55)	(9)	NM
Net income before attribution of noncontrolling interests	$3,857	$4,296	(10)%	$11,387	$13,972	(19)%
Net income attributable to noncontrolling interests	17	5	NM	48	65	(26)
Citigroup's net income	$3,840	$4,291	(11)%	$11,339	$13,907	(18)%
Less:						
Preferred dividends—Basic	$225	$174	29 %	$757	$504	50 %
Dividends and undistributed earnings allocated to employee restricted and deferred shares that contain nonforfeitable rights to dividends, applicable to basic EPS	53	56	(5			