Citigroup Profit Rise Beats Estimates as Stock Trading Gains (1)
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(Updates with revenue starting in sixth paragraph.)

By Donal Griffin

July 15 (Bloomberg) -- Citigroup Inc., the third-biggest U.S. bank by assets, posted a 42 percent increase in second-quarter profit that beat analysts' estimates as stock-trading revenue surged and losses on unwanted assets declined.

Net income climbed to $4.18 billion, or $1.34 a share, from $2.95 billion, or 95 cents, a year earlier, the New York-based bank said today in a statement. Excluding an accounting adjustment, earnings were $1.25 a share, beating the $1.18 average estimate of 27 analysts surveyed by Bloomberg.

Chief Executive Officer Michael Corbat, 53, has fired thousands of workers and scaled back operations in some countries to cut costs since replacing Vikram Pandit, 56, in October. Citi Holdings, the unit created in 2009 as a home for the company's unwanted assets after the financial crisis, posted its smallest loss ever.

"Citi has done a good job of de-risking its business by pulling out and cleaning up the Citi Holdings assets," said Marty Mosby, an analyst with Guggenheim Securities LLC. "The critical element for long-term value creation is still a continued lessening of the drag from Citi Holdings."

Citigroup posted a $274 million loss in the second quarter of 2012 from the sale of some of its stake in Akbank TAS, a Turkish bank, benefiting this year's profit comparison.

Revenue Gain

Revenue climbed 8 percent to $20 billion excluding the accounting adjustment and the Akbank transaction. Expenses rose 1 percent to $12.1 billion due to "higher legal and related costs," according to the statement.

Shares of the company advanced to $51.94 at 8:36 a.m. from $50.81 on July 12, and gained 28 percent this year through July 12.

JPMorgan Chase & Co., the biggest U.S. bank, reported profit on July 12 of $6.5 billion, or $1.60 a share. Wells Fargo & Co., the fourth-biggest, posted $5.52 billion, or 98 cents a share.

Revenue at Citigroup's stock-trading business, run from London by Derek Bandeen, increased 68 percent from a year earlier to $942 million. Richard Staite, an analyst with Atlantic Equities LLP, predicted $634 million, and Moshe

Orenbuch with Credit Suisse Group AG estimated $835 million. JPMorgan's stock-trading revenue for the period was $1.3 billion, a 24 percent increase.

Citigroup continued winding down and selling unwanted investments in the Citi Holdings unit, which contains a consumer-finance business and billions of dollars of U.S. mortgages. Assets in the division fell 31 percent to $131 billion. Losses dropped to $570 million from $910 million a year earlier.

Fixed Income

Revenue from trading fixed-income products increased 18 percent to $3.37 billion, excluding accounting adjustments, driven by growth in "all major products," Citigroup said. The figure fell short of estimates from Orenbuch and Staite.

Federal Reserve Chairman Ben S. Bernanke's comments on May 22 that the central bank could ease up on a bond-buying stimulus program sparked selling of riskier debts. The policy, known as quantitative easing, had encouraged investors to seek out assets with higher yields. Trading volume for both investment-grade and junk bonds increased from the same quarter last year, according to data from the Financial Industry Regulatory Authority.

"Citi should have benefited from the volatility caused by the tapering debate," Staite said before earnings were released. "Trading volumes have been good and I suspect bid-offer spreads widened. Citigroup has strong currency and emerging-markets businesses, ''and should be a natural beneficiary,'' Staite said.

Emerging Markets

Emerging-market assets plunged last month after Bernanke's comments. Jamie Dimon, Corbat's counterpart at JPMorgan, praised his firm's handling of the slump and cautioned that other banks may have suffered.

Corbat said in the statement that Citigroup managed well through the quarter, ''and these results are well-balanced through our products and geographies, especially in the emerging markets, where growth is being challenged."

Citigroup's fixed-income division is led by credit-trading boss Carey Lathrop, head of interest-rates trading Andy Morton and Howard Marsh, who leads municipal-bond trading. Jeffrey Perlowitz and Mark Tsesarsky are co-heads of trading of securitized products, such as mortgage-backed securities, and Anil Prasad runs the currency-trading unit.

Revenue from fixed-income trading at JPMorgan jumped 17 percent to $4.08 billion from a year earlier, the New York-based lender said last week.

Consumer Bank

Profit at Citigroup's consumer-banking unit slid 1 percent to $1.95 billion. The unit released $228 million from reserves previously set aside to cover losses on bad loans, compared with a $753 million release for the same quarter last year.
Citigroup co-president Manuel Medina-Mora runs the consumer bank, which operates about 4,000 branches across almost 40 countries. Corbat and Medina-Mora are selling and scaling back consumer operations in some emerging markets, including Turkey and Uruguay, as part of a plan to cut costs that includes firing 11,000 workers.
The bank employed 253,000 as of June 30, 3 percent fewer than a year earlier.
Fees from investment banking, which includes managing bond and share sales for clients and providing advice on mergers and acquisitions, climbed 21 percent to $1.04 billion, exceeding the $888 million predicted by Orenbuch. Raymond J. McGuire and Tyler Dickson oversee the unit in New York.

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