
Turkish Bank Sale Drags Citi's Net Down 12 Percent

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NEW YORK (AP) - Citigroup's net income fell 12 percent in the second quarter partly due to a loss on the sale of its stake in a Turkish lender. The income of \$2.9 billion was still better than analysts were expecting. Citi is one of the largest international banks in the world and its results are often seen as a gauge of how the global economy is doing. Investors are particularly concerned about recent signs of a slowdown in China and India, two large markets for Citi. Citi's consumer banking business in Asia and Latin American barely declined by less than one percent.

"We are largely an urban bank in Asia, and cities are growing," Vikram Pandit, Citigroup's CEO, said in a conference call with analysts. "Urbanization is a very powerful trend. Middle class is growing. People are coming in the cities. That's what drives our business."

In a separate conversation with journalists, Citi's chief financial officer, John Gerspach, said the strength in the dollar versus other currencies had negative impact on the bank's earnings from overseas.

Gerspach said the Mexican peso depreciated about 5 percent in the quarter and the Brazilian real about 11 percent. Without the effect of currency depreciations, Gerspach said, Citi's overseas business grew. Gerspach said Citi was excited about the opportunities for growth in those two countries, especially in credit cards.

As more of its customers paid back loans on time, Citi kept aside less for future losses. The bank reserved \$27.6 billion at the end of the quarter, compared with \$34.4 billion in the same period a year ago.

"Many markets are slowing down and we worry that it could hit the credit quality of customers," said Citi shareholder Gary Townsend, head of the investment firm Hill Townsend Capital. "Citi executives indicated that they don't see any discernible change and that is an important takeaway."

The bank drew down its current loan loss reserves by \$984 million and took an accounting gain of \$219 million because the value of its debt decreased. Both of those items padded earnings.

Citi lost \$424 million on the sale of its one-tenth ownership stake in Akbank. Excluding that loss and the accounting gain, Citi's net income was \$1 per share, exceeding the 89 cents expected by analysts surveyed by FactSet, a provider of financial data.

Revenue was \$18.6 billion, down 10 percent from the year-ago quarter. Analysts expected \$18.8 billion.

Citi's stock rose 18 cents to \$26.82.

Market volatility in the second quarter related to the European debt crisis hurt Citi's earnings from investment banking, where revenue declined 21 percent to \$854 million.

However, as interest rates hit record lows, more homeowners refinanced their mortgage loans or bought new houses.

Citi's retail banking revenues grew 32 percent to \$1.6 billion from the second quarter 2011, largely due to higher mortgage revenues.

Over the weekend, Citigroup said it will not seek to increase its dividend this year but may seek permission to raise it in 2013.

"I believe we will be in good shape and have the capital to be able to do that by the end of the year," Pandit told the U.K.'s Sunday Telegraph in a rare interview. "That's a decision that will have to be taken with our regulators and we will have those conversations at the end of the year."

The bank did not ask the Federal Reserve for permission to raise its dividend last month, when it submitted its latest capital plan. Citi currently pays a token amount of 1 cent per share every quarter. Pandit had previously promised shareholders a higher dividend earlier in the year.

The Fed in March said the bank did not have enough capital to raise its dividend and also withstand another financial crisis. That was a blow to Pandit, whose 2011 compensation package of \$15 million for last year and \$10 million retention pay was rejected by shareholders in an advisory vote the following month.