

CITIGROUP (NYSE) - C

Company Description:

Citigroup Inc. (Citigroup), is a global diversified financial services holding company whose businesses provide consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management. The Company operates in two segments: Citicorp, consisting of the Company's Global Consumer Banking (GCB) businesses and Institutional Clients Group (ICG), and Citi Holdings, consisting of Brokerage and Asset Management, Local Consumer Lending and Special Asset Pool. Has about 200 million customer accounts in over 100 countries. Has around 241,000 employees. Chairman: Michael E. O'Neill. CEO: Michael Corbat www.citigroup.com

Basic Description:

From 1997 through 2006, net profits moved up strongly. Then, problems hit C with ferocity as a high level of charge-offs occurred during the Great Recession. EPS was affected even more, as share issuance at low prices heavily diluted subsequent profits for long-term shareholders. As a result, prices moved widely. In retrospect, the 15% per year growth in assets at C from 2002 to 2007 was extraordinary and, worse yet, is the incredibly low equity to asset ratio achieved. Due to global tumult, capital requirements and continued legal costs, C has needed six years to get regulatory permission to pay dividends and make share repurchases. However, by being forced to retain earnings, reposition assets and clear up legal problems, C has simplified its business and increased book value since the downturn. In so doing, growth in assets and loans has stopped for ten years which means that C has decreased leverage by increasing capital ratios in terms of equity per assets and loans. "Loans" (most assets are interest paying) continue to run a relatively low 1/3 of assets. Net interest margin (including "true NIM") has been very consistent and has returned an average 2.7% ("true" 2%) on assets level (incl. non-interest assets), while non-interest income seems to generate 1.6% on assets for a 4.3% (or 3.6%). The efficiency ratio appears to be stabilizing at 60% (eff. Pretax 1.5% roa). C's enormous breadth has made efficiencies difficult despite a narrowed focus.

Profitability Description:

C has two major sources of profitability: net interest income and non-interest income within two major segments: GCB and ICG. GCB has \$26 bln of net interest income and \$6 bln of non-interest income, while ICB has \$15 bln of net interest income and \$17 bln of non-interest income. These segments create a smaller size loan portfolio as a percentage of assets than a typical bank (35% vs 75%), but a larger percentage of non-interest income (35% vs 15%). Of the total of \$1.8 trillion in assets, GCB has \$400 bln and ICG has \$1.1 tln (Corp. has \$300 bln). GCB has a large city target with three main geographic areas - US, Mexico and Asia - in which it offers retail banking and credit cards. GCB is card-centric. Of its roughly \$5 bln of after-tax profits, \$3.4 bln is in credit cards and \$1.6 bln is in retail banking. GCB is also U.S. centric. Profits by geography: US, \$2.7 bln in cards, \$.6 bln in banking; Latam, \$.3 in cards, \$.4 in banking; Asia, \$.4 in cards, \$.7 in banking. GCB has a high return on assets (roa) of 1.75% and in U.S. cards, the roa is 3.5%. ICG is a "money center" bank, meaning that it has an international focus to financially service governments and large corporations in custody, trading, investment banking and principal transactions. ICB is truly global. Of its roughly \$9 bln of after-tax profits, \$4 bln is U.S., \$2 bln is EMEA, \$1 bln is Latin America, \$2 bln is Asia. While most lines of business are steady, the category of "principal transactions" is volatile and difficult to assess. ICG has a much lower roa of .9%. This two segment profitability appears high with mortgage problems over and legal costs settling down to allow for significant share repurchasing aided by a \$50 bln deferred tax asset. Headcount is shrinking and expenses contracting as focus narrows to six US cities and leaving markets of Argentina Brazil Columbia Venezuela and Japan. However, high stock incentive plans slow the impact of repurchasing. In addition, C continues to build capital ratios and has achieved high requirements set by 2019 of 13.5% Tier I and 7% supplementary leverage (off-balance sheet:"well capitalized" in Fed and Basel III) - allowing for further shareholder compensation. It also appears that Asia is the natural market for further expansion - huge populations. To make major share repurchasing and build ratios, C has been issuing preferred stock.

Core Advantage Description:

C has a well-known brand which it can use regionally in its GCB segment and globally in the ICG segment. C has finally reached a point where capital has been restored, most of the legal costs have either been paid or reserved for, and C is now able to pay out its returns in dividends and share repurchasing. C is constrained from any sizeable acquisitions and has challenges to grow organically. The result is that C should continue to be well-capitalized and focused on its strongest areas. C also has proven capable of managing to generate excellent net interest margins in this low rate environment. Yet, C will be regulated as a utility and will generate low ROEs.

Investment Thesis:

Banking is a key participant in the economy, growing in expansions and contracting in recessions. However, the last cycle was not normal as it resulted in a cycle immune to the basics of interest rate controls. Instead, expansion has required QE steps to drive up asset valuations to prevent a massive deflationary deleveraging. Post these steps, we purchased C, confident of higher capital levels and regulatory oversight. However, these factors have reduced prospective growth rates while C still partipates in an unusual cycle. As a result, C has limited asset growth ability - 1% real and 2% inflation - with some continual restructuring of expenses driving to a subpar, but historically normal, 1% roa. C benefits from its high capital levels and a DTA that should allow earnings to grow faster than assets - 5% for 5 years and then 4% for 5 more years. C also benefits from low capital requirements in such a slow growth environment (assuming legal payments stay low and no more increases in capital ratios) which allows for excess funds to be used to repurchase stock - its apparent preferred approach. A gradual increase from 30% by 10% points per year until it reaches 60% allows for C to grow EPS at nearly 10%. An increase in loan loss provisioning and preferred dividend payments could drop this by 1% per year. We assume that C is able to repurchase at a P/E of 12 or less with a terminal P/E of 12.

Purchase Description:

We would recommend patient, value-oriented investors pay up to \$53/shr for C (comb e.g. with P/BV of .8) with a sell price of \$80 (comb of P/BV of 1.2 and sum of parts and capl charge) as a Tier III. We will sell to 3% at \$67 and the rest at \$80. Portfolios with concentrated positions will sell 30% at \$67 and the rest at \$80.

Investment Thesis - 2014:

C has endured a tumultous decade with CEO turnover, press headlines and a near collapse of the firm. Despite all of that, C maintained itself with share issuance, expense reduction, asset (lines of business) sales and earnings retention. Yet C is a well-known brand with significant strengths in banking and money center activities. We estimate that C can grow its net return on assets to 1%, a level that is a banking average, allowing for an increase of over 10% per year in earnings while assets grow at 3%. In addition, share repurchases and a normal dividend should boost shareholder returns.

		FY End	Stock Price		Market Value (in mlns)													
		December	\$60.00		\$156,600.00													
		1997	1999	2000	2002	2003	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Profit (mln)		7,751	9,994	13,519	15,418	17,853	20,004	3,617	-32,094	-1,161	10,602	11,276	11,900	13,908	11,500	16,249	14,912	15,400
EPS		\$14.80	\$22.06	\$26.92	\$29.49	\$34.62	\$40.13	\$7.24	(\$58.06)	(\$0.88)	\$3.65	\$3.86	\$2.43	\$4.59	\$3.80	\$5.50	\$5.38	\$5.90
Operating EPS		\$17.00	\$22.26	\$26.92	\$29.99	\$34.62	\$40.17	\$7.24	(\$58.89)	(\$0.41)	\$3.65	\$3.86	\$3.93	\$4.59	\$3.80	\$5.50	\$5.38	\$5.90

Ave. P/E Ratios			16.0	18.3	13.3	12.3	12.0	65.9	nmf	nmf	11.4	10.2	8.4	10.3	13.5	9.7	9.8	
Yrly Price Low			245.0	353.0	244.0	303.0	429.0	288.0	30.0	10.0	31.0	21.4	24.6	40.3	46.0	46.0	34.5	55.6
Yrly Price High			437.0	591.0	522.0	492.0	500.0	563.0	290.0	76.0	51.0	51.3	40.2	54.0	56.9	61.0	61.0	61.6

Dividends Paid			1,841	2,612	3,598	5,673	8,765	10,788	6,104	285	0	88	121	121	121	472	1,164	1,670
Dividends PS			\$4.10	\$5.20	\$7.00	\$11.00	\$17.60	\$21.60	\$11.20	\$0.10	\$0.00	\$0.03	\$0.04	\$0.04	\$0.04	\$0.16	\$0.42	\$0.64
Ave. Div. Yld.			1.20%	1.10%	1.83%	2.77%	3.79%	5.08%	7.00%	0.23%	0.00%	0.08%	0.12%	0.08%	0.08%	0.30%	0.88%	1.09%

Shares Outstdg.		456.0	449.0	502.2	514.1	515.7	498.0	499.5	545.0	2,847.7	2,905.8	2,923.9	3,028.9	3,033.0	3,023.9	2,953.0	2,772.4	2,610.0
Buyback \$ (mln)		0	883	(25,125)	306	(644)	9,959	(3,515)	(7,288)	(99,016)	(2,384)	(656)	(3,402)	(193)	468	3,793	8,624	9,517

Shr. Equity (mln)		41,851	49,686	66,206	86,718	98,014	112,537	113,598	141,630	152,700	163,468	177,806	189,049	204,574	210,534	221,857	225,120	235,000
Book Value PS		\$91.78	\$110.66	\$131.83	\$168.69	\$190.06	\$225.97	\$227.44	\$259.87	\$53.62	\$56.25	\$60.81	\$62.42	\$67.45	\$69.62	\$75.13	\$81.20	\$90.04

Assets			697,384	716,937	902,210	1,097,190	1,264,032	1,494,037	2,100,000	1,938,470	1,856,646	1,913,902	1,873,878	1,864,660	1,880,382	1,842,530	1,731,210	1,792,077	#####
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Return On Eq.			18.52%	20.11%	20.42%	17.78%	18.21%	17.78%	3.18%	-22.66%	-0.76%	6.49%	6.34%	6.29%	6.80%	5.46%	7.32%	6.62%	6.55%
Return on Assets			1.11%	1.39%	1.50%	1.41%	1.41%	1.34%	0.17%	-1.66%	-0.06%	0.55%	0.60%	0.64%	0.74%	0.62%	0.94%	0.83%	0.81%

Equity/Assets			6.00%	6.93%	7.34%	7.90%	7.75%	7.53%	5.41%	7.31%	8.22%	8.54%	9.49%	10.14%	10.88%	11.43%	12.82%	12.56%	12.30%
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Description:

Most ACM reports include LT Debt. However, banks use debt structures differently.
 As a result, we replace the LTD line with Assets and replaced ROC with ROA and inflation with Equity/Assets.

Instructions:

Analysis:

Observations:

Investment Characteristics

Earnings Analysis: **Use Of Earnings Analysis:**

Growth **-5.15%** **Avg Div Payout R** **45.97%**

Quality **98.47%** **Avg Stk Buyback P** **#####**

	1996	1997	1999	2000	2001	2002	2003	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Loans		192,469	237,527	358,061	381,845	436,304	465,363	573,721	761,876	664,600	555,471	608,139	617,127	630,009	645,824	628,641	604,991	612,309	659,000
Net Int.Income		17,821	20,460	28,615	32,821	37,838	39,925	39,239	45,378	53,692	48,914	55,157	49,009	48,177	48,747	48,514	47,041	50,000	50,000
Loan Loss Prvn		2,197	2,837	5,339	6,800	9,995	8,046	9,046	17,424	33,674	38,760	25,194	11,773	10,848	8,514	6,666	7,182	6,749	6,500
Net Int.Margin		2.56%	2.85%	3.17%	3.12%	3.45%	3.16%	2.63%	2.16%	2.77%	2.63%	2.88%	2.62%	2.58%	2.59%	2.63%	2.72%	2.79%	2.62%
"True" NIM		2.24%	2.46%	2.58%	2.47%	2.54%	2.52%	2.02%	1.33%	1.03%	0.55%	1.57%	1.99%	2.00%	2.14%	2.27%	2.30%	2.41%	2.28%

2.75%

2.05%

Loan Analysis: **Loan Analysis (last 5 yrs.):**

Growth **6.35%** **Growth Rate %:** **1.10%**

Net Inco **5.29%** **Net Income Growt** **0.33%**

	1996	1997	1999	2000	2001	2002	2003	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Non Int. Inc.		29,961	36,777	46,573	34,546	33,470	37,517	44,402	34,762	590	34,277	31,949	29,918	27,541	30,108	29,313	29,724	30,000	30,000
Yld on non int inc		4.30%	5.13%	5.16%	3.29%	3.05%	2.97%	2.97%	1.66%	0.03%	1.85%	1.67%	1.60%	1.48%	1.60%	1.59%	1.72%	1.67%	1.57%
Claims		7,714	8,671	10,147	11,759	3,478	3,895	867	935	1,403	1,258	965	972	887	830	801	731	233	250
"true" yld net of claims		3.19%	3.92%	4.04%	2.17%	2.73%	2.66%	2.91%	1.61%	-0.04%	1.78%	1.62%	1.54%	1.43%	1.56%	1.55%	1.67%	1.66%	1.56%
Non Int. Exp.		25,403	29,781	38,559	39,601	37,298	39,168	45,163	62,573	72,174	49,324	48,123	51,956	51,389	48,355	55,051	43,615	41,416	43,000
Efficiency Ratio		67.08%	65.12%	64.59%	81.14%	64.49%	59.80%	61.26%	101.28%	375.81%	114.25%	78.96%	78.50%	80.32%	69.56%	78.24%	63.35%	56.72%	58.70%
Tax Rate		36.10%	35.80%	35.60%	34.40%	34.10%	31.10%	30.80%	30.00%	31.00%	nmf	16.90%	24.10%	0.30%	30.00%	47.80%	30.00%	33.00%	33.00%

2.22%

Description:

Instructions: For efficiency ratio, I include loan loss prv and claims.
Exclusion of them, while customary, seems inappropriate, as they are completely recurring.

Analysis: C has a low percentage of loans relative to WFC and BAC. Instead, very similar to JPM.

Observations:

Balance Sheet (in millions):																	
	2004	2007	2008	2009	2010	2011	2012	2013	2014	2015		2016					
Total Assets:								1,880,617	1,842,530	1,731,210	59003.9	1,792,077				58090.6	
Total Loans:								667,746	658,425	627,511		623,672					
U.S.	9.13%	9.00%	8.85%	7.76%	8.07%	7.88%	7.53%	393,831	361,769	354,439	6.93%	360,957	6.72%			24256.3	
Non-U.S.	6.59%	7.72%	7.65%	6.34%	7.99%	7.73%	7.43%	273,915	296,656	273,072	5.85%	262,715	5.93%			15579.0	
Other Interest-earning Assets:								1,019,317	1,015,769	978,326		970,414					
Deposits with banks	1.89%	6.03%	3.98%	0.79%	0.75%	1.03%	0.80%	173,378	161,359	133,790	0.54%	131,925	0.74%			976.2	
Federal funds sold and s	2.47%	5.65%	3.84%	1.52%	1.26%	1.32%	1.23%	257,696	254,865	234,365	1.07%	232,876	1.09%			2538.3	
Other interest-earning as	3.08%	4.62%	4.01%	1.56%	1.44%	1.04%	1.42%	40,766	42,375	55,060	3.34%	56,398	1.82%			1026.4	
Trading account assets	3.30%	4.10%	4.68%	4.02%	2.92%	3.08%	2.78%	239,213	234,711	217,987	2.79%	198,213	2.97%			5886.9	
Investments	4.03%	4.75%	4.86%	5.05%	3.63%	2.85%	2.62%	308,264	322,459	337,124	2.17%	351,002	2.23%			7827.3	
Non-interest earning Assets:								193,554	224,721	218,000		214,642					
Cash and due from banks																	
Goodwill																	
Other intangible assets																	
Other assets																	
Liabilities:								1,674,249	1,684,363	1,604,647	11963.3	1,579,544				12479.5	
Total Deposits								763,473	754,813	698,175	0.72%	718,425	0.74%				
Savings deposits	0.89%	3.01%	1.74%	1.59%	0.99%	0.99%	0.84%	284,164	289,669	273,122	0.49%	288,817	0.56%			1617.4	
Other time deposits	3.15%	5.09%	4.41%	1.85%	0.89%	0.86%	0.00%	0	0	0		0				0.0	
Deposits outside U.S.	2.20%	3.75%	3.11%	1.42%	1.26%	1.32%	1.16%	486,304	465,144	425,053	0.88%	429,608	0.85%			3651.7	
Other Interest-bearing Liabili								596,307	585,983	550,592		494,177					
Federal funds purchase	2.77%	6.00%	4.00%	1.67%	1.32%	1.45%	1.26%	216,084	190,023	174,486	0.93%	158,060	1.21%			1912.5	
Trading account liabilities	0.40%	1.50%	1.68%	0.48%	0.48%	0.47%	0.26%	66,001	75,656	69,963	0.31%	74,150	0.55%			407.8	
Short-term borrowings	1.61%	3.32%	1.90%	0.91%	0.59%	0.51%	0.66%	115,246	118,248	116,129	0.45%	80,199	0.59%			473.2	
Long-term debt	2.84%	4.86%	4.61%	3.60%	3.15%	3.32%	3.39%	198,976	202,056	190,014	2.38%	181,768	2.43%			4417.0	
Non-interest bearing Liabilitie								314,469	343,567	355,880		366,942					
Demand deposits in U.S.									26,216	26,124		38,120					
Other									317,351	329,756		328,822					
Other intangible assets																	
Shareholder's Equity:								204,339	210,534	221,317		225,120					
Preferred stock								6,738	10,468	16,178		19,253					
Common stock								31	31	31		31					
Additional paid-in capital								107,193	107,979	108,288		108,042					
Retained earnings								111,168	118,201	133,841		146,477					
Treasury stock, at cost								-1,658	-2,929	-7,677		-16,302					
Accumulated other comprehensive income								-19,133	-23,216	-29,344		-32,381					

Description:	Overseas deposit gathering is a source of returns; appears to come from corporate in the treasury solutions category
	50% of income is from overseas.

Instructions:	For info, look on supplemental, average balances and rates; pg 123 of 2014ar

Analysis:	On the asset side of the balance sheet, C has been challenged in the same way as bond investors: as assets do well, they are "called." For C, this means shrinkage of high yield assets in CitiHoldings and Special Asset Pool. The challenge is to reinvest in high yielding assets, while dealing with a stubbornly unattractive residue.
	On the liability side of the balance sheet, C has dropped the debt levels and increased some foreign demand deposits. Non-deposit borrowing costs are still high due to apprehension of financial system. In better times, these rates could continue to drop.

Observations:	

the U.S. Treasury continued to hold approximately 7.7 billion shares, or approximately 27%, of Citi’s common stock, (ii) the U.S. Treasury and FDIC continue to hold an aggregate of approximately \$5.3 billion of Citi’s trust preferred securities, and (iii) the U.S. Treasury continues to hold three warrants exercisable for an aggregate of approximately 465.1 million shares of Citi’s common stock

On the asset side for 2009 of \$1.876 billion, \$264 million was not directly relevant to C’s business model. The remaining assets total \$1.612 billion. These assets are divided into Citigroup - \$1.1 billion - and CitiHoldings - \$600 million. The Citigroup assets are divided into "Regional Consumer" - \$200 billion - and "Institutional Client" - \$900 billion. The CitiHoldings assets are divided into "Brokerage" - \$50 billion - and "Local Consumer" - \$400 billion - and "Special Asset Pool" - \$150 billion. The "Regional Consumer" is US - \$40 billion - and EMEA - \$10 billion - and Latin American - \$60 billion and Asia - \$90 billion. The "Institutional Client" is divided into "Securities" - \$850 billion and "Transaction Services" - \$50 billion.

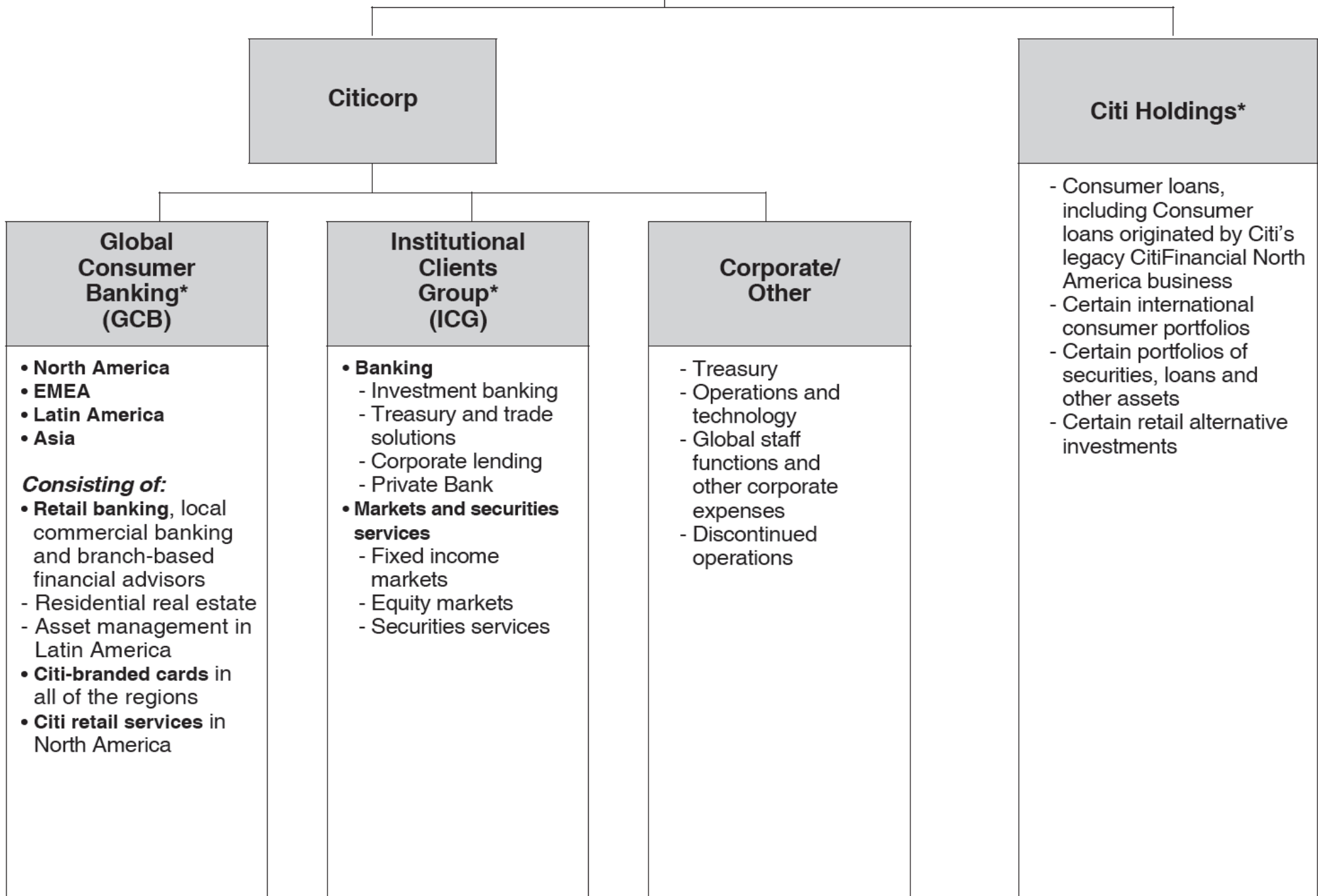
Basically, the good consumer and corporate loans make up the "Regional Consumer" segment of Citigroup. The remaining consumer and corporate loans - \$450 billion - make up the "Local Consumer" segment and "Special Asset Pool" segments of CitiHoldings. The rest of the "Special Asset Pool" - \$100 billion - is a part of the "Interest-bearing Assets."

On the liability side, deposits are the most important category and total \$830 billion. The deposits listed are interest-bearing and make up 85% of the total deposit base with at total of \$680 billion. The deposits which are not interest-bearing are included under "other" and make up \$150 billion.

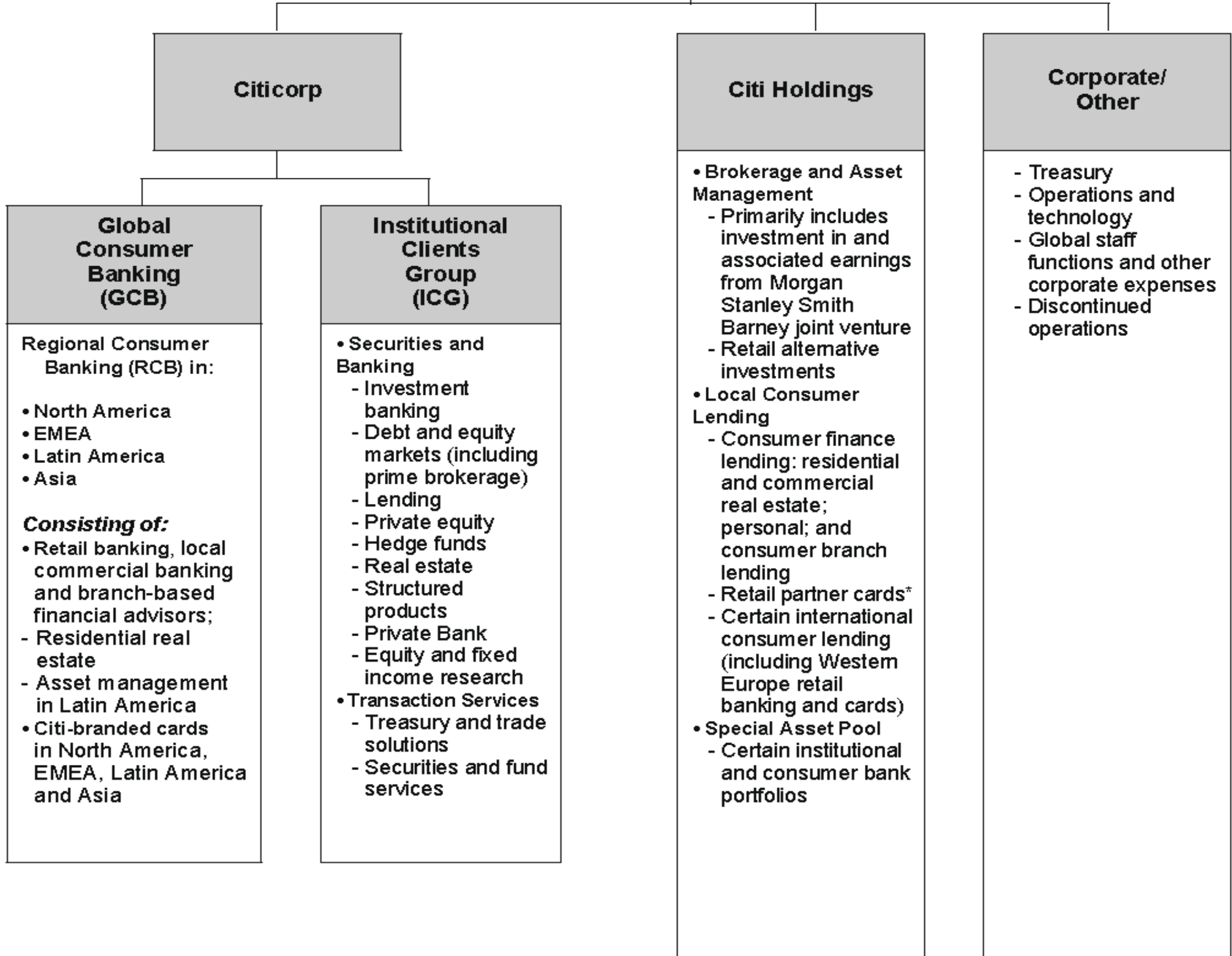
Debt is made up of short and long term debt with a combined value of \$500 billion.

scription & Analysis of Profitability (in mln)															
Revenues:	2004	% Rev.	% Rev.	% Rev.	% Rev.	% Rev.	% Rev.	2013	% Rev.	2014	% Rev.	2015	% Rev.	2016	% Rev.
Total Income	101,632							93,655		91,526		86,728		82,862	
Loans and leases	63,614	5.56%						63,547	62.213	59,004	3.41%	58,091	3.24%		
U.S.	36624	57.6%	42.7%	46.2%	43.4%	39.8%	39.4%	27371	43.1%	26084	41.9%	24563	41.6%	24256	41.8%
Non-U.S.	7096	11.2%	15.9%	15.7%	25.4%	28.9%	31.3%	19037	30.0%	18719	30.1%	15975	27.1%	15579	26.8%
Deposits with banks	536	0.8%	2.9%	1.9%	1.6%	2.4%	1.8%	1040	1.6%	952	1.5%	722	1.2%	976	1.7%
Federal funds sold and securities	5023	7.9%	8.6%	4.0%	3.9%	5.0%	5.0%	2210	3.5%	2210	3.8%	2508	4.3%	2538	4.4%
Other interest-earning assets	1656	2.6%	3.5%	1.0%	0.9%	0.7%	0.8%	579	0.9%	534	0.9%	1839	3.1%	1026	1.8%
Trading account assets	6470	10.2%	16.4%	14.0%	10.2%	11.3%	10.2%	6028	9.5%	6009	9.7%	6082	10.3%	5887	10.1%
Investments	6211	9.8%	10.1%	17.1%	14.6%	11.9%	11.5%	7275	11.4%	7546	12.1%	7316	12.4%	7827	13.5%
Other Income	38,018	3.32%	0.03%	1.83%	1.61%	1.53%	1.44%	30,108	1.60%	29,313	1.59%	29,724	1.72%	24,771	1.38%
Insurance premiums	2,726							2,280		2,110		1,845		836	
Commissions and fees	15,981							13,113		13,032		11,848		10,521	
Principal transactions	3,716							7,121		6,698		6,008		7,585	
Administration and other fiduciary	5,524							4,089		4,013		3,648		3,364	
Realized gains (losses) from sale	833							748		570		417		328	
Other revenue	9,238							2,757		2,890		5,958		2,137	
Expenses:															
Total Expenses	71,773							62,795		68,750		57,990		53,896	
Interest expenses	21,991							14,800		13,699		11,963		12,480	
Savings deposits	1,072							0		1,419		1,338		1,617	
Other time deposits	962							0		0		0		0	
Interest-bearing deposits in office	6,746							5,879		4,279		3,740		3,652	
Federal funds purchased and sold	5,876							2,139		1,900		1,623		1,913	
Trading account liabilities	308							152		166		217		408	
Short-term borrowings	1,678							542		579		523		473	
Long-term debt	5,349							6,089		5,354		4,522		4,417	
Other Expenses	49,782	4.35%	3.19%	2.55%	2.39%	2.61%	2.64%	47,995	2.55%	55,051	2.99%	46,027	2.66%	41,416	2.31%
Compensation and benefits	22,934							24,007		23,959		21,769		20,970	
Net occupancy expense	4,791							3,165	68%	3,178		2,878		2,542	
Technology/communication expense	3,518							6,136	68%	6,436		6,581		6,685	
Advertising and marketing expense	2,653							1,888		1,844		1,547		1,632	
Other operating expenses	15,886							12,799		19,634		13,252		9,587	
Interest inc., net	41,623	3.64%	2.54%	2.61%	2.79%	2.51%	2.52%	48,747	2.59%	48,514	2.63%	47,041	2.72%	45,811	2.55%
Credit Loss Prov.	7,117	0.62%	1.59%	2.07%	1.32%	0.60%	0.57%	8,514	0.45%	7,467	0.41%	7,913	0.46%	6,982	0.39%
Total Interest inc.	34,506	3.02%	0.95%	0.54%	1.47%	1.91%	1.95%	40,233	2.14%	41,047	2.23%	39,128	2.26%	38,829	2.16%
Pre-tax Earnings:	22,742							22,346	0.012128	15,309		22,825		21,984	
Taxes	6,464	28.4%	-0.5%	30.0%	30.0%	30.0%	30.0%	6,704	30.0%	6,864	47.0%	7,440	32.6%	7,440	33.8%
Earnings:	16,278							15,642		8,445		15,385		14,544	
Return on Assets:	1.42%							0.83%		0.46%		0.89%		0.81%	
Dividend Paid/% of Earnings:								121		121		472		1,164	
Common Stock/% of Earnings:								(193)		468		3,793		8,624	
Share buybacks: Stmt of C. F.								837		1,232		5,452		9,290	
Description:	The net interest margin has been attractive and favorable. In addition, the credit loss provisions are normalized. Yet the return on assets is at least half of historical banking norms. Expenses on interest understated for 2013 because of the average of last quarter														
Instructions:	Basically 7bin gcb net and 9bin icg; the 7bin is 65% us cards and rest split btw asia and latam (actual banking there)														
Analysis:	It appears that buying banks come during serious recessions or periods with a flat yield curve. Further, it appears that the retail concept is critical for the stability of banks.														
Observations:	In order for C to reach normal banking returns, the debris from the past will continue to have to be dealt with. In addition, C's allowed equity base must be established. A downside risk of C's global involvement is continued overseas instability. An upside is that growth is more difficult for C to gain domestically. WFC and BAC are entrenched in US markets.														

CITIGROUP SEGMENTS



CITIGROUP SEGMENTS



Description & Analysis of Debt Levels (in mlns):

Summary:	Debt is a four-letter word. Debt causes the years of repayment of capital to equity shareholders to stretch out into the more distant future. Even worse, debt can cause the best business model to become the property of bondholders in a rough economic environment.		
Total Debt-Capital:	The measure of total debt to total capital is useful when book value is a good measure of a firm's worth. This is particularly true of traditional businesses where property, plant and equipment are important. Further, it helps to have this ratio in capital intensive businesses with cyclical earnings.		
	Total Debt:	1,579,544	
	Total Capital:	1,804,664	
	Ratio:	87.53%	
Long Term Debt-Cap.:	The measure of long term debt to total capital is useful when total debt is distorted by the high presence of current assets being financed by current liabilities. Again, the measure works best within a traditional industry setting. The ratio helps position the equity shareholders.		
	L. T. Debt:	181,768	Here, the current liabilities have been excluded.
	L. T. Capital:	406,888	Here, the current liabilities have been excluded.
	Ratio:	44.67%	
Net Income Payback:	The measure of how quickly total debt is repaid by net income is a conservative measure, as it includes debt such as current liabilities, that are financed by current assets and excludes some sources of cash, such as noncash amortization numbers.		
	Total Debt:	1,579,544	
	Net Income:	14,544	
	Years Payback:	108.6	
	L.T. Debt:	181,768	
	Net Income:	14,544	
	Years Payback:	12.5	
Addback Net Inc. Payback:	The measure of how quickly debt is repaid by addback net income is a good measure, as it starts with GAAP net income and adds back expenses on an after-tax basis that are clearly discretionary, such as business acquisitions to better analyze the strength of the repayment stream.		
	L.T. Debt:	181,768	
	Net Income:	14,544	
	Addback:	0	Merger charges, writedowns above the line, dep. Amort below the line less capex
	Years Payback:	12.5	
Interpretations:	Banks are particularly hazardous from a debt situation; critical to their roe is a high level of debt. Essentially debt is part of their raw material. For this reason, banks are probably purchased at extraordinarily low prices		

Description & Analysis of Pension Issues(in mlns):

Summary:	Corporate defined benefit or "pension" plans are a major obligation of companies. Because of the actuarial changes involved, obligations can move significantly. As a result, corporations have steadily moved toward defined contribution plans as they froze or terminated pension plans. These obligations are measured in two ways: accumulated and projected. As the name implies, projected is what is likely and a greater number than accumulated. This obligation is typically in three categories: US, non-US and post-retirement. There are assets which are set up to fund these plans. The difference is the funded status. This number provides an indication of the additional potential obligation of the company and is included in the balance sheet - typically in "other assets" and "other liabilities." That may not be the accurate value of the obligation in the event that assumptions are unreasonable. Because pensions are funded over time, it is less likely to have an immediate funding need that cripples the company or its earnings. Rather than focus on these assumptions, we estimate the size of plan's underfunding relative to the market value of the company. The greatest financial risk involves companies which are small relative to these funding requirements. For our purposes, we set this limit at 25% for the total underfunded as a percentage of market capitalization.		
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Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Pension Plan	Yes	Yes	Yes							
Frozen:	Yes	Yes	Yes							
Taft-Hartley	No	No	No							
Underfunded	Yes	Yes	Yes							
Amount:	3,003	3,003	2,694							
Market Cap:	156,600	156,600	156,600							
Ratio:	1.92%	1.92%	1.72%							

Description & Analysis of Stock Options (in mlns):

Summary:	Stock options are a difficult form of compensation to assess. Heavy use of stock options creates stock issuance and a demand for stock repurchasing in some industries. This can be dilutive to shareholders if no repurchasing occurs or can absorb cash flows in the event that repurchasing occurs to offset issuance. Uses "share-based incentive" language
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FASB ASC 718	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
After tax Expense	1,534.00	1,404.65	1,418.95							
Net profits:	11,500.00	16,249.00	14,912.00							
%	13.34%	8.64%	9.52%							
Cash net of taxes	1,232.00	5,452.00	9,290.00							
Net share repurchases	468.19	3,793.15	8,623.65							
Difference	763.81	1,658.85	666.35							
% of Net profits	6.64%	10.21%	4.47%							

Industry Overview

This industry seems to be similar to a utility business. The industry continues to be necessary for the country. In addition, the industry has to be heavily regulated. The major, regularly recurring risk is that specific banks get aggressive and get into trouble. There is not a monopoly as there are in other utility businesses, resulting in periods of aggressive competition. The businesses are reliant on higher levels of borrowing to meet their ROE objectives, as in other utility businesses. Society can do without many of the banks, but not all of the banks. Yet, it does remain questionable whether the shareholders of banks will be as well treated in the next economic downturn. In a sense, all of the banking is at the command of the Federal Reserve System.

Industry Comparisons

Operating Statistics:

Company	Assets	ROE	ROA	Effic. Ratio
C	1,910,000	6.55%	0.81%	58.70%
WFC	1,770,000	11.00%	1.20%	60.47%
JPM	2,400,000	10.00%	1.00%	63.44%
BAC	2,175,000	6.50%	0.80%	67.06%

Market Statistics:

Company	P/B	P/E	Divd. Yld.	P/APS
C	67%	10.2	1.07%	8.20%
WFC	164%	13.3	2.80%	16.00%
JPM	108%	10.9	2.80%	9.91%
BAC	75%	11.7	1.20%	8.13%

I have typically held an Intermediation through Loanable Funds (ILF) approach to banking where the driver was attracting low cost short term deposits (liabilities to the bank) and lending them out at an attractive spread as loans (assets to the bank). The problem with this kind of "asset class" model is that it does not reflect the underlying reality that banks create Financing through Monetary Creation (FMC) where banks create money ex nihilo. Basically the bank creates its own deposits by finding attractive lending opportunities in a currency that is the national currency - quite a power. When the bank identifies an attractive area, it simply makes loans to that area and creates deposits. The key seems no longer to be the right individuals, but the specific asset class. In essence, banks are investors which operates through investing agents or borrowers.

The big banks have gained market share and have increased this since the great recession as increased complexity and more strict capital demands have stopped the creation of new banks and made growth for smaller banks more difficult.

Qualitative Characteristics

Positives:

Negatives:

Product/Service:

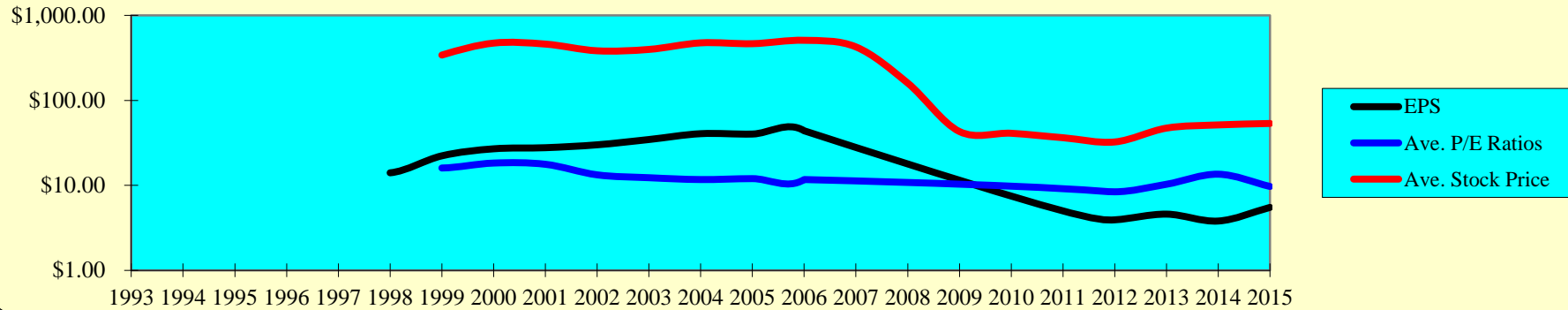
Pricing Power:	good deposit base overseas
Management:	
Effective As Public:	yes
Global Opportunity:	yes
Business Model:	multiple lines of business
Toll Bridge:	
Competition:	
Economic Risk:	
Government Role:	very influential of government
Business Risk:	
Durability:	make money 365 per year
Role Of Technology:	creates greater efficiencies
Supply/Demand:	

not high
unproven
not really
highly competitive
high levels
high involvement
real estate

Financial:

Unique Importance:	global branding
High Capital Reinv.:	Low with high dividends and repurchases
Ownership:	
Growth:	consistent
Concentration:	

Average Stock Price vs. Average P/E vs. EPS



		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EPS		\$0.00	\$0.00	\$17.00	\$14.04	\$22.26	\$26.92	\$27.74	\$29.99	\$34.62	\$40.54	\$40.17	\$43.85	\$7.24	(\$58.89)	(\$0.41)	\$3.65	\$3.86	\$3.93	\$4.59	\$3.80	\$5.50	\$5.38
Ave. P/E Ratio		0.00	0.00	0.00	17.40	16.00	18.30	17.70	13.30	12.30	11.70	12.00	11.70	65.90	nmf	nmf	11.40	10.20	8.40	10.30	13.53	9.70	9.80
Ave. Stock Price		0.00	0.00	0.00	204.50	341.00	472.00	459.50	383.00	397.50	475.00	464.50	509.00	425.50	160.00	43.00	41.00	36.35	32.40	47.15	51.45	53.50	47.75

Price/Earnings Ratio: used - \$5.90
 Seventeen year average low 11.5
 Seventeen year average high 19.0

Price/Assets Ratio: used - \$731.80
 Seventeen year average low 0.09
 Seventeen year average high 0.16

If we set the purchase at the ave. Seventeen year low P/A, the price implied is: \$67.94
 If we set the sell at the ave. Seventeen year high P/A, the price implied is: #####

If we set the purchase at the ave. Seventeen year low P/A, the price implied is: \$68.80
 If we set the sell at the ave. Seventeen year high P/A, the price implied is: \$115.80

Price/Book Ratio: used - \$90.04
 Seventeen year average low 1.23
 Seventeen year average high 2.08

Price/Cash Flow Ratio: used - nmf
 Seventeen year average low nmf
 Seventeen year average high nmf

If we set the purchase at the ave. Seventeen year low P/CF, the price implied is: #####
 If we set the sell at the ave. Seventeen year high P/CF, the price implied is: #####

If we set the purchase at the ave. Seventeen year low P/CF, the price implied is: #VALUE!
 If we set the sell at the ave. Seventeen year high P/CF, the price implied is: #VALUE!

Initial Rate of Investment		
	Current Price	\$60.00
	Current EPS	\$5.90
	Initial ROI	9.83%

Valuation as an Equity Bond:		
	Current BV	\$90.04
	Current ROE	6.55%
	Retained %	80.00%
	Net BV Growth	5.24%
	BV in Year 10	\$150.09
	EPS in Year 10	\$15.84
	Valueat12.P/E	\$190.07
	Total Dividends	\$8.53
	Total F.Value	\$198.60
	Purchaseat14%	\$53.57

History of Buys/Sells

by	Citigroup Inc	c	2/14/2011	1,650	8,097.37	4.91	1.50%
1 for 10 split			3/21/2011	-1,485			1.50%
by	Citigroup Inc	c	5/24/2011	260	10,353.74	39.82	3.00%
by	Citigroup Inc	c	8/8/2011	390	11,676.99	29.94	4.50%
by	Citigroup Inc	c	9/22/2011	520	12,406.27	23.86	6.00%
sl	Citigroup Inc	c	10/24/2011	-165	5,183.76	31.42	6.00%
sl	Citigroup Inc	c	10/25/2011	-260	8,037.01	30.91	5.00%
by	Citigroup Inc	c	11/25/2011	440	10,438.70	23.72	6.00%
sl	Citigroup Inc	c	1/3/2012	-390	11,103.51	28.47	4.50%
sl	Citigroup Inc	c	1/3/2012	-30	854.12	28.47	4.50%
Total Shares Held 12/1/15				930			

Discussion of Buys/Sells

What: The return of the first purchase of C (bought 2/14/2011 to 10/24/2011) was -37% and SP -6% (WFC -20%) for an underperformance of 31% (nearly 6 months).
The return of the second purchase of C (bought 5/24/2011 to 10/25/2011) was -26% and SP -7% (WFC -6%) for an underperformance of 19% (nearly 6 months).
The return of the third purchase of C (bought 8/8/2011 to 1/3/2012) was -14% and SP -3% (WFC -1%) for an underperformance of 11% (nearly 6 months).
The return of the fourth purchase of C (bought 9/22/2011 to present) was 90% and SP 81% (WFC 136%) for an outperformance of 9% (nearly 4 years).
The return of the fifth purchase of C (bought 11/25/2011 to present) was 110% and SP 72% (WFC 125%) for an outperformance of 38% (nearly 4 years).
Since June 2012, C has outperformed the SP with higher volatility and with 110% and SP 58% (WFC 64%) (nearly 3.5 years).

So what: It appears that we ended up purchasing an "equity bond" at periodic times of price decline, and trimming to keep our percentages in line with pricing.
We paid a current earnings P/E of 13X down to 7.5X on our buys.

Now what: Our discipline can capture "equity bond" companies on bad news with an ability to take advantage of declines and make money repositioning.

Takeaway: We must have adequate cash to incrementally improve our position.
Takeaway: banks can serve as good "equity bonds" but are potentially hazardous as long term holds.
Takeaway: it is difficult for a bank to truly be a "compounder" without acquisitions or rapid GDP growth rates (credit expansion).

The first question is why should we own banks?
Basically, banks work well as investments by purchasing at the end of a recession and trimming positions as the expansion matures and moves "late cycle."
However, it appears that banks do not work well as long term investments because of the hazards of a deflationary deleveraging - e.g. 1930s, Japan 1990s, UK 1950s, US2008s.
In this environment, credit expands so slowly (with 0% rates!) that superior returns are difficult while capital builds are necessary to replenish balance sheets.
Banks tend to perform in the long run at about the same rate as the S&P - but it would appear with greater risk. The key to performance is to buy and sell.
Banks also give us some exposure to "financials" - a valuable thing, it appears, either from a low valuation (banks periodically) or high ROEs (very dangerous in banks).

The second question is why should we own Citigroup?
Citigroup has been the most affected by the downturn of the major banks.
As a result, it has a huge DTA, the best capital ratios (as a result of forced build), an inclination to buybacks (not dividends) and restructuring opportunities (sales/reduced expenses).
It also has the lowest valuations.

Conclusion:
Citigroup is the right bank to own post major crisis, but should be sold completely on recovery. A good argument can be made for JPMorgan.
Any bank is not really a good permanent hold (sorry Chairman Buffett and WFC) due to weaker competitive advantages.
After a typical recession, (interest rate affected) then a "market share" gaining bank (WFC, MTB) is the best to hold for these "normal" conditions.
Trimming our now outsized position (with superior performance) is now constructive. In Buisson portfolios, we should also address the unique issues.

Relative Value to Investment In T-Bonds		
	Current EPS	\$5.90
	T-Bond Rate	4.00%
	Relative Value	\$147.51

Valuation on Earnings Growth:		
	Current EPS	\$5.90
	EPS in Year 10	\$15.30
	Ave. P/E Ratio	16.24
	Valueat12.P/E	\$192.18
	Price Return	11.84%
	Dividend Return	1.09%
	Total Return	12.93%
	Purchaseat14%	\$51.84
	Sellat7.5%	\$93.25

Capital "charge" approach		
21,984	ebt (adj for fines/legal charges)	
0.12	required return	
0.02	growth rate (not on EPS basis)	
0.8	% not required	
0.104	denominator	
211,385	ev	
0	debt	
211,385	equity value	
2610	shares	
80.99	share value	
48.59	buy at 60%	
97.19	sell at 120%	

aum	1850	buy p/e of 10= 59
growth	0.03	sell p/e of 15=90
period	10	
	2486.25	buy .8 time book=59
roa	1%	sell 1.2 time book=90
earnings	24.86	
share shrir	40%	book value 225
current	2.61	dta 50
future	1.566	time value 25
eps	15.87641	adj book 200
term mult	11	shares 2.61
	174.6405	bv/share 76.62835
total div	15	
	189.6405	sum of parts
	94.82024	bank aum 400
	47.41012	req.capl 40
		roa 1.75%
		value 70

icg aum	1000
req capl	100
roa	0.90%
value	90
sum	160
dta	25
left over bv	35
total mv	220
share	2.61
value/shar	84.29119

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