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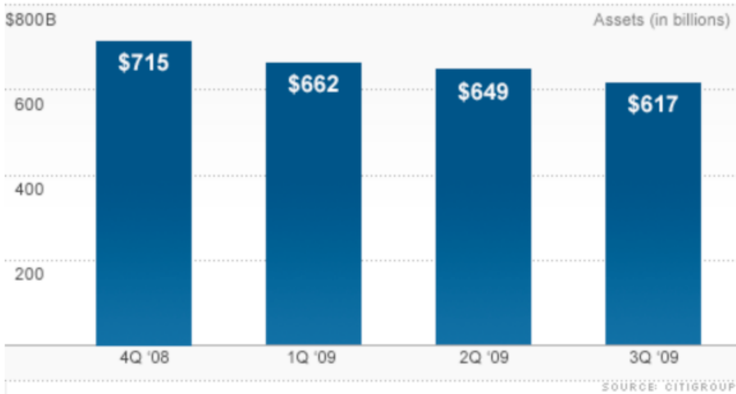
Citi still nursing itself back to health

THE INCREDIBLY SHRINKING CITIGROUP



A year after moving to break itself up, the banking giant has shed nearly $100 billion in assets at its troubled Citi Holdings unit.

By David Ellis, CNNMoney.com staff writer January 7, 2010: 12:48 PM ET

NEW YORK (CNNMoney.com) -- Citigroup's turnaround just keeps on turning.

Almost a year after the company effectively split itself up, the New York City-based bank still finds itself in the midst of a massive restructuring effort that will likely take years to complete.

The firm has accomplished a lot over the past 12 months - expenses have been trimmed, risk management practices reassessed and its balance sheet downsized.

In fact, the company has shed nearly $100 billion in assets over the last four quarters, largely through the sale of so many businesses that once allowed Citigroup to tout itself as a "financial supermarket."

Last fall, the company struck a series of deals, including the sale of its Nikko Cordial Securities unit and Diners Club North America credit card business. And in its last major move before the end of 2009, the company announced plans to eventually take its Primerica life insurance unit public.

But analysts agree that much work still lies ahead before Citigroup is back in fighting shape.

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Everything must go!

Here are just a few of the various units around the world Citigroup has agreed to let go last year.

Business	Focus
Diners Club North America	Credit cards
Smith Barney stake	Asset management

Phibro	Energy trading
Bellsystem24	Telemarketing
Nikko Cordial Securities	Brokerage
Provencred	Consumer finance

Source:Citigroup

As of the end of September, the company's Citi Holdings division, which was created as a dumping ground for everything the firm has been looking to unload, was sitting on more than $600 billion in assets.

"They have done a lot but have a lot to go," said Jason Goldberg, an analyst for Barclays Capital who tracks the company. "You can't turn an oil tanker on a dime."

A slow-going process

Arguably, Citigroup (C, Fortune 500) might be a lot slimmer today if the market for some of the assets it was looking to unload wasn't so crummy.

Severe losses in its retail partner credit card business and consumer finance unit CitiFinancial, for example, have likely scared away many potential acquirers, analysts said.

And any offers that Citigroup has received from willing buyers most likely haven't been entertained seriously, according to Jess Varughese, managing partner at the New York City-based consultancy Milestone, which focuses on the financial services industry.

"You have a lot of bargain hunting going on, but they have to operate in best interest of shareholders," he said. "They don't want to exit these businesses at fire sale values."

Executives at Citi Holdings and Citigroup were not available to discuss restructuring efforts at the firm, citing a so-called quiet period before Citigroup reports its fourth-quarter and full-year results on Jan. 19.

Citi's clean-up efforts have also been complicated by the pool of various loans and securities it is still trying to find a new home for, said Robert Lamb, a New York University finance professor.

As of the end of the third quarter, the company still held $182 billion in so-called troubled assets, including collateralized debt obligations and structured investment vehicles, or SIVs, that, in some instances, were not accounted for on its balance sheet before the crisis hit.

"Turnarounds are not usually this messy or this complex," said Lamb, who at one time served as an advisor to Citigroup.

But even the boldest skeptics would concede that the changes the company is implementing are helping put some of Citi's troubles behind it.

Last month, Citi returned the $20 billion in outstanding bailout money owed to American taxpayers. And it is expected that within the year, the government could sell off its remaining common share stake in the company. The Treasury Department still owns about a quarter of the bank.

Shares of Citi, which briefly fell below $1 a share at the height of last year's financial panic, have since rebounded to about $3.60 a share.

What's more, the businesses that the company has staked its future on, otherwise known as Citicorp, has hinted that brighter times lay ahead.

In the two quarters since the company has reported separate results, Citicorp has delivered profits of $3.1 billion and $2.3 billion, buoyed by the performance of its investment banking, transactions services and worldwide retail banking operations.

But for all the benefits the restructuring has brought about for Citi, there may come a time when it rues some of the decisions it made during the height of the crisis.

One of which may prove to be selling a majority stake in its consistently profitable Smith Barney business to Morgan Stanley (MS, Fortune 500). Under the terms of that joint venture, Morgan Stanley is expected to own all of Smith Barney within five years.

"With the stock market improving, it is starting to look like a really good bet for Morgan Stanley," said Milestone's Varughese. "If you look back in hindsight, that would be one deal [Citigroup] would probably regret." ■