

BN Citigroup 4th-Qtr Profit Gains 12%; Dividend Raised (Update6)
Jan 20 2005 11:01

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(Adds analyst comment in 21st paragraph. Updates shares.)

By Justin Baer

Jan. 20 (Bloomberg) -- Citigroup Inc., the world's biggest financial-services company, said fourth-quarter earnings rose 12 percent to a record as revenue from consumer and investment banking climbed. The bank raised its quarterly dividend.

Net income increased to \$5.32 billion, or \$1.02 a share, from \$4.76 billion, or 91 cents, a year earlier, the New York-based bank said today. Chief Financial Officer Sallie Krawcheck said 2005 earnings are more likely to meet the lower end of analyst estimates.

Citigroup's consumer unit benefited as the fastest job growth since 1999 spurred Americans to borrow and invest more, bolstering Chief Executive Officer Charles Prince's plan to rely on existing businesses for growth. The company released some money it set aside for loan losses to buoy earnings after paying bigger bonuses to investment bankers and closed a Japanese unit.

``Investors do have some concern about their dependence on those releases,'' said Nicholas Jones, a principal at New York money manager Altanes Investments LLC who holds Citigroup shares. ``They talked about expenses from compensation; that was a lot higher than people thought.''

Revenue rose 9 percent to \$21.9 billion. Citigroup was expected to earn \$5.31 billion in the fourth quarter, or \$1.01 a share, according to the average estimates of 16 analysts surveyed by Thomson Financial.

Krawcheck's Forecast

Krawcheck told analysts on a conference call that she's ``more comfortable'' with the ``low end'' of estimates for 2005 profit, which range from \$4.20 a share to \$4.57. The average estimate is \$4.34, according to Thomson Financial.

She said Citigroup doesn't expect to be able to bring back as much from loan-loss reserves and may have a higher tax rate. Also, the U.S. Federal Reserve ``is in a tightening mode,'' so short-term interest rates may rise, Krawcheck said. That would make it harder for Citigroup to boost profit from loans.

Citigroup shares fell 24 cents to \$47.67 in 10:57 a.m. New York Stock Exchange composite trading.

Consumer Bank

Profit at Citigroup's consumer unit, its largest and most

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profitable business, rose 17 percent in the quarter to \$3.1 billion -- or almost double the entire earnings of JPMorgan Chase & Co., the No. 2 U.S. bank.

``The consumer side is very strong,'' Jack Ablin, who as chief investment officer for Harris Private Bank in Chicago manages \$40 billion and holds Citigroup shares, said before the results were released. ``There's a healthy economy, growth in loans, and interest rates are tame.''

The U.S. economy added 606,000 jobs in the fourth quarter. The average U.S. prime lending rate is 5.25 percent, according to data compiled by Bloomberg. While that's up from 4 percent as recently as last year, it's still lower than at any point from 1985 through November 2001.

Citigroup boosted its quarterly dividend 10 percent to 44 cents a share.

During the quarter, the Standard & Poor's 500 index advanced 8.7 percent, helping to rekindle demand for investment-banking services such as merger advice.

Expenses Surge

Citigroup's corporate and investment bank earned about \$1.7 billion, up 32 percent, as revenue from equity and fixed-income trading and underwriting rose. Operating expenses at the unit surged 39 percent because of higher compensation costs and acquisition-related expenses.

The pickup in demand forced Citigroup to increase bonuses for some of its best-paid investment bankers, including those who advise on mergers and acquisitions, the company said. JPMorgan Chase & Co., the No. 2 U.S. lender by assets, said yesterday that it also boosted bonuses for investment bankers.

``We had more in terms of advisory and other fees,'' Krawcheck said on the conference. ``Certain businesses pay out more in terms of compensation.''

Citigroup shares peaked at \$52.29 on April 1 and slipped 0.7 percent in 2004, trailing JPMorgan Chase & Co.'s 6.2 percent advance, as Prince struggled to persuade investors the bank wouldn't be faced with more scandals.

Japanese Unit Closed

Prince, 55, has said he will focus on restoring Citigroup's reputation amid legal and regulatory setbacks in the U.S., Europe and Japan. Fourth-quarter profit at the bank's wealth-management business fell 75 percent, mostly because Citigroup spent \$244 million to close a Japanese private-banking business that regulators ordered shut.

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The bank released \$605 million, on a pretax basis, from reserves it had set aside for bad loans to consumers and companies. Most of the benefit came from a release of provisions for credit-card debt.

``The seven cents a share they got from the loan-loss reserve because of improving credit quality is not sustainable,'' said James Mitchell, an analyst at Buckingham Research Group who rates Citigroup shares a ``buy.``

In the third quarter, Citigroup released \$833 million in reserves, drawing concern from some investors that the bank's businesses weren't generating enough profit on their own. In October, former Chief Financial Officer Todd Thomson, 43, told investors not to expect more large reserve releases.

Full-year profit fell to \$17 billion, or \$3.26 a share, after the bank set aside \$4.95 billion for settlements with investors and regulators. That reserve included \$2.7 billion paid to settle claims that it helped defraud WorldCom Inc. investors.

Scrutiny

In August, the U.K.'s Financial Services Authority began examining \$12.2 billion in trades by Citigroup's bank's European bond-trading unit.

``When they got involved with all those scandals, they lost the faith of people who own the stock,'' said Richard Bove, an analyst at Punk Ziegel & Co. in Pinellas Park, Florida who rates Citigroup shares a ``buy.`` ``They've lost their cachet.``

Prince pledged in a Nov. 4 speech in New York to instill in his more than 275,000 employees the belief that ``how we do business is just as important as how much business we do.``

--With reporting by George Stein in New York. Editors: Schatzker.

Story illustration: To compare Citigroup returns for the past 12 months with peers and cycle through other Bloomberg Professional information about the company, see: {CNP 01445440102 <GO>}. For Citigroup's earnings history, see: {C US <Equity> CH1 Q <GO>}. For today's top financial services stories, see {FTOP <GO>}.

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