

CITIGROUP INC  
Form 10-Q  
May 05, 2006

[QuickLinks](#) -- Click here to rapidly navigate through this document

---

## SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

---

### FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2006**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-9924**

---

**Citigroup Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**52-1568099**

(I.R.S. Employer Identification No.)

**399 Park Avenue, New York, New York**

(Address of principal executive offices)

**10043**

(Zip Code)

**(212) 559-1000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Common stock outstanding as of March 31, 2006: 4,971,241,487

**Available on the Web at [www.citigroup.com](http://www.citigroup.com)**

---

---

---

## Citigroup Inc.

## TABLE OF CONTENTS

|                                                                                                                  | <b>Page No.</b> |
|------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>Part I Financial Information</b>                                                                              |                 |
| Item 1. Financial Statements:                                                                                    |                 |
| Consolidated Statement of Income (Unaudited) Three Months Ended March 31, 2006 and 2005                          | 76              |
| Consolidated Balance Sheet March 31, 2006 (Unaudited) and December 31, 2005                                      | 77              |
| Consolidated Statement of Changes in Stockholders' Equity (Unaudited) Three Months Ended March 31, 2006 and 2005 | 78              |
| Consolidated Statement of Cash Flows (Unaudited) Three Months Ended March 31, 2006 and 2005                      | 79              |
| Consolidated Balance Sheet Citibank, N.A. and Subsidiaries March 31, 2006 (Unaudited) and December 31, 2005      | 80              |
| Notes to Consolidated Financial Statements (Unaudited)                                                           | 81              |
| Item 2. Management's Discussion and Analysis of Financial                                                        |                 |
| Condition and Results of Operations                                                                              | 4 73            |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                                               | 52 54<br>98-99  |
| Item 4. Controls and Procedures                                                                                  | 74              |
| <b>Part II Other Information</b>                                                                                 |                 |
| Item 1. Legal Proceedings                                                                                        | 111             |
| Item 1A. Risk Factors                                                                                            | 111             |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                                              | 112             |
| Item 4. Submission of Matters to a Vote of Security Holders                                                      | 113             |
| Item 5. Other Information                                                                                        | 115             |
| Item 6. Exhibits                                                                                                 | 115             |
| Signatures                                                                                                       | 116             |
| Exhibit Index                                                                                                    | 117             |

## Edgar Filing: CITIGROUP INC - Form 10-Q

### THE COMPANY

Citigroup Inc. (Citigroup, or the Company) is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate clients. Citigroup has some 200 million clients accounts and does business in more than 100 countries. Citigroup was incorporated in 1988 under the laws of the State of Delaware.

The Company is a bank holding company within the meaning of the U.S. Bank Holding Company Act of 1956 registered with, and subject to examination by, the Board of Governors of the Federal Reserve System (FRB). Some of the Company's subsidiaries are subject to supervision and examination by their respective federal and state authorities. This quarterly report on Form 10-Q should be read in conjunction with Citigroup's 2005 Annual Report on Form 10-K.

The principal executive offices of the Company are located at 399 Park Avenue, New York, New York 10043, telephone number 212-559-1000. Additional information about Citigroup is available on the Company's Web site at [www.citigroup.com](http://www.citigroup.com). Citigroup's annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K, and all amendments to these reports are available free of charge through the Company's Web site by clicking on the "Investor Relations" page and selecting "SEC Filings." The Securities and Exchange Commission (SEC) Web site contains reports, proxy and information statements, and other information regarding the Company at [www.sec.gov](http://www.sec.gov).

Citigroup is managed along the following segment and product lines:

The following are the six regions in which Citigroup operates. The regional results are fully reflected in the product results.



## CITIGROUP INC. AND SUBSIDIARIES

## SUMMARY OF SELECTED FINANCIAL DATA

| <i>In millions of dollars, except per share amounts</i>                     | Three Months Ended March 31, |                  | %<br>Change |
|-----------------------------------------------------------------------------|------------------------------|------------------|-------------|
|                                                                             | 2006                         | 2005             |             |
| <b>Revenues, net of interest expense</b>                                    | <b>\$ 22,183</b>             | <b>\$ 21,196</b> | <b>5%</b>   |
| Operating expenses                                                          | 13,358                       | 11,404           | 17          |
| Provisions for credit losses and for benefits and claims                    | 1,673                        | 2,030            | (18)        |
| <b>Income from continuing operations before taxes and minority interest</b> | <b>\$ 7,152</b>              | <b>\$ 7,762</b>  | <b>(8)%</b> |
| Income taxes                                                                | 1,537                        | 2,484            | (38)        |
| Minority interest, net of taxes                                             | 60                           | 163              | (63)        |
| <b>Income from continuing operations</b>                                    | <b>\$ 5,555</b>              | <b>\$ 5,115</b>  | <b>9%</b>   |
| <b>Income from discontinued operations, net of taxes(1)</b>                 | <b>84</b>                    | <b>326</b>       | <b>(74)</b> |
| <b>Net Income</b>                                                           | <b>\$ 5,639</b>              | <b>\$ 5,441</b>  | <b>4%</b>   |
| <b>Earnings per share</b>                                                   |                              |                  |             |
| <b>Basic earnings per share:</b>                                            |                              |                  |             |
| Income from continuing operations                                           | \$ 1.13                      | \$ 0.99          | 14%         |
| Net income                                                                  | 1.14                         | 1.06             | 8           |
| <b>Diluted earnings per share:</b>                                          |                              |                  |             |
| Income from continuing operations                                           | 1.11                         | 0.98             | 13          |
| Net income                                                                  | 1.12                         | 1.04             | 8           |
| <b>Dividends declared per common share</b>                                  | <b>\$ 0.49</b>               | <b>\$ 0.44</b>   | <b>11</b>   |
| <b>At March 31</b>                                                          |                              |                  |             |
| Total assets                                                                | \$ 1,586,201                 | \$ 1,489,891     | 6%          |
| Total deposits                                                              | 628,157                      | 568,874          | 10          |
| Long-term debt                                                              | 227,165                      | 207,935          | 9           |
| Mandatorily redeemable securities of subsidiary trusts                      | 6,166                        | 6,342            | (3)         |
| Common stockholders' equity                                                 | 113,418                      | 109,411          | 4           |
| Total stockholders' equity                                                  | 114,418                      | 110,536          | 4           |
| <b>Ratios:</b>                                                              |                              |                  |             |
| Return on common stockholders' equity(2)                                    | 20.3%                        | 20.3%            |             |
| Return on total stockholders' equity(2)                                     | 20.2%                        | 20.1%            |             |
| Return on risk capital(3)                                                   | 41%                          | 40%              |             |
| Return on invested capital(3)                                               | 20%                          | 20%              |             |
| Tier 1 capital                                                              | 8.60%                        | 8.78%            |             |
| Total capital                                                               | 11.80                        | 12.03            |             |
| Leverage(4)                                                                 | 5.22                         | 5.19             |             |
| Common stockholders' equity to assets                                       | 7.15%                        | 7.34%            |             |
| Total stockholders' equity to assets                                        | 7.21                         | 7.42             |             |
| Dividends declared(5)                                                       | 43.8                         | 42.3             |             |
| Ratio of earnings to fixed charges and preferred stock dividends            | 1.58x                        | 2.02x            |             |

(1)

## Edgar Filing: CITIGROUP INC - Form 10-Q

Discontinued operations for the three months ended March 31, 2006 and 2005 includes the operations described in the Company's June 24, 2005 announced agreement for the sale of substantially all of its Asset Management business to Legg Mason. The majority of the transaction closed on December 1, 2005. Discontinued operations also includes the operations described in the Company's January 31, 2005 announced agreement for the sale of its Travelers Life & Annuity business, substantially all of its international insurance business, and its Argentine pension business to MetLife, Inc. This transaction closed on July 1, 2005. See further discussion regarding discontinued operations in Note 3 to the Consolidated Financial Statements on page 83.

- (2) The return on average common stockholders' equity and return on average total stockholders' equity are calculated using net income after deducting preferred stock dividends.
- (3) Risk capital is defined as the amount of capital required to absorb potential unexpected economic losses resulting from extremely severe events over a one-year time period. Return on risk capital is calculated as annualized income from continuing operations divided by average risk capital. The segment and product returns are based on net income. Invested capital is defined as risk capital plus goodwill and intangible assets excluding mortgage servicing rights, which are a component of risk capital. Return on invested capital is calculated using income adjusted to exclude a net internal charge Citigroup levies on the goodwill and intangible assets of each business offset by each business' share of the rebate of the goodwill and intangible asset charge. Return on risk capital and return on invested capital are non-GAAP performance measures. Management uses return on risk capital to assess businesses' operational performance and to determine allocation of capital. Return on invested capital is used to assess returns on potential acquisitions and divestitures and to compare long-term performance of businesses with differing proportions of organic and acquired growth. For a further discussion on risk capital, see page 45.
- (4) Tier 1 capital divided by adjusted average assets.
- (5) Dividends declared per common share as a percentage of net income per diluted share.

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**MANAGEMENT SUMMARY**

Income from continuing operations of \$5.555 billion in the 2006 first quarter was a record, up 9% from the 2005 first quarter. The strength of the Company's international operations (47% increase in earnings) more than offset weaker results in our U.S. Consumer businesses.

Results in the 2006 first quarter included \$846 million of compensation expense (\$520 million after-tax) related to stock grants to retirement-eligible employees required under SFAS 123(R), and a \$657 million tax benefit from the resolution of a U.S. Federal tax audit for the years 1999 through 2002.

During the 2006 first quarter, we continued executing on our strategic initiatives, adding a record 238 new branches globally and significantly growing our international franchise. Average loans increased 9%, average deposits grew by 10% and average interest-earning assets were up 11% from year-ago levels.

Income was well diversified by segment and region, as shown in the charts below.





Revenues increased 5% from the 2005 first quarter, reaching \$22.2 billion. Our international operations recorded revenue growth of 19% in the 2006 quarter. In addition, CIB revenues increased 21%, reflecting strong performance in both *Transaction Services* and *Capital Markets and Banking*.

Net interest revenue was down 4%, while other revenue increased 12%, continuing to benefit from volume increases across the businesses. Net interest margin in the 2006 first quarter was 2.86%, down 44 basis points from the 2005 first quarter and down 6 basis points from the 2005 fourth quarter. (See discussion of net interest margin on page 61.)

Operating expenses increased 17% from the 2005 first quarter; this was comprised of 7% from SFAS 123(R) charges, 9% from organic business growth and acquisitions, and 1% due to investment spending.

The global credit environment remained favorable; this, as well as significantly lower bankruptcy filings and an asset mix shift, drove a \$367 million decrease in credit costs compared to a year ago. Global Consumer loss rates improved to 1.46%, a 36 basis point decline from the 2005 fourth quarter, in part reflecting significantly lower bankruptcy filings. Corporate cash-basis loans declined 18% from December 31, 2005 to \$821 million.

The effective tax rate on continuing operations decreased to 21.5%, primarily reflecting the impact of the resolution of the U.S. Federal tax audit. The effective tax rate for the 2006 first quarter would have been 29.9% without the tax reserve release of \$598 million.

Our equity capital base and trust preferred securities grew to \$120.6 billion at March 31, 2006. Stockholders' equity increased by \$1.9 billion during the quarter to \$114.4 billion, even with the distribution of \$2.5 billion in dividends to shareholders and the repurchase of \$2.0 billion of common stock during the quarter. Return on common equity was 20.3% for the quarter.

Citigroup maintained its "well-capitalized" position with a Tier 1 Capital Ratio of 8.60% at March 31, 2006. On April 13, 2006, the Board authorized the repurchase of up to an additional \$10 billion of our common stock, bringing the total authorization to \$12.4 billion.

On April 3, 2006, we received a letter from the Federal Reserve Bank of New York noting that "Citigroup has made significant progress in implementing its new compliance risk management program. Consequently, the understanding that you would refrain from significant expansion is no longer in operation." We remain focused on organic growth. Any expansion proposals will be reviewed with the Federal Reserve in accordance with all applicable statutory requirements.

## Edgar Filing: CITIGROUP INC - Form 10-Q

On March 21, 2006, the Citigroup Board of Directors unanimously elected Chief Executive Officer Charles Prince to the additional post of Chairman.

## EVENTS IN 2006 and 2005

## Adoption of the Accounting for Share-Based Payments

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), which replaces the existing SFAS 123 and supersedes APB 25. SFAS 123(R) requires companies to measure and record compensation expense for stock options and other share-based payments based on the instruments' fair value, reduced by expected forfeitures.

In adopting this standard, the Company conformed to recent accounting guidance that restricted stock awards issued to retirement-eligible employees who meet certain age and service requirements must be either expensed on the grant date or accrued over a service period prior to the grant date. The impact to the 2006 first quarter results was a charge of \$846 million (\$520 million after-tax). This charge consisted of \$648 million (\$398 million after-tax) for the immediate expensing of awards granted to retirement-eligible employees in January 2006, and \$198 million (\$122 million after-tax) for the quarterly accrual of the estimated awards that will be granted through January 2007. Additional information can be found in Notes 1 and 14 to the Consolidated Financial Statements on pages 81 and 96, respectively. The Company will continue to accrue for the estimated awards that will be granted through January 2007 in each quarter of 2006.

## Settlement of IRS Tax Audit

In March 2006, the Company received a notice from the Internal Revenue Service (IRS) that they had concluded the tax audit for the years 1999 through 2002. For the first quarter of 2006, the Company released a total of \$657 million from its tax contingency reserves related to the 1999 through 2002 Federal tax audit (referred to hereinafter as the "resolution of the Federal Tax Audit.")

## Summary by Business of SFAS 123(R) and Resolution of the Federal Tax Audit

The following table summarizes the SFAS 123(R) impact on 2006 first quarter pretax compensation expense and the tax benefit from the resolution of the Federal Tax Audit:

| In millions of dollars                    | Charge for stock awards<br>granted to<br>retirement-eligible<br>employees in January 2006 | Accrual of estimated cost<br>of stock awards for<br>retirement-eligible<br>employees to be granted<br>through the first quarter of<br>2007(1) | Tax benefit due to<br>the resolution of<br>the Federal Tax<br>Audit |
|-------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| <i>U.S. Cards</i>                         | \$ 16                                                                                     | \$ 4                                                                                                                                          | \$ 89                                                               |
| <i>U.S. Retail Distribution</i>           | 29                                                                                        | 7                                                                                                                                             | 51                                                                  |
| <i>U.S. Consumer Lending</i>              | 6                                                                                         | 2                                                                                                                                             | 31                                                                  |
| <i>U.S. Commercial Business</i>           | 10                                                                                        | 2                                                                                                                                             | 4                                                                   |
| <b>Total U.S. Consumer</b>                | <b>\$ 61</b>                                                                              | <b>\$ 15</b>                                                                                                                                  | <b>\$ 175</b>                                                       |
| <i>International Cards</i>                | \$ 7                                                                                      | \$ 2                                                                                                                                          | \$ 20                                                               |
| <i>International Consumer Finance</i>     | 3                                                                                         | 1                                                                                                                                             |                                                                     |
| <i>International Retail Banking</i>       | 29                                                                                        | 7                                                                                                                                             | 55                                                                  |
| <b>Total International Consumer</b>       | <b>\$ 39</b>                                                                              | <b>\$ 10</b>                                                                                                                                  | <b>\$ 75</b>                                                        |
| <b>Consumer Other</b>                     | <b>21</b>                                                                                 | <b>6</b>                                                                                                                                      | <b>40</b>                                                           |
| <b>Global Consumer</b>                    | <b>\$ 121</b>                                                                             | <b>\$ 31</b>                                                                                                                                  | <b>\$ 290</b>                                                       |
| <i>Capital Markets and Banking</i>        | \$ 346                                                                                    | \$ 93                                                                                                                                         | \$ 151                                                              |
| <i>Transaction Services</i>               | 8                                                                                         | 2                                                                                                                                             | 25                                                                  |
| <b>Corporate &amp; Investment Banking</b> | <b>\$ 354</b>                                                                             | <b>\$ 95</b>                                                                                                                                  | <b>\$ 176</b>                                                       |
| <i>Smith Barney</i>                       | \$ 129                                                                                    | \$ 48                                                                                                                                         |                                                                     |
| <i>Private Bank</i>                       | 16                                                                                        | 3                                                                                                                                             | 13                                                                  |

Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions of dollars          | Charge for stock awards<br>granted to<br>retirement-eligible<br>employees in January 2006 | Accrual of estimated cost<br>of stock awards for<br>retirement-eligible<br>employees to be granted<br>through the first quarter of<br>2007(1) | Tax benefit due to<br>the resolution of<br>the Federal Tax<br>Audit |
|---------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| <b>Global Wealth Management</b> | \$ 145                                                                                    | \$ 51                                                                                                                                         | \$ 13                                                               |
| <b>Alternative Investments</b>  | \$ 7                                                                                      | \$ 2                                                                                                                                          | \$ 58                                                               |
| <b>Corporate/Other</b>          | \$ 21                                                                                     | \$ 19                                                                                                                                         | \$ 61                                                               |
| <b>Continuing Operations</b>    | \$ 648                                                                                    | \$ 198                                                                                                                                        | \$ 598                                                              |
| <b>Discontinued Operations</b>  |                                                                                           |                                                                                                                                               | \$ 59                                                               |
| <b>Total</b>                    | \$ 648                                                                                    | \$ 198                                                                                                                                        | \$ 657                                                              |

(1) Represents the 2006 first quarter accrual for estimated awards to be granted through January 2007.

**Sale of Asset Management Business**

On December 1, 2005, the Company completed the sale of substantially all of its Asset Management Business to Legg Mason, Inc. (Legg Mason) in exchange for Legg Mason's broker-dealer business, \$2.298 billion of Legg Mason's common and preferred shares (valued as of the closing date), and \$500 million in cash. This cash was obtained via a lending facility provided by Citigroup CIB. The transaction did not include Citigroup's asset management business in *Mexico*, its retirement services business in *Latin America* (both of which are now included in *International Retail Banking*) or

## Edgar Filing: CITIGROUP INC - Form 10-Q

its interest in the CitiStreet joint venture (which is now included in *Smith Barney*). The total value of the transaction at the time of closing was approximately \$4.369 billion, resulting in an after-tax gain to Citigroup of approximately \$2.082 billion (\$3.404 billion pretax). This gain remains subject to final closing adjustments.

Concurrently, Citigroup sold Legg Mason's Capital Markets business to Stifel Financial Corp. (The transactions described in these two paragraphs are referred to as the "Sale of the Asset Management Business.")

Upon completion of the Sale of the Asset Management Business, Citigroup added 1,226 financial advisors in 124 branch offices from Legg Mason to its Global Wealth Management business.

During March 2006, Citigroup sold 10.3 million shares of Legg Mason stock through an underwritten public offering. The net sale proceeds of \$1.258 billion resulted in a pretax gain of \$24 million.

Additional information can be found in Note 3 to the Consolidated Financial Statements on page 83.

### Sale of Travelers Life & Annuity

On July 1, 2005, the Company completed the sale of Citigroup's Travelers Life & Annuity and substantially all of Citigroup's international insurance businesses to MetLife, Inc. (MetLife). The businesses sold were the primary vehicles through which Citigroup engaged in the Life Insurance and Annuities business.

Citigroup received \$1.0 billion in MetLife equity securities and \$10.830 billion in cash, which resulted in an after-tax gain of approximately \$2.120 billion (\$3.386 billion pretax). This gain remains subject to final closing adjustments.

The transaction encompassed Travelers Life & Annuity's U.S. businesses and its international operations, other than Citigroup's life insurance business in *Mexico* (which is now included within *International Retail Banking*). (The transaction described in the preceding three paragraphs is referred to as the "Sale of the Life Insurance and Annuities Business.")

Additional information can be found in Note 3 to the Consolidated Financial Statements on page 83.

### Credit Reserves

During the first quarter of 2006, the Company recorded a net release/utilization of its credit reserves of \$154 million, consisting of a net release/utilization of \$187 million in Global Consumer and Global Wealth Management, and a net build of \$33 million in CIB.

The net release/utilization in Global Consumer was primarily due to the overall improvement in the consumer portfolio. Partially offsetting the releases was a build of \$100 million in Asia related to recent credit trends in Taiwan credit cards.

The net build of \$33 million in CIB was primarily composed of \$29 million in *Capital Markets and Banking*, which included a \$46 million reserve increase for unfunded lending commitments and letters of credit.

During the 2005 first quarter, the Company recorded a net release/utilization of \$89 million to its credit reserves, consisting of a net release/utilization of \$56 million in Global Consumer and a net release/utilization of \$33 million in CIB.

### Credit Reserve Builds (Releases)

| In millions of dollars          | Three Months Ended<br>March 31, |      |
|---------------------------------|---------------------------------|------|
|                                 | 2006                            | 2005 |
| <b>By Product:</b>              |                                 |      |
| <i>U.S. Cards</i>               | \$ (72)                         | \$   |
| <i>U.S. Retail Distribution</i> | (55)                            | (17) |
| <i>U.S. Consumer Lending</i>    | (31)                            | (1)  |
| <i>U.S. Commercial Business</i> | (38)                            | (12) |



Edgar Filing: CITIGROUP INC - Form 10-Q

|                                       | Three Months Ended<br>March 31, |                |
|---------------------------------------|---------------------------------|----------------|
| <i>International Cards</i>            | <u>94</u>                       | (5)            |
| <i>International Consumer Finance</i> | (16)                            |                |
| <i>International Retail Banking</i>   | (77)                            | (9)            |
| <i>Smith Barney</i>                   | 1                               |                |
| <i>Private Bank</i>                   | 8                               | (11)           |
| Consumer Other                        | (1)                             | (1)            |
| <b>Total Consumer</b>                 | <u>\$ (187)</u>                 | <u>\$ (56)</u> |
| <i>Capital Markets and Banking</i>    | 29                              | (32)           |
| <i>Transaction Services</i>           | 4                               | (1)            |
| <b>Total CIB</b>                      | <u>\$ 33</u>                    | <u>\$ (33)</u> |
| <b>Total Citigroup</b>                | <u>\$ (154)</u>                 | <u>\$ (89)</u> |
| <b>By Region:</b>                     |                                 |                |
| <i>U.S.</i>                           | \$ (150)                        | \$ (29)        |
| <i>Mexico</i>                         | 5                               | (16)           |
| <i>EMEA</i>                           | (15)                            | 7              |
| <i>Japan</i>                          | 9                               |                |
| <i>Asia</i>                           | (4)                             | (18)           |
| <i>Latin America</i>                  | 1                               | (33)           |
| <b>Total Citigroup</b>                | <u>\$ (154)</u>                 | <u>\$ (89)</u> |

**Allowance for Credit Losses**

| In millions of dollars                                            | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Mar. 31,<br>2005 |
|-------------------------------------------------------------------|------------------|------------------|------------------|
| Allowance for loan losses                                         | \$ 9,505         | \$ 9,782         | \$ 10,894        |
| Allowance for unfunded lending commitments                        | 900              | 850              | 600              |
| <b>Total allowance for loans and unfunded lending commitments</b> | <u>\$ 10,405</u> | <u>\$ 10,632</u> | <u>\$ 11,494</u> |

**Repositioning Charges**

The Company recorded a \$272 million after-tax (\$435 million pretax) charge during the 2005 first quarter for repositioning costs. The repositioning charges were predominantly severance-related costs recorded in CIB (\$151 million after-tax) and in Global Consumer (\$95 million after-tax). These repositioning actions were consistent with the Company's objectives of controlling expenses while continuing to invest in growth opportunities.

### **Acquisition of Federated Credit Card Portfolio and Credit Card Agreement With Federated Department Stores**

On June 2, 2005, Citigroup announced a long-term agreement with Federated Department Stores, Inc. (Federated) under which the companies will partner to manage Federated's \$6.3 billion in credit card receivables, including existing and new accounts, executed in three phases.

For the first phase, which closed on October 24, 2005, Citigroup acquired Federated's receivables under management, totaling \$3.3 billion. For the second phase, which closed on May 1, 2006, additional Federated receivables totaling \$1.2 billion were transferred to Citigroup from the previous provider. For the final phase, in the 2006 third quarter, Citigroup expects to acquire the approximately \$1.8 billion credit card receivable portfolio of The May Department Stores Company (May), which recently merged with Federated.

Citigroup is paying a premium of approximately 11.5% to acquire each of the portfolios. The multi-year agreement also provides Federated the ability to participate in the portfolio performance, based on credit sales and certain other performance metrics. The Federated and May credit card portfolios comprise a total of approximately 17 million active accounts.

Certain of the above statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. See "Forward-Looking Statements" on page 75.

### **Resolution of Glendale Litigation**

During the 2005 first quarter, the Company recorded a \$72 million after-tax gain (\$114 million pretax) following the resolution of *Glendale Federal Bank v. United States*, an action brought by Glendale Federal Bank, a predecessor to Citibank (West), FSB, against the United States government.

### **Acquisition of First American Bank**

On March 31, 2005, Citigroup completed its acquisition of First American Bank in Texas (FAB). The transaction established Citigroup's retail branch presence in Texas, giving Citigroup 106 branches, \$4.2 billion in assets and approximately 120,000 new customers in the state at the time of the transaction's closing. The results of FAB are included in the Consolidated Financial Statements from March 2005 forward.

### **Divestiture of the Manufactured Housing Loan Portfolio**

On May 1, 2005, Citigroup completed the sale of its manufactured housing loan portfolio, consisting of \$1.4 billion in loans, to 21st Mortgage Corp. The Company recognized a \$109 million after-tax loss (\$157 million pretax) in the 2005 first quarter related to the divestiture.

### **Divestiture of CitiCapital's Transportation Finance Business**

On January 31, 2005, the Company completed the sale of CitiCapital's Transportation Finance Business based in Dallas and Toronto to GE Commercial Finance for total cash consideration of approximately \$4.6 billion. The sale resulted in an after-tax gain of \$111 million (\$157 million pretax).

## SEGMENT, PRODUCT AND REGIONAL NET INCOME

The following tables show the net income (loss) for Citigroup's businesses on a segment and product view and on a regional view:

## Citigroup Net Income Segment and Product View

| In millions of dollars                        | First Quarter   |                 | % Change      |
|-----------------------------------------------|-----------------|-----------------|---------------|
|                                               | 2006            | 2005(1)         | 1Q06 vs. 1Q05 |
| <b>Global Consumer</b>                        |                 |                 |               |
| U.S. Cards                                    | \$ 926          | \$ 778          | 19%           |
| U.S. Retail Distribution                      | 515             | 564             | (9)           |
| U.S. Consumer Lending                         | 437             | 486             | (10)          |
| U.S. Commercial Business                      | 126             | 252             | (50)          |
| <b>Total U.S. Consumer(2)</b>                 | <b>\$ 2,004</b> | <b>\$ 2,080</b> | <b>(4)%</b>   |
| International Cards                           | \$ 291          | \$ 302          | (4)%          |
| International Consumer Finance                | 168             | 139             | 21            |
| International Retail Banking                  | 677             | 498             | 36            |
| <b>Total International Consumer</b>           | <b>\$ 1,136</b> | <b>\$ 939</b>   | <b>21%</b>    |
| Other                                         | \$ (67)         | \$ (176)        | 62%           |
| <b>Total Global Consumer</b>                  | <b>\$ 3,073</b> | <b>\$ 2,843</b> | <b>8%</b>     |
| <b>Corporate and Investment Banking</b>       |                 |                 |               |
| Capital Markets and Banking                   | \$ 1,618        | \$ 1,439        | 12%           |
| Transaction Services                          | 323             | 245             | 32            |
| Other                                         | (12)            | (5)             | NM            |
| <b>Total Corporate and Investment Banking</b> | <b>\$ 1,929</b> | <b>\$ 1,679</b> | <b>15%</b>    |
| <b>Global Wealth Management</b>               |                 |                 |               |
| Smith Barney                                  | \$ 168          | \$ 197          | (15)%         |
| Private Bank                                  | 119             | 122             | (2)           |
| <b>Total Global Wealth Management</b>         | <b>\$ 287</b>   | <b>\$ 319</b>   | <b>(10)%</b>  |
| <b>Alternative Investments</b>                | <b>\$ 353</b>   | <b>\$ 362</b>   | <b>(2)%</b>   |
| <b>Corporate/Other</b>                        | <b>(87)</b>     | <b>(88)</b>     | <b>1</b>      |
| <b>Income from Continuing Operations</b>      | <b>\$ 5,555</b> | <b>\$ 5,115</b> | <b>9%</b>     |
| <b>Income from Discontinued Operations(3)</b> | <b>84</b>       | <b>326</b>      | <b>(74)</b>   |
| <b>Total Net Income</b>                       | <b>\$ 5,639</b> | <b>\$ 5,441</b> | <b>4%</b>     |

(1)

Reclassified to conform to the current period's presentation. See Note 4 to the Consolidated Financial Statements on page 85 for assets by segment.

(2)

U.S. disclosure includes Canada and Puerto Rico.

(3)

See Note 3 to the Consolidated Financial Statements on page 83.

NM Not meaningful

**Citigroup Net Income Regional View**

| In millions of dollars           | First Quarter   |                 | % Change      |
|----------------------------------|-----------------|-----------------|---------------|
|                                  | 2006            | 2005(1)         | 1Q06 vs. 1Q05 |
| <b>U.S.(2)</b>                   |                 |                 |               |
| Global Consumer                  | \$ 1,937        | \$ 1,904        | 2%            |
| Corporate and Investment Banking | 515             | 893             | (42)          |
| Global Wealth Management         | 228             | 273             | (16)          |
| <b>Total U.S.</b>                | <b>\$ 2,680</b> | <b>\$ 3,070</b> | <b>(13)%</b>  |
| <b>Mexico</b>                    |                 |                 |               |
| Global Consumer                  | \$ 358          | \$ 277          | 29%           |
| Corporate and Investment Banking | 78              | 83              | (6)           |
| Global Wealth Management         | 8               | 13              | (38)          |
| <b>Total Mexico</b>              | <b>\$ 444</b>   | <b>\$ 373</b>   | <b>19%</b>    |
| <b>Latin America</b>             |                 |                 |               |
| Global Consumer                  | \$ 58           | \$ 54           | 7%            |
| Corporate and Investment Banking | 202             | 145             | 39            |
| Global Wealth Management         | 3               | 7               | (57)          |
| <b>Total Latin America</b>       | <b>\$ 263</b>   | <b>\$ 206</b>   | <b>28%</b>    |
| <b>EMEA</b>                      |                 |                 |               |
| Global Consumer                  | \$ 185          | \$ 122          | 52%           |
| Corporate and Investment Banking | 635             | 188             | NM            |
| Global Wealth Management         | 3               | (1)             | NM            |
| <b>Total EMEA</b>                | <b>\$ 823</b>   | <b>\$ 309</b>   | <b>NM</b>     |
| <b>Japan</b>                     |                 |                 |               |
| Global Consumer                  | \$ 188          | \$ 175          | 7%            |
| Corporate and Investment Banking | 85              | 48              | 77            |
| Global Wealth Management         |                 | (8)             | 100           |
| <b>Total Japan</b>               | <b>\$ 273</b>   | <b>\$ 215</b>   | <b>27%</b>    |
| <b>Asia</b>                      |                 |                 |               |
| Global Consumer                  | \$ 347          | \$ 311          | 12%           |
| Corporate and Investment Banking | 414             | 322             | 29            |
| Global Wealth Management         | 45              | 35              | 29            |
| <b>Total Asia</b>                | <b>\$ 806</b>   | <b>\$ 668</b>   | <b>21%</b>    |
| <b>Alternative Investments</b>   | <b>\$ 353</b>   | <b>\$ 362</b>   | <b>(2)%</b>   |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                                               | First Quarter   |                 | % Change    |
|-----------------------------------------------|-----------------|-----------------|-------------|
|                                               | (87)            | (88)            | 1           |
| Corporate/Other                               |                 |                 |             |
| <b>Income from Continuing Operations</b>      | <b>\$ 5,555</b> | <b>\$ 5,115</b> | <b>9%</b>   |
| <b>Income from Discontinued Operations(3)</b> | <b>84</b>       | <b>326</b>      | <b>(74)</b> |
| <b>Total Net Income</b>                       | <b>\$ 5,639</b> | <b>\$ 5,441</b> | <b>4%</b>   |
| <b>Total International</b>                    | <b>\$ 2,609</b> | <b>\$ 1,771</b> | <b>47%</b>  |

(1) Reclassified to conform to the current period's presentation.

(2) Excludes Alternative Investments and Corporate/Other, which are predominantly related to the *U.S.* The *U.S.* regional disclosure includes Canada and Puerto Rico. Global Consumer for the *U.S.* includes Other Consumer.

(3) See Note 3 to the Consolidated Financial Statements on page 83.

NM Not meaningful.

## SELECTED REVENUE AND EXPENSE ITEMS

### Selected Revenue Items

Net interest revenue of \$9.8 billion decreased \$354 million, or 4%, from the 2005 first quarter, primarily reflecting an increase in interest paid on deposits due to higher rates and balances.

Total commissions, asset management and administration fees, and other fee revenues of \$6.6 billion increased by \$710 million, or 12%, compared to the 2005 first quarter. This was primarily attributable to increased investment banking fees, volumes and assets under custody in CIB.

Principal transactions revenue of \$2.1 billion was down \$98 million, or 4%, from the first quarter of 2005. Realized gains from sales of investments were up \$136 million, or 56%, to \$379 million in the 2006 first quarter; this was primarily due to the sale of the remaining 12.3 million shares of St. Paul Travelers during the quarter. Other revenue of \$2.5 billion increased \$558 million, or 28%, from the 2005 first quarter.

### Operating Expenses

Total operating expenses were \$13.4 billion for the 2006 first quarter, up \$2.0 billion, or 17%, from the comparable 2005 period. The increase was primarily due to the adoption of SFAS 123(R) and an increase in incentive compensation in CIB, primarily Capital Markets and Banking.

Global Consumer reported a 9% increase in total expenses from the 2005 first quarter, led by *U.S. Consumer*, due to increased business volumes and investments in new branches. *International Consumer* expenses increased \$199 million versus the first quarter of 2005, primarily due to branch expansion and increased sales staff, and an increase in profit sharing in Mexico in *International Retail Banking*. CIB expenses increased 30% from the 2005 first quarter, primarily due to the implementation of SFAS 123(R). Global Wealth Management expenses increased 22% as compared to the prior year's three-month period, also primarily related to SFAS 123(R) implementation. Alternative Investments expenses increased 72% from the 2005 period, primarily resulting from higher employee-related expenses.

### Provisions for Credit Losses and for Benefits and Claims

The provision for credit losses decreased \$367 million, or 20%, from the 2005 first quarter to \$1.4 billion. Policyholder benefits and claims in the 2006 first quarter increased \$10 million, or 5%, from the 2005 first quarter.

Global Consumer provisions for loan losses and for benefits and claims of \$1.7 billion in the 2006 first quarter were down \$434 million, or 21%, from the 2005 first quarter. This was due to lower bankruptcy filings and a continued favorable credit environment that drove the net credit loss ratio down. Total net credit losses were \$1.633 billion, and the related loss ratio was 1.46% in the first quarter of 2006, as compared to \$1.925 billion and 1.83% in the 2005 first quarter. The consumer loan delinquency ratio (90 days or more past due) decreased to 1.31% at March 31, 2006 from 1.83% at March 31, 2005. See page 50 for a reconciliation of total consumer credit information.

Corporate and Investment Banking provision for credit losses in the 2006 first quarter was up \$56 million from the 2005 first quarter. The Company increased CIB's reserve for credit losses by \$50 million for unfunded lending commitments in the 2006 first quarter due to an increase in exposures and credit risk in the portfolio.

Corporate cash-basis loans at March 31, 2006 and 2005 were \$821 million and \$1.7 billion, respectively, while the corporate Other Real Estate Owned (OREO) portfolio totaled \$144 million and \$127 million, respectively. The decrease in corporate cash-basis loans from March 31, 2005, was related to improvements in the overall credit environment and write-offs, as well as sales of loans and paydowns in the portfolio.

### Income Taxes

The Company's effective tax rate on continuing operations was 21.5% in the 2006 first quarter, compared to 32.0% in the 2005 first quarter. The 2006 first quarter includes a tax benefit in continuing operations of \$598 million related to the resolution of the Federal Tax Audit for the years 1999 through 2002.

### Regulatory Capital

Total capital (Tier 1 and Tier 2) was \$109.7 billion and \$106.4 billion, or 11.80% and 12.02% of net risk-adjusted assets at March 31, 2006 and December 31, 2005, respectively. Tier 1 capital was \$79.9 billion, or 8.60% of net risk-adjusted assets at March 31, 2006, compared to

\$77.8 billion, or 8.79%, at December 31, 2005.

## ACCOUNTING CHANGES AND FUTURE APPLICATION OF ACCOUNTING STANDARDS

See Note 1 to the Consolidated Financial Statements on page 81 for a discussion of Accounting Changes and the Future Application of Accounting Standards.

## SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified five policies as being significant because they require management to make subjective and/or complex judgments about matters that are inherently uncertain. These policies relate to Valuations of Financial Instruments, Allowance for Credit Losses, Securitizations, Income Taxes and Legal Reserves. The Company, in consultation with the Audit and Risk Management Committee of the Board of Directors, has reviewed and approved these significant accounting policies, which are further described in the Company's 2005 Annual Report on Form 10-K.

---

*The net income line in the following business segment and operating unit discussions excludes discontinued operations. Income from discontinued operations is included within the Corporate/Other business segment. See Notes 3 and 4 to the Consolidated Financial Statements on pages 83 and 85, respectively.*

*Certain prior period amounts have been reclassified to conform to the current period's presentation.*

---



## GLOBAL CONSUMER

\* Excludes Other Consumer loss of \$67 million.

\* Excludes Other Consumer loss of \$67 million.

Citigroup's Global Consumer Group provides a wide array of banking, lending, insurance and investment services through a network of 7,440 branches, 12,167 ATMs, 731 Automated Lending Machines (ALMs), the Internet, telephone and mail, and the Primerica Financial Services salesforce. Global Consumer serves more than 200 million customer accounts, providing products and services to meet the financial needs of both individuals and small businesses.

| In millions of dollars                                 | First Quarter    |                  | % Change      |
|--------------------------------------------------------|------------------|------------------|---------------|
|                                                        | 2006             | 2005             | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense</b>               | <b>\$ 11,955</b> | <b>\$ 12,118</b> | <b>(1)%</b>   |
| Operating expenses                                     | 6,357            | 5,846            | 9             |
| Provisions for loan losses and for benefits and claims | 1,668            | 2,102            | (21)          |
| <b>Income before taxes and minority interest</b>       | <b>\$ 3,930</b>  | <b>\$ 4,170</b>  | <b>(6)%</b>   |
| Income taxes                                           | 847              | 1,314            | (36)          |
| Minority interest, net of taxes                        | 10               | 13               | (23)          |
| <b>Net income</b>                                      | <b>\$ 3,073</b>  | <b>\$ 2,843</b>  | <b>8%</b>     |
| Average assets ( <i>in billions of dollars</i> )       | \$ 561           | \$ 523           | 7%            |
| Return on assets                                       | 2.22%            | 2.20%            |               |
| Average risk capital(1)                                | \$ 27,714        | \$ 26,350        | 5%            |
| Return on risk capital(1)                              | 45%              | 44%              |               |
| Return on invested capital(1)                          | 21%              | 19%              |               |

(1)

See footnote 3 to the table on page 4.

## U.S. CONSUMER

U.S. Consumer is composed of four businesses: *Cards, Retail Distribution, Consumer Lending* and *Commercial Business*.

| In millions of dollars                                 | First Quarter    |                 | % Change     |
|--------------------------------------------------------|------------------|-----------------|--------------|
|                                                        | 2006             | 2005            | Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense</b>               | <b>\$ 7,260</b>  | <b>\$ 7,963</b> | <b>(9)%</b>  |
| Operating expenses                                     | <b>3,569</b>     | 3,337           | 7            |
| Provisions for loan losses and for benefits and claims | <b>901</b>       | 1,429           | (37)         |
| <b>Income before taxes and minority interest</b>       | <b>\$ 2,790</b>  | <b>\$ 3,197</b> | <b>(13)%</b> |
| Income taxes                                           | <b>777</b>       | 1,104           | (30)         |
| Minority interest, net of taxes                        | <b>9</b>         | 13              | (31)         |
| <b>Net income</b>                                      | <b>\$ 2,004</b>  | <b>\$ 2,080</b> | <b>(4)%</b>  |
| Average assets (in billions of dollars)                | <b>\$ 379</b>    | \$ 348          | 9%           |
| Return on assets                                       | <b>2.14%</b>     | 2.42%           |              |
| Average risk capital(1)                                | <b>\$ 15,069</b> | \$ 13,838       | 9%           |
| Return on risk capital(1)                              | <b>54%</b>       | 61%             |              |
| Return on invested capital(1)                          | <b>24%</b>       | 25%             |              |

(1) See footnote 3 to the table on page 4.

## U.S. Cards

*U.S. Cards* is one of the largest providers of credit cards in North America, with more than 130 million customer accounts in the United States, Canada and Puerto Rico. In addition to MasterCard (including Diners), Visa, and American Express, *U.S. Cards* is the largest provider of credit card services to the oil and gas industry and the leading provider of consumer private-label credit cards and commercial accounts on behalf of merchants such as Sears, The Home Depot, Sears, Federated, Dell Computer, Radio Shack, Staples and Zales Corporation.

Revenues are primarily generated from net interest revenue on receivables, interchange fees on purchase sales and other delinquency or services fees.

| In millions of dollars                                                     | First Quarter |          | % Change      |
|----------------------------------------------------------------------------|---------------|----------|---------------|
|                                                                            | 2006          | 2005     | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense</b>                                   | \$ 3,234      | \$ 3,455 | (6)%          |
| Operating expenses                                                         | 1,532         | 1,500    | 2             |
| Provision for loan losses and for benefits and claims                      | 395           | 756      | (48)          |
| <b>Income before taxes and minority interest</b>                           | \$ 1,307      | \$ 1,199 | 9%            |
| Income taxes and minority interest, net of taxes                           | 381           | 421      | (10)          |
| <b>Net income</b>                                                          | \$ 926        | \$ 778   | 19%           |
| Average assets ( <i>in billions of dollars</i> )                           | \$ 63         | \$ 71    | (11)%         |
| Return on assets                                                           | 5.96%         | 4.44%    |               |
| Average risk capital(1)                                                    | \$ 5,563      | \$ 5,638 | (1)%          |
| Return on risk capital(1)                                                  | 68%           | 56%      |               |
| Return on invested capital(1)                                              | 28%           | 23%      |               |
| <b>Key indicators on a managed basis</b> ( <i>in billions of dollars</i> ) |               |          |               |
| Return on managed assets                                                   | 2.59%         | 2.12%    |               |
| Purchase sales                                                             | \$ 68.4       | \$ 61.7  | 11%           |
| Managed average yield(2)                                                   | 14.16%        | 13.58%   |               |
| Managed net interest margin(2)                                             | 10.48%        | 11.03%   |               |

| First Quarter |  | % Change |
|---------------|--|----------|
|               |  |          |

(1) See footnote 3 to the table on page 4.

(2) As a percentage of average managed loans.

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, declined as the positive impact of 11% growth in purchase sales and the addition of the Federated portfolio in the 2005 fourth quarter was more than offset by continued net interest margin compression and higher rewards program costs related to the 2005 fourth quarter change to conform accounting practices for customer rewards. The net interest margin compression was driven by a combination of increased payment rates, higher cost of funds, and the mix of average managed receivable balances. *Operating expenses* increased, primarily reflecting the addition of the Federated portfolio and the adoption of SFAS 123(R) in the 2006 first quarter, partially offset by the absence of 2005 first quarter repositioning expenses and a decline in advertising and marketing expenses, largely reflecting the timing of advertising campaigns.

*Provision for loan losses and for benefits and claims* declined, primarily reflecting a decline in net credit losses due to lower bankruptcies, the positive credit environment and higher loan loss reserve releases of \$72 million.

*Net Income* also reflected an \$89 million tax benefit resulting from the resolution of the Federal Tax Audit.

## U.S. Retail Distribution

*U.S. Retail Distribution* provides banking, lending, investment and insurance products and services to customers through 906 Citibank branches, 2,299 CitiFinancial branches, the Primerica Financial Services (PFS) salesforce, the Internet, direct mail and telesales. Revenues are primarily derived from net interest revenue on loans and deposits and from fees on banking, insurance and investment products.

| In millions of dollars                                 | First Quarter   |                 | % Change<br>1Q06 vs. 1Q05 |
|--------------------------------------------------------|-----------------|-----------------|---------------------------|
|                                                        | 2006            | 2005            |                           |
| <b>Revenues, net of interest expense, by business:</b> |                 |                 |                           |
| Citibank branches                                      | \$ 737          | \$ 853          | (14)%                     |
| CitiFinancial branches                                 | 1,008           | 1,053           | (4)                       |
| Primerica Financial Services                           | 551             | 551             |                           |
| <b>Revenues, net of interest expense</b>               | <b>\$ 2,296</b> | <b>\$ 2,457</b> | <b>(7)%</b>               |
| Operating expenses                                     | 1,221           | 1,085           | 13                        |
| Provisions for loan losses and for benefits and claims | 387             | 491             | (21)                      |
| <b>Income before taxes</b>                             | <b>\$ 688</b>   | <b>\$ 881</b>   | <b>(22)%</b>              |
| Income taxes                                           | 173             | 317             | (45)                      |
| <b>Net income</b>                                      | <b>\$ 515</b>   | <b>\$ 564</b>   | <b>(9)%</b>               |
| <b>Net income by business:</b>                         |                 |                 |                           |
| Citibank branches                                      | \$ 100          | \$ 185          | (46)%                     |
| CitiFinancial branches                                 | 265             | 245             | 8                         |
| Primerica Financial Services                           | 150             | 134             | 12                        |
| <b>Net income</b>                                      | <b>\$ 515</b>   | <b>\$ 564</b>   | <b>(9)%</b>               |
| Average assets <i>(in billions of dollars)</i>         | \$ 66           | \$ 63           | 5%                        |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                 | First Quarter    |          |     |
|-------------------------------------------------|------------------|----------|-----|
| Return on assets                                | <del>5.16%</del> | 5.05%    |     |
| Average risk capital(1)                         | \$ 3,459         | \$ 2,940 | 18% |
| Return on risk capital(1)                       | 60%              | 78%      |     |
| Return on invested capital(1)                   | 23%              | 20%      |     |
| <hr/>                                           |                  |          |     |
| <b>Key indicators: (in billions of dollars)</b> |                  |          |     |
| Average loans                                   | \$ 42.5          | \$ 39.4  | 8%  |
| Average deposits                                | 125.6            | 118.8    | 6   |
| EOP Investment AUMs                             | 75.0             | 67.3     | 11  |
| <hr/>                                           |                  |          |     |

(1) See footnote 3 to the table on page 4.

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, decreased primarily due to the absence of a \$110 million gain in the 2005 first quarter related to the resolution of the Glendale litigation. Growth in deposits and loans, up 6% and 8% respectively, and increased investment product sales were more than offset by net interest margin compression. This resulted in part from a shift in customer liabilities from savings and other demand deposits to certificates of deposit.

*Operating expense* growth was primarily due to higher volume-related expenses, increased investment spending driven by 36 new branch openings, and the impact of SFAS 123(R). The impact of the FAB acquisition also contributed to higher expenses in the quarter.

*Provisions for loan losses and for benefits and claims* decreased primarily due to lower bankruptcy filings. CitiFinancial Branches also had higher loan loss reserve releases of \$38 million. The net credit loss ratio declined 70 basis points to 2.66%, reflecting the favorable credit environment.

*Deposit* growth reflected balance increases in certificates of deposit, premium checking, and partly rate-sensitive money market products, as well as the impact of the FAB acquisition. *Loan* growth reflected improvements in all channels and products. *Investment product sales* increased 26%, driven by increased volumes.

*Net income* also reflected a \$51 million tax reserve release resulting from the resolution of the Federal Tax Audit.



## U.S. Consumer Lending

*U.S. Consumer Lending* provides home mortgages and home equity loans to prime and non-prime customers, auto financing to non-prime consumers and educational loans to students. Loans are originated throughout the United States and Canada through the Citibank, CitiFinancial and *Smith Barney* branch networks, Primerica Financial Services agents, third-party brokers, direct mail, the Internet and telesales. Loans are also purchased in the wholesale markets. *U.S. Consumer Lending* also provides mortgage servicing to a portfolio of mortgage loans owned by third parties. Revenues are composed of loan fees, net interest revenue and mortgage servicing fees.

| In millions of dollars                                 | First Quarter   |                 | % Change<br>1Q06 vs. 1Q05 |
|--------------------------------------------------------|-----------------|-----------------|---------------------------|
|                                                        | 2006            | 2005            |                           |
| <b>Revenues, net of interest expense, by business:</b> |                 |                 |                           |
| Real Estate Lending                                    | \$ 843          | \$ 924          | (9)%                      |
| Student Loans                                          | 117             | 132             | (11)                      |
| Auto                                                   | 300             | 317             | (5)                       |
| <b>Revenues, net of interest expense</b>               | <b>\$ 1,260</b> | <b>\$ 1,373</b> | <b>(8)%</b>               |
| Operating expenses                                     | 453             | 411             | 10                        |
| Provisions for loan losses and for benefits and claims | 143             | 182             | (21)                      |
| <b>Income before taxes and minority interest</b>       | <b>\$ 664</b>   | <b>\$ 780</b>   | <b>(15)%</b>              |
| Income taxes                                           | 218             | 281             | (22)                      |
| Minority interest, net of taxes                        | 9               | 13              | (31)                      |
| <b>Net income</b>                                      | <b>\$ 437</b>   | <b>\$ 486</b>   | <b>(10)%</b>              |
| <b>Net income by business:</b>                         |                 |                 |                           |
| Real Estate Lending                                    | \$ 328          | \$ 363          | (10)%                     |
| Student Loans                                          | 38              | 52              | (27)                      |
| Auto                                                   | 71              | 71              |                           |
| <b>Net income</b>                                      | <b>\$ 437</b>   | <b>\$ 486</b>   | <b>(10)%</b>              |
| Average assets ( <i>in billions of dollars</i> )       | \$ 209          | \$ 178          | 17%                       |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                               | First Quarter      |          |     |
|-------------------------------|--------------------|----------|-----|
| Return on assets              | <u>0.85%</u> 1.11% |          |     |
| Average risk capital(1)       | \$ 3,732           | \$ 3,291 | 13% |
| Return on risk capital(1)     | 47%                | 60%      |     |
| Return on invested capital(1) | 27%                | 38%      |     |

**Key indicators:** (in billions of dollars)

|                         |         |         |     |
|-------------------------|---------|---------|-----|
| Net interest margin:(2) |         |         |     |
| Real Estate Lending     | 2.20%   | 2.76%   |     |
| Student Loans           | 1.71    | 2.18    |     |
| Auto                    | 9.22    | 11.36   |     |
| Originations:           |         |         |     |
| Real Estate Lending     | \$ 32.4 | \$ 25.9 | 25% |
| Student Loans           | 2.9     | 2.6     | 12  |
| Auto                    | 2.0     | 1.4     | 43  |

(1) See footnote 3 to the table on page 4.

(2) As a percentage of average loans.

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, declined as an 18% increase in average loan volumes was offset by net interest margin compression, lower gains on securitizations of real estate loans, and lower net mortgage servicing revenues. Average loan growth reflected a strong increase in originations across all businesses, driven by a 17% increase in prime mortgage originations and home equity loans.

*Operating expenses* increased primarily due to higher loan origination volumes, the continued integration of the real estate businesses, and the impact of SFAS 123(R) charges of \$8 million.

*Provisions for loan losses and for benefits and claims* decreased due to a continued favorable credit environment. The 90 days-past-due ratio declined across all product categories.

*Net income* also reflected a \$31 million tax reserve release resulting from the resolution of the Federal Tax Audit.

## U.S. Commercial Business

*U.S. Commercial Business* provides equipment leasing, financing, and banking services to small- and middle-market businesses (\$5 million to \$500 million in annual revenues) and financing for investor-owned multifamily and commercial properties. Revenues are composed of net interest revenue and fees on loans and leases.

|                                                         | First Quarter |          | % Change      |
|---------------------------------------------------------|---------------|----------|---------------|
|                                                         | 2006          | 2005     | 1Q06 vs. 1Q05 |
| <b>In millions of dollars</b>                           |               |          |               |
| <b>Revenues, net of interest expense</b>                | \$ 470        | \$ 678   | (31)%         |
| Operating expenses                                      | 363           | 341      | 6             |
| Provision for loan losses                               | (24)          |          |               |
| <b>Income before taxes and minority interest</b>        | \$ 131        | \$ 337   | (61)%         |
| Income taxes and minority interest, net of taxes        | 5             | 85       | (94)          |
| <b>Net income</b>                                       | \$ 126        | \$ 252   | (50)%         |
| Average assets ( <i>in billions of dollars</i> )        | \$ 41         | \$ 36    | 14%           |
| Return on assets                                        | 1.25%         | 2.84%    |               |
| Average risk capital(1)                                 | \$ 2,315      | \$ 1,969 | 18%           |
| Return on risk capital(1)                               | 22%           | 52%      |               |
| Return on invested capital(1)                           | 11%           | 37%      |               |
| <b>Key indicators: (<i>in billions of dollars</i>):</b> |               |          |               |
| Average earning assets                                  | \$ 35.7       | \$ 31.5  | 13%           |

(1)

See footnote 3 to the table on page 4.

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, declined primarily due to the absence of a \$161 million gain on the sale of the CitiCapital Transportation Finance business in the 2005 first quarter. Strong growth in core loan and deposit balances, up 23% and 25%, respectively, and the impact of the FAB acquisition were more than offset by the continuing impact of net interest margin compression.

*Operating expenses* increased primarily due to the impact of the FAB acquisition and the SFAS 123(R) charges of \$12 million, partially offset by lower expenses from the absence of the transportation finance businesses sold in the prior year.

*Provision for loan losses* decreased primarily due to higher loan loss reserve releases of \$26 million, a stable credit environment, and the continued liquidation of non-core portfolios.

*Net Income* also reflected a \$4 million tax reserve release resulting from the resolution of the Federal Tax Audit.

*Deposit* and core loan growth reflected strong transaction volumes and balances across all business units and the impact of the FAB acquisition, partially offset by declines in the liquidating portfolio.

## INTERNATIONAL CONSUMER

*International Consumer* is composed of three businesses: *Cards*, *Consumer Finance* and *Retail Banking*.

| In millions of dollars                                 | First Quarter   |                 | % Change      |
|--------------------------------------------------------|-----------------|-----------------|---------------|
|                                                        | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b>   |                 |                 |               |
| <i>Mexico</i>                                          | \$ 1,149        | \$ 960          | 20%           |
| <i>Latin America</i>                                   | 326             | 257             | 27            |
| <i>EMEA</i>                                            | 1,270           | 1,248           | 2             |
| <i>Japan</i>                                           | 775             | 821             | (6)           |
| <i>Asia</i>                                            | 1,189           | 1,072           | 11            |
| <b>Revenues, net of interest expense</b>               | <b>\$ 4,709</b> | <b>\$ 4,358</b> | <b>8%</b>     |
| Operating expenses                                     | 2,621           | 2,422           | 8             |
| Provisions for loan losses and for benefits and claims | 767             | 673             | 14            |
| <b>Income before taxes and minority interest</b>       | <b>\$ 1,321</b> | <b>\$ 1,263</b> | <b>5%</b>     |
| Income taxes                                           | 184             | 324             | (43)          |
| Minority interest, net of taxes                        | 1               |                 |               |
| <b>Net income</b>                                      | <b>\$ 1,136</b> | <b>\$ 939</b>   | <b>21%</b>    |
| <b>Net income by region</b>                            |                 |                 |               |
| <i>Mexico</i>                                          | \$ 358          | \$ 277          | 29%           |
| <i>Latin America</i>                                   | 58              | 54              | 7             |
| <i>EMEA</i>                                            | 185             | 122             | 52            |
| <i>Japan</i>                                           | 188             | 175             | 7             |
| <i>Asia</i>                                            | 347             | 311             | 12            |
| <b>Net income</b>                                      | <b>\$ 1,136</b> | <b>\$ 939</b>   | <b>21%</b>    |
| Average assets ( <i>in billions of dollars</i> )       | \$ 173          | \$ 165          | 5%            |
| Return on assets                                       | 2.66%           | 2.31%           |               |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                               |    |        |    | % Change |    |
|-------------------------------|----|--------|----|----------|----|
| Average risk capital(1)       | \$ | 12,645 | \$ | 12,512   | 1% |
| Return on risk capital(1)     |    | 36%    |    | 30%      |    |
| Return on invested capital(1) |    | 18%    |    | 15%      |    |

(1)

See footnote 3 to the table on page 4.

## International Cards

*International Cards* provides MasterCard-, Visa- and Diners-branded credit and charge cards, as well as private label cards and co-branded cards, to more than 26 million customer accounts in 43 countries outside of the U.S. and Canada. Revenues are primarily generated from net interest revenue on receivables, interchange fees on purchase sales and other delinquency or service fees.

| In millions of dollars                               | First Quarter   |                 | % Change      |
|------------------------------------------------------|-----------------|-----------------|---------------|
|                                                      | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b> |                 |                 |               |
| <i>Mexico</i>                                        | \$ 405          | \$ 269          | 51%           |
| <i>Latin America</i>                                 | 96              | 68              | 41            |
| <i>EMEA</i>                                          | 294             | 294             |               |
| <i>Japan</i>                                         | 70              | 73              | (4)           |
| <i>Asia</i>                                          | 415             | 401             | 3             |
| <b>Revenues, net of interest expense</b>             | <b>\$ 1,280</b> | <b>\$ 1,105</b> | <b>16%</b>    |
| Operating expenses                                   | 617             | 568             | 9             |
| Provision for loan losses                            | 312             | 155             | NM            |
| <b>Income before taxes and minority interest</b>     | <b>\$ 351</b>   | <b>\$ 382</b>   | <b>(8)%</b>   |
| Income taxes                                         | 60              | 79              | (24)          |
| Minority interest, net of taxes                      |                 | 1               | (100)         |
| <b>Net income</b>                                    | <b>\$ 291</b>   | <b>\$ 302</b>   | <b>(4)%</b>   |
| <b>Net income by region:</b>                         |                 |                 |               |
| <i>Mexico</i>                                        | \$ 149          | \$ 127          | 17%           |
| <i>Latin America</i>                                 | 35              | 25              | 40            |
| <i>EMEA</i>                                          | 32              | 32              |               |
| <i>Japan</i>                                         | 21              | 17              | 24            |
| <i>Asia</i>                                          | 54              | 101             | (47)          |
| <b>Net income</b>                                    | <b>\$ 291</b>   | <b>\$ 302</b>   | <b>(4)%</b>   |
| Average assets ( <i>in billions of dollars</i> )     | \$ 28           | \$ 25           | 12%           |
| Return on assets                                     | 4.21%           | 4.90%           |               |
| Average risk capital(1)                              | \$ 2,073        | \$ 1,595        | 30%           |



Edgar Filing: CITIGROUP INC - Form 10-Q

|                               |     |     | % Change |
|-------------------------------|-----|-----|----------|
| Return on risk capital(1)     | 57% | 77% |          |
| Return on invested capital(1) | 27% | 32% |          |

**Key indicators:** (in billions of dollars):

|                        |         |         |    |
|------------------------|---------|---------|----|
| Purchase sales         | \$ 17.4 | \$ 16.1 | 8% |
| Average yield(2)       | 18.61%  | 17.34%  |    |
| Net interest margin(2) | 12.90%  | 12.26%  |    |

(1) See footnote 3 to the table on page 4.

(2) As a percentage of average loans.

NM Not meaningful

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, increased, driven by an 8% increase in purchase sales and 14% growth in average receivables across the regions.

*Operating expenses* increased, reflecting continued investment in organic growth, costs associated with a labor settlement in Korea, the adoption of SFAS 123(R) of \$9 million, and volume growth across the region. This was partially offset by the absence of 2005 first quarter repositioning expenses of \$13 million.

*Provision for loan losses* reflected higher loan loss reserves of \$99 million, driven by the industry-wide credit deterioration in Taiwan and an increase in net credit losses in Mexico, reflecting portfolio growth and target market expansion.

*Net Income* also reflected a \$20 million tax benefit resulting from the resolution of the Federal Tax Audit.

***Regional Net Income***

*Mexico* income increased due to higher sales volumes and average loans, as well as tax benefits of \$6 million. *Latin America* income increased primarily due to volume growth and the benefit of foreign currency translation. *Japan* income increased primarily due to tax credits of \$2 million and the benefit of foreign currency translation. *Asia* income declined due to an increase in loan loss reserves related to Taiwan and costs associated with a Korea labor settlement, partially offset by higher purchase sales and loan growth. *EMEA* income remained unchanged as higher purchase sales and volume growth were offset by higher net credit losses and higher expenses.

## International Consumer Finance

*International Consumer Finance* provides community-based lending services through its branch network, regional sales offices and cross-selling initiatives with *International Cards* and *International Retail Banking*. As of March 31, 2006, *International Consumer Finance* maintained 2,319 sales points composed of 1,588 branches in more than 25 countries and 731 ALMs in *Japan*. *International Consumer Finance* offers real-estate-secured loans, unsecured or partially secured personal loans, auto loans, and loans to finance consumer-goods purchases. Revenues are primarily derived from net interest revenue and fees on loan products.

| In millions of dollars                               | First Quarter |               | % Change      |
|------------------------------------------------------|---------------|---------------|---------------|
|                                                      | 2006          | 2005          | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b> |               |               |               |
| <i>Mexico</i>                                        | \$ 53         | \$ 43         | 23%           |
| <i>Latin America</i>                                 | 36            | 28            | 29            |
| <i>EMEA</i>                                          | 184           | 189           | (3)           |
| <i>Japan</i>                                         | 591           | 627           | (6)           |
| <i>Asia</i>                                          | 98            | 61            | 61            |
| <b>Revenues, net of interest expense</b>             | <b>\$ 962</b> | <b>\$ 948</b> | <b>1%</b>     |
| Operating expenses                                   | 419           | 437           | (4)           |
| Provision for loan losses                            | 304           | 315           | (3)           |
| <b>Income before taxes and minority interest</b>     | <b>\$ 239</b> | <b>\$ 196</b> | <b>22%</b>    |
| Income taxes                                         | 71            | 57            | 25            |
| <b>Net income</b>                                    | <b>\$ 168</b> | <b>\$ 139</b> | <b>21%</b>    |
| <b>Net income by region:</b>                         |               |               |               |
| <i>Mexico</i>                                        | \$ 10         | \$ 9          | 11%           |
| <i>Latin America</i>                                 |               | 3             | (100)         |
| <i>EMEA</i>                                          | 7             | (4)           | NM            |
| <i>Japan</i>                                         | 135           | 122           | 11            |
| <i>Asia</i>                                          | 16            | 9             | 78            |
| <b>Net income</b>                                    | <b>\$ 168</b> | <b>\$ 139</b> | <b>21%</b>    |
| Average assets ( <i>in billions of dollars</i> )     | \$ 26         | \$ 27         | (4)           |
| Return on assets                                     | 2.62%         | 2.09%         |               |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                               |          |        | % Change |
|-------------------------------|----------|--------|----------|
| Average risk capital(1)       | \$ 1,165 | \$ 934 | 25%      |
| Return on risk capital(1)     | 58%      | 60%    |          |
| Return on invested capital(1) | 19%      | 16%    |          |
| <b>Key indicators:</b>        |          |        |          |
| Average yield(2)              | 19.06%   | 18.31% |          |
| Net interest margin(2)        | 16.67%   | 16.36% |          |
| Number of sales points:       |          |        |          |
| Other branches                | 1,263    | 823    |          |
| Japan branches                | 325      | 405    |          |
| Japan Automated Loan Machines | 731      | 523    |          |
| Total                         | 2,319    | 1,751  |          |

(1) See footnote 3 to the table on page 4.

(2) As a percentage of average loans.

NM Not meaningful

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, excluding Japan revenues increased 16%, driven mainly by higher personal loan volumes and higher net interest margins. *Japan* revenues declined primarily due to the impact of foreign currency translation.

*Operating expense* decreased, primarily due to the absence of a 2005 first quarter repositioning charge in *EMEA* of \$38 million and declines in *Japan* due to the closing of branches and the increased network of ALMs. Expenses in all other regions increased, reflecting the impact of investment spending associated with 130 new branch openings.

*Provision for loan losses* declined primarily due to a loan loss reserve release in *EMEA* and lower net credit losses in Japan related to the sale of previously charged-off assets. This was partially offset by higher personal loan losses in the U.K. The net credit loss ratio increased 16 basis points to 5.78%.

The decline in *average loans* was mainly driven by decreases in the personal-loan and real-estate-secured portfolios in *Japan* and decreases in the real-estate-secured and auto loan portfolios in *EMEA*. This was partially offset by higher personal loan volumes in *Asia*, *EMEA*, and *Latin America*. In *Japan*, average loans declined by 12% due to the impact of higher pay-downs, reduced loan demand, and the impact of foreign currency translation.

## International Retail Banking

*International Retail Banking* delivers a wide array of banking, lending, insurance and investment services through a network of local branches and electronic delivery systems, including ATMs, call centers and the Internet. *International Retail Banking* serves 47 million customer accounts for individuals and small businesses. Revenues are primarily derived from net interest revenue on deposits and loans, and fees on mortgage, banking, and investment products.

| In millions of dollars                                 | First Quarter   |                 | % Change      |
|--------------------------------------------------------|-----------------|-----------------|---------------|
|                                                        | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b>   |                 |                 |               |
| <i>Mexico</i>                                          | \$ 691          | \$ 648          | 7%            |
| <i>Latin America</i>                                   | 194             | 161             | 20            |
| <i>EMEA</i>                                            | 792             | 765             | 4             |
| <i>Japan</i>                                           | 114             | 121             | (6)           |
| <i>Asia</i>                                            | 676             | 610             | 11            |
| <b>Revenues, net of interest expense</b>               | <b>\$ 2,467</b> | <b>\$ 2,305</b> | <b>7%</b>     |
| Operating expenses                                     | 1,585           | 1,417           | 12            |
| Provisions for loan losses and for benefits and claims | 151             | 203             | (26)          |
| <b>Income before taxes and minority interest</b>       | <b>\$ 731</b>   | <b>\$ 685</b>   | <b>7%</b>     |
| Income taxes                                           | 53              | 188             | (72)          |
| Minority interest, net of taxes                        | 1               | (1)             | NM            |
| <b>Net income</b>                                      | <b>\$ 677</b>   | <b>\$ 498</b>   | <b>36%</b>    |
| <b>Net income by region:</b>                           |                 |                 |               |
| <i>Mexico</i>                                          | \$ 199          | \$ 141          | 41%           |
| <i>Latin America</i>                                   | 23              | 26              | (12)          |
| <i>EMEA</i>                                            | 146             | 94              | 55            |
| <i>Japan</i>                                           | 32              | 36              | (11)          |
| <i>Asia</i>                                            | 277             | 201             | 38            |
| <b>Net income</b>                                      | <b>\$ 677</b>   | <b>\$ 498</b>   | <b>36%</b>    |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                |          |          | % Change |
|------------------------------------------------|----------|----------|----------|
| Average assets <i>(in billions of dollars)</i> | \$ 119   | \$ 113   | 5%       |
| Return on assets                               | 2.31%    | 1.79%    |          |
| Average risk capital(1)                        | \$ 9,407 | \$ 9,983 | (6)      |
| Average return on risk capital(1)              | 29%      | 20%      |          |
| Return on invested capital(1)                  | 15%      | 12%      |          |

**Key indicators:** *(in billions of dollars):*

|                  |          |          |     |
|------------------|----------|----------|-----|
| Average deposits | \$ 144.5 | \$ 135.7 | 6%  |
| AUMs (EOP)       | 130.4    | 105.8    | 23  |
| Average loans    | 61.5     | 62.0     | (1) |

(1) See footnote 3 to the table on page 4.

NM  
Not meaningful

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, increased, reflecting higher investment product sales in all regions, higher branch lending revenues in all regions except Asia, and higher deposit revenues in Asia, Latin America and EMEA. Average deposits grew 6%, led by increases of 20% in EMEA and 13% in Mexico. Loan balances declined slightly from the 2005 first quarter as growth in Mexico, Japan and Latin America was offset by a decline in EMEA, due to loan write-offs in the 2005 third quarter, and in Asia, due to the impact of labor actions in Korea. Assets under management increased by 23%.

*Operating expenses* increased due to an increase in profit-sharing in Mexico, SFAS 123(R) charges, costs associated with a labor settlement in Korea, and continued expansion of the distribution network that included 72 new branch openings during the quarter. Additionally, there was a net increase of 157 branches since the 2005 first quarter, as well as, on a larger scale, the addition of more than 1,500 Banamex Aqui agents in Mexico.

*Provisions for loan losses and for benefits and claims* decreased due to a loan loss reserve release in Korea as a result of an improving credit environment, and a gain from the sale of charged-off assets in Germany, partially offset by higher reserves in Mexico, higher credit losses in EMEA due to the standardization of the global write-off policy in the 2005 third quarter. The standardization of the loan write-off policies resulted in a significant drop in the 90 days past-due ratio, which fell to 1.21% from 3.26% in the 2005 first quarter.

*Net income* also reflected a \$72 million tax benefit in Mexico related to increased APB 23 benefits and a \$55 million benefit from tax reserve releases related to the resolution of the Federal Tax Audit.

***Regional Net Income***

*Asia* income increased, benefiting from higher deposit and investment product sales, a \$59 million loan loss reserve release in Korea, and tax benefits of \$27 million related to the resolution of the Federal Tax Audit, partially offset by costs associated with the labor settlement. *Mexico* income increased primarily due to increased APB 23 benefits, partially offset by higher expenses, including an increase in profit sharing. *EMEA* income increased on stronger investment product sales and lending revenues and a decline in expenses, reflecting the absence of repositioning expenses in the 2005 first quarter of \$36 million after-tax. *Latin America* income declined, primarily due to the impact of foreign currency translation. *Japan* income declined due to lower deposit revenues; higher expenses, mainly due to the consolidation and compliance activities related to the shutdown of the Japan Private Bank; and the impact of foreign currency translation.



**Other Consumer**

*Other Consumer* includes certain treasury and other unallocated staff functions and global marketing.

| In millions of dollars                   | First Quarter   |                 |
|------------------------------------------|-----------------|-----------------|
|                                          | 2006            | 2005            |
| <b>Revenues, net of interest expense</b> | <b>\$ (14)</b>  | <b>\$ (203)</b> |
| Operating expenses                       | <b>167</b>      | 87              |
| <b>Income (loss) before tax benefits</b> | <b>\$ (181)</b> | <b>\$ (290)</b> |
| Income taxes (benefits)                  | <b>(114)</b>    | (114)           |
| <b>Net income (loss)</b>                 | <b>\$ (67)</b>  | <b>\$ (176)</b> |

*Revenues* and *expenses* reflect certain unallocated items that are not reported in the Global Consumer operating segments.

The *net income* increase was primarily due to the absence of the 2005 first quarter loss on the sale of a Manufactured Housing loan portfolio of \$109 million after-tax and tax credits of \$40 million, reflecting the resolution of the Federal Tax Audit, partially offset by SFAS 123(R) charges of \$17 million after-tax and higher unallocated expenses.

## CORPORATE AND INVESTMENT BANKING

\*Excludes Other Corporate and  
Investment Banking loss of  
\$12 million.

\*Excludes Other Corporate and  
Investment Banking loss of  
\$12 million.

Corporate and Investment Banking (CIB) provides corporations, governments, institutions and investors in approximately 100 countries with a broad range of financial products and services. CIB includes *Capital Markets and Banking*, *Transaction Services* and *Other CIB*.

| In millions of dollars                               | First Quarter   |                 | % Change      |
|------------------------------------------------------|-----------------|-----------------|---------------|
|                                                      | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b> |                 |                 |               |
| U.S.                                                 | \$ 2,923        | \$ 2,779        | 5%            |
| Mexico                                               | 186             | 159             | 17            |
| Latin America                                        | 446             | 310             | 44            |
| EMEA                                                 | 2,296           | 1,694           | 36            |
| Japan                                                | 296             | 180             | 64            |
| Asia                                                 | 1,132           | 915             | 24            |
| <b>Revenues, net of interest expense</b>             | <b>\$ 7,279</b> | <b>\$ 6,037</b> | <b>21%</b>    |
| Operating expenses                                   | 4,757           | 3,668           | 30            |
| Provision for credit losses                          |                 | (56)            | 100           |
| <b>Income before taxes and minority interest</b>     | <b>2,522</b>    | <b>2,425</b>    | <b>4%</b>     |
| Income taxes                                         | 574             | 735             | (22)          |
| Minority interest, net of taxes                      | 19              | 11              | 73            |
| <b>Net income</b>                                    | <b>\$ 1,929</b> | <b>\$ 1,679</b> | <b>15%</b>    |
| <b>Net income by region:</b>                         |                 |                 |               |
| U.S.                                                 | \$ 515          | \$ 893          | (42)%         |
| Mexico                                               | 78              | 83              | (6)           |
| Latin America                                        | 202             | 145             | 39            |
| EMEA                                                 | 635             | 188             | NM            |
| Japan                                                | 85              | 48              | 77            |
| Asia                                                 | 414             | 322             | 29            |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                               | First Quarter |           | % Change |
|-------------------------------|---------------|-----------|----------|
|                               |               |           |          |
| Net income                    | \$ 1,929      | \$ 1,679  | 15%      |
| Average risk capital(1)       | \$ 20,593     | \$ 20,779 | (1)%     |
| Return on risk capital(1)     | 38%           | 33%       |          |
| Return on invested capital(1) | 28%           | 24%       |          |

(1) See footnote 3 to the table on page 4.

NM  
Not meaningful.

## Capital Markets and Banking

*Capital Markets and Banking* offers a wide array of investment and commercial banking services and products, including investment banking and advisory services, debt and equity trading, institutional brokerage, foreign exchange, structured products, derivatives, and lending. *Capital Markets and Banking* revenue is generated primarily from fees for investment banking and advisory services, fees and spread on structured products, foreign exchange and derivatives, fees and interest on loans, and income earned on principal transactions.

| In millions of dollars                               | First Quarter   |                 | % Change      |
|------------------------------------------------------|-----------------|-----------------|---------------|
|                                                      | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b> |                 |                 |               |
| U.S.                                                 | \$ 2,610        | \$ 2,541        | 3%            |
| Mexico                                               | 138             | 111             | 24            |
| Latin America                                        | 300             | 193             | 55            |
| EMEA                                                 | 1,808           | 1,266           | 43            |
| Japan                                                | 271             | 165             | 64            |
| Asia                                                 | 769             | 623             | 23            |
| <b>Revenues, net of interest expense</b>             | <b>\$ 5,896</b> | <b>\$ 4,899</b> | <b>20%</b>    |
| Operating expenses                                   | 3,803           | 2,859           | 33            |
| Provision for credit losses                          | (5)             | (46)            | 89            |
| <b>Income before taxes and minority interest</b>     | <b>\$ 2,098</b> | <b>\$ 2,086</b> | <b>1%</b>     |
| Income taxes                                         | 461             | 637             | (28)          |
| Minority interest, net of taxes                      | 19              | 10              | 90            |
| <b>Net income</b>                                    | <b>\$ 1,618</b> | <b>\$ 1,439</b> | <b>12%</b>    |
| <b>Net income by region:</b>                         |                 |                 |               |
| U.S.                                                 | \$ 515          | \$ 878          | (41)%         |
| Mexico                                               | 64              | 65              | (2)           |
| Latin America                                        | 151             | 104             | 45            |
| EMEA                                                 | 530             | 123             | NM            |
| Japan                                                | 80              | 49              | 63            |
| Asia                                                 | 278             | 220             | 26            |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                               |    |        | % Change       |
|-------------------------------|----|--------|----------------|
| Net income                    | \$ | 1,618  | \$ 1,439 12%   |
| Average risk capital(1)       | \$ | 19,123 | \$ 19,344 (1)% |
| Return on risk capital(1)     |    | 34%    | 30%            |
| Return on invested capital(1) |    | 26%    | 23%            |

(1) See footnote 3 to the table on page 4.

NM Not meaningful.

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, increased, driven by broad-based performance across products and regions. Equity Markets revenues increased, driven by strong growth globally, including cash trading, derivatives products and convertibles. Fixed Income Markets revenue increases reflected growth in emerging markets trading, municipals, and credit products. Investment Banking revenue growth was driven by higher debt underwriting and advisory fees. Lending revenue declined, as improved credit conditions led to lower hedging results.

*Operating expenses* growth was primarily driven by higher compensation expenses, which included higher production-driven incentive compensation and \$439 million of compensation expense related to the adoption of SFAS 123(R).

*The provision for credit losses* increased, reflecting the absence of loan loss reserve releases recorded in the prior year.

***Regional Net Income***

*Net income* in the *U.S.* decreased primarily due to higher compensation expenses (higher production-driven incentive compensation and the impact of SFAS 123(R) charges), as well as lower Lending and Fixed Income Markets revenues; these were partially offset by higher Equities Markets revenues and tax benefits from the resolution of the Federal Tax Audit.

*Mexico* net income was unchanged as the absence of a loan loss recovery recorded in the prior-year period was offset by strong revenue growth in Fixed Income and Equity Markets. Credit conditions remained stable.

*Latin America* net income increased primarily due to strong revenue growth in Equity and Fixed Income Markets activities in Brazil, as well as tax benefits from the resolution of the Federal Tax Audit; these were partially offset by the absence of prior year loan loss reserve releases and the impact from SFAS 123(R) charges. Credit conditions remained favorable.

*EMEA* net income increased, driven by double-digit revenue growth across all major product lines and geographies on higher volumes and growth in customer activity, the absence of prior year repositioning expenses, and tax benefits from the resolution of the Federal Tax Audit. Results also include the impact from SFAS 123(R) charges.

Net income in *Japan* increased strongly due to growth in Fixed Income Markets, partially offset by higher expenses.

Net income in *Asia* increased, driven by double-digit revenue growth in Equity and Fixed Income Markets, as well as tax benefits from the resolution of the Federal Tax Audit, partially offset by the impact from SFAS 123(R) charges. Credit conditions remained favorable.

## Transaction Services

*Transaction Services* is composed of Cash Management, Trade Services & Finance (Trade) and Securities & Funds Services (SFS). Cash Management and Trade Services provide comprehensive cash management and trade finance for corporations and financial institutions worldwide. SFS provides custody and fund services to investors such as insurance companies and pension funds, clearing services to intermediaries such as broker/dealers, and depository and agency/trust services to multinational corporations and governments globally. Revenue is generated from fees for transaction processing, net interest revenue on Trade, loans and deposits in Cash Management and SFS, and fees on assets under custody in SFS.

| In millions of dollars                               | First Quarter   |                 | % Change      |
|------------------------------------------------------|-----------------|-----------------|---------------|
|                                                      | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b> |                 |                 |               |
| U.S.                                                 | \$ 312          | \$ 237          | 32%           |
| Mexico                                               | 48              | 48              |               |
| Latin America                                        | 146             | 117             | 25            |
| EMEA                                                 | 488             | 428             | 14            |
| Japan                                                | 25              | 15              | 67            |
| Asia                                                 | 363             | 292             | 24            |
| <b>Revenues, net of interest expense</b>             | <b>\$ 1,382</b> | <b>\$ 1,137</b> | <b>22%</b>    |
| Operating expenses                                   | 949             | 803             | 18            |
| Provision for credit losses                          | 5               | (13)            | NM            |
| <b>Income before taxes and minority interest</b>     | <b>\$ 428</b>   | <b>\$ 347</b>   | <b>23%</b>    |
| Income taxes                                         | 105             | 101             | 4             |
| Minority interest, net of taxes                      |                 | 1               | (100)         |
| <b>Net income</b>                                    | <b>\$ 323</b>   | <b>\$ 245</b>   | <b>32%</b>    |
| <b>Net income by region:</b>                         |                 |                 |               |
| U.S.                                                 | \$ 12           | \$ 20           | (40)%         |
| Mexico                                               | 14              | 18              | (22)          |
| Latin America                                        | 51              | 41              | 24            |
| EMEA                                                 | 105             | 65              | 62            |
| Japan                                                | 5               | (1)             | NM            |
| Asia                                                 | 136             | 102             | 33            |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                              | First Quarter |          | % Change |
|--------------------------------------------------------------|---------------|----------|----------|
| Net income                                                   | 525           | \$ 245   | %        |
|                                                              | \$            |          | \$2      |
| Average risk capital(1)                                      | \$ 1,470      | \$ 1,435 | 2%       |
| Return on risk capital(1)                                    | 89%           | 69%      |          |
| Return on invested capital(1)                                | 50%           | 40%      |          |
|                                                              |               |          |          |
| <b>Key indicators:</b>                                       |               |          |          |
| Liability balances (average in billions of dollars)          | \$ 158        | \$ 139   | 14%      |
| Assets under custody at period end (in trillions of dollars) | 8.8           | 8.0      | 10       |
|                                                              |               |          |          |

(1) See footnote 3 to the table on page 4.

NM Not meaningful.



**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, increased, reflecting growth in liability balances, assets under custody, and rising interest rates in Cash Management and SFS. Average liability balances grew 14% to \$158 billion primarily due to increases in *EMEA* and the *U.S.*, reflecting positive flow from new and existing customers.

*Cash Management* revenue increased, reflecting growth across all regions except Mexico from higher liability balances, higher interest rates, and increased revenues from new sales.

*Securities & Funds Services* revenue increased, reflecting growth across all regions, higher assets under custody, and the impact of acquisitions. Assets under custody reached \$8.8 trillion, an increase of \$0.8 trillion, or 10%, driven by strong sales momentum, higher equity market values, and the inclusion of ABN Amro and UNISEN assets under custody.

*Trade Services & Finance* revenue increased primarily due to double-digit revenue growth in *EMEA* and the *U.S.*, partially offset by *Mexico* and *Latin America*.

The change in *the provision for credit losses* of \$18 million was primarily attributable to a reserve build of \$5 million in 2006, compared to reserve releases of \$13 million in 2005.

*Operating expenses* increased due to organic business growth, acquisitions, and investment spending.

Cash-basis loans, which are primarily trade finance receivables, were \$76 million and \$77 million at March 31, 2006 and 2005, respectively.

***Regional Net Income***

*Net income* in the *U.S.* decreased primarily due to higher expenses from acquisitions and continued investment spending, which was partially offset by growth in liability balances, higher interest rates, and the resolution of the Federal Tax Audit.

*Mexico* net income decreased primarily due to higher expenses, and declining interest rates.

*Latin America* net income increased on liability balance growth and the resolution of the Federal Tax Audit.

*EMEA* net income increased primarily due to increases in liability balances, assets under custody and higher interest rates. Results also included the benefit of the resolution of the Federal Tax Audit.

*Asia* net income increased primarily due to higher customer volumes, growth in liability balances and assets under custody, higher interest rates, and the resolution of the Federal Tax Audit.

*Japan* net income increased due to higher liability balances and assets under custody.

**Other CIB**

Other CIB includes offsets to certain line items reported in other CIB segments, certain non-recurring items and tax amounts not allocated to CIB products.

| In millions of dollars                              | First Quarter  |               |
|-----------------------------------------------------|----------------|---------------|
|                                                     | 2006           | 2005          |
| <b>Revenues, net of interest expense</b>            | <b>\$ 1</b>    | <b>\$ 1</b>   |
| Operating expenses                                  | 5              | 6             |
| Provision for credit losses                         |                | 3             |
| <b>Income (loss) before income taxes (benefits)</b> | <b>\$ (4)</b>  | <b>\$ (8)</b> |
| Income taxes (benefits)                             | 8              | (3)           |
| Net income (loss)                                   | <b>\$ (12)</b> | <b>\$ (5)</b> |

**1Q06 vs. 1Q05**

The net loss of \$12 million in the 2006 first quarter, compared to a net loss of \$5 million in the prior-year quarter, is primarily due to higher taxes, partially offset by lower credit provisions.

## GLOBAL WEALTH MANAGEMENT

Global Wealth Management is composed of the *Smith Barney* Private Client businesses (branded Citigroup Wealth Advisors outside the U.S.), Citigroup *Private Bank*, and Citigroup Investment Research.

| In millions of dollars                              | First Quarter   |                 | % Change      |
|-----------------------------------------------------|-----------------|-----------------|---------------|
|                                                     | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense by region:</b> |                 |                 |               |
| U.S.                                                | \$ 2,154        | \$ 1,872        | 15%           |
| Mexico                                              | 31              | 31              |               |
| Latin America                                       | 43              | 58              | (26)          |
| EMEA                                                | 75              | 71              | 6             |
| Japan                                               |                 | 22              | (100)         |
| Asia                                                | 180             | 119             | 51            |
| <b>Revenues, net of interest expense</b>            | <b>\$ 2,483</b> | <b>\$ 2,173</b> | <b>14%</b>    |
| Operating expenses                                  | 2,055           | 1,690           | 22            |
| Provision for loan losses                           | 5               | (16)            | NM            |
| <b>Income before taxes</b>                          | <b>\$ 423</b>   | <b>\$ 499</b>   | <b>(15)%</b>  |
| Income taxes                                        | 136             | 180             | (24)          |
| <b>Net income</b>                                   | <b>\$ 287</b>   | <b>\$ 319</b>   | <b>(10)%</b>  |
| <b>Net income (loss) by region:</b>                 |                 |                 |               |
| U.S.                                                | \$ 228          | \$ 273          | (16)%         |
| Mexico                                              | 8               | 13              | (38)          |
| Latin America                                       | 3               | 7               | (57)          |
| EMEA                                                | 3               | (1)             | NM            |
| Japan                                               |                 | (8)             | 100           |
| Asia                                                | 45              | 35              | 29            |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                               | First Quarter |          | % Change |
|-------------------------------|---------------|----------|----------|
| Net income                    | \$ 287        | \$ 319   | (10)%    |
| Average risk capital(1)       | \$ 2,539      | \$ 1,993 | 27%      |
| Return on risk capital(1)     | 46%           | 65%      |          |
| Return on invested capital(1) | 29%           | 53%      |          |

(1) See footnote 3 to the table on page 4.

NM Not meaningful.

**Smith Barney**

Smith Barney provides investment advice, financial planning and brokerage services to affluent individuals, companies, and non-profits through a network of more than 13,000 Financial Advisors in more than 600 offices primarily in the U.S. Smith Barney generates revenue from managing client assets, acting as a broker for clients in the purchase and sale of securities, financing customers' securities transactions and other borrowing needs through lending, and through the sale of mutual funds.

| In millions of dollars                                             | First Quarter   |                 | % Change      |
|--------------------------------------------------------------------|-----------------|-----------------|---------------|
|                                                                    | 2006            | 2005            | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense</b>                           | <b>\$ 1,987</b> | <b>\$ 1,669</b> | <b>19%</b>    |
| Operating expenses                                                 | 1,720           | 1,351           | 27            |
| Provision for loan losses                                          | 1               |                 |               |
| <b>Income before taxes</b>                                         | <b>\$ 266</b>   | <b>\$ 318</b>   | <b>(16)%</b>  |
| Income taxes                                                       | 98              | 121             | (19)          |
| <b>Net income</b>                                                  | <b>\$ 168</b>   | <b>\$ 197</b>   | <b>(15)%</b>  |
| Average risk capital(1)                                            | \$ 1,457        | \$ 876          | 66%           |
| Return on risk capital(1)                                          | 47%             | 91%             |               |
| Return on invested capital(1)                                      | 24%             | 63%             |               |
| <b>Key indicators: (in billions of dollars)</b>                    |                 |                 |               |
| Total assets under fee-based management                            | \$ 319          | \$ 239          | 33%           |
| Total Smith Barney client assets                                   | \$ 1,167        | \$ 969          | 20            |
| Financial advisors (#)                                             | 13,321          | 12,189          | 9             |
| Annualized revenue per financial advisor (in thousands of dollars) | \$ 597          | \$ 556          | 7             |

(1)

## Edgar Filing: CITIGROUP INC - Form 10-Q

The increase in average risk capital from the 2005 first quarter was primarily attributed to methodology changes implemented during the 2006 first quarter. See footnote 3 to the table on page 4.

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, increased primarily due to a 32% increase in fee-based revenues and a 4% increase in transactional revenues, reflecting increased customer volumes and the acquisition of the Legg Mason retail brokerage business.

*Operating expenses* increased due mainly to higher compensation expense, including SFAS 123(R) charges of \$177 million, and integration costs of the Legg Mason retail brokerage business. The SFAS 123(R) charge consisted of \$129 million related to the January 2006 grant and \$48 million related to the 2006 first quarter accrual for the estimated cost of awards to be granted through January 2007.

Total assets under fee-based management were \$319 billion as of March 31, 2006, up \$80 billion or 33%, from the prior-year period. Total client assets, including assets under fee-based management, of \$1,167 billion increased \$198 billion, or 20%, compared to the prior-year quarter. This reflected organic growth and the addition of Legg Mason client assets. Net inflows were \$3 billion compared to \$13 billion in the prior-year quarter. *Smith Barney* had 13,321 financial consultants as of March 31, 2006, compared with 12,189 as of March 31, 2005. Annualized revenue per financial consultant of \$597,000 increased 7% from the prior-year quarter.

## Private Bank

*Private Bank* provides personalized wealth management services for high-net-worth clients in 33 countries and territories. These services include comprehensive investment management (investment funds management, capital markets solutions, trust, fiduciary and custody services), investment finance (credit services including real estate financing, commitments and letters of credit) and banking services (deposit, checking and savings accounts, as well as cash management and other traditional banking services).

| In millions of dollars                               | First Quarter |               | % Change      |
|------------------------------------------------------|---------------|---------------|---------------|
|                                                      | 2006          | 2005          | 1Q06 vs. 1Q05 |
| <b>Revenues, net of interest expense, by region:</b> |               |               |               |
| <i>U.S.</i>                                          | \$ 210        | \$ 203        | 3%            |
| <i>Mexico</i>                                        | 31            | 31            |               |
| <i>Latin America</i>                                 | 43            | 58            | (26)          |
| <i>EMEA</i>                                          | 70            | 71            | (1)           |
| <i>Japan</i>                                         |               | 22            | (100)         |
| <i>Asia</i>                                          | 142           | 119           | 19            |
| <b>Revenues, net of interest expense</b>             | <b>\$ 496</b> | <b>\$ 504</b> | <b>(2)%</b>   |
| Operating expenses                                   | 335           | 339           | (1)           |
| Provision for loan losses                            | 4             | (16)          | NM            |
| <b>Income before taxes</b>                           | <b>\$ 157</b> | <b>\$ 181</b> | <b>(13)%</b>  |
| Income taxes                                         | 38            | 59            | (36)          |
| <b>Net income</b>                                    | <b>\$ 119</b> | <b>\$ 122</b> | <b>(2)%</b>   |
| <b>Net income (loss) by region:</b>                  |               |               |               |
| <i>U.S.</i>                                          | \$ 66         | \$ 76         | (13)%         |
| <i>Mexico</i>                                        | 8             | 13            | (38)          |
| <i>Latin America</i>                                 | 3             | 7             | (57)          |
| <i>EMEA</i>                                          | 2             | (1)           | NM            |
| <i>Japan</i>                                         |               | (8)           | 100           |
| <i>Asia</i>                                          | 40            | 35            | 14            |
| <b>Net income (loss)</b>                             | <b>\$ 119</b> | <b>\$ 122</b> | <b>(2)%</b>   |



Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                 | First Quarter |          | % Change |
|-------------------------------------------------|---------------|----------|----------|
|                                                 |               |          |          |
| Average risk capital(1)                         | \$ 1,082      | \$ 1,117 | (3)%     |
| Return on risk capital(1)                       | 45%           | 44%      |          |
| Return on invested capital(1)                   | 42%           | 42%      |          |
| <b>Key indicators: (in billions of dollars)</b> |               |          |          |
| Client assets under fee-based management        | \$ 50         | \$ 49    | 2%       |
| Other client activity                           | 172           | 169      | 2        |
| Total client business volumes                   | \$ 222        | \$ 218   | 2%       |

(1) See footnote 3 to the table on page 4.

NM Not meaningful.

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, declined as growth in recurring fee-based and net interest revenues was offset by lower transactional revenue.

*U.S.* revenue increased, as strong growth in lending volumes was partially offset by net interest revenue compression.

*Mexico* revenue was flat, as an increase in banking revenue was offset by lower capital markets revenue.

*Latin America* revenue decreased, primarily driven by lower capital markets revenue and spread compression in the lending portfolio.

*EMEA* revenue decreased, as higher capital markets revenue was partially offset by the transfer of the CWA business to Smith Barney.

*Asia* revenue increased, reflecting strong capital markets activity.

*Operating expenses* declined, primarily reflecting the absence of Japan expenses in the 2006 first quarter, which offset SFAS 123(R) charges of \$19 million.

*Provision for loan losses* was \$4 million in the 2006 first quarter compared to a \$16 million release in the 2005 first quarter. The provision in the 2005 first quarter reflected a reduction in the allowance for loan losses and net recoveries in *EMEA*.

*Client business volumes* increased \$4 billion, or 2%, as a decline of \$12 billion in *Japan* was offset by growth of \$16 billion, or 8%, in other regions. Growth was led by an increase of \$2 billion in custody assets, which were higher in the *U.S.* and *Asia*, offsetting a decline in *Japan*. Managed assets increased \$1 billion, mainly driven by positive net flows in *Asia*, offsetting a decline in *Japan*. Banking and fiduciary deposits increased \$1 billion, with growth in *Asia* and *Europe* partially offset by a decline in *Japan*. Investment finance volumes were flat, reflecting a decline in *Japan* offset by growth in *U.S.* real estate and tailored lending.

## ALTERNATIVE INVESTMENTS

*Alternative Investments* (AI) manages capital on behalf of Citigroup, as well as for third-party institutional and high-net-worth investors. AI is an integrated alternative investment platform that manages a wide range of products across five asset classes, including private equity, hedge funds, real estate, structured products and managed futures. AI's business model is to enable its 14 investment centers to retain entrepreneurial qualities required to capitalize on evolving opportunities, while benefiting from the intellectual, operational and financial resources of Citigroup.

| In millions of dollars                           | First Quarter |               | % Change      |
|--------------------------------------------------|---------------|---------------|---------------|
|                                                  | 2006          | 2005          | 1Q06 vs. 1Q05 |
| Net realized and net change in unrealized gains  | \$ 563        | \$ 706        | (20)%         |
| Fees, dividends and interest                     | 49            | 81            | (40)          |
| Other                                            | (28)          | 17            | NM            |
| Total proprietary investment activities revenues | \$ 584        | \$ 804        | (27)%         |
| Client revenues(1)                               | 91            | 62            | 47            |
| <b>Total revenues, net of interest expense</b>   | <b>\$ 675</b> | <b>\$ 866</b> | <b>(22)%</b>  |
| Operating expenses                               | 181           | 105           | 72            |
| <b>Income before taxes and minority interest</b> | <b>\$ 494</b> | <b>\$ 761</b> | <b>(35)%</b>  |
| Income taxes                                     | \$ 111        | \$ 267        | (58)%         |
| Minority interest, net of taxes                  | 30            | 132           | (77)          |
| <b>Net income</b>                                | <b>\$ 353</b> | <b>\$ 362</b> | <b>(2)%</b>   |
| Average risk capital(2)                          | \$ 4,547      | \$ 4,089      | 11%           |
| Return on risk capital(2)                        | 32%           | 36%           |               |
| Return on invested capital(2)                    | 28%           | 34%           |               |

**Key indicators:** (in billions of dollars)

Edgar Filing: CITIGROUP INC - Form 10-Q

|                           | First Quarter |         | % Change |
|---------------------------|---------------|---------|----------|
| Capital under management: |               |         |          |
| Client                    | \$ 28.2       | \$ 20.2 | 40%      |
| Proprietary               | 11.1          | 8.8     | 26       |
|                           |               |         |          |
| Total                     | \$ 39.3       | \$ 29.0 | 36%      |

(1) Includes fee income.

(2) See footnote 3 to the table on page 4.

NM Not meaningful

## 1Q06 vs. 1Q05

*Total proprietary revenues, net of interest expense*, were composed of revenues from private equity of \$213 million, other investment activity of \$264 million and hedge funds of \$107 million. Private equity revenue declined \$539 million from the first quarter 2005, primarily driven by the absence of prior-year realized gains from the sale of portfolio assets. Other investment activities revenue increased \$242 million from the first quarter 2005, largely due to realized gains from the liquidation of Citigroup's investment in St. Paul shares. Hedge fund revenue increased \$77 million, largely due to a higher net change in unrealized gains on a substantially increased asset base, along with improved investment performance. Client revenues increased \$29 million, reflecting increased management and performance fees from a 40% growth in client capital under management.

*Operating expenses* in the first quarter of 2006 of \$181 million increased \$76 million from the first quarter of 2005, primarily due to increased performance-driven compensation, investment spending in hedge funds and real estate, and the impact of SFAS 123(R).

*Minority interest, net of tax*, in the first quarter of 2006 of \$30 million declined \$102 million from the first quarter of 2005, primarily due to the lack of private equity gains related to underlying investments held by consolidated majority-owned legal entities. The impact of minority interest is reflected in fees, dividends, and interest, and net realized gains/(losses) consistent with cash proceeds received by minority interests.

*Net Income* in the first quarter of 2006 also reflected a tax benefit of \$58 million resulting from the resolution of the Federal Tax Audit.

*Proprietary capital under management* of \$11.1 billion increased \$2.3 billion from the first quarter 2005, primarily driven by the MetLife and Legg Mason shares acquired during 2005, as well as the funding of proprietary investments in hedge funds and real estate. These increases were partially offset by the sale of all of Citigroup's holdings of St. Paul shares.

*Client capital under management* of \$28.2 billion in the 2006 first quarter increased \$8.0 billion from the 2005 first quarter, due to inflows from institutional and high-net-worth clients and the inclusion of \$1.3 billion in assets for the former Travelers Life & Annuities business, following the July 1, 2005 sale to MetLife.

Investments held by investment company subsidiaries (including CVC Brazil) are carried at fair value with the net change in unrealized gains and losses recorded in income. The Company's investment in CVC Brazil is subject to a variety of unresolved matters, including pending litigation involving some of its portfolio companies, which could affect future valuations of these companies.\*

\*

This is a forward-looking statement within the meaning of the Private Securities Litigation Reform Act. See "Forward-Looking Statements" on page 75.

The sale of Citigroup's Life Insurance and Annuities business to MetLife, Inc. on July 1, 2005, included \$1.0 billion, or 22.4 million shares, in MetLife equity securities in the sale proceeds. The investment in Legg Mason resulted from the sale of Citigroup's Asset Management business to Legg Mason, Inc. on December 1, 2005, which included \$2.298 billion, a combination of Legg Mason common and convertible preferred equity securities in the sale proceeds. Total equivalent number of common shares was 18.7 million, of which 10.3 million were sold in March 2006. The MetLife and Legg Mason equity securities are classified on Citigroup's Consolidated Balance Sheet as Investments (available-for-sale). Citigroup's ownership position in St. Paul Travelers Companies Inc. common shares was liquidated in the 2006 first quarter, resulting in a pretax gain of \$225 million.

### MetLife and Legg Mason Equity Securities

| Company          | Type of Ownership                                      | Shares owned on<br>March 31, 2006                  | Sale Restriction                                                                      | Market Value<br>as of<br>March 31,<br>2006<br>(\$ millions) | Pretax Unrealized<br>Gains as of<br>March 31, 2006<br>(\$ millions) |
|------------------|--------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------|
| MetLife, Inc.(1) | Common stock representing approximately 3.0% ownership | 22.4 million                                       | May be sold in private offerings until July 1, 2006. Thereafter, may be sold publicly | \$ 1,085                                                    | \$ 85                                                               |
| Legg Mason, Inc. | Non-voting convertible preferred stock                 | 8.4 shares (convertible into 8.4 million shares of | 2.2 million shares may be sold publicly at any time                                   | 1,052                                                       | 22                                                                  |

Edgar Filing: CITIGROUP INC - Form 10-Q

| Company | Type of Ownership                               | Shares owned on<br>March 31, 2006           | Sale Restriction                                                                 | Market Value<br>as of<br>March 31,<br>2006<br>(\$ millions) | Pretax Unrealized<br>Gains as of<br>March 31, 2006<br>(\$ millions) |
|---------|-------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------|
|         | representing<br>approximately 6.2%<br>ownership | common stock upon sale<br>to non-affiliate) | and the remaining<br>6.2 million shares may be<br>sold after December 1,<br>2006 |                                                             |                                                                     |
| Total   |                                                 |                                             |                                                                                  | \$ 2,137                                                    | \$ 107                                                              |

- (1) The pretax unrealized gain excludes the effects from The Company's hedging activities related to these shares. The hedges covered approximately 84% of shares owned as of March 31, 2006.

**CORPORATE/OTHER**

Corporate/Other includes treasury results, unallocated corporate expenses, offsets to certain line-item reclassifications reported in the business segments (inter-segment eliminations), the results of discontinued operations and unallocated taxes.

| In millions of dollars                                                             | First Quarter   |                |
|------------------------------------------------------------------------------------|-----------------|----------------|
|                                                                                    | 2006            | 2005           |
| <b>Revenues, net of interest expense</b>                                           | <b>\$ (209)</b> | <b>\$ 2</b>    |
| Operating expenses                                                                 | 8               | 95             |
| <b>Income (loss) from continuing operations before taxes and minority interest</b> | <b>\$ (217)</b> | <b>\$ (93)</b> |
| Income tax benefits                                                                | (131)           | (12)           |
| Minority interest, net of taxes                                                    | 1               | 7              |
| <b>Income (loss) from continuing operations</b>                                    | <b>\$ (87)</b>  | <b>\$ (88)</b> |
| Income from discontinued operations                                                | 84              | 326            |
| <b>Net income (loss)</b>                                                           | <b>\$ (3)</b>   | <b>\$ 238</b>  |

**1Q06 vs. 1Q05**

*Revenues, net of interest expense*, decreased, primarily due to lower intersegment eliminations and lower treasury results. Higher interest rates and an extension of the debt maturity profile, partially offset by lower funding balances, drove a decline in treasury results.

*Operating expenses* declined, primarily due to lower intersegment eliminations, partially offset by increased staffing and technology costs.

*Income tax benefits* increased due to the higher pretax loss in the current year and a tax reserve release of \$61 million relating to the resolution of the Federal Tax Audit.

Discontinued operations represent the operations in the Company's Sale of the Asset Management Business to Legg Mason Inc., and the Sale of the Life Insurance and Annuities Business. For 2006, income from discontinued operations included a gain from the Sale of the Asset Management Business in Poland, as well as a tax reserve release of \$59 million relating to the resolution of the Federal Tax Audit. See Note 3 to the Consolidated Financial Statements on page 83.

## MANAGING GLOBAL RISK

The Citigroup risk management framework recognizes the diversity of Citigroup's global business activities by balancing strong corporate oversight with well-defined independent risk management functions within each business. The Citigroup risk management framework is described in Citigroup's 2005 Annual Report on Form 10-K.

The Citigroup Senior Risk Officer is responsible for:

establishing standards for the measurement and reporting of risk,

managing and compensating the senior independent risk managers at the business level,

approving business-level risk management policies,

reviewing major risk exposures and concentrations across the organization.

The independent risk managers at the business level are responsible for establishing and implementing risk management policies and practices within their business, for overseeing the risk in their business, and for responding to the needs and issues of their business.

## RISK CAPITAL

Risk capital is defined at Citigroup as the amount of capital required to absorb potential unexpected economic losses resulting from extremely severe events over a one-year time period.

"Economic losses" include losses that appear on the income statement and fair value adjustments to the financial statements, as well as any further declines in the value of assets or increases in the value of liabilities not captured on the income statement.

"Unexpected losses" are the difference between potential extremely severe losses and Citigroup's expected (average) loss over a one-year time period.

"Extremely severe" is defined as potential loss at a 99.97% confidence level, as extrapolated from the distribution of observed events and scenario analysis.

Risk capital is used in the calculation of return on risk capital (RORC) and return on invested capital (ROIC) measures for assessing business performance and allocating Citigroup's balance sheet and risk-taking capacity.

RORC, calculated as annualized net income from continuing operations divided by average risk capital, compares business income with the capital required to absorb the risks. This is analogous to a return on tangible equity calculation. It is used to assess businesses' operating performance and to determine incremental allocation of capital for organic growth.

ROIC is calculated using income adjusted to exclude a net internal funding cost Citigroup levies on the goodwill and intangible assets of each business. This adjusted annualized income is divided by the sum of each business' average risk capital, goodwill and intangible assets (excluding mortgage servicing rights, which are captured in risk capital). ROIC thus compares business income with the total invested capital risk capital, goodwill and intangible assets used to generate that income. ROIC is used to assess returns on potential acquisitions and divestitures, and to compare long-term performance of businesses with differing proportions of organic and acquired growth.

Methodologies to measure risk capital are jointly developed by risk management, the financial division and Citigroup businesses, and approved by the Citigroup Senior Risk Officer and Citigroup Chief Financial Officer. It is expected, due to the evolving nature of risk capital, that these methodologies will continue to be refined.



## Edgar Filing: CITIGROUP INC - Form 10-Q

The drivers of "economic losses" are risks, which can be broadly categorized as credit risk (including cross-border risk), market risk, operational risk, and insurance risk:

Credit risk losses primarily result from a borrower's or counterparty's inability to meet its obligations.

Market risk losses arise from fluctuations in the market value of trading and non-trading positions, including changes in value resulting from fluctuation in rates.

Operational risk losses result from inadequate or failed internal processes, people, systems or from external events.

Insurance risks arise from unexpectedly high payouts on insurance liabilities.

These risks are measured and aggregated within businesses and across Citigroup to facilitate the understanding of the Company's exposure to extreme downside events and any changes in its level or its composition.

At March 31, 2006, December 31, 2005, and March 31, 2005, risk capital for Citigroup was composed of the following risk types:

| In billions of dollars         | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Mar. 31,<br>2005 |
|--------------------------------|------------------|------------------|------------------|
| Credit risk                    | \$ 36.3          | \$ 36.1          | \$ 33.8          |
| Market risk                    | 17.4             | 13.5             | 15.0             |
| Operational risk               | 8.1              | 8.1              | 8.5              |
| Insurance risk                 | 0.2              | 0.2              | 0.2              |
| Intersector diversification(1) | (5.9)            | (4.7)            | (5.0)            |
| <b>Total Citigroup</b>         | <b>\$ 56.1</b>   | <b>\$ 53.2</b>   | <b>\$ 52.5</b>   |
| Return on risk capital         | 41%              | 38%              | 40%              |
| Return on invested capital     | 20%              | 22%              | 20%              |

(1) Reduction in risk represents diversification between risk sectors.

## Edgar Filing: CITIGROUP INC - Form 10-Q

The increase in Citigroup's risk capital versus December 31, 2005 was primarily related to the year-end methodology update for market risk for non-trading positions, offset by decreases in certain of the Company's proprietary investment positions.

Average risk capital, return on risk capital and return on invested capital are provided for each segment and product and are disclosed on pages 14-42.

The increase in average risk capital compared to the 2005 first quarter was primarily driven by increases in Global Consumer, Global Wealth Management, Alternative Investments and Corporate/Other. Average risk capital of \$27.7 billion in Global Consumer increased \$1.4 billion, or 5%, driven mostly by updates to risk capital methodologies in market risk for non-trading positions and operational risk. Average risk capital of \$2.5 billion in Global Wealth Management increased \$546 million, or 27%, primarily driven by the new operational risk methodology. Alternative Investments average risk capital of \$4.5 billion increased \$458 million, or 11%, due to higher market risk under the updated methodology for non-trading positions. Corporate/Other average risk capital increased \$1.8 billion, from (\$1.7) billion to \$145 million, due to the methodological changes in market and operational risks, offset by the intersector diversification.

### CREDIT RISK MANAGEMENT PROCESS

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. Credit risk arises in many of the Company's business activities, including:

lending

sales and trading

derivatives

securities transactions

settlement

when the Company acts as an intermediary on behalf of its clients and other third parties

The credit risk management process at Citigroup relies on corporate oversight to ensure appropriate consistency with business-specific policies and practices to ensure applicability.





## DETAILS OF CREDIT LOSS EXPERIENCE

| In millions of dollars                                            | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 3rd Qtr.<br>2005 | 2nd Qtr.<br>2005 | 1st Qtr.<br>2005 |
|-------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Allowance for loan losses at beginning of year</b>             | <b>\$ 9,782</b>  | <b>\$ 10,015</b> | <b>\$ 10,418</b> | <b>\$ 10,894</b> | <b>\$ 11,269</b> |
| <b>Provision for loan losses</b>                                  |                  |                  |                  |                  |                  |
| Consumer                                                          | \$ 1,446         | \$ 1,936         | \$ 2,584         | \$ 1,835         | \$ 1,869         |
| Corporate                                                         | (50)             | (65)             | (59)             | (115)            | (56)             |
|                                                                   | <b>\$ 1,396</b>  | <b>\$ 1,871</b>  | <b>\$ 2,525</b>  | <b>\$ 1,720</b>  | <b>\$ 1,813</b>  |
| <b>Gross credit losses</b>                                        |                  |                  |                  |                  |                  |
| <b>Consumer</b>                                                   |                  |                  |                  |                  |                  |
| In U.S. offices                                                   | \$ 1,105         | \$ 1,531         | \$ 1,380         | \$ 1,472         | \$ 1,539         |
| In offices outside the U.S.                                       | 1,037            | 955              | 2,000            | 869              | 840              |
| <b>Corporate</b>                                                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                   | 15               | 68               | 4                | 32               | 23               |
| In offices outside the U.S.                                       | 26               | 60               | 60               | 79               | 49               |
|                                                                   | <b>\$ 2,183</b>  | <b>\$ 2,614</b>  | <b>\$ 3,444</b>  | <b>\$ 2,452</b>  | <b>\$ 2,451</b>  |
| <b>Credit recoveries</b>                                          |                  |                  |                  |                  |                  |
| <b>Consumer</b>                                                   |                  |                  |                  |                  |                  |
| In U.S. offices                                                   | \$ 190           | \$ 224           | \$ 242           | \$ 333           | \$ 261           |
| In offices outside the U.S.                                       | 319              | 227              | 212              | 211              | 193              |
| <b>Corporate</b>                                                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                   | 2                | 94               | 39               | 7                | 13               |
| In offices outside the U.S.                                       | 72               | 146              | 148              | 123              | 82               |
|                                                                   | <b>\$ 583</b>    | <b>\$ 691</b>    | <b>\$ 641</b>    | <b>\$ 674</b>    | <b>\$ 549</b>    |
| <b>Net credit losses</b>                                          |                  |                  |                  |                  |                  |
| In U.S. offices                                                   | \$ 928           | \$ 1,281         | \$ 1,103         | \$ 1,164         | \$ 1,288         |
| In offices outside the U.S.                                       | 672              | 642              | 1,700            | 614              | 614              |
| <b>Total</b>                                                      | <b>\$ 1,600</b>  | <b>\$ 1,923</b>  | <b>\$ 2,803</b>  | <b>\$ 1,778</b>  | <b>\$ 1,902</b>  |
| Other net(1)(2)(3)(4)(5)                                          | \$ (73)          | \$ (181)         | \$ (125)         | \$ (418)         | \$ (286)         |
| <b>Allowance for loan losses at end of year</b>                   | <b>\$ 9,505</b>  | <b>\$ 9,782</b>  | <b>\$ 10,015</b> | <b>\$ 10,418</b> | <b>\$ 10,894</b> |
| Allowance for unfunded lending commitments(6)                     | \$ 900           | \$ 850           | \$ 800           | \$ 700           | \$ 600           |
| <b>Total allowance for loans and unfunded lending commitments</b> | <b>\$ 10,405</b> | <b>\$ 10,632</b> | <b>\$ 10,815</b> | <b>\$ 11,118</b> | <b>\$ 11,494</b> |
| Net consumer credit losses                                        | \$ 1,633         | \$ 2,035         | \$ 2,926         | \$ 1,797         | \$ 1,925         |
| As a percentage of average consumer loans                         | 1.46%            | 1.82%            | 2.68%            | 1.68%            | 1.83%            |
| Net corporate credit losses/(recoveries)                          | \$ (33)          | \$ (112)         | \$ (123)         | \$ (19)          | \$ (23)          |
| As a percentage of average corporate loans                        | NM               | NM               | NM               | NM               | NM               |

## Edgar Filing: CITIGROUP INC - Form 10-Q

- (1) The 2006 first quarter includes reductions to the loan loss reserve of \$90 million related to securitizations.
- (2) The 2005 fourth quarter includes reductions to the loan loss reserve of \$186 million related to securitizations.
- (3) The 2005 third quarter includes reductions to the loan loss reserve of \$137 million related to securitizations offset by the \$23 million of loan loss reserves related to the purchased distressed loans reclassified from Other Assets.
- (4) The 2005 second quarter includes reductions to the loan loss reserve of \$132 million related to securitizations and portfolio sales, \$110 million of purchase accounting adjustments related to the KorAm acquisition, and a \$79 million reclassification to a non-credit related reserve.
- (5) The 2005 first quarter includes reductions to the loan loss reserve of \$129 million related to credit cards securitizations and \$90 million from the sale of CitiCapital's Transportation Finance business.
- (6) Represents additional credit loss reserves for unfunded corporate lending commitments and letters of credit recorded within Other Liabilities on the Consolidated Balance Sheet.

**CASH-BASIS, RENEGOTIATED, AND PAST DUE LOANS**

| In millions of dollars                                                       | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Sept. 30,<br>2005 | June 30,<br>2005 | Mar. 31,<br>2005 |
|------------------------------------------------------------------------------|------------------|------------------|-------------------|------------------|------------------|
| <b>Corporate cash-basis loans(1)</b>                                         |                  |                  |                   |                  |                  |
| Collateral dependent (at lower of cost or collateral value)(2)               | \$               | \$               | \$                | \$               | \$               |
| Other                                                                        | 821              | 998              | 1,204             | 1,588            | 1,724            |
| <b>Total</b>                                                                 | <b>\$ 821</b>    | <b>\$ 1,004</b>  | <b>\$ 1,210</b>   | <b>\$ 1,596</b>  | <b>\$ 1,732</b>  |
| <b>Corporate cash-basis loans(1)</b>                                         |                  |                  |                   |                  |                  |
| In U.S. offices                                                              | \$ 65            | \$ 81            | \$ 74             | \$ 181           | \$ 238           |
| In offices outside the U.S.                                                  | 756              | 923              | 1,136             | 1,415            | 1,494            |
| <b>Total</b>                                                                 | <b>\$ 821</b>    | <b>\$ 1,004</b>  | <b>\$ 1,210</b>   | <b>\$ 1,596</b>  | <b>\$ 1,732</b>  |
| <b>Renegotiated loans (includes Corporate and Commercial Business Loans)</b> | <b>\$ 30</b>     | <b>\$ 32</b>     | <b>\$ 29</b>      | <b>\$ 31</b>     | <b>\$ 36</b>     |
| <b>Consumer loans on which accrual of interest had been suspended</b>        |                  |                  |                   |                  |                  |
| In U.S. offices                                                              | \$ 2,088         | \$ 2,307         | \$ 2,224          | \$ 1,908         | \$ 2,180         |
| In offices outside the U.S.                                                  | 1,664            | 1,713            | 1,597             | 2,791            | 2,890            |
| <b>Total</b>                                                                 | <b>\$ 3,752</b>  | <b>\$ 4,020</b>  | <b>\$ 3,821</b>   | <b>\$ 4,699</b>  | <b>\$ 5,070</b>  |
| <b>Accruing loans 90 or more days delinquent(3)</b>                          |                  |                  |                   |                  |                  |
| In U.S. offices                                                              | \$ 2,531         | \$ 2,886         | \$ 2,823          | \$ 2,789         | \$ 2,962         |
| In offices outside the U.S.                                                  | 410              | 391              | 457               | 407              | 390              |
| <b>Total</b>                                                                 | <b>\$ 2,941</b>  | <b>\$ 3,277</b>  | <b>\$ 3,280</b>   | <b>\$ 3,196</b>  | <b>\$ 3,352</b>  |

(1)

Excludes purchased distressed loans accounted for in accordance with Statement of Position 03-3, "Accounting for Certain Loans on Debt Securities Acquired in a Transfer" (SOP 03-3). This pronouncement was adopted in the 2005 third quarter. Prior to adoption, these loans were classified with other assets. The carrying value of these loans was \$1,217 million at March 31, 2006, \$1,120 million at December 31, 2005, \$1,064 million at September 30, 2005, \$1,148 million at June 30, 2005, and \$1,295 million at March 31, 2005.

(2)

A cash-basis loan is defined as collateral dependent when repayment is expected to be provided solely by the liquidation of the underlying collateral and there are no other available and reliable sources of repayment, in which case the loans are written down to the lower of cost or collateral value.

(3)

Substantially composed of consumer loans of which \$1,465 million, \$1,591 million, \$1,690 million, \$1,744 million, and \$1,829 million are government-guaranteed student loans and Federal Housing Authority mortgages at March 31, 2006, December 31, 2005, September 30, 2005, June 30, 2005, and March 31, 2005, respectively.

**Other Real Estate Owned and Other Repossessed Assets**

| In millions of dollars | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Sept. 30,<br>2005 | June 30,<br>2005 | Mar. 31,<br>2005 |
|------------------------|------------------|------------------|-------------------|------------------|------------------|
|------------------------|------------------|------------------|-------------------|------------------|------------------|

Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions of dollars               | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Sept. 30,<br>2005 | June 30,<br>2005 | Mar. 31,<br>2005 |
|--------------------------------------|------------------|------------------|-------------------|------------------|------------------|
| <b>Other real estate owned(1)</b>    |                  |                  |                   |                  |                  |
| Consumer                             | \$ 322           | \$ 279           | \$ 283            | \$ 248           | \$ 286           |
| Corporate                            | 144              | 150              | 153               | 133              | 127              |
| <b>Total other real estate owned</b> | <b>\$ 466</b>    | <b>\$ 429</b>    | <b>\$ 436</b>     | <b>\$ 381</b>    | <b>\$ 413</b>    |
| <b>Other repossessed assets(2)</b>   | <b>\$ 52</b>     | <b>\$ 62</b>     | <b>\$ 57</b>      | <b>\$ 49</b>     | <b>\$ 74</b>     |

(1) Represents repossessed real estate, carried at lower of cost or fair value, less costs to sell.

(2) Primarily transportation equipment, carried at lower of cost or fair value, less costs to sell.



## CONSUMER PORTFOLIO REVIEW

In the Consumer portfolio, credit loss experience is often expressed in terms of annualized net credit losses as a percentage of average loans. Consumer loans are generally written off no later than a predetermined number of days past due on a contractual basis, or earlier in the event of bankruptcy.

*Commercial Business* includes loans and leases made principally to small- and middle-market businesses. These are placed on a non-accrual basis when it is determined that the payment of interest or principal is past due for 90 days or more, except when the loan is well secured and in the process of collection.

The following table summarizes delinquency and net credit loss experience in both the managed and on-balance sheet consumer loan portfolios. The managed loan portfolio includes held-for-sale and securitized credit card receivables. Only *U.S. Cards* from a product view and U.S. from a regional view are impacted. Although a managed basis presentation is not in conformity with GAAP, the Company believes managed credit statistics provide a representation of performance and key indicators of the credit card business that is consistent with the way management reviews operating performance and allocates resources. For example, the *U.S. Cards* business considers both on-balance sheet and securitized balances (together, its managed portfolio) when determining capital allocation and general management decisions and compensation. Furthermore, investors use information about the credit quality of the entire managed portfolio, as the results of both the on-balance sheet and securitized portfolios impact the overall performance of the *U.S. Cards* business. For a further discussion of managed-basis reporting, see Note 8 to the Consolidated Financial Statements on page 87.

Edgar Filing: CITIGROUP INC - Form 10-Q

Consumer Loan Delinquency Amounts, Net Credit Losses, and Ratios

| In millions of dollars,<br>except total and average<br>loan amounts in billions | Total<br>Loans   |                  | 90 Days or More Past Due(1) |                  |          | Average<br>Loans |                  | Net Credit Losses(1) |                  |  |
|---------------------------------------------------------------------------------|------------------|------------------|-----------------------------|------------------|----------|------------------|------------------|----------------------|------------------|--|
|                                                                                 | Mar. 31,<br>2006 | Mar. 31,<br>2006 | Dec. 31,<br>2005            | Mar. 31,<br>2005 |          | 1st Qtr.<br>2006 | 1st Qtr.<br>2006 | 4th Qtr.<br>2005     | 1st Qtr.<br>2005 |  |
| <b>Product View:</b>                                                            |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
| <b>U.S.:</b>                                                                    |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
| U.S. Cards                                                                      | \$ 40.0          | \$ 958           | \$ 1,161                    | \$ 1,094         | \$ 42.3  | \$ 446           | \$ 692           | \$ 756               |                  |  |
| Ratio                                                                           |                  | 2.39%            | 2.56%                       | 2.26%            |          | 4.27%            | 6.38%            | 5.77%                |                  |  |
| U.S. Retail Distribution                                                        | 42.8             | 740              | 818                         | 782              | 42.5     | 279              | 418              | 326                  |                  |  |
| Ratio                                                                           |                  | 1.73%            | 1.94%                       | 1.98%            |          | 2.66%            | 3.98%            | 3.36%                |                  |  |
| U.S. Consumer Lending                                                           | 193.1            | 2,411            | 2,624                       | 2,758            | 187.1    | 176              | 178              | 181                  |                  |  |
| Ratio                                                                           |                  | 1.25%            | 1.45%                       | 1.72%            |          | 0.38%            | 0.39%            | 0.47%                |                  |  |
| U.S. Commercial Business                                                        | 34.3             | 151              | 170                         | 185              | 33.9     | 14               | 16               | 12                   |                  |  |
| Ratio                                                                           |                  | 0.44%            | 0.51%                       | 0.60%            |          | 0.17%            | 0.19%            | 0.17%                |                  |  |
| <b>International:</b>                                                           |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
| International Cards                                                             | 24.1             | 535              | 469                         | 354              | 24.3     | 218              | 182              | 160                  |                  |  |
| Ratio                                                                           |                  | 2.22%            | 1.95%                       | 1.64%            |          | 3.64%            | 3.08%            | 3.02%                |                  |  |
| International Consumer Finance                                                  | 22.8             | 437              | 442                         | 480              | 22.4     | 319              | 313              | 316                  |                  |  |
| Ratio                                                                           |                  | 1.93%            | 2.03%                       | 2.12%            |          | 5.78%            | 5.62%            | 5.62%                |                  |  |
| International Retail Banking                                                    | 60.5             | 736              | 779                         | 2,013            | 61.5     | 184              | 234              | 179                  |                  |  |
| Ratio                                                                           |                  | 1.21%            | 1.29%                       | 3.26%            |          | 1.21%            | 1.53%            | 1.17%                |                  |  |
| Private Bank(2)                                                                 | 39.5             | 12               | 79                          | 125              | 38.4     | (4)              | 3                | (5)                  |                  |  |
| Ratio                                                                           |                  | 0.03%            | 0.20%                       | 0.32%            |          | (0.04)%          | 0.04%            | (0.05)%              |                  |  |
| Other Consumer Loans                                                            | 2.3              | 43               | 47                          |                  | 2.4      | 1                | (1)              |                      |                  |  |
| <b>On-Balance Sheet Loans(3)</b>                                                |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
|                                                                                 | \$ 459.4         | \$ 6,023         | \$ 6,589                    | \$ 7,791         | \$ 454.8 | \$ 1,633         | \$ 2,035         | \$ 1,925             |                  |  |
| Ratio                                                                           |                  | 1.31%            | 1.46%                       | 1.83%            |          | 1.46%            | 1.82%            | 1.83%                |                  |  |
| <b>Securitized receivables (all in U.S. Cards)</b>                              |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
|                                                                                 | \$ 95.9          | \$ 1,403         | \$ 1,314                    | \$ 1,296         | \$ 94.7  | \$ 871           | \$ 1,591         | \$ 1,162             |                  |  |
| Credit card receivables held-for-sale                                           |                  |                  |                             | 10               | 0.3      | 4                | 15               | 4                    |                  |  |
| <b>Managed Loans(4)</b>                                                         |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
|                                                                                 | \$ 555.3         | \$ 7,426         | \$ 7,903                    | \$ 9,097         | \$ 549.8 | \$ 2,508         | \$ 3,641         | \$ 3,091             |                  |  |
| Ratio                                                                           |                  | 1.34%            | 1.45%                       | 1.77%            |          | 1.85%            | 2.69%            | 2.44%                |                  |  |
| <b>Regional View:</b>                                                           |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
| U.S.                                                                            | \$ 338.1         | \$ 4,312         | \$ 4,872                    | \$ 4,867         | \$ 333.1 | \$ 916           | \$ 1,306         | \$ 1,277             |                  |  |
| Ratio                                                                           |                  | 1.27%            | 1.47%                       | 1.61%            |          | 1.11%            | 1.61%            | 1.71%                |                  |  |
| Mexico                                                                          | 14.7             | 541              | 624                         | 557              | 15.0     | 106              | 90               | 43                   |                  |  |
| Ratio                                                                           |                  | 3.68%            | 4.21%                       | 4.47%            |          | 2.87%            | 2.47%            | 1.42%                |                  |  |
| EMEA                                                                            | 36.9             | 487              | 499                         | 1,734            | 36.5     | 250              | 274              | 229                  |                  |  |
| Ratio                                                                           |                  | 1.32%            | 1.39%                       | 4.43%            |          | 2.77%            | 2.98%            | 2.38%                |                  |  |
| Japan                                                                           | 11.5             | 170              | 182                         | 276              | 11.6     | 223              | 245              | 257                  |                  |  |
| Ratio                                                                           |                  | 1.48%            | 1.56%                       | 1.86%            |          | 7.83%            | 8.41%            | 6.68%                |                  |  |
| Asia                                                                            | 54.1             | 473              | 376                         | 328              | 54.7     | 136              | 109              | 114                  |                  |  |
| Ratio                                                                           |                  | 0.87%            | 0.70%                       | 0.62%            |          | 1.01%            | 0.81%            | 0.87%                |                  |  |
| Latin America                                                                   | 4.1              | 40               | 36                          | 29               | 3.9      | 2                | 11               | 5                    |                  |  |
| Ratio                                                                           |                  | 0.99%            | 0.93%                       | 0.87%            |          | 0.21%            | 1.12%            | 0.56%                |                  |  |
| <b>On-Balance Sheet Loans(3)</b>                                                |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
|                                                                                 | \$ 459.4         | \$ 6,023         | \$ 6,589                    | \$ 7,791         | \$ 454.8 | \$ 1,633         | \$ 2,035         | \$ 1,925             |                  |  |
| Ratio                                                                           |                  | 1.31%            | 1.46%                       | 1.83%            |          | 1.46%            | 1.82%            | 1.83%                |                  |  |
| <b>Securitized receivables (all in U.S. Cards)</b>                              |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
|                                                                                 | \$ 95.9          | \$ 1,403         | \$ 1,314                    | \$ 1,296         | \$ 94.7  | \$ 871           | \$ 1,591         | \$ 1,162             |                  |  |
| Credit card receivables held-for-sale                                           |                  |                  |                             | 10               | 0.3      | 4                | 15               | 4                    |                  |  |
| <b>Managed Loans(4)</b>                                                         |                  |                  |                             |                  |          |                  |                  |                      |                  |  |
|                                                                                 | \$ 555.3         | \$ 7,426         | \$ 7,903                    | \$ 9,097         | \$ 549.8 | \$ 2,508         | \$ 3,641         | \$ 3,091             |                  |  |
| Ratio                                                                           |                  | 1.34%            | 1.45%                       | 1.77%            |          | 1.85%            | 2.69%            | 2.44%                |                  |  |

## Edgar Filing: CITIGROUP INC - Form 10-Q

- (1) The ratios of 90 days or more past due and net credit losses are calculated based on end-of-period and average loans, respectively, both net of unearned income.
- (2) Private Bank results are reported as part of the Global Wealth Management segment.
- (3) Total loans and total average loans exclude certain interest and fees on credit cards of approximately \$3 billion and \$4 billion, respectively, which are included in Consumer Loans on the Consolidated Balance Sheet.
- (4) This table presents credit information on a held basis and shows the impact of securitizations to reconcile to a managed basis. Only *U.S. Cards* from a product view, and U.S from a regional view, are impacted. Managed-basis reporting is a non-GAAP measure. Held-basis reporting is the related GAAP measure. See a discussion of managed-basis reporting on page 49.

## Consumer Loan Balances, Net of Unearned Income

| In billions of dollars                              | End of Period    |                  |                  | Average          |                  |                  |
|-----------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                                     | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Mar. 31,<br>2005 | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 1st Qtr.<br>2005 |
| <b>On-balance sheet(1)</b>                          | <b>\$ 459.4</b>  | <b>\$ 450.6</b>  | <b>\$ 426.1</b>  | <b>\$ 454.8</b>  | <b>\$ 442.6</b>  | <b>\$ 426.6</b>  |
| Securitized receivables (all in <i>U.S. Cards</i> ) | <b>95.9</b>      | 96.2             | 87.7             | <b>94.7</b>      | 92.8             | 86.5             |
| Credit card receivables held-for-sale(2)            |                  |                  | 0.6              | <b>0.3</b>       | 0.7              | 0.2              |
| <b>Total managed(3)</b>                             | <b>\$ 555.3</b>  | <b>\$ 546.8</b>  | <b>\$ 514.4</b>  | <b>\$ 549.8</b>  | <b>\$ 536.1</b>  | <b>\$ 513.3</b>  |

(1) Total loans and total average loans exclude certain interest and fees on credit cards of approximately \$3 billion and \$4 billion for the first quarter of 2006, and approximately \$4 billion and \$4 billion for the fourth quarter of 2005 and the first quarter of 2005, respectively, which are included in Consumer Loans on the Consolidated Balance Sheet.

(2) Included in Other Assets on the Consolidated Balance Sheet.

(3) This table presents loan information on a held basis and shows the impact of securitization to reconcile to a managed basis. Managed-basis reporting is a non-GAAP measure. Held-basis reporting is the related GAAP measure. See a discussion of managed-basis reporting on page 49.

Citigroup's total allowance for loans, leases and unfunded lending commitments of \$10.405 billion is available to absorb probable credit losses inherent in the entire portfolio. For analytical purposes only, the portion of Citigroup's allowance for credit losses attributed to the Consumer portfolio was \$6.647 billion at March 31, 2006, \$6.922 billion at December 31, 2005 and \$8.060 billion at March 31, 2005. The decrease in the allowance for credit losses from March 31, 2005 of \$1.413 billion included:

reserve releases, primarily related to the impact of the change in bankruptcy legislation on *U.S. Cards* and continued improved credit conditions in the U.S.

\$663 million of utilizations as a result of standardizing the consumer loan write-off policies in certain *EMEA* countries in the 2005 third quarter

\$515 million of reductions related to securitizations in the *U.S. Cards* business

\$110 million of purchase accounting adjustments related to the KorAm acquisition

\$79 million reclass to a non-credit related reserve in other assets.

Offsetting these reductions in the allowance for credit losses was the impact of reserve builds of \$810 million, primarily related to the estimated credit losses incurred with Hurricane Katrina; increased reserves in *EMEA*, primarily related to Germany; increased reserves in *Mexico*; increased reserves in Asia, primarily related to industry-wide credit deterioration in the Taiwan cards market; and the impact of the change in bankruptcy legislation on *U.S. Retail Distribution*.

On-balance sheet consumer loans of \$459.4 billion increased \$33.3 billion, or 8%, from March 31, 2005, primarily driven by growth in mortgage and other real-estate-secured loans in the *U.S. Consumer Lending* and *Private Bank* businesses and growth in the *U.S. Commercial*

## Edgar Filing: CITIGROUP INC - Form 10-Q

*Business*, primarily reflecting an increase of \$2.4 billion from the FAB acquisition. Credit card receivables declined on lower securitization activities and higher payment rates by customers. Loans in *EMEA* declined, mainly reflecting the loan write-offs in the 2005 third quarter. Loans in *Japan* also declined, mainly reflecting continued contraction in the *International Consumer Finance* portfolio.

Net credit losses, delinquencies and the related ratios are affected by the credit performance of the portfolios, including bankruptcies, unemployment, global economic conditions, portfolio growth and seasonal factors, as well as macro-economic and regulatory policies.

## **CORPORATE CREDIT RISK**

For corporate clients and investment banking activities across the organization, the credit process is grounded in a series of fundamental policies, including:

Joint business and independent risk management responsibility for managing credit risks;

Single center of control for each credit relationship that coordinates credit activities with that client;

Portfolio limits to ensure diversification and maintain risk/capital alignment;

A minimum two-authorized credit officer-signature requirement on extensions of credit one from a sponsoring credit officer in the business and one from a credit officer in independent credit risk management;

Risk rating standards, applicable to every obligor and facility; and

Consistent standards for credit origination documentation and remedial management.

### **Credit Exposure Arising from Derivatives and Foreign Exchange**

Citigroup uses derivatives as both an end-user for asset/liability management and in its client businesses. In CIB, Citigroup enters into derivatives for trading purposes or to enable customers to transfer, modify or reduce their interest rate, foreign exchange and other market risks. In addition, Citigroup uses derivatives and other instruments, primarily interest rate and foreign exchange products, as an end-user to manage interest rate risk relating to specific groups of interest-sensitive assets and liabilities. In addition, foreign exchange contracts are used to hedge non-U.S. dollar denominated debt, net capital exposures and foreign exchange transactions.

The following tables summarize by derivative type the notionals, receivables and payables held for trading and asset/liability management hedge purposes as of March 31, 2006 and December 31, 2005. See Note 15 to the Consolidated Financial Statements on page 98.

## CITIGROUP DERIVATIVES

## Notionals

| In millions of dollars               | Trading<br>Derivatives(1) |                      | Asset/Liability<br>Management Hedges(2) |                      |
|--------------------------------------|---------------------------|----------------------|-----------------------------------------|----------------------|
|                                      | March 31,<br>2006         | December 31,<br>2005 | March 31,<br>2006                       | December 31,<br>2005 |
| <b>Interest rate contracts</b>       |                           |                      |                                         |                      |
| Swaps                                | \$ 13,609,702             | \$ 12,677,814        | \$ 499,596                              | \$ 403,576           |
| Futures and forwards                 | 2,136,391                 | 2,090,844            | 31,380                                  | 18,425               |
| Written options                      | 2,138,106                 | 1,949,501            | 11,585                                  | 5,166                |
| Purchased options                    | 2,110,973                 | 1,633,983            | 40,840                                  | 53,920               |
| <b>Foreign exchange contracts</b>    |                           |                      |                                         |                      |
| Swaps                                | \$ 603,781                | \$ 563,888           | \$ 43,013                               | \$ 37,418            |
| Futures and forwards                 | 1,678,652                 | 1,508,754            | 48,302                                  | 53,757               |
| Written options                      | 336,027                   | 249,725              | 237                                     |                      |
| Purchased options                    | 333,765                   | 253,089              | 700                                     | 808                  |
| <b>Equity contracts</b>              |                           |                      |                                         |                      |
| Swaps                                | \$ 64,504                 | \$ 70,188            | \$                                      | \$                   |
| Futures and forwards                 | 19,978                    | 14,487               |                                         |                      |
| Written options                      | 223,143                   | 213,383              |                                         |                      |
| Purchased options                    | 210,051                   | 193,248              |                                         |                      |
| <b>Commodity and other contracts</b> |                           |                      |                                         |                      |
| Swaps                                | \$ 21,636                 | \$ 20,486            | \$                                      | \$                   |
| Futures and forwards                 | 12,134                    | 10,876               |                                         |                      |
| Written options                      | 10,412                    | 9,761                |                                         |                      |
| Purchased options                    | 11,752                    | 12,240               |                                         |                      |
| <b>Credit derivatives</b>            | <b>\$ 1,121,638</b>       | <b>\$ 1,030,745</b>  | <b>\$</b>                               | <b>\$</b>            |

## Mark-to-Market (MTM) Receivables/Payables

| In millions of dollars                                                 | Derivatives<br>Receivables MTM |                      | Derivatives<br>Payable MTM |                      |
|------------------------------------------------------------------------|--------------------------------|----------------------|----------------------------|----------------------|
|                                                                        | March 31,<br>2006              | December 31,<br>2005 | March 31,<br>2006          | December 31,<br>2005 |
| <b>Trading Derivatives(1)</b>                                          |                                |                      |                            |                      |
| Interest rate contracts                                                | \$ 183,694                     | \$ 192,761           | \$ 180,566                 | \$ 188,182           |
| Foreign exchange contracts                                             | 39,992                         | 42,749               | 37,471                     | 41,474               |
| Equity contracts                                                       | 24,402                         | 18,633               | 39,408                     | 32,313               |
| Commodity and other contracts                                          | 7,408                          | 7,332                | 6,635                      | 6,986                |
| Credit derivative                                                      | 8,557                          | 8,106                | 9,178                      | 9,279                |
| <b>Total</b>                                                           | <b>\$ 264,053</b>              | <b>\$ 269,581</b>    | <b>\$ 273,258</b>          | <b>\$ 278,234</b>    |
| Less: Netting agreements, cash collateral and market value adjustments | (210,198)                      | (222,167)            | (204,959)                  | (216,906)            |
| <b>Net Receivables/Payables</b>                                        | <b>\$ 53,855</b>               | <b>\$ 47,414</b>     | <b>\$ 68,299</b>           | <b>\$ 61,328</b>     |
| <b>Asset/Liability Management Hedges(2)</b>                            |                                |                      |                            |                      |
| Interest rate contracts                                                | \$ 3,721                       | \$ 3,775             | \$ 2,633                   | \$ 1,615             |
| Foreign exchange contracts                                             | 1,578                          | 1,385                | 1,383                      | 1,137                |

Edgar Filing: CITIGROUP INC - Form 10-Q

|       | Derivatives<br>Receivables MTM |          | Derivatives<br>Payable MTM |          |
|-------|--------------------------------|----------|----------------------------|----------|
| Total | \$ 5,299                       | \$ 5,160 | \$ 4,016                   | \$ 2,752 |

- (1) Trading Derivatives include proprietary positions, as well as hedging derivatives instruments that do not qualify for hedge accounting in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133).
- (2) Asset/Liability Management Hedges include only those hedging derivative instruments that qualify for hedge accounting in accordance with SFAS 133.



## Edgar Filing: CITIGROUP INC - Form 10-Q

The Company's credit exposure on derivatives and foreign exchange contracts is primarily to professional counterparties in the financial sector, arising from transactions with banks, investments banks, governments and central banks, and other financial institutions.

For purposes of managing credit exposure on derivative and foreign exchange contracts, particularly when looking at exposure to a single counterparty, the Company measures and monitors credit exposure taking into account the current mark-to-market value of each contract plus a prudent estimate of its potential change in value over its life. This measurement of the potential future exposure for each credit facility is based on a stressed simulation of market rates and generally takes into account legally enforceable risk-mitigating agreements for each obligor such as netting and margining.

For asset/liability management hedges, a derivative must be highly effective in accomplishing the hedge objective of offsetting either changes in the fair value or cash flows of the hedged item for the risk being hedged. Any ineffectiveness present in the hedge relationship is recognized in current earnings. The assessment of effectiveness excludes the changes in the value of the hedged item that are unrelated to the risks being hedged. Similarly, the assessment of effectiveness may exclude changes in the fair value of a derivative related to time value, which, if excluded, is recognized in current earnings. See Note 15 to the Consolidated Financial Statements on page 98.

## GLOBAL CORPORATE PORTFOLIO REVIEW

Corporate loans are identified as impaired and placed on a non-accrual basis (cash-basis) when it is determined that the payment of interest or principal is doubtful or when interest or principal is past due for 90 days or more; the exception is when the loan is well secured and in the process of collection. Impaired corporate loans are written down to the extent that principal is judged to be uncollectible. Impaired collateral-dependent loans are written down to the lower of cost or collateral value, less disposal costs.

The following table summarizes corporate cash-basis loans and net credit losses:

| In millions of dollars                                                      | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Mar. 31,<br>2005 |
|-----------------------------------------------------------------------------|------------------|------------------|------------------|
| <b>Corporate cash-basis loans</b>                                           |                  |                  |                  |
| <i>Capital Markets and Banking</i>                                          | \$ 745           | \$ 923           | \$ 1,655         |
| <i>Transaction Services</i>                                                 | 76               | 81               | 77               |
| <b>Total corporate cash-basis loans(1)</b>                                  | <b>\$ 821</b>    | <b>\$ 1,004</b>  | <b>\$ 1,732</b>  |
| <b>Net credit losses (recoveries)</b>                                       |                  |                  |                  |
| <i>Capital Markets and Banking</i>                                          | \$ (34)          | \$ (117)         | \$ (14)          |
| <i>Transaction Services</i>                                                 | 1                | 5                | (12)             |
| Alternative Investments                                                     |                  |                  | 3                |
| <b>Total net credit losses (recoveries)</b>                                 | <b>\$ (33)</b>   | <b>\$ (112)</b>  | <b>\$ (23)</b>   |
| <b>Corporate allowance for loan losses</b>                                  | <b>\$ 2,858</b>  | <b>\$ 2,860</b>  | <b>\$ 2,834</b>  |
| Corporate allowance for credit losses on unfunded lending commitments(2)    | 900              | 850              | 600              |
| <b>Total corporate allowance for loans and unfunded lending commitments</b> | <b>\$ 3,758</b>  | <b>\$ 3,710</b>  | <b>\$ 3,434</b>  |
| <b>As a percentage of total corporate loans(3)</b>                          | <b>2.62%</b>     | <b>2.88%</b>     | <b>2.92%</b>     |

(1) Excludes purchased distressed loans accounted for in accordance with SOP 03-3. This pronouncement was adopted in the 2005 third quarter. Prior to this adoption, these loans were classified in Other Assets. The carrying value of these loans was \$1,217 million at March 31, 2006, \$1,120 million at December 31, 2005 and \$1,295 million at March 31, 2005. Prior to 2004, the balances were immaterial.

(2) Represents additional reserves recorded in Other Liabilities on the Consolidated Balance Sheet.

(3) Does not include the allowance for unfunded lending commitments.

Cash-basis loans on March 31, 2006 decreased \$911 million as compared with March 31, 2005; \$910 million of the decrease was in *Capital Markets and Banking* and \$1 million was in *Transaction Services*. *Capital Markets and Banking* decreased primarily due to higher charge-offs in the U.S., Brazil, Russia and Argentina.

Cash-basis loans decreased \$183 million as compared to December 31, 2005 due to decreases of \$178 million in *Capital Markets and Banking* and \$5 million in *Transaction Services*. *Capital Markets and Banking* primarily reflected declining charge-offs in North America, Russia and Australia. *Transaction Services* decreased primarily due to charge-offs in Poland.

## Edgar Filing: CITIGROUP INC - Form 10-Q

Total corporate Other Real Estate Owned (OREO) was \$144 million, \$150 million and \$127 million at March 31, 2006, December 31, 2005, and March 31, 2005, respectively. The \$6 million decrease from December 31, 2005 reflects net foreclosures in the U.S. real estate portfolio.

Total corporate loans outstanding at March 31, 2006 were \$143 billion as compared to \$129 billion and \$118 billion at December 31, 2005 and March 31, 2005, respectively.

Total corporate net credit recovery of \$33 million on March 31, 2006 decreased \$10 million compared to March 31, 2005, primarily due to continued improvements in the overall credit environment. Total corporate net credit losses increased \$79 million compared to the 2005 fourth quarter, primarily due to the absence of write-offs in the fourth quarter of 2005.

Citigroup's allowance for credit losses for loans, leases and lending commitments of \$10.405 billion is available to absorb probable credit losses inherent in the entire portfolio. For analytical purposes only, the portion of Citigroup's allowance for credit losses attributed to the Corporate portfolio was \$3.758 billion at March 31, 2006, compared to \$3.434 billion at March 31, 2005 and \$3.710 billion at December 31, 2005, respectively. The \$324 million increase in the total allowance at March 31, 2006 from March 31, 2005 primarily reflects reserve builds, primarily related to unfunded lending commitments, due to increases in expected losses during the year and the deterioration of the credit quality of the underlying portfolios. There was a \$48 million increase in the total allowance at March 31, 2006 from December 31, 2005 primarily reflects an increase in the allowance for unfunded lending commitments based on the deterioration of the underlying portfolio. Losses on corporate lending activities and the level of cash-basis loans can vary widely with respect to timing and amount, particularly within any narrowly defined business or loan type.

## MARKET RISK MANAGEMENT PROCESS

Market risk encompasses liquidity risk and price risk, both of which arise in the normal course of business of a global financial intermediary. Liquidity risk is the risk that an entity may be unable to meet a financial commitment to a customer, creditor, or investor when due. Liquidity risk is discussed in the "Capital Resources and Liquidity" on page 66. Price risk is the earnings risk from changes in interest rates, foreign exchange rates, equity and commodity prices, and in their implied volatilities. Price risk arises in non-trading portfolios, as well as in trading portfolios.

Market risks are measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate like risk at the Citigroup level. Each business is required to establish, with approval from independent market risk management, a market risk limit framework, including risk measures, limits and controls, that clearly defines approved risk profiles and is within the parameters of Citigroup's overall risk appetite.

In all cases, the businesses are ultimately responsible for the market risks they take and for remaining within their defined limits.

### Non-Trading Portfolios

Citigroup's non-trading portfolios are managed using a common set of standards that define, measure, limit and report market risk. The risks are managed within limits approved by independent market risk management. In addition, there are Citigroup-wide reporting metrics that are common to all business units, which enable Citigroup to aggregate and compare non-trading risks across businesses. The metrics measure the change in either income or value of the Company's positions under various rate scenarios.

Citigroup's primary focus is providing financial products for its customers. Loans and deposits are tailored to the customer's requirements in terms of maturity and whether the rate is fixed or floating and, if it is floating, how often the rate resets and according to which market index. These customer transactions result in a risk exposure for Citigroup. This exposure may be related to differences in the timing of maturities, and/or rate resetting for assets and liabilities, or it may be due to different positions resetting based on different indices. In some instances it may also be indirectly related to interest rate changes. For example, mortgage prepayment rates vary not only as a result of interest rate changes, but also with the absolute level of rates relative to the rate on the mortgage itself.

One function of Treasury at Citigroup is to understand the risks that arise from customer transactions and to manage them so that unexpected changes in the markets do not adversely impact Citigroup's Net Interest Revenue (NIR). Various market factors are considered, including the market's expectation of future interest rates and any different expectations for rate indices (LIBOR, treasuries, etc.). In order to manage these risks effectively, Citigroup may modify customer pricing, enter into transactions with other institutions that may have opposite risk positions and enter into off-balance sheet transactions, including derivatives.

NIR is a function of the size of the balance and the rate that is earned or paid on that balance. NIR in any period is the result of customer transactions and the related contractual rates from prior periods, as well as new transactions in the current period; it may be impacted by changes in rates on floating rate assets and liabilities. Due to the long-term nature of the portfolio, NIR will vary from quarter to quarter even in the absence of changes in interest rates.

Citigroup's principal measure of earnings risk from non-trading portfolios due to interest rates changes is Interest Rate Exposure (IRE). IRE measures the change in expected NIR in each currency that results solely from unanticipated changes in market rates of interest; scenarios are run assuming unanticipated instantaneous parallel rate changes, as well as more gradual rate changes. Other factors such as changes in volumes, spreads, margins, and the impact of prior-period pricing decisions can also change current period interest income, but are not captured by IRE. While IRE assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes, in practice businesses may alter their portfolio mix, customer pricing and hedge positions, which could significantly impact reported NIR.

Citigroup employs additional measurements, including stress testing the impact of non-linear interest rate movements on the value of the balance sheet; analysis of portfolio duration and volatility, particularly as they relate to mortgages and mortgage-backed securities; and the potential impact of the change in the spread between different market indices.

# Edgar Filing: CITIGROUP INC - Form 10-Q

## Citigroup Interest Rate Exposure (Impact on Pretax Earnings)

The exposures in the table below represent the approximate change in NIR for the next 12 months based on current balances and pricing that would result from unanticipated rate change scenarios of an instantaneous 100bp change and a gradual 100bp (25bp per quarter) change in interest rates.

| In millions of dollars | March 31, 2006   |                  | December 31, 2005 |                  | March 31, 2005   |                  |
|------------------------|------------------|------------------|-------------------|------------------|------------------|------------------|
|                        | 100 bps Increase | 100 bps Decrease | 100 bps Increase  | 100 bps Decrease | 100 bps Increase | 100 bps Decrease |
| <b>U.S. dollar</b>     |                  |                  |                   |                  |                  |                  |
| Instantaneous change   | \$ (435)         | \$ 585           | \$ (155)          | \$ 284           | \$ (596)         | \$ 545           |
| Gradual change         | \$ (266)         | \$ 271           | \$ (73)           | \$ 66            | NA               | NA               |
| <b>Mexican peso</b>    |                  |                  |                   |                  |                  |                  |
| Instantaneous change   | \$ 91            | \$ (92)          | \$ 63             | \$ (64)          | \$ 67            | \$ (67)          |
| Gradual change         | \$ 63            | \$ (63)          | \$ 34             | \$ (34)          | NA               | NA               |
| <b>Euro</b>            |                  |                  |                   |                  |                  |                  |
| Instantaneous change   | \$ (56)          | \$ 56            | \$ (40)           | \$ 40            | \$ (77)          | \$ 77            |
| Gradual change         | \$ (15)          | \$ 15            | \$ (19)           | \$ 19            | NA               | NA               |
| <b>Japanese yen</b>    |                  |                  |                   |                  |                  |                  |
| Instantaneous change   | \$ (5)           | NM               | \$ (16)           | NM               | \$ 35            | NM               |
| Gradual change         | \$ 5             | NM               | \$ (11)           | NM               | NA               | NA               |
| <b>Pound sterling</b>  |                  |                  |                   |                  |                  |                  |
| Instantaneous change   | \$ (22)          | \$ 21            | \$ 3              | \$ (3)           | \$ 17            | \$ (18)          |
| Gradual change         | \$ 5             | \$ (5)           | \$ 9              | \$ (9)           | NA               | NA               |

NM  
Not meaningful. A 100 basis point decrease in interest rates would imply negative rates for the Japanese yen yield curve.

NA  
Not applicable.

The change in U.S. Dollar Interest Rate Exposure from December 31, 2005 reflects the expansion and lengthening of various asset portfolios, changes in customer mix and behavior and stock repurchase activities, offset by Treasury positioning.

## Trading Portfolios

Price risk in trading portfolios is measured through a complementary set of tools, including factor sensitivities, value-at-risk, and stress testing. Each of these is discussed in greater detail below. Each trading portfolio has its own market risk limit framework, encompassing these measures and other controls, including permitted product lists and a new product approval process for complex products.

Factor sensitivities are defined as the change in the value of a position for a defined change in a market risk factor (e.g., the change in the value of a Treasury bill for a one basis point change in interest rates). It is the responsibility of independent market risk management to ensure that factor sensitivities are calculated, monitored and, in most cases, limited, for all relevant risks taken in a trading portfolio.

Value-at-Risk (VAR) estimates the potential decline in the value of a position or a portfolio, under normal market conditions, over a one-day holding period, at a 99% confidence level. The VAR method incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors. Citigroup's VAR is based on the volatilities of, and correlations between, approximately 250,000 market risk factors, including factors that track the specific issuer risk in debt and equity securities.

## Edgar Filing: CITIGROUP INC - Form 10-Q

Stress testing is performed on trading portfolios on a regular basis to estimate the impact of extreme market movements. Stress testing is performed on individual trading portfolios, as well as on aggregations of portfolios and businesses, as appropriate. It is the responsibility of independent market risk management, in conjunction with the businesses, to develop stress scenarios, review the output of periodic stress testing exercises, and use the information to make judgments as to the ongoing appropriateness of exposure levels and limits.

Risk capital for market risk in trading portfolios is based on an annualized VAR figure, with adjustments for intra-day trading activity.

Total revenues of the trading business consist of customer revenue, which includes spreads from customer flow and positions taken to facilitate customer orders; proprietary trading activities in both cash and derivative transactions; and net interest revenue. All trading positions are marked-to-market, with the result reflected in earnings.

## Edgar Filing: CITIGROUP INC - Form 10-Q

Citigroup periodically performs extensive back-testing of many hypothetical test portfolios as one check of the accuracy of its Value-at-Risk (VAR). Back-testing is the process in which the daily VAR of a test portfolio is compared to the ex-post daily change in the market value of its transactions. Back-testing is conducted to confirm the validity of the 99% confidence level that daily market value losses in excess of 99% confidence level occur, on average, only 1% of the time. The VAR calculation for the hypothetical test portfolios, with different degrees of risk concentration, meets this statistical criteria.

The level of price risk exposure at any given point in time depends on the market environment and expectations of future price and market movements, and will vary from period to period.

For Citigroup's major trading centers, the aggregate pretax VAR in the trading portfolios was \$106 million, \$93 million, and \$116 million at March 31, 2006, December 31, 2005 and March 31, 2005, respectively. Daily exposures averaged \$102 million during the 2006 first quarter and ranged from \$83 million to \$121 million.

The following table summarizes Value-at-Risk to Citigroup in the trading portfolios at March 31, 2006, December 31, 2005 and March 31, 2005, along with the quarterly averages:

| In million of dollars                                                         | March 31,<br>2006 | First Quarter<br>2006 Average | December 31,<br>2005 | Fourth Quarter<br>2005 Average | March 31,<br>2005 | First<br>Quarter<br>2005<br>Average |
|-------------------------------------------------------------------------------|-------------------|-------------------------------|----------------------|--------------------------------|-------------------|-------------------------------------|
| Interest rate                                                                 | \$ 95             | \$ 86                         | \$ 83                | \$ 79                          | \$ 111            | \$ 115                              |
| Foreign exchange                                                              | 29                | 23                            | 17                   | 15                             | 13                | 16                                  |
| Equity                                                                        | 43                | 48                            | 50                   | 51                             | 34                | 33                                  |
| Commodity                                                                     | 15                | 12                            | 8                    | 8                              | 20                | 18                                  |
| Covariance adjustment                                                         | (76)              | (67)                          | (65)                 | (63)                           | (62)              | (58)                                |
| <b>Total All market risk factors,<br/>including general and specific risk</b> | <b>\$ 106</b>     | <b>\$ 102</b>                 | <b>\$ 93</b>         | <b>\$ 90</b>                   | <b>\$ 116</b>     | <b>\$ 124</b>                       |
| <b>Specific risk component</b>                                                | <b>\$ 10</b>      | <b>\$ 11</b>                  | <b>\$ 12</b>         | <b>\$ 8</b>                    | <b>\$ 3</b>       | <b>\$ 6</b>                         |
| <b>Total General market factors only</b>                                      | <b>\$ 96</b>      | <b>\$ 91</b>                  | <b>\$ 81</b>         | <b>\$ 82</b>                   | <b>\$ 113</b>     | <b>\$ 118</b>                       |

The specific risk component represents the level of issuer-specific risk embedded in the VAR, arising from both debt and equity securities. Citigroup's specific risk model conforms with the 4x-multiplier treatment approved by the Federal Reserve and is subject to extensive hypothetical back-testing (performed on an annual basis), including many portfolios with position concentrations.

The table below provides the range of VAR in the trading portfolios that was experienced during the quarters ended:

| In millions of dollars | March 31, 2006 |        | December 31, 2005 |       | March 31, 2005 |        |
|------------------------|----------------|--------|-------------------|-------|----------------|--------|
|                        | Low            | High   | Low               | High  | Low            | High   |
| Interest rate          | \$ 69          | \$ 107 | \$ 68             | \$ 92 | \$ 94          | \$ 151 |
| Foreign exchange       | 16             | 34     | 11                | 21    | 10             | 23     |
| Equity                 | 42             | 58     | 40                | 63    | 27             | 41     |
| Commodity              | 5              | 18     | 5                 | 16    | 15             | 24     |

## OPERATIONAL RISK MANAGEMENT PROCESS

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes reputation and franchise risk associated with business practices or market conduct that the Company may undertake. Operational risk is inherent in Citigroup's global business activities and, as with other risk types, is managed through an overall framework with checks and balances that include recognized ownership of the risk by the businesses, independent risk management oversight, and independent review by Audit Risk and Review (ARR).

### Policy

The Citigroup Self-Assessment and Operational Risk Framework (the Framework) includes the Citigroup Risk and Control Self-Assessment Policy and the Citigroup Operational Risk Policy, which define Citigroup's approach to operational risk management.

The Citigroup Operational Risk Policy codifies the core governing principles for operational risk management and provides a framework for operational risks consistent across the Company. Each major business segment must establish its own operational risk procedures, consistent with the corporate policy, and an approved operational risk governance structure. The Framework requires each business to identify its key operational risks as well as the controls established to mitigate those risks and to ensure compliance with laws, regulations, regulatory administrative actions, and Citigroup policies. It also requires that all businesses collect and report their operational risk losses.

A formal governance structure is established through the Risk and Control Self-Assessment (RCSA) Policy to provide direction, oversight, and monitoring of Citigroup's RCSA programs. The RCSA Policy incorporates standards for risk and control assessment that are applicable to all businesses and staff functions; it establishes RCSA as the process whereby risks inherent in a business' activities are identified and the effectiveness of the key controls over those risks are evaluated and monitored. The objective of the policy is to establish a consistent approach to assessing relevant risks and the overall control environment across Citigroup. RCSA processes facilitate Citigroup's adherence to regulatory requirements, including Sarbanes-Oxley, FDICIA, the International Convergence of Capital Measurement and Capital Standards (Basel II), and other corporate initiatives, including Operational Risk Management and alignment of capital assessments with risk management objectives. The entire process is subject to audit by Citigroup's Audit and Risk Review, and the results of RCSA are included in periodic management reporting, including reporting to Senior Management and the Audit and Risk Committee.

### Reporting

The Operational Risk Policy and its requirements facilitate the effective communication of operational risks both within and across businesses. Information about the businesses' operational risk, historical losses, and the control environment is reported by each major business segment and functional area, and summarized for Senior Management and the Citigroup Board of Directors.

### Measurement and Basel II

Risk Capital (RC) requirements are calculated for operational risk and the Framework is intended to ensure that relevant information is captured by the businesses to support advanced capital modeling and management. An enhanced version of the RC model for operational risk has been developed and is being implemented across the major business segments as a step toward readiness for Basel II capital calculations. The calculation, which is aimed at qualification as an "Advanced Measurement Approach" (AMA) under Basel II, uses a combination of internal and external loss data to support statistical modeling of capital requirement estimates, which are then adjusted modestly to reflect more qualitative data about the operational risk and control environment.

### Information Security and Continuity of Business

During 2005 and continuing in 2006, Citigroup created a strategic framework for Information Security technology initiatives, and the Company began implementing enhancements to various Information Security programs across its businesses covering Information Security Risk Management, Security Incident Response and Electronic Transportable Media. The Company also implemented tools to increase the effectiveness of its data protection and entitlement management programs. Additional monthly Information Security metrics were established to better assist the Information Technology Risk Officer in managing enterprise-wide risk. The Information Security Program complies with the Gramm-Leach-Bliley Act and other regulatory guidance.

During 2005, Citigroup began implementing a new business continuity program that improves risk analysis and provides robust support for business resiliency. The Corporate Office of Business Continuity, with the support of senior management, continues to coordinate global preparedness and mitigate business continuity risks by reviewing and testing recovery procedures.



**COUNTRY AND CROSS-BORDER RISK MANAGEMENT PROCESS****Country Risk**

The Citigroup Country Risk Committee is chaired by senior international business management, and includes as its members business managers and independent risk managers from around the world. The committee's primary objective is to strengthen the management of country risk, defined as the total risk to the Company of an event that impacts a country. The committee regularly reviews all risk exposures within a country, makes recommendations as to actions, and follows up to ensure appropriate accountability.

**Cross-Border Risk**

The Company's cross-border outstandings reflect risks, including those arising from restrictions on the transfer of funds as well as the inability to obtain payment from customers on their contractual obligations as a result of actions taken by foreign governments such as exchange controls, debt moratorium, and restrictions on the remittance of funds.

Management oversight of cross-border risk is performed through a formal review process that includes setting of cross-border limits, monitoring of economic conditions globally, and, when warranted, within individual countries, and the establishment of internal cross-border risk management policies.

Under FFIEC guidelines, total reported cross-border outstandings include cross-border claims on third parties, as well as investments in and funding of local franchises. Cross-border claims on third parties (trade, short-term, and medium- and long-term claims) include cross-border loans, securities, deposits with banks, investments in affiliates, and other monetary assets, as well as net revaluation gains on foreign exchange and derivative products.

Cross-border outstandings are reported in the country from which the payment of a cross-border claim will be made. For claims covered by comprehensive guarantees, cross-border exposure is reported in the domicile of the guarantor. For claims secured by cash collateral, cross-border outstandings are reflected in the country where the collateral is held. For securities received as collateral, cross-border outstandings are reported in the domicile of the issuer of the securities. Cross-border resale agreements are presented based on the domicile of the counterparty in accordance with FFIEC guidelines.

Investments in and funding of local franchises represent the excess of local country assets over local country liabilities. Local country assets are claims on local residents recorded by branches and majority-owned subsidiaries of Citigroup domiciled in the country, adjusted for externally guaranteed claims and certain collateral. Local country liabilities are obligations of non-U.S. branches and majority-owned subsidiaries of Citigroup for which no cross-border guarantee has been issued by another Citigroup office.

The table below shows all countries in which total FFIEC cross-border outstandings exceed 0.75% of total Citigroup assets at March 31, 2006 and December 31, 2005:

| In billions of dollars | March 31, 2006                       |         |         |         |                                  |                                                | December 31, 2005               |                |                                 |                |
|------------------------|--------------------------------------|---------|---------|---------|----------------------------------|------------------------------------------------|---------------------------------|----------------|---------------------------------|----------------|
|                        | Cross-Border Claims on Third Parties |         |         |         |                                  |                                                |                                 |                |                                 |                |
|                        | Banks                                | Public  | Private | Total   | Trading and Short-Term Claims(1) | Investments in and Funding of Local Franchises | Total Cross-Border Outstandings | Commitments(2) | Total Cross-Border Outstandings | Commitments(2) |
| Germany                | \$ 15.8                              | \$ 11.5 | \$ 6.9  | \$ 34.2 | \$ 31.7                          | \$                                             | \$ 34.2                         | \$ 44.2        | \$ 14.8                         | \$ 25.0        |
| United Kingdom         | 8.8                                  |         | 19.5    | 28.3    | 25.0                             |                                                | 28.3                            | 144.5          | 20.8                            | 103.8          |
| France                 | 7.7                                  | 3.4     | 8.5     | 19.6    | 16.8                             |                                                | 19.6                            | 37.5           | 14.9                            | 33.5           |
| Netherlands            | 4.5                                  | 4.4     | 9.9     | 18.8    | 17.1                             |                                                | 18.8                            | 9.7            | 15.8                            | 9.2            |
| South Korea            | 0.5                                  | 0.5     | 2.2     | 3.2     | 3.1                              | 13.8                                           | 17.0                            | 12.9           | 14.8                            | 5.2            |
| Italy                  | 1.6                                  | 8.8     | 2.9     | 13.3    | 12.7                             | 0.8                                            | 14.1                            | 4.2            | 10.9                            | 3.0            |
| Spain                  | 1.4                                  | 3.6     | 4.2     | 9.2     | 8.3                              | 3.3                                            | 12.5                            | 2.6            | 7.4                             | 2.8            |

## Edgar Filing: CITIGROUP INC - Form 10-Q

(1)

Included in total cross-border claims on third parties.

(2)

Commitments (not included in total cross-border outstandings) include legally binding cross-border letters of credit and other commitments and contingencies as defined by the FFIEC. Effective March 31, 2006, the FFIEC revised the definition of commitments to include commitments to local residents that will be funded with local currency local liabilities.

## INTEREST REVENUE/EXPENSE AND YIELDS

| In millions of dollars                  | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 1st Qtr.<br>2005 | % Change<br>1Q06 vs.<br>1Q05 |
|-----------------------------------------|------------------|------------------|------------------|------------------------------|
| Interest Revenue(1)                     | \$ 21,893        | \$ 20,699        | \$ 17,563        | 25%                          |
| Interest Expense                        | 12,107           | 10,935           | 7,424            | 63                           |
| Net Interest Revenue(1)                 | \$ 9,786         | \$ 9,764         | \$ 10,139        | (3)%                         |
| Interest Revenue Average Rate           | 6.39%            | 6.19%            | 5.72%            | 67 bps                       |
| Interest Expense Average Rate           | 3.94%            | 3.66%            | 2.68%            | 126 bps                      |
| Net Interest Margin                     | 2.86%            | 2.92%            | 3.30%            | (44) bps                     |
| <b>Interest Rate Benchmarks:</b>        |                  |                  |                  |                              |
| Federal Funds Rate End of Period        | 4.75%            | 4.25%            | 2.75%            | 200 bps                      |
| 2 Year U.S. Treasury Note Average Rate  | 4.60%            | 4.36%            | 3.44%            | 116 bps                      |
| 10 Year U.S. Treasury Note Average Rate | 4.57%            | 4.48%            | 4.30%            | 27 bps                       |
| 2 Year vs. 10 Year Spread               | (3) bps          | 12 bps           | 86 bps           |                              |

(1)

Includes taxable equivalent adjustment based on the U.S. Federal statutory tax rate of 35%.

A significant portion of the Company's business activities is based upon gathering deposits and borrowing money and then lending or investing those funds, including in market-making activities in tradable securities. Net interest margin is calculated by dividing gross interest revenue less gross interest expense by average interest earning assets.

In the 2006 first quarter, pressure on net interest margin continued, though at a lessened pace, driven by several factors. Interest expense increased due to both a rise in short-term interest rates and funding actions the Company has taken to lengthen its debt maturity profile.

## Edgar Filing: CITIGROUP INC - Form 10-Q

The average rate on the Company's assets increased during the period, but by less than the increase in average rates on borrowed funds or deposits. The average rate on loans or investments reflected a highly competitive loan pricing environment, as well as a shift in the Company's loan portfolio from higher-yielding credit card receivables to assets that carry lower yields, such as mortgages and home equity loans. The shift partially reflects continued high payment rates on credit card receivables.

## Edgar Filing: CITIGROUP INC - Form 10-Q

**AVERAGE BALANCES AND INTEREST RATES ASSETS(1)(2)(3)(4)**

| In millions of dollars                                                                       | Average Volume    |                   |                   | Interest Revenue |                  |                  | % Average Rate   |                  |                  |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                                                                              | 1st Qtr.<br>2006  | 4th Qtr.<br>2005  | 1st Qtr.<br>2005  | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 1st Qtr.<br>2005 | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 1st Qtr.<br>2005 |
| <b>Assets</b>                                                                                |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| <b>Cash and due from banks</b>                                                               |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                              | \$ 5,087          | \$ 4,249          | \$ 3,950          | \$ 48            | \$ 36            | \$ 19            | 3.83%            | 3.36%            | 1.95%            |
| In offices outside the U.S. (5)                                                              | 2,936             | 3,326             | 2,422             | 6                | 5                | 5                | 0.83             | 0.60             | 0.84             |
| <b>Total</b>                                                                                 | <b>\$ 8,023</b>   | <b>\$ 7,575</b>   | <b>\$ 6,372</b>   | <b>\$ 54</b>     | <b>\$ 41</b>     | <b>\$ 24</b>     | <b>2.73%</b>     | <b>2.15%</b>     | <b>1.53%</b>     |
| <b>Deposits at interest with banks(5)</b>                                                    |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| <b>Total</b>                                                                                 | <b>\$ 30,823</b>  | <b>\$ 32,033</b>  | <b>\$ 28,560</b>  | <b>\$ 555</b>    | <b>\$ 583</b>    | <b>\$ 336</b>    | <b>7.30%</b>     | <b>7.22%</b>     | <b>4.77%</b>     |
| <b>Federal funds sold and securities borrowed or purchased under agreements to resell(6)</b> |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                              | \$ 159,327        | \$ 162,919        | \$ 144,948        | \$ 2,355         | \$ 2,277         | \$ 1,262         | 5.99%            | 5.54%            | 3.53%            |
| In offices outside the U.S.(5)                                                               | 81,709            | 77,998            | 73,625            | 775              | 758              | 554              | 3.85             | 3.86             | 3.05             |
| <b>Total</b>                                                                                 | <b>\$ 241,036</b> | <b>\$ 240,917</b> | <b>\$ 218,573</b> | <b>\$ 3,130</b>  | <b>\$ 3,035</b>  | <b>\$ 1,816</b>  | <b>5.27%</b>     | <b>5.00%</b>     | <b>3.37%</b>     |
| <b>Brokerage receivables</b>                                                                 |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                              | \$ 32,841         | \$ 31,406         | \$ 30,750         | \$ 352           | \$ 307           | \$ 230           | 4.35%            | 3.88%            | 3.03%            |
| In offices outside the U.S.(5)                                                               | 12,751            | 13,543            | 10,492            | 226              | 204              | 125              | 7.19             | 5.98             | 4.83             |
| <b>Total</b>                                                                                 | <b>\$ 45,592</b>  | <b>\$ 44,949</b>  | <b>\$ 41,242</b>  | <b>\$ 578</b>    | <b>\$ 511</b>    | <b>\$ 355</b>    | <b>5.14%</b>     | <b>4.51%</b>     | <b>3.49%</b>     |
| <b>Trading account assets(7)(8)</b>                                                          |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                              | \$ 176,782        | \$ 168,936        | \$ 145,371        | \$ 1,773         | \$ 1,568         | \$ 1,193         | 4.07%            | 3.68%            | 3.33%            |
| In offices outside the U.S.(5)                                                               | 88,967            | 73,608            | 86,305            | 793              | 554              | 662              | 3.61             | 2.99             | 3.11             |
| <b>Total</b>                                                                                 | <b>\$ 265,749</b> | <b>\$ 242,544</b> | <b>\$ 231,676</b> | <b>\$ 2,566</b>  | <b>\$ 2,122</b>  | <b>\$ 1,855</b>  | <b>3.92%</b>     | <b>3.47%</b>     | <b>3.25%</b>     |
| <b>Investments(1)</b>                                                                        |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                              |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| Taxable                                                                                      | \$ 84,938         | \$ 80,740         | \$ 71,961         | \$ 797           | \$ 759           | \$ 574           | 3.81%            | 3.73%            | 3.23%            |
| Exempt from U.S. income tax                                                                  | 14,108            | 12,079            | 9,255             | 169              | 151              | 134              | 4.86             | 4.96             | 5.87             |
| In offices outside the U.S.(5)                                                               | 92,431            | 81,102            | 82,506            | 1,119            | 995              | 1,081            | 4.91%            | 4.87             | 5.31             |
| <b>Total</b>                                                                                 | <b>\$ 191,477</b> | <b>\$ 173,921</b> | <b>\$ 163,722</b> | <b>\$ 2,085</b>  | <b>\$ 1,905</b>  | <b>\$ 1,789</b>  | <b>4.42%</b>     | <b>4.35%</b>     | <b>4.43%</b>     |
| <b>Loans (net of unearned income)(9)</b>                                                     |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| <b>Consumer loans</b>                                                                        |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                              | \$ 327,026        | \$ 317,429        | \$ 299,240        | \$ 6,653         | \$ 6,558         | \$ 6,032         | 8.25%            | 8.20%            | 8.18%            |
| In offices outside the U.S.(5)                                                               | 131,365           | 129,270           | 131,540           | 3,690            | 3,597            | 3,454            | 11.39            | 11.04            | 10.65            |
| <b>Total consumer loans</b>                                                                  | <b>\$ 458,391</b> | <b>\$ 446,699</b> | <b>\$ 430,780</b> | <b>\$ 10,343</b> | <b>\$ 10,155</b> | <b>\$ 9,486</b>  | <b>9.15%</b>     | <b>9.02%</b>     | <b>8.93%</b>     |
| <b>Corporate loans</b>                                                                       |                   |                   |                   |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                              | \$ 27,181         | \$ 22,090         | \$ 16,599         | \$ 431           | \$ 402           | \$ 225           | 6.43%            | 7.22%            | 5.50%            |
| In offices outside the U.S.(5)                                                               | 111,961           | 104,814           | 98,586            | 2,035            | 1,806            | 1,562            | 7.37             | 6.84             | 6.43             |
| <b>Total corporate loans</b>                                                                 | <b>\$ 139,142</b> | <b>\$ 126,904</b> | <b>\$ 115,185</b> | <b>\$ 2,466</b>  | <b>\$ 2,208</b>  | <b>\$ 1,787</b>  | <b>7.19%</b>     | <b>6.90%</b>     | <b>6.29%</b>     |
| <b>Total loans</b>                                                                           | <b>\$ 597,533</b> | <b>\$ 573,603</b> | <b>\$ 545,965</b> | <b>\$ 12,809</b> | <b>\$ 12,363</b> | <b>\$ 11,273</b> | <b>8.69%</b>     | <b>8.55%</b>     | <b>8.37%</b>     |

# Edgar Filing: CITIGROUP INC - Form 10-Q

|                                           | Average Volume      |                     |                     | Interest Revenue |                  |                  | % Average Rate |              |              |
|-------------------------------------------|---------------------|---------------------|---------------------|------------------|------------------|------------------|----------------|--------------|--------------|
| <b>Other interest-earning assets</b>      | <b>\$ 9,621</b>     | <b>\$ 10,065</b>    | <b>\$ 8,766</b>     | <b>\$ 116</b>    | <b>\$ 139</b>    | <b>\$ 115</b>    | <b>4.89%</b>   | <b>5.48%</b> | <b>5.32%</b> |
| <b>Total interest-earning assets</b>      | <b>\$ 1,389,854</b> | <b>\$ 1,325,607</b> | <b>\$ 1,244,876</b> | <b>\$ 21,893</b> | <b>\$ 20,699</b> | <b>\$ 17,563</b> | <b>6.39%</b>   | <b>6.19%</b> | <b>5.72%</b> |
| Non-interest-earning assets(7)            | 170,534             | 152,736             | 154,349             |                  |                  |                  |                |              |              |
| Total assets from discontinued operations |                     | 1,001               | 102,133             |                  |                  |                  |                |              |              |
| <b>Total assets</b>                       | <b>\$ 1,560,388</b> | <b>\$ 1,479,344</b> | <b>\$ 1,501,358</b> |                  |                  |                  |                |              |              |

- (1) The taxable equivalent adjustment is based on the U.S. federal statutory tax rate of 35%.
- (2) Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories. See Note 15 to the Consolidated Financial Statements on page 98.
- (3) Monthly or quarterly averages have been used by certain subsidiaries where daily averages are unavailable.
- (4) Detailed average volume, interest revenue and interest expense exclude discontinued operations. See Note 3 to the Consolidated Financial Statements on page 83.
- (5) Average rates reflect prevailing local interest rates, including inflationary effects and monetary correction in certain countries.
- (6) Average volumes of securities borrowed or purchased under agreements to resell are reported net pursuant to FIN 41 and interest revenue excludes the impact of FIN 41.
- (7) The fair value carrying amounts of derivative and foreign exchange contracts are reported in non-interest-earning assets and other non-interest bearing liabilities.
- (8) Interest expense on trading account liabilities of CGMHI is reported as a reduction of interest revenue.
- (9) Includes cash-basis loans.

## Edgar Filing: CITIGROUP INC - Form 10-Q

**AVERAGE BALANCES AND INTEREST RATES LIABILITIES AND EQUITY, AND NET INTEREST REVENUE(1)(2)(3)(4)**

| In millions of dollars                                                                  | Average Volume   |                  |                  | Interest Expense |                  |                  | % Average Rate   |                  |                  |
|-----------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                                                                         | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 1st Qtr.<br>2005 | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 1st Qtr.<br>2005 | 1st Qtr.<br>2006 | 4th Qtr.<br>2005 | 1st Qtr.<br>2005 |
| <b>Liabilities</b>                                                                      |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Deposits                                                                                |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| In U. S. offices                                                                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Savings deposits(5)                                                                     | \$ 132,268       | \$ 129,952       | \$ 126,632       | \$ 868           | \$ 764           | \$ 444           | 2.66%            | 2.33%            | 1.42%            |
| Other time deposits                                                                     | 42,410           | 39,222           | 32,661           | 499              | 370              | 215              | 4.77             | 3.74             | 2.67             |
| In offices outside the U.S.(6)                                                          | 370,421          | 354,664          | 337,201          | 3,138            | 2,840            | 2,099            | 3.44             | 3.18             | 2.52             |
| Total                                                                                   | \$ 545,099       | \$ 523,838       | \$ 496,494       | \$ 4,505         | \$ 3,974         | \$ 2,758         | 3.35%            | 3.01%            | 2.25%            |
| Federal funds purchased and securities loaned or sold under agreements to repurchase(7) |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                         | \$ 185,147       | \$ 185,514       | \$ 160,800       | \$ 2,575         | \$ 2,484         | \$ 1,272         | 5.64%            | 5.31%            | 3.21%            |
| In offices outside the U.S. (6)                                                         | 88,086           | 77,135           | 70,812           | 1,223            | 1,122            | 940              | 5.63             | 5.77             | 5.38             |
| Total                                                                                   | \$ 273,233       | \$ 262,649       | \$ 231,612       | \$ 3,798         | \$ 3,606         | \$ 2,212         | 5.64%            | 5.45%            | 3.87%            |
| Brokerage payables                                                                      |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                         | \$ 63,219        | \$ 55,879        | \$ 46,203        | \$ 249           | \$ 199           | \$ 86            | 1.60%            | 1.41%            | 0.75%            |
| In offices outside the U.S. (6)                                                         | 6,619            | 6,774            | 4,293            | 10               | 8                | 3                | 0.61             | 0.47             | 0.28             |
| Total                                                                                   | \$ 69,838        | \$ 62,653        | \$ 50,496        | \$ 259           | \$ 207           | \$ 89            | 1.50%            | 1.31%            | 0.71%            |
| Trading account liabilities(8)(9)                                                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                         | \$ 35,270        | \$ 32,271        | \$ 37,028        | \$ 39            | \$ 26            | \$ 18            | 0.45%            | 0.32%            | 0.20%            |
| In offices outside the U.S. (6)                                                         | 36,485           | 36,018           | 38,971           | 14               | 14               | 6                | 0.16             | 0.15             | 0.06             |
| Total                                                                                   | \$ 71,755        | \$ 68,289        | \$ 75,999        | \$ 53            | \$ 40            | \$ 24            | 0.30%            | 0.23%            | 0.13%            |
| Short-term borrowings                                                                   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                         | \$ 50,132        | \$ 43,419        | \$ 46,543        | \$ 770           | \$ 602           | \$ 492           | 6.23%            | 5.50%            | 4.29%            |
| In offices outside the U.S. (6)                                                         | 11,560           | 11,364           | 13,871           | 227              | 224              | 171              | 7.96             | 7.82             | 5.00             |
| Total                                                                                   | \$ 61,692        | \$ 54,783        | \$ 60,414        | \$ 997           | \$ 826           | \$ 663           | 6.55%            | 5.98%            | 4.45%            |
| Long-term debt                                                                          |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| In U.S. offices                                                                         | \$ 195,640       | \$ 186,214       | \$ 173,043       | \$ 2,189         | \$ 1,988         | \$ 1,388         | 4.54%            | 4.24%            | 3.25%            |
| In offices outside the U.S. (6)                                                         | 29,546           | 28,033           | 35,634           | 306              | 294              | 290              | 4.20             | 4.16             | 3.30             |
| Total                                                                                   | \$ 225,186       | \$ 214,247       | \$ 208,677       | \$ 2,495         | \$ 2,282         | \$ 1,678         | 4.49%            | 4.23%            | 3.26%            |
| Total interest-bearing liabilities                                                      | \$ 1,246,803     | \$ 1,186,459     | \$ 1,123,692     | \$ 12,107        | \$ 10,935        | \$ 7,424         | 3.94%            | 3.66%            | 2.68%            |
| Demand deposits in U.S. offices                                                         | 10,760           | 10,641           | 10,700           |                  |                  |                  |                  |                  |                  |
| Other non-interest bearing liabilities(8)                                               | 189,702          | 170,945          | 164,979          |                  |                  |                  |                  |                  |                  |
| Total liabilities from discontinued operations                                          |                  | 383              | 92,409           |                  |                  |                  |                  |                  |                  |
| Total liabilities                                                                       | \$ 1,447,265     | \$ 1,368,428     | \$ 1,391,780     |                  |                  |                  |                  |                  |                  |
| Total stockholders' equity(10)                                                          | \$ 113,123       | \$ 110,916       | \$ 109,578       |                  |                  |                  |                  |                  |                  |

## Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                                                    | Average Volume      |                     |                     | Interest Expense |                 |                  | % Average Rate |              |              |
|------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|------------------|-----------------|------------------|----------------|--------------|--------------|
|                                                                                    |                     |                     |                     |                  |                 |                  |                |              |              |
| <b>Total liabilities and stockholders' equity</b>                                  | <b>\$ 1,560,388</b> | <b>\$ 1,479,344</b> | <b>\$ 1,501,358</b> |                  |                 |                  |                |              |              |
| <b>Net interest revenue as a percentage of average interest-earning assets(11)</b> |                     |                     |                     |                  |                 |                  |                |              |              |
| In U.S. offices                                                                    | \$ 837,085          | \$ 810,436          | \$ 731,344          | \$ 4,960         | \$ 5,285        | \$ 5,688         | 2.40%          | 2.59%        | 3.15%        |
| In offices outside the U.S.(6)                                                     | 552,769             | 515,171             | 513,532             | 4,826            | 4,479           | 4,451            | 3.54%          | 3.45%        | 3.52%        |
| <b>Total</b>                                                                       | <b>\$ 1,389,854</b> | <b>\$ 1,325,607</b> | <b>\$ 1,244,876</b> | <b>\$ 9,786</b>  | <b>\$ 9,764</b> | <b>\$ 10,139</b> | <b>2.86%</b>   | <b>2.92%</b> | <b>3.30%</b> |

- (1) The taxable equivalent adjustment is based on the U.S. federal statutory tax rate of 35%.
- (2) Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories. See Note 15 to the Consolidated Financial Statements on page 98.
- (3) Monthly or quarterly averages have been used by certain subsidiaries where daily averages are unavailable.
- (4) Detailed average volume, interest revenue and interest expense exclude discontinued operations. See Note 3 to the Consolidated Financial Statements on page 83.
- (5) Savings deposits consist of Insured Money Market Rate accounts, NOW accounts, and other savings deposits.
- (6) Average rates reflect prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.
- (7) Average volumes of securities loaned or sold under agreements to repurchase are reported net pursuant to FIN 41 and interest expense excludes the impact of FIN 41.
- (8) The fair value carrying amounts of derivative and foreign exchange contracts are reported in non-interest-earning assets and other non-interest bearing liabilities.
- (9) Interest expense on trading account liabilities of CGMHI is reported as a reduction of interest revenue.
- (10) Includes stockholders' equity from discontinued operations.
- (11) Includes allocations for capital and funding costs based on the location of the asset.



## ANALYSIS OF CHANGES IN INTEREST REVENUE(1)(2)(3)

| In millions of dollars                                                                    | 1st Qtr. 2006 vs. 4th Qtr. 2005          |                |                | 1st Qtr. 2006 vs. 1st Qtr. 2005          |                 |                 |
|-------------------------------------------------------------------------------------------|------------------------------------------|----------------|----------------|------------------------------------------|-----------------|-----------------|
|                                                                                           | Increase (Decrease)<br>Due to Change in: |                |                | Increase (Decrease)<br>Due to Change in: |                 |                 |
|                                                                                           | Average Volume                           | Average Rate   | Net Change(2)  | Average Volume                           | Average Rate    | Net Change(2)   |
| <b>Cash and due from banks</b>                                                            | \$ 7                                     | \$ 6           | \$ 13          | \$ 8                                     | \$ 22           | \$ 30           |
| <b>Deposits at interest with banks(4)</b>                                                 | \$ (22)                                  | \$ (6)         | \$ (28)        | \$ 28                                    | \$ 191          | \$ 219          |
| <b>Federal funds sold and securities borrowed or purchased under agreements to resell</b> |                                          |                |                |                                          |                 |                 |
| In U.S. offices                                                                           | \$ (51)                                  | \$ 129         | \$ 78          | \$ 136                                   | \$ 957          | \$ 1,093        |
| In offices outside the U.S.(4)                                                            | 35                                       | (18)           | 17             | 66                                       | 155             | 221             |
| <b>Total</b>                                                                              | <b>\$ (16)</b>                           | <b>\$ 111</b>  | <b>\$ 95</b>   | <b>\$ 202</b>                            | <b>\$ 1,112</b> | <b>\$ 1,314</b> |
| <b>Brokerage receivables</b>                                                              |                                          |                |                |                                          |                 |                 |
| In U.S. offices                                                                           | \$ 14                                    | \$ 31          | \$ 45          | \$ 16                                    | \$ 106          | \$ 122          |
| In offices outside the U.S.(4)                                                            | (12)                                     | 34             | 22             | 31                                       | 70              | 101             |
| <b>Total</b>                                                                              | <b>\$ 2</b>                              | <b>\$ 65</b>   | <b>\$ 67</b>   | <b>\$ 47</b>                             | <b>\$ 176</b>   | <b>\$ 223</b>   |
| <b>Trading account assets(5)</b>                                                          |                                          |                |                |                                          |                 |                 |
| In U.S. offices                                                                           | \$ 75                                    | \$ 130         | \$ 205         | \$ 286                                   | \$ 294          | \$ 580          |
| In offices outside the U.S.(4)                                                            | 127                                      | 112            | 239            | 21                                       | 110             | 131             |
| <b>Total</b>                                                                              | <b>\$ 202</b>                            | <b>\$ 242</b>  | <b>\$ 444</b>  | <b>\$ 307</b>                            | <b>\$ 404</b>   | <b>\$ 711</b>   |
| <b>Investments(1)</b>                                                                     |                                          |                |                |                                          |                 |                 |
| In U.S. offices                                                                           | \$ 61                                    | \$ (5)         | \$ 56          | \$ 167                                   | \$ 91           | \$ 258          |
| In offices outside the U.S.(4)                                                            | 137                                      | (13)           | 124            | 124                                      | (86)            | 38              |
| <b>Total</b>                                                                              | <b>\$ 198</b>                            | <b>\$ (18)</b> | <b>\$ 180</b>  | <b>\$ 291</b>                            | <b>\$ 5</b>     | <b>\$ 296</b>   |
| <b>Loans consumer</b>                                                                     |                                          |                |                |                                          |                 |                 |
| In U.S. offices                                                                           | \$ 196                                   | \$ (101)       | \$ 95          | \$ 565                                   | \$ 56           | \$ 621          |
| In offices outside the U.S.(4)                                                            | 59                                       | 34             | 93             | (5)                                      | 241             | 236             |
| <b>Total</b>                                                                              | <b>\$ 255</b>                            | <b>\$ (67)</b> | <b>\$ 188</b>  | <b>\$ 560</b>                            | <b>\$ 297</b>   | <b>\$ 857</b>   |
| <b>Loans corporate</b>                                                                    |                                          |                |                |                                          |                 |                 |
| In U.S. offices                                                                           | \$ 85                                    | \$ (56)        | \$ 29          | \$ 163                                   | \$ 43           | \$ 206          |
| In offices outside the U.S.(4)                                                            | 127                                      | 102            | 229            | 227                                      | 246             | 473             |
| <b>Total</b>                                                                              | <b>\$ 212</b>                            | <b>\$ 46</b>   | <b>\$ 258</b>  | <b>\$ 390</b>                            | <b>\$ 289</b>   | <b>\$ 679</b>   |
| <b>Total loans</b>                                                                        | <b>\$ 467</b>                            | <b>\$ (21)</b> | <b>\$ 446</b>  | <b>\$ 950</b>                            | <b>\$ 586</b>   | <b>\$ 1,536</b> |
| <b>Other interest-earning assets</b>                                                      | <b>\$ (6)</b>                            | <b>\$ (17)</b> | <b>\$ (23)</b> | <b>\$ 11</b>                             | <b>\$ (10)</b>  | <b>\$ 1</b>     |

## Edgar Filing: CITIGROUP INC - Form 10-Q

|                        | 1st Qtr. 2006 vs. 4th Qtr. 2005 |        |          | 1st Qtr. 2006 vs. 1st Qtr. 2005 |          |          |
|------------------------|---------------------------------|--------|----------|---------------------------------|----------|----------|
|                        |                                 |        |          |                                 |          |          |
| Total interest revenue | \$ 832                          | \$ 362 | \$ 1,194 | \$ 1,844                        | \$ 2,486 | \$ 4,330 |

- (1) The taxable equivalent adjustment is based on the U.S. Federal statutory tax rate of 35%.
- (2) Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.
- (3) Detailed average volume, interest revenue and interest expense exclude discontinued operations. See Note 3 to the Consolidated Financial Statements on page 83.
- (4) Changes in average rates reflect changes in prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.
- (5) Interest expense on trading account liabilities of CGMHI is reported as a reduction of interest revenue.

## Edgar Filing: CITIGROUP INC - Form 10-Q

## ANALYSIS OF CHANGES IN INTEREST EXPENSE AND NET INTEREST REVENUE(1)(2)(3)

| In millions of dollars                                                                      | 1st Qtr. 2006 vs. 4th Qtr. 2005          |                 |                 | 1st Qtr. 2006 vs. 1st Qtr. 2005          |                   |                 |
|---------------------------------------------------------------------------------------------|------------------------------------------|-----------------|-----------------|------------------------------------------|-------------------|-----------------|
|                                                                                             | Increase (Decrease)<br>Due to Change in: |                 |                 | Increase (Decrease)<br>Due to Change in: |                   |                 |
|                                                                                             | Average<br>Volume                        | Average Rate    | Net Change(2)   | Average<br>Volume                        | Average Rate      | Net Change(2)   |
| <b>Deposits</b>                                                                             |                                          |                 |                 |                                          |                   |                 |
| In U.S. offices                                                                             | \$ 38                                    | \$ 195          | \$ 233          | \$ 69                                    | \$ 639            | \$ 708          |
| In offices outside the U.S.(4)                                                              | 129                                      | 169             | 298             | 223                                      | 816               | 1,039           |
| Total                                                                                       | \$ 167                                   | \$ 364          | \$ 531          | \$ 292                                   | \$ 1,455          | \$ 1,747        |
| <b>Federal funds purchased and securities loaned or sold under agreements to repurchase</b> |                                          |                 |                 |                                          |                   |                 |
| In U.S. offices                                                                             | \$ (5)                                   | \$ 96           | \$ 91           | \$ 217                                   | \$ 1,086          | \$ 1,303        |
| In offices outside the U.S.(4)                                                              | 154                                      | (53)            | 101             | 238                                      | 45                | 283             |
| Total                                                                                       | \$ 149                                   | \$ 43           | \$ 192          | \$ 455                                   | \$ 1,131          | \$ 1,586        |
| <b>Brokerage payables</b>                                                                   |                                          |                 |                 |                                          |                   |                 |
| In U.S. offices                                                                             | \$ 27                                    | \$ 23           | \$ 50           | \$ 40                                    | \$ 123            | \$ 163          |
| In offices outside the U.S.(4)                                                              |                                          | 2               | 2               | 3                                        | 4                 | 7               |
| Total                                                                                       | \$ 27                                    | \$ 25           | \$ 52           | \$ 43                                    | \$ 127            | \$ 170          |
| <b>Trading account liabilities(5)</b>                                                       |                                          |                 |                 |                                          |                   |                 |
| In U.S. offices                                                                             | \$ 3                                     | \$ 10           | \$ 13           | \$ (1)                                   | \$ 22             | \$ 21           |
| In offices outside the U.S.(4)                                                              |                                          |                 |                 |                                          | 8                 | 8               |
| Total                                                                                       | \$ 3                                     | \$ 10           | \$ 13           | \$ (1)                                   | \$ 30             | \$ 29           |
| <b>Short-term borrowings</b>                                                                |                                          |                 |                 |                                          |                   |                 |
| In U.S. offices                                                                             | \$ 99                                    | \$ 69           | \$ 168          | \$ 40                                    | \$ 238            | \$ 278          |
| In offices outside the U.S.(4)                                                              | 4                                        | (1)             | 3               | (32)                                     | 88                | 56              |
| Total                                                                                       | \$ 103                                   | \$ 68           | \$ 171          | \$ 8                                     | \$ 326            | \$ 334          |
| <b>Long-term debt</b>                                                                       |                                          |                 |                 |                                          |                   |                 |
| In U.S. offices                                                                             | \$ 103                                   | \$ 98           | \$ 201          | \$ 199                                   | \$ 602            | \$ 801          |
| In offices outside the U.S.(4)                                                              | 16                                       | (4)             | 12              | (55)                                     | 71                | 16              |
| Total                                                                                       | \$ 119                                   | \$ 94           | \$ 213          | \$ 144                                   | \$ 673            | \$ 817          |
| <b>Total interest expense</b>                                                               | <b>\$ 568</b>                            | <b>\$ 604</b>   | <b>\$ 1,172</b> | <b>\$ 941</b>                            | <b>\$ 3,742</b>   | <b>\$ 4,683</b> |
| <b>Net interest revenue</b>                                                                 | <b>\$ 264</b>                            | <b>\$ (242)</b> | <b>\$ 22</b>    | <b>\$ 903</b>                            | <b>\$ (1,256)</b> | <b>\$ (353)</b> |

## Edgar Filing: CITIGROUP INC - Form 10-Q

- (1) The taxable equivalent adjustment is based on the U.S. Federal statutory tax rate of 35%.
- (2) Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.
- (3) Detailed average volume, interest revenue and interest expense exclude discontinued operations. See Note 3 to the Consolidated Financial Statements on page 83.
- (4) Changes in average rates reflect changes in prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.
- (5) Interest expense on trading account liabilities of CGMHI is reported as a reduction of interest revenue.

**CAPITAL RESOURCES AND LIQUIDITY****CAPITAL RESOURCES****Overview**

Citigroup's capital management framework is designed to ensure that Citigroup and its subsidiaries maintain sufficient capital consistent with the Company's risk profile, all applicable regulatory standards and guidelines, and external rating agency considerations. The capital management process is centrally overseen by senior management and is continuously reviewed at the entity and country level. Capital is generated principally via earnings, issuance of common and preferred stock and subordinated debt, and equity issued as a result of employee benefit plans. It is used primarily to support growth in the Company's businesses. Excess capital is used to pay dividends to shareholders, repurchase stock, and fund acquisition activity.

Senior management oversees the capital management process of Citigroup and its principal subsidiaries mainly through Citigroup's Finance and Capital Committee. This Committee includes Citigroup's Chairman and Chief Executive Officer, Chief Financial Officer, Corporate Treasurer, Senior Risk Officer, and several senior business managers. The Committee's responsibilities include: determining the financial structure of Citigroup and its principal subsidiaries; ensuring that Citigroup and its regulated entities are adequately capitalized; reviewing the funding and capital markets plan for Citigroup; monitoring interest rate risk, corporate and bank liquidity, the impact of currency translation on non-U.S. earnings and capital; and reviewing and recommending share repurchase levels and dividends on common and preferred stock. The Finance and Capital Committee has established capital targets for Citigroup and for significant subsidiaries. These targets exceed the regulatory standards.

Citigroup is subject to risk-based capital ratio guidelines issued by the FRB. Capital adequacy is measured via two risk-based ratios, Tier 1 and Total Capital (Tier 1 + Tier 2 Capital). Tier 1 Capital is considered core capital while Total Capital includes other items such as subordinated debt and loan loss reserves. Both measures of capital are stated as a percent of risk-adjusted assets. Risk-adjusted assets are measured primarily on their perceived credit risk and include certain off-balance sheet exposures, such as unfunded loan commitments, letters of credit, and derivative and foreign exchange contracts.

Citigroup is also subject to the Leverage Ratio requirement, a non-risk-based asset ratio, which is defined as Tier 1 Capital as a percentage of adjusted average assets. To be "well capitalized" under federal bank regulatory agency definitions, a bank holding company must have a Tier 1 Capital Ratio of at least 6%, Total Capital Ratio of at least 10%, and Leverage Ratio of at least 3%, and not be subject to an FRB directive to maintain higher capital levels.

As noted in the following table, Citigroup maintained a "well capitalized" position during the first three months of 2006 and the full year of 2005.

**Citigroup Regulatory Capital Ratios**

|                                   | March 31,<br>2006 | December 31,<br>2005 |
|-----------------------------------|-------------------|----------------------|
| Tier 1 Capital                    | 8.60%             | 8.79%                |
| Total Capital (Tier 1 and Tier 2) | 11.80             | 12.02                |
| Leverage(1)                       | 5.22              | 5.35                 |
| Common stockholders' equity       | 7.15              | 7.46                 |

(1)

Tier 1 Capital divided by adjusted average assets.

**Components of Capital Under Regulatory Guidelines**

| In millions of dollars      | March 31,<br>2006 | December 31,<br>2005 |
|-----------------------------|-------------------|----------------------|
| <b>Tier 1 Capital</b>       |                   |                      |
| Common stockholders' equity | \$ 113,418        | \$ 111,412           |

Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions of dollars                                            | March 31,<br>2006 | December 31,<br>2005 |
|-------------------------------------------------------------------|-------------------|----------------------|
| Qualifying perpetual preferred stock                              | 1,000             | 1,125                |
| Qualifying mandatorily redeemable securities of subsidiary trusts | 6,166             | 6,264                |
| Minority interest                                                 | 518               | 512                  |
| Less: Net unrealized gains on securities available-for-sale(1)    | (728)             | (1,084)              |
| Less: Accumulated net gains on cash flow hedges, net of tax       | (818)             | (612)                |
| Less: Intangible assets:                                          |                   |                      |
| Goodwill                                                          | (32,933)          | (33,130)             |
| Other disallowed intangible assets                                | (6,176)           | (6,163)              |
| Other                                                             | (534)             | (500)                |
| <b>Total Tier 1 Capital</b>                                       | <b>\$ 79,913</b>  | <b>\$ 77,824</b>     |
| <b>Tier 2 Capital</b>                                             |                   |                      |
| Allowance for credit losses(2)                                    | 10,376            | 10,602               |
| Qualifying debt(3)                                                | 18,689            | 17,368               |
| Unrealized marketable equity securities gains(1)                  | 688               | 608                  |
| <b>Total Tier 2 Capital</b>                                       | <b>\$ 29,753</b>  | <b>\$ 28,578</b>     |
| <b>Total Capital (Tier 1 and Tier 2)</b>                          | <b>\$ 109,666</b> | <b>\$ 106,402</b>    |
| <b>Risk-Adjusted Assets(4)</b>                                    | <b>\$ 929,553</b> | <b>\$ 885,472</b>    |

- (1) Tier 1 Capital excludes unrealized gains and losses on debt securities available-for-sale in accordance with regulatory risk-based capital guidelines. The federal bank regulatory agencies permit institutions to include in Tier 2 Capital up to 45% of pretax net unrealized holding gains on available-for-sale equity securities with readily determinable fair values. Institutions are required to deduct from Tier 1 Capital net unrealized holding losses on available-for-sale equity securities with readily determinable fair values, net of tax.
- (2) Includable up to 1.25% of risk-adjusted assets. Any excess allowance is deducted from risk-adjusted assets.
- (3) Includes qualifying subordinated debt in an amount not exceeding 50% of Tier 1 Capital.
- (4) Includes risk-weighted credit equivalent amounts, net of applicable bilateral netting agreements, of \$63.5 billion for interest rate, commodity and equity derivative contracts and foreign-exchange contracts as of March 31, 2006, compared with \$56.5 billion as of December 31, 2005. Market risk-equivalent assets included in risk-adjusted assets amounted to \$45.1 billion and \$40.6 billion at March 31, 2006 and December 31, 2005, respectively. Risk-adjusted assets also include the effect of other off-balance sheet exposures, such as unused loan commitments and letters of credit, and reflects deductions for certain intangible assets and any excess allowance for credit losses.

## Edgar Filing: CITIGROUP INC - Form 10-Q

Common stockholders' equity increased approximately \$2.0 billion during the first three months of 2006 to \$113.4 billion at March 31, 2006, representing 7.2% of assets. This compares to \$111.4 billion and 7.5% at year-end 2005.

The table below summarizes the change in common stockholders' equity:

### In billions of dollars

|                                                      |                 |
|------------------------------------------------------|-----------------|
| Common Equity, December 31, 2005                     | \$ 111.4        |
| Net income                                           | 5.6             |
| Employee benefit plans and other activities          | 1.1             |
| Dividends                                            | (2.5)           |
| Treasury stock acquired                              | (2.0)           |
| After-tax net change in equity from nonowner sources | (0.2)           |
| <b>Common Equity, March 31, 2006</b>                 | <b>\$ 113.4</b> |

The decrease in the common stockholders' equity ratio during the first three months of 2006 reflected the above items and a 6.2% increase in total assets.

Additionally, on February 15, 2006, Citigroup redeemed for cash all outstanding shares of its Fixed/Adjustable Rate Cumulative Preferred Stock, Series V. The redemption price was \$50.00 per depositary share, plus accrued dividends to the date of redemption. At the date of redemption, the value of the Series V Preferred Stock was \$125 million.

On April 13, 2006, the Board of Directors authorized a \$10 billion share buyback program, which will increase the repurchase authorization to \$12.4 billion.

The table below summarizes the Company's repurchase activity:

| In millions, except per share amounts | Total Common<br>Shares<br>Repurchased | Dollar Value<br>of Shares<br>Repurchased | Average Price<br>Paid<br>per Share | Dollar Value<br>of Remaining<br>Authorized<br>Repurchase<br>Program |
|---------------------------------------|---------------------------------------|------------------------------------------|------------------------------------|---------------------------------------------------------------------|
| First quarter 2005                    | 19.0                                  | \$ 906                                   | \$ 47.65                           | \$ 1,300                                                            |
| Second quarter 2005                   | 41.8                                  | 1,965                                    | 47.06                              | 14,335                                                              |
| Third quarter 2005                    | 124.2                                 | 5,500                                    | 44.27                              | 8,835                                                               |
| Fourth quarter 2005                   | 92.9                                  | 4,423                                    | 47.60                              | 4,412                                                               |
| <b>Total year-to-date 2005</b>        | <b>277.9</b>                          | <b>\$ 12,794</b>                         | <b>\$ 46.03</b>                    | <b>\$ 4,412</b>                                                     |
| <b>First quarter 2006</b>             | <b>42.9</b>                           | <b>\$ 2,000</b>                          | <b>\$ 46.58</b>                    | <b>\$ 2,412(1)</b>                                                  |

(1)

On April 13, 2006, the Board of Directors authorized a \$10 billion share buyback program, bringing the dollar value of the remaining authorized Repurchase Program to \$12.4 billion.

Total mandatorily redeemable securities of subsidiary trusts (trust preferred securities), which qualify as Tier 1 Capital, were \$6.166 billion at March 31, 2006, as compared to \$6.264 billion at December 31, 2005. See "Regulatory Capital and Accounting Standards Developments" below.

Citigroup's subsidiary depository institutions in the United States are subject to risk-based capital guidelines issued by their respective primary federal bank regulatory agencies, which are similar to the FRB's guidelines. To be "well capitalized" under federal bank regulatory agency definitions, Citigroup's depository institutions must have a Tier 1 Capital Ratio of at least 6%, a combined Tier 1 and Tier 2 Capital Ratio (Total Capital) of at least 10% and a Leverage Ratio of at least 5%, and not be subject to an FRB directive to meet and maintain higher

## Edgar Filing: CITIGROUP INC - Form 10-Q

capital levels. At March 31, 2006, all of Citigroup's subsidiary depository institutions were "well capitalized" under the federal regulatory agencies' definitions, including Citibank, N.A. as noted in the table below.

### Citibank, N.A. Ratios

|                                   | March 31,<br>2006 | December 31,<br>2005 |
|-----------------------------------|-------------------|----------------------|
| Tier 1 Capital                    | 8.25%             | 8.41%                |
| Total Capital (Tier 1 and Tier 2) | 12.35             | 12.55                |
| Leverage(1)                       | 6.36              | 6.45                 |
| Common stockholder's equity       | 7.75              | 7.96                 |

(1) Tier 1 Capital divided by adjusted average assets.

### Citibank, N.A. Components of Capital Under Regulatory Guidelines

| In billions of dollars            | March 31,<br>2006 | December 31,<br>2005 |
|-----------------------------------|-------------------|----------------------|
| Tier 1 Capital                    | \$ 46.5           | \$ 44.7              |
| Total Capital (Tier 1 and Tier 2) | 69.5              | 66.8                 |

Citibank had net income for the three months ended March 31, 2006 amounting to \$2.8 billion. During the first quarter of 2006, Citibank paid dividends of \$1.3 billion.

During the first quarter of 2006 and full year 2005, Citibank issued an additional \$0.8 billion and \$1.4 billion, respectively, of subordinated notes to Citigroup that qualify for inclusion in Citibank's Tier 2 capital. Total subordinated notes issued to Citigroup that were outstanding at March 31, 2006 and December 31, 2005 and included in Citibank's Tier 2 capital amounted to \$16.0 billion and \$15.3 billion, respectively. Following the merger of Citicorp into Citigroup on August 1, 2005, all of Citibank's subordinated debt was assigned to Citigroup. See "Funding" on page 69 for further details of the merger.



## Other Subsidiary Capital Considerations

Certain of the Company's broker/dealer subsidiaries including Citigroup Global Markets Inc., an indirect wholly owned subsidiary of Citigroup Global Markets Holdings Inc. (CGMHI) are subject to various securities and commodities regulations and capital adequacy requirements of the regulatory and exchange authorities of the countries in which they operate. The Company's U.S. registered broker/dealer subsidiaries are subject to the Securities and Exchange Commission's Net Capital Rule, Rule 15c3-1 (the Net Capital Rule) under the Exchange Act. The Net Capital Rule requires the maintenance of a defined amount of minimum net capital. The Net Capital Rule also limits the ability of broker/dealers to transfer large amounts of capital to parent companies and other affiliates. Compliance with the Net Capital Rule could limit operations of the Company that require the intensive use of capital, such as underwriting and trading activities and the financing of customer account balances. It could also restrict CGMHI's ability to withdraw capital from its broker/dealer subsidiaries, which could limit CGMHI's ability to pay dividends and make payments on its debt. CGMHI monitors its leverage and capital ratios on a daily basis. See Note 11 to the Consolidated Financial Statements on page 93.

In addition, certain of the Company's broker/dealer subsidiaries are subject to regulation in the other countries in which they do business, including requirements to maintain specified levels of net capital or its equivalent. The Company's broker/dealer subsidiaries were in compliance with their capital requirements at March 31, 2006.

## Regulatory Capital and Accounting Standards Developments

Citigroup supports the move to a new set of risk-based regulatory capital standards, published on June 26, 2004 (and subsequently amended in November 2005) by the Basel Committee on Banking Supervision (the Basel Committee), consisting of central banks and bank supervisors from 13 countries. Basel II will allow Citigroup to leverage internal risk models used to measure credit, operational, and market risk exposures to drive regulatory capital calculations. On September 30, 2005, the U.S. banking regulators delayed the U.S. implementation of Basel II by one year. The current U.S. implementation timetable consists of parallel calculations under the current regulatory capital regime (Basel I) and Basel II, starting January 1, 2008, and an implementation transition period, starting January 1, 2009 through year-end 2011 or possibly later. The U.S. regulators have also reserved the right to change how Basel II is applied in the U.S., and retain the existing Prompt Corrective Action and leverage capital requirements applicable to U.S. banking organizations. The new timetable, clarifications, and other proposals will be set forth in a notice of proposed rulemaking (NPR), which the U.S. banking regulators are expected to issue during 2006.

Citigroup continues to monitor and analyze the developing capital standards in the U.S. and in countries where Citigroup has significant presence, in order to assess their collective impact and allocate project management and funding resources accordingly.

## Capital Instruments

On March 1, 2005, the FRB issued the final rule, with an effective date of April 11, 2005, which retains trust preferred securities in Tier 1 Capital of BHCs, but with stricter quantitative limits and clearer qualitative standards. Under the rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements included in Tier 1 Capital would be limited to 25% of Tier 1 Capital elements, net of goodwill less any associated deferred tax liability. Under this rule, Citigroup currently would have less than 9% against the limit. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 Capital, subject to restrictions.

Additionally, from time to time, the FRB and the FFIEC propose amendments to, and issue interpretations of, risk-based capital guidelines and reporting instructions. Such proposals or interpretations could, if implemented in the future, affect reported capital ratios and net risk-adjusted assets.\*

\*

This statement is a forward-looking statement within the meaning of the Private Securities Litigation Reform Act. See "Forward-Looking Statements" on page 75.

## LIQUIDITY

At the Holding Company level for Citigroup, for CGMHI and for the Combined Holding Company, Citigroup maintains sufficient liquidity to meet all maturing unsecured debt obligations due within a one-year time horizon without accessing the unsecured markets.

### Management of Liquidity

Management of liquidity at Citigroup is the responsibility of the Corporate Treasurer. A uniform liquidity risk management policy exists for Citigroup and its major operating subsidiaries. Under this policy, there is a single set of standards for the measurement of liquidity risk in order to ensure consistency across businesses, stability in methodologies and transparency of risk. Management of liquidity at each operating subsidiary and/or country is performed on a daily basis and is monitored by Corporate Treasury and independent risk management.

The basis of Citigroup's liquidity management is strong decentralized liquidity management at each of its principal operating subsidiaries and in each of its countries, combined with an active corporate oversight function. As discussed in "Capital Resources" on page 66, Citigroup's Finance and Capital Committee monitors the liquidity position of Citigroup. In addition, the Global Asset and Liability Committee (ALCO) undertakes this oversight responsibility, along with the Corporate Treasurer. The Global ALCO functions as an oversight forum composed of Citigroup's Chief Financial Officer, Senior Risk Officer, Corporate Treasurer, Head of Risk Architecture and the senior corporate and business treasurers and business chief financial officers. One of the objectives of the Global ALCO is to monitor and review the overall liquidity and balance sheet positions of Citigroup and its principal subsidiaries and to address corporate-wide policies and make recommendations to senior management and the business units. Similarly, ALCOs are also established for each country and/or major line of business.

Each principal operating subsidiary and/or country must prepare an annual funding and liquidity plan for review by the Corporate Treasurer and approval by independent risk management. The funding and liquidity plan includes analysis of the balance sheet, as well as the economic and business conditions impacting the liquidity of the major operating subsidiary and/or country. As part of the funding and liquidity plan, liquidity limits, liquidity ratios, market triggers, and assumptions for periodic stress tests are established and approved.

Liquidity limits establish boundaries for market access in business-as-usual conditions and are monitored against the liquidity position on a daily basis. These limits are established based on the size of the balance sheet, depth of the market, experience level of local management, stability of the liabilities, and liquidity of the assets. Finally, the limits are subject to the evaluation of the entities' stress test results. Generally, limits are established such that in stress scenarios, entities are self-funded or net providers of liquidity.

A series of standard corporate-wide liquidity ratios has been established to monitor the structural elements of Citigroup's liquidity. For bank entities, these include cash capital (defined as core deposits, long-term debt, and capital compared with illiquid assets), liquid assets against liquidity gaps, core deposits to loans, long-term assets to long-term liabilities and deposits to loans. Several measures exist to review potential concentrations of funding by individual name, product, industry, or geography. At the Holding Company level for Citigroup and for CGMHI, ratios are established for liquid assets against short-term obligations. Triggers for management discussion, which may result in other actions, have been established against these ratios. In addition, each individual major operating subsidiary or country establishes targets against these ratios and may monitor other ratios as approved in its funding and liquidity plan.

Market triggers are internal or external market or economic factors that may imply a change to market liquidity or Citigroup's access to the markets. Citigroup market triggers are monitored by the Corporate Treasurer and Head of Risk Architecture and are discussed in the Global ALCO. Appropriate market triggers are also established and monitored for each major operating subsidiary and/or country as part of the funding and liquidity plans. Local triggers are reviewed with the local country or business ALCO and independent risk management.

Simulated liquidity stress testing is periodically performed for each major operating subsidiary and/or country. The scenarios include assumptions about significant changes in key funding sources, credit ratings, contingent uses of funding, and political and economic conditions in certain countries. The results of stress tests of individual countries and operating subsidiaries are reviewed to ensure that each individual major operating subsidiary or country is either self-funded or a net provider of liquidity. In addition, a Contingency Funding Plan is prepared on a periodic basis for Citigroup. The plan includes detailed policies, procedures, roles and responsibilities, and the results of corporate stress tests. The product of these stress tests is a series of alternatives that can be used by the Corporate Treasurer in a liquidity event.

CGMHI monitors liquidity by tracking asset levels, collateral and funding availability to maintain flexibility to meet its financial commitments. As a policy, CGMHI attempts to maintain sufficient capital and funding sources in order to have the capacity to finance itself on a fully collateralized basis in the event that its access to uncollateralized financing is temporarily impaired. This is documented in CGMHI's contingency funding plan. This plan is reviewed periodically to keep the funding options current and in line with market conditions. The management of this plan includes an analysis used to determine CGMHI's ability to withstand varying levels of stress, including rating downgrades, which could impact its liquidation horizons and required margins. CGMHI maintains liquidity reserves of cash and loan value of unencumbered securities in excess of its outstanding short-term uncollateralized liabilities. This is monitored on a daily basis. CGMHI also ensures that long-term illiquid assets are funded with long-term liabilities.

**Funding**

As a financial holding company, substantially all of Citigroup's net earnings are generated within its operating subsidiaries. These subsidiaries make funds available to Citigroup, primarily in the form of dividends. Certain

## Edgar Filing: CITIGROUP INC - Form 10-Q

subsidiaries' dividend paying abilities may be limited by covenant restrictions in credit agreements, regulatory requirements and/or rating agency requirements that also impact their capitalization levels.

Citigroup is a legal entity separate and distinct from Citibank, N.A. and its other subsidiaries and affiliates. There are various legal limitations on the extent to which Citigroup's banking subsidiaries may extend credit, pay dividends or otherwise supply funds to Citigroup and its nonbank subsidiaries. The approval of the Office of the Comptroller of the Currency is required if total dividends declared by a national bank in any calendar year exceed net profits (as defined) for that year combined with its retained net profits for the preceding two years. In addition, dividends for such a bank may not be paid in excess of the bank's undivided profits. State-chartered bank subsidiaries are subject to dividend limitations imposed by applicable state law.

As of March 31, 2006, Citigroup's national and state-chartered bank subsidiaries can declare dividends to their respective parent companies, without regulatory approval, of approximately \$13.7 billion. In determining whether and to what extent to pay dividends, each bank subsidiary must also consider the effect of dividend payments on applicable risk-based capital and leverage ratio requirements, as well as policy statements of the federal regulatory agencies that indicate that banking organizations should generally pay dividends out of current operating earnings. Consistent with these considerations, Citigroup estimates that, as of March 31, 2006, its bank subsidiaries can directly or through their parent holding company distribute dividends to Citigroup of approximately \$11.0 billion of the available \$13.7 billion.

Citigroup also receives dividends from its nonbank subsidiaries. These nonbank subsidiaries are generally not subject to regulatory restrictions on their payment of dividends, except that the approval of the Office of Thrift Supervision (OTS) may be required if total dividends declared by a savings association in any calendar year exceed amounts specified by that agency's regulations.

As discussed in "Capital Resources" on page 66, the ability of CGMHI to declare dividends can be restricted by capital considerations of its broker/dealer subsidiaries.

During 2006, it is not anticipated that any restrictions on the subsidiaries' dividending capability will restrict Citigroup's ability to meet its obligations as and when they become due.\*

Primary sources of liquidity for Citigroup and its principal subsidiaries include deposits, collateralized financing transactions, senior and subordinated debt, issuance of commercial paper, proceeds from issuance of trust preferred securities, and purchased/wholesale funds. Citigroup and its principal subsidiaries also generate funds through securitizing financial assets, including credit card receivables and single-family or multi-family residences. See Note 8 to the Consolidated Financial Statements on page 87 for additional information about securitization activities. Finally, Citigroup's net earnings provide a significant source of funding to the corporation.

Citigroup's funding sources are well diversified across funding types and geography, a benefit of the strength of the global franchise. Funding for the parent and its major operating subsidiaries includes a large geographically diverse retail and corporate deposit base of \$628.2 billion. A significant portion of these deposits has been, and is expected to be, long-term and stable and is considered core.

Citigroup and its subsidiaries have a significant presence in the global capital markets. During the 2005 second quarter, Citigroup consolidated its capital markets funding activities into two legal entities: (i) Citigroup Inc., which issues long-term debt, trust preferred securities, preferred and common stock, and (ii) Citigroup Funding Inc. (CFI), a first-tier subsidiary of Citigroup, which issues commercial paper and medium-term notes, all of which is guaranteed by Citigroup. Publicly underwritten debt was also formerly issued by CGMHI, Citicorp, Associates First Capital Corporation (Associates) and CitiFinancial Credit Company. As part of the funding consolidation during the 2005 second quarter, Citigroup unconditionally guaranteed CGMHI's outstanding SEC-registered indebtedness. CGMHI will no longer file reports with the SEC and will continue to be rated on the basis of a guarantee of its financial obligations from Citigroup. On August 1, 2005, Citigroup merged its two intermediate bank holding companies, Citigroup Holdings Company and Citicorp, into Citigroup Inc. Coinciding with this merger, Citigroup assumed all existing indebtedness and outstanding guarantees of Citicorp. As a result, Citigroup has also guaranteed various debt obligations of Associates and of CitiFinancial Credit Company, each an indirect subsidiary of Citigroup. In addition, Citigroup guaranteed various debt obligations of Citigroup Finance Canada, Inc. (CFCI), a wholly owned subsidiary of Associates. CFCI continues to issue debt in the Canadian market supported by a Citigroup guarantee. See Note 18 to the Consolidated Financial Statements on page 103 for further discussions. Other significant elements of long-term debt in the Consolidated Balance Sheet include advances from the Federal Home Loan Bank system, asset-backed outstandings related to the purchase of Sears, and debt of foreign subsidiaries.

CGMHI's consolidated balance sheet is highly liquid, with the vast majority of its assets consisting of marketable securities and collateralized short-term financing agreements arising from securities transactions. The highly liquid nature of these assets provides CGMHI with flexibility in financing and managing its business. CGMHI monitors and evaluates the adequacy of its capital and borrowing base on a daily basis to allow for flexibility in its funding, to maintain liquidity, and to ensure that its capital base supports the regulatory capital requirements of its subsidiaries.

Citigroup's borrowings are diversified by geography, investor, instrument and currency. Decisions regarding the ultimate currency and interest rate profile of liquidity generated through these borrowings can be separated from the actual issuance through the use of derivative

financial products.

---

\*

This statement is a forward-looking statement within the meaning of the Private Securities Litigation Reform Act. See "Forward-Looking Statements" on page 75.

## Edgar Filing: CITIGROUP INC - Form 10-Q

At March 31, 2006, long-term debt and commercial paper outstanding for Citigroup Parent Company, CGMHI, Citigroup Funding Inc. and Citigroup's Subsidiaries were as follows:

| In billions of dollars | Citigroup<br>Parent<br>Company | CGMHI   | Citigroup<br>Funding<br>Inc. | Other<br>Citigroup<br>Subsidiaries |
|------------------------|--------------------------------|---------|------------------------------|------------------------------------|
| Long-term debt         | \$ 105.5                       | \$ 34.8 | \$ 11.1                      | \$ 75.8                            |
| Commercial paper       |                                |         | \$ 24.1                      | \$ 1.7                             |

See Note 11 to the Consolidated Financial Statements on page 93 for further detail on long-term debt and commercial paper outstanding.

Citigroup's ability to access the capital markets and other sources of wholesale funds, as well as the cost of these funds, is highly dependent on its credit ratings. The accompanying chart indicates the current ratings for Citigroup.

### Citigroup's Debt Ratings as of March 31, 2006

|                           | Citigroup Inc. |                      |                     | Citigroup Funding Inc. |                      |                     | Citibank, N.A. |                |
|---------------------------|----------------|----------------------|---------------------|------------------------|----------------------|---------------------|----------------|----------------|
|                           | Senior<br>Debt | Subordinated<br>Debt | Commercial<br>Paper | Senior<br>Debt         | Subordinated<br>Debt | Commercial<br>Paper | Long-<br>Term  | Short-<br>Term |
| Fitch Ratings             | AA+            | AA                   | F1+                 | AA+                    | AA                   | F1+                 | AA+            | F1+            |
| Moody's Investors Service | Aa1            | Aa2                  | P-1                 | Aa1                    | Aa2                  | P-1                 | Aa1            | P-1            |
| Standard & Poor's         | AA-            | A+                   | A-1+                | AA-                    | A+                   | A-1+                | AA             | A-1+           |

Standard and Poors assigned a "positive" outlook to the debt ratings of Citigroup Inc. and its subsidiaries on May 3, 2006. Moody's Investors Service assigned a "positive" outlook to the long-term rating for Citibank, N.A. in December 2005. The outlook for all other ratings is "stable."

Some of Citigroup's nonbank subsidiaries, including CGMHI, have credit facilities with Citigroup's subsidiary banks, including Citibank, N.A. Borrowings under these facilities must be secured in accordance with Section 23A of the Federal Reserve Act. There are various legal restrictions on the extent to which a bank holding company and certain of its nonbank subsidiaries can borrow or obtain credit from banking subsidiaries or engage in certain other transactions with them. In general, these restrictions require that transactions be on arms-length terms and be secured by designated amounts of specified collateral. See Note 11 to the Consolidated Financial Statements on page 93.

Citigroup uses its liquidity to service debt obligations, to pay dividends to its stockholders, to support organic growth, to fund acquisitions and to repurchase its shares, pursuant to Board of Directors approved plans.

Each of Citigroup's major operating subsidiaries finances its operations on a basis consistent with its capitalization, regulatory structure and the environment in which it operates. Particular attention is paid to those businesses that for tax, sovereign risk, or regulatory reasons cannot be freely and readily funded in the international markets.

**OFF-BALANCE SHEET ARRANGEMENTS**

Citigroup and its subsidiaries are involved with several types of off-balance sheet arrangements, including special purpose entities (SPEs), lines and letters of credit, and loan commitments.

An SPE is an entity in the form of a trust or other legal vehicle, designed to fulfill a specific limited need of the company that organized it (such as a transfer of risk or desired tax treatment).

The principal uses of SPEs are to obtain liquidity and favorable capital treatment by securitizing certain of Citigroup's financial assets, to assist our clients in securitizing their financial assets, and to create investment products for the Company's clients. SPEs may be organized as trusts, partnerships, or corporations. In a securitization, the company transferring assets to an SPE converts those assets into cash before they would have been realized in the normal course of business, through the SPE's issuing debt and equity instruments, certificates, commercial paper, and other notes of indebtedness. Investors usually have recourse to the assets in the SPE and often benefit from other credit enhancements, such as a collateral account or overcollateralization in the form of excess assets in the SPE, or from a liquidity facility, such as a line of credit or asset purchase agreement. Accordingly, the SPE can typically obtain a more favorable credit rating from rating agencies than the transferor could obtain for its own debt issuances, resulting in less expensive financing costs. The SPE may also enter into derivative contracts in order to convert the yield or currency of the underlying assets to match the needs of the SPE investors or to limit or change the credit risk of the SPE. Citigroup may be the counterparty to these derivatives.

The securitization process enhances the liquidity of the financial markets, may spread credit risk among several market participants, and makes new funds available to extend credit to consumers and commercial entities.

Citigroup also acts as intermediary or agent for its corporate clients, assisting them in raising money by selling their trade receivables or other financial assets to an SPE. The Company also securitizes clients' debt obligations in transactions involving SPEs that issue collateralized debt obligations. In yet other arrangements, the Company packages and securitizes assets purchased in the financial markets in order to create new security offerings for the institutional and individual investor. In connection with such arrangements, Citigroup may purchase and temporarily hold assets designated for subsequent securitization.

SPEs may be Qualifying SPEs (QSPEs) or VIEs or neither. The Company's credit card receivables and mortgage loan securitizations are organized as QSPEs and are, therefore, not VIEs subject to FASB Interpretation No. 46, "Consolidation of Variable Interest Entities (revised December 2003)," (FIN 46-R). When an entity is deemed a variable interest entity (VIE) under FIN 46-R, the entity in question must be consolidated by the primary beneficiary; however, the Company is not the primary beneficiary of most of these entities and as such does not consolidate most of them.

**Securitization of Citigroup's Assets**

In some of these off-balance sheet arrangements, including credit card receivable and mortgage loan securitizations, Citigroup is securitizing assets that were previously recorded on its Consolidated Balance Sheet. A summary of certain cash flows received from and paid to securitization trusts is included in Note 8 to the Consolidated Financial Statements on page 87.

**Credit Card Receivables**

Credit card receivables are securitized through trusts, which are established to purchase the receivables. Citigroup sells receivables into the trusts on a non-recourse basis. Credit card securitizations are revolving securitizations; that is, as customers pay their credit card balances, the cash proceeds are used to purchase new receivables and replenish the receivables in the trust. CGMI is one of several underwriters that distribute securities issued by the trust to investors. The Company relies on securitizations to fund approximately 65% of its *U.S. Cards* business.

The following table reflects amounts related to the Company's securitized credit card receivables at March 31, 2006 and December 31, 2005:

| In billions of dollars                                | Mar. 31,<br>2006 | Dec. 31,<br>2005 |
|-------------------------------------------------------|------------------|------------------|
| Total assets in trusts                                | \$ 105.6         | \$ 107.7         |
| Amounts sold to investors via trust-issued securities | 91.0             | 92.1             |
| Remaining seller's interest:                          |                  |                  |
| Recorded as consumer loans                            | 10.4             | 11.6             |
| Recorded as available-for-sale securities (AFS)       | 4.2              | 4.0              |
| Amounts receivable from trusts                        | 4.1              | 1.0              |

# Edgar Filing: CITIGROUP INC - Form 10-Q

| In billions of dollars    | Mar. 31,<br>2006 | Dec. 31,<br>2005 |
|---------------------------|------------------|------------------|
| Amounts payable to trusts | 1.8              | 1.6              |
| Interest-only strip       | 2.1              | 2.1              |

In the first quarters of 2006 and 2005, the Company recorded net gains from securitization of credit card receivables of \$0.2 billion and \$0.3 billion, respectively. Net gains reflect the following:

incremental gains from new securitizations

the reversal of the allowance for loan losses associated with receivables sold

net gains on replenishments of the trust assets

offset by other than temporary impairments.

See Note 8 to the Consolidated Financial Statements on page 87 for additional information regarding the Company's securitization activities.



## Mortgages and Other Assets

The Company provides a wide range of mortgage and other loan products to its customers. In addition to providing a source of liquidity and less expensive funding, securitizing these assets also reduces the Company's credit exposure to the borrowers. The Company's mortgage loan securitizations are primarily non-recourse, thereby effectively transferring the risk of future credit losses to the purchasers of the securities issued by the trust. In addition to servicing rights, the Company also retains a residual interest in its auto loan, student loan and other asset securitizations, consisting of securities and interest-only strips that arise from the calculation of gain or loss at the time assets are sold to the SPE. The Company recognized gains related to the securitization of mortgages and other assets of \$51 million and \$86 million in the first quarter of 2006 and 2005, respectively.

## Securitization of Client Assets

The Company acts as an intermediary for its corporate clients, assisting them in obtaining liquidity by selling their trade receivables or other financial assets to an SPE.

In addition, Citigroup administers several third-party-owned, special purpose, multi-seller finance companies that purchase pools of trade receivables, credit cards, and other financial assets from its clients. As administrator, the Company provides accounting, funding, and operations services to these conduits but has no ownership interest. Generally, the clients continue to service the transferred assets. The conduits' asset purchases are funded by issuing commercial paper and medium-term notes. Clients absorb the first losses of the conduits by providing collateral in the form of excess assets or holding a residual interest. The Company, along with other financial institutions, provides liquidity facilities, such as commercial paper backstop lines of credit to the conduits. The Company also provides loss enhancement in the form of letters of credit and other guarantees. All fees are charged on a market basis. During 2003 many of the conduits issued "first loss" subordinated notes to third-party investors so that such investors in each conduit would be deemed the primary beneficiary under FIN 46-R, and would consolidate that conduit.

At March 31, 2006 and December 31, 2005, total assets and liabilities in the unconsolidated conduits were \$57 billion and \$55 billion, respectively.

## Creation of Other Investment and Financing Products

The Company packages and securitizes assets purchased in the financial markets in order to create new security offerings, including arbitrage collateralized debt obligations (CDOs) and synthetic CDOs for institutional clients and retail customers, which match the clients' investment needs and preferences. Typically these instruments diversify investors' risk to a pool of assets as compared with investments in individual assets. The VIEs, which are issuers of CDO securities, are generally organized as limited liability corporations. The Company typically receives fees for structuring and/or distributing the securities sold to investors. In some cases, the Company may repackage the investment with higher-rated debt CDO securities or U.S. Treasury securities to provide a greater or a very high degree of certainty of the return of invested principal. A third-party manager is typically retained by the VIE to select collateral for inclusion in the pool and then actively manage it or, in other cases, only to manage work-out credits. The Company may also provide other financial services and/or products to the VIEs for market-rate fees. These may include: the provision of liquidity or contingent liquidity facilities, interest rate or foreign exchange hedges and credit derivative instruments, as well as the purchasing and warehousing of securities until they are sold to the SPE. The Company is not the primary beneficiary of these VIEs under FIN 46-R due to its limited continuing involvement and, as a result, we do not consolidate their assets and liabilities in our financial statements.

See Note 8 to the Consolidated Financial Statements on page 87 for additional information about off-balance sheet arrangements.

## Credit Commitments and Lines of Credit

The table below summarizes Citigroup's credit commitments as of March 31, 2006 and December 31, 2005.

| In millions of dollars                                                         | March 31,<br>2006 | December 31,<br>2005 |
|--------------------------------------------------------------------------------|-------------------|----------------------|
| Financial standby letters of credit and foreign office guarantees              | \$ 67,595         | \$ 52,384            |
| Performance standby letters of credit and foreign office guarantees            | 14,993            | 13,946               |
| Commercial and similar letters of credit                                       | 6,210             | 5,790                |
| One- to four-family residential mortgages                                      | 3,726             | 3,343                |
| Revolving open-end loans secured by one- to four-family residential properties | 27,078            | 25,089               |
| Commercial real estate, construction and land development                      | 2,951             | 2,283                |
| Credit card lines(1)                                                           | 886,218           | 859,504              |
| Commercial and other consumer loan commitments(2)                              | 332,635           | 346,444              |

Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions of dollars | March 31,<br>2006   | December 31,<br>2005 |
|------------------------|---------------------|----------------------|
|                        |                     |                      |
| <b>Total</b>           | <b>\$ 1,341,406</b> | <b>\$ 1,308,783</b>  |

(1) Credit card lines are unconditionally cancelable by the issuer.

(2) Includes commercial commitments to make or purchase loans, to purchase third-party receivables, and to provide note issuance or revolving underwriting facilities. Amounts include \$165 billion and \$179 billion with original maturity of less than one year at March 31, 2006 and December 31, 2005, respectively.

## CORPORATE GOVERNANCE AND CONTROLS AND PROCEDURES

### Corporate governance

Citigroup has a Code of Conduct that maintains the Company's commitment to the highest standards of conduct. The Company has established an ethics hotline for employees. The Code of Conduct is supplemented by a Code of Ethics for Financial Professionals (including finance, accounting, treasury, tax and investor relations professionals) that applies worldwide.

Both the Code of Conduct and the Code of Ethics for Financial Professionals can be found on the Citigroup Web site, [www.citigroup.com](http://www.citigroup.com), by clicking on the "Corporate Governance" page. The Company's Corporate Governance Guidelines and the charters for the Audit and Risk Management Committee, the Nomination and Governance Committee, the Personnel and Compensation Committee, and the Public Affairs Committee of the Board are also available under the "Corporate Governance" page, or by writing to Citigroup Inc., Corporate Governance, 425 Park Avenue, 2nd floor, New York, New York 10043.

### Controls and procedures

#### Disclosure

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed under the Exchange Act securities laws is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure and appropriate SEC filings.

The Company's Disclosure Committee is responsible for ensuring that there is an adequate and effective process for establishing, maintaining and evaluating disclosure controls and procedures for the Company's external disclosures.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2006 and, based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that at that date the Company's disclosure controls and procedures were effective.

#### Financial reporting

The Company's *internal control over financial reporting* is a process under the supervision of the Chief Executive Officer and Chief Financial Officer, and effected by Citigroup's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These controls include policies and procedures that

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Citigroup has had a longstanding process whereby business and financial officers throughout the Company attest to the accuracy of financial information reported in corporate systems as well as the effectiveness of internal controls over financial reporting and disclosure processes.

Company management is responsible for establishing and maintaining adequate internal control over financial reporting. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to see that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

## Edgar Filing: CITIGROUP INC - Form 10-Q

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There were no changes in the Company's internal control over financial reporting during the fiscal quarter ended March 31, 2006 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q, the Company uses certain forward-looking statements when describing future business conditions. The Company's actual results may differ materially from those included in the forward-looking statements and are indicated by words such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," and similar expressions or future or conditional verbs such as "will," "should," "would," and "could."

These forward-looking statements involve external risks and uncertainties including, but not limited, to those described in the Company's 2005 Annual Report on Form 10-K section entitled "Risk Factors": economic conditions, credit, market and liquidity risk, competition, country risk, operational risk, U.S. fiscal policies, reputation and legal risk and certain regulatory considerations. Risks and uncertainties disclosed in this 10-Q include, but are not limited to:

the impact of a variety of unresolved matters concerning the Company's investment in CVC Brazil, including pending litigation involving some of its portfolio companies;

possible amendments to, and interpretations of, risk-based capital guidelines and reporting instructions; and

the Company's subsidiaries' dividending capabilities.

## CONSOLIDATED FINANCIAL STATEMENTS

## CITIGROUP INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME (Unaudited)

| In millions of dollars, except per share amounts                                   | Three Months Ended March 31, |                  |
|------------------------------------------------------------------------------------|------------------------------|------------------|
|                                                                                    | 2006                         | 2005(1)          |
| <b>Revenues</b>                                                                    |                              |                  |
| Loan interest, including fees                                                      | \$ 12,809                    | \$ 11,273        |
| Other interest and dividends                                                       | 9,055                        | 6,262            |
| Insurance premiums                                                                 | 770                          | 735              |
| Commissions and fees                                                               | 4,906                        | 4,393            |
| Principal transactions                                                             | 2,117                        | 2,215            |
| Asset management and administration fees                                           | 1,705                        | 1,508            |
| Realized gains (losses) from sales of investments                                  | 379                          | 243              |
| Other revenue                                                                      | 2,549                        | 1,991            |
| <b>Total revenues</b>                                                              | <b>\$ 34,290</b>             | <b>\$ 28,620</b> |
| Interest expense                                                                   | 12,107                       | 7,424            |
| <b>Total revenues, net of interest expense</b>                                     | <b>\$ 22,183</b>             | <b>\$ 21,196</b> |
| <b>Provision for credit losses and for benefits and claims</b>                     |                              |                  |
| Provision for loan losses                                                          | \$ 1,396                     | \$ 1,813         |
| Policyholder benefits and claims                                                   | 227                          | 217              |
| Provision for unfunded lending commitments                                         | 50                           |                  |
| <b>Total provision for credit losses and for benefits and claims</b>               | <b>\$ 1,673</b>              | <b>\$ 2,030</b>  |
| <b>Operating expenses</b>                                                          |                              |                  |
| Compensation and benefits                                                          | \$ 8,263                     | \$ 6,486         |
| Net occupancy expense                                                              | 1,382                        | 1,241            |
| Technology/communication expense                                                   | 886                          | 866              |
| Advertising and marketing expense                                                  | 603                          | 641              |
| Other operating expenses                                                           | 2,224                        | 2,170            |
| <b>Total operating expenses</b>                                                    | <b>\$ 13,358</b>             | <b>\$ 11,404</b> |
| <b>Income from continuing operations before income taxes and minority interest</b> | <b>\$ 7,152</b>              | <b>\$ 7,762</b>  |
| Provision for income taxes                                                         | 1,537                        | 2,484            |
| Minority interest, net of taxes                                                    | 60                           | 163              |
| <b>Income from continuing operations</b>                                           | <b>\$ 5,555</b>              | <b>\$ 5,115</b>  |
| <b>Discontinued operations</b>                                                     |                              |                  |
| Income from discontinued operations                                                | \$ 1                         | \$ 483           |
| Gain on sale                                                                       | 21                           |                  |
| Provision (benefit) for income taxes and minority interest, net of taxes           | (62)                         | 157              |
| <b>Income from discontinued operations, net of taxes</b>                           | <b>\$ 84</b>                 | <b>\$ 326</b>    |
| <b>Net income</b>                                                                  | <b>\$ 5,639</b>              | <b>\$ 5,441</b>  |
| <b>Basic earnings per share(2)</b>                                                 |                              |                  |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                     | Three Months Ended March 31, |                |
|-----------------------------------------------------|------------------------------|----------------|
| Income from continuing operations                   | \$ 1.13                      | \$ 0.99        |
| Income from discontinued operations, net of taxes   | 0.02                         | 0.07           |
| <b>Net Income</b>                                   | <b>\$ 1.14</b>               | <b>\$ 1.06</b> |
| Weighted average common shares outstanding          | 4,920.7                      | 5,133.3        |
| <b>Diluted earnings per share(2)</b>                |                              |                |
| Income from continuing operations                   | \$ 1.11                      | \$ 0.98        |
| Income from discontinued operations, net of taxes   | 0.02                         | 0.06           |
| <b>Net income</b>                                   | <b>\$ 1.12</b>               | <b>\$ 1.04</b> |
| Adjusted weighted average common shares outstanding | 5,007.9                      | 5,226.0        |

(1) Reclassified to conform to the current period's presentation.

(2) Due to rounding, earnings per share on continuing and discontinued operations may not sum to earnings per share on net income.

See Notes to the Unaudited Consolidated Financial Statements.

## CITIGROUP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

| In millions of dollars, except shares                                                                                                               | March 31,<br>2006<br>(Unaudited) | December 31,<br>2005(1) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------|
| <b>Assets</b>                                                                                                                                       |                                  |                         |
| Cash and due from banks (including segregated cash and other deposits)                                                                              | \$ 26,355                        | \$ 28,373               |
| Deposits at interest with banks                                                                                                                     | 28,276                           | 26,904                  |
| Federal funds sold and securities borrowed or purchased under agreements to resell                                                                  | 239,552                          | 217,464                 |
| Brokerage receivables                                                                                                                               | 42,569                           | 42,823                  |
| Trading account assets (including \$85,256 and \$92,495 pledged to creditors at March 31, 2006 and December 31, 2005, respectively)                 | 328,135                          | 295,820                 |
| Investments (including \$16,336 and \$15,819 pledged to creditors at March 31, 2006 and December 31, 2005, respectively)                            | 193,970                          | 180,597                 |
| Loans, net of unearned income                                                                                                                       |                                  |                         |
| Consumer                                                                                                                                            | 462,068                          | 454,620                 |
| Corporate                                                                                                                                           | 143,239                          | 128,883                 |
| Loans, net of unearned income                                                                                                                       | \$ 605,307                       | \$ 583,503              |
| Allowance for loan losses                                                                                                                           | (9,505)                          | (9,782)                 |
| Total loans, net                                                                                                                                    | \$ 595,802                       | \$ 573,721              |
| Goodwill                                                                                                                                            | 32,933                           | 33,130                  |
| Intangible assets                                                                                                                                   | 15,092                           | 14,749                  |
| Other assets                                                                                                                                        | 83,517                           | 80,456                  |
| <b>Total assets</b>                                                                                                                                 | <b>\$ 1,586,201</b>              | <b>\$ 1,494,037</b>     |
| <b>Liabilities</b>                                                                                                                                  |                                  |                         |
| Non-interest-bearing deposits in U.S. offices                                                                                                       | \$ 38,684                        | \$ 37,405               |
| Interest-bearing deposits in U.S. offices                                                                                                           | 176,032                          | 169,277                 |
| Non-interest-bearing deposits in offices outside the U.S.                                                                                           | 34,323                           | 32,614                  |
| Interest-bearing deposits in offices outside the U.S.                                                                                               | 379,118                          | 353,299                 |
| Total deposits                                                                                                                                      | \$ 628,157                       | \$ 592,595              |
| Federal funds purchased and securities loaned or sold under agreements to repurchase                                                                | 279,540                          | 242,392                 |
| Brokerage payables                                                                                                                                  | 70,214                           | 70,994                  |
| Trading account liabilities                                                                                                                         | 144,888                          | 121,108                 |
| Short-term borrowings (including \$755 at March 31, 2006 at fair value)                                                                             | 58,130                           | 66,930                  |
| Long-term debt (including \$3,864 at March 31, 2006 at fair value)                                                                                  | 227,165                          | 217,499                 |
| Other liabilities                                                                                                                                   | 63,689                           | 69,982                  |
| <b>Total liabilities</b>                                                                                                                            | <b>\$ 1,471,783</b>              | <b>\$ 1,381,500</b>     |
| <b>Stockholders' equity</b>                                                                                                                         |                                  |                         |
| Preferred stock (\$1.00 par value; authorized shares: 30 million), at aggregate liquidation value                                                   | \$ 1,000                         | \$ 1,125                |
| Common stock (\$.01 par value; authorized shares: 15 billion), issued shares <b>5,477,416,086 shares at March 31, 2006 and at December 31, 2005</b> | 55                               | 55                      |
| Additional paid-in capital                                                                                                                          | 17,119                           | 17,483                  |
| Retained earnings                                                                                                                                   | 120,703                          | 117,555                 |
| Treasury stock, at cost: <b>March 31, 2006 506,174,599 shares</b> and December 31, 2005 497,192,288 shares                                          | (21,753)                         | (21,149)                |
| Accumulated other changes in equity from nonowner sources                                                                                           | (2,706)                          | (2,532)                 |



Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions of dollars, except shares             | March 31,<br>2006<br>(Unaudited) | December 31,<br>2005(1) |
|---------------------------------------------------|----------------------------------|-------------------------|
| <b>Total stockholders' equity</b>                 | <b>\$ 114,418</b>                | <b>\$ 112,537</b>       |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 1,586,201</b>              | <b>\$ 1,494,037</b>     |

(1)

Reclassified to conform to the current period's presentation.

See Notes to the Unaudited Consolidated Financial Statements.

## CITIGROUP INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

| In millions of dollars, except shares in thousands                                                     | Three Months Ended March 31, |                   |
|--------------------------------------------------------------------------------------------------------|------------------------------|-------------------|
|                                                                                                        | 2006                         | 2005(1)           |
| <b>Preferred stock at aggregate liquidation value</b>                                                  |                              |                   |
| Balance, beginning of period                                                                           | \$ 1,125                     | \$ 1,125          |
| Redemption or retirement of preferred stock                                                            | (125)                        |                   |
| Balance, end of period                                                                                 | \$ 1,000                     | \$ 1,125          |
| <b>Common stock and additional paid-in capital</b>                                                     |                              |                   |
| Balance, beginning of period                                                                           | \$ 17,538                    | \$ 16,960         |
| Employee benefit plans                                                                                 | (365)                        | (662)             |
| Other                                                                                                  | 1                            |                   |
| Balance, end of period                                                                                 | \$ 17,174                    | \$ 16,298         |
| <b>Retained earnings</b>                                                                               |                              |                   |
| Balance, beginning of period                                                                           | \$ 117,555                   | \$ 102,154        |
| Net income                                                                                             | 5,639                        | 5,441             |
| Common dividends(2)                                                                                    | (2,474)                      | (2,309)           |
| Preferred dividends                                                                                    | (17)                         | (17)              |
| Balance, end of period                                                                                 | \$ 120,703                   | \$ 105,269        |
| <b>Treasury stock, at cost</b>                                                                         |                              |                   |
| Balance, beginning of period                                                                           | \$ (21,149)                  | \$ (10,644)       |
| Issuance of shares pursuant to employee benefit plans                                                  | 1,391                        | 1,075             |
| Treasury stock acquired(3)                                                                             | (2,000)                      | (906)             |
| Other                                                                                                  | 5                            |                   |
| Balance, end of period                                                                                 | \$ (21,753)                  | \$ (10,475)       |
| <b>Accumulated other changes in equity from nonowner sources</b>                                       |                              |                   |
| Balance, beginning of period                                                                           | \$ (2,532)                   | \$ (304)          |
| Net change in unrealized gains and losses on investment securities, net of tax                         | (356)                        | (885)             |
| Net change in cash flow hedges, net of tax                                                             | 206                          | 164               |
| Net change in foreign currency translation adjustment, net of tax                                      | (28)                         | (656)             |
| Minimum pension liability adjustment, net of tax                                                       | 4                            |                   |
| Balance, end of period                                                                                 | \$ (2,706)                   | \$ (1,681)        |
| <b>Total common stockholders' equity (shares outstanding: 4,971,241 in 2006 and 5,202,176 in 2005)</b> | <b>\$ 113,418</b>            | <b>\$ 109,411</b> |
| <b>Total stockholders' equity</b>                                                                      | <b>\$ 114,418</b>            | <b>\$ 110,536</b> |
| <b>Summary of changes in equity from nonowner sources</b>                                              |                              |                   |
| Net income                                                                                             | \$ 5,639                     | \$ 5,441          |
| Other changes in equity from nonowner sources, net of tax                                              | (174)                        | (1,377)           |
| <b>Total changes in equity from nonowner sources</b>                                                   | <b>\$ 5,465</b>              | <b>\$ 4,064</b>   |

- 
- (1) Reclassified to conform to the current period's presentation.
- (2) Common dividends declared were 49 cents per share in the first quarter of 2006 and 44 cents per share in the first quarter of 2005.
- (3) All open market repurchases were transacted under an existing authorized share repurchase plan. On April 13, 2006, the Board of Directors authorized up to an additional \$10 billion in share repurchases.

See Notes to the Unaudited Consolidated Financial Statements.

## CITIGROUP INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

| In millions of dollars                                                                                           | Three Months Ended March 31, |                   |
|------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|
|                                                                                                                  | 2006                         | 2005(1)           |
| <b>Cash flows from operating activities of continuing operations</b>                                             |                              |                   |
| Net income                                                                                                       | \$ 5,639                     | \$ 5,441          |
| Income from discontinued operations, net of tax and minority interest                                            | 73                           | 326               |
| Gain on sale, net of tax and minority interest                                                                   | 11                           |                   |
| <b>Income from continuing operations</b>                                                                         | <b>\$ 5,555</b>              | <b>\$ 5,115</b>   |
| <b>Adjustments to reconcile net income to net cash provided by operating activities of continuing operations</b> |                              |                   |
| Amortization of deferred policy acquisition costs and present value of future profits                            | \$ 70                        | \$ 74             |
| Additions to deferred policy acquisition costs                                                                   | (88)                         | (113)             |
| Depreciation and amortization                                                                                    | 599                          | 536               |
| Provision for credit losses                                                                                      | 1,396                        | 1,813             |
| Change in trading account assets                                                                                 | (32,315)                     | 5,831             |
| Change in trading account liabilities                                                                            | 23,780                       | (14,349)          |
| Change in federal funds sold and securities borrowed or purchased under agreements to resell                     | (22,088)                     | (1,360)           |
| Change in federal funds purchased and securities loaned or sold under agreements to repurchase                   | 37,148                       | 8,062             |
| Change in brokerage receivables net of brokerage payables                                                        | (526)                        | 406               |
| Net gains from sales of investments                                                                              | (379)                        | (243)             |
| Venture capital activity                                                                                         | (62)                         | (540)             |
| Other, net                                                                                                       | (9,938)                      | (1,547)           |
| <b>Total adjustments</b>                                                                                         | <b>\$ (2,403)</b>            | <b>\$ (1,430)</b> |
| <b>Net cash provided by operating activities of continuing operations</b>                                        | <b>\$ 3,152</b>              | <b>\$ 3,685</b>   |
| <b>Cash flows from investing activities of continuing operations</b>                                             |                              |                   |
| Change in deposits at interest with banks                                                                        | \$ (1,372)                   | \$ (5,078)        |
| Change in loans                                                                                                  | (25,120)                     | (6,384)           |
| Proceeds from sales of loans                                                                                     | 2,697                        | 3,716             |
| Purchases of investments                                                                                         | (63,425)                     | (44,096)          |
| Proceeds from sales of investments                                                                               | 17,444                       | 21,247            |
| Proceeds from maturities of investments                                                                          | 32,402                       | 17,926            |
| Other investments, primarily short-term, net                                                                     | (44)                         | (650)             |
| Capital expenditures on premises and equipment                                                                   | (875)                        | (924)             |
| Proceeds from sales of premises and equipment, subsidiaries and affiliates, and repossessed assets               | 525                          | 5,069             |
| Business acquisitions                                                                                            |                              | (602)             |
| <b>Net cash used in investing activities of continuing operations</b>                                            | <b>\$ (37,768)</b>           | <b>\$ (9,776)</b> |
| <b>Cash flows from financing activities of continuing operations</b>                                             |                              |                   |
| Dividends paid                                                                                                   | \$ (2,491)                   | \$ (2,326)        |
| Issuance of common stock                                                                                         | 258                          | 279               |
| Redemption or retirement of preferred stock                                                                      | (125)                        |                   |
| Treasury stock acquired                                                                                          | (2,000)                      | (906)             |
| Stock tendered for payment of withholding taxes                                                                  | (569)                        | (489)             |
| Issuance of long-term debt                                                                                       | 25,040                       | 14,133            |
| Payments and redemptions of long-term debt                                                                       | (14,425)                     | (12,370)          |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                                                   | Three Months Ended March 31, |                   |
|-----------------------------------------------------------------------------------|------------------------------|-------------------|
| Change in deposits                                                                | <u>35,562</u>                | <u>4,191</u>      |
| Change in short-term borrowings                                                   | (8,800)                      | 5,937             |
| Contractholder fund deposits                                                      | 79                           | 84                |
| Contractholder fund withdrawals                                                   | (93)                         | (134)             |
|                                                                                   | <u>          </u>            | <u>          </u> |
| <b>Net cash provided by financing activities of continuing operations</b>         | <b>\$ 32,436</b>             | <b>\$ 8,399</b>   |
|                                                                                   | <u>          </u>            | <u>          </u> |
| Effect of exchange rate changes on cash and cash equivalents                      | \$ 162                       | \$ (142)          |
|                                                                                   | <u>          </u>            | <u>          </u> |
| <b>Discontinued Operations</b>                                                    |                              |                   |
| <b>Net cash used in discontinued operations</b>                                   |                              | \$ (102)          |
|                                                                                   | <u>          </u>            | <u>          </u> |
| <b>Change in cash and due from banks</b>                                          | <b>\$ (2,018)</b>            | <b>\$ 2,064</b>   |
| <b>Cash and due from banks at beginning of period</b>                             | <b>\$ 28,373</b>             | <b>\$ 23,556</b>  |
|                                                                                   | <u>          </u>            | <u>          </u> |
| <b>Cash and due from banks at end of period</b>                                   | <b>\$ 26,355</b>             | <b>\$ 25,620</b>  |
|                                                                                   | <u>          </u>            | <u>          </u> |
| <b>Supplemental disclosure of cash flow information for continuing operations</b> |                              |                   |
| Cash paid during the period for income taxes                                      | \$ 1,017                     | \$ 679            |
| Cash paid during the period for interest                                          | 11,150                       | 6,970             |
|                                                                                   | <u>          </u>            | <u>          </u> |
| <b>Non-cash investing activities</b>                                              |                              |                   |
| Transfers to repossessed assets                                                   | \$ 358                       | \$ 427            |
|                                                                                   | <u>          </u>            | <u>          </u> |

(1) Reclassified to conform to the current period's presentation.

See Notes to the Unaudited Consolidated Financial Statements.

## CITIBANK, N.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

| In millions of dollars, except shares                                                                                         | March 31,<br>2006<br>(Unaudited) | December 31,<br>2005 |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>Assets</b>                                                                                                                 |                                  |                      |
| Cash and due from banks                                                                                                       | \$ 15,087                        | \$ 15,706            |
| Deposits at interest with banks                                                                                               | 24,772                           | 22,704               |
| Federal funds sold and securities purchased under agreements to resell                                                        | 16,022                           | 15,187               |
| Trading account assets (including \$378 and \$600 pledged to creditors at March 31, 2006 and December 31, 2005, respectively) | 97,934                           | 86,966               |
| Investments (including \$2,431 and \$2,122 pledged to creditors at March 31, 2006 and December 31, 2005, respectively)        | 135,170                          | 124,147              |
| Loans, net of unearned income                                                                                                 | 398,831                          | 386,565              |
| Allowance for loan losses                                                                                                     | (6,178)                          | (6,307)              |
| Total loans, net                                                                                                              | \$ 392,653                       | \$ 380,258           |
| Goodwill                                                                                                                      | 9,181                            | 9,093                |
| Intangible assets                                                                                                             | 11,083                           | 10,644               |
| Premises and equipment, net                                                                                                   | 5,784                            | 5,873                |
| Interest and fees receivable                                                                                                  | 5,829                            | 5,722                |
| Other assets                                                                                                                  | 35,820                           | 30,197               |
| <b>Total assets</b>                                                                                                           | <b>\$ 749,335</b>                | <b>\$ 706,497</b>    |
| <b>Liabilities</b>                                                                                                            |                                  |                      |
| Non-interest-bearing deposits in U.S. offices                                                                                 | \$ 23,816                        | \$ 23,464            |
| Interest-bearing deposits in U.S. offices                                                                                     | 116,318                          | 112,264              |
| Non-interest-bearing deposits in offices outside the U.S.                                                                     | 30,407                           | 28,738               |
| Interest-bearing deposits in offices outside the U.S.                                                                         | 347,060                          | 321,524              |
| Total deposits                                                                                                                | \$ 517,601                       | \$ 485,990           |
| Trading account liabilities                                                                                                   | 48,921                           | 46,812               |
| Purchased funds and other borrowings (including \$688 at March 31, 2006 at fair value)                                        | 55,057                           | 48,653               |
| Accrued taxes and other expense                                                                                               | 9,983                            | 9,047                |
| Long-term debt and subordinated notes (including \$1,158 at March 31, 2006 at fair value)                                     | 34,878                           | 34,404               |
| Other liabilities                                                                                                             | 24,859                           | 25,327               |
| <b>Total liabilities</b>                                                                                                      | <b>\$ 691,299</b>                | <b>\$ 650,233</b>    |
| <b>Stockholder's equity</b>                                                                                                   |                                  |                      |
| Capital stock (\$20 par value) standing shares: 37,534,553 in each period                                                     | \$ 751                           | \$ 751               |
| Surplus                                                                                                                       | 27,283                           | 27,244               |
| Retained earnings                                                                                                             | 32,122                           | 30,651               |
| Accumulated other changes in equity from nonowner sources(1)                                                                  | (2,120)                          | (2,382)              |
| <b>Total stockholder's equity</b>                                                                                             | <b>\$ 58,036</b>                 | <b>\$ 56,264</b>     |
| <b>Total liabilities and stockholder's equity</b>                                                                             | <b>\$ 749,335</b>                | <b>\$ 706,497</b>    |

## Edgar Filing: CITIGROUP INC - Form 10-Q

(1)

Amounts at March 31, 2006 and December 31, 2005 include the after-tax amounts for net unrealized gains/(losses) on investment securities of (\$310) million and (\$210) million, respectively, for foreign currency translation of (\$2.068) billion and (\$2.381) billion, respectively, for cash flow hedges of \$369 million and \$323 million, respectively, and for additional minimum pension liability of (\$111) million and (\$114) million, respectively.

See Notes to the Unaudited Consolidated Financial Statements.

**CITIGROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements as of March 31, 2006 and for the three-month period ended March 31, 2006 include the accounts of Citigroup Inc. (Citigroup) and its subsidiaries (collectively, the Company). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation, have been reflected. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in Citigroup's 2005 Annual Report on Form 10-K.

Certain financial information that is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but is not required for interim reporting purposes, has been condensed or omitted.

Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation.

**Accounting Changes**

**Stock-Based Compensation**

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), which replaces the existing SFAS 123 and APB 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires companies to measure compensation expense for stock options and other share-based payments based on the instruments' grant date fair value, and to record expense based on that fair value reduced by expected and actual forfeitures.

The Company adopted this standard by using the modified prospective approach. Beginning January 1, 2006, Citigroup will record incremental expense for stock options granted prior to January 1, 2003 (the date the Company adopted SFAS 123). That expense will equal the remaining unvested portion of the grant-date fair value of those stock options, reduced by estimated and actual forfeitures. The Company recorded incremental compensation expense of \$19 million in the first quarter of 2006. Based on current estimates, the incremental charges for each of the remaining three quarters of 2006 and all of 2007 are pretax \$24 million and \$11 million, respectively.

The Company maintains a number of incentive programs in which equity awards are granted to eligible employees. The most significant of the programs offered is the Capital Accumulation Program (CAP). Under the CAP program, the Company grants deferred and restricted shares to eligible employees. The program provides that employees who meet certain age plus years-of-service requirements (retirement-eligible employees) may terminate active employment and continue vesting in their awards provided they comply with specified non-compete provisions. For awards granted prior to the adoption of SFAS 123(R), the Company had been and will continue to amortize the compensation cost of those awards over the full vesting periods. Awards granted after the adoption of SFAS 123(R) must be either expensed on the grant date or accrued in the year prior to the grant date.

The impact to the 2006 first quarter results was a charge of \$846 million (\$520 million after-tax). This charge consisted of \$648 million (\$398 million after-tax) for the immediate expensing of awards granted to retirement-eligible employees in January 2006, and \$198 million (\$122 million after-tax) for the quarterly accrual of the estimated awards that will be granted through January 2007. The Company will continue to accrue for the estimated awards that will be granted through January 2007 in each quarter of 2006.

In adopting SFAS 123(R), the Company began to recognize compensation expense for restricted or deferred stock awards net of estimated forfeitures. Previously, the effects of forfeitures were recorded as they occurred. Additional information can be found in Note 14 to the Consolidated Financial Statements on page 96.

**Accounting for Certain Hybrid Financial Instruments**

On January 1, 2006, the Company elected to early-adopt, primarily on a prospective basis, SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." In accordance with this standard, hybrid financial instruments such as structured notes containing embedded derivatives that otherwise would require bifurcation, as well as interest-only instruments may be accounted for at fair value, with the change recorded in current earnings.

**Accounting for Servicing of Financial Assets**



## Edgar Filing: CITIGROUP INC - Form 10-Q

On January 1, 2006, The Company elected to early-adopt SFAS No. 156, "Accounting for Servicing of Financial Assets." This pronouncement permits an election to remeasure servicing rights at fair value, with the changes in the fair value being recorded in current earnings. The company has elected to adopt this standard for its U.S. prime mortgage and student loan servicing rights. The impact of adopting this standard was not material.

### **Accounting for Conditional Asset Retirement Obligations**

On December 31, 2005, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). The Interpretation requires entities to estimate and recognize a liability for costs associated with the retirement or removal of an asset from service, regardless of the uncertainty of timing or whether performance will be required. For Citigroup, this applies to certain real estate restoration activities in the Company's branches and office space, most of which are rented under operating lease agreements.

The impact of adopting this interpretation was a \$49 million after-tax (\$80 million pretax) charge to earnings, which was reported on the Consolidated Statement of Income as the cumulative effect of accounting change (net of taxes) in the fourth quarter of 2005.

## **Accounting for Certain Loans or Debt Securities Acquired in a Transfer**

On January 1, 2005, Statement of Position (SOP) No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" (SOP 03-3), was adopted for loan acquisitions. SOP 03-3 requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of SOP 03-3.

SOP 03-3 limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments.

## **Future Application of Accounting Standards**

### **Determining the Variability in a Potential VIE**

The FASB issued FASB Staff Position FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" (FSP FIN 46(R)-6) in April 2006. FSP FIN 46(R)-6 addresses the application of FIN 46(R), "Consolidation of Variable Interest Entities," in determining whether certain contracts or arrangements with a variable interest entity (VIE) are variable interests by requiring companies to base such evaluations on an analysis of the VIE's purpose and design, rather than its legal form or accounting classification.

FSP FIN 46(R)-6 is required to be applied for all reporting periods beginning after June 15, 2006. While the Company is still evaluating the impact of the FSP, the adoption of the FSP is not expected to result in material differences from Citigroup's existing accounting policies regarding the consolidation of VIEs.

### **Potential Amendments to Various Current Accounting Standards**

The FASB is currently working on a number of amendments to the existing accounting standards governing asset transfers, uncertain tax positions, leveraged lease transactions, and fair value of financial instruments. Upon completion of these standards, the Company will need to reevaluate its accounting and disclosures. Due to the ongoing deliberations by the Board, the Company is unable to accurately determine the effect of future amendments or proposals at this time.

In addition, the FASB is currently working on a project that will change the accounting and reporting for pension and postretirement plans. Citigroup expects the new standard to require companies to record an asset or liability on the Consolidated Balance Sheet equal to the funded status of the plans. Any other plan-related assets or liabilities would be reflected net as an adjustment to stockholders' equity.

## **2. Business Developments**

### **Acquisition of Federated Credit Card Portfolio and Credit Card Agreement With Federated Department Stores**

On June 2, 2005, Citigroup announced a long-term agreement with Federated Department Stores, Inc. (Federated) under which the companies will partner to manage Federated's \$6.3 billion in credit card receivables, including existing and new accounts, executed in three phases.

For the first phase, which closed on October 24, 2005, Citigroup acquired Federated's receivables under management, totaling \$3.3 billion. For the second phase, which closed on May 1, 2006, additional Federated receivables totaling \$1.2 billion were transferred to Citigroup from the previous provider. For the final phase, in the 2006 third quarter, Citigroup expects to acquire the approximately \$1.8 billion credit card receivable portfolio of The May Department Stores Company (May), which recently merged with Federated.

Citigroup is paying a premium of approximately 11.5% to acquire each of the portfolios. The multi-year agreement also provides Federated the ability to participate in the portfolio performance, based on credit sales and certain other performance metrics. The Federated and May credit card portfolios comprise a total of approximately 17 million active accounts.

### **Acquisition of First American Bank**

On March 31, 2005, Citigroup completed the acquisition of First American Bank in Texas (FAB). The transaction established Citigroup's retail branch presence in Texas, giving Citigroup 106 branches, \$4.2 billion in assets and approximately 120,000 new customers in the state at the time of the transaction's closing. The results of FAB are included in the Consolidated Financial Statements from March 2005 forward.



### 3. Discontinued Operations

#### Sale of the Asset Management Business

On December 1, 2005, the Company completed the sale of substantially all of its Asset Management Business to Legg Mason, Inc. (Legg Mason) in exchange for its broker-dealer business, \$2.298 billion of Legg Mason's common and preferred shares (valued as of the closing date), and \$500 million in cash. This cash was obtained via a lending facility provided by Citigroup Corporate and Investment Banking. The transaction did not include Citigroup's asset management business in Mexico, its retirement services business in Latin America (both of which are now included in *International Retail Banking*) or its interest in the CitiStreet joint venture (which is now included in *Smith Barney*). The total value of the transaction at the time of closing was approximately \$4.369 billion, resulting in an after-tax gain to Citigroup of approximately \$2.082 billion (\$3.404 billion pretax). This gain remains subject to final closing adjustments.

Concurrently, Citigroup sold Legg Mason's Capital Markets business to Stifel Financial Corp. The business consisted of areas in which Citigroup already had full capabilities, including investment banking, institutional equity sales and trading, taxable fixed income sales and trading, and research. No gain or loss was recognized from this transaction. (The transactions described in these two paragraphs are referred to as the "Sale of the Asset Management Business.")

In connection with this sale, Citigroup and Legg Mason entered into a three-year agreement under which Citigroup will continue to offer its clients Asset Management's products, will become the primary retail distributor of the Legg Mason funds managed by Legg Mason Capital Management Inc., and may also distribute other Legg Mason products. These products will be offered primarily through Citigroup's Global Wealth Management businesses, *Smith Barney* and *Private Bank*, as well as through Primerica and Citibank. The distribution of these products will be subject to applicable requirements of law and Citigroup's suitability standards and product requirements.

Upon completion of the Sale of the Asset Management Business, Citigroup added 1,226 financial advisors in 124 branch offices from Legg Mason to its Global Wealth Management Business.

Results for all of the businesses included in the Sale of the Asset Management Business, including the gain, are reported as Discontinued Operations for all periods presented. Changes in the market value of the Legg Mason common and preferred shares since the closing of the transaction are included in the Consolidated Statement of Change in Stockholders' Equity within "Accumulated Other Changes in Equity from Nonowner Sources" (net change in unrealized gains and losses on investment securities, net of tax). Any effects on the Company's current earnings related to these securities, such as dividend revenue, are included in the results of Alternative Investments.

The following is summarized financial information for discontinued operations, including cash flows, related to the Sale of the Asset Management Business:

| In millions of dollars                                         | Three Months<br>Ended March 31, |               |
|----------------------------------------------------------------|---------------------------------|---------------|
|                                                                | 2006                            | 2005          |
| <b>Total revenues, net of interest expense</b>                 | <b>\$ 21</b>                    | <b>\$ 337</b> |
| Income (loss) from discontinued operations                     | \$ (1)                          | \$ 86         |
| Gain on sale                                                   | 21                              |               |
| Provision for income taxes and minority interest, net of taxes | 10                              | 33            |
| <b>Income from discontinued operations, net of taxes</b>       | <b>\$ 10</b>                    | <b>\$ 53</b>  |
|                                                                |                                 |               |
| In millions of dollars                                         | Three Months<br>Ended March 31, |               |
|                                                                | 2006                            | 2005          |
| Cash flows from:                                               |                                 |               |
| Operating activities                                           | \$                              | \$ (81)       |
| Investing activities                                           |                                 | 36            |
| Financing activities                                           |                                 |               |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                                          | Three Months<br>Ended March 31, |         |
|------------------------------------------|---------------------------------|---------|
|                                          |                                 |         |
| Net cash used in discontinued operations | \$                              | \$ (45) |

The following is a summary of the assets and liabilities of discontinued operations related to the Sale of the Asset Management Business as of December 1, 2005:

| In millions of dollars   | December 1, 2005 |              |
|--------------------------|------------------|--------------|
|                          |                  |              |
| <b>Assets</b>            |                  |              |
| Cash and due from banks  | \$               | 96           |
| Investments              |                  | 3            |
| Intangible assets        |                  | 776          |
| Other assets             |                  | 563          |
|                          |                  |              |
| <b>Total assets</b>      | <b>\$</b>        | <b>1,438</b> |
|                          |                  |              |
| <b>Liabilities</b>       |                  |              |
| Other liabilities        | \$               | 575          |
|                          |                  |              |
| <b>Total liabilities</b> | <b>\$</b>        | <b>575</b>   |

On January 31, 2006, the Company completed the sale of its Asset Management Business within Bank Handlowy (an indirect banking subsidiary of Citigroup located in Poland) to Legg Mason, Inc. This transaction, which was originally part of the overall Asset Management Business sold to Legg Mason, Inc. on December 1, 2005, was postponed due to delays in obtaining local regulatory approval. A gain from this sale of \$18 million after-tax and minority interest (\$30 million pretax and minority interest) was recognized in the 2006 first quarter within Discontinued Operations.

During March 2006, Citigroup sold 10.3 million shares of Legg Mason stock through an underwritten public offering. The net sale proceeds of \$1.258 billion resulted in a pretax gain of \$24 million.

**Sale of the Life Insurance & Annuities Business**

On July 1, 2005, the Company completed the sale of Citigroup's Travelers Life & Annuity and substantially all of Citigroup's international insurance businesses to MetLife, Inc. (MetLife). The businesses sold were the primary vehicles through which Citigroup engaged in the Life Insurance and Annuities business.

Citigroup received \$1.0 billion in MetLife equity securities and \$10.830 billion in cash, which resulted in an after-tax gain of approximately \$2.120 billion (\$3.386 billion pretax). This gain remains subject to final closing adjustments.

The transaction encompassed Travelers Life & Annuity's U.S. businesses and its international operations other than Citigroup's life insurance business in *Mexico* (which is now included within *International Retail Banking*). International operations included wholly owned insurance companies in the United Kingdom, Belgium, Australia, Brazil, Argentina, and Poland; joint ventures in Japan and Hong Kong; and offices in China. The transaction also included Citigroup's Argentine pension business. (The transaction described in the preceding three paragraphs is referred to as the "Sale of the Life Insurance and Annuities Business.")

In connection with the Sale of the Life Insurance and Annuities Business, Citigroup and MetLife entered into ten-year agreements under which Travelers Life & Annuity and MetLife products will be made available through certain Citigroup distribution channels.

Results for all of the businesses included in the Sale of the Life Insurance and Annuities Business are reported as Discontinued Operations for all periods presented. The unrealized gain on the MetLife securities after the closing of the transaction are included in the Consolidated Statement of Changes in Stockholders' Equity within "Accumulated Other Changes in Equity from Nonowner Sources" (net change in unrealized gains and losses on investment securities, net of tax). Any effects on the Company's current earnings related to these securities, such as dividend revenue and hedging costs, are included in the results of Alternative Investments.

During the 2006 first quarter, \$15 million of the total \$657 million tax contingency reserve release was reported within Discontinued Operations as it related to the Life & Annuities Business sold to MetLife, Inc. See "Settlement of IRS Tax Audit" discussion on page 8.

Summarized financial information for discontinued operations, including cash flows, related to the Sale of the Life Insurance and Annuities Business is as follows:

| In millions of dollars                                   | Three Months Ended March 31, |                 |
|----------------------------------------------------------|------------------------------|-----------------|
|                                                          | 2006                         | 2005            |
| <b>Total revenues, net of interest expense</b>           | <b>\$</b>                    | <b>\$ 1,362</b> |
| Income from discontinued operations                      | \$ 2                         | \$ 397          |
| Provision (benefit) for income taxes                     | (28)                         | 124             |
| <b>Income from discontinued operations, net of taxes</b> | <b>\$ 30</b>                 | <b>\$ 273</b>   |
|                                                          |                              |                 |
| In millions of dollars                                   | Three Months Ended March 31, |                 |
|                                                          | 2006                         | 2005            |
| Cash flows from:                                         |                              |                 |
| Operating activities                                     | \$                           | \$ 521          |
| Investing activities                                     |                              | 125             |
| Financing activities                                     |                              | (499)           |
| <b>Net cash provided by discontinued operations</b>      | <b>\$</b>                    | <b>\$ 147</b>   |

The following is a summary of the assets and liabilities of discontinued operations related to the Sale of the Life Insurance and Annuities Business as of July 1, 2005, the date of the distribution:

# Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions of dollars                                                               | July 1, 2005     |
|--------------------------------------------------------------------------------------|------------------|
| <b>Assets</b>                                                                        |                  |
| Cash and due from banks                                                              | \$ 158           |
| Investments                                                                          | 48,860           |
| Intangible assets                                                                    | 86               |
| Other assets(1)                                                                      | 44,123           |
| <b>Total assets</b>                                                                  | <b>\$ 93,227</b> |
| <b>Liabilities</b>                                                                   |                  |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | \$ 971           |
| Other liabilities(2)                                                                 | 82,842           |
| <b>Total liabilities</b>                                                             | <b>\$ 83,813</b> |

(1) At June 30, 2005 other assets consisted of separate and variable accounts of \$30,828 million, reinsurance recoverables of \$4,048 million, and other of \$9,247 million.

(2) At June 30, 2005 other liabilities consisted of contractholder funds and separate and variable accounts of \$66,139 million, insurance policy and claims reserves of \$14,370 million, and other of \$2,333 million.

## The Spin-off of Travelers Property Casualty Corp.

During the 2006 first quarter, releases from various tax contingency reserves were recorded as the IRS concluded their tax audits for the years 1999 through 2002. Included in these releases was \$44 million related to Travelers Property Casualty Corp., which the Company spun off during 2002. This release has been included in the provision for income taxes within the results for discontinued operations. See "Settlement of IRS Tax Audit" discussion on page 8.

## Combined Results for Discontinued Operations

Summarized financial information for all of the Company's discontinued operations is as follows:

| In millions of dollars                                                   | Three Months Ended March 31, |                 |
|--------------------------------------------------------------------------|------------------------------|-----------------|
|                                                                          | 2006                         | 2005            |
| <b>Total revenues, net of interest expense</b>                           | <b>\$ 21</b>                 | <b>\$ 1,699</b> |
| Income from discontinued operations                                      | \$ 1                         | \$ 483          |
| Gain on sale                                                             | 21                           |                 |
| Provision (benefit) for income taxes and minority interest, net of taxes | (62)                         | 157             |
| <b>Income from discontinued operations, net of taxes</b>                 | <b>\$ 84</b>                 | <b>\$ 326</b>   |

#### 4. Business Segments

The following table presents certain information regarding the Company's continuing operations by segment:

| In millions of dollars, except<br>identifiable assets in billions | Revenues, Net<br>of Interest Expense |                  | Provision (Benefit)<br>for Income Taxes |                 | Income (Loss)<br>from Continuing<br>Operations(1) |                 | Identifiable Assets |                 |
|-------------------------------------------------------------------|--------------------------------------|------------------|-----------------------------------------|-----------------|---------------------------------------------------|-----------------|---------------------|-----------------|
|                                                                   |                                      |                  |                                         |                 |                                                   |                 | Mar. 31,            | Dec. 31,        |
|                                                                   |                                      |                  | First Quarter                           |                 |                                                   |                 |                     |                 |
|                                                                   | 2006                                 | 2005(2)          | 2006                                    | 2005(2)         | 2006                                              | 2005(2)         | 2006                | 2005(2)         |
| Global Consumer                                                   | \$ 11,955                            | \$ 12,118        | \$ 847                                  | \$ 1,314        | \$ 3,073                                          | \$ 2,843        | \$ 568              | \$ 559          |
| Corporate and Investment<br>Banking                               | 7,279                                | 6,037            | 574                                     | 735             | 1,929                                             | 1,679           | 926                 | 839             |
| Global Wealth Management                                          | 2,483                                | 2,173            | 136                                     | 180             | 287                                               | 319             | 62                  | 63              |
| Alternative Investments                                           | 675                                  | 866              | 111                                     | 267             | 353                                               | 362             | 12                  | 13              |
| Corporate/Other                                                   | (209)                                | 2                | (131)                                   | (12)            | (87)                                              | (88)            | 18                  | 20              |
| <b>Total</b>                                                      | <b>\$ 22,183</b>                     | <b>\$ 21,196</b> | <b>\$ 1,537</b>                         | <b>\$ 2,484</b> | <b>\$ 5,555</b>                                   | <b>\$ 5,115</b> | <b>\$ 1,586</b>     | <b>\$ 1,494</b> |

(1) Includes pretax provisions (credits) for credit losses and for benefits and claims in the Global Consumer results of \$1.7 billion and \$2.1 billion and in the Global Wealth Management results of \$5 million and (\$16) million for the 2006 and 2005 first quarters, respectively. Corporate and Investment Banking results include a pretax credit of (\$56) million for the 2005 first quarter.

(2) Reclassified to conform to the sale of the Asset Management Business, the sale of the Life Insurance and Annuities Business, and certain recent organizational changes.

#### 5. Investments

| In millions of dollars                                                      | March 31, 2006    | December 31, 2005 |
|-----------------------------------------------------------------------------|-------------------|-------------------|
| Fixed income securities, substantially all available-for-sale at fair value | \$ 177,161        | \$ 163,177        |
| Equity securities(1)                                                        | 13,614            | 14,368            |
| Venture capital, at fair value                                              | 2,906             | 2,844             |
| Short-term and other                                                        | 289               | 208               |
| <b>Total</b>                                                                | <b>\$ 193,970</b> | <b>\$ 180,597</b> |

(1) Includes non-marketable equity securities carried at cost of \$8,840 million and \$8,329 million at March 31, 2006 and December 31, 2005, respectively, which are reported in both the amortized cost and fair value columns.

The amortized cost and fair value of investments in fixed income and equity securities at March 31, 2006 and December 31, 2005 were as follows:

| In millions of dollars | March 31, 2006    |                              |                               |               | December 31, 2005(1) |               |
|------------------------|-------------------|------------------------------|-------------------------------|---------------|----------------------|---------------|
|                        | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost    | Fair<br>Value |



Edgar Filing: CITIGROUP INC - Form 10-Q

|                                                                              | March 31, 2006    |                 |                 |                   | December 31, 2005(1) |                   |
|------------------------------------------------------------------------------|-------------------|-----------------|-----------------|-------------------|----------------------|-------------------|
|                                                                              |                   |                 |                 |                   |                      |                   |
| <b>Fixed income securities held to maturity(2)</b>                           | <b>\$ 1</b>       | <b>\$</b>       | <b>\$</b>       | <b>\$ 1</b>       | <b>\$ 2</b>          | <b>\$ 2</b>       |
| <b>Fixed income securities available-for-sale</b>                            |                   |                 |                 |                   |                      |                   |
| Mortgage-backed securities, principally obligations of U.S. Federal agencies | \$ 12,931         | \$ 36           | \$ 478          | \$ 12,489         | \$ 13,157            | \$ 12,937         |
| U.S. Treasury and Federal agencies                                           | 30,365            | 56              | 546             | 29,875            | 28,448               | 28,034            |
| State and municipal                                                          | 14,057            | 647             | 62              | 14,642            | 13,090               | 13,581            |
| Foreign government                                                           | 76,437            | 388             | 567             | 76,258            | 67,823               | 67,874            |
| U.S. corporate                                                               | 26,214            | 322             | 246             | 26,290            | 25,050               | 25,055            |
| Other debt securities                                                        | 17,619            | 64              | 77              | 17,606            | 15,665               | 15,694            |
| <b>Total fixed income securities available-for-sale(3)</b>                   | <b>\$ 177,624</b> | <b>\$ 1,513</b> | <b>\$ 1,976</b> | <b>\$ 177,161</b> | <b>\$ 163,235</b>    | <b>\$ 163,177</b> |
| <b>Equity securities(4)</b>                                                  | <b>\$ 12,085</b>  | <b>\$ 1,554</b> | <b>\$ 25</b>    | <b>\$ 13,614</b>  | <b>\$ 13,017</b>     | <b>\$ 14,368</b>  |

(1) At December 31, 2005, gross pretax unrealized gains and losses on fixed maturities and equity securities totaled \$2.769 billion and \$1.476 billion, respectively.

(2) Recorded at amortized cost.

(3) Includes Fixed income securities, held to maturity.

(4) Includes non-marketable equity securities carried at cost of \$8,840 million and \$8,329 million at March 31, 2006 and December 31, 2005, respectively, which are reported in both the amortized cost and fair value columns.

## Edgar Filing: CITIGROUP INC - Form 10-Q

Realized and unrealized gains and losses related to the venture capital investments are classified in other revenue as the mark-to-market of these investments is recognized in earnings. The net gains reflected in earnings from these venture capital investments were \$116 million and \$622 million for the quarters ended March 31, 2006 and 2005, respectively. The total carrying value and cost for the venture capital investments were as follows:

### Three Months Ended March 31,

| In millions of dollars | 2006     | 2005     |
|------------------------|----------|----------|
| Carrying value         | \$ 2,904 | \$ 4,346 |
| Cost                   | 2,518    | 3,224    |

## 6. Trading Account Assets and Liabilities

Trading account assets and liabilities, at market value, consisted of the following:

| In millions of dollars                                | March 31,<br>2006 | December 31,<br>2005 |
|-------------------------------------------------------|-------------------|----------------------|
| <b>Trading account assets</b>                         |                   |                      |
| U.S. Treasury and federal agency securities           | \$ 47,367         | \$ 38,771            |
| State and municipal securities                        | 13,911            | 17,856               |
| Foreign government securities                         | 27,945            | 21,266               |
| Corporate and other debt securities                   | 69,531            | 60,137               |
| Derivatives(1)                                        | 53,855            | 47,414               |
| Equity securities                                     | 70,771            | 64,553               |
| Mortgage loans and collateralized mortgage securities | 22,821            | 27,852               |
| Other                                                 | 21,934            | 17,971               |
| <b>Total trading account assets</b>                   | <b>\$ 328,135</b> | <b>\$ 295,820</b>    |
| <b>Trading account liabilities</b>                    |                   |                      |
| Securities sold, not yet purchased                    | \$ 76,589         | \$ 59,780            |
| Derivatives(1)                                        | 68,299            | 61,328               |
| <b>Total trading account liabilities</b>              | <b>\$ 144,888</b> | <b>\$ 121,108</b>    |

(1) Pursuant to master netting agreements and cash collateral.

## 7. Commissions and Fees

Commissions and fees revenues includes charges to customers for credit and bank cards, including transaction-processing fees and annual fees; advisory, and equity and debt underwriting services; lending and deposit-related transactions, such as loan commitments, standby letters of credit, and other deposit and loan servicing activities; investment management-related fees including brokerage services, and custody and trust services; insurance fees and commissions.

The following table presents commissions and fees revenue for the three-month periods ended March 31,

| In millions of dollars      | 2006     | 2005(1)  |
|-----------------------------|----------|----------|
| Credit cards and bank cards | \$ 1,266 | \$ 1,247 |
| Investment banking          | 1,010    | 860      |
| <i>Smith Barney</i>         | 717      | 570      |

Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions of dollars            | 2006            | 2005(1)         |
|-----------------------------------|-----------------|-----------------|
| CIB trading-related               | 655             | 574             |
| Checking-related                  | 248             | 240             |
| Transaction services              | 209             | 178             |
| Corporate finance                 | 170             | 97              |
| Mortgage servicing                | 286             | 278             |
| Primerica                         | 96              | 90              |
| Other Consumer                    | 162             | 196             |
| Other CIB                         | 64              | 76              |
| Other                             | 23              | (13)            |
| <b>Total commissions and fees</b> | <b>\$ 4,906</b> | <b>\$ 4,393</b> |

(1)  
Reclassified to conform to current period's presentation.

## 8. Securitizations and Variable Interest Entities

The Company primarily securitizes credit card receivables and mortgages. Other types of assets securitized include corporate debt securities, auto loans, and student loans.

After securitization of credit card receivables, the Company continues to maintain credit card customer account relationships and provides servicing for receivables transferred to the trusts. The Company also arranges for third parties to provide credit enhancement to the trusts, including cash collateral accounts, subordinated securities, and letters of credit. As specified in some of the sale agreements, the net revenue collected each month is accumulated up to a predetermined maximum amount, and is available over the remaining term of that transaction to make payments of yield, fees, and transaction costs in the event that net cash flows from the receivables are not sufficient. Once the predetermined amount is reached, net revenue is recognized by the Citigroup subsidiary that sold the receivables.

The Company provides a wide range of mortgage and other loan products to a diverse customer base. In connection with the securitization of these loans, the servicing rights entitle the Company to a future stream of cash flows based on the outstanding principal balances of the loans and the contractual servicing fee. Failure to service the loans in accordance with contractual requirements may lead to a termination of the servicing rights and the loss of future servicing fees. In non-recourse servicing, the principal credit risk to the Company is the cost of temporary advances of funds. In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans such as FNMA or FHLMC or with a private investor, insurer, or guarantor. Losses on recourse servicing occur primarily when foreclosure sale proceeds of the property underlying a defaulted mortgage are less than the outstanding principal balance and accrued interest of the loan and the cost of holding and disposing of the underlying property. The Company's mortgage loan securitizations are primarily non-recourse, thereby effectively transferring the risk of future credit losses to the purchaser of the securities issued by the trust.

The Company also originates and sells first mortgage loans in the ordinary course of its mortgage banking activities. The Company sells some of these loans to the Government National Mortgage Association (GNMA) with the servicing rights retained. GNMA has the primary recourse obligation on the individual loans; however, GNMA's recourse obligation is capped at a fixed amount per loan. Any losses above that fixed amount are borne by Citigroup as the seller/servicer.

## Edgar Filing: CITIGROUP INC - Form 10-Q

The following table summarizes certain cash flows received from and paid to securitization trusts during the three months ended March 31, 2006 and 2005:

| In billions of dollars                                             | Three Months Ended<br>March 31, 2006 |           |          | Three Months Ended<br>March 31, 2005 |           |          |
|--------------------------------------------------------------------|--------------------------------------|-----------|----------|--------------------------------------|-----------|----------|
|                                                                    | Credit<br>Cards                      | Mortgages | Other(1) | Credit<br>Cards                      | Mortgages | Other(1) |
| Proceeds from new securitizations                                  | \$ 6.8                               | \$ 17.2   | \$ 7.7   | \$ 4.5                               | \$ 15.5   | \$ 6.3   |
| Proceeds from collections reinvested in new receivables            | 53.9                                 | 0.1       |          | 44.3                                 | 0.1       |          |
| Contractual servicing fees received                                | 0.5                                  | 0.2       |          | 0.5                                  | 0.2       |          |
| Cash flows received on retained interests and other net cash flows | 2.4                                  |           |          | 1.6                                  |           |          |

(1) Other includes corporate debt securities, student loans and other assets.

The Company recognized gains on securitizations of mortgages of \$31 million and \$86 million for the three-month periods ended March 31, 2006 and 2005, respectively. In the first quarter of 2006, the Company recorded gains of \$0.2 billion and \$0.3 billion related to the securitization of credit card receivables. Gains recognized on the securitization of other assets during the first three months of 2006 were \$20 million. No gains were recognized on the securitization of other assets during the first three months of 2005.

Key assumptions used for credit cards, mortgages, and other assets during the three months ended March 31, 2006 and 2005 in measuring the fair value of retained interests at the date of sale or securitization follow:

|                               | Three Months Ended March 31, 2006 |                        | Three Months Ended March 31, 2005 |                        |
|-------------------------------|-----------------------------------|------------------------|-----------------------------------|------------------------|
|                               | Credit Cards                      | Mortgages and Other(1) | Credit Cards                      | Mortgages and Other(1) |
| Discount rate                 | 12.0% to 15.0%                    | 0.4% to 26.0%          | 13.6% to 15.6%                    | 2.8% to 98.6%          |
| Constant prepayment rate      | 12.4% to 20.1%                    | 9.0% to 43.0%          | 13.7% to 17.5%                    | 7.0% to 46.4%          |
| Anticipated net credit losses | 4.2% to 6.0%                      | 0.0% to 40.0%          | 5.3% to 6.2%                      | 0.0% to 80.0%          |

(1) Other includes corporate debt securities, student loans and other assets.

As required by SFAS 140, the effect of two negative changes in each of the key assumptions used to determine the fair value of retained interests must be disclosed. The negative effect of each change must be calculated independently, holding all other assumptions constant. Because the key assumptions may not in fact be independent, the net effect of simultaneous adverse changes in the key assumptions may be less than the sum of the individual effects shown below.

At March 31, 2006, the key assumptions used to value retained interests and the sensitivity of the fair value to adverse changes of 10% and 20% in each of the key assumptions were as follows:

### Key assumptions at March 31, 2006

|  | Discount<br>Rate | Constant<br>Prepayment | Anticipated<br>Net Credit |
|--|------------------|------------------------|---------------------------|
|--|------------------|------------------------|---------------------------|

Edgar Filing: CITIGROUP INC - Form 10-Q

Key assumptions at March 31, 2006

|                        |                | Rate           | Losses        |
|------------------------|----------------|----------------|---------------|
| Mortgages and other(1) | 0.4% to 26.0%  | 9.0% to 43.0%  | 0.0% to 40.0% |
| Credit cards           | 12.0% to 15.0% | 12.4% to 20.1% | 4.2% to 6.0%  |

(1) Other includes corporate debt securities, student loans and other assets.

|                                      |  | March 31, 2006 |                     |
|--------------------------------------|--|----------------|---------------------|
| In millions of dollars               |  | Credit Cards   | Mortgages and Other |
| Carrying value of retained interests |  | \$ 7,400       | \$ 7,949            |
| Discount rate                        |  |                |                     |
| 10%                                  |  | \$ (75)        | \$ (155)            |
| 20%                                  |  | (133)          | (304)               |
| Constant prepayment rate             |  |                |                     |
| 10%                                  |  | \$ (177)       | \$ (279)            |
| 20%                                  |  | (331)          | (530)               |
| Anticipated net credit losses        |  |                |                     |
| 10%                                  |  | \$ (356)       | \$ (7)              |
| 20%                                  |  | (709)          | (15)                |

**Managed Loans**

After securitization of credit card receivables, the Company continues to maintain credit card customer account relationships and provides servicing for receivables transferred to the trusts. As a result, the Company considers the securitized credit card receivables to be part of the business it manages.

The following tables present a reconciliation between the managed basis and on-balance sheet credit card portfolios and the related delinquencies (loans which are 90 days or more past due) at March 31, 2006 and December 31, 2005, and credit losses, net of recoveries for the three-month periods ended March 31, 2006 and 2005.

| In millions of dollars,<br>except loans in billions | Mar. 31,<br>2006 | Dec. 31,<br>2005 |
|-----------------------------------------------------|------------------|------------------|
| <b>Principal amounts, at year end</b>               |                  |                  |
| On-balance sheet                                    | \$ 64.1          | \$ 69.5          |
| Securitized amounts                                 | 95.9             | 96.2             |
| Loans held-for-sale                                 |                  |                  |
| <b>Total managed</b>                                | <b>\$ 160.0</b>  | <b>\$ 165.7</b>  |
| <b>Delinquencies, at year end</b>                   |                  |                  |
| On balance sheet                                    | \$ 1,493         | \$ 1,630         |
| Securitized amounts                                 | 1,403            | 1,314            |
| Loans held-for-sale                                 |                  |                  |
| <b>Total managed</b>                                | <b>\$ 2,896</b>  | <b>\$ 2,944</b>  |
| <b>Credit losses, net of recoveries</b>             |                  |                  |
|                                                     | <b>2006</b>      | <b>2005</b>      |
| On-balance sheet                                    | \$ 664           | \$ 916           |
| Securitized amounts                                 | 871              | 1,162            |
| Loans held-for-sale                                 | 4                | 4                |
| <b>Total managed</b>                                | <b>\$ 1,539</b>  | <b>\$ 2,082</b>  |

**Mortgage Servicing Rights**

The carrying value of capitalized mortgage loan servicing rights (MSRs) was \$5.0 billion, \$4.3 billion and \$4.2 billion at March 31, 2006, December 31, 2005 and March 31, 2005, respectively. With the Company electing to early-adopt SFAS 156, "Accounting for Servicing of Financial Assets", as of January 1, 2006, MSRs are accounted for at fair value, with changes in value recorded in current earnings. Previously, only the portion of the MSR portfolio that was hedged with instruments qualifying for hedge accounting under SFAS 133 was recorded at fair value. The remaining portion, which was hedged with instruments that did not qualify for hedge accounting under SFAS 133, was accounted for at the lower-of-cost-or-market. The impact of this change to Citigroup's financial statements was not material.

The Company determines the fair value of MSRs by discounting projected net servicing cash flows of the remaining servicing portfolio and considering market loan prepayment predictions and other economic factors.

The fair value of MSRs is primarily affected by changes in prepayments that result from shifts in mortgage interest rates. In managing this risk, the Company hedges a significant portion of the value of its MSRs through the use of interest rate derivative contracts, forward purchase commitments of mortgage-backed securities, and purchased securities classified as available-for-sale or trading (primarily fixed income debt, such as U.S. government and agencies obligations, and mortgage-backed securities including principal-only strips).

The following table summarizes the changes in capitalized MSRs:

| In millions of dollars                 | Three Months Ended March 31, |                 |
|----------------------------------------|------------------------------|-----------------|
|                                        | 2006                         | 2005            |
| <b>Balance, beginning of period</b>    | <b>\$ 4,339</b>              | <b>\$ 4,149</b> |
| Originations                           | 176                          | 172             |
| Purchases                              | 162                          |                 |
| Gain (loss) on change in value of MSRs | 278                          | 59              |
| Amortization(1)                        |                              | (196)           |
| Provision for impairments(1)           |                              | 6               |
| <b>Balance, end of period</b>          | <b>\$ 4,955</b>              | <b>\$ 4,190</b> |

(1)

With the adoption of SFAS 156, the Company no longer amortizes servicing assets over the period of estimated net servicing income, or assesses impairment related to the excess of the MSRs' net carrying value over their fair value as any impairment would be reflected in the fair value of the MSRs. Prior to the adoption of SFAS 156, the provision for impairment of MSRs represented the excess of their net carrying value, which included the gain (loss) on change in MSR value, over their fair value. The provision for impairment increased the valuation allowance on MSRs, which was a component of the net MSRs' carrying value. A recovery of the MSR impairment was recorded when the fair value of the MSRs exceeded their carrying value, but it was limited to the amount of the existing valuation allowance. The valuation allowance on MSRs was \$1.021 billion and \$1.273 billion at December 31, 2005 and March 31, 2005, respectively. The provision for impairment of MSRs impacted the Consumer segment and is included in Other Revenue on the Consolidated Statement of Income.

#### Variable Interest Entities

The following table represents the carrying amounts and classification of consolidated assets that are collateral for VIE obligations, including VIEs that were consolidated prior to the implementation of FIN 46-R under existing guidance and VIEs that the Company became involved with after July 1, 2003:

| In billions of dollars                   | March 31,<br>2006 | December 31,<br>2005 |
|------------------------------------------|-------------------|----------------------|
| Cash                                     | \$ 0.7            | \$ 0.4               |
| Trading account assets                   | 31.5              | 29.7                 |
| Investments                              | 1.8               | 3.2                  |
| Loans                                    | 9.2               | 9.5                  |
| Other assets                             | 5.5               | 4.7                  |
| <b>Total assets of consolidated VIEs</b> | <b>\$ 48.7</b>    | <b>\$ 47.5</b>       |

The consolidated VIEs included in the table above represent hundreds of separate entities with which the Company is involved and includes VIEs consolidated as a result of adopting FIN 46-R and FIN 46. Of the \$48.7 billion and \$47.5 billion of total assets of VIEs consolidated by the Company at March 31, 2006 and December 31, 2005, respectively, \$37.0 billion and \$37.2 billion represent structured transactions where the Company packages and securitizes assets purchased in the financial markets or from clients in order to create new security offerings and financing opportunities for clients; \$9.3 billion and \$7.6 billion represent investment vehicles that were established to provide a return to the investors in the vehicles; and \$2.4 billion and \$2.7 billion represent vehicles that hold lease receivables and



## Edgar Filing: CITIGROUP INC - Form 10-Q

equipment as collateral to issue debt securities, thus obtaining secured financing at favorable interest rates.

The Company may provide various products and services to the VIEs. It may provide liquidity facilities, may be a party to derivative contracts with VIEs, may provide loss enhancement in the form of letters of credit and other guarantees to the VIEs, may be the investment manager, and may also have an ownership interest or other investment in certain VIEs. In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of the VIEs and do not have recourse to the Company, except where the Company has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

In addition to the VIEs that are consolidated in accordance with FIN 46-R, the Company has significant variable interests in certain other VIEs that are not consolidated because the Company is not the primary beneficiary. These include multi-seller finance companies, collateralized debt obligations (CDOs), structured finance transactions, and numerous investment funds. In addition to these VIEs, the Company issues preferred securities to third-party investors through trust vehicles as a source of funding and regulatory capital, which were deconsolidated during the first quarter of 2004. The Company's liabilities to the deconsolidated trust are included in long-term debt.

The Company administers several third-party-owned, special purpose, multi-seller finance companies that purchase pools of trade receivables, credit cards, and other financial assets from third-party clients of the Company. As administrator, the Company provides accounting, funding, and operations services to these conduits. Generally, the Company has no ownership interest in the conduits. The sellers continue to service the transferred assets. The conduits' asset purchases are funded by issuing commercial paper and medium-term notes. The sellers absorb the first losses of the conduits by providing collateral in the form of excess assets. The Company, along with other financial institutions, provides liquidity facilities, such as commercial paper backstop lines of credit to the conduits. The Company also provides loss enhancement in the form of letters of credit and other guarantees. All fees are charged on a market basis.

During 2003, to comply with FIN 46-R, many of the conduits issued "first loss" subordinated notes such that one third-party investor in each conduit would be deemed the primary beneficiary and would consolidate the conduit. At March 31, 2006 and December 31, 2005, total assets in unconsolidated conduits were \$57.3 billion and \$55.3 billion, respectively.

The Company also packages and securitizes assets purchased in the financial markets in order to create new security offerings, including arbitrage CDOs and synthetic CDOs for institutional clients and retail customers, that match the clients' investment needs and preferences. Typically, these instruments diversify investors' risk to a pool of assets as compared with investments in an individual asset. The VIEs, which are issuers of CDO securities, are generally organized as limited liability corporations. The Company typically receives fees for structuring and/or distributing the securities sold to investors. In some cases, the Company may repackage the investment with higher rated debt CDO securities or U.S. Treasury securities to provide a greater or a very high degree of certainty of the return of invested principal. A third-party manager is typically retained by the VIE to select collateral for inclusion in the pool and then actively manage it, or, in other cases, only to manage work-out credits. The Company may also provide other financial services and/or products to the VIEs for market-rate fees. These may include: the provision of liquidity or contingent liquidity facilities; interest rate or foreign exchange hedges and credit derivative instruments; and the purchasing and warehousing of securities until they are sold to the SPE. The Company is not the primary beneficiary of these VIEs under FIN 46-R due to its limited continuing involvement and, as a result, does not consolidate their assets and liabilities in its financial statements.

In addition to the conduits discussed above, the following table represents the assets of unconsolidated VIEs where the Company has significant involvement:

| In billions of dollars                                 | March 31,<br>2006 | December 31,<br>2005 |
|--------------------------------------------------------|-------------------|----------------------|
| CDO-type transactions                                  | \$ 42.6           | \$ 40.7              |
| Investment-related transactions                        | 8.1               | 6.9                  |
| Trust preferred securities                             | 6.4               | 6.5                  |
| Mortgage-related transactions                          | 0.4               | 3.1                  |
| Structured finance and other                           | 63.4              | 60.5                 |
| <b>Total assets of significant unconsolidated VIEs</b> | <b>\$ 120.9</b>   | <b>\$ 117.7</b>      |

The Company has also established a number of investment funds as opportunities for qualified employees to invest in venture capital investments. The Company acts as investment manager to these funds and may provide employees with financing on both a recourse and non-recourse basis for a portion of the employees' investment commitments.

In addition, the Company administers numerous personal estate trusts. The Company may act as trustee and may also be the investment manager for the trust assets.

## Edgar Filing: CITIGROUP INC - Form 10-Q

As mentioned above, the Company may, along with other financial institutions, provide liquidity facilities, such as commercial paper backstop lines of credit to the VIEs. The Company may be a party to derivative contracts with VIEs, may provide loss enhancement in the form of letters of credit and other guarantees to the VIEs, may be the investment manager, and may also have an ownership interest in certain VIEs. Although actual losses are not expected to be material, the Company's maximum exposure to loss as a result of its involvement with VIEs that are not consolidated was \$90 billion and \$91 billion at March 31, 2006 and December 31, 2005, respectively. For this purpose, maximum exposure is considered to be the notional amounts of credit lines, guarantees, other credit support, and liquidity facilities, the notional amounts of credit default swaps and certain total return swaps, and the amount invested where Citigroup has an ownership interest in the VIEs. In addition, the Company may be party to other derivative contracts with VIEs. Exposures that are considered to be guarantees are also included in Note 16 to the Consolidated Financial Statements on page 99.

## 9. Retirement Benefits

The Company has several non-contributory defined benefit pension plans covering substantially all U.S. employees and has various defined benefit pension and termination indemnity plans covering employees outside the United States. The U.S. defined benefit plan provides benefits under a cash balance formula. Employees satisfying certain age and service requirements remain covered by a prior final pay formula. The Company also offers postretirement health care and life insurance benefits to certain eligible U.S. retired employees, as well as to certain eligible employees outside the United States. For information on the Company's Retirement Benefit Plans and Pension Assumptions, see Citigroup's 2005 Annual Report on Form 10-K.

The following table summarizes the components of the net expense recognized in the Consolidated Statement of Income for the three months ended March 31, 2006 and 2005.

### Net Expense

| In millions of dollars              | Three Months Ended March 31, |              |                    |              |                                 |              |
|-------------------------------------|------------------------------|--------------|--------------------|--------------|---------------------------------|--------------|
|                                     | Pension Plans                |              |                    |              | Postretirement Benefit Plans(2) |              |
|                                     | U.S. Plans(1)                |              | Plans Outside U.S. |              | U.S. Plans                      |              |
|                                     | 2006                         | 2005         | 2006               | 2005         | 2006                            | 2005         |
|                                     |                              |              |                    |              |                                 |              |
| Benefits earned during the period   | \$ 68                        | \$ 67        | \$ 43              | \$ 41        | \$ 1                            | \$ 1         |
| Interest cost on benefit obligation | 157                          | 150          | 68                 | 60           | 16                              | 15           |
| Expected return on plan assets      | (212)                        | (202)        | (84)               | (70)         | (3)                             | (3)          |
| Amortization of unrecognized:       |                              |              |                    |              |                                 |              |
| Net transition obligation           |                              |              |                    | 1            |                                 |              |
| Prior service cost                  | (6)                          | (6)          | 1                  |              | (1)                             | (1)          |
| Net actuarial loss                  | 44                           | 36           | 14                 | 14           | 3                               | 3            |
| <b>Net expense</b>                  | <b>\$ 51</b>                 | <b>\$ 45</b> | <b>\$ 42</b>       | <b>\$ 46</b> | <b>\$ 16</b>                    | <b>\$ 15</b> |

(1) The U.S. plans exclude nonqualified pension plans, for which the net expense was \$14 million and \$11 million for the three months ended March 31, 2006 and 2005, respectively.

(2) For plans outside the U.S., net postretirement benefit expense was \$6 million and \$4 million for the three months ended March 31, 2006 and 2005, respectively.

### Employer Contributions

Citigroup's funding policy for U.S. and non-U.S. pension plans is generally to fund to the amounts of accumulated benefit obligations. For the U.S. plans, the Company may increase its contributions above the minimum required contribution under the Employee Retirement Income Security Act of 1974 (ERISA), if appropriate to its tax and cash position and the plan's funded position. At March 31, 2006 and December 31, 2005, there were no minimum required contributions and no discretionary or non-cash contributions are currently planned for the U.S. plans. However, in 2005, the Company contributed \$160 million to the U.S. pension plan to avoid an additional minimum liability at December 31, 2005. For the non-U.S. plans, the Company contributed \$49 million as of March 31, 2006. Citigroup presently anticipates contributing an additional \$126 million to fund its non-U.S. plans in 2006 for a total of \$175 million.

**10. Goodwill and Intangible Assets**

The changes in goodwill during the first three months of 2006 were as follows:

| In millions of dollars                                | Goodwill         |
|-------------------------------------------------------|------------------|
| <b>Balance at December 31, 2005</b>                   | <b>\$ 33,130</b> |
| Purchase accounting adjustment Legg Mason acquisition | 24               |
| Purchase accounting adjustment FAB acquisition        | 19               |
| Foreign exchange translation and other                | (240)            |
| <b>Balance at March 31, 2006</b>                      | <b>\$ 32,933</b> |

During the first quarter of 2006, no goodwill was written off due to impairment.

The changes in intangible assets during the first three months of 2006 were as follows:

| In millions of dollars                 | Intangible Assets<br>(Net Carrying Amount) |
|----------------------------------------|--------------------------------------------|
| <b>Balance at December 31, 2005</b>    | <b>\$ 14,749</b>                           |
| Changes in capitalized MSRs(1)         | 613                                        |
| Foreign exchange translation and other | (2)                                        |
| Amortization expense                   | (268)                                      |
| <b>Balance at March 31, 2006</b>       | <b>\$ 15,092</b>                           |

(1) See Note 8 to the Consolidated Financial Statements on page 87 for a summary of the changes in capitalized MSRs.

The components of intangible assets were as follows:

| In millions of dollars                    | March 31, 2006        |                             |                     | December 31, 2005     |                             |                     |
|-------------------------------------------|-----------------------|-----------------------------|---------------------|-----------------------|-----------------------------|---------------------|
|                                           | Gross Carrying Amount | Accumulated Amortization(1) | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization(1) | Net Carrying Amount |
| Purchased credit card relationships       | \$ 7,540              | \$ 3,084                    | \$ 4,456            | \$ 7,541              | \$ 2,929                    | \$ 4,612            |
| Mortgage servicing rights(1)              | 4,955                 |                             | 4,955               | 8,808                 | 4,469                       | 4,339               |
| Core deposit intangibles                  | 1,233                 | 438                         | 795                 | 1,248                 | 424                         | 824                 |
| Other customer relationships              | 1,033                 | 590                         | 443                 | 1,065                 | 596                         | 469                 |
| Present value of future profits           | 428                   | 233                         | 195                 | 429                   | 229                         | 200                 |
| Other(2)                                  | 4,447                 | 688                         | 3,759               | 4,455                 | 647                         | 3,808               |
| <b>Total amortizing intangible assets</b> | <b>\$ 19,636</b>      | <b>\$ 5,033</b>             | <b>\$ 14,603</b>    | <b>\$ 23,546</b>      | <b>\$ 9,294</b>             | <b>\$ 14,252</b>    |
| Indefinite-lived intangible assets        |                       |                             | 489                 |                       |                             | 497                 |
| <b>Total intangible assets</b>            |                       |                             | <b>\$ 15,092</b>    |                       |                             | <b>\$ 14,749</b>    |

## Edgar Filing: CITIGROUP INC - Form 10-Q

- (1) In connection with the adoption of SFAS 156 on January 1, 2006, the Company elected to subsequently account for MSRs at fair value with the related changes reported in earnings during the respective period. Accordingly, the Company no longer amortizes servicing assets over the period of estimated net servicing income. Prior to the adoption of SFAS 156, accumulated amortization of mortgage servicing rights included the related valuation allowance.
- (2) Includes contract-related intangible assets.

**11. Debt**

Short-term borrowings consist of commercial paper and other short-term borrowings as follows:

| In millions of dollars             | March 31,<br>2006 | December 31,<br>2005 |
|------------------------------------|-------------------|----------------------|
| <b>Commercial paper</b>            |                   |                      |
| Citigroup Funding Inc.             | \$ 24,147         | \$ 32,581            |
| Other Citigroup Subsidiaries       | 1,658             | 1,578                |
|                                    | <b>\$ 25,805</b>  | <b>\$ 34,159</b>     |
| <b>Other short-term borrowings</b> | <b>32,325</b>     | <b>32,771</b>        |
|                                    | <b>\$ 58,130</b>  | <b>\$ 66,930</b>     |

Citigroup issues commercial paper directly to investors, maintaining liquidity reserves of cash and securities to support its outstanding commercial paper.

Borrowings under bank lines of credit may be at interest rates based on LIBOR, CD rates, the prime rate, or bids submitted by the banks. Citigroup pays commitment fees for its lines of credit.

Citigroup, CGMHI, and some of their nonbank subsidiaries have credit facilities with Citigroup's subsidiary banks, including Citibank, N.A. Borrowings under these facilities must be secured in accordance with Section 23A of the Federal Reserve Act.

CGMHI has a syndicated five-year committed uncollateralized revolving line of credit facility with unaffiliated banks totaling \$2.5 billion. This facility is guaranteed by Citigroup. CGMHI also has three-and five-year bilateral facilities totaling \$575 million with unaffiliated banks with borrowings maturing on various dates in 2007, 2008 and 2010. CGMHI may borrow under these revolving credit facilities at various interest rate options (LIBOR, Fed Funds or base rate) and compensates the banks for these facilities through facilities fees. At March 31, 2006, there were no outstanding borrowings under these facilities.

CGMHI also has committed long-term financing facilities with unaffiliated banks. At March 31, 2006, CGMHI had drawn down the full \$1.65 billion available under these facilities, of which \$950 million is guaranteed by Citigroup. A bank can terminate these facilities by giving CGMHI prior notice (generally one year). Under all of these facilities, CGMHI is required to maintain a certain level of consolidated adjusted net worth (as defined in the agreements). At March 31, 2006, this requirement was exceeded by approximately \$10.5 billion. CGMHI also has substantial borrowing arrangements consisting of facilities that CGMHI has been advised are available, but where no contractual lending obligation exists. These arrangements are reviewed on an ongoing basis to ensure flexibility in meeting CGMHI's short-term requirements.

Long-term debt, including its current portion, consisted of the following:

| In millions of dollars                    | March 31,<br>2006 | December 31,<br>2005 |
|-------------------------------------------|-------------------|----------------------|
| Citigroup Parent Company                  | \$ 105,469        | \$ 100,600           |
| Other Citigroup Subsidiaries              | 75,470            | 71,139               |
| Citigroup Global Markets Holdings Inc.(1) | 34,804            | 39,214               |
| Citigroup Funding Inc.(2)                 | 11,089            | 5,963                |
| Other                                     | 333               | 583                  |
| <b>Total long-term debt</b>               | <b>\$ 227,165</b> | <b>\$ 217,499</b>    |

(1)

Includes Targeted Growth Enhanced Term Securities (TARGETS) with carrying values of \$347 million issued by TARGETS Trusts XIX through XXIV and \$376 million issued by TARGETS Trusts XVIII through XXIV at March 31, 2006 and December 31, 2005, respectively (collectively, the "CGMHI Trusts"). CGMHI owns all of the voting securities of the CGMHI Trusts which are

## Edgar Filing: CITIGROUP INC - Form 10-Q

consolidated in Citigroup's Consolidated Balance Sheet. The CGMHI Trusts have no assets, operations, revenues or cash flows other than those related to the issuance, administration, and repayment of the TARGETS and the CGMHI Trusts' common securities. The CGMHI Trusts' obligations under the TARGETS are fully and unconditionally guaranteed by CGMHI, and CGMHI's guarantee obligations are fully and unconditionally guaranteed by Citigroup.

(2)

Includes Targeted Growth Enhanced Term Securities (TARGETS) with carrying values of \$57 million and \$58 million issued by TARGETS Trusts XXV and XXVI at March 31, 2006 and December 31, 2005, respectively (collectively, the "CFI Trusts"). CFI owns all of the voting securities of the CFI Trusts which are consolidated in Citigroup's Consolidated Balance Sheet. The CFI Trusts have no assets, operations, revenues or cash flows other than those related to the issuance, administration, and repayment of the TARGETS and the CFI Trusts' common securities. The CFI Trusts' obligations under the TARGETS are fully and unconditionally guaranteed by CFI and CFI's guarantee obligations are fully and unconditionally guaranteed by Citigroup.

## Edgar Filing: CITIGROUP INC - Form 10-Q

The Company issues both fixed and variable rate debt in a range of currencies. It uses derivative contracts, primarily interest rate swaps, to effectively convert a portion of its fixed rate debt to variable rate debt and variable rate debt to fixed rate debt. The maturity structure of the derivatives generally corresponds to the maturity structure of the debt being hedged. In addition, the Company uses other derivative contracts to manage the foreign exchange impact of certain debt issuances.

Long-term debt at March 31, 2006 and December 31, 2005 includes \$6,361 million and \$6,459 million, respectively, of junior subordinated debt. The Company formed statutory business trusts under the laws of the state of Delaware, which exist for the exclusive purposes of (i) issuing Trust Securities representing undivided beneficial interests in the assets of the Trust; (ii) investing the gross proceeds of the Trust securities in junior subordinated deferrable interest debentures (subordinated debentures) of its parent; and (iii) engaging in only those activities necessary or incidental thereto. Upon approval from the Federal Reserve, Citigroup has the right to redeem these securities.

For Regulatory Capital purposes, these Trust Securities remain a component of Tier 1 Capital. See "Capital Resources and Liquidity" on page 66.

Citigroup owns all of the voting securities of the subsidiary trusts. The subsidiary trusts have no assets, operations, revenues or cash flows other than those related to the issuance, administration, and repayment of the subsidiary trusts' common and preferred securities. The subsidiary trusts' obligations are fully and unconditionally guaranteed by Citigroup.

The following table summarizes the financial structure of each of the Company's subsidiary trusts at March 31, 2006:

| Trust Securities<br>with Distributions<br>Guaranteed by: | Junior Subordinated Debentures<br>Owned by Trust |                      |                      |                       |                                         |        |                |                                      |
|----------------------------------------------------------|--------------------------------------------------|----------------------|----------------------|-----------------------|-----------------------------------------|--------|----------------|--------------------------------------|
|                                                          | Issuance<br>Date                                 | Securities<br>Issued | Liquidation<br>Value | Coupon<br>Rate        | Common<br>Shares<br>Issued<br>to Parent |        |                |                                      |
|                                                          |                                                  |                      |                      |                       |                                         | Amount | Maturity       | Redeemable<br>by Issuer<br>Beginning |
| In millions of dollars, except share amounts             |                                                  |                      |                      |                       |                                         |        |                |                                      |
| Citicorp Capital I(1)                                    | Dec. 1996                                        | 300,000              | \$ 300               | 7.933%                | 9,000                                   | \$ 309 | Feb. 15, 2027  | Feb. 15, 2007                        |
| Citicorp Capital II(1)                                   | Jan. 1997                                        | 450,000              | 450                  | 8.015%                | 13,500                                  | 464    | Feb. 15, 2027  | Feb. 15, 2007                        |
| Citigroup Capital II                                     | Dec. 1996                                        | 400,000              | 400                  | 7.750%                | 12,372                                  | 412    | Dec. 1, 2036   | Dec. 1, 2006                         |
| Citigroup Capital III                                    | Dec. 1996                                        | 200,000              | 200                  | 7.625%                | 6,186                                   | 206    | Dec. 1, 2036   | Not redeemable                       |
| Citigroup Capital VII                                    | July 2001                                        | 46,000,000           | 1,150                | 7.125%                | 1,422,681                               | 1,186  | July 31, 2031  | July 31, 2006                        |
| Citigroup Capital VIII                                   | Sept. 2001                                       | 56,000,000           | 1,400                | 6.950%                | 1,731,959                               | 1,443  | Sept. 15, 2031 | Sept. 17, 2006                       |
| Citigroup Capital IX                                     | Feb. 2003                                        | 44,000,000           | 1,100                | 6.000%                | 1,360,825                               | 1,134  | Feb. 14, 2033  | Feb. 13, 2008                        |
| Citigroup Capital X                                      | Sept. 2003                                       | 20,000,000           | 500                  | 6.100%                | 618,557                                 | 515    | Sept. 30, 2033 | Sept. 30, 2008                       |
| Citigroup Capital XI                                     | Sept. 2004                                       | 24,000,000           | 600                  | 6.000%                | 742,269                                 | 619    | Sept. 27, 2034 | Sept. 27, 2009                       |
| Adam Capital Trust I(2)                                  | Nov. 2001                                        | 25,000               | 25                   | 6 mo. LIB<br>+375 bp. | 774                                     | 26     | Dec. 08, 2031  | Dec. 08, 2006                        |
| Adam Statutory Trust I(2)                                | Dec. 2001                                        | 23,000               | 23                   | 3 mo. LIB<br>+360 bp. | 712                                     | 24     | Dec. 18, 2031  | Dec. 18, 2006                        |
| Adam Capital Trust II(2)                                 | Apr. 2002                                        | 22,000               | 22                   | 6 mo. LIB<br>+370 bp. | 681                                     | 23     | Apr. 22, 2032  | Apr. 22, 2007                        |
| Adam Statutory Trust II(2)                               | Mar. 2002                                        | 25,000               | 25                   | 3 mo. LIB<br>+360 bp. | 774                                     | 26     | Mar. 26, 2032  | Mar. 26, 2007                        |
| Adam Capital Trust III(2)                                | Dec. 2002                                        | 17,500               | 18                   | 3 mo. LIB<br>+335 bp. | 542                                     | 18     | Jan. 07, 2033  | Jan. 07, 2008                        |
| Adam Statutory Trust III(2)                              | Dec. 2002                                        | 25,000               | 25                   | 3 mo. LIB<br>+325 bp. | 774                                     | 26     | Dec. 26, 2032  | Dec. 26, 2007                        |
| Adam Statutory Trust IV(2)                               | Sept. 2003                                       | 40,000               | 40                   | 3 mo. LIB<br>+295 bp. | 1,238                                   | 41     | Sept. 17, 2033 | Sept. 17, 2008                       |
| Adam Statutory Trust V(2)                                | Mar. 2004                                        | 35,000               | 35                   | 3 mo. LIB<br>+279 bp. | 1,083                                   | 36     | Mar. 17, 2034  | Mar. 17, 2009                        |
|                                                          |                                                  |                      |                      |                       |                                         |        |                |                                      |
|                                                          |                                                  |                      |                      |                       |                                         |        |                |                                      |



# Edgar Filing: CITIGROUP INC - Form 10-Q

|                 | Junior Subordinated Debentures<br>Owned by Trust |          |
|-----------------|--------------------------------------------------|----------|
| Total obligated | \$ 6,313                                         | \$ 6,508 |

- (1) Assumed by Citigroup via Citicorp's merger with and into Citigroup on August 1, 2005.
- (2) Assumed by Citigroup upon completion of First American Bank acquisition which closed on March 31, 2005.

In each case, the coupon rate on the debentures is the same as that on the trust securities. Distributions on the trust securities and interest on the debentures are payable quarterly, except for Citigroup Capital II and III and Citicorp Capital I and II, on which distributions are payable semiannually.

**12. Changes in Equity from Nonowner Sources**

Changes in each component of "Accumulated Other Changes in Equity from Nonowner Sources" for the three-month period ended March 31, 2006 are as follows:

| In millions of dollars                                                                  | Net Unrealized<br>Gains on<br>Investment<br>Securities | Foreign Currency<br>Translation<br>Adjustment | Cash Flow<br>Hedges | Minimum Pension<br>Liability<br>Adjustment | Accumulated Other<br>Changes in Equity<br>from Nonowner<br>Sources |
|-----------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------|---------------------|--------------------------------------------|--------------------------------------------------------------------|
| <b>Balance, December 31, 2005</b>                                                       | <b>\$ 1,084</b>                                        | <b>\$ (4,090)</b>                             | <b>\$ 612</b>       | <b>\$ (138)</b>                            | <b>(2,532)</b>                                                     |
| Decrease in net unrealized<br>gains on investment securities,<br>net of tax             | (110)                                                  |                                               |                     |                                            | (110)                                                              |
| Less: Reclassification<br>adjustment for gains included<br>in net income, net of tax(1) | (246)                                                  |                                               |                     |                                            | (246)                                                              |
| Foreign currency translation<br>adjustment, net of tax(2)                               |                                                        | (28)                                          |                     |                                            | (28)                                                               |
| Cash flow hedges, net of tax                                                            |                                                        |                                               | 206                 |                                            | 206                                                                |
| Minimum pension liability<br>adjustment, net of tax(3)                                  |                                                        |                                               |                     | 4                                          | 4                                                                  |
| <b>Current period change</b>                                                            | <b>\$ (356)</b>                                        | <b>\$ (28)</b>                                | <b>\$ 206</b>       | <b>\$ 4</b>                                | <b>(174)</b>                                                       |
| <b>Balance, March 31, 2006</b>                                                          | <b>\$ 728</b>                                          | <b>\$ (4,118)</b>                             | <b>\$ 818</b>       | <b>\$ (134)</b>                            | <b>(2,706)</b>                                                     |

- (1) Includes a \$146 million gain on the sale of St. Paul Travelers shares in the 2006 first quarter.
- (2) Reflects, among other items, the movements in the Mexican peso, Korean won, euro, Brazilian real, and the Australian dollar against the U.S. dollar and related tax effects.
- (3) Reflects additional minimum liability, as required by SFAS No. 87, "Employers' Accounting for Pensions" (SFAS 87), related to unfunded or book reserve plans, such as the U.S. nonqualified pension plans and certain foreign pension plans.

**13. Earnings Per Share**

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three months ended March 31, 2006 and 2005:

| In millions, except per share amounts                                     | March 31, 2006  | March 31, 2005  |
|---------------------------------------------------------------------------|-----------------|-----------------|
| <b>Income from continuing operations</b>                                  | <b>\$ 5,555</b> | <b>\$ 5,115</b> |
| Discontinued operations                                                   | 84              | 326             |
| Preferred dividends                                                       | (16)            | (17)            |
| <b>Income available to common stockholders for basic EPS</b>              | <b>5,623</b>    | <b>5,424</b>    |
| Effect of dilutive securities                                             |                 |                 |
| <b>Income available to common stockholders for diluted EPS</b>            | <b>\$ 5,623</b> | <b>\$ 5,424</b> |
| <b>Weighted average common shares outstanding applicable to basic EPS</b> | <b>4,920.7</b>  | <b>5,133.3</b>  |

Edgar Filing: CITIGROUP INC - Form 10-Q

| In millions, except per share amounts                                                | March 31, 2006 | March 31, 2005 |
|--------------------------------------------------------------------------------------|----------------|----------------|
| Effect of dilutive securities:                                                       |                |                |
| Options                                                                              | 27.3           | 39.8           |
| Restricted and deferred stock                                                        | 59.9           | 52.9           |
| <b>Adjusted weighted average common shares outstanding applicable to diluted EPS</b> | <b>5,007.9</b> | <b>5,226.0</b> |
| <b>Basic earnings per share(1)</b>                                                   |                |                |
| Income from continuing operations                                                    | \$ 1.13        | \$ 0.99        |
| Discontinued operations                                                              | 0.02           | 0.07           |
| <b>Net income</b>                                                                    | <b>\$ 1.14</b> | <b>\$ 1.06</b> |
| <b>Diluted earnings per share(1)</b>                                                 |                |                |
| Income from continuing operations                                                    | \$ 1.11        | \$ 0.98        |
| Discontinued operations                                                              | 0.02           | 0.06           |
| <b>Net income</b>                                                                    | <b>\$ 1.12</b> | <b>\$ 1.04</b> |

(1) Due to rounding, earnings per share on continuing and discontinued operations may not sum to earnings per share on net income.

**14. Incentive Plans**

The Company has adopted a number of equity compensation plans under which it administers stock options, restricted or deferred stock and stock purchase programs. The award programs are used to attract, retain and motivate officers and employees, to compensate them for their contributions to the Company, and to encourage employee stock ownership. The plans are administered by the Personnel and Compensation Committee of the Citigroup Board of Directors, which is composed entirely of independent non-employee directors. At March 31, 2006, approximately 317 million shares were authorized and available for grant under Citigroup's stock incentive and stock purchase plans. These shares would be issued out of Treasury stock.

The following compensation expenses relate to the Company's stock-based compensation programs as recorded during the 2006 and 2005 first quarters:

| In millions of dollars                                                                                                 | Three Months Ended<br>March 31, |               |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------|
|                                                                                                                        | 2006                            | 2005          |
| SFAS 123(R) charges for January 2006 awards issued to retirement-eligible employees                                    | \$ 648                          | \$            |
| SFAS 123(R) quarterly accrual for estimated awards to be granted through January 2007 to retirement-eligible employees | 198                             |               |
| Quarterly Option Expense                                                                                               | 34                              | 48            |
| Quarterly amortization of Restricted and Deferred Stock awards(1)                                                      | 418                             | 472           |
| <b>Total</b>                                                                                                           | <b>\$ 1,298</b>                 | <b>\$ 520</b> |

- (1) Represents the quarterly amortization of the remaining unvested restricted and deferred stock awards that were granted to all employees who received awards prior to 2006. The 2006 quarter also includes amortization expense for awards granted to non-retirement-eligible employees in the 2006 first quarter.

For the Statement of Cash Flows purposes, these amounts are included within Other, net.

**Stock Award Programs**

The Company, primarily through its Capital Accumulation Program (CAP), issues shares of Citigroup common stock in the form of restricted or deferred stock to participating officers and employees. For all stock award programs, during the applicable vesting period, the shares awarded cannot be sold or transferred by the participant, and the award is subject to cancellation if the participant's employment is terminated. After the award vests, the shares become freely transferable (subject to the stock ownership commitment of senior executives). From the date of award, the recipient of a restricted stock award can direct the vote of the shares and receive regular dividends. Recipients of deferred stock awards receive dividend equivalents and cannot vote.

Stock awards granted in January 2006 and 2005 generally vest 25% per year over four years, except for certain employees at *Smith Barney* whose awards vest after two years. Stock awards granted in 2003 and 2004 generally vest after a two- or three-year vesting period. CAP participants may elect to receive all or part of their award in stock options. The figures presented in the stock option program tables include options granted under CAP. Unearned compensation expense associated with the stock awards represents the market value of Citigroup common stock at the date of grant and is recognized as a charge to income ratably over the full vesting period.

CAP and certain other awards provide that participants who meet certain age and years of service conditions, and agree not to compete with Citigroup, may continue to vest in all or a portion of the award without remaining employed by the Company during the entire vesting period. Beginning in 2006, awards for these retirement-eligible employees are recognized in the year prior to the grant in the same manner as cash incentive compensation is accrued. However, the award granted in 2006 was required to be expensed in its entirety at the date of grant. Prior to 2006, such awards were recognized ratably over the stated vesting period. See note 1 to the consolidated F/S on page 81 for the impact of adopting SFAS 123(R).

In 2003, special equity awards were issued to certain employees in the Corporate and Investment Banking, Global Wealth Management and Citigroup International businesses. The awards vest over a three-year term beginning on July 12, 2003, with one-sixth of the award vesting every

## Edgar Filing: CITIGROUP INC - Form 10-Q

six months. During the vesting period, the stock cannot be sold or transferred by the participant, and is subject to total or partial cancellation if the participant's employment is terminated. These awards were fully vested in January 2006.

During 2005, 2004 and 2003, Citigroup granted restricted or deferred shares under the Citigroup Ownership Program (COP) to eligible employees. This program replaces the WealthBuilder, CitiBuilder, and Citigroup Ownership stock option programs. Employees are issued either restricted or deferred shares of Citigroup common stock that vest after three years. Unearned compensation expense associated with the stock grants represents the market value of Citigroup common stock at the date of grant and is recognized as a charge to income ratably over the vesting period.

A summary of the status of Citigroup's unvested stock awards as of March 31, 2006, and changes during the quarter ended March 31, 2006, is presented below:

| Unvested Stock Awards       | Shares       | Weighted Average<br>Grant Date<br>Fair Value |
|-----------------------------|--------------|----------------------------------------------|
| Unvested at January 1, 2006 | 117,623,501  | \$ 44.12                                     |
| Awards                      | 56,192,578   | \$ 48.59                                     |
| Cancels                     | (1,230,668)  | \$ 44.64                                     |
| Deletes                     | (97,359)     | \$ 45.64                                     |
| Vestings                    | (39,603,929) | \$ 38.39                                     |
| Unvested at March 31, 2006  | 132,884,123  | \$ 47.71                                     |

The market value of the vestings during the 2006 first quarter was approximately \$46 per share.

As of March 31, 2006, there was \$3.4 billion of total unrecognized compensation cost related to unvested stock awards. That cost is expected to be recognized over a weighted-average period of 3.2 years.

## Stock Option Programs

The Company has a number of stock option programs for its directors, officers and employees. Generally, since January 2005, stock options have been granted only to CAP participants who elect to receive stock options in lieu of restricted or deferred stock awards, and to non-employee directors who elect to receive their compensation in the form of a stock option grant. All stock options are granted on Citigroup common stock with exercise prices equal to the fair market value at the time of grant. Options granted since 2003 have six-year terms; directors' options vest after two years and all other options granted since January 2005 typically vest 25% each year over four years. Options granted in 2004 and 2003 typically vest in thirds each year over three years, with the first vesting date occurring 17 months after the grant date. The sale of underlying shares acquired through the exercise of employee stock options granted since January 2003 is restricted for a two-year period (and the shares are subject to the stock ownership commitment of senior executives thereafter). Prior to 2003, Citigroup options, including options granted since the date of the merger of Citicorp and Travelers Group, Inc., generally vested at a rate of 20% per year over five years, with the first vesting date occurring 12 to 18 months following the grant date. Certain options, mostly granted prior to January 1, 2003, permit an employee exercising an option under certain conditions to be granted new options (reload options) in an amount equal to the number of common shares used to satisfy the exercise price and the withholding taxes due upon exercise. The reload options are granted for the remaining term of the related original option and vest after six months. An option may not be exercised using the reload method unless the market price on the date of exercise is at least 20% greater than the option exercise price.

To further encourage employee stock ownership, the Company's eligible employees participate in WealthBuilder, CitiBuilder, or the Citigroup Ownership Program. Options granted under the WealthBuilder and the Citigroup Ownership programs vest over a five-year period, whereas options granted under the CitiBuilder program vest after five years. These options do not have a reload feature. Options have not been granted under these programs since 2002.

Information with respect to stock option activity under Citigroup stock option plans for the quarter ended March 31, 2006, and year ended December 31, 2005 is as follows:

|                                         | 2006               |                                 |                           | 2005               |                                 |                           |
|-----------------------------------------|--------------------|---------------------------------|---------------------------|--------------------|---------------------------------|---------------------------|
|                                         | Options            | Weighted Average Exercise Price | Intrinsic Value Per Share | Options            | Weighted Average Exercise Price | Intrinsic Value Per Share |
| <b>Outstanding, beginning of period</b> | 277,255,935        | \$ 40.27                        | \$ 8.26                   | 330,910,779        | \$ 39.28                        | \$ 8.90                   |
| Granted-original                        | 3,025,236          | \$ 48.89                        |                           | 5,279,863          | 47.45                           |                           |
| Granted-reload                          | 135,585            | \$ 47.65                        |                           | 3,013,384          | 48.85                           |                           |
| Forfeited or exchanged                  | (5,949,467)        | \$ 46.50                        | 0.46                      | (17,726,910)       | 44.29                           | 2.33                      |
| Expired                                 | (728,465)          | \$ 40.80                        | 6.16                      | (2,572,189)        | 47.70                           |                           |
| Exercised                               | (9,322,127)        | \$ 28.16                        | 18.80                     | (41,648,992)       | 31.72                           | 14.90                     |
| <b>Outstanding, end of period</b>       | <b>264,416,697</b> | <b>\$ 40.64</b>                 | <b>\$ 6.59</b>            | <b>277,255,935</b> | <b>\$ 40.27</b>                 | <b>\$ 8.26</b>            |
| <b>Exercisable at end of period</b>     | <b>207,805,628</b> |                                 |                           | <b>221,497,294</b> |                                 |                           |

The following table summarizes the information about stock options outstanding under Citigroup stock options plans at March 31, 2006:

| Range of Exercise Prices | Options Outstanding |                                             |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|---------------------------------------------|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted Average Contractual Life Remaining | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| \$7.77 \$9.99            | 189,180             | .5 years                                    | \$ 9.54                         | 188,837             | \$ 9.54                         |
| \$10.00 \$19.99          | 3,175,462           | 1.4 years                                   | \$ 18.34                        | 3,172,195           | \$ 18.34                        |
| \$20.00 \$29.99          | 34,259,931          | 2.1 years                                   | \$ 22.76                        | 34,112,802          | \$ 22.75                        |
| \$30.00 \$39.99          | 43,861,481          | 3.6 years                                   | \$ 33.02                        | 30,947,679          | \$ 33.10                        |
| \$40.00 \$49.99          | 171,342,510         | 4.4 years                                   | \$ 45.85                        | 127,810,988         | \$ 45.66                        |
| \$50.00 \$56.83          | 11,588,133          | 3.0 years                                   | \$ 51.92                        | 11,573,127          | \$ 51.92                        |

Edgar Filing: CITIGROUP INC - Form 10-Q

| Options Outstanding |           |          | Options Exercisable |          |  |
|---------------------|-----------|----------|---------------------|----------|--|
|                     |           |          |                     |          |  |
| 264,416,697         | 3.9 years | \$ 40.64 | 207,805,628         | \$ 39.93 |  |

As of March 31, 2006, there was \$97.8 million of total unrecognized compensation cost related to stock options; this cost is expected to be recognized over a weighted average period of 1.15 years.

**Fair Value Assumptions**

SFAS 123(R) requires that reload options be treated as separate grants from the related original grants. Pursuant to the terms of currently outstanding reloadable options, upon exercise of an option, if employees use previously owned shares to pay the exercise price and surrender shares otherwise to be received for related tax withholding, they will receive a reload option covering the same number of shares used for such purposes, but only if the market price on the date of exercise is at least 20% greater than the option exercise price. Reload options vest at the end of a six-month period and carry the same expiration date as the option that gave rise to the reload grant. The exercise price of a reload grant is the market price on the date the underlying option was exercised. Reload options are intended to encourage employees to exercise options at an earlier date and to retain the shares acquired. The result of this program is that employees generally will exercise options as soon as they are able and, therefore, these options have shorter expected lives. Shorter option lives result in lower valuations. However, such values are expensed more quickly due to the shorter vesting period of reload options. In addition, since reload options are treated as separate grants, the existence of the reload feature results in a greater number of options being valued. Shares received through option exercises under the reload program, as well as certain other options granted, are subject to restrictions on sale.

Additional valuation and related assumption information for Citigroup option plans, including the Citigroup 2003 Stock Purchase Program, is presented below. For 2005 and 2004, Citigroup used a binomial model to value stock options. For 2003 and prior grants, the Black-Scholes valuation model was used.

| For Options Granted During                   | 2006           | 2005           |
|----------------------------------------------|----------------|----------------|
| <b>Weighted average per share fair value</b> | <b>\$ 7.54</b> | <b>\$ 7.23</b> |
| <b>Weighted averaged expected life</b>       |                |                |
| Original grants                              | 4.57 yrs.      | 5.26 yrs.      |
| Reload grants                                | 2.23 yrs.      | 3.29 yrs.      |
| <b>Valuation assumptions</b>                 |                |                |
| Expected volatility                          | 20.31 %        | 25.06 %        |
| Risk-free interest rate                      | 4.26 %         | 3.66 %         |
| Expected dividend yield                      | 3.78 %         | 3.35 %         |
| Expected annual forfeitures                  |                |                |
| Original and reload grants                   | 7 %            | 7 %            |

**15. Derivatives and Other Activities**

Citigroup enters into various types of derivative transactions in the course of its trading and non-trading activities. These derivatives transactions include:

*Futures and forward contracts* which are commitments to buy or sell at a future date a financial instrument, commodity or currency at a contracted price and may be settled in cash or through delivery.

*Swap contracts* which are commitments to settle in cash at a future date or dates that may range from a few days to a number of years, based on differentials between specified financial indices, as applied to a notional principal amount.

*Option contracts* which give the purchaser, for a fee, the right, but not the obligation, to buy or sell within a limited time, a financial instrument or currency at a contracted price that may also be settled in cash, based on differentials between specified indices.

Citigroup enters into these derivative contracts for the following reasons:

*Customer Needs* Citigroup offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market / credit risks.



## Edgar Filing: CITIGROUP INC - Form 10-Q

As part of this process, Citigroup considers the customers' suitability for the risk involved, and the business purpose for the transaction. Citigroup also carefully manages its derivative-risk positions through offsetting trade activities, controls focused on price verifications, and daily reporting of positions to senior managers.

*Trading Purposes* Citigroup trades derivatives for its own account. Trading limits and price verification controls are key aspects of this activity. See "Corporate Credit Risk" on page 52.

*Asset/Liability Management Hedging* Citigroup uses derivatives in connection with its risk management activities to hedge certain risks. For example, Citigroup may issue a fixed rate long-term note and then enter into an identical term received-fixed, pay variable-rate interest rate swap to convert the interest payments to a net variable-rate basis. This strategy is the most common form of an interest rate hedge, as it minimizes interest expense in certain yield curve environments. Derivatives are also used to manage specific groups of on-balance sheet assets and liabilities, including investments, corporate and consumer loans, deposit liabilities, other interest-sensitive assets and liabilities, as well as credit card securitizations, redemptions and sales. In addition, foreign exchange contracts are used to hedge non-U.S. dollar denominated debt, net capital exposures and foreign exchange transactions.

Citigroup accounts for its hedging activity on both a SFAS 133 hedge accounting basis and an economic basis where SFAS 133 hedge accounting is not used. As a general rule, SFAS 133 hedge accounting is used in situations where the hedged item's basis of accounting is not at fair value with

## Edgar Filing: CITIGROUP INC - Form 10-Q

changes in fair value recorded in earnings. For example, the fixed rate long-term note discussed above is recorded at amortized cost under current U.S. GAAP. However, by electing to use SFAS 133 fair value accounting, this note is then recorded on the balance sheet at fair value, with any changes in fair value attributable to changes in interest rates reflected in earnings. The interest rate swap is also recorded on balance sheet at fair value, with its associated changes in fair value also recorded in earnings. Given that the derivatives and debt's changes in fair value offset, an effective hedge has been achieved. Alternatively, an economic-basis hedge would involve only recording the derivative at fair value on the balance sheet, with its associated changes in value recorded in earnings. The note would be carried at amortized cost and therefore earnings will be impacted as interest rate shifts cause the swap's value to change. Economic-basis hedges are undertaken when SFAS 133 hedge requirements cannot be achieved in an efficient and cost-effective manner.

Achieving hedge accounting in compliance with SFAS 133 guidelines is extremely complex, and therefore Citigroup implemented clear SFAS 133 hedge accounting policies wherein associated hedges are subject to a continuous review process by qualified staff. Key aspects of achieving SFAS 133 hedge accounting are documentation of hedging strategy and hedge effectiveness at the hedge inception and substantiating hedge effectiveness on an ongoing basis. A derivative must be highly effective in accomplishing the hedge objective of offsetting either changes in the fair value or cash flows of the hedged item for the risk being hedged. Any ineffectiveness in the hedge relationship is recognized in current earnings. The assessment of effectiveness excludes changes in the value of the hedged item that are unrelated to the risks being hedged. Similarly, the assessment of effectiveness may exclude changes in the fair value of a derivative related to time value that, if excluded, are recognized in current earnings.

The following table summarizes certain information related to the Company's hedging activities for the three months ended March 31, 2006 and 2005:

| In millions of dollars                                                                                                               | Three Months Ended<br>March 31, |        |
|--------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                                                                                      | 2006                            | 2005   |
| <b>Fair value hedges</b>                                                                                                             |                                 |        |
| Hedge ineffectiveness recognized in earnings                                                                                         | \$ 66                           | \$ 8   |
| Net gain (loss) excluded from assessment of effectiveness <sup>(1)</sup>                                                             | 19                              | (270)  |
| <b>Cash flow hedges</b>                                                                                                              |                                 |        |
| Hedge ineffectiveness recognized in earnings                                                                                         | (10)                            | (4)    |
| Net gain excluded from assessment of effectiveness <sup>(1)</sup>                                                                    |                                 | 1      |
| <b>Net investment hedges</b>                                                                                                         |                                 |        |
| Net gain (loss) included in foreign currency translation adjustment within accumulated other changes in equity from nonowner sources | \$ (114)                        | \$ 243 |

(1) Represents the portion of derivative gain (loss).

The accumulated other changes in equity from nonowner sources from cash flow hedges for the three months ended March 31, 2006 and 2005 can be summarized as follows (after-tax):

| In millions of dollars                | 2006          | 2005          |
|---------------------------------------|---------------|---------------|
| <b>Balance at January 1,</b>          | <b>\$ 612</b> | <b>\$ 173</b> |
| Net gain (loss) from cash flow hedges | 317           | 187           |
| Net amounts reclassified to earnings  | (111)         | (23)          |
| <b>Balance at March 31,</b>           | <b>\$ 818</b> | <b>\$ 337</b> |

Derivatives may expose Citigroup to market, credit or liquidity risk in excess of the amounts recorded on the Consolidated Balance Sheet. Market risk on a derivative product is the exposure created by potential fluctuations in interest rates, foreign exchange rates and other values, and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement, and the underlying volatility. Credit risk is the exposure to loss in the event of nonperformance by the other party to the transaction where the value of any collateral held is not adequate to cover such losses. The recognition in earnings of unrealized gains on these transactions is subject to management's assessment as to collectibility. Liquidity risk is the potential exposure that arises when the size of the derivative position may not be able to be rapidly adjusted in

periods of high volatility and financial stress at a reasonable cost.

#### **16. Guarantees**

The Company provides a variety of guarantees and indemnifications to Citigroup customers to enhance their credit standing and enable them to complete a wide variety of business transactions. The following table summarizes at March 31, 2006 and December 31, 2005 all of the Company's guarantees and indemnifications, where management believes the guarantees and indemnifications are related to an asset, liability, or equity security of the guaranteed parties at the inception of the contract. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees and indemnifications if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses on these guarantees and indemnifications and greatly exceed anticipated losses.

## Edgar Filing: CITIGROUP INC - Form 10-Q

The following tables present information about the Company's guarantees at March 31, 2006 and December 31, 2005:

| In billions of dollars at March 31,<br>except carrying value in millions | Maximum Potential Amount of Future Payments |                        |                             | Carrying Value<br>(in millions) |
|--------------------------------------------------------------------------|---------------------------------------------|------------------------|-----------------------------|---------------------------------|
|                                                                          | Expire Within<br>1 Year                     | Expire After<br>1 Year | Total Amount<br>Outstanding |                                 |
| 2006                                                                     |                                             |                        |                             |                                 |
| Financial standby letters of credit                                      | \$ 28.0                                     | \$ 39.6                | \$ 67.6                     | \$ 173.5                        |
| Performance guarantees                                                   | 11.1                                        | 3.9                    | 15.0                        | 14.5                            |
| Derivative instruments                                                   | 40.1                                        | 513.3                  | 553.4                       | 12,525.3                        |
| Guarantees of collection of contractual cash flows(1)                    |                                             |                        |                             |                                 |
| Loans sold with recourse                                                 |                                             | 1.2                    | 1.2                         | 57.6                            |
| Securities lending indemnifications(1)                                   | 88.8                                        |                        | 88.8                        |                                 |
| Credit card merchant processing(1)                                       | 25.5                                        |                        | 25.5                        |                                 |
| Custody indemnifications(1)                                              |                                             | 28.6                   | 28.6                        |                                 |
| Total                                                                    | \$ 193.5                                    | \$ 586.6               | \$ 780.1                    | \$ 12,770.9                     |

| In billions of dollars at December 31,<br>except carrying value in millions | Maximum Potential Amount of Future Payments |                        |                             | Carrying Value<br>(in millions) |
|-----------------------------------------------------------------------------|---------------------------------------------|------------------------|-----------------------------|---------------------------------|
|                                                                             | Expire Within<br>1 Year                     | Expire After<br>1 Year | Total Amount<br>Outstanding |                                 |
| 2005                                                                        |                                             |                        |                             |                                 |
| Financial standby letters of credit                                         | \$ 30.6                                     | \$ 21.8                | \$ 52.4                     | \$ 175.2                        |
| Performance guarantees                                                      | 10.0                                        | 3.9                    | 13.9                        | 18.2                            |
| Derivative instruments                                                      | 24.5                                        | 217.0                  | 241.5                       | 11,837.4                        |
| Guarantees of collection of contractual cash flows(1)                       |                                             | 0.1                    | 0.1                         |                                 |
| Loans sold with recourse                                                    |                                             | 1.3                    | 1.3                         | 58.4                            |
| Securities lending indemnifications(1)                                      | 68.4                                        |                        | 68.4                        |                                 |
| Credit card merchant processing(1)                                          | 28.1                                        |                        | 28.1                        |                                 |
| Custody indemnifications(1)                                                 |                                             | 27.0                   | 27.0                        |                                 |
| Total                                                                       | \$ 161.6                                    | \$ 271.1               | \$ 432.7                    | \$ 12,089.2                     |

(1) The carrying values of guarantees of collection of contractual cash flows, securities lending indemnifications, credit card merchant processing, and custody indemnifications are not material as the Company has determined that the amount and probability of potential liabilities arising from these guarantees are not significant and the carrying amount of the Company's obligations under these guarantees is immaterial.

Financial standby letters of credit include guarantees of payment of insurance premiums and reinsurance risks that support industrial revenue bond underwriting and settlement of payment obligations to clearing houses, and that support options and purchases of securities or in lieu of escrow deposit accounts. Financial standbys also backstop loans, credit facilities, promissory notes and trade acceptances. Performance guarantees and letters of credit are issued to guarantee a customer's tender bid on a construction or systems installation project or to guarantee completion of such projects in accordance with contract terms. They are also issued to support a customer's obligation to supply specified products, commodities, or maintenance or warranty services to a third party.

Derivative instruments include credit default swaps, total return swaps, written foreign exchange options, written put options, and written equity warrants. Guarantees of collection of contractual cash flows protect investors in credit card receivables securitization trusts from loss of interest relating to insufficient collections on the underlying receivables in the trusts. Loans sold with recourse represent the Company's obligations to reimburse the buyers for loan losses under certain circumstances. Securities lending indemnifications are issued to guarantee that a securities lending customer will be made whole in the event that the security borrower does not return the security subject to the lending agreement and collateral held is insufficient to cover the market value of the security. Credit card merchant processing guarantees represent the

## Edgar Filing: CITIGROUP INC - Form 10-Q

Company's indirect obligations in connection with the processing of private label and bankcard transactions on behalf of merchants. Custody indemnifications are issued to guarantee that custody clients will be made whole in the event that a third-party subcustodian fails to safeguard clients' assets.

At March 31, 2006 and December 31, 2005, the Company's maximum potential amount of future payments under these guarantees was approximately \$780 billion and \$433 billion, respectively. For this purpose, the maximum potential amount of future payments is considered to be the notional amounts of letters of credit, guarantees, written credit default swaps, written total return swaps, indemnifications, and recourse provisions of loans sold with recourse, and the fair values of foreign exchange options and other written put options, warrants, caps and floors.

Citigroup's primary credit card business is the issuance of credit cards to individuals. In addition, the Company provides transaction processing services to various merchants with respect to bankcard and private label cards. In the third quarter of 2005, the Company entered into a partnership under which a third party processes bankcard transactions. As a result, in the event of a billing dispute with respect to a bankcard transaction between a merchant and a cardholder, that is ultimately resolved in the cardholder's favor, the third party holds the primary contingent liability to credit or refund the amount to the cardholder and charge back the transaction to the merchant. If the third party is unable to collect this amount from the merchant, it bears the loss for the amount of the credit or refund paid to the cardholder.

The Company continues to have the primary contingent liability with respect to its portfolio of private label merchants. The risk of loss is mitigated as the cash flows between the third party or the Company and the merchant are settled on a

## Edgar Filing: CITIGROUP INC - Form 10-Q

net basis and the third party or the Company has the right to offset any payments with cash flows otherwise due to the merchant. To further mitigate this risk, the third party or the Company may require a merchant to make an escrow deposit, delay settlement, or include event triggers to provide the third party or the Company with more financial and operational control in the event of the financial deterioration of the merchant, or require various credit enhancements (including letters of credit and bank guarantees). In the unlikely event that a private label merchant is unable to deliver products, services or a refund to its private label cardholders, Citigroup is contingently liable to credit or refund cardholders. In addition, although a third party holds the primary contingent liability with respect to the processing of bankcard transactions, in the event that the third party does not have sufficient collateral from the merchant or sufficient financial resources of its own to provide the credit or refunds to the cardholders, Citigroup would be liable to credit or refund the cardholders.

The Company's maximum potential contingent liability related to both bankcard and private label merchant processing services is estimated to be the total volume of credit card transactions that meet the requirements to be valid chargeback transactions at any given time. At March 31, 2006 and December 31, 2005, this maximum potential exposure was estimated to be \$26 billion and \$28 billion, respectively.

However, the Company believes that the maximum exposure is not representative of the actual potential loss exposure, based on the Company's historical experience and its position as a secondary guarantor (in the case of bankcards). In most cases, this contingent liability is unlikely to arise, as most products and services are delivered when purchased and amounts are refunded when items are returned to merchants. The Company assesses the probability and amount of its contingent liability related to merchant processing based on the financial strength of the primary guarantor (in the case of bankcards) and the extent and nature of unresolved chargebacks and its historical loss experience. At March 31, 2006 and December 31, 2005, the estimated losses incurred and the carrying amounts of the Company's contingent obligations related to merchant processing activities were immaterial.

In addition, the Company, through its credit card business, provides various cardholder protection programs on several of its card products, including programs that provide insurance coverage for rental cars, coverage for certain losses associated with purchased products, price protection for certain purchases and protection for lost luggage. These guarantees are not included in the table above, since the total outstanding amount of the guarantees and the Company's maximum exposure to loss cannot be quantified. The protection is limited to certain types of purchases and certain types of losses and it is not possible to quantify the purchases that would qualify for these benefits at any given time. Actual losses related to these programs were not material during the first quarter of 2006 and 2005. The Company assesses the probability and amount of its potential liability related to these programs based on the extent and nature of its historical loss experience. At March 31, 2006, the estimated losses incurred and the carrying value of the Company's obligations related to these programs were immaterial.

In the normal course of business, the Company provides standard representations and warranties to counterparties in contracts in connection with numerous transactions and also provides indemnifications that protect the counterparties to the contracts in the event that additional taxes are owed due either to a change in the tax law or an adverse interpretation of the tax law. Counterparties to these transactions provide the Company with comparable indemnifications. While such representations, warranties and tax indemnifications are essential components of many contractual relationships, they do not represent the underlying business purpose for the transactions. The indemnification clauses are often standard contractual terms related to the Company's own performance under the terms of a contract and are entered into in the normal course of business based on an assessment that the risk of loss is remote. Often these clauses are intended to ensure that terms of a contract are met at inception (for example, that loans transferred to a counterparty in a sales transaction did in fact meet the conditions specified in the contract at the transfer date). No compensation is received for these standard representations and warranties, and it is not possible to determine their fair value because they rarely, if ever, result in a payment. In many cases, there are no stated or notional amounts included in the indemnification clauses and the contingencies potentially triggering the obligation to indemnify have not occurred and are not expected to occur. There are no amounts reflected on the Consolidated Balance Sheet as of March 31, 2006 and December 31, 2005, related to these indemnifications and they are not included in the table above.

In addition, the Company is a member of or shareholder in hundreds of value transfer networks (VTNs) (payment, clearing and settlement systems as well as securities exchanges) around the world. As a condition of membership, many of these VTNs require that members stand ready to backstop the net effect on the VTNs of a member's default on its obligations. The Company's potential obligations as a shareholder or member of VTN associations are excluded from the scope of FIN 45, since the shareholders and members represent subordinated classes of investors in the VTNs. Accordingly, the Company's participation in VTNs is not reported in the table above and there are no amounts reflected on the Consolidated Balance Sheet as of March 31, 2006 or December 31, 2005 for potential obligations that could arise from the Company's involvement with VTN associations.

At March 31, 2006 and December 31, 2005, the carrying amounts of the liabilities related to the guarantees and indemnifications included in the table above amounted to approximately \$13 billion and \$12 billion, respectively. The carrying value of derivative instruments is included in either trading liabilities or other liabilities, depending upon whether the derivative was entered into for trading or non-trading purposes. The carrying value of financial and performance guarantees is included in other liabilities. The carrying value of the guarantees of contractual cash flows is offset against the receivables from the credit card trusts. For loans sold with recourse, the carrying value of the liability is included in other liabilities. In addition, at March 31, 2006 and December 31, 2005, other liabilities on the Consolidated Balance Sheet include an allowance for credit losses of \$900 million and \$850 million, respectively, relating to letters of credit and unfunded lending commitments.



In addition to the collateral available in respect of the credit card merchant processing contingent liability discussed above, the Company has collateral available to reimburse potential losses on its other guarantees. Cash collateral available to the Company to reimburse losses realized under these guarantees and indemnifications amounted to \$71 billion and \$55 billion at March 31, 2006 and December 31, 2005, respectively. Securities and other marketable assets held as collateral amounted to \$33 billion and \$24 billion and letters of credit in favor of the Company held as collateral amounted to \$16 million and \$681 million at March 31, 2006 and December 31, 2005, respectively. Other property may also be available to the Company to cover losses under certain guarantees and indemnifications; however, the value of such property has not been determined.

## 17. Contingencies

As described in the "Legal Proceedings" discussion on page 111, the Company is a defendant in numerous lawsuits and other legal proceedings arising out of alleged misconduct in connection with:

- (i) underwritings for, and research coverage of, WorldCom;
- (ii) underwritings for Enron and other transactions and activities related to Enron;
- (iii) transactions and activities related to research coverage of companies other than WorldCom; and
- (iv) transactions and activities related to the IPO Securities Litigation.

During the 2004 second quarter, in connection with the settlement of the WorldCom class action, the Company reevaluated and increased its reserves for these matters. The Company recorded a charge of \$7.915 billion (\$4.95 billion after-tax) relating to (i) the settlement of class action litigation brought on behalf of purchasers of WorldCom securities, and (ii) an increase in litigation reserves for the other matters described above. The WorldCom class action settlement has become final, and on March 7, 2006, the Company paid the settlement amount pursuant to the terms of the settlement agreement. Subject to the terms of the Enron class action settlement, and its eventual approval by the courts, the Company will make a payment of \$2.01 billion pretax to the Enron settlement class. During the fourth quarter of 2005, in connection with an evaluation of these matters and as a result of the favorable resolution of certain WorldCom/Research litigation matters, the Company reevaluated its reserves for these matters and released \$600 million (\$375 million after-tax) from this reserve. As of March 31, 2006, the Company's litigation reserve for these matters, net of settlement amounts previously paid, the amounts to be paid upon final approval of the Enron class action settlement and other settlements arising out of the matters above not yet paid, and the \$600 million release that was recorded during the 2005 fourth quarter, was approximately \$3.3 billion.

The Company believes that this reserve is adequate to meet all of its remaining exposure for these matters. However, in view of the large number of these matters, the uncertainties of the timing and outcome of this type of litigation, the novel issues presented, and the significant amounts involved, it is possible that the ultimate costs of these matters may exceed or be below the reserve. The Company will continue to defend itself vigorously in these cases, and seek to resolve them in the manner management believes is in the best interests of the Company.

In addition, in the ordinary course of business, Citigroup and its subsidiaries are defendants or co-defendants or parties in various litigation and regulatory matters incidental to and typical of the businesses in which they are engaged. In the opinion of the Company's management, the ultimate resolution of these legal and regulatory proceedings would not be likely to have a material adverse effect on the consolidated financial condition of the Company but, if involving monetary liability, may be material to the Company's operating results for any particular period.



## **18. Condensed Consolidating Financial Statement Schedules**

These condensed consolidating financial statement schedules are presented for purposes of additional analysis but should be considered in relation to the consolidated financial statements of Citigroup taken as a whole.

### **Merger of Bank Holding Companies**

On August 1, 2005, Citigroup merged its two intermediate bank holding companies, Citigroup Holdings Company and Citicorp, into Citigroup Inc. Coinciding with this merger, Citigroup assumed all existing indebtedness and outstanding guarantees of Citicorp.

During the 2005 second quarter, Citigroup consolidated its capital markets funding activities into two legal entities:

- (i) Citigroup Inc., which issues long-term debt, trust preferred securities, preferred and common stock, and
- (ii) Citigroup Funding Inc. (CFI), a first-tier subsidiary of Citigroup, which issues commercial paper and medium-term notes, all of which is guaranteed by Citigroup.

As part of the funding consolidation, Citigroup unconditionally guaranteed Citigroup Global Markets Holdings Inc.'s (CGMHI) outstanding SEC-registered indebtedness. CGMHI no longer files periodic reports with the SEC and continues to be rated on the basis of a guarantee of its financial obligations from Citigroup.

The condensed financial statements on pages 104 - 109 include the financial results of the following Citigroup entities:

### **Citigroup Parent Company**

The holding company, Citigroup Inc.

### **Citigroup Global Markets Holdings Inc. (CGMHI)**

Citigroup has issued a full and unconditional guarantee for all of the outstanding SEC-registered indebtedness of CGMHI.

### **Citigroup Funding Inc. (CFI)**

CFI is a first-tier subsidiary of Citigroup, which issues commercial paper and medium-term notes. Citigroup has issued a full and unconditional guarantee for all of the commercial paper and SEC-registered indebtedness issued by CFI.

### **CitiFinancial Credit Company (CCC)**

An indirect wholly owned subsidiary of Citigroup. CCC is a wholly owned subsidiary of Associates. Citigroup has issued a full and unconditional guarantee of the outstanding indebtedness of CCC.

### **Associates First Capital Corporation (Associates)**

A wholly owned subsidiary of Citigroup. Citigroup has issued a full and unconditional guarantee of the outstanding long-term debt securities and commercial paper of Associates. Associates is the immediate parent company of CCC.

### **Other Citigroup Subsidiaries**

Includes all other subsidiaries of Citigroup, intercompany eliminations, and income/loss from discontinued operations.

### **Consolidating Adjustments**

Includes Citigroup parent company elimination of distributed and undistributed income of subsidiaries, investment in subsidiaries and the elimination of CCC, which is included in the Associates column.



Edgar Filing: CITIGROUP INC - Form 10-Q

CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended March 31, 2006

| In millions of dollars                                                                                                                      | Citigroup<br>parent<br>company | CGMHI     | CFI    | CCC      | Associates | Other<br>Citigroup<br>subsidiaries,<br>eliminations<br>and income<br>from<br>discontinued<br>operations | Consolidating<br>adjustments | Citigroup<br>Consolidated |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------|--------|----------|------------|---------------------------------------------------------------------------------------------------------|------------------------------|---------------------------|
| <b>Revenues</b>                                                                                                                             |                                |           |        |          |            |                                                                                                         |                              |                           |
| Dividends from subsidiary banks<br>and bank holding companies                                                                               | \$ 2,453                       | \$        | \$     | \$       | \$         | \$                                                                                                      | (2,453)                      | \$                        |
| Loan interest, including fees                                                                                                               |                                |           |        | 2,050    | 2,302      | 10,507                                                                                                  | (2,050)                      | 12,809                    |
| Loan interest, including<br>fees intercompany                                                                                               | 928                            |           | 223    | (23)     | 73         | (1,224)                                                                                                 | 23                           |                           |
| Other interest and dividends                                                                                                                | 91                             | 5,409     |        | 43       | 51         | 3,504                                                                                                   | (43)                         | 9,055                     |
| Other interest and<br>dividends intercompany                                                                                                |                                | 109       | 346    |          | 1          | (456)                                                                                                   |                              |                           |
| Commissions and fees                                                                                                                        |                                | 2,377     |        | 19       | 42         | 2,487                                                                                                   | (19)                         | 4,906                     |
| Commissions and<br>fees intercompany                                                                                                        |                                | 77        |        | 2        | 1          | (78)                                                                                                    | (2)                          |                           |
| Principal transactions                                                                                                                      | 8                              | 1,466     | (123)  |          |            | 766                                                                                                     |                              | 2,117                     |
| Principal<br>transactions intercompany                                                                                                      | 16                             | (336)     | 130    |          |            | 190                                                                                                     |                              |                           |
| Other income                                                                                                                                | (42)                           | 1,073     | 65     | 122      | 171        | 4,136                                                                                                   | (122)                        | 5,403                     |
| Other income intercompany                                                                                                                   | 27                             | 214       | (68)   | 4        | 2          | (175)                                                                                                   | (4)                          |                           |
| <b>Total revenues</b>                                                                                                                       | \$ 3,481                       | \$ 10,389 | \$ 573 | \$ 2,217 | \$ 2,643   | \$ 19,657                                                                                               | \$ (4,670)                   | \$ 34,290                 |
| Interest expense                                                                                                                            | 1,172                          | 4,094     | 428    | 118      | 246        | 6,167                                                                                                   | (118)                        | 12,107                    |
| Interest expense intercompany                                                                                                               |                                | 561       | 130    | 608      | 782        | (1,473)                                                                                                 | (608)                        |                           |
| <b>Total revenues, net of interest<br/>expense</b>                                                                                          | \$ 2,309                       | \$ 5,734  | \$ 15  | \$ 1,491 | \$ 1,615   | \$ 14,963                                                                                               | \$ (3,944)                   | \$ 22,183                 |
| <b>Provisions for credit losses and<br/>for benefits and claims</b>                                                                         |                                |           |        |          |            |                                                                                                         |                              |                           |
|                                                                                                                                             | \$                             | \$ 21     | \$     | \$ 314   | \$ 357     | \$ 1,295                                                                                                | \$ (314)                     | \$ 1,673                  |
| <b>Expenses</b>                                                                                                                             |                                |           |        |          |            |                                                                                                         |                              |                           |
| Compensation and benefits                                                                                                                   | \$ 30                          | \$ 3,467  | \$     | \$ 261   | \$ 310     | \$ 4,456                                                                                                | \$ (261)                     | \$ 8,263                  |
| Compensation and<br>benefits intercompany                                                                                                   |                                |           |        | 36       | 36         | (36)                                                                                                    | (36)                         |                           |
| Other expense                                                                                                                               | 3                              | 907       |        | 164      | 206        | 3,979                                                                                                   | (164)                        | 5,095                     |
| Other expense intercompany                                                                                                                  | 44                             | 443       | 20     | 51       | 67         | (574)                                                                                                   | (51)                         |                           |
| <b>Total operating expenses</b>                                                                                                             | \$ 77                          | \$ 4,817  | \$ 20  | \$ 512   | \$ 619     | \$ 7,825                                                                                                | \$ (512)                     | \$ 13,358                 |
| <b>Income from continuing<br/>operations before taxes, minority<br/>interest and equity in<br/>undistributed income of<br/>subsidiaries</b> |                                |           |        |          |            |                                                                                                         |                              |                           |
|                                                                                                                                             | \$ 2,232                       | \$ 896    | \$ (5) | \$ 665   | \$ 639     | \$ 5,843                                                                                                | \$ (3,118)                   | \$ 7,152                  |
| Income taxes (benefits)                                                                                                                     | (198)                          | 265       | (2)    | 228      | 169        | 1,303                                                                                                   | (228)                        | 1,537                     |
| Minority interest, net of taxes                                                                                                             |                                |           |        |          |            | 60                                                                                                      |                              | 60                        |
| Equities in undistributed income of<br>subsidiaries                                                                                         | 3,209                          |           |        |          |            |                                                                                                         | (3,209)                      |                           |
| <b>Income from continuing<br/>operations</b>                                                                                                | \$ 5,639                       | \$ 631    | \$ (3) | \$ 437   | \$ 470     | \$ 4,480                                                                                                | \$ (6,099)                   | \$ 5,555                  |
| <b>Income from discontinued<br/>operations, net of taxes</b>                                                                                |                                | (6)       |        |          |            | 90                                                                                                      |                              | 84                        |

# Edgar Filing: CITIGROUP INC - Form 10-Q

Three Months Ended March 31, 2006

Net income

|    |       |    |     |    |     |    |     |    |     |    |       |    |         |    |       |
|----|-------|----|-----|----|-----|----|-----|----|-----|----|-------|----|---------|----|-------|
| \$ | 5,639 | \$ | 625 | \$ | (3) | \$ | 437 | \$ | 470 | \$ | 4,570 | \$ | (6,099) | \$ | 5,639 |
|----|-------|----|-----|----|-----|----|-----|----|-----|----|-------|----|---------|----|-------|

104

Edgar Filing: CITIGROUP INC - Form 10-Q

CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended March 31, 2005

| In millions of dollars                                                                                                                       | Citigroup<br>parent<br>company | CGMHI    | CFI | CCC      | Associates | Other<br>Citigroup<br>subsidiaries,<br>eliminations<br>and income<br>from<br>discontinued<br>operations | Consolidating<br>adjustments | Citigroup<br>Consolidated |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------|-----|----------|------------|---------------------------------------------------------------------------------------------------------|------------------------------|---------------------------|
| <b>Revenues</b>                                                                                                                              |                                |          |     |          |            |                                                                                                         |                              |                           |
| Dividends from subsidiary banks<br>and bank holding companies                                                                                | \$ 1,974                       | \$       | \$  | \$       | \$         | \$                                                                                                      | (1,974)                      | \$                        |
| Loan interest, including fees                                                                                                                |                                |          |     | 1,939    | 2,216      | 9,057                                                                                                   | (1,939)                      | 11,273                    |
| Loan interest, including<br>fees intercompany                                                                                                | 675                            |          |     | (9)      | 37         | (712)                                                                                                   | 9                            |                           |
| Other interest and dividends                                                                                                                 | 78                             | 3,397    |     | 39       | 46         | 2,741                                                                                                   | (39)                         | 6,262                     |
| Other interest and<br>dividends intercompany                                                                                                 |                                | 76       |     |          |            | (76)                                                                                                    |                              |                           |
| Commissions and fees                                                                                                                         |                                | 2,003    |     | 8        | 20         | 2,370                                                                                                   | (8)                          | 4,393                     |
| Commissions and fees intercompany                                                                                                            |                                | 60       |     |          |            | (60)                                                                                                    |                              |                           |
| Principal transactions                                                                                                                       |                                | 1,197    |     |          | (5)        | 1,023                                                                                                   |                              | 2,215                     |
| Principal transactions intercompany                                                                                                          | 14                             | (343)    |     |          |            | 329                                                                                                     |                              |                           |
| Other income                                                                                                                                 | 344                            | 865      |     | 160      | (5)        | 3,273                                                                                                   | (160)                        | 4,477                     |
| Other income intercompany                                                                                                                    | 17                             | 25       |     | 4        | 6          | (48)                                                                                                    | (4)                          |                           |
| <b>Total revenues</b>                                                                                                                        | \$ 3,102                       | \$ 7,280 | \$  | \$ 2,141 | \$ 2,315   | \$ 17,897                                                                                               | \$ (4,115)                   | \$ 28,620                 |
| Interest expense                                                                                                                             | 974                            | 2,313    |     | 88       | 217        | 3,920                                                                                                   | (88)                         | 7,424                     |
| Interest expense intercompany                                                                                                                |                                | 234      |     | 522      | 523        | (757)                                                                                                   | (522)                        |                           |
| <b>Total revenues, net of interest<br/>expense</b>                                                                                           | \$ 2,128                       | \$ 4,733 | \$  | \$ 1,531 | \$ 1,575   | \$ 14,734                                                                                               | \$ (3,505)                   | \$ 21,196                 |
| <b>Provisions for credit losses and<br/>for benefits and claims</b>                                                                          | \$                             | \$       | \$  | \$ 454   | \$ 497     | \$ 1,533                                                                                                | \$ (454)                     | \$ 2,030                  |
| <b>Expenses</b>                                                                                                                              |                                |          |     |          |            |                                                                                                         |                              |                           |
| Compensation and benefits                                                                                                                    | \$ 22                          | \$ 2,463 | \$  | \$ 233   | \$ 268     | \$ 3,733                                                                                                | \$ (233)                     | \$ 6,486                  |
| Compensation and<br>benefits intercompany                                                                                                    |                                | 1        |     | 32       | 32         | (33)                                                                                                    | (32)                         |                           |
| Other expense                                                                                                                                | 79                             | 726      |     | 144      | 193        | 3,920                                                                                                   | (144)                        | 4,918                     |
| Other expense intercompany                                                                                                                   | 26                             | 314      |     | 45       | 44         | (384)                                                                                                   | (45)                         |                           |
| <b>Total operating expenses</b>                                                                                                              | \$ 127                         | \$ 3,504 | \$  | \$ 454   | \$ 537     | \$ 7,236                                                                                                | \$ (454)                     | \$ 11,404                 |
| <b>Income from continuing<br/>operations before taxes, minority<br/>interest, and equity in<br/>undistributed income of<br/>subsidiaries</b> |                                |          |     |          |            |                                                                                                         |                              |                           |
|                                                                                                                                              | \$ 2,001                       | \$ 1,229 | \$  | \$ 623   | \$ 541     | \$ 5,965                                                                                                | \$ (2,597)                   | \$ 7,762                  |
| Income taxes (benefits)                                                                                                                      | (5)                            | 407      |     | 229      | 190        | 1,892                                                                                                   | (229)                        | 2,484                     |
| Minority interest, net of taxes                                                                                                              |                                |          |     |          |            | 163                                                                                                     |                              | 163                       |
| Equities in undistributed income of<br>subsidiaries                                                                                          | 3,435                          |          |     |          |            |                                                                                                         | (3,435)                      |                           |
| <b>Income from continuing<br/>operations</b>                                                                                                 | \$ 5,441                       | \$ 822   | \$  | \$ 394   | \$ 351     | \$ 3,910                                                                                                | \$ (5,803)                   | \$ 5,115                  |
| <b>Income from discontinued<br/>operations, net of taxes</b>                                                                                 |                                | 66       |     |          |            | 260                                                                                                     |                              | 326                       |

# Edgar Filing: CITIGROUP INC - Form 10-Q

Three Months Ended March 31, 2005

|            |    |       |    |     |    |     |    |     |    |       |    |         |    |       |
|------------|----|-------|----|-----|----|-----|----|-----|----|-------|----|---------|----|-------|
| Net income | \$ | 5,441 | \$ | 888 | \$ | 394 | \$ | 351 | \$ | 4,170 | \$ | (5,803) | \$ | 5,441 |
|------------|----|-------|----|-----|----|-----|----|-----|----|-------|----|---------|----|-------|

105

Edgar Filing: CITIGROUP INC - Form 10-Q

CONDENSED CONSOLIDATING BALANCE SHEET

March 31, 2006

| In millions of dollars                                                   | Citigroup<br>parent<br>company | CGMHI      | CFI       | CCC       | Associates | Other<br>Citigroup<br>subsidiaries,<br>eliminations<br>and income<br>from<br>discontinued<br>operations | Consolidating<br>adjustments | Citigroup<br>Consolidated |
|--------------------------------------------------------------------------|--------------------------------|------------|-----------|-----------|------------|---------------------------------------------------------------------------------------------------------|------------------------------|---------------------------|
| <b>Assets</b>                                                            |                                |            |           |           |            |                                                                                                         |                              |                           |
| Cash and due from banks                                                  | \$                             | \$ 8,036   | \$        | \$ 308    | \$ 407     | \$ 17,912                                                                                               | \$ (308)                     | \$ 26,355                 |
| Cash and due from<br>banks intercompany                                  | 157                            | 5,513      | 1         | 28        | 39         | (5,710)                                                                                                 | (28)                         |                           |
| Federal funds sold and resale<br>agreements                              |                                | 229,745    |           |           |            | 9,807                                                                                                   |                              | 239,552                   |
| Federal funds sold and resale<br>agreements intercompany                 |                                | 4,054      |           |           |            | (4,054)                                                                                                 |                              |                           |
| Trading account assets                                                   |                                | 226,095    |           |           | 38         | 102,002                                                                                                 |                              | 328,135                   |
| Trading account<br>assets intercompany                                   |                                | 3,085      | 59        |           | 12         | (3,156)                                                                                                 |                              |                           |
| Investments                                                              | 10,025                         |            |           | 2,862     | 3,532      | 180,413                                                                                                 | (2,862)                      | 193,970                   |
| Loans, net of unearned income                                            |                                | 1,217      |           | 77,573    | 86,283     | 517,807                                                                                                 | (77,573)                     | 605,307                   |
| Loans, net of unearned<br>income intercompany                            |                                |            | 50,146    | 5,338     | 7,049      | (57,195)                                                                                                | (5,338)                      |                           |
| Allowance for loan losses                                                |                                | (88)       |           | (1,350)   | (1,505)    | (7,912)                                                                                                 | 1,350                        | (9,505)                   |
| Total loans, net                                                         | \$                             | \$ 1,129   | \$ 50,146 | \$ 81,561 | \$ 91,827  | \$ 452,700                                                                                              | \$ (81,561)                  | \$ 595,802                |
| Advances to subsidiaries                                                 | 75,484                         |            |           |           |            | (75,484)                                                                                                |                              |                           |
| Investments in subsidiaries                                              | 134,953                        |            |           |           |            |                                                                                                         | (134,953)                    |                           |
| Other assets                                                             | 9,243                          | 59,359     | 12        | 5,819     | 7,403      | 126,370                                                                                                 | (5,819)                      | 202,387                   |
| Other assets intercompany                                                |                                | 5,819      | 4,059     | 293       | 501        | (10,379)                                                                                                | (293)                        |                           |
| <b>Total assets</b>                                                      | \$ 229,862                     | \$ 542,835 | \$ 54,277 | \$ 90,871 | \$ 103,759 | \$ 790,421                                                                                              | \$ (225,824)                 | \$ 1,586,201              |
| <b>Liabilities and stockholders' equity</b>                              |                                |            |           |           |            |                                                                                                         |                              |                           |
| Deposits                                                                 | \$                             | \$         | \$        | \$ 1,214  | \$ 1,214   | \$ 626,943                                                                                              | \$ (1,214)                   | \$ 628,157                |
| Federal funds purchased and<br>securities loaned or sold                 |                                | 235,911    |           |           |            | 43,629                                                                                                  |                              | 279,540                   |
| Federal funds purchased and<br>securities loaned or<br>sold intercompany |                                | 2,226      |           |           |            | (2,226)                                                                                                 |                              |                           |
| Trading account liabilities                                              |                                | 98,683     | 124       |           |            | 46,081                                                                                                  |                              | 144,888                   |
| Trading account<br>liabilities intercompany                              |                                | 2,056      | 26        |           |            | (2,082)                                                                                                 |                              |                           |
| Short-term borrowings                                                    |                                | 7,935      | 25,675    |           | 1,662      | 22,858                                                                                                  |                              | 58,130                    |
| Short-term<br>borrowings intercompany                                    |                                | 31,039     | 16,703    | 8,886     | 11,510     | (59,252)                                                                                                | (8,886)                      |                           |
| Long-term debt                                                           | 105,469                        | 34,804     | 11,089    | 9,084     | 19,336     | 56,467                                                                                                  | (9,084)                      | 227,165                   |
| Long-term debt intercompany                                              |                                | 19,393     |           | 56,153    | 58,297     | (77,690)                                                                                                | (56,153)                     |                           |
| Advances from subsidiaries                                               |                                |            |           |           |            |                                                                                                         |                              |                           |
| Other liabilities                                                        | 4,962                          | 83,044     | 57        | 2,173     | 1,833      | 44,007                                                                                                  | (2,173)                      | 133,903                   |
| Other liabilities intercompany                                           | 5,013                          | 6,191      | 53        | 955       | 635        | (11,892)                                                                                                | (955)                        |                           |
| Stockholders' equity                                                     | 114,418                        | 21,553     | 550       | 12,406    | 9,272      | 103,578                                                                                                 | (147,359)                    | 114,418                   |
| <b>Total liabilities and<br/>stockholders' equity</b>                    | \$ 229,862                     | \$ 542,835 | \$ 54,277 | \$ 90,871 | \$ 103,759 | \$ 790,421                                                                                              | \$ (225,824)                 | \$ 1,586,201              |

## CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2005

| In millions of dollars                                                   | Citigroup<br>parent<br>company | CGMHI      | CFI       | CCC       | Associates | Other<br>Citigroup<br>subsidiaries<br>and<br>eliminations | Consolidating<br>adjustments | Citigroup<br>Consolidated |
|--------------------------------------------------------------------------|--------------------------------|------------|-----------|-----------|------------|-----------------------------------------------------------|------------------------------|---------------------------|
| <b>Assets</b>                                                            |                                |            |           |           |            |                                                           |                              |                           |
| Cash and due from banks                                                  | \$                             | \$ 8,266   | \$        | \$ 296    | \$ 421     | \$ 19,686                                                 | \$ (296)                     | \$ 28,373                 |
| Cash and due from<br>banks intercompany                                  | 300                            | 5,341      | 1         | 63        | 77         | (5,719)                                                   | (63)                         |                           |
| Federal funds sold and resale<br>agreements                              |                                | 204,371    |           |           |            | 13,093                                                    |                              | 217,464                   |
| Federal funds sold and resale<br>agreements intercompany                 |                                | 5,870      |           |           |            | (5,870)                                                   |                              |                           |
| Trading account assets                                                   |                                | 207,682    |           | 1         | 44         | 88,094                                                    | (1)                          | 295,820                   |
| Trading account<br>assets intercompany                                   |                                | 2,350      |           |           | 17         | (2,367)                                                   |                              |                           |
| Investments                                                              | 8,215                          |            |           | 2,801     | 3,548      | 168,834                                                   | (2,801)                      | 180,597                   |
| Loans, net of unearned income                                            |                                | 1,120      |           | 75,330    | 84,147     | 498,236                                                   | (75,330)                     | 583,503                   |
| Loans, net of unearned<br>income intercompany                            |                                |            | 18,057    | 5,443     | 7,976      | (26,033)                                                  | (5,443)                      |                           |
| Allowance for loan losses                                                |                                | (66)       |           | (1,434)   | (1,589)    | (8,127)                                                   | 1,434                        | (9,782)                   |
| Total loans, net                                                         | \$                             | \$ 1,054   | \$ 18,057 | \$ 79,339 | \$ 90,534  | \$ 464,076                                                | \$ (79,339)                  | \$ 573,721                |
| Advances to subsidiaries                                                 | 71,784                         |            |           |           |            | (71,784)                                                  |                              |                           |
| Investments in subsidiaries                                              | 132,214                        |            |           |           |            |                                                           | (132,214)                    |                           |
| Other assets                                                             | 8,751                          | 60,710     | 8         | 7,224     | 8,846      | 119,747                                                   | (7,224)                      | 198,062                   |
| Other assets intercompany                                                |                                | 4,122      | 32,872    | 261       | 388        | (37,382)                                                  | (261)                        |                           |
| <b>Total assets</b>                                                      | \$ 221,264                     | \$ 499,766 | \$ 50,938 | \$ 89,985 | \$ 103,875 | \$ 750,408                                                | \$ (222,199)                 | \$ 1,494,037              |
| <b>Liabilities and stockholders' equity</b>                              |                                |            |           |           |            |                                                           |                              |                           |
| Deposits                                                                 | \$                             | \$         | \$        | \$ 1,075  | \$ 1,075   | \$ 591,520                                                | \$ (1,075)                   | \$ 592,595                |
| Federal funds purchased and<br>securities loaned or sold                 |                                | 202,490    |           |           |            | 39,902                                                    |                              | 242,392                   |
| Federal funds purchased and<br>securities loaned or<br>sold intercompany |                                | 2,132      |           |           |            | (2,132)                                                   |                              |                           |
| Trading account liabilities                                              |                                | 79,020     | 97        |           |            | 41,991                                                    |                              | 121,108                   |
| Trading account<br>liabilities intercompany                              |                                | 2,572      | 85        |           |            | (2,657)                                                   |                              |                           |
| Short-term borrowings                                                    |                                | 10,391     | 33,440    | 1,520     | 3,103      | 19,996                                                    | (1,520)                      | 66,930                    |
| Short-term<br>borrowings intercompany                                    |                                | 29,181     | 11,209    | 7,626     | 10,461     | (50,851)                                                  | (7,626)                      |                           |
| Long-term debt                                                           | 100,600                        | 39,214     | 5,963     | 8,901     | 19,148     | 52,574                                                    | (8,901)                      | 217,499                   |
| Long-term debt intercompany                                              |                                | 17,671     |           | 55,878    | 59,000     | (76,671)                                                  | (55,878)                     |                           |
| Advances from subsidiaries                                               |                                |            |           |           |            |                                                           |                              |                           |
| Other liabilities                                                        | 4,436                          | 89,774     | 31        | 1,930     | 1,661      | 45,074                                                    | (1,930)                      | 140,976                   |
| Other liabilities intercompany                                           | 3,691                          | 5,778      | 42        | 1,028     | 566        | (10,077)                                                  | (1,028)                      |                           |
| Stockholders' equity                                                     | 112,537                        | 21,543     | 71        | 12,027    | 8,861      | 101,739                                                   | (144,241)                    | 112,537                   |
| <b>Total liabilities and stockholders' equity</b>                        | \$ 221,264                     | \$ 499,766 | \$ 50,938 | \$ 89,985 | \$ 103,875 | \$ 750,408                                                | \$ (222,199)                 | \$ 1,494,037              |



Edgar Filing: CITIGROUP INC - Form 10-Q

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2006

| In millions of dollars                                                                                      | Citigroup<br>parent<br>company | CGMHI      | CFI        | CCC        | Associates | Other<br>Citigroup<br>subsidiaries<br>and<br>eliminations | Consolidating<br>adjustments | Citigroup<br>Consolidated |
|-------------------------------------------------------------------------------------------------------------|--------------------------------|------------|------------|------------|------------|-----------------------------------------------------------|------------------------------|---------------------------|
| <b>Net cash provided by (used in)<br/>operating activities of continuing<br/>operations</b>                 | \$ 2,021                       | \$ 3,990   | \$ (103)   | \$ 2,508   | \$ 1,110   | \$ (3,866)                                                | \$ (2,508)                   | \$ 3,152                  |
| <b>Cash flows from investing activities</b>                                                                 |                                |            |            |            |            |                                                           |                              |                           |
| Change in loans                                                                                             | \$                             | \$ (97)    | \$         | \$ (2,878) | \$ (2,853) | \$ (22,170)                                               | \$ 2,878                     | \$ (25,120)               |
| Proceeds from sales of loans                                                                                |                                |            |            |            |            | 2,697                                                     |                              | 2,697                     |
| Purchases of investments                                                                                    | (8,136)                        |            |            | (2,071)    | (2,646)    | (52,643)                                                  | 2,071                        | (63,425)                  |
| Proceeds from sales of investments                                                                          | 520                            |            |            | 341        | 542        | 16,382                                                    | (341)                        | 17,444                    |
| Proceeds from maturities of<br>investments                                                                  | 6,000                          |            |            | 1,634      | 2,082      | 24,320                                                    | (1,634)                      | 32,402                    |
| Changes in investments and<br>advances intercompany                                                         | (2,299)                        |            | (3,234)    | 105        | 927        | 4,606                                                     | (105)                        |                           |
| Business acquisitions                                                                                       |                                | (9)        |            |            |            | 9                                                         |                              |                           |
| Other investing activities                                                                                  |                                | (95)       |            |            | 1,634      | (3,305)                                                   |                              | (1,766)                   |
| <b>Net cash used in investing activities</b>                                                                | \$ (3,915)                     | \$ (201)   | \$ (3,234) | \$ (2,869) | \$ (314)   | \$ (30,104)                                               | \$ 2,869                     | \$ (37,768)               |
| <b>Cash flows from financing<br/>activities</b>                                                             |                                |            |            |            |            |                                                           |                              |                           |
| Dividends paid                                                                                              | \$ (2,491)                     | \$         | \$         | \$         | \$         | \$                                                        | \$                           | \$ (2,491)                |
| Dividends paid-intercompany                                                                                 |                                | (620)      |            |            |            | 620                                                       |                              |                           |
| Issuance of common stock                                                                                    | 258                            |            |            |            |            |                                                           |                              | 258                       |
| Redemption or Retirement of<br>preferred stock                                                              | (125)                          |            |            |            |            |                                                           |                              | (125)                     |
| Treasury stock acquired                                                                                     | (2,000)                        |            |            |            |            |                                                           |                              | (2,000)                   |
| Proceeds from issuance of long-term<br>debt third-party, net                                                | 5,355                          | (4,353)    | 5,126      | 182        | 188        | 4,299                                                     | (182)                        | 10,615                    |
| Proceeds from issuance of long-term<br>debt-intercompany, net                                               |                                | 1,725      |            | 275        | (703)      | (1,022)                                                   | (275)                        |                           |
| Change in deposits                                                                                          |                                |            |            | 139        |            | 35,562                                                    | (139)                        | 35,562                    |
| Net change in short-term borrowings<br>and other investment banking and<br>brokerage borrowings third-party |                                |            | (7,766)    | (1,519)    | (1,452)    | 418                                                       | 1,519                        | (8,800)                   |
| Net change in short-term borrowings<br>and other advances intercompany                                      | 1,323                          | (2,457)    | 5,495      | 1,260      | 1,118      | (5,479)                                                   | (1,260)                      |                           |
| Capital contributions from parent                                                                           |                                | 1,858      | 482        |            |            | (2,340)                                                   |                              |                           |
| Other financing activities                                                                                  | (569)                          |            |            | 1          | 1          | (15)                                                      | (1)                          | (583)                     |
| <b>Net cash provided by (used in)<br/>financing activities</b>                                              | \$ 1,751                       | \$ (3,847) | \$ 3,337   | \$ 338     | \$ (848)   | \$ 32,043                                                 | \$ (338)                     | \$ 32,436                 |
| <b>Effect of exchange rate changes on<br/>cash and due from banks</b>                                       | \$                             | \$         | \$         | \$         | \$         | \$ 162                                                    | \$                           | \$ 162                    |
| <b>Net decrease in cash and due from<br/>banks</b>                                                          | \$ (143)                       | \$ (58)    | \$         | \$ (23)    | \$ (52)    | \$ (1,765)                                                | \$ 23                        | \$ (2,018)                |
| <b>Cash and due from banks at<br/>beginning of period</b>                                                   | 300                            | 13,607     | 1          | 359        | 498        | 13,967                                                    | (359)                        | 28,373                    |
| <b>Cash and due from banks at end of<br/>period from continuing operations</b>                              | \$ 157                         | \$ 13,549  | \$ 1       | \$ 336     | \$ 446     | \$ 12,202                                                 | \$ (336)                     | \$ 26,355                 |

# Edgar Filing: CITIGROUP INC - Form 10-Q

Three Months Ended March 31, 2006

## Supplemental disclosure of cash flow information

Cash paid during the year for:

|                                 |    |       |    |       |    |      |    |     |    |       |    |       |    |       |  |        |
|---------------------------------|----|-------|----|-------|----|------|----|-----|----|-------|----|-------|----|-------|--|--------|
| Cash paid during the year for:  |    |       |    |       |    |      |    |     |    |       |    |       |    |       |  |        |
| Income taxes                    | \$ | 33    | \$ | 1,526 | \$ | (23) | \$ | (8) | \$ | (534) | \$ | 23    | \$ | 1,017 |  |        |
| Interest                        |    | 1,206 |    | 4,478 |    | 524  |    | 231 |    | 186   |    | 4,756 |    | (231) |  | 11,150 |
| Non-cash investing activities:  |    |       |    |       |    |      |    |     |    |       |    |       |    |       |  |        |
| Transfers to repossessed assets | \$ |       | \$ |       | \$ | 284  | \$ | 317 | \$ | 41    | \$ | (284) | \$ |       |  | 358    |

Edgar Filing: CITIGROUP INC - Form 10-Q

Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2005

| In millions of dollars                                                                                      | Citigroup<br>parent<br>company | CGMHI      | CFI | CCC        | Associates | Other<br>Citigroup<br>subsidiaries<br>and<br>eliminations | Consolidating<br>adjustments | Citigroup<br>Consolidated |
|-------------------------------------------------------------------------------------------------------------|--------------------------------|------------|-----|------------|------------|-----------------------------------------------------------|------------------------------|---------------------------|
| <b>Net cash provided by (used in)<br/>operating activities of continuing<br/>operations</b>                 | \$ 1,502                       | \$ (6,297) | \$  | \$ 1,097   | \$ 1,062   | \$ 7,418                                                  | \$ (1,097)                   | \$ 3,685                  |
| <b>Cash flows from investing activities</b>                                                                 |                                |            |     |            |            |                                                           |                              |                           |
| Change in loans                                                                                             | \$                             | \$ 39      | \$  | \$ (183)   | \$ (5)     | \$ (6,418)                                                | \$ 183                       | \$ (6,384)                |
| Proceeds from sales of loans                                                                                |                                |            |     |            |            | 3,716                                                     |                              | 3,716                     |
| Purchases of investments                                                                                    | (3,096)                        |            |     | (1,415)    | (1,959)    | (39,041)                                                  | 1,415                        | (44,096)                  |
| Proceeds from sales of investments                                                                          | 1,171                          |            |     | 980        | 1,157      | 18,919                                                    | (980)                        | 21,247                    |
| Proceeds from maturities of<br>investments                                                                  | 900                            |            |     | 400        | 744        | 16,282                                                    | (400)                        | 17,926                    |
| Changes in investments and advances<br>intercompany                                                         | 25                             |            |     | 4,375      | (1,589)    | 1,564                                                     | (4,375)                      |                           |
| Business acquisitions                                                                                       |                                |            |     |            |            |                                                           |                              |                           |
| Other investing activities                                                                                  |                                | (293)      |     |            | 963        | (2,855)                                                   |                              | (2,185)                   |
| <b>Net cash (used in) provided by<br/>investing activities</b>                                              | \$ (1,000)                     | \$ (254)   | \$  | \$ 4,157   | \$ (689)   | \$ (7,833)                                                | \$ (4,157)                   | \$ (9,776)                |
| <b>Cash flows from financing activities</b>                                                                 |                                |            |     |            |            |                                                           |                              |                           |
| Dividends paid                                                                                              | \$ (2,326)                     | \$         | \$  | \$         | \$         | \$                                                        | \$                           | \$ (2,326)                |
| Dividends paid-intercompany                                                                                 |                                | (512)      |     |            |            | 512                                                       |                              |                           |
| Issuance of common stock                                                                                    | 279                            |            |     |            |            |                                                           |                              | 279                       |
| Treasury stock acquired                                                                                     | (906)                          |            |     |            |            |                                                           |                              | (906)                     |
| Proceeds from issuance of long-term<br>debt third-party, net                                                | 1,752                          | 2,058      |     | (68)       | (1,111)    | (936)                                                     | 68                           | 1,763                     |
| Proceeds from issuance of long-term<br>debt-intercompany, net                                               |                                | 35         |     | (3,348)    | 550        | (585)                                                     | 3,348                        |                           |
| Change in deposits                                                                                          |                                |            |     | 44         |            | 4,191                                                     | (44)                         | 4,191                     |
| Net change in short-term borrowings<br>and other investment banking and<br>brokerage borrowings third-party | 604                            | 4,634      |     | 38         | (203)      | 902                                                       | (38)                         | 5,937                     |
| Net change in short-term borrowings<br>and other advances intercompany                                      | 568                            | 1          |     | (1,911)    | 360        | (929)                                                     | 1,911                        |                           |
| Other financing activities                                                                                  | (489)                          |            |     | 2          |            | (50)                                                      | (2)                          | (539)                     |
| <b>Net cash (used in) provided by<br/>financing activities</b>                                              | \$ (518)                       | \$ 6,216   | \$  | \$ (5,243) | \$ (404)   | \$ 3,105                                                  | \$ 5,243                     | \$ 8,399                  |
| <b>Effect of exchange rate changes on<br/>cash and due from banks</b>                                       | \$                             | \$         | \$  | \$         | \$         | \$ (142)                                                  | \$                           | \$ (142)                  |
| <b>Net cash used in discontinued<br/>operations</b>                                                         | \$                             | \$         | \$  | \$         | \$         | \$ (102)                                                  | \$                           | \$ (102)                  |
| <b>Net (decrease) increase in cash and<br/>due from banks</b>                                               | \$ (16)                        | \$ (335)   | \$  | \$ 11      | \$ (31)    | \$ 2,446                                                  | \$ (11)                      | \$ 2,064                  |
| <b>Cash and due from banks at<br/>beginning of period</b>                                                   | 28                             | 9,543      |     | 431        | 564        | 13,421                                                    | (431)                        | 23,556                    |
| <b>Cash and due from banks at end of<br/>period from continuing operations</b>                              | \$ 12                          | \$ 9,208   | \$  | \$ 442     | \$ 533     | \$ 15,867                                                 | \$ (442)                     | \$ 25,620                 |

# Edgar Filing: CITIGROUP INC - Form 10-Q

Three Months Ended March 31, 2005

## Supplemental disclosure of cash flow information

Cash paid during the year for:

|              |    |      |    |       |    |     |    |     |    |       |    |       |    |       |
|--------------|----|------|----|-------|----|-----|----|-----|----|-------|----|-------|----|-------|
| Income taxes | \$ | (38) | \$ | 110   | \$ | 5   | \$ | 24  | \$ | 583   | \$ | (5)   | \$ | 679   |
| Interest     |    | 978  |    | 2,673 |    | 156 |    | 148 |    | 3,171 |    | (156) |    | 6,970 |

## Non-cash investing activities:

|                                 |    |  |    |  |    |     |    |     |    |     |    |       |    |     |
|---------------------------------|----|--|----|--|----|-----|----|-----|----|-----|----|-------|----|-----|
| Transfers to repossessed assets | \$ |  | \$ |  | \$ | 262 | \$ | 288 | \$ | 139 | \$ | (262) | \$ | 427 |
|---------------------------------|----|--|----|--|----|-----|----|-----|----|-----|----|-------|----|-----|

109

## 19. Citibank, N.A. and Subsidiaries

## Statement of Changes in Stockholder's Equity

| In millions of dollars, except shares                                                            | Three Months Ended March 31, |                   |
|--------------------------------------------------------------------------------------------------|------------------------------|-------------------|
|                                                                                                  | 2006                         | 2005              |
| <b>Preferred stock (\$100 par value)</b>                                                         |                              |                   |
| Balance, beginning of year                                                                       | \$                           | \$ 1,950          |
| Redemption or retirement of preferred stock                                                      |                              |                   |
| <b>Balance, end of year</b>                                                                      | <b>\$</b>                    | <b>\$ 1,950</b>   |
| <b>Common stock (\$20 par value)</b>                                                             |                              |                   |
| Balance, beginning of year Shares: 37,534,553 in 2006 and 2005                                   | \$ 751                       | \$ 751            |
| <b>Balance, end of year Shares: 37,534,553 in 2006 and 2005</b>                                  | <b>\$ 751</b>                | <b>\$ 751</b>     |
| <b>Surplus</b>                                                                                   |                              |                   |
| Balance, beginning of year                                                                       | \$ 27,244                    | \$ 25,972         |
| Capital contribution from parent company                                                         | 3                            |                   |
| Employee benefit plans                                                                           | 36                           | 43                |
| Other                                                                                            |                              | 19                |
| <b>Balance, end of year</b>                                                                      | <b>\$ 27,283</b>             | <b>\$ 26,034</b>  |
| <b>Retained earnings</b>                                                                         |                              |                   |
| Balance, beginning of year                                                                       | \$ 30,651                    | \$ 25,935         |
| Net income                                                                                       | 2,778                        | 2,281             |
| Dividends paid                                                                                   | (1,307)                      | (550)             |
| <b>Balance, end of year</b>                                                                      | <b>\$ 32,122</b>             | <b>\$ 27,666</b>  |
| <b>Accumulated other changes in equity from nonowner sources</b>                                 |                              |                   |
| Balance, beginning of year                                                                       | \$ (2,382)                   | \$ (467)          |
| Net change in unrealized gains (losses) on investment securities, available-for-sale, net of tax | (100)                        | (274)             |
| Net change in foreign currency translation adjustment, net of tax                                | 313                          | (522)             |
| Net change for cash flow hedges, net of tax                                                      | 46                           | 87                |
| Minimum pension liability adjustment, net of tax                                                 | 3                            |                   |
| <b>Balance, end of year</b>                                                                      | <b>\$ (2,120)</b>            | <b>\$ (1,176)</b> |
| <b>Total stockholder's equity</b>                                                                |                              |                   |
| Balance, beginning of year                                                                       | \$ 56,264                    | \$ 54,141         |
| Changes during the year, net                                                                     | 1,772                        | 1,084             |
| <b>Balance, end of year</b>                                                                      | <b>\$ 58,036</b>             | <b>\$ 55,225</b>  |
| <b>Summary of changes in equity from nonowner sources</b>                                        |                              |                   |
| Net income                                                                                       | \$ 2,778                     | \$ 2,281          |
| Other changes in equity from nonowner sources, net of tax                                        | 262                          | (709)             |
| <b>Total changes in equity from nonowner sources</b>                                             | <b>\$ 3,040</b>              | <b>\$ 1,572</b>   |



**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The following information supplements and amends our discussion set forth under Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

**WorldCom, Inc.**

In March 2006, the class action settlement in IN RE WORLDCOM, INC. SECURITIES LITIGATION became final, and the settlement amount was paid pursuant to the terms of the settlement agreement.

**Research**

On March 29, 2006, the court preliminarily approved Citigroup's settlement of IN RE SALOMON ANALYST AT&T LITIGATION. A final hearing on the settlement is scheduled for August 11, 2006.

**IPO Antitrust Litigation**

The underwriter defendants' motion in the Second Circuit to stay the issuance of the mandate remanding the cases to the district court pending the filing of a petition for writ of certiorari to the United States Supreme Court was granted on March 9, 2006, after the writ of certiorari was filed on March 8, 2006.

**Other**

In DAVID B. SHAEV PROFIT SHARING ACCOUNT v. ARMSTRONG, ET AL., plaintiff has appealed the decision of the Chancery Court granting defendants' motion to dismiss the complaint.

On March 17, 2006, Citigroup entered into a written settlement agreement in IN RE: CITIGROUP ERISA LITIGATION, which was preliminarily approved by the Court on April 17, 2006. A hearing on final approval is scheduled for August 4, 2006.

On March 16, 2006, settlement papers in connection with the resolution of CARROLL v. WEILL, ET AL. were executed and subsequently filed with the court, following a February 16, 2006 agreement in principle. The settlement is subject to court approval.

**Item 1A. Risk Factors**

There are no material changes from the risk factors set forth under Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a)

In connection with the November 2002 acquisition by the Company of Golden State Bancorp Inc., on February 6, 2006, the Company issued to GSB Investments Corp., a Delaware corporation (GSB Investments), and Hunter's Glen/Ford, Ltd., a limited partnership organized under the laws of the State of Texas (HG/F), respectively, 62,680 and 15,670 shares of Company common stock. These shares were issued in satisfaction of the rights of GSB Investments and HG/F to receive shares of Company common stock in respect of federal income tax benefits with an aggregate value of \$3,659,746 pursuant to the Citigroup/GSB Merger Agreement and the Securityholders Agreement among Citigroup, GSB Investments Corp. and Hunter's Glen/Ford Ltd. entered into in connection with the November 2002 acquisition. The February 6, 2006 issuance was made in reliance upon an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(2) thereof, in that the issuance was to two persons not involving any public offering and the shares are subject to restrictions on transfer.

(c)

**Share Repurchases**

Under its long-standing repurchase program (which was expanded by \$10 billion in the 2006 second quarter as noted below), the Company buys back common shares in the market or otherwise from time to time. The share repurchases are used for many purposes, including to offset dilution from stock-based compensation programs.

The following table summarizes the Company's share repurchases during the first three months of 2006:

| In millions, except per share amounts | Total Shares Repurchased | Average Price Paid per Share | Dollar Value of Remaining Authorized Repurchase Program |
|---------------------------------------|--------------------------|------------------------------|---------------------------------------------------------|
| <b>January 2006</b>                   |                          |                              |                                                         |
| Open market repurchases(1)            | 6.4                      | \$ 46.59                     | \$ 4,112                                                |
| Employee transactions(2)              | 2.6                      | \$ 47.64                     | N/A                                                     |
| <b>February 2006</b>                  |                          |                              |                                                         |
| Open market repurchases               | 17.2                     | \$ 46.05                     | \$ 3,321                                                |
| Employee transactions                 | 5.7                      | \$ 45.76                     | N/A                                                     |
| <b>March 2006</b>                     |                          |                              |                                                         |
| Open market repurchases               | 19.3                     | \$ 47.05                     | \$ 2,412                                                |
| Employee transactions                 | 0.4                      | \$ 47.38                     | N/A                                                     |
| <b>Total First Quarter 2006</b>       |                          |                              |                                                         |
| Open market repurchases               | 42.9                     | \$ 46.58                     | \$ 2,412                                                |
| Employee transactions                 | 8.7                      | \$ 46.40                     | N/A                                                     |
| <b>Total First Quarter 2006(1)</b>    | <b>51.6</b>              | <b>\$ 46.55</b>              | <b>\$ 2,412</b>                                         |

(1)

All open market repurchases were transacted under an existing authorized share repurchase plan that was publicly announced on April 14, 2005. On April 13, 2006, the Board of Directors authorized up to an additional \$10 billion in share repurchases.

(2)

Consists of shares added to treasury stock related to activity on employee stock option plan exercises, including reloads, where the employee delivers existing shares to cover the reload option exercise, or under the Company's employee restricted or deferred stock program, where shares are withheld to satisfy tax requirements.



**Item 4. Submission of Matters to a Vote of Securityholders**

Citigroup's Annual Meeting of Stockholders was held on April 18, 2006. At the meeting:

- (1) 16 persons were elected to serve as directors of Citigroup;
- (2) the selection of KPMG LLP to serve as the independent registered public accounting firm of Citigroup for 2006 was ratified;
- (3) the Amendment to Article Fourth of the Restated Certificate of Incorporation was approved;
- (4) the Amendment to Article Eighth of the Restated Certificate of Incorporation was approved;
- (5) the Amendment to Article Ninth of the Restated Certificate of Incorporation was approved;
- (6) a stockholder proposal regarding stock options was defeated;
- (7) a stockholder proposal regarding political contributions was defeated;
- (8) a stockholder proposal regarding charitable contributions was defeated;
- (9) a stockholder proposal regarding compensation for senior executives was defeated;
- (10) a stockholder proposal regarding the reimbursement of expenses in a contested election of directors was defeated;
- (11) a stockholder proposal regarding management responsibilities of the Chairman of the Board was defeated;
- (12) a stockholder proposal regarding the recoupment of management bonuses in the event of a restatement of earnings was defeated;
- (13) a stockholder proposal regarding compliance with the Gramm-Leach Bliley Act was defeated; and
- (14) a stockholder proposal regarding the reporting of recoveries and losses was defeated.

The number of votes cast for, against or withheld, and the number of abstentions with respect to each such matter is set forth below, as are the number of broker non-votes, where applicable.

|                                   | <b>FOR</b>    | <b>AGAINST/<br/>WITHHELD</b> | <b>ABSTAINED</b> | <b>BROKER<br/>NON-VOTES</b> |
|-----------------------------------|---------------|------------------------------|------------------|-----------------------------|
| <b>(1) Election of Directors:</b> |               |                              |                  |                             |
| <b>NOMINEE</b>                    |               |                              |                  |                             |
| C. Michael Armstrong              | 4,167,284,958 | 115,249,420                  |                  |                             |
| Alain J.P. Belda                  | 4,183,663,637 | 98,870,741                   |                  |                             |
| George David                      | 4,210,341,821 | 72,192,557                   |                  |                             |
| Kenneth T. Derr                   | 4,151,027,754 | 131,506,624                  |                  |                             |
| John M. Deutch                    | 4,192,099,664 | 90,434,714                   |                  |                             |
| Roberto Hernández Ramirez         | 4,177,721,429 | 104,812,949                  |                  |                             |

Edgar Filing: CITIGROUP INC - Form 10-Q

|                    | <b>FOR</b>    | <b>AGAINST/<br/>WITHHELD</b> | <b>ABSTAINED</b> | <b>BROKER<br/>NON-VOTES</b> |
|--------------------|---------------|------------------------------|------------------|-----------------------------|
| Ann Dibble Jordan  | 4,149,408,066 | 133,126,312                  |                  |                             |
| Klaus Kleinfeld    | 4,209,704,527 | 72,829,851                   |                  |                             |
| Andrew N. Liveris  | 4,209,775,905 | 72,758,473                   |                  |                             |
| Dudley C. Mecum    | 4,180,536,615 | 101,997,763                  |                  |                             |
| Anne Mulcahy       | 4,209,665,417 | 72,868,961                   |                  |                             |
| Richard D. Parsons | 4,179,088,180 | 103,446,198                  |                  |                             |
| Charles Prince     | 4,180,387,392 | 102,146,986                  |                  |                             |
| Judith Rodin       | 4,207,933,843 | 74,600,535                   |                  |                             |
| Robert E. Rubin    | 4,177,678,523 | 104,855,855                  |                  |                             |
| Franklin A. Thomas | 4,172,602,535 | 109,931,843                  |                  |                             |
|                    | 113           |                              |                  |                             |

Edgar Filing: CITIGROUP INC - Form 10-Q

|      |                                                                                                                           | <b>FOR</b>    | <b>AGAINST/<br/>WITHHELD</b> | <b>ABSTAINED</b> | <b>BROKER<br/>NON-VOTES</b> |
|------|---------------------------------------------------------------------------------------------------------------------------|---------------|------------------------------|------------------|-----------------------------|
| (2)  | Ratification of Independent Registered Public Accounting Firm                                                             | 4,168,359,275 | 78,990,044                   | 35,173,291       |                             |
| (3)  | Approval of Amendment to Article Fourth of the Restated Certificate of Incorporation                                      | 4,194,571,160 | 39,912,567                   | 48,081,026       |                             |
| (4)  | Approval of Amendment to Article Eighth of the Restated Certificate of Incorporation                                      | 4,191,072,247 | 43,001,408                   | 48,491,420       |                             |
| (5)  | Approval of Amendment to Article Ninth of the Restated Certificate of Incorporation                                       | 4,189,364,278 | 45,205,788                   | 47,997,643       |                             |
| (6)  | Approval of Stockholder Proposal Regarding Stock Options                                                                  | 172,939,923   | 3,216,975,391                | 53,993,067       | 838,625,997                 |
| (7)  | Approval of Stockholder Proposal Regarding Political Contributions                                                        | 303,052,783   | 2,765,360,998                | 375,475,465      | 838,645,132                 |
| (8)  | Approval of Stockholder Proposal Regarding Charitable Contributions                                                       | 273,438,305   | 2,855,920,506                | 314,566,431      | 838,609,136                 |
| (9)  | Approval of Stockholder Proposal Regarding Compensation for Senior Executives                                             | 1,684,397,936 | 1,693,704,304                | 55,814,268       | 848,617,869                 |
| (10) | Approval of Stockholder Proposal Regarding the Reimbursement of Expenses in a Contested Election of Directors             | 149,857,731   | 3,170,119,364                | 123,952,736      | 838,604,548                 |
| (11) | Approval of Stockholder Proposal Regarding Management Responsibilities of the Chairman                                    | 545,249,410   | 2,850,809,485                | 47,858,133       | 838,617,350                 |
| (12) | Approval of Stockholder Proposal Regarding the Recoupment of Management Bonuses in the Event of a Restatement of Earnings | 487,063,540   | 2,907,905,305                | 48,942,600       | 838,622,933                 |
| (13) | Approval of Stockholder Proposal Regarding Compliance with the Gramm-Leach Bliley Act                                     | 30            | 4,282,534,348                | 0                |                             |
| (14) | Approval of Stockholder Proposal Regarding the Reporting of Recoveries and Losses                                         | 30            | 4,282,534,348                | 0                |                             |

**Item 5. Other Information**

A letter on behalf of the Board of Directors of the Company, dated May 1, 2006, was sent to Roberto Hernandez Ramirez indicating that the Board had adopted a resolution granting Mr. Hernandez Ramirez a waiver from the Company's Stock Ownership Commitment and set Mr. Hernandez Ramirez's minimum ownership of the Company's common stock at one million shares for so long as Mr. Hernandez Ramirez remains a member of the Board.

**Item 6. Exhibits**

See Exhibit Index.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 5th day of May, 2006.

**CITIGROUP INC.**

(Registrant)

By /s/ SALLIE KRAWCHECK

Sallie Krawcheck  
*Chief Financial Officer*  
*(Principal Financial Officer)*

By /s/ JOHN C. GERSPACH

John C. Gerspach  
*Controller and Chief Accounting Officer*  
*(Principal Accounting Officer)*

EXHIBIT INDEX

| Exhibit<br>Number | Description of Exhibit                                                                                                                                                                                                                                               |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.01.1            | Restated Certificate of Incorporation of Citigroup Inc. (the Company), incorporated by reference to Exhibit 4.01 to the Company's Registration Statement on Form S-3 filed December 15, 1998 (No. 333-68949).                                                        |
| 3.01.2            | Certificate of Designation of 5.321% Cumulative Preferred Stock, Series YY, of the Company, incorporated by reference to Exhibit 4.45 to Amendment No. 1 to the Company's Registration Statement on Form S-3 filed January 22, 1999 (No. 333-68949).                 |
| 3.01.3            | Certificate of Amendment to the Restated Certificate of Incorporation of the Company dated April 18, 2000, incorporated by reference to Exhibit 3.01.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2000 (File No. 1-9924). |
| 3.01.4            | Certificate of Amendment to the Restated Certificate of Incorporation of the Company dated April 17, 2001, incorporated by reference to Exhibit 3.01.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001 (File No. 1-9924). |
| 3.01.5            | Certificate of Designation of 6.767% Cumulative Preferred Stock, Series YYY, of the Company, incorporated by reference to Exhibit 3.01.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (File 1-9924).                      |
| 3.01.6 +          | Certificate of Amendment to the Restated Certificate of Incorporation of the Company dated April 18, 2006.                                                                                                                                                           |
| 3.02              | By-Laws of the Company, as amended, effective January 19, 2005, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed January 21, 2005 (File No. 1-9924).                                                                       |
| 10.01+            | Letter Agreement, dated as of March 22, 2006, between the Company and Robert E. Rubin.                                                                                                                                                                               |
| 10.02+            | Letter, dated as of May 1, 2006, to Roberto Hernandez Ramirez.                                                                                                                                                                                                       |
| 12.01+            | Calculation of Ratio of Income to Fixed Charges.                                                                                                                                                                                                                     |
| 12.02+            | Calculation of Ratio of Income to Fixed Charges (including preferred stock dividends).                                                                                                                                                                               |
| 31.01+            | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                              |
| 31.02+            | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                              |
| 32.01+            | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                              |
| 99.01+            | Residual Value Obligation Certificate.                                                                                                                                                                                                                               |

The total amount of securities authorized pursuant to any instrument defining rights of holders of long-term debt of the Company does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. The Company will furnish copies of any such instrument to the Securities and Exchange Commission upon request.

+  
Filed herewith

QuickLinks

Citigroup Inc.

TABLE OF CONTENTS

Combined Results for Discontinued Operations

PART II. OTHER INFORMATION

SIGNATURES

EXHIBIT INDEX