CITIGROUP INC
Form 10-K
February 23, 2007

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FINANCIAL INFORMATION

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THE COMPANY

Citigroup Inc. (Citigroup and, together with its subsidiaries, the Company) is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers. Citigroup has more than 200 million customer 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. At December 31, 2006, the Company had approximately 144,000 full-time and 10,000 part-time employees in the United States and approximately 183,000 full-time employees outside the United States. The Company has completed certain

strategic business acquisitions and divestitures during the past three years, details of which can be found in Notes 2 and 3 to the Consolidated Financial Statements on pages 137 and 138, respectively.

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. 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.

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.

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FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Citigroup Inc. and Subsidiaries

In millions of dollars, except per share amounts	**2006**	2005	2004	2003	2002
Revenues, net of interest expense	**$ 89,615**	$ 83,642	$ 79,635	$ 71,594	$ 66,246
Operating expenses	**52,021**	45,163	49,782	37,500	35,886
Provisions for credit losses and for benefits and claims	**7,955**	9,046	7,117	8,924	10,972
Income from continuing operations before taxes, minority interest, and cumulative effect of accounting changes	**$ 29,639**	$ 29,433	$ 22,736	$ 25,170	$ 19,388
Income taxes	**8,101**	9,078	6,464	7,838	6,615
Minority interest, net of taxes	**289**	549	218	274	91
Income from continuing operations before cumulative effect of accounting changes	**$ 21,249**	$ 19,806	$ 16,054	$ 17,058	$ 12,682
Income from discontinued operations, net of taxes (1)	**289**	4,832	992	795	2,641
Cumulative effect of accounting changes, net of taxes (2)		(49)			(47)
Net income	**$ 21,538**	$ 24,589	$ 17,046	$ 17,853	$ 15,276
Earnings per share					
Basic:					
Income from continuing operations	**$ 4.33**	$ 3.90	$ 3.13	$ 3.34	$ 2.48
Net income	**4.39**	4.84	3.32	3.49	2.99
Diluted:					
Income from continuing operations	**4.25**	3.82	3.07	3.27	2.44
Net income	**4.31**	4.75	3.26	3.42	2.94
Dividends declared per common share	**$ 1.96**	$ 1.76	$ 1.60	$ 1.10	$ 0.70
At December 31					
Total assets	**$ 1,884,318**	$ 1,494,037	$ 1,484,101	$ 1,264,032	$ 1,097,590
Total deposits (3)	**712,041**	591,828	561,513	473,614	430,530
Long-term debt	**288,494**	217,499	207,910	162,702	126,927
Mandatorily redeemable securities of subsidiary trusts (4)	**9,579**	6,264	6,209	6,057	6,152
Common stockholders equity	**118,783**	111,412	108,166	96,889	85,318
Total stockholders equity	**119,783**	112,537	109,291	98,014	86,718
Ratios:					
Return on common stockholders equity (5)	**18.8%**	22.3%	17.0%	19.8%	18.6%
Return on total stockholders equity (5)	**18.6**	22.1	16.8	19.5	18.3
Return on risk capital (6)	**38**	38	35	39	
Return on invested capital (6)	**19**	22	17	20	
Tier 1 Capital	**8.59%**	8.79%	8.74%	8.91%	8.47%
Total Capital	**11.65**	12.02	11.85	12.04	11.25
Leverage (7)	**5.16**	5.35	5.20	5.56	5.67
Common stockholders equity to assets	**6.30%**	7.46%	7.29%	7.67%	7.77%
Total stockholders equity to assets	**6.36**	7.53	7.36	7.75	7.90
Dividends declared (8)	**45.5**	37.1	49.1	32.2	23.8
Ratio of earnings to fixed charges and preferred stock dividends	**1.51x**	1.79x	2.00x	2.41x	1.89x

(1) Discontinued operations for 2002 to 2006 include the operations (and associated gain on disposition) 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 from 2002 to 2006 also includes the operations (and associated gain) described in the Company s January 31, 2005 announced agreement for the sale of Citigroup s Travelers Life & Annuity, substantially all of Citigroup s international insurance business and Citigroup s Argentine pension business to MetLife Inc. The transaction closed on July 1, 2005. On August 20, 2002, Citigroup completed the distribution to its stockholders of a majority portion of its remaining ownership interest in Travelers Property Casualty Corp. (TPC). Following the distribution, Citigroup began accounting for TPC as discontinued operations. As such, 2002 also reflects TPC as a discontinued operation. See Note 3 to the Consolidated Financial Statements on page 118.

(2) Accounting change of ($49) million in 2005 represents the adoption of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143.* Accounting change of ($47) million in 2002 resulted from the adoption of the remaining provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142).

(3) Reclassified to conform to the current period s presentation.
(4) During 2004, the Company deconsolidated the subsidiary issuer trusts in accordance with FIN 46-R. For regulatory capital purposes, these trust securities remain a component of Tier 1 Capital. See Capital Resources and Liquidity on page 86.
(5) The return on average common stockholders equity and return on average total stockholders equity are calculated using net income after deducting preferred stock dividends.
(6) Risk capital is a measure of risk levels and the trade-off of risk and return. It 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. 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; because they are measures of risk with no basis in GAAP, there is no comparable GAAP measure to which they can be reconciled. Management uses return on risk capital to assess businesses operational performance and to allocate Citigroup s balance sheet and risk capital capacity. Return on invested capital is used to assess returns on potential acquisitions and to compare long-term performance of businesses with differing proportions of organic and acquired growth. See page 59 for a further discussion of risk capital.
(7) Tier 1 Capital divided by adjusted average assets.
(8) Dividends declared per common share as a percentage of net income per diluted share.

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MANAGEMENT S DISCUSSION AND ANALYSIS

2006 IN SUMMARY

In 2006, Citigroup earned $21.2 billion from continuing operations on revenues of $89.6 billion. Income was up 7% from 2005, while diluted EPS from continuing operations increased 11%, with the increment in the growth rate reflecting the benefit from our share repurchase program. Net income, which includes discontinued operations, was $21.5 billion, down 12% from the prior year, reflecting the absence of significant gains on sales of businesses recorded in 2005. Income was diversified by segment, product and region.

During 2006, we continued to execute on our key strategic initiatives, including the opening of a record 1,165 new Citibank and Consumer Finance branches (862 in the International sector and 303 in the U.S.), the continued integration of our businesses, investment in technology, and hiring and training our professionals.

Customer volume growth was strong, with average loans up 14%, average deposits up 16% and average interest-earning assets up 16% from year-ago levels. Principal transactions revenues grew 37% and client assets under fee-based management grew 15%. And we completed or announced several strategic acquisitions and partnerships (including Akbank, Guangdong Bank, Egg, Quilter, Grupo Financiero Uno and Grupo Cuscatlan) that will strengthen our franchises.

Revenues increased 7% from 2005, reaching $89.6 billion. Our international operations recorded revenue growth of 14% in 2006, including an 8% increase in International Consumer, 22% in International CIB and 31% in International GWM.

Revenue growth benefited from increased loan volumes, including corporate loan growth of 29% and consumer loan growth of 13%. *Transaction Services* assets under custody increased 21% and Global Wealth Management client assets increased 10%.

Net interest revenue grew 1%, as strong growth in interest-earning assets was offset by flat or inverted yield curves in the major economies. Net interest margin in 2006 was 2.65%, down 41 basis points from 2005 (see the discussion of net interest margin on page 81). This spread compression negatively affected the Company s operating leverage ratios. Non-interest revenue increased 13% from 2005, reflecting fees from higher customer business volumes, as well as increased principal transactions revenues. CIB revenues grew by 14%, reflecting strong performance in *Capital Markets and Banking* and *Transaction Services*. *Capital Markets and Banking* finished the year ranked #1 in equity underwriting and #2 in completed mergers and acquisitions activity.

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Operating expenses increased 15% from the previous year. Expense growth included three points from the adoption of SFAS 123(R) and reflected the absence of a $600 million release from the WorldCom and Litigation Reserve Charge recorded in 2005. Excluding these items, operating expenses increased 10% in 2006, reflecting increased investment spending, the impact of foreign exchange, and an increase in other legal expenses. Investment spending included the addition of Consumer branches and investments in technology.

During the 2006 fourth quarter, Bob Druskin was appointed Chief Operating Officer of the Company. One of Bob s primary responsibilities is to complete a structural review of our expense base by the end of the first quarter. His review will include an analysis of the structure of the organization, the multiple back offices, the multiple middle offices and separate corporate centers around the Company, with a goal of creating a more efficient and nimbler organization.

During 2006, we continued our focus on disciplined capital allocation and driving returns to our shareholders. Our equity capital base and trust preferred securities grew to $129.4 billion at December 31, 2006. Stockholders equity increased by $7.2 billion during 2006 to $119.8 billion, even with the distribution of $9.8 billion in dividends to common shareholders and the repurchase of $7.0 billion of common stock during the year. Citigroup maintained its well-capitalized position with a Tier 1 Capital Ratio of 8.59% at December 31, 2006. Return on common equity was 18.8% for 2006. Our total return to shareholders was 19.6% during the year (which represents Citigroup s stock appreciation assuming the reinvestment of dividends).

The Board of Directors increased the quarterly common dividend by 11% during 2006 and by an additional 10% in January 2007, bringing the current quarterly payout to $0.54 per share. During the year, Moody s upgraded Citibank, N.A. s credit rating to Aaa from Aa1 . On February 14, 2007, Standard & Poor s raised Citigroup s senior debt credit rating to AA from AA- . The long-term debt rating on Citibank, N.A. was raised to AA+ from AA .

The U.S. and international credit environments remained stable; this, as well as significantly lower consumer bankruptcy filings, the absence of the $490 million pretax charge in 2005 related to a change in write-off policy in *EMEA* consumer, and a shift in consumer loans to products with lower net credit losses, drove a $1.191 billion decrease in credit costs compared to year-ago levels. The Global Consumer loss rate was 1.52%, a 49 basis-point decline from 2005. Corporate cash-basis loans declined 47% from year-ago levels to $535 million.

The effective income tax rate on continuing operations declined to 27.3%, primarily reflecting the $598 million benefit for the resolution of the Federal Tax Audit and a net $237 million tax reserve release related to the resolution of the New York Tax Audits. The effective tax rate for 2006 would have been 30.1% without the tax reserve releases.

Outlook for 2007

We enter 2007 with good business momentum, as we expect to see our investment initiatives generate increasing revenues, and are well-positioned to gain from our balanced approach to growth and competitive advantages.

We expect to continue to achieve growth in loans, deposits and other customer activity resulting from our increased distribution points, expanded product offerings, and the impact from recent targeted acquisitions.

In 2006, our international businesses contributed 43% of our income from continuing operations. We expect to continue to re-weight our revenue mix towards International Consumer, CIB and Global Wealth Management.

Disciplined capital allocation will remain fundamental to our strategic process and we will have a sharp focus on expense management.

Although there may be volatility in our results in any given year, over the long term our revenues are targeted to grow organically at a mid- to high-single-digit rate, with strong expense and credit management driving earnings and earnings per share growth at a faster level. We will seek to augment this growth rate over time through targeted acquisitions.

Credit is broadly stable as 2007 begins; however, we are budgeting for a moderate deterioration of credit in 2007. In addition, the tax benefits we realized in 2006 will not be repeated in 2007, and we anticipate the effective tax rate to return to a more normalized rate of 30% to 31%, not the 27.3% recorded in 2006.

In our Japan Consumer Finance business, we look to break even in 2007.

With our investment spending initiatives, a record number of branches were added in 2006. We are going to moderate our rate of increased investment spending in 2007.

Citigroup s financial results are closely tied to the external global economic environment. Movements in interest rates and foreign exchange rates present both opportunities and risks for the Company. Weakness in the global economy, credit deterioration, inflation, and geopolitical uncertainty are examples of risks that could adversely impact our earnings.

A detailed review and outlook for each of our business segments and products are included in the discussions that follow, and the risks are more fully discussed on pages 76 to 96.

Certain of the statements above are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. See Forward-Looking Statements on page 97.

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Comparison of Five-Year Cumulative Total Return

The following graph compares the cumulative total return on Citigroup s common stock with the S&P 500 Index and the S&P Financial Index over the five-year period extending through December 31, 2006. The graph assumes that $100 was invested on December 31, 2001 in Citigroup s common stock, the S&P 500 Index and the S&P Financial Index and that all dividends were reinvested.

DECEMBER 31	CITIGROUP	S&P 500 INDEX	S&P FINANCIAL INDEX
2002	$ 76.08	$ 77.90	$ 85.37
2003	107.72	100.24	111.86
2004	110.65	111.15	124.06
2005	115.77	116.60	132.03
2006	138.41	135.02	157.36

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EVENTS IN 2006

Certain of the statements below are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. See Forward-Looking Statements on page 97.

U.K. Market Expansion

Egg

On January 29, 2007, the Company announced the agreement to acquire Egg Banking plc (Egg), the world s largest pure online bank and one of the U.K. s leading online financial services providers, from Prudential PLC for approximately $1.127 billion, subject to adjustments at closing. Egg has more than three million customers and offers various financial products and services including online payment and account aggregation services, credit cards, personal loans, savings accounts, mortgages, insurance and investments. The transaction is subject to regulatory approvals and is expected to close before the end of the 2007 second quarter.

Quilter

On December 13, 2006, the Company announced the agreement to acquire Quilter, a U.K. wealth advisory firm with over $10.9 billion of assets under management, from Morgan Stanley. Quilter has more than 18,000 clients and 300 staff located in 10 offices throughout the U.K., Ireland and the Channel Islands. This transaction, which is subject to U.S. and local country regulatory approvals, is expected to close in the 2007 first quarter. Once closed, its business results will be included in Global Wealth Management.

Purchase of 20% Equity Interest in Akbank

On October 17, 2006, the Company announced its planned purchase of a 20% equity interest in Akbank for approximately $3.1 billion. The transaction closed on January 9, 2007. Akbank, the second-largest privately owned bank by assets in Turkey, is a premier, full-service retail, commercial, corporate and private bank.

Sabanci Holding, a 34% owner of Akbank shares, and its subsidiaries have granted Citigroup a right of first refusal or first offer over the sale of any of their Akbank shares in the future. Subject to certain exceptions, including purchases from Sabanci Holding and its subsidiaries, Citigroup has agreed not to increase its percentage ownership in Akbank.

Strategic Investment and Cooperation Agreement with Guangdong Development Bank

On December 17, 2006, a Citigroup-led consortium acquired an 85.6% stake in Guangdong Development Bank (GDB). Citigroup s share is 20% of GDB and its investment of approximately $725 million will be accounted for under the equity method.

In accordance with the parties agreement, Citigroup will have significant management influence at GDB to enhance GDB s management team and corporate governance standards, instill operational and lending best practices, improve risk management and internal controls, upgrade GDB s information technology infrastructure, and further develop GDB s customer service and product offerings.

Central American Acquisitions

Grupo Cuscatlan

On December 13, 2006, Citigroup announced the agreement to acquire the subsidiaries of Grupo Cuscatlan for $1.51 billion in cash and stock from Corporacion UBC Internacional S.A. Grupo Cuscatlan is one of the leading financial groups in Central America, with total assets of $5.4 billion, total

loans of $3.5 billion, and total deposits of $3.4 billion. Grupo Cuscatlan has operations in El Salvador, Guatemala, Costa Rica, Honduras and Panama. This acquisition is subject to U.S. and local country regulatory approvals and is expected to close later in the 2007 first quarter.

Grupo Financiero Uno

On October 27, 2006, Citigroup announced that it had reached a definitive agreement to acquire Grupo Financiero Uno (GFU), the largest credit card issuer in Central America, and its affiliates. The acquisition of GFU, with $2.1 billion in assets, will expand the presence of Citigroup s *Latin America* consumer franchise, enhancing its credit card business in the region and establishing a platform for regional growth in Consumer Finance and Retail Banking.

GFU is privately held and has more than one million retail clients, representing 1.1 million credit card accounts, $1.2 billion in credit card receivables and $1.3 billion in deposits in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. GFU operates a distribution network of 75 branches and more than 100 mini-branches and points of sale.

This acquisition, which is subject to regulatory approvals in the United States and each of the six countries, is anticipated to close later in the 2007 first quarter.

Sale of Avantel

In November 2006, Citigroup sold its investment in Avantel, a leading long-distance telecom service provider in Mexico, to AXTEL. The transaction resulted in an after-tax gain of $145 million ($234 million pretax) in the 2006 fourth quarter. The investment in Avantel was initially acquired by Citigroup as part of its acquisition of Banamex in 2001 and was subsequently increased with the purchase of an additional stake in 2005.

Repositioning of the Japan Consumer Finance Business

On January 8, 2007, Citigroup announced that it would reposition its consumer finance business in *Japan*. This decision is the result of changes in the operating environment in the consumer finance business in *Japan*, and the passage on December 13, 2006, of changes to *Japan* s consumer lending laws. The change in law will lower the interest rates permissible on new consumer finance loans by 2010.

In the 2006 fourth quarter, the Company recorded a $375 million after-tax ($581 million pretax) charge to increase reserves for estimated losses resulting from customer refund settlements in the business. This charge was recorded as a reduction to interest revenue on loans. The Company also recorded a $40 million after-tax ($60 million pretax) repositioning charge for costs associated with closing approximately 270 branches and 100 automated loan machines. This repositioning is consistent with the company s efforts to establish a lower-cost platform for the business and will enable it to compete more effectively in the new interest rate environment in Japan.

Finalizing the 2005 Sale of Asset Management Business

On December 1, 2005, the Company sold substantially all of its Asset Management Business to Legg Mason Inc. (Legg Mason) in exchange for Legg Mason s broker-dealer and capital markets businesses, $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 business. The transaction did not include

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Citigroup s asset management business in *Mexico*, its retirement services business in *Latin America* (both of which are included in *International Retail Banking*) or its interest in the CitiStreet joint venture (which is 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 for Citigroup of approximately $2.082 billion ($3.404 billion pretax), which was reported in discontinued operations.

Concurrent with this sale, the Company sold Legg Mason s capital markets business to Stifel Financial Corp. (The transactions described in the above two paragraphs are referred to as the Sale of the Asset Management Business.)

With the receipt of Legg Mason s broker-dealer business, the Company added 1,226 financial advisors in 124 branch offices to its Global Wealth Management business.

During March 2006, the Company 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 in Alternative Investments.

In September 2006, the Company received from Legg Mason the final closing adjustment payment related to this sale. This payment resulted in an additional after-tax gain of $51 million ($83 million pretax), recorded in discontinued operations.

Additional information can be found in Note 3 to the Consolidated Financial Statements on page 118.

Resolution of Tax Audits

New York State and New York City

In September 2006, Citigroup reached a settlement agreement with the New York State and New York City taxing authorities regarding various tax liabilities for the years 1998 2005 (referred to above and hereinafter as the resolution of the New York Tax Audits).

For the 2006 third quarter, the Company released $254 million from its tax contingency reserves, which resulted in increases of $237 million in after-tax income from continuing operations and $17 million in after-tax Income from discontinued operations.

Federal

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 (referred to hereinafter as the resolution of the Federal Tax Audit). For the 2006 first quarter, the Company released a total of $657 million from its tax contingency reserves related to the resolution of the Federal Tax Audit.

The following table summarizes the 2006 tax benefits, by business, from the resolution of the New York Tax Audits and Federal Tax Audit:

In millions of dollars	New York City and New York State Audits	Federal Audit	Total
Global Consumer	$ 79	$ 290	$ 369
Corporate and Investment Banking	116	176	292
Global Wealth Management	34	13	47
Alternative Investments		58	58
Corporate/Other	8	61	69
Continuing Operations	$ 237	$ 598	$ 835
Discontinued Operations	$ 17	$ 59	$ 76
Total	$ 254	$ 657	$ 911

Finalizing the 2005 Sale of Travelers Life & Annuity

On July 1, 2005, the Company sold Citigroup s Travelers Life & Annuity and substantially all of Citigroup s international insurance businesses to MetLife. The businesses sold were the primary vehicles through which Citigroup engaged in the Life Insurance and Annuities business. This 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*). (This transaction is referred to hereinafter as the Sale of the Life Insurance and Annuities Business).

At closing, 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), which was included in discontinued operations.

In July 2006, Citigroup recognized an $85 million after-tax gain from the sale of MetLife shares. This gain was reported within Income from continuing operations in the Alternative Investments business.

In July 2006, the Company received the final closing adjustment payment related to this sale, resulting in an after-tax gain of $75 million ($115 million pretax), which was recorded in discontinued operations.

Additional information can be found in Note 3 to the Consolidated Financial Statements on page 118.

Sale of Upstate New York Branches

On June 30, 2006, Citigroup sold the Upstate New York Financial Center Network, consisting of 21 branches in Rochester, N.Y., and Buffalo, N.Y. to M&T Bank (referred to hereinafter as the Sale of New York Branches). Citigroup received a premium on deposit balances of approximately $1 billion. An after-tax gain of $92 million ($163 million pretax) was recognized in the 2006 second quarter.

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

In June 2005, Citigroup announced a long-term agreement with Federated Department Stores, Inc. (Federated) under which the companies partner to acquire and manage approximately $6.2 billion of Federated s credit card receivables, including existing and new accounts, executed in three phases.

For the first phase, which closed in October 2005, Citigroup acquired Federated s receivables under management, totaling approximately $3.3 billion. For the second phase, which closed in May 2006, additional Federated receivables totaling approximately $1.9 billion were transferred to Citigroup from the previous provider. For the final phase, in July 2006, Citigroup acquired the approximately $1.0 billion credit card receivable portfolio of The May Department Stores Company (May), which merged with Federated.

Citigroup paid a premium of approximately 11.5% to acquire these 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.

MasterCard Initial Public Offering

In June 2006, MasterCard conducted a series of transactions consisting of: (*i*) an IPO of new Class A stock, (*ii*) an exchange of its old Class A stock held by its member banks for shares of its new Class B and Class M stocks, and

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(*iii*) a partial redemption of the new Class B stock held by the member banks. Citigroup, as one of MasterCard s member banks, received 4,946,587 shares of Class B stock, 48 shares of Class M stock, and $123 million in cash as a result of these transactions. An after-tax gain of $78 million ($123 million pretax) was recognized in the 2006 second quarter related to the cash redemption of shares.

Consolidation of Brazil s CrediCard

In April 2006, Citigroup and Banco Itau dissolved their joint venture in CrediCard, a Brazilian consumer credit card business. In accordance with the dissolution agreement, Banco Itau received half of CrediCard s assets and customer accounts in exchange for its 50% ownership, leaving Citigroup as the sole owner of CrediCard.

Adoption of the Accounting for Share-Based Payments

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), which replaced the existing SFAS 123 and superseded Accounting Principles Board (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 or deferred 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. This charge consisted of $398 million after-tax ($648 million pretax) for the immediate expensing of awards granted to retirement-eligible employees in January 2006.

The following table summarizes the SFAS 123(R) impact, by segment, on the 2006 first quarter pretax compensation expense for stock awards granted to retirement-eligible employees in January 2006:

In millions of dollars	**2006 First Quarter**
Global Consumer	$ 121
Corporate and Investment Banking	354
Global Wealth Management	145
Alternative Investments	7
Corporate/Other	21
Total	$ 648

The following table summarizes the quarterly SFAS 123(R) impact on 2006 pretax compensation expense (and after-tax impact) for the quarterly accrual of the estimated stock awards that were granted in January 2007:

In millions of dollars	**Pretax**	**After-tax**
First quarter 2006	$ 198	$ 122
Second quarter 2006	168	104
Third quarter 2006	195	127
Fourth quarter 2006	263	173
Total 2006	$ 824	$ 526

The Company changed the plan s retirement eligibility for the January 2007 management awards, which affected the amount of the accrual in the 2006 second, third and fourth quarters.

Additional information can be found in Notes 1 and 8 to the Consolidated Financial Statements on pages 129 and 142, respectively.

Credit Reserves

During the year ended December 31, 2006, the Company recorded a net release/utilization of its credit reserves of $356 million, consisting of a net release/utilization of $626 million in Global Consumer and a net build of $270 million in CIB. The net release/utilization in Global Consumer was primarily due to lower bankruptcy filings, a stable credit environment in the U.S. Consumer portfolio and International portfolio and a release of approximately $200 million related to Hurricane Katrina. Partially offsetting the net releases were builds in *Mexico*, primarily driven by target market expansion in Cards, Taiwan, due to the impact of industry-wide credit condition in Cards, and *Japan*, related to the changes in the consumer lending environment (see discussion on page 28).

The net build of $270 million in CIB was primarily comprised of $261 million in *Capital Markets and Banking,* which included a $232 million reserve increase for unfunded lending commitments during the year. The net build reflected growth in loans and unfunded commitments and a change in credit rating of certain counterparties in certain industries.

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EVE NTS IN 2005

Change in EMEA Consumer Write-off Policy

Prior to the third quarter of 2005, certain Western European consumer portfolios were granted an exception to Citigroup s global write-off policy. The exception extended the write-off period from the standard 120-day policy for personal installment loans, and was granted because of the higher recovery rates experienced in these portfolios. During 2005, Citigroup observed lower actual recovery rates, stemming primarily from a change in bankruptcy and wage garnishment laws in Germany and, as a result, rescinded the exception to the global standard. The net charge was $332 million ($490 million pretax) resulting from the recording of $1.153 billion of write-offs and a corresponding utilization of $663 million of reserves in the 2005 third quarter.

These write-offs did not relate to a change in the portfolio credit quality but rather to a change in environmental factors due to law changes and consumer behavior that led Citigroup to re-evaluate its estimates of future long-term recoveries and their appropriateness to the write-off exception.

Hurricane Katrina

In the 2005 third quarter, the Company recorded a $222 million after-tax charge ($357 million pretax) for the estimated probable losses incurred from Hurricane Katrina. This charge consisted primarily of additional credit costs in *U.S. Cards*, *U.S. Commercial Business, U.S. Consumer Lending* and *U.S. Retail Distribution* businesses, based on total credit exposures of approximately $3.6 billion in the Federal Emergency Management Agency (FEMA) Individual Assistance designated areas. This charge did not include an after-tax estimate of $75 million ($109 million pretax) for fees and interest due from related customers that were waived during 2005. Since the 2005 third quarter, approximately $241 million of these reserves were utilized or released.

United States Bankruptcy Legislation

On October 17, 2005, the Bankruptcy Reform Act (or the Act) became effective. The Act imposed a means test to determine if people who file for Chapter 7 bankruptcy earn more than the median income in their state and could repay at least $6,000 of unsecured debt over five years. Bankruptcy filers who meet this test are required to enter into a repayment plan under Chapter 13, instead of canceling their debt entirely under Chapter 7. As a result of these more stringent guidelines, bankruptcy claims accelerated prior to the effective date. The incremental bankruptcy losses over the Company s estimated baseline in 2005 that was attributable to the Act in *U.S. Cards* business was approximately $970 million on a managed basis ($550 million in the Company s on-balance portfolio and $420 million in the securitized portfolio). In addition, the *U.S. Retail Distribution* business incurred incremental bankruptcy losses of approximately $90 million during 2005.

Bank and Credit Card Customer Rewards Costs

During the 2005 fourth quarter, the Company conformed its global policy approach for the accounting of rewards costs for bank and credit card customers. Conforming the global policy resulted in the write-off of $354 million after-tax ($565 million pretax) of unamortized deferred rewards costs. Previously, accounting practices for these costs varied across the Company. The revised policy requires all businesses to recognize rewards costs as incurred.

Sale of Nikko Cordial Stake

On December 20, 2005, Citigroup reduced its stake in Nikko Cordial from approximately 11.2% to 4.9%. The sale resulted in an after-tax gain of $248 million ($386 million pretax). In connection with this sale, Nikko Cordial and Citigroup each contributed an additional approximately $175 million to their joint venture, Nikko Citigroup Limited.

Sale of the Merchant Acquiring Businesses

In December 2005, Citigroup sold its European merchant acquiring business to EuroConex for $127 million. This transaction resulted in a $62 million after-tax gain ($98 million pretax).

In September 2005, Citigroup sold its U.S. merchant acquiring business, Citigroup Payment Service Inc., to First Data Corporation for $70 million, resulting in a $41 million after-tax gain ($61 million pretax).

Homeland Investment Act Benefit

The Company s 2005 full-year results from continuing operations include a $198 million tax benefit from the Homeland Investment Act provision of the American Jobs Creation Act of 2004, net of the impact of remitting income earned in 2005 and prior years that would otherwise have been indefinitely invested overseas. The amount of dividends that were repatriated relating to this benefit is approximately $3.2 billion.

Copelco Litigation Settlement

In 2000, Citigroup purchased Copelco Capital, Inc., a leasing business, from Itochu International Inc. and III Holding Inc. (formerly known as Copelco Financial Services Group, Inc., collectively referred to herein as Itochu) for $666 million. During 2001, Citigroup filed a lawsuit asserting breach of representations and warranties, among other causes of action, under the Stock Purchase Agreement entered into between Citigroup and Itochu in March of 2000. During the 2005 third quarter, Citigroup and Itochu signed a settlement agreement that mutually released all claims, and under which Itochu paid Citigroup $185 million which was recorded in pretax income.

Mexico Value Added Tax (VAT) Refund

During the 2005 third quarter, Citigroup Mexico received a $182 million refund of VAT taxes from the Mexican Government related to the 2003 and 2004 tax years as a result of a Mexico Supreme Court ruling. The refund was recorded as a reduction of $140 million (pretax) in other operating expense and $42 million (pretax) in other revenue.

Settlement of Enron Class Action Litigation

As described in the Legal Proceedings discussion on page 169, during the 2005 second quarter, Citigroup settled class action litigation brought on behalf of purchasers of Enron securities.

Settlement of the Securities and Exchange Commission s Transfer Agent Investigation

On May 31, 2005, the Company completed the settlement with the Securities and Exchange Commission (SEC), disclosed by Citigroup in January 2005, resolving an investigation by the SEC into matters relating to arrangements between certain *Smith Barney* mutual funds (the Funds), an affiliated transfer agent, and an unaffiliated sub-transfer agent.

Under the terms of the settlement, Citigroup paid a total of $208 million, consisting of $128 million in disgorgement and $80 million in penalties. These funds, less $24 million already credited to the Funds, have been paid to the U.S. Treasury and will be distributed pursuant to a distribution plan prepared by Citigroup and to be approved by the SEC. The terms of the settlement had been fully reserved by Citigroup in prior periods.

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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 also consolidated its capital markets funding activities into two legal entities: (i) Citigroup Inc., which issues long-term debt, trust preferred securities, and preferred and common stock, and (ii) Citigroup Funding Inc. (CFI), a first-tier subsidiary of Citigroup, which issues commercial paper, medium-term notes and structured equity-linked and credit-linked notes, all of which is guaranteed by Citigroup.

As part of the funding consolidation, Citigroup also guaranteed and continues to guarantee various debt obligations of Citigroup Global Markets Holdings Inc. (CGMHI) as well as all of the outstanding debt obligations under CGMHI s publicly-issued securities. 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.

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.

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.

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.

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 ($161 million pretax).

Shutdown of the Private Bank in Japan and Related Charge and Other Activities in Japan

On September 29, 2005, the Company officially closed its *Private Bank* business in *Japan*.

In September 2004, the Financial Services Agency of Japan (FSA) issued an administrative order against Citibank Japan. This order included a requirement that Citigroup exit all private banking operations in Japan by September 30, 2005. In connection with this required exit, the Company established a $400 million ($244 million after-tax) reserve (the Exit Plan Charge) during the 2004 fourth quarter.

The Company s *Private Bank* operations in *Japan* had total revenues, net of interest expense, of $200 million and net income of $39 million (excluding the Exit Plan Charge) during the year ended December 31, 2004, and $264 million and $83 million, respectively, for 2003.

On October 25, 2004, Citigroup announced its decision to wind down Cititrust and Banking Corporation (Cititrust), a licensed trust bank in Japan, after concluding that there were internal control, compliance and governance issues in that subsidiary. On April 22, 2005, the FSA issued an administrative order requiring Cititrust to suspend from engaging in all new trust business in 2005. Cititrust closed all customer accounts in 2005.

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Settlement of WorldCom Class Action Litigation and Charge for Regulatory and Legal Matters

During the 2004 second quarter, Citigroup recorded a charge of $4.95 billion after-tax ($7.915 billion pretax) related to a settlement of class action litigation brought on behalf of purchasers of WorldCom securities and an increase in litigation reserves.

Sale of Samba Financial Group

On June 15, 2004, the Company sold, for cash, its 20% equity investment in The Samba Financial Group (Samba, formerly known as the Saudi American Bank), to the Public Investment Fund, a Saudi public sector entity. Citigroup recognized an after-tax gain of $756 million ($1.168 billion pretax) on the sale during the 2004 second quarter. The gain was shared equally between Global Consumer and CIB.

Acquisition of KorAm Bank

On April 30, 2004, Citigroup completed its tender offer to purchase all of the outstanding shares of KorAm Bank (KorAm) at a price of KRW 15,500 per share in cash. In total, Citigroup has acquired 99.9% of KorAm s outstanding shares for a total of KRW 3.14 trillion ($2.7 billion). The results of KorAm are included in the Consolidated Financial Statements from May 2004 forward.

Divestiture of Electronic Financial Services Inc.

During January 2004, the Company completed the sale for cash of Electronic Financial Services Inc. (EFS) for $390 million. EFS is a provider of government-issued benefit payments and prepaid stored-value cards used by state and federal government agencies, as well as stored-value services for private institutions. The sale of EFS resulted in an after-tax gain of $180 million ($255 million pretax) in the 2004 first quarter.

Acquisition of Washington Mutual Finance Corporation

On January 9, 2004, Citigroup completed the acquisition of Washington Mutual Finance Corporation (WMF) for $1.25 billion in cash. WMF was the consumer finance subsidiary of Washington Mutual, Inc. WMF provides direct consumer installment loans and real-estate-secured loans, as well as sales finance and the sale of insurance. The acquisition included 427 WMF offices located in 26 states, primarily in the Southeastern and Southwestern United States, and total assets of $3.8 billion. Citigroup has guaranteed all outstanding unsecured indebtedness of WMF in connection with this acquisition. The results of WMF are included in the Consolidated Financial Statements from January 2004 forward.

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SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Notes to the Consolidated Financial Statements on page 109 contain a summary of the Company s significant accounting policies, including a discussion of recently issued accounting pronouncements. These policies, as well as estimates made by management, are integral to the presentation of the Company s financial condition. It is important to note that they require management to make difficult, complex or subjective judgments and estimates, at times, regarding matters that are inherently uncertain. Management has discussed each of these significant accounting policies, the related estimates and its judgments with the Audit and Risk Management Committee of the Board of Directors. Additional information about these policies can be found in Note 1 to the Consolidated Financial Statements on page 109.

Certain statements below are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. See Forward-Looking Statements on page 97.

Valuations of Financial Instruments

The Company holds fixed income and equity securities, derivatives, investments in private equity and other financial instruments. The Company holds its investments and trading assets and liabilities on the balance sheet to meet customer needs, to manage liquidity needs and interest rate risks, and for proprietary trading and private equity investing.

Substantially all of these assets and liabilities are reflected at fair value on the Company s balance sheet. Fair values are considered verified if they meet one of the following criteria:

- Externally substantiated via comparison to quoted market prices or third-party broker quotations;
- By using models that are validated by qualified personnel independent of the area that created the model and inputs that are verified by comparison to third-party broker quotations or other third-party sources where available; or
- By using alternative procedures such as comparison to comparable securities and/or subsequent liquidation prices.

At December 31, 2006 and 2005, respectively, approximately 94.9% and 94.5% of the available-for-sale and trading portfolios gross assets and liabilities (prior to netting positions pursuant to FIN 39 and excluding Global Consumer s credit card and mortgage securitization interest-only strips) are considered verified and approximately 5.1% and 5.5% are considered unverified. Of the unverified assets, at December 31, 2006 and 2005, respectively, approximately 50.3% and 60.6% consist of cash products, where independent quotes were not available and/or alternative procedures were not feasible, and 49.7% and 39.4% consist of derivative products where either the model was not validated and/or the inputs could not be substantiated due to the lack of appropriate market quotations. Such values are actively reviewed by management.

Changes in the valuation of the trading assets and liabilities flow through the income statement. Changes in the valuation of available-for-sale assets generally flow through other comprehensive income, which is a component of equity on the balance sheet. A full description of the Company s related policies and procedures can be found in Notes 1, 14 and 15 to the Consolidated Financial Statements on pages 129, 153, and 154, respectively.

Allowance for Credit Losses

Management provides reserves for an estimate of probable losses inherent in the funded loan portfolio on the balance sheet in the form of an allowance for credit losses. In addition, management has established and maintained reserves for the potential losses related to the Company s off-balance sheet exposures of unfunded lending commitments, including standby letters of credit and guarantees. These reserves are established in accordance with Citigroup s Loan Loss Reserve Policies, as approved by the Audit Committee of the Company s Board of Directors. Under these policies, the Company s Senior Risk Officer and Chief Financial Officer review the adequacy of the credit loss reserves each quarter with representatives from Risk and Finance staffs for each applicable business area.

During these reviews, these above-mentioned representatives covering the business area having classifiably-managed portfolios (that is, portfolios where internal credit-risk ratings are assigned, which are primarily Corporate and Investment Banking, Global Consumer s commercial lending businesses, and Global Wealth Management) present recommended reserve balances for their funded and unfunded lending portfolios along with supporting quantitative and qualitative data. The quantitative data include:

- *Estimated probable losses for non-performing, non-homogeneous exposures within a business line s classifiably-managed portfolio*. Consideration is given to all available evidence when determining this estimate including, as appropriate: (i) the present value of expected future cash flows discounted at the loan s contractual effective rate; (ii) the borrower s overall financial condition, resources and payment record; and (iii) the prospects for support from financially responsible guarantors or the realizable value of any collateral.
- *Statistically calculated losses inherent in the classifiably-managed portfolio for performing and de minimis non-performing exposures*. The calculation is based upon: (i) Citigroup s internal system of credit-risk ratings, which are analogous to the risk ratings of the major rating agencies; (ii) the Corporate portfolio database; and (iii) historical default and loss data, including rating agency information regarding default rates from 1983 to 2005, and internal data, dating to the early 1970s, on severity of losses in the event of default.
- *Additional adjustments include*: (i) statistically calculated estimates to cover the historical fluctuation of the default rates over the credit cycle, the historical variability of loss severity among defaulted loans, and the degree to which there are large obligor concentrations in the global portfolio; and (ii) adjustments made for specifically known items, such as current environmental factors and credit trends.

In addition, representatives from both the Risk Management and Finance Staffs that cover business areas which have delinquency-managed portfolios containing smaller homogeneous loans (primarily Global Consumer s non-commercial lending areas) present their recommended reserve balances based upon historical delinquency flow rates, charge-off statistics and loss severity. This methodology is applied separately for each individual product within each different geographic region in which these portfolios exist. Adjustments are also made for specifically known items, such as changing regulations, current environmental factors and credit trends.

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This evaluation process is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates, the size and diversity of individual large credits, and the ability of borrowers with foreign currency obligations to obtain the foreign currency necessary for orderly debt servicing, among other things, are all taken into account during this review. Changes in these estimates could have a direct impact on the credit costs in any quarter and could result in a change in the allowance. Changes to the reserve flow through the income statement on the lines provision for loan losses and provision for unfunded lending commitments. For a further description of the loan loss reserve and related accounts, see Notes 1 and 17 to the Consolidated Financial Statements on pages 129 and 157, respectively.

Securitizations

The Company securitizes a number of different asset classes as a means of strengthening its balance sheet and to access competitive financing rates in the market. Under these securitization programs, assets are sold into a trust and used as collateral by the trust to access financing. The cash flows from assets in the trust service the corresponding trust securities. If the structure of the trust meets stringent accounting guidelines, trust assets are treated as sold and no longer reflected as assets of the Company. If these guidelines are not met, the assets continue to be recorded as the Company s assets, with the financing activity recorded as liabilities on Citigroup s balance sheet. The Financial Accounting Standards Board (FASB) is currently working on amendments to the accounting standards governing asset transfers and securitization accounting. Upon completion of these standards the Company will need to re-evaluate its accounting and disclosures. Due to the FASB s ongoing deliberations, the Company is unable to accurately determine the effect of future amendments at this time.

The Company assists its clients in securitizing their financial assets and also packages and securitizes financial assets purchased in the financial markets. The Company may also provide administrative, asset management, underwriting, liquidity facilities and/or other services to the resulting securitization entities, and may continue to service these financial assets.

A complete description of the Company s accounting for securitized assets can be found in Off-Balance Sheet Arrangements on page 92 and in Notes 1 and 22 to the Consolidated Financial Statements on pages 109 and 143, respectively.

Income Taxes

The Company is subject to the Income tax laws of the U.S, its states and municipalities and those of the foreign jurisdictions in which the Company operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. The Company must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions, both domestic and foreign.

Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

The Company reviews these balances quarterly and as new information becomes available, the balances are adjusted, as appropriate.

The Company is in the process of implementing FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions, and which will be effective as of January 1, 2007. See Note 1 to the Consolidated Financial Statements on page 109.

See Note 10 to the Consolidated Financial Statements on page 130 for a further description of the Company s provision and related income tax assets and liabilities.

Legal Reserves

The Company is subject to legal, regulatory and other proceedings and claims arising from conduct in the ordinary course of business. These proceedings include actions brought against the Company in its various roles, including acting as a lender, underwriter, broker-dealer or investment advisor. Reserves are established for legal and regulatory claims based upon the probability and estimability of losses and to fairly present, in conjunction with the disclosures of these matters in the Company s financial statements and SEC filings, management s view of the Company s exposure. The Company reviews outstanding claims with internal as well as external counsel to assess probability and estimates of loss. The risk of loss is reassessed as new information becomes available and reserves are adjusted, as appropriate. The actual cost of resolving a claim may be substantially higher, or lower, than the amount of the recorded reserve. See Note 27 to the Consolidated Financial Statements on page 155 and the discussion of Legal Proceedings beginning on page 169.

Accounting Changes and Future Application of Accounting Standards

See Note 1 to the Consolidated Financial Statements on page 109 for a discussion of Accounting Changes and the Future Application of Accounting Standards.

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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	**2006**	2005 (1)	2004 (1)	**% Change 2006 vs. 2005**	% Change 2005 vs. 2004
Global Consumer					
U.S. Cards	**$ 3,890**	$ 2,754	$ 3,562	**41%**	(23)%
U.S. Retail Distribution	**2,027**	1,752	2,019	**16**	(13)
U.S. Consumer Lending	**1,912**	1,938	1,664	**(1)**	16
U.S. Commercial Business	**561**	729	765	**(23)**	(5)
Total U.S. Consumer (2)	**$ 8,390**	$ 7,173	$ 8,010	**17%**	(10)%
International Cards	**$ 1,137**	$ 1,373	$ 1,137	**(17)%**	21%
International Consumer Finance	**40**	642	586	**(94)**	10
International Retail Banking	**2,840**	2,083	2,157	**36**	(3)
Total International Consumer	**$ 4,017**	$ 4,098	$ 3,880	**(2)%**	6%
Other	**$ (351)**	$ (374)	$ 97	**6%**	NM
Total Global Consumer	**$ 12,056**	$ 10,897	$ 11,987	**11%**	(9)%
Corporate and Investment Banking					
Capital Markets and Banking	**$ 5,763**	$ 5,327	$ 5,395	**8%**	(1)%
Transaction Services	**1,426**	1,135	1,045	**26**	9
Other	**(62)**	433	(4,398)	**NM**	NM
Total Corporate and Investment Banking	**$ 7,127**	$ 6,895	$ 2,042	**3%**	NM
Global Wealth Management					
Smith Barney	**$ 1,005**	$ 871	$ 891	**15%**	(2)%
Private Bank	**439**	373	318	**18**	17
Total Global Wealth Management	**$ 1,444**	$ 1,244	$ 1,209	**16%**	3%
Alternative Investments	**$ 1,276**	$ 1,437	$ 768	**(11)%**	87%
Corporate/Other	**(654)**	(667)	48	**2**	NM
Income from Continuing Operations	**$ 21,249**	$ 19,806	$ 16,054	**7%**	23%
Income from Discontinued Operations	**289**	4,832	992	**(94)**	NM
Cumulative Effect of Accounting Change		(49)			
Total Net Income	**$ 21,538**	$ 24,589	$ 17,046	**(12)%**	44%

(1) Reclassified to conform to the current period s presentation. See Note 4 to the Consolidated Financial Statements on page 120 for assets by segment and the segment balance sheet on page 80.
(2) U.S. disclosure includes Canada and Puerto Rico.
NM Not meaningful.

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CITIGROUP NET INCOME REGIONAL VIEW

In millions of dollars	2006	2005 (1)	2004 (1)	% Change 2006 vs. 2005	% Change 2005 vs. 2004
U.S. (2)					
Global Consumer	**$ 8,039**	$ 6,799	$ 7,729	**18%**	(12)%
Corporate and Investment Banking	**2,209**	2,950	(2,190)	**(25)**	NM
Global Wealth Management	**1,210**	1,141	1,179	**6**	(3)
Total *U.S.*	**$ 11,458**	$ 10,890	$ 6,718	**5%**	62%
Mexico					
Global Consumer	**$ 1,605**	$ 1,432	$ 978	**12%**	46%
Corporate and Investment Banking	**346**	450	659	**(23)**	(32)
Global Wealth Management	**36**	44	52	**(18)**	(15)
Total *Mexico*	**$ 1,987**	$ 1,926	$ 1,689	**3%**	14%
Latin America					
Global Consumer	**$ 202**	$ 236	$ 296	**(14)%**	(20)%
Corporate and Investment Banking	**638**	619	813	**3**	(24)
Global Wealth Management	**12**	17	43	**(29)**	(60)
Total *Latin America*	**$ 852**	$ 872	$ 1,152	**(2)%**	(24)%
EMEA					
Global Consumer	**$ 725**	$ 374	$ 1,180	**94%**	(68)%
Corporate and Investment Banking	**2,011**	1,130	1,136	**78**	(1)
Global Wealth Management	**23**	8	15	**NM**	(47)
Total *EMEA*	**$ 2,759**	$ 1,512	$ 2,331	**82%**	(35)%
Japan					
Global Consumer	**$ 119**	$ 706	$ 616	**(83)%**	15%
Corporate and Investment Banking	**272**	498	334	**(45)**	49
Global Wealth Management		(82)	(205)	**100**	60
Total *Japan*	**$ 391**	$ 1,122	$ 745	**(65)%**	51%
Asia					
Global Consumer	**$ 1,366**	$ 1,350	$ 1,188	**1%**	14%
Corporate and Investment Banking	**1,651**	1,248	1,290	**32**	(3)
Global Wealth Management	**163**	116	125	**41**	(7)
Total *Asia*	**$ 3,180**	$ 2,714	$ 2,603	**17%**	4%
Alternative Investments	**$ 1,276**	$ 1,437	$ 768	**(11)%**	87%
Corporate/Other	**(654)**	(667)	48	**2**	NM
Income from Continuing Operations	**$ 21,249**	$ 19,806	$ 16,054	**7%**	23%
Income from Discontinued Operations	**289**	4,832	992	**(94)**	NM
Cumulative Effect of Accounting Change		(49)			
Total Net Income	**$ 21,538**	$ 24,589	$ 17,046	**(12)%**	44%
Total International	**$ 9,169**	$ 8,146	$ 8,520	**13%**	(4)%

(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 (except for the Samba gain which is allocated to *EMEA*).
NM Not meaningful.

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SELECTED REVENUE AND EXPENSE ITEMS

Revenues

Net interest revenue in 2006 was $39.5 billion, up $248 million, or 1%, from net interest revenue of $39.2 billion in 2005. Increases in business volumes during 2006 were offset by spread compression, as the Company s cost of funding increased more significantly than the rates on interest-earning assets, and due to a $666 million charge against net interest revenue related to changes in Japan consumer lending laws in *International Consumer Finance*. Rates on the Company s interest-earning assets were affected by competitive pricing, as well as business mix shifts. Net interest revenue in 2005 decreased $2.4 billion, or 6%, from 2004 as the impact of spread compression and competitive pricing exceeded increases in business volumes.

Total commissions and fees and administration and other fiduciary fees revenue of $26.5 billion was up $3.2 billion, or 14%, in 2006. Strong investment banking results, higher business volumes in transaction services, the integration of Legg Mason in *Smith Barney*, and the absence of a $565 million write-off of deferred rewards costs recorded in 2005 drove the increase. The 2005 total commissions and fees and administration and other fiduciary fees revenue of $23.3 billion was up $1.8 billion, or 8%, from 2004. The 2005 increase was attributable to the mark-to-market of *Consumer Lending* mortgage servicing assets, higher transactional volumes, and strong results in bank card fees and investment banking, offset by the write-off of deferred rewards costs.

Insurance premiums of $3.2 billion in 2006 were up $70 million, or 2%, from 2005 and up $406 million, or 15%, in 2005 compared to 2004. The consecutive year-over-year increases were driven by higher business volumes.

Principal transactions revenues of $7.7 billion in 2006 increased $1.3 billion, or 20%, from 2005, primarily in equity markets. Principal transactions revenue in 2005 increased $2.7 billion, or 73%, from 2004, primarily driven by the fixed income and equity markets.

Realized gains from sales of investments of $1.8 billion in 2006 were down $171 million from 2005, due to the absence of 2005 gains of $484 million on the sale of portions of St. Paul Travelers shares in Alternative Investments and of $386 million on the sale of Nikko Cordial stock in CIB, offset by 2006 gains of $252 million on the sale of $23.4 billion of mortgage-backed securities in *Consumer Lending*, and $225 million on the sale of the remaining St. Paul Travelers shares in Alternative Investments. The increase from 2004 of $1.1 billion was primarily attributable to the gains on the sale of Nikko Cordial stock and sales of St. Paul Travelers shares over the course of the year.

Other revenue of $11.0 billion in 2006 increased $1.4 billion, or 14%, from 2005, primarily driven by a $234 million gain on the sale of Avantel in *International Retail Banking* and higher replenishment gains from securitization activities as well as higher net excess spread revenues from previously securitized receivables in *U.S. Cards,* offset by a decrease in Alternative Investments due to lower investment performance. Other revenue increased $365 million, or 4%, from $9.2 billion in 2004 to $9.6 billion in 2005. This was due to higher securitization activity in *U.S. Cards* and positive investment performance in Alternative Investments offset by the absence of the $1.2 billion gain on the sale of Samba recorded in 2004.

Operating Expenses

Operating expenses increased $6.9 billion, or 15%, to $52.0 billion in 2006. The increase was primarily in compensation and benefits due to higher headcount, increased incentive compensation in CIB, and SFAS 123(R) costs, as well as investment spending. Operating expenses of $45.2 billion in 2005 declined $4.6 billion, or 9%, from 2004. The decrease was due to the absence of a reserve charge of $7.9 billion for the WorldCom and Litigation Reserve Charge and $400 million related to Private Bank Japan Exit Plan Charge recorded in 2004, offset by a $600 million release from the WorldCom and Litigation Reserve Charge and increased expenses related to higher incentive compensation in CIB and higher pension and insurance expenses.

Global Consumer reported an 11% increase from 2005 to 2006. *U.S. Consumer* increased 5% on increased business volumes and investments in new branches. *International Consumer* increased 18% primarily due to branch expansions and the integration of CrediCard. *International Consumer* primarily drove the increase of 5% from 2004 to 2005 in Global Consumer as a result of branch expansion and repositioning charges.

CIB reported a 21% rise in expenses over the prior year as a result of higher incentive compensation (due to revenue increase of 14%), SFAS 123(R) costs and the absence of the reserve release from the WorldCom and Litigation Reserve Charge in 2005.

Global Wealth Management expenses increased 20% driven by costs associated with the integration of the financial consultants from Legg Mason and SFAS 123(R) costs. The change in expenses from 2004 to 2005 was flat.

Alternative Investments increased 21% from the prior year, which was up 37% from 2004, due to compensation expenses.

Provisions for Credit Losses and for Benefits and Claims

The provision for credit losses for 2006 was $7.0 billion, down $1.2 billion, or 15%, from 2005, which in turn, was up $1.9 billion from 2004. Policyholder benefits and claims were $967 million, $867 million, and $884 million for 2006, 2005, and 2004, respectively.

Global Consumer provisions for loan losses and for policyholder benefits and claims of $7.6 billion in 2006 were down $1.5 billion, or 16% from 2005.

The declines in consumer were mainly due to lower bankruptcy filings, a stable credit environment that drove lower net credit loss ratios, and the absence of a $490 million charge to standardize the *EMEA* consumer loan write-off policies with the global write-off policy in the prior year.

Offsetting these declines were increases: in the *Mexico* cards portfolio; in *Asia*, primarily related to industry-wide credit conditions in the Taiwan cards market; and in *Japan*, primarily related to legislative and other actions affecting the consumer finance industry in that country.

The increase from 2004 of $966 million, or 12%, to $9.1 billion in 2005 was primarily due to increases in *International Retail Banking*, *U.S. Retail Distribution, International Cards*, and *U.S. Commercial Business*, partially offset by decreases in *U.S. Cards, International Consumer Finance* and *U.S. Consumer Lending*. Net credit losses were $7.262 billion, and the related loss ratio was 1.52% in 2006, as compared to $8.683 billion and 2.01% in 2005 and $8.471 billion and 2.13% in 2004.

The CIB provision for credit losses in 2006 increased $401 million from 2005 to $359 million. The 2005 provision was up $933 million from 2004. The increase in 2006 primarily resulted from the absence of gross credit recoveries in the prior year. Corporate cash-basis loans at December 31, 2006, 2005 and 2004 were $535 million, $1.004 billion and $1.906 billion, respectively.

Income Taxes

The Company s effective tax rate on continuing operations of 27.3% in 2006 declined from 30.8% in 2005. The 2006 tax provision on continuing operations included a $598 million benefit from the resolution of the Federal Tax Audit and a $237 million benefit from the resolution of the New York Tax Audits. The 2005 tax provision on continuing operations included a $198 million benefit from the Homeland Investment Act provision of the American Jobs Creation Act of 2004 net of the impact of remitting income earned in 2005 and prior years that would otherwise have been indefinitely invested overseas, and a $65 million release due to the resolution of an audit. The 2006 effective tax rate also declined from 2005 because of the impact of increased indefinitely invested international earnings. The Company s effective tax rate on continuing operations was 28.4% in 2004. See additional discussion on page 15 and in Note 10 to the Consolidated Financial Statements on page 130.

The net income line in the following business segment and operating unit discussions excludes the cumulative effect of accounting change and income from discontinued operations. The cumulative effect of accounting change and income from discontinued operations are disclosed within the Corporate/Other business segment. See Notes 1 and 3 to the Consolidated Financial Statements on pages 129 and 138, respectively. Certain amounts in prior years have been reclassified to conform to the current year s presentation.

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GLOBAL CONSUMER

Citigroup s Global Consumer Group provides a wide array of banking, lending, insurance and investment services through a network of 8,110 branches, approximately 18,800 ATMs, and 809 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	**2006**	2005	2004	**% Change 2006 vs. 2005**	% Change 2005 vs. 2004
Net interest revenue	**$ 29,301**	$ 29,526	$ 30,766	**(1)%**	(4)%
Non-interest revenue	**20,998**	18,719	17,121	**12**	9
Revenues, net of interest expense	**$ 50,299**	$ 48,245	$ 47,887	**4%**	1%
Operating expenses	**25,933**	23,318	22,151	**11**	5
Provisions for loan losses and for benefits and claims	**7,579**	9,063	8,097	**(16)**	12
Income before taxes and minority interest	**$ 16,787**	$ 15,864	$ 17,639	**6%**	(10)%
Income taxes	**4,666**	4,904	5,592	**(5)**	(12)
Minority interest, net of taxes	**65**	63	60	**3**	5
Net income	**$ 12,056**	$ 10,897	$ 11,987	**11%**	(9)%
Average assets *(in billions of dollars)*	**$ 610**	$ 533	$ 487	**14%**	9%
Return on assets	**1.98%**	2.04%	2.46%		
Average risk capital [(1)]	**$ 28,168**	$ 26,857	$ 22,816	**5%**	18%
Return on risk capital [(1)]	**43%**	41%	53%		
Return on invested capital [(1)]	**20%**	18%	22%		
Key indicators *(in billions of dollars)*					
Average managed loans	**$ 531.6**	$ 482.2	$ 439.9	**10%**	10%
Average deposits	**$ 252.1**	$ 231.7	$ 213.6	**9%**	8%
EOP AUMs	**$ 219.6**	$ 188.0	$ 168.2	**17%**	12%
Total branches	**8,110**	7,237	6,690	**12%**	8%

(1) See footnote 6 to the table on page 3.

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U.S. Consumer

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

In millions of dollars	**2006**	2005	2004	**% Change 2006 vs. 2005**	% Change 2005 vs. 2004
Net interest revenue	**$ 16,646**	$ 17,510	$ 19,706	**(5)%**	(11)%
Non-interest revenue	**13,948**	12,597	11,201	**11**	12
Revenues, net of interest expense	**$ 30,594**	$ 30,107	$ 30,907	**2%**	(3)%
Operating expenses	**14,149**	13,449	13,214	**5**	2
Provisions for loan losses and for benefits and claims	**3,800**	5,600	5,444	**(32)**	3
Income before taxes and minority interest	**$ 12,645**	$ 11,058	$ 12,249	**14%**	(10)%
Income taxes	**4,197**	3,823	4,181	**10**	(9)
Minority interest, net of taxes	**58**	62	58		