

CITIGROUP INC
Form 10-K
February 22, 2008
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THE COMPANY

Citigroup Inc. (Citigroup and, together with its subsidiaries, the Company) is a global diversified 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, 2007, the Company had approximately 147,000 full-time and 13,000 part-time employees in the United States and approximately 227,000 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 122 and 125, 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 "All 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.

Table of Contents**FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA***Citigroup Inc. and Subsidiaries*

<i>In millions of dollars, except per share amounts</i>	2007	2006	2005	2004	2003
Revenues, net of interest expense	\$ 81,698	\$ 89,615	\$ 83,642	\$ 79,635	\$ 71,594
Operating expenses	61,488	52,021	45,163	49,782	37,500
Provisions for credit losses and for benefits and claims	18,509	7,955	9,046	7,117	8,924
Income from continuing operations before taxes, minority interest, and cumulative effect of accounting change	\$ 1,701	\$ 29,639	\$ 29,433	\$ 22,736	\$ 25,170
Provision (benefits) for income taxes	(2,201)	8,101	9,078	6,464	7,838
Minority interest, net of taxes	285	289	549	218	274
Income from continuing operations before cumulative effect of accounting change	\$ 3,617	\$ 21,249	\$ 19,806	\$ 16,054	\$ 17,058
Income from discontinued operations, net of taxes ⁽¹⁾		289	4,832	992	795
Cumulative effect of accounting change, net of taxes ⁽²⁾			(49)		
Net income	\$ 3,617	\$ 21,538	\$ 24,589	\$ 17,046	\$ 17,853
Earnings per share					
Basic:					
Income from continuing operations	\$ 0.73	\$ 4.33	\$ 3.90	\$ 3.13	\$ 3.34
Net income	0.73	4.39	4.84	3.32	3.49
Diluted:					
Income from continuing operations	0.72	4.25	3.82	3.07	3.27
Net income	0.72	4.31	4.75	3.26	3.42
Dividends declared per common share	2.16	1.96	1.76	1.60	1.10
At December 31					
Total assets	\$ 2,187,631	\$ 1,884,318	\$ 1,494,037	\$ 1,484,101	\$ 1,264,032
Total deposits	826,230	712,041	591,828	561,513	473,614
Long-term debt	427,112	288,494	217,499	207,910	162,702
Mandatorily redeemable securities of subsidiary trusts ⁽³⁾	23,594	9,579	6,264	6,209	6,057
Common stockholders' equity	113,598	118,783	111,412	108,166	96,889
Total stockholders' equity	113,598	119,783	112,537	109,291	98,014
Ratios:					
Return on common stockholders' equity ⁽⁴⁾	2.9%	18.8%	22.3%	17.0%	19.8%
Return on total stockholders' equity ⁽⁴⁾	3.0	18.6	22.2	16.8	19.6
Tier 1 Capital	7.12%	8.59	8.79	8.74	8.91
Total Capital	10.70	11.65	12.02	11.85	12.04
Leverage ⁽⁵⁾	4.03	5.16	5.35	5.20	5.56
Common stockholders' equity to assets	5.19%	6.30%	7.46%	7.29%	7.67%
Total stockholders' equity to assets	5.19	6.36	7.53	7.36	7.75
Dividend payout ratio ⁽⁶⁾	300.0	45.5	37.1	49.1	32.2
Book value per common share	\$ 22.74	\$ 24.18	\$ 22.37	\$ 20.82	\$ 18.79
Ratio of earnings to fixed charges and preferred stock dividends	1.02x	1.51x	1.79x	2.00x	2.41x

(1) Discontinued operations for 2003 to 2006 include the operations and associated gain on sale of substantially all of its Asset Management business. The majority of the sale closed on December 1, 2005. Discontinued operations from 2003 to 2006 also include the operations and associated gain on 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 sale closed on July 1, 2005. See Note 3 to the Consolidated Financial Statements on page 125.

(2) Accounting change of \$(49) million in 2005 represents the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of SFAS No. 143, (FIN 47).

(3) 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 75.

(4) The return on average common stockholders' equity is calculated using net income less preferred stock dividends divided by average common stockholders' equity. The return on total stockholders' equity is calculated using net income divided by average stockholders' equity.

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

(6) Dividends declared per common share as a percentage of net income per diluted share.

Certain statements in this Annual Report on Form 10-K, including, but not limited to, statements made in "Management's Discussion and Analysis," particularly in the "Outlook" sections, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act

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of 1995. These statements are based on management's current

expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors including, but not limited to, those described under "Risk Factors" on page 38.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

2007 IN SUMMARY

There were a number of highlights in 2007, including record performance of our International Consumer, Global Wealth Management and *Transaction Services* business segments.

These positives, however, were offset by disappointing results in our Markets & Banking business, which was significantly affected by write-downs related to direct subprime exposures, including CDOs, leveraged lending, and by significantly higher credit costs in our U.S. Consumer business. In 2007, Citigroup earned \$3.6 billion from continuing operations on revenues of \$81.7 billion. Income and EPS were both down 83% from 2006 levels.

Customer volume growth was strong, with average loans up 17%, average deposits up 20% and average interest-earning assets up 29% from year-ago levels. *International Cards* purchase sales were up 37%, while *U.S. Cards* sales were up 8%. In Global Wealth Management, client assets under fee-based management were up 27%. Branch activity included the opening or acquisition of 712 new branches during 2007 (510 internationally and 202 in the U.S.). We also completed several strategic acquisitions or investments (including Nikko Cordial, Egg, Quilter, GFU, Grupo Cuscatlan, ATD, and Akbank), which were designed to strengthen our franchises.

Revenues of \$81.7 billion decreased 9% from 2006, primarily driven by significantly lower revenues in CMB due to write-downs related to subprime CDOs and leveraged lending. Revenues outside of CMB grew 14%. Our international operations recorded revenue growth of 15% in 2007, including a 28% increase in International Consumer and a \$1.8 billion increase in International GWM, partially offset by a 9% decrease in International CMB.

Net interest revenue grew 19% from 2006, reflecting volume increases across all products. Net interest margin in 2007 was 2.45%, down 21 basis points from 2006, as higher funding costs exceeded the Company's actions to better manage interest earning assets and reduce low-yielding asset balances, and increased ownership in Nikko Cordial (see the discussion of net interest margin on page 70). Non-interest revenue decreased 31% from 2006, primarily reflecting subprime write-downs. *Securities and Banking* finished the year ranked #1 in equity underwriting and #2 in completed mergers and acquisitions activity.

Operating expenses increased 18% from the previous year primarily driven by the impact of acquisitions, increased business volumes, charges related to the structural expense initiative and the impact of foreign exchange.

Our equity capital base and trust preferred securities grew to \$137.2 billion at December 31, 2007. Stockholders' equity decreased by \$6.2 billion during 2007 to \$113.6 billion, which included the distribution of \$10.7 billion in dividends to common shareholders. Citigroup maintained its well-capitalized position with a Tier 1 Capital Ratio of 7.12% at December 31, 2007. Return on common equity was 2.9% for 2007.

During December 2007 and January 2008 we raised over \$30 billion to strengthen our capital base. See page 75 for a discussion of our pro forma year-end capital ratios.

On January 14, 2008, the Board decreased the quarterly dividend on the Company's common stock to \$0.32 per share. This new dividend level will allow the Company to reinvest in growth opportunities and properly position the Company for both favorable and unfavorable economic conditions.

Credit costs increased \$10.6 billion from year-ago levels, driven by an increase in NCLs of \$3.1 billion and a net charge of \$7.5 billion to build loan loss reserves.

U.S. Consumer credit costs increased \$7.1 billion from year-ago levels, driven by a change in estimate of loan losses, increased NCLs and net builds to loan loss reserves. The increases were due to a weakening in credit indicators and sharply higher delinquencies on first and second mortgages related to the deterioration in the U.S. housing market. The NCL ratio increased 27 basis points to 1.46%.

International Consumer credit costs increased \$2.3 billion, reflecting a change in estimate of loan losses, along with volume growth and credit weakness in certain countries, the impact of recent acquisitions, and the increase of NCLs in Japan Consumer Finance due to grey zone issues.

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Markets & Banking credit costs increased \$1.0 billion, driven by higher NCLs associated with subprime-related direct exposures. Corporate cash-basis loans increased \$1.2 billion from year-ago levels to \$1.8 billion.

The Company recorded an income tax benefit for 2007, resulting from the significant amount of consolidated pretax losses in the Company's *S&B* and *U.S. Consumer Lending* businesses and the tax benefits of permanent differences.

On November 4, 2007, Charles Prince, Chairman and Chief Executive Officer, elected to retire from Citigroup. Robert Rubin served as Chairman between November 4 and December 11. On December 11, 2007, the Board appointed Vikram Pandit as CEO and Sir Win Bischoff as Chairman.

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OUTLOOK FOR 2008

We enter the challenging environment of 2008 after a disappointing 2007. We are focused on establishing stability for our Company and developing opportunities for enduring growth. We have a stronger capital structure in place and are working to establish a mix of assets and businesses that maximize returns to shareholders.

Business Reviews

We are currently conducting business reviews through all of our franchises. The possible outcomes from these reviews include the focus on establishing stability for our Company; repositioning of low-return, non-strategic assets that do not support our growth strategy; redirection of capital to higher-return opportunities to drive shareholder value in the future; and streamlining certain businesses.

Our Goals in 2008

Our main goal is capital allocation excellence and we are aggressively building a new risk management culture. Our goal is to have the best risk management in the industry, transforming it into a key competitive advantage that will drive bottom-line results.

Strong expense management and the ability to execute productively against our plans are core to our priorities. Our re-engineering and expense management program is designed to make Citigroup more efficient.

Another priority is to make financial matters better and easier for our clients in every way that we can. Financial markets are becoming more and more complex, encouraging a deepening interdependency between Citigroup and our clients.

We intend to leverage the benefits of emerging technology to respond more quickly, communicate more effectively, simplify transactions, and innovate faster, thus serving our global clients better.

We are focused on managing our talent more effectively by rewarding demonstrated performance and by putting the right people in the right positions.

Economic Environment

As a worldwide business, Citigroup's financial results are closely tied to the global economic environment. There is a risk of a U.S. and/or global downturn in 2008. A U.S.-led economic downturn could negatively impact other markets and economies around the world and could restrict the Company's growth opportunities internationally. Should economic conditions further deteriorate, the Company could see revenue reductions across its businesses and increased costs of credit. In addition, continuing deterioration of the U.S. or global real estate markets could adversely impact the Company's revenues, including additional write-downs of subprime and other exposures, additional write-downs of leveraged loan commitments and cost of credit, including increased credit losses in mortgage-related and other activities. Further adverse rating actions by credit rating agencies in respect of structured credit products or other credit-related exposures, or of monoline insurers could result in revenue reductions in those or similar securities. See "Risk Factors" on page 38 for a further discussion of risks.

Credit Costs and Income Taxes

Credit costs in U.S. Consumer are expected to increase across most portfolios due to deterioration in the U.S. housing market, as well as higher levels of unemployment and bankruptcy filings.

Credit costs are expected to increase across all international businesses as their growing portfolios season or mature, and may be affected by economic and credit conditions in the U.S. and around the world.

The impact of changes to consumer lending laws enacted in 2006, as well as deteriorating consumer credit conditions will increase credit costs in the Japan Consumer Finance business.

While corporate loan default rates are near historic lows, they are projected to increase in 2008. Classified loan exposures are on a rising trend and credit markets are difficult. These credit markets negatively affect a wide range of products, including auction rate securities, credit default swaps and the leveraged loan syndication market.

The 2008 effective tax rate is expected to return to a normalized rate depending on pretax income levels and geographic mix of earnings.

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A detailed review and outlook for each of our business segments are included in the discussions that follow, and the risks are more fully discussed on pages 38 to 65.

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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, 2007. The graph

assumes that \$100 was invested on December 31, 2002 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
2003	\$ 141.58	\$ 128.68	\$ 131.03
2004	145.44	142.69	145.32
2005	152.17	149.68	154.66
2006	181.92	173.32	184.33
2007	100.58	182.84	149.99

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EVENTS IN 2007

ITEMS IMPACTING THE SECURITIES AND BANKING BUSINESS

Losses on Subprime-Related Direct Exposures

During the second half of 2007, the Company's *Securities and Banking (S&B)* business recorded unrealized losses of \$19.6 billion pretax, net of hedges, on subprime-related direct exposures.

The Company's remaining \$37.3 billion in U.S. subprime net direct exposure in *S&B* at December 31, 2007 consisted of (a) approximately \$8.0 billion of subprime-related exposures in its lending and structuring business and (b) approximately \$29.3 billion of net exposures to the super senior tranches of collateralized debt obligations, which are collateralized by asset-backed securities, derivatives on asset-backed securities or both. See *Exposure to Real Estate* on page 48 for a further discussion.

Write-Downs on Highly Leveraged Loans and Commitments

During the second half of 2007, Citigroup recorded write-downs of approximately \$1.5 billion pretax, net of underwriting fees, on funded and unfunded highly leveraged finance commitments in the *S&B* business. Of this amount, approximately \$1.1 billion related to debt underwriting activities and \$381 million related to lending activities. Write-downs were recorded on all highly leveraged finance commitments where there was value impairment, regardless of the expected funding date. See *Highly Leveraged Funding Commitments* on page 96 for a further discussion.

CREDIT, RESTRUCTURING AND INCOME TAXES

Credit Reserves

During 2007, the Company recorded a net build of \$7.1 billion to its credit reserves, which included an increase in the allowance for unfunded lending commitments of \$150 million. The build consisted of \$6.3 billion in Global Consumer (\$5.0 billion in U.S. Consumer and \$1.3 billion in International Consumer), \$100 million in Global Wealth Management and \$715 million in Markets & Banking.

The \$5.0 billion build in U.S. Consumer reflected a weakening of leading credit indicators including delinquencies on first and second mortgages and deterioration in the housing market (approximately \$3.0 billion), a downturn in other economic trends including unemployment and GDP, as well as the impact of housing market deterioration, affecting all other portfolios (\$1.3 billion), and a change in the estimate of loan losses inherent in the portfolio, but not yet visible in delinquency statistics (approximately \$700 million).

The \$1.3 billion build in International Consumer included a change in estimate of loan losses inherent in the portfolio but not yet visible in delinquency statistics (approximately \$600 million), along with volume growth and credit deterioration in certain countries. With the exception of Mexico, Japan and India, the International Consumer credit environment remained generally stable.

The build of \$715 million in Markets & Banking primarily reflected a slight weakening in overall portfolio credit quality, as well as loan loss reserves for specific counterparties. The loan loss reserves for specific counterparties include \$327 million for subprime-related direct exposures.

During 2007, the Company changed its estimate of loan losses inherent in the Global Consumer portfolio that were not yet visible in delinquency statistics. The changes in estimate were accounted for prospectively in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections* (SFAS 154). For the quarter ended March 31, 2007, the change in estimate decreased the Company's pretax net income by approximately \$170 million, or \$0.02 per diluted share. For the quarter ended June 30, 2007, the change in estimate decreased the Company's pretax net income by \$240 million, or \$0.03 per diluted share. For the quarter ended September 30, 2007, the change in estimate decreased the Company's pretax net income by approximately \$900 million, or \$0.11 per diluted share.

Structural Expense Review

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In 2007, the Company completed a review of its structural expense base in a Company-wide effort to create a more streamlined organization, reduce expense growth, and provide investment funds for future growth initiatives.

As a result of the review, a pretax restructuring charge of \$1.4 billion (\$871 million after-tax) was recorded in Corporate/Other during the first quarter of 2007. Additional charges of \$200 million were recognized later in 2007. Separate from the restructuring charge, additional implementation costs of approximately \$100 million pretax were recorded throughout 2007.

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Because these charges are a Company-wide initiative, they are reflected in Corporate/Other.

See Note 10 on page 138 for additional information.

In addition, during 2007 several businesses took on their own re-engineering initiatives to further reduce expenses beyond this Company-wide review. These additional initiatives resulted in total repositioning charges of \$539 million pretax. These charges, which were incurred by Markets & Banking for \$438 million, Global Consumer for \$35 million and Global Wealth Management for \$67 million, are included in each of these business groups' 2007 results.

Income Taxes

The Company recorded an income tax benefit for 2007. The effective tax rate (benefit) of (129)% primarily resulted from the pretax losses in the Company's *S&B* and *U.S. Consumer Lending* businesses (the U.S. is a higher tax jurisdiction). In addition, the tax benefits of permanent differences, including the tax benefit for not providing U.S. income taxes on the earnings of certain foreign subsidiaries that are indefinitely invested, favorably affected the Company's effective tax rate.

The Company's effective tax rate on continuing operations of 27.3% in 2006 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.

CAI'S STRUCTURED INVESTMENT VEHICLES (SIVs)

On December 13, 2007, Citigroup announced its decision to commit, not legally required, to provide a support facility that would resolve uncertainties regarding senior debt repayment facing the Citi-advised Structured Investment Vehicles (SIVs). As a result of the Company's commitment, Citigroup included the SIVs' assets and liabilities in its Consolidated Balance Sheet as of December 31, 2007. This resulted in an increase of assets of \$59 billion. On February 12, 2008, Citigroup finalized the terms of the support facility, which takes the form of a commitment to provide mezzanine capital to the SIV vehicles in the event the market value of their capital notes approaches zero.

RECENTLY ANNOUNCED FINANCIAL ACTIONS TO ENHANCE CITIGROUP'S CAPITAL BASE

During the fourth quarter of 2007 and the first quarter of 2008, the Company raised approximately \$30 billion of qualifying Tier 1 Capital. These transactions include the issuance of convertible preferred and straight (non-convertible) preferred securities, equity units and enhanced trust-preferred securities. In addition, Citigroup purchased the Nikko Cordial shares that it did not already own, by issuing 175 million Citigroup common shares (approximately \$4.4 billion based on the exchange terms) in exchange for those Nikko Cordial shares.

The Company reported a Tier 1 Capital ratio of 7.12% and a Tangible Common Equity (TCE) as a percent of Risk Weighted Managed Assets (RWMA) ratio of 5.6% at December 31, 2007. On a pro forma basis, after giving effect to the issuance of the new securities referred to above (and including the common shares issued in connection with the Nikko Cordial transaction), the Company's December 31, 2007 Tier 1 Capital ratio would be approximately 8.8% and its TCE/RWMA would be approximately 6.9%. See *Capital Resources and Liquidity* on page 75 for further details.

Lowering the Company's Quarterly Dividend to \$0.32 Per Share

On January 14, 2008 the Board declared a quarterly dividend on the Company's common stock of \$0.32 per share, which was paid on February 22, 2008, to stockholders of record on February 4, 2008. This action would result in a reduction in the dividend level of approximately \$4.4 billion from the previous year. This new dividend level will allow the Company to reinvest in growth opportunities and properly position the Company for both favorable and unfavorable economic conditions. The Board is responsible for setting dividend levels and declaring dividends.

STRATEGIC ACQUISITIONS

U.S.

Acquisition of ABN AMRO Mortgage Group

In 2007, Citigroup acquired ABN AMRO Mortgage Group (AAMG), a subsidiary of LaSalle Bank Corporation and ABN AMRO Bank N.V. AAMG is a national originator and servicer of prime residential mortgage loans. As part of this acquisition, Citigroup purchased approximately \$12 billion in assets, including \$3 billion of mortgage servicing rights, which resulted in the addition of approximately 1.5 million servicing customers. Results for AAMG are included within Citigroup's *U.S. Consumer Lending* business from March 1, 2007 forward.

Acquisition of Old Lane Partners, L.P.

In 2007, the Company completed the acquisition of Old Lane Partners, L.P. and Old Lane Partners, GP, LLC (Old Lane). Old Lane is the manager of a global, multi-strategy hedge fund and a private equity fund with total assets under management and private equity commitments of approximately \$4.5 billion. Results for Old Lane are included within Citi Alternative Investments (CAI), Citigroup's integrated alternative investments platform, from July 2, 2007 forward.

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Acquisition of Bisys

In 2007, the Company completed its acquisition of Bisys Group, Inc. (Bisys) for \$1.47 billion in cash. In addition, Bisys shareholders received \$18.2 million in the form of a special dividend paid by Bisys simultaneously. Citigroup completed the sale of the Retirement and Insurance Services Divisions of Bisys to affiliates of J.C. Flowers & Co. LLC, making the net cost of the transaction to Citigroup approximately \$800 million. Citigroup retained the Fund Services and Alternative Investment services businesses of Bisys, which provides administrative services for hedge funds, mutual funds and private equity funds. Results for Bisys are included within Citigroup's *Transaction Services* business from August 1, 2007 forward.

Acquisition of Automated Trading Desk

In 2007, Citigroup completed its acquisition of Automated Trading Desk (ATD), a leader in electronic market making and proprietary trading, for approximately \$680 million (\$102.6 million in cash and approximately 11.17 million shares of Citigroup common stock). ATD operates as a unit of Citigroup's Global Equities business, adding a network of broker-dealer customers to Citigroup's diverse base of institutional, broker-dealer and retail customers. Results for ATD are included within Citigroup's *Securities and Banking* business from October 3, 2007 forward.

Japan

Nikko Cordial

Citigroup began consolidating Nikko Cordial's financial results and the related minority interest under the equity method of accounting on May 9, 2007, when Nikko Cordial became a 61%-owned subsidiary. Citigroup later increased its ownership stake in Nikko Cordial to approximately 68%. Nikko Cordial results are included within Citigroup's *Securities and Banking*, *Smith Barney* and International Consumer businesses.

On January 29, 2008, Citigroup completed the acquisition of the remaining Nikko Cordial shares that it did not already own, by issuing 175 million Citigroup common shares (approximately \$4.4 billion based on the exchange terms) in exchange for those Nikko Cordial shares. The share exchange was completed following the listing of Citigroup's common shares on the Tokyo Stock Exchange on November 5, 2007.

Latin America

Acquisition of Grupo Financiero Uno

In 2007, Citigroup completed its acquisition of Grupo Financiero Uno (GFU), the largest credit card issuer in Central America, and its affiliates.

The acquisition of GFU, with \$2.2 billion in assets, expands the presence of Citigroup's Latin America consumer franchise, enhances its credit card business in the region and establishes a platform for regional growth in Consumer Finance and Retail Banking. GFU has more than one million retail clients and operates a distribution network of 75 branches and more than 100 mini-branches and points of sale. The results for GFU are included within Citigroup's *International Cards and International Retail Banking* businesses from March 5, 2007 forward.

Acquisition of Grupo Cuscatlan

In 2007, Citigroup completed the acquisition of the subsidiaries of Grupo Cuscatlan for \$1.51 billion (\$755 million in cash and 14.2 million shares of Citigroup common stock) from Corporacion UBC Internacional S.A. Grupo Cuscatlan is one of the leading financial groups in Central America, with assets of \$5.4 billion, loans of \$3.5 billion, and deposits of \$3.4 billion. Grupo Cuscatlan has operations in El Salvador, Guatemala, Costa Rica, Honduras and Panama. The results of Grupo Cuscatlan are included from May 11, 2007 forward and are recorded in *International Retail Banking*.

Agreement to Establish Partnership with Quiñenco Banco de Chile

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In 2007, Citigroup and Quiñenco entered into a definitive agreement to establish a strategic partnership that combines Citigroup operations in Chile with Banco de Chile's local banking franchise to create a banking and financial services institution with approximately 20% market share of the Chilean banking industry. The transaction closed on January 1, 2008.

Under the agreement, Citigroup contributed Citigroup's Chilean operations and other assets, and acquired an approximate 32.96% stake in LQIF, a wholly owned subsidiary of Quiñenco that controls Banco de Chile, and is accounted for under the equity method of accounting. As part of the overall transaction, Citigroup also acquired the U.S. branches of Banco de Chile for approximately \$130 million. Citigroup has entered into an agreement to acquire an additional 17.04% stake in LQIF for approximately \$1 billion within three years. The new partnership calls for active participation by Citigroup in the management of Banco de Chile including board representation at both LQIF and Banco de Chile.

Asia

Acquisition of Bank of Overseas Chinese

In 2007, Citigroup completed its acquisition of Bank of Overseas Chinese (BOOC) in Taiwan for approximately \$427 million. BOOC offers a broad suite of corporate banking, consumer and wealth management products and services to more than one million clients through 55 branches in Taiwan. This transaction will strengthen Citigroup's presence in Asia, making it the largest international bank and 13th largest by total assets among all domestic Taiwan banks. Results for BOOC are included in Citigroup's *International Retail Banking*, *International Cards* and *Securities and Banking* businesses from December 1, 2007 forward.

Table of Contents**EMEA****Acquisition of Quilter**

In 2007, the Company completed the acquisition of 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. Quilter's results are included in Citigroup's *Smith Barney* business from March 1, 2007 forward.

Acquisition of Egg

In 2007, Citigroup completed its acquisition of Egg Banking plc (Egg), one of the U.K.'s leading online financial services providers, from Prudential PLC for approximately \$1.39 billion. Egg offers various financial products and services including online payment and account aggregation services, credit cards, personal loans, savings accounts, mortgages, insurance and investments. Results for Egg are included in Citigroup's *International Cards and International Retail Banking* businesses from May 1, 2007 forward.

Purchase of 20% Equity Interest in Akbank

In 2007, Citigroup completed its purchase of a 20% equity interest in Akbank for approximately \$3.1 billion and is accounted for under the equity method of accounting. Akbank, the second-largest privately owned bank by assets in Turkey, is a premier, full-service retail, commercial, corporate and private bank.

Sabancı 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 Sabancı Holding and its subsidiaries, Citigroup has otherwise agreed not to increase its percentage ownership in Akbank.

OTHER ITEMS**Sale of MasterCard Shares**

In 2007, the Company recorded a \$367 million after-tax gain (\$581 million pretax) on the sale of approximately 4.9 million MasterCard Class B shares that had been received by Citigroup as a part of the MasterCard Initial Public Offering (IPO) completed in June 2006. The gain was recorded in the following businesses:

	2007		2006	
	2007 Pretax total	After-tax total	2006 Pretax total	After-tax total
<i>In millions of dollars</i>				
<i>U.S. Cards</i>	\$ 394	\$ 250	\$ 59	\$ 37
<i>U.S. Retail Distribution</i>	55	33	7	5
<i>International Cards</i>	72	46	35	22
<i>International Retail</i>				
<i>Banking</i>	41	26	20	13
<i>Markets & Banking</i>	19	12	2	1
Total	\$ 581	\$ 367	\$ 123	\$ 78
Redecard IPO				

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In 2007, Citigroup (a 31.9% shareholder in Redecard S.A., the only merchant acquiring company for MasterCard in Brazil) sold approximately 48.8 million Redecard shares in connection with Redecard's IPO in Brazil. Following the sale of these shares, Citigroup retained approximately 23.9% ownership in Redecard. An after-tax gain of approximately \$469 million (\$729 million pretax) was recorded in Citigroup's 2007 financial results in the *International Cards* business.

Visa Restructuring and Litigation Matters

In 2007, Visa USA, Visa International and Visa Canada were merged into Visa Inc. (Visa). As a result of that reorganization, Citigroup recorded a \$534 million (pretax) gain on its holdings of Visa International shares primarily recognized in the *International Consumer* business, which are carried on Citigroup's balance sheet at the new cost basis. In addition, Citigroup recorded a \$306 million (pretax) charge related to certain of Visa USA's litigation matters primarily recognized in the U.S. *Consumer* business.

Both the Visa-related gain and charge are subject to change, depending on the timing and success of Visa's planned IPO and other factors. For example, in connection with its upcoming planned IPO, Visa has announced plans to withhold, on a pro rata basis, shares to be distributed to its USA member banks (including Citigroup), which would be used to fund an escrow account to satisfy certain of Visa USA's litigation matters. Such a withholding could enable Citigroup to release portions of its \$306 million reserve.

Sale of Simplex Investment Advisors Inc. Shares

In 2007, Nikko Cordial sold all of its shares of Simplex Investment Advisors Inc. (SIA) for an after-tax gain of \$106 million (\$313 million pretax), which was recorded in *International Retail Banking*. Nikko Cordial held 42.5% of SIA.

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ACCOUNTING CHANGES

Adoption of SFAS 157 Fair Value Measurements

The Company elected to early-adopt SFAS No. 157, Fair Value Measurements (SFAS 157), as of January 1, 2007. SFAS 157 defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for *identical* instruments in active markets.

Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

For some products or in certain market conditions, observable inputs may not be available. For example, during the market dislocations that occurred in the second half of 2007, certain markets became illiquid, and some key inputs used in valuing certain exposures were unobservable. When and if these markets are liquid, the valuation of these exposures will use the related observable inputs available at that time from these markets.

Under SFAS 157, Citigroup is required to take into account its own credit risk when measuring the fair value of derivative positions as well as other liabilities for which fair value accounting has been elected under SFAS 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155) and SFAS 159, after taking into consideration the effects of credit-risk mitigants. The adoption of SFAS 157 has also resulted in some other changes to the valuation techniques used by Citigroup when determining the fair value of derivatives, most notably changes to the way that the probability of default of a counterparty is factored in, and the elimination of a derivative valuation adjustment which is no longer necessary under SFAS 157. The cumulative effect at January 1, 2007 of making these changes was a gain of \$250 million after-tax (\$402 million pretax), or \$0.05 per diluted share, which was recorded in the 2007 first quarter earnings within the *Securities and Banking* business.

SFAS 157 also precludes the use of block discounts for instruments traded in an active market, which were previously applied to large holdings of publicly traded equity securities, and requires the recognition of trade-date gains related to certain derivative trades that use unobservable inputs in determining their fair value. Previous accounting guidance allowed the use

of block discounts in certain circumstances and prohibited the recognition of day-one gains on certain derivative trades when determining the fair value of instruments not traded in an active market. The cumulative effect of these changes resulted in an increase to January 1, 2007 retained earnings of \$75 million.

Adoption of SFAS 159 Fair Value Option

In conjunction with the adoption of SFAS 157, the Company early-adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), as of January 1, 2007. SFAS 159 provides an option on an instrument-by-instrument basis for most financial assets and liabilities to be reported at fair value with changes in fair value reported in earnings. After the initial adoption, the election is made at the time of the acquisition of a financial asset, financial liability, or a firm commitment, and it may not be revoked. SFAS 159 provides an opportunity to mitigate volatility in reported earnings that resulted prior to its adoption from being required to apply fair value accounting to certain economic hedges (e.g., derivatives) while having to measure the assets and liabilities being economically hedged using an accounting method other than fair value.

Under the SFAS 159 transition provisions, the Company elected to apply fair value accounting to certain financial instruments held at January 1, 2007 with future changes in value reported in earnings. The adoption of SFAS 159 resulted in an after-tax decrease to January 1, 2007 retained earnings of \$99 million (\$157 million pretax).

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See Note 26 to the Consolidated Financial Statements on page 167 for additional information.

SUBSEQUENT EVENT

On February 20, 2008, the Company entered into a \$500 million credit facility with the Falcon multi-strategy fixed income funds (the Funds) managed by Citigroup Alternative Investments. As a result of providing this facility, the Company became the primary beneficiary of the Funds and will include the Funds' assets and liabilities in its Consolidated Balance Sheet commencing on February 20, 2008. The consolidation of the Funds will increase Citigroup's assets and liabilities by approximately \$10 billion.

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EVENTS IN 2006

Strategic Investment and Cooperation Agreement with Guangdong Development Bank

In 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 is accounted for under the equity method of accounting.

Sale of Avantel

In 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

In 2007, Citigroup announced that it would reposition its consumer finance business in *Japan*. This decision resulted from 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 2006, 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.

Finalizing the 2005 Sale of Asset Management Business

In 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's lending business. The transaction did not include 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 for the Company.

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 125.

RESOLUTION OF TAX AUDITS

New York State and New York City

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In 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 third quarter of 2006, 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 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 above and 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:

<i>In millions of dollars</i>	New York City and New York State Audits	Federal Audit	Total
Global Consumer	\$ 79	\$ 290	\$ 369
Markets & 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

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Finalizing the 2005 Sale of Travelers Life & Annuity

In 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.

During 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 125.

Sale of Upstate New York Branches

In 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 2006.

Acquisition of Federated Credit Card Portfolio and Credit Card Agreement With Federated Department Stores (Macy's)

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

For the first phase, which closed in October 2005, Citigroup acquired Macy's receivables under management, totaling approximately \$3.3 billion. For the second phase, which closed in May 2006, additional Macy's 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 Macy's.

Citigroup paid a premium of approximately 11.5% to acquire these portfolios. The multi-year agreement also provides Macy's the ability to participate in the portfolio performance, based on credit sales and certain other performance metrics.

The Macy's and May credit card portfolios comprised a total of approximately 17 million active accounts.

Consolidation of Brazil's CrediCard

In 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

In 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 requires restricted or deferred stock awards issued to retirement-eligible employees who meet certain age and service requirements to 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:

<i>In millions of dollars</i>	2006 first quarter
Global Consumer	\$121
Markets & Banking	354
Global Wealth Management	145
Alternative Investments	7
Corporate/Other	21
Total	\$648

Additional information can be found in Notes 1 and 8 to the Consolidated Financial Statements on pages 111 and 129, respectively.

Credit Reserves

In 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 CMB. 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 conditions in Cards, and *Japan*, related to the changes in the consumer lending environment. Developments in 2007 have led to a significant build in reserves in Global Consumer in 2007, as described above.

The net build of \$270 million in CMB was primarily composed of \$261 million in *Securities 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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EVENTS 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 third quarter of 2005.

Hurricane Katrina

In 2005, 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. These reserves were utilized or released in subsequent years.

United States Bankruptcy Legislation

In 2005, the Bankruptcy Reform Act (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-sheet 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

In 2005, 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

During 2005, Citigroup reduced its stake in Nikko Cordial from approximately 11.2% to 4.9%, which resulted in an after-tax gain of \$248 million (\$386 million pretax).

Sale of the Merchant Acquiring Businesses

In 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 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

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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 was 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 2000. During the third quarter of 2005, 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

In 2005, 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 195, in 2005, Citigroup settled class action litigation brought on behalf of purchasers of Enron securities.

Settlement of the Securities and Exchange Commission's Transfer Agent Investigation

In 2005, the Company settled an investigation by the Securities and Exchange Commission (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

In 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. See Note 28 on page 176.

Repositioning Charges

The Company recorded a \$272 million after-tax (\$435 million pretax) charge in 2005 for repositioning costs. The repositioning charges were predominantly severance-related costs recorded in CMB (\$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 2005, 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

In 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

In 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 divestiture.

Divestiture of CitiCapital's Transportation Finance Business

In 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 2004.

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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SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Notes to the Consolidated Financial Statements on page 111 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 111.

Valuations of Financial Instruments

The Company holds fixed income and equity securities, derivatives, retained interests in securitizations, investments in private equity and other financial instruments. In addition, the Company purchases securities under agreements to resell and sells securities under agreements to repurchase. The Company holds its investments, trading assets and liabilities, and resale and repurchase agreements 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. In addition, certain loans, short-term borrowings, long-term debt and deposits as well as certain securities borrowed and loaned positions that are collateralized with cash are carried at fair value. In total, approximately 38.9% and 35.2% of assets, and 23.1% and 8.9% of liabilities, are accounted for at fair value as of December 31, 2007 and 2006, respectively. The increase is driven by the election of the fair value option as permitted under SFAS 159 for certain assets and liabilities, including securities purchased under agreements to resell and securities sold under agreements to repurchase, as well as certain structured and non-structured liabilities.

When available, the Company generally uses quoted market prices to determine fair value, and classifies such items within Level 1 of the fair value hierarchy. If quoted market prices are not available, fair value is based upon internally developed valuation models that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. More than 800 models are used across Citigroup. Where a model is internally developed and used to price a significant product, it is subject to validation and testing by independent personnel. Such models are often based on a discounted cash flow analysis.

Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

As seen during the second half of 2007, the credit crisis has caused some markets to become illiquid, thus reducing the availability of certain observable data used by the Company's valuation techniques. When or if the

liquidity returns to these markets, the valuations will revert to using the related observable inputs in verifying internally calculated values.

With the Company's early adoption of SFAS 157 and SFAS 159 as of January 1, 2007, the following specific changes were made in the valuation of the Company's financial assets and liabilities:

- (i) Amendments to the way that the probability of default of a counterparty is factored into the valuation of derivative positions and inclusion for the first time of the impact of Citigroup's own-credit risk on the valuation of derivatives and other liabilities measured at fair value;
- (ii) Elimination of the derivatives portfolio servicing adjustment which is no longer necessary under SFAS 157;
- (iii) Block discounts for large holdings of publicly traded equity securities were discontinued; and
- (iv) Trade-date gains related to certain derivatives using unobservable inputs were recognized immediately, superseding the previous guidance, which prohibited the recognition of these day-one gains.

The cumulative effect of these changes totaled \$325 million after-tax. \$250 million, which related to the first two items above and was recorded as an increase in the current year's earnings. The remaining \$75 million, related to items (iii) and (iv) above and was recorded as an increase to January 1, 2007 opening Retained earnings.

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Changes in the valuation of the trading assets and liabilities, as well as all other assets (excluding available-for-sale securities) and liabilities, carried at fair value, are recorded in the Consolidated Statement of Income. Changes in the valuation of available-for-sale securities generally are recorded in Accumulated other comprehensive income, which is a component of stockholders' equity on the Consolidated Balance Sheet. A full description of the Company's related policies and procedures can be found in Notes 1, 26 and 27 to the Consolidated Financial Statements on pages 111, 167 and 176, respectively.

Key Controls over Fair-Value Measurement

The Company's processes include a number of key controls that are designed to ensure that fair value is measured appropriately. Such controls include a model validation policy requiring that valuation models be validated by qualified personnel independent from those who created the models and escalation procedures to ensure that valuations using unverifiable inputs are identified and monitored on a regular basis by senior management.

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 loan losses. In addition, management has established and maintains reserves for the potential credit 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 and Risk Management Committee of the Company's Board of Directors. The

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Company's Chief Risk Officer and Chief Financial Officer review the adequacy of the credit loss reserves each quarter with representatives from the Risk and Finance staffs for each applicable business area.

During these reviews, the above-mentioned representatives covering the business area having classifiably managed portfolios (that is, portfolios where internal credit-risk ratings are assigned, which are primarily Markets & 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 2006, 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 leading credit indicators including delinquencies on first and second mortgages and deterioration in the housing market, a downturn in other economic trends including unemployment and GDP, changes in the portfolio size, and a change in the estimated loan losses inherent in the portfolio but not yet visible in the delinquencies (change in estimate of loan losses). This methodology is applied separately for each individual product within each different geographic region in which these portfolios exist.

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 18 to the Consolidated Financial Statements on pages 111 and 147, 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 as a means of obtaining financing. The cash flows from assets in the trust service the corresponding trust securities. If the structure of the trust meets certain 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. The SEC has requested that FASB complete its deliberations by the end of 2008. 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 some of these financial assets.

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A complete description of the Company's accounting for securitized assets can be found in Off-Balance-Sheet Arrangements on page 85 and in Notes 1 and 23 to the Consolidated Financial Statements on pages 111 and 156, 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 governmental 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 implemented FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. See Note 11 to the Consolidated Financial Statements on page 139.

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The Company treats interest and penalties on income taxes as a component of income tax expense.

Deferred taxes are recorded for the future consequences of events that have been recognized for financial statements or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not.

See Note 11 to the Consolidated Financial Statements on page 139 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 in accordance with applicable accounting requirements based upon the probability and estimability of losses. The Company reviews outstanding claims with internal counsel, as well as external counsel when appropriate, 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 29 to the Consolidated Financial Statements on page 181 and the discussion of "Legal Proceedings" beginning on page 195.

Accounting Changes and Future Application of Accounting Standards

See Note 1 to the Consolidated Financial Statements on page 111 for a discussion of Accounting Changes and the Future Application of Accounting Standards.

Table of Contents**SEGMENT, PRODUCT AND REGIONAL NET INCOME AND REVENUE**

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

CITIGROUP NET INCOME SEGMENT AND PRODUCT VIEW

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Global Consumer					
<i>U.S. Cards</i>	\$ 2,873	\$ 3,890	\$ 2,754	(26)%	41%
<i>U.S. Retail Distribution</i>	1,343	2,027	1,752	(34)	16
<i>U.S. Consumer Lending</i>	(626)	1,912	1,938	NM	(1)
<i>U.S. Commercial Business</i>	518	561	729	(8)	(23)
Total U.S. Consumer ⁽¹⁾	\$ 4,108	\$ 8,390	\$ 7,173	(51)%	17%
<i>International Cards</i>	\$ 2,013	\$ 1,137	\$ 1,373	77%	(17)%
<i>International Consumer Finance</i>	(508)	40	642	NM	(94)
<i>International Retail Banking</i>	2,688	2,840	2,083	(5)	36
Total International Consumer	\$ 4,193	\$ 4,017	\$ 4,098	4%	(2)%
<i>Other</i>	\$ (433)	\$ (351)	\$ (374)	(23)%	6%
Total Global Consumer	\$ 7,868	\$ 12,056	\$ 10,897	(35)%	11%
Markets & Banking					
<i>Securities and Banking</i>	\$ (7,604)	\$ 5,763	\$ 5,327	NM	8%
<i>Transaction Services</i>	2,215	1,426	1,135	55%	26
<i>Other</i>	136	(62)	433	NM	NM
Total Markets & Banking	\$ (5,253)	\$ 7,127	\$ 6,895	NM	3%
Global Wealth Management					
<i>Smith Barney</i>	\$ 1,351	\$ 1,005	\$ 871	34%	15%
<i>Private Bank</i>	623	439	373	42	18
Total Global Wealth Management	\$ 1,974	\$ 1,444	\$ 1,244	37%	16%
Alternative Investments	\$ 672	\$ 1,276	\$ 1,437	(47)%	(11)%
Corporate/Other	(1,644)	(654)	(667)	NM	2
Income from Continuing Operations	\$ 3,617	\$ 21,249	\$ 19,806	(83)%	7%
Income from Discontinued Operations ⁽²⁾		289	4,832		(94)
Cumulative Effect of Accounting Change			(49)		
Total Net Income	\$ 3,617	\$ 21,538	\$ 24,589	(83)%	(12)%

(1) U.S. disclosure includes Canada and Puerto Rico.

(2) See Note 3 on page 125.

NM Not meaningful.

Table of Contents**CITIGROUP NET INCOME REGIONAL VIEW**

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
U.S. ⁽¹⁾					
Global Consumer	\$ 3,675	\$ 8,039	\$ 6,799	(54)%	18%
Markets & Banking	(7,537)	2,209	2,950	NM	(25)
Global Wealth Management	1,416	1,210	1,141	17	6
Total U.S.	\$ (2,446)	\$ 11,458	\$ 10,890	NM	5%
Mexico					
Global Consumer	\$ 1,387	\$ 1,605	\$ 1,432	(14)%	12%
Markets & Banking	396	346	450	14	(23)
Global Wealth Management	46	36	44	28	(18)
Total Mexico	\$ 1,829	\$ 1,987	\$ 1,926	(8)%	3%
EMEA					
Global Consumer	\$ 504	\$ 725	\$ 374	(30)%	94%
Markets & Banking	(1,902)	2,011	1,130	NM	78
Global Wealth Management	77	23	8	NM	NM
Total EMEA	\$ (1,321)	\$ 2,759	\$ 1,512	NM	82%
Japan					
Global Consumer	\$ (126)	\$ 119	\$ 706	NM	(83)%
Markets & Banking	128	272	498	(53)%	(45)
Global Wealth Management	95		(82)		100
Total Japan	\$ 97	\$ 391	\$ 1,122	(75)%	(65)%
Asia					
Global Consumer	\$ 1,749	\$ 1,366	\$ 1,350	28%	1%
Markets & Banking	2,578	1,651	1,248	56	32
Global Wealth Management	314	163	116	93	41
Total Asia	\$ 4,641	\$ 3,180	\$ 2,714	46%	17%
Latin America					
Global Consumer	\$ 679	\$ 202	\$ 236	NM	(14)%
Markets & Banking	1,084	638	619	70%	3%
Global Wealth Management	26	12	17	NM	(29)
Total Latin America	\$ 1,789	\$ 852	\$ 872	NM	(2)%
Alternative Investments	\$ 672	\$ 1,276	\$ 1,437	(47)%	(11)%
Corporate/Other	(1,644)	(654)	(667)	NM	2
Income from Continuing Operations	\$ 3,617	\$ 21,249	\$ 19,806	(83)%	7%
Income from Discontinued Operations ⁽²⁾		289	4,832		(94)
Cumulative Effect of Accounting Change			(49)		
Total Net Income	\$ 3,617	\$ 21,538	\$ 24,589	(83)%	(12)%
Total International	\$ 7,035	\$ 9,169	\$ 8,146	(23)%	13%

(1) 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.

(2) See Note 3 on page 125.

NM Not meaningful.

Table of Contents**CITIGROUP REVENUES SEGMENT AND PRODUCT VIEW**

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Global Consumer					
<i>U.S. Cards</i>	\$ 13,418	\$ 13,508	\$ 12,824	(1)%	5%
<i>U.S. Retail Distribution</i>	10,209	9,584	9,515	7	1
<i>U.S. Consumer Lending</i>	6,459	5,519	5,469	17	1
<i>U.S. Commercial Business</i>	1,649	1,983	2,299	(17)	(14)
Total U.S. Consumer ⁽¹⁾	\$ 31,735	\$ 30,594	\$ 30,107	4%	2%
<i>International Cards</i>	\$ 9,228	\$ 5,959	\$ 4,850	55%	23%
<i>International Consumer Finance</i>	3,182	3,318	3,819	(4)	(13)
<i>International Retail Banking</i>	12,878	10,518	9,727	22	8
Total International Consumer	\$ 25,288	\$ 19,795	\$ 18,396	28%	8%
<i>Other</i>	\$ (39)	\$ (90)	\$ (258)	57%	65%
Total Global Consumer	\$ 56,984	\$ 50,299	\$ 48,245	13%	4%
Markets & Banking					
<i>Securities and Banking</i>	\$ 2,684	\$ 21,218	\$ 18,970	(87)%	12%
<i>Transaction Services</i>	7,840	5,971	4,891	31	22
<i>Other</i>	(2)	(2)	2		NM
Total Markets & Banking	\$ 10,522	\$ 27,187	\$ 23,863	(61)%	14%
Global Wealth Management					
<i>Smith Barney</i>	\$ 10,529	\$ 8,160	\$ 6,825	29%	20%
<i>Private Bank</i>	2,457	2,017	1,859	22	8
Total Global Wealth Management	\$ 12,986	\$ 10,177	\$ 8,684	28%	17%
Alternative Investments	\$ 2,103	\$ 2,901	\$ 3,430	(28)%	(15)%
Corporate/Other	(897)	(949)	(580)	5	(64)
Total Net Revenues	\$ 81,698	\$ 89,615	\$ 83,642	(9)%	7%

(1) U.S. disclosure includes Canada and Puerto Rico.
 NM Not meaningful.

Table of Contents**CITIGROUP REVENUES REGIONAL VIEW**

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
U.S. ⁽¹⁾					
Global Consumer	\$ 31,696	\$ 30,504	\$ 29,849	4%	2%
Markets & Banking	(4,971)	10,155	9,901	NM	3
Global Wealth Management	9,787	8,793	7,628	11	15
Total U.S.	\$ 36,512	\$ 49,452	\$ 47,378	(26)%	4%
Mexico					
Global Consumer	\$ 5,777	\$ 5,191	\$ 4,373	11%	19%
Markets & Banking	814	781	777	4	1
Global Wealth Management	153	129	124	19	4
Total Mexico	\$ 6,744	\$ 6,101	\$ 5,274	11%	16%
EMEA					
Global Consumer	\$ 6,649	\$ 5,387	\$ 5,201	23%	4%
Markets & Banking	4,235	8,757	6,849	(52)	28
Global Wealth Management	543	331	295	64	12
Total EMEA	\$ 11,427	\$ 14,475	\$ 12,345	(21)%	17%
Japan					
Global Consumer	\$ 2,797	\$ 2,455	\$ 3,251	14%	(24)%
Markets & Banking	1,191	1,052	1,224	13	(14)
Global Wealth Management	1,244		(6)		100
Total Japan	\$ 5,232	\$ 3,507	\$ 4,469	49%	(22)%
Asia					
Global Consumer	\$ 6,253	\$ 4,933	\$ 4,461	27%	11%
Markets & Banking	6,496	4,714	3,697	38	28
Global Wealth Management	1,038	738	440	41	68
Total Asia	\$ 13,787	\$ 10,385	\$ 8,598	33%	21%
Latin America					
Global Consumer	\$ 3,812	\$ 1,829	\$ 1,110	NM	65%
Markets & Banking	2,757	1,728	1,415	60	22
Global Wealth Management	221	186	203	19	(8)
Total Latin America	\$ 6,790	\$ 3,743	\$ 2,728	81%	37%
Alternative Investments	\$ 2,103	\$ 2,901	\$ 3,430	(28)%	(15)%
Corporate/Other	(897)	(949)	(580)	5	(64)
Total Net Revenues	\$ 81,698	\$ 89,615	\$ 83,642	(9)%	7%
Total International	\$ 43,980	\$ 38,211	\$ 33,414	15%	14%

(1) 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.

NM Not meaningful.

Table of Contents**GLOBAL CONSUMER**

Citigroup's Global Consumer Group provides a wide array of banking, lending, insurance and investment services through a network of 8,527 branches, approximately 20,000 ATMs and 530 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.

				% Change	% Change
<i>In millions of dollars</i>	2007	2006 ⁽¹⁾	2005	2007 vs. 2006	2006 vs. 2005
Net interest revenue	\$ 32,932	\$ 29,380	\$ 29,526	12%	
Non-interest revenue	24,052	20,919	18,719	15	12%
Revenues, net of interest expense	\$ 56,984	\$ 50,299	\$ 48,245	13%	4%
Operating expenses	29,298	25,933	23,318	13	11
Provisions for loan losses and for benefits and claims	17,020	7,579	9,063	NM	(16)
Income before taxes and minority interest	\$ 10,666	\$ 16,787	\$ 15,864	(36)%	6%
Income taxes	2,627	4,666	4,904	(44)	(5)
Minority interest, net of taxes	171	65	63	NM	3
Net income	\$ 7,868	\$ 12,056	\$ 10,897	(35)%	11%
Average assets <i>(in billions of dollars)</i>	\$ 735	\$ 610	\$ 533	20%	14%
Return on assets	1.07%	1.98%	2.04%		
Key indicators <i>(in billions of dollars)</i>					
Average loans	\$ 496.1	\$ 434.9	\$ 392.6	14%	11%
Average deposits	\$ 291.8	\$ 252.1	\$ 231.7	16%	9%
Total branches	8,527	8,110	7,237	5%	12%

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

NM Not meaningful.

Table of Contents**U.S. Consumer**

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

				% Change	% Change
<i>In millions of dollars</i>	2007	2006 ⁽¹⁾	2005	2007 vs. 2006	2006 vs. 2005
Net interest revenue	\$ 17,480	\$ 16,712	\$ 17,510	5%	(5)%
Non-interest revenue	14,255	13,882	12,597	3	10
Revenues, net of interest expense	\$ 31,735	\$ 30,594	\$ 30,107	4%	2%
Operating expenses	15,045	14,149	13,449	6	5
Provisions for loan losses and for benefits and claims	10,917	3,800	5,600	NM	(32)
Income before taxes and minority interest	\$ 5,773	\$ 12,645	\$ 11,058	(54)%	14%
Income taxes	1,629	4,197	3,823	(61)	10
Minority interest, net of taxes	36	58	62	(38)	(6)
Net income	\$ 4,108	\$ 8,390	\$ 7,173	(51)%	17%
Average assets <i>(in billions of dollars)</i>	\$ 498	\$ 417	\$ 357	19%	17%
Return on assets	0.83%	2.01%	2.01%		
Key indicators <i>(in billions of dollars)</i>					
Average loans	\$ 352.5	\$ 320.1	\$ 286.1	10%	12%
Average deposits	121.8	104.6	95.4	16%	10%
Total branches <i>(actual number)</i>	3,545	3,441	3,173	3%	8%

(1) Reclassified to conform to the current period's presentation.
NM Not meaningful.

2007 vs. 2006

Net Interest Revenue was 5% higher than the prior year, as growth in average deposits and loans of 16% and 10%, respectively, was partially offset by a decrease in net interest margin. Net interest margin declined mainly due to an increase in the cost of funding driven by a shift to higher cost Direct Bank and time deposits and a shift away from high yielding credit card assets toward lower yielding mortgage assets which more than offset a general increase in consumer loan yields.

Non-Interest Revenue increased 3%, primarily due to 6% growth in *Cards* purchase sales, a pretax gain on the sale of MasterCard shares of \$449 million compared to a gain on the MasterCard IPO of \$66 million in 2006,

the impact of the acquisition of ABN AMRO Mortgage Group in the first quarter of 2007, higher gains on sales of mortgage loans, and growth in net servicing revenues. This increase is partially offset by lower securitization revenues in *Cards* primarily reflecting the net impact of higher funding costs and higher credit losses in the securitization trusts. The results of 2006 also included \$163 million pretax gain from the sale of upstate New York branches in the second quarter.

Operating expense growth was primarily driven by the VISA litigation-related pretax charge of \$292 million, the ABN AMRO integration, higher collection costs, higher volume-related expenses, and increased investment spending due to 202 new branch openings in 2007 (110 in CitiFinancial and

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92 in Citibank). Expense growth in 2007 was favorably affected by the absence of the charge related to the initial adoption of SFAS 123(R) in the first quarter of 2006.

Provisions for loan losses and for benefits and claims increased \$7.1 billion primarily reflecting a weakening of leading credit indicators including delinquencies on first and second mortgages and deterioration in the housing market, a downturn in other economic trends including unemployment and GDP affecting all other portfolios and a change in estimate of loan losses inherent in the portfolio but not yet visible in delinquency statistics. The increase in provision for loan losses also reflects the absence of loan loss reserve releases recorded in the prior year, as well as an increase in bankruptcy filings in 2007 versus unusually low filing levels experienced in 2006. The net credit loss ratio increased 27 basis points to 1.46%.

Net income in 2007 also reflected the absence of a \$229 million tax benefit resulting from the resolution of the 2006 Tax Audits.

2006 vs. 2005

Net interest revenue declined by 5%, as growth in average deposits and loans of 10% and 12%, respectively, were more than offset by net interest margin compression. Net interest margin declined primarily due to a shift in customer liabilities from savings and other demand deposits to certificates of deposit and e-Savings accounts as well as lower on-balance-sheet receivables and a change in the mix of receivables toward introductory rate products, and a higher cost of funds, which was partially offset by higher risk-based fees.

Non-Interest Revenue increased by 10% due to the positive impact of a 9% growth in purchase sales, higher replenishment gains from securitization activities, and higher net excess spread revenues from previously securitized receivables, higher gains on sales of real estate loans, student loans, and mortgage-backed securities, a \$163 million gain on the Sale of New York Branches in the second quarter of 2006, partially offset by lower servicing revenues. Also driving the increase was the acquisition of the Macy's (formerly known as Federated) portfolio in the 2005 fourth quarter, and the absence of a \$545 million charge to conform accounting practices for customer rewards taken in the fourth quarter of 2005. Offsetting the increase was the absence of the \$162 million legal settlement benefit in the 2005 third quarter related to the purchase of Copelco, the \$161 million gain on sale of the CitiCapital Transportation Finance business in the first quarter of 2005 and the absence of a \$110 million gain in the 2005 first quarter related to the resolution of the Glendale litigation.

Operating expenses increased 5%, primarily reflecting the full-year impact of the acquisition of the Macy's portfolio, higher volume-related expenses, increased investment spending on 303 new branch openings during the year (101 in Citibank and 202 in CitiFinancial), the impact of SFAS 123(R), costs associated with the launch of e-Savings, and the absence of a \$23 million expense benefit due to the Copelco settlement recorded in 2005. This increase is partially offset by effective expense management and a decline in advertising and marketing expenses in *Cards* and lower expenses from the absence of the transportation finance business and severance costs in *Commercial Business* in 2005.

Provision for loan losses and for benefits and claims declined by 32% attributable primarily to a favorable credit environment which led to a continued decline in loan loss reserves in *Cards*, lower overall bankruptcy filings in 2006 in *Retail Distribution* and a loan loss reserve release of \$63 million in *Commercial Business*. Also driving the decrease was the absence of a \$165 million loan loss reserve build in the 2005 third quarter related to the reorganization of the former Consumer Finance business, and a reserve build in 2005 related to Hurricane Katrina of \$110 million in CitiFinancial branches and the continued liquidation of non-core portfolios in *Commercial Business*. The net credit loss ratio for U.S. Consumer decreased 51 basis points to 1.19%.

Net income in 2006 also reflected a \$229 million tax benefit resulting from the resolution of the 2006 Tax Audits.

U.S. CONSUMER OUTLOOK

In 2008, the U.S. Consumer businesses will continue to focus on expanding its customer base, offering an integrated and innovative set of products and services, and leveraging previous acquisitions and prior strategic investments. Revenues will be affected by customer demand, the level of interest rates, credit performance, as well as the stability of the U.S. capital markets, all of which are important to cards securitizations and asset valuations. The businesses will also focus on tight expense control, productivity improvements and effective credit management.

The U.S. Consumer business could be negatively affected as discussed under *Economic Environment* on page 5.

In addition, the U.S. Consumer business is expected to operate in a challenging credit and economic environment, due to expected deterioration in credit costs across all products, particularly in the first mortgage and second mortgage portfolios. In addition, higher levels of unemployment and bankruptcy filings and lower residential real estate prices are expected. Net credit losses, delinquencies and defaults are expected to continue to trend upwards.

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International Consumer

International Consumer is composed of three businesses: *Cards*, *Consumer Finance* and *Retail Banking*. International Consumer operates in five geographies: *Mexico*, *Latin America*, *EMEA*, *Japan*, and *Asia*.

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Net interest revenue	\$ 15,619	\$ 12,866	\$ 12,180	21%	6%
Non-interest revenue	9,669	6,929	6,216	40	11
Revenues, net of interest expense	\$ 25,288	\$ 19,795	\$ 18,396	28%	8%
Operating expenses	13,550	11,201	9,520	21	18
Provisions for loan losses and for benefits					
and claims	6,103	3,779	3,463	61	9
Income before taxes and minority interest	\$ 5,635	\$ 4,815	\$ 5,413	17%	(11)%
Income taxes	1,307	791	1,314	65	(40)
Minority interest, net of taxes	135	7	1	NM	NM
Net income	\$ 4,193	\$ 4,017	\$ 4,098	4%	(2)%
Revenues, net of interest expense, by region:					
<i>Mexico</i>	\$ 5,777	\$ 5,191	\$ 4,373	11%	19%
<i>EMEA</i>	6,649	5,387	5,201	23	4
<i>Japan</i>	2,797	2,455	3,251	14	(24)
<i>Asia</i>	6,253	4,933	4,461	27	11
<i>Latin America</i>	3,812	1,829	1,110	NM	65
Total revenues	\$ 25,288	\$ 19,795	\$ 18,396	28	8%
Net income by region:					
<i>Mexico</i>	\$ 1,387	\$ 1,605	\$ 1,432	(14)%	12%
<i>EMEA</i>	504	725	374	(30)	94
<i>Japan</i>	(126)	119	706	NM	(83)
<i>Asia</i>	1,749	1,366	1,350	28	1
<i>Latin America</i>	679	202	236	NM	(14)
Total net income	\$ 4,193	\$ 4,017	\$ 4,098	4%	(2)%
Average assets (<i>in billions of dollars</i>)	\$ 226	\$ 183	\$ 167	23%	10%
Return on assets	1.86%	2.20%	2.45%		
Key indicators (<i>in billions of dollars</i>)					
Average loans	\$ 143.6	\$ 114.8	\$ 106.5	25%	8%
Average deposits	\$ 170.0	\$ 147.5	\$ 136.3	15%	8%
Total branches (actual number)	4,982	4,669	4,064	7%	15%

NM Not meaningful.

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2007 vs. 2006

Net interest revenue increased 21% overall, 29% after excluding the impact of Japan Consumer Finance. The increase was driven by a 25% growth in average receivables and a 15% growth in average deposits, including the impact of the acquisitions of GFU, Egg, and Grupo Cuscatlan, and the integration of the CrediCard portfolio. The positive impact of foreign currency translation also contributed to the revenue increase. Results in 2007 include a \$261 million pretax charge in Japan Consumer Finance to increase reserves for estimated losses due to customer settlements.

Non-interest revenue increased 40%, primarily due to a 33% increase in Cards purchase sales, a 20% increase in investment product sales, increased ownership in Nikko Cordial, and gains on sales of non-core assets including a \$729 million pretax gain on Redecard shares, a \$507 million pretax gain on Visa International Inc. shares, a \$313 million pretax gain on the sale of an ownership interest in Nikko Cordial's Simplex Investment Advisors, and a pretax MasterCard gain of \$113 million compared to a gain on the MasterCard IPO of \$55 million in 2006. The positive impact of foreign currency translation also contributed to the revenue increase. The increase in *non-interest revenue* was partially offset by the absence of a prior-year gain on the sale of Avantel of \$234 million.

Operating expenses increased 21%, reflecting acquisitions, increased ownership in Nikko Cordial, the integration of the CrediCard portfolio, volume growth across the products and regions, the impact of foreign currency translation and continued investment spending. During 2007, 510 Retail Banking and Consumer Finance branches were opened or acquired. The increase in 2007 expenses was partially offset by savings from structural expense initiatives announced in April 2007, and the absence of the charge related to the initial adoption of SFAS 123(R) in the first quarter of 2006.

Provisions for loan losses and for benefits and claims increased substantially, including a change in estimate of loan losses inherent in the loan portfolio but not yet visible in delinquency statistics, along with volume growth and credit deterioration in certain countries, the impact of recent acquisitions, and the increase in net credit losses in Japan Consumer Finance due to the continuing adverse operating environment and the impact of Japan consumer lending laws passed in the fourth quarter of 2006. Higher past-due accounts in Mexico cards and the integration of the CrediCard portfolio also contributed to the increase.

Net income was also affected by the absence of a prior-year APB 23 tax benefit of \$288 million in Mexico, as well as the absence of a prior-year \$99 million tax benefit resulting from the resolution of the 2006 Tax Audits.

2006 vs. 2005

Net interest revenue increased 6%, reflecting growth in average receivables and deposits of 8% each, and the integration of the CrediCard portfolio in *Latin America*. The results were negatively impacted by Japan Consumer Finance due to the changes in the operating environment and the passage of changes to consumer lending laws on December 13, 2006. The total impact included a \$581 million pretax charge to increase reserves for estimated losses due to customer settlements. Excluding *Japan*, *net interest revenue* increased 15% from the prior year. The positive impact of foreign currency translation also contributed to the revenue increase.

Non-interest revenue increased 11%, reflecting an increase in investment product sales of 36%, a 17% increase in purchase sales, the integration of the CrediCard portfolio, the 2006 fourth quarter \$234 million gain in *Mexico* on the sale of Avantel, a gain on the MasterCard IPO of \$55 million in the 2006 second quarter, and higher insurance and other fees, partially offset by the absence of a prior-year gain on the sale of a merchant-acquiring business in *EMEA* of \$95 million. The positive impact of foreign currency translation also contributed to the revenue increase. Assets under management grew by 20%.

Operating expenses increased, reflecting the integration of the CrediCard portfolio, volume growth across the regions, continued investment spending driven by 862 new *Retail Banking* and *Consumer Finance* branch openings, the adoption of SFAS 123(R), a \$60 million pretax repositioning charge in *Japan* to close approximately 270 branches and 100 ALMs, the impact of foreign currency translation, the costs associated with the labor settlement in Korea, and the absence of prior-year expense credits related to Mexico VAT.

Provisions for loan losses and for benefits and claims increased primarily due to reserve builds and higher net credit losses in Japan Consumer Finance due to legislative and other actions affecting the consumer finance industry, target market expansion in Mexico cards, the industry-wide credit deterioration in Taiwan, the CrediCard integration in *Latin America*, and volume growth. The increase was partially offset by the absence

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of the 2005 charge of \$490 million to standardize the loan write-off policy in *EMEA*, the 2005 increase of \$127 million loan loss reserves in Germany retail banking to reflect increased experience with the effects of bankruptcy law liberalization, a \$159 million gain from the sale of charged-off assets in Germany, and a \$168 million loan loss reserve release in Korea related to improvements in the credit environment in this market.

Net income in 2006 also reflected higher APB 23 tax benefits of \$288 million in *Mexico*, and a \$99 million benefit from the resolution of the 2006 Tax Audits, partially offset by the absence of a 2005 third quarter Homeland Investment Act tax benefit of \$61 million in *Mexico*.

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INTERNATIONAL CONSUMER OUTLOOK

International Consumer is diversified across a number of geographies, product groups, and customer segments. In 2008, International Consumer expects to drive growth in loans, deposits and investment product sales from expanding its customer base through organic growth, investments in expanding the branch network, and the benefit from 2007 acquisitions. As a result, International Consumer expects earnings growth in 2008.

Revenues and credit costs are expected to be affected by global economic conditions, including the level of interest rates, the credit environment, unemployment rates, and political and regulatory developments in the U.S. and around the world.

The International Consumer business could be negatively affected by the Economic Environment discussed on page 5.

The Japan Consumer Finance business environment is expected to remain difficult. The impact of changes to consumer lending laws enacted in 2006 as well as deteriorating consumer credit conditions are expected to drive credit costs higher in the Japan Consumer Finance business. The Company will continue to actively monitor developments in customer refund claims and defaults, political developments and the way courts view grey zone claims, refunds and defaults. The Company continues to evaluate the positioning and prospects of the business as the environment changes.

In addition to Japan Consumer Finance, increased credit costs are expected across all international businesses as their growing portfolios season or mature, and are expected to be affected by economic and credit conditions in the U.S. and around the world.

Table of Contents**MARKETS & BANKING**

Markets & Banking provides a broad range of trading, investment banking, and commercial lending products and services to companies, governments, institutions and investors in approximately 100 countries. Markets & Banking includes *Securities and Banking*, *Transaction Services* and *Other*.

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Net interest revenue	\$ 12,312	\$ 8,492	\$ 8,100	45%	5%
Non-interest revenue	(1,790)	18,695	15,763	NM	19
Revenues, net of interest expense	\$ 10,522	\$ 27,187	\$ 23,863	(61)%	14%
Operating expenses	19,588	17,119	14,133	14	21
Provision for credit losses	1,390	359	(42)	NM	NM
Income (loss) before taxes and minority interest	\$ (10,456)	\$ 9,709	\$ 9,772	NM	(1)%
Income taxes (benefits)	(5,216)	2,528	2,818	NM	(10)
Minority interest, net of taxes	13	54	59	(76)%	(8)
Net income (loss)	\$ (5,253)	\$ 7,127	\$ 6,895	NM	3%
Revenues, net of interest expense, by region:					
U.S.	\$ (4,971)	\$ 10,155	\$ 9,901	NM	3%
Mexico	814	781	777	4%	1
EMEA	4,235	8,757	6,849	(52)	28
Japan	1,191	1,052	1,224	13	(14)
Asia	6,496	4,714	3,697	38	28
Latin America	2,757	1,728	1,415	60	22
Total revenues	\$ 10,522	\$ 27,187	\$ 23,863	(61)%	14%
Total revenues, net of interest expense by product:					
Securities and Banking	\$ 2,684	\$ 21,218	\$ 18,970	(87)%	12%
Transaction Services	7,840	5,971	4,891	31	22
Other	(2)	(2)	2		NM
Total revenues	\$ 10,522	\$ 27,187	\$ 23,863	(61)%	14%
Net income (loss) by region:					
U.S.	\$ (7,537)	\$ 2,209	\$ 2,950	NM	(25)%
Mexico	396	346	450	14%	(23)
EMEA	(1,902)	2,011	1,130	NM	78
Japan	128	272	498	(53)	(45)
Asia	2,578	1,651	1,248	56	32
Latin America	1,084	638	619	70	3
Total net income (loss)	\$ (5,253)	\$ 7,127	\$ 6,895	NM	3%
Net income (loss) by product:					
Securities and Banking	\$ (7,604)	\$ 5,763	\$ 5,327	NM	8%
Transaction Services	2,215	1,426	1,135	55%	26
Other	136	(62)	433	NM	NM
Total net income (loss)	\$ (5,253)	\$ 7,127	\$ 6,895	NM	3%

NM Not meaningful.

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2007 vs. 2006

Revenues, net of interest expense decreased 61% driven by \$20.4 billion of pretax write-downs and losses related to deterioration in the mortgage-backed and credit markets. The losses consisted primarily of approximately \$18.9 billion related to direct subprime-related exposures, of which approximately \$14.2 billion was related to exposures in the most senior tranches of collateralized debt obligations, which are collateralized by asset-backed securities, derivatives on asset-backed securities or both. The losses were also driven by write-downs of approximately \$1.5 billion pretax, net of underwriting fees, on funded and unfunded highly leveraged finance commitments. Of this amount, approximately \$1.3 billion of impairment was recognized for transactions that had been funded as of December 31, 2007, and \$0.2 billion of impairment was recognized on transactions that were unfunded as of December 31, 2007. *Securities and Banking* s remaining \$37.3 billion in U.S. subprime net direct exposure as at December 31, 2007 consisted of (a) approximately \$8.0 billion of subprime-related exposures in its lending and structuring business and (b) approximately \$29.3 billion of net exposures to the super senior tranches of collateralized debt obligations which are collateralized by asset-backed securities, derivatives on asset-backed securities or both. See Exposure to Real Estate on page 48 for a further discussion. The decreases were offset partially by increased revenues in Equity Markets, from cash trading and strong growth in equity finance, in Advisory from strong deal volumes, in Equity Underwriting and in Lending. *Transaction Services* revenues increased 31% reflecting growth in liability balances, transaction volumes and assets under custody mainly in Cash Management and Securities and Funds Services. Average liability balances grew 29% to \$245 billion in 2007 vs. 2006 due to growth across all regions, reflecting positive flow from new and existing customers.

Operating expenses increased 14% due to higher business volumes, higher non-incentive compensation staff expenses and increased costs driven by The Bisy Group Inc., Nikko Cordial, Grupo Cuscatlan, and ATD acquisitions. Operating expenses also increased driven by the implementation of a headcount reduction plan to reduce ongoing expenses. This resulted in a \$438 million pretax charge to compensation and benefits in connection with headcount reductions. Expense growth in 2007 was favorably affected by the absence of a \$354 million charge related to the initial adoption of SFAS 123(R) in 2006 and a \$300 million pretax release of litigation reserves in 2007.

The *provision for credit losses* increased approximately \$1 billion, driven by higher net credit losses, mainly from loans with subprime-related direct exposure, and a higher net charge to increase loan loss and unfunded lending commitment reserves reflecting a slight weakening in overall portfolio credit quality, as well as loan loss reserves for specific counterparties. Subprime-related loans accounted for approximately \$860 million of credit costs in 2007, of which \$704 million was recorded in the fourth quarter.

2006 vs. 2005

Revenues, net of interest expense, increased, driven by broad-based growth across products, particularly in *EMEA, Asia and Latin America*. Fixed Income Markets revenue increases reflected growth in emerging markets trading, municipals, foreign exchange and credit products. Equity Markets revenues increased, driven by strong growth globally, including cash trading, derivatives products and convertibles. Investment Banking revenue growth was driven by higher debt and equity underwriting revenues and increased advisory fees. These gains were partially offset by a revenue decline in Lending, as improved credit conditions led to lower hedging results, the 2005 \$386 million pretax gain on the sale of Nikko Cordial shares and lower revenue in Commodities. *Transaction Services* revenues increased 22%, mainly in Cash Management and Securities and Funds Services, driven by growth in customer liabilities, up \$39 billion or 24%, and assets under custody, up \$1.8 trillion or 21%. In addition, higher interest rates, increased volumes, and higher sales contributed to the growth.

Operating expenses were impacted by \$764 million of SFAS 123(R) charges and higher production-related incentive compensation, as well as a growth in headcount and increased investment spending on strategic growth initiatives.

The *provision for credit losses* increased, reflecting growth in loans and unfunded lending commitments and an update to historical data used for certain loss estimates.

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MARKETS & BANKING OUTLOOK

Markets & Banking (CMB) is significantly affected by the levels of activity in, and volatility of, the global capital markets, which are influenced by macroeconomic and political developments, among other factors. The CMB business could be negatively impacted by the Economic Environment discussed on page 5.

As 2008 begins to unfold, the market perception is that the credit environment will deteriorate. While corporate default rates are near historic lows, they are projected to increase in 2008. Classified loan exposures are on a rising trend and current credit markets negatively affect the backlog of leveraged loans continues to be an overhang for the business and the market. Deterioration in the U.S. mortgage market may continue and could impact the uncertainty of mortgage securities pricing and trading. Pricing in the leveraged loan market may also continue to decline.

In 2008, *Securities and Banking* initiatives will continue to focus on the delivery of financial solutions tailored to clients' needs and the targeting of client segments with strong growth prospects. The development of additional global emerging markets leaders and the continued role of the sovereign wealth funds are likely to be major drivers of investment banking revenues and in particular cross-border mergers and acquisitions and associated capital raising. Revenues from derivatives and foreign exchange are also likely to benefit as clients seek to minimize the financial risk to their businesses from market volatility.

The business also intends to leverage its position to deliver global access to local markets. The business will continue its multi-year build-out of structured-products capabilities in equities, commodities and currencies, which began to show a contribution to *Securities and Banking's* performance in 2007 and should become a platform for future growth.

In 2008, *Transaction Services* will focus on generating organic revenue and earnings growth, leveraging its strong global platform. The rising needs of emerging markets and of the world's increasingly sophisticated capital markets are expected to continue to drive part of this growth, as well as clients' continued consolidation of their cash management relationships. This business growth is expected to be partially offset by the impact of lower interest rates and potentially lower asset values.

Throughout 2008, CMB will look to optimize its portfolio of businesses by allocating capital to the higher-returning businesses and clients. In addition, further expense synergies are expected to be achieved through more re-engineering of operations and processes within CMB and across Citigroup as a whole.

In 2008, the business expects higher state and local tax expense than was incurred in 2007. The level will depend on the geographic mix of income. Partially offsetting this additional expense is an expected increase in benefits from tax-advantaged investments.

Table of Contents**GLOBAL WEALTH MANAGEMENT**

Global Wealth Management is composed of the *Smith Barney* Private Client businesses (including Citigroup Wealth Advisors, Nikko Cordial, Quilter and the legacy Citicorp Investment Services business), *Citi Private Bank* and Citi Investment Research.

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Net interest revenue	\$ 2,174	\$ 1,922	\$ 1,695	13%	13%
Non-interest revenue	10,812	8,255	6,989	31	18
Revenues, net of interest expense	\$ 12,986	\$ 10,177	\$ 8,684	28%	17%
Operating expenses	9,806	8,006	6,696	22	20
Provision for loan losses	100	24	29	NM	(17)
Income before taxes and minority interest	\$ 3,080	\$ 2,147	\$ 1,959	43%	10%
Income taxes	1,034	703	715	47	(2)
Minority interest, net of taxes	72				
Net income	\$ 1,974	\$ 1,444	\$ 1,244	37%	16%
Revenues, net of interest expense by region:					
<i>U.S.</i>	\$ 9,787	\$ 8,793	\$ 7,628	11%	15%
<i>Mexico</i>	153	129	124	19	4
<i>EMEA</i>	543	331	295	64	12
<i>Japan</i>	1,244		(6)		100
<i>Asia</i>	1,038	738	440	41	68
<i>Latin America</i>	221	186	203	19	(8)
Total revenues	\$ 12,986	\$ 10,177	\$ 8,684	28%	17%
Net income (loss) by region:					
<i>U.S.</i>	\$ 1,416	\$ 1,210	\$ 1,141	17%	6%
<i>Mexico</i>	46	36	44	28	(18)
<i>EMEA</i>	77	23	8	NM	NM
<i>Japan</i>	95		(82)		100
<i>Asia</i>	314	163	116	93	41
<i>Latin America</i>	26	12	17	NM	(29)
Total net income	\$ 1,974	\$ 1,444	\$ 1,244	37%	16%
Key indicators: (in billions of dollars)					
Total assets under fee-based management	\$ 507	\$ 399	\$ 346	27%	15%
Total client assets	1,784	1,438	1,310	24	10
Net client asset flows	15	14	29	7	(52)
Financial advisors (FA) / bankers (<i>actual number</i>)	15,454	13,694	13,916	13	(2)
Annualized revenue per FA / banker (<i>in thousands of dollars</i>)	880	740	679	19	9
Average deposits and other customer liability balances	117	104	93	13	12
Average loans	54	42	40	29	5
NM Not meaningful.					

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2007 vs. 2006

Revenues, net of interest expense, increased 28% primarily due to the impact of acquisitions; an increase in fee-based revenues reflecting the continued advisory-based strategy; an increase in international revenues driven by strong Capital Markets activity in *Asia* and growth in investments revenue in *EMEA*; as well as strong U.S. branch transactional revenue and syndicate sales.

Total client assets, including assets under fee-based management, increased \$346 billion, or 24%, reflecting the inclusion of client assets from the Nikko Cordial and the Quilter acquisitions, as well as organic growth. Net flows increased slightly compared to the prior year. Global Wealth Management had 15,454 financial advisors/bankers as of December 31, 2007, compared with 13,694 as of December 31, 2006, driven by the Nikko Cordial and Quilter acquisitions, as well as hiring in the *Private Bank*.

Operating expenses increased 22% primarily due to the impact of acquisitions, higher variable compensation associated with the increase in revenues, increased customer activity and charges related to headcount reductions. Expense growth in 2007 was favorably affected by the absence of the charge related to the initial adoption of SFAS 123(R) in the first quarter of 2006.

The *provision for loan losses* increased \$76 million in 2007, primarily driven by portfolio growth and a reserve for specific non-performing loans in the *Private Bank*.

Net income growth also reflected a \$65 million APB 23 benefit in the *Private Bank* in 2007 and the absence of a \$47 million tax benefit resulting from the resolution of 2006 Tax Audits.

2006 vs. 2005

Revenues, net of interest expense, increased 17% primarily due to an increase in fee-based and recurring revenues, reflecting the continued shift toward offering fee-based advisory products and services in *Smith Barney*. *Smith Barney*'s launch of the Tiered-Pricing Program in September 2006 also drove revenue growth, along with strength in the Managed Accounts, Mutual Fund and Annuity businesses. Strong growth in *Asia* led an increase in *Private Bank* net revenues, driven by an increase in transactional revenues from strong Capital Markets activity. Results also reflected the acquisition of Legg Mason in December 2005.

Total client assets increased \$128 billion, or 10%. *Total assets under fee-based management* were up \$53 billion, or 15%, driven by net client asset flows and positive market action. Net flows were down compared to the prior year primarily on client attrition. Global Wealth Management had 13,694 financial advisors/bankers as of December 31, 2006, compared with 13,916 as of December 31, 2005.

Operating expenses increased as the absence of *Japan* expenses was offset by higher compensation expense, including \$373 million of SFAS 123(R) costs; investment spending to expand onshore markets; and integration costs of the Legg Mason retail brokerage business.

Citigroup Investment Research

Citigroup Investment Research provides independent client-focused research to individuals and institutions around the world. The majority of expense for this organization is charged to the Global Equities business in *Securities and Banking* and to *Smith Barney*.

GLOBAL WEALTH MANAGEMENT OUTLOOK

Global Wealth Management is affected by the levels of activity in the capital markets, which are influenced by macro-economic and political developments, among other factors.

The Global Wealth Management business could also be negatively impacted by the *Economic Environment* discussed on page 5.

In 2008, Global Wealth Management expects to see continued asset and revenue growth resulting from the 2007 investments in its wealth management platform, as well as from past acquisitions. However, declines in asset values due to economic conditions could adversely impact asset and revenue levels.

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Investments are expected to continue in 2008 and will include initiatives intended to improve technology platforms, strengthen our global competitive position and improve Financial Advisor retention.

Table of Contents**ALTERNATIVE INVESTMENTS**

Alternative Investments (CAI) manages capital on behalf of Citigroup, as well as for third-party institutional and high-net-worth investors. CAI 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.

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Net interest revenue	\$ (11)	\$ 259	\$ 261	NM	(1)%
Non-interest revenue	2,114	2,642	3,169	(20)%	(17)
Total revenues, net of interest expense	\$ 2,103	\$ 2,901	\$ 3,430	(28)%	(15)%
Net realized and net change in unrealized gains	\$ 1,417	\$ 2,107	\$ 2,582	(33)%	(18)%
Fees, dividends and interest	262	449	509	(42)	(12)
Other	(200)	(118)	(1)	(69)	NM
Total proprietary investment activities revenues	\$ 1,479	\$ 2,438	\$ 3,090	(39)%	(21)%
Client revenues ⁽¹⁾	624	463	340	35	36
Total revenues, net of interest expense	\$ 2,103	\$ 2,901	\$ 3,430	(28)%	(15)%
Operating expenses	913	763	633	20	21
Provision for loan losses		(13)	(2)	NM	NM
Income before taxes and minority interest	\$ 1,190	\$ 2,151	\$ 2,799	(45)%	(23)%
Income taxes	\$ 431	\$ 706	\$ 950	(39)%	(26)%
Minority interest, net of taxes	87	169	412	(49)	(59)
Net income	\$ 672	\$ 1,276	\$ 1,437	(47)%	(11)%
Revenue by product:					
Client ⁽¹⁾	\$ 624	\$ 463	\$ 340	35%	36%
Private Equity	\$ 1,660	\$ 1,743	\$ 2,563	(5)%	(32)%
Hedge Funds	(99)	211	69	NM	NM
Other	(82)	484	458	NM	6
Proprietary	\$ 1,479	\$ 2,438	\$ 3,090	(39)%	(21)%
Total	\$ 2,103	\$ 2,901	\$ 3,430	(28)%	(15)%
Key indicators: (in billions of dollars)					
Capital under management:					
Client	\$ 48.7	\$ 38.5	\$ 25.4	26%	52%
Proprietary	10.5	10.7	12.2	(2)	(12)
Total	\$ 59.2	\$ 49.2	\$ 37.6	20%	31%

(1) Includes fee income.

NM Not meaningful.

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The *Proprietary Portfolio* of CAI consists of private equity, single- and multi-manager hedge funds, real estate and Legg Mason, Inc. (Legg Mason) preferred shares. Private equity, which constitutes the largest proprietary investments on both a direct and an indirect basis, is in the form of equity and mezzanine debt financing in companies across a broad range of industries worldwide, including investments in developing economies. Such investments include Citigroup Venture Capital International Brazil, LP (CVC/Brazil, formerly CVC/Opportunity Equity Partners, LP), which has invested primarily in companies privatized by the government of Brazil in the mid-1990s.

The *Client Portfolio* is composed of single- and multi-manager hedge funds, real estate, managed futures, private equity, and a variety of leveraged fixed income products (credit structures). Products are distributed to investors directly by CAI and through Citigroup GWM's *Private Bank* and *Smith Barney* platform. Revenue includes management and performance fees earned on the portfolio.

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. Certain private equity investments in companies located in developing economies that are not held in investment company subsidiaries are either carried at cost or accounted for by the equity method, with unrealized losses recognized in income for other-than-temporary declines in value. Investments classified as available-for-sale are carried at fair value with the net change in unrealized gains and losses recorded in equity as accumulated other comprehensive income, with unrealized losses recognized in income for other-than-temporary declines in value. All other investment activities are primarily carried at fair value, with the net change in unrealized gains and losses recorded in income.

The investment in Legg Mason resulted from the sale of Citigroup's Asset Management business to Legg Mason on December 1, 2005. Sale proceeds included a combination of Legg Mason common and convertible preferred equity securities valued at \$2.298 billion. The total equivalent number of common shares was 18.7 million, of which 10.3 million were sold in March 2006. No shares were sold during 2007 and 6.8 million shares were sold during 2008 up until February 21, 2008. As of February 21, 2008, Citigroup owns 1.6 million shares, of which 0.9 million shares are subject to cash-settled equity swaps at a strike price of \$72 per share. The Legg Mason equity securities are classified on Citigroup's Consolidated Balance Sheet as Trading account assets.

On July 2, 2007, the Company completed the acquisition of Old Lane Partners, LP and Old Lane Partners, GP, LLC (Old Lane). Old Lane is the manager of a global, multi-strategy hedge fund and a private equity fund with total assets under management and private equity commitments of approximately \$4.5 billion.

Alternative Investments, through its Global Credit Structures investment center, is the investment manager for seven Structured Investment Vehicles (SIVs). On December 13, 2007, the Company announced its decision, not legally required, to commit to providing a support facility that would resolve uncertainties regarding senior debt repayment facing the Citi-advised SIVs. The Company's decision was a response to the ratings review for a possible downgrade of the outstanding senior debt of the SIVs announced by two rating agencies, and the continued reduction of liquidity in the SIV-related asset-backed commercial paper and medium-term note markets. These markets are the traditional funding sources for the SIVs. The Company's actions are designed to support the current ratings of the SIVs' senior debt and to allow the SIVs to continue to pursue their current orderly asset reduction plan. As a result of this commitment, the Company became the SIVs' primary beneficiary and consolidated the SIVs' assets and liabilities onto its balance sheet. On February 12, 2008, Citigroup finalized the terms of the support facility, which takes the form of a commitment to provide mezzanine capital to the SIV vehicles in the event the market value of their capital notes approaches zero.

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2007 vs. 2006

Revenues, net of interest expense, of \$2.103 billion for 2007 decreased \$798 million, or 28%.

Total proprietary revenues, net of interest expense, of \$1.479 billion for 2007 were composed of revenues from private equity of \$1.660 billion, other investment activity of \$(82) million and hedge funds of \$(99) million. Private equity revenue decreased \$83 million from 2006, driven by lower gains and higher funding costs. Other investment activities revenue decreased \$566 million from 2006, largely due to the 2006 liquidation of Citigroup's investment in St. Paul shares and MetLife shares and a lower market value on Legg Mason shares in 2007. Hedge fund revenue decreased \$310 million, largely due to lower investment performance. Client revenues increased \$161 million, reflecting increased management fees from a 40% growth in average client capital under management, and the acquisition of Old Lane.

Operating expenses in 2007 of \$913 million increased \$150 million from 2006, primarily due to higher employee-related expenses and the acquisition of Old Lane.

Minority interest, net of taxes, in 2007 of \$87 million decreased \$82 million from 2006, primarily due to lower 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 and net change in unrealized gains/(losses) consistent with proceeds received by minority interests.

Net income in 2006 reflects higher tax benefits including \$58 million resulting from the resolution of the Federal Tax Audit in 2006.

Proprietary capital under management of \$10.5 billion decreased approximately \$200 million from 2006 due to capital reductions in certain hedge fund strategies partially offset by new investments in private equity.

Client capital under management of \$48.7 billion in 2007 increased \$10.2 billion from 2006, due to the acquisition of Old Lane and capital raised offset by lower investment performance in fixed income-oriented products.

2006 vs. 2005

Revenues, net of interest expense, of \$2.901 billion for 2006 decreased \$529 million, or 15%.

Total proprietary revenues, net of interest expense, were composed of revenues from private equity of \$1.743 billion, other investment activity of \$484 million and hedge funds of \$211 million. Private equity revenue declined \$820 million from 2005, primarily driven by the absence of prior-year gains

from the sale of portfolio assets. Other investment activities revenue increased \$26 million from 2005, largely due to realized gains from the liquidation of Citigroup's investment in MetLife shares and real estate investment returns, partially offset by lower realized gains from the sale of Citigroup's investment in St. Paul shares. Hedge fund revenue increased \$142 million, led by higher investment performance and an increased asset base. Client revenues increased \$123 million, reflecting increased management and performance fees from a 39% growth in average client capital under management.

Operating expenses in 2006 increased from 2005, primarily due to higher employee-related expenses including the impact of SFAS 123(R).

Minority interest, net of taxes, declined on the absence of prior-year 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 and net change in unrealized gains/(losses) consistent with proceeds received by minority interests.

Proprietary capital under management decreased \$1.5 billion, primarily driven by the sale of Citigroup's remaining holdings of St. Paul and MetLife shares and the partial sell down of Legg Mason shares in the first quarter of 2006, which were partially offset by investments in private equity and hedge funds.

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Client capital under management increased \$13.1 billion due to inflows from institutional and high-net-worth clients in private equity, real estate and hedge funds.

Table of Contents**CORPORATE/OTHER**

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

<i>In millions of dollars</i>	2007	2006	2005
Net interest revenue	\$ (471)	\$ (486)	\$ (342)
Non-interest revenue	(426)	(463)	(238)
Revenues, net of interest expense	\$ (897)	\$ (949)	\$ (580)
Restructuring expense	1,528		
Operating expenses	355	200	383
Provisions for loan losses and for benefits and claims	(1)	6	(2)
Loss from continuing operations before taxes, minority interest and cumulative effect of accounting change	\$ (2,779)	\$ (1,155)	\$ (961)
Income tax benefits	(1,077)	(502)	(309)
Minority interest, net of taxes	(58)	1	15
Loss from continuing operations before cumulative effect of accounting change	\$ (1,644)	\$ (654)	\$ (667)
Income from discontinued operations		289	4,832
Cumulative effect of accounting change			(49)
Net income (loss)	\$ (1,644)	\$ (365)	\$ 4,116

2007 vs. 2006

Revenues, net of interest expense, improved primarily due to improved treasury results and a gain on the sale of certain corporate-owned assets, partially offset by higher intersegment eliminations.

Restructuring expenses. See Note 10 to the Consolidated Financial Statements on page 138 for details on the 2007 restructuring charge.

Other operating expenses increased primarily due to increased staffing, technology and other unallocated expenses, partially offset by higher intersegment eliminations.

Income tax benefits increased due to a higher pretax loss in 2007, offset by a prior-year tax reserve release of \$69 million relating to the resolution of the 2006 Tax Audits.

Discontinued operations represent the operations in the Company's Sale of the Asset Management Business and the Sale of the Life Insurance and Annuities Business. For 2006, income from discontinued operations included gains and tax benefits relating to the final settlement of the Life Insurance and Annuities and Asset Management Sale Transactions and a gain from the Sale of the Asset Management Business in Poland, as well as a tax reserve release of \$76 million relating to the resolution of the 2006 Tax Audits. See Note 3 to the Consolidated Financial Statements on page 125.

2006 vs. 2005

Revenues, net of interest expense, declined primarily due to lower intersegment eliminations.

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

Income tax benefits increased due to a higher pretax loss in the current year, a tax reserve release of \$61 million relating to the resolution of the Federal Tax Audit and a release of \$8 million relating to the resolution of the New York Tax Audits.

Discontinued operations represent the operations in the Company's Sale of the Asset Management Business and the Sale of the Life Insurance and Annuities Business. For 2006, income from discontinued operations included gains and tax benefits relating to the final settlement of the Life Insurance and Annuities and Asset Management Sale Transactions and a gain from the Sale of the Asset Management Business in Poland.

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Tax benefits included a tax reserve release of \$59 million relating to the resolution of the Federal Tax Audit and a tax benefit of \$17 million related to the resolution of the New York Tax Audits. See Note 3 to the Consolidated Financial Statements on page 125.

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RISK FACTORS

Economic conditions. The profitability of Citigroup's businesses may be affected by global and local economic conditions, such as the levels and liquidity of the global financial and other asset markets, the absolute and relative level and volatility of interest rates and equity prices, investor sentiment, inflation, and the availability and cost of credit.

The Company generally maintains large trading portfolios in the fixed income, currency, commodity and equity markets and has significant investment positions, including investments held by its private equity business. In addition, the Company periodically holds portfolios in advance of syndication or distribution activities. The revenues derived from these portfolios are directly affected by economic and market conditions (including without limitation through the valuation of these portfolios). The valuation of a significant portion of the trading portfolios is valued using models whose inputs are not observable in the market and are therefore based on management's best estimate.

The credit quality of Citigroup's on-balance-sheet assets and off-balance-sheet exposures is also affected by economic conditions, as more loan delinquencies would likely result in a higher level of charge-offs and increased provisions for credit losses, and lower levels of other revenues adversely affecting the Company's earnings. The Company's consumer businesses are particularly affected by factors such as: prevailing interest rates; the rate of unemployment; the level of consumer confidence; residential real estate values, especially in the U.S.; changes in consumer spending; and the number of personal bankruptcies.

Credit, market and market liquidity risk. As discussed above, the Company's earnings may be impacted through its market risk and credit risk positions and by changes in economic conditions. In addition, Citigroup's earnings are dependent upon the extent to which management can successfully implement effective risk management processes and manage its positions within the global markets. In particular environments, the Company may not be able to mitigate its risk exposures as effectively as desired, and may have unwanted exposures to certain risk factors.

The Company's earnings are also dependent upon its ability to properly value financial instruments. In certain illiquid markets, processes to ascertain value and estimates of value, both of which require substantial elements of judgment, are required. The Company's earnings are also dependent upon how effectively it assesses the cost of credit and manages its portfolio of risk concentrations. In addition to the direct impact of the successful management of these risk factors, management effectiveness is taken into consideration by the rating agencies, which determine the Company's own credit ratings and thereby affect the Company's cost of funds. Moreover, actions by third parties, such as rating agency downgrades of instruments to which the Company has exposure and independent actions by market participants, can result in reduced liquidity and valuations of those instruments.

Competition. Merger activity in the financial services industry has produced companies that are capable of offering a wide array of financial products and services at competitive prices. Globalization of the capital markets and financial services industries exposes Citigroup to competition at both the global and local levels. In addition, technological advances and the growth of e-commerce and regulatory developments have made it possible for non-depository institutions to offer products and services that

traditionally were banking products. Citigroup's ability to grow its businesses, and therefore its earnings, is affected by these competitive pressures and is dependent on Citigroup's ability to attract and retain talented and dedicated employees.

Country risk. Citigroup's international revenues are subject to risk of loss from unfavorable political and diplomatic developments, currency fluctuations, social instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies. In addition, revenues from the trading of international securities and investment in international securities may be subject to negative fluctuations as a result of the above factors. The impact of these fluctuations could be accentuated because certain international trading markets, particularly those in emerging market countries, are typically smaller, less liquid and more volatile than U.S. trading markets.

For geographic distributions of net income, see page 20. For a discussion of international loans, see Note 17 to the Consolidated Financial Statements on page 145 and "Country and Cross-Border Risk Management Process" on page 65.

Operational risk. Citigroup is exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and record-keeping errors, integration of numerous acquired businesses, and computer/telecommunications systems malfunctions. Given the high volume of transactions at Citigroup, certain errors may be repeated or compounded before they are discovered and rectified. In addition, the Company's necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The Company

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may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example, natural disasters, acts of terrorism, epidemics, computer viruses, and electrical/telecommunications outages), which may give rise to losses in service to customers and/or monetary loss to the Company. All of these risks are also applicable where the Company relies on outside vendors to provide services to it and its customers.

Fiscal and monetary policies. The Company's businesses and earnings are affected by the policies adopted by regulatory authorities and bodies of the United States and other governments. For example, in the United States, policies of the Federal Reserve Board directly influence the rate of interest paid by commercial banks on their interest-bearing deposits and also may affect the value of financial instruments held by the Company. In addition, such changes in monetary policy may affect the credit quality of the Company's customers. The actions of the Federal Reserve Board and international central banking authorities directly impact the Company's cost of funds for lending, capital raising and investment activities.

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MANAGING GLOBAL RISK

Reputational and legal risk. Various issues may give rise to reputational risk and cause harm to the Company and its business prospects. These issues include appropriately dealing with potential conflicts of interest; legal and regulatory requirements; ethical issues; money laundering laws; privacy laws; information security policies; sales and trading practices; and conduct by companies in which we hold strategic investments or joint venture partners. Failure to address these issues appropriately could also give rise to additional legal risk to the Company, which could increase the number of litigation claims and the amount of damages asserted against the Company, or subject the Company to regulatory enforcement actions, fines and penalties.

Certain regulatory considerations. As a worldwide business, Citigroup and its subsidiaries are subject to extensive regulation, new legislation and changing accounting standards and interpretations thereof in many jurisdictions. Legislation is introduced, including tax, consumer protection, privacy and other legislation, from time to time in Congress, in the states and in foreign jurisdictions that may change banking and financial services laws and the operating environment of the Company and its subsidiaries in substantial and unpredictable ways. The Company cannot determine whether such legislation will be enacted and the ultimate effect that it would have on the Company's results.

Citigroup's risk management framework is designed to balance strong corporate oversight with well-defined independent risk management functions within each business.

The Citigroup Chief Risk Officer is responsible for:

- establishing standards for the measurement and reporting of risk,
- identifying and monitoring risk on a Company-wide basis,
- managing and compensating the senior independent risk managers,
- ensuring that the risk function has adequate staffing, analytics and expertise, and
- approving business-level risk management policies.

The risk managers supporting each of our businesses are responsible for establishing and implementing risk management policies and practices within their business, overseeing and critically evaluating the risk in their business, and for applying risk control policies that enhance and address the requirements of the business.

RISK AGGREGATION AND RISK CONVERGENCE

While the major risk factors are described individually on the following pages, these risks often need to be reviewed and managed in conjunction with one another and across the various businesses.

The Chief Risk Officer, as noted above, monitors and controls major risk exposures and concentrations across the organization. Specifically, this means looking at like risks across businesses (risk aggregation) and looking at the confluence of risk types within and across businesses (risk convergence).

During the course of 2007, including in the fourth quarter, Risk Management, working with input from the businesses and Finance, provided enhanced periodic updates to senior management and the Board of Directors on significant potential exposures across the Citigroup organization arising from risk concentrations (e.g., residential real estate), financial market participants (e.g., monoline insurers), and other systemic issues

(e.g., commercial paper markets). These risk assessments are forward-looking exercises, intended to inform senior management and the Board of Directors about the potential economic impacts to Citi that may occur, directly or indirectly, as a result of hypothetical scenarios. These exercises are a supplement to the standard limit-setting and risk capital exercises described later in this section, as the risk assessment process incorporates events in the marketplace and within Citi that impact our outlook on the form, magnitude, correlation and timing of identified risks that may arise. In addition to enhancing awareness and understanding of potential exposures, these assessments then serve as the starting point for developing risk management and mitigation strategies.

RISK CAPITAL

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.

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 value 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, based on the distribution of observed events and scenario analysis. The drivers of economic losses are risks, which can be broadly categorized as credit risk (including cross-border risk), market risk and operational risk:

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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 fluctuations in rates.

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

These risks are measured and aggregated within businesses and across Citigroup to facilitate the understanding of the Company's exposure to extreme downside events.

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.

Table of Contents**LOANS OUTSTANDING**

<i>In millions of dollars at year end</i>	2007	2006 ⁽²⁾	2005 ⁽²⁾	2004 ⁽²⁾	2003 ⁽²⁾
Consumer loans					
In U.S. offices:					
Mortgage and real estate ⁽¹⁾	\$ 251,927	\$ 225,900	\$ 192,045	\$ 161,755	\$ 129,412
Installment, revolving credit, and other	140,797	131,008	127,432	134,128	135,993
Lease financing	3,151	4,743	5,095	6,030	8,523
	\$ 395,875	\$ 361,651	\$ 324,572	\$ 301,913	\$ 273,928
In offices outside the U.S.:					
Mortgage and real estate ⁽¹⁾	\$ 55,152	\$ 44,457	\$ 39,619	\$ 39,601	\$ 28,743
Installment, revolving credit, and other	139,369	105,393	89,559	92,647	76,037
Lease financing	1,124	960	866	1,619	2,216
	\$ 195,645	\$ 150,810	\$ 130,044	\$ 133,867	\$ 106,996
	\$ 591,520	\$ 512,461	\$ 454,616	\$ 435,780	\$ 380,924
Unearned income	787	460	4	(554)	(992)
Consumer loans net	\$ 592,307	\$ 512,921	\$ 454,620	\$ 435,226	\$ 379,932
Corporate loans					
In U.S. offices:					
Commercial and industrial	\$ 38,870	\$ 27,437	\$ 22,081	\$ 14,437	\$ 15,207
Lease financing	1,630	2,101	1,952	1,879	2,010
Mortgage and real estate ⁽¹⁾	2,220	168	29	100	95
	\$ 42,720	\$ 29,706	\$ 24,062	\$ 16,416	\$ 17,312
In offices outside the U.S.:					
Commercial and industrial	\$ 116,145	\$ 105,872	\$ 80,116	\$ 77,052	\$ 62,884
Mortgage and real estate ⁽¹⁾	4,156	5,334	5,206	3,928	1,751
Loans to financial institutions	20,467	21,827	16,889	12,921	12,063
Lease financing	2,292	2,024	2,082	2,485	2,859
Governments and official institutions	442	1,857	882	1,100	1,496
	\$ 143,502	\$ 136,914	\$ 105,175	\$ 97,486	\$ 81,053
	\$ 186,222	\$ 166,620	\$ 129,237	\$ 113,902	\$ 98,365
Unearned income	(536)	(349)	(354)	(299)	(291)
Corporate loans net	\$ 185,686	\$ 166,271	\$ 128,883	\$ 113,603	\$ 98,074
Total loans net of unearned income	\$ 777,993	\$ 679,192	\$ 583,503	\$ 548,829	\$ 478,006
Allowance for loan losses on drawn exposures	(16,117)	(8,940)	(9,782)	(11,269)	(12,643)
Total loans net of unearned income and allowance for credit losses	\$ 761,876	\$ 670,252	\$ 573,721	\$ 537,560	\$ 465,363
Allowance for loan losses as a percentage of total loans net of unearned income	2.07%	1.32%	1.68%	2.05%	2.64%

(1) Loans secured primarily by real estate.

(2) Reclassified to conform to current year's presentation.

OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

<i>In millions of dollars at year end</i>	2007	2006	2005	2004	2003
Other real estate owned ⁽¹⁾⁽²⁾					
Consumer	\$ 707	\$ 385	\$ 279	\$ 320	\$ 437
Corporate	512	316	150	126	105
Total other real estate owned	\$ 1,219	\$ 701	\$ 429	\$ 446	\$ 542
Other repossessed assets ⁽³⁾	\$ 99	\$ 75	\$ 62	\$ 93	\$ 151

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- (1) Represents repossessed real estate, carried at lower of cost or fair value less costs to sell.
- (2) Includes the impact of foreclosures on subprime residential mortgages in the U.S. real estate portfolio.
- (3) Primarily commercial transportation equipment and manufactured housing, carried at lower of cost or fair value less costs to sell.

Table of Contents**DETAILS OF CREDIT LOSS EXPERIENCE**

<i>In millions of dollars at year end</i>	2007	2006	2005	2004	2003
Allowance for loan losses at beginning of year	\$ 8,940	\$ 9,782	\$ 11,269	\$ 12,643	\$ 11,101
Provision for loan losses					
Consumer	16,191	\$ 6,636	\$ 8,224	\$ 7,205	\$ 7,316
Corporate	1,233	102	(295)	(972)	730
	\$ 17,424	\$ 6,738	\$ 7,929	\$ 6,233	\$ 8,046
Gross credit losses					
Consumer ⁽¹⁾					
In U.S. offices	\$ 5,850	\$ 4,510	\$ 5,922	\$ 6,937	\$ 5,783
In offices outside the U.S.	5,905	4,717	4,664	3,304	3,270
Corporate					
Mortgage and real estate					
In U.S. offices					
In offices outside the U.S.	3	1		6	27
Governments and official institutions outside the U.S.					111
Loans to financial institutions					
In U.S. offices					
In offices outside the U.S.	69	6	10	3	13
Commercial and industrial					
In U.S. offices	632	85	78	52	383
In offices outside the U.S.	241	222	287	571	939
	\$ 12,700	\$ 9,541	\$ 10,961	\$ 10,873	\$ 10,526
Credit recoveries					
Consumer ⁽¹⁾					
In U.S. offices	\$ 723	\$ 691	\$ 1,061	\$ 1,079	\$ 763
In offices outside the U.S.	1,249	1,274	842	691	735
Corporate					
Mortgage and real estate					
In U.S. offices	3	1			
In offices outside the U.S.		18	5	3	1
Governments and official institutions outside the U.S.	4	7	55	1	
Loans to financial institutions					
In U.S. offices				6	
In offices outside the U.S.	1	4	15	35	12
Commercial and industrial					
In U.S. offices	49	20	104	100	34
In offices outside the U.S.	220	182	473	357	215
	\$ 2,249	\$ 2,197	\$ 2,555	\$ 2,272	\$ 1,760
Net credit losses					
In U.S. offices	\$ 5,707	\$ 3,883	\$ 4,835	\$ 5,804	\$ 5,369
In offices outside the U.S.	4,744	3,461	3,571	2,797	3,397
Total	\$ 10,451	\$ 7,344	\$ 8,406	\$ 8,601	\$ 8,766
Other net ⁽²⁾	\$ 204	\$ (236)	\$ (1,010)	\$ 994	\$ 2,262
Allowance for loan losses at end of year	\$ 16,117	\$ 8,940	\$ 9,782	\$ 11,269	\$ 12,643
Allowance for unfunded lending commitments ⁽³⁾	\$ 1,250	\$ 1,100	\$ 850	\$ 600	\$ 600
Total allowance for loans, leases and unfunded lending commitments	\$ 17,367	\$ 10,040	\$ 10,632	\$ 11,869	\$ 13,243
Net consumer credit losses	\$ 9,783	\$ 7,262	\$ 8,683	\$ 8,471	\$ 7,555
As a percentage of average consumer loans	1.78%	1.52%	2.01%	2.13%	2.22%
Net corporate credit losses/(recoveries)	\$ 668	\$ 82	\$ (277)	\$ 130	\$ 1,211
As a percentage of average corporate loans	0.35%	0.05%	NM	0.11%	1.17%

(1) Consumer credit losses primarily relate to U.S. mortgages, revolving credit and installment loans. Recoveries primarily relate to revolving credit and installment loans.

(2) 2007 primarily includes reductions to the loan loss reserve of \$475 million related to securitizations and transfers to loans held-for-sale, reductions of \$83 million related to the transfer of the U.K. CitiFinancial portfolio to held-for-sale, and additions of \$610 million related to the acquisition of Egg, Nikko Cordial, Grupo Cuscatlan and Grupo Financiero Uno. 2006 primarily includes reductions to the loan loss reserve of

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\$429 million related to securitizations and portfolio sales and the addition of \$84 million related to the acquisition of the CrediCard portfolio. 2005 primarily includes reductions to the loan loss reserve of \$584 million related to securitizations and portfolio sales, a reduction of \$110 million related to purchase accounting adjustments from the KorAm acquisition, and a reduction of \$90 million from the sale of CitiCapital's transportation portfolio. 2004 primarily includes the addition of \$715 million of loan loss reserves related to the acquisition of KorAm and the addition of \$148 million of loan loss reserves related to the acquisition of WMF. 2003 primarily includes the addition of \$2.1 billion of loan loss reserves related to the acquisition of the Sears credit card business.

(3) Represents additional credit loss reserves for unfunded corporate lending commitments and letters of credit recorded with Other Liabilities on the Consolidated Balance Sheet.

NM Not meaningful.

Table of Contents**CASH-BASIS, RENEGOTIATED, AND PAST DUE LOANS**

<i>In millions of dollars at year end</i>	2007	2006	2005	2004	2003
Corporate cash-basis loans ⁽¹⁾					
Collateral dependent (at lower of cost or collateral value)	\$ 11	\$ 19	\$ 6	\$ 7	\$ 8
Other ⁽²⁾	1,747	516	998	1,899	3,411
Total	\$ 1,758	\$ 535	\$ 1,004	\$ 1,906	\$ 3,419
Corporate cash-basis loans ⁽¹⁾					
In U.S. offices	\$ 266	\$ 128	\$ 81	\$ 254	\$ 640
In offices outside the U.S.	1,492	407	923	1,652	2,779
Total	\$ 1,758	\$ 535	\$ 1,004	\$ 1,906	\$ 3,419
Renegotiated loans (includes Corporate and Commercial Business Loans)					
In U.S. offices	\$ 58	\$ 4	\$ 22	\$ 63	\$ 107
In offices outside the U.S.	60	18	10	20	33
Total	\$ 118	\$ 22	\$ 32	\$ 83	\$ 140
Consumer loans on which accrual of interest had been suspended ⁽³⁾⁽⁴⁾					
In U.S. offices	\$ 4,857	\$ 2,490	\$ 2,307	\$ 2,485	\$ 3,127
In offices outside the U.S.	2,353	2,022	1,713	2,978	2,958
Total	\$ 7,210	\$ 4,512	\$ 4,020	\$ 5,463	\$ 6,085
Accruing loans 90 or more days delinquent ^{(5) (6)}					
In U.S. offices	\$ 2,723	\$ 2,260	\$ 2,886	\$ 3,153	\$ 3,298
In offices outside the U.S.	701	524	391	401	576
Total	\$ 3,424	\$ 2,784	\$ 3,277	\$ 3,554	\$ 3,874

(1) Excludes purchased distressed loans as they are accreting interest in accordance with Statement of Position 03-3, Accounting for Certain Loans on Debt Securities Acquired in a Transfer (SOP 03-3). Prior to 2004, these loans were classified with Other Assets. The carrying value of these loans was \$2.399 billion at December 31, 2007, \$949 million at December 31, 2006 and \$1,120 million at December 31, 2005 and \$1,213 million at December 31, 2004. The balance in 2003 was immaterial.

(2) Includes the impact of subprime activity in the U.S. and U.K.

(3) From December 31, 2005 forward, balance includes the impact of the change in the EMEA Consumer Write-Off Policy.

(4) Includes the impact of the deterioration in the U.S. consumer real estate market.

(5) The December 31, 2004 balance includes the Principal Residential Mortgage Inc. (PRMI) data. The December 31, 2003 balance includes the Sears and Home Depot data.

(6) Substantially composed of consumer loans of which \$2.454 billion, \$1.436 billion, \$1.591 billion, \$1.867 billion, and \$1.643 billion are government-guaranteed student loans and Federal Housing Authority mortgages at December 31, 2007, 2006, 2005, 2004, and 2003, respectively.

FOREGONE INTEREST REVENUE ON LOANS ⁽¹⁾

	In U.S.	In non-U.S.	2007
<i>In millions of dollars</i>	offices	offices	total
Interest revenue that would have been			
accrued at original contractual rates ⁽²⁾	\$ 379	\$ 520	\$ 899
Amount recognized as interest revenue ⁽²⁾	58	227	285
Foregone interest revenue	\$ 321	\$ 293	\$ 614

(1) Relates to corporate cash-basis, renegotiated loans and consumer loans on which accrual of interest had been suspended.

(2)

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Interest revenue in offices outside the U.S. may reflect prevailing local interest rates, including the effects of inflation and monetary correction in certain countries.

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CONSUMER CREDIT RISK

Within Global Consumer, credit risk management is responsible for establishing the Global Consumer Credit Policy, approving business-specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, ensuring the appropriate level of loan loss reserves, and approving new products and new risks.

Approval policies for a product or business are tailored to internal profitability and credit risk portfolio performance.

CONSUMER PORTFOLIO REVIEW

Citigroup's consumer loan portfolio is comparatively diversified by both product and location.

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.

U.S. 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 are 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 23 to the Consolidated Financial Statements on page 156.

Table of Contents**Consumer Loan Delinquency Amounts, Net Credit Losses, and Ratios**

	Total				Average			
<i>In millions of dollars, except total and average loan amounts in billions</i>								
Product View:	loans 2007	90 days or more past due ⁽¹⁾ 2007	2006	2005	loans 2007	2007	Net credit losses ⁽¹⁾	
							2006	2005
U.S.:								
<i>U.S. Cards</i>	\$ 42.0	\$ 779	\$ 718	\$ 1,161	\$ 38.7	\$ 1,841	\$ 1,788	\$ 2,737
<i>Ratio</i>		1.85%	1.61%	2.56%		4.76%	4.23%	5.83%
<i>U.S. Retail Distribution</i>	58.1	1,146	834	818	52.2	1,562	1,186	1,404
<i>Ratio</i>		1.97%	1.73%	1.94%		2.99%	2.67%	3.48%
<i>U.S. Consumer Lending</i>	231.1	5,354	2,870	2,624	223.9	1,646	787	673
<i>Ratio</i>		2.32%	1.36%	1.45%		0.74%	0.40%	0.40%
<i>U.S. Commercial Business ⁽²⁾</i>	39.1	179	149	155	37.7	83	57	48
<i>Ratio</i>		0.46%	0.41%	0.46%		0.22%	0.16%	0.15%
International:								
<i>International Cards</i>	46.5	1,041	709	469	39.0	1,837	1,300	667
<i>Ratio</i>		2.24%	2.29%	1.95%		4.71%	4.84%	2.97%
<i>International Consumer Finance</i>	26.2	529	608	442	25.8	1,839	1,411	1,284
<i>Ratio</i>		2.02%	2.43%	2.03%		7.12%	5.92%	5.75%
<i>International Retail Banking</i>	87.7	783	667	779	78.8	975	737	1,882
<i>Ratio</i>		0.89%	0.97%	1.29%		1.24%	1.15%	3.05%
<i>Private Bank ⁽³⁾</i>	57.2	30	21	79	50.5		(4)	(8)
<i>Ratio</i>		0.05%	0.05%	0.20%		0.00%	(0.01)%	(0.02)%
Other Consumer Loans	5.4			47	3.5			(4)
On-Balance-Sheet Loans ⁽⁴⁾	\$ 593.3	\$ 9,841	\$ 6,576	\$ 6,574	\$ 550.1	\$ 9,783	\$ 7,262	\$ 8,683
Ratio		1.66%	1.29%	1.46%		1.78%	1.52%	2.01%
Securitized receivables (all in <i>U.S. Cards</i>)	\$ 108.1	\$ 1,864	\$ 1,616	\$ 1,314	\$ 98.9	\$ 4,752	\$ 3,985	\$ 5,326
Credit card receivables held-for-sale ⁽⁵⁾	1.0	14			3.0		5	28
Managed Loans ⁽⁶⁾	\$ 702.4	\$ 11,719	\$ 8,192	\$ 7,888	\$ 652.0	\$ 14,535	\$ 11,252	\$ 14,037
Ratio		1.67%	1.34%	1.44%		2.23%	1.96%	2.69%
Regional View:								
<i>U.S.</i>	\$ 410.1	\$ 7,484	\$ 4,584	\$ 4,857	\$ 386.7	\$ 5,134	\$ 3,820	\$ 4,860
<i>Ratio</i>		1.83%	1.24%	1.47%		1.33%	1.10%	1.56%
<i>Mexico</i>	19.4	743	625	624	17.9	770	511	284
<i>Ratio</i>		3.83%	3.78%	4.21%		4.30%	3.34%	2.13%
<i>EMEA</i>	64.6	640	574	499	56.8	1,329	1,065	2,132
<i>Ratio</i>		0.99%	1.32%	1.39%		2.34%	2.68%	5.62%
<i>Japan</i>	10.5	196	235	182	11.1	1,284	1,033	1,016
<i>Ratio</i>		1.88%	2.08%	1.56%		11.62%	8.83%	7.43%
<i>Asia</i>	76.6	513	439	376	68.0	760	644	404
<i>Ratio</i>		0.67%	0.71%	0.70%		1.12%	1.13%	0.75%
<i>Latin America</i>	12.1	265	119	36	9.6	506	189	(13)
<i>Ratio</i>		2.20%	1.84%	0.93%		5.26%	3.63%	(0.38)%
On-Balance-Sheet Loans ⁽⁴⁾	\$ 593.3	\$ 9,841	\$ 6,576	\$ 6,574	\$ 550.1	\$ 9,783	\$ 7,262	\$ 8,683
Ratio		1.66%	1.29%	1.46%		1.78%	1.52%	2.01%
Securitized receivables (all in <i>U.S. Cards</i>)	\$ 108.1	\$ 1,864	\$ 1,616	\$ 1,314	\$ 98.9	\$ 4,752	\$ 3,985	\$ 5,326
Credit card receivables held-for-sale ⁽⁵⁾	1.0	14			3.0		5	28
Managed Loans ⁽⁶⁾	\$ 702.4	\$ 11,719	\$ 8,192	\$ 7,888	\$ 652.0	\$ 14,535	\$ 11,252	\$ 14,037
Ratio		1.67%	1.34%	1.44%		2.23%	1.96%	2.69%

(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) U.S. Commercial Business total loans include \$20.4 billion of loans related to commercial real estate.

(3) Private Bank results are reported as part of the Global Wealth Management segment.

(4) Total loans and total average loans exclude certain interest and fees on credit cards of approximately \$3 billion and \$2 billion, respectively, which are included in Consumer Loans on the Consolidated Balance Sheet.

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

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(6) 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 affected. 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 44.

Table of Contents**Consumer Loan Balances, Net of Unearned Income**

<i>In billions of dollars</i>	End of period			Average		
	2007	2006	2005	2007	2006	2005
On-balance-sheet ⁽¹⁾	\$ 593.3	\$ 510.8	\$ 450.6	\$ 550.1	\$ 477.4	\$ 432.8
Securitized receivables (all in <i>U.S. Cards</i>)	108.1	99.5	96.2	98.9	96.4	89.2
Credit card receivables held-for-sale ⁽²⁾	1.0			3.0	0.3	0.4
Total managed ⁽³⁾	\$ 702.4	\$ 610.3	\$ 546.8	\$ 652.0	\$ 574.1	\$ 522.4

(1) Total loans and total average loans exclude certain interest and fees on credit cards of approximately \$3 billion and \$2 billion, respectively, for 2007, \$2 billion and \$3 billion, respectively, for 2006, and \$4 billion and \$4 billion, respectively, for 2005, 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 44.

Citigroup's total allowance for loans, leases and unfunded lending commitments of \$17.367 billion is available to absorb probable credit losses inherent in the entire portfolio. For analytical purposes only, the portion of Citigroup's allowance for loan losses attributed to the Consumer portfolio was \$12.394 billion at December 31, 2007, \$6.006 billion at December 31, 2006 and \$6.922 billion at December 31, 2005. The increase in the allowance for loan losses from December 31, 2006 of \$6.388 billion included net builds of \$6.408 billion.

The builds consisted of \$6.310 billion in Global Consumer (\$5.028 billion in U.S. Consumer and \$1.282 billion in International Consumer), and \$100 million in Global Wealth Management.

The build of \$5.028 billion in U.S. Consumer primarily reflected an increase in the estimate of losses embedded in the portfolio based on weakening leading credit indicators, including increased delinquencies on first and second mortgages, unsecured personal loans, credit cards, and auto loans. Also, the build reflected trends in the U.S. macroeconomic environment, including the housing market downturn, and portfolio growth. The build of \$1.282 billion in International Consumer primarily reflected portfolio growth and the impact of recent acquisitions and deterioration in certain countries. The credit environment in International Consumer remained generally stable.

On-balance-sheet consumer loans of \$593.3 billion increased \$82.5 billion, or 16%, from December 31, 2006, primarily driven by *U.S.*

Consumer Lending, U.S. Retail Distribution, International Cards, International Retail Banking and Private Bank. 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.

Consumer Credit Outlook

Consumer credit losses in 2008 are expected to increase from prior-year levels due to the following:

Continued deterioration in the U.S. housing market is expected to drive higher losses in the first mortgage and second mortgage portfolios. Higher levels of delinquencies and bankruptcy filings are expected to drive higher losses in *U.S. Cards* and *U.S. Retail Distribution*. Increased credit costs in *International Cards, International Consumer Finance*, excluding *Japan*, and *International Retail Banking* as their growing portfolios season or mature and may be affected by economic and credit conditions in the U.S. and around the world. The difficult credit environment in the Japan Consumer Finance business from the impact of changes to consumer lending laws enacted in 2006, as well as deteriorating consumer credit conditions in *Japan* are expected to drive higher credit costs.

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Interest Rate Risk Associated with Consumer Mortgage Lending Activity

Citigroup originates and funds mortgage loans. As with all other lending activity, this exposes Citigroup to several risks, including credit, liquidity and interest rate risks. To manage credit and liquidity risk, Citigroup sells most of the mortgage loans it originates, but retains the servicing rights. These sale transactions create an intangible asset referred to as mortgage servicing rights (MSRs). The fair value of this asset is primarily affected by changes in prepayments that result from shifts in mortgage interest rates. Thus, by retaining the servicing rights of sold mortgage loans, Citigroup is still exposed to interest rate risk.

In managing this risk, Citigroup 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).

Since the change in the value of these hedging instruments does not perfectly match the change in the value of the MSRs, Citigroup is still exposed to what is commonly referred to as basis risk. Citigroup manages this risk by reviewing the mix of the various hedging instruments referred to above on a daily basis.

Prior to January 1, 2006, the portion of the MSRs that was hedged with instruments qualifying for hedge accounting under SFAS 133 was recorded at

fair value. The remaining portion of the MSRs, which was hedged with instruments that did not qualify for hedge accounting under SFAS 133 or were unhedged, were accounted for at the lower-of-cost-or-market. With the adoption of SFAS No. 156, Accounting for Servicing of Financial Assets (SFAS 156), as of January 1, 2006, the Company records all MSRs at fair value.

Citigroup's MSRs totaled \$8.380 billion and \$5.439 billion at December 31, 2007 and 2006, respectively. For additional information about the Company's MSRs, see Note 19 to the Consolidated Financial Statements on page 147.

As part of the mortgage lending activity, Citigroup commonly enters into purchase commitments to fund residential mortgage loans at specific interest rates within a given period of time, generally up to 60 days after the rate has been set. If the resulting loans from these commitments will be classified as loans-held-for-sale, Citigroup accounts for the commitments as derivatives under SFAS 133. Accordingly, changes in the fair value of these commitments, which are driven by changes in mortgage interest rates, are recognized in current earnings after taking into consideration the likelihood that the commitment will be funded. However, a value is not assigned to the MSRs until after the loans have been funded and sold.

Citigroup hedges its exposure to the change in the value of these commitments by utilizing hedging instruments similar to those referred to above.

Table of Contents**EXPOSURE TO REAL ESTATE****Subprime-Related Exposure in *Securities and Banking***

The following table summarizes Citigroup's U.S. subprime-related direct exposures in *Securities and Banking (S&B)* at September 30, 2007 and December 31, 2007:

<i>In billions of dollars</i>	Fourth quarter			
	September 30, 2007 exposures	2007 write-downs	Fourth quarter 2007 sales/transfers	December 31, 2007 exposures
Direct ABS CDO Super Senior Exposures:				
Gross ABS CDO Super Senior Exposures (A)	\$ 53.4			\$ 39.8
Hedged Exposures (B)	10.5			10.5
Net ABS CDO Super Senior Exposures:				
ABCP/CDO ⁽¹⁾	\$ 24.9	\$ (4.3)	\$ 0.0	\$ 20.6
High grade	9.5	(4.9) ⁽²⁾	0.3	4.9
Mezzanine	8.3	(5.2) ⁽²⁾	0.5	3.6
ABS CDO-squared	0.2	0.1	0.0	0.2
Total Net ABS CDO Super Senior Exposures (A-B=C)	\$ 42.9	\$ (14.3)	\$ 0.8	\$ 29.3
Lending & Structuring Exposures:				
CDO warehousing/unsold tranches of ABS CDOs	\$ 2.7	\$ (2.6)	\$ 0.0	\$ 0.2
Subprime loans purchased for sale or securitization	4.2	(0.2)	0.0	4.0
Financing transactions secured by subprime	4.8	(0.1) ⁽²⁾	(0.9)	3.8
Total Lending and Structuring Exposures (D)	\$ 11.7	\$ (2.9)	\$ (0.9)	\$ 8.0
Total Net Exposures	\$ 54.6	\$ (17.2)	\$ (0.1)	\$ 37.3
Credit Adjustment on Hedged Counterparty Exposures (E)		\$ (0.9)		
Total Net Write-Downs (C+D+E)		\$ (18.1)		

(1) Primarily backed by high-grade ABS CDOs. During the fourth quarter of 2007, the CDOs which collateralized the ABCP were consolidated on Citigroup's balance sheet.

(2) Fair value adjustment related to counterparty credit risk. Includes an aggregate \$704 million recorded in credit costs.

Subprime-Related Exposure in *Securities and Banking*

The Company had approximately \$37.3 billion in net U.S. subprime-related direct exposures in its *Securities and Banking* business at December 31, 2007.

The exposure consisted of (a) approximately \$29.3 billion of net exposures in the super senior tranches (i.e., most senior tranches) of collateralized debt obligations which are collateralized by asset-backed securities, derivatives on asset-backed securities or both (ABS CDOs), and (b) approximately \$8.0 billion of subprime-related exposures in its lending and structuring business.

Direct ABS CDO Super Senior Exposures

The net \$29.3 billion in ABS CDO super senior exposures as of December 31, 2007 is collateralized primarily by subprime residential mortgage-backed securities (RMBS), derivatives on RMBS or both. These exposures include \$20.6 billion in commercial paper (ABCP) issued as the super senior tranches of ABS CDOs and approximately \$8.7 billion of other super senior tranches of ABS CDOs.

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Citigroup's CDO super senior subprime direct exposures are Level 3 assets and are subject to valuation based on significant unobservable inputs. Accordingly, fair value of these exposures is based on estimates. The Company's estimation process involves use of an intrinsic cash flow methodology. During the course of the fourth quarter the methodology has been refined, and inputs used for the purposes of estimation have been

modified in part to reflect ongoing unfavorable market developments. The methodology takes into account estimated housing price changes, unemployment rates, interest rates and borrower attributes such as age, credit scores, documentation status, loan-to-value (LTV) ratios, and debt-to-income (DTI) ratios in order to model future collateral cash flows. In addition, the methodology takes into account estimates of the impact of geographic concentration of mortgages, estimated impact of reported fraud in the origination of subprime mortgages and the application of discount rates for each level of exposure, the fair value of which is being estimated. The primary drivers that will impact the super senior valuations are housing prices, interest and unemployment rates as well as the discount rates used to present value projected cash flows.

Estimates of the fair value of the CDO super senior exposures depend on market conditions and are subject to further change over time. In addition, while Citigroup believes that the methodology used to value these exposures is reasonable, the methodology is subject to continuing refinement, including as a result of market developments. Further, any observable transactions in respect of some or all of these exposures could be employed in the fair valuation process in accordance with and in the manner called for by SFAS 157.

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Lending and Structuring Exposures

The \$8.0 billion of subprime-related exposures includes approximately \$0.2 billion of CDO warehouse inventory and unsold tranches of ABS CDOs, approximately \$4.0 billion of actively managed subprime loans purchased for resale or securitization, at a discount to par, during 2007, and approximately \$3.8 billion of financing transactions with customers secured by subprime collateral. These amounts represent fair value determined based on observable inputs and other market data. As a result of the downgrades and market developments during the fourth quarter of 2007, the fair value of the CDO warehouse inventory and unsold tranches of ABS CDOs declined significantly, while the declines in the fair value of the other subprime-related exposures in the lending and structuring business was not significant.

S&B also has trading positions, both long and short, in U.S. subprime RMBS and related products, including ABS CDOs, which are not included in the figures above. The exposure from these positions is actively managed and hedged, although the effectiveness of the hedging products used may vary with material changes in market conditions.

The American Securitization Forum (ASF) and Treasury Secretary Henry Paulson have created a framework for freezing interest rates at their introductory levels for certain eligible borrowers whose subprime residential mortgage loans have been securitized. The accounting for Citigroup's mortgage QSPEs will not be directly affected by loans modified in accordance with the ASF framework, since it would be reasonable to conclude that defaults on such loans are reasonably foreseeable in the absence of any modification. At December 31, 2007, Global Consumer had \$4.4 billion of such nonsecuritized mortgage loans.

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U.S. Consumer Mortgage Lending

The Company's U.S. Consumer mortgage portfolio consists of both first and second mortgages, originated primarily by the *U.S. Consumer Lending* and *U.S. Retail Distribution* businesses. As of December 31, 2007, the first mortgage portfolio totaled approximately \$150 billion while the second mortgage portfolio was approximately \$63 billion. Approximately 84% of the first mortgage portfolio had FICO (Fair Isaac Corporation) credit scores of at least 620 at origination; the remainder was originated with FICO scores of less than 620. In the second mortgage portfolio, the majority of loans are in the higher FICO categories. However, approximately 33% of that portfolio had loan-to-value ratios (LTVs) of 90% or more at origination.

In some cases, some specific portfolios have been excluded from or added to the information presented, generally due to differences in methodology or variations in the manner in which information is captured. We have noted such exclusions or additions in instances where the Company believes they are material to reconcile the information presented. U.S. Consumer mortgage lending disclosure excludes approximately \$21 billion of consumer mortgage loans in Global Wealth Management (GWM). The GWM loans are primarily in the U.S. business and typically have better aggregate risk characteristics than those in the U.S. Consumer portfolio.

Balances: December 31, 2007

Note: FICO and LTV primarily at origination. First mortgage table excludes First Collateral Services (\$1.5 billion Commercial Business Group portfolio). Tables exclude \$4.6 billion from first mortgages and \$0.8 billion from second mortgages for which FICO and LTV data was unavailable. 90+DPD delinquency rate for the excluded first mortgages is 2.02% (vs. 2.69% for total portfolio) and 1.02% for the excluded second mortgages (vs. 1.26% for total portfolio). Excluding Government insured loans (described below), the 90+DPD delinquency rate for the first mortgage portfolio is 1.99%. Considering current market and economic conditions, LTV ratios and FICO scores may have deteriorated.

The tables below provide delinquency statistics for loans 90 or more days past due (90+DPD) in both the first and second mortgage portfolios. Loans in the first mortgage portfolio with FICO scores of less than 620 have significantly higher delinquencies than in any other FICO band. Similarly, in the second mortgage portfolio, loans with LTVs of at least 90% have higher delinquencies than any other LTV band.

The Company's first mortgage portfolio includes \$3.2 billion of loans with Federal Housing Administration or Veterans Administration guarantees. These portfolios consist of loans originated to low-to-moderate-income borrowers with lower FICO scores and generally have higher LTVs. These loans have high delinquency rates (approximately 28% 90+DPD) but, given the Government insurance, the Company has experienced negligible credit losses on these loans. The first mortgage portfolio also includes \$2.4 billion of loans with LTVs above 80% which have insurance through private mortgage insurance companies and \$14.8 billion of loans subject to Long Term Standby Commitments¹ with Government Sponsored Enterprises (GSE), for which the Company has limited exposure to credit losses.

The second mortgage portfolio includes \$3.3 billion of insured loans with LTVs above 90% and \$3.2 billion of loans subject to Long Term Standby Commitments with GSE, for which the Company has limited exposure to credit losses.

Delinquencies: 90+DPD

Note: 90+DPD are based on balances referenced in the table above. Second mortgages 90+DPD delinquency rates are calculated by OTS methodology. Second mortgages with FICOs below 620 are less than 1% of the total, and the Company provides 90+DPD delinquency rates as a measure of their performance.

¹ A Long-Term Standby Commitment (LTSC) is a structured transaction in which the Company transfers the credit risk of certain eligible loans to an investor in exchange for a fee. These loans remain on balance sheet unless they reach a certain delinquency level (between 120 and 180 days), in which case the LTSC investor is required to buy the loan at par.

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In light of increased delinquencies in the U.S. Consumer mortgage portfolios during 2007, the Company has increased its allowance for loan losses related to these portfolios.

The following charts detail the quarterly trends in delinquencies for the Company's first and second U.S. Consumer mortgage portfolios. Delinquencies have increased substantially.

The first mortgage delinquency trend shows that year-end delinquency levels are similar to 2003 levels. A further breakout of the FICO below 620 segment indicates that delinquencies in this segment are three times higher than in the overall first mortgage portfolio. Delinquency rates in the second mortgage portfolio are at historically high levels, particularly in the 90% or higher LTV segment. This segment has a delinquency rate twice as high as the rate for the overall second mortgage portfolio.

First mortgages' net credit losses as a percentage of average loans are nearly one-third the level of those in the second mortgage portfolio, despite much higher delinquencies in the first mortgage portfolio. Two major factors explain this relationship:

- First mortgages include Government guaranteed loans.
- Second mortgages are much more likely to go directly from delinquency to charge-off without going into foreclosure.

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The following tables detail the Company's first and second U.S. Consumer mortgage portfolio by origination channels, geographic distribution and origination vintage.

By Origination Channel

The Company's U.S. Consumer mortgage portfolio was originated from three main channels: retail, broker and correspondent.

Retail: loans originated through a direct relationship with the borrower.

Broker: loans originated through a mortgage broker; the Company underwrites the loan directly with the borrower.

Correspondent: loans originated and funded by a third party; the Company purchases the closed loans after the correspondent has funded the loan.

First Mortgages: December 31, 2007

Note: \$150 billion portfolio excludes Canada & Puerto Rico, First Collateral Services, deferred fees/costs and loans held for sale, and includes *Smith Barney* (\$0.8 billion) and loans sold with recourse. Excluding Government insured loans, 90+DPD for the First mortgage portfolio is 1.99%.

As of December 31, 2007, approximately 47% of the first mortgage portfolio was originated through the correspondent channel. Given that loans originated through correspondents had exhibited higher 90+DPD delinquency rates than retail originated mortgages, the Company took several measures to reduce its exposure. The Company terminated business with a number of correspondent sellers in 2007 and tightened credit policy in several critical areas. It also significantly cut back on origination of stated- and no-income documentation loans, lowered maximum LTVs associated with housing markets experiencing significant price declines and raised minimum FICO requirements across several mortgage programs.

Second Mortgages: December 31, 2007

Note: Second mortgage 90+DPD rate calculated by OTS methodology.

For second mortgages, approximately 59% of the loans were originated through third-party channels. As these mortgages have demonstrated a higher incidence of delinquencies, the Company has lowered the volume of origination through third-party channels. During the fourth quarter of 2007, the Company exited the second mortgage correspondent business and reduced the number of brokers with whom it does business, maintaining relationships with only those brokers who have produced strong, high-quality and profitable volume. The shift in origination mix, along with tightened underwriting criteria, has resulted in loans originated in the fourth quarter having higher FICO scores and lower LTVs, on average, than those originated a year ago.

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By State

Approximately half of the Company's U.S. Consumer mortgage portfolio is concentrated in five states: California, New York, Florida, Illinois, and Texas. Those states represent 48% of first mortgages and 55% of second mortgages. Although California represents 27% of the first mortgage portfolio, only 3% of its loans are in the FICO<620 band, driving lower average delinquencies for the overall portfolio. Florida and Texas, which have 21% and 31%, respectively, of its loans with FICO<620, have delinquencies of 4.62% and 4.03%, respectively.

First Mortgages: \$150 billion December 31, 2007

Note: \$150 billion portfolio excludes Canada & Puerto Rico, First Collateral Services, deferred fees/costs and loans held for sale, and includes *Smith Barney* (\$0.8 billion) and loans sold with recourse. Excluding Government insured loans, 90+DPD for the first mortgage portfolio is 1.99%.

In the second mortgage portfolio, Florida and California have above-average delinquencies, as 26% and 23% of their loans were originated in the LTV≥90% band.

Second Mortgages: \$63 billion December 31, 2007

Note: Second mortgage 90+DPD rate calculated by OTS methodology.

By Vintage

Approximately half of the Company's U.S. Consumer mortgage portfolio is of 2006 and 2007 vintage. In first mortgages, 49% of the portfolio is of 2006 and 2007 vintage and approximately 19% is pre-2003 vintage. In second mortgages, 65% of the portfolio is of 2006 and 2007 vintage and approximately 5% is pre-2003 vintage.

First Mortgages: \$150 billion December 31, 2007

Note: \$150 billion portfolio excludes Canada & Puerto Rico, First Collateral Services, deferred fees/costs and loans held for sale, and includes *Smith Barney* (\$0.8 billion) and loans sold with recourse. Excluding Government insured loans, 90+DPD for the first mortgage portfolio is 1.99%.

Second Mortgages: \$63 billion December 31, 2007

Note: Second mortgage 90+DPD rate calculated by OTS methodology.

The Company has made numerous policy and process changes during 2007 to mitigate losses. For example, the Company no longer offers mortgage loans for investment properties or three- to four-family homes. In addition, the Company has tightened its overall LTV standards, especially in areas where housing prices have depreciated severely. Overall, the Company continues to tighten credit requirements through

higher FICOs, lower LTVs, increased documentation and verifications.

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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 of two authorized-credit-officer signatures are required on extensions of credit (one from a sponsoring credit officer in the business and one from a credit officer in credit risk management);
- risk rating standards, applicable to every obligor and facility; and
- consistent standards for credit origination documentation and remedial management.

The following table represents the corporate credit portfolio, before consideration of collateral, by maturity at December 31, 2007. The corporate portfolio is broken out by direct outstandings (which include drawn loans, overdrafts, interbank placements, bankers' acceptances, certain investment securities and leases) and unfunded commitments (which include unused commitments to lend, letters of credit and financial guarantees).

Corporate Credit Portfolio

<i>In billions of dollars</i>	Due within 1 year	Greater than 1 year but within 5 years	Greater than 5 years	Total exposure
<i>at December 31, 2007</i>				
Direct outstandings	\$ 190	\$ 97	\$ 12	\$ 299
Unfunded lending commitments	277	183	11	471
Total	\$ 467	\$ 280	\$ 23	\$ 770

<i>In billions of dollars</i>	Due within 1 year	Greater than 1 year but within 5 years	Greater than 5 years	Total exposure
<i>at December 31, 2006</i>				
Direct outstandings	\$ 157	\$ 74	\$ 9	\$ 240
Unfunded lending commitments	230	154	9	393
Total	\$ 387	\$ 228	\$ 18	\$ 633

Portfolio Mix

The corporate credit portfolio is diverse across counterparty, industry and geography. The following table shows direct outstandings and unfunded commitments by region:

	December 31, 2007	December 31, 2006
<i>U.S.</i>	48%	46%
<i>Mexico</i>	5	5
<i>Japan</i>	2	2
<i>Asia</i>	12	14
<i>Latin America</i>	3	4

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EMEA	30	29
Total	100%	100%

The maintenance of accurate and consistent risk ratings across the corporate credit portfolio facilitates the comparison of credit exposure across all lines of business, geographic regions and products.

Obligor risk ratings reflect an estimated probability of default for an obligor and are derived primarily through the use of statistical models (which are validated periodically), external rating agencies (under defined circumstances), or approved scoring methodologies. Facility risk ratings are assigned, using the obligor risk rating, and then factors that affect the loss-given default of the facility, such as support or collateral, are taken into account.

Internal obligor ratings equivalent to BBB and above are considered investment-grade. Ratings below the equivalent of BBB are considered non-investment-grade.

The following table presents the corporate credit portfolio by facility risk rating at December 31, 2007 and 2006, as a percentage of the total portfolio:

	Direct outstandings and unfunded commitments	
	2007	2006
AAA/AA/A	53%	53%
BBB	24	27
BB/B	20	18
CCC or below	2	1
Unrated	1	1
Total	100%	100%

The corporate credit portfolio is diversified by industry, with a concentration only to the financial sector, including banks, other financial institutions, insurance companies, investment banks, and government and central banks. The following table shows the allocation of direct outstandings and unfunded commitments to industries as a percentage of the total corporate portfolio:

	Direct outstandings and unfunded commitments	
	2007	2006
Government and central banks	8%	7
Investment banks	8	6
Banks	7	9
Telephone and cable	6	3
Other financial institutions	4	6
Utilities	4	6
Insurance	4	5
Petroleum	4	4
Agriculture and food preparation	4	4
Industrial machinery and equipment	3	3
Metals	3	3
Global information technology	3	2
Chemicals	3	2
Autos	2	2
Freight transportation	2	2
Retail	2	2
Other industries ⁽¹⁾	33	34
Total	100%	100%

(1) Includes all other industries, none of which exceeds 2% of total outstandings.

Table of Contents**Credit Risk Mitigation**

As part of its overall risk management activities, the Company uses credit derivatives and other risk mitigants to hedge portions of the credit risk in its portfolio, in addition to outright asset sales. The purpose of these transactions is to transfer credit risk to independent third parties. The results of the mark-to-market and any realized gains or losses on credit derivatives are reflected in the Principal Transactions line on the Consolidated Statement of Income. At December 31, 2007 and 2006, \$123.7 billion and \$93.0 billion, respectively, of credit risk exposure were economically hedged. Citigroup's expected loss model used in the calculation of our loan loss reserve does not include the favorable impact of credit derivatives and other risk mitigants. The reported amounts of direct outstandings and unfunded commitments in this report do not reflect the impact of these hedging transactions. At December 31, 2007 and 2006, the credit protection was economically hedging underlying credit exposure with the following risk rating distribution:

Rating of Hedged Exposure

	2007	2006
AAA/AA/A	53%	49%
BBB	34	41
BB/B	11	10
CCC or below	2	
Total	100%	100%

At December 31, 2007 and 2006, the credit protection was economically hedging underlying credit exposure with the following industry distribution:

Industry of Hedged Exposure

	2007	2006
Telephone and cable	11%	9%
Utilities	9	10
Petroleum	7	6
Agriculture and food preparation	6	7
Insurance	5	4
Autos	5	5
Other financial institutions	5	5
Retail	5	5
Industrial machinery and equipment	5	4
Chemicals	4	4
Pharmaceuticals	4	4
Natural gas distribution	3	3
Global information technology	3	3
Metals	3	3
Investment banks	3	3
Airlines	2	3
Business services	2	3
Forest products	2	2
Banks	2	2
Entertainment	2	2
Other industries ⁽¹⁾	12	13
Total	100%	100%

(1) Includes all other industries, none of which is greater than 2% of the total hedged amount.

Direct Exposure to Monolines

In its Securities and Banking business, the Company has exposure to various monoline bond insurers listed in the table below (Monolines) from hedges on certain investments and from trading positions. The hedges are composed of credit default swaps and other hedge instruments. The Company recorded \$967 million in credit market value adjustments in 2007 (\$935 million in the fourth quarter) on the market value exposures to the Monolines as a result of widening credit spreads.

The following table summarizes the net market value of the Company's direct exposures to and the corresponding notional amount of transactions with the various Monolines as of December 31, 2007 in Securities and Banking:

In millions of dollars at	Net Market		Notional Amount
	Value	Exposure	
December 31, 2007			of Transactions
Direct Subprime ABS CDO Super Senior:			
AMBAC	\$ 1,815		\$ 5,485
FGIC	909		1,460
ACA	438		600
Radian	100		100
Subtotal Direct Subprime ABS CDO Super Senior	\$ 3,262		\$ 7,645
Trading Assets Subprime:			
AMBAC	\$ 1,150		\$ 1,400
Trading Assets Subprime	\$ 1,150		\$ 1,400
Trading Assets Non Subprime:			
MBIA	\$ 395		\$ 5,620
FSA	121		1,126
ACA	50		1,925
Assured	7		340
Radian	5		350
AMBAC			1,971
Trading Assets Non Subprime	\$ 578		\$ 11,332
Subtotal Trading Assets	\$ 1,728		\$ 12,732
Credit Market Value Adjustment	\$ (967)		
Total Net Market Value Direct Exposure	\$ 4,023		

As of December 31, 2007, the Company had \$10.5 billion notional amount of hedges against its Direct Subprime ABS CDO Super Senior positions, as disclosed in the fourth quarter earnings release. Of that \$10.5 billion, \$7.5 billion was purchased from Monolines and is included in the \$7.6 billion in notional amount of transactions in the table above. The net market value of the hedges provided by the Monolines against our Direct Subprime ABS CDO Super Senior positions was \$3.3 billion.

In addition, there was \$1.7 billion of net market value exposure to Monolines related to our trading assets. Trading assets include trading positions, both long and short, in U.S. subprime residential mortgage-backed securities (RMBS) and related products, including ABS CDOs. There were \$1.4 billion in notional amount of transactions related to subprime positions with a net market value exposure of \$1.2 billion. The notional amount of transactions related to the remaining non-subprime trading assets was \$11.3

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billion with a corresponding net market value exposure of \$578 million. The \$11.3 billion notional amount of transactions comprised \$4.1 billion primarily in interest rate swaps with a corresponding net market value exposure of \$34 million. The remaining notional amount of \$7.2 billion was in the form of credit default swaps and total return swaps with a net market value exposure of \$544 million.

The net market value exposure, net of payable and receivable positions, represents the market value of the contract as of December 31, 2007. The notional amount of the transactions, including both long and short positions, is used as a reference value to calculate payments. The credit market value adjustment is a downward adjustment to the net market value exposure to a counterparty to reflect the counterparty's creditworthiness.

In Global Consumer, the Company has purchased mortgage insurance from various monoline mortgage insurers on first mortgage loans. The notional amount of this insurance protection is approximately \$600 million with nominal pending claims against this notional amount.

In addition, Citigroup has indirect exposure to Monolines in various other parts of its businesses. For example, corporate or municipal bonds in the trading business may be insured by the Monolines. In this case, Citigroup is not a party to the insurance contract. The table above does not capture this type of indirect exposure to the Monolines.

Exposure to Commercial Real Estate

In its *Securities and Banking* business, the Company, through its business activities and as a capital markets participant, incurs exposures that are directly or indirectly tied to the global commercial real estate market. These exposures are represented primarily in three categories:

Trading Positions: approximately \$20 billion of net trading related exposures recorded at fair value. The majority of these exposures are classified as Level 3 in the fair value hierarchy. In recent months, weakening activity in the trading markets for some of these instruments resulted in reduced liquidity, thereby decreasing the observable inputs for such valuations and *could have* an adverse impact on how these instruments are valued in the future if such conditions persist. Changes in the values of these positions are recognized through revenues.

Loans: the exposures related to loans are primarily recorded at cost. The impact from changes in credit is reflected in the calculation of the allowance for loan losses and in net credit losses.

Commitments to fund loans: when funded, will be treated as loans in the paragraph above.

The Company's exposure related to loans and commitments to fund loans that are directly or indirectly related to the global commercial real estate market is significantly greater than the exposure related to its trading positions and could be adversely affected by deteriorating economic, credit and market conditions.

Table of Contents**CITIGROUP DERIVATIVES****Notionals ⁽¹⁾**

<i>In millions of dollars</i> As of December 31	Trading		Asset/liability	
	derivatives ⁽²⁾		management hedges ⁽³⁾	
	2007	2006	2007	2006
Interest rate contracts				
Swaps	\$ 16,433,117	\$ 14,196,404	\$ 521,783	\$ 561,376
Futures and forwards	1,811,599	1,824,205	176,146	75,374
Written options	3,479,071	3,054,990	16,741	12,764
Purchased options	3,639,075	2,953,122	167,080	35,420
Total interest rate contract notionals	\$ 25,362,862	\$ 22,028,721	\$ 881,750	\$ 684,934
Foreign exchange contracts				
Swaps	\$ 1,062,267	\$ 722,063	\$ 75,622	\$ 53,216
Futures and forwards	2,795,180	2,068,310	46,732	42,675
Written options	653,535	416,951	292	1,228
Purchased options	644,744	404,859	686	1,246
Total foreign exchange contract notionals	\$ 5,155,726	\$ 3,612,183	\$ 123,332	\$ 98,365
Equity contracts				
Swaps	\$ 140,256	\$ 104,320	\$	\$
Futures and forwards	29,233	36,362		
Written options	625,157	387,781		
Purchased options	567,030	355,891		
Total equity contract notionals	\$ 1,361,676	\$ 884,354	\$	\$
Commodity and other contracts				
Swaps	\$ 29,415	\$ 35,611	\$	\$
Futures and forwards	66,860	17,433		
Written options	27,087	11,991		
Purchased options	30,168	16,904		
Total commodity and other contract notionals	\$ 153,530	\$ 81,939	\$	\$
Credit derivatives ⁽⁴⁾				
Citigroup as the Guarantor:				
Credit default swaps	\$ 1,755,440	\$ 922,405	\$	\$
Total return swaps	12,121	21,607		
Credit default options	276			
Citigroup as the Beneficiary:				
Credit default swaps	1,890,611	989,305	\$	\$
Total return swaps	15,895	11,582		
Credit default options	450	81		
Total credit derivatives	\$ 3,674,793	\$ 1,944,980		
Total derivative notionals	\$ 35,708,587	\$ 28,552,177	\$ 1,005,082	\$ 783,299
Mark-to-Market (MTM) Receivables/Payables				

<i>In millions of dollars</i> As of December 31	Derivatives		Derivatives	
	receivables MTM		payables MTM	
	2007	2006 ⁽⁵⁾	2007	2006 ⁽⁵⁾
Trading Derivatives ⁽²⁾				
Interest rate contracts	\$ 269,400	\$ 168,872	\$ 257,329	\$ 168,793
Foreign exchange contracts	77,942	52,297	71,991	47,469
Equity contracts	27,934	26,883	66,916	52,980
Commodity and other contracts	8,540	5,387	8,887	5,776
Credit derivatives:				
Citigroup as the Guarantor	4,967	10,835	73,103	4,055
Citigroup as the Beneficiary	78,426	3,234	11,191	11,026
Total	\$ 467,209	\$ 267,508	\$ 489,417	\$ 290,099
Less: Netting agreements, cash collateral and market value adjustments	(390,328)	(217,967)	(385,876)	(215,295)
Net Receivables/Payables	\$ 76,881	\$ 49,541	\$ 103,541	\$ 74,804

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Asset/Liability Management Hedges ⁽³⁾

Interest rate contracts	\$ 8,529	\$ 1,801	\$ 7,176	\$ 3,327
Foreign exchange contracts	1,634	3,660	972	947
Total	\$ 10,163	\$ 5,461	\$ 8,148	\$ 4,274

(1) Includes the notional amounts for long and short derivative positions.

(2) Trading Derivatives include proprietary positions, as well as hedging derivatives instruments that do not qualify for hedge accounting in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133).

(3) Asset/Liability Management Hedges include only those end-user derivative instruments where the changes in market value are recorded to other assets or other liabilities.

(4) Credit Derivatives are off-balance-sheet arrangements designed to allow one party (the beneficiary) to transfer the credit risk of a reference asset to another party (the guarantor). These arrangements allow a guarantor to assume the credit risk associated with the reference assets without directly purchasing it. The Company has entered into credit derivatives positions for purposes such as risk management, yield enhancement, reduction of credit concentrations, and diversification of overall risk.

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

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The following table presents the global derivatives portfolio by internal obligor credit rating at December 31, 2007 and 2006, as a percentage of credit exposure:

	2007	2006
AAA/AA/A	80%	79%
BBB	11	11
BB/B	7	8
CCC or below	1	
Unrated	1	2
Total	100%	100%

The following table presents the global derivatives portfolio by industry of the obligor as a percentage of credit exposure:

	2007	2006
Financial institutions	75%	67%
Governments	6	11
Corporations	19	22
Total	100%	100%

Credit Derivatives

The Company makes markets in and trades a range of credit derivatives, both on behalf of clients as well as for its own account. Through these contracts the Company either purchases or writes protection on either a single-name or portfolio basis. The Company uses credit derivatives to help mitigate credit risk in its corporate loan portfolio and other cash positions, to take proprietary trading positions, and to facilitate client transactions.

Credit derivatives generally require that the seller of credit protection make payments to the buyer upon the occurrence of predefined events (settlement triggers). These settlement triggers are defined by the form of the derivative and the referenced credit and are generally limited to the market standard of failure to pay on indebtedness and bankruptcy of the reference credit and, in a more limited range of transactions, debt restructuring. Credit derivative transactions referring to emerging market reference credits will also typically include additional settlement triggers to cover the acceleration of indebtedness and the risk of repudiation or a payment moratorium. In certain transactions on a portfolio of referenced credits or asset-backed securities, the seller of protection may not be required to make payment until a specified amount of losses have occurred with respect to the portfolio and/or may only be required to pay for losses up to a specified amount.

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The following tables summarize the key characteristics of the Company's credit derivative portfolio by activity, counterparty and derivative form as of December 31, 2007 and December 31, 2006:

2007:

<i>In millions of dollars</i>	Market values			Notionals
	Receivable	Payable	Beneficiary	Guarantor
Credit portfolio	\$ 626	\$ 129	\$ 91,228	\$
Dealer/client	82,767	84,165	1,815,728	1,767,837
Total	\$ 83,393	\$ 84,294	\$ 1,906,956	\$ 1,767,837
Bank	\$ 14,784	\$ 21,023	\$ 609,088	\$ 600,866
Broker-dealer	12,799	15,960	236,137	207,032
Monoline	5,044	88	15,064	1,243
Non-financial	220	331	3,754	4,181
Insurance and other financial institutions	50,546	46,892	1,042,913	954,515
Total	\$ 83,393	\$ 84,294	\$ 1,906,956	\$ 1,767,837
Credit default swaps and options	\$ 82,752	\$ 83,015	\$ 1,891,061	\$ 1,755,716
Total return swaps and other	641	1,279	15,895	12,121
Total	\$ 83,393	\$ 84,294	\$ 1,906,956	\$ 1,767,837

2006:

<i>In millions of dollars</i>	Market values			Notionals
	Receivable	Payable	Beneficiary	Guarantor
Credit portfolio	\$ 43	\$ 130	\$ 44,777	\$ 4,964
Dealer/client	14,026	14,951	956,191	939,048
Total	\$ 14,069	\$ 15,081	\$ 1,000,968	\$ 944,012
Bank	\$ 7,342	\$ 7,767	\$ 545,851	\$ 504,419
Broker-dealer	5,186	5,380	339,479	314,261
Monoline	4	15	3,726	290
Non-financial	135	495	10,535	23,039
Insurance and other financial institutions	1,402	1,424	101,377	102,003
Total	\$ 14,069	\$ 15,081	\$ 1,000,968	\$ 944,012
Credit default swaps and options	\$ 13,898	\$ 14,588	\$ 989,386	\$ 922,405
Total return swaps and other	171	493	11,582	21,607
Total	\$ 14,069	\$ 15,081	\$ 1,000,968	\$ 944,012

The market values shown are prior to the application of any netting agreements, cash collateral, and market or credit value adjustments.

The Company actively participates in trading a variety of credit derivatives products as both an active two-way market-maker for clients and to manage credit risk. During 2007, Citigroup and the industry experienced a material increase in trading volumes. The volatility and liquidity challenges in the credit markets during the third and fourth quarters drove derivatives trading volumes as credit derivatives became the instrument of choice for managing credit risk. The majority of this activity was transacted with other financial intermediaries, including both banks and broker-dealers. During 2007 the total notional amount of protection purchased and sold increased \$906 billion and \$824 billion, respectively, and by various market participants. The total market value increase of \$69 billion for each protection purchased and sold was primarily due to an increase in volume growth of \$63 billion and \$62 billion, and market spread changes of \$6 billion and \$7 billion for protection purchased and sold, respectively. The Company expects to continue actively operating in the credit derivative markets.

The Company generally has a mismatch between the total notional amounts of protection purchased and sold, and it may hold the reference assets directly rather than entering into offsetting credit derivative contracts as and when desired. The open risk exposures from credit derivative contracts are largely matched after certain cash positions in reference assets are

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considered and after notional amounts are adjusted, either to a duration-based equivalent basis, or to reflect the level of subordination in tranching structures.

The Company actively monitors its counterparty credit risk in credit derivative contracts. Approximately 77% of the gross receivables as of December 31, 2007 is from counterparties with which the Company maintains collateral agreements. A majority of the Company's top 15 counterparties (by receivable balance owed to the Company) are banks, financial institutions or other dealers. Contracts with these counterparties do not include ratings-based termination events. However, counterparty rating downgrades may have an incremental effect by lowering the threshold at which the Company may call for additional collateral. A number of the remaining significant counterparties are monolines. See page 55 for a discussion of the Company's exposure to monolines. The master agreements with these monoline insurance counterparties are generally unsecured, and the few ratings-based triggers (if any) generally provide the ability to terminate only upon significant downgrade. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate. Recent reports and credit agency actions and announcements suggest that ratings downgrades of one or more monoline insurers are being contemplated.

Table of Contents**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:

<i>In millions of dollars</i>	2007	2006	2005
Corporate cash-basis loans			
<i>Securities and Banking</i>	\$ 1,730	\$ 500	\$ 923
<i>Transaction Services</i>	28	35	81
Total corporate cash-basis loans ⁽¹⁾⁽²⁾	\$ 1,758	\$ 535	\$ 1,004
Net credit losses (recoveries)			
<i>Securities and Banking</i>	\$ 651	\$ 62	\$ (268)
<i>Transaction Services</i>	24	27	(9)
<i>Alternative Investments</i>		(13)	
<i>Corporate/Other</i>	(7)	6	
Total net credit losses (recoveries)	\$ 668	\$ 82	\$ (277)
Corporate allowance for loan losses	\$ 3,723	\$ 2,934	\$ 2,860
Corporate allowance for credit losses on unfunded lending commitments ⁽³⁾	1,250	1,100	850
Total corporate allowance for loans, leases and unfunded lending commitments	\$ 4,973	\$ 4,034	\$ 3,710
As a percentage of total corporate loans ⁽⁴⁾	2.00%	1.76%	2.22%

(1) Excludes purchased distressed loans as they are accreting interest in accordance with SOP 03-3. The carrying value of these loans was \$2,399 million at December 31, 2007, \$949 million at December 31, 2006, and \$1,120 million at December 31, 2005.

(2) Includes the impact of subprime activity in the U.S. and U.K.

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

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

Cash-basis loans on December 31, 2007 increased \$1.223 billion from 2006, of which \$1.230 billion was in *Securities and Banking*. The increase in *Securities and Banking* was primarily due to the impact of subprime activity in the U.K. and U.S. markets.

Cash-basis loans on December 31, 2006 decreased \$469 million from 2005; \$423 million of the decrease was in *Securities and Banking* and \$46 million was in *Transaction Services*. *Securities and Banking* decreased primarily due to the absence of cash-basis portfolios in Russia and Australia and decreases in portfolios in Poland and Korea. The decrease in *Transaction Services* was primarily related to decreases in *Mexico*.

Total corporate loans outstanding at December 31, 2007 were \$186 billion as compared to \$166 billion at December 31, 2006.

Total corporate net credit losses of \$668 million in 2007 increased \$586 million from 2006, primarily due to \$535 million in write-offs on loans with

subprime-related direct exposure. Total corporate net credit losses of \$82 million in 2006 increased \$359 million compared to the net credit recovery of \$277 million in 2005, primarily attributable to the absence of gross credit recoveries experienced in 2005.

Citigroup's total allowance for loans, leases and unfunded lending commitments of \$17.367 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 \$4.973 billion at December 31, 2007, \$4.034 billion at December 31, 2006, and \$3.710 billion at December 31, 2005. The \$939 million increase in the corporate allowance at December 31, 2007 from December 31, 2006 primarily reflects a weakening in overall portfolio credit quality, as well as loan loss reserves for specific counterparties. The loan loss reserves for specific counterparties include \$327 million for subprime-related direct exposures. The \$324 million increase in the corporate allowance at December 31, 2006 from December 31, 2005 primarily reflects \$250 million in reserve builds related to increases in off-balance-sheet exposures and a slight decline in credit quality. 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.

LOAN MATURITIES AND FIXED/VARIABLE PRICING

	Due	Over 1 year		
	within	but within	Over 5	
<i>In billions of dollars at year end</i>	1 year	5 years	years	Total
Corporate loan portfolio maturities				
In U.S. offices:				
Commercial and industrial loans	\$ 28,424	\$ 5,724	\$ 4,722	\$ 38,870
Mortgage and real estate	1,623	327	270	2,220
Lease financing	1,192	240	198	1,630
In offices outside the U.S.	80,006	41,039	22,457	143,502
Total corporate loans	\$ 111,245	\$ 47,330	\$ 27,647	\$ 186,222
Fixed/variable pricing of corporate loans with maturities due after one year ⁽¹⁾				
Loans at fixed interest rates		\$ 10,950	\$ 4,474	
Loans at floating or adjustable interest rates		36,380	23,173	
Total		\$ 47,330	\$ 27,647	

(1) Based on contractual terms. Repricing characteristics may effectively be modified from time to time using derivative contracts. See Note 24 to the Consolidated Financial Statements on page 164.

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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 section on page 75. 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 risk. Each business is required to establish, with approval from independent market risk management, a market risk limit framework for identified risk factors 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

Interest Rate Risk

One of Citigroup's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customer's requirements with regard to tenor, index, and rate type. Net Interest Revenue (NIR) is the difference between the yield earned on the non-trading portfolio assets (including customer loans) and the rate paid on the liabilities (including customer deposits or company borrowings). The NIR is affected by changes in the level of interest rates. For example:

At any given time, there may be an unequal amount of assets and liabilities which are subject to market rates due to maturation or repricing. Whenever the amount of liabilities subject to repricing exceeds the amount of assets subject to repricing, a company is considered liability sensitive. In this case, a company's NIR will deteriorate in a rising rate environment.

The assets and liabilities of a company may reprice at different speeds or mature at different times, subjecting both liability sensitive and asset sensitive companies to NIR sensitivity from changing interest rates. For example, a company may have a large amount of loans that are subject to repricing this period, but the majority of deposits are not scheduled for repricing until the following period. That company would suffer from NIR deterioration if interest rates were to fall.

NIR in the current period is the result of customer transactions and the related contractual rates originated in prior periods as well as new transactions in the current period; those prior period transactions will be impacted by changes in rates on floating rate assets and liabilities in the current period.

Due to the long-term nature of the portfolios, NIR will vary from quarter to quarter even assuming no change in the shape or level of the yield curve as the assets and liabilities reprice. These repricings are a function of implied forward interest rates, which represent the overall market's unbiased estimate

of future interest rates and incorporate possible changes in the Federal Funds rate as well as the shape of the yield curve.

Interest Rate Risk Governance

The risks in Citigroup's non-traded portfolios are estimated using a common set of standards that define, measure, limit and report the market risk. Each business is required to establish, with approval from independent market risk management, a market risk limit framework 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. These limits are monitored by independent market risk, country and business Asset and Liability Committees (ALCOs) and the Global Finance and Asset and Liability Committee (FinALCO).

Interest Rate Risk Measurement

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Citigroup's principal measure of risk to NIR is Interest Rate Exposure (IRE). IRE measures the change in expected NIR in each currency resulting solely from unanticipated changes in forward interest rates. Factors such as changes in volumes, spreads, margins and the impact of prior-period pricing decisions are not captured by IRE. IRE assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes.

IRE tests the impact on NIR resulting from unanticipated changes in forward interest rates. For example, if the current 90-day LIBOR rate is 3% and the one-year forward rate is 5% (i.e., the estimated 90-day LIBOR rate in one year), the +100bps IRE scenario measures the impact on the company's NIR of a 100bps instantaneous change in the 90-day LIBOR, to 6% in one year.

The impact of changing prepayment rates on loan portfolios is incorporated into the results. For example, in the declining interest rate scenarios, it is assumed that mortgage portfolios prepay faster and income is reduced. In addition, in a rising interest rate scenario, portions of the deposit portfolio are assumed to experience rate increases that may be less than the change in market interest rates.

Mitigation and Hedging of Risk

All financial institutions' financial performances are subject to some degree of risk due to changes in interest rates. In order to manage these risks effectively, Citigroup may modify pricing on new customer loans and deposits, enter into transactions with other institutions or enter into off-balance-sheet derivative transactions that have the opposite risk exposures. Therefore, Citigroup regularly assesses the viability of strategies to reduce unacceptable risks to earnings and implements such strategies when the Company believes those actions are prudent. As information becomes available, Citigroup formulates strategies aimed at protecting earnings from the potential negative effects of changes in interest rates.

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

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The exposures in the following table represent the approximate annualized risk to NIR assuming an unanticipated parallel instantaneous 100bp change, as well as a more gradual 100bp (25bps per quarter) parallel change in rates as compared with the market forward interest rates in selected currencies.

The exposures in the following tables do not include Interest Rate Exposures (IREs) for the Nikko Cordial portion of Citigroup's operations in Japan due to the unavailability of information. Nikko Cordial's IRE is primarily denominated in Japanese yen.

<i>In millions of dollars</i>	December 31, 2007		December 31, 2006	
	Increase	Decrease	Increase	Decrease
U.S. dollar				
Instantaneous change	\$ (940)	\$ 837	\$ (728)	\$ 627
Gradual change	\$ (527)	\$ 540	\$ (349)	\$ 360
Mexican peso				
Instantaneous change	\$ (25)	\$ 25	\$ 42	\$ (43)
Gradual change	\$ (17)	\$ 17	\$ 41	\$ (41)
Euro				
Instantaneous change	\$ (63)	\$ 63	\$ (91)	\$ 91
Gradual change	\$ (32)	\$ 32	\$ (38)	\$ 38
Japanese yen				
Instantaneous change	\$ 67	NM	\$ (32)	NM
Gradual change	\$ 43	NM	\$ (21)	NM
Pound sterling				
Instantaneous change	\$ (16)	\$ 16	\$ (41)	\$ 41
Gradual change	\$ (4)	\$ 4	\$ (21)	\$ 21

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

The changes in the U.S. dollar IREs from the prior year reflect changes in customer-related asset and liability mix, as well as Citigroup's view of prevailing interest rates.

The following table shows the risk to NIR from six different changes in the implied forward rates. Each scenario assumes that the rate change will occur on a gradual basis every three months over the course of one year.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Overnight rate change (bps)		100	200	(200)	(100)	
10-year rate change (bps)	(100)		100	(100)		100
Impact to net interest revenue (<i>in millions of dollars</i>)	\$ 34	\$ (482)	\$ (977)	\$ 928	\$ 486	\$ (88)

Trading Portfolios

Price risk in trading portfolios is monitored using a series of measures, including:

factor sensitivities;
Value-at-Risk (VAR); and

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stress testing.

Factor sensitivities are expressed as the change in the value of a position for a defined change in a market risk factor, such as a change in the value of a Treasury bill for a one-basis-point change in interest rates. Citigroup's

independent market risk management ensures that factor sensitivities are calculated, monitored and, in most cases, limited, for all relevant risks taken in a trading portfolio.

VAR estimates the potential decline in the value of a position or a portfolio under normal market conditions. The VAR method incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors and is expressed as the risk to the Company over a one-day holding period, at a 99% confidence level. Citigroup's VAR is based on the volatilities of and correlations among a multitude of market risk factors as well as factors that track the specific issuer risk in debt and equity securities.

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The figures in the VAR table do not currently include the market risk from exposure to ABS CDOs and associated direct subprime exposures, including hedges, in the Securities and Banking business. Due to the volatile and illiquid state of the market in these assets in recent months, quantification of the risk on these products is subject to a high degree of uncertainty. Citigroup's approach to risk measurement in this asset class continues to evolve as new information on the market's pricing of these assets becomes available, allowing a VAR methodology for such products to be developed. The impact on the Company's overall VAR from these positions is expected to be significant. In the interim, they have been subjected to stress analysis and have been included as part of our risk capital assessment for market risk.

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

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.

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. In 2007, negative trading-related revenue (net losses) was recorded for 60 of 255 trading days. Of the 60 days on which negative revenue (net losses) was recorded, 15 were greater than \$100 million. The following histogram of total daily revenue or loss captures trading volatility and shows the number of days in which the Company's trading-related revenues fell within particular ranges. Due to the difficulty in estimating daily profit and loss in the ABS CDO market, those trading-related revenues, including recent subprime-related losses, are not included in current VAR calculations and thus are not included in the Histogram of Daily Trading-Related Revenue.

Citigroup periodically performs extensive back-testing of many hypothetical test portfolios as one check of the accuracy of its VAR. Back-testing is the process in which the daily VAR of a portfolio is compared to the actual daily change in the market value of its transactions. Back-testing is conducted to confirm that the daily market value losses in excess of a 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 \$191 million at December 31, 2007 and \$106 million at December 31, 2006. Daily exposures averaged \$142 million in 2007 and ranged from \$100 million to \$200 million.

The consolidation of the SIVs onto Citigroup's balance sheet became effective December 14, 2007. Those trading positions have not yet been integrated into these VAR figures. The marginal impact of those trading positions on the Company's VAR as of December 31, 2007 is estimated to be an increase to VAR of \$13 million.

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The following table summarizes VAR to Citigroup in the trading portfolios as of December 31, 2007 and 2006, including the Total VAR, the Specific-risk only component of VAR, and Total General market factors only, along with the yearly averages:

	Dec. 31,	2007	Dec. 31,	2006
<i>In millions of dollars</i>	2007	average	2006	average
Interest rate	\$ 89	\$ 98	\$ 81	\$ 87
Foreign exchange	28	29	27	27
Equity	150	96	62	48
Commodity	45	35	18	15
Covariance adjustment	(121)	(116)	(82)	(78)
Total All market				

risk factors,

including general

and specific-risk

Specific-risk only	\$ 191	\$ 142	\$ 106	\$ 99
component	\$ 28	\$ 19	\$ 8	\$ 10

Total General

market factors only

\$ 163 \$ 123 \$ 98 \$ 89

The Specific-risk only component represents the level of equity and debt issuer-specific risk embedded in VAR. Citigroup's specific-risk model conforms to the 4x-multiplier treatment approved by the Federal Reserve and is subject to extensive annual hypothetical back-testing.

The table below provides the range of VAR in each type of trading portfolio that was experienced during 2007 and 2006:

<i>In millions of dollars</i>	Low	2007 High	Low	2006 High
Interest rate	\$ 71	\$ 128	\$ 64	\$ 125
Foreign exchange	21	37	16	45
Equity	55	164	35	68
Commodity	17	56	5	25

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 the reputation and franchise risk associated with business practices or market conduct that the Company undertakes. 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;
- Oversight by independent risk management; and
- Independent review by Audit and Risk Review (ARR).

Framework

Citigroup's approach to operational risk is defined in the Citigroup Risk and Control Self-Assessment (RCSA)/Operational Risk Policy.

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The objective of the Policy is to establish a consistent, value-added framework for assessing and communicating operational risk and the overall effectiveness of the internal control environment across Citigroup.

Each major business segment must implement an operational risk process consistent with the requirements of this Policy. The process for operational risk includes the following steps:

- Identify and assess Key Operational Risks;
- Establish Key Risk Indicators; and
- Produce a comprehensive operational risk report.

The operational risk standards facilitate the effective communication of operational risk 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.

The RCSA standards establish a formal governance structure to provide direction, oversight, and monitoring of Citigroup's RCSA programs. The RCSA standards for risk and control assessment are applicable to all businesses and staff functions. They establish RCSA as the process whereby important risks inherent in the activities of a business are identified and the effectiveness of the key controls over those risks are evaluated and monitored. RCSA processes facilitate Citigroup's adherence to internal control over financial reporting, 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 Management Committee.

Measurement and Basel II

To support advanced capital modeling and management, the businesses are required to capture relevant operational risk capital information. An enhanced version of the risk capital model for operational risk has been developed and implemented across the major business segments as a step toward readiness for Basel II capital calculations. The risk capital calculation is designed to qualify as an Advanced Measurement Approach (AMA) under Basel II. It uses a combination of internal and external loss data to support statistical modeling of capital requirement estimates, which are then adjusted to reflect qualitative data regarding the operational risk and control environment.

Information Security and Continuity of Business

Information security and the protection of confidential and sensitive customer data are a priority of Citigroup. The Company has implemented an Information Security Program that complies with the Gramm-Leach-Bliley Act and other regulatory guidance. The Information Security Program is reviewed and enhanced periodically to address emerging threats to customers' information.

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.

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COUNTRY AND CROSS-BORDER RISK

MANAGEMENT PROCESS

Country Risk

Country risk is the risk that an event in a foreign country will impair the value of Citigroup assets or will adversely affect the ability of obligors within that country to honor their obligations to Citigroup. Country risk events may include sovereign defaults, banking or currency crises, social instability, and changes in governmental policies (for example, expropriation, nationalization, confiscation of assets and other changes in legislation relating to international ownership). Country risk includes local franchise risk, credit risk, market risk, operational risk, and cross-border risk.

The country risk management framework at Citigroup includes a number of tools and management processes designed to facilitate the ongoing analysis of individual countries and their risks. These include country risk rating models, scenario planning and stress testing, internal watch lists, and the Country Risk Committee process.

The Citigroup Country Risk Committee is the senior forum to evaluate the Company's total business footprint within a specific country franchise with emphasis on responses to current potential country risk events. The Committee is chaired by the Head of Global Country Risk Management and includes as its members senior risk management officers, senior regional business heads, and senior product heads. 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

Cross-border risk is the risk that actions taken by a non-U.S. government may prevent the conversion of local currency into non-local currency and/or the transfer of funds outside the country, thereby impacting the ability of the Company and its customers to transact business across borders.

Examples of cross-border risk include actions taken by foreign governments such as exchange controls, debt moratoria, or restrictions on the remittance of funds. These actions might restrict the transfer of funds or the ability of the Company to obtain payment from customers on their contractual obligations.

Management oversight of cross-border risk is performed through a formal review process that includes annual setting of cross-border limits and/or exposures, monitoring of economic conditions globally, and the establishment of internal cross-border risk management policies.

Under Federal Financial Institutions Examination Council (FFIEC) regulatory 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 and short-, 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 based on the country of the obligor or guarantor. Outstandings backed by cash collateral are assigned to the country in which 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.

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The table below shows all countries in which total FFIEC cross-border outstandings exceed 0.75% of total Citigroup assets:

					December 31, 2007				December 31, 2006			
Cross-border claims on third parties												
Investments												
in and												
funding												
Total cross-												
Trading and short-term					local		border		Total cross-border			
In billions of dollars U.S.												
	Banks	Public	Private	Total	claims (1)	franchise	outstanding	commitments (2)	standing	commitments (2)		
India	\$ 2.1	\$ 0.5	\$ 14.9	\$ 17.5	\$ 14.5	\$ 21.5	\$ 39.0	\$ 1.7	\$ 24.8	\$ 0.7		
Germany	13.7	5.1	10.5	29.3	25.6		29.3	46.4	38.6	43.6		
United Kingdom	6.9	0.1	17.7	24.7	22.9		24.7	366.0	18.4	192.8		
France	9.5	2.8	12.0	24.3	22.2		24.3	107.8	19.8	60.8		
Netherlands	4.9	2.6	15.6	23.1	17.2		23.1	20.2	20.1	10.5		
South Korea	1.6	0.1	4.3	6.0	5.8	15.9	21.9	22.0	19.7	21.4		
Spain	3.1	5.9	8.4	17.4	16.2	3.9	21.3	7.4	19.7	6.8		
Italy	1.8	8.6	4.4	14.8	14.3	4.0	18.8	5.1	18.6	4.0		

(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 to be funded with local currency local liabilities.

Table of Contents**BALANCE SHEET REVIEW**

	December 31		Increase	%
<i>In billions of dollars</i>	2007	2006	(Decrease)	Change
Assets				
Loans, net of unearned income and allowance for loan losses	\$ 762	\$ 670	\$ 92	14%
Trading account assets	539	394	145	37
Federal funds sold and securities borrowed or purchased under agreements to resell	274	283	(9)	(3)
Investments	215	274	(59)	(22)
All other assets	398	263	135	51
Total assets	\$ 2,188	\$ 1,884	\$ 304	16%
Liabilities				
Deposits	\$ 826	\$ 712	\$ 114	16%
Federal funds purchased and securities loaned or sold under agreements to repurchase	304	349	(45)	(13)
Short-term borrowings and long-term debt	574	389	185	48
Trading account liabilities	182	146	36	25
Other liabilities	188	168	20	12
Total liabilities	\$ 2,074	\$ 1,764	\$ 310	18%
Stockholders' equity	\$ 114	\$ 120	\$ (6)	(5)%
Total liabilities and stockholders' equity	\$ 2,188	\$ 1,884	\$ 304	16%

Loans

Loans are an extension of credit to individuals, corporations, and government institutions. Loans vary across regions and industries and primarily include credit cards, mortgages, other real estate lending, personal loans, auto loans, student loans, and corporate loans. The majority of loans are carried at cost with a minimal amount recorded at fair value in accordance with SFAS 155 and SFAS 159.

Consumer and corporate loans comprised 76% and 24%, respectively, of total loans (net of unearned income and before the allowance for loan losses).

Consumer loans increased by \$73 billion, or 14%, primarily due to:

\$44 billion, or 19%, increase in installment and revolving credit; and

\$37 billion, or 14%, increase in mortgage and real estate loans;

These increases were partially driven by acquisitions.

Corporate loans increased \$19 billion, or 11%, primarily driven by an increase of \$22 billion, or 16%, in commercial and industrial loans.

During 2007, average consumer loans (net of unearned income) of \$553 billion yielded an average rate of 9.1%, compared to \$480 billion and 9.0% in the prior year. Average corporate loans of \$188 billion yielded an average rate of 8.5% in 2007, compared to \$153 billion and 7.6% in the prior year.

For further information, see **Loans Outstanding** on page 41 and Note 17 to the Consolidated Financial Statements on page 145.

Trading Account Assets (Liabilities)

Trading account assets include debt and marketable equity securities, derivatives in a receivable position, residual interests in securitizations, and physical commodities inventory. In addition, certain assets that Citigroup has elected to carry at fair value under SFAS 155 and SFAS 159,

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such as certain loans and purchase guarantees, are also included in trading account assets. Trading account liabilities include securities sold, not yet purchased (short positions) and derivatives in a net payable position as well as certain liabilities that Citigroup has elected to carry at fair value under SFAS 155.

All trading account assets and liabilities are reported at their fair value, except for physical commodities inventory which is carried at the lower of cost or market, with unrealized gains and losses recognized in current income.

Trading account assets increased by \$145 billion, or 37%, due to:

- \$87 billion, or 93%, increase in corporate and other debt securities, including \$45 billion of securities related to the consolidation of the Citi-advised SIVs;

- \$27 billion, or 55%, increase in revaluation gains primarily consisting of increases from interest rates, foreign exchange, and credit derivative contracts, offset by an increase in netting permitted under master netting agreements;

- \$20 billion, or 53%, increase in mortgage loans and collateralized mortgage securities (CMOs);

- \$19 billion, or 58%, increase in foreign government securities; and

- \$14 billion, or 16%, increase in equity securities.

Offset by:

- \$12 billion, or 28%, decrease in U.S. Treasury and federal agency securities;

- \$10 billion, or 24%, net decrease in other trading securities.

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Total average trading account assets were \$441 billion in 2007, compared to \$290 billion in 2006, yielding average rates of 4.2% and 4.1%, respectively.

Trading account liabilities increased by \$36 billion, or 25%, due to:

\$29 billion, or 38%, increase in revaluation losses primarily consisting of increases from interest rates, foreign exchange and credit derivative contracts, offset by an increase in netting permitted under master netting agreements; and

\$7 billion, or 10%, increase in securities sold, not yet purchased, comprising a \$9 billion increase in debt securities, offset by a decrease of \$2 billion in U.S. Treasury securities.

In 2007, average trading account liabilities were \$105 billion, yielding an average rate of 1.4%, compared to \$75 billion and 1.5% in the prior year.

For further discussion regarding trading account assets and liabilities, see Note 15 to the Consolidated Financial Statements on page 142.

Federal Funds Sold (Purchased) and Securities Borrowed (Loaned) or Purchased (Sold) Under Agreements to Resell (Repurchase)

Federal funds sold and federal funds purchased consist of unsecured advances of excess balances in reserve accounts held at Federal Reserve Banks. When the Company advances federal funds to a third party, it is selling its excess reserves. Similarly, when the Company receives federal funds, the Company is purchasing reserves from a third party. These interest-bearing transactions typically have an original maturity of one business day.

Securities borrowed and securities loaned are recorded at the amount of cash advanced or received, with a minimal amount adjusted for fair value in accordance with SFAS 159. With respect to securities borrowed, the Company pays cash collateral in an amount in excess of the market value of securities borrowed, and receives excess in the case of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis with additional collateral advanced or obtained as necessary. Interest received or paid for these transactions is recorded in interest income or interest expense.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are primarily carried at fair value in accordance with SFAS 159 since January 1, 2007; in prior periods, these agreements were carried at cost. The Company's policy is to take possession of securities purchased under agreements to resell. The market value of securities to be repurchased and resold is monitored, and additional collateral is obtained where appropriate to protect against credit exposure.

The decrease of \$9 billion, or 3%, in federal funds sold and securities borrowed or purchased under agreements to resell and the decrease of \$45 billion, or 13%, in federal funds purchased and securities loaned or sold under agreements to repurchase were primarily driven by lower funding requirements for long and short positions, as well as reduced activity in the Company's secured financing trading strategy, offset by the consolidation of Nikko Cordial.

For further information regarding these balance sheet categories, see Note 13 to the Consolidated Financial Statements on page 141.

Investments

Investments consist of fixed income and equity securities. Fixed income includes bonds, notes and redeemable preferred stock, as well as loan-backed securities (such as mortgage-backed securities) and other structured notes. Equity securities include common and nonredeemable preferred stocks. These instruments provide the Company with long-term investment opportunities while in most cases remaining relatively liquid.

These investments are primarily carried at fair value with the changes in fair value generally recognized in stockholders' equity (accumulated other comprehensive income). Declines in fair value that are deemed other-than-temporary are recognized in current earnings, as well as gains

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and losses from the sale of these investment securities. Certain investments in non-marketable equity securities and certain investments that would otherwise be accounted for using the equity method are carried at fair value in accordance with SFAS 159. Changes in fair value of such investments are recorded in earnings.

Investments decreased by \$59 billion, or 22%, principally due to the following decreases:

- \$37 billion in mortgage-backed securities, which is primarily due to the winding down of a mortgage-backed securities program in the *U.S. Consumer Lending* business;
- \$5 billion in U.S. Treasury and federal agency securities; and
- net \$17 billion for all other securities.

For further information regarding investments, see Note 16 to the Consolidated Financial Statements on page 143.

Other Assets

Other assets are composed of cash and due from banks, deposits with banks, brokerage receivables, goodwill, intangibles, and various other assets.

Other assets increased \$135 billion, or 51%, due to the following increases:

- \$35 billion related to loans held-for-sale;
- \$27 billion in deposits with banks, including \$12 billion related to the consolidation of the Citi-advised SIVs;
- \$15 billion in goodwill and intangibles, driven by acquisitions and foreign currency translation;
- \$13 billion in brokerage receivables;
- \$12 billion in cash and due from banks; and
- \$33 billion in various other assets.

For further information regarding goodwill and intangibles, see Note 19 to the Consolidated Financial Statements on page 147. For further discussion on brokerage receivables, see Note 14 to the Consolidated Financial Statements on page 142.

Deposits

Deposits represent customer funds that are payable on demand or upon maturity. The majority of deposits are carried at cost, with a minimal amount recorded at fair value in accordance with SFAS 155 and SFAS 159. Deposits can be interest-bearing or non-interest-bearing. Interest-bearing

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deposits payable by foreign and U.S. domestic banking subsidiaries of the Company comprise 63% and 27% of total deposits, respectively, while non-interest-bearing deposits comprise 5% and 5% of total deposits, respectively.

Total deposits increased by \$114 billion, or 16%, primarily due to:

Strong growth in corporate interest-bearing deposits in all regions, notably in Europe, Asia, and North America. Increases reflected the impact of rising short-term interest rates, as well as increased client transactional volumes and strong economic growth; and Growth in retail deposits primarily from high-yield savings accounts, time deposits and money market accounts in the Consumer businesses. Increased U.S. deposits were driven by organic growth through branch expansion, competitive interest rates, and marketing campaigns of new products. In regions outside the U.S., deposits grew as a result of continued branch and client acquisition and servicing channel expansion, competitive interest rates and marketing campaigns of new products. Average deposits increased \$117 billion to \$704 billion in 2007, yielding an average rate of 4.1%, compared to 3.7% in the prior year.

For more information on deposits, see Capital Resources and Liquidity on page 75.

Debt

Debt is composed of both short-term and long-term borrowings. It includes commercial paper, borrowings from unaffiliated banks, senior notes (including collateralized advances from the Federal Home Loan Bank), subordinated notes and trust preferred securities. The majority of debt is carried at cost, with approximately \$93 billion recorded at fair value in accordance with SFAS 155 and SFAS 159.

Debt increased by \$185 billion, or 48%, as short-term borrowings increased \$46 billion, or 45%, and long-term debt increased \$139 billion, or 48%.

The increase in short-term borrowings included an increase of \$52 billion in other funds borrowed, offset by a decrease of \$6 billion in commercial paper. The net increase was used to fund both trading and non-trading activities.

Average commercial paper outstanding in 2007 was \$45 billion and yielded an average rate of 5.2%, compared to \$32 billion and 5.0% in 2006. Average other funds borrowed in 2007 was \$98 billion, yielding an average rate of 3.0%, compared to \$39 billion and 4.1% in the prior year.

As for long-term debt, the Company consolidated \$46 billion of Citi-advised SIV long-term debt as a result of committing to provide a support facility that would resolve uncertainties regarding senior debt repayment currently facing the SIVs. In addition, long-term debt increased due to the Company's funding of acquisitions and strategic investments, along with acquiring debt associated with these acquisitions. The funding mix is based on the dynamic liquidity characteristics of the assets funded and is intended to maintain an adequate funding and capital structure. U.S. dollar and non-U.S. dollar-denominated fixed and variable rate senior debt increased by \$90 billion, while subordinated debt increased by \$35 billion. Additionally, trust preferred securities increased by \$14 billion, including the sale of \$7.5 billion of equity units, with mandatory conversion into common shares, in a private placement to the Abu Dhabi Investment Authority.

Average long-term debt outstanding during 2007 was \$317 billion, compared to \$231 billion in 2006, yielding an average rate of 5.4% and 5.2%, respectively.

For more information on debt, see Note 20 to the Consolidated Financial Statements on page 149 and Capital Resources and Liquidity on page 75.

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<i>In millions of dollars</i>	Global Consumer	Markets & Banking	Global Wealth Management	Alternative Investments	Corporate/Other & Consolidating Eliminations	Total Citigroup Consolidated
Assets:						
Cash and due from banks	\$ 11,364	\$ 18,478	\$ 905	\$ 717	\$ 6,742	\$ 38,206
Deposits with banks	15,337	37,130	2,649	13,327	923	69,366
Federal funds sold and securities borrowed or purchased under agreements to resell	946	268,115	5,005			274,066
Brokerage receivables	488	40,466	15,993	412		57,359
Trading account assets	10,199	474,873	7,830	46,082		538,984
Investments	72,695	117,080	344	9,748	15,141	215,008
Loans, net of unearned income						
Consumer	529,900		62,407			592,307
Corporate		185,621		65		185,686
Loans, net of unearned income	\$ 529,900	\$ 185,621	\$ 62,407	\$ 65	\$	\$ 777,993
Allowance for loan losses	(12,158)	(3,723)	(236)			(16,117)
Total loans, net	\$ 517,742	\$ 181,898	\$ 62,171	\$ 65	\$	\$ 761,876
Goodwill	29,348	9,218	2,109	529		41,204
Intangible assets	17,344	2,263	2,874	206		22,687
Other assets	69,832	73,966	4,450	1,845	18,782	168,875
Total assets	\$ 745,295	\$ 1,223,487	\$ 104,330	\$ 72,931	\$ 41,588	\$ 2,187,631
Liabilities and Equity:						
Total deposits	\$ 319,822	\$ 400,299	\$ 106,020	\$	\$ 89	\$ 826,230
Federal funds purchased and securities loaned or sold under agreements to repurchase	5,311	295,201	3,477	254		304,243
Brokerage payables		78,731	6,220			84,951
Trading account liabilities	392	178,481	2,538	671		182,082
Short-term borrowings	16,727	61,322	22,726	4,822	40,891	146,488
Long-term debt	103,567	92,287	849	45,887	184,522	427,112
Other liabilities	144,663	107,344	23,253	8,655	(180,988)	102,927
Net intersegment funding (lending)	154,813	9,822	(60,753)	12,642	(116,524)	
Stockholders' equity					113,598	113,598
Total liabilities and stockholders' equity	\$ 745,295	\$ 1,223,487	\$ 104,330	\$ 72,931	\$ 41,588	\$ 2,187,631

The above supplemental information reflects the Company's consolidated GAAP balance sheet by reporting segment. The respective segment information closely depicts the assets and liabilities managed by each segment. While this presentation is not defined by GAAP, the Company believes that these non-GAAP financial measures enhance investors

understanding of the balance sheet components managed by the underlying business segments as well as the beneficial interrelationship of the asset and liability dynamics of the balance sheet components among the Company's business segments. The Company believes that investors may find it useful to see these non-GAAP financial measures to analyze financial performance.

Table of Contents**Interest Revenue/Expense and Yields**

				% Change	% Change
<i>In millions of dollars</i>	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Interest Revenue ⁽¹⁾	\$ 124,467	\$ 96,497	\$ 75,922	29%	27%
Interest Expense	77,531	56,943	36,676	36	55
Net Interest Revenue ⁽¹⁾	\$ 46,936	\$ 39,554	\$ 39,246	19%	1%
Interest Revenue Average Rate	6.49%	6.48%	5.93%	1 bps	55 bps
Interest Expense Average Rate	4.44%	4.29%	3.19%	15 bps	110 bps
Net Interest Margin	2.45%	2.66%	3.06%	(21) bps	(40) bps
Interest Rate Benchmarks:					
Federal Funds Rate End of Period	4.25%	5.25%	4.25%	(100) bps	100 bps
Federal Funds Rate Average Rate	5.05%	4.96%	3.24%	9 bps	172 bps
2-Year U.S. Treasury Note Average Rate	4.36%	4.81%	3.85%	(45) bps	96 bps
10-Year U.S. Treasury Note Average Rate	4.63%	4.79%	4.28%	(16) bps	51 bps
10-Year vs. 2-Year Spread	27bps	(2)bps	43bps		

(1) Excludes 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. Net interest margin is calculated by dividing gross interest revenue less gross interest expense by average interest earning assets.

During 2007, pressure on net interest margin was driven by several factors. Rising overseas deposit rates and funding actions the Company has taken to lengthen its maturity profile mainly contributed to the increase of interest expense. The average rate on the Company's assets remained flat on

an annual basis, reflecting improved commercial loan pricing, both domestically and overseas, offset by lower yields earned on deposits with banks in 2007.

During the fourth quarter of 2007, the Company's actions to reduce asset balances and to better manage interest earning assets resulted in improvement in the interest earned on these assets. Additionally, the widening between short-term and long-term spreads resulted in upward movement in the net interest margin.

Table of Contents**AVERAGE BALANCES AND INTEREST RATES ASSETS^{(1) (2) (3) (4)}**

<i>In millions of dollars</i>	2007	Average volume		Interest revenue			% Average rate		
		2006	2005	2007	2006	2005	2007	2006	2005
Assets									
Deposits with banks ⁽⁵⁾	\$ 56,905	\$ 37,977	\$ 34,211	\$ 3,200	\$ 2,289	\$ 1,537	5.62%	6.03%	4.49%
Federal funds sold and securities borrowed or purchased under agreements to resell ⁽⁶⁾									
In U.S. offices	\$ 192,824	\$ 166,202	\$ 154,578	\$ 11,728	\$ 10,258	\$ 7,041	6.08%	6.17%	4.55%
In offices outside the U.S. ⁽⁵⁾	131,766	85,200	74,728	6,626	3,941	2,749	5.03	4.63	3.68
Total	\$ 324,590	\$ 251,402	\$ 229,306	\$ 18,354	\$ 14,199	\$ 9,790	5.65%	5.65%	4.27%
Trading account assets ^{(7) (8)}									
In U.S. offices	\$ 263,922	\$ 188,985	\$ 154,716	\$ 13,557	\$ 8,537	\$ 5,678	5.14%	4.52%	3.67%
In offices outside the U.S. ⁽⁵⁾	176,803	100,634	80,367	4,950	3,328	2,459	2.80	3.31	3.06
Total	\$ 440,725	\$ 289,619	\$ 235,083	\$ 18,507	\$ 11,865	\$ 8,137	4.20%	4.10%	3.46%
Investments									
In U.S. offices									
Taxable	\$ 136,482	\$ 106,136	\$ 77,000	\$ 6,840	\$ 4,799	\$ 2,623	5.01%	4.52%	3.41%
Exempt from U.S. income tax ⁽¹⁾	17,796	14,023	10,852	909	661	481	5.11	4.71	4.43
In offices outside the U.S. ⁽⁵⁾	110,766	98,640	81,309	5,738	4,939	4,234	5.18	5.01	5.21
Total	\$ 265,044	\$ 218,799	\$ 169,161	\$ 13,487	\$ 10,399	\$ 7,338	5.09%	4.75%	4.34%
Loans (net of unearned income) ⁽⁹⁾									
Consumer loans									
In U.S. offices	\$ 377,097	\$ 341,315	\$ 306,396	\$ 31,507	\$ 28,538	\$ 24,880	8.36%	8.36%	8.12%
In offices outside the U.S. ⁽⁵⁾	175,463	138,978	130,550	18,653	14,773	14,238	10.63	10.63	10.91
Total consumer loans	\$ 552,560	\$ 480,293	\$ 436,946	\$ 50,160	\$ 43,311	\$ 39,118	9.08%	9.02%	8.95%
Corporate loans									
In U.S. offices	\$ 34,843	\$ 28,113	\$ 19,200	\$ 2,504	\$ 1,717	\$ 1,134	7.19%	6.11%	5.91%
In offices outside the U.S. ⁽⁵⁾	152,840	124,462	101,262	13,530	9,836	6,837	8.85	7.90	6.75
Total corporate loans	\$ 187,683	\$ 152,575	\$ 120,462	\$ 16,034	\$ 11,553	\$ 7,971	8.54%	7.57%	6.62%
Total loans	\$ 740,243	\$ 632,868	\$ 557,408	\$ 66,194	\$ 54,864	\$ 47,089	8.94%	8.67%	8.45%
Other interest-earning assets	\$ 90,707	\$ 57,472	\$ 56,095	\$ 4,725	\$ 2,881	\$ 2,031	5.21%	5.01%	3.62%
Total interest-earning assets	\$ 1,918,214	\$ 1,488,137	\$ 1,281,264	\$ 124,467	\$ 96,497	\$ 75,922	6.49%	6.48%	5.93%
Non-interest-earning assets ⁽⁷⁾	253,469	191,408	165,604						
Total assets from discontinued operations			51,270						
Total assets	\$ 2,171,683	\$ 1,679,545	\$ 1,498,138						

(1) Interest revenue excludes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of \$125 million, \$98 million, and \$158 million for 2007, 2006, and 2005, respectively.

(2) Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories. See Note 24 to the Consolidated Financial Statements on page 164.

(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 125.

(5) Average rates reflect prevailing local interest rates, including inflationary effects and monetary corrections in certain countries.

(6) Average volumes of securities borrowed or purchased under agreements to resell are reported net pursuant to FASB Interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements (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 Markets & Banking is reported as a reduction of interest revenue. Interest revenue and interest expense on cash collateral positions are reported in Trading account assets and Trading account liabilities, respectively.

(9) Includes cash-basis loans.

Reclassified to conform to the current period's presentation.

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

<i>In millions of dollars</i>	Average volume			Interest expense			% Average rate		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Liabilities									
Deposits									
In U.S. offices									
Savings deposits ⁽⁵⁾	\$ 149,304	\$ 134,761	\$ 127,783	\$ 4,772	\$ 4,056	\$ 2,411	3.20%	3.01%	1.89%
Other time deposits	58,808	48,559	35,754	3,358	2,471	1,247	5.71	5.09	3.49
In offices outside the U.S. ⁽⁶⁾	495,501	403,645	343,647	20,611	15,130	9,844	4.16	3.75	2.86
Total	\$ 703,613	\$ 586,965	\$ 507,184	\$ 28,741	\$ 21,657	\$ 13,502	4.08%	3.69%	2.66%
Federal funds purchased and securities loaned or sold under agreements to repurchase ⁽⁷⁾									
In U.S. offices	\$ 244,258	\$ 194,726	\$ 173,674	\$ 14,339	\$ 11,857	\$ 7,737	5.87%	6.09%	4.45%
In offices outside the U.S. ⁽⁶⁾	142,370	95,937	71,921	8,689	5,591	4,118	6.10	5.83	5.73
Total	\$ 386,628	\$ 290,663	\$ 245,595	\$ 23,028	\$ 17,448	\$ 11,855	5.96%	6.00%	4.83%
Trading account liabilities ^{(8) (9)}									
In U.S. offices	\$ 46,383	\$ 36,983	\$ 34,935	\$ 1,142	\$ 891	\$ 544	2.46%	2.41%	1.56%
In offices outside the U.S. ⁽⁶⁾	58,228	37,802	38,737	298	228	125	0.51	0.60	0.32
Total	\$ 104,611	\$ 74,785	\$ 73,672	\$ 1,440	\$ 1,119	\$ 669	1.38%	1.50%	0.91%
Short-term borrowings									
In U.S. offices	\$ 169,457	\$ 120,123	\$ 94,342	\$ 6,234	\$ 4,195	\$ 2,054	3.68%	3.49%	2.18%
In offices outside the U.S. ⁽⁶⁾	64,361	24,841	18,128	1,130	614	688	1.76	2.47	3.80
Total	\$ 233,818	\$ 144,964	\$ 112,470	\$ 7,364	\$ 4,809	\$ 2,742	3.15%	3.32%	2.44%
Long-term debt									
In U.S. offices	\$ 278,958	\$ 206,607	\$ 180,167	\$ 14,996	\$ 10,596	\$ 6,756	5.38%	5.13%	3.75%
In offices outside the U.S. ⁽⁶⁾	37,791	24,588	31,843	1,962	1,314	1,152	5.19	5.34	3.62
Total	\$ 316,749	\$ 231,195	\$ 212,010	\$ 16,958	\$ 11,910	\$ 7,908	5.35%	5.15%	3.73%
Total interest-bearing liabilities	\$ 1,745,419	\$ 1,328,572	\$ 1,150,931	\$ 77,531	\$ 56,943	\$ 36,676	4.44%	4.29%	3.19%
Demand deposits in U.S. offices	12,436	10,994	10,050						
Other non-interest bearing liabilities ⁽⁸⁾	290,854	224,413	180,070						
Total liabilities from discontinued operations			46,011						
Total liabilities	\$ 2,048,709	\$ 1,563,979	\$ 1,387,062						
Total stockholders' equity⁽¹⁰⁾	\$ 122,974	\$ 115,566	\$ 111,076						
Total liabilities and stockholders' equity	\$ 2,171,683	\$ 1,679,545	\$ 1,498,138						
Net interest revenue as a percentage of average interest-earning assets ⁽¹¹⁾									
In U.S. offices	\$ 1,092,442	\$ 893,879	\$ 769,148	\$ 22,334	\$ 19,457	\$ 21,392	2.04%	2.18%	2.78%
In offices outside the U.S. ⁽⁶⁾	825,772	594,258	512,116	24,602	20,097	17,854	2.98	3.38	3.49
Total	\$ 1,918,214	\$ 1,488,137	\$ 1,281,264	\$ 46,936	\$ 39,554	\$ 39,246	2.45%	2.66%	3.06%

(1) Interest revenue excludes the taxable equivalent adjustments (based on the U.S. federal statutory tax rate of 35%) of \$125 million, \$98 million, and \$158 million for 2007, 2006, and 2005, respectively.

(2) Interest rates and amounts include the effects of risk management activities associated with the respective asset and liability categories. See Note 24 to the Consolidated Financial Statements on page 164.

(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 125.

(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 Markets & Banking is reported as a reduction of interest revenue. Interest revenue and interest expense on cash collateral positions are reported in Trading account assets and Trading account liabilities, respectively.

(10) Includes stockholders' equity from discontinued operations.

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(11) Includes allocations for capital and funding costs based on the location of the asset.

Reclassified to conform to the current period's presentation.

Table of Contents**ANALYSIS OF CHANGES IN INTEREST REVENUE** ^{(1) (2) (3)}

	2007 vs. 2006			2006 vs. 2005		
	Increase (decrease) due to change in:		Net change	Increase (decrease) due to change in:		Net change
<i>In millions of dollars</i>	Average volume	Average rate		Average volume	Average rate	
Deposits with banks ⁽⁴⁾	\$ 1,073	\$ (162)	\$ 911	\$ 183	\$ 569	\$ 752
Federal funds sold and securities borrowed or purchased under agreements to resell						
In U.S. offices	\$ 1,621	\$ (151)	\$ 1,470	\$ 562	\$ 2,655	\$ 3,217
In offices outside the U.S. ⁽⁴⁾	2,316	369	2,685	420	772	1,192
Total	\$ 3,937	\$ 218	\$ 4,155	\$ 982	\$ 3,427	\$ 4,409
Trading account assets ⁽⁵⁾						
In U.S. offices	\$ 3,730	\$ 1,290	\$ 5,020	\$ 1,400	\$ 1,459	\$ 2,859
In offices outside the U.S. ⁽⁴⁾	2,198	(576)	1,622	658	211	869
Total	\$ 5,928	\$ 714	\$ 6,642	\$ 2,058	\$ 1,670	\$ 3,728
Investments ⁽¹⁾						
In U.S. offices	\$ 1,670	\$ 619	\$ 2,289	\$ 1,325	\$ 1,031	\$ 2,356
In offices outside the U.S. ⁽⁴⁾	624	175	799	873	(168)	705
Total	\$ 2,294	\$ 794	\$ 3,088	\$ 2,198	\$ 863	\$ 3,061
Loans consumer						
In U.S. offices	\$ 2,990	\$ (21)	\$ 2,969	\$ 2,902	\$ 756	\$ 3,658
In offices outside the U.S. ⁽⁴⁾	3,879	1	3,880	902	(367)	535
Total	\$ 6,869	\$ (20)	\$ 6,849	\$ 3,804	\$ 389	\$ 4,193
Loans corporate						
In U.S. offices	\$ 453	\$ 334	\$ 787	\$ 543	\$ 40	\$ 583
In offices outside the U.S. ⁽⁴⁾	2,419	1,275	3,694	1,720	1,279	2,999
Total	\$ 2,872	\$ 1,609	\$ 4,481	\$ 2,263	\$ 1,319	\$ 3,582
Total loans	\$ 9,741	\$ 1,589	\$ 11,330	\$ 6,067	\$ 1,708	\$ 7,775
Other interest-earning assets	\$ 1,727	\$ 117	\$ 1,844	\$ 51	\$ 799	\$ 850
Total interest revenue	\$ 24,700	\$ 3,270	\$ 27,970	\$ 11,539	\$ 9,036	\$ 20,575

(1) The taxable equivalent adjustment is based on the U.S. federal statutory tax rate of 35% and is excluded from this presentation.

(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 125.

(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 Markets & Banking is reported as a reduction of interest revenue. Interest revenue and interest expense on cash collateral positions are reported in Trading account assets and Trading account liabilities, respectively.

Table of Contents**ANALYSIS OF CHANGES IN INTEREST EXPENSE AND NET INTEREST REVENUE** ^{(1) (2) (3)}

	2007 vs. 2006			2006 vs. 2005		
	Increase (decrease) due to change in:		Net change	Increase (decrease) due to change in:		Net change
<i>In millions of dollars</i>	Average volume	Average rate		Average volume	Average rate	
Deposits						
In U.S. offices	\$ 933	\$ 670	\$ 1,603	\$ 487	\$ 2,382	\$ 2,869
In offices outside the U.S. ⁽⁴⁾	3,698	1,783	5,481	1,910	3,376	5,286
Total	\$ 4,631	\$ 2,453	\$ 7,084	\$ 2,397	\$ 5,758	\$ 8,155
Federal funds purchased and securities loaned or sold under agreements to repurchase						
In U.S. offices	\$ 2,921	\$ (439)	\$ 2,482	\$ 1,023	\$ 3,097	\$ 4,120
In offices outside the U.S. ⁽⁴⁾	2,822	276	3,098	1,398	75	1,473
Total	\$ 5,743	\$ (163)	\$ 5,580	\$ 2,421	\$ 3,172	\$ 5,593
Trading account liabilities ⁽⁵⁾						
In U.S. offices	\$ 231	\$ 20	\$ 251	\$ 34	\$ 313	\$ 347
In offices outside the U.S. ⁽⁴⁾	109	(39)	70	(3)	106	103
Total	\$ 340	\$ (19)	\$ 321	\$ 31	\$ 419	\$ 450
Short-term borrowings						
In U.S. offices	\$ 1,804	\$ 235	\$ 2,039	\$ 667	\$ 1,474	\$ 2,141
In offices outside the U.S. ⁽⁴⁾	737	(221)	516	209	(283)	(74)
Total	\$ 2,541	\$ 14	\$ 2,555	\$ 876	\$ 1,191	\$ 2,067
Long-term debt						
In U.S. offices	\$ 3,868	\$ 532	\$ 4,400	\$ 1,095	\$ 2,745	\$ 3,840
In offices outside the U.S. ⁽⁴⁾	686	(38)	648	(303)	465	162
Total	\$ 4,554	\$ 494	\$ 5,048	\$ 792	\$ 3,210	\$ 4,002
Total interest expense	\$ 17,809	\$ 2,779	\$ 20,588	\$ 6,517	\$ 13,750	\$ 20,267
Net interest revenue	\$ 6,891	\$ 491	\$ 7,382	\$ 5,022	\$ (4,714)	\$ 308

(1) The taxable equivalent adjustment is based on the U.S. federal statutory tax rate of 35% and is excluded from this presentation.

(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 125.

(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 Markets & Banking is reported as a reduction of interest revenue. Interest revenue and interest expense on cash collateral positions are reported in Trading account assets and Trading account liabilities, respectively.

Table of Contents**CAPITAL RESOURCES AND LIQUIDITY****CAPITAL RESOURCES****Overview**

Capital is generally generated via earnings from operating businesses. This is augmented through issuance of common stock, convertible preferred stock, preferred stock and subordinated debt, and equity issued as a result of employee benefit plans. Capital is used primarily to support asset growth in the Company's businesses and is sufficient to absorb unexpected market, credit or operational losses. Excess capital is used to pay dividends to shareholders, fund acquisitions and repurchase stock.

Citigroup's capital management framework is designed to ensure that Citigroup and its principal 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 reviewed at the entity and country level.

Senior management oversees the capital management process of Citigroup and its principal subsidiaries mainly through Citigroup's Global Finance and Asset and Liability Committee (FinALCO). The Committee is comprised of the senior-most management of Citigroup for the purpose of engaging management in decision-making and related discussions with treasurers on capital and liquidity. 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; determining appropriate asset levels and return hurdles for Citigroup and individual businesses; 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 for Board consideration share repurchase levels and dividends on preferred and common stock. The FinALCO has established capital targets for Citigroup and for significant subsidiaries. These targets exceed the regulatory standards.

Capital Ratios

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 also 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 and letters of credit and the notional amounts of 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%, a Total Capital Ratio of at least 10%, and a 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 both 2007 and 2006.

Citigroup Regulatory Capital Ratios ⁽¹⁾

<i>At year end</i>	2007 ⁽³⁾	2006
Tier 1 Capital	7.12%	8.59%
Total Capital (Tier 1 and Tier 2)	10.70	11.65
Leverage ⁽²⁾	4.03	5.16

(1) The FRB granted interim capital relief for the impact of adopting SFAS 158.

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

(3)

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The impact of including Citigroup's own credit rating in valuing derivatives and debt carried at fair value upon the adoption of SFAS 157 is excluded from Tier 1 Capital at December 31, 2007.

Components of Capital Under Regulatory Guidelines

<i>In millions of dollars at year end</i>	2007	2006
Tier 1 Capital		
Common stockholders' equity	\$ 113,598	\$ 118,783
Qualifying perpetual preferred stock		1,000
Qualifying mandatorily redeemable securities of subsidiary trusts	23,594	9,579
Minority interest	4,077	1,107
Less: Net unrealized gains on securities available-for-sale ⁽¹⁾	(471)	(943)
Less: Accumulated net losses on cash flow hedges, net of tax	3,163	61
Less: Pension liability adjustment, net of tax ⁽²⁾	1,057	1,647
Less: Cumulative effect included in fair value of financial liabilities attributable to credit worthiness, net of tax ⁽³⁾	(1,352)	
Less: Restricted Core Capital Elements ⁽⁴⁾	(1,364)	
Less: Intangible assets:		
Goodwill	(41,204)	(33,415)
Other disallowed intangible assets	(10,511)	(6,127)
Other	(1,361)	(793)
Total Tier 1 Capital	\$ 89,226	\$ 90,899
Tier 2 Capital		
Allowance for credit losses ⁽⁵⁾	\$ 15,778	\$ 10,034
Qualifying debt ⁽⁶⁾	26,690	21,891
Unrealized marketable equity securities gains ⁽¹⁾	1,063	436
Restricted Core Capital Elements ⁽⁴⁾	1,364	
Total Tier 2 Capital	\$ 44,895	\$ 32,361
Total Capital (Tier 1 and Tier 2)	\$ 134,121	\$ 123,260
Risk-Adjusted Assets ⁽⁷⁾	\$ 1,253,321	\$ 1,057,872

(1) Tier 1 Capital excludes unrealized gains and losses on debt securities available-for-sale in accordance with regulatory risk-based capital guidelines. Institutions are required to deduct from Tier 1 Capital net unrealized holding gains on available-for-sale equity securities with readily determinable fair values, net of tax. 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, net of tax.

(2) The FRB granted interim capital relief for the impact of adopting SFAS 158.

(3) The impact of including Citigroup's own credit rating in valuing derivatives and debt carried at fair value upon the adoption of SFAS 157 is excluded from Tier 1 Capital at December 31, 2007.

(4) Represents the excess of allowable restricted core capital in Tier 1 Capital. Restricted core capital is limited to 25% of all core capital elements, net of goodwill.

(5) Can include up to 1.25% of risk-adjusted assets. Any excess allowance is deducted from risk-adjusted assets.

(6) Includes qualifying subordinated debt in an amount not exceeding 50% of Tier 1 Capital.

(7) Includes risk-weighted credit equivalent amounts, net of applicable bilateral netting agreements, of \$91.3 billion for interest rate, commodity and equity derivative contracts and foreign-exchange contracts as of December 31, 2007, compared with \$77.1 billion as of December 31, 2006.

Market-risk-equivalent assets included in risk-adjusted assets amounted to \$109.0 billion at December 31, 2007 and \$40.1 billion at December 31, 2006, respectively. Risk-adjusted assets also include the effect of other off-balance-sheet exposures, such as unused loan commitments and letters of credit, and reflect deductions for certain intangible assets and any excess allowance for credit losses.

Common stockholders' equity decreased approximately \$5.2 billion to \$113.6 billion, representing 5.2% of total assets as of December 31, 2007 from \$118.8 billion and 6.3% at December 31, 2006.

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Recently Announced Financial Actions to Enhance Citigroup's Capital Base

During the fourth quarter of 2007 and January 2008, the Company raised approximately \$30 billion (of which \$11.8 billion closed by December 31, 2007) of qualifying Tier 1 Capital. These transactions included the issuance of convertible preferred and straight (non-convertible) preferred securities, equity units, and enhanced trust-preferred securities (TruPS). The Company also completed the acquisition of the remaining Nikko Cordial shares that it did not already own, by issuing 175 million Citigroup common shares (approximately \$4.4 billion based on the exchange terms) in exchange for those Nikko Cordial shares.

Pro forma for the issuance of new securities referred to above (including the common shares issued in connection with the Nikko Cordial transaction), the Company's December 31, 2007 Tier 1 Capital ratio would be approximately 8.8% and its Tangible Common Equity (TCE) as a percent of Risk Weighted Managed Assets (RWMA) ratio would be approximately 6.9%. These ratios compare to the reported Tier 1 Capital Ratio of 7.12% and TCE/RWMA of 5.6% at December 31, 2007. The pro forma ratios would exceed management's stated targets for the Tier 1 Capital and the TCE/RWMA ratio of 7.5% and 6.5%, respectively.

Issuance of \$12.5 Billion of Convertible Preferred Stock in a Private Offering

The private offering, which settled on January 23, 2008, included a \$6.88 billion investment from the Government of Singapore Investment Corporation Pte Ltd as well as investments from Capital Research Global Investors; Capital World Investors; the Kuwait Investment Authority; the New Jersey Division of Investment; HRH Prince Alwaleed bin Talal bin Abdulaziz Alsaud; and Sanford I. Weill and The Weill Family Foundation.

The convertible preferred stock will pay, when and if declared by the Company's Board of Directors, dividends in cash at a rate of 7% per annum, payable quarterly. The first dividend payment date was February 15, 2008. Each share of convertible preferred stock will be convertible at any time, at the option of the holder, into shares of common stock of the Company at a conversion price of \$31.62 per share of common stock. The convertible preferred stock is perpetual and has no maturity date.

On or after February 15, 2013, the convertible preferred stock, at the option of the Company, will be convertible into the Company's common stock at the conversion price, if the price of the Company's common stock exceeds 130% of the conversion price. On or after February 15, 2015, the Company may redeem for cash the convertible preferred stock on any dividend payment date, subject to a capital replacement covenant for any redemption prior to February 15, 2020.

The conversion price is subject to reset in the case of certain equity and equity-linked issuances of Citigroup before January 23, 2009 with gross proceeds in excess of \$5 billion with a reference price and/or conversion price that is lower than that of the convertible preferred stock. Under no circumstances will the conversion price be reset to less than \$26.35 per share.

The investors in the private offering agreed not to sell, transfer or hedge the securities or their exposure to the underlying common stock of the Company for a period of six months following January 23, 2008. Each of the investors has agreed to cap its ownership of the voting securities of the Company at specific levels based on bank regulatory and foreign ownership provisions and other considerations. Each investor acted individually in making its investment; there has been no coordination or negotiation among these investors; and the investors have agreed not to act in concert with one another or others going forward. In addition, none of the investors will have any special governance rights or any role in the management of Citigroup, including no right to designate a member of the Citigroup Board of Directors, subject to the customary right of preferred stockholders to elect two members to the Board upon non-payment of dividends for six dividend periods.

Issuance of Approximately \$3.2 Billion of Convertible Preferred Stock in a Public Offering

The Company issued approximately \$3.2 billion of 6.5% Series T Non-Cumulative Convertible Preferred Stock. The primary offering settled on January 23, 2008 and the over-allotment shares settled on January 29, 2008.

The Series T Convertible Preferred Stock will pay, when and if declared by the Company's Board of Directors, dividends in cash at a rate of 6.5% per annum, payable quarterly. The first dividend payment date was February 15, 2008.

Each share of the Series T Convertible Preferred Stock will be convertible at any time, at the option of the holder, into shares of common stock of the Company at a conversion price of \$33.73 per share of common stock. The Series T Convertible Preferred Stock is perpetual and has no maturity date.

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On or after February 15, 2013, the Series T Preferred Stock, at the option of the Company, will be convertible into the Company's common stock at the conversion price, if the price of the Company's common stock exceeds 130% of the conversion price. On or after February 15, 2015, the Company may redeem for cash the Series T Convertible Preferred Stock on any dividend payment date, subject to a capital replacement covenant for any redemption prior to February 15, 2020. Investors will have no right to vote in elections of directors, subject to the customary right of preferred stockholders to elect two members to the Board upon non-payment of dividends for six dividend periods.

Issuance of Approximately \$3.7 Billion of Straight Preferred Stock in a Public Offering

The Company issued approximately \$3.7 billion of Series AA 8.125% non-cumulative preferred stock, which settled on January 25, 2008. The Series AA preferred stock will pay, when and if declared by the Company's Board of Directors, dividends in cash at a rate of 8.125% per annum, payable quarterly. The first dividend payment date was February 15, 2008. The Series AA preferred stock is perpetual and has no maturity date.

On or after February 15, 2018, the Company may redeem for cash the Series AA preferred stock on any dividend payment date, subject to a capital replacement covenant for any redemption prior to February 15, 2023.

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Investors will have no right to vote in elections of directors, subject to the customary right of preferred stockholders to elect two members to the Board upon non-payment of dividends for six dividend periods.

Lowering the Company's Quarterly Dividend to \$0.32 Per Share

On January 14, 2008 the Board declared a quarterly dividend on the Company's common stock of \$0.32 per share, which was paid on February 22, 2008, to stockholders of record on February 4, 2008. This action would result in a reduction in the dividend level of approximately \$4.4 billion from the previous year. This new dividend level will allow the Company to reinvest in growth opportunities and properly position the Company for both favorable and unfavorable economic conditions. Dividend levels are set and dividends are declared by the Board of Directors.

Continuing Sales of Non-Core Assets

During the fourth quarter, the Company sold an ownership interest in Nikko Cordial's Simplex Investment Advisors. In addition, the Company is continuing to reduce its consumer-based holdings of mortgage-backed securities and other assets held in its *Securities and Banking* business.

Completion of the Acquisition of Nikko Cordial

On January 29, 2008, Citigroup completed the acquisition of the remaining Nikko Cordial shares that it did not already own, by issuing 175 million Citigroup common shares (approximately \$4.4 billion based on the exchange terms) in exchange for those Nikko Cordial shares.

\$7.5 Billion of Equity Units sold to the Abu Dhabi Investment Authority (ADIA) in a Private Offering

On December 3, 2007 the Company sold \$7.5 billion of Equity Units in a private placement to the Abu Dhabi Investment Authority (ADIA).

The Equity Units consist of four series of trust preferred securities and four series of forward purchase contracts to acquire Citigroup common stock. Each Equity Unit will pay a fixed annual rate of 11%, payable quarterly, consisting of a payment on each series of trust preferred securities and a contract payment on the purchase contracts.

The common stock purchase contracts will settle on dates ranging from March 15, 2010 to September 15, 2011, subject to adjustment. Prior to the settlement of the purchase contracts, the trust preferred securities will be re-marketed to new investors on market terms. The proceeds of such re-marketing are expected to be used to settle the common stock purchase contracts. The trust preferred securities have no stated maturity, but will be redeemable between 2041 and 2042, subject to earlier redemption.

Each Equity Unit provides for the purchase of Citigroup common shares at a price per share that originally ranged from \$31.83 per share to \$37.24 per share. The maximum purchase price is subject to reset in the case of certain equity and equity-linked issuances of Citigroup in excess of \$5 billion prior to December 3, 2008. After giving effect to Citigroup's issuance in the private placements and the public offering of all the Convertible

Preferred Stock, if the applicable reset were effected currently, the maximum purchase price per share would be \$32.05. The actual reset will be determined and effected within 90 days after December 3, 2008 and will be subject to further adjustment for additional issues of reset-causing equity or equity-linked securities before December 3, 2008.

ADIA may not transfer, sell or hedge the Equity Units or its exposure to the underlying common shares until at least December 3, 2009. After December 3, 2009 and until three years after the final stock settlement date, ADIA is subject to certain manner of sale restrictions with respect to its common shares. ADIA agreed that its aggregate ownership of Citigroup's common shares, including those purchased pursuant to these Equity Units, will not exceed 4.9% of Citigroup's total common shares then outstanding and that it will have no special rights of ownership or control and no role in the management or governance of Citigroup, including no right to designate a member of the Citigroup Board of Directors.

Issuance of Enhanced Trust Preferred Securities (TruPS) in Public Offerings

During the fourth quarter, the Company issued a total of \$4.2875 billion of Enhanced TruPS. On December 21, 2007, the Company settled a \$3.5 billion offering of Enhanced TruPS. These securities bear an 8.30% coupon. On November 27, 2007, the Company settled a \$787.5 million

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offering of Enhanced TruPS. These securities bear a 7.875% coupon.

Common Equity

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

In billions of dollars

Common Equity, December 31, 2006	\$ 118.8
Adjustment to opening retained earnings balance, net of taxes ⁽¹⁾	(0.2)
Adjustment to opening Accumulated other comprehensive income (loss) balance, net of taxes ⁽²⁾	0.1
Net income	3.6
Employee benefit plans and other activities	3.4
Dividends	(10.8)
Issuance of shares for Grupo Cuscatlan acquisition	0.8
Issuance of shares for ATD acquisition	0.6
Present value of stock purchase contract payments	(0.9)
Treasury stock acquired	(0.7)
Net change in Accumulated other comprehensive income (loss), net of tax	(1.1)
Common Equity, December 31, 2007	\$ 113.6

(1) The adjustment to the opening balance of Retained earnings represents the total of the after-tax gain (loss) amounts for the adoption of the following accounting pronouncements:

SFAS 157, for \$75 million,

SFAS 159, for \$(99) million,

FSP FAS No. 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction (FSP 13-2), for \$(148) million, and

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), for \$(14) million.

See Notes 1 and 26 to the Consolidated Financial Statements on pages 111 and 167, respectively.

(2) The after-tax adjustment to the opening balance of Accumulated other comprehensive income (loss) represents the reclassification of the unrealized gains (losses) related to the Legg Mason securities as well as several miscellaneous items previously reported in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). These available-for-sale securities were reclassified to Retained earnings upon the adoption of the fair value option in accordance with SFAS 159. See Notes 1 and 26 to the Consolidated Financial Statements on pages 111 and 167, respectively, for further discussions.

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The decrease in the common stockholders' equity ratio during the twelve months ended December 31, 2007 reflected the above items and a 16% increase in total assets.

As of December 31, 2007, \$6.7 billion remained under authorized repurchase programs after the repurchase of \$0.7 billion and \$7.0 billion in shares during 2007 and 2006, respectively. As a result of developments in the latter half of 2007, including CDO write-downs and recent acquisitions, it is anticipated that the Company will not resume its share repurchase program in the near future. For further details, see Unregistered Sales of Equity Securities and Use of Proceeds on page 199.

On June 18, 2007, Citigroup redeemed for cash shares of its 6.365% Cumulative Preferred Stock, Series F, at the redemption price of \$50 per depository share plus accrued dividends to the date of redemption.

On July 11, 2007, Citigroup redeemed for cash shares of its 6.213% Cumulative Preferred Stock, Series G, at the redemption price of \$50 per depository share plus accrued dividends to the date of redemption.

On September 10, 2007, Citigroup redeemed for cash shares of its 6.231% Cumulative Preferred Stock, Series H, at the redemption price of \$50 per depository share plus accrued dividends to the date of redemption.

On October 9, 2007, Citigroup redeemed for cash shares of its 5.864% Cumulative Preferred Stock, Series M, at the redemption price of \$50 per depository share plus accrued dividends to the date of redemption.

For further details, see Note 21 to the Consolidated Financial Statements on page 153.

The table below summarizes the Company's repurchase activity:

		Dollar value	Average price	Dollar value
	Total common shares repurchased	of shares repurchased	paid per share	of remaining authorized repurchase program
<i>In millions, except per share amounts</i>				
First quarter 2007	12.1	\$ 645	\$53.37	\$6,767
Second quarter 2007	0.1	8	51.42	6,759
Third quarter 2007	0.2	10	46.95	6,749
Fourth quarter 2007				6,749
Total 2007	12.4	\$ 663	\$53.24	\$6,749
Total 2006	144.0	\$7,000	\$48.60	\$7,412

Mandatorily Redeemable Securities of Subsidiary Trusts

Total mandatorily redeemable securities of subsidiary trusts (trust preferred securities), which qualify as Tier 1 Capital, were \$23.594 billion at December 31, 2007, as compared to \$9.579 billion at December 31, 2006.

In 2007, Citigroup issued \$7.500 billion, \$3.500 billion, \$0.788 billion, \$1.225 billion, \$1.004 billion, and \$1.100 billion of Enhanced Trust Preferred Securities through Citigroup Capital XXIX-XXXII (ADIA), Citigroup Capital XXI, Citigroup Capital XX, Citigroup Capital XIX, Citigroup Capital XVIII, and Citigroup Capital XVII, respectively. On April 23, 2007, March 26, 2007, and March 18, 2007, Citigroup

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redeemed for cash all of the \$22 million, \$25 million, and \$23 million Trust Preferred Securities of Adam Capital Trust II, Adam Statutory Trust II, and Adam Statutory Trust I, respectively, at the redemption price of \$1,000 per preferred security plus any accrued distribution up to, but excluding, the date of redemption. On February 15, 2007, Citigroup redeemed for cash all of the \$300 million Trust Preferred Securities of Citicorp Capital I, \$450 million of Citicorp Capital II, and \$400 million of Citigroup Capital II, at the redemption price of \$1,000 per preferred security plus any accrued distribution up to, but excluding, the date of redemption. See Note 20 to the Consolidated Financial Statements on page 149 for details on these new issuances.

In 2006, Citigroup issued \$1.600 billion, \$1.185 billion, and \$565 million of Enhanced Trust Preferred Securities through Citigroup Capital XVI, Citigroup Capital XV, and Citigroup Capital XIV, respectively. On December 8, 2006, Citigroup redeemed for cash all of the \$25 million Trust Preferred Securities of Adam Capital Trust I, at the redemption price of \$1,000 per preferred security plus any accrued distribution up to, but excluding, the date of redemption.

The FRB issued a final rule, with an effective date of April 11, 2005, which retains trust preferred securities in Tier 1 Capital of Bank Holding Companies (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 restricted core capital elements included in Tier 1 Capital of internationally active banking organizations, such as Citigroup, would be limited to 15% of total core capital elements, net of goodwill, less any associated deferred tax liability. 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. At December 31, 2007, Citigroup had approximately 21% against the limit. The Company expects to be within restricted core capital limits prior to the implementation date of March 31, 2009.

The FRB permits additional securities, such as the equity units sold to ADIA, to be included in Tier 1 Capital up to 25% (including the restricted core capital elements in the 15% limit) of total core capital elements, net of goodwill less any associated deferred tax liability. At December 31, 2007, Citigroup had approximately 26% against the limit. As a result, approximately \$1.4 billion of equity units were included in Tier 2 Capital but will constitute Tier 1 Capital in the future as core capital levels grow.

The FRB granted interim capital relief for the impact of adopting SFAS 158 at December 31, 2007 and December 31, 2006.

The FRB and the FFIEC may propose amendments to, and issue interpretations of, risk-based capital guidelines and reporting instructions. These may affect reported capital ratios and net risk-adjusted assets.

Table of Contents**Capital Resources of Citigroup's Depository Institutions**

Bank Consolidation Project: During 2006, Citigroup undertook a bank consolidation project, as well as the reorganization of its U.S. mortgage banking business. CitiFinancial Credit Company (CCC), an indirect wholly owned subsidiary of Citigroup, transferred its ownership of Citicorp Trust Bank, fsb to Citigroup. Citibank, N.A. transferred its investment in Citibank (South Dakota), N.A. (the Company's primary banking entity responsible for U.S. credit card activities) to Citigroup. In addition, a majority of the Company's U.S. consumer mortgage lending activity was consolidated within Citibank, N.A. as Citibank (West), FSB, Citibank Texas, N.A., Citibank, FSB and Citibank Delaware were merged into Citibank, N.A. As a result, Citigroup reduced its overall number of U.S.-insured depository institutions from 12 to five.

Capital Ratios of Depository Institutions: 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 Total Capital (Tier 1 + Tier 2 Capital) Ratio of at least 10% and a Leverage Ratio of at least 5%, and not be subject to a regulatory directive to meet and maintain higher capital levels.

At December 31, 2007, all of Citigroup's subsidiary depository institutions were well capitalized under the federal regulatory agencies definitions, including Citigroup's primary depository institution, Citibank, N.A., as noted in the following table:

Citibank, N.A. Regulatory Capital Ratios ⁽¹⁾

<i>At year end</i>	2007 ⁽²⁾	2006
Tier 1 Capital	8.98%	8.32%
Total Capital (Tier 1 and Tier 2)	13.33	12.39
Leverage ⁽³⁾	6.65	6.09

(1) The U.S. Banking Agencies granted interim capital relief for the impact of adopting SFAS 158.

(2) The impact of including Citigroup's own credit rating in determining the fair value of derivatives and issued debt carried at fair value upon the adoption of SFAS 157 is excluded from Tier 1 Capital at December 31, 2007.

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

Citibank, N.A. Components of Capital Under Regulatory Guidelines ⁽¹⁾

<i>In billions of dollars at year end</i>	2007 ⁽²⁾	2006
Tier 1 Capital	\$ 82.0	\$ 59.9
Total Capital (Tier 1 and Tier 2)	121.6	89.1

(1) The U.S. Banking Agencies granted interim capital relief for the impact of adopting SFAS 158.

(2) The impact of including Citigroup's own credit rating in determining the fair value of derivatives and issued debt carried at fair value upon the adoption of SFAS 157 is excluded from Tier 1 Capital at December 31, 2007.

Citibank, N.A. had net income for 2007 amounting to \$2.3 billion. During 2007, Citibank, N.A. received contributions from its parent company of \$25.3 billion.

During 2007, Citibank, N.A. issued an additional \$5.2 billion of subordinated notes to Citicorp Holdings Inc. that qualify for inclusion in Citibank, N.A.'s Tier 2 Capital. Total subordinated notes issued to Citicorp Holdings Inc. that were outstanding at December 31, 2007 and December 31, 2006, and included in Citibank, N.A.'s Tier 2 Capital, amounted to \$28.2 billion and \$23.0 billion, respectively.

Broker-Dealer Subsidiaries

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The Company's broker-dealer subsidiaries including Citigroup Global Markets Inc. (CGMI), 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, including CGMI, are subject to the Securities and Exchange Commission's Net Capital Rule, Rule 15c3-1 (the Net Capital Rule) under the Exchange Act.

Under the Net Capital Rule, CGMI is required to maintain minimum net capital equal to 2% of aggregate debit items, as defined. Under NYSE regulations, CGMI may be required to reduce its business if its net capital is less than 4% of aggregate debit items and may also be prohibited from expanding its business or paying cash dividends if resulting net capital would be less than 5% of aggregate debit items. Furthermore, the Net Capital Rule does not permit withdrawal of equity or subordinated capital if the resulting net capital would be less than 5% of aggregate debit items.

CGMI computes net capital in accordance with the provisions of Appendix E of the Net Capital Rule. This methodology allows CGMI to compute market risk capital charges using internal value-at-risk models. Under Appendix E, CGMI is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million. The firm is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion.

Compliance with the Net Capital Rule could limit those operations of CGMI that require the intensive use of capital, such as underwriting and trading activities and the financing of customer account balances, and also restrict CGMHI's ability to withdraw capital from its broker-dealer subsidiaries, which in turn could limit CGMHI's ability to pay dividends and make payments on its debt.

At December 31, 2007, CGMI had net capital, computed in accordance with the Net Capital Rule, of \$5.4 billion, which exceeded the minimum requirement by \$4.6 billion.

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 December 31, 2007. See further discussions on Capital Requirements on page 194.

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Regulatory Capital 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, consisting of central banks and bank supervisors from 13 countries. The international version of the Basel II framework will allow Citigroup to leverage internal risk models used to measure credit, operational, and market risk exposures to drive regulatory capital calculations.

On December 7, 2007, the U.S. banking regulators published the rules for large banks to comply with Basel II in the U.S. These rules require Citigroup, as a large and internationally active bank, to comply with the most advanced Basel II approaches for calculating credit and operational risk capital requirements. The U.S. implementation timetable consists of a parallel calculation period under the current regulatory capital regime (Basel I) and Basel II, starting any time between April 1, 2008, and April 1, 2010 followed by a three-year transition period, typically starting 12 months after the beginning of parallel reporting. The U.S. regulators have reserved the right to change how Basel II is applied in the U.S. following a review at the end of the second year of the transitional period, and to retain the existing prompt corrective action and leverage capital requirements applicable to banking organizations in the U.S. The Company is currently reviewing its timetable for adoption.

FUNDING

Overview

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 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.

During the third and fourth quarters of 2007 the Company took a series of actions to reduce potential funding risks related to short-term market dislocations. The amount of commercial paper outstanding was reduced and the weighted-average maturity was extended, the Parent Company liquidity portfolio (a portfolio of cash and highly liquid securities) and broker-dealer cash box (unencumbered cash deposits) were increased substantially, and the amount of unsecured overnight bank borrowings was reduced. As of December 31, 2007, the Parent Company liquidity portfolio and broker-dealer cash box totaled \$24.2 billion as compared with \$11.4 billion at June 30, 2007.

Banking Subsidiaries

There are various legal limitations on the ability of Citigroup's subsidiary depository institutions to 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, in the case of national banks, or the Office of Thrift Supervision, in the case of federal savings banks, is required if total dividends declared in any calendar year exceed amounts specified by the applicable agency's regulations. State-chartered depository institutions are subject to dividend limitations imposed by applicable state law.

As of December 31, 2007, Citigroup's subsidiary depository institutions could declare dividends to their parent companies, without regulatory approval, of approximately \$13.4 billion. In determining the dividends, each depository institution must also consider its effect 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 December 31, 2007, its subsidiary depository institutions could distribute dividends to Citigroup of the entire \$13.4 billion.

Non-Banking Subsidiaries

Citigroup also receives dividends from its nonbank subsidiaries. These nonbank subsidiaries are generally not subject to regulatory restrictions on dividends. However, as discussed in Capital Resources and Liquidity on page 75, the ability of CGMHI to declare dividends can be restricted by capital considerations of its broker-dealer subsidiaries.

During 2008, 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.

Sources of Liquidity

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Primary sources of liquidity for Citigroup and its principal subsidiaries include:

- deposits;
- collateralized financing transactions;
- senior and subordinated debt;
- commercial paper;
- trust preferred and 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 23 to the Consolidated Financial Statements on page 156 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 \$826.2 billion. A significant portion of these deposits has been, and is expected to be, long-term and stable and is considered core. There are qualitative as well as quantitative assessments that determine the Company's calculation of core deposits. The first step in this process is a qualitative assessment of the deposits. For example, as a result of the Company's qualitative analysis certain deposits with wholesale funding characteristics are excluded from consideration as core. Deposits that qualify under the Company's qualitative assessments are then subjected to quantitative analysis.

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Citigroup and its subsidiaries have a significant presence in the global capital markets. The Company's capital markets funding activities are primarily undertaken by two legal entities: (i) Citigroup Inc., which issues long-term debt, medium-term notes, 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 are guaranteed by Citigroup. Other significant elements of long-term debt in the Consolidated Balance Sheet include collateralized advances from the Federal Home Loan Bank system, long-term debt related to the consolidation of CAI's Structured Investment Vehicles, asset-backed outstandings, and certain borrowings 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 maintain liquidity, and to ensure that its capital base supports the regulatory capital requirements of its subsidiaries.

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.

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 instruments.

At December 31, 2007, long-term debt and commercial paper outstanding for Citigroup Parent Company, CGMHI, Citigroup Funding Inc. and Citigroup's Subsidiaries were as follows:

	Citigroup parent company	CGMHI ⁽²⁾	Citigroup Funding Inc. ⁽²⁾	Other Citigroup subsidiaries
<i>In billions of dollars</i>				
Long-term debt	\$171.6	\$31.4	\$36.4	\$187.7 ⁽¹⁾
Commercial paper	\$	\$	\$34.9	\$ 2.4

(1) At December 31, 2007, approximately \$86.9 billion relates to collateralized advances from the Federal Home Loan Bank and \$45.9 billion related to the consolidation of the CAI Structured Investment Vehicles.

(2) Citigroup Inc. guarantees all of CFI's debt and CGMHI's publicly issued securities.

See Note 20 to the Consolidated Financial Statements on page 149 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 table below indicates the current ratings for Citigroup.

On January 15, 2008, Standard & Poor's lowered Citigroup Inc.'s senior debt rating to AA- from AA and Citibank, N.A.'s long-term rating to AA- from AA+. Standard & Poor's changed the outlook on the ratings to negative and removed the CreditWatch with negative implications designation. On December 13, 2007, Moody's Investors Service lowered Citigroup Inc.'s senior debt rating to Aa3 from Aa2 and Citibank, N.A.'s long-term rating to Aa1 from Aaa. Moody's also changed the outlook on these ratings to stable from negative. On November 5, 2007, Moody's Investors Service downgraded the senior debt rating of Citigroup Inc. to Aa2 from Aa1 and changed the ratings outlook to negative from stable. On November 4, 2007, Standard & Poor's placed the senior debt rating of Citigroup Inc. and the long-term issuer rating of Citibank, N.A. on CreditWatch with negative implications. Also on November 4, 2007, Fitch Ratings downgraded the long-term debt rating of Citigroup Inc. and the long-term issuer rating of Citibank, N.A. to AA from AA+ and changed the ratings outlook on both entities to negative.

As a result of the Citigroup guarantee, changes in ratings for Citigroup Funding Inc. are the same as those of Citigroup Inc. noted above.

Citigroup's Debt Ratings as of December 31, 2007

	Citigroup Inc.		Citigroup Funding Inc.		Citibank, N.A.	
	Senior	Commercial	Senior	Commercial	Long-	Short-
	debt	paper	debt	paper	term	term
Fitch Ratings	AA	F1+	AA	F1+	AA	F1+
Moody's Investors Service	Aa3	P-1	Aa3	P-1	Aa1	P-1
Standard & Poor's	AA-	A-1+	AA-	A-1+	AA	A-1+

Some of Citigroup's nonbank subsidiaries, including CGMHI, have credit facilities with Citigroup's subsidiary depository institutions, 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 Citigroup's subsidiary depository institutions or engage in certain other transactions with them. In general, these restrictions require that transactions be on arm's-length terms and be secured by designated amounts of specified collateral. See Note 20 to the Consolidated Financial Statements on page 149.

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LIQUIDITY

Overview

Citigroup's liquidity management is structured to optimize the free flow of funds through the Company's legal and regulatory structure. Principal constraints relate to legal and regulatory limitations, sovereign risk and tax considerations. Consistent with these constraints and the consolidated funding activities described in the Funding section beginning on page 80, Citigroup's primary objectives for liquidity management are established by entity and in aggregate across three main operating entities as follows:

Holding Company (Parent)
 Broker-Dealer (CGMHI)
 Bank Entities

Within this construct there is a funding framework for the Company's activities. The primary benchmark for the Parent and Broker-Dealer is that on a combined basis Citigroup maintains sufficient liquidity to meet all maturing unsecured debt obligations due within a one-year time horizon without accessing the unsecured markets. The resulting short-term ratio is monitored on a daily basis. The short-term ratio consists of the following significant components:

Liquidity Sources

Cash and Liquid Securities Portfolio

The Company maintains cash and a portfolio of highly liquid/highly rated securities that could be sold or financed on a secured basis. The cash balances are available for same-day settlement.

Unencumbered Securities of the Broker-Dealer

CGMHI has unencumbered securities that are available for sale or can be financed on a secured basis. The liquidity assumptions are reviewed periodically to assess liquidation horizons and required margins in line with market conditions.

23A Capacity

As discussed further in the Funding section beginning on page 80, some of Citigroup's nonbank subsidiaries, including CGMHI, have credit facilities with Citigroup's subsidiary depository institutions, including Citibank, N.A. Borrowings under these facilities must be secured in accordance with Section 23A of the Federal Reserve Act.

Securitization Capacity

Citigroup's Parent Company balance sheet includes a substantial amount of consumer finance assets, including auto receivables and personal loans. The company maintains active securitization programs and reviews the securitization capacity and underlying documentation for these assets on a regular basis. Conditions in the securitization markets have been difficult in recent months.

Liquidity Obligations

Commercial Paper

Maturing commercial paper issued by Citigroup Funding Inc. See Note 20 to the Consolidated Financial Statements on page 149 for further information.

LT Debt Maturing Within 12 Months

This includes debt maturing within the next 12 months of Citigroup Inc., Citigroup Funding Inc. and CGMHI.

Guaranteed Money Market Notes

Represents a portion of notes issued through our Private Bank via a non-bank subsidiary that is an element of Parent Company funding.

Maturing Bank Loans

As further described in Note 20 to the Consolidated Financial Statements on page 149, CGMHI has a series of committed and uncommitted third-party bank facilities that it uses in the ordinary course of business.

Other

At December 31, 2007, this category included miscellaneous payables and potential payments under structured notes and letters of credit.

In addition, a series of funding and risk management benchmarks and monitoring tools are established for the Parent, Broker-Dealer and Bank entities, as further described in the sections below.

Management of Liquidity

Management of liquidity at Citigroup is the responsibility of the 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 and Liquidity* on page 75, Citigroup's FinALCO undertakes this oversight responsibility along with the Treasurer. One of the objectives of the FinALCO is to monitor and review the overall liquidity and balance sheet positions of Citigroup and its principal subsidiaries. Similarly, Asset and Liability Committees are also established for each country and/or major line of business.

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Monitoring Liquidity

Each principal operating subsidiary and/or country must prepare an annual funding and liquidity plan for review by the 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. At a minimum, these parameters are reviewed on an annual basis.

Liquidity Limits

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. Thus the risk tolerance of the liquidity position is limited based on the capacity to cover the position in a stressed environment. These limits are the key daily risk management tool for the Parent and Bank entities.

Liquidity Ratios

A series of standard corporate-wide liquidity ratios has been established to monitor the structural elements of Citigroup's liquidity. As discussed above, for the Parent and CGMHI, ratios are established for liquid assets against short-term obligations. For Bank entities, key liquidity ratios 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, and deposits to loans. Several measures exist to review potential concentrations of funding by individual name, product, industry, or geography. 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.

For CGMHI and Bank entities, one of the key structural liquidity measures is the cash capital ratio. Cash capital is a broader measure of the ability to fund the structurally illiquid portion of the Company's balance sheet than traditional measures such as deposits to loans or core deposits to loans. The ratio measures the ability to fund illiquid assets with structurally long-term funding over a one-year time horizon. At December 31, 2007, both CGMHI and the aggregate Bank entities had an excess of structural long-term funding as compared with their illiquid assets.

Market Triggers

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 on a weekly basis by the Treasurer and the Head of Risk Oversight and are discussed in the FinALCO. 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.

Stress Testing

Simulated liquidity stress testing is periodically performed for each major operating subsidiary and/or country. A variety of firm-specific and market-related scenarios are used at the consolidated level and in individual countries. These 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 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 available 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.

Contractual Obligations

The following table includes aggregated information about Citigroup's contractual obligations that impact its short- and long-term liquidity and capital needs. The table includes information about payments due under specified contractual obligations, aggregated by type of contractual obligation. It includes the maturity profile of the Company's consolidated long-term debt, operating leases and other long-term liabilities. The Company's capital lease obligations are included within purchase obligations in the table.

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Citigroup's contractual obligations include purchase obligations that are enforceable and legally binding for the Company. For the purposes of the table below, purchase obligations are included through the termination date of the respective agreements, even if the contract is renewable. Many of the purchase agreements for goods or services include clauses that would allow the Company to cancel the agreement with specified notice; however, that impact is not included in the table (unless Citigroup has already notified the counterparty of its intention to terminate the agreement).

Other liabilities reflected on the Company's Consolidated Balance Sheet include obligations for goods and services that have already been received, litigation settlements, uncertain tax positions, as well as other long-term liabilities that have been incurred and will ultimately be paid in cash. Excluded from the following table are obligations that are generally short-term in nature, including deposit liabilities and securities sold under agreements to repurchase. The table also excludes certain insurance and investment contracts subject to mortality and morbidity risks or without defined maturities, such that the timing of payments and withdrawals is uncertain. The liabilities related to

these insurance and investment contracts are included on the Consolidated Balance Sheet as Insurance Policy and Claims Reserves, Contractholder Funds, and Separate and Variable Accounts.

Citigroup's funding policy for pension plans is generally to fund to the minimum amounts required by the applicable laws and regulations. At December 31, 2007, there were no minimum required contributions, and no contributions are currently planned for the U.S. pension plans. Accordingly, no amounts have been included in the table below for future contributions to the U.S. pension plans. For the non-U.S. plans, discretionary contributions in 2008 are anticipated to be approximately \$154 million and this amount has been included within purchase obligations in the table below. The estimated pension plan contributions are subject to change, since contribution decisions are affected by various factors, such as market performance, regulatory and legal requirements, and management's ability to change funding policy. For additional information regarding the Company's retirement benefit obligations, see Note 9 to the Consolidated Financial Statements on page 132.

<i>In millions of dollars at year end</i>	Contractual obligations by year					
	2008	2009	2010	2011	2012	Thereafter
Long-term debt obligations ⁽¹⁾	\$ 100,669	\$ 90,490	\$ 37,342	\$ 34,402	\$ 28,031	\$ 136,178
Operating lease obligations	1,579	1,434	1,253	1,075	964	4,415
Purchase obligations	5,308	981	645	578	365	1,139
Business acquisitions	5,353		493			
Other liabilities reflected on the Company's Consolidated Balance Sheet ⁽²⁾	51,012	360	180	133	133	4,155
Total	\$ 163,921	\$ 93,265	\$ 39,913	\$ 36,188	\$ 29,493	\$ 145,887

(1) For additional information about long-term debt and trust preferred securities, see Note 20 to the Consolidated Financial Statements on page 149.

(2) Relates primarily to accounts payable and accrued expenses included within Other Liabilities in the Company's Consolidated Balance Sheet. Also included are various litigation settlements.

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OFF-BALANCE-SHEET ARRANGEMENTS

Overview

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.

Uses of SPEs

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.

The principal uses of SPEs are to obtain liquidity and favorable capital treatment by securitizing certain of Citigroup's financial assets, to assist clients in securitizing their financial assets, and to create investment products for 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, which are recorded on the balance sheet of the SPE and not reflected on the transferring company's balance sheet, assuming applicable accounting requirements are satisfied. 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, liquidity put option or asset purchase agreement. 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 provider of certain credit enhancements as well as the counterparty to any related derivative contracts.

SPEs may be Qualifying SPEs (QSPEs) or Variable Interest Entities (VIEs) or neither.

Qualifying SPEs

QSPEs are a special class of SPEs defined in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). These SPEs have significant limitations on the types of assets and derivative instruments they may own and the types and extent of activities and decision-making they may engage in. Generally, QSPEs are passive entities designed to purchase assets and pass through the cash flows from those assets to the investors in the QSPE. QSPEs may not actively manage their assets through discretionary sales and are generally limited to making decisions inherent in servicing activities and issuance of liabilities. QSPEs are generally exempt from consolidation by the transferor of assets to the QSPE and any investor or counterparty.

Variable Interest Entities

VIEs are entities defined in FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (revised December 2003) (FIN 46-R), and are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest (i.e., ability to make significant decisions through voting rights, right to receive the expected residual returns of the entity, and obligation to absorb the expected losses of the entity). Investors that finance the VIE through debt or equity interests, or other counterparties that provide other forms of support, such as guarantees, subordinated fee arrangements, or certain types of derivative contracts, are variable interest holders in the entity. The variable interest holder, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both, is deemed to be the primary beneficiary and must consolidate the VIE. Consolidation under FIN 46-R is based on *expected* losses and residual returns, which consider various scenarios on a probability-weighted basis. Consolidation of a VIE is, therefore, determined based primarily on variability generated in scenarios that are considered most likely to occur, rather than based on scenarios that are considered more remote. Certain variable interests may absorb significant amounts of losses or residual returns contractually, but if those scenarios are considered very unlikely to occur, they may not lead to consolidation of the VIE.

All of these facts and circumstances are taken into consideration when determining whether the Company has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Company's financial statements. In some cases, it is qualitatively clear based on the extent of the Company's involvement or the seniority of its investments that the Company is not the primary beneficiary of the VIE. In other cases, a more detailed and

quantitative analysis is required to make such a determination.

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The Company generally considers the following types of involvement to be significant:

Assisting in the structuring of a transaction and retaining any amount of debt financing (e.g., loans, notes, bonds, or other debt instruments) or an equity investment (e.g., common shares, partnership interests, or warrants);

Writing a liquidity put or other liquidity facility to support the issuance of short-term notes;

Writing credit protection (e.g., guarantees, letters of credit, credit default swaps or total return swaps where the Company *receives* the total return or risk on the assets held by the VIE); or

Certain transactions where the Company is the investment manager and receives variable fees for services.

As of December 31, 2007, the Company's definition of significant involvement generally includes all variable interests held by the Company, even those where the likelihood of loss or the notional amount of exposure to any single legal entity is small. The Company has conformed the 2006 disclosure data presented to be consistent with this interpretation. Prior to December 2007, certain interests were deemed insignificant due to the substantial credit enhancement or subordination protecting the Company's

interest in the VIE (for example, in certain asset-based financing transactions) or due to the insignificance of the amount of the Company's interest compared to the total assets of the VIE (for example, in certain commercial paper conduits administered by third parties). Involvement with a VIE as described above, regardless of the seniority or perceived risk of the Company's involvement, is now included as significant. The Company believes that this more expansive interpretation of significant provides more meaningful and consistent information regarding its involvement in various VIE structures and provides more data for an independent assessment of the potential risks of the Company's involvement in various VIEs and asset classes. The Company has conformed the 2006 disclosure data presented to be consistent with this interpretation.

In various other transactions the Company may act as a derivative counterparty (for example, interest rate swap, cross-currency swap, or purchaser of credit protection under a credit default swap or total return swap where the Company *pays* the total return on certain assets to the SPE); may act as underwriter or placement agent; may provide administrative, trustee, or other services; or may make a market in debt securities or other instruments issued by VIEs. The Company generally considers such involvement, by itself, not significant under FIN 46-R.

Citigroup's involvement with SPEs that are QSPEs and VIEs that are consolidated by the Company or that are deemed significant as of December 31, 2007 and 2006 is presented below:

<i>In millions of dollars of SPE assets</i>	December 31, 2007			
	Total involvement with SPEs	QSPEs	Consolidated VIEs	Significant unconsolidated VIEs ⁽¹⁾
Global Consumer				
Credit card securitizations	\$ 125,351	\$ 125,109	\$ 242	\$
Mortgage loan securitizations	516,865	516,802	63	
Investment funds	886		276	610
Leasing	35		35	
Other	16,267	14,882	1,385	
Total	\$ 659,404	\$ 656,793	\$ 2,001	\$ 610
Markets & Banking				
Citi-administered asset-backed commercial paper conduits (ABCP)	\$ 72,558	\$	\$	\$ 72,558
Third-party commercial paper conduits	27,021			27,021
Collateralized debt obligations (CDOs)	74,106		22,312	51,794
Collateralized loan obligations (CLOs)	23,227		1,353	21,874
Mortgage loan securitizations	84,093	84,093		
Asset-based financing	96,072		4,468	91,604
Municipal securities tender option bond trusts (TOBs)	50,129	10,556	17,003	22,570

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Municipal investments	13,715		53	13,662
Client intermediation	12,383		2,790	9,593
Other	37,466	14,526	12,642	10,298
Total	\$ 490,770	\$ 109,175	\$ 60,621	\$ 320,974
Global Wealth Management				
Investment Funds	\$ 642	\$	\$ 590	\$ 52
Alternative Investments				
Structured investment vehicles	\$ 58,543	\$	\$ 58,543	\$
Investment funds	10,979		45	10,934
Total	\$ 69,522	\$	\$ 58,588	\$ 10,934
Corporate/Other				
Trust preferred securities	\$ 23,756	\$	\$	\$ 23,756
Citigroup Total	\$ 1,244,094	\$ 765,968	\$ 121,800	\$ 356,326

(1) A significant unconsolidated VIE is an entity where the Company has any variable interest, considered to be significant as discussed above, regardless of the likelihood of loss, or the notional amount of exposure.

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	December 31, 2006			
	Total involvement with		Consolidated	Significant unconsolidated
<i>In millions of dollars of SPE assets</i>	SPEs	QSPEs	VIEs	VIEs ⁽¹⁾
Global Consumer				
Credit card securitizations	\$ 112,293	\$ 111,766	\$ 527	\$
Mortgage loan securitizations	334,719	333,804	915	
Leasing	53		53	
Other	14,925	12,538	1,961	426
Total	\$ 461,990	\$ 458,108	\$ 3,456	\$ 426
Markets & Banking				
Citi-administered asset-backed commercial paper conduits (ABCP)	\$ 62,802	\$	\$	\$ 62,802
Third-party commercial paper conduits	37,003			37,003
Collateralized debt obligations (CDOs)	60,475			60,475
Collateralized loan obligations (CLOs)	18,625		1,297	17,328
Mortgage loan securitizations	69,449	69,449		
Asset-based financing	63,746		4,171	59,575
Municipal securities tender option bond trusts (TOBs)	32,259		17,313	14,946
Municipal investments	9,808		161	9,647
Client intermediation	1,839		1,044	795
Other	28,508	13,600	13,885	1,023
Total	\$ 384,514	\$ 83,049	\$ 37,871	\$ 263,594
Global Wealth Management				
Investment funds	\$ 1,259	\$	\$ 513	\$ 746
Alternative Investments				
Structured investment vehicles	\$ 79,847	\$	\$	\$ 79,847
Investment funds	34,151		211	33,940
Total	\$ 113,998	\$	\$ 211	\$ 113,787
Corporate/Other				
Trust preferred securities	\$ 9,775	\$	\$	\$ 9,775
Citigroup Total⁽²⁾	\$ 971,536	\$ 541,157	\$ 42,051	\$ 388,328

(1) A significant unconsolidated VIE is an entity where the Company has any variable interest considered to be significant as discussed on page 86, regardless of the likelihood of loss, or the notional amount of exposure.

(2) The December 31, 2006 totals have been reclassified to conform to the Company's current definition of significant involvement.

These tables do not include:

Certain venture capital investments made by some of the Company's private equity subsidiaries as the Company accounts for these investments in accordance with the Investment Company Audit Guide.

Certain limited partnerships where the Company is the general partner and the limited partners have the right to replace the general partner or liquidate the funds.

Certain investment funds for which the Company provides investment management services and personal estate trusts for which the Company provides administrative, trustee and/or investment management services.

VIEs structured by third parties where the Company holds securities in trading inventory. These investments are made on arm's-length terms, are typically held for relatively short periods of time and are not considered to represent significant involvement in the VIE.

VIE structures in which the Company transferred assets to the VIE that did not qualify as a sale, and where the Company did not have any other involvement that is deemed to be a variable interest with the VIE that was deemed significant. These transfers are accounted for as secured borrowings by the Company.

Table of Contents**Primary Uses of SPEs by Consumer****Securitization of Credit Card Receivables**

Credit card receivables are securitized through trusts, which are established to purchase the receivables. 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. The Company relies on securitizations to fund a significant portion of its managed *U.S. Cards* business, which includes both on-balance-sheet and securitized receivables.

The following table reflects amounts related to the Company's securitized credit card receivables at December 31:

<i>In billions of dollars</i>	2007	2006
Principal amount of credit card receivables in trusts	\$ 125.1	\$ 112.4
Ownership interests in principal amount of trust credit card receivables:		
Sold to investors via trust-issued securities	102.3	93.1
Retained by Citigroup as trust-issued securities	4.5	5.1
Retained by Citigroup via non-certificated interests recorded as consumer loans	18.3	14.2
Total ownership interests in principal amount of trust credit card receivables	\$ 125.1	\$ 112.4
Other amounts recorded on the balance sheet related to interests retained in the trusts:		
Amounts receivable from trusts	\$ 4.4	\$ 4.5
Amounts payable to trusts	1.6	1.7
Residual interest retained in trust cash flows	2.7	2.5

The Company recorded net gains from securitization of credit card receivables of \$1,267 million, \$1,084 million and \$1,168 million during 2007, 2006 and 2005, 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
- mark-to-market changes for the portion of the residual interest classified as trading assets

Securitization of Originated Mortgage and Other Consumer Loans

The Company's Consumer business provides a wide range of mortgage and other consumer loan products to its customers. Once originated, the Company often securitizes these loans (primarily mortgage and student loans). 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 and student 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. However, the Company's Consumer business generally retains the servicing rights as a residual interest in future cash flows from the trusts.

The Company recognized gains related to the securitization of these mortgage and other consumer loan products of \$423 million, \$384 million, and \$324 million in 2007, 2006 and 2005, respectively.

Subprime Loan Modification Framework

In the 2007 fourth quarter, the American Securitization Forum (ASF) issued the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans (the ASF Framework) with the support of the U.S. Department of the Treasury. The purpose of this guidance is to provide evaluation procedures and prevent losses on securitized subprime residential mortgages that originated between January 1, 2005 and July 31, 2007 and that have an initial interest rate reset between January 1, 2008 and July 31, 2010. The framework

segments securitized loans based on various factors, including the ability of the borrower to meet the initial terms of the loan and obtain refinancing. For certain eligible loans in the scope of the ASF Framework, a fast-track loan modification plan may be applied, under which the loan interest rate will be frozen at the introductory rate for a period of five years following the upcoming reset date. To qualify for fast-track modification, a loan must: currently be no more than 30 days delinquent and no more than 60 days delinquent in the past 12 months; have a loan-to-value ratio greater than 97%; be ineligible for FHA Secure; be subject to payment increases greater than 10% upon reset; and be for the primary residence of the borrower.

As of December 31, 2007, the Company's *Securities and Banking* business has securitized and placed in QSPEs approximately \$12.2 billion in loans that fall within the scope of the ASF Framework, of which it provides servicing for approximately \$1.8 billion. The Office of the Chief Accountant of the SEC has issued a letter regarding the ASF Framework indicating that loan modifications in accordance with the ASF framework will not impact the accounting for the QSPEs, because it would be reasonable to conclude that defaults on such loans are reasonably foreseeable in the absence of any modification.

As of December 31, 2007 the Company's Global Consumer business has not securitized any mortgage loans that fall within the scope of the ASF Framework.

Primary Uses of SPEs by Markets & Banking

Citi-administered Asset-backed Commercial Paper Conduits

The Company is active in the asset-backed commercial paper conduit business as administrator of several multi-seller commercial paper conduits, and also as a service provider to single-seller and other commercial paper conduits sponsored by third parties.

The multi-seller commercial paper conduits are designed to provide the Company's customers access to low-cost funding in the commercial paper markets. The conduits purchase assets from or provide financing facilities to customers and are funded by issuing commercial paper to third-party investors. The conduits generally do not purchase assets originated by the Company. The funding of the conduit is facilitated by the liquidity support and credit enhancements provided by the Company and by certain third parties. As administrator to the conduits, the Company is responsible for selecting and structuring of assets purchased or financed by the conduits, making decisions regarding the funding of the conduits, including determining the tenor and other features of the commercial paper issued, monitoring the quality and performance of the conduits' assets, and facilitating the operations and cash flows of the conduits. In return, the

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Company earns structuring fees from clients for individual transactions and earns an administration fee from the conduit, which is equal to the income from client program and liquidity fees of the conduit after payment of interest costs and other fees. This administration fee is fairly stable, since most risks and rewards of the underlying assets are passed back to the customers and, once the asset pricing is negotiated, most ongoing income, costs and fees are relatively stable as a percentage of the conduit's size.

The conduits administered by the Company do not generally invest in liquid securities that are formally rated by third parties. The assets are privately negotiated and structured transactions that are designed to be held by the conduit, rather than actively traded and sold. The yield earned by the conduit on each asset is generally tied to the rate on the commercial paper issued by the conduit, thus passing on interest rate risk back to the client. Each asset purchased by the conduit is structured with transaction-specific credit enhancement features provided by the third-party seller, including over-collateralization, cash and excess spread collateral accounts, direct recourse or third-party guarantees. Credit enhancements are sized based on historic asset performance to achieve an internal risk rating that, on average, approximates an AA or A rating.

Substantially all of the funding of the conduits is in the form of commercial paper, with a weighted average life generally ranging from 30-40 days. As of December 31, 2007, the weighted average life of the commercial paper issued was approximately 30 days. In addition, the conduits have issued Subordinate Loss Notes and equity with a notional amount of approximately \$77 million and varying remaining tenors ranging from one to nine years.

The primary credit enhancement provided to the conduit investors is in the form of transaction-specific credit enhancement described above. In addition, there are two additional forms of credit enhancement that protect the commercial paper investors from defaulting assets. First, the Subordinate Loss Notes issued by each conduit absorb any credit losses up to their full notional amount. It is expected that the Subordinate Loss Notes issued by each conduit are sufficient to absorb a majority of the expected losses from each conduit, thereby making the single investor in the Subordinate Loss Note the primary beneficiary under FIN 46-R. Second, each conduit has obtained either a letter of credit from the Company or a surety bond from a monoline insurer that will reimburse the conduit for any losses up to a specified amount, which is generally 8-10% of the conduit's assets. Where surety bonds are obtained, the Company, in turn, provides the surety bond provider a reimbursement guarantee up to a stated amount for aggregate losses incurred by any of the conduits covered by the surety bond. The total of the letters of credit and the reimbursement guarantee provided by the Company is approximately \$2.1 billion and is considered in the Company's maximum exposure to loss. The net result across all multi-seller conduits administered by the Company is that, in the event of defaulted assets in excess of the transaction-specific credit enhancement described above, any losses in each conduit are allocated in the following order:

Subordinate Loss Note holders
the Company
the monoline insurer, if any (up to the 8-10% cap), and
the commercial paper investors

The Company, along with third parties, also provides the conduits with two forms of liquidity agreements that are used to provide funding to the

conduits in the event of a market disruption, among other events. Each asset of the conduit is supported by a transaction-specific liquidity facility in the form of an asset purchase agreement (APA). Under the APA, the Company has agreed to purchase non-defaulted eligible receivables from the conduit at par. Any assets purchased under the APA are subject to increased pricing. The APA is not designed to provide credit support to the conduit, as it generally does not permit the purchase of defaulted or impaired assets and generally reprices the assets purchased to consider any potential increased credit risk. The APA covers all assets in the conduits and is considered in the Company's maximum exposure to loss. In addition, the Company provides the conduits with program-wide liquidity in the form of short-term lending commitments. Under these commitments, the Company has agreed to lend to the conduits in the event of a short-term disruption in the commercial paper market, subject to specified conditions. The total notional exposure under the program-wide liquidity agreement is \$11.6 billion and is considered in the Company's maximum exposure to loss. The company receives fees for providing both types of liquidity agreement, and considers these fees to be on fair market terms.

Finally, the Company is one of several named dealers in the commercial paper issued by the conduits and earns a market-based fee for providing such services. Along with third-party dealers, the Company makes a market in the commercial paper and may from time to time fund commercial paper pending sale to a third party. On specific dates with less liquidity in the market, the Company may hold in inventory commercial paper issued by conduits administered by the Company, as well as conduits administered by third parties. The amount of

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commercial paper issued by its administered conduits held in inventory fluctuates based on market conditions and activity. As of December 31, 2007, the Company owned less than \$10 million of commercial paper issued by its administered conduits.

FIN 46-R requires that the Company quantitatively analyze the expected variability of the Conduit to determine whether the Company is the primary beneficiary of the conduit. The Company performs this analysis on a quarterly basis, and has concluded that the Company is not the primary beneficiary of the conduits as defined in FIN 46-R and, therefore, does not consolidate the conduits it administers. In conducting this analysis, the Company considers three primary sources of variability in the conduit: credit risk, interest rate risk and fee variability.

The Company models the credit risk of the conduit's assets using a Credit Value at Risk (C-VaR) model. The C-VaR model considers changes in credit spreads (both within a rating class as well as due to rating upgrades and downgrades), name-specific changes in credit spreads, credit defaults and recovery rates and diversification effects of pools of financial assets. The model incorporates data from independent rating agencies as well as the Company's own proprietary information regarding spread changes, ratings transitions and losses given default. Using this credit data, a Monte Carlo simulation is performed to develop a distribution of credit risk for the portfolio of assets owned by each conduit, which is then applied on a probability-weighted basis to determine expected losses due to credit risk. In addition, the Company continuously monitors the specific credit characteristics of the conduit's assets and the current credit environment to confirm that the C-VaR model used continues to incorporate the Company's best information regarding the expected credit risk of the conduit's assets.

The Company also analyzes the variability in the fees that it earns from the conduit using monthly actual historical cash flow data to determine

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average fee and standard deviation measures for each conduit. Because any unhedged interest rate and foreign currency risk not contractually passed on to customers is absorbed by the fees earned by the Company, the fee variability analysis incorporates those risks.

The fee variability and credit risk variability are then combined into a single distribution of the conduit's overall returns. This return distribution is updated and analyzed on at least a quarterly basis to ensure that the amount of the Subordinate Loss Notes issued to third parties is sufficient to absorb greater than 50% of the total expected variability in the conduit's returns. The expected variability absorbed by the Subordinate Loss Note investors is therefore measured to be greater than the expected variability absorbed by the Company through its liquidity arrangements and other fees earned, the surety bond providers, and the investors in commercial paper and medium term notes. While the notional amounts of the Subordinate Loss Notes are quantitatively small compared to the size of the conduits, this is reflective of the fact that most of the substantive risks of the conduits are absorbed by the enhancements provided by the sellers and other third parties that provide transaction-level credit enhancement. Because FIN 46-R requires these risks and related enhancements to be excluded from the analysis, the remaining risks and expected variability are quantitatively small. The calculation of variability under FIN46-R focuses primarily on *expected* variability, rather than the risks associated with extreme outcomes (for example, large levels of default) that are expected to occur very infrequently. So while the Subordinate Loss Notes are sized appropriately compared to expected losses as measured in FIN 46-R, they do not provide significant protection against extreme or unusual credit losses.

The following tables describe the important characteristics of assets owned by the administered multi-seller conduits as of December 31, 2007:

Weighted average life	Credit rating distribution			
	AAA	AA	A	BBB
2.5 years	30%	59%	9%	2%

Asset Class	% of Total Portfolio
Student loans	21%
Trade receivables	16%
Credit cards and consumer loans	13%
Portfolio finance	11%
Commercial loans and corporate credit	10%
Export finance	9%
Auto	8%
Residential mortgage	7%
Other	5%
Total	100%

Third-party Conduits

The Company also provides liquidity facilities to single- and multi-seller conduits sponsored by third parties. These conduits are independently owned and managed and invest in a variety of asset classes, depending on the nature of the conduit. The facilities provided by the Company typically represent a small portion of the total liquidity facilities obtained by each conduit, and are collateralized by the assets of each conduit. The notional

amount of these facilities is approximately \$2.2 billion as of December 31, 2007. No amounts were funded under these facilities as of December 31, 2007.

Collateralized Debt Obligations

A collateralized debt obligation (CDO) is an SPE that purchases a pool of assets consisting of asset-backed securities and synthetic exposures through derivatives on asset-backed securities and issues multiple tranches of equity and notes to investors. A third-party manager is typically retained by the CDO to select the pool of assets and manage those assets over the term of the CDO. The Company earns fees for warehousing assets prior to the creation of a CDO, structuring CDOs, and placing debt securities with investors. In addition, the Company has retained interests in many of the CDOs it has structured and makes a market in those issued notes.

A cash CDO, or arbitrage CDO, is a CDO designed to take advantage of the difference between the yield on a portfolio of selected assets, typically residential mortgage-backed securities, and the cost of funding the CDO through the sale of notes to investors. Cash flow CDOs are vehicles in which the CDO passes on cash flows from a pool of assets, while market value CDOs pay to investors the market value of the pool of assets owned by the CDO at maturity. Both types of CDOs are typically managed by a third-party asset manager. In these transactions, all of the equity and notes issued by the CDO are funded, as the cash is needed to purchase the debt securities. In a typical cash CDO, a third-party investment manager selects a portfolio of assets, which the Company funds through a warehouse financing arrangement prior to the creation of the CDO. The Company then sells the debt securities to the CDO in exchange for cash raised through the issuance of notes. The Company's continuing involvement in cash CDOs is typically limited to investing in a portion of the notes or loans issued by the CDO and making a market in those securities, and acting as derivative counterparty for interest rate or foreign currency swaps used in the structuring of the CDO.

A synthetic CDO is similar to a cash CDO, except that the CDO obtains exposure to all or a portion of the referenced assets synthetically through derivative instruments, such as credit default swaps. Because the CDO does not need to raise cash sufficient to purchase the entire referenced portfolio, a substantial portion of the senior tranches of risk is typically passed on to CDO investors in the form of unfunded liabilities or derivative instruments. Thus, the CDO writes credit protection on selected referenced debt securities to the Company or third parties, and the risk is then passed on to the CDO investors in the form of funded notes or purchased credit protection through derivative instruments. Any cash raised from investors is invested in a portfolio of collateral securities or investment contracts. The collateral is then used to support the CDO's obligations on the credit default swaps written to counterparties. The Company's continuing involvement in synthetic CDOs generally includes purchasing credit protection through credit default swaps with the CDO, owning a portion of the capital structure of the CDO, in the form of both unfunded derivative positions (primarily super senior exposures discussed below) and funded notes, entering into interest rate swap and total return swap transactions with the CDO, lending to the CDO, and making a market in those funded notes.

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The following table describes credit ratings of assets of unconsolidated CDOs to which the Company had significant involvement as of December 31, 2007:

Weighted average life	Credit rating distribution				
	A or higher	BBB	BB/B	CCC	Unrated
5.1 years	40%	20%	12%	25%	3%

Commercial Paper CDOs (CPCDOs)

In certain CDO transactions underwritten by the Company during 2003-2006, the senior funding of the CDOs was in the form of short-term commercial paper. In order to facilitate the issuance of commercial paper by the CDO, the Company wrote a put option (liquidity puts) to the CDO to benefit the commercial paper investors, which was accounted for as a derivative. The total notional amount of these written liquidity puts was approximately \$25 billion. Under the terms of the liquidity puts, if the CDO was unable to issue commercial paper at a rate below a specified maximum (generally LIBOR + 35bps to LIBOR +40 bps), the Company was obligated to fund the senior tranche of the CDO at a specified interest rate. At the time the liquidity puts were written, the put options were considered deeply out of the money and unlikely to be exercised. In July 2007, the market interest rates on commercial paper issued by certain of the CDOs increased significantly and in order to forestall the formal exercise of the liquidity puts, the Company chose to purchase the outstanding commercial paper and continued to do so in subsequent months as additional commercial paper matured. The Company chose to do so because owning the commercial paper directly was economically equivalent to its contractual obligation under the liquidity put, but holding the commercial paper was believed to provide some additional flexibility in finding third-party investors in the event of improved market conditions. As of December 31, 2007, the Company had purchased all \$25 billion of the commercial paper subject to the liquidity puts.

Because the Company obtained the commercial paper in the form of a purchase rather than the contractual exercise of the liquidity put, the Company considered the purchase to be a reconsideration event under FIN 46-R which requires that the Company evaluate, using current estimates and assumptions, whether the Company must begin to consolidate the CDO issuer. As of September 30, 2007, the Company's quantitative analysis of the expected losses and residual returns of the particular CDOs demonstrated that the value of the subordinate tranches held by third parties remained sufficient to absorb a majority of the expected loss of the CDOs and the Company did not consolidate any of the liquidity put CDOs. During the fourth quarter of 2007, the Company obtained additional commercial paper from these CDOs as the existing commercial paper matured, thus causing additional reconsideration events under FIN 46-R. Because rating agency downgrades of the CDO collateral in the fourth quarter caused further deterioration in the value of the commercial paper and subordinate tranches of these CDOs, the Company has concluded that the Company is now the primary beneficiary of all of these CDOs under FIN 46-R and has consolidated them.

Upon consolidation of the CDOs, the Company reflects the underlying assets, primarily residential mortgage-backed securities of the CDOs on its balance sheet in Trading account assets at fair value, eliminates the

commercial paper asset previously recognized, and recognizes the subordinate CDO liabilities (owned by third parties) at fair value. This results in a balance sheet gross-up of approximately \$400 million as of December 31, 2007 compared to the prior accounting treatment as unconsolidated VIEs.

CDO Super Senior Exposure

In addition to asset-backed commercial paper positions in consolidated CDOs, the Company has retained significant portions of the super senior positions issued by certain CDOs. These positions are referred to as super senior, because they represent the most senior positions in the CDO and, at the time of structuring, were senior to tranches rated AAA by independent rating agencies. However, since inception of these transactions, the subordinate positions have diminished significantly in value and in rating. There have been substantial reductions in value of these super senior positions in the quarter ended December 31, 2007.

While at inception of the transactions, the super senior tranches were well protected from the expected losses of these CDOs, subsequent declines in value of the subordinate tranches and the super senior tranches in the fourth quarter of 2007 indicated that the super senior tranches now are exposed to a significant portion of the expected losses of the CDOs, based on current market assumptions. The Company evaluates these transactions for consolidation when reconsideration events occur, as defined in FIN 46-R. The Company continues to monitor its

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involvement in these transactions and, if the Company were to acquire additional interests in these vehicles or if the CDOs' contractual arrangements were to be changed to reallocate expected losses or residual returns among the various interest holders, the Company may be required to consolidate the CDOs. The net result of such consolidation would be to gross up the Company's balance sheet by the current fair value of the subordinate securities held by third parties, which amounts are not considered material.

Collateralized Loan Obligations

A collateralized loan obligation (CLO) is substantially similar to the CDO transactions described above, except that the assets owned by the SPE (either cash instruments or synthetic exposures through derivative instruments) are corporate loans and to a less extent corporate bonds, rather than asset-backed debt securities.

The following table describes credit ratings of assets of unconsolidated CLOs with which the Company had significant involvement as of December 31, 2007:

Weighted average life	Credit rating distribution				
	A or Higher	BBB	BB/B	CCC	Unrated
5.0 years	7%	11%	56%	0%	26%
<i>Mortgage Loan Securitizations</i>					

Markets & Banking is active in structuring and underwriting residential and commercial mortgage-backed securitizations. In these transactions, the Company or its customer transfers loans into a bankruptcy-remote SPE. These SPEs are designed to be QSPEs as described above. The Company may hold residual interests and other securities issued by the SPEs until they can be sold to independent investors, and makes a market in those securities on an ongoing basis. The Company sometimes retains servicing rights for

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certain entities. These securities are held as trading assets on the balance sheet, are managed as part of the Company's trading activities, and are marked to market with most changes in value recognized in earnings. The table above shows the assets and retained interests for mortgage QSPEs in which the Company acted as principal in transferring mortgages to the QSPE.

Asset-Based Financing

The Company provides loans and other forms of financing to VIEs that hold assets. Those loans are subject to the same credit approvals as all other loans originated or purchased by the Company, and related loan loss reserves are reported as part of the Company's Allowance for credit losses in Note 18 on page 147. Financings in the form of debt securities or derivatives are, in most circumstances, reported in Trading account assets and accounted for at fair value through earnings.

The primary types of asset-based financing, total assets of the unconsolidated VIEs with significant involvement, and the Company's maximum exposure to loss at December 31, 2007 are shown below. For the Company to realize that maximum loss, the VIE (borrower) would have to default with no recovery from the assets held by the VIE.

In billions of dollars

Type	Total assets	Maximum exposure
Commercial and other real estate	\$ 34.3	\$ 16.0
Hedge funds and equities	36.0	13.1
Asset purchasing vehicles/SIVs	10.2	2.5
Airplanes, ships and other assets	11.1	2.7
Total	\$ 91.6	\$ 34.3

The Company's involvement in the asset purchasing vehicles and SIVs sponsored and managed by third parties is primarily in the form of provided backstop liquidity. Those vehicles finance a majority of their asset purchases with commercial paper and short-term notes. Certain of the assets owned by the vehicles have suffered significant declines in fair value, leading to an inability to re-issue maturing commercial paper and short-term notes. Citigroup has been required to provide loans to those vehicles to replace maturing commercial paper and short-term notes, in accordance with the original terms of the backstop liquidity facilities.

The assets of the third-party Asset Purchasing Vehicle and SIVs to which the Company had provided backstop liquidity as of December 31, 2007 consisted of 96% rated A or higher, 1% rated BBB, and 3% rated BB or B.

Municipal Securities Tender Option Bond (TOB) Trusts

The Company sponsors TOB trusts that hold fixed- and floating-rate, tax-exempt securities issued by state or local municipalities. The trusts are single-issuer trusts whose assets are purchased from the Company and from the secondary market. The trusts issue long-term senior floating rate notes (Floaters) and junior residual securities (Residuals). The Floaters have a long-term rating based on the long-term rating of the underlying municipal bond and a short-term rating based on that of the liquidity provider to the trust. The Residuals are generally rated based on the long-term rating of the underlying municipal bond and entitle the holder to the residual cash flows from the issuing trust.

The Company sponsors three kinds of TOB trusts: customer TOB trusts, proprietary TOB trusts, and QSPE TOB trusts.

Customer TOB trusts are trusts through which customers finance investments in municipal securities and are not consolidated by the Company. Proprietary and QSPE TOB trusts, on the other hand, provide the Company with the ability to finance its own investments in municipal securities.

Proprietary TOB trusts are generally consolidated, in which case the financing (the Floaters) is recognized on the Company's balance sheet as a liability. However, certain proprietary TOB trusts are not consolidated by the Company, where the Residuals are held by a hedge fund that is consolidated and managed by the Company. The assets and the associated liabilities of these TOB trusts are not consolidated by the hedge fund (and, thus, are not consolidated by the Company) under the application of the AICPA Investment Company Audit Guide, which precludes consolidation of owned investments. The Company consolidates the hedge fund because the Company holds greater than 50% of the equity interests in the hedge fund. The majority of the Company's equity investments in the hedge fund are hedged with derivatives transactions executed by the Company with third parties referencing the returns of the hedge fund.

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QSPE TOB trusts provide the Company with the same exposure as proprietary TOB trusts and are not consolidated by the Company. The total assets and other characteristics of the three categories of TOB trusts as of December 31, 2007 are as follows:

TOB trust type	Total assets (in billions)	Weighted average life	Credit rating distribution		
			AAA/Aaa	AA/Aa1 AA-/Aa3	Less than AA-/Aa3
Customer TOB Trusts (Not consolidated)	\$ 17.6	8.4 years	84%	16%	0%
Proprietary TOB Trusts (Consolidated and Non-consolidated)	\$ 22.0	18.1 years	67%	33%	0%
QSPE TOB Trusts (Not consolidated)	\$ 10.6	3.0 years	80%	20%	0%

Credit rating distribution is based on the external rating of the municipal bonds within the TOB trusts, including any credit enhancement provided by monoline insurance companies or the Company in the primary or secondary markets, as discussed below. The total assets for proprietary TOB Trusts (Consolidated and Non-consolidated) includes \$5.0 billion of assets where the Residuals are held by a hedge fund that is consolidated and managed by the Company.

The TOB trusts fund the purchase of their assets by issuing Floaters along with Residuals, which are frequently less than 1% of a trust's total funding. The tenor of the Floaters matches the maturity of the TOB trust and is equal to or shorter than the tenor of the municipal bond held by the trust, and the Floaters bear interest rates that are typically reset weekly to a new market rate (based on the SIFMA index). Floater holders have an option to tender the Floaters they hold back to the trust periodically. Customer TOB trusts issue the Floaters and Residuals to third parties. Proprietary and QSPE TOB trusts issue the Floaters to third parties, and the Residuals are held by the Company.

Approximately \$5.7 billion of the municipal bonds owned by TOB trusts have an additional credit guarantee provided by the Company. In all other cases, the assets are either unenhanced or are insured with a monoline insurance provider in the primary market or in the secondary market. While the trusts have not encountered any adverse credit events as defined in the

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underlying trust agreements, certain monoline insurance companies have experienced downgrades. In these cases, the Company has proactively managed the TOB programs by applying additional secondary market insurance on the assets or proceeding with orderly unwinds of the trusts.

The Company, in its capacity as remarketing agent, facilitates the sale of the Floaters to third parties at inception of the trust and facilitates the reset of the Floater coupon and tenders of Floaters. If Floaters are tendered and the Company (in its role as remarketing agent) is unable to find a new investor within a specified period of time, it can declare a failed remarketing (in which case the trust is unwound), or may choose to buy the Floaters into its own inventory and may continue to try to sell it to a third party investor. While the levels of the Company's inventory of Floaters fluctuates, the Company held approximately \$0.9 billion of Floater inventory related to the TOB programs as of December 31, 2007.

If a trust is unwound early due to an event other than a credit event on the underlying municipal bond, the underlying municipal bond is sold in the secondary market. If there is an accompanying shortfall in the trust's cash flows to fund the redemption of the Floaters after the sale of the underlying municipal bond, the trust draws on a liquidity agreement in an amount equal to the shortfall. Liquidity agreements are generally provided to the trust directly by the Company. For customer TOBs where the Residual is less than 25% of the trust's capital structure, the Company has a reimbursement agreement with the Residual holder under which the Residual holder reimburses the Company for any payment made under the liquidity arrangement. Through this reimbursement agreement, the Residual holder remains economically exposed to fluctuations in value of the municipal bond. These reimbursement agreements are actively margined based on changes in value of the underlying municipal bond to mitigate the Company's counterparty credit risk. In cases where a third party provides liquidity to a proprietary or QSPE TOB trust, a similar reimbursement arrangement is made whereby the Company (or a consolidated subsidiary of the Company) as Residual holder absorbs any losses incurred by the liquidity provider. As of December 31, 2007, liquidity agreements provided with respect to customer TOB trusts totaled \$14.4 billion, offset by reimbursement agreements in place with a notional amount of \$11.5 billion. The remaining exposure relates to TOB transactions where the Residual owned by the customer is at least 25% of the bond value at the inception of the transaction. In addition, the Company has provided liquidity arrangements with a notional amount of \$11.4 billion to QSPE TOB trusts and other non-consolidated proprietary TOB trusts described above.

The Company considers the customer and proprietary TOB trusts (excluding QSPE TOB trusts) to be variable interest entities within the scope of FIN 46-R. Because third party investors hold the Residual and Floater interests in the customer TOB trusts, the Company's involvement and variable interests include only its role as remarketing agent and liquidity provider. On the basis of the variability absorbed by the customer through the reimbursement arrangement or significant residual investment, the Company does not consolidate the Customer TOB trusts. The Company's variable interests in the Proprietary TOB trusts include the Residual as well as the remarking and liquidity agreements with the trusts. On the basis of the variability absorbed through these contracts (primarily the Residual), the Company generally consolidates the Proprietary TOB trusts. Finally, certain proprietary TOB trusts and QSPE TOB trusts are not consolidated by application of specific accounting literature. For the nonconsolidated

proprietary TOB trusts and QSPE TOB trusts, the Company recognizes only its residual investment on its balance sheet at fair value and the third party financing raised by the trusts is off-balance sheet.

Municipal Investments

Municipal Investment transactions represent partnerships that finance the construction and rehabilitation of low-income affordable rental housing. The Company generally invests in these partnerships as a limited partner and earns a return primarily through the receipt of tax credits earned from the affordable housing investments made by the partnership.

Client Intermediation

Client intermediation transactions represent a range of transactions designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index. These transactions include credit-linked notes and equity-linked notes. In these transactions, the SPE typically obtains exposure to the underlying security, referenced asset or index through a derivative instrument such as a total return swap or a credit default swap. In turn the SPE issues notes to investors that pay a return based on the specified underlying security, referenced asset or index. The SPE invests the proceeds in a financial asset or a guaranteed insurance contract (GIC) that serves as collateral for the derivative contract over the term of the transaction. The Company's involvement in these transactions includes being the counterparty to the SPE's derivative instruments and investing in a portion of the notes issued by the SPE. In certain transactions, the investor's maximum risk of loss is limited and the Company absorbs risk of loss above a specified level.

The Company's maximum risk of loss in these transactions is defined as the amount invested in notes issued by the SPE and the notional amount of any risk of loss absorbed by the Company through a separate instrument issued by the SPE. The derivative instrument held by the Company may generate a receivable from the SPE (for example, where the Company purchases credit protection from the SPE in connection with the SPE's issuance of a credit-linked note), which is collateralized by the assets owned by the SPE. These derivative instruments are not considered variable interests under FIN 46-R and any associated receivables are not included in the calculation of maximum exposure to the SPE.

Mutual Fund Deferred Sales Commission (DSC) Securitizations

Mutual Fund Deferred Sales Commission (DSC) receivables are assets purchased from distributors of mutual funds that are backed by distribution fees and contingent deferred sales charges (CDSC) generated by the distribution of certain shares to mutual fund investors. These share investors pay no upfront load, but the shareholder agrees to pay, in addition to the management fee imposed by the mutual fund, the distribution fee over a period of time and the CDSC (a penalty for early redemption to recover lost distribution fees). Asset managers use the proceeds from the sale of DSC receivables to cover sales commissions associated with the shares sold.

The Company purchases these receivables from mutual fund distributors and sells a diversified pool of receivables to a trust. The trust in turn issues two tranches of securities:

Senior term notes (generally 92-94%) via private placement to third-party investors. These notes are structured to have at least a single A rating

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standard. The senior notes receive all cash distributions until fully repaid, which is generally approximately 5-6 years;

A residual certificate in the trust (generally 6-8%) to the Company. This residual certificate is fully subordinated to the senior notes, and receives no cash flows until the senior notes are fully paid.

Primary Uses of SPEs by Alternative Investments***Structured Investment Vehicles***

Structured Investment Vehicles (SIVs) are SPEs that issue junior notes and senior debt (medium-term notes and short-term commercial paper) to fund the purchase of high quality assets. The junior notes are subject to the first loss risk of the SIVs. The SIVs provide a variable return to the junior note investors based on the net spread between the cost to issue the senior debt and the return realized by the high quality assets. The Company acts as investment manager for the SIVs and, prior to December 13, 2007, was not contractually obligated to provide liquidity facilities or guarantees to the SIVs.

In response to the ratings review for a possible downgrade announced by two ratings agencies of the outstanding senior debt of the SIVs, and the continued reduction of liquidity in the SIV-related asset-backed commercial paper and medium-term note markets, on December 13, 2007, Citigroup announced its commitment to provide a support facility that would support the SIVs' senior debt ratings. As a result of this commitment, Citigroup became the SIVs' primary beneficiary and began consolidating these entities.

On February 12, 2008, Citigroup finalized the terms of the support facility, which takes the form of a commitment to provide mezzanine capital to the SIV vehicles in the event the market value of their capital notes approaches zero. The facility is senior to the junior notes but junior to the commercial paper and medium-term notes. The facility is at arm's-length terms. Interest will be paid on the drawn amount of the facility, and a per annum fee will be paid on the unused portion. The termination date of the facility is January 15, 2011, cancelable at any time at the discretion of the SIVs.

The impact of this consolidation on Citigroup's Consolidated Balance Sheet as of December 31, 2007 is as follows:

<i>In billions of dollars</i>	December 31, 2007
Assets	
Cash and due from banks	\$11.8
Trading account assets	46.4
Other assets	0.3
Total assets	\$58.5
Liabilities	
Short-term borrowings	\$11.7
Long-term borrowings	45.9
Other liabilities	0.9
Total liabilities	\$58.5

Balances include intercompany assets of \$1 billion and intercompany liabilities of \$7 billion, which are eliminated in consolidation.

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The following tables summarize the seven Citigroup-advised SIVs as of December 31, 2007 and September 30, 2007 as well as the aggregate asset mix and credit quality of the SIV assets.

In billions of dollars

	December 31, 2007			September 30, 2007		
	CP			CP		
	Assets	Funding	Medium-Term Notes	Assets	Funding	Medium-Term Notes
<i>SIV</i>						
Beta	\$ 14.8	\$ 0.4	\$ 13.7	\$ 19.3	\$ 2.6	\$ 15.7
Centauri	14.9	0.8	13.3	20.1	2.9	16.1
Dorada	8.4	1.0	6.9	11.0	2.2	8.1
Five	8.7	2.6	5.7	13.2	5.5	7.1
Sedna	9.1	5.2	3.1	13.4	5.6	7.0
Zela	1.9	1.1	0.6	4.1	2.7	1.2
Vetra	0.7	0.3	0.3	2.0	1.4	0.5
Total	\$ 58.5	\$ 11.4	\$ 43.6	\$ 83.1	\$ 22.9	\$ 55.7

	December 31, 2007				September 30, 2007			
	Average Credit Quality ^{(1) (2)}				Average Credit Quality ^{(1) (2)}			
	Asset				Average Asset			
	Mix	Aaa	Aa	A	Mix	Aaa	Aa	A
Financial Institutions Debt	59%	12%	43%	4%	58%	12%	44%	2%
Sovereign Debt	1%	1%						
Structured Finance								
MBS Non-U.S. residential	12%	12%			11%	11%		
CBOs, CLOs, CDOs	6%	6%			8%	8%		
MBS U.S. residential	7%	7%			7%	7%		
CMBS	4%	4%			6%	6%		
Student loans	6%	6%			5%	5%		
Credit cards	5%	5%			4%	4%		
Other					1%	1%		
Total Structured Finance	40%	40%			42%	42%		
Total	100%	53%	43%	4%	100%	54%	44%	2%

(1) Credit ratings based on Moody's ratings as of December 31, 2007 and September 30, 2007.

(2) The SIVs have no direct exposure to U.S. subprime assets and have approximately \$50 million and \$70 million of indirect exposure to subprime assets through CDOs, which are AAA rated and carry credit enhancements as of December 31, 2007 and September 30, 2007.

Investment Funds

The Company is the investment manager for certain investment funds that invest in various asset classes including private equity, hedge funds, real estate, fixed income and infrastructure. The Company earns a management fee which is a percentage of capital under management, and may earn performance fees. In addition, for some of these funds the Company has an ownership interest in the investment funds.

The Company has also established a number of investment funds as opportunities for qualified employees to invest in private equity 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.

Primary Uses of SPEs by Corporate/Other

Trust Preferred Securities

The Company has raised financing through the issuance of trust preferred securities. In these transactions, the Company forms a statutory business trust and owns all of the voting equity shares of the trust. The trust

issues preferred equity securities to third-party investors and invests the gross proceeds in junior subordinated deferrable interest debentures issued by the Company. These trusts have no assets, operations, revenues or cash flows other than those related to the issuance, administration, and repayment of the preferred equity securities held by third-party investors. These trusts' obligations are fully and unconditionally guaranteed by the Company.

Because the sole asset of the trust is a receivable from the Company, the Company is not permitted to consolidate the trusts under FIN 46-R, even though the Company owns all of the voting equity shares of the trust, has fully guaranteed the trusts' obligations, and has the right to redeem the preferred securities in certain circumstances. The Company recognizes the subordinated debentures on its balance sheet as long-term liabilities.

See Note 23 on page 156 for additional information regarding the Company's off-balance-sheet arrangements with respect to securitizations and SPEs.

Table of Contents**Credit Commitments and Lines of Credit**

The table below summarizes Citigroup's credit commitments as of December 31, 2007 and December 31, 2006:

<i>In millions of dollars</i>	U.S.	Outside of U.S.	December 31, 2007	December 31, 2006
Financial standby letters of credit and foreign office guarantees	\$ 56,665	\$ 30,401	\$ 87,066	\$ 72,548
Performance standby letters of credit and foreign office guarantees	5,340	12,715	18,055	15,802
Commercial and similar letters of credit	1,483	7,692	9,175	7,861
One- to four-family residential mortgages	3,824	763	4,587	3,457
Revolving open-end loans secured by one- to four-family residential properties	31,930	3,257	35,187	32,449
Commercial real estate, construction and land development	3,736	1,098	4,834	4,007
Credit card lines ⁽¹⁾	949,939	153,596	1,103,535	987,409
Commercial and other consumer loan commitments ⁽²⁾	303,376	170,255	473,631	439,931
Total	\$ 1,356,293	\$ 379,777	\$ 1,736,070	\$ 1,563,464

(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 \$259 billion and \$251 billion with original maturity of less than one year at December 31, 2007 and December 31, 2006, respectively.

See Note 28 to the Consolidated Financial Statements on page 176 for additional information on credit commitments and lines of credit.

Highly Leveraged Financing Commitments

Included in the line item "Commercial and other consumer loan commitments" in the table above are highly leveraged financing commitments, which are agreements that provide funding to a borrower with higher levels of debt (measured by the ratio of debt capital to equity capital of the borrower) than is generally the case for other companies. Highly leveraged financing is commonly employed in corporate acquisitions, management buy-outs and similar transactions.

As a result, debt service (that is, principal and interest payments) absorbs a significant portion of the cash flows generated by the borrower's business. Consequently, the risk that the borrower may not be able to service its debt obligations is greater. Due to this risk, the interest rates and fees charged for this type of financing are generally higher than other types of financing.

Prior to funding, highly leveraged financing commitments are assessed for impairment in accordance with SFAS 5 and losses are recorded when they are probable and reasonably estimable. For the portion of loan commitments that relate to loans that will be held for investment, loss estimates are made based on the borrower's ability to repay the facility according to its contractual terms. For the portion of loan commitments that relate to loans that will be held for sale, loss estimates are made in reference to current conditions in the resale market (both interest rate risk and credit risk are considered in the estimate). Loan origination, commitment, underwriting, and other fees are netted against any recorded losses.

Citigroup generally manages the risk associated with highly leveraged financings it generally has entered into by seeking to sell a majority of its exposures to the market prior to or shortly after funding. In certain cases, all or a portion of a highly leveraged financing to be retained is hedged with credit derivatives or other hedging instruments. Thus, when a highly leveraged financing is funded, Citigroup records the resulting loan as follows:

The portion that Citigroup will seek to sell is recorded as a loan held-for-sale in Other Assets on the Consolidated Balance Sheet, and measured at the lower-of-cost-or-market (LOCOM)

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The portion that will be retained is recorded as a loan held-for-investment in Loans and measured at amortized cost less impairment. Due to the dislocation of the credit markets and the reduced market interest in higher risk/higher yield instruments during the second half of 2007, liquidity in the market for highly leveraged financings has declined significantly. Consequently, Citigroup has been unable to sell a number of highly leveraged financings that it entered into during 2007, resulting in total exposure of \$43 billion as of December 31, 2007 (\$22 billion for funded and \$21 billion for unfunded commitments). These market developments have resulted in Citigroup's recognizing total losses on such products of \$1.5 billion pretax as of December 31, 2007, of which \$1.3 billion of impairment was recognized on transactions that had been funded and \$0.2 billion of impairment was recognized on transactions that were unfunded as of December 31, 2007.

Table of Contents**PENSION AND POSTRETIREMENT PLANS**

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.

The following table shows the pension expense and contributions for Citigroup's plans:

<i>In millions of dollars</i>	U.S. plans			Non-U.S. plans		
	2007	2006	2005	2007	2006	2005
Pension expense ⁽¹⁾	\$ 179	\$ 182	\$ 237	\$ 123	\$ 115	\$ 182
Company contributions ⁽²⁾			160	223	382	379

(1) The 2006 expense for the U.S. plans includes an \$80 million curtailment gain recognized as of September 30, 2006 relating to the Company's decision to freeze benefit accruals for all cash-balance participants after 2007.

(2) In addition, the Company absorbed \$15 million, \$20 million and \$19 million during 2007, 2006, and 2005, respectively, relating to certain investment management fees and administration costs for the U.S. plans, which are excluded from this table.

The following table shows the combined postretirement expense and contributions for Citigroup's U.S. and foreign plans:

<i>In millions of dollars</i>	U.S. and non-U.S. plans		
	2007	2006	2005
Postretirement expense	\$ 69	\$ 71	\$ 73
Company contributions	72	260	226

Expected Rate of Return

Citigroup determines its assumptions for the expected rate of return on plan assets for its U.S. pension and postretirement plans using a "building block" approach, which focuses on ranges of anticipated rates of return for each asset class. A weighted range of nominal rates is then determined based on target allocations to each asset class. Citigroup considers the expected rate of return to be a long-term assessment of return expectations and does not anticipate changing this assumption annually unless there are significant changes in investment strategy or economic conditions. This contrasts with the selection of the discount rate, future compensation increase rate, and certain other assumptions, which are reconsidered annually in accordance with generally accepted accounting principles.

The expected rate of return was 8.0% at December 31, 2007, 2006 and 2005, reflecting the performance of the global capital markets. Actual returns in 2007, 2006 and 2005 were more than the expected returns. The expected returns impacted pretax earnings by 52.3%, 2.9% and 2.7%, respectively. This expected amount reflects the expected annual appreciation of the plan assets and reduces the annual pension expense of the Company. It is deducted from the sum of service cost, interest and other components of pension expense to arrive at the net pension expense. Net pension expense for 2007, 2006 and

2005 reflects deductions of \$889 million, \$845 million and \$806 million of expected returns, respectively.

The following table shows the expected versus actual rate of return on plan assets for the U.S. pension and postretirement plans:

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	2007	2006	2005
Expected rate of return	8.0%	8.0%	8.0%
Actual rate of return	13.2%	14.7%	9.7%

For the foreign plans, pension expense for 2007 was reduced by the expected return of \$477 million, which impacted pretax earnings by 28%, compared with the actual return of \$432 million. Pension expense for 2006 and 2005 was reduced by expected returns of \$384 million and \$315 million, respectively. Actual returns were higher in 2006 and 2005 than the expected returns in those years.

Discount Rate

The 2007 and 2006 discount rates for the U.S. pension and postretirement plans were selected by reference to a Citigroup-specific analysis using each plan's specific cash flows and compared with the Moody's Aa Long-Term Corporate Bond Yield for reasonableness. Citigroup's policy is to round to the nearest tenth of a percent. Accordingly, at December 31, 2007, the discount rate was set at 6.2% for the pension plans and at 6.0% for the postretirement welfare plans.

At December 31, 2006, the discount rate was set at 5.9% for the pension plans and 5.7% for the postretirement plans, referencing a Citigroup-specific cash flow analysis.

As of September 30, 2006, the U.S. pension plan was remeasured to reflect the freeze of benefits accruals for all non-grandfathered participants, effective January 1, 2008. Under the September 30th remeasurement and year-end analysis, the resulting plan-specific discount rate for the pension plan was 5.86%, which was rounded to 5.9%.

The discount rates for the foreign pension and postretirement plans are selected by reference to high-quality corporate bond rates in countries that have developed corporate bond markets. However, where developed corporate bond markets do not exist, the discount rates are selected by reference to local government bond rates with a premium added to reflect the additional risk for corporate bonds.

For additional information on the pension and postretirement plans, and on discount rates used in determining pension and postretirement benefit obligations and net benefit expense for the Company's plans, as well as the effects of a one percentage-point change in the expected rates of return and the discount rates, see Note 9 to the Company's Consolidated Financial Statements on page 132.

Adoption of SFAS 158

Upon the adoption of SFAS No. 158, *Employer's Accounting for Defined Benefit Pensions and Other Postretirement Benefits* (SFAS 158), at December 31, 2006, the Company recorded an after-tax charge to equity of \$1.6 billion, which corresponds to the plan's net pension liability and the write-off of the existing prepaid asset, which relates to unamortized actuarial gains and losses, prior service costs/benefits and transition assets/liabilities.

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CORPORATE GOVERNANCE AND CONTROLS AND PROCEDURES

FORWARD-LOOKING STATEMENTS

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, 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 is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), 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 CEO and CFO, 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 December 31, 2007 and, based on that evaluation, the CEO and CFO have concluded that at that date the Company's disclosure controls and procedures were effective.

Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2007 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

When describing future business conditions in this Annual Report on Form 10-K, including, but not limited to, descriptions in the section titled Management's Discussion and Analysis, particularly in the Outlook sections, the Company makes certain statements that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company's actual results may differ materially from those included in the forward-looking statements, which 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 are based on management's current expectations and involve external risks and uncertainties including, but not limited to, those described under Risk Factors on page 38. Other risks and uncertainties disclosed herein include, but are not limited to:

- global economic conditions, including the level of interest rates, the credit environment, unemployment rates, and political and regulatory developments in the U.S. and around the world;
- levels of activity in, and volatility of, the global capital markets;
- the ability of the Company to achieve capital allocation excellence and to build a new risk management culture;

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the risk of a U.S. and/or global economic downturn in 2008;
the direct and indirect impacts of continuing deterioration of subprime and other real estate markets;
further adverse rating actions by credit rating agencies in respect of structured credit products or other credit-related exposures or of monoline insurers;
the effect of higher unemployment and bankruptcy filings and lower real estate prices on credit costs in U.S. Consumer;
the effect of changes to consumer lending laws enacted in 2006 and of deteriorating consumer credit conditions on credit costs in the Japan Consumer Finance business;
the effective tax rate in 2008;
the outcome of legal, regulatory and other proceedings;
the ability of the Company's businesses to control expenses, improve productivity and effectively manage credit;
International Consumer being able to expand its customer base through organic growth, investments in expanding the branch network, and benefiting from 2007 acquisitions;
the ability of *Securities and Banking* to deliver financial solutions tailored to clients' needs and to target client segments with strong growth prospects;
whether 2007 investments in its wealth management platform, as well as past acquisitions, will result in continued asset and revenue growth in Global Wealth Management;
the impact of a variety of unresolved matters on the Company's investment in CVC/Brazil, including pending litigation involving some of CVC/Brazil's portfolio companies;
the effect that possible amendments to, and interpretations of, risk-based capital guidelines and reporting instructions might have on Citigroup's reported capital ratios and net risk-adjusted assets; and
the dividending capabilities of Citigroup's subsidiaries.

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GLOSSARY OF TERMS

Adjusted Average Assets Average total GAAP assets (net of allowance for loan losses) less goodwill; certain other intangible assets; certain credit-enhancing interest-only strips; investments in subsidiaries or associated companies that the Federal Reserve determines should be deducted from Tier 1 Capital; deferred tax assets that are dependent upon future taxable income; and certain equity investments that are subject to a deduction from Tier 1 Capital.

Accumulated Benefit Obligation (ABO) The actuarial present value of benefits (vested and unvested) attributed to employee services rendered up to the calculation date.

APB 23 Benefit In accordance with paragraph 31(a) of SFAS No. 109, *Accounting for Income Taxes* (SFAS 109), a deferred tax liability is not recognized for the excess of the amount for financial reporting over the tax basis of an investment in a foreign subsidiary unless it becomes apparent that the temporary difference will reverse in the foreseeable future.

Assets Under Management (AUMs) Assets held by Citigroup in a fiduciary capacity for clients. These assets are not included on Citigroup's balance sheet.

Basel II A new set of risk-based regulatory capital standards for internationally active banking organizations, published June 26, 2004 (subsequently amended in November 2005) by the Basel Committee on Banking Supervision, which consists of central banks and bank supervisors from 13 countries and is organized under the auspices of the Bank for International Settlements (BIS).

Cash-Basis Formula A formula, within a defined benefit plan, that defines the ultimate benefit as a hypothetical account balance based on annual benefit credits and interest earnings.

Cash-Basis Loans Loans in which the borrower has fallen behind in interest payments are considered impaired and are classified as non-performing or non-accrual assets. In situations where the lender reasonably expects that only a portion of the principal and interest owed ultimately will be collected, all payments are credited directly to the outstanding principal.

Collateralized Debt Obligations (CDOs) An investment-grade security issued by a trust, which is backed by a pool of bonds, loans, or other assets, including residential or commercial mortgage-backed securities and other asset-backed securities.

Credit Default Swap An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event such as a default occurs, at which time a payment is made and the swap terminates.

Deferred Tax Asset An asset attributable to deductible temporary differences and carryforwards. A deferred tax asset is measured using the applicable enacted tax rate and provisions of the enacted tax law.

Deferred Tax Liability A liability attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted tax law.

Defined Contribution Plan A retirement plan that provides an individual account for each participant and specifies how contributions to that account are to be determined, instead of specifying the amount of

benefits the participant will receive. The benefits a participant will receive depend solely on the amount contributed to the participant's account, the return on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Defined Benefit Plan A retirement plan under which the benefits paid are based on a specific formula. The formula is usually a function of age, service and compensation. A non-contributory plan does not require employee contributions.

Derivative A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, or financial or commodity indices.

Federal Funds Non-interest-bearing deposits held by member banks at the Federal Reserve Bank.

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Foregone Interest Interest on cash-basis loans that would have been earned at the original contractual rate if the loans were on accrual status.

Generally Accepted Accounting Principles (GAAP) Accounting rules and conventions defining acceptable practices in preparing financial statements in the United States of America. The Financial Accounting Standards Board (FASB), an independent, self-regulatory organization, is the primary source of accounting rules.

Interest-Only (or IO) Strip A residual interest in securitization trusts representing the remaining value of expected net cash flows to the Company after payments to third-party investors and net credit losses.

Leverage Ratio The Leverage Ratio is calculated by dividing Tier 1 Capital by leverage assets. Leverage assets are defined as quarterly average total assets, net of goodwill, intangibles and certain other items as required by the Federal Reserve.

Managed Average Yield Gross managed interest revenue earned, divided by average managed loans.

Managed Basis Managed basis presentation includes results from both on-balance-sheet loans and off-balance-sheet loans, and excludes the impact of card securitization activity. Managed basis disclosures assume that securitized loans have not been sold and present the result of the securitized loans in the same manner as the Company's owned loans.

Managed Loans Includes loans classified as Loans on the balance sheet plus loans held-for-sale that are included in other assets plus securitized receivables. These are primarily credit card receivables.

Managed Net Credit Losses Net credit losses adjusted for the effect of credit card securitizations. See Managed Loans.

Market-Related Value of Plan Assets A balance used to calculate the expected return on pension-plan assets. Market-related value can be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years.

Minority Interest When a parent owns a majority (but less than 100%) of a subsidiary's stock, the Consolidated Financial Statements must reflect the minority's interest in the subsidiary. The minority interest as shown in the Consolidated Statement of Income is equal to the minority's proportionate share of the subsidiary's net income and, as included in Other Liabilities on the Consolidated Balance Sheet, is equal to the minority's proportionate share of the subsidiary's net assets.

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Mortgage Servicing Rights (MSRs) An intangible asset representing servicing rights retained in the securitization of mortgage loans.

Net Credit Losses Gross credit losses (write-offs) less gross credit recoveries.

Net Credit Loss Ratio Annualized net credit losses divided by average loans outstanding.

Net Credit Margin Revenues less net credit losses.

Net Excess Spread Revenue Net cash flows from our credit card securitization activities that are returned to the Company, less the amortization of previously recorded revenue (i.e., residual interest) related to prior periods' securitizations. The net cash flows include collections of interest income and fee revenue in excess of the interest paid to securitization trust investors, reduced by net credit losses, servicing fees, and other costs related to the securitized receivables.

Net Interest Revenue (NIR) Interest revenue less interest expense.

Net Interest Margin Interest revenue less interest expense divided by average interest-earning assets.

Non-Qualified Plan A retirement plan that is not subject to certain Internal Revenue Code requirements and subsequent regulations. Contributions to non-qualified plans do not receive tax-favored treatment; the employer's tax deduction is taken when the benefits are paid to participants.

Notional Amount The principal balance of a derivative contract used as a reference to calculate the amount of interest or other payments.

On-balance-sheet Loans Loans originated or purchased by the Company that reside on the balance sheet at the date of the balance sheet.

Projected Benefit Obligation (PBO) The actuarial present value of all pension benefits accrued for employee service rendered prior to the calculation date, including an allowance for future salary increases if the pension benefit is based on future compensation levels.

Purchase Sales Customers' credit card purchase sales plus cash advances.

Qualified Plan A retirement plan that satisfies certain requirements of the Internal Revenue Code and provides benefits on a tax-deferred basis. Contributions to qualified plans are tax deductible.

Qualifying SPE (QSPE) A Special Purpose Entity that is very limited in its activities and in the types of assets it can hold. It is a passive entity and may not engage in active decision making. QSPE status allows the seller to remove assets transferred to the QSPE from its books, achieving sale accounting. QSPEs are not consolidated by the seller or the investors in the QSPE.

Return on Assets Annualized income divided by average assets.

Return on Common Equity Annualized income less preferred stock dividends, divided by average common equity.

Securities Purchased Under Agreements to Resell (Reverse Repo Agreements) An agreement between a seller and a buyer, generally of government or agency securities, whereby the buyer agrees to purchase the securities and the seller agrees to repurchase them at an agreed-upon price at a future date.

Securities Sold Under Agreements to Repurchase (Repurchase Agreements) An agreement between a seller and a buyer, generally of government or agency securities, whereby the seller agrees to repurchase the securities at an agreed-upon price at a future date.

Significant Unconsolidated VIE An entity where the Company has any variable interest, including those where the likelihood of loss, or the notional amount of exposure, is small. Variable interests are ownership interests, debt securities, contractual arrangements or other pecuniary

interests in an entity that absorbs the VIE's expected losses and/or returns.

Special Purpose Entity (SPE) 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).

Standby Letter of Credit An obligation issued by a bank on behalf of a bank customer to a third party where the bank promises to pay the third party, contingent upon the failure by the bank's customer to perform under the terms of the underlying contract with the beneficiary, or it obligates the bank to guarantee or stand as a surety for the benefit of the third party to the extent permitted by law or regulation.

Securitizations A process by which a legal entity issues to investors certain securities which pay a return based on the principal and interest cash flows from a pool of loans or other financial assets.

Tier 1 and Tier 2 Capital Tier 1 Capital includes common stockholders' equity (excluding certain components of accumulated other comprehensive income), qualifying perpetual preferred stock, qualifying mandatorily redeemable securities of subsidiary trusts, and minority interests that are held by others, less certain intangible assets. Tier 2 Capital includes, among other items, perpetual preferred stock to the extent that it does not qualify for Tier 1, qualifying senior and subordinated debt, limited-life preferred stock, and the allowance for credit losses, subject to certain limitations.

Unearned Compensation The unamortized portion of a grant to employees of restricted or deferred stock measured at the market value on the date of grant. Unearned compensation is displayed as a reduction of stockholders' equity in the Consolidated Balance Sheet.

Unfunded Commitments Legally binding agreements to provide financing at a future date.

Variable Interest Entity (VIE) An entity that does not have enough equity to finance its activities without additional subordinated financial support from third parties. VIEs may include entities with equity investors that cannot make significant decisions about the entity's operations. A VIE must be consolidated by its primary beneficiary, if any, which is the party that has the majority of the expected losses or residual returns of the VIE or both.

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING**

The management of Citigroup is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Citigroup's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. 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.

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 ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Citigroup management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2007, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report appearing on page 102, which expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2007.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders

Citigroup Inc.:

We have audited Citigroup Inc. and subsidiaries (the Company or Citigroup) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Citigroup maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Citigroup as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 22, 2008 expressed an unqualified opinion on those consolidated financial statements.

New York, New York

February 22, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Stockholders

Citigroup Inc.:

We have audited the accompanying consolidated balance sheets of Citigroup Inc. and subsidiaries (the Company or Citigroup) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007, and the related consolidated balance sheets of Citibank, N.A. and subsidiaries as of December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citigroup as of December 31, 2007 and 2006, the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, and the financial position of Citibank, N.A. and subsidiaries as of December 31, 2007 and 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2007 the Company changed its methods of accounting for fair value measurements, the fair value option for financial assets and financial liabilities, uncertainty in income taxes and cash flows relating to income taxes generated by a leverage lease transaction, and in 2006 the Company changed its methods of accounting for stock-based compensation, certain hybrid financial instruments, servicing of financial assets and defined benefit pensions and other postretirement benefits, and in 2005 the Company changed its method of accounting for conditional asset retirement obligations associated with operating leases.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Citigroup's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

New York, New York

February 22, 2008

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Table of Contents**CONSOLIDATED FINANCIAL STATEMENTS****CONSOLIDATED STATEMENT OF INCOME***Citigroup Inc. and Subsidiaries*

<i>In millions of dollars, except per share amounts</i>	Year ended December 31		
	2007	2006 ⁽¹⁾	2005 ⁽¹⁾
Revenues			
Interest revenue	\$ 124,467	\$ 96,497	\$ 75,922
Interest expense	77,531	56,943	36,676
Net interest revenue	\$ 46,936	\$ 39,554	\$ 39,246
Commissions and fees	\$ 21,132	\$ 19,244	\$ 16,930
Principal transactions	(12,079)	7,999	6,656
Administration and other fiduciary fees	9,172	6,934	6,119
Realized gains (losses) from sales of investments	1,168	1,791	1,962
Insurance premiums	3,534	3,202	3,132
Other revenue	11,835	10,891	9,597
Total non-interest revenues	\$ 34,762	\$ 50,061	\$ 44,396
Total revenues, net of interest expense	\$ 81,698	\$ 89,615	\$ 83,642
Provisions for credit losses and for benefits and claims			
Provision for loan losses	\$ 17,424	\$ 6,738	\$ 7,929
Policyholder benefits and claims	935	967	867
Provision for unfunded lending commitments	150	250	250
Total provisions for credit losses and for benefits and claims	\$ 18,509	\$ 7,955	\$ 9,046
Operating expenses			
Compensation and benefits	\$ 34,435	\$ 30,277	\$ 25,772
Net occupancy expense	6,680	5,841	5,141
Technology/communication expense	4,533	3,762	3,524
Advertising and marketing expense	2,935	2,563	2,533
Restructuring expense	1,528		
Other operating expenses	11,377	9,578	8,193
Total operating expenses	\$ 61,488	\$ 52,021	\$ 45,163
Income from continuing operations before income taxes, minority interest, and cumulative effect of accounting change	\$ 1,701	\$ 29,639	\$ 29,433
Provision (benefit) for income taxes	(2,201)	8,101	9,078
Minority interest, net of taxes	285	289	549
Income from continuing operations before cumulative effect of accounting change	\$ 3,617	\$ 21,249	\$ 19,806
Discontinued operations			
Income from discontinued operations	\$	\$ 27	\$ 908
Gain on sale		219	6,790
Provision (benefit) for income taxes and minority interest, net of taxes		(43)	2,866
Income from discontinued operations, net of taxes	\$	\$ 289	\$ 4,832
Cumulative effect of accounting change, net of taxes			(49)
Net income	\$ 3,617	\$ 21,538	\$ 24,589
Basic earnings per share			
Income from continuing operations	\$ 0.73	\$ 4.33	\$ 3.90
Income from discontinued operations, net of taxes		0.06	0.95
Cumulative effect of accounting change, net of taxes			(0.01)
Net income	\$ 0.73	\$ 4.39	\$ 4.84
Weighted average common shares outstanding	4,905.8	4,887.3	5,067.6
Diluted earnings per share			
Income from continuing operations	\$ 0.72	\$ 4.25	\$ 3.82
Income from discontinued operations, net of taxes		0.06	0.94
Cumulative effect of accounting change, net of taxes			(0.01)
Net income	\$ 0.72	\$ 4.31	\$ 4.75
Adjusted weighted average common shares outstanding	4,995.3	4,986.1	5,160.4

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

See Notes to the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED BALANCE SHEET***Citigroup Inc. and Subsidiaries*

	December 31	
<i>In millions of dollars, except shares</i>	2007	2006
Assets		
Cash and due from banks (including segregated cash and other deposits)	\$ 38,206	\$ 26,514
Deposits with banks	69,366	42,522
Federal funds sold and securities borrowed or purchased under agreements to resell (including \$84,305 at fair value at December 31, 2007)	274,066	282,817
Brokerage receivables	57,359	44,445
Trading account assets (including \$157,221 and \$125,231 pledged to creditors at December 31, 2007 and December 31, 2006, respectively)	538,984	393,925
Investments (including \$21,449 and \$16,355 pledged to creditors at December 31, 2007 and December 31, 2006, respectively)	215,008	273,591
Loans, net of unearned income		
Consumer	592,307	512,921
Corporate (including \$3,727 and \$384 at December 31, 2007 and December 31, 2006, respectively, at fair value)	185,686	166,271
Loans, net of unearned income	\$ 777,993	\$ 679,192
Allowance for loan losses	(16,117)	(8,940)
Total loans, net	\$ 761,876	\$ 670,252
Goodwill	41,204	33,415
Intangible assets (including \$8,380 at fair value at December 31, 2007)	22,687	15,901
Other assets (including \$9,802 at fair value at December 31, 2007)	168,875	100,936
Total assets	\$ 2,187,631	\$ 1,884,318
Liabilities		
Non-interest-bearing deposits in U.S. offices	\$ 40,859	\$ 38,615
Interest-bearing deposits in U.S. offices (including \$1,337 and \$366 at December 31, 2007 and December 31, 2006, respectively, at fair value)	225,198	195,002
Non-interest-bearing deposits in offices outside the U.S.	43,335	35,149
Interest-bearing deposits in offices outside the U.S. (including \$2,261 and \$472 at December 31, 2007 and December 31, 2006, respectively, at fair value)	516,838	443,275
Total deposits	\$ 826,230	\$ 712,041
Federal funds purchased and securities loaned or sold under agreements to repurchase (including \$199,854 at fair value at December 31, 2007)	304,243	349,235
Brokerage payables	84,951	85,119
Trading account liabilities	182,082	145,887
Short-term borrowings (including \$13,487 and \$2,012 at December 31, 2007 and December 31, 2006, respectively, at fair value)	146,488	100,833
Long-term debt (including \$79,312 and \$9,439 at December 31, 2007 and December 31, 2006, respectively, at fair value)	427,112	288,494
Other liabilities (including \$1,568 at fair value at December 31, 2007)	102,927	82,926
Total liabilities	\$ 2,074,033	\$ 1,764,535
Stockholders' equity		
Preferred stock (\$1.00 par value; authorized shares: 30 million), at aggregate liquidation value	\$	\$ 1,000
Common stock (\$0.01 par value; authorized shares: 15 billion), issued shares: 2007 and 2006 5,477,416,086 shares	55	55
Additional paid-in capital	18,007	18,253
Retained earnings	121,920	129,267
Treasury stock, at cost: 2007 482,834,568 shares and 2006 565,422,301 shares	(21,724)	(25,092)
Accumulated other comprehensive income (loss)	(4,660)	(3,700)
Total stockholders' equity	\$ 113,598	\$ 119,783
Total liabilities and stockholders' equity	\$ 2,187,631	\$ 1,884,318

See Notes to the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY***Citigroup Inc. and Subsidiaries*

<i>In millions of dollars, except shares in thousands</i>	Amounts			Year ended December 31		
	2007	2006	2005	2007	2006	Shares 2005
Preferred stock at aggregate liquidation value						
Balance, beginning of year	\$ 1,000	\$ 1,125	\$ 1,125	4,000	4,250	4,250
Redemption or retirement of preferred stock	(1,000)	(125)		(4,000)	(250)	
Balance, end of year	\$	\$ 1,000	\$ 1,125		4,000	4,250
Common stock and additional paid-in capital						
Balance, beginning of year	\$ 18,308	\$ 17,538	\$ 16,960	5,477,416	5,477,416	5,477,416
Employee benefit plans	455	769	524			
Issuance of shares for Grupo Cuscatlan acquisition	118					
Issuance of shares for ATD acquisition	74					
Present value of stock purchase contract payments	(888)					
Other	(5)	1	54			
Balance, end of year	\$ 18,062	\$ 18,308	\$ 17,538	5,477,416	5,477,416	5,477,416
Retained earnings						
Balance, beginning of year	\$ 129,267	\$ 117,555	\$ 102,154			
Adjustment to opening balance, net of taxes ⁽¹⁾	(186)					
Adjusted balance, beginning of period	\$ 129,081	\$ 117,555	\$ 102,154			
Net income	3,617	21,538	24,589			
Common dividends ⁽²⁾	(10,733)	(9,761)	(9,120)			
Preferred dividends	(45)	(65)	(68)			
Balance, end of year	\$ 121,920	\$ 129,267	\$ 117,555			
Treasury stock, at cost						
Balance, beginning of year	\$ (25,092)	\$ (21,149)	\$ (10,644)	(565,422)	(497,192)	(282,774)
Issuance of shares pursuant to employee benefit plans	2,853	3,051	2,203	68,839	75,631	61,278
Treasury stock acquired ⁽³⁾	(663)	(7,000)	(12,794)	(12,463)	(144,033)	(277,918)
Issuance of shares for Grupo Cuscatlan acquisition	637			14,192		
Issuance of shares for ATD acquisition	503			11,172		
Other	38	6	86	847	172	2,222
Balance, end of year	\$ (21,724)	\$ (25,092)	\$ (21,149)	(482,835)	(565,422)	(497,192)

(Statement continues on next page)

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY***Citigroup Inc. and Subsidiaries***(Continued)**

	Amounts			Year ended December 31		
	2007	2006	2005	2007	2006	Shares
<i>In millions of dollars, except shares in thousands</i>						
Accumulated other comprehensive income (loss)						
Balance, beginning of year	\$ (3,700)	\$ (2,532)	\$ (304)			
Adjustment to opening balance, net of taxes ⁽⁴⁾	149					
Adjusted balance, beginning of period	\$ (3,551)	\$ (2,532)	\$ (304)			
Net change in unrealized gains and losses on investment securities, net of taxes	(621)	(141)	(1,549)			
Net change in cash flow hedges, net of taxes	(3,102)	(673)	439			
Net change in foreign currency translation adjustment, net of taxes	2,024	1,294	(980)			
Pension liability adjustment, net of taxes ⁽⁵⁾	590	(1)	(138)			
Adjustments to initially apply SFAS 158, net of taxes		(1,647)				
Net change in Accumulated other comprehensive income (loss)	\$ (1,109)	\$ (1,168)	\$ (2,228)			
Balance, end of year	\$ (4,660)	\$ (3,700)	\$ (2,532)			
Total common stockholders' equity and common shares outstanding	\$ 113,598	\$ 118,783	\$ 111,412	4,994,581	4,911,994	4,980,224
Total stockholders' equity	\$ 113,598	\$ 119,783	\$ 112,537			
Comprehensive income						
Net income	\$ 3,617	\$ 21,538	\$ 24,589			
Net change in Accumulated other comprehensive income (loss)	(1,109)	(1,168)	(2,228)			
Comprehensive income	\$ 2,508	\$ 20,370	\$ 22,361			

(1) The adjustment to the opening balance of Retained earnings represents the total of the after-tax gain (loss) amounts for the adoption of the following accounting pronouncements:

SFAS 157 for \$75 million,
SFAS 159 for \$(99) million,
FSP 13-2 for \$(148) million, and
FIN 48 for \$(14) million.

See Notes 1 and 26 to the Consolidated Financial Statements on pages 111 and 167, respectively.

(2) Common dividends declared were \$0.54 per share in the first, second, third, and fourth quarters of 2007, \$0.49 per share in the first, second, third, and fourth quarters of 2006, and \$0.44 cents per share in the first, second, third and fourth quarters of 2005.

(3) All open market repurchases were transacted under an existing authorized share repurchase plan. On April 14, 2005, the Board of Directors authorized up to an additional \$15 billion in share repurchases. Additionally, on April 17, 2006, the Board of Directors authorized up to an additional \$10 billion in share repurchases.

(4) The after-tax adjustment to the opening balance of Accumulated other comprehensive income (loss) represents the reclassification of the unrealized gains (losses) related to the Legg Mason securities as well as several miscellaneous items previously reported in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). The related unrealized gains and losses were reclassified to Retained earnings upon the adoption of the fair value option in accordance with SFAS 159. See Notes 1 and 26 to the Consolidated Financial Statements on pages 111 and 167 for further discussions.

(5) In 2007, reflects changes in the funded status of the Company's pension and postretirement plans, as required by SFAS 158. In 2006 and 2005, 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 plans.

See Notes to the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENT OF CASH FLOWS***Citigroup Inc. and Subsidiaries*

<i>In millions of dollars</i>	Year ended December 31		
	2007	2006 ⁽¹⁾	2005 ⁽¹⁾
Cash flows from operating activities of continuing operations			
Net income	\$ 3,617	\$ 21,538	\$ 24,589
Income from discontinued operations, net of taxes		150	630
Gain on sale, net of taxes		139	4,202
Cumulative effect of accounting change, net of taxes			(49)
Income from continuing operations	\$ 3,617	\$ 21,249	\$ 19,806
Adjustments to reconcile net income to net cash (used in) provided by			
operating activities of continuing operations			
Amortization of deferred policy acquisition costs and present value of future profits	\$ 369	\$ 287	\$ 274
Additions to deferred policy acquisition costs	(482)	(381)	(382)
Depreciation and amortization	2,421	2,503	2,318
Deferred tax (benefit) provision	(4,256)	90	(181)
Provision for credit losses	17,574	6,988	8,179
Change in trading account assets	(62,798)	(98,105)	(16,399)
Change in trading account liabilities	20,893	24,779	(13,986)
Change in federal funds sold and securities borrowed or purchased under agreements to resell	38,143	(65,353)	(16,725)
Change in federal funds purchased and securities loaned or sold under agreements to repurchase	(56,983)	106,843	33,808
Change in brokerage receivables net of brokerage payables	(15,529)	12,503	17,236
Realized gains from sales of investments	(1,168)	(1,791)	(1,962)
Change in loans held-for-sale	(30,649)	(1,282)	(1,560)
Other, net	17,418	(8,483)	1,616
Total adjustments	\$ (75,047)	\$ (21,402)	\$ 12,236
Net cash (used in) provided by operating activities of continuing operations	\$ (71,430)	\$ (153)	\$ 32,042
Cash flows from investing activities of continuing operations			
Change in deposits with banks	\$ (17,216)	\$ (10,877)	\$ (5,084)
Change in loans	(361,934)	(356,062)	(291,000)
Proceeds from sales and securitizations of loans	273,464	253,176	245,335
Purchases of investments	(274,426)	(296,124)	(203,023)
Proceeds from sales of investments	211,753	86,999	82,603
Proceeds from maturities of investments	121,346	121,111	97,513
Other investments, primarily short-term, net			148
Capital expenditures on premises and equipment	(4,003)	(4,035)	(3,724)
Proceeds from sales of premises and equipment, subsidiaries and affiliates, and repossessed assets	4,253	1,606	17,611
Business acquisitions	(15,614)		(602)
Net cash used in investing activities of continuing operations	\$ (62,377)	\$ (204,206)	\$ (60,223)
Cash flows from financing activities of continuing operations			
Dividends paid	\$ (10,778)	\$ (9,826)	\$ (9,188)
Issuance of common stock	1,060	1,798	1,400
Redemption of preferred stock, net	(1,000)	(125)	
Treasury stock acquired	(663)	(7,000)	(12,794)
Stock tendered for payment of withholding taxes	(951)	(685)	(696)
Issuance of long-term debt	118,496	113,687	68,852
Payments and redemptions of long-term debt	(65,517)	(46,468)	(52,364)
Change in deposits	93,422	121,203	27,713
Change in short-term borrowings	10,425	33,903	10,163
Net cash provided by financing activities of continuing operations	\$ 144,494	\$ 206,487	\$ 33,086
Effect of exchange rate changes on cash and cash equivalents	\$ 1,005	\$ 645	\$ (1,840)
Discontinued operations			
Net cash provided by (used in) discontinued operations	\$	\$ 109	\$ (46)
Change in cash and due from banks	\$ 11,692	\$ 2,882	\$ 3,019
Cash and due from banks at beginning of period	\$ 26,514	\$ 23,632	\$ 20,613
Cash and due from banks at end of period	\$ 38,206	\$ 26,514	\$ 23,632
Supplemental disclosure of cash flow information for continuing operations			
Cash paid during the year for income taxes	\$ 5,923	\$ 9,230	\$ 8,621
Cash paid during the year for interest	72,732	51,472	32,081

Non-cash investing activities

Transfers to repossessed assets	\$	2,287	\$	1,414	\$	1,268
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(1) Reclassified to conform to the current period's presentation.
See Notes to the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED BALANCE SHEET***Citibank, N.A. and Subsidiaries*

<i>In millions of dollars, except shares</i>	December 31	
	2007	2006
Assets		
Cash and due from banks	\$ 28,966	\$ 18,917
Deposits with banks	57,216	38,377
Federal funds sold and securities purchased under agreements to resell	23,563	9,219
Trading account assets (including \$22,716 and \$117 pledged to creditors at December 31, 2007 and December 31, 2006, respectively)	215,454	103,945
Investments (including \$3,099 and \$1,953 pledged to creditors at December 31, 2007 and December 31, 2006, respectively)	150,058	215,222
Loans, net of unearned income	644,597	558,952
Allowance for loan losses	(10,659)	(5,152)
Total loans, net	\$ 633,938	\$ 553,800
Goodwill	19,294	13,799
Intangible assets	11,007	6,984
Premises and equipment, net	8,191	7,090
Interest and fees receivable	8,958	7,354
Other assets	95,070	44,790
Total assets	\$ 1,251,715	\$ 1,019,497
Liabilities		
Non-interest-bearing deposits in U.S. offices	\$ 41,032	\$ 38,663
Interest-bearing deposits in U.S. offices	186,080	167,015
Non-interest-bearing deposits in offices outside the U.S.	38,775	31,169
Interest-bearing deposits in offices outside the U.S.	516,517	428,896
Total deposits	\$ 782,404	\$ 665,743
Trading account liabilities	59,472	43,136
Purchased funds and other borrowings	74,112	73,081
Accrued taxes and other expenses	12,752	10,777
Long-term debt and subordinated notes	184,317	115,833
Other liabilities	39,352	37,774
Total liabilities	\$ 1,152,409	\$ 946,344
Stockholder's equity		
Capital stock (\$20 par value) outstanding shares: 37,534,553 in each period	\$ 751	\$ 751
Surplus	69,135	43,753
Retained earnings	31,915	30,358
Accumulated other comprehensive income (loss) ⁽¹⁾	(2,495)	(1,709)
Total stockholder's equity	\$ 99,306	\$ 73,153
Total liabilities and stockholder's equity	\$ 1,251,715	\$ 1,019,497

(1) Amounts at December 31, 2007 and December 31, 2006 include the after-tax amounts for net unrealized gains (losses) on investment securities of (\$1.262) billion and (\$119) million, respectively, for foreign currency translation of \$1.687 billion and (\$456) million, respectively, for cash flow hedges of (\$2.085) billion and (\$131) million, respectively, and for pension liability adjustments of (\$835) million and (\$1.003) billion, respectively, of which (\$886) million relates to the initial adoption of SFAS 158 at December 31, 2006.

See Notes to the Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Citigroup and its subsidiaries (the Company). The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments of designated venture capital subsidiaries, are accounted for under the equity method, and the pro rata share of their income (loss) is included in Other revenue. Income from investments in less than 20%-owned companies is recognized when dividends are received. As discussed below, Citigroup consolidates entities deemed to be variable interest entities (VIEs) when Citigroup is determined to be the primary beneficiary. Gains and losses on the disposition of branches, subsidiaries, affiliates, buildings, and other investments and charges for management's estimate of impairment in their value that is other than temporary, such that recovery of the carrying amount is deemed unlikely, are included in Other revenue.

Citibank, N.A.

Citibank, N.A. is a commercial bank and wholly-owned subsidiary of Citigroup Inc. Citibank's principal offerings include consumer finance, mortgage lending, and retail banking products and services; investment banking, commercial banking, cash management, trade finance and e-commerce products and services; and private banking products and services.

The Company includes a balance sheet and statement of changes in stockholder's equity for Citibank, N.A. to provide information about this entity to shareholders and international regulatory agencies. (See Note 30 to the Consolidated Financial Statements on page 181.)

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in FASB Interpretation No. 46-R, Consolidation of Variable Interest Entities (revised December 2003) (FIN 46-R), which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

In addition, as specified in FIN 46-R, a VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has a majority of the expected losses or a majority of the expected residual returns or both.

Along with the VIEs that are consolidated in accordance with these guidelines, the Company has significant variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary. These include multi-seller finance companies, certain collateralized debt obligations (CDOs), many structured finance transactions, and various investment funds.

However, these VIEs as well as all other unconsolidated VIEs are regularly monitored by the Company to determine if any reconsideration events have occurred that could cause its primary beneficiary status to change. These events include:

- Additional purchases or sales of variable interests by Citigroup or an unrelated third party, which cause Citigroup's overall variable interest ownership to change,

- Changes in contractual arrangements in a manner that reallocate expected losses and residual returns among the variable interest holders,

- Providing support to an entity that results in an implicit variable interest.

All other entities not deemed to be VIEs with which the Company has involvement are evaluated for consolidation under Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, and SFAS No. 94, Consolidation of All Majority-Owned Subsidiaries (SFAS 94).

Foreign Currency Translation

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Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using year-end spot foreign exchange rates. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates, with resulting gains and losses included in income. The effects of translating income with a functional currency other than the U.S. dollar are included in stockholders' equity along with related hedge and tax effects. The effects of translating income with the U.S. dollar as the functional currency, including those in highly inflationary environments, are included in other revenue along with the related hedge effects. Hedges of foreign currency exposures include forward currency contracts and designated issues of non-U.S. dollar debt.

Investment Securities

Investments include fixed income and equity securities. Fixed income instruments include bonds, notes and redeemable preferred stocks, as well as certain loan-backed and structured securities that are subject to prepayment risk. Equity securities include common and nonredeemable preferred stocks. Investment securities are classified and accounted for as follows:

Fixed income securities classified as held to maturity represent securities that the Company has both the ability and the intent to hold until maturity, and are carried at amortized cost. Interest and dividend income on such securities is included in Interest revenue.

Fixed income securities and marketable equity securities classified as available-for-sale are carried at fair value with changes in fair value reported in a separate component of stockholders' equity, net of applicable income taxes. As set out in Note 16 on page 143, declines in fair value that are determined to be other than temporary are recorded in earnings immediately. Realized gains and losses on sales are included in income on a specific identification cost basis, and interest and dividend income on such securities is included in Interest revenue.

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Venture capital investments held by Citigroup's private equity subsidiaries are carried at fair value with changes in fair value reported in Other revenue. These subsidiaries include entities registered as Small Business Investment Companies and engage exclusively in venture-capital activities.

Certain investments in non-marketable equity securities and certain investments that would otherwise have been accounted for using the equity method are carried at fair value, since the Company has elected to apply fair value accounting in accordance with SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). Changes in fair value of such investments are recorded in earnings. Certain non-marketable equity securities are carried at cost and periodically assessed for other-than-temporary impairment, as set out in Note 16 on page 143.

For investments in fixed-income securities classified as held-to-maturity or available-for-sale, accrual of interest income is suspended for investments that are in default or on which it is likely that future interest payments will not be made as scheduled. Fixed-income instruments subject to prepayment risk are accounted for using the retrospective method, where the principal amortization and effective yield are recalculated each period based on actual historical and projected future cash flows.

The Company uses a number of valuation techniques for investments carried at fair value, which are described in Note 26 on page 167.

Trading Account Assets and Liabilities

Trading account assets include debt and marketable equity securities, derivatives in a receivable position, residual interests in securitizations and physical commodities inventory. In addition (as set out in Note 26 on page 167), certain assets that Citigroup has elected to carry at fair value under SFAS 159, such as loans and purchased guarantees, are also included in Trading account assets.

Trading account liabilities include securities sold, not yet purchased (short positions), and derivatives in a net payable position, as well as certain liabilities that Citigroup has elected to carry at fair value under SFAS 159 or SFAS 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155) (as set out in Note 26 on page 167).

Other than physical commodities inventory, all trading account assets and liabilities are carried at fair value. Revenues generated from trading assets and trading liabilities are generally reported in Principal transactions and include realized gains and losses as well as unrealized gains and losses resulting from changes in the fair value of such instruments. Interest income on trading assets is recorded in Interest revenue reduced by interest expense on trading liabilities.

Physical commodities inventory is carried at the lower of cost or market (LOCOM) with related gains or losses reported in Principal transactions. Realized gains and losses on sales of commodities inventory are included in Principal transactions on a first in, first out basis.

Derivatives used for trading purposes include interest rate, currency, equity, credit, and commodity swap agreements, options, caps and floors,

warrants, and financial and commodity futures and forward contracts. Derivative asset and liability positions are presented net by counterparty on the Consolidated Balance Sheet when a valid master netting agreement exists and the other conditions set out in FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts (FIN 39) are met.

The Company uses a number of techniques to determine the fair value of trading assets and liabilities, all of which are described in Note 26 on page 167.

Securities Borrowed and Securities Loaned

Securities borrowing and lending transactions generally do not constitute a sale of the underlying securities for accounting purposes, and so are treated as collateralized financing transactions. Such transactions are recorded at the amount of cash advanced or received plus accrued interest. As set out in Note 26 on page 167, the Company has elected under SFAS 159 to apply fair value accounting to a small number of securities borrowing and lending transactions. Irrespective of whether the Company has elected fair-value accounting, fees paid or received for all securities lending and borrowing transactions are recorded in Interest expense or Interest revenue at the contractually specified rate.

Where the conditions of FIN 39 are met, amounts recognized in respect of securities borrowed and securities loaned are presented net on the Consolidated Balance Sheet.

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With respect to securities borrowed or loaned, the Company pays or receives cash collateral in an amount in excess of the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis with additional collateral received or paid as necessary.

As described in Note 26 on page 167, the Company uses a discounted cash-flow technique to determine the fair value of securities lending and borrowing transactions.

Repurchase and Resale Agreements

Securities sold under agreements to repurchase (repos) and securities purchased under agreements to resell (reverse repos) generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized financing transactions. As set out in Note 26 on page 167, the Company has elected to apply fair-value accounting to a majority of such transactions, with changes in fair-value reported in earnings. Any transactions for which fair-value accounting has not been elected are recorded at the amount of cash advanced or received plus accrued interest. Irrespective of whether the Company has elected fair-value accounting, interest paid or received on all repo and reverse repo transactions is recorded in Interest expense or Interest revenue at the contractually specified rate.

Where the conditions of FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements* (FIN 41), are met, repos and reverse repos are presented net on the Consolidated Balance Sheet.

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The Company's policy is to take possession of securities purchased under agreements to resell. The market value of securities to be repurchased and resold is monitored, and additional collateral is obtained where appropriate to protect against credit exposure.

As described in Note 26 on page 167, the Company uses a discounted cash flow technique to determine the fair value of repo and reverse repo transactions.

Loans and Leases

Loans are reported at their outstanding principal balances net of any unearned income and unamortized deferred fees and costs. Loan origination fees and certain direct origination costs are generally deferred and recognized as adjustments to income over the lives of the related loans.

As set out in Note 26 on page 167, the Company has elected fair value accounting under SFAS 159 and SFAS 155 for certain loans. Such loans are carried at fair value with changes in fair value reported in earnings. Interest income on such loans is recorded in Interest revenue at the contractually specified rate.

Loans for which the fair value option has not been elected under SFAS 159 or SFAS 155 are classified upon origination or acquisition as either held-for-investment or held-for-sale. This classification is based on management's intent and ability with regard to those loans.

Substantially all of the consumer loans sold or securitized by Citigroup are U.S. prime mortgage loans or U.S. credit card receivables. The practice of the U.S. prime mortgage business has been to sell all of its loans except for nonconforming adjustable rate loans. U.S. prime mortgage conforming loans are classified as held-for-sale at the time of origination. The related cash flows are classified in the Consolidated Statement of Cash Flows in the cash flows from operating activities category on the line Change in loans held-for-sale.

U.S. credit card receivables are classified at origination as loans-held-for sale to the extent that management does not have the intent to hold the receivables for the foreseeable future or until maturity. The U.S. credit card securitization forecast for the three months following the latest balance sheet date is the basis for the amount of such loans classified as held-for-sale. Cash flows related to U.S. credit card loans classified as held-for-sale at origination or acquisition are reported in the cash flows from operating activities category on the line Change in loans held-for-sale.

Loans that are held-for-investment are classified as Loans, net of unearned income on the Consolidated Balance Sheet, and the related cash flows are included within the cash flows from investing activities category in the Consolidated Statement of Cash Flows on the line Changes in loans. However, when the initial intent for holding a loan has changed from held-for-investment to held-for-sale, the loan is reclassified to held-for-sale, but the related cash flows continue to be reported in cash flows from investing activities in the Consolidated Statement of Cash Flows on the line Proceeds from sales and securitizations of loans.

Consumer Loans

Consumer loans represent loans and leases managed by the Global Consumer business and *Private Bank*. As a general rule, interest accrual ceases for open-end revolving and closed-end installment and real estate loans when payments are 90 days contractually past due. For credit cards, however, the Company accrues interest until payments are 180 days past due.

As a general rule, unsecured closed-end installment loans are charged off at 120 days past due and unsecured open-end (revolving) loans are charged off at 180 days contractually past due. Loans secured with non-real-estate collateral are written down to the estimated value of the collateral, less costs to sell, at 120 days past due. Real-estate secured loans (both open- and closed-end) are written down to the estimated value of the property, less costs to sell, at 180 days contractually past due.

In certain consumer businesses in the U.S., secured real estate loans are written down to the estimated value of the property, less costs to sell, at the earlier of the receipt of title or 12 months in foreclosure (a process that must commence when payments are 120 days contractually past due). Closed-end loans secured by non-real-estate collateral are written down to the estimated value of the collateral, less costs to sell, at 180 days contractually past due. Unsecured loans (both open- and closed-end) are charged off at 180 days contractually past due and 180 days from the last payment, but in no event can these loans exceed 360 days contractually past due.

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Unsecured loans in bankruptcy are charged off within 30 days of notification of filing by the bankruptcy court or within the contractual write-off periods, whichever occurs earlier. In CitiFinancial, unsecured loans in bankruptcy are charged off when they are 30 days contractually past due.

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

Corporate Loans

Corporate loans represent loans and leases managed by CMB. Corporate loans are identified as impaired and placed on a cash (non-accrual) basis when it is determined that the payment of interest or principal is doubtful, or when interest or principal is 90 days past due, except when the loan is well collateralized and in the process of collection. Any interest accrued on impaired corporate loans and leases is reversed at 90 days and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectibility of principal, all cash receipts are thereafter applied to reduce the recorded investment in the loan. Impaired corporate loans and leases are written down to the extent that principal is judged to be uncollectible. Impaired collateral-dependent loans and leases, where repayment is expected to be provided solely by the sale of the underlying collateral and there are no other available and reliable sources of repayment, are written down to the lower of cost or collateral value. Cash-basis loans are returned to an accrual status when all contractual principal and interest amounts are reasonably assured of repayment and there is a sustained period of repayment performance in accordance with the contractual terms.

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Lease Financing Transactions

Loans include the Company's share of aggregate rentals on lease financing transactions and residual values net of related unearned income. Lease financing transactions represent direct financing leases and also include leveraged leases. Unearned income is amortized under a method that results in an approximate level rate of return when related to the unrecovered lease investment. Gains and losses from sales of residual values of leased equipment are included in Other revenue.

Loans Held-for-Sale

Corporate and consumer loans that have been identified for sale are classified as loans held-for-sale included in Other assets. With the exception of certain mortgage loans for which the fair-value option has been elected under SFAS 159, these loans are accounted for at the lower of cost or market value, with any write-downs or subsequent recoveries charged to Other revenue.

Allowance for Loan Losses

Allowance for loan losses represents management's estimate of probable losses inherent in the portfolio. Attribution of the allowance is made for analytical purposes only, and the entire allowance is available to absorb probable credit losses inherent in the overall portfolio. Additions to the allowance are made through the provision for credit losses. Credit losses are deducted from the allowance, and subsequent recoveries are added. Securities received in exchange for loan claims in debt restructurings are initially recorded at fair value, with any gain or loss reflected as a recovery or charge-off to the allowance, and are subsequently accounted for as securities available-for-sale.

In the Corporate and Commercial Business portfolios, larger-balance, non-homogeneous exposures representing significant individual credit exposures are evaluated based upon the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. Reserves are established for these loans based upon an estimate of probable losses for the individual loans deemed to be impaired. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan's contractual effective rate, the secondary market value of the loan and the fair value of collateral less disposal costs. The allowance for credit losses attributed to the remaining portfolio is established via a process that estimates the probable loss inherent in the portfolio based upon various analyses. These analyses consider historical and project default rates and loss severities; internal risk ratings; and geographic, industry, and other environmental factors. Management also considers overall portfolio indicators including trends in internally risk-rated exposures, classified exposures, cash-basis loans, historical and forecasted write-offs, and a review of industry, geographic, and portfolio concentrations, including current developments within those segments. In addition, management considers the current business strategy and credit process, including credit limit setting and compliance, credit approvals, loan underwriting criteria, and loan workout procedures.

For Consumer loans (excluding Commercial Business loans), each portfolio of smaller-balance, homogeneous loans including consumer mortgage, installment, revolving credit, and most other consumer loans is collectively evaluated for impairment. The allowance for credit losses attributed to these loans is established via a process that estimates the probable losses inherent in the portfolio based upon various analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analyses that reflect current trends and conditions. Management also considers overall portfolio indicators including historical credit losses; delinquent, non-performing, and classified loans; trends in volumes and terms of loans; an evaluation of overall credit quality; the credit process, including lending policies and procedures; and economic, geographical, product and other environmental factors.

Allowance for Unfunded Lending Commitments

A similar approach to the allowance for loan losses is used for calculating a reserve for the expected losses related to unfunded loan commitments and standby letters of credit. This reserve is classified on the balance sheet in Other liabilities.

Mortgage Servicing Rights (MSRs)

Mortgage servicing rights (MSRs), which are included in Intangible assets in the Consolidated Balance Sheet, are recognized as assets when purchased or when the Company sells or securitizes loans acquired through purchase or origination and retains the right to service the loans.

With the Company's electing to early-adopt SFAS 156 as of January 1, 2006, MSRs in the U.S. mortgage and student loan classes of servicing rights are accounted for at fair value, with changes in value recorded in current earnings. Upon electing the fair-value method of accounting for

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its MSRs, the Company discontinued the application of SFAS 133 fair-value hedge accounting, the calculation of amortization and the assessment of impairment for the MSRs. The MSR valuation allowance at the date of adoption of SFAS 156 was written off against the recorded value of the MSRs.

Prior to 2006, 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. Servicing rights retained in the securitization of mortgage loans were measured by allocating the carrying value of the loans between the assets sold and the interests retained, based on the relative fair values at the date of securitization. MSRs were amortized using a proportionate cash flow method over the period of the related net positive servicing income to be generated from the various portfolios purchased or loans originated. Impairment of MSRs was evaluated on a disaggregated basis by type (i.e., fixed rate or adjustable rate) and by interest-rate band, which were believed to be the predominant risk characteristics of the Company's servicing portfolio. Any excess of the carrying value of the capitalized servicing rights over the fair value by stratum was recognized through a valuation allowance for each stratum and charged to the provision for impairment on MSRs.

Additional information on the Company's MSRs can be found in Note 23 to the Consolidated Financial Statements on page 156.

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Goodwill

Goodwill represents an acquired company's acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is subject to annual impairment tests, whereby goodwill is allocated to the Company's reporting units and an impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. Furthermore, on any business dispositions, goodwill is allocated to the business disposed of based on the ratio of the fair value of the business disposed of to the fair value of the reporting unit.

Intangible Assets

Intangible Assets including core deposit intangibles, present value of future profits, purchased credit card relationships, other customer relationships, and other intangible assets, but excluding MSRs are amortized over their estimated useful lives. Upon the adoption of SFAS 142, intangible assets deemed to have indefinite useful lives, primarily certain asset management contracts and trade names, are not amortized and are subject to annual impairment tests. An impairment exists if the carrying value of the indefinite-lived intangible asset exceeds its fair value. For other intangible assets subject to amortization, an impairment is recognized if the carrying amount is not recoverable and exceeds the fair value of the intangible asset.

Other Assets and Other Liabilities

Other assets includes, among other items, loans held-for-sale, deferred tax assets, equity-method investments, interest and fees receivable, premises and equipment, end-user derivatives in a net receivable position, repossessed assets, and other receivables.

Other liabilities includes, among other items, accrued expenses and other payables, deferred tax liabilities, minority interest, end-user derivatives in a net payable position, and reserves for legal, taxes, restructuring, unfunded lending commitments, and other matters.

Repossessed Assets

Upon repossession, loans are adjusted, if necessary, to the estimated fair value of the underlying collateral and transferred to repossessed assets. This is reported in Other assets, net of a valuation allowance for selling costs and net declines in value as appropriate.

Securitizations

The Company primarily securitizes credit card receivables and mortgages. Other types of securitized assets include corporate debt instruments (in cash and synthetic form), auto loans, and student loans.

There are two key accounting determinations that must be made relating to securitizations. First, in the case where Citigroup originated or owned the financial assets transferred to the securitization entity, a decision must be made as to whether that transfer is considered a sale under U.S. Generally Accepted Accounting Principles (GAAP). If it is a sale, the transferred assets are removed from the Company's Consolidated Balance Sheet with a gain or loss recognized. Alternatively, when the transfer would be considered financing rather than a sale, the assets will remain on the Company's

Consolidated Balance Sheet with an offsetting liability recognized in the amount of proceeds received.

Second, a determination must be made as to whether the securitization entity would be included in the Company's Consolidated Financial Statements. For each securitization entity with which it is involved, the Company makes a determination of whether the entity should be considered a subsidiary of the Company and be included in its Consolidated Financial Statements or whether the entity is sufficiently independent that it does not need to be consolidated. If the securitization entity's activities are sufficiently restricted to meet accounting requirements to be a qualifying special purpose entity (QSPE), the securitization entity is not consolidated by the seller of the transferred assets. If the securitization entity is determined to be a VIE, the Company consolidates the VIE if it is the primary beneficiary.

For all other securitization entities determined not to be VIEs in which Citigroup participates, a consolidation decision is made by evaluating several factors, including how much of the entity's ownership is in the hands of third-party investors, who controls the securitization entity, and who reaps the rewards and bears the risks of the entity. Only securitization entities controlled by Citigroup are consolidated.

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Interests in the securitized and sold assets may be retained in the form of subordinated interest-only strips, subordinated tranches, spread accounts, and servicing rights. In credit card securitizations, the Company retains a seller's interest in the credit card receivables transferred to the trusts, which is not in securitized form. Accordingly, the seller's interest is carried on a historical cost basis and classified as Consumer loans. Retained interests in securitized mortgage loans and student loans are classified as Trading account assets, as are a majority of the retained interest in securitized credit card receivables. Certain other retained interests are recorded as available-for-sale investments, but servicing rights are included in Intangible Assets. However, since January 1, 2006, servicing rights are initially recorded at fair value. Gains or losses on securitization and sale depend in part on the previous carrying amount of the loans involved in the transfer and, prior to January 1, 2006, were allocated between the loans sold and the retained interests based on their relative fair values at the date of sale. Gains are recognized at the time of securitization and are reported in Other revenue.

The Company values its securitized retained interests at fair value using quoted market prices, if such positions are traded on an active exchange, or financial models that incorporate observable and unobservable inputs. More specifically, these models estimate the fair value of these retained interests by determining the present value of expected future cash flows, using modeling techniques that incorporate management's best estimates of key assumptions, including prepayment speeds, credit losses, and discount rates, when observable inputs are not available. In addition, internally calculated fair values of retained interests are compared to recent sales of similar assets, if available.

Additional information on the Company's securitization activities can be found in Off-Balance-Sheet Arrangements on page 85 and in Note 23 to the Consolidated Financial Statements on page 156.

Table of Contents**Transfers of Financial Assets**

For a transfer of financial assets to be considered a sale, the assets must have been isolated from the Company, even in bankruptcy or other receivership; the purchaser must have the right to sell the assets transferred or the purchaser must be a QSPE; and the Company may not have an option or any obligation to reacquire the assets. If these sale requirements are met, the assets are removed from the Company's Consolidated Balance Sheet. If the conditions for sale are not met, the transfer is considered to be a secured borrowing, the assets remain on the Consolidated Balance Sheet, and the sale proceeds are recognized as the Company's liability. A legal opinion on a sale is generally obtained for complex transactions or where the Company has continuing involvement with assets transferred or with the securitization entity. Those opinions must state that the asset transfer is considered a sale and that the assets transferred would not be consolidated with the Company's other assets in the event of the Company's insolvency.

See Note 23 to the Consolidated Financial Statements on page 156.

Risk Management Activities Derivatives Used for Non-Trading Purposes

The Company manages its exposures to market rate movements outside its trading activities by modifying the asset and liability mix, either directly or through the use of derivative financial products, including interest rate swaps, futures, forwards, and purchased option positions such as interest rate caps, floors, and collars as well as foreign exchange contracts. These end-user derivatives are carried at fair value in Other assets or Other liabilities.

To qualify as a hedge, a derivative must be highly effective in offsetting the risk designated as being hedged. The hedge relationship must be formally documented at inception, detailing the particular risk management objective and strategy for the hedge, which includes the item and risk that is being hedged and the derivative that is being used, as well as how effectiveness will be assessed and ineffectiveness measured. The effectiveness of these hedging relationships is evaluated on a retrospective and prospective basis, typically using quantitative measures of correlation with hedge ineffectiveness measured and recorded in current earnings. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge and any gains or losses attributable to the derivatives, as well as subsequent changes in fair value, are recognized in Other revenue.

The foregoing criteria are applied on a decentralized basis, consistent with the level at which market risk is managed, but are subject to various limits and controls. The underlying asset, liability, firm commitment, or forecasted transaction may be an individual item or a portfolio of similar items.

For fair value hedges, in which derivatives hedge the fair value of assets, liabilities, or firm commitments, changes in the fair value of derivatives are reflected in Other revenue, together with changes in the fair value of the related hedged item. These are expected to, and generally do, offset each other. Any net amount, representing hedge ineffectiveness, is reflected in current earnings. Citigroup's fair value hedges are primarily hedges of fixed-rate long-term debt, and available-for-sale securities.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets, liabilities, or forecasted transactions, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair values will not be included in current earnings but are reported in Accumulated other comprehensive income. These changes in fair value will be included in earnings of future periods when the hedged cash flows come into earnings. To the extent these derivatives are not effective, changes in their fair values are immediately included in Other revenue. Citigroup's cash flow hedges primarily include hedges of floating rate debt, as well as rollovers of short-term fixed rate liabilities and floating-rate liabilities.

For net investment hedges in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the accounting treatment will similarly depend on the effectiveness of the hedge. The effective portion of the change in fair value of the derivative, including any forward premium or discount, is reflected in Accumulated other comprehensive income as part of the foreign currency translation adjustment.

End-user derivatives that are economic hedges, rather than qualifying for SFAS 133 hedge accounting, are also carried at fair value, with changes in value included in Principal transactions or Other revenue. Citigroup often uses economic hedges when qualifying for hedge accounting would be too complex or operationally burdensome; examples are hedges of the credit risk component of commercial loans and loan commitments. Citigroup periodically evaluates its hedging strategies in other areas, such as mortgage servicing rights, and may designate either a qualifying hedge or economic hedge, after considering the relative cost and benefits. Economic hedges are also employed when the hedged

item itself is marked to market through current earnings, such as hedges of commitments to originate one-to-four family mortgage loans to be held-for-sale and MSRs.

For those hedge relationships that are terminated or when hedge designations are removed, the hedge accounting treatment described in the paragraphs above is no longer applied. The end-user derivative is terminated or transferred to the trading account. For fair-value hedges, any changes in the fair value of the hedged item remain as part of the basis of the asset or liability and are ultimately reflected as an element of the yield. For cash-flow hedges, any changes in fair-value of the end-user derivative remain in Accumulated other comprehensive income and are included in earnings of future periods when the hedged cash flows impact earnings. However, if the hedged forecasted transaction is no longer likely to occur, any changes in fair value of the end-user derivative are immediately reflected in Other revenue.

Employee Benefits Expense

Employee benefits expense includes current service costs of pension and other postretirement benefit plans, which are accrued on a current basis; contributions and unrestricted awards under other employee plans; the amortization of restricted stock awards; and costs of other employee benefits.

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Stock-Based Compensation

Prior to January 1, 2003, Citigroup accounted for stock-based compensation plans under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations (APB 25). Under APB 25, there was generally no charge to earnings for employee stock option awards, because the options granted under these plans have an exercise price equal to the market value of the underlying common stock on the grant date. Alternatively, SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), allowed companies to recognize compensation expense over the related service period based on the grant date fair value of the stock award.

On January 1, 2003, the Company adopted the fair value provisions of SFAS 123. On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which replaced the existing SFAS 123 and APB 25. See Accounting Changes below.

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 governmental 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 implemented FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. See Accounting Changes below.

The Company treats interest and penalties on income taxes as a component of Income tax expense.

Deferred taxes are recorded for the future consequences of events that have been recognized for financial statements or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not.

See Note 11 to the Consolidated Financial Statements on page 139 for a further description of the Company's provision and related income tax assets and liabilities.

Commissions, Underwriting, and Principal Transactions

Commissions, underwriting, and principal transactions revenues and related expenses are recognized in income on a trade-date basis.

Earnings Per Share

Earnings per share is computed after recognition of preferred stock dividend requirements. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of

common shares outstanding for the period, excluding restricted stock. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. It is computed after giving consideration to the weighted average dilutive effect of the Company's stock options and the shares issued under the Company's Capital Accumulation Program and other restricted stock plans.

Use of Estimates

Management must make estimates and assumptions that affect the consolidated Financial Statements and the related footnote disclosures. Such estimates are used in connection with certain fair value measurements. See Note 26 on page 167 for further discussions on estimates used in the determination of fair value. The Company also uses estimates in determining consolidation decisions for special purpose entities as discussed in Note 23 on page 156. Moreover, estimates are significant in determining the amounts of other-than-temporary impairments, impairments of

goodwill and other intangible assets, provisions for potential losses that may arise from credit-related exposures and probable and estimable losses related to litigation and regulatory proceedings in accordance with SFAS No. 5, Accounting for Contingencies, and tax reserves in accordance with SFAS No. 109, Accounting for Income Taxes, and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. While management makes its best judgment, actual amounts or results could differ from those estimates. Current market conditions increase the risk and complexity of the judgments in these estimates.

Cash Flows

Cash equivalents are defined as those amounts included in cash and due from banks. Cash flows from risk management activities are classified in the same category as the related assets and liabilities.

Related Party Transactions

The Company has related party transactions with certain of its subsidiaries and affiliates. These transactions, which are primarily short-term in nature, include cash accounts, collateralized financing transactions, margin accounts, derivative trading, charges for operational support and the borrowing and lending of funds and are entered into in the ordinary course of business.

ACCOUNTING CHANGES

Fair Value Measurements (SFAS 157)

Adoption of SFAS 157 Fair Value Measurements

The Company elected to early-adopt SFAS No. 157, Fair Value Measurements (SFAS 157), as of January 1, 2007. SFAS 157 defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

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Level 1 Quoted prices for *identical* instruments in active markets.

Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

For some products or in certain market conditions, observable inputs may not always be available. For example, during the market dislocations that occurred in the second half of 2007, certain markets became illiquid, and some key observable inputs used in valuing certain exposures were unavailable. When and if these markets are liquid, the valuation of these exposures will use the related observable inputs available at that time from these markets.

Under SFAS 157, Citigroup is required to take into account it