



## INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of Citigroup Inc. (“Citigroup” or the “Company”) between April 17, 2006, and November 2, 2007 (the “Class Period”), against Citigroup and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (“1934 Act”).

2. Citigroup is a diversified global financial services holding company whose businesses provide a range of financial services to consumer and corporate customers. Its segments include Global Consumer Group, Corporate and Investment Banking, Global Wealth Management and Alternative Investments. Citigroup is headquartered in New York, New York and has offices around the globe.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company’s business and financial results. Defendants concealed the Company’s failure to write down impaired securities containing subprime debt. As a result of defendants’ false statements, Citigroup stock traded at artificially inflated prices during the Class Period, reaching a high of \$57 per share in December 2006.

4. In mid-July, it became apparent to the market that banks, including Citigroup, would be adversely affected by the mortgage meltdown. As it relates to Citigroup, investors would have known this information at the beginning of the Class Period had defendants taken appropriate reserves for the large amount of Collateralized Debt Obligations (“CDOs”) in its portfolio, both on and off the balance sheet.

5. On November 4, 2007, Citigroup issued a press release entitled “Citi’s Sub-Prime Related Exposure in Securities and Banking.” The press release stated in part:

Citigroup Inc. announced today significant declines since September 30, 2007 in the fair value of the approximately \$55 billion in U.S. sub-prime related direct exposures in its Securities and Banking (S&B) business. Citi estimates that, at the present time,

the reduction in revenues attributable to these declines ranges from approximately \$8 billion to \$11 billion (representing a decline of approximately \$5 billion to \$7 billion in net income on an after-tax basis).

These declines in the fair value of Citi's sub-prime related direct exposures followed a series of rating agency downgrades of sub-prime U.S. mortgage related assets and other market developments, which occurred after the end of the third quarter. The impact on Citi's financial results for the fourth quarter from changes in the fair value of these exposures will depend on future market developments and could differ materially from the range above.

Citi also announced that, while significant uncertainty continues to prevail in financial markets, it expects, taking into account maintaining its current dividend level, that its capital ratios will return within the range of targeted levels by the end of the second quarter of 2008. Accordingly, Citi has no plans to reduce its current dividend level.

The \$55 billion in U.S. sub-prime direct exposure in S&B as of September 30, 2007 consisted of (a) approximately \$11.7 billion of sub-prime related exposures in its lending and structuring business, and (b) approximately \$43 billion of exposures in the most senior tranches (super senior tranches) of collateralized debt obligations which are collateralized by asset-backed securities (ABS CDOs).

#### **Lending and Structuring Exposures**

Citi's approximately \$11.7 billion of sub-prime related exposures in the lending and structuring business as of September 30, 2007 compares to approximately \$13 billion of sub-prime related exposures in the lending and structuring business at the end of the second quarter and approximately \$24 billion at the beginning of the year. The \$11.7 billion of sub-prime related exposures includes approximately \$2.7 billion of CDO warehouse inventory and unsold tranches of ABS CDOs, approximately \$4.2 billion of actively managed sub-prime loans purchased for resale or securitization at a discount to par primarily in the last six months, and approximately \$4.8 billion of financing transactions with customers secured by sub-prime collateral. These amounts represent fair value determined based on observable transactions and other market data. Following the downgrades and market developments referred to above, the fair value of the CDO warehouse inventory and unsold tranches of ABS CDOs has declined significantly, while the declines in the fair value of the other sub-prime related exposures in the lending and structuring business have not been significant.

#### **ABS CDO Super Senior Exposures**

Citi's \$43 billion in ABS CDO super senior exposures as of September 30, 2007 is backed primarily by sub-prime RMBS collateral. These exposures include approximately \$25 billion in commercial paper principally secured by super senior tranches of high grade ABS CDOs and approximately \$18 billion of super senior

tranches of ABS CDOs, consisting of approximately \$10 billion of high grade ABS CDOs, approximately \$8 billion of mezzanine ABS CDOs and approximately \$0.2 billion of ABS CDO-squared transactions.

Although the principal collateral underlying these super senior tranches is U.S. sub-prime RMBS, as noted above, these exposures represent the most senior tranches of the capital structure of the ABS CDOs. These super senior tranches are not subject to valuation based on observable market transactions. Accordingly, fair value of these super senior exposures is based on estimates about, among other things, future housing prices to predict estimated cash flows, which are then discounted to a present value. The rating agency downgrades and market developments referred to above have led to changes in the appropriate discount rates applicable to these super senior tranches, which have resulted in significant declines in the estimates of the fair value of S&B super senior exposures.

### **Other Information**

The fair value of S&B sub-prime related exposures depends on market conditions and assumptions that are subject to change over time. In addition, if sales of super senior tranches of ABS CDOs occur in the future, these sales might represent observable market transactions that could then be used to determine fair value of the S&B super senior exposures described above. As a result, the fair value of these exposures at the end of the fourth quarter will depend on future market developments.

Citi has provided specific targets for its two primary capital ratios: the Tier 1 capital ratio and the ratio of tangible common equity to risk-weighted managed assets (TCE/RWMA ratio). Those targets are 7.5% for Tier 1 and 6.5% for TCE/RWMA. At September 30, 2007, Citi had a Tier 1 ratio of 7.3% and a TCE/RWMA ratio of 5.9%.

Citi is providing the above information in light of recent market developments. Citi's quarterly report for the period ending September 30, 2007 will contain other information regarding S&B and Citi's other businesses.

Citi expects that market conditions will continue to evolve, and that the fair value of Citi's positions will frequently change. Given these anticipated fluctuations, Citi does not intend to update the information provided in this release until it announces its fourth quarter 2007 earnings in January 2008. Investors also should not expect Citi to provide information about the results of future quarters in advance of scheduled quarterly earnings announcement dates.

(Footnotes omitted.)

6. Later, on November 4, 2007, Citigroup announced the resignation of Charles O. Prince ("Prince"), then-current Chief Executive Officer ("CEO") and Chairman of the Board of Directors of Citigroup, in a release which stated in part:

The Board of Directors of Citigroup Inc. today announced that Robert E. Rubin, Chairman of the Executive Committee of Citi and a member of the Board of Directors, will serve as Chairman of the Board.

In addition, Sir Win Bischoff, Chairman of Citi Europe and a member of Citi's Business Heads, Operating and Management Committees, will serve as acting Chief Executive Officer. The Board also announced that Charles Prince, Chairman and Chief Executive Officer, has elected to retire from Citi. The Board has designated a special committee consisting of Mr. Rubin, Alain J.P. Belda, Richard D. Parsons, and Franklin A. Thomas to conduct the search for a new CEO.

Mr. Prince commented, "We have made strong progress in our strategy for building for the future, evidenced in the momentum we have achieved in most of our businesses. Nevertheless, it is my judgment that given the size of the recent losses in our mortgage-backed securities business, the only honorable course for me to take as Chief Executive Officer is to step down. This is what I advised the Board.

"It has been my privilege to lead this powerful diversified financial services company for the past four years and to be affiliated with the directors, shareholders and employees of Citi and its predecessor companies for the past 29 years. I am proud of the significant progress we have made in rapidly building and expanding the scope of our businesses internationally, strengthening our businesses domestically, and restoring excellent relationships with our regulators throughout the world."

7. On this news, Citigroup's stock collapsed to open at \$36.00 per share on November 5, 2007, a decline of 5%, from November 2, 2007, and a decline of 25% from October 12, 2007.

8. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Defendants' portfolio of CDOs contained billions of dollars worth of impaired and risky securities, many of which were backed by subprime mortgage loans;

(b) Defendants failed to properly account for highly leveraged loans such as mortgage securities; and

(c) Defendants had failed to record impairment of debt securities which they knew or disregarded were impaired, causing the Company's results to be false and misleading.

9. As a result of defendants' false statements, Citigroup's stock traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 25% from their price before these disclosures.

10. Analysts questioned the previous disclosures by the Company:

- Deutsche Bank:

Citi also disclosed (we think for the first time) an additional \$55B of mortgage-related structured product exposure, mostly of super senior tranches of CDOs (\$43B). . . . Some experts in the CDO market suggest that actual sales (which have not taken place much) could ultimately be half or less of this amount, implying more big charges ahead.

- JP Morgan:

The majority of the exposure against which Citi is taking a charge has never been disclosed before, not even in its 3Q earnings call even to indicate its existence, which is very surprising.

\* The CEO, Chuck Prince, was finally pushed out, which was long overdue in our view and is a positive.

#### **JURISDICTION AND VENUE**

11. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

12. Venue is proper here pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District. Citigroup has offices in this District and many of the acts and transactions giving rise to the violations of law complained of occurred here.

13. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

#### **THE PARTIES**

14. Plaintiff ██████████ purchased Citigroup stock described in the attached certification and was damaged thereby.

15. Defendant Citigroup is a global, multibank holding financial services company that provides various financial services to customers in the United States and internationally. The Company's Global Consumer segment offers banking, lending, insurance, and investment services. Citigroup's Markets and Banking segment provides various investment and commercial banking services and products, which comprise investment banking and advisory services, debt and equity trading, institutional brokerage, foreign exchange, structured products, derivatives, and lending. Citigroup is based in New York, New York, and has branch offices in the United States and internationally.

16. Defendant Prince was Chairman of the Board from 2006 and CEO of Citigroup from 2003 until his resignation from the Company on November 2, 2007.

17. Defendant Robert E. Rubin ("Rubin") is, and at all relevant times was, Chairman of the Executive Committee of Citigroup, and as of November 2, 2007, upon the resignation of Prince, Chairman of the Board of Directors of the Company.

18. Defendant Stephen R. Volk ("Volk") is, and at all relevant times was, Vice Chairman of the Board of Directors of Citigroup.

19. Defendant Sallie L. Krawcheck ("Krawcheck") was Chief Financial Officer ("CFO") of Citigroup from 2004 until March 2007. In March 2007, Krawcheck assumed the positions of Chairman and CEO of Citigroup's Global Wealth Management Division.

20. Defendant Gary L. Crittenden (“Crittenden”) has served as Chief Financial Officer (“CFO”) of Citigroup since February 2007.

21. Defendant Robert Druskin (“Druskin”) is, and at all relevant times was, Chief Operating Officer (“COO”) of Citigroup and a member of the Office of the Chairman of the Company.

22. Defendants Prince, Rubin, Volk, Krawcheck, Crittenden and Druskin (the “Individual Defendants”), because of their positions with the Company, possessed the power and authority to control the contents of Citigroup’s quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein at ¶¶27-35, 37-38 and 40-42.

#### **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

23. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Citigroup. Defendants’ fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Citigroup common stock was a success, as it: (i) deceived the investing public regarding Citigroup’s prospects and business; (ii) artificially inflated the price of Citigroup common stock; and (iii) caused plaintiff and other members of the Class to purchase Citigroup common stock at inflated prices.

24. Defendants were also motivated by the compensation arrangements of Citigroup. Defendants' compensation was in large part determined by the reported financial performance of the Company:

*Financial Performance*

- *Organic revenue growth, in the mid-to-high single digit range for Citigroup.* Revenues grew 7%, almost all of which was organic.
- *Net income growth faster than revenue growth.* Net income from continuing operations grew at about the same rate as total revenues (about 7% in each case).
- *Return on equity in the 18-20% range for 2006 for Citigroup.* The 2006 return on equity was 18.8%.
- *Total return to stockholders compared to the peer companies listed above.* Total return to stockholders was 19.6%, which was lower than many of the listed peer companies but comparable to large money center banks.

25. For 2006, defendants received the following amounts:

Summary Compensation Table

EXECUTIVE	YEAR	SALARY (\$)	BONUS (\$)	STOCK AWARDS (\$)	STOCK OPTIONS (\$)	NON-EQUITY INCENTIVE PLAN COMPENSATION (\$)	ALL OTHER COMPENSATION (\$)	TOTAL (\$)
PRINCE	2006	\$1,000,000	\$13,200,000	\$10,633,333	\$746,607	\$0	\$258,338	\$25,975,719
KRAWCHECK	2006	\$500,000	\$5,820,000	\$2,946,251	\$645,701	\$0	\$0	\$9,918,267
RUBIN	2006	\$1,000,000	\$8,400,000	\$6,766,666	\$828,342	\$0	\$325,380	\$17,341,304
DRUSKIN	2006	\$500,000	\$8,100,000	\$6,555,103	\$467,680	\$0	\$43,911	\$15,709,046
VOLK	2006	\$200,000	\$5,670,000	\$3,915,520	\$0	\$0	\$29,488	\$9,825,936

**BACKGROUND**

26. Citigroup operates as a global, multibank holding financial services company that provides various financial services to customers in the United States and internationally. The Company's Global Consumer segment offers banking, lending, insurance, and investment services.

Citigroup's Markets and Banking segment provides various investment and commercial banking services and products, which comprise investment banking and advisory services, debt and equity trading, institutional brokerage, foreign exchange, structured products, derivatives, and lending. Citigroup also offers cash management and trade finance for corporations and financial institutions; custody and fund services to insurance companies and pension funds; clearing services to intermediaries; and depository and agency/trust services to multinational corporations and governments. The Company's Global Wealth Management segment provides investment advice, financial planning, and brokerage services to affluent individuals, companies, and non-profits. This segment also offers wealth management services for high net worth clients. These services include investment management, such as investment funds management, capital markets solutions, trust, fiduciary, and custody services; investment finance that comprises credit services, such as real estate financing, commitments, and letters of credit; and banking services, which consist of deposit, checking, and savings accounts, as well as cash management and other banking services. The Company's Alternative Investments segment manages products across five asset classes, such as private equity, hedge funds, real estate, structured products, and managed futures.

**DEFENDANTS' FALSE AND MISLEADING  
STATEMENTS ISSUED DURING THE CLASS PERIOD**

27. On April 17, 2006, Citigroup issued its first quarter of 2006 financial results, in a press release which stated in part:

Citigroup Inc. today reported net income for the first quarter of 2006 of \$5.64 billion, or \$1.12 per share. Return on common equity was 20.3%. Results include \$846 million of compensation expense (\$520 million after-tax) related to stock grants to retirement-eligible employees required under SFAS 123(R), and a \$657 million tax benefit related to the resolution of a federal tax audit for the years 1999 through 2002.

## First Quarter Highlights

- International earnings increased 47%, driven by record international revenues, up 19%.
- Record corporate and investment banking revenues, up 21%, driven by strong franchise momentum.
  - Record international corporate and investment banking revenues, up 34%, and net income, up 80%
  - Record fixed income markets revenues of \$3.15 billion, up 8%; record equity market revenues of \$1.18 billion, up 67%; record investment banking revenue of \$1.22 billion, up 34%
  - #1 rank in global debt underwriting; #1 in announced global M&A; #2 in global equity underwriting
  - Record transaction services revenues, up 22%, driven by double-digit growth in customer balances
- In international consumer, earnings were up 21%, cards average loans grew 14%, and consumer finance loans outside of Japan were up 8%. In retail banking, investment AUMs increased 20%.
- U.S. consumer average loans grew 10%, reflecting loan growth in consumer lending and retail distribution of 18% and 8% respectively, and commercial business core loans, up 23%. Card purchase sales increased 11%, while average managed receivables declined 2%.
- Record Smith Barney revenues, up 19%, with client assets under fee-based management up 33%.
- The decline in net interest margin moderated to 6 basis points versus the fourth quarter 2005, with mix-driven spread compression in U.S. consumer partially offset by international consumer spread expansion.
- The credit environment remained favorable, including a significant decline in U.S. consumer bankruptcy filings.
- Operating expenses increased 17%, comprised of 7 percentage points from SFAS 123(R) charges, 9% due to organic business growth and acquisitions, and 1% due to investment spending.
- 238 new branches were opened, including 36 in the U.S. and 202 internationally.
- Share repurchases totaled \$2 billion, or approximately 43 million shares.

## Management Comment

“I am very pleased with our first quarter accomplishments, which included strong growth in client activity across many franchises. We are seeing the benefits from our investment spending, which helped generate record revenues in our international businesses and record revenues globally in our corporate and investment banking business. Strength in these franchises more than offset weaker results in our U.S. consumer business,” said Charles Prince, Chief Executive Officer of Citigroup.

“We executed on our strategic initiatives, adding a record 238 new branches in 19 countries, as well as opening our first private bank office in mainland China. We also enhanced our ability to serve more customers through the launch of Citibank Direct, our full-service internet bank, and through a partnership with 7-Eleven convenience stores, we added over 5,500 ATMs to our U.S. distribution network. We remain sharply focused on our strategic initiatives, leveraging our unique strengths to achieve long-term earnings growth and superior returns for our owners,” said Prince.

28. On May 5, 2006, the Company filed its Form 10-Q for the first quarter of 2006, which included the same financial results previously reported. The Form 10-Q also included a certification by Prince, which stated:

I, Charles Prince, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Citigroup Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to

us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

29. Defendant Krawcheck signed a nearly identical certification included in the Form

10-Q.

30. On July 17, 2006, Citigroup issued its results for the second quarter of 2006, in a press release which stated in part:

Citigroup Inc. today reported net income for the second quarter of 2006 of \$5.27 billion, or \$1.05 per share. Return on common equity was 18.6%.

#### **Second Quarter Highlights**

- International revenues increased 17%, and international net income was up 11%.
- Corporate and investment banking revenues were the second highest ever, increasing 31%; income up 26%.
  - International corporate and investment banking revenues up 23%; U.S. revenues up 44%.
  - Fixed income and equity markets revenues up 51% and 30%, respectively, despite volatile emerging market conditions. Investment banking revenues were up 24%.
  - YTD #1 rank in global debt underwriting; #2 in global announced M&A; #2 in global equity underwriting.
  - Record transaction services revenues and net income, up 26% and 18%, respectively, driven by double-digit growth in customer balances.
- International consumer revenues and net income grew 12% and 10%, respectively. Average loans were up 6% and deposits increased 9%. Retail banking investment sales grew 60%, and card purchase sales increased 15%.
- U.S. consumer revenues and net income increased 1% and 11%, respectively. Average loans were up 13% and deposits increased 8%. Retail banking investment product sales increased 37%, and card purchase sales grew 12%.
- Global wealth management revenues were up 19%, with client assets under fee-based management up 23%.
  - International revenues increased 38% and U.S. revenues grew 16%.
- Alternative investments revenues and net income declined, driven by lower private equity results.
- The net interest margin declined 14 basis points versus the first quarter 2006, with the increase in the sequential quarter decline driven by trading activities in capital markets and banking.
- The credit environment remained favorable, with significantly lower U.S. consumer bankruptcy filings.
- Operating expenses increased 16%, comprised of 12 percentage points due to organic business growth and acquisitions, 2% due to investment spending, and 2% due to SFAS 123(R) accruals.

- A record 270 new branches were opened, including 74 in the U.S. and 196 internationally. Year-to-date, 508 branches have been opened, of which 110 are in the U.S. and 398 international.
- Share repurchases totaled \$2.0 billion, or approximately 41 million shares.

### **Management Comment**

“In the second quarter, we achieved our second highest income from continuing operations while making significant progress on our strategic initiatives. We added a record number of new consumer branches during the quarter, bringing our total year-to-date new branch openings to 508. We also opened corporate and investment banking offices in Kuwait and Dubai. The results from our newly launched Citibank e-savings business have been exceptional, with \$4.2 billion of deposits since its launch 3 months ago – approximately two-thirds representing new money to Citibank,” said Charles Prince, Chairman and Chief Executive Officer of Citigroup.

“In international consumer, strong volume growth across our franchise drove a 12% increase in revenues. U.S. consumer also achieved strong volume growth and, despite headwinds from spread compression, showed improving momentum from the first quarter. And in corporate and investment banking, we achieved our second highest revenues, despite challenging conditions in the emerging markets,” said Prince.

“We are very pleased with the momentum we are building as we execute on our strategic initiatives, strengthen our franchises, and position Citigroup for continued long-term earnings growth,” said Prince.

31. On August 4, 2006, the Company filed its Form 10-Q for the second quarter of 2006, which included the same financial results as previously reported. The Form 10-Q also contained virtually identical certifications by Prince and Krawcheck as contained in Citigroup’s Form 10-Q for the first quarter of 2006, as cited above in ¶28.

32. On October 19, 2006, Citigroup issued its financial results for the third quarter of 2006, in a press release which stated in part:

Citigroup Inc. today reported net income for the third quarter of 2006 of \$5.5 billion, or \$1.10 per share. Return on common equity was 18.9%.

### **Third Quarter Summary**

- Total revenues were approximately even with the third quarter 2005, as international revenue growth was offset by a decline in U.S. revenues, reflecting lower revenues in capital markets driven businesses.
  - International revenues increased 11%, with international consumer up 9%, international corporate and investment banking up 12%, and international wealth management up 33%.
- U.S. consumer revenues and net income increased 1% and 23%, respectively. Average managed loans were up 12% and deposits increased 11%. Retail banking investment product sales increased 16%, and card purchase sales grew 9%.
- International consumer revenues increased 9%, and net income was up 8%. Average loans grew 9%, and deposits increased 9%. Retail banking investment sales grew 18%, and card purchase sales increased 18%.
- Corporate and investment banking revenues and net income declined 6% and 4%, respectively.
  - Capital markets and banking revenues and net income declined 12% and 6%, respectively, driven by lower revenues in fixed income markets and equity underwriting, which was partially offset by growth in debt underwriting and advisory.
  - YTD #1 rank in global debt underwriting, #2 in global announced M&A, and #2 in global equity underwriting.
  - Transaction services revenues were a record, up 20%, and net income increased 18%, driven by double-digit growth in customer balances.
- Global wealth management revenues increased 14%, and net income was up 30%. Fee-based and net interest revenues increased 26%, and client assets under fee-based management grew 22%.
- Alternative investments revenues and net income declined significantly, driven by lower results from private equity portfolios and liquid investments.
- The net interest margin declined 11 basis points versus the second quarter 2006, primarily due to trading activities in capital markets and banking.
- The U.S. credit environment remained stable, with significantly lower consumer bankruptcy filings. The international consumer credit environment was generally stable, with the exception of higher credit costs recorded in certain countries, including Japan and Taiwan. In Japan, ongoing legislative and other actions affecting the consumer finance industry led to approximately \$160 million in increased credit costs.

- Operating expenses increased 5%, comprised of 3 percentage points, or \$320 million, due to increased investment spending, and 2 percentage points, or \$195 million, due to SFAS 123(R) accruals. Excluding investment spending and SFAS 123(R) accruals, expenses were flat with the prior-year period.
- The effective tax rate for continuing operations was 27.4%, reflecting a \$237 million tax benefit related to resolution of a tax audit. . . .
- A record 277 new branches were opened, including 101 in the U.S. and 176 internationally. Year-to-date, 785 branches have been opened, of which 211 are in the U.S. and 574 international.
- Share repurchases totaled \$2 billion, or approximately 41 million shares. Over the last 12 months, share repurchases totaled \$10.4 billion, or approximately 218 million shares.

### Management Comment

“Our third quarter results were driven by strength in several businesses, including international revenues, up 11%. In our U.S. consumer franchise, we are pleased with the trends we are seeing, and throughout our businesses we had good expense discipline. That said, results from our capital markets related businesses fell short of my expectations, and I expect improved results from these businesses going forward,” said Charles Prince, Chairman and Chief Executive Officer of Citigroup.

“During the quarter, we continued to execute on our strategic initiatives, investing approximately \$320 million to reach and serve our customers in more places, and more effectively. At the same time, we remained highly disciplined on our non-investment expenses. We also repurchased \$2 billion of our common shares during the quarter.”

“On September 26th, Moody’s upgraded Citibank’s credit rating to Aaa, a direct reflection of the strength and diversity of our franchise, and the way we are running our business. I am very proud of this accomplishment.”

“As we move into the fourth quarter, our priorities remain clear: executing on our strategic initiatives to drive organic growth, targeted acquisitions, expense discipline, and generating revenue and earnings growth and superior returns for our owners,” said Prince.

33. On November 3, 2006, the Company filed its Form 10-Q for the third quarter of 2006, which included the same financial results as previously reported. The Form 10-Q also contained virtually identical certifications by Prince and Krawcheck as contained in Citigroup’s Form 10-Q for the first quarter of 2006, as cited above in ¶28.

34. On January 19, 2007, Citigroup issued financial results for the full year of 2006, which included results for the fourth quarter of 2006, in a release which stated in part:

Citigroup Inc. today reported net income for the 2006 fourth quarter of \$5.13 billion, or \$1.03 per share. Results include previously disclosed charges of \$415 million after-tax in Japan consumer finance to increase reserves and reposition the business. Return on common equity was 17.2%.

For the full year 2006, net income was \$21.54 billion, or \$4.31 per share, and return on common equity was 18.8%. . . .

### **Management Comment**

“Our results were highlighted by double-digit revenue growth in our corporate and investment banking, wealth management and alternative investment businesses. In U.S. consumer, we continued to see positive trends from our strategic actions. Performance in these businesses was partially offset by lower results in international consumer, which included significant charges in our Japan consumer finance business. Customer balances continued to grow strongly, partly driven by our investment in new distribution,” said Charles Prince, Chairman and Chief Executive Officer of Citigroup.

“During the quarter, we continued to expand our business through a balance of organic investment and targeted acquisitions. We opened a record number of branches and continued to invest in our technology and our people. We also announced five acquisitions, all to expand our international franchise. We led a consortium that acquired 85% of Guangdong Development Bank in China. In Central America, we announced the acquisition of Grupo Financiero Uno, a consumer credit card franchise, and Grupo Cuscatlan, a corporate and consumer bank. We also announced the acquisition of Quilter, one of the United Kingdom’s most respected wealth advisory firms, and the acquisition of a 20% stake in Akbank, a leading Turkish bank,” said Prince.

“Our 2007 priorities are clear: generating sustainable growth in U.S. consumer, growing international consumer, corporate and investment banking and wealth management businesses more quickly, focusing sharply on expense management, and remaining highly disciplined in credit management. We will continue to invest to integrate our businesses and expand our reach, while at the same time taking a thorough review of our entire expense base to ensure that we operate as efficiently and effectively as possible,” said Prince.

### **Fourth Quarter Summary**

- Revenues were a record, up 15%, driven by 14% revenue growth in corporate and investment banking, 79% in alternative investments and 21% in global wealth management. Global consumer revenues increased 9%.

- International revenues grew 11%, with international corporate and investment banking up 20% and international wealth management up 48%. International consumer revenues increased 2%, including the impact of charges in Japan consumer finance.
- Deposits and loans grew 20% and 16%, respectively. In global consumer, investment AUMs increased 17%. Capital markets and banking ranked #1 in global debt underwriting, #2 in announced M&A and #2 in global equity underwriting and global loan syndications for the full year 2006. In global wealth management, client assets under fee-based management grew 15%.
- Operating expenses increased 23%, including 4 percentage points due to increased investment spending, 3 percentage points due to acquisitions and foreign exchange, and 2 percentage points due to SFAS 123(R) accruals. The remaining expense growth was driven by higher business volumes, and the absence of a net release of legal reserves that lowered expenses in the prior-year period.
  - The company opened a record 380 new branches, including 288 internationally and 92 in the U.S. For the full year 2006, a record 1,165 branches have been opened, of which 862 are international and 303 are in the U.S.
- Credit costs increased 10%, as lower costs in U.S. consumer were more than offset by increased credit costs in international consumer and corporate and investment banking. U.S. consumer credit costs declined due to lower bankruptcy filings. In international consumer, credit costs primarily reflected portfolio growth, including a significant increase in Mexico due to target market expansion. The international and U.S. consumer credit environment was generally stable. The global corporate credit environment also remained stable.
- Excluding charges in Japan consumer finance, the net interest margin was even with the 2006 third quarter.
- Share repurchases totaled \$1 billion, or approximately 19 million shares. For the full year 2006, share repurchases totaled \$7 billion and dividends paid to common shareholders totaled \$9.8 billion.

35. On February 23, 2007, Citigroup filed its Form 10-K for fiscal 2006, which included results for the fourth quarter of 2006, and included the same financial results as previously reported. The Form 10-K also contained virtually identical certifications by Prince and Krawcheck as

Citigroup's Form 10-Q for the first quarter of 2006, as cited above in ¶28. The Form 10-K also indicated Citigroup had *reduced* its loan loss reserves in 2006:

Provisions for loan losses and for benefits and claims *decreased due to lower net credit losses of \$136 million*, primarily in the Auto and Real Estate Lending businesses, partially offset by lower loan loss reserve releases of \$91 million. The lower loan loss reserve releases reflected a \$110 million reserve build related to the estimated impact of Hurricane Katrina in the 2005 third quarter, partially offset by reserve releases of \$89 million in Auto and \$76 million in Real Estate Lending related to the reorganization of the U.S. Consumer Finance businesses. *The continued favorable credit environment drove a decline in the net credit loss ratio.*

A 20% increase in prime mortgage originations and home equity loans drove loan growth. *Non-prime mortgage originations declined 20%*, reflecting the Company's decision to avoid offering teaser rate and interest-only mortgages to lower FICO score customers.

36. These statements were intended to and did suggest to the market the Citigroup's credit issues with respect to subprime mortgages were contained and manageable.

37. On April 16, 2007, Citigroup reported financial results for the first quarter of 2007, in a release which stated in part:

Citigroup Inc. today reported net income for the 2007 first quarter of \$5.01 billion, or \$1.01 per share. Results include a previously disclosed charge of \$1.38 billion, or \$871 million after-tax, related to a structural expense review conducted during the quarter. Excluding the charge, net income was \$5.88 billion, or \$1.18 per share. Return on common equity was 17.1%.

#### **Management Comment**

"We generated strong momentum this quarter, with revenues increasing 15% to a record, driven by growing customer business volumes. Global consumer deposits were up 12% and global consumer loans grew 11%. In our international franchises, revenues grew 18%, led by international markets & banking revenue up 20%. Our revenue growth combined with improving expense management and, after adjusting for certain non-recurring items, we generated positive operating leverage. Offsetting our improved revenue and expense performance were higher credit costs and a lower level of tax benefits than last year," said Charles Prince, Chairman and Chief Executive Officer of Citi.

"We continued to invest in expanding our distribution and enhancing our technology as we build a broad, strong foundation for future growth. We also announced the acquisition of Egg, Ltd. in the U.K., the world's largest internet bank,

and we launched a tender offer to acquire 100% of Nikko Cordial in Japan, consistent with our effort to drive growth through a balance of organic investment and targeted acquisitions and expand internationally,” said Prince.

“We achieved these results while completing our structural expense review, which will help us become a leaner, more efficient organization and lower our rate of expense growth. As we look ahead, our priorities are clear: we will invest to grow and integrate our businesses, take actions to improve efficiency and lower costs, and continue to build momentum across our franchises,” said Prince.

## FIRST QUARTER SUMMARY

- **Revenues** were a record, up 15%, driven by 23% revenue growth in markets & banking, including record revenues in fixed income and equity markets, investment banking and transaction services. International consumer revenues grew 14% and global wealth management revenues were a record, up 13%. U.S. consumer revenue growth continued to trend positively, up 6%.
  - Revenue growth reflected customer volume growth. Deposits and loans grew 18% and 15%, respectively. In global consumer, AUMs increased 12%. Securities and banking ranked #1 in global debt and equity underwriting and #2 in completed M&A for the first quarter. In global wealth management, client assets under fee-based management grew 13% and client capital in alternative investments grew 52%.
  - Net interest revenues grew 8% as volume growth was partially offset by net interest margin compression.
  - Excluding the impact of gray zone in Japan consumer finance, the net interest margin declined 14 basis points versus the fourth quarter 2006, with slightly less than half of the decline in trading portfolios.
- **Operating expenses** increased 17%, including a \$1.38 billion charge related to a structural expense review completed in the quarter. Excluding the charge, compensation accruals related to the revenue impact of adopting SFAS 157, and \$648 million pre-tax in SFAS 123(R) accruals recorded in the prior-year period, expenses grew 10%, driven by increased business volumes and investment spending.
  - The company opened 99 new branches during the quarter, including 48 internationally and 51 in the U.S.
- **Credit costs** increased \$1.26 billion, primarily driven by an increase in net credit losses of \$509 million and a net charge of \$597 million to increase loan loss reserves. The \$597 million net charge compares to a net reserve release of \$154 million in the prior-year period.

- In U.S. consumer, higher credit costs reflected an increase in net credit losses of \$164 million and a net charge of \$182 million to increase loan loss reserves. The \$182 million net charge compares to a net reserve release of \$196 million in the prior-year period. Credit costs increased primarily in U.S. consumer lending and U.S. retail distribution, reflecting portfolio growth, an increase in delinquencies in second mortgages, and a change in estimate of loan losses inherent in the portfolio.
- In international consumer, higher credit reflected an increase in net credit losses of \$331 million and a net charge to increase loan loss reserves of \$112 million. Higher credit costs primarily reflected portfolio growth, including target market expansion in Mexico cards and the integration of Credicard in Brazil, increased net credit losses in Japan consumer finance, and a change in estimate of loan losses inherent in the portfolio. The international consumer credit environment was generally stable.
- Markets & banking credit costs increased primarily due to a net charge of \$286 million to increase loan loss reserves due to portfolio growth, which includes higher commitments to leveraged transactions and an increase in average loan tenor. The \$286 million net charge compares to a \$33 million net charge to increase reserves in the prior-year period. The global corporate credit environment remained stable.

38. On May 4, 2007, Citigroup filed its Form 10-Q for the first quarter of 2007, which included the same financial results as previously reported. The Form 10-Q also contained virtually identical certifications by Prince and Crittenden as contained in Citigroup's Form 10-Q for the first quarter of 2006, as cited above in ¶28.

39. In mid-July 2007, Citigroup stock declined in tandem with other bank stocks as the credit crunch exposed the poor underlying fundamentals of the banks' mortgage risk management, including at Citigroup.

40. On July 20, 2007, Citigroup issued its financial results for the second quarter of 2007, in a press release stating in part:

Citigroup Inc. today reported net income for the 2007 second quarter of \$6.23 billion, or \$1.24 per share, both up 18%. International revenues and net income were a record, up 34% and 35%, respectively. Return on equity was 20.1%.

## Management Comment

“We have very clear priorities to drive growth and we are executing on all of them. We generated record revenues, up 20%, and record earnings from continuing operations, up 18%, both driven by our record international results,” said Charles Prince, Citi Chairman and Chief Executive Officer.

“We continued to generate revenue and volume growth in our U.S. consumer franchise, while making excellent progress in re-weighting Citi toward our other businesses, especially our international franchises, where revenues and net income increased over 30%. Our capital markets-driven businesses performed extremely well and international consumer revenues and volumes grew at a double-digit pace,” said Prince.

“We also began to implement the structural expense initiatives announced in April, which are generating improved efficiencies. These initiatives, coupled with strong revenue growth, drove positive operating leverage this quarter and helped offset increased credit costs.”

“We made excellent progress in expanding our business through targeted acquisitions, completing three international transactions, including an increase in our ownership of Nikko Cordial Corporation in Japan to 68%,” said Prince.

## SECOND QUARTER SUMMARY

- **Revenues** were a record, up 20%, led by 34% growth in international revenues. International markets & banking revenues grew 50%, international consumer revenues increased 16%, and wealth management revenues more than doubled.
  - Revenue growth reflected double-digit customer volume growth. Deposits and loans grew 20% and 17%, respectively. Securities and banking ranked #1 in global debt underwriting, #2 in announced M&A, #3 in global equity underwriting, and achieved record revenues in equity markets and transaction services. In global wealth management, client assets under fee-based management grew 40%, and client capital in alternative investments increased 55%.
  - Strong volume growth drove a 16% increase in net interest revenues.
  - Excluding the impact of acquisitions, organic revenue growth was 16%.
  - The net interest margin declined 6 basis points versus the first quarter 2007, as the benefit from lower cost of funds was offset by growth in lower yielding trading assets.

- **Operating expenses** increased 16%, driven by increased business volumes and acquisitions, which were partially offset by savings from structural expense initiatives announced in April 2007, and the release of \$300 million of litigation reserves reflecting our continued progress in favorably resolving WorldCom/Research matters.
  - The company opened or acquired 160 new retail bank or consumer finance branches during the quarter, including 136 internationally and 24 in the U.S. Over the last twelve months, 1,001 retail bank and consumer finance branches have been opened or acquired.
  - Excluding the impact of acquisitions, organic expense growth was 12%.
- **Credit costs** increased \$934 million, primarily driven by an increase in net credit losses of \$259 million and a net charge of \$465 million to increase loan loss reserves. The \$465 million net charge compares to a net reserve release of \$210 million in the prior-year period.
  - In U.S. consumer, higher credit costs reflected an increase in net credit losses of \$183 million and a net charge of \$245 million to increase loan loss reserves. The \$245 million net charge compares to a net reserve release of \$274 million in the prior-year period. The increase in net credit losses and loan loss reserves primarily reflected higher delinquencies in second mortgages in consumer lending, a change in estimate of loan losses inherent in the cards portfolio, and portfolio growth.
  - In international consumer, higher credit costs reflected an increase in net credit losses of \$155 million and a net charge to increase loan loss reserves of \$236 million. The \$236 million net charge compares to a net reserve release of \$62 million in the prior-year period. The increase in net credit losses and loan loss reserves primarily reflected portfolio growth, an increase in past due accounts and portfolio seasoning in Mexico cards, higher net credit losses in Japan consumer finance, and the impact of recent acquisitions.
  - Markets & banking credit costs declined, reflecting a stable global credit environment and the absence of a \$118 million net increase to loan loss reserves recorded in the prior-year period.

(Footnote omitted.)

41. On August 3, 2007, Citigroup filed its Form 10-Q for the second quarter of 2007, which included the same financial results as previously reported. The Form 10-Q also contained

virtually identical certifications by Prince and Crittenden as contained in Citigroup's Form 10-Q for the first quarter of 2006, as cited above in ¶28.

42. On October 15, 2007, Citigroup issued its financial results for the third quarter of 2007, in a release stating in part:

The Company has revised its financial results for the third quarter of 2007 from the results released in the Company's October 15, 2007 Earnings Release and Current Report on Form 8-K filing. The revision relates to the correction of the valuation on the Company's \$43 billion in Asset-Backed Securities Collateralized Debt Obligations (ABS CDOs) super senior exposures. The impact of this correction is a \$270 million reduction in Principal Transactions Revenue, a \$166 million reduction in Net Income and a \$0.03 reduction in Diluted Earnings per Share (please see Form 10-Q filed on November 5th for further details).

... Citigroup Inc. today reported net income for the 2007 third quarter of \$2.21 billion, or \$0.44 per share, a decline of 60% from the prior-year quarter. Results include a \$729 million pre-tax gain on the sale of Redecard shares. Return on equity was 6.9%. On October 1, 2007, Citi announced that it expected third quarter 2007 net income to decline in the range of 60%, subject to finalizing third quarter results.

#### **Management Comment**

"This was a disappointing quarter, even in the context of the dislocations in the sub-prime mortgage and credit markets. A significant amount of our income decline was in our fixed income business, where we have a long track record of strong earnings, and this quarter's performance was well below our expectations. Although we generated strong momentum in many of our franchises, our fixed income results, along with higher credit costs in global consumer, led to significantly lower net income," said Charles Prince, Chairman and CEO.

"Importantly, many of our businesses performed well this quarter. Our international franchise continued to expand rapidly, with revenues up 29%. Our global wealth management franchise generated record revenues and transaction services posted another record quarter on double-digit earnings growth. In securities and banking, equity markets and underwriting revenues were up a combined 33%, and our advisory revenues grew 29%. Volumes in our consumer franchise continued to grow strongly with deposits up 18%, managed loans up 13%, and we opened 96 new branches around the world," said Prince.

"As we move into the fourth quarter, we are focusing closely on improving those areas where we performed below expectation, while at the same time continuing to execute on our strategic priorities," said Prince.

### THIRD QUARTER SUMMARY

- **Revenues** were up 5%, led by 29% growth in international revenues.
  - Global consumer revenues increased 14%, driven by international consumer up 35%, which included a \$729 million pre-tax gain on the sale of Redecard shares. Excluding the gain, international consumer revenues increased 21%, reflecting deposit and loan growth of 18% and 29%, respectively, and higher investment sales, up 26%. U.S. consumer revenues were flat with the prior-year period as deposit and managed loan growth of 16% and 8%, respectively, was offset by lower securitization results in cards and the absence of gains on sale of securities in the prior-year period in consumer lending.
  - Markets & banking revenues declined 29%, reflecting record transaction services revenues, up 38%, offset by a 50% decline in securities and banking. Securities and banking revenues declined due to write-downs and losses related to dislocations in the mortgage-backed securities and credit markets, including:
    - Write-downs of \$1.35 billion pre-tax, net of underwriting fees, on funded and unfunded highly leveraged finance commitments.
    - Losses of \$1.83 billion pre-tax, net of hedges, on the value of sub-prime mortgage-backed securities warehoused for future collateralized debt obligation (“CDO”) securitizations, CDO positions, and leveraged loans warehoused for future collateralized loan obligation (“CLO”) securitizations.
    - Losses of \$636 million pre-tax in fixed income credit trading due to significant market volatility and the disruption of historical pricing relationships.

U.S. markets & banking revenues declined 98% and international revenues grew 6%. International revenues included strong double-digit revenue growth in Asia, Latin America, and Mexico.

- Global wealth management revenues increased 41%, as U.S. revenues grew 14% and international revenues more than doubled, due to double-digit organic growth and increased ownership in Nikko Cordial.
- Alternative investments revenues declined 63% as strong growth in client revenues was offset by lower revenues from proprietary investment activities.

- Excluding acquisitions and the gain on sale of Redecard shares, total organic revenues declined 4%.
- The net interest margin declined 3 basis points versus the second quarter 2007.
- **Operating expenses** increased 22%, driven by increased business volumes and acquisitions, which were partially offset by savings from structural expense initiatives announced in April 2007.
  - The company opened 96 new retail bank or consumer finance branches during the quarter, including 47 internationally and 49 in the U.S. Over the last twelve months, 820 retail bank and consumer finance branches have been opened or acquired.
  - Excluding the impact of acquisitions, organic expense growth was 14%.
- **Credit costs** increased \$2.98 billion, primarily driven by an increase in net credit losses of \$780 million and a net charge of \$2.24 billion to increase loan loss reserves.
  - In U.S. consumer, higher credit costs reflected an increase in net credit losses of \$278 million and a net charge of \$1.30 billion to increase loan loss reserves. The \$1.30 billion net charge compares to a net reserve release of \$197 million in the prior-year period. The increase in credit costs primarily reflected a weakening of leading credit indicators, including increased delinquencies on mortgages and unsecured personal loans, as well as trends in the U.S. macro-economic environment, portfolio growth, and a change in estimate of loan losses inherent in the portfolio but not yet visible in delinquencies (“a change in estimate of loan losses”).
  - In international consumer, higher credit costs reflected an increase in net credit losses of \$460 million and a net charge of \$717 million to increase loan loss reserves. The \$717 million net charge compares to a net charge of \$101 million in the prior-year period. The increase in credit costs primarily reflected the impact of recent acquisitions, portfolio growth, and a change in estimate of loan losses.
  - Markets & banking credit costs increased \$98 million, primarily reflecting higher net credit losses and a \$123 million net charge to increase loan loss reserves for specific counterparties. Credit costs reflected a slight weakening in portfolio credit quality.

43. Then, on November 4, 2007, Citigroup issued a press release entitled “Citi’s Sub-Prime Related Exposure in Securities and Banking.” The press release stated in part:

Citigroup Inc. announced today significant declines since September 30, 2007 in the fair value of the approximately \$55 billion in U.S. sub-prime related direct exposures in its Securities and Banking (S&B) business. Citi estimates that, at the present time, the reduction in revenues attributable to these declines ranges from approximately \$8 billion to \$11 billion (representing a decline of approximately \$5 billion to \$7 billion in net income on an after-tax basis).

These declines in the fair value of Citi's sub-prime related direct exposures followed a series of rating agency downgrades of sub-prime U.S. mortgage related assets and other market developments, which occurred after the end of the third quarter. The impact on Citi's financial results for the fourth quarter from changes in the fair value of these exposures will depend on future market developments and could differ materially from the range above.

Citi also announced that, while significant uncertainty continues to prevail in financial markets, it expects, taking into account maintaining its current dividend level, that its capital ratios will return within the range of targeted levels by the end of the second quarter of 2008. Accordingly, Citi has no plans to reduce its current dividend level.

The \$55 billion in U.S. sub-prime direct exposure in S&B as of September 30, 2007 consisted of (a) approximately \$11.7 billion of sub-prime related exposures in its lending and structuring business, and (b) approximately \$43 billion of exposures in the most senior tranches (super senior tranches) of collateralized debt obligations which are collateralized by asset-backed securities (ABS CDOs).

### **Lending and Structuring Exposures**

Citi's approximately \$11.7 billion of sub-prime related exposures in the lending and structuring business as of September 30, 2007 compares to approximately \$13 billion of sub-prime related exposures in the lending and structuring business at the end of the second quarter and approximately \$24 billion at the beginning of the year. The \$11.7 billion of sub-prime related exposures includes approximately \$2.7 billion of CDO warehouse inventory and unsold tranches of ABS CDOs, approximately \$4.2 billion of actively managed sub-prime loans purchased for resale or securitization at a discount to par primarily in the last six months, and approximately \$4.8 billion of financing transactions with customers secured by sub-prime collateral. These amounts represent fair value determined based on observable transactions and other market data. Following the downgrades and market developments referred to above, the fair value of the CDO warehouse inventory and unsold tranches of ABS CDOs has declined significantly, while the declines in the fair value of the other sub-prime related exposures in the lending and structuring business have not been significant.

### **ABS CDO Super Senior Exposures**

Citi's \$43 billion in ABS CDO super senior exposures as of September 30, 2007 is backed primarily by sub-prime RMBS collateral. These exposures include approximately \$25 billion in commercial paper principally secured by super senior tranches of high grade ABS CDOs and approximately \$18 billion of super senior tranches of ABS CDOs, consisting of approximately \$10 billion of high grade ABS CDOs, approximately \$8 billion of mezzanine ABS CDOs and approximately \$0.2 billion of ABS CDO-squared transactions.

Although the principal collateral underlying these super senior tranches is U.S. sub-prime RMBS, as noted above, these exposures represent the most senior tranches of the capital structure of the ABS CDOs. These super senior tranches are not subject to valuation based on observable market transactions. Accordingly, fair value of these super senior exposures is based on estimates about, among other things, future housing prices to predict estimated cash flows, which are then discounted to a present value. The rating agency downgrades and market developments referred to above have led to changes in the appropriate discount rates applicable to these super senior tranches, which have resulted in significant declines in the estimates of the fair value of S&B super senior exposures.

### **Other Information**

The fair value of S&B sub-prime related exposures depends on market conditions and assumptions that are subject to change over time. In addition, if sales of super senior tranches of ABS CDOs occur in the future, these sales might represent observable market transactions that could then be used to determine fair value of the S&B super senior exposures described above. As a result, the fair value of these exposures at the end of the fourth quarter will depend on future market developments.

Citi has provided specific targets for its two primary capital ratios: the Tier 1 capital ratio and the ratio of tangible common equity to risk-weighted managed assets (TCE/RWMA ratio). Those targets are 7.5% for Tier 1 and 6.5% for TCE/RWMA. At September 30, 2007, Citi had a Tier 1 ratio of 7.3% and a TCE/RWMA ratio of 5.9%.

Citi is providing the above information in light of recent market developments. Citi's quarterly report for the period ending September 30, 2007 will contain other information regarding S&B and Citi's other businesses.

Citi expects that market conditions will continue to evolve, and that the fair value of Citi's positions will frequently change. Given these anticipated fluctuations, Citi does not intend to update the information provided in this release until it announces its fourth quarter 2007 earnings in January 2008. Investors also should not expect Citi to provide information about the results of future quarters in advance of scheduled quarterly earnings announcement dates.

(Footnotes omitted.)

44. Later, on November 4, 2007, Citigroup announced the resignation of Prince, then-current CEO and Chairman of the Board of Directors of Citigroup, in a release which stated in part:

The Board of Directors of Citigroup Inc. today announced that Robert E. Rubin, Chairman of the Executive Committee of Citi and a member of the Board of Directors, will serve as Chairman of the Board.

In addition, Sir Win Bischoff, Chairman of Citi Europe and a member of Citi's Business Heads, Operating and Management Committees, will serve as acting Chief Executive Officer. The Board also announced that Charles Prince, Chairman and Chief Executive Officer, has elected to retire from Citi. The Board has designated a special committee consisting of Mr. Rubin, Alain J.P. Belda, Richard D. Parsons, and Franklin A. Thomas to conduct the search for a new CEO.

Mr. Prince commented, "We have made strong progress in our strategy for building for the future, evidenced in the momentum we have achieved in most of our businesses. Nevertheless, it is my judgment that given the size of the recent losses in our mortgage-backed securities business, the only honorable course for me to take as Chief Executive Officer is to step down. This is what I advised the Board.

"It has been my privilege to lead this powerful diversified financial services company for the past four years and to be affiliated with the directors, shareholders and employees of Citi and its predecessor companies for the past 29 years. I am proud of the significant progress we have made in rapidly building and expanding the scope of our businesses internationally, strengthening our businesses domestically, and restoring excellent relationships with our regulators throughout the world."

45. On November 4, 2007, Citigroup announced significant declines in the fair value of \$55 billion in the U.S. subprime debt exposure – a revenue decline related to these declines of \$8 to \$11 billion.

46. On this news, Citigroup's stock collapsed to open at \$36.00 per share on November 5, 2007, a decline of 5%, from November 2, 2007, and a decline of 25% from October 12, 2007.

47. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Defendants' portfolio of CDOs contained billions of dollars worth of impaired and risky securities, many of which were backed by subprime mortgage loans;

(b) Defendants failed to properly account for highly leveraged loans such as mortgage securities; and

(c) Defendants had failed to record impairment of debt securities which they knew or disregarded were impaired, causing the Company's results to be false and misleading.

48. As a result of defendants' false statements, Citigroup's stock price traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 25% from their price before these disclosures.

49. Analysts questioned the previous disclosures by the Company:

- Deutsche Bank:

Citi also disclosed (we think for the first time) an additional \$55B of mortgage-related structured product exposure, mostly of super senior tranches of CDOs (\$43B). . . . Some experts in the CDO market suggest that actual sales (which have not taken place much) could ultimately be half or less of this amount, implying more big charges ahead.

- JP Morgan:

The majority of the exposure against which Citi is taking a charge has never been disclosed before, not even in its 3Q earnings call even to indicate its existence, which is very surprising.

\* The CEO, Chuck Prince, was finally pushed out, which was long overdue in our view and is a positive.

50. As *BusinessWeek* reported on November 6, 2007:

#### A Matter of Accounting

Any candidate would have to think long and hard about taking on the task of cleaning up Citi (*BusinessWeek.com*, 11/1/07). On Monday, Rubin and other top executives told investors about yet another recalculation of its third-quarter losses and a staggering charge for the upcoming quarter. The company said it will take writedowns of \$8 billion to \$11 billion in the fourth quarter, after the \$6.5 billion in writedowns it took in the third quarter. Citi also said it is lowering its previously stated third-quarter profit of \$2.38 billion by \$166 million, to \$2.21 billion. The

change reflected a more up-to-date view of the declining value of fixed-income assets.

But the uncertainty may be more unsettling than the specific figures. Rubin and Crittenden presided over a call with analysts that made it clearer than ever that Citi doesn't know when or where the problems will end. Because the credit markets are illiquid, with some securities not trading at all, it's impossible to know the full extent of Citi's losses or whether more writedowns are on the way. Rubin and Crittenden made that point crystal clear: "There's no way, I think, anyone can give you assurance of how things are going to move," said Crittenden. "We've taken what I think is a reasonable stab."

\* \* \*

There is speculation that Citi could be forced to sell higher-quality assets, such as those in its real estate or credit-card portfolio, to boost its capital level. Analyst Meredith Whitney of CIBC World Markets says no market for the lower-quality assets currently exists. She remains skeptical that Citi will be able to maintain its dividend, although the company said Nov. 5 it has no plans to cut it.

Some investors believe Citi could be forced to take more writedowns, if the prices of collateralized debt obligations continue to fall. "We estimate that Citi has written down about one quarter of its CDO [collateralized debt obligation] exposure, which might not be enough," says analyst Mike Mayo of Deutsche Bank (DB). "Information risk is huge because we don't know where the \$55 billion of exposure has been written down," he adds.

51. On November 6, 2007, Citigroup disclosed it had given its off-balance-sheet investment funds, known as structured investment vehicles, or SIVs, \$10 billion of available credit, and the funds had drawn \$7.6 billion of credit as of October 31. As *Reuters* reported:

Citi has faced a series of problems in recent weeks. Over the weekend, its chief executive resigned and Citigroup revealed it may face \$11 billion more in pre-tax write-downs this quarter for repackaged debt known as collateralized debt obligations.

Those potential write-downs are on top of \$6.8 billion of write-offs and losses already recorded in the third quarter.

\* \* \*

Citigroup shares, which are the worst performers in the Dow Jones industrial average this year with a year-to-date drop of more than 37 percent, were off by 2.4 percent at \$35.05 in mid-morning New York Stock Exchange trading on Tuesday. The stock touched a four-and-a-half year low of \$34.76 in consolidated trade.

52. As an indication of how poorly Citigroup has done, credit-default swaps tied to Citigroup more than tripled in the three weeks ended November 7, 2007. Citigroup credit-default swaps now trade as if the Company were rated Baa3, the lowest investment-grade rating.

#### **LOSS CAUSATION/ECONOMIC LOSS**

53. By misrepresenting Citigroup's financial statements, the defendants presented a misleading picture of the Company's business and prospects. Thus, instead of truthfully disclosing during the Class Period that Citigroup's business was not as healthy as represented, Citigroup falsely concealed the extent of its exposure to CDOs, including those with subprime debt.

54. These claims of profitability caused and maintained the artificial inflation in Citigroup's stock price throughout the Class Period and until the truth about its future earnings was revealed to the market.

55. Defendants' false and misleading statements had the intended effect and caused Citigroup stock to trade at artificially inflated levels throughout the Class Period, reaching as high as \$57 per share.

56. In July 2007, the market became aware of the problems the banks (including Citigroup) were having with subprime debt. By November 2007, Citigroup had announced it would have to write down billions of dollars of its debt securities.

57. As a direct result of defendants' admissions and the public revelations regarding the truth about Citigroup's profitability and its actual business prospects going forward, Citigroup's stock price plummeted 25%, falling from \$47.87 per share on October 12, 2007 to \$35.90 per share on November 5, 2007, a decline of \$11.97 per share. This drop removed the inflation from Citigroup's stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

## COUNT I

### **For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants**

58. Plaintiff incorporates ¶¶1-57 by reference.

59. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

60. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Citigroup common stock during the Class Period.

61. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Citigroup common stock. Plaintiff and the Class would not have purchased Citigroup common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

## COUNT II

### **For Violation of §20(a) of the 1934 Act Against All Defendants**

62. Plaintiff incorporates ¶¶1-61 by reference.

63. The Individual Defendants acted as controlling persons of Citigroup within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their ownership of Citigroup stock, the Individual Defendants had the power and authority to cause Citigroup to engage in the wrongful conduct complained of herein. Citigroup controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

### **CLASS ACTION ALLEGATIONS**

64. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Citigroup common stock during the Class Period (the "Class"). Excluded from the Class are defendants.

65. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Citigroup has over 4.9 billion shares of common stock outstanding, owned by hundreds if not thousands of persons.

66. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) whether the 1934 Act was violated by defendants;
- (b) whether defendants omitted and/or misrepresented material facts;
- (c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) whether defendants knew or deliberately disregarded that their statements were false and misleading;
- (e) whether the price of Citigroup common stock was artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

67. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

68. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

69. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

#### **PRAYER FOR RELIEF**

WHEREFORE, plaintiff prays for judgment as follows:

- A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
- B. Awarding plaintiff and the members of the Class damages, including interest;
- C. Awarding plaintiff's reasonable costs and attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

#### **JURY DEMAND**

Plaintiff demands a trial by jury.

DATED: November 8, 2007