CITIGROUP INC.

HOLD

Stock Data

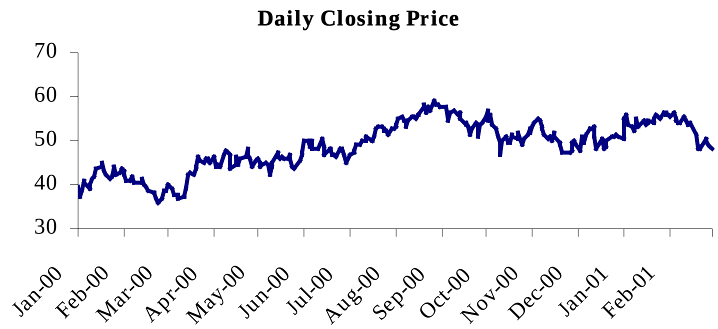
Price (52 weeks)	$35.353 - $59.13
Symbol/Exchange	C/NYSE
Beta	1.27
Dividend yield	1.16%
Fully diluted shares	5.03 Billion
Average daily volume	13 million
Current market cap	$242.8 Billion
Book Value/Share	$11.55
LTD ratio	1.10

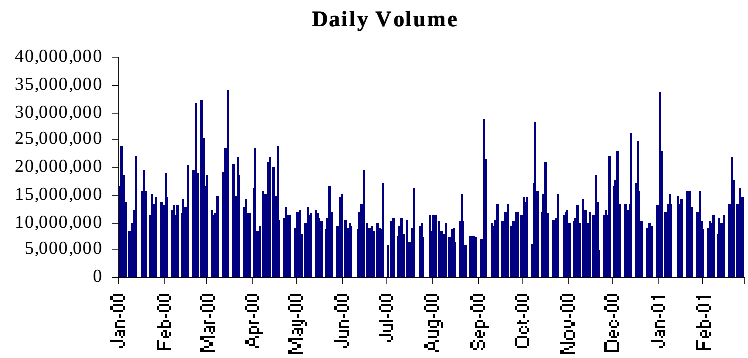
Valuation (per share)

FCF Analysis	$24.05
Comparables Analysis	$25.87
Target Price	$25.00

Summary Financials (in millions)

	1999A
Revenue	$82,005
Earnings	$15,951
Free Cash Flow	$5,562





Business Overview

Formed on October 8,1998 by the merger of Citicorp and Travelers Group Inc., Citigroup (C NYSE) is a diversified provider of financial services to both consumers and corporations. They are the number one U.S. financial services company. They have a presence in over 100 countries and territories. Citigroup has made dozens of purchases in the past years. They have focused on lucrative purchases in the investment banking and consumer finance sectors in emerging markets. Their operations are conducted through four major activities: Global Consumer, Global Corporate and Investment Banking, Global Investment Management and Private Banking, and Investment Activities.

Global Consumer (40% of taxable income)

This segment contains worldwide full service and electronic banking, consumer lending services, investment services, credit card services, and insurance (Travelers life, auto, and homeowners) services. They have over 1,400 branches and 3,800 ATMs worldwide. Citibank North America operates banking, lending and investment services through 370 branches and electronic delivery systems. Their Mortgage Banking unit services mortgage and student loans. Their credit card segment uses MasterCard, Visa, and Diners Club.

The international business of Global Consumer provide the same services to consumers in Europe, Middle East, Africa, Asia Pacific, and Latin America through more then 1,000 branches.

Global Corporate and Investment Banking (48% of taxable income)

GCIB provides corporations, governments, institutions, and individual investors, located in more then 100 countries, with a myriad of financial services and products. These include investment advice, financial planning, retail brokerage, banking and financial services, and commercial insurance products. Through Salomon Smith Barney, they are able to deliver investment-banking services including underwriting and distribution of fixed income and equity securities for domestic and foreign corporations, as well as, state, local, and other governmental sponsored authorities. This segment also deals in the market for financial derivates (interest rate, currency, equity, swaps, options, and futures). Smith Barney is the retail brokerage end of this division.

Global Investment Management and Private Banking (6% of taxable income)

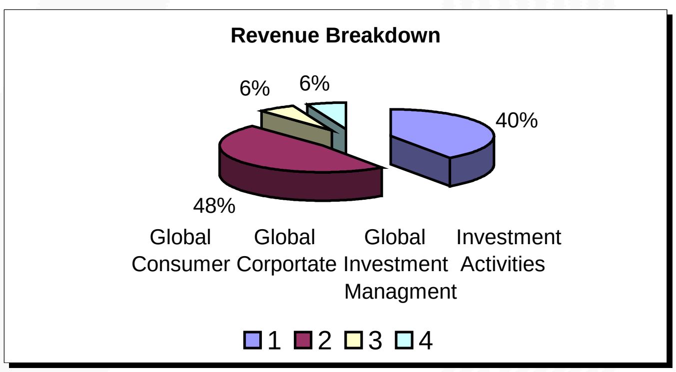
This segment deals with management the assets of mutual funds, institutions, and individual investors (including personalized wealth management for high net worth clients). This segment is comprised of the Salomon Smith Barney Citi-Asset Management Group and the Citibank Private Bank. These groups offer products, like mutual funds and annuities, from investment centers worldwide, to institutional, high net worth, and retail clients.

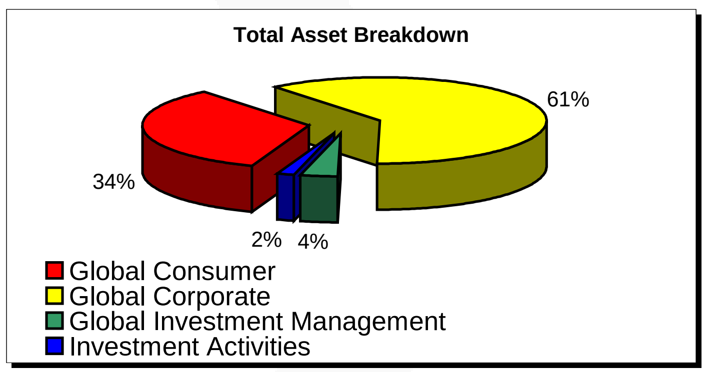
Investment Activities (6% of taxable income)

The Investment Activities segment contains the venture capital unit and the "realized investment gains and losses related to certain corporate- and insurance-related investments" unit.

Year 2000 Performance

For the nine months ended 9/30/00, total interest income rose 17% to $39.16 billion. Net interest income after loan loss provisions rose 8% to $13.82 billion. The company reported an 11 percent rise in its net profit to $3.3 billion in the fourth quarter of 2000. Asia was their highest growth region in 2000, with new client acquisitions rising over 25 percent.





Industry Analysis

Overall, the financial services industry has seen prosperity by recent interest rate cuts, leading to increased earnings and borrowing. The rate cuts have also led to increased purchases of financial stocks. Banks with the broadest product mix will likely have an easier time registering top line growth. More fee-based products should help the big financial companies to weather economic downturns, credit quality cycles, and lending and interest swings. Banks will look to expand and diversify its segments. Competitiveness has increased in the industry due to consolidations.

On the other hand, lay-offs are expected due to the bearish outlook of the economy and the restructuring of firms due to mergers and acquisitions.

The large banks have an advantage over the long run due to deregulation within the industry. Regional banks are losing assets to the more dominant players in the industry. They are responding to this by forming alliances to offer customers competitive Internet services.

Consumer Factor
The Consumer Federation of America says credit card offers surged 14% in 2000, although many consumers said no to those offers. Credit card market is highly saturated. Competition among banks is fierce. Citigroup holds the number one position in the industry followed by MBNA and Bank One. Consolidation has concentrated about 85 percent of credit card receivables into the hands of the top 15 banks. Consumers are expected to benefit from bank consolidations with lower banking costs, broader services, and greater convenience.

Consumer spending, low unemployment levels, and consumer confidence levels are major factors in this industry. Good statistics mean A/R growth and low delinquency rates. Consumer confidence is down to its lowest levels in more than four and a half years. Factors include a trend of corporate layoffs and a bear market. In response to these levels, the Federal Reserve has cut short-term interest rates by one full percentage point in January to 5.5 percent and it's expected to be cut even more in the hope that it will provide a barrier from a full fledged recession. U.S. housing reported that the sales of new homes plunged to 10.9 percent in January, the lowest level in 11 years even though mortgage rates are falling.

Consolidation
Competition and the elimination of depression-era barriers to cross-ownership between banks, securities firms and insurance companies through the Gramm-Leach Bliley Act of 1999 set the pace for consolidation in the financial services industry in 2000. This act repealed the Glass-Steagall Act of 1933, which separated the main sectors of financial services, establishing them as separate lines of commerce. It modified portions of the Bank Holding Company Act to allow affiliations between banks and insurance underwriters. The new law requires banks that get into new activities to set up holding companies, separating the traditional banking operations from the newly acquired activities.

There was an overall wave of consolidation in the financial services industry in 2000. According to the Securities Industry Association, 102 mergers or acquisitions of securities firms had been completed or announced by mid-October of 2000. The biggest deals included Chase Manhattan's $36 billion merger with JP Morgan, UBSAG's $16.5 billion bid for Paine Webber Group and Credit Suisse First Boston's $13.5 billion offer for Donaldson, Lufkin & Jenrette. Many of the big banks in the US are buying up financial institutions abroad, most notably in the United Kingdom. Although, many firms are realizing that there are not enough factors of efficiency gained to offset the huge cost and operational issues associated with becoming a fully diversified financials entity. Drops in interest rates will help those banks that are in search of potential mergers and acquisitions to have more spending power.

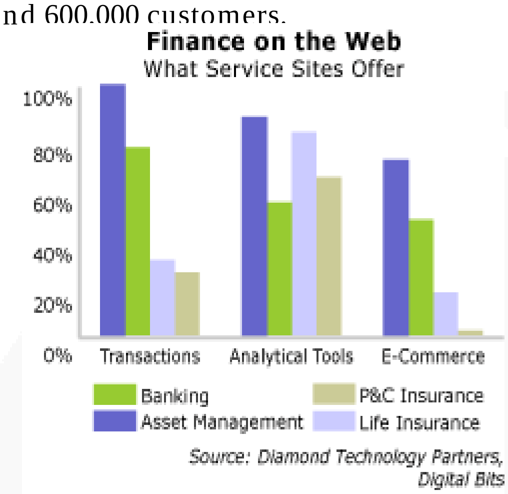
Globalization
With the boost from consolidation, one of the biggest trends in the financials industry is the move of firms going worldwide. The key points to look for in potential overseas markets are the development of the middle class and loosening government regulations. Countries like China are seen as a potential high growth/profit market. Looking ahead to the future, firms are projecting higher revenues and income from countries outside

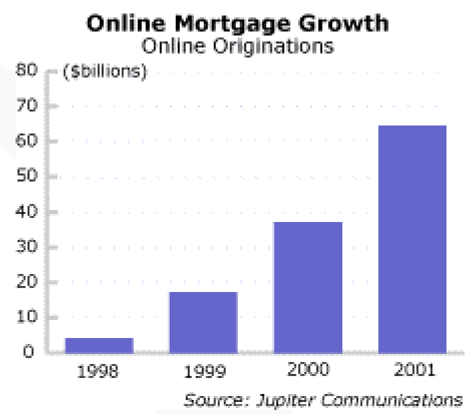
the U.S. Many in the industry see that the rapid growth phase in the U.S. is at its end. This trend seems to be in the long-term growth strategy of many firms within the industry although taking advantage of this new trend will require firms to deal with intense and rapidly changing environments.

Online Market

The revolution of the Internet has yet to fully assimilate consumers into integrating into its featured services. Electronic payments are expected to grow more than 20 percent each year through 2010. This saves financial institutions, governments, and corporations costs of paper-based billing and payment methods. The availability of prices and rates on the Internet has provided a convenient method for consumers to compare businesses and what they offer. The home mortgage market looks promising from the benefits of the Internet. The Internet can help consumers shop and learn about the market and apply for loans online.

According to the FDIC, the Internet overall, has $6.1 trillion in assets and $4 trillion in deposits. Although, it is predicted that the number of US consumers banking online will leap from 13.1 million in 2000 to 43.5 million in 2005. As the baby boomer segment increases in the next decade, more will look towards the Internet for financial advice and planning for retirement. Wells Fargo leads the industry with more than 2.5 million online banking customers. Bank of America is second with 800,000 users, and Citigroup and Fleet Bank each have around 600,000 customers.





Many newcomers are attempting to get a share of the online banking market by one-upping established rivals by providing incentives. Some are offering incentives such as no minimum balance, no ATM fees, and free bill payment. Some are also tapping into the insurance market by offering online quotes for auto, health, home and life insurance. E*Trade, best known as an online brokerage with more than 3 million accounts, also has been aggressively expanding into other services such as banking and mortgage services, often through acquisitions of other Internet-based firms.

Brokerage firms operating online are seen as the norm today. Those like Charles Schwab, pioneered traditional brokerages entering the online market early and are benefiting from this, although those like Merrill Lynch, Prudential, and Morgan Stanley are lagging in online market share. The top online brokerages like E*Trade, Fidelity, and Charles Schwab hold about 96 percent of all electronic brokerage accounts.

Bankruptcy

Consumers are continuing to file for bankruptcy at an alarmingly high rate. In 1999, about 1.28 million consumers (97% of total bankruptcies filed in '99) filed for bankruptcy. This is almost a 50% increase since 1995, causing higher charge-offs and American families to pay an additional $400 a year in increased costs of goods and services. Consumers who pay their bills end up subsidizing for those who don't. Factors causing high consumer bankruptcies are divorce trends, lack of medical insurance, and loans.

Bankruptcy reform focused on a need-based system. This is a priority issue in the finance industry. Large bipartisan majorities of both the House and Senate adopted comprehensive bankruptcy reform legislation at the end of the 106th Congress ('99-'00) although President Clinton vetoed it. The reform calls for debtors to pay instead of eliminating their debts. Consumers with high disposable incomes will find it more difficult to eliminate unsecured debts in bankruptcies.

Money Laundering
It is estimated that $500 billion to $1.5 trillion dollars a year pass through the global financial system. Regulators have warned many global financial institutions here in the U.S. to focus on the issue of tightening monitoring requirements when dealing with offshore banks and institutions. The U.S. Senate investigators cited firms from a year-long investigation. Those mentioned were Citigroup, Bank of America, JP Morgan Chase, Bank of New York, and First Union Corp. Investigators cited that these firms were too quick to open accounts (so-called "correspondent" accounts) for shadowy offshore ("shell") banks.

Discounted Cash Flow Analysis

The DCF model uses a percentage of sales for calculating expenses, changes in net working capital, capital expenditures, and depreciation. Revenues were separated into two parts, consisting of interest income and noninterest income. This was done because revenues incurred from the company arise from these two main segments that differ in growth. Expenses were also separated into interest expense and noninterest expenses. We came up with a declining growth rate due to the fact that the company can only grow so much before experiencing decreasing returns.

We assumed that expenses, depreciation, capital expenditures, and changes in net working capital will all continue to reflect, close to, the same percentage of sales growth as they averaged over the last couple years. Finally, we used a terminal rate of 3% after 2005, and were able to calculate an implied share price of $24.04. As of March 6th the Citigroup is currently trading around $49 a share.

Comparables Valuation

For our comparables analysis we faced some challenges. The main problem was how the market was valuing Citigroup. Citigroup is a market leader in its industry. They deal in every aspect of the financial market from “cradle to grave.” Looking at its competitors, we saw some major discrepancies between how the market valued Citigroup and how they valued their rivals.

In order to try and better understand the premium the market places on leaders in their industry, as well as companies that deal in every aspect of their market, we did two analyzes. The first one was done with Citigroup in comparison to its close competitors; the second one was where we put a unique spin on the analysis. For this one we found three other companies that were market leaders and also took the same “cradle to grave” approach to their industry.

Analysis One:
For this analysis we found three global banks that dealt in all four of Citigroup's businesses. We used the standard ratios of Price-to-Sales, Price-to-Book, and Price-to-Revenue and weighted all equally in our implied price per share. Implied share price = **$25.87**

JP Morgan Chase & Co. (JPM NYSE))
The second largest in the US, behind Bank of America -- was formed in the merger of investment bank JP Morgan and commercial bank Chase Manhattan. They are a global institution dealing commercial, consumer, asset management, insurance and investment banking services to clients. The company is one of the nation's largest mortgage loan originators and credit card issuers.

Bank of America (BAC NYSE)
Formed by the merger of NationsBank and BankAmerica, this bank ranks #1 in the US. The company has many segments including consumer banking, commercial banking, global corporate and investment banking, and principal investing and asset management. Also like JPM and C, they have a major presence in many countries.

Bank One (ONE NYSE)
Bank One, is the 4th largest bank in the US behind BAC, JPM, and C. The company is also the second-largest issuer of credit cards next to Citigroup. Its other worldwide business segments include commercial, corporate, and institutional banking; services for retail and small-business customers, loan and leasing services; and investment, brokerage, and insurance services.

Analysis Two:
For our second analysis, we found three extremely dominate companies that use the same "cradle to grave' approach of Citigroup. We used the standard ratios of Price-to-Sales, Price-to-Book, and Price-to-Revenue, however, due to General Electric's extremely high ratios and market cap, we lowered the percent weighting in out implied price. Implied share price = **$51.85**

20% Weighting:

General Electric (GE NYSE)
General electric is #1 or #2 in a range of industries, from broadcasting to power plant parts manufacturing. The diversified company produces aircraft engines, locomotives and other transportation equipment, appliances (kitchen and laundry equipment), lighting, electric distribution and control equipment, generators and turbines, nuclear reactors, medical imaging equipment, and plastics.

40% Weighting:

Exxon Mobil (XOM NYSE)
Exxon Mobil is the world's #1 integrated oil company. They engage in all aspects of the oil industry including oil and gas exploration, production, supply, transportation, and marketing around the world. Exxon Mobil also produces and sells petrochemicals, and it has interests in coal mining, minerals, and electric power generation.

Alcoa (AA NYSE)
Alcoa is the world's #1 aluminum manufacturer, as well as, the world's largest producer of alumina (aluminum's principal ingredient, made from bauxite). Alcoa's operations include bauxite mining, alumina refining, and aluminum smelting. Primary products include alumina and its chemicals, automotive

components, and sheet aluminum for beverage cans. The company also supplies aluminum in various forms to the packaging, automotive, construction, and aerospace industries

Financial Statement Analysis

We felt our valuation summary could not be completed without some additional information.
Leases are off balance sheet contractual obligations that Citigroup must pay. Other then financing leases, Citigroup is also a major user of leases. At the end of '99 C's future minimum rental commitments under these leases are listed below:

Leases (#s in Millions)

Year		Obligation
	2000	$ 904
	2001	$ 817
	2002	$ 691
	2003	$ 570
	2004	$ 500
Thereafter		$ 2,936
Total Leases		$ 6,418

Another factor we wanted to mention was Citigroup's pension plan and it's funding. As of '99 Citigroup's pension plan was over funded by over 1.6 billion dollars, in other words in '99 they had 1.6 billion dollars just sitting around. This was probably due to the optimal market conditions in the past couple of years. However, due to the recent downturn in the market, their plan is mostly likely now under funded and thus they might now owe their employees.

Pension Obligations for 1999

Accumulated Pension Benefit Obligations	$ 7,623	Million
FMV of Pension Plan Assets	$ 9,301	Million
Total Unrealized Gain	$ 1,678	Million

Recommendation

Taking all of our research into consideration we feel that the market has placed too high a premium on Citigroup. We know that in our second comparable analysis the implied share value was a lot higher then the actual price. However, both our DCF and our first comparable analysis point to an over valuation. We believe that the market should place a premium on Citigroup compared to its close competitors, however, not a 100% mark up, as our first comparable analysis shows. With the DCF we could not find any information on future plans Citigroup has to increase their sales growth past their acquisition activity and their strive for globalization. Placing more weight on the DCF and the first comparables, we recommend a **HOLD** on the company.

"Competitors"

	BAC	JPM	ONE	Mean	C	Implied Price
Beta	1.28	1.23	1.43		1.27	
Market Cap (Billions)	78.5	91.9	39.7		244.3	
Price to Earnings	10.7	16.83	N/A	13.77	18.4	$ 15.59
Price to Revenue	1.46	1.61	1.83	1.63	2.98	$ 14.54
Price to Book	1.680	2.230	2.080	2.00	4.21	$ 47.48
Total Implied Price						**$ 25.87**

Market Leaders

	GE	XOM	AA	Mean	C	Implied Price
Beta	1.22		1.12		1.27	
Market Cap (Billions)	475.4	291.3	31.2		244.3	
Price to Earnings	37.75	18.07	19.85	22.72	18.4	$ 25.73
Price to Revenue	3.71	1.27	1.28	1.76	2.98	$ 15.68
Price to Book	9.96	4.28	2.74	4.80	4.21	$ 114.15
Total Implied Price						**$ 51.85**

	1995A	1996A	1997A	1998A	1999A	2000E	2001E	2002E	2003E	2004E	2005E
Interest Income	37,127	37,798	42,101	46,239	44,900	53,445.60	63,600.26	75,684.31	89,685.91	106,277.81	125,407.81
Non Interest Income	21,830	27,666	30,205	30,192	37,105	45,161.10	55,096.54	67,217.78	81,333.52	98,413.55	118,096.26
Interest Expense	22,390	21,336	24,524	27,495	24,765	27,831.90	35,609.04	42,870.63	50,450.73	60,383.95	70,616.18
Non Interest Expense	25,477	30,841	34,835	36,916	38,452	43,251.80	53,413.56	64,305.94	80,379.13	96,204.94	119,317.00
Income Before LP	11,090	13,287	12,947	12,020	18,788	27,523.00	29,674.20	35,725.52	40,189.57	48,102.47	53,570.90
Loan Loss Provision (LP)	2,176	2,200	2,197	2,751	2,837	2,982.09	4,154.39	5,358.83	6,413.23	8,187.65	9,740.16
Net Income	8,914	11,087	10,750	9,269	15,951	24,540.91	25,519.81	30,366.70	33,776.34	39,914.82	43,830.73
Dep & Amort	1,904	2,374	2,642	2,979	3,327	8,280.36	5,341.36	6,430.59	7,695.87	9,211.11	10,957.68
Tax Rate	34.90%	35.70%	37.20%	37.60%	38.00%	38%	38%	38%	38%	38%	38%
After Tax Income	4,564	5,602	5,092	3,925	7,827	10,082	12,511	14,840	16,170	19,036	20,381
Capital Exp	1,360	1,596	1,533	1,805	1,572	3,397.55	4,747.87	5,716.08	6,840.78	8,187.65	9,740.16
Change in NWC	(276)	(207)	924	4,530	4,020	3,653.00	7,121.81	8,574.13	10,261.17	12,281.48	14,610.24
Add Dep & Amort	1,904	2,374	2,642	2,979	3,327	8,280.36	5,341.36	6,430.59	7,695.87	9,211.11	10,957.68
Free Cash Flow	5,384	6,587	5,277	569	5,562	11,311	5,982	6,981	6,764	7,778	6,989
Terminal Value											135,609
PV of Future CF						11,311	5,482	5,861	5,204	5,484	4,515
						87,608					

Number of Shares	5.03 Billion
Return on Debt	6.51%
Beta	1.28
Market Premium	7.00%
Risk Free Rate	5.00%
CAPM	13.96%
Weight of Equity	51.34%
Weight of Debt	48.66%
WACC	9.13%
Terminal Value	3%
Implied Price	24.05

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Interest Income		21.09%	8.41%	-0.04%	18.63%	19.03%	19.00%	19.00%	18.50%	18.50%	18.00%	18.00%
Non Interest Income		26.73%	9.18%	-0.04%	22.90%	21.71%	22.00%	22.00%	21.00%	21.00%	20.00%	20.00%
Interest Expense	37.98%	32.59%	36.06%	35.97%	30.20%	28.23%	30.00%	30.00%	29.50%	29.50%	29.00%	29.00%
Non Interest Expense	43.21%	47.11%	48.18%	48.30%	46.89%	43.86%	45.00%	45.00%	47.00%	47.00%	49.00%	49.00%
Income Before LP	18.81%	20.30%	17.91%	15.73%	22.91%	27.91%	25.00%	25.00%	23.50%	23.50%	22.00%	22.00%
Loan Loss Provision (LP)	3.69%	3.36%	3.04%	3.60%	3.46%	3.02%	3.50%	3.75%	3.75%	4.00%	4.00%	4.00%
Net Income	15.12%	16.94%	14.87%	12.13%	19.45%	24.89%	40.13%	21.25%	19.75%	19.50%	18.00%	
Dep & Amort	3.23%	3.63%	3.65%	3.90%	4.06%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Tax Rate	34.90%	35.70%	37.20%	37.60%	38.00%	38.00%	38.00%	38.00%	38.00%	38.00%	38.00%	38.00%
After Tax Income	7.74%	8.56%	7.04%	5.14%	9.54%	12.25%	10.54%	10.39%	9.46%	9.30%	8.37%	8.37%
Capital Exp	2.31%	2.44%	2.12%	2.36%	4.24%	5.14%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Change in NWC	-0.47%	-0.32%	1.28%	5.93%	4.90%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Add Dep & Amort	3.69%	3.36%	3.04%	3.60%	3.46%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Operating Cash Flow	9.13%	10.06%	7.30%	0.74%	6.78%	11.47%	5.04%	4.89%	3.96%	3.80%	2.87%	2.87%