

Blyth Fund Citigroup Watch List Proposal

Date: 4/17/03
Proposal: Citigroup Watch List Proposal
Ticker: C
Current price: \$ 38.26 (as of 4/16/03)
Analysts: Amrita Nath & John Fogelsong
Profile: Citigroup Inc. is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers with some 200 million customer accounts in over 100 countries and territories. The Company's activities are conducted through the Global Consumer, Global Corporate and Investment Bank (GCIB), Private Client Services, Global Investment Management (GIM) and Proprietary Investment Activities business segments. In August 2002, Citigroup completed the spin-off of Travelers Property. In November 2002, the Company acquired Golden State Bancorp, the parent of California Federal Bank, which had 352 branches in California and Nevada.
(From Yahoo! Finance)

Key Numbers

Market Cap:	198.7 B	P/E (Current):	14.43
Shares Outstanding:	5.17 B	P/Sales:	3.27
Book Value:	16.60	P/Book:	2.32
Net Margins:	22.36%	PEG Ratio:	0.99
ROE:	14.78%	Debt:	290.10 B
ROA:	1.16%	Debt/Equity:	1.46
Cash:	17.3 B	EPS (02)	2.37
Dividend:	0.80	RPS (02):	11.70
Dividend Yield:	2.08%	Payout Ratio	27.34

Financial Growth Rates:

Sales: -8.60% (1 year) 2.34% (3 year)
 EPS: 1.25% 4.75%
 Div: 16.67% 20.00%

EARNINGS PER SHARE

Quarters	1999	2000	2001	2002
MAR	0.510	0.750	0.700	0.930
JUN	0.540	0.650	0.550	0.460
SEP	0.540	0.670	0.620	0.720
DEC	0.580	0.200	0.619	0.397
Totals	2.170	2.270	2.489	2.507

(From Multex)

Business Overview

Citigroup Inc. was formed in 1998 by a merger of Citicorp and Travelers Group. It is organized into the following groups:

1. Citigroup Global Consumer Group
2. Global Corporate and Investment Banking Group
3. Global Investment Management
4. Smith Barney

Citigroup Global Consumer Group

The Global Consumer businesses serve individual consumers and small businesses and include Cards, Consumer Finance, and Retail Banking.

Cards: (% of Revenues 25%)

Citigroup provides MasterCard, VISA, and private-label credit and charge cards to customers in 47 countries across the globe. North America Cards includes Citi Cards, the company's primary brand in North America, as well as Diners Club N.A. and Mexico Cards. International Cards provides credit and charge cards to clients in Western Europe, Japan, Asia, CEEMEA, and Latin America.

Citigroup generally operates in the prime and super-prime part of the credit spectrum and its main comparables include similar high asset quality companies such as MBNA and American Express.

Citigroup has been a leading player in the credit card business for a number of years, since its innovative initiation of a national card business in the early 1970s. Its institutional experience and scale with this product is almost unparalleled and its focus on operational improvements and revenue growth has continued to drive earnings growth despite deep-seated concerns about market saturation. Citi expanded overseas two decades ago, and in many countries, quickly surpassed American Express, its closest competitor, in market share and profitability in a series of countries. Citigroup's size, scale and local expertise enable it to profitably acquire, retain, and serve consumers. Citigroup appears to have the ability to continue to increase profits and expand outside the United States where growth opportunities are more common and its competitors may be somewhat hesitant to expand.

Consumer Finance: (% of Revenues 13%)

Consumer finance offers community-based lending services through branch networks, regional sales offices and cross-selling initiatives with other Citigroup businesses. It provides real estate-secured loans, unsecured and partially secured personal loans, auto loans and loans to finance consumer goods purchases. In addition, CitiFinancial, through various subsidiaries and third parties, supplies various credit-related and other insurance products to its customers in the United States.

This operation was the original business of Commercial Credit, the company that evolved into Travelers Group, one of the two main parties involved in the 1998 merger. Citigroup's management has successfully followed Commercial Credit's trend of expanding both through organic growth and acquisitions. It has become the largest consumer finance company in the United States and Canada.

CitiFinancial's expertise in successful client acquisition, automated underwriting and relationship monitoring, and efficient infrastructure grants it a competitive advantage. An efficient cost structure and Citigroup-backed funding should enable consumer finance to continue to generate attractive returns.

Retail Banking: (% of Revenues 18%)

Retail banking offers banking, lending, investment and insurance services to customers through retail branches and electronic delivery systems. In North America, retail banking spans the operations of Citibank North America, Consumer Assets, Primerica Financial Services (Primerica) and Mexico Retail Banking. The Consumer Assets business originates and services mortgages and student loans for customers in the United States. The business operations of Primerica involve the sale, mainly in North America, of life insurance and other products manufactured by its affiliates, including CitiFinancial mortgages and personal loans. Mexico Retail Banking consists of the branch banking operations of Banamex. International Retail Banking provides full-service banking and investment services in Western Europe, Japan, Asia, CEEMEA and Latin America.

Global Corporate and Investment Banking Group

Global Corporate and Investment Bank GCIB: (% of Revenues 21%)

The GCIB provides investment banking and commercial banking services and products, including the underwriting and distribution of fixed-income and equity securities for U.S. and multinational corporations and for state, local, and other governmental and government-sponsored authorities. It also offers capital raising, advisory, research, and other brokerage services and executes securities and commodities futures brokerage transactions on all major U.S. and international exchanges on behalf of its customers. In addition, it provides loans, leasing, and equipment finance.

Its main competitors are Goldman Sachs, Merrill Lynch, Morgan Stanley and Lehman Brothers. Its international network is still unique in its extent. For the past five quarters, Citigroup has emerged the top debt and equity underwriter.

Global Investment Management

Life insurance and annuities: (% of Revenues 6%)

This segment includes Travelers Life and Annuity (TLA) and International Insurance Manufacturing (IIM). TLA provides individual annuity, group annuity, individual life insurance and corporate-owned life insurance products. The IIM business offers credit, life, disability and other insurance products, as well as annuities internationally. IIM primarily has operations in Mexico, Western Europe, Latin America and Asia.

Citigroup Private Bank:

The Private Bank offers personalized wealth management services to high-net-worth individuals in 132 offices in 36 countries and territories. It generates fee and interest income from investment funds management, client trading activity and traditional banking and lending activities. Through its private bankers and product specialists, the private bank provides clients with comprehensive investment and banking services.

Asset management: (% of Revenues 3%)

With approximately \$450 billion assets under management, this segment includes Citigroup Asset Management, Citigroup Alternative Investments, Banamex asset management and retirement services businesses and Citigroup's other retirement services businesses in North America and Latin America. These offer institutional, high net-worth and retail clients a broad range of investment alternatives from investment centers located throughout the world. Products and services offered include mutual funds and alternative investments (including hedge funds, private equity and credit structures), variable annuities through affiliated and third-party insurance companies and pension administration services.

Smith Barney

Smith Barney: (% of Revenues 7%,)

Smith Barney is Citigroup's private wealth management and equity research unit. It offers investment advice, financial planning and brokerage services to small and mid-size companies, institutions, non-profits and large corporations. It accomplishes this task primarily through a network of more than 12,600 Smith Barney financial consultants in over 500 offices worldwide. It supplies independent client-focused research.

Much of Smith Barney's revenue is generated from fees earned by managing client assets, as well as commissions earned as a broker for its customers in the purchase and sale of securities. In addition, it generates revenue by financing customers' securities transactions and other borrowing needs through security-based lending. It also receives commissions and other service revenues through the sale of proprietary and third-party mutual funds. One of the largest and most productive group's of its kind in the United States, Smith Barney has been able to cut costs to keep expenses in line with revenues.

Solid Corporate Management

Sanford I. Weill, 69

- Chairman and Chief Executive Officer, Citigroup Inc. - 1998 to present
- Member of the Office of the Chairman - 1999 to present
- Chairman of the Board and Chief Executive Officer, Travelers Group - 1986 to 1998
- President, American Express Company - 1983 to 1985
- Chairman of the Board and Chief Executive Officer, American Express Insurance Services, Inc. - 1984 to 1985
- Chairman of the Board, Shearson Lehman Brothers Holdings Inc. - 1984 to 1985
- Chairman of the Board and Chief Executive Officer, or a principal executive officer, Shearson Lehman Brothers Inc. - 1965 to 1984
- Founding Partner, Shearson Lehman Brothers Inc.'s predecessor partnership Carter, Berlind, Potoma & Weill - 1960 to 1965, a period in which it completed over 15 acquisitions to become the country's second largest securities brokerage firm

Robert B. Willumstad, 57

- President – 2002 to present.
- Chairman & CEO, Global Consumer Group – December 2002 to present.
- President & CEO, Citicorp/Citibank, N.A.
- Prior to the formation of Citigroup, he was Chairman and CEO, Travelers Group Consumer Finance Services
- Joined CitiFinancial (then named Commercial Credit) in 1987. He played a crucial role in expanding Commercial Credit in less than 10 years from a small consumer finance company with just \$2.4 billion in consumer receivables and some 400 branches, into one of the industry's leaders with more than \$50 billion in receivables and more than 2,000 branches.
- Vice Chairman of the Board of Directors of MasterCard International. He also serves on the Board of Directors for the Financial Services Roundtable (FSR), an industry association.

Robert E. Rubin, 64

- Director, Chairman of the Executive Committee and Member of the Office of the Chairman of Citigroup Inc – 1999 to present.
- Co-Senior Partner and Co-Chairman from 1990 to 1992, Goldman, Sachs & Company in New York City in 1966.
- Assistant to the President for Economic Policy in the Clinton Administration. Directed the activities of the National Economic Council, oversaw the Administration's domestic and international economic policymaking process, coordinated economic policy recommendations to the President, and monitored the implementation of the President's economic policy goals.
- 70th Secretary of the Treasury. Played a leading role in many of the nation's most important policy debates. He was involved in balancing the federal budget; opening trade policy to further globalization; acting to stem financial crises in Mexico, Asia and Russia; helping to resolve the impasse between the Congress and the Executive Branch over the public debt limit; safeguarding the nation's currency against counterfeiting; introducing inflation-indexed securities; strongly responding to issues at Treasury's law enforcement agencies; and guiding sensible reforms at the Internal Revenue Service.

Michael A. Carpenter, 55

- Chairman and Chief Executive Officer, Citigroup Global investments; member of the Citigroup Management Committee.
- Previously Chairman and Chief Executive Officer of Citigroup's Global Corporate & Investment Bank, with responsibility for Salomon Smith Barney Inc., one of the world's leading investment banks and brokerage houses, and Citibank's corporate banking activities around the world. The combination created the preeminent corporate and investment banking institution and what many have called the new model for financial services companies. Mr. Carpenter was named Chairman and CEO of Salomon Smith Barney in November 1998, shortly after the merger that created Citigroup.
- Previously, Chairman and CEO of Travelers Life & Annuity and Vice Chairman of Travelers Group Inc., responsible for business development/planning and advertising/marketing.
- Prior to this position, from January 1989 to June 1994, he was Chairman of the Board, President and CEO of Kidder, Peabody Group Inc., a wholly owned subsidiary of General Electric Company.

Concerns

Citigroup's significant international presence in over 110 countries might negatively impact its earnings and/or stock price as it makes the corporation particularly susceptible to the political policies and developments in these countries. An example of this is the economic situation in Argentina.

Citigroup and its affiliates have recently been plagued by legal conflicts. A major scandal hit Wall Street last year when banks were alleged with misleading investors through stock bias in research. Since December 2002, U.S financial regulators have probed whether stock analysts deliberately issued overly optimistic reports designed to win investment banking assignments from clients. Citigroup, Credit Suisse Group and several other investment banking companies have been implicated and have to face a \$1.5 billion settlement between Wall Street's investment banks and state and federal securities regulators for the alleged use of deceptive stock research. Under terms of the settlement, Citigroup Inc. and nine other investment banking companies agreed in principle to pay \$900 million in fines and restitution, \$450 million to fund independent research and \$85 million for investor education. Citigroup is expected to pay \$400 million, including \$300 million in fines and restitution.

Citigroup, its affiliates, SSB, certain executive officers and current and former employees were named as defendants in a number of lawsuits, filed since May 2002, related to Enron and WorldCom. In addition, Citigroup and members of its board of directors were named as defendants in shareholder derivative complaints. As recently as last week, on April 11th, several Vanguard Group funds sued Citibank and Salomon Smith Barney, accusing them of participating in a fraud that induced the funds to buy more than \$70 million in Enron-linked notes that are now worthless. The Vanguard funds purchased \$65 million of the notes in a private offering in November 1999 and subsequently made additional purchases of \$5.7 million. Enron filed for bankruptcy in December 2001. The funds seek full payment of principal and interest on the notes.

Continued legal proceedings could negatively impact the price of the stock and in the long run, could prove to be extremely detrimental to Citigroup's reputation and investor confidence.

Reasons To Invest

Citigroup, the largest U.S. Financial Services corporation in terms of market capitalization and America's first trillion dollar company in terms of assets, continues to strengthen its position as the leading provider of global financial services. It appears to be able to withstand a protracted slowdown in the economy and the markets.

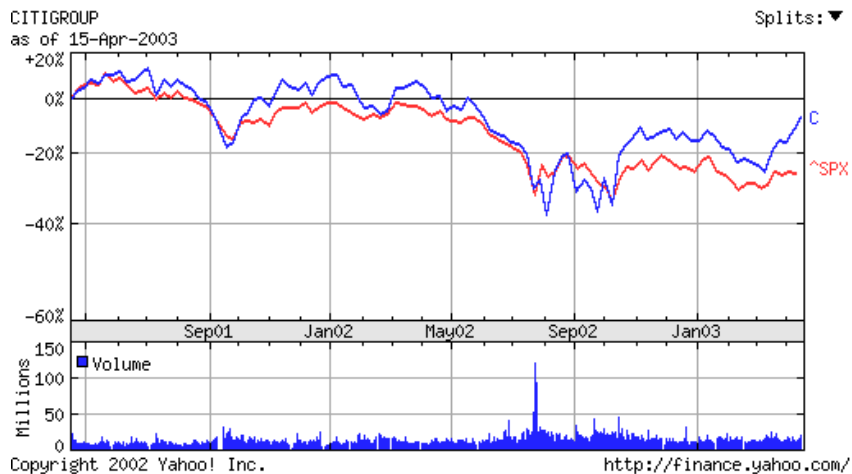
Its business philosophy – to be “the” key financial giant – a corporation that can fulfill all the financial needs of its clients, seems to have served it well thus far and there does not appear to be any overwhelming reason as to why it should not do so in the future as well.

Its management team, comprising individuals who have extensive experience across a wide range of areas including the successful management of a large number of acquisitions, the functioning of international markets and government policy formulation within the U.S., appear capable of maintaining a good track-record for Citigroup. Furthermore, almost the entire top-tier management consists of individuals who have had a long and successful association with the companies that merged into Citigroup and in this sense have a strong allegiance to the corporation.

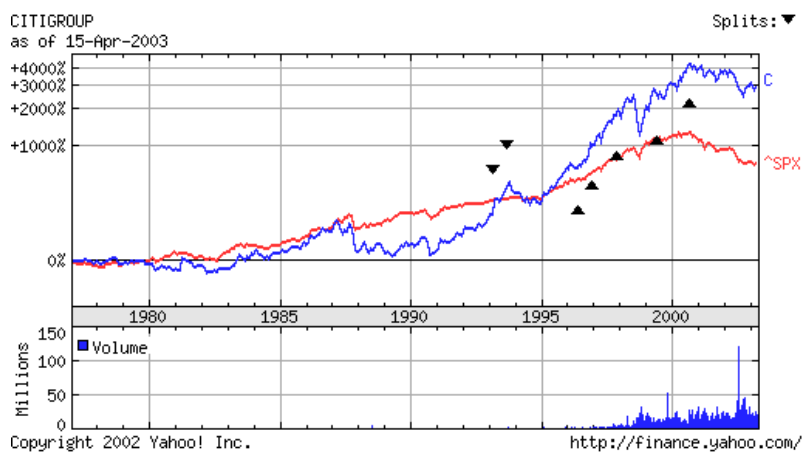
Citigroup's recent implication in a major Wall Street scandal does not appear to have had an adverse effect on its stock price which speaks well of overall investor confidence. A possible explanation for this confidence, besides the company's strong fundamentals and accomplished management team, could be the reforms that Citigroup has instituted in the past year. For instance, in May 2002 it was the first firm to accept principles related to analyst independence established between the New York Attorney General and Merrill Lynch. These principles were aimed at ensuring that analyst compensation was not linked to investment banking. In October 2002 it split its equity research and private client brokerage service from its investment banking unit. Smith Barney, including the Global private client group (wealth management) as well as Global equity research emerged a distinct entity in order to ensure that equity research would function independently of corporate and investment banking and underwriting. In November 2002, Citigroup unilaterally adopted Interim Research Integrity Guidelines which introduced measures such as prohibiting research analysts and investment banking personnel from having ordinary course discussions unless these had been specifically approved by Research Management.

Citigroup Inc., a blue-chip company with strong fundamentals and an impressive track record, should prove to be a sound long-term investment.

Citigroup v S&P (2 Years)



Citigroup v S&P (pre 1980 to present)



Citigroup (1 year)

