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Dear Frank:

Here are some thoughts to accompany the materials we are sending you for the month of July. (I did not send a letter for the month of June since we had just discussed those results at our offsite in July).

Overall, the credit markets are in turmoil and those problems are impacting the equity and foreign exchange markets. This has affected all financial stocks, including our own: since the turmoil started in mid-July, the S&P 500 Financial Services has deteriorated 9% while our stock has gone down by 11%*. These problems are continuing and, in all likelihood will be with us for a period of time (see below). The size and strength of our company makes us a bellwether in these difficult times.

Before getting into the current credit market issues, let me review the current month financials, which are detailed in Attachment A.

Financial Highlights

Our financial performance, even in the face of the credit difficulties, was strong in July, with **Net Income** from continuing operations up 23% over July of 2006.

Revenues were up 18%, with strong performances in International Consumer** and Global Wealth Management. US Consumer also continued its steady revenue growth recovery. The early stages of the credit market difficulties are reflected in negatives booked in the revenue line (note that CM&B

* For the period 07/13 through 08/10. For additional comparison, the following competitors are showing the indicated declines over the same period: GS (19%), LEH (20 %), MS (18%), JPM (12%), BAC (2%).

**International Consumer, which shows a revenue growth of 62%, includes the gain on the IPO of Redecard. Excluding this gain, revenue growth was 25%.

The early stages of the credit market difficulties are reflected in negatives booked in the revenue line (note that CM&B revenues were down 18% over last July) and in the credit line.

Expenses were up 12%, providing good operating leverage. The headcount management effort announced earlier this year continues on track (see below).

Credit. As I have said repeatedly, credit is a headwind this year and this month is no exception, with credit costs this month up 36% over last year. This was mainly driven by our US Real Estate business and our International Consumer businesses, a good portion of the latter coming from the addition of reserves accompanying recent acquisitions.

While we were satisfied with our results for July, our expectations for the full quarter are very cautious. In our forecast we expect a significant downturn in volumes for CMB and CAI. We are initiating actions that will partially offset the impact of reduced volume on profitability but at this point it appears that the third quarter will be significantly impacted by the revenue shortfall, increased credit costs and mark to market losses in our trading and leveraged loan portfolios.

<u>Credit Markets</u>

You have read a great deal about the credit markets. Whatever you have read, the reality is probably worse. On a day by day (sometimes hour by hour) basis, the credit markets shudder and, in pockets, seize up, and then re-open as "bottom-fishers" scoop up the wreckage or central banks add liquidity to the system. There is a sense in the market, fueled by daily rumors, that a big firm might fail. This is supplemented by frequent rumors about hedge funds failing or taking sizeable losses. It is a very difficult – and dangerous – situation, with few historical precedents.

There are two basic credit issues facing the markets: the leveraged lending problem and the sub-prime problem. They are similar in some ways and very different in other ways.

The leveraged lending problem relates to all of the highly publicized buy-outs you've heard about (Chrysler, TXU, First Data, etc.).

The traditional buyers of the high yield paper that has fueled these deals have almost completely pulled back from the markets; in that sense, leveraged lending is similar to the sub-prime issues described below. But, importantly, this should be a (relatively) temporary issue and a (relatively) contained one. The large investment banks, including Citi, have committed to financial sponsors to arrange financing for these deals. No new deals are now being done so the current problem relates to the existing "pipeline" of deals – those that have been contracted for but not yet brought to market. Many of these pipeline deals are scheduled to fund in September and October. This means that the "pain" is concentrated in the banks and the sponsors (how much "pain" will each one have to absorb to get the pipeline deals syndicated or cancelled) and that this issue will be substantially affected by what happens in the next few months. (Of course, the effect on future revenues of how quickly new deals will start again is also important but not today's problem). So far, this problem has more to do with pricing levels than with underlying credit problems.

The sub-prime issue reflects a similar lack of buyers for this type of paper but a more defused problem and a much longer time frame. Sub-prime paper is very widely held (for example, as you will have seen in the media, the German government recently was forced to bail out a small German bank which had a very large exposure to the U.S. sub-prime sector). In addition, the timing of the issue relates not to a pipeline of deals to be issued over the next few months but rather to the effect on individual borrowers and the U.S. economy (especially the effect on the U.S. housing market) of the re-pricing of adjustable rate loans. Current estimates are that approximately $1 trillion in adjustable rate mortgages will be repriced before the end of 2008. No one is able to predict with any confidence what impact the increase in mortgage payments (often, very significant increases) will have on consumer spending and consumer confidence. Thus, it is more likely that the issues for sub-prime loans will play out over a broader set of participants and over an extended period of time, lasting well into next year. A key difference between the problems here and in leveraged loans is that there are fundamental credit issues in sub-prime mortgages.

We have exposures in both leveraged lending and, to a more limited degree, in the sub-prime area (we consciously did not originate these aggressive products in our U.S. Consumer Group but did purchase some as part of portfolio acquisitions and, in CMB, we did underwrite mortgage-backed securities representing sub-prime products originated by others).

We are being approached by a variety of investors seeking "buyouts" – large investors wanting to buy assets from us or with us. This suggests that there remain large sources of liquidity waiting for "the right time" to get back into the markets. Our liquidity and our history of originating transactions are big sources of strength and draw investors to us. We are evaluating these discussions carefully.

The diversity of our platform is key. US Consumer is doing better, thanks to our efforts over the last two years. International Consumer and Global Wealth Management also are doing well, again based on investments we have made in recent years. An important issue for us over the balance of the year will be credit issues in our consumer businesses. We are evaluating our current reserves in light of the evolving situation and will advise more at our September meeting.

Against this backdrop, our liquidity remains strong. We have lengthened the average term of our commercial paper and we have added to our long term funding. These events, however, come just after the tender offer that we made for Nikko Cordial. As a result, our balance sheet ratios are lower than usual. We are evaluating all of the alternatives we have to support our customers' borrowing needs while reducing our leverage. We may need to reduce some assets to accomplish our objectives.

In all, these are very complicated times. The financial system is being tested – we are being tested - and we must be very vigilant.

Other

Headcount Management. Given our discussions at the Board meeting in July, I want to make sure you have current information on our headcount management. Our systems (which you know we are upgrading across the company) presently make reporting headcount on a company-wide basis feasible only on a one-month lag basis. On a **sequential** basis (June 2007 vs. May 2007), we had essentially no increase in BAU headcount, a reduction of about 2,000 people from our expense initiative and an increase of about 14,000 people from acquisitions (primarily NIKKO). On a **year over year** basis (June 2007 vs. June 2006), BAU headcount was up 4% (reflecting headcount increases in the latter part of 2006), 5,000 people have been terminated from our expense initiative, another 5,000 have gone into new branches since last June and 31,000 have joined from acquisitions (primarily NIKKO and Grupo Financiero Uno). The detail is laid out in Attachment B, which we will update monthly for you.

Transactions. In June, we continued to expand our footprint with the following transactions, all of which have been approved by (or discussed with) the Board:

- We completed the acquisition of **Old Lane Partners** which will be a key element in transforming our alternative investments business.
- We announced the acquisition of **Automated Trading Desk** a leader in electronic market making and proprietary trading.
- We announced a strategic partnership that gives Citi the option to acquire up to 50% of the holding company controlling **Banco de Chile**, the second-largest Chilean Bank. Our operations in Chile will be combined with Banco de Chile's leading local banking franchise to create a premier banking and financial services institution with about 20% market share of the Chilean banking industry.

As always, if you have any questions (or thoughts or comments), please give me a call.

Best,

COP/kjl

Financial Summary - July 2007 (Reported)

Attachment A

($ in millions)

Revenue

	Jul 07 Month	*Jul 06 Month*	*% I/(D) vs. PY*	*Jul 07 YTD*	*Jul 06 YTD*	*% I/(D) vs. PY*
US Consumer	$2,640	$2,467	7 %	$18,131	$17,301	5 %
International Consumer	2,735	1,684	62	14,009	11,467	22
International Consumer excl CF Japan	*2,619*	*1,480*	*77*	*13,101*	*10,058*	*30*
Other Consumer	(6)	(9)	37	(3)	(42)	93
Global Consumer	5,369	4,142	30	32,137	28,725	12
Markets and Banking	1,447	1,758	(18)	19,365	15,798	23
Global Wealth Management	1,219	803	52	7,234	5,779	25
Alternative Investments	(21)	186	NM	1,573	1,444	9
Corporate Other	(17)	(87)	81	(222)	(581)	62
Total Revenue	**$7,998**	**$6,803**	**18 %**	**$60,087**	**$51,166**	**17 %**

Expenses

	Jul 07 Month	*Jul 06 Month*	*% I/(D) vs. PY*	*Jul 07 YTD*	*Jul 06 YTD*	*% I/(D) vs. PY*
US Consumer	$1,206	$1,166	3 %	$8,479	$8,285	2 %
International Consumer	1,155	913	27	7,396	6,235	19
International Consumer excl CF Japan	*1,118*	*860*	*30*	*7,130*	*5,832*	*22*
Other Consumer	54	45	22	364	339	7
Global Consumer	2,415	2,123	14	16,239	14,860	9
Markets and Banking	962	1,091	(12)	11,021	10,005	10
Global Wealth Management	867	626	39	5,425	4,642	17
Alternative Investments	76	45	68	471	426	11
Corporate Other	57	31	88	1,650	109	NM
Total Operating Expense	**$4,379**	**$3,916**	**12 %**	**$34,806**	**$30,042**	**16 %**
ex Restructuring				**$33,429**		**11 %**

Cost of Credit

	Jul 07 Month	*Jul 06 Month*	*% I/(D) vs. PY*	*Jul 07 YTD*	*Jul 06 YTD*	*% I/(D) vs. PY*
US Consumer	$356	$317	12 %	$2,951	$1,670	77 %
International Consumer	453	281	61	2,855	1,787	60
International Consumer excl CF Japan	*350*	*187*	*88*	*2,130*	*1,231*	*73*
Other Consumer	-	-	NM	-	-	NM
Global Consumer	809	598	35	5,806	3,457	68
Markets and Banking	(5)	(6)	19	197	167	18
Global Wealth Management	1	(0)	NM	30	13	124
Alternative Investments	-	(0)	NM	1	(13)	NM
Corporate Other	(0)	1	NM	(2)	1	NM
Total Cost of Credit	**$805**	**$593**	**36 %**	**$6,031**	**$3,625**	**66 %**

Net Income

	Jul 07 Month	*Jul 06 Month*	*% I/(D) vs. PY*	*Jul 07 YTD*	*Jul 06 YTD*	*% I/(D) vs. PY*
US Consumer	$678	$592	15 %	$4,213	$4,650	(9) %
International Consumer	753	370	104	2,722	2,720	0
International Consumer excl CF Japan	*766*	*332*	*131*	*2,759*	*2,413*	*14*
Other Consumer	(35)	(32)	(7)	(210)	(192)	(10)
Global Consumer	1,396	929	50	6,725	7,179	(6)
Markets and Banking	408	464	(12)	5,861	4,116	42
Global Wealth Management	205	113	82	1,167	746	56
Alternative Investments	(69)	87	NM	609	697	(13)
Corporate Other	(102)	(96)	(7)	(1,285)	(424)	(203)
Net Income *from Cont. Ops.*	**$1,838**	**$1,498**	**23 %**	**$13,077**	**$12,314**	**6 %**
Net Income	**$1,838**	**$1,572**	**17 %**	**$13,077**	**$12,476**	**5 %**
ex Restructuring				**$13,948**		**12 %**
Diluted EPS:	$0.37	$0.31	19 %	$2.62	$2.49	5 %
Diluted EPS: (ex Restructuring)				$2.79		12 %

ATTACHMENT B

Headcount Report – June 2007

Sequential Month

		%
May 2007	348,586	-
BAU	129	0%
SEI	(1,882)	(1)%
Branch Openings	120	0%
Acquisitions	13,863	4%
June 2007	360,816	4%

Year over Year

		%
June 2006	315,524	-
BAU	14,156	4%
SEI	(5,302)	(2)%
Branch Openings	5,184	2%
Acquisitions	31,255	10%
June 2007	360,816	14%

BAU = Business as Usual

SEI = Strategic Expense Initiative