Global Structured Credit Products

The Way Forward

September 2007

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Overview of Recent Market Developments

- CDO Market has come under significant assault this year prompted by an unprecedented fall in value of its largest asset class - subprime mortgages
- Although not initially anticipated, the anxiety about one asset class resulted in widespread contagion to other asset classes
  - CLOs
  - Credit markets in general
- Leveraged loans and subprime mortgages were historically the 2 largest asset classes in CDOs.
- The CDO market (and more broadly structured credit) had developed as its own distinct market. In early 2007 investors focused sharply on the performance of the underlying CDO collateral.
- The fallout: the price and new issuance of all CDOs was severely impacted – no new issuance of CDOs backed by ABS and a liquidity freeze on existing inventory
- The most significant deterioration in investor appetite is in CDO products with subprime mortgage exposure, especially 2006 and 2007 vintages

Development of CDO Market

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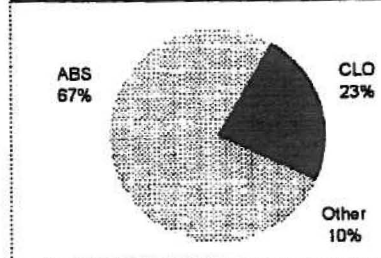
- The CDO market developed with a capital markets and balance sheet business model
  - Underwriters warehoused collateral assets and distributed CDO liabilities and equity at the time of deal execution
- Citi's balance sheet was historically an important part of our CDO business model
  - Desk would takedown selected parts of the capital structure, e.g. super senior at the same time as deal execution (pricing of debt and equity)
  - The super senior was either fully hedged (typically through the purchase of monoline protection) or left on the balance sheet
- Distribution of CDO debt and equity had fundamentally been one of Citi's strongest attributes
- Aside from the super senior, Citi's CDO business – prior to the subprime fallout – had limited inventory

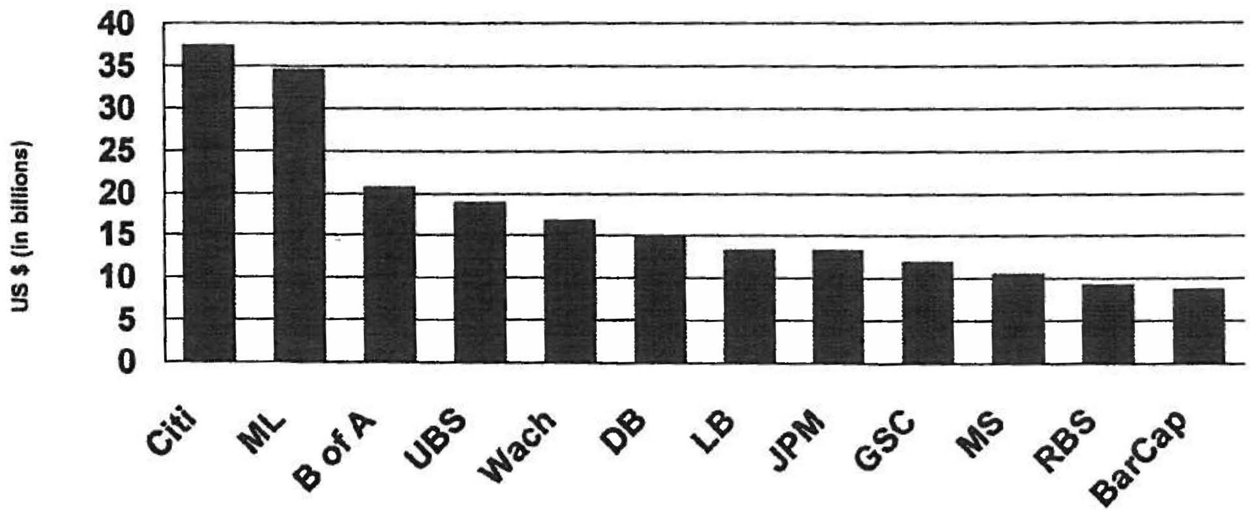
Citi has always been a leader in the CDO market

2007 1Q-2Q league table: Global CDO underwriting

BOOKRUNNER	PROCEEDS (US $ BILLION EQUIVALENT)	MARKET SHARE	RANK
Citi	**$37.5**	**14.6%**	1
Merrill Lynch	$34.7	13.5%	2
Banc of America	$20.7	8.1%	3
UBS	$18.8	7.3%	4
Wachovia	$17.0	6.6%	5

CITI PRODUCT MIX





- Through the second quarter of 2007 Citigroup has increased market share over 2006

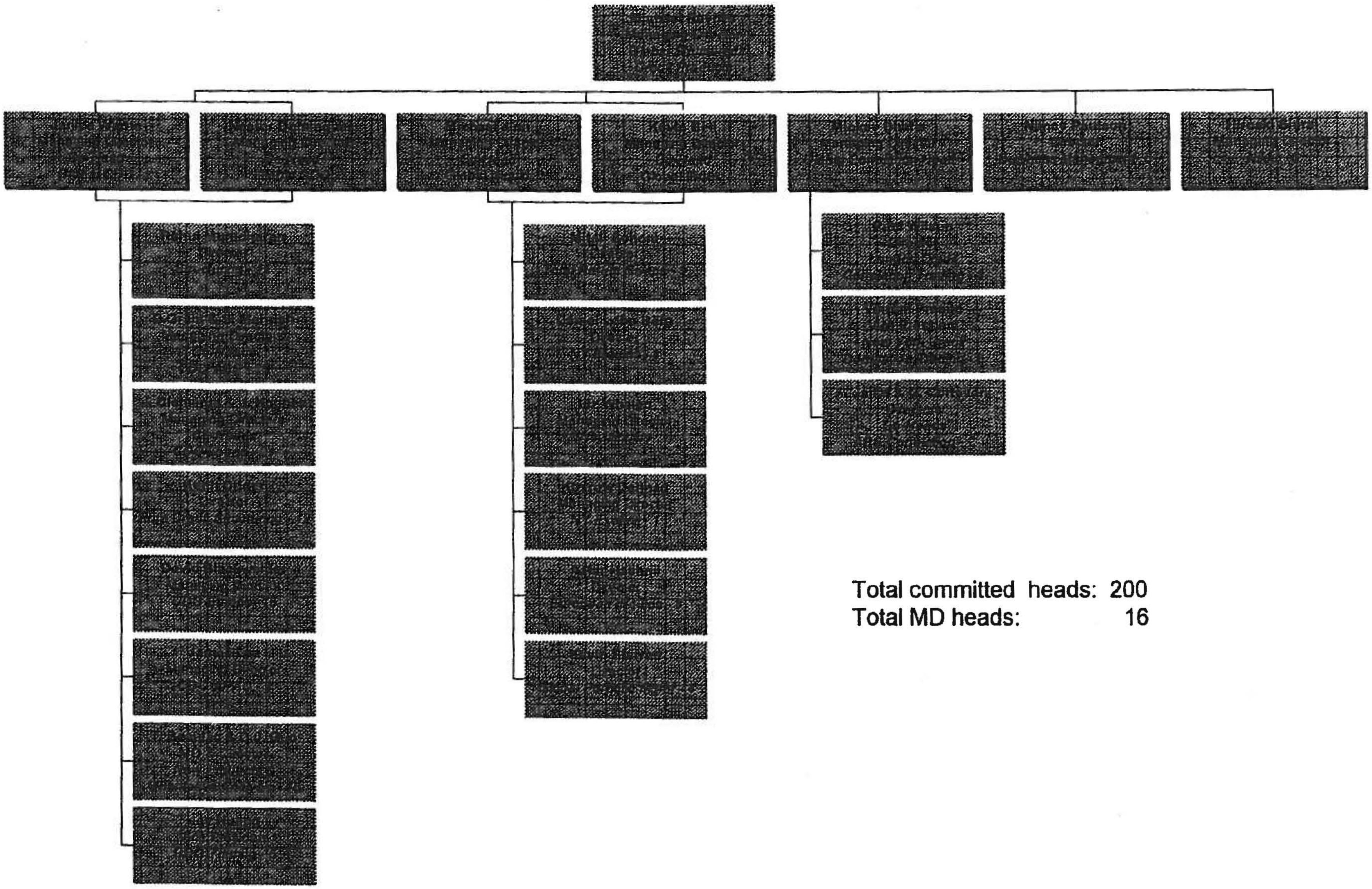
Source: Thomson Financial as of June 30, 2007.

Developments in Structured Credit at Citi

- Prior to June 2006 Structured Credit Products was managed in silos
  - Cash versus synthetic
  - New York versus London
  - Capital markets versus trading

- Over the past 12 months the business model was significantly revamped
  - Restructure business to integrate origination and syndication of 3rd party managed CDO business across all asset classes and Cash and Synthetics
  - Increase Senior Management of Structured Credit business out of London
  - Enhance on-desk risk management across 3 principal risk businesses (Correlation, CDOs, and Illiquids)
  - Diversify revenue base into alternative sources of income – structured illiquid credit financing
  - Create a new global derivatives structuring effort focusing on product innovation and derivatives strategy for fixed income client base

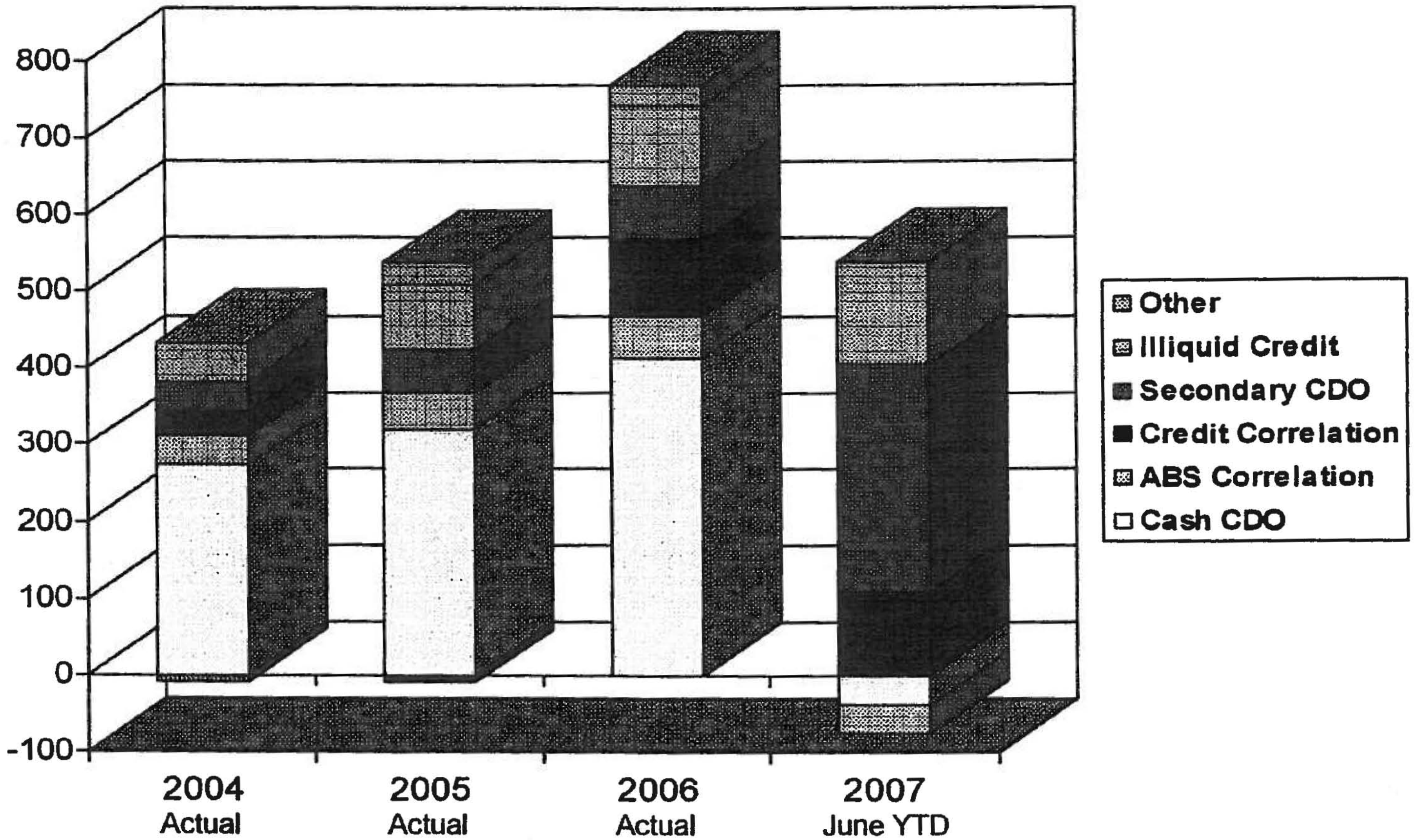
Global Structured Credit Products – Current Organizational Chart



Total committed heads: 200
Total MD heads: 16

Revenue Trend in GSCP

- Significant expansion of non-CDO business
- Focus on credit correlation
- Introduction of Illiquids
- Emphasis on Europe



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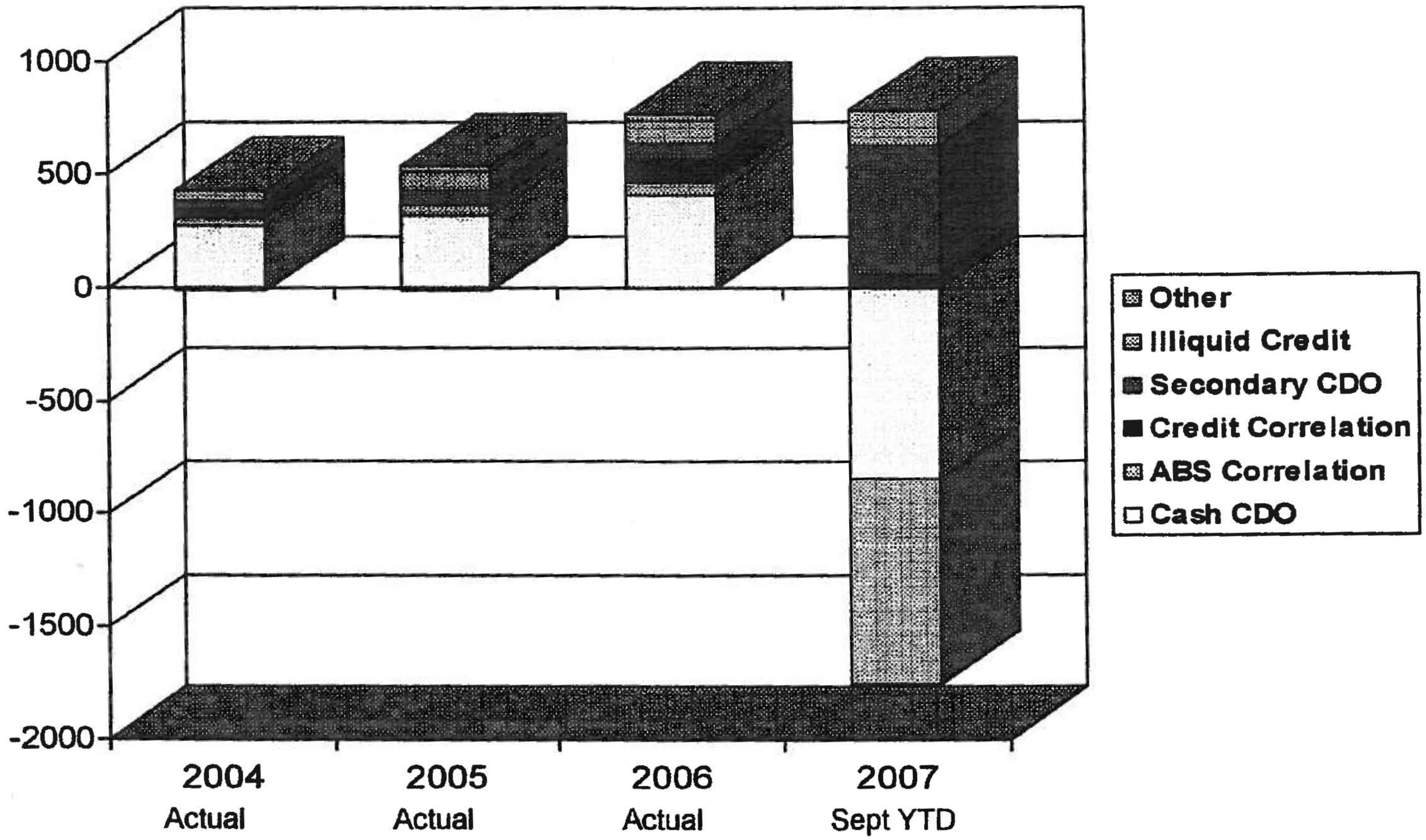

Analysis of "What Went Wrong" and Proposed Strategic Changes

- Significant dependence on distribution as proxy hedge to warehoused assets
- Unprepared for draconian meltdown scenario with respect to largest collateral asset class; risk limits too high
- Utilized balance sheet – specifically on super senior – without a defined hedging strategy, but within risk limits
- ABS Correlation not run as a "true correlation" business, but rather as a synthetic CDO business. This increased our overall exposure to impaired underlying assets class.
- Lumpy income stream; not well-diversified

OLD MODEL: CAPITAL MARKETS ORIENTATION

- Active risk management of "long assets", including warehoused assets
- Change in traditional CDO business model with respect to warehousing and counterparty risk
- Price super senior at market clearing levels, distribute whenver possible, and work to broaden investor base
- Originate new assets, i.e. super senior, into a non-MTM book, if held
- Fold ABS Correlation into Credit Correlation, while managing legacy positions in conjunction with GSM
- Strategic attack on market opportunities as a result of severe dislocation

NEW MODEL: TRADING / RISK MANAGEMENT ORIENTATION

How will the "traditional" CDO business model evolve

Current Citi Standard

- Warehouse duration varies by deal and manager
- "First loss" amounts borne by asset manager varies; in most CLO transactions the manager takes the first loss risk
- Deal fees are earned only if transaction is consummated
- NO MTM trigger-event during warehouse period
- Warehouse risk marked-to-market, but not actively hedged and monitored
- Strategy has been to diversify asset classes, which currently include loans, ABS, EM, TRUPS
- Current warehouse risk limits set by rating
- Limited counterparty risk management

Proposed New Citi Standard

- Limit warehouse period to 6 months
- Manage "first loss" amounts which will vary by asset class
- Migrate to a TRS model for CLO warehouses – MTM and collateral calls – if no capital contributed. Citi retain unilateral "blowout" clause
- Credit losses are unlikely (esp with 6 month term). Hedging should focus on mitigating MTM risk, which includes the risk of the inability to execute a take-out transaction
- Limit warehouses for illiquid assets. If feasible, provide warehouse terms based on a recourse basis to creditworthy counterparts. Focus on financing trades
- Warehouse risk limits by asset type, not rating
- Open warehouses

Where will the "alpha opportunities" be in the next 6-12 months?

- Distressed sellers looking to offload cheap assets that offer relative value
- Repacks of existing trades with clients whereby we can extract value from switches
- Increased margins in credit correlation trades due to wider market environment and increased appetite by investors for bespoke trades, due to decreased volume of traditional CDOs
- Increased margins on structured financings utilizing balance sheet and intellectual capital
- Applying recently executed trades for Citi balance sheet, as well as for other financial instituions
- Re-emergence of better structured CDO opportunities - finding higher fee potential given dislocation and potential competitor shifts

Sources of Revenue

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2006 Revenue

HC	Business	# deals	Revenue
	CDO		
33	ABS/CRE	26	220
32	Loans	29	175
5	Other/Asia	4	17
	Secondary Trading		
5	Flow		72
	Distressed		
60	Correlation		153
4	TRS Portfolio		53
	Illiquids		
5	Financing		0
2	GPO		25
5	"Exotics"		53
5	Other		
156	TOTAL		768

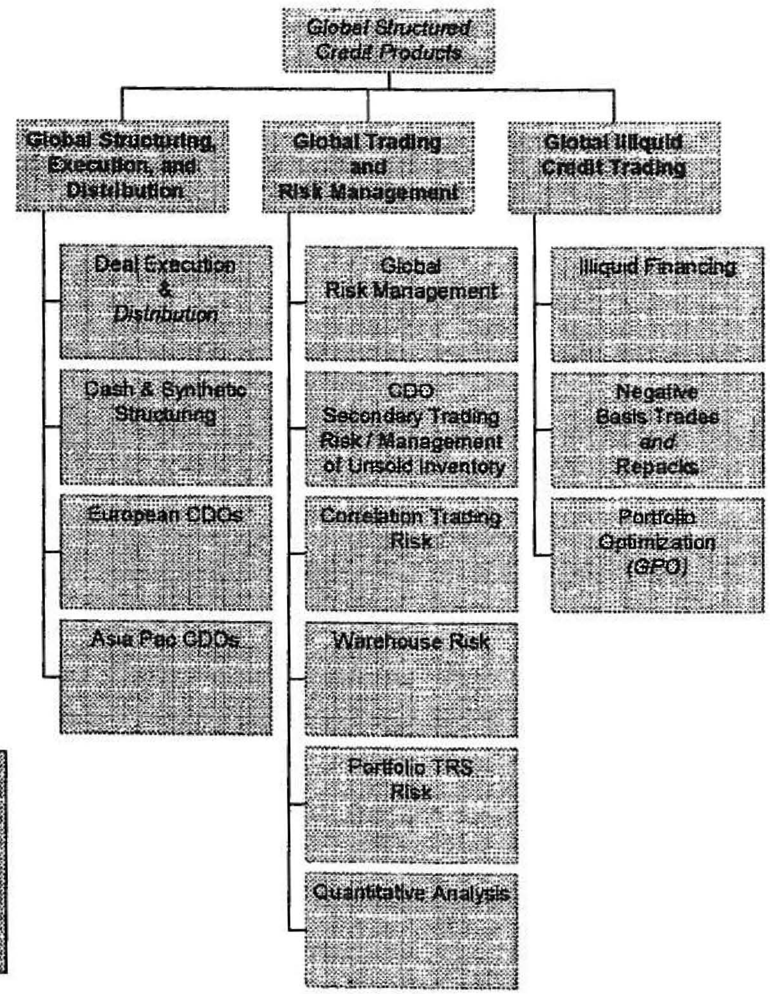
2008 Revenue

HC	Business	# deals	Revenue
	CDO		
	Loans		100
	ABS/CRE/EM		50
	Secondary Trading		
	Flow		50
	Distressed		75
	Correlation		170
	TRS Portfolio		75
	Illiquids		
	Financing		100
	GPO		50
	Other		
	TOTAL		670

Proposed Revenue Analysis Drill Down – Moving Forward

Business	Source of Revenue	Description
[redacted]		
[redacted]		
[redacted]	• Real money client bespoke correlation trades • Fast money bespoke correlation trades • Flow index trading • Risk management/prop trading • Loan portfolio-related activities	•Syndicated synthetic managed and managed trades, FTD, and other exotics •Capture bid/offer from hedge fund/prop desk flow •Index tranches •Index arbitrage, correlation views, optimizing reserves •Capital optimizing loan portfolio trades
[redacted]	• Portfolio TRS	• Market value financing focused on first lien leveraged loans •Incorporation of risk mitigation triggers based on portfolio price dynamics •Macro hedging via execution of bespoke correlation transactions on retained senior risk
[redacted]	• Basis Trading • Origination/Structuring Fees • Repackaging, Retranching and Syndicating • Contingent credit and X-Market Trading/Lending	•Long cash position and short derivative position in same asset which results in positive carry •Success based fees paid on trades executed in partnership with DCM or IBD •Using cash and/or derivatives technology to create non-directional basis positions •Trading credit linked or indexed to rates, commodity and /or currency risk.

Global Structured Credit Products – Proposed Organizational Structure



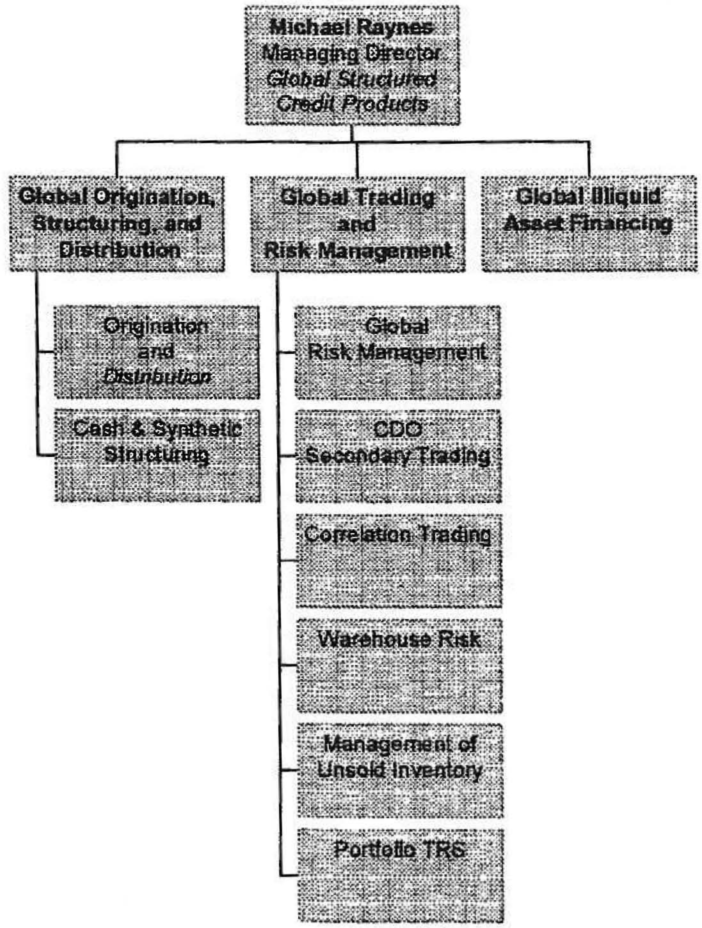
Potential dislocated seniors:

Total Committed Heads:

Total MDs

ALL OUT AFTER THIS

Global Structured Credit Products – October 2007



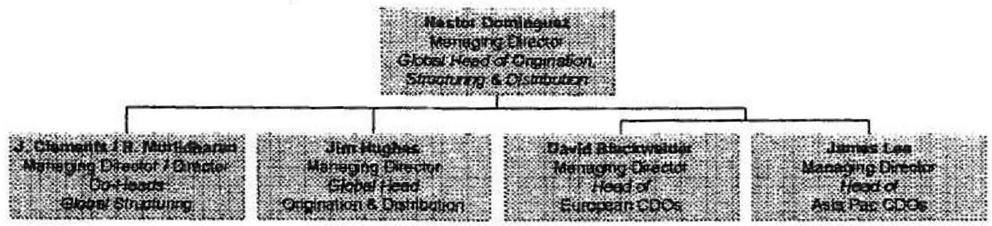
Market Opportunities Going Forward: Correlation

- Two fundamental activities
  - An asset transformation activity
  - A trading activity

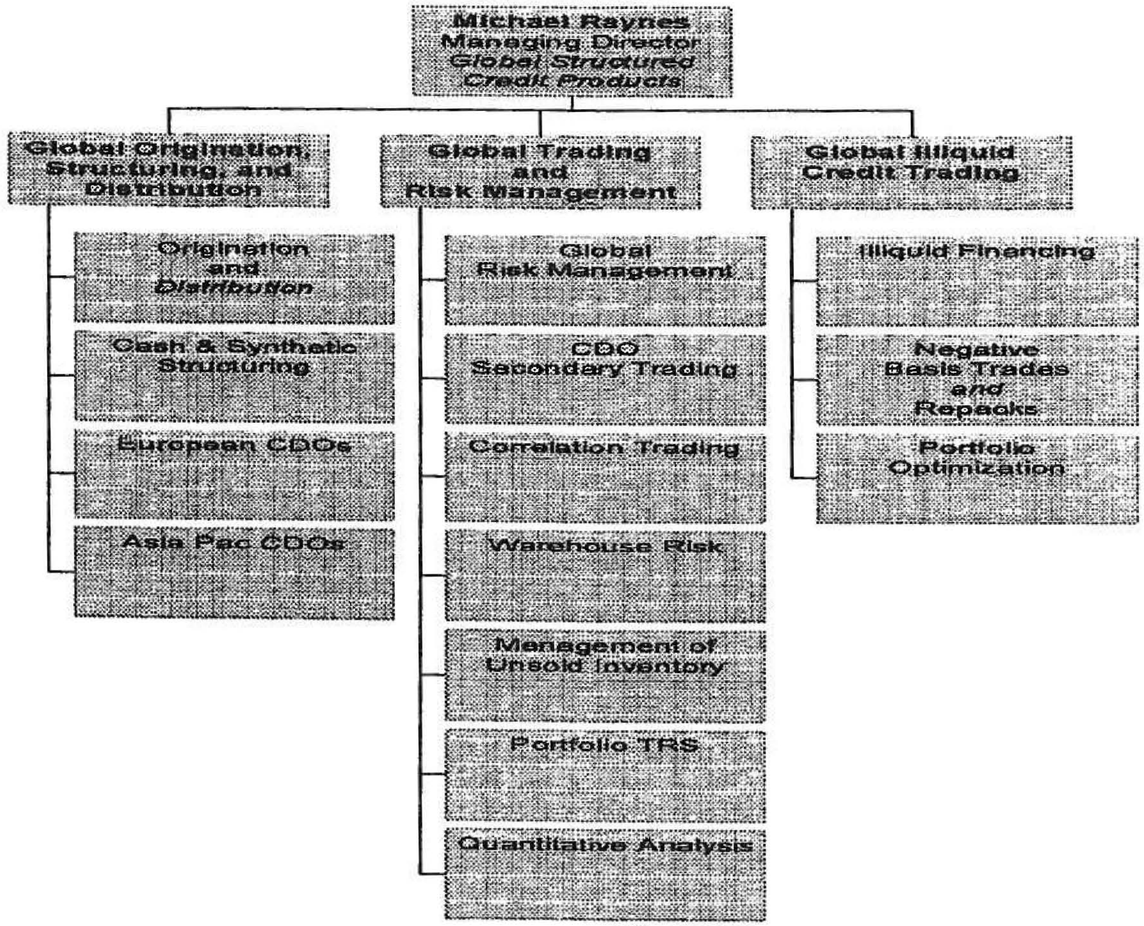
- Short term opportunities

- Longer term opportunities

Global Origination, Structuring and Distribution - October 2007



Global Structured Credit Products – October 2007



Citi has always been a leader in the CDO market

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2005 CDO League Table

Arranger	Notional Issued ($MM)	Market Share (%)	2005 Rank	2004 Rank
Citigroup	29,989	16.8	1	1
Merrill Lynch	27,175	15.2	2	2
Wachovia Corp	19,220	10.7	3	3
Bear Stearns	12,460	7.0	4	7
Deustche Bank	10,903	6.1	5	9
Morgan Stanley	10,726	6.0	6	6
UBS	10,522	5.9	7	4
Banc of America	10,029	5.6	8	13
CSFB	9,170	5.1	9	8
JP Morgan	8,496	4.7	10	5
Other	30,369	16.9	-	-
Totals	179,059	100.0		

- Citigroup and Merrill Lynch are the two dominant players in the CDO market with 16.8% and 15.2% market share respectively
- In 2005, Citigroup was the leader in both ABS and CLO businesses
- Citigroup has a more balanced CDO business than its competitors
- Citigroup was selected by IFR as U.S. CDO House of the Year in 2004

2005 ABS CDO League Table

	Arranger	Notional Issued ($MM)	Market Share (%)
1.	Citigroup	15,896	18.3
2.	Merrill Lynch	15,121	17.4
3.	Wachovia	11,749	13.5
4.	UBS	7,854	9.1
5.	Deutsche Bank	6,956	8.0
6.	Other	29,143	33.6
	Total	86,721	100.0

2005 CLO League Table

	Arranger	Notional Issued ($MM)	Market Share (%)
1.	Citigroup	11,327	17.1
2.	Bear Stearns	6,930	10.5
3.	JP Morgan	6,399	9.7
4.	CSFB	5,804	8.8
5.	Wachovia	5,803	8.8
6.	Other	29,995	45.3
	Total	66,260	100.0

Source: Thomson Financial B12d League Tables

Proposed Revenue Analysis Drill Down – Moving Forward

- CDO
- Secondary Trading
- Correlation
- TRS
- Illiquids

Market Opportunities Going Forward: Illiquids Asset Trading

- The cornerstone of the SICT strategy is the reformulation of Illiquid Assets Trading as the proprietary investment arm of structured credit products
- Recent credit market turmoil has demonstrated the value proposition of Illiquid Assets Trading
  - Reduced capital capacity and market liquidity
  - Disinformation and confusion related to asset pools and structure
  - Typical investor base sidelined by portfolio concerns
- Illiquid Assets Trading is able to structure financing solutions for key Citigroup clients in situations where financing needs remain but traditional markets are closed or failing
- Illiquid Assets Trading seeks to unite SICT's established platform with broader client strategies at Citigroup
  - Experienced investment team backed by principal capital
  - Flexible, appropriate, and creative solutions
  - Responsive to time-sensitive solutions
  - Comprehensive global structuring and risk platform

Current Risk Exposure and Mitigation

RISK POSITION	AMOUNT	DESCRIPTION	STRATEGY
ABS Super Senior Mezz/CDO High Grade	 $10Bln $ 8Bln	Unhedged super senior tranches taken down from cash and synthetic transactions. Currently no trading in CDO securities backed by subprime collateral	MTM using intrinsic analysis Create a structure to bifurcate super senior risk into equity and high grade. This permits GSCP to place SS exposure into SPE and obtain accrual treatment. Sell equity into market.
Liquidity Puts	$24.5Bln	Contingent backstop to CP that permits investor to "put" CP back to Citi when certain criteria are met.	Continue to hold CP in position under the assumption that the market will normailze.
ABS CDO Cash Inventory	$2.3Bln (MV)	Unsold CDO securities backed by subprime collateral	Opportunistic sales Refine intrinsic analysis for use with investors to facilitate new trades
ABS CDO Warehouse	$0.9Bln (MV)	RMBS backed by subprime mortage collateral CDS on ABS referencing RMBS backed by subprime mortgage collateral	All warehouse collateral targeted for TAMCO transaction which is targeted for October close. EXCL expected to take top of capital structure (36-100) Equity not yet sold
ABS Correlation longs	$1.5B /$0.75B (notl) / (MV)	BBB single name RMBS backed by subprime collateral	Proxy hedge with ABX and Corp indices until liquidity in the single name market returns
Loan CDO Warehouses	$6.0Bln (MV)	24 open warehouses - 13 in NY and 11 in LDN	Execute transactions Resturcture deals to enhance execution as required Buy protection on warehouses Execute strategic trades - Sankaty & Norinchukin

Business Organization

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Co-Head of Credit Markets
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Janice Warne
Co-Heads of Global CDOs
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New York

Mickey Bhatia
Head of Global Credit Correlation Trading
London

Chris Carman
Head of Global ABS Correlation Trading
London

Michael Jinn
Head of Global Illiquid Credit Trading
London

Business is managed on a global basis, with a number of business heads based in London

Proposed Revenue Analysis Drill Down – Moving Forward

Business	Source of Revenue	Description
[redacted]		