CEO Discussion on Global Credit Markets

September 12, 2007

CEO Discussion

Global Credit Markets Financials

$mm	2005 Full Year	2006 Full Year	2007 Jun YTD	2007 Jul	2007 Aug	2007 Aug YTD
Total Revenue	**2,723,153**	**3,871,273**	**2,586,161**	**(1,013,009)**	**(361,072)**	**1,212,080**
Total Direct Expense	**417,654**	**473,284**	**247,903**	**40,073**	**46,182**	**334,158**
Total Allocations	**1,250,407**	**1,575,877**	**881,518**	**160,495**	**135,205**	**1,177,218**
Total Expenses	**1,669,010**	**2,050,059**	**1,129,528**	**200,585**	**181,404**	**1,511,517**
Margin	**1,054,144**	**1,821,214**	**1,456,633**	**(1,213,594)**	**(542,476)**	**(299,437)**
Total Cost Of Credit	**(95,848)**	**72**	**(2,086)**	**179**	**37,244**	**35,337**
EBIT	**1,149,991**	**1,821,142**	**1,458,719**	**(1,213,773)**	**(579,720)**	**(334,774)**
Net Income (Global Tax)	**716,019**	**1,149,368**	**904,831**	**(745,445)**	**(356,876)**	**(197,490)**
Citigroup AVG Assets	101,382	122,919	156,169	192,784	199,261	166,942
Total Citigroup EOP Assets	109,264	150,612	185,280	197,295	201,227	201,227
Rap Assets Excl Travelers	50,851	75,320	80,684	92,157	102,410	102,410
Total Permanents	1,040	1,091	1,157	1,196	1,201	1,201
Full Time Equivalents	1,058	1,112	1,231	1,281	1,257	1,257

Global Credit Trading

Background

- Global Credit Trading has been underperforming for a number of years, both absolute and in relative terms as measured by P&L and market share
- Strategy was to reposition the business by investing in trading talent and augmenting flow trading with suitable proprietary risk taking
  - Cap Arbitrage, Index Replication, Hybrids
- June YTD results provide some evidence of success with revenues of $270mm

What Happened in July and August

- Went into July long from a risk perspective and continued to trade long into the market collapse
  - Relationships between longs and hedges broke down
  - July Loss of $225mm
- August risk flattened from a cr01 perspective but desk was impacted by unprecedented basis moves
  - Very big credit curve flattening and short squeeze on LBO targets
  - August loss of $347mm
- Poor risk management and balance sheet management
  - Note that no limits were breached
- Inability to turn around positions due to size/illiquidity compounded the problems

Strategy

- Invoked complete overhaul of trading management
  - Higgins, Pichler, Choi are gone
- Merged the Global Credit and Emerging Market Credit Trading desks under Carey Lathrop
  - Brian Archer to head London desk
- Rebuild and reinforce core competency
- Continue to invest in technology to enhance risk management and reporting capabilities
- Address individual trader risk limits to prevent correlated trades becoming too big
- Invoke P&L risk limits
- Continue to invest in credit analyst capabilities
  - Fully align with trading desk
  - Augment customer dialogue – **imperative in a credit deteriorating environment**
- Alignment of EMCT and GCT should help capture the increasing opportunities in developing EM credit businesses

Global Structured Credit

Market Environment / Background

- CDO Market experienced extremely high growth rate over last 3 years
  - Volumes increased 95% from 2005 to 2006
- Citi consistently ranked #1 or #2 in overall CDO business
  - Deal volume grew 50% from 2005 to 2006 with a 30% increase in revenues
- 2 largest asset classes in market
  - Leveraged Loans and Subprime Mortgages
- Warehousing securities was (and is) a critical component to CDO business
- Providing Super Senior triple-A funding on both cash/synthetic historically part of Citi business model

- **Citi Response to Market Meltdown**
  - Suspended opening of any new ABS warehouses
  - Began February with 23 open ABS warehouses. Priced and distributed 11 warehoused ABS trades totaling $13 bln in February/March alone. Only 1 open warehouse remains in September.
  - Monetized $1 bln short on A/BBB ABS CDO
  - Increased shorts in both ABX indices and single name RMBS (currently $1.75 bln)
  - Consummated sales of first loss equity pieces in 3 ABS correlation transactions prior to deal closing
  - Reduced largest Synthetic ABS trade by 50%
  - Purchased protection on a large ($1.4 bln) bespoke trade with AMBAC
  - Purchased protection on Super Senior ($500mm) and triple-A rated bespoke tranches ($160mm) in ABS Correlation book

- **Lessons Learned**
  - Citi's historic strength in distributing CDOs proved insufficient during this time period
    - Investors went on "buyers strike" and lost all confidence in ratings
  - "Market standard" warehouse agreements were not robust – practical limitations in our ability to enforce them
  - Implemented significant changes to risk management in January (i.e Donald Quintin in CDO business and Mickey Bhatia in ABS Correlation risk) – however, not completely built out by time of market disruption
  - Business model not well diversified– too much reliance on one asset class. One of the primary initiatives for 2007 was to increase mix of asset classes – not consummated in time.

Confidential

Leveraged Finance

- Over the past year three years, Financial Sponsors have come to dominate the non-investment grade debt markets
  - Financial Sponsor share of non-investment grade debt issuance
    - 2003 – 35%
    - 2006 – 51%
- With market conditions strong, and with several 2nd tier firms moving aggressively into leveraged finance, negotiating leverage shifted to the Sponsors
- As a result, the Sponsors demanded much more aggressive terms from financings banks, including:
  - Maximum leverage condition to funding
  - Eliminating Market Mac provisions
  - Weakening (and in some cases, eliminating) Credit MAC protections
  - Covenant-lite loans
  - Non cash pay securities

	2003	2006
Comparison of TPG financing commitments	Burger King	AllTel
Maximum leverage funding conditions	yes	no
Market MAC	yes	no
Credit MAC	yes	no
Maintenance covenants	2 (leverage/coverage)	none
Non cash pay securities	none	yes ($3.7Bn)

- In line with the markets, Citigroup's loan underwriting and bridge loan commitments have increased

$ Bn	March-06	March-07	Today
Loan Underwriting - Total	32.5	67.4	77.3
Loan Underwriting - Leveraged	12.4	54.1	53
Bridge Loan Commitments	2.8	15.1	18.3

- Investor demand for loans declined significantly in mid-2007 as CLO fundings evaporated and hedge and mutual funds forced redemptions (most of which were sub-prime related)

Lessons Learned / Opportunities

Global Structured Credit

- ➢ Business review focused on resizing given revenue opportunities
- ➢ Redeployment of resources
  - Time frame within 6 weeks
- ➢ Redefine constraints and structures with risk management

Global Credit Trading

- ➢ Review capital committed to business given revenue opportunities
- ➢ Recalibrate the business focus to align with Platinum client and New Issue business strategies
- ➢ Reconfirm investment needs for technology, product control and risk management
- ➢ Business review for potential investment needs in Research

Leveraged Finance

- ➢ Assure commitments provide appropriate credit protection
  - Credit mac
  - Market mac ???
- ➢ Review revised limits on loan underwriting and bridge exposure
- ➢ Revise documentation standards with outside counsel and capital market professionals
- ➢ Review redeployment of talented resources

Significant Revenue Opportunities for 2008

- Continued investment in Emerging Market Credit Markets
  - New Issue
  - Secondary
- Recommit acquisition finance resources to Corporate arena
- Distressed ??
- Structured Credit Illiquids
- Reconfirm commitment to core competencies

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