Credit and Markets Discussion

Presentation to the Board of Directors
October 15th, 2007

CONFIDENTIAL

Agenda

I. What happened to Citi and competitors?

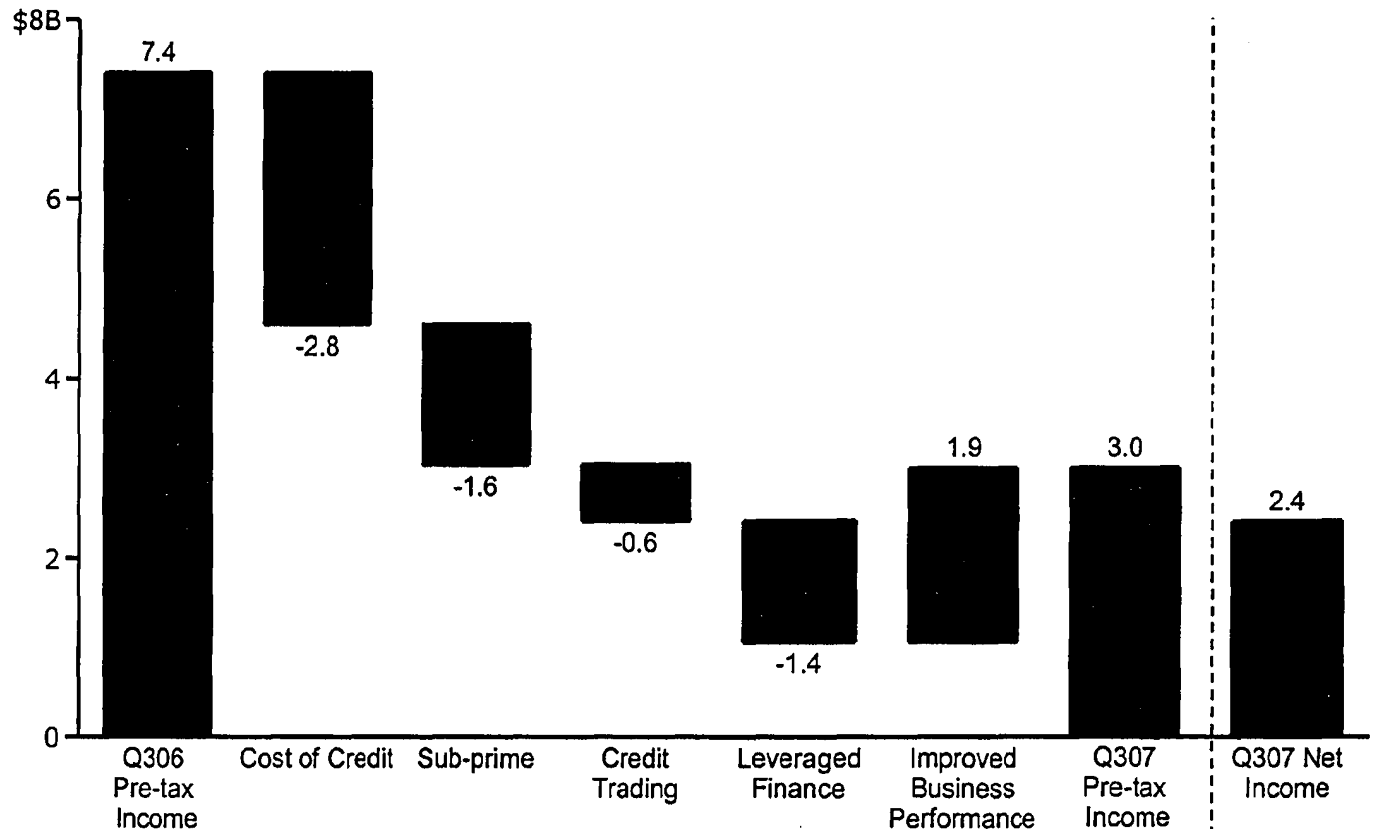
- *I. Summary of where we took losses and how we compare to competitors*
- *II. Implications to the balance sheet*
- *III. Equity Market response and commentary*

II. Why did this happen and what are we going to do going forward?

- *I. CMB*
- *II. Risk*
- *III. SIVs*

Q307 pre-tax income impact of losses

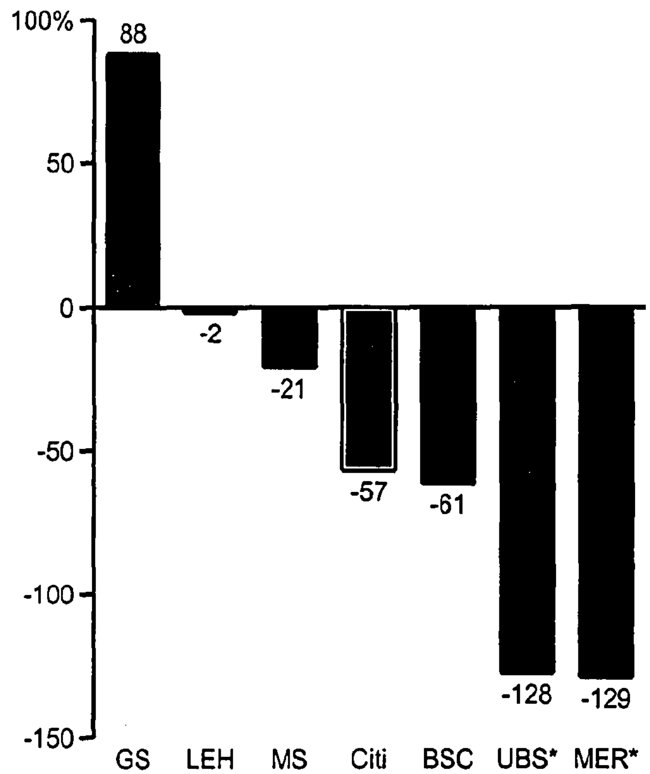
<u>Q307 versus Q306 pre-tax income change</u>



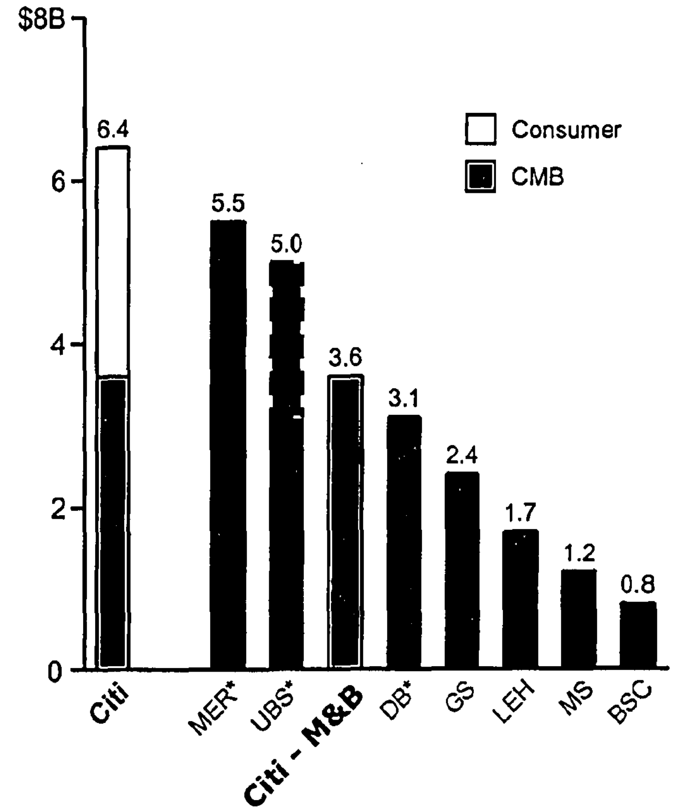
Additional losses from press release ($M)	246	293	29	(49)		519

Citi Q3 competitive performance

YoY EPS growth Q307 vs. Q306



Q307 Operating Income losses by banks to date



*Note: Estimates based on pre-releases

Consumer cost of credit versus competitors

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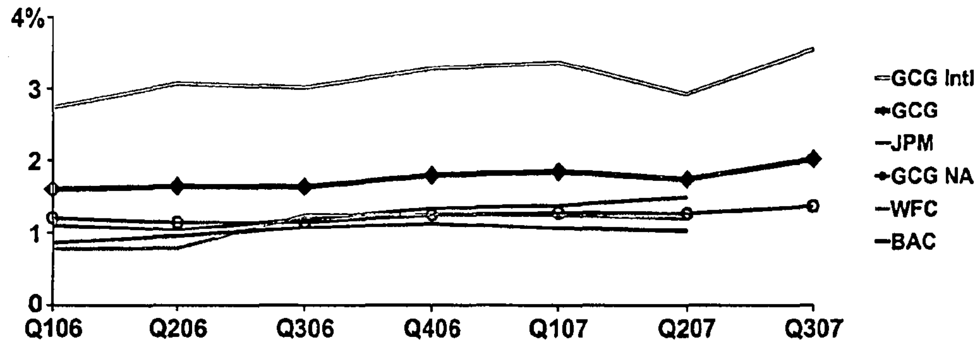
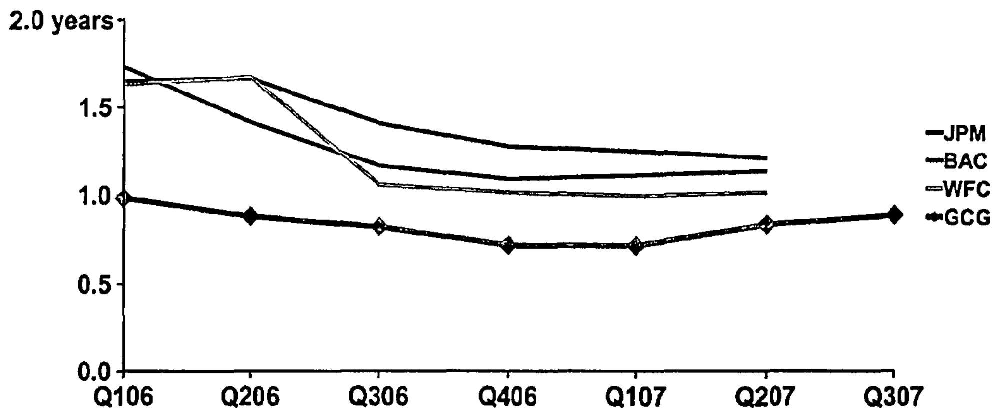
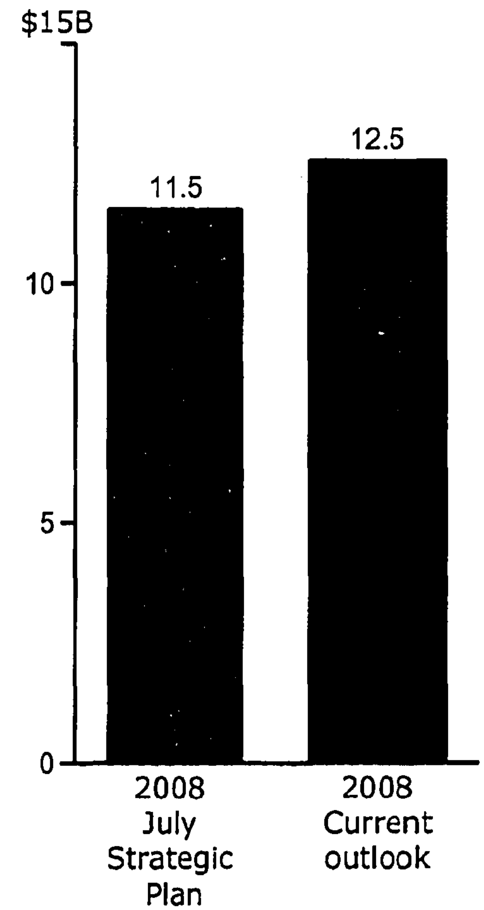
Annualized NCLs/ Average loans (%)



Loan loss reserves/Annualized net credit losses

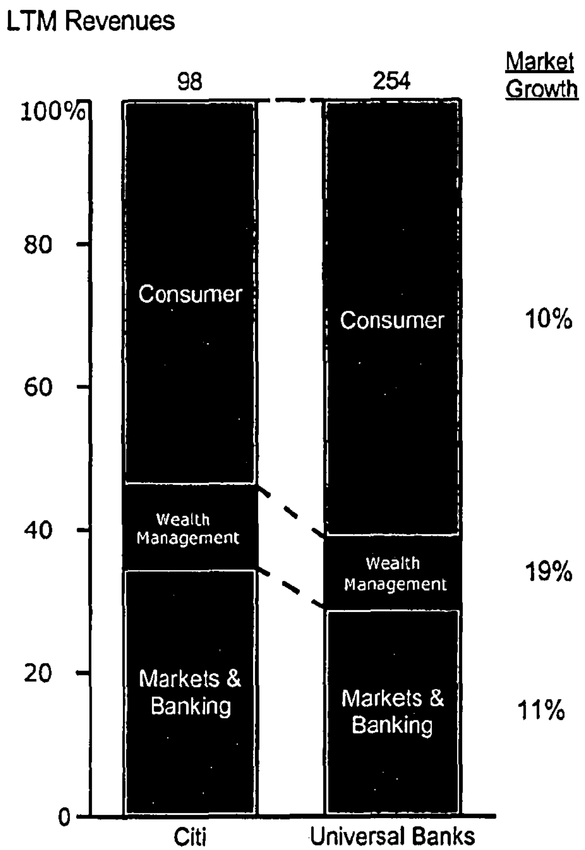


GCG Cost of Credit

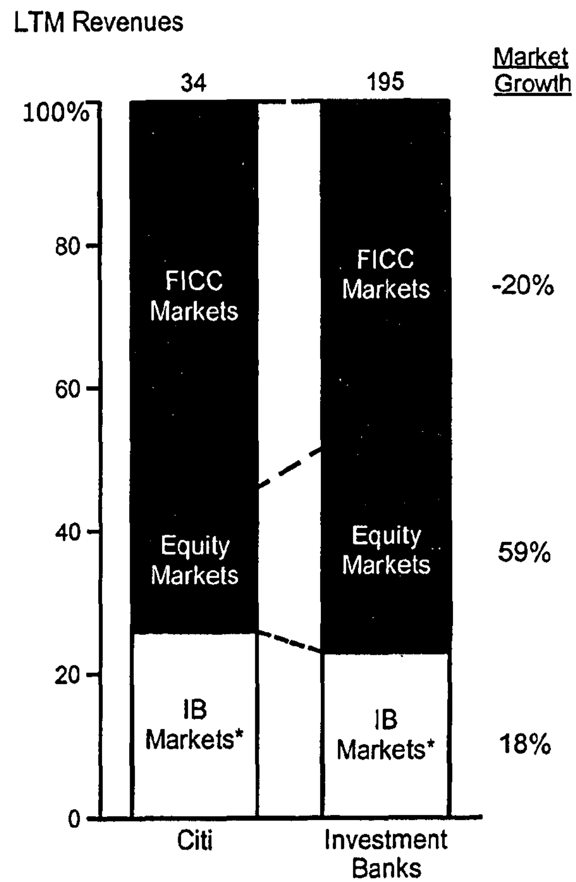


Business mix oriented to highest impacted asset classes

Citi overall business mix



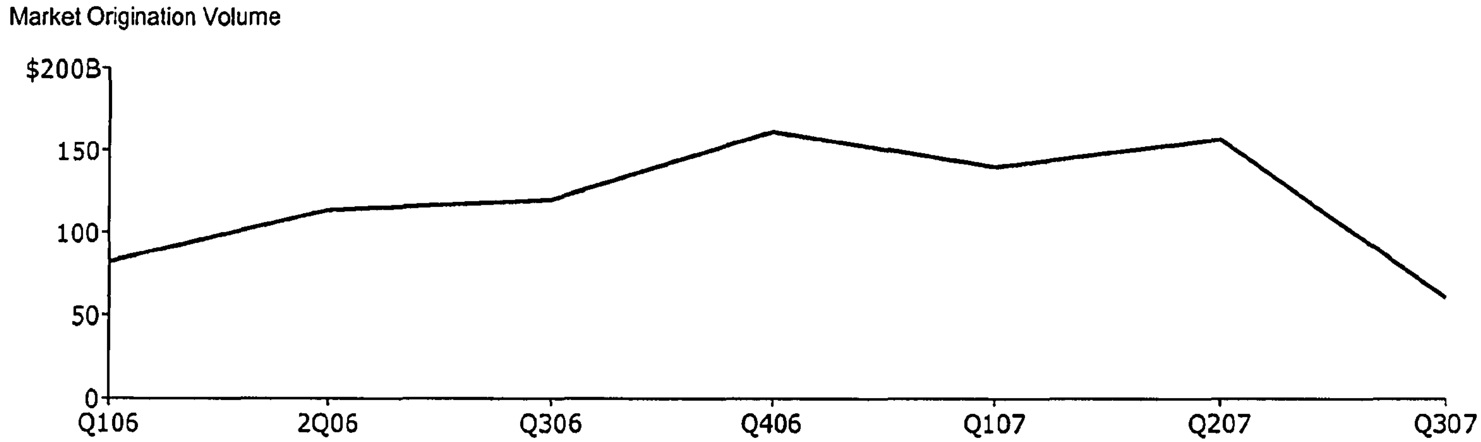
CMB business mix



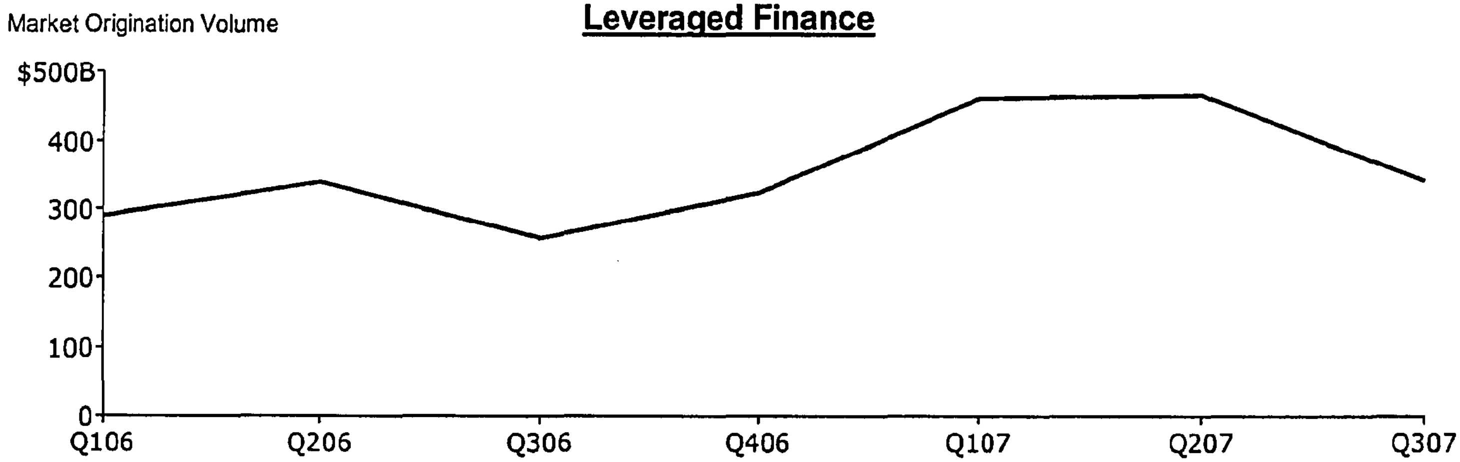
*Includes underwriting

Origination volumes declining significantly

CDO/CLOs

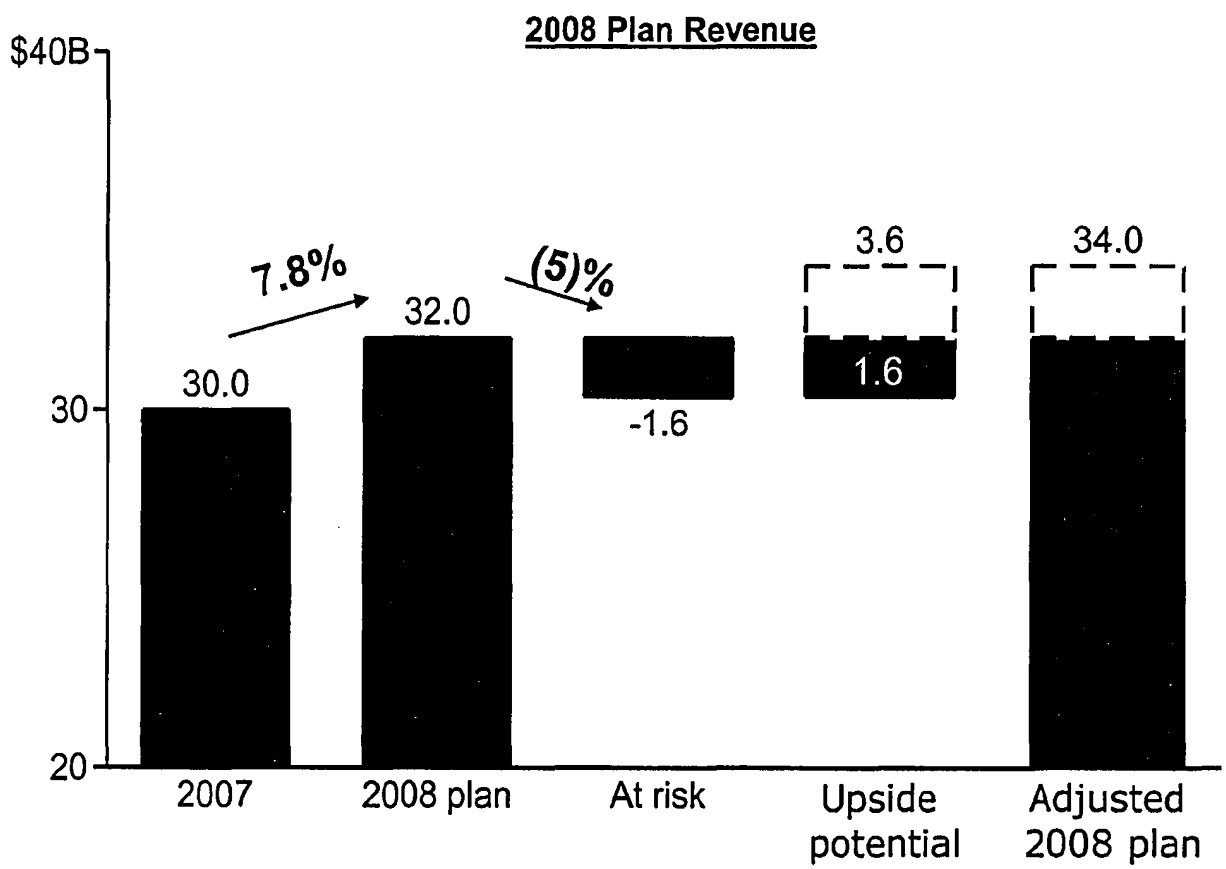


Leveraged Finance



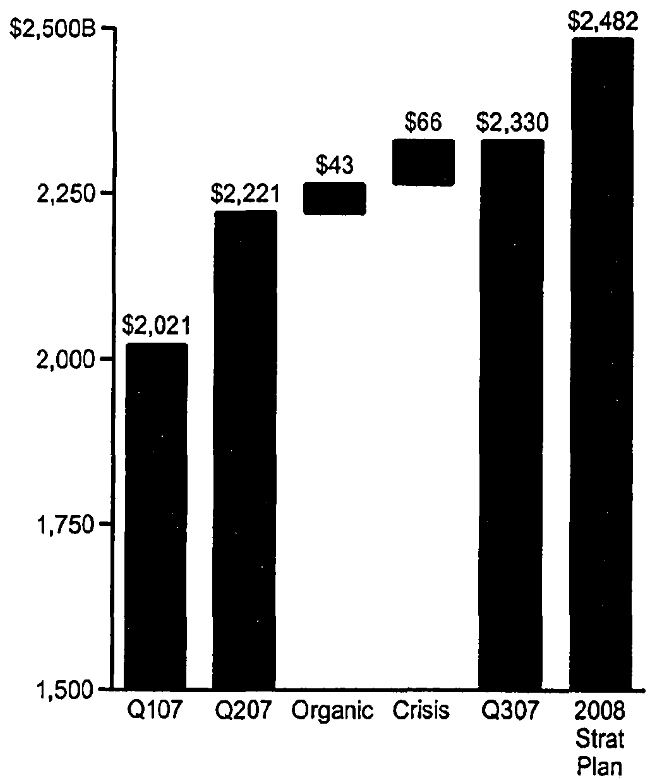
Source: League tables

2008 CMB outlook

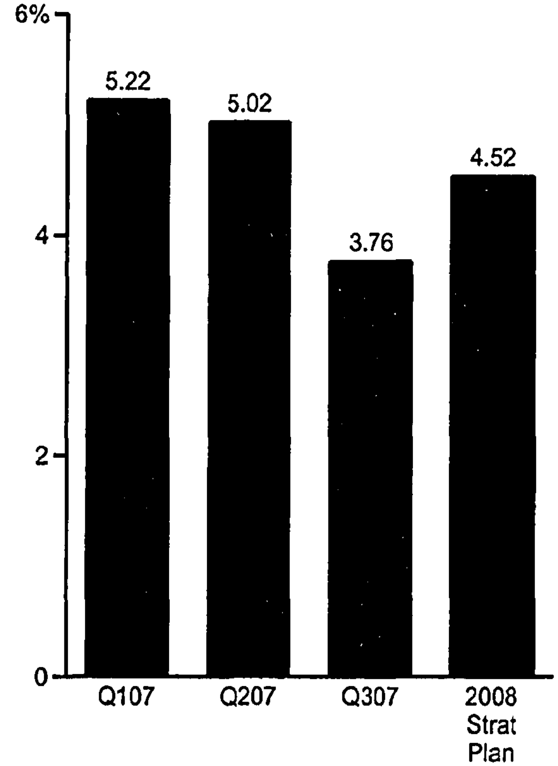


Market crisis doubled asset growth and reduced productivity

GAAP Assets

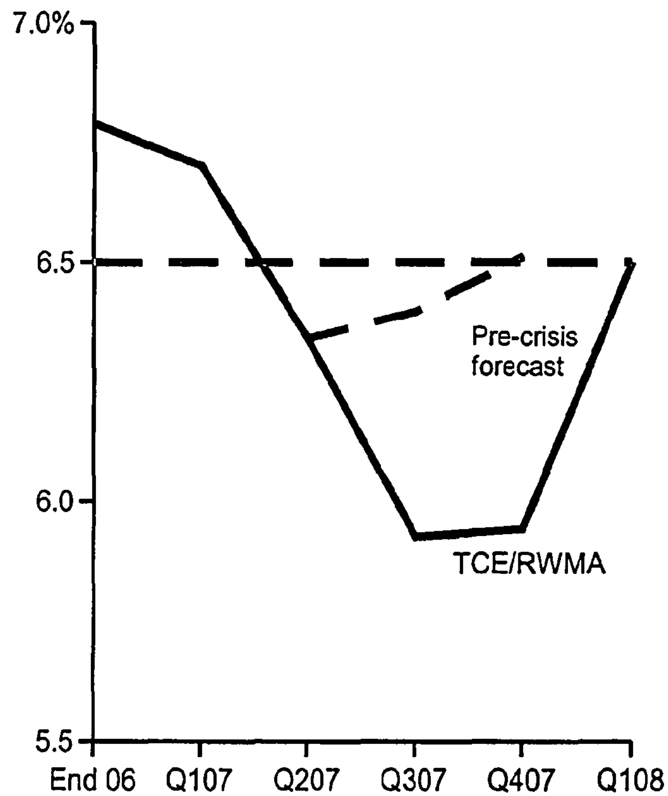


Total Revenue/GAAP Assets

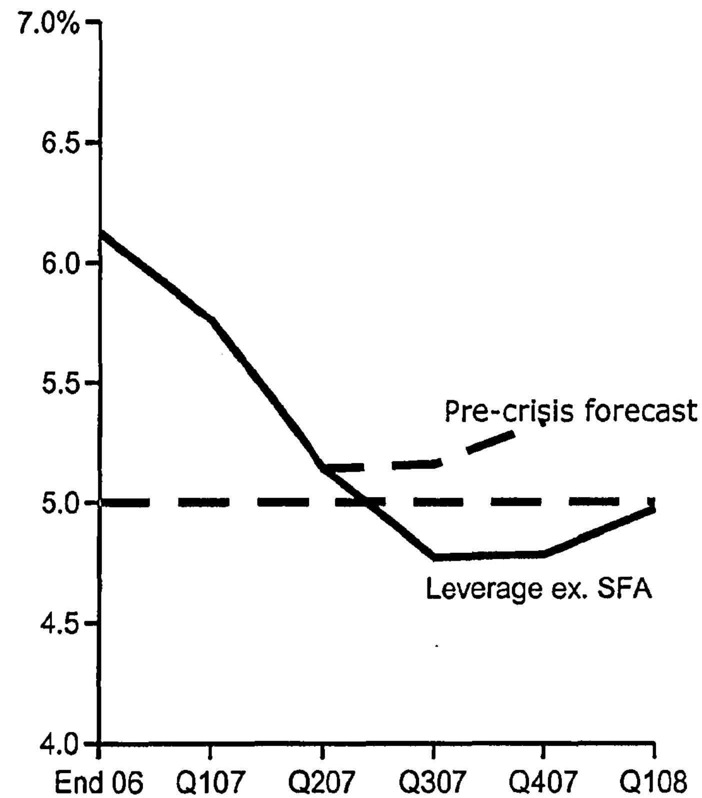


Crisis further skewed capital adequacy

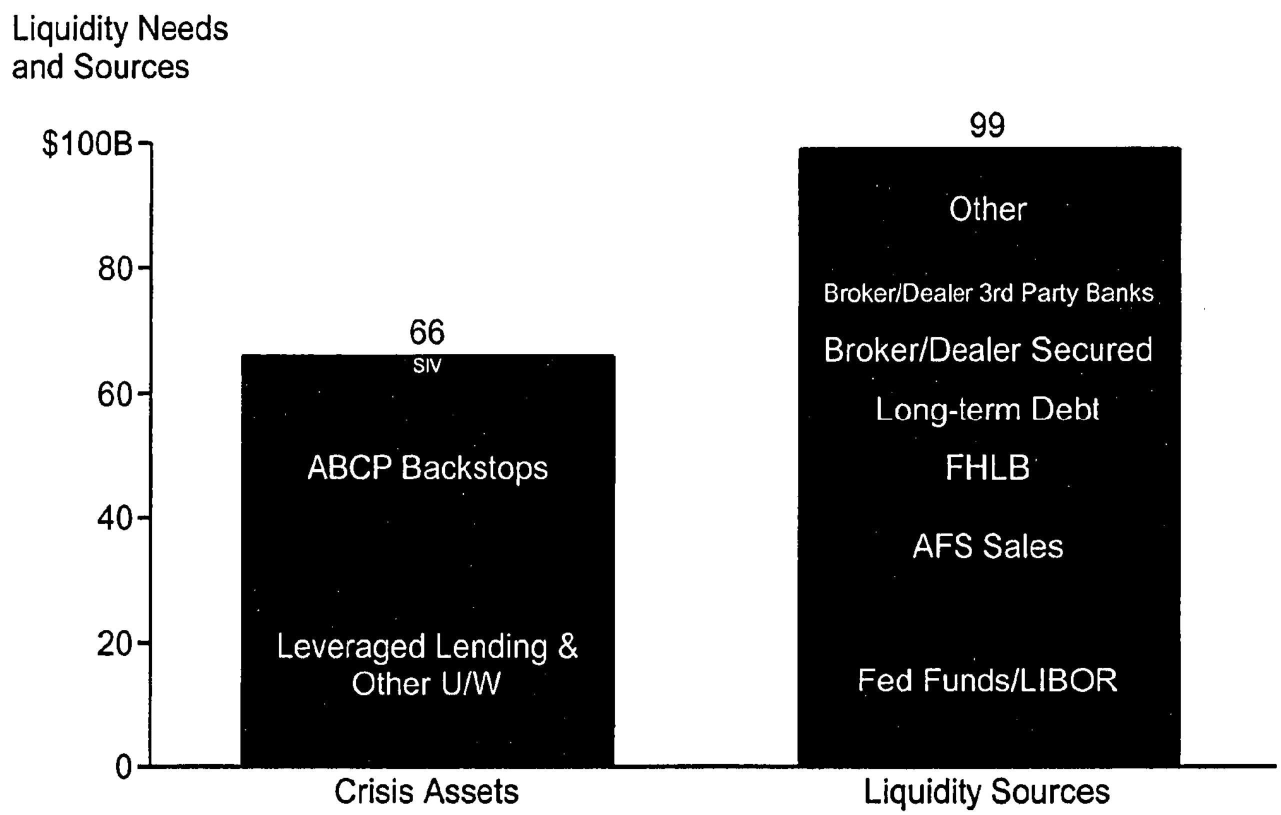
TCE/RWMA



Leverage ex. SFA



Incremental liquidity needs and sources



Market reaction

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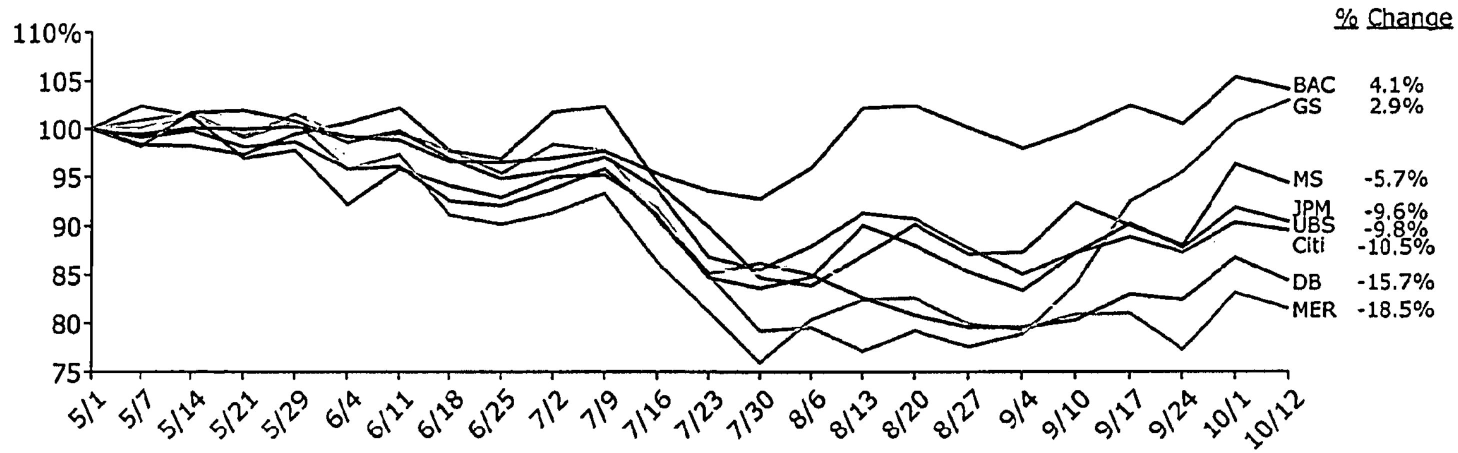
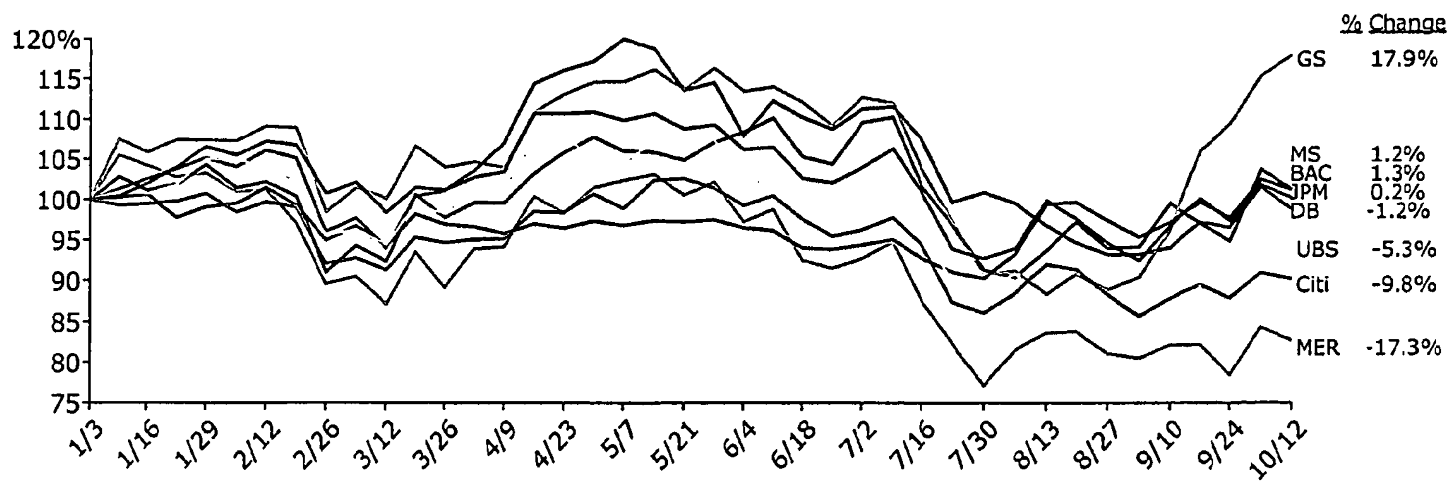
Share prices indexed to May 1, 2007



Share prices indexed to January 1, 2007



Buy-Side & Sell-Side reaction

Responses to the four major earnings drivers

- **Leveraged Finance write-downs**
  - Generally in-line with peers; no surprises
- **Credit Trading losses**
  - Troubling, given historical trading strength
- **Structured Credit losses**
  - Mortgage related losses expected, but were larger
  - Limited benefit from hedges somewhat surprising
- **Consumer Loan Loss Reserve build**
  - Size of builds not expected
  - Seen by many as "catch-up" due to methodology change

Concerns

- **What is our sustainable earnings run-rate going forward? What was "one-time"?**
- **Is consumer credit deteriorating more than is visible? What happened?**
- **Where was the breakdown? Business management? Risk management?**
- **Does the Citi model work?**
- **What actions are being taken?**

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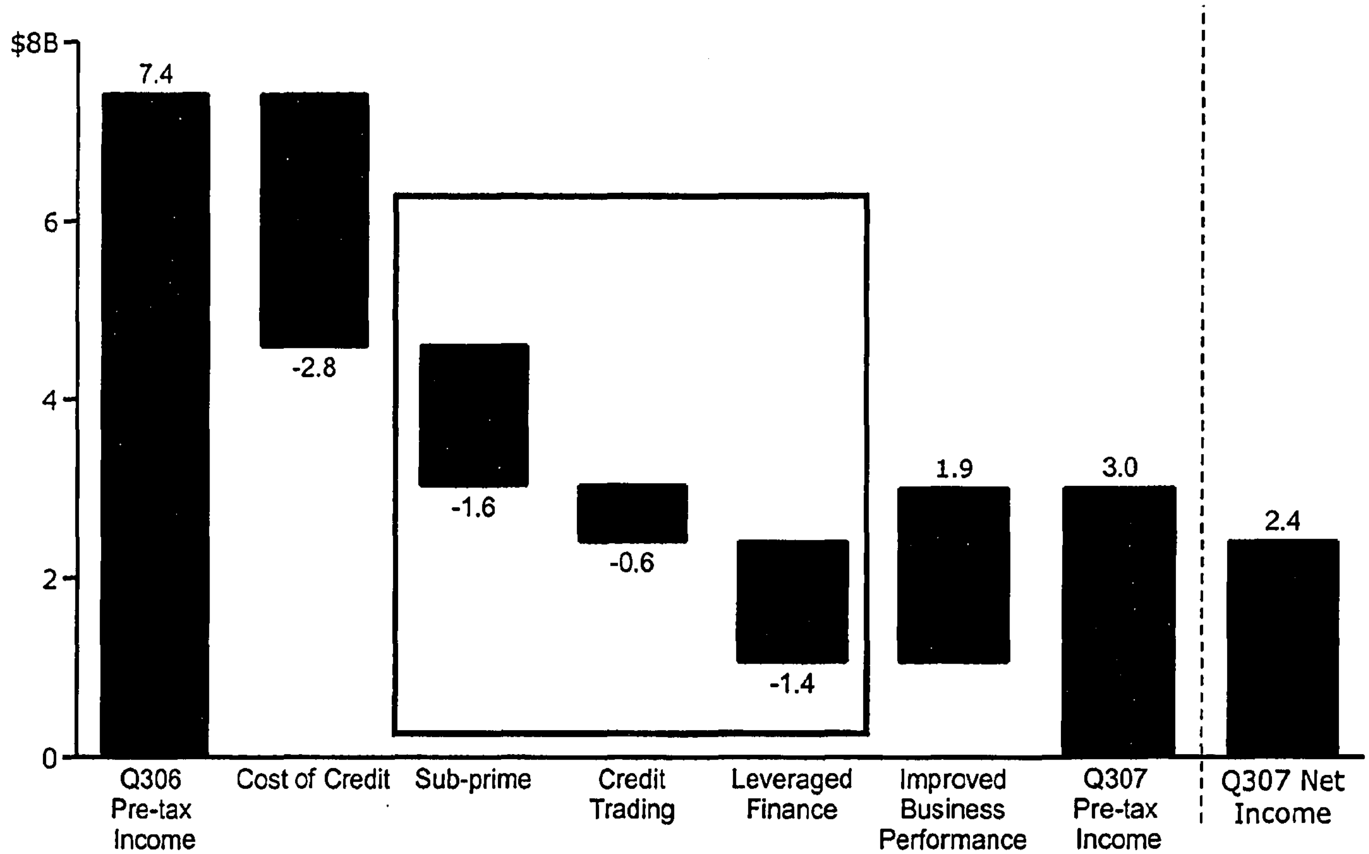
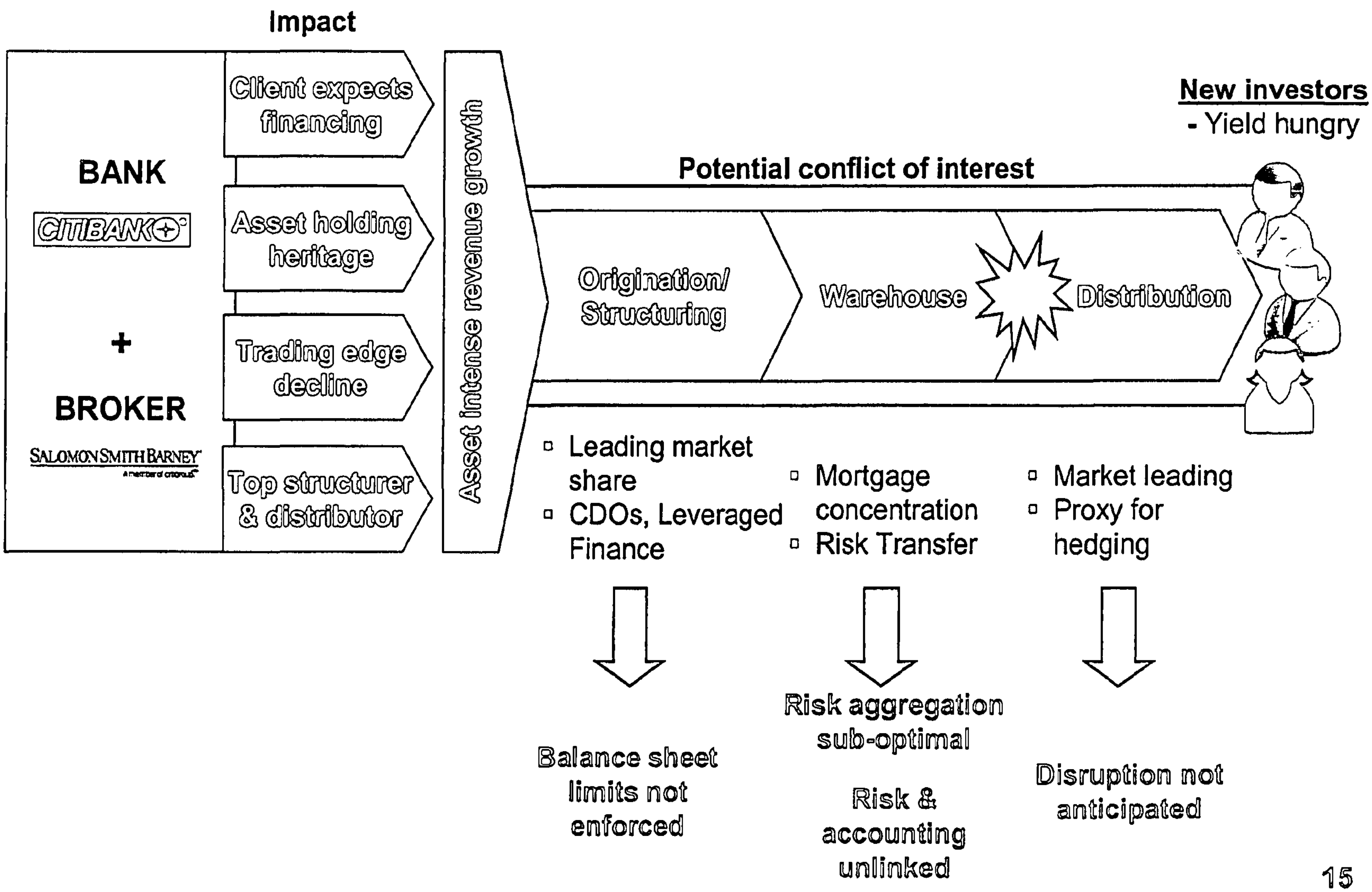
CMB losses

Q307 versus Q306 pre-tax income change



	Cost of Credit	Sub-prime	Credit Trading	Leveraged Finance	Improved Business Performance	Q307 Pre-tax Income
Additional losses from press release ($M)	246	293	29	(49)		519

Legacy Process

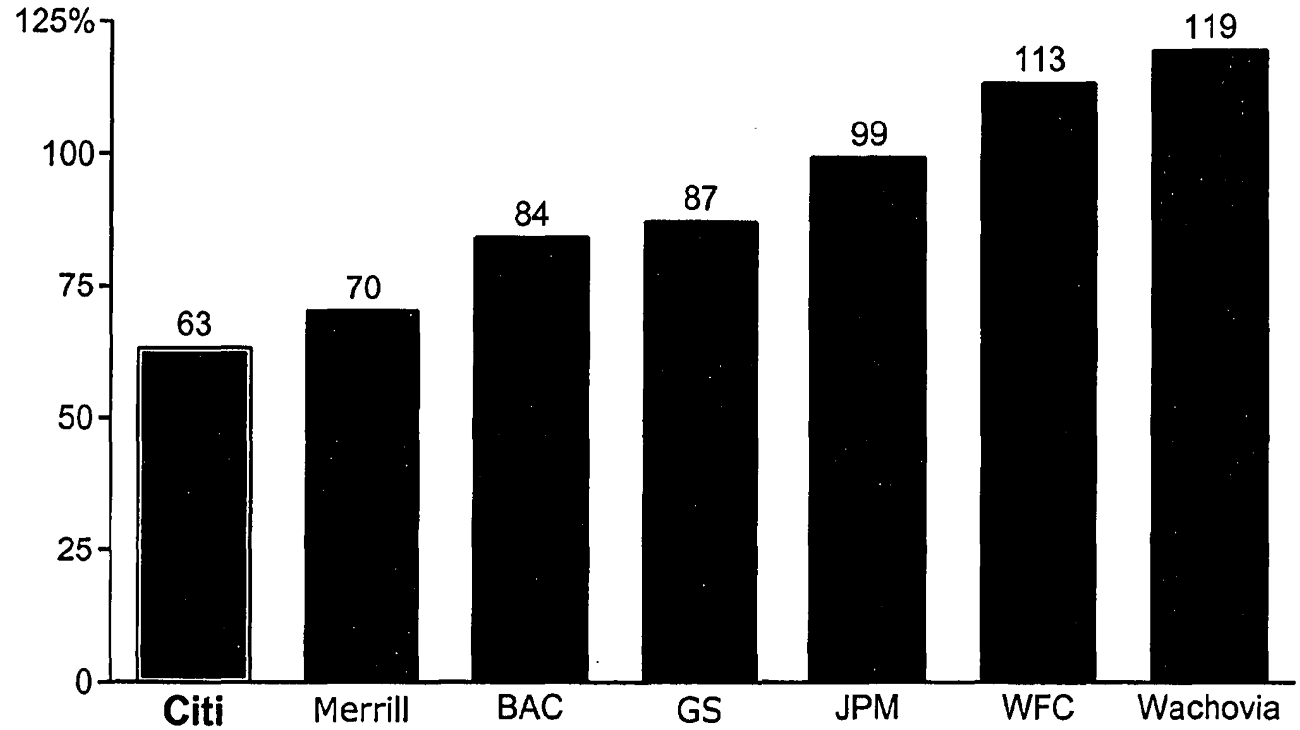


Why did it happen?

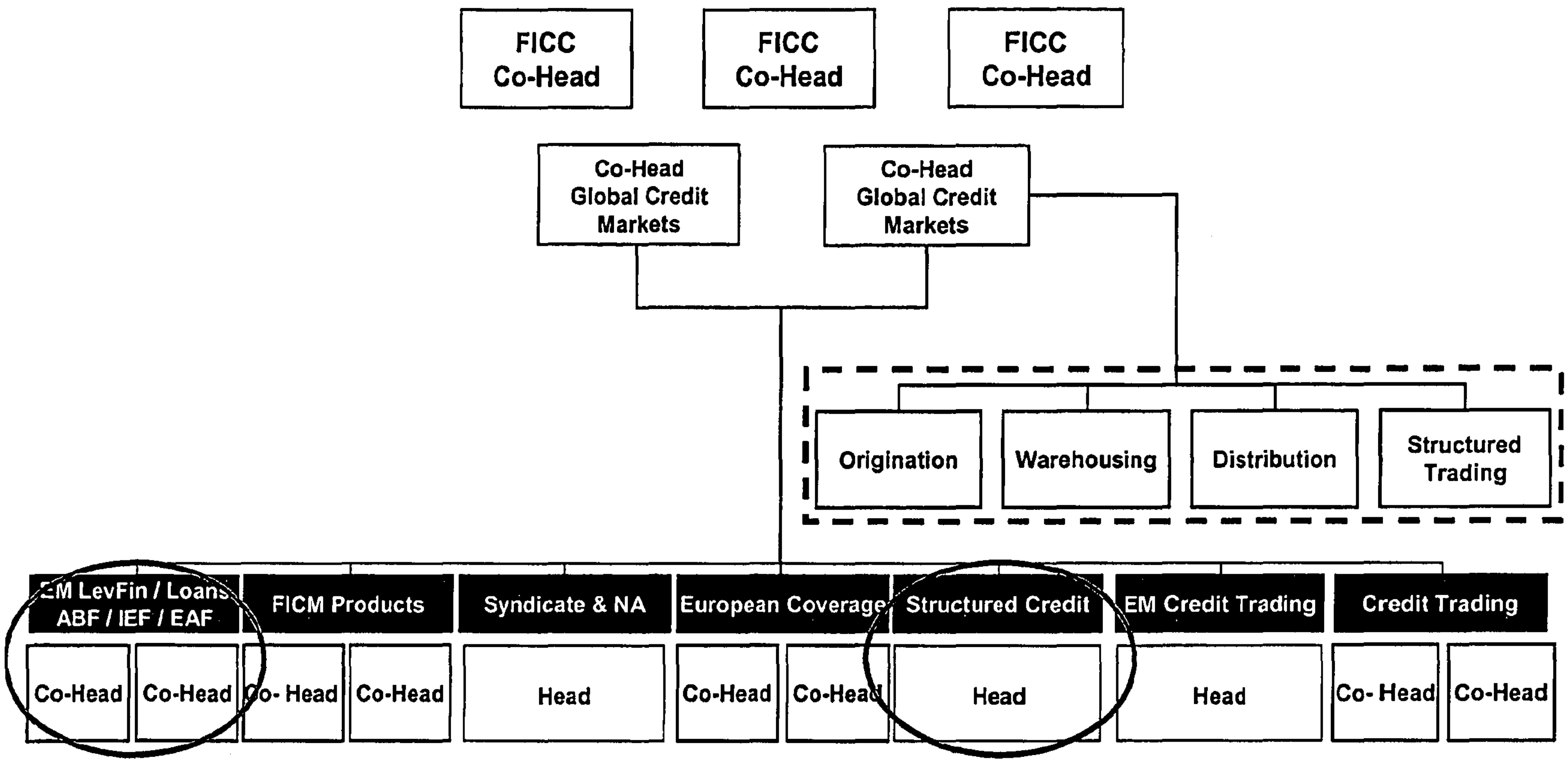
- CMB is balance sheet reliant
- Business mix not optimal
- Leading underwriter of CDOs/CLOs and Leveraged Finance
- Shift in warehousing risk in CDOs/CLOs
- Risk process did not anticipate distribution disruption
- Insufficient hedging

Citi balance sheet productivity low versus competitors

Revenue Growth vs. GAAP Asset Growth (2001-2006)



Old FICC management structure



A top underwriter of CDOs and Leveraged Finance

($ in Billions)

H1'07 Global CDO Volumes

Rank	Book Runner	Proceeds	Losses*
1	Merrill Lynch	34.3	$4.5
2	Citi	34.0	1.6
3	Barclays Capital	16.2	NA
4	Wachovia Corp	16.1	NA
5	JP Morgan	15.5	NA
6	B of A Securities LLC	14.7	NA
7	Deutsche Bank AG	14.7	2.1
8	UBS	12.6	5.0
9	Morgan Stanley	12.6	NA
10	Bear Stearns & Co Inc	10.6	0.5

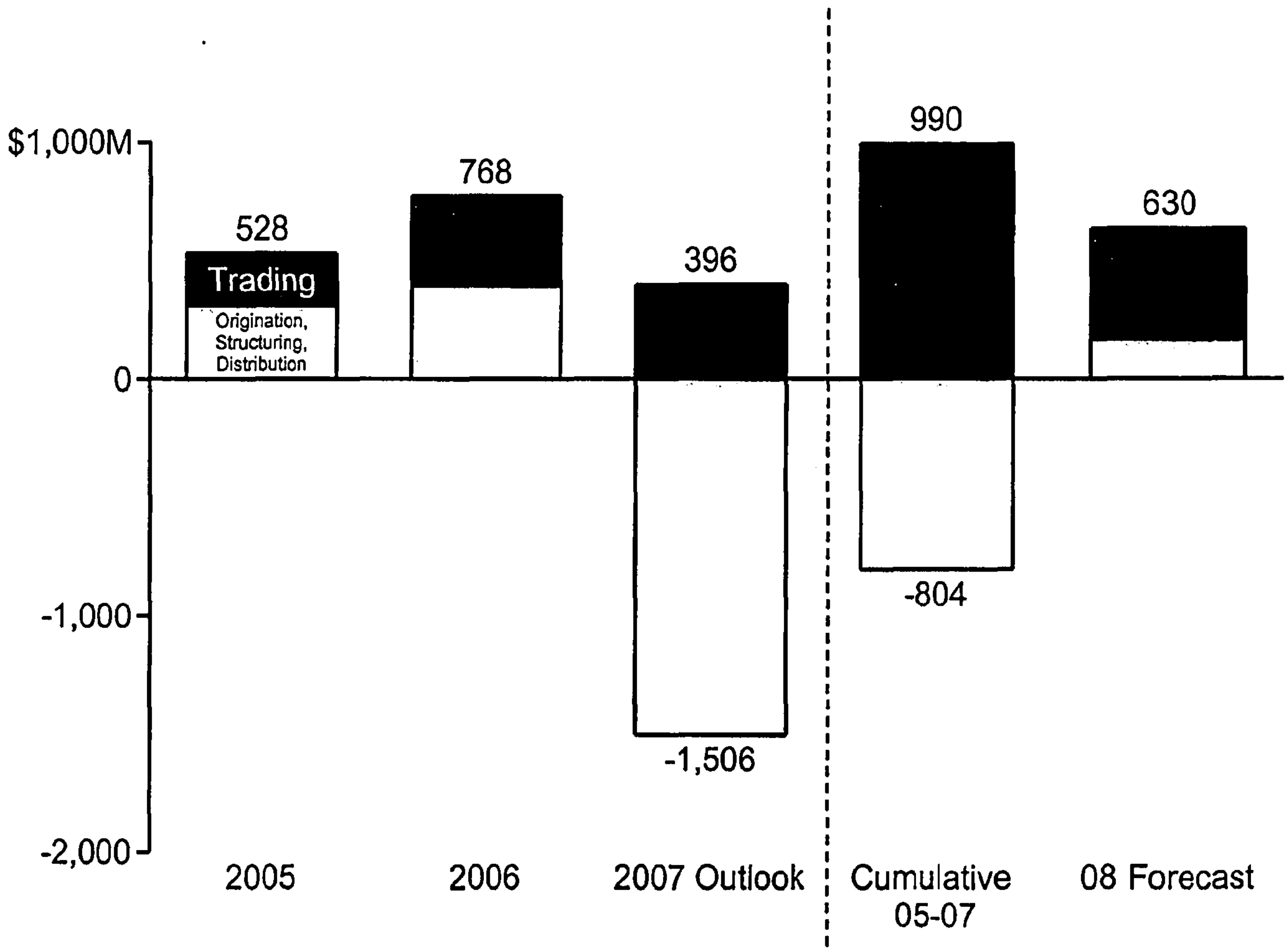
*Total non-Leveraged Finance losses

H1'07 Global Leveraged Syndicated Loan Volumes

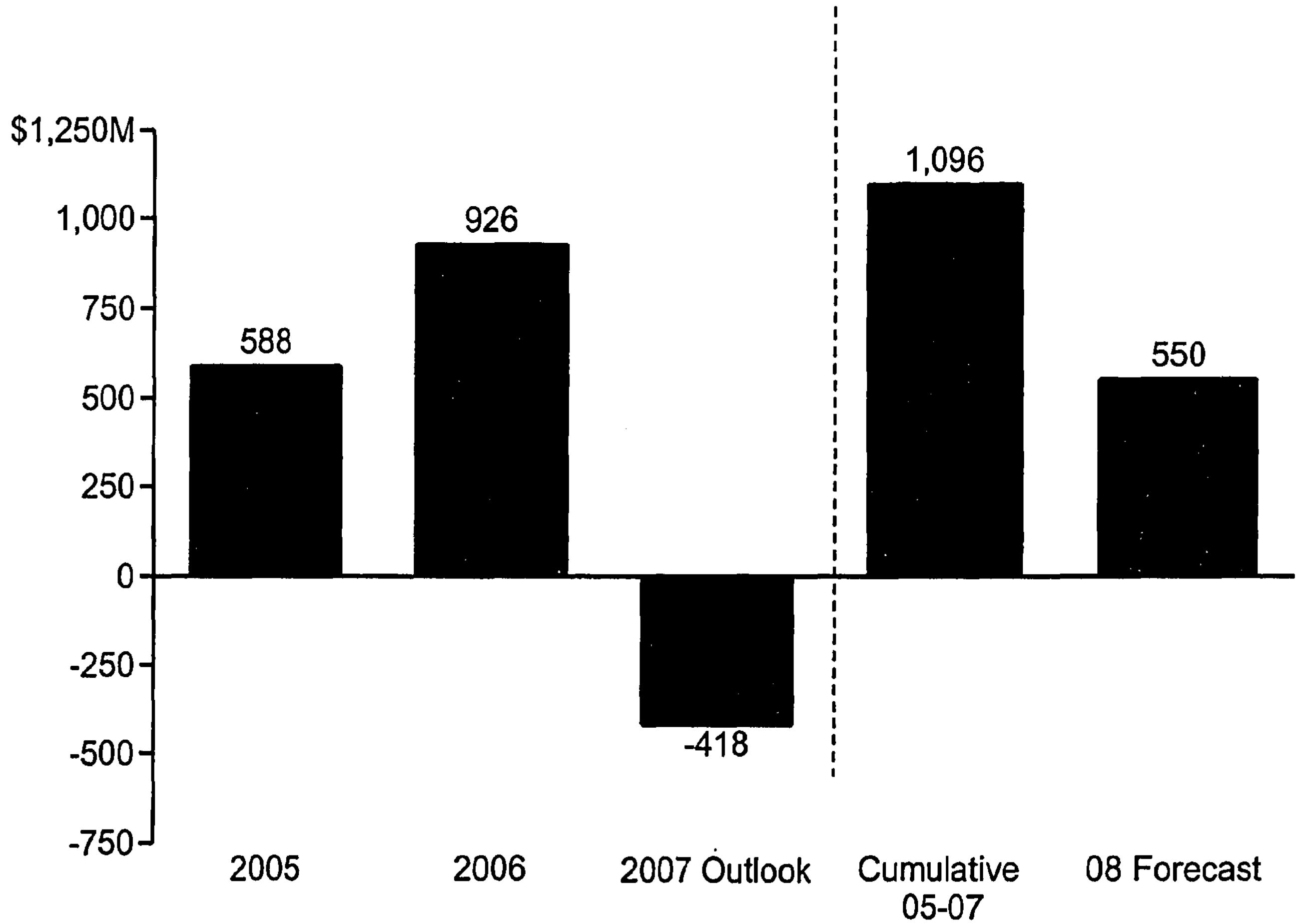
Rank	Book Runner	Proceeds	Losses*
1	JP Morgan	158.5	NA
2	B of A Securities LLC	99.2	NA
3	Citi	76.3	$1.4
4	Deutsche Bank AG	69.0	1.0
5	Credit Suisse	56.4	NA
6	Goldman Sachs & Co	48.2	2.4
7	Lehman Brothers	33.9	1.3**
8	RBS	32.8	NA
9	Merrill Lynch	32.8	1.0
10	UBS	27.9	NA

*Leveraged finance losses
**Estimate

Structured credit revenue trend



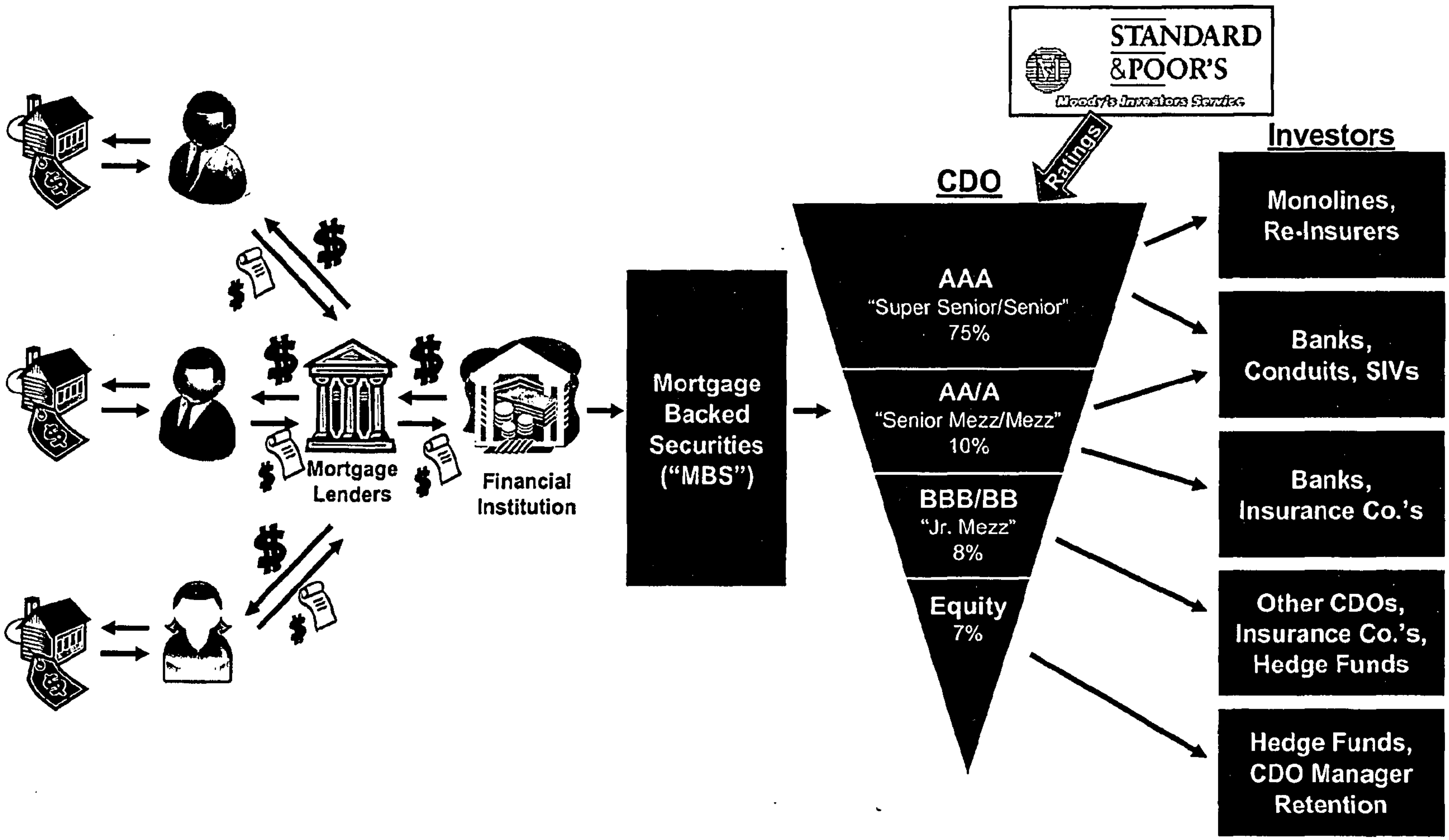
Leveraged finance revenue trend



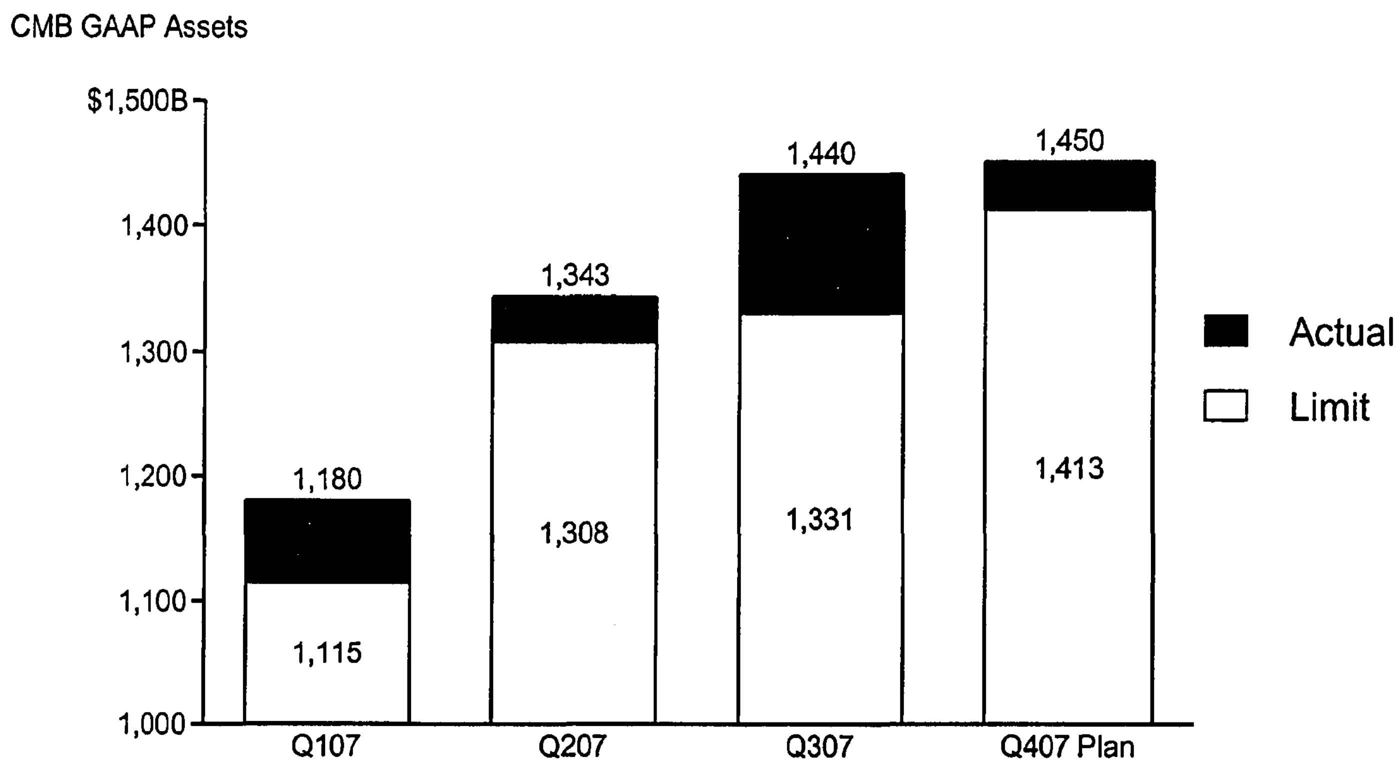
Sponsor Revenue	**$795M**	**$1,054**	**$1,394**

*Does not include marks

CDO market

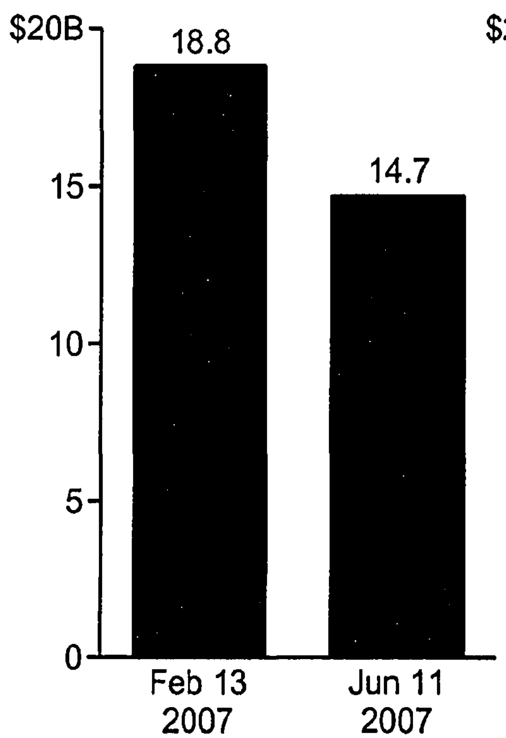

STANDARD
&POOR'S
Moody's Investors Service
Ratings
CDO
Investors
$
$
Mortgage Lenders
$
Financial Institution
$
Mortgage Backed Securities ("MBS")
AAA
"Super Senior/Senior"
75%
AA/A
"Senior Mezz/Mezz"
10%
BBB/BB
"Jr. Mezz"
8%
Equity
7%
Monolines, Re-Insurers
Banks, Conduits, SIVs
Banks, Insurance Co.'s
Other CDOs, Insurance Co.'s, Hedge Funds
Hedge Funds, CDO Manager Retention

Markets and Banking asset limits raised and exceeded

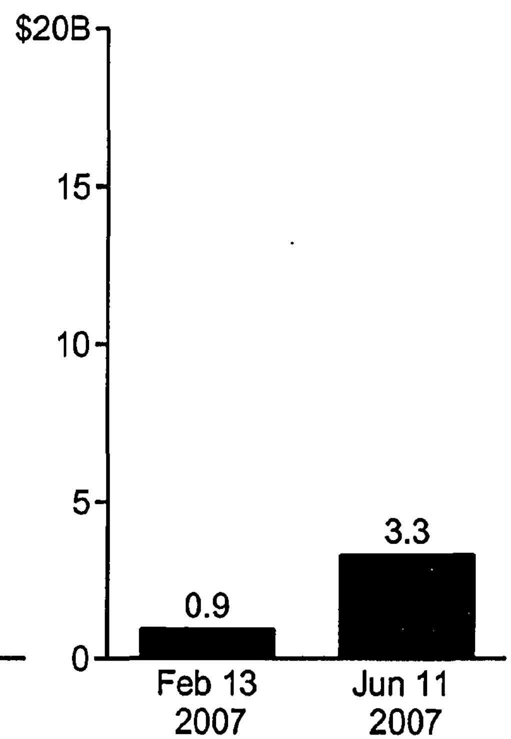


Exposure reduced as warehouse risk shifted

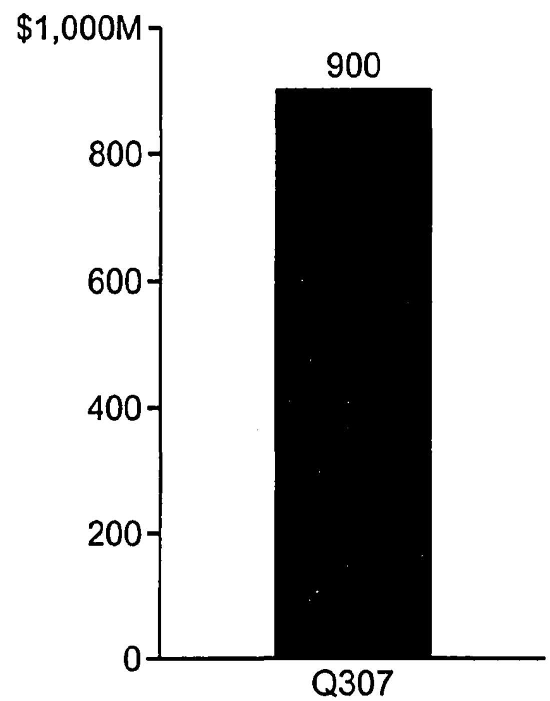
Warehouse Market Value



Hedge Market Value



Gain on Hedge



Lessons learned

1. **Reduce businesses' balance sheet dependency**

2. **Strengthen checks and balances in place in integrated business**

3. **Enforce balance sheet limits**

4. Aggregate risk more effectively across Citi

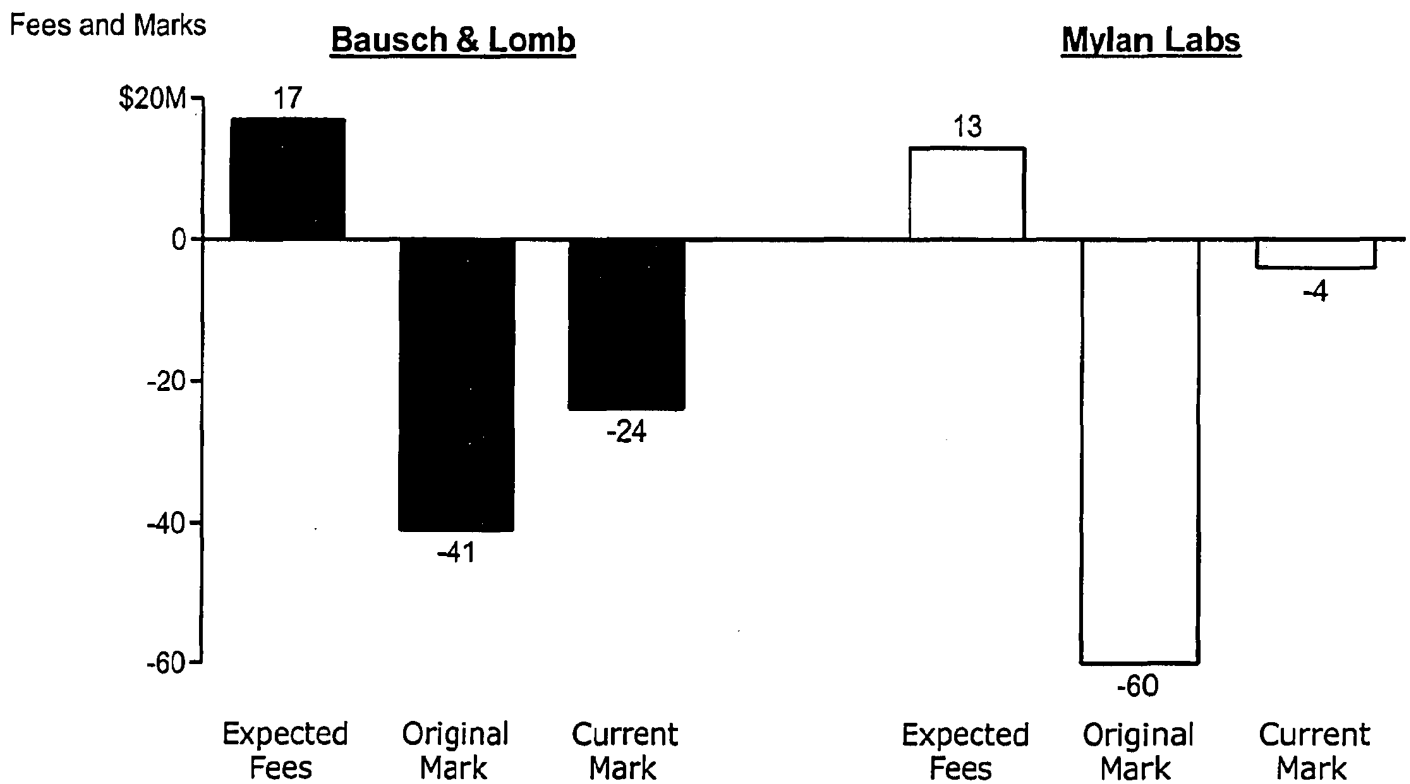
5. Enhance independent risk management practices in light of increasingly complex structures

6. Re-establish balance between management judgment and methodology in loan loss reserve process

Lessons learned and actions taken

Lessons learned	Actions we have taken	Actions in progress
1. **Reduce businesses' balance sheet dependency**	▸ Renegotiated terms & pricing in Leveraged Finance ▸ Instituted new pricing grid for all loans	▸ Instituting balance sheet charge ▸ Accelerating business mix diversification ▸ Shifting Structured Credit focus to Trading
2. **Strengthen checks and balances in place in integrated businesses**	▸ Reorganized Credit Trading	▸ Finalizing review of Structured Credit ▸ Reorganizing Leveraged Finance
3. **Enforce balance sheet limits**		▸ Centralizing Treasury ▸ Revising liquidity plan

Renegotiated terms and pricing in Leveraged Finance



Pricing	+50bps	+75-100bps

Instituted loan pricing grids

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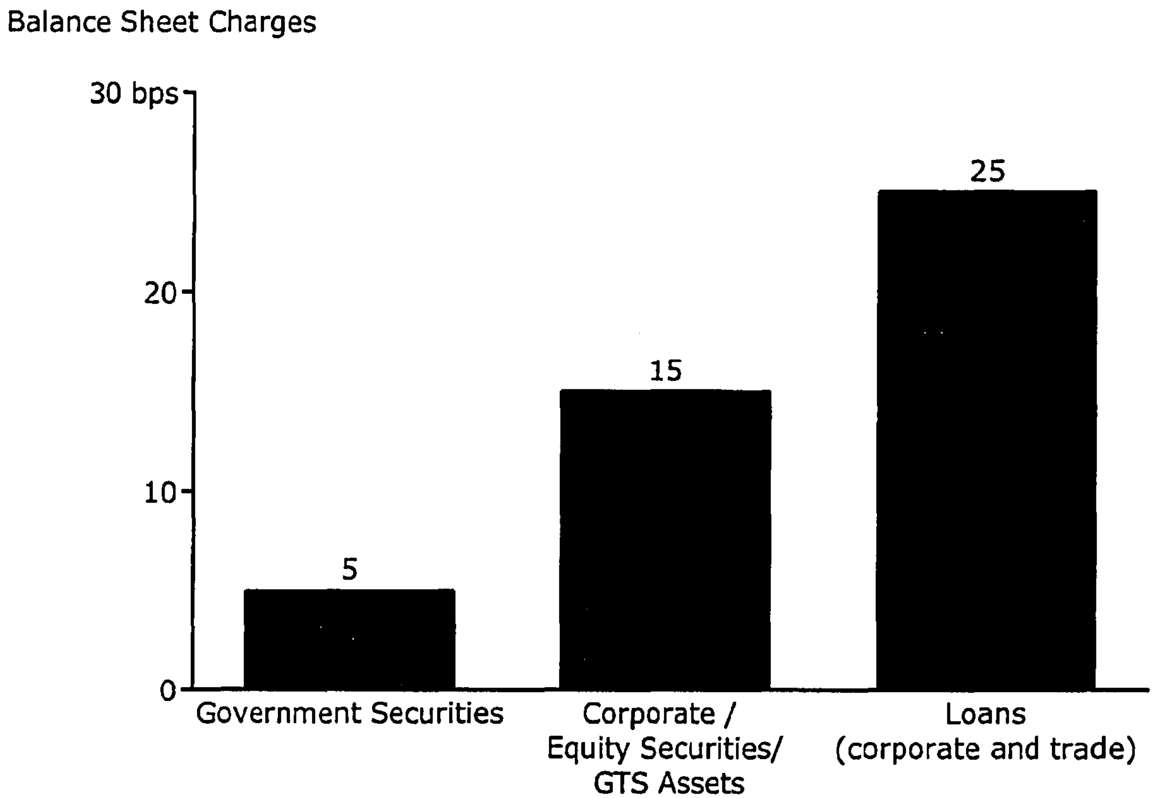
Hong Kong Syndicated / Bilateral Pricing Grid

08 October, 2007

ORR	S&P	Moody's	364 Days or Less		Up to 3 Years		Up to 5 Years		Up to 7 Years		Notes
			0% Drawn	100% Drawn	0% Drawn	100% Drawn	0% Drawn	100% Drawn	0% Drawn	100% Drawn	
[redacted]	[redacted]	[redacted]									• Numbers shown are margin only. Need upfront fees in reality especially for syndicated loans • Local currency is HK$ • Base rate for HK$ is HIBOR • No differential in margin for HK$ and US$
[redacted]	[redacted]	[redacted]									
[redacted]	[redacted]	[redacted]	7.5-8.5	7.5-8.5	9.5-10.5	9.5-10.5	14.5-15.5	14.5-15.5	19.5-20.5	19.5-20.5	
[redacted]	[redacted]	[redacted]	8-9	8-9	10-12	10-12	15-16	15-16	19-21	19-21	
[redacted]	[redacted]	[redacted]	10-11	10-11	13-15	13-15	18-20	18-20	21-23	21-23	
[redacted]	[redacted]	[redacted]	12-14	12-14	16-17	16-17	21-22	21-22	25-28	25-28	
[redacted]	[redacted]	[redacted]	15-17	15-17	19-21	19-21	23-25	23-25	29-32	29-32	
[redacted]	[redacted]	[redacted]	18-20	18-20	23-25	23-25	27-29	27-29	33-36	33-36	
[redacted]	[redacted]	[redacted]	21-23	21-23	27-29	27-29	30-33	30-33	35-37	35-37	
[redacted]	[redacted]	[redacted]	24-26	24-26	33-35	33-35	34-38	34-38	37-42	37-42	
5+	BB+	Ba1	50-60	50-60	65-80	65-80	80-90	80-90			
5	BB	Ba2	85-95	85-95	100-115	100-115	115-135	115-135			
5-	BB-	Ba3	110-130	110-130	125-140	125-140	145-165	145-165			
6+	B+	B1									
6	B	B2									
6-	B-	B3									
7+	CCC+	Caa1									
7	CCC	Caa2									
7-	CCC-	Caa3									

Instituting internal balance sheet charges



Accelerating business mix diversification

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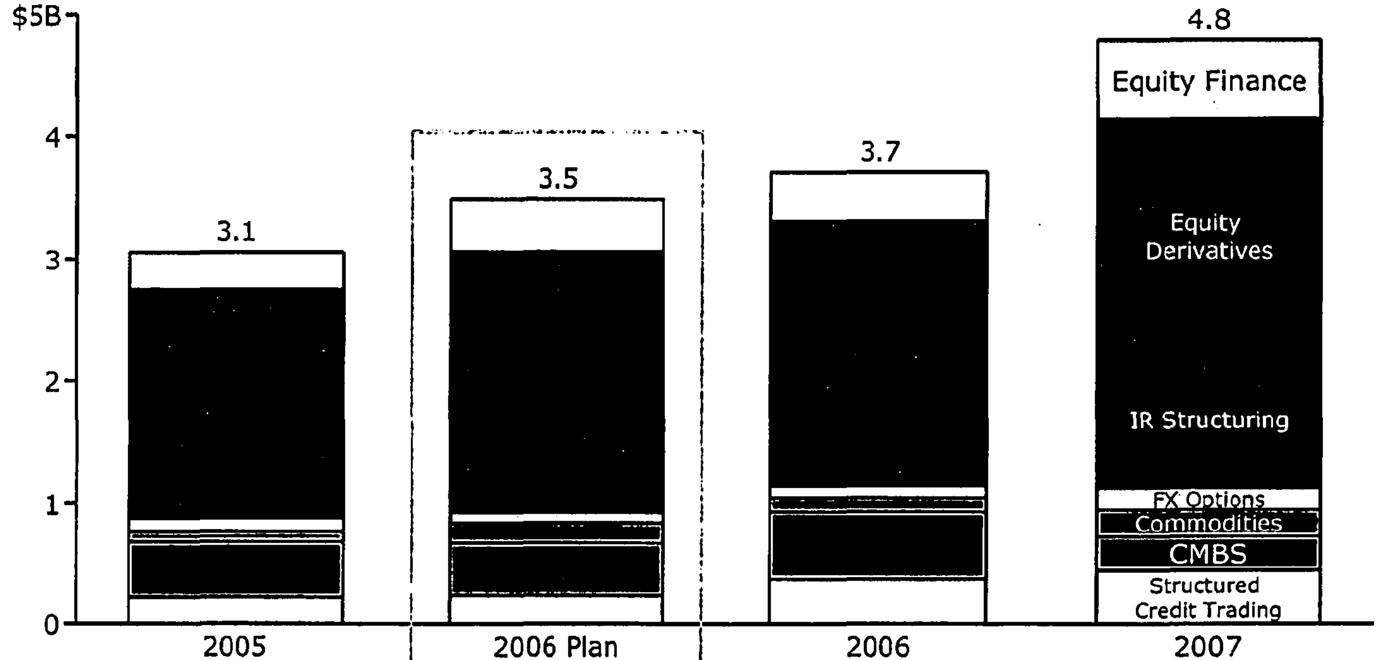
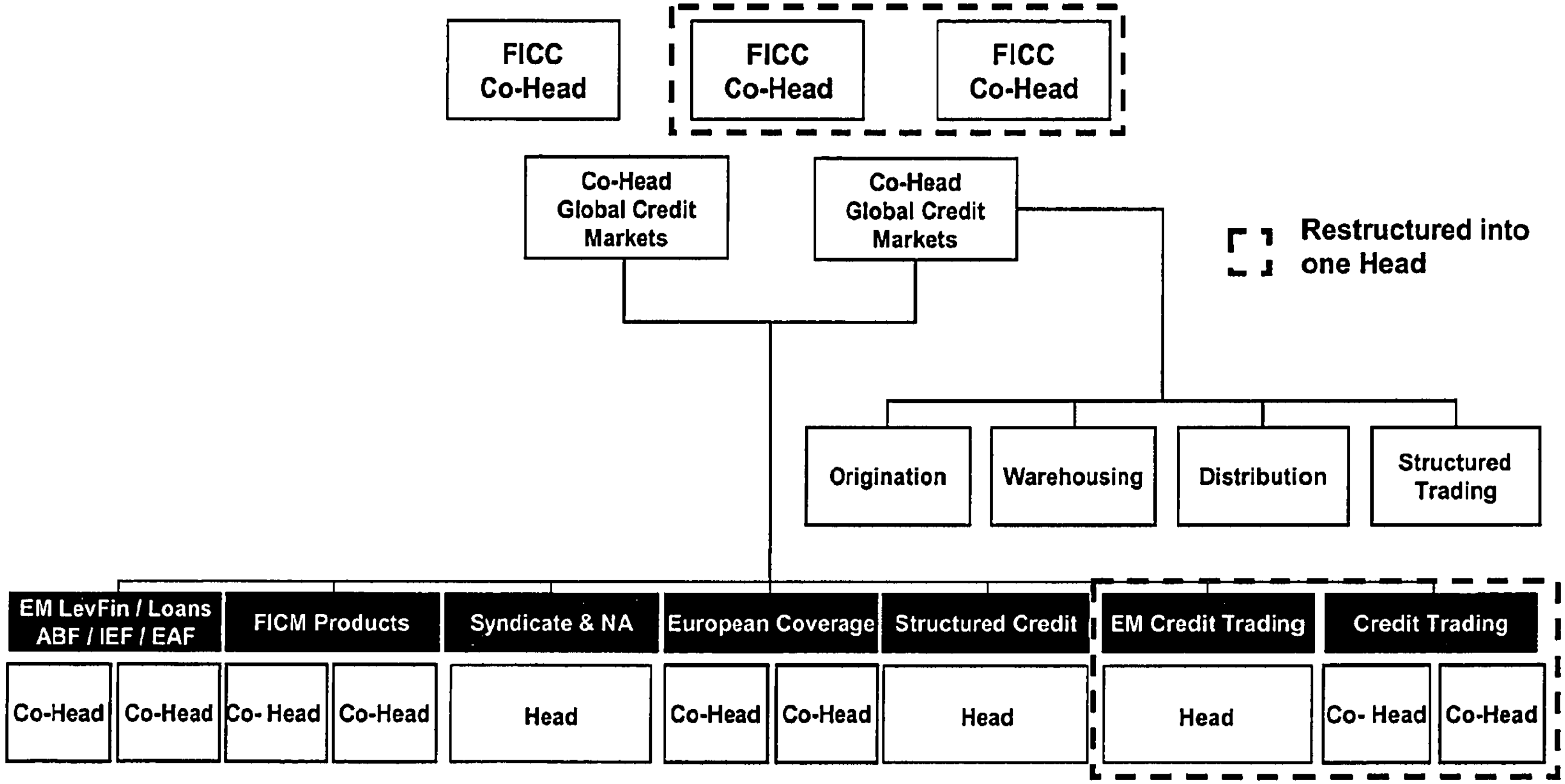
Revenue



	2005	2006 Plan	2006	2007
Initiative % of total S&B revenue	16%		17%	21%

Organization of Leveraged Finance products



Citi Leveraged Finance reorganization

Origination

- Manage sponsor relationship (FEG)
- Provide ideas and strategic advice
- Industry knowledge

Add corporate bank / credit review at origination

Execution

- Leveraged Finance: Specialist Financing and Structuring
- CLP: Approve Citi hold
- Risk: Credit due diligence and risk opinion

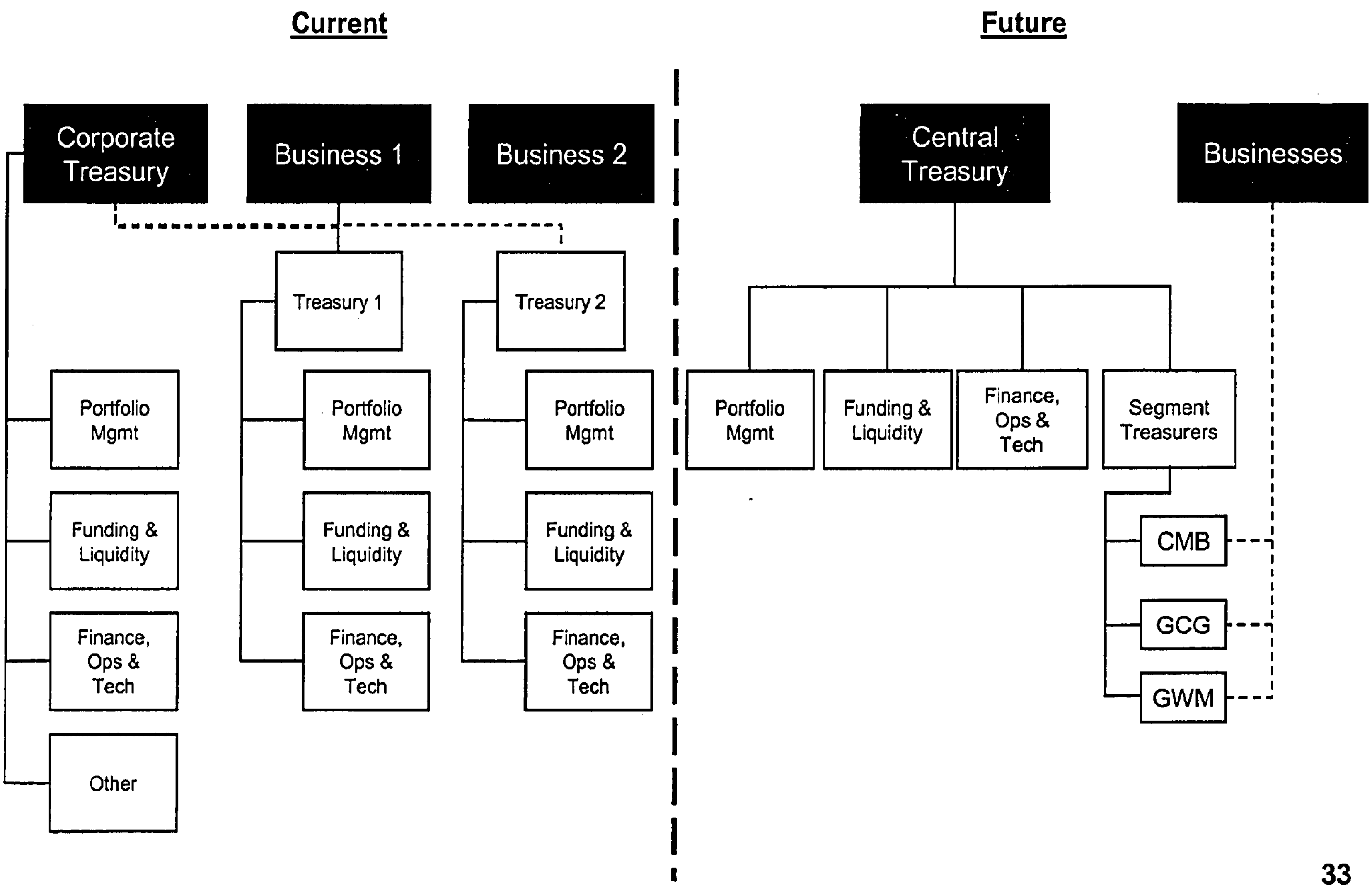
Add hedging and matched risk / accounting view at execution

Distribution

- Syndicate: marketing and syndication
- Structured Credit: Repackage into CLO for resale

Separate execution of Leveraged Finance structured credit management to eliminate conflict

Treasury organization



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Lessons learned

1. Reduce businesses' balance sheet dependency

2. Strengthen checks and balances in place in integrated business

3. Enforce balance sheet limits

4. **Aggregate risk more effectively across Citi**

5. **Enhance independent risk management practices in light of increasingly complex structures**

6. **Re-establish balance between management judgment and methodology in loan loss reserve process**

Lessons learned / Actions steps

Lesson learned

- Aggregate risk more effectively across Citi

Action steps

Reinstitute the 'Windows on Risk' concept → Establish a "Risk Threats and Issues" Process

- Discuss significant Risk Threats and Issues at the monthly Business Heads meeting
  - Make the discussions decision- and action-oriented
- Present a summary of Risk Threats and Issues to the Citigroup Board of Directors Audit and Risk Committee
- Appoint a new Head of Risk Aggregation

Lessons learned / Actions steps

Lesson learned

- Enhance independent risk management processes in light of increasingly complex structures.

Action steps

Alter the Independent Risk Management infrastructure supporting financing and liquidity offerings in trading and structuring activities

- Appoint a senior Risk Manager to head Convergence Risk Management and lead the approval of structured financings in trading businesses
  - Review / develop, in partnership with the Business, underwriting standards
- Appoint a CMB Head of Market Risk Management; Orient the Independent Risk Management framework more by risk factor and less by trading desk
- Implement Independent Risk Management coverage (including measurement, reporting and approval) of contingent liquidity facilities

Lessons learned / Actions steps

Lesson learned

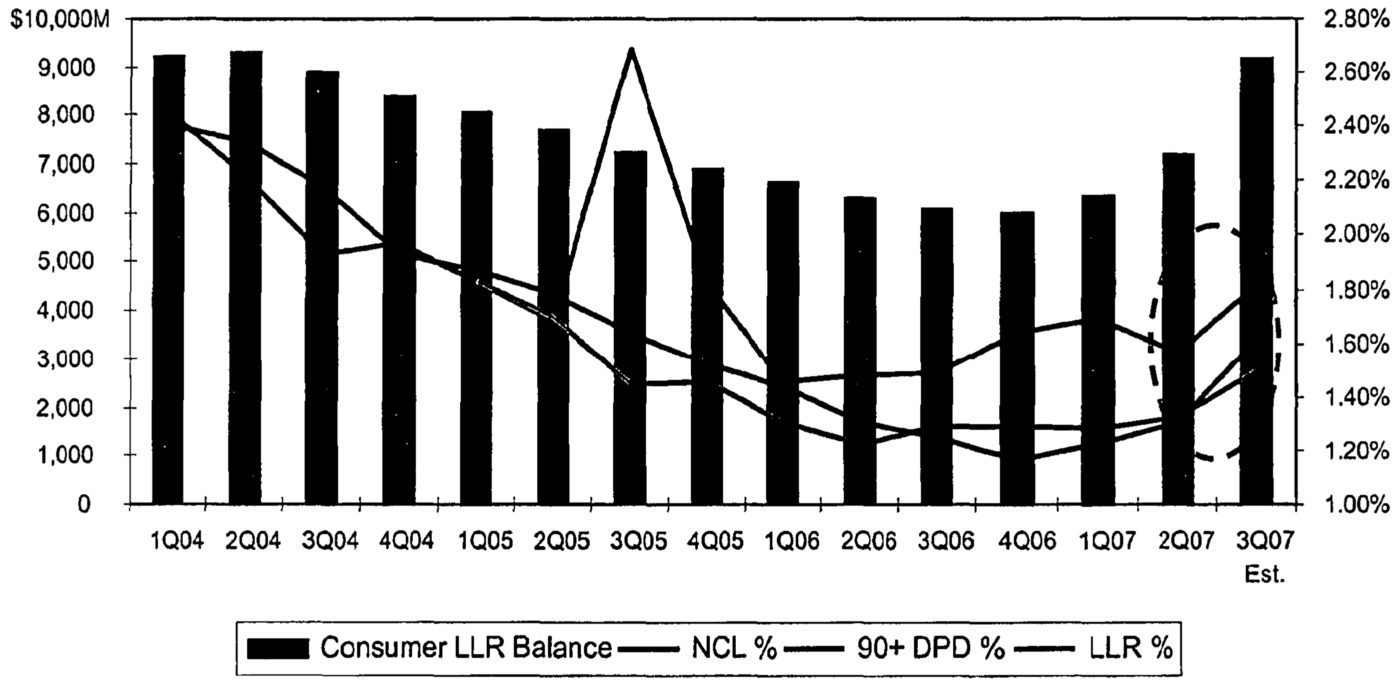
- Enhance independent risk management processes in light of increasingly complex structures.

Action steps

Supplement Independent Risk Management measures and limits in Leveraged Finance and Credit Structuring activities

- Move Leveraged Finance distribution exposure metrics away from 'outstandings-based' credit risk metrics to spread- and interest rate-based market risk metrics
  - Enhance stress testing of Leveraged Finance exposures; link stress testing to risk hedging and mitigation decisions
- Move credit structuring warehouse exposure (e.g., CDOs) away from spread- and interest rate-based market risk metrics to 'outstandings-based' credit risk metrics

Total Consumer reserve trends*



* Disclosed 'Consumer', includes GCG & GWM.

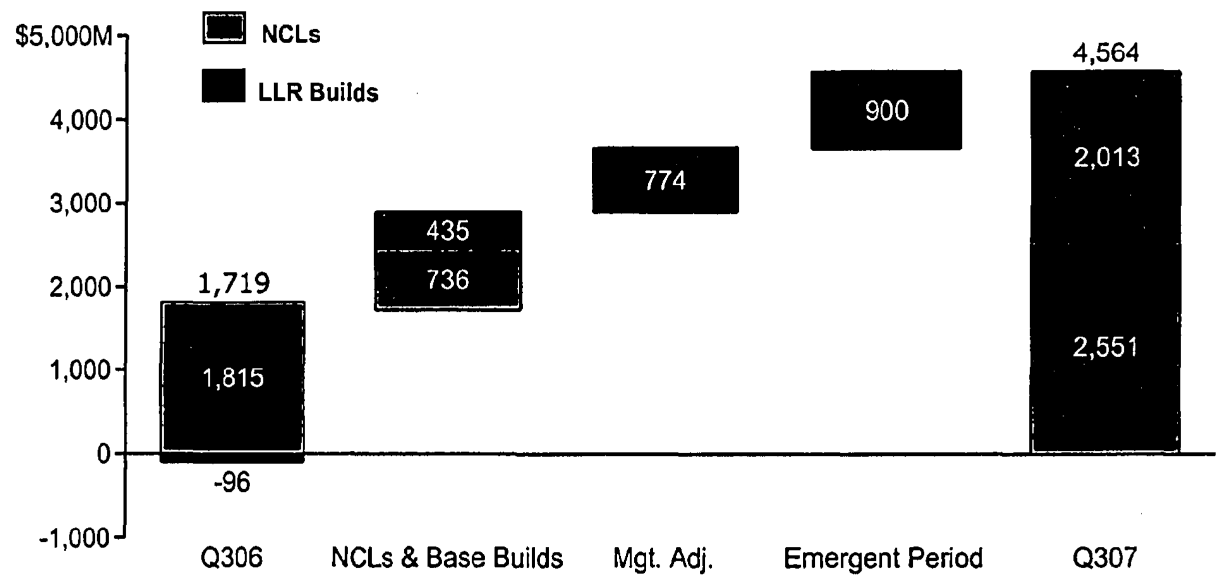
GCG cost of credit: Q307 versus Q306

Lesson learned

- Re-establish balance between management judgment and methodology in loan loss reserve process.

Action steps

- 2Q07 / 3Q07 GCG reserve actions.



Lessons learned

Lessons learned	Actions we have taken	Actions in progress
4. Aggregate risk more effectively across Citi		▸ Establishing a Risk Threats and Issues process ▸ Hiring a new Head of Risk Aggregation
5. Enhance independent risk management practices in light of increasingly complex structures		▸ Appointing a new Head of Convergence Risk ▸ Orienting market risk management more by risk factor ▸ Implementing risk coverage of contingent liquidity facilities ▸ Supplement Leveraged Finance and warehouse risk metrics
6. Re-establish balance between management judgment and methodology in loan loss reserve process	▸ Emergent loss builds (2Q07 & 3Q07) and Management Adjustments (3Q07)	

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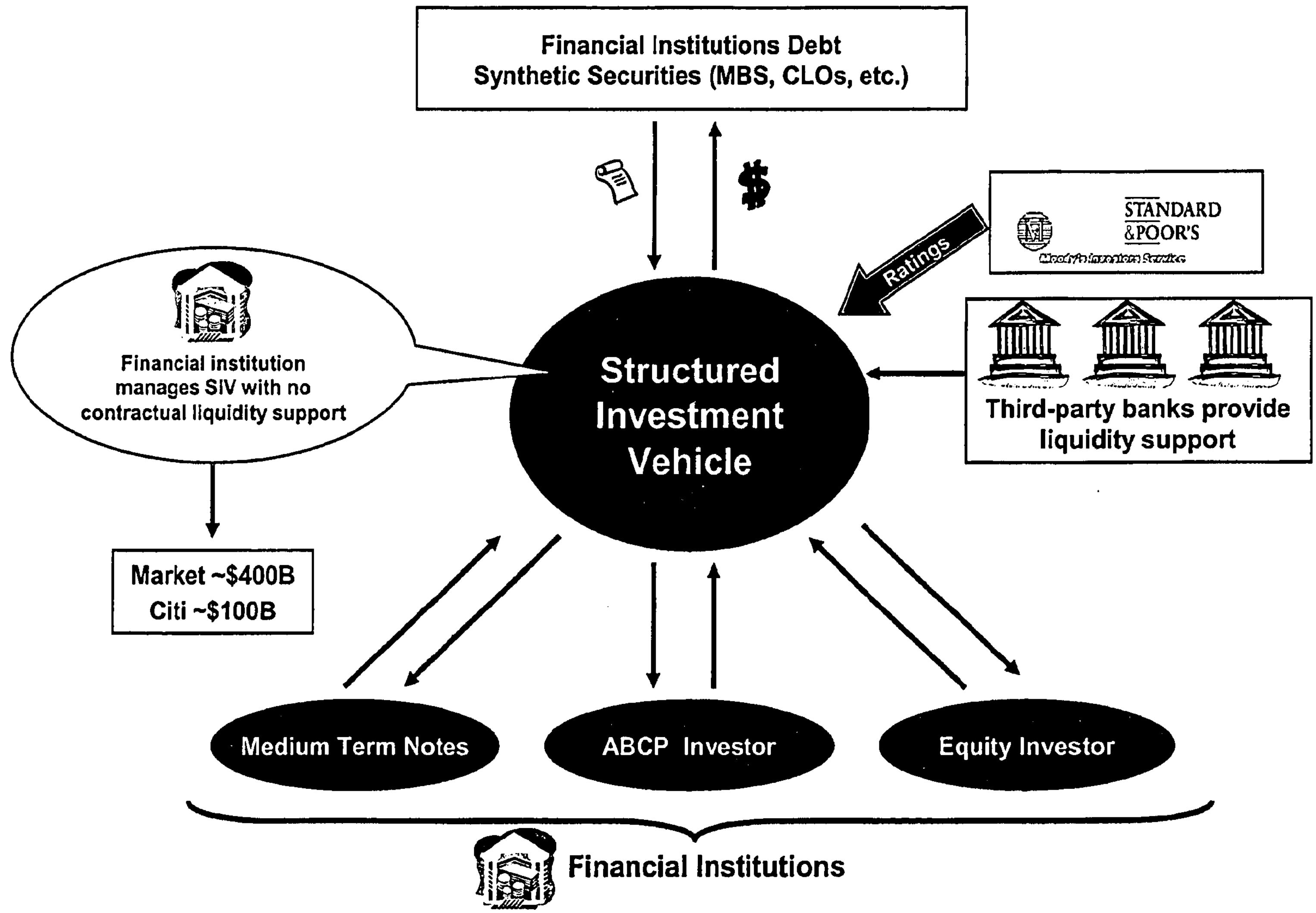
Structured Investment Vehicles at Citi



Actions underway

Short-term activities	Long-term resolution

Short-term activities

- **Continue to close funding gap through several funding measures, continued asset swaps and sales**
- **Fund through U.S. Treasury Solution**
- **Establish employee restructuring and retention plans**
- **Remain prepared for possible downgrade of equity investor notes**
  - Downgrade is not expected to affect senior notes
- **Work with equity investors to understand and manage risk and manage Citi relationship risk**

Long-term resolution

- **Wind down vehicles in an orderly fashion**
- **Restructure vehicles capital formation**
- **Resize business**

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