

- to sell \$3.5 billion of mandatory convertible tangible equity units that convert to common stock no later than December 15, 2012, on terms acceptable to the Board, of which \$2.8 billion will be booked as equity under GAAP accounting and will be treated as equivalent to Tier I Common for these purposes; and
- to provide \$1.7 billion in 2009-compensation to its employees in the form of an instrument that will convert into common shares (the instrument will be either a stock equivalent or debt instrument) in lieu of a portion of cash performance incentives for 2009 (the "Employee Equity Issuance").⁵

If successful, this proposal would raise at least \$21.5 billion and potentially as much as \$23 billion in new Tier 1 common capital or common equity equivalent. Even if the Green Shoe portion of this proposal is unsuccessful, this will cover the full TARP redemption with newly issued Tier 1 common (or common equity equivalent) -- including the MCP, which increases GAAP equity and is being treated as tier I common for these purposes -- on a dollar for dollar basis. Because the Green Shoe portion of the offer will depend on market demand, Citi has committed to replace any portion of the capital need caused by the ring fence termination that cannot be raised in the issuance of new common stock by issuing \$2 of new TRUPS for each \$1 of capital need. Thus, if Citi is not able to execute on any of the Green Shoe, Citi will cover the portion needed to cover the remainder of the termination fee adjustment by issuing up to \$3 billion in TRUPS. This essentially replaces the TRUPS rebated by the Treasury and FDIC with TRUPS owned by the private sector.

Assuming Citi at least partially fills the green shoe and raises \$23 billion (\$18.5 of direct common equity issuance into the market), capital levels would be above the SCAP buffers under the adverse scenario with the YE 2010 pro forma Tier 1 common capital ratio of approximately

⁵ Citi will accrue the expense for the Employee Equity Issuance in 2009 and make the issuance to employees in January 2010 in accordance with its employee incentive compensation plan. This plan must be in accordance with the Treasury rules governing incentive compensation. The Employee Equity Issuance would require approval by Citi's shareholders at the next shareholder meeting scheduled for April 2010. Citi would structure the terms of the Employee Equity Issuance to create incentives for shareholders to approve the additional shares. Citi would promptly raise additional common stock in an equivalent amount to the extent that shareholder approval is not obtained by the April meeting for some or all of the Employee Equity Issuance. Citi acknowledges, and the Board approval letter provides, that Citi's commitment to the stock issuance to employees would be binding and subject to supervisory action by the Board if not completed.

5.4% and the Tier 1 capital ratio of approximately 7.2%. Should the firm only raise \$17 billion in the direct market issuance of common equity, pro forma SCAP more adverse Tier I Common and Tier I ratios would be approximately 5.2% and 7.0%, respectively as of December 31, 2010.

Given Citi's commitment to raise this additional common equity and Tier 1 capital to comply with the other commitments in its letter, Citi's repurchase of \$20 billion in TARP Preferred Stock would not impair the capital adequacy of Citi. The proposed common stock issuance improves the quality of capital at Citi. Moreover, redemption of TARP would be viewed by the marketplace as a positive step that signifies Citi's strength and ability to operate without U.S. government assistance. The Board's approval is conditioned on Citi's compliance with the commitments made by Citi in its December 13, 2009 letter.

Under the proposal, Citi would be relieved from the special executive compensation requirements that apply to Citi by virtue of it being an exceptional assistance recipient. That program requires approval by the Treasury Special Master for Compensation of the compensation paid to certain executives of Citi. Citi would still be subject to the executive compensation rules applicable under the Emergency Economic Stabilization Act to all recipients of TARP funds. In addition, as a condition of termination of the ring fence, Citi has agreed to continue through 2010 to abide by the executive compensation provisions imposed under the original ring-fence. Under these provisions, in addition to the Dodd amendment restrictions that will remain in place so long as Treasury holds Citi common, we will review the actual incentive comp arrangements of Citi's top 30 earners (as opposed, for example, to simply reviewing the firm's overall incentive comp policies and practices) to be sure they comport with the Fed's incentive compensation principles as set forth in our guidance. This, of course, centrally includes the expectation that those arrangements be risk appropriate, a condition achieved through deferral, risk adjustment, clawback, or similar mechanisms. Finally, Citi has agreed to pay the Federal Reserve a nominal fee of \$50 million for terminating the ring fence. Citi has already paid the expenses incurred by the Federal Reserve under the ring fence, as required under the terms of the ring fence.

The Treasury and the FDIC have agreed to the terms of this proposal.

The Board has the authority to approve or deny Citi's request under Regulation Y and its capital guidelines.⁶ For the reasons described above and based on the facts and circumstances, staff recommends that the Board approve the proposed repurchase by Citi of TARP Preferred Stock and the termination of the ring fence agreement, subject to the commitments and conditions described above and in the Citi letter.

⁶ The Board may disapprove Citi's request if the proposed repurchase would constitute an unsafe or unsound practice or violate any applicable legal requirement. The Board has authority for these actions under Appendix A of Regulation Y, Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure. In addition, the ring fence agreement provides that it may be terminated only with the agreement of all of the US Government parties, which includes the Federal Reserve.