CEO Discussion on Global Credit Markets

September 12, 2007
## Global Credit Markets Financials

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<tr>
<td><strong>Total Revenue</strong></td>
<td>2,723,153</td>
<td>3,871,273</td>
<td>2,586,161</td>
<td>(1,013,009)</td>
<td>(361,072)</td>
<td>1,212,080</td>
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<td><strong>Total Direct Expense</strong></td>
<td>417,654</td>
<td>473,284</td>
<td>247,903</td>
<td>40,073</td>
<td>46,182</td>
<td>334,158</td>
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<td><strong>Total Allocations</strong></td>
<td>1,250,407</td>
<td>1,575,877</td>
<td>881,518</td>
<td>160,495</td>
<td>135,205</td>
<td>1,177,218</td>
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<td><strong>Total Expenses</strong></td>
<td>1,669,010</td>
<td>2,050,059</td>
<td>1,129,528</td>
<td>200,585</td>
<td>181,404</td>
<td>1,511,517</td>
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<td><strong>Margin</strong></td>
<td>1,054,144</td>
<td>1,821,214</td>
<td>1,456,633</td>
<td>(1,213,594)</td>
<td>(542,476)</td>
<td>(299,437)</td>
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<td><strong>Total Cost Of Credit</strong></td>
<td>(95,848)</td>
<td>72</td>
<td>(2,086)</td>
<td>179</td>
<td>37,244</td>
<td>35,337</td>
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<tr>
<td><strong>EBIT</strong></td>
<td>1,149,991</td>
<td>1,821,142</td>
<td>1,458,719</td>
<td>(1,213,773)</td>
<td>(579,720)</td>
<td>(334,774)</td>
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<tr>
<td><strong>Net Income (Global Tax)</strong></td>
<td>716,019</td>
<td>1,149,368</td>
<td>904,831</td>
<td>(745,445)</td>
<td>(356,876)</td>
<td>(197,490)</td>
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### Additional Information:

- **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.
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
    - Comparison of TPG financing commitments
      - 2003
      - 2006
      - Burger King
      - AllTel

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

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<th>March-06</th>
<th>March-07</th>
<th>Today</th>
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<tr>
<td>Loan Underwriting - Total</td>
<td>32.5</td>
<td>67.4</td>
<td>77.3</td>
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<tr>
<td>Loan Underwriting - Leveraged</td>
<td>12.4</td>
<td>54.1</td>
<td>53</td>
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<td>Bridge Loan Commitments</td>
<td>2.8</td>
<td>15.1</td>
<td>18.3</td>
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- 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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