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

Q307 versus Q306 pre-tax income change

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

Q307 Pre-tax Income

Q306 Pre-tax Income

Cost of Credit

Sub-prime

Credit Trading

Leveraged Finance

Improved Business Performance

Q307 Pre-tax Income

Q307 Net Income

7.4

-2.8

-1.6

-0.6

-1.4

1.9

3.0

2.4

$8B
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

Annualized NCLs/ Average loans (%)

GCG Cost of Credit

Loan loss reserves/Annualized net credit losses
**Business mix oriented to highest impacted asset classes**

**Citi overall business mix**

- **LTM Revenues**
  - Citi: 98
  - Universal Banks: 254

- **Market Growth**
  - Consumer: 10%
  - Markets & Banking: 19%
  - Wealth Management: 11%

**CMB business mix**

- **LTM Revenues**
  - Citi: 34
  - Investment Banks: 195

- **Market Growth**
  - FICC Markets: -20%
  - Equity Markets: 59%
  - IB Markets*: 18%

*Includes underwriting*
Origination volumes declining significantly

CDO/CLOs

Market Origination Volume

$200B

$150B

$100B

$50B

$0B

Q106 2Q06 Q306 Q406 Q107 Q207 Q307

Leveraged Finance

Market Origination Volume

$500B

$400B

$300B

$200B

$100B

$0B

Q106 Q206 Q306 Q406 Q107 Q207 Q307

Source: League tables
2008 CMB outlook

2008 Plan Revenue

$40B

2007 2008 plan At risk Upside potential Adjusted 2008 plan

30.0 32.0 34.0

7.8% (5)% 3.6

1.6

20 2007 2008 plan at risk upside potential adjusted 2008 plan
Market crisis doubled asset growth and reduced productivity.

GAAP Assets

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q107</th>
<th>Q207</th>
<th>Organic</th>
<th>Crisis</th>
<th>Q307</th>
<th>2008</th>
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<tr>
<td></td>
<td>$2,021</td>
<td>$2,221</td>
<td>$43</td>
<td>$66</td>
<td>$2,330</td>
<td>$2,482</td>
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</table>

Total Revenue/GAAP Assets

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<thead>
<tr>
<th>Quarter</th>
<th>Q107</th>
<th>Q207</th>
<th>Q307</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.22</td>
<td>5.02</td>
<td>3.76</td>
<td>4.52</td>
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</table>
Crisis further skewed capital adequacy

TCE/RWMA

Pre-crisis forecast

Leverage ex. SFA

Pre-crisis forecast
Incremental liquidity needs and sources

Liquidity Needs and Sources

$100B

66

ABCP Backstops
Leveraged Lending & Other U/W

99

Other
Broker/Dealer 3rd Party Banks
Broker/Dealer Secured
Long-term Debt
FHLB
AFS Sales
Fed Funds/LIBOR

Crisis Assets
Liquidity Sources
Market reaction

Share prices indexed to May 1, 2007

- BAC: 4.1%
- GS: 2.9%
- MS: -5.7%
- JPM: -9.6%
- UBS: -9.8%
- Citi: -10.5%
- DB: -15.7%
- MER: -18.5%

Share prices indexed to January 1, 2007

- GS: 17.9%
- MS: 1.2%
- BAC: 1.5%
- JPM: 0.2%
- DB: -1.2%
- UBS: -5.3%
- Citi: -9.8%
- MER: -17.3%
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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   I. CMB
   II. Risk
   III. SIVs
**CMB losses**

### Q307 versus Q306 pre-tax income change

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<th>Change (M)</th>
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<td>Cost of Credit</td>
<td>-2.8</td>
</tr>
<tr>
<td>Sub-prime</td>
<td>-1.6</td>
</tr>
<tr>
<td>Credit Trading</td>
<td>-0.6</td>
</tr>
<tr>
<td>Leveraged Finance</td>
<td>-1.4</td>
</tr>
<tr>
<td>Improved Business Performance</td>
<td>1.9</td>
</tr>
<tr>
<td>Q307 Pre-tax Income</td>
<td>3.0</td>
</tr>
<tr>
<td>Q307 Net Income</td>
<td>2.4</td>
</tr>
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Additional losses from press release (M): 246, 293, 29, (49), 519.
Impact

- Client expects financing
- Asset holding heritage
- Trading edge decline
- Top structurer & distributor

Potential conflict of interest

- Leading market share
- CDOs, Leveraged Finance
- Mortgage concentration
- Risk Transfer
- Market leading
- Proxy for hedging

New investors
- Yield hungry

Balance sheet limits not enforced
Risk aggregation sub-optimal
Risk & accounting unlinked
Disruption not anticipated
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

FICC Co-Head

Co-Head Global Credit Markets

Co-Head

Structured Trading

Origination
Warehousing
Distribution

EM LevFin/Loans ABF/IEF/EAF

FICM Products Syndicate & NA European Coverage Structured Credit EM Credit Trading

Co-Head Co-Head Co-Head Head Co-Head Co-Head

Head Co-Head Co-Head Head

Credit Trading
A top underwriter of CDOs and Leveraged Finance

($ in Billions)

### H1'07 Global CDO Volumes

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

*Total non-Leveraged Finance losses

### H1'07 Global Leveraged Syndicated Loan Volumes

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<th>Book Runner</th>
<th>Proceeds</th>
<th>Losses*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JP Morgan</td>
<td>158.5</td>
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<tr>
<td>2</td>
<td>B of A Securities LLC</td>
<td>99.2</td>
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</tr>
<tr>
<td>3</td>
<td>Citic</td>
<td>76.3</td>
<td>$1.4</td>
</tr>
<tr>
<td>4</td>
<td>Deutsche Bank AG</td>
<td>69.0</td>
<td>1.0</td>
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<tr>
<td>5</td>
<td>Credit Suisse</td>
<td>56.4</td>
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<tr>
<td>6</td>
<td>Goldman Sachs &amp; Co</td>
<td>48.2</td>
<td>2.4</td>
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<tr>
<td>7</td>
<td>Lehman Brothers</td>
<td>33.9</td>
<td>1.3**</td>
</tr>
<tr>
<td>8</td>
<td>RBS</td>
<td>32.8</td>
<td>NA</td>
</tr>
<tr>
<td>9</td>
<td>Merrill Lynch</td>
<td>32.8</td>
<td>1.0</td>
</tr>
<tr>
<td>10</td>
<td>UBS</td>
<td>27.9</td>
<td>NA</td>
</tr>
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*Leveraged finance losses

**Estimate
Structured credit revenue trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Trading</th>
<th>Origination, Structuring, Distribution</th>
<th>Cumulative 05-07</th>
<th>08 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>528</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>768</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>396</td>
<td></td>
<td>-1,506</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>990</td>
<td></td>
<td>-804</td>
<td>630</td>
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</table>

$1,000M
**Leveraged finance revenue trend**

- **2005**: $588M
- **2006**: $926M
- **2007 Outlook**: $-418M (negative)
- **Cumulative 05-07**: $1,096M
- **08 Forecast**: $550M

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

*Does not include marks*
CDO market

CDO

Mortgage Backed Securities ("MBS")

AAA
"Super Senior/Senior" 75%

AA/A
"Senior Mezz/Mezz" 10%

BBB/BB
"Jr. Mezz" 8%

Equity 7%

Investors

- 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

CMB GAAP Assets

$1,500B

1,500

1,400

1,300

1,200

1,100

1,000

Q107 Q207 Q307 Q407 Plan

1,180 1,343 1,440 1,450

1,115 1,308 1,331 1,413

Actual

Limit

CTI-FCIC 00092802

CTI-FCIC 00092802

23
Exposure reduced as warehouse risk shifted

**Warehouse Market Value**

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
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<tbody>
<tr>
<td>Feb 13 2007</td>
<td>$18.8B</td>
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<tr>
<td>Jun 11 2007</td>
<td>$14.7B</td>
</tr>
</tbody>
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**Hedge Market Value**

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 13 2007</td>
<td>$0.9B</td>
</tr>
<tr>
<td>Jun 11 2007</td>
<td>$3.3B</td>
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</tbody>
</table>

**Gain on Hedge**

| Q3 2007 | $900M  |
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

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<td></td>
<td></td>
<td>› Revising liquidity plan</td>
</tr>
</tbody>
</table>
Renegotiated terms and pricing in Leveraged Finance

Fees and Marks

**Bausch & Lomb**

- Expected Fees: +50bps
- Original Mark: 17
- Current Mark: -41

**Mylan Labs**

- Expected Fees: +75-100bps
- Original Mark: 13
- Current Mark: -60

Pricing
# Instituted Loan Pricing Grids

## Hong Kong Syndicated / Bilateral Pricing Grid

<table>
<thead>
<tr>
<th>ORR</th>
<th>S&amp;P</th>
<th>Moody's</th>
<th>364 Days or Less</th>
<th>Up to 3 Years</th>
<th>Up to 5 Years</th>
<th>Up to 7 Years</th>
<th>Notes</th>
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<tbody>
<tr>
<td></td>
<td></td>
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<td>0%</td>
<td>100%</td>
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<td>Drawn</td>
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</table>

- 7.5-8.5
- 8-9
- 10-11
- 12-14
- 15-17
- 18-20
- 21-23

- 10-12
- 13-15
- 16-17
- 19-21
- 22-24
- 25-27
- 28-30

- 15-16
- 18-20
- 21-23
- 24-26
- 27-29
- 30-32

- 19-21
- 22-24
- 25-27
- 28-30
- 31-33
- 34-36

- 32-34
- 35-37
- 36-38
- 37-40
- 41-43

- Need upfront fees in reality especially for syndicated loans
- Local currency is HKD
- Base rate for HKD is HIBOR
- No differential in margin for HKD and USD

<table>
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<tr>
<th></th>
<th>B+</th>
<th>Ba1</th>
<th>5-6</th>
<th>Ba2</th>
<th>5-6</th>
<th>Ba3</th>
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<th>5-6</th>
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08 October, 2007
Instituting internal balance sheet charges

Balance Sheet Charges

- Government Securities: 5 bps
- Corporate / Equity Securities / GTS Assets: 15 bps
- Loans (corporate and trade): 25 bps
Accelerating business mix diversification

Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiative % of total S&amp;B revenue</th>
<th>2005</th>
<th>2006 Plan</th>
<th>2006</th>
<th>2007</th>
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<tbody>
<tr>
<td>2005</td>
<td>16%</td>
<td>3.1</td>
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<td></td>
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<td>2006 Plan</td>
<td>17%</td>
<td>3.5</td>
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<td>2006</td>
<td>17%</td>
<td>3.7</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2007</td>
<td>21%</td>
<td></td>
<td></td>
<td>4.8</td>
<td></td>
</tr>
</tbody>
</table>
Citi Leveraged Finance reorganization

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

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

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

Add corporate bank / credit review at origination
Add hedging and matched risk / accounting view at execution
Separate execution of Leveraged Finance structured credit management to eliminate conflict
Treasury organization
## Lessons learned and actions taken

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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

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

Why did this happen and what are we going to do going forward?
   I. CMB
   II. Risk
   III. SIVs
Structured Investment Vehicles at Citi

Financial Institutions Debt
Synthetic Securities (MBS, CLOs, etc.)

Structured Investment Vehicle

Financial institution manages SIV with no contractual liquidity support

Market ~$400B
Citi ~$100B

Financial Institutions Debt

Medium Term Notes
ABCP Investor
Equity Investor

Financial Institutions

Third-party banks provide liquidity support

Ratings

STANDARD 
& POOR'S

Credit Risk Management Practice

Financial Institutions Debt
### Actions underway

#### 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
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