

Exchange Offer – Capital and Accounting Impact in 3Q'09

As a result of the closing of the private and public exchange offers, including the associated exchanges by the U.S. government on a proforma basis, Citigroup increased its Tier 1 Common by approximately \$64 billion from the second quarter of 2009 level of approximately \$27 billion to approximately \$91 billion. In addition, Citigroup's tangible common equity (TCE), which was approximately \$40 billion as of June 30, 2009, increased by approximately \$60 billion to approximately \$100 billion on a proforma basis. (TCE and Tier 1 Common are non-GAAP financial measures. A reconciliation to the most directly comparable GAAP measures is provided in the Appendix).

The additional estimated \$60 billion of TCE is primarily the result of the exchange of approximately \$74 billion carrying amount of preferred shares and \$6 billion carrying value of trust preferred securities for 17,372 million shares of common stock and approximately \$27.1 billion liquidation amount of trust preferred securities (recorded as Long-term Debt at its fair value of \$16.2 billion). This resulted in an increase to Common stock and Additional paid-in capital ("APIC") of \$62 billion and a reduction in Retained earnings of approximately \$2 billion, for a total increase in TCE of approximately \$60 billion.

The additional \$64 billion of Tier 1 Common includes the impact of the above plus a reduction in the disallowed Deferred tax asset (which increases Tier 1 Common) that arises from the accounting for the transactions.

The following table presents the impact of the completion of all stages of the exchange offers to Citigroup's common shares outstanding and to its balance sheet:

(in millions of dollars, except incremental number of Citigroup common shares)

Security	Notional Amounts	Converting Into	Incremental Number of Citigroup Common Shares (in millions)	Date of Settlement	Other Assets	Long - Term Debt	Preferred Stock	Impact on			
								Common Stock	Additional Paid In Capital	Income Statement	Retained Earnings
Convertible Preferred Stock held by Private Investors	\$12,500	Interim Securities/ Common Stock ⁽¹⁾	3,846	7/23/2009	\$ --	--	\$(12,500)	\$ 38	\$21,801	\$ --	\$(9,340)
Convertible Preferred Stock held by Public Investors	3,146	Common Stock	823	7/29/2009	--	--	(3,146)	8	5,127	--	(1,990)
Non-Convertible Preferred Stock held by Public Investors	11,465	Common Stock	3,351	7/29/2009	--	--	(11,465)	34	9,116	--	2,316
Trust Preferred Securities held by Public Investors	5,760	Common Stock	1,660	7/29/2009	(622)*	(6,034)*	--	17	4,515	893*	893*
USG TARP Preferred Stock matching the Preferred Stock held by Private Investors	12,500	Interim Securities/ Common Stock ⁽¹⁾	3,846	7/23/2009	--	--	(11,924)	38	10,615	--	1,270
USG TARP Preferred Stock matching the Preferred Stock and Trust Preferred Securities held by Public Investors	12,500	Interim Securities/ Common Stock ⁽¹⁾	3,846	7/30/2009	--	--	(11,926)	38	10,615	--	1,272
USG TARP Preferred Stock	20,000	TruPS	--	7/30/2009	(2,883)	12,004	(19,514)	--	--	--	4,627
Non-Convertible Preferred Stock held by U.S. Treasury and FDIC related to covered asset guarantee (loss-sharing agreement)	7,059	TruPS	--	7/30/2009	(503)	4,237	(3,530)	--	--	--	(1,210)
Total			17,372		\$(4,008)	\$10,207	\$(74,005)	\$ 173	\$61,789	\$ 893	\$(2,162)

* Preliminary and subject to change

Note: Table may not foot due to roundings.

1) Upon shareholder approval of the increase in Citigroup's authorized common stock, the interim securities will be automatically converted into common stock (anticipated in early September 2009).

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Convertible preferred stock: The outstanding convertible preferred stock held by private and public investors had conversion prices of \$26.35 and \$33.49, respectively. However, the exchange offers announced on February 27, 2009 (“exchange offer”) reset the conversion price for both private and public investors to \$3.25. The difference between the original conversion prices and the conversion price of the exchange offer resulted in an increase in the number of issuable shares and led to a reclassification from Retained earnings to APIC. This reclassification reflected the benefit to the convertible preferred stock investors (“inducement offer”) of the lower conversion price of the exchange offer.

- ▶ The value of the inducement offer is calculated as the difference in the number of common shares issued under the exchange offer (3,846 million and 823 million for private and public investors, respectively, based on a conversion price of \$3.25 and an 85% exchange factor for the public preferred shares) and the number of common shares that would have been issued under the original agreements (474 million and 94 million for private and public investors, respectively), multiplied by the stock price on the day they committed to the exchange offer (“commitment date”).
- ▶ The commitment date for the private investors was the day they exchanged convertible preferred securities for interim securities and warrants (July 23, 2009). The commitment date for the public investors was the day the public exchange offer expired (July 24, 2009).
- ▶ The value of the inducement offer resulted in a reclassification from Retained earnings to APIC of \$9.3 billion and \$2.0 billion for the private and public investors, respectively.
- ▶ This reclassification within stockholders' equity has no impact on net income or capital ratios, but does impact EPS because the reclassification from Retained earnings to APIC results in a reduction of Income Available to Common Stockholders in the quarter.

Non-convertible preferred stock: The Retained earnings impact reflects the difference between the carrying value of the non-convertible preferred stock tendered by public investors (booked at par) and the U.S. government (booked at a discount to par), and the fair value of the common stock or trust preferred securities issued in exchange.

- ▶ The fair value of the common stock is calculated as the number of common shares issued, multiplied by the stock price on the commitment date. The commitment date for the U.S. government was the day it matched the transaction with the private investors and exchanged preferred securities for interim securities and warrants (July 23, 2009).
- ▶ The Retained earnings impact of this exchange does not affect total stockholders' equity or net income, but does have an impact on EPS for the reasons outlined above.
- ▶ The fair value of the \$27 billion of notional trust preferred securities (“TruPs”) issued to the U.S. government in exchange for the TARP Series I preferred shares (the shares issued to the U.S. government in December 2008) and the preferred shares issued to the U.S. government in consideration for the covered asset guarantee (Series G) reflects the difference between the newly issued TruPs 8% coupon and the market coupon for equivalent securities on the commitment date.
- ▶ The impact to retained earnings from the exchange of the U.S. government's preferred stock into TruPS is tax-effected and a reduction of deferred tax asset is recorded. This exchange has no effect on net income, but does have a positive impact on EPS, as the fair value of the new instruments issued was less than the carrying value of the securities being exchanged.

Trust Preferred Securities: The extinguishment of the trust preferred securities tendered by public investors will result in an after-tax gain of approximately \$893 million that will be reflected in the income statement.

- ▶ This gain is calculated as the difference between the carrying value of the trust preferred securities tendered and the fair value of the common stock issued after adjusting for deferred taxes.
- ▶ The fair value of the common stock issued is calculated as the number of common shares issued multiplied by the stock price on the commitment date.

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Appendix – Reconciliation of Most Directly Comparable GAAP Measures to Non-GAAP Measures

Tier 1 Common (Non-GAAP)

<i>In millions of dollars</i>	Jun. 30, 2009	Dec. 31, 2008 ⁽¹⁾
Tier 1 Common		
Citigroup common stockholders' equity	\$ 78,001	\$ 70,966
Less: Net unrealized losses on securities available-for-sale, net of tax ⁽²⁾	(7,055)	(9,647)
Less: Accumulated net losses on cash flow hedges, net of tax	(3,665)	(5,189)
Less: Pension liability adjustment, net of tax ⁽³⁾	(2,611)	(2,615)
Less: Cumulative effect included in fair value of financial liabilities attributable to the change in own credit worthiness, net of tax ⁽⁴⁾	2,496	3,391
Less: Disallowed deferred tax assets ⁽⁵⁾	24,448	23,520
Less: Intangible assets:		
Goodwill ⁽⁶⁾	26,111	27,132
Other disallowed intangible assets ⁽⁶⁾	10,023	10,607
Other	(893)	(840)
Total Tier 1 Common	\$ 27,361	\$ 22,927

(1) Reclassified to conform to the current period presentation.

(2) Tier 1 Capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values, in accordance with risk-based capital guidelines. In arriving at Tier 1 Capital, banking organizations are required to deduct net unrealized losses on available-for-sale equity securities with readily determinable fair values, net of tax. Banking organizations are permitted to include in Tier 2 Capital up to 45% of pretax net unrealized gains on available-for-sale equity securities with readily determinable fair values.

(3) The FRB granted interim capital relief for the impact of adopting SFAS 158 (ASC 715-20-65).

(4) The impact of including Citigroup's own credit rating in valuing liabilities for which the fair value option has been elected is excluded from Tier 1 Capital, in accordance with risk-based capital guidelines.

(5) Of the Company's approximately \$42 billion of net deferred tax assets at June 30, 2009, approximately \$13 billion of such assets were includable without limitation in regulatory capital pursuant to risk-based capital guidelines, while approximately \$24 billion of such assets exceeded the limitation imposed by these guidelines and, as "disallowed deferred tax assets," were deducted in arriving at Tier 1 Capital. The Company's other approximately \$5 billion of net deferred tax assets at June 30, 2009 primarily represented the deferred tax effects of unrealized gains and losses on available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines. The Company had approximately \$24 billion of disallowed deferred tax assets at December 31, 2008.

(6) Includes goodwill/intangible assets of discontinued operations held for sale

Tangible Common Equity (Non-GAAP)

<i>In millions of dollars, except ratio</i>	June 30, 2009	December 31, 2008
Total Citigroup Stockholders' Equity	\$ 152,302	\$ 141,630
Less:		
Preferred Stock	74,301	70,664
Common Equity	\$ 78,001	\$ 70,966
Less:		
Goodwill – as reported	25,578	27,132
Intangible Assets (other than MSRs) – as reported	10,098	14,159
Goodwill and Intangible Assets – recorded as Assets of Discontinued Operations Held for Sale	3,618	-
Less: Related Net Deferred Tax Liabilities	1,296	1,382
Tangible Common Equity (TCE)	\$ 40,003	\$ 31,057