Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008: Authorization to Provide Residual Financing to Citigroup, Inc. For a Designated Asset Pool

Overview

On November 23, 2008, the Board of Governors of the Federal Reserve System (the "Federal Reserve"), based on the unanimous vote of its five members, authorized the Federal Reserve Bank of New York (the "Reserve Bank") under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343) to provide Citigroup, Inc. ("Citigroup"), if necessary, residual financing for the value of assets remaining in a designated pool after certain loss sharing arrangements with Citigroup, the Department of the Treasury (the "Treasury") and the Federal Deposit Insurance Corporation (the "FDIC") are exhausted. As discussed further below, this authorization was granted as part of a package of coordinated actions by the Treasury, FDIC, and Federal Reserve to provide financial support to Citigroup and promote financial stability.

Background

Citigroup is one of the largest financial institutions in the United States and has extensive and diversified operations both in the United States and abroad. As of September 30, 2008, Citigroup was the second largest banking organization in the United States, with total consolidated assets of slightly more than $2 trillion dollars. As of the same date, Citigroup's lead subsidiary bank, Citibank, N.A., had total consolidated assets of approximately $1.2 trillion, making the bank the third largest U.S. insured depository institution in terms of assets.

Citigroup is a major supplier of credit in the United States and abroad, with more than $750 billion in loans outstanding at the end of the third quarter of 2008. As of the same date, Citigroup held more than $277 billion in domestic deposits and more than $500 billion in foreign deposits, making the organization one of the largest deposit holders in the world. Citigroup also has significant amounts of commercial paper and long-term senior and subordinated debt outstanding; is a major participant in numerous domestic and international payment, clearing and central counterparty arrangements; and is a significant counterparty to many major national and international financial institutions. In addition, Citigroup provides a wide range of investment banking, capital markets, asset management, and retail

brokerage services through its subsidiary Citigroup Global Capital Markets, Inc., and is a major participant in a wide range of derivatives markets.

Over the past year and a quarter, Citigroup and its insured depository institutions have been negatively affected by the ongoing disruptions in the financial markets, the broad-based decline in home prices, the accompanying substantial drop in the values of mortgages and mortgage-backed securities and a deterioration in the economic outlook both in the United States and abroad. In the first three quarters of this year, Citigroup posted losses of $10.4 billion due, in part, to losses on mortgage-related securities and exposures and high provisions for future credit losses. On October 28, 2008, the Treasury acquired $25 billion of preferred stock of Citigroup, as well as related warrants, as part of the first tranche of capital purchases made under the Capital Purchase Program ("CPP") established under the Troubled Assets Relief Program ("TARP"). The CPP is available to a broad range of financial institutions.

In recent weeks, however, investors became increasingly concerned about Citigroup's financial prospects and viability, threatening the ability of the organization to continue to obtain funding. Despite actions by the Federal Reserve, Treasury and FDIC in recent months to ease the pressures on financial markets, these markets continue to be strained, and firms viewed as being potentially troubled can find it very difficult to raise funds.

Overview of the Board's Authorization and Related Programs

In light of these and other factors, including conditions in the financial markets and the state of the U.S. economy, the Treasury, FDIC, and Federal Reserve agreed on November 23, 2008, to provide Citigroup with a package of programs and facilities to help restore confidence in Citigroup and promote financial stability, which is a prerequisite to restoring vigorous economic growth. Collectively these new measures will augment the capital of Citigroup; protect the company from further declines in the value of a substantial pool of primarily mortgage-related assets; and better enable the company, its subsidiary depository institutions and the financial system to weather the current difficulties, and provide credit and other financial services needed by consumers, small businesses, and others.

The following describes the three components of the assistance provided to Citigroup. Additional information concerning these actions is included in the attached term sheets.

1. Additional Equity Investment by the Treasury.

The Treasury will acquire an additional $20 billion in newly-issued senior preferred stock of Citigroup under the systemically significant financial institution program established under the TARP. The preferred stock will carry an 8 percent dividend to the Treasury, and includes terms designed to protect the interests of taxpayers. As required by the Emergency Economic Stabilization Act, the Treasury will receive warrants to purchase common stock of Citigroup at a strike price of $10.61 per share and with an aggregate value of $2.7 billion. Under the terms of the preferred stock, Citigroup also will be required to (i) abide by enhanced executive compensation standards that are deemed to be acceptable to the Treasury, Federal Reserve, and FDIC, and (ii) implement a program designed to reduce preventable foreclosures on owner-occupied residential properties.

2. Treasury and FDIC Loss-Sharing Arrangements with Citigroup.

Treasury and the FDIC also have agreed to share with Citigroup losses on a designated pool of up to $306 billion in primarily mortgage-related assets currently held by Citigroup. This designated pool of assets, which will remain on Citigroup's consolidated balance sheet, will be comprised of loans and securities backed by residential and commercial real estate, associated hedges, and such additional assets as may be agreed by Citigroup and the agencies. Under the terms of the guarantee arrangement, Citigroup first will bear responsibility for any losses on these assets that exceed the company's current reserves and marks, up to a maximum of $29 billion. Should there be additional losses on these assets, the losses will be shared among Citigroup, Treasury, and the FDIC. Citigroup will bear responsibility for 10 percent of the additional losses; the remaining portion would be allocated first to the Treasury, up to a maximum of $5 billion, and then to the FDIC, up to a maximum of $10 billion. These loss-sharing arrangements will be in effect for 10 years for residential mortgage-related assets and 5 years for other assets. As compensation for these guarantees, the Treasury and FDIC will receive $4 billion and $3 billion, respectively, of preferred stock in Citigroup, which will bear dividends at 8 percent per annum.

3. Residual Federal Reserve Financing.

In connection with these actions, the Federal Reserve authorized the Reserve Bank under section 13(3) of the Federal Reserve Act, if necessary, to provide Citigroup with financing up to the value of the assets remaining in the designated pool after the loss sharing arrangements with the Treasury and FDIC are

exhausted. Any financing provided by the Reserve Bank would be collateralized by the assets in the designated pool, and also would be protected by a continuing 10-percent loss-sharing position of Citigroup. The financing would be provided to Citigroup on a non-recourse basis, except with respect to interest payments. Outstanding advances made to Citigroup under the facility would bear interest at a floating rate equal to the 3-month overnight index swap rate plus 300 basis points. Any residual financing provided by the Federal Reserve would complete the remainder of the term of the guarantee arrangements, i.e., the financing would terminate 10 years after the start date of the guarantee for residential mortgage-related assets and 5 years for other assets.

In light of the substantial protections against loss provided by Citigroup, the Treasury, and the FDIC that must be exhausted before any financing would be provided under the facility, and the fact that any financing provided under the facility would be fully collateralized, the Federal Reserve does not expect that the Reserve Bank's facility will result in any losses to the Federal Reserve or the taxpayer.

Attachment