



MORGAN STANLEY SMITH BARNEY **TOUGH Q&A**

1. Is this the first step in the breakup of Citi?

Morgan Stanley Smith Barney is a true joint venture that creates an industry-leading wealth management business and provides tremendous value for Citi.

Once the transaction is completed, Citi will benefit by a further streamlining and simplification of the company while retaining our unrelenting focus on driving shareholder value by optimizing and rationalizing our unique global banking franchise.

2. How does Citi benefit from this deal?

Under the terms of the agreement, Citi will exchange 100 percent of its Smith Barney, Smith Barney Australia and Quilter units for a 49 percent stake in the joint venture and an upfront cash payment of \$2.7 billion.

Citi will benefit from this transaction by monetizing its investment in its wealth management business, while continuing to benefit from a multi-year earnings stream as it simplifies and streamlines its organizational structure. The joint venture expands Citi's access to retail customers for our capital markets products and research, allowing us to better serve our issuing clients. In addition, Citi will continue to capture our current levels of order flow for our investing clients. At closing, Citi will recognize a pre-tax gain of approximately \$9.5 billion, or approximately \$5.8 billion on an after-tax basis, and will create approximately \$6.5 billion of tangible common equity.

We will continue to retain business linkages with other areas of Citi and immediately release billions of dollars of equity capital that we can deploy elsewhere to drive our return to long-term financial success.

In addition to a significant initial and ongoing financial opportunity, Citi will also benefit by a further streamlining and simplification of the company while retaining our unrelenting focus on driving shareholder value by optimizing and rationalizing our unique global banking franchise.

3. Your CEO said only six weeks ago that "I love that business" and that it's not for sale. What happened?

The formation of Morgan Stanley Smith Barney is a unique opportunity and we applaud the boards of both firms for seizing this chance to unite these two businesses to create a new standard in wealth management.

This is the latest in a series of aggressive steps we have taken to put the company on the path to future growth and position it to navigate the challenges posed by the current market environment and take advantages of emerging opportunities.

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4. Your CEO has been defending the global universal bank strategy for the past year, including the importance of Smith Barney. Has he flip-flopped? How can he be allowed to keep his position given the failure of the strategy he's supported since assuming the top job?

This is the latest in a series of aggressive steps we have taken to put the company on the path to future growth and position it to navigate the challenges posed by the current market environment and take advantages of emerging opportunities.

Following this joint venture, Citi will maintain its unparalleled global footprint.

Vikram Pandit continues to address the company's immediate and long-term needs given the unprecedented challenges facing global economies, markets and the financial services industry.

Citi will also benefit by a further streamlining and simplification of the company while retaining our unrelenting focus on driving shareholder value by optimizing and rationalizing our unique global banking franchise.

5. Are market conditions putting so much pressure on the company that it needs to abandon the previously stated strategy? Are you selling businesses out of desperation?

This is the latest in a series of aggressive steps we have taken to put the company on the path to future growth and profitability, and position it to navigate the challenges posed by the current market environment and take advantage of emerging opportunities.

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This transaction generates billions of dollars of capital upfront, substantially reduces our expenses and enables us to retain a significant stake in a company that immediately becomes an industry leader with real growth opportunities.

In addition, we will generate equity capital that we can deploy to other core businesses which are well positioned to deliver attractive returns in the future.

6. Can you specifically outline how you will deploy capital from the sale of a majority stake in Smith Barney?

This transaction will generate equity capital that we can deploy to other core businesses which are well positioned to deliver attractive returns in the future.

We will address the use of this capital at the appropriate time.

7. Is the board pressuring management to break up the company?

Senior management and the board are working together to navigate the challenges posed by the current market environment and take advantage of emerging opportunities.

8. Is Morgan Stanley the best partner, or is your senior management just going there because they used to work there? What about a partner that didn't have a retail brokerage business?

Morgan Stanley is an ideal partner. The combination of Morgan Stanley and Citi's premier wealth management businesses creates the clear new leader in the industry. The combination gives Financial Advisors and clients unparalleled access to investment products, market insight and intellectual capital from two of the world's leading financial institutions.

The new joint venture will operate as one fully-integrated organization – joining the similar cultures of the two companies – with a world-class management team, drawn from the best of both companies' very strong management teams, and focused exclusively on continuing to deliver superior advice, products and services to clients.

9. Is the Federal government directing you to liquidate businesses to raise additional capital?

As you know, we do not comment on our discussions with the U.S. Government or regulators.

[If pressed: Negotiations were not driven by regulators. But regulators are being updated.]

10. Should U.S. taxpayers, who are significantly invested in Citi, be paid with any capital raised from the sale of a stake in Smith Barney?

This transaction will generate equity capital that we can deploy to other core businesses which are well positioned to deliver attractive returns in the future. This will help return the company to long-term financial stability, increasing value for all shareholders, including U.S. taxpayers.

11. Like Citi, Morgan Stanley has received taxpayer funds. Are they using TARP dollars to make this purchase, therefore adding billions to what Citi has received from the U.S. government?

Since this question relates to Morgan Stanley, we think it would be better if you address it to them.

12. Is this an indication of how bad the fourth quarter was and how bad your outlook for 2009 is?

We can't comment on Q4 before we release earnings.

13. How will this transaction affect Citi's earnings in 2009 and beyond? Do you have updated guidance?

We can't comment on Q4 before we release earnings.

14. Will Citi have to make an immediate tax payment as a result of this transaction?

Taxes will be owed on the cash component of the transaction. However, it is expected that this tax liability would be offset by net operating losses carried forward from 2008.

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