



A tale of two Citis

The art of common sense



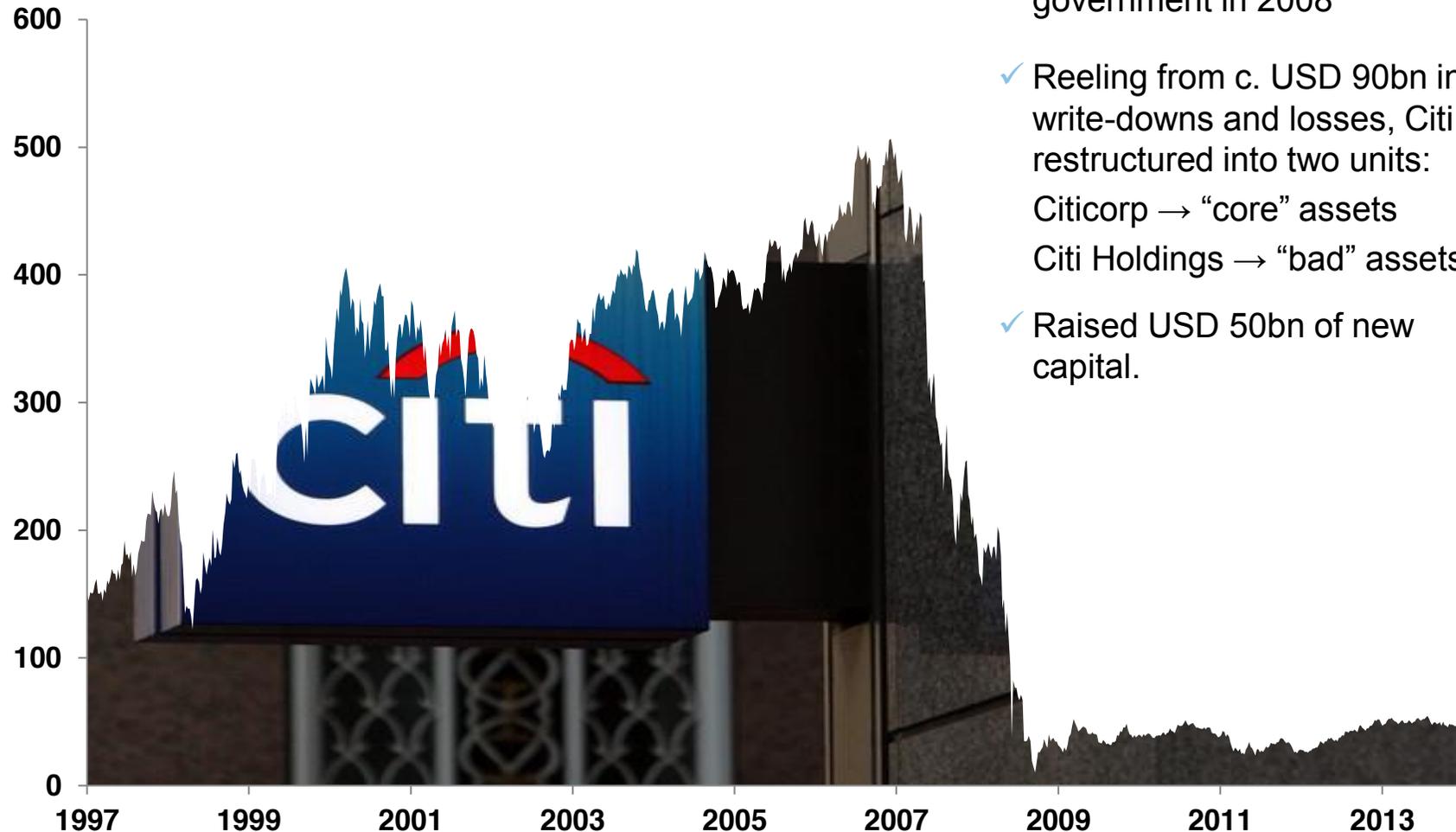
Citi in context



- More than 200 million customers in 140 countries – from Manila to NYC
- In revenue terms, the company is the size of Oman (GDP)
- Around 60% of revenues are derived from outside the United States

”It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness.” – Charles Dickens

Citigroup
shareprice (USD)



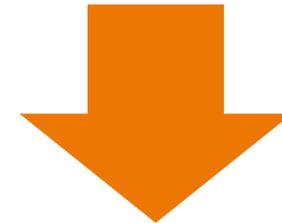
- ✓ Citi was bailed out by the US government in 2008
- ✓ Reeling from c. USD 90bn in write-downs and losses, Citi restructured into two units:
Citicorp → “core” assets
Citi Holdings → “bad” assets.
- ✓ Raised USD 50bn of new capital.



Market focus:

| | 2014 | 2015 | 2016 |
|-------------------------|------|------|------|
| Return on Tangible book | 8% | 8% | 10% |

For a company trading at 0.8x tangible book value



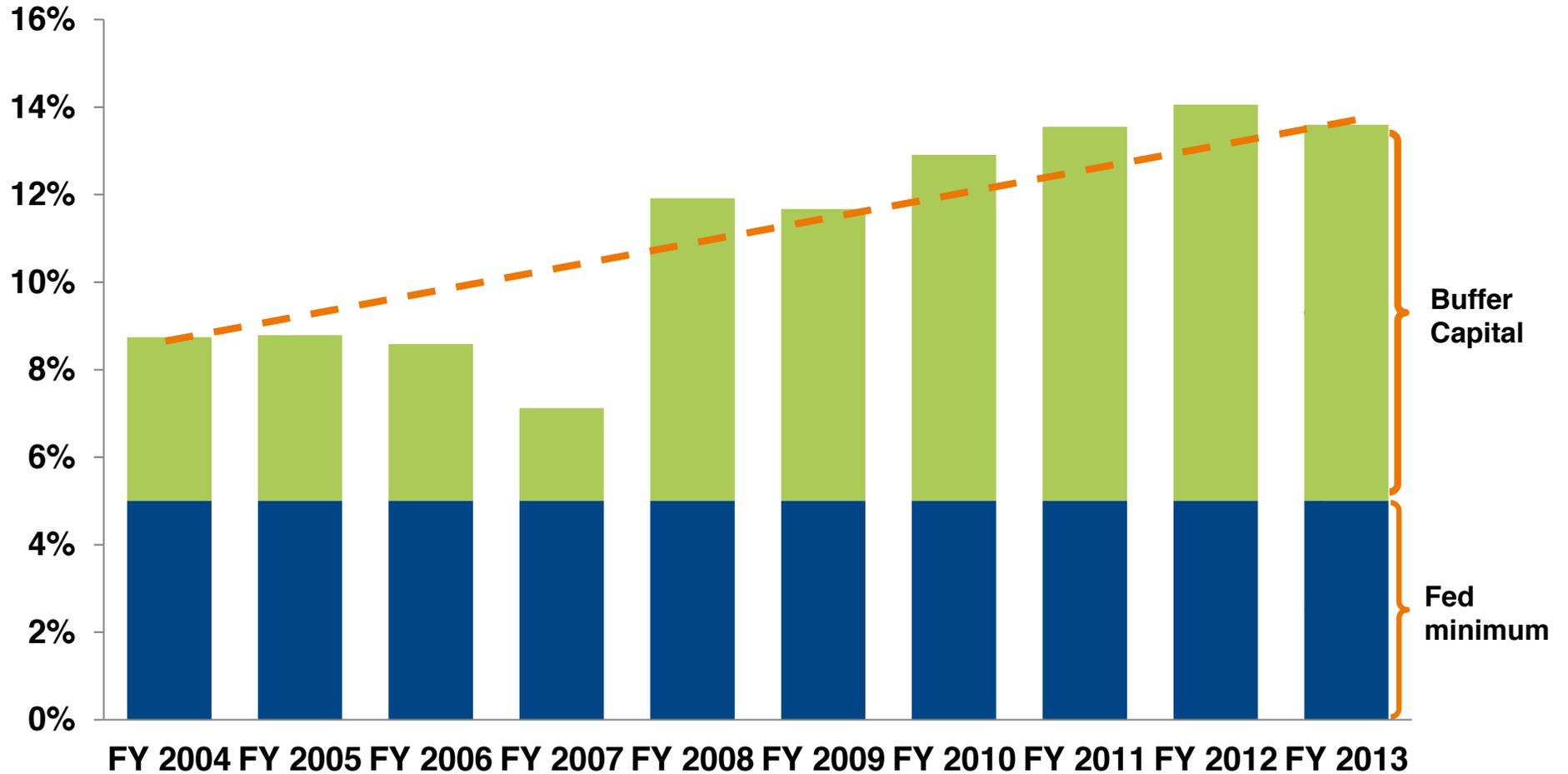
Our focus:

| | 2014 | 2015 | 2016 |
|----------------------|------|------|------|
| Free cash flow yield | 12% | 12% | 14% |

For a company which already has excess cash today

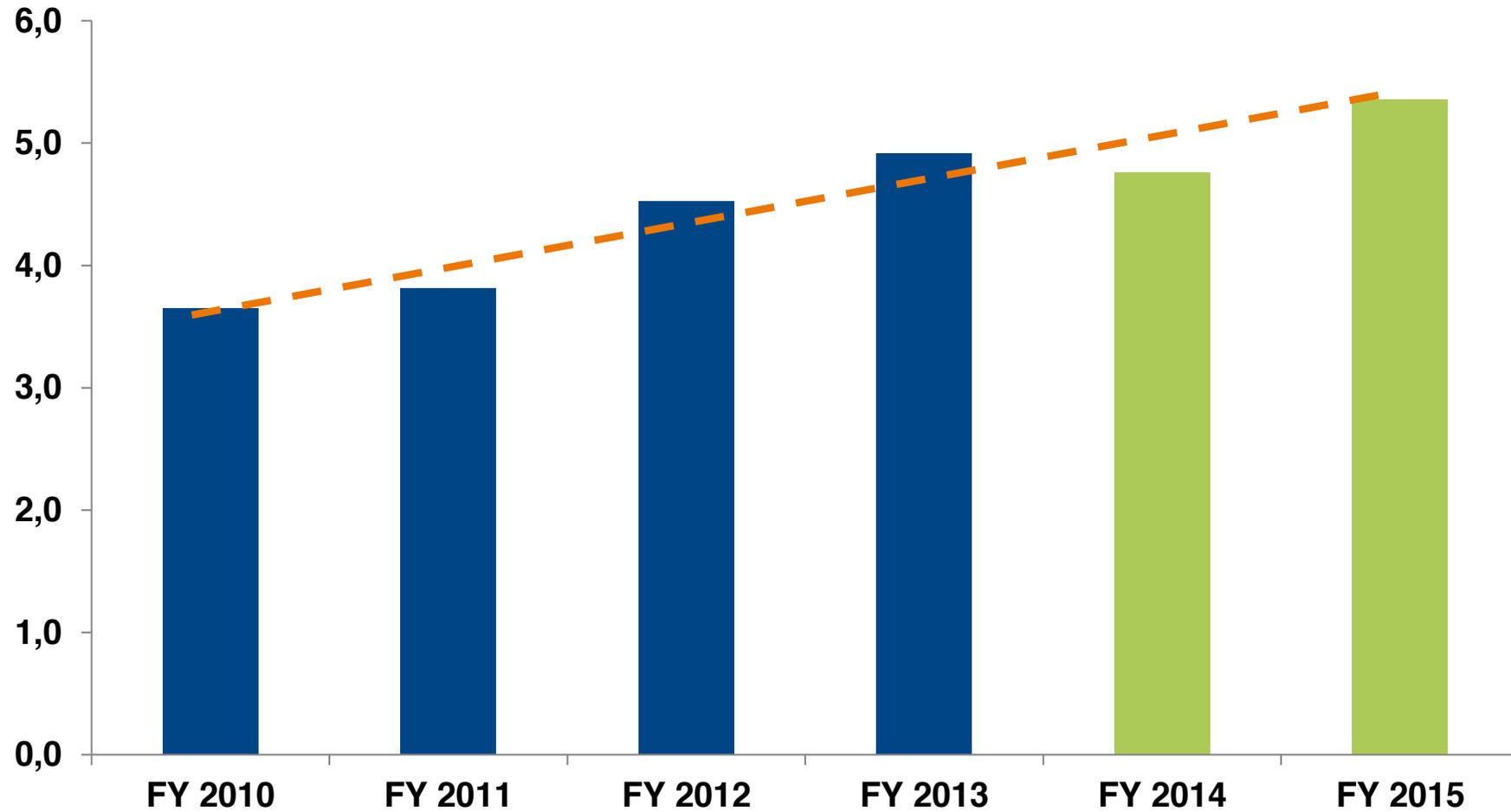
We focus on creation of excess regulatory capital as the best proxy for free cash flow generation – based on this there should be scope for revaluation.

Citi is well capitalised with high tier one capital ratios

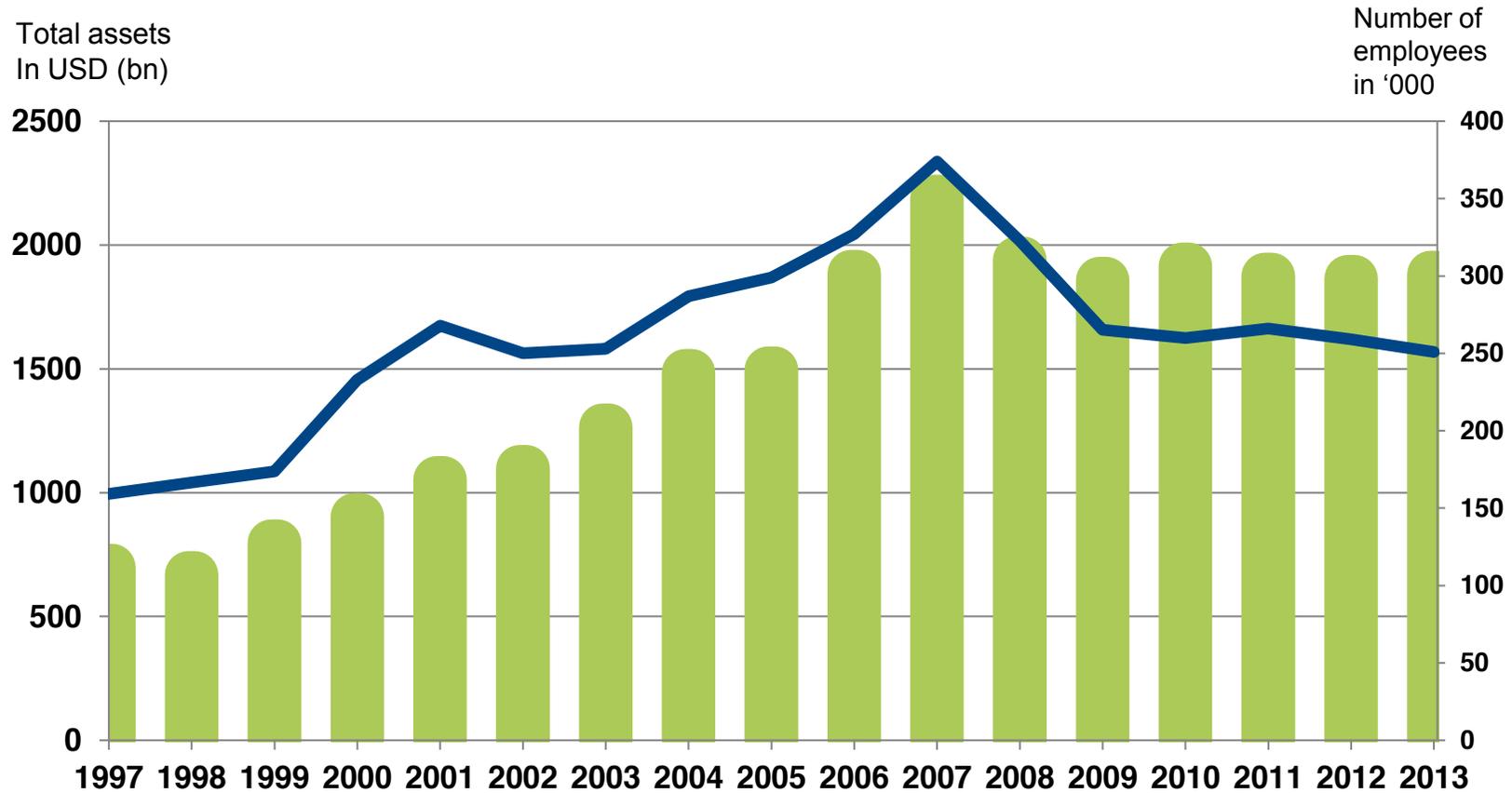


...and Citi has growing earnings

Diluted EPS before extraordinary items

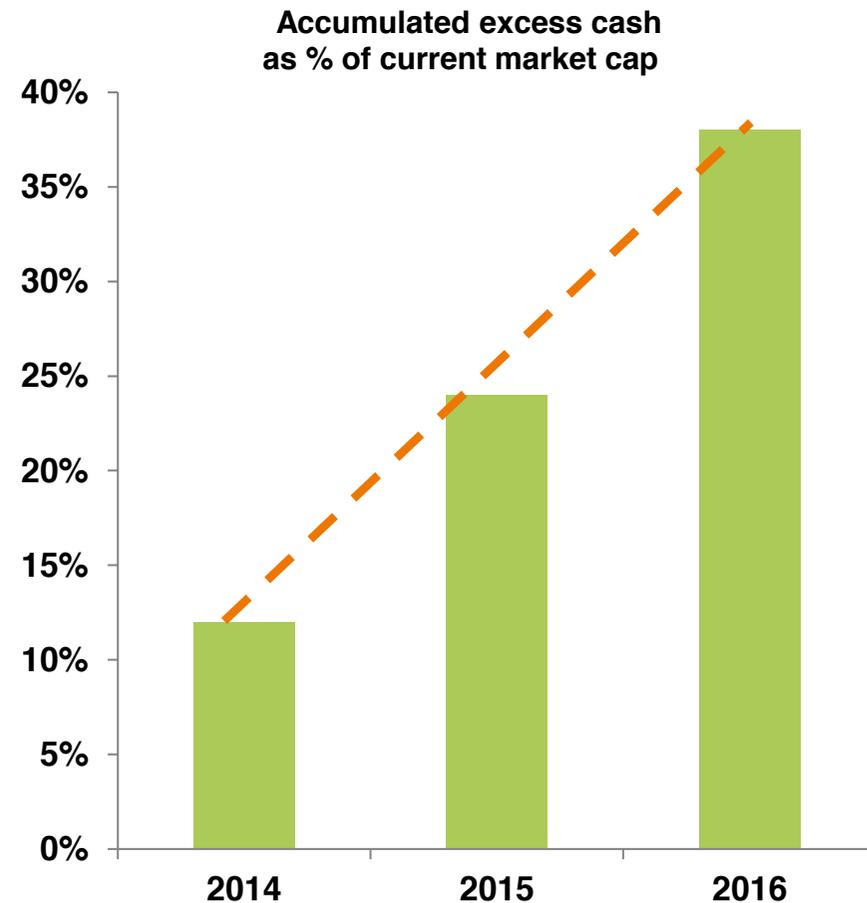
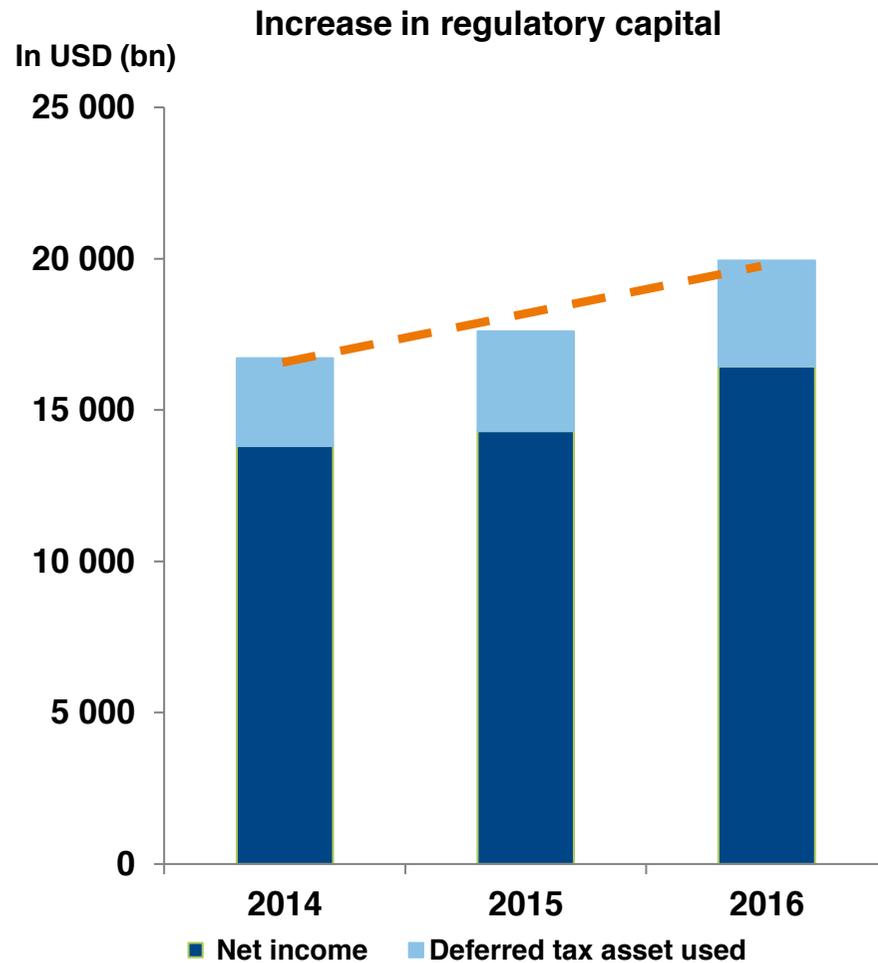


..... on a smaller asset base – with lower costs

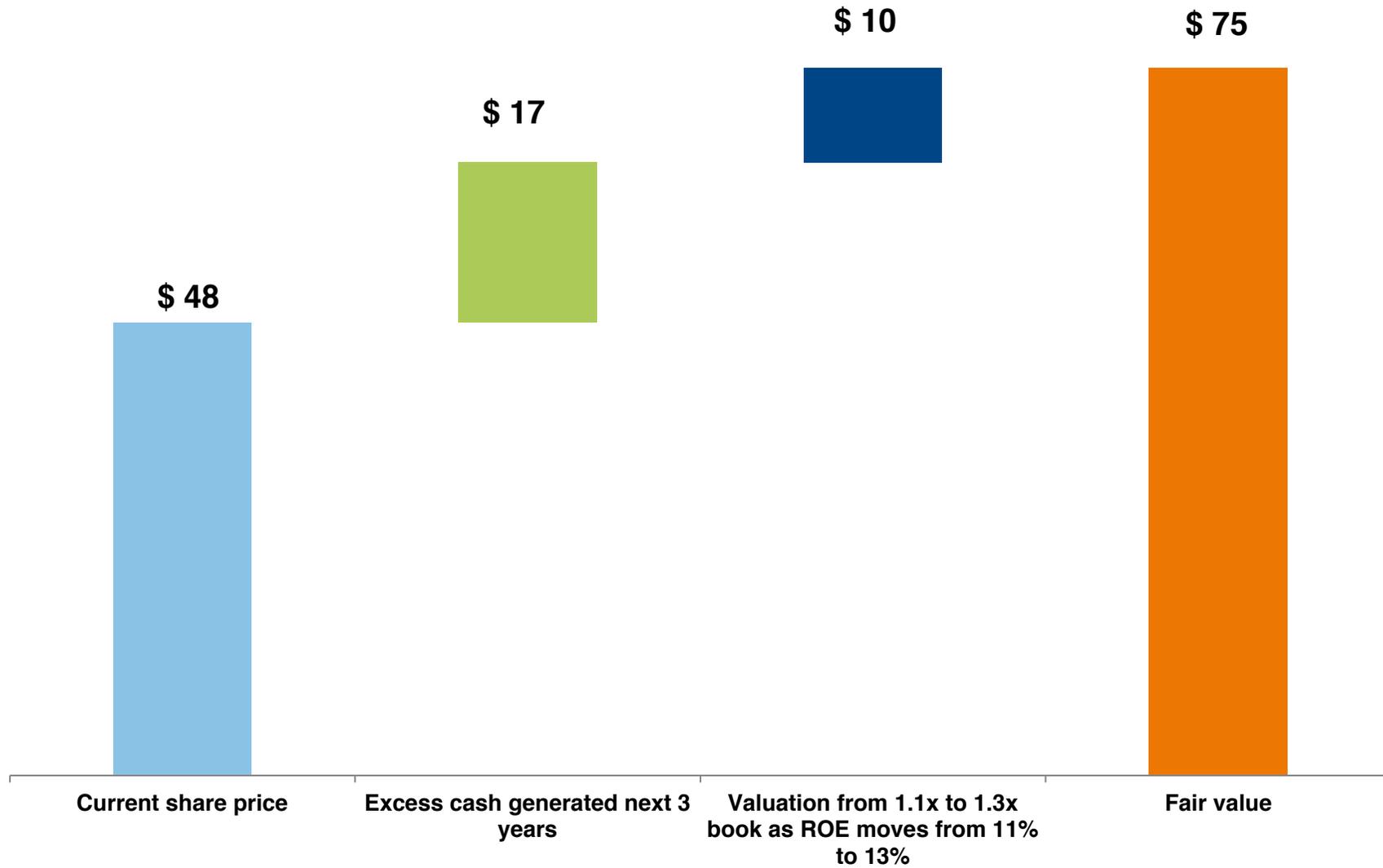


The blue line is number of employees

Earnings and the use of deferred tax assets will create 40% of market cap in excess capital over the next 3 years



What is fair value for Citi Group?



This is not included in our fair value:

- ✓ Bad bank Citi Holdings is currently 6% of assets but uses 17% of regulatory capital. Thus, shrinking Citi Holding will release 15% of current market cap. in free regulatory capital.
- ✓ In 2016 Citi still has USD 29bn disallowed deferred tax assets left. Thus, using this will release 20% of the current market cap. in free regulatory capital after 2016.
- ✓ Normalization of interest rates would lead to much higher net interest margins
- ✓ Improved economic growth in Emerging Markets would crystalize the true earnings power of Citi's EM franchise

UNLOCK RETURNS

We believe that Citi being allowed to distribute cash to shareholders could move market focus to cash flow potential and trigger a revaluation. A buy-back of shares, significantly below fair value, will provide further upside for existing shareholders

