DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 22, 2009

Mr. Michael S. Helfer, Esquire
General Counsel &
Corporate Secretary
Citigroup Inc.
399 Park Avenue
New York, NY 10022

Re: ***Proposed Compensation Payments and Structures for Senior Executive Officers and Most Highly Compensated Employees***

Dear Mr. Helfer:

Pursuant to the Department of the Treasury's Interim Final Rule on TARP Standards for Compensation and Corporate Governance, the Office of the Special Master has completed its review of your 2009 compensation submission on behalf of the senior executive officers and certain most highly compensated employees of Citigroup Inc. ("Citigroup"). Attached as ***Annex A*** is a Determination Memorandum (accompanied by ***Exhibits I*** and ***II***) providing the determinations of the Special Master with respect to 2009 compensation for those employees. 31 C.F.R. § 30.16(a)(3).

Pursuant to the Interim Final Rule, the Special Master is required to determine whether the compensation structure for each senior executive officer and certain most highly compensated employees "will or may result in payments inconsistent with the purposes of section 111 of EESA or TARP, or [is] otherwise contrary to the public interest." *Id.* § 30.16(a)(3). The Special Master has determined that, to satisfy this standard, 2009 compensation for Citigroup's senior executive officers and certain most highly compensated employees generally must comport with the following important standards:

- There can be no guarantee of any "bonus" or "retention" awards among the compensation structures approved by the Special Master. Cash guarantees payable in 2009 pursuant to previously existing agreements must be restructured to be payable in stock awards that may only be liquidated over time. In Citigroup's case, this will require the restructuring of several agreements between Citigroup and its employees, and the deferral of payments to certain employees of Phibro, LLC until such time as Phibro is no longer a subsidiary of Citigroup.

- Rather than cash, the majority of each individual's base salary will be paid in the form of Citigroup stock. This stock will immediately vest, in accordance with the Interim Final Rule, but will only be redeemable in three equal, annual installments beginning on the second anniversary of grant, with each installment redeemable one year early if Citigroup repays its TARP obligations. This structure encourages employees to remain employed by Citigroup and to maximize its long-term value.

- Base salary paid in cash should not exceed $500,000 per year, except in appropriate cases for good cause shown. Overall, cash compensation must be significantly reduced from cash amounts paid in 2008. In Citigroup's case, cash compensation for these employees will decrease 96% from 2008 levels.

- Where applicable, compensation should reflect the employee's role, if any, with respect to the change in Citigroup's financial health during 2008, and may take into account payments not subject to the review of the Special Master, including payments pursuant to legally binding rights under previously existing valid employment contracts. *Id.* § 30.16(a)(3)(i).

- Total compensation for each individual must be appropriate when compared with the total compensation for to persons in similar positions or roles at similar entities, and should generally target the 50th percentile of total compensation for comparable employees. Overall, total compensation must be significantly reduced from the amounts paid in 2008. In Citigroup's case, total compensation for these employees will decrease 70% from 2008 levels.

- If—and only if—the employee achieves objective performance metrics developed and reviewed in consultation with the Office of the Special Master, the employee may be eligible for long-term incentive awards. These awards, however, must be payable in the form of restricted stock that will be forfeited unless the employee stays with Citigroup for at least three years following grant, and may only be redeemed in 25% installments for each 25% of Citigroup's TARP obligations that are repaid. Such long-term incentive awards may not exceed one third of total annual compensation.

- Any and all incentive compensation paid to these employees will be subject to recovery or "clawback" if the payments are based on materially inaccurate financial statements, any other materially inaccurate performance metrics, or if the employee is terminated due to misconduct that occurred during the period in which the incentive was earned.

- Any and all "other" compensation and perquisites will not exceed $25,000 for each employee (absent exceptional circumstances for good cause shown to the satisfaction of the Special Master).

- No severance benefit to which an employee becomes entitled in the future may take into account a cash salary increase, or any payment of stock salary, that the Special Master has approved for 2009.

- No additional amounts in 2009 may be accrued under supplemental executive retirement plans or credited by the company to other "non-qualified deferred compensation" plans after the date of the Determination Memorandum.

The Special Master has also determined that, in order for the approved compensation structures to satisfy the standards of 31 C.F.R. § 30.16(a)(3), Citigroup must adopt policies applicable to these employees as follows:

- The achievement of any performance objectives must be certified by the Personnel and Compensation Committee of Citigroup's Board of Directors, which is composed solely of independent directors. These performance objectives must be reviewed and approved by the Office of the Special Master.

- The employees will be prohibited from engaging in any hedging, derivative or other transactions that have an equivalent economic effect that would undermine the long-term performance incentives created by the compensation structures.

- Citigroup may not provide a tax "gross up" of any kind to these employees.

- At least once every year, the Personnel and Compensation Committee of Citigroup's Board of Directors must provide to the Department of the Treasury a narrative description identifying each compensation plan for its senior executive officers, and explaining how the plan does not encourage the senior executive officers to take unnecessary and excessive risks that threaten Citigroup's value.

These requirements are described in further detail in the attached Determination Memorandum.

The Special Master's review has been guided by a number of considerations, including each of the principles articulated in the Interim Final Rule. *Id.* § 30.16(b)(1). The following principles were of particular importance to the Special Master in his determinations with respect to Citigroup's compensation structures:

- *Performance-based compensation.* The overwhelming majority of approved compensation depends on Citigroup's performance, and ties the financial incentives of Citigroup employees to the overall performance of the company. A majority of the salary paid to employees under these structures will be paid in the form of stock; and, because the stock will only be redeemable in equal, one-third installments beginning on the second anniversary of the date the stock salary is earned (in each case subject to acceleration by one year if Citigroup repays its TARP obligations), the ultimate value realized by the employee will depend on Citigroup's performance over the long term. Guaranteed amounts payable in cash, in contrast, are generally rejected. *Id.* § 30.16(b)(1)(iv).

- *Taxpayer return.* The compensation structures approved by the Special Master reflect the need for Citigroup to remain a competitive enterprise and, ultimately, to be able to repay TARP obligations. The Special Master has determined that these approved compensation structures are competitive when compared with persons in similar positions or roles at similar entities. Overall, the compensation structures provide for total compensation packages that generally target the 50th percentile when compared to such other executive officers and employees. *Id.* § 30.16(b)(1)(ii).

- *Appropriate allocation.* The total compensation payable to Citigroup employees is weighted heavily toward long-term structures that are tied to Citigroup's performance and are easily understood by shareholders. As a general principle, guaranteed income is rejected. Fixed compensation payable to Citigroup employees should consist only of cash salaries at sufficient levels to attract and retain employees and provide them a reasonable level of liquidity.

Pursuant to the Interim Final Rule, Citigroup may, within 30 days of the date hereof, request in writing that the Special Master reconsider the determinations set forth in ***Annex A***. If Citigroup does not request reconsideration within 30 days, these initial determinations will be treated as final determinations. *Id.* § 30.16(c)(1).

Very truly yours,

Kenneth R. Feinberg
Office of the Special Master
for TARP Executive Compensation

Attachments

cc: Lewis B. Kaden, Esquire
Mr. Paul McKinnon

ANNEX A
DETERMINATION MEMORANDUM

I. INTRODUCTION

The Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009 ("EESA"), requires the Secretary of the Treasury to establish standards related to executive compensation and corporate governance for financial institutions receiving financial assistance under the Troubled Asset Relief Program ("TARP"). Through the Department of the Treasury's Interim Final Rule on TARP Standards for Compensation and Corporate Governance (the "Rule"), the Secretary delegated to the Office of the Special Master for TARP Executive Compensation (the "Office of the Special Master" or, the "Office") responsibility for reviewing compensation structures of certain employees at financial institutions that received exceptional financial assistance under the TARP ("Exceptional Assistance Recipients"). 31 C.F.R. § 30.16(a); *id.* § 30.16(a)(3). For these employees, the Special Master must determine whether the compensation structure will or may result in payments "inconsistent with the purposes of section 111 of EESA or TARP, or [is] otherwise contrary to the public interest." *Id.*

Citigroup Inc. ("Citigroup," or the "Company"), one of seven Exceptional Assistance Recipients, has submitted to the Special Master proposed compensation structures for review pursuant to Section 30.16(a)(3) of the Rule. These compensation structures apply to three employees that the Company has identified as senior executive officers (the "Senior Executive Officers," or "SEOs") for purposes of the Rule, and eighteen employees the Company has identified as among the most highly compensated employees of the Company for purposes of the Rule (the "Most Highly Compensated Employees," and, together with the SEOs, the "Covered Employees").

The Special Master has completed the review of the Company's proposed compensation structures for the Covered Employees pursuant to the principles set forth in the Rule. § 30.16(b)(1). This Determination Memorandum sets forth the determinations of the Special Master, pursuant to Section 30.16(a)(3) of the Rule, with respect to the Covered Employees.

II. BACKGROUND

On June 15, 2009, the Department of the Treasury ("Treasury") promulgated the Rule, creating the Office of the Special Master and delineating its responsibilities. Immediately following that date, the Special Master, and Treasury employees working in the Office of the Special Master, conducted extensive discussions with Citigroup officials. During these discussions, the Office of the Special Master informed Citigroup about the nature of the Office's work and the authority of the Special Master under the Rule. These discussions continued for a period of months, during which the Special Master and Citigroup explored potential compensation structures for the Covered Employees.

The Rule requires that each Exceptional Assistance Recipient submit proposed compensation structures for each Senior Executive Officer and Most Highly Compensated Employee no later than August 14, 2009. 31 C.F.R. § 30.16(a)(3). On July 20, 2009, the Special Master requested from each Exceptional Assistance Recipient, including Citigroup, certain data and documentary information necessary to facilitate the Special Master's review of the Company's compensation structures. The request required Citigroup to submit data describing its proposed compensation structures, and the payments that would result from the proposals, concerning each Covered Employee.

In addition, the Rule authorizes the Special Master to request information from an Exceptional Assistance Recipient "under such procedures as the Special Master may determine." *Id.* § 30.16(d). Citigroup was required to submit competitive market data indicating how the amounts payable under Citigroup's proposed compensation structures relate to the amounts paid to persons in similar positions or roles at similar entities. Citigroup was also required to submit a range of documentation, including information related to proposed performance metrics, internal policies designed to curb excessive risk, and certain previously existing compensation plans and agreements.

Citigroup submitted this information to the Office of the Special Master on August 14, 2009. Following a preliminary review of the submission, and the submission of certain additional information, on August 31, 2009, the Special Master determined that Citigroup's submission was substantially complete for purposes of the Rule. *Id.* § 30.16(a)(3). The Office of the Special Master then commenced a formal review of Citigroup's proposed compensation structures for the Covered Employees. The Rule provides that the Special Master is required to issue a compensation determination within 60 days of a substantially complete submission. *Id.*

The Office of the Special Master's review of the Company's proposals was aided by analysis from a number of internal and external sources, including:

- Treasury personnel detailed to the Office of the Special Master, including executive compensation specialists with significant experience in reviewing, analyzing, designing and administering executive compensation plans, and attorneys with experience in matters related to executive compensation;

- Competitive market data provided by the Company in connection with its submission to the Office of the Special Master;

- External information on comparable compensation structures extracted from the *U.S. Mercer Benchmark Database-Executive*;

- External information on comparable compensation structures extracted from Equilar's *ExecutiveInsight* database (which includes information drawn from publicly filed proxy statements) and Equilar's *Top 25 Survey Summary Report* (which includes information from a survey on the pay of highly compensated employees);

- Consultation with Lucian A. Bebchuk, a world-renowned expert in executive compensation and the William J. Friedman and Alicia Townsend Friedman Professor of Law, Economics, and Finance and Director of the Program on Corporate Governance at Harvard Law School; and

- Consultation with Kevin J. Murphy, a world-renowned expert in executive compensation and the Kenneth L. Trefftzs Chair in Finance in the department of finance and business economics at the University of Southern California's Marshall School of Business.

The Special Master considered these views, in light of the statutory and regulatory standards described in Part III below, when evaluating the Company's proposed compensation structures for the Covered Employees for 2009.

III. STATUTORY AND REGULATORY STANDARDS

The Rule requires that the Special Master determine for each of the Covered Employees whether Citigroup's proposed compensation structure, including amounts payable or potentially payable under the compensation structure, "will or may result in payments that are inconsistent with the purposes of section 111 of EESA or TARP, or [is] otherwise contrary to the public interest." 31 C.F.R. § 30.16(a)(3) (as applied to Covered Employees of Exceptional Assistance Recipients, the "Public Interest Standard"). Regulations promulgated pursuant to the Rule require that the Special Master consider six principles when making these compensation determinations:

(1) *Risk.* The compensation structure should avoid incentives that encourage employees to take unnecessary or excessive risks that could threaten the value of the Exceptional Assistance Recipient, including incentives that reward employees for short-term or temporary increases in value or performance; or similar measures that may undercut the long-term value of the Exceptional Assistance Recipient. Compensation packages should be aligned with sound risk management. *Id.* § 30.16(b)(1)(i).

(2) *Taxpayer return.* The compensation structure and amount payable should reflect the need for the Exceptional Assistance Recipient to remain a competitive enterprise, to retain and recruit talented employees who will contribute to the recipient's future success, so that the Company will ultimately be able to repay its TARP obligations. *Id.* § 30.16(b)(1)(ii).

(3) *Appropriate allocation.* The compensation structure should appropriately allocate the components of compensation such as salary and short-term and long-term performance incentives, as well as the extent to which compensation is provided in cash, equity, or other types of compensation such as executive pensions, or other benefits, or perquisites, based on the specific role of the employee and other relevant circumstances, including the nature and amount of current compensation,

deferred compensation, or other compensation and benefits previously paid or awarded. *Id.* § 30.16(b)(1)(iii).

(4) *Performance-based compensation.* An appropriate portion of the compensation should be performance-based over a relevant performance period. Performance-based compensation should be determined through tailored metrics that encompass individual performance and/or the performance of the Exceptional Assistance Recipient or a relevant business unit taking into consideration specific business objectives. Performance metrics may relate to employee compliance with relevant corporate policies. In addition, the likelihood of meeting the performance metrics should not be so great that the arrangement fails to provide an adequate incentive for the employee to perform, and performance metrics should be measurable, enforceable, and actually enforced if not met. *Id.* § 30.16(b)(1)(iv).

(5) *Comparable structures and payments.* The compensation structure, and amounts payable where applicable, should be consistent with, and not excessive taking into account, compensation structures and amounts for persons in similar positions or roles at similar entities that are similarly situated, including, as applicable, entities competing in the same markets and similarly situated entities that are financially distressed or that are contemplating or undergoing reorganization. *Id.* § 30.16(b)(1)(v).

(6) *Employee contribution to TARP recipient value.* The compensation structure and amount payable should reflect the current or prospective contributions of an employee to the value of the Exceptional Assistance Recipient, taking into account multiple factors such as revenue production, specific expertise, compliance with company policy and regulation (including risk management), and corporate leadership, as well as the role the employee may have had with respect to any change in the financial health or competitive position of the recipient. *Id.* § 30.16(b)(1)(vi).

The Rule provides that the Special Master shall have discretion to determine the appropriate weight or relevance of a particular principle depending on the facts and circumstances surrounding the compensation structure or payment for a particular employee. *Id.* § 30.16(b). To the extent two or more principles may appear inconsistent in a particular situation, the Rule requires that the Special Master exercise his discretion in determining the relative weight to be accorded to each principle. *Id.*

The Rule provides that the Special Master may, in the course of applying these principles, take into account other compensation structures and other compensation earned, accrued, or paid, including compensation and compensation structures that are not subject to the restrictions of section 111 of EESA. For example, the Special Master may consider payments obligated to be made by the Company pursuant to certain legally binding rights under valid written employment contracts entered into prior to enactment of the statute and the accompanying Rule. *Id.* § 30.16(a)(3).

IV. Compensation Structures and Payments

A. Citigroup Proposals

Citigroup has provided the Office of the Special Master with detailed information concerning its proposed 2009 compensation structures for the Covered Employees, including amounts proposed to be paid under the compensation structure for each Covered Employee (the "Proposed Structures").

Citigroup supported its proposal with detailed assessments of each Covered Employee's tenure and responsibilities at the Company (or its applicable subsidiary) and historical compensation structure. The submission also included market data that, according to the Company, indicated that the amounts potentially payable to each employee were comparable to the compensation payable to persons in similar positions or roles at a "peer group" of entities selected by the Company.

1. Citigroup Corporate and Operating Units

Citigroup has proposed compensation structures for each of two Senior Executive Officers,[1] as well as for 11 Most Highly Compensated Employees, each of whom serves as an executive in Citigroup's corporate offices or as a senior executive of a Citigroup subsidiary.[2]

a. Cash Salary

With the exception of the Chief Executive Officer, who has agreed to continue receiving an annual base salary of $1 during 2009, Citigroup generally proposed to increase cash salaries for employees in this group. The proposed increases included cash base salaries as high as $800,000 per year. Citigroup's submission to the Office of the Special Master asserted that base salaries at this level could be justified by reference to the compensation of comparable employees at comparable financial institutions.

b. Stock Salary

Citigroup proposed that employees in this group receive substantial compensation in the form of vested Citigroup stock delivered on the Company's payroll schedule. Citigroup proposed that one-third of the stock be transferable upon grant; one-third be transferable on the first anniversary of the grant date; and one-third be transferable on the

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[1] Citigroup had three Chief Financial Officers during 2009. Because "an individual who served as the [CFO] of a TARP recipient…is a SEO for purposes of that fiscal year," each of these three individuals is included in Citigroup's Covered Employees during 2009. *See* Frequently Asked Questions, Troubled Asset Relief Program Standards for Compensation and Corporate Governance, FAQ #4, *available at* http://www.financialstability.gov/docs/IFrFAQsPartI.pdf.

[2] Compensation for Covered Employees at two specific Citigroup subsidiaries, Citigroup Derivatives Markets, Inc. ("CDMI") and Phibro LLC, are addressed in further detail in Parts IV.A.2. and IV.A.3.

second anniversary of the grant date. Citigroup proposed to deliver annualized amounts ranging from $2,311,667 to $5,525,000 to employees in this group.

c. Annual Long-Term Incentive Awards

Citigroup proposed that employees in this group be eligible, in the discretion of the Company, for grants of substantial incentive awards with total value ranging from under $1,393,333 to $3,000,000. Citigroup proposed that the awards be payable in the form of restricted Citigroup stock that vested if the employee remained employed by Citigroup on the second anniversary of the grant date.

d. "Other" Compensation and Perquisites

Citigroup proposed payments of "other" compensation, as well as perquisites, to the employees in this group. These proposed payments varied in value.

e. Supplemental Executive Retirement Plans and Non-Qualified Deferred Compensation

Citigroup proposed that certain employees in this group receive compensation in the form of accruals under a "non-qualified deferred compensation" plan.

f. Severance Plans

Citigroup's submission to the Office of the Special Master indicated that the Proposed Structures would, in some cases, result in increases in amounts payable to these employees pursuant to severance arrangements. These arrangements generally provide for amounts payable upon termination of employment, including termination in light of the employee's performance.

2. *Covered Employees Party to Certain Agreements*
(Citigroup's CDMI & Investment and Advisory Subsidiaries)

Citigroup has also proposed compensation structures for six Covered Employees who are party to written employment agreements with Citigroup.[3] Citigroup argued that the agreements provided for legally binding rights under valid employment contracts, *see* 31 C.F.R. § 30.10(e)(2). Under the Rule, amounts payable pursuant to such agreements are generally not subject to the review of the Special Master, although such amounts may be taken into account by the Special Master in connection with determinations with respect to prospective compensation payable to the employee, *id.* § 30.16(a)(3)(i).

Citigroup's proposed compensation structure for each of the six employees in this group emphasized the payment of small cash salaries accompanied by large cash payments reflecting the terms of the existing agreements.

[3] Three of the Covered Employees are employed by Citigroup's CDMI subsidiary. The remaining three employees serve as the senior employees of Citigroup investment and advisory subsidiaries.

3. *Covered Employees at Phibro, LLC*

Citigroup has also proposed compensation structures for two Covered Employees employed by Phibro, LLC, a subsidiary engaged in commodities trading. In connection with the submission of its proposed compensation structures for these employees, Citigroup provided the Office of the Special Master with a detailed description of the historical compensation practices at this subsidiary. Generally, these practices called for Phibro to establish cash "bonus pools" in amounts based upon Phibro's annual trading profits, and for these pools to be allocated in the discretion of Phibro's Chief Executive Officer.

Each of the two Covered Employees employed by Phibro has historically participated in these bonus pools. As noted above, Citigroup argued that the employees' participation in these bonus pools reflected legally binding rights under valid employment contracts, *see id.* § 30.10(e)(2), and thus were not subject to the review of the Special Master. Accordingly, Citigroup's proposed compensation structure for each of these two employees emphasized the payment of small cash salaries accompanied by large cash payments from Phibro's bonus pools.

B. <u>Determinations of the Special Master</u>

The Special Master has reviewed the Proposed Structures in detail by application of the principles set forth in the Rule and described in Part III above. In light of this review and analysis, the Special Master has determined that both the structural design of Citigroup's proposals and the amounts potentially payable to Covered Employees under the proposals would be inconsistent with the Public Interest Standard and, therefore, require modification.

The Special Master has determined, in light of the considerations that follow, that the compensation structures described in ***Exhibits I*** and ***II*** to this Determination Memorandum will not, by virtue of either their structural design or the amounts potentially payable under them, result in payments inconsistent with the Public Interest Standard.

1. *Citigroup Corporate and Operating Units*

a. <u>Cash Salary</u>

The Special Master reviewed Citigroup's proposal with respect to cash salary in light of the principle that compensation structures should generally be comparable to "compensation structures and amounts for persons in similar positions or roles at similar entities," *id.* § 30.16(b)(1)(v). The Special Master has concluded generally that, for Covered Employees at Exceptional Assistance Recipients, cash salaries should generally target the 50th percentile because such levels of cash salaries balance the need to attract and retain talented with the need for compensation structures that reflect the circumstances of Exceptional Assistance Recipients. Citigroup proposed annual cash salaries in excess of $800,000 for the three employees in this group. The Special Master has concluded that the proposed cash salaries are inconsistent with the Public Interest Standard because the amounts potentially payable to certain Covered Employees cannot be supported by comparison to cash salaries provided to persons in similar positions or roles at similar entities.

Accordingly, the Special Master has determined that Citigroup's proposed cash base salaries for these employees are inconsistent with the Public Interest Standard. As described in further detail in ***Exhibits I*** and ***II***, the cash salaries for these employees that the Special Master has determined to be consistent with the Public Interest Standard are comparable to those amounts for persons in similar positions or roles at similar entities, and are generally less than $500,000.

b. Stock Salary

First, the Special Master reviewed the amounts of compensation to be granted in the form of stock salary in light of the principle that compensation structures should generally be comparable to "compensation structures and amounts for persons in similar positions or roles at similar entities." *Id.* § 30.16(b)(1)(v). The Special Master has concluded that the proposed amounts to be delivered in stock salary are inconsistent with the Public Interest Standard because the amounts potentially payable to certain Covered Employees cannot be supported by comparison to the compensation payable to persons in similar positions or roles at similar entities. The Special Master has concluded that lesser amounts payable in the form of stock salary are consistent with the Public Interest Standard. These amounts are described in further detail in ***Exhibits I*** and ***II***.

Second, the Special Master reviewed the structure of Citigroup's stock salary proposal in light of the principle that compensation structures should align performance incentives with long-term value creation rather than short-term profits. *See id.* § 30.16(b)(1)(i). The Special Master has concluded that Citigroup's proposal, which contemplates that one third of stock salary will be transferable *immediately* by the employee, does not provide sufficient alignment with long-term value creation.

The Special Master also reviewed the structure of Citigroup's stock salary proposal in light of the principle that an appropriate portion of compensation should be "performance-based over a relevant performance period," *id.* § 30.16(b)(1)(iv). Stock that is immediately transferable permits an employee to liquidate his or her investment in the stock immediately rather than over a period designed to reflect performance. Accordingly, the Special Master has determined that the structure of Citigroup's stock salary proposal is inconsistent with the Public Interest Standard.

Accordingly, the compensation structures the Special Master has determined to be consistent with the Public Interest Standard would not permit immediate transferability or sale of stock salary. Instead, stock salary may only be redeemable in three equal, annual installments beginning on the second anniversary of grant, with each installment redeemable one year early if Citigroup repays its TARP obligations.

c. Annual Long-Term Incentive Awards

The Special Master evaluated Citigroup's proposed annual long-term incentive awards in light of the principle that performance-based compensation should be based on "performance metrics [that are] measurable, enforceable, and actually enforced if not met." *Id.* § 30.16(b)(1)(iv). Citigroup's proposed awards would have been granted in the discretion of the Company rather than based on performance metrics. The Special Master has concluded that the proposed incentive awards are inconsistent with the Public Interest Standard because they could be granted without respect to the achievement of objective, measurable performance metrics.

The Special Master also evaluated Citigroup's proposed awards in light of recently adopted international standards providing that incentive compensation should generally be payable over a period of three years, as well as the principle in the Rule providing that performance-based compensation should be payable "over a relevant performance period," *id.* Restricted stock granted in connection with Citigroup's proposed awards would have vested on the second anniversary of the grant date. Accordingly, the Special Master has concluded that the proposed incentive awards are inconsistent with the Public Interest Standard because they would have vested over a period too short to be relevant to the long-term performance of the Company.

Accordingly, as described in ***Exhibits I*** and ***II***, the structures the Special Master has determined to be consistent with the Public Interest Standard include an annual long-term incentive award payable only upon the achievement of specified, objective performance criteria that have been developed and reviewed in consultation with the Office of the Special Master, and that will not vest unless the employee remains employed until the third anniversary of grant. In addition, as required by the Rule, these awards may only be redeemed in 25% installments for each 25% of Citigroup's TARP obligations that are repaid.

d. "Other" Compensation and Perquisites

Citigroup proposed limited payments of "other" compensation, as well as perquisites, to the Covered Employees. The Special Master has concluded that, absent special justification, employees—not the Company—generally should be responsible for paying personal expenses, and that significant portions of compensation structures should not be allocated to such perquisites and "other" compensation. *See id.* §30.16(b)(1)(iii).

The Rule requires that each Exceptional Assistance Recipient annually disclose to Treasury any perquisites where the total value for any Senior Executive Officer or Most Highly Compensated Employee exceeds $25,000. An express justification for offering these benefits must also be disclosed. Accordingly, as described in ***Exhibits I*** and ***II***, the compensation structures the Special Master has determined to be consistent with the Public Interest Standard provide no more than $25,000 in "other" compensation and perquisites to each of these employees. Any exceptions to this limitation will require that the Company provide to the Office of the Special Master an independent justification for the payment that is satisfactory to the Special Master. To the extent that payments exceeding this limitation have already been made to a Covered Employee in 2009, those amounts should be promptly returned to the Company.[4]

e. Supplemental Executive Retirement Plans and Non-Qualified Deferred Compensation

Citigroup also proposed that certain Covered Employees receive limited compensation in the form of accruals under a "non-qualified deferred compensation" plan. In such plans, employers periodically credit employees with an entitlement to post-retirement payments. Over time, these credits accumulate and employees may become entitled to substantial cash guarantees payable on retirement—in addition to any payments provided under retirement plans maintained for employees generally.

The Special Master has concluded that the primary portion of a Covered Employee's compensation package should be allocated to compensation structures that are "performance-based over a relevant performance period." *Id.* § 30.16(b)(1)(iv). Payments under the Company's "non-qualified deferred compensation" plans do not depend upon "individual performance and/or the performance of the [Company] or a relevant business unit," *id.*; instead, such accruals are simply guaranteed cash payments from the Company in the future. In addition, these payments can make it more difficult for shareholders to readily ascertain the full amount of pay due a top employee upon leaving the Company.

Covered Employees should fund their retirements using wealth accumulated based on Company performance while they are employed, rather than being guaranteed substantial retirement benefits by the Company regardless of Company performance during and after their tenures. Accordingly, as described in ***Exhibits I*** and ***II***, the compensation structures the Special Master has determined to be consistent with the Public Interest Standard prohibit further 2009 accruals for Covered Employees under supplemental retirement plans or Company credits to other "non-qualified deferred compensation" plans following the date of this Determination Memorandum.

f. Severance Plans

The Special Master has concluded that an increase in the amounts payable under these arrangements would be inconsistent with the principle that compensation should be performance-based, *id.* § 30.16(b)(1)(iv), and that payments should be appropriately allocated among the elements of compensation, *id.* § 30.16(b)(1)(iii). Accordingly, for the compensation structures described in ***Exhibits I*** and ***II*** to be consistent with the Public Interest Standard, the Company must ensure that 2009 compensation structures for these employees do not result in an increase in the amounts payable pursuant to these arrangements.

[4] Citigroup has, however, identified four employees subject to expatriate arrangements providing for the payment of certain "other" compensation in excess of this limitation. The Special Master has reviewed these arrangements and has concluded that such payments, not to exceed $350,000 per employee, are consistent with the Public Interest Standard.

2. *Covered Employees Party to Certain Agreements*
(Citigroup's CDMI & Investment and Advisory Subsidiaries)

The Special Master reviewed Citigroup's proposed compensation structures for these employees in light of the principle that compensation structures should be "performance-based over a relevant performance period," *id.* § 30.16(b)(1)(iv). Citigroup's proposals for these employees generally provided for the payment of substantial guaranteed minimum cash amounts. The Special Master has concluded that the proposal is inconsistent with the Public Interest Standard because the payment of a large cash lump sum is not adequately linked to the performance of the Company over a relevant performance period.

The Special Master also reviewed the proposals in light of the requirement that compensation structures "avoid incentives to take unnecessary or excessive risks," *id.* §30.16(b)(1)(i). A guaranteed minimum amount provides the employee with little downside risk in the event of poor performance, but potentially unlimited gain in the event that substantial risk-taking leads to significant profits. Accordingly, the Special Master has concluded that the proposal is inconsistent with the Public Interest Standard because the presence of a guaranteed minimum amount may lead to incentives to take unnecessary or excessive risks.

During discussions with the Company, the Office of the Special Master conveyed the view that the proposals were inconsistent with the Public Interest Standard. Citigroup asserted that these payments were to be made under agreements providing for legally binding rights under valid written employment contracts, *see id.* § 30.10(e)(2). Following extensive discussions, all six of the employees in this group agreed to waive their rights to the cash payments reflected in the Company's proposals.

Accordingly, these payments will be restructured to be consistent with the Public Interest Standard and will include the following:

- Cash base salaries no greater than $475,000.
- Grants of vested stock salary redeemable only in three equal, annual installments beginning on the second anniversary of grant, with each installment redeemable one year early if Citigroup repays its TARP obligations.
- Subject to the achievement of objective, specified performance metrics developed in consultation with the Office of the Special Master, an annual long-term incentive award, granted in the form of Citigroup restricted stock that will be forfeited unless the employee stays with Citigroup for at least three years following grant, and may only be redeemed in 25% installments for each 25% of Citigroup's TARP obligations that are repaid. [5]

[5] Stock granted pursuant to such awards, if any, for these three employees may vest if the employee is terminated by Citigroup without "cause" prior to the third anniversary of the grant date.

The compensation structures for these employees will also be subject to the limitations described in Parts IV.B.1.d., ("other" compensation and perquisites), IV.B.1.e. (non-qualified deferred compensation), and IV.B.1.f. (severance plans) above.

3. *Covered Employees at Phibro, LLC*

The Special Master reviewed the proposals for these two employees in light of the principle that compensation arrangements should not "reward employees for short-term or temporary increases in value," *id.* § 30.16(b)(1)(i). Citigroup's proposal with respect to these employees called for the payment of substantial bonuses based upon Phibro's performance during a fifteen-month period. Accordingly, the Special Master concluded that the proposals were inconsistent with the Public Interest Standard because they could provide substantial rewards for short-lived increases in value.

The Special Master also reviewed the proposals in light of the requirement that compensation structures should "avoid incentives to take unnecessary or excessive risks," *id.* §30.16(b)(1)(i). Citigroup's proposal called for the payment of cash bonuses based on the short-term results of a trading operation involving, according to Citigroup's analysis, long-term risk-taking that could result in losses exceeding several billion dollars. Accordingly, the Special Master concluded that the proposals were inconsistent with the Public Interest Standard because they could provide the employees with incentives to take unnecessary or excessive risks.

In addition, the Special Master reviewed the proposals in light of the principle that "amounts payable…should be consistent with, *and not excessive taking into account*, compensation structures and amounts for persons in similar positions or roles." *Id.* § 30.16(b)(1)(v) (emphasis added). Citigroup's proposal for one of these employees involved the payment of a 2009 bonus in excess of $95,000,000. The Special Master concluded that this amount was excessive taking into account compensation amounts for persons in similar positions or roles at similar entities.

During discussions with the Company, the Office of the Special Master conveyed the view that the proposal was inconsistent with the Public Interest Standard. Citigroup asserted that these payments were to be made under agreements providing for legally binding rights under valid written employment contracts, *see id.* § 30.10(e)(2). During these discussions, and while the proposals were under consideration by the Special Master, Citigroup informed the Special Master that the Company had entered into a definitive agreement providing for the sale of Phibro to Occidental Petroleum, Inc., which has not received assistance under the TARP. Accordingly, the compensation structures of both Covered Employees at Phibro will no longer be subject to the review of the Special Master in 2010.

One of the Covered Employees at Phibro entered into an agreement providing that no amounts will be paid to that employee for 2009 until Phibro is no longer a subsidiary of Citigroup, and that the amounts will not be payable in cash until January 2011. With respect to 2009, the Special Master has concluded that, to be consistent with the Public

Interest Standard, that employee's compensation structure must provide for no compensation of any kind during 2009. Accordingly, amounts paid to the employee prior to the date of this Determination Memorandum shall be repaid to Citigroup.

The second Covered Employee at Phibro was determined not to have a legally binding right to the proposed amounts. *See id.* § 30.10(e)(2). Accordingly, the Office of the Special Master engaged in discussions with the Company to ensure that no payments would be made to this employee that would be inconsistent with the Public Interest Standard. The compensation structures for this employee that the Special Master has determined to be consistent with the Public Interest Standard will be structured in accordance with the conclusions of the Special Master described in Part IV.B.2. above. The compensation structures for this employee will also be subject to the limitations described in Parts IV.B.2.d., ("other" compensation and perquisites), IV.B.2.e. (non-qualified deferred compensation), and IV.B.2.f. (severance plans) above. Further detail is provided in ***Exhibits I*** and ***II***.

4. Departed Employees

In addition, three employees that would have been Covered Employees had they remained employed are no longer employed by the Company. With respect to those employees, the Special Master has determined that cash salaries through the date of the termination of employment, and payment of up to $25,000 in perquisites and "other" compensation are consistent with the Public Interest Standard. No other payments to these employees of any kind would be consistent with the Public Interest Standard. Any exceptions to this limitation will require that the Company provide to the Office of the Special Master an independent justification for the payment that is satisfactory to the Special Master.

V. CORPORATE GOVERNANCE

As noted in Part III above, the Rule requires the Special Master to consider the extent to which compensation structures are "performance-based over a relevant performance period," 31 C.F.R. § 30.16(b)(1)(iv). In light of the importance of this principle, Citigroup must take certain additional corporate governance steps, including those required by the Rule, to ensure that the compensation structures for the Covered Employees, and the amounts payable or potentially payable under those structures, are consistent with the Public Interest Standard.

A. <u>Requirements Relating to Compensation Structures</u>

In order to ensure that objective compensation performance criteria are "measurable, enforceable, and actually enforced if not met," *id.* § 30.16(b)(1)(iv), long-term incentive awards may not be granted unless the Personnel and Compensation Committee of Citigroup's Board of Directors determines to grant such an award in light of the employee's performance as measured against objective performance criteria that the Committee has developed and reviewed in consultation with the Office of the Special

Master. This evaluation must be disclosed to shareholders in, and certified by the Committee as part of, Citigroup's securities filings. In addition, the Committee must retain discretion with respect to each employee, to reduce (but not to increase) the amount of any incentive award on the basis of its overall evaluation of the employee's or Citigroup's performance (notwithstanding full or partial satisfaction of the performance criteria).

In addition, as noted in Part III, above and described in ***Exhibits I*** and ***II***, the structures determined by the Special Master to be consistent with the Public Interest Standard include grants of stock in Citigroup. It is critical that these compensation structures achieve the Rule's objective of "appropriate[ly] allocat[ing] the components of compensation [including] long-term incentives, as well as the extent to which compensation is provided in…equity," *id.* § 30.16(b)(iii).

The Company must have in effect a policy that would prohibit an employee from engaging in hedging, derivative or other transactions that have an economically similar effect that would undermine the incentives created by the compensation structures set forth in ***Exhibits I*** and ***II***. Such transactions would be contrary to the principles set forth in the Rule.

B. Additional Requirements

In addition to the requirements set forth above, pursuant to the requirements of the Rule, Citigroup is required to institute the following corporate governance reforms:

(1) *Compensation Committee; Risk Review.* Citigroup must maintain a compensation committee comprised exclusively of independent directors. Every six months, the committee must discuss, evaluate, and review with Citigroup's senior risk officers any risks that could threaten the value of Citigroup. In particular, the committee must meet every six months to discuss, evaluate, and review the terms of each employee compensation plan to identify and limit the features in (1) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that threaten the value of Citigroup; (2) SEO or other employee compensation plans that could encourage behavior focused on short-term results and not on long-term value creation; and (3) employees' compensation plans that could encourage the manipulation of Citigroup's reported earnings to enhance the compensation of any of the employees. *Id.* § 30.4; *id.* § 30.5.

(2) *Disclosure with Respect to Compensation Consultants.* The compensation committee must disclose to Treasury an annual narrative description of whether Citigroup, its Board of Directors, or the committee has engaged a compensation consultant during the past three years. If so, the compensation committee must detail the types of services provided by the compensation consultant or any affiliate, including any "benchmarking" or comparisons employed to identify certain percentile levels of compensation. *Id.* § 30.11(c).

(3) *Disclosure of Perquisites.* As noted in Part IV, Citigroup must provide to Treasury an annual disclosure of any perquisite whose total value for Citigroup's fiscal year exceeds $25,000 for each of the Covered Employees. Citigroup must provide a narrative description of the amount and nature of these perquisites, the recipient of these perquisites, and a justification for offering these perquisites (including a justification for offering the perquisite, and not only for offering the perquisite with a value that exceeds $25,000). *Id.* § 30.11(b).

(4) *Clawback.* Citigroup must ensure that any incentive award paid to a Covered Employee is subject to a clawback if the award was based on materially inaccurate financial statements (which includes, but is not limited to, statements of earnings, revenues, or gains) or any other materially inaccurate performance metric criteria. Citigroup must exercise its clawback rights except to the extent that it is unreasonable to do so. *Id.* § 30.8.

(5) *Say-on-Pay.* Citigroup must permit a separate shareholder vote to approve the compensation of executives, as required to be disclosed pursuant to the federal securities laws (including the compensation discussion and analysis, the compensation tables, and any related material). *Id.* § 30.13.

(6) *Policy Addressing Excessive or Luxury Expenditures.* Citigroup was required to adopt an excessive or luxury expenditures policy, provide that policy to Treasury, and post it on Citigroup's website. If Citigroup's board of directors makes any material amendments to this policy, within ninety days of the adoption of the amended policy, the board of directors must provide the amended policy to Treasury and post the amended policy on the company website. *Id.* § 30.12.

(7) *Prohibition on Tax Gross-Ups.* Except as explicitly permitted under the Rule, Citigroup is prohibited from providing (formally or informally) tax gross-ups to any of the Covered Employees. *Id.* § 30.11(d).

(8) *CEO and CFO Certification.* Citigroup's chief executive officer and chief financial officer must provide to the Securities and Exchange Commission written certification of the Company's compliance with the various requirements of section 111 of EESA. The precise nature of the required certification is identified in the Rule. *Id.* § 30.15 Appx. A.

VI. CONCLUSION

The Special Master has reviewed the Proposed Structures for the Covered Employees for 2009 in light of the principles set forth at 31 C.F.R. § 30.16(b). On the basis of that review, the Special Master has determined that the Proposed Structures submitted by Citigroup require modification in order to meet the Public Interest Standard.

The Special Master has separately reviewed the compensation structures set forth in ***Exhibits I*** and ***II*** in light of the principles set forth at 31 C.F.R. § 30.16(b). Pursuant to the authority vested in the Special Master by the Rule, and in accordance with Section

30.16(a)(3) thereof, the Special Master hereby determines that the compensation structures set forth in ***Exhibits I*** and ***II***, including the amounts payable or potentially payable under such compensation structures, will not result in payments that are inconsistent with the purposes of section 111 of EESA or the TARP, and will not otherwise be contrary to the public interest.

Pursuant to the Interim Final Rule, Citigroup may, within 30 days of the date hereof, request in writing that the Special Master reconsider the determinations set forth in this Determination Memorandum. The request for reconsideration must specify a factual error or relevant new information not previously considered, and must demonstrate that such error or lack of information resulted in a material error in the initial determinations. If Citigroup does not request reconsideration within 30 days, the determinations set forth herein will be treated as final determinations. *Id.* § 30.16(c)(1).

The foregoing determinations are limited to the compensation structures described in ***Exhibits I*** and ***II***, and shall not be relied upon with respect to any other employee. The determinations are limited to the authority vested in the Special Master by Section 30.16(a)(3) of the Rule, and shall not constitute, or be construed to constitute, the judgment of the Office of the Special Master or Treasury with respect to the compliance of any compensation structure with any other provision of the Rule. Moreover, this Determination Memorandum has relied upon, and is qualified in its entirety by, the accuracy of the materials submitted by the Company to the Office of the Special Master, and the absence of any material misstatement or omission in such materials.

Finally, the foregoing determinations are limited to the compensation structures described herein, and no further compensation of any kind payable to any Covered Employee without the prior approval of the Special Master would be consistent with the Public Interest Standard.

EXHIBIT I

COVERED EMPLOYEES

2009 Compensation

Company Name: Citigroup Inc.

Employee ID	**Cash Salary** (Rate going forward.)	**Stock Salary** (Performance based: The stock vests at grant and is redeemable in three equal, annual installments beginning on the 2nd anniversary of grant.)	**Long-Term Restricted Stock** (Performance based: Awarded based on achievement of objective performance goals. Vests after 3 years of service. Transferability dependent on TARP repayment.)	**Total Direct Compensation** (Cash salary paid to date plus two months at new run rate + stock salary + long-term restricted stock.)
100001	$1	$0	$0	$1
100004	$475,000	$5,433,333	$2,850,000	$8,550,000
100005	$500,000	$3,400,000	$1,950,000	$5,850,000
100006	$0	$0	$0	$0
100007	$475,000	$5,629,167	$3,000,000	$9,000,000
100008	$475,000	$3,733,333	$2,000,000	$6,000,000
100009	$475,000	$3,979,167	$2,133,333	$6,400,000
100010	$475,000	$5,699,390	$3,000,000	$9,000,000
100011	$475,000	$4,683,333	$2,475,000	$7,425,000
100013	$475,000	$5,399,390	$2,850,000	$8,550,000
100014	$475,000	$5,733,333	$3,000,000	$9,000,000
100015	$475,000	$4,400,000	$2,333,333	$7,000,000
100017	$475,000	$3,200,000	$1,733,333	$5,200,000
100019	$475,000	$3,000,000	$1,633,333	$4,900,000
100020	$475,000	$2,845,833	$1,556,250	$4,668,750
100021	$475,000	$1,775,000	$1,000,000	$3,000,000
100022	$475,000	$2,520,000	$1,393,333	$4,180,000
100023	$475,000	$3,733,333	$2,000,000	$6,000,000
100025	$475,000	$250,000	$237,500	$712,500
100075	$500,000	$5,062,500	$2,666,667	$8,000,000
100107	$500,000	$2,916,666	$1,666,667	$5,000,000

Comparison of 2009 Compensation to Prior Years: 2007 & 2008 Compensation

2008 Cash decreased by $244.9M or 96.4%
Total Direct Compensation decreased by $272M or 69.7%

2007 Cash decreased by $78.4M or 89.6%
Total Direct Compensation decreased by $217.3M or 64.7%

Note: 1: Amounts reflected in this Exhibit do not include amounts the Company has asserted to be payable pursuant to legally binding rights under valid employment contracts, see 31 C.F.R. § 30.10(e)(2).
Note: 2: The total number of Covered Employees may be less than 25 because of terminations, departures and retirements after January 1, 2009.

EXHIBIT II
TERMS AND CONDITIONS OF PAYMENTS AND STRUCTURES CONSISTENT WITH THE PUBLIC INTEREST STANDARD

The following general terms and conditions shall govern the compensation structures described in ***Exhibit I***. The Special Master's determination that those structures are consistent with the Public Interest Standard is qualified in its entirety by the Company's adherence to these terms and conditions.

- ***Cash base salary***. Cash base salaries reflect the go-forward rate for the employee effective as of November 1, 2009. Compensation paid in the form of cash base salary prior to that date in accordance with the terms of employment as of June 14, 2009 shall be permitted unless otherwise noted. 31 C.F.R. § 30.16(a)(3)(iii).

- ***Stock salary***. Rates of stock salary grants reflect full-year values. Because this is a new compensation element, the amounts are payable on a *nunc pro tunc* basis effective January 1, 2009. Stock salary must be determined as a dollar amount through the date salary is earned, be accrued at the same time or times as the salary would otherwise be paid in cash, and vest immediately upon grant, with the number of shares based on the fair market value on the date of award. Stock granted as stock salary may only be redeemed in three equal, annual installments beginning on the second anniversary of grant, with each installment redeemable one year early if TARP obligations are repaid.

- ***Long-term restricted stock***. Long-term restricted stock may be granted upon the achievement of specified, objective performance criteria that have been developed and reviewed in consultation with the Office of the Special Master and certified by the Personnel and Compensation Committee of Citigroup's Board of Directors. Any such stock may vest only if the employee remains employed by the Company on the third anniversary of grant (or, if earlier, upon death or disability). The stock shall be transferable only in 25% increments for each 25% of TARP obligations repaid by the Company.

- ***Other compensation and perquisites***. No more than $25,000 in total other compensation and perquisites may be provided to any Covered Employee, absent exceptional circumstances for good cause shown, as defined by pertinent SEC regulations.

- ***Supplemental executive retirement plans and non-qualified deferred compensation plans***. Following the date of the Determination Memorandum, no additional amounts may be accrued under supplemental executive retirement plans, and no Company contributions may be made to other "non-qualified deferred compensation" plans, as defined by pertinent SEC regulations.

- ***Qualified Plans***. For the avoidance of doubt, the Special Master has determined that participation by the Covered Employees in tax-qualified retirement, health and welfare, and similar plans is consistent with the Public Interest Standard.