

Report Prepared On: 10/25/12

**Structured Product Details**

Name ELKS linked to U.S. Steel Corp.

Issue Size \$111.37 million  
 Issue Price \$10  
 Term 6 Months  
 Annualized Coupon 12.00%

Pricing Date March 25, 2011  
 Issue Date March 30, 2011  
 Valuation Date September 16, 2011  
 Maturity Date September 21, 2011

Issuer Citigroup  
 CDS Rate 25.45 bps  
 Swap Rate 0.44%

Reference Asset U.S. Steel Corp.'s stock

Initial Level \$55.02  
 Conversion Price \$27.74  
 Trigger Price \$44.02  
 Dividend Rate 0.36%  
 Implied Volatility 40.93%  
 Delta<sup>1</sup> 0.41

Fair Price at Issue \$9.58  
 Realized Return -71.34%

CUSIP 17316G271  
 SEC Link [www.sec.gov/Archives/edgar/data/831001/000131828111000074/ps\\_11-003637.htm](http://www.sec.gov/Archives/edgar/data/831001/000131828111000074/ps_11-003637.htm)

**Related Research**

Research Papers:  
[www.slcg.com/research.php](http://www.slcg.com/research.php)

- "Are Structured Products Suitable for Retail Investors?" December 2006.
- "Structured Products in the Aftermath of Lehman Brothers," November 2009.
- "What TiVo and JP Morgan Teach Us about Reverse Convertibles," June 2010.

**Tim Dulaney, Ph.D.,**  
 Senior Financial Economist, SLCG  
 (+1) 703.539.6777  
[TimDulaney@slcg.com](mailto:TimDulaney@slcg.com)

**ELKS linked to U.S. Steel Corp.**

**Description**

Citigroup issued \$111.37 million of ELKS linked to U.S. Steel Corp. on March 30, 2011 at \$10 per note.

These notes are Citigroup-branded reverse convertibles. These notes pay periodic interest coupons and at maturity convert into shares of U.S. Steel Corp.'s stock, if the closing price of U.S. Steel Corp.'s stock was ever below \$44.02 during the term of the notes. Similar securities are issued by other companies under different brand names.

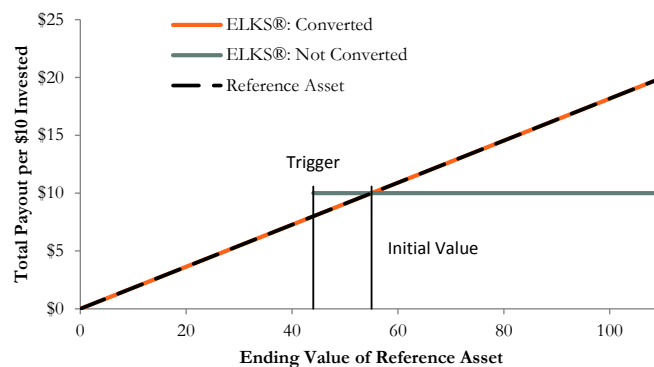
These 6-month notes pay monthly coupons at an annualized rate of 12.00%. In addition to the monthly coupons, at maturity on September 21, 2011 investors will receive the market value of 0.18 share of U.S. Steel Corp.'s stock if during the term of the notes U.S. Steel Corp.'s stock ever closed at or below \$44.02—80% of U.S. Steel Corp.'s stock's \$55.02 closing price on March 25, 2011. Otherwise, investors will receive the \$10 face value per note. In either case, investors receive the final coupon payment at maturity.

**Valuation**

This Citigroup ELKS linked to U.S. Steel Corp. can be valued as a combination of a note from Citigroup, a short down-and-in at-the-money put option, and a long down-and-in at-the-money call option on U.S. Steel Corp.'s stock. For reasonable valuation inputs this note was worth \$9.58 per \$10 when issued on March 30, 2011 because investors were effectively being paid only \$0.54 for giving Citigroup options which were worth \$0.96.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

**Payoff Curve at Maturity**

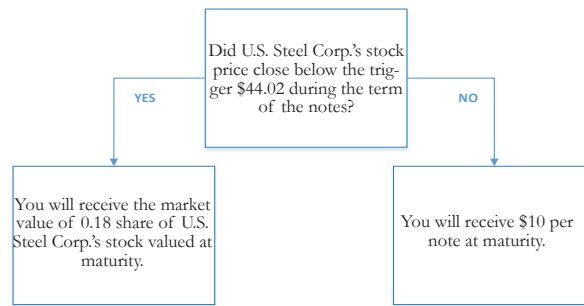


The payoff diagram shows the final payoff of this note given U.S. Steel Corp.'s stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in U.S. Steel Corp.'s stock directly.

**Principal Payback Table**

U.S. Steel Corp.'s Stock	Converted Note Payoff	Non-Converted Note Payoff
\$0.00	\$0.00	
\$5.50	\$1.00	
\$11.00	\$2.00	
\$16.51	\$3.00	
\$22.01	\$4.00	
\$27.51	\$5.00	
\$33.01	\$6.00	
\$38.51	\$7.00	
\$44.02	\$8.00	\$10.00
\$49.52	\$9.00	\$10.00
<b>\$55.02</b>	<b>\$10.00</b>	<b>\$10.00</b>
\$60.52	\$11.00	\$10.00
\$66.02	\$12.00	\$10.00
\$71.53	\$13.00	\$10.00
\$77.03	\$14.00	\$10.00
\$82.53	\$15.00	\$10.00

**Maturity Payoff Diagram**



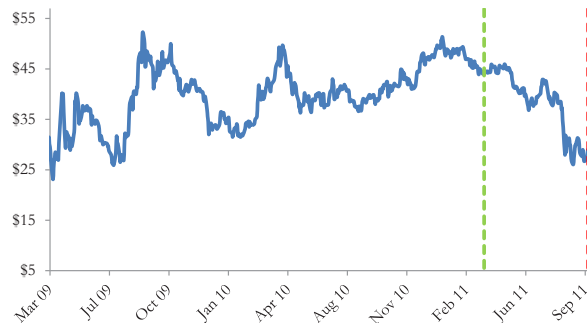
*The contingent payoffs of this ELKS.*

**Analysis**

The 12.00% annualized coupon rate is higher than the yield Citigroup paid on its straight debt but, in addition to Citigroup's credit risk, investors bear the risk that, at maturity, they will receive shares of U.S. Steel Corp.'s stock at precisely the time when these shares are worth substantially less than the face value of the note.

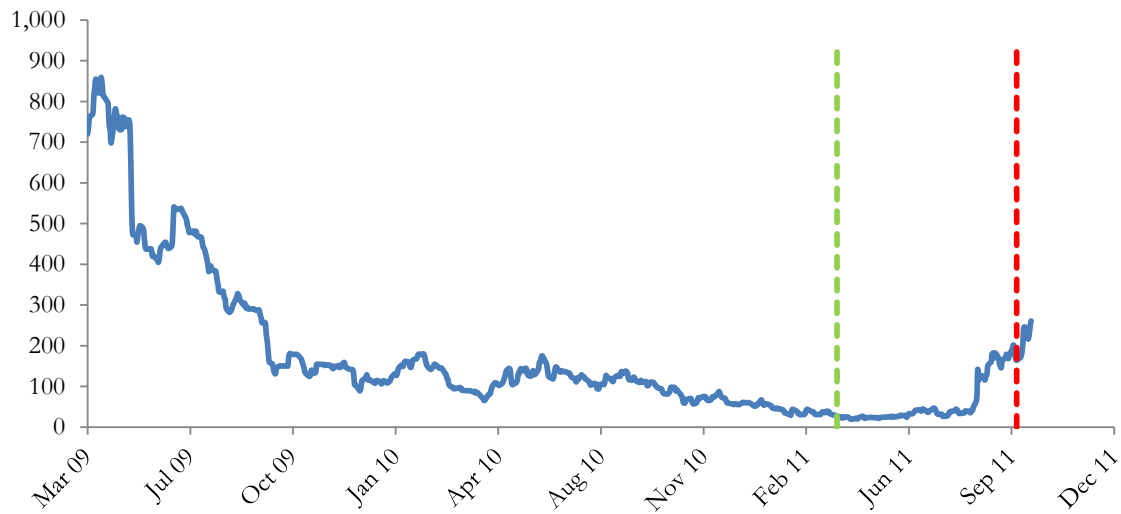
Investors purchasing ELKS effectively sell down-and-in put options to Citigroup, buy down-and-in call option, and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. Investors are compensated by Citigroup through "coupon" payments that represent partial payment for the premium difference of put and call options as well as interest on the investors' posted collateral. This ELKS is fairly priced if and only if the excess of the reverse convertible's "coupon rate" above the interest Citigroup pays on its straight debt equals the net value of the put and call options investors are exchanging with Citigroup. Whether the purchase of this ELKS is suitable or not is identically equivalent to whether selling put options on the reference asset at the option premium being paid by the brokerage firm was suitable for the investor in question.

**Citigroup's Stock Price**



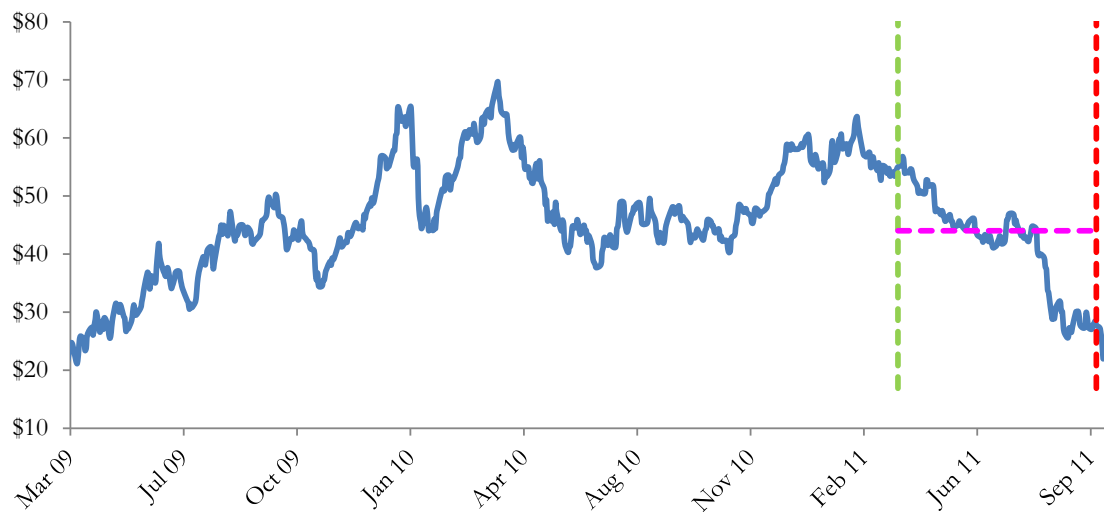
*The graph above shows the adjusted closing price of the issuer Citigroup for the past several years. The stock price of the issuer is an indication of the financial strength of Citigroup. The adjusted price shown above incorporates any stock split, reverse stock split, etc.*

### Citigroup's CDS Rate



*Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as Citigroup. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of Citigroup's debt, including outstanding ELKS. Fluctuations in Citigroup's CDS rate impact the market value of the notes in the secondary market.*

### U.S. Steel Corp.'s Stock Price

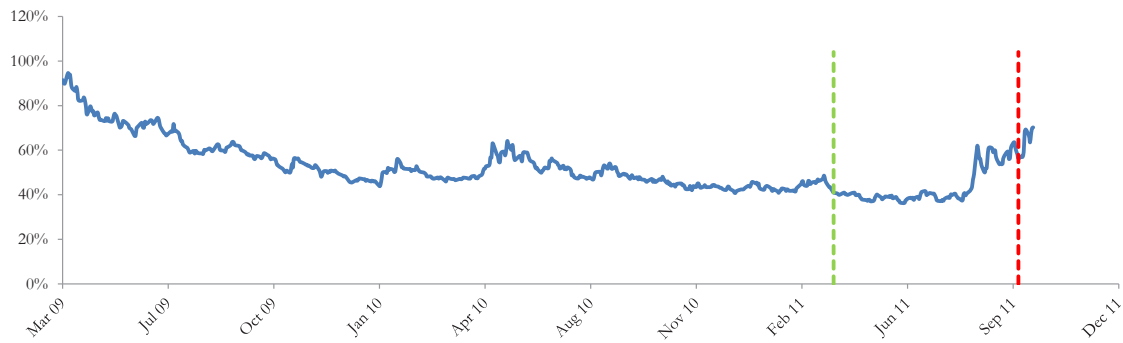


*The graph above shows the historical levels of U.S. Steel Corp.'s stock for the past several years. The final payoff of this note is determined by U.S. Steel Corp.'s stock price at maturity. Higher fluctuations in U.S. Steel Corp.'s stock price correspond to a greater uncertainty in the final payout of this ELKS.*

### Realized Payoff

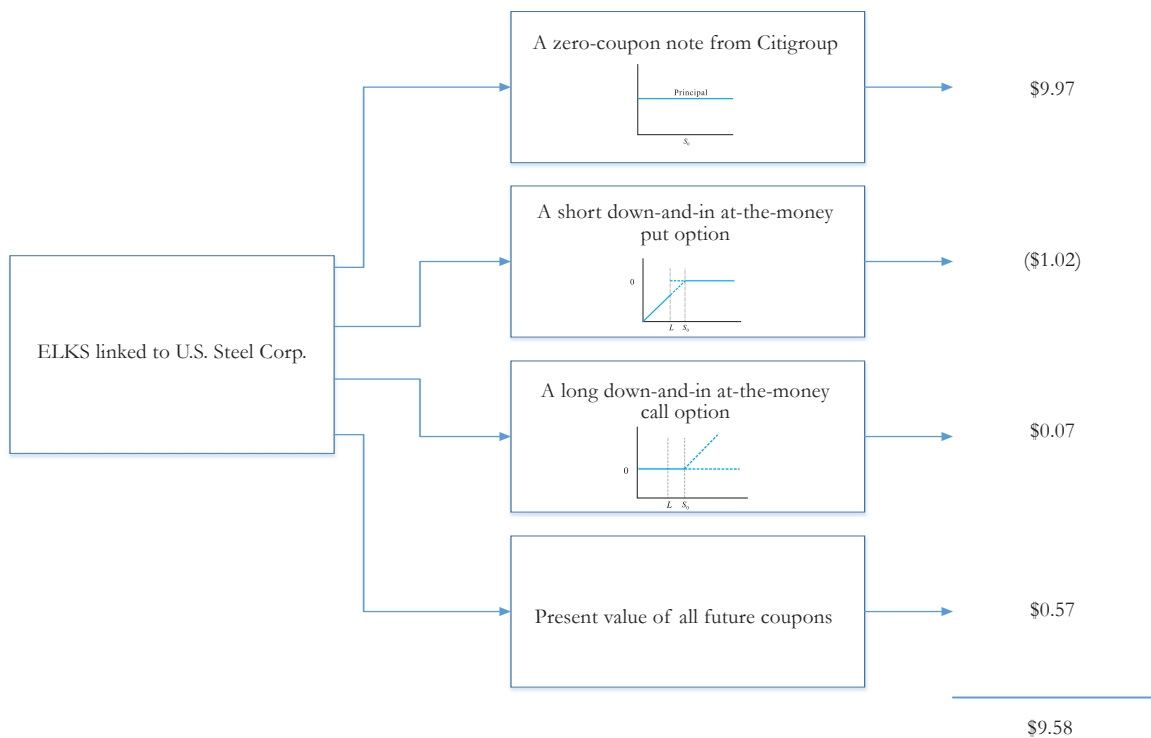
This note matured on September 21, 2011 and investors received \$5.04 per note (or equal to the value of 0.18 share of U.S. Steel Corp. stock's closing price on September 16, 2011).

## Reference Asset U.S. Steel Corp.'s Stock's Implied Volatility



The annualized implied volatility of U.S. Steel Corp.'s stock on March 25, 2011 was 40.93%, meaning that options contracts on U.S. Steel Corp.'s stock were trading at prices that reflect an expected annual volatility of 40.93%. The higher the implied volatility, the larger the expected fluctuations of U.S. Steel Corp.'s stock price and of the Note's market value during the life of the Notes.

## Decomposition of this ELKS



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this ELKS.

1. Delta measures the sensitivity of the price of the note to the U.S. Steel Corp.'s stock price on March 25, 2011.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the U.S. Steel Corp.'s stock on March 25, 2011.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.