Citibank®
Purchasing Card
Best Practices
2004 Citibank® Commercial Cards, Government Services

The Sixth Annual GSA SmartPay® Conference
SHERATON CONFERENCE CENTER, NEW ORLEANS, LOUISIANA, AUGUST 24-26, 2004

Citibank® Purchase Card Best Practices

Pat Gaydos, Kathy Borisko, David Cramer, Katherine Buchan
August 24-25, 2004

Citigroup® Global Transaction Services

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Goal and Objectives

- To communicate proven approaches to Purchase Card program management that will support your agency’s goals

- To provide a summary of the findings from the 2003 Purchasing Card Benchmark Study conducted by RPMG Research
Agenda

■ Social Security Administration
  – Program Statistics
  – Best Practices
  – Program Enhancements
  – Program Expansion Challenges

■ Results of the 2003 Purchasing Card Benchmark Study

■ Questions
2004 Citibank® Commercial Cards, Government Services
Citibank Purchase Card Best Practices

Social Security Administration Best Practices

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2004 Citibank® Commercial Cards, Government Services

Citibank Purchase Card
Best Practices

Pat Gaydos
Kathy Borisko

Social Security Administration

Citigroup® Global Transaction Services
SSA Program Statistics

- Annual Spend: $53,000,000
- Annual Transactions: 140,000
- Active Cardholders: 3,100
- Approving Officials: 1,300
- Rebates since 1998: $2,300,000
Best Practices

- Senior executive commitment and support
- Policy training
- Ongoing guidance
- Controls
Best Practices

• Senior executive support and decisions
  – Communicate positive benefits
  – Develop a standardized and structured program with some flexibility
  – Close collaboration between Acquisition and Finance
    • Daily invoicing and payments
  – Inform and update senior management
Best Practices

• Policy training
  – Computer-based training
    • Replaced original training video
    • Implemented training requirement
Best Practices

• Ongoing guidance
  – Administrative Instructions Manual System (AIMS)
  – Electronic Acquisition Alerts / informational bulletins
  – Electronic Access System Manual and Quick Reference Guides
  – Customer Service Representatives
Best Practices

• Controls
  – Number of cardholders per office
  – Number of cardholders per Approving Official
  – Restrict the single purchase and monthly spending limits
  – Merchant Category Codes (MCC)
  – Control of separated employees
Program Enhancements

• Use of technological processes
  – Certification process via the CitiDirect® Card Management System
  – Training
  – Implementation
Program Expansion Challenges

- Reduction of Third Party Drafts
- Inability to pay banks via the card
- Inability to pay individuals via the card
- Large Dollar Purchases
- Level 3 data
Results of the 2003 Purchasing Card Benchmark Study
2004 Citibank® Commercial Cards, Government Services

Citibank Purchase Card Best Practices

David Cramer
Visa Integrated Solutions

Citigroup® Global Transaction Services
Agenda

- 2003 Purchasing Card Benchmark Survey Background
- Study Findings
  - Organizational Impacts and Changing Goals
  - Emerging Trends and Success Drivers
  - Misuse, Combination Cards
  - Common Elements of Highly Effective Programs
  - GSA SmartPay Findings
- Conclusions
- Questions you haven’t asked yet
2003 Purchasing Card Benchmark Survey Background
2003 Purchasing Card Benchmark Survey

- Survey was conducted by Professors Richard Palmer and Mahendra Gupta (RPMG Research)*

- Designed to improve knowledge about the progress of purchasing card use, emerging trends and industry-specific benchmark data

- Copies provided to:
  - Each business that responded

- Report highlights:
  - Market trends
  - Best practices
  - Card misuse
  - Data & reporting
  - Combining uses
  - Barriers to program growth
  - Common Elements of Successful Programs
## Survey Profile

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
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<tbody>
<tr>
<td><strong>Number of Issuers</strong></td>
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<td><strong>Participating Issuers</strong></td>
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<td>Citibank**</td>
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<td>Mellon Bank**</td>
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<td>National Bank of Canada</td>
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<td>PNC Bank **</td>
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<td>Scotiabank</td>
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<td>SunTrust**</td>
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<td>US Bank**</td>
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<td>UMB Bank</td>
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<td>Wells Fargo**</td>
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<td></td>
<td>National City Bank</td>
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<td>GE Capital</td>
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<td>Mellon Bank</td>
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<td>PNC Bank</td>
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<td></td>
<td>SunTrust</td>
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<td></td>
<td>US Bank</td>
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<td></td>
<td>Wachovia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wells Fargo</td>
<td></td>
</tr>
<tr>
<td><strong>Number of Responses</strong></td>
<td>579</td>
<td>329</td>
</tr>
<tr>
<td><strong>Response Rate</strong></td>
<td>20%</td>
<td>12%</td>
</tr>
</tbody>
</table>

* Surveys were also sent to members of the National Association of Purchasing Card Professionals

**Participated both years
Survey Respondents - Types of Organizations

- Public Corporations: 36%
- Private Corporations: 21%
- Universities: 15%
- City/County: 11%
- State: 5%
- Federal: 3%
- Others: 9%

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Survey Respondents - Size of Respondents

- Large Market: 30%
- Middle Market: 27%
- Fortune 500: 38%
- Small Market: 1%
- No Sales Data Provided: 4%
Market Size, Trends and Opportunities

- North American Market
  - Total transactions under $10,000: $456 billion
  - Transactions between $2,000 and $10,000: $217 billion
  - Transactions under $2,000: $185 billion
  - 90 percent of transactions under $10,000 are less than $2,000

- Organizations that expect to “radiate” spending to two or more new types of spending project growth almost 3 times greater than those that indicated they would not expand card usage to new categories

- Purchasing card use is generating overall transaction cost savings of over $23 billion per year, along with
  - 74 percent reduction in cycle time
  - 57 percent reduction in number of petty cash accounts

- Large untapped potential lay between $2,000 & $10,000 purchases
Where is the Purchasing Card Opportunity and Potential?

![Bar Chart of Transactions](chart1)

- **Transactions (in millions)**
  - **Under $2,000**
  - **$2,000 to $10,000**

![Bar Chart of Spending](chart2)

- **Spending (in $ billions)**
  - **Under $2,000**
  - **$2,000 to $10,000**
Study Findings -

Organizational Impacts

&

Changing Program Goals
Savings and Efficiency

Using purchasing card generates equivalent of 29% reduction in cost of goods. *

*Based on 335 million transactions at $69 savings.
Current Payment Method by Transaction Amount

- **Paper checks**
  - Below $2,000: 60.6%
  - Between $2,000 and $10,000: 77.9%

- **Purchasing Cards**
  - Below $2,000: 30.7%
  - Between $2,000 and $10,000: 8.5%

- **ACH transfers**
  - Below $2,000: 5.5%
  - Between $2,000 and $10,000: 8.3%

- **Wire transfers & others**
  - Below $2,000: 3.3%
  - Between $2,000 and $10,000: 5.3%

There is a lower penetration rate (8.5 percent) of Purchasing Card use on transactions between $2,000 and $10,000.
Best Practice
Framework for understanding purchasing card spending

Transactions per card

Spend per transaction

Number of active cards

Purchasing Card Spending

- Petty cash account reduction – 57%
- Reduction in MRO supply base – 42%
- New way to look at cost savings – in relation to the total spend, not just sharing of revenue
Program Goals, Old and New

- **Reduce process cost**: 87.9% (2003), 79.3% (2000)
- **Increase process efficiency**: 79.3% (2003), 77.4% (2000)
- **Increase convenience for employees**: 79.0% (2003), 75.9% (2000)
- **Reduce time to obtain goods/services**: 65.6% (2003), 63.0% (2000)
- **Reduce number of paperwork errors occurring in the purchasing process**: 36.5% (2003), 36.0% (2000)
- **Obtain better data about spending**: 29.9% (2003), 45.7% (2000)
- **Increase control over spending**: 29.1% (2003), 36.7% (2000)
- **Leverage spending to reduce prices**: 26.0% (2003), 31.5% (2000)
- **Generate rebates**: 24.9% (2003), 39.1% (2000)

**Emerging Goals**

- **Increase process efficiency**: 79.3%
- **Increase convenience for employees**: 79.0%
- **Reduce time to obtain goods/services**: 65.6%
- **Reduce number of paperwork errors occurring in the purchasing process**: 36.5%
- **Obtain better data about spending**: 29.9%
- **Increase control over spending**: 29.1%
- **Leverage spending to reduce prices**: 26.0%
- **Generate rebates**: 24.9%
Study Findings -
Emerging Trends &
Program Success Drivers
### Market Trends – All Respondents

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>2001</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Monthly Spend - All Respondents</td>
<td>$633,000</td>
<td>$801,000</td>
<td>$1,642,705</td>
</tr>
<tr>
<td>Median Monthly Spend per Respondent</td>
<td>$134,000</td>
<td>$194,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Average Monthly Spending per Card</td>
<td>$777</td>
<td>$1,053</td>
<td>$1,243</td>
</tr>
<tr>
<td>Average Transaction Size</td>
<td>$201</td>
<td>$227</td>
<td>$239</td>
</tr>
<tr>
<td>Average Monthly Transactions per Card</td>
<td>3.8</td>
<td>4.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Average Number of Cards</td>
<td>Not Available</td>
<td>762</td>
<td>1,322</td>
</tr>
<tr>
<td>Average Card to Employee Ratio</td>
<td>6%</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Card Penetration by Spend Category

- General MRO goods: 34.8% (2003) vs. 14.3% (2001)
- Office products: 24.4% (2003) vs. 18.7% (2001)
- Computer and peripherals: 19.0% (2003) vs. 12.0% (2001)
- Direct materials (inventory): 12.0% (2003)
- Contract or professional services: 9.4% (2003)
- Capital purchases: 7.3% (2003)
- Freight and shipping: 1.5% (2003)
- Lease and rental payments: 1.6% (2003)
- Utilities: 3.9% (2003)
- Other: 24.5% (2003)

Visa U.S.A. – Confidential
Anticipated Sources of Future Growth

- Use p-card more frequently to buy same types of goods: 72%
- Increase types of non-inventory goods bought: 56%
- Increase number of employees given a p-card: 55%
- Begin using p-card to pay for e-procurement transactions: 42%
- Increase average transaction size or monthly spending limit: 34%
- Begin using p-card to buy direct material: 23%
- Begin using p-card to pay for T&E expenses: 22%
- Other: 17%
- Begin using p-card to buy capital assets: 16%
- Begin using p-card to pay for fleet expenses: 16%
The majority of respondents (92 percent) reported using per transaction spending limits.

Higher transaction limits correlate to both increased usage and higher average tickets.

<table>
<thead>
<tr>
<th>Transaction Spending Limits</th>
<th>Percent of Respondents</th>
<th>Median Transactions per Card</th>
<th>Median Transaction Amount</th>
<th>Median Monthly Spending per Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000 or less</td>
<td>63%</td>
<td>4.7</td>
<td>$175</td>
<td>$812</td>
</tr>
<tr>
<td>$2,001 to $4,000</td>
<td>22%</td>
<td>5.4</td>
<td>$250</td>
<td>$1,262</td>
</tr>
<tr>
<td>Over $4,000</td>
<td>15%</td>
<td>6.6</td>
<td>$281</td>
<td>$1,707</td>
</tr>
</tbody>
</table>
Excluding centralized programs with very few cards and high spend, there is a strong correlation between
- Number of cards/ratio of cardholders to employees
- Total program spend

<table>
<thead>
<tr>
<th></th>
<th>Below Average Group</th>
<th>Above Average Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardholder to Employee Ratio</td>
<td>4%</td>
<td>26%</td>
</tr>
<tr>
<td>Transactions Under $2,000 on Card</td>
<td>18%</td>
<td>43%</td>
</tr>
<tr>
<td>Transactions between $2,000 and $10,000 on Card</td>
<td>9%</td>
<td>18%</td>
</tr>
</tbody>
</table>

When asked to rate barriers to further dissemination of purchasing cards, the greatest response was that the company believed “employees who do most of the requisitioning already have cards”
Study Findings – Misuse
Card Misuse

- 70 percent of all misuse dollars in sample are associated with less than 4 percent of respondents
- 65 percent of card misuse was identified through either internal controls or internal audit
- Programs with “low misuse” significantly outperform organizations with “no” or “high misuse. They also have higher expectations of future growth.

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Corporations</th>
<th>State &amp; Federal Agencies</th>
<th>City, County Government</th>
<th>Universities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Dollars per Incident</strong></td>
<td>$932</td>
<td>$905</td>
<td>$599</td>
<td>$450</td>
<td>$690</td>
</tr>
<tr>
<td><strong>Median Dollars per Incident</strong></td>
<td>$500</td>
<td>$575</td>
<td>$400</td>
<td>$100</td>
<td>$325</td>
</tr>
<tr>
<td><strong>Misused Dollars as a Percent of Annual Purchasing Card Spend</strong></td>
<td>.027%</td>
<td>.020%</td>
<td>.017%</td>
<td>.091%</td>
<td>.032%</td>
</tr>
<tr>
<td><strong>Annual Incidents per 1000 cards</strong></td>
<td>4.2</td>
<td>3.5</td>
<td>2.5</td>
<td>14.7</td>
<td>5.2</td>
</tr>
</tbody>
</table>

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Trade-offs On Spending and Misuse

Optimal point of use and control

No Misuse | Low Misuse | High Misuse

- Misuse $ to Pcard Spend
- Misuse Incidents per 10K Transactions
- Misuse Incidents per 1k Cards
Study Findings -
Common Elements of Highly Effective Programs
### Best Practice

*Common Elements of High Performing Programs*

<table>
<thead>
<tr>
<th>Organizational Measure</th>
<th>All Respondents</th>
<th>Top Quartile Spending per Employee</th>
<th>Bottom Quartile Spending per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue (in $ millions)</td>
<td>$4,776</td>
<td>$1,749</td>
<td>$3,343</td>
</tr>
<tr>
<td>Number of employees</td>
<td>12,332</td>
<td>4,209</td>
<td>15,564</td>
</tr>
<tr>
<td>Age of program (years)</td>
<td>3.7</td>
<td>4.0</td>
<td>2.9</td>
</tr>
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</table>
# Best Practice

## Common Elements of High Performing Programs

<table>
<thead>
<tr>
<th>Card Program Performance Measure</th>
<th>All Respondents</th>
<th>Top Quartile Spending per Employee</th>
<th>Bottom Quartile Spending per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly p-card spending</td>
<td>$1,642,705</td>
<td>$2,028,095</td>
<td>$361,004</td>
</tr>
<tr>
<td>Median monthly p-card spending</td>
<td>$300,000</td>
<td>$520,000</td>
<td>$74,788</td>
</tr>
<tr>
<td>Number of cards</td>
<td>1,322</td>
<td>1,299</td>
<td>571</td>
</tr>
<tr>
<td>Number of cardholders</td>
<td>1,079</td>
<td>1,059</td>
<td>486</td>
</tr>
<tr>
<td>P-card-to-employee ratio</td>
<td>11.0%</td>
<td>30.9%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Cardholder-to employee ratio</td>
<td>8.9%</td>
<td>25.2%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

*Note large difference in percentage of employees with purchasing cards.*
## Best Practice
### Outcomes of High Performing Programs

<table>
<thead>
<tr>
<th>Outcome Measures</th>
<th>All Respondents</th>
<th>Top Quartile Spending per Employee</th>
<th>Bottom Quartile Spending per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean monthly p-card transactions</td>
<td>6,888</td>
<td>6,352</td>
<td>2,141</td>
</tr>
<tr>
<td>Transactions under $2,000 placed on p-card</td>
<td>32%</td>
<td>47%</td>
<td>15%</td>
</tr>
<tr>
<td>Transactions between $2,000 and $10,000 placed on p-card</td>
<td>11%</td>
<td>21%</td>
<td>3%</td>
</tr>
<tr>
<td>Average Purchasing &amp; Accounts Payable FTE headcount reduced or redeployed due to p-cards</td>
<td>2.6</td>
<td>4.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Currently considering switching card providers</td>
<td>20%</td>
<td>14%</td>
<td>23%</td>
</tr>
</tbody>
</table>

**Top quartile organizations get about 3X the benefit, less likely to switch.**
## Best Practice
### Controls of High Performing Programs

<table>
<thead>
<tr>
<th>Spending Controls</th>
<th>All Respondents</th>
<th>Top Quartile Spending per Employee</th>
<th>Bottom Quartile Spending per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean per transaction p-card spending limit</td>
<td>$2,331</td>
<td>$3,471</td>
<td>$1,501</td>
</tr>
<tr>
<td>Median per transaction p-card spending limit</td>
<td>$1,500</td>
<td>$2,499</td>
<td>$1,000</td>
</tr>
<tr>
<td>Mean monthly p-card spending limit</td>
<td>$11,833</td>
<td>$16,414</td>
<td>$7,503</td>
</tr>
<tr>
<td>Median monthly p-card spending limit</td>
<td>$7,500</td>
<td>$10,000</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Higher per transaction and monthly spending limits characterize top quartile programs.
Best Practice

Association between transaction limits, card distribution, and card spending.
GSA SmartPay Findings
Purchase Card Spending/Transactions by U.S. Federal Government Agencies:
(Millions) 1989-2003

Fiscal Year

Number of Transaction

Visa U.S.A. – Confidential
Number of Cardholders and Spending per Cardholder
Spending per transaction

Fiscal Year

Visa U.S.A. – Confidential
GSA SmartPay Benefit Analysis

- Administrative cost savings: $1,898,000,000
- Rebates: $110,451,704
- Total Inappropriate Spending: $19,081,373
Characteristics of High Performing Programs

- Require mandatory training for new cardholders
- Mandate use for certain purchases
  - *Take away other payment options!*
- Provide a web site that answers purchasing card questions
- Use card for direct materials and capital items
- Send reminders from accounts payable staff when an invoice is submitted when a card could have been used
- Charge departments for lost savings when a purchasing card is not used
Characteristics of High Performing Programs

- Monitor vendor spending patterns to identify areas for increased purchasing card use
- Utilize ghost or cardless accounts
- Use purchasing card data to negotiate discounts and reduce the size of their MRO supplier base
- Permit use by a variety of employees by not limiting to just managers, supervisors or administrative personnel only
- Allow spending without manager pre-approval
- Permit spending at both preferred and non-preferred suppliers
There are *many different* components of top quartile purchasing card spending.

Most key components include high card distribution and high transaction limits to drive large purchasing card programs.

Barrier to high ticket spending are “non-trivial,” but rewards large.

Multiplier effect of high transaction limits.

“Professionalized” administrative activities.
Conclusions

- Purchasing card programs are moving/have moved from best practice to common practice

- An increase in the transaction spending limit has a “multiplier effect” …increasing both:
  - Number of transactions
  - Average amount spent per transaction

- Main barrier to the use of cards for higher ticket goods and services has been the “inability to obtain detailed information needed”

- The most successful programs have “low misuse” **NOT** NO or HIGH levels of misuse

- Purchasing card using organizations received transaction cost savings, on average, 37 times greater than any rebates received
Support your agency’s goals by using proven best practices in managing your Purchase Card program

The Purchasing Card Benchmark Survey is a comprehensive guide for all card programs with an insight for:

- Benchmark guidelines
- Emerging trends
- Common elements of successful programs
Citibank Purchase Card Best Practices

Questions?
Reminders

- Thank you for attending this session!
- Visit the Citibank Welcome Center
  - The Maurepas Suite, on the third floor at the Sheraton
  - Pick up and complete a Citibank survey during your visit
  - National Industries for the Blind will have a display of products
- Visit the Citibank Technical Demonstration Center
  - Napoleon Ballroom D1, on the third floor at the Sheraton
- Citibank hands-on training
  - Grand Ballroom C, on the fifth floor at the Sheraton
- Please take a moment to complete your GSA survey for this session
- Citibank’s Mardi Gras party is tonight!
  - Parade line-up outside the Sheraton & Marriott at 6:30 p.m.
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