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BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM

## SUMMARY OF SUPERVISORY ACTIVITY AND FINDINGS



Name: CITIGROUP INC.

Period Covered: JANUARY 1, 2005 – DECEMBER 31, 2005

Location: NEW YORK, NEW YORK

RSSD ID Number: 1951350

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FEDERAL RESERVE BANK OF NEW YORK

## FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-2164

April 10, 2006

**BY HAND**

Board of Directors  
Citigroup Inc.  
399 Park Avenue  
3<sup>rd</sup> Floor  
New York, N.Y. 10043

Enveloped Addressed:  
C/O  
Mr. Sanford I. Weill  
Chairman

**COPY**

Dear Board Members:

Enclosed please find our annual report of inspection for Citigroup Inc. (Citigroup), prepared by the Federal Reserve Bank of New York, as of December 31, 2005. The report conveys an overall assessment of Citigroup and outlines issues that are in need of management attention. Our findings are based on the results of *continuous monitoring efforts, specific target exams conducted throughout the year, and assessments made by primary bank and functional regulators.*

The risk management component is now rated 'satisfactory.' The financial condition component is rated 'strong' and the potential negative impact of non-depository entities on subsidiary depository institutions is considered limited. Overall, our findings confirm that Citigroup is in satisfactory condition and assigned a composite rating of '2.'

Last year, in our annual assessment, we expressed significant concern with compliance risk management. The amount of compliance monitoring and testing conducted by the firm was not commensurate with the level of inherent risk. We also expressed concerns with continued weaknesses related to information security and anti-money laundering efforts. Further, we noted the expectation that management take a more forward looking approach to anticipating control weaknesses.

The risk management rating upgrade of this year was driven by observed improvements in the compliance structure and its effectiveness, as a result of substantial management effort expended. We expect the coming year will be one of transition for the firm, as management further embeds and fully implements improvements to key control processes. Management must remain committed to implementing fully the compliance monitoring, testing and reporting framework. Management is expected to execute on the remediation plan related to information security, as well as focus on strengthening the corporate-wide technology program more generally. More comprehensive oversight of AML processes and control implementation also is needed.

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FEDERAL RESERVE BANK OF NEW YORK 2

Board of Directors  
Citigroup Inc.  
April 10, 2006

As you are aware, representatives of this Reserve Bank plan to meet with you on April 17, 2006 to discuss our current assessment of Citigroup. After you have had an opportunity to review the report, and within 60 days of the receipt of this letter, we would appreciate receiving management's written response to the matters discussed therein.

In closing, please note that this letter contains confidential examination material that should be treated accordingly by your organization. As such, the contents of this letter and the enclosed report are subject to the rules of the Board of Governors of the Federal Reserve System regarding disclosure of confidential supervisory information.

Very truly yours,



Dianne Dobbeck  
Assistant Vice President  
Central Point of Contact

**COPY**

Enclosures

RSSD No. 1951350

RESTRICTED F.R.  
12 CFR 261

**SUMMARY OF SUPERVISORY  
ACTIVITY AND FINDINGS**

<u>Citigroup Inc.</u> <b>Corporate Title</b>	<u>399 Park Avenue</u> <b>Street</b>	<u>New York</u> <b>City</b>
<u>New York</u> <b>County</b>	<u>New York</u> <b>State</b>	<u>10043</u> <b>Zip Code</b>

Dianne Dobbeck  
**Federal Reserve Bank of New York  
Central Point of Contact**

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Inspection Date: December 31, 2005  
Financial Statements: December 31, 2005

Previous Inspection Date: December 31, 2004  
Financial Statements: December 31, 2004

**RISK MANAGEMENT**

The risk management rating represents an evaluation of the ability of Citigroup's Board of Directors and senior management, as appropriate for their respective positions, to identify measure, monitor and control risk across the bank holding company. The rating is supported by four subcomponents: Board and Senior Management Oversight; Policies, Procedures and Limits; Risk Monitoring and Management Information Systems (MIS); and Internal Controls. As a result of our most recent supervisory assessment of Citigroup's condition, the risk management component is now rated 'satisfactory,' as noted below.

<b>Risk Management Ratings for Citigroup</b>	<b>12/31/05</b>
Composite Rating	2
<i>Component Ratings:</i>	
Board and Senior Management Oversight	2
Policies, Procedures and Limits	2
Risk Monitoring and MIS	2
Internal Controls	2

**EXECUTIVE SUMMARY**

The risk management assessment is reflective of a control environment where credit, market and operational risks continue to be managed in a satisfactory manner. Board and senior management are actively engaged in decisions regarding how best to measure, monitor and mitigate those risks. Further, they have sought to improve relevant processes, including updates to existing policies and procedures. Internal controls have been strengthened through the adoption of shorter audit cycles, increased audit staffing and more comprehensive business monitoring.

***Compliance Risk Management***

Last year, in our annual assessment, we expressed significant concern with compliance risk management. The amount of compliance monitoring and testing conducted by the firm was not commensurate with the level of inherent risk. Management was strongly encouraged to implement a more comprehensive monitoring and testing program; one that included a transparent risk-adjusted testing methodology. Additionally, we recommended that management develop a set of key risk indicators upon which senior management and Citigroup's Board of Directors would rely in measuring enterprise-wide progress in the compliance program. We also expressed concern with continued weaknesses related to information security (IS) and anti-money laundering (AML) efforts. Further, we

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**RISK MANAGEMENT - CONTINUED**

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noted the expectation that management take a more forward looking approach to anticipating control weaknesses.

The risk management rating upgrade of this year was driven by observed improvements in the compliance structure and its effectiveness, as a result of substantial management effort expended. The roles and responsibilities of compliance staff have been clarified through procedures, which have been shared with all relevant parties. Moreover, reporting lines have been changed to ensure that compliance staff is fully independent from the businesses they evaluate. As communicated in our recent exam report, we found the compliance monitoring, testing and reporting (MTR) framework to be reasonably sound in addressing higher risk issues; however, the comprehensiveness of these compliance efforts were in need of improvement. We expect the coming year will be one of transition for the firm, as management further embeds and fully implements improvements to key control processes. Senior management must remain fully committed to continuing the momentum given the significant amount of implementation work that remains.

The risk management assessment also reflects the firm's emphasis on the risk control self-assessment (RCSA) process as a key business control, including the way in which RCSA, audit and other control assessments are tied to compensation for Citigroup's senior most management. Further, escalation protocols have been established across the firm, which clarify management's expectations regarding reputational risk. Related processes are in place to assess the potential legal and reputational risks associated with complex transactions and others that may pose heightened risk, as are efforts to assess the risk of products to be disseminated to retail customers. We view favorably Audit and Risk Review's (ARR's) efforts to shorten audit cycles for high risk entities, improve upon its business monitoring processes and bolster staffing levels as necessary to conduct its work. Assimilating new staff presents the challenge of ensuring all are trained sufficiently on control processes and business practices.

The 'satisfactory' risk management rating takes into account improvements with the way in which Citigroup's international operations are conducted. Management has increased its focus on franchise governance through on-site reviews of complex and multi-business franchises, and implementation of the Citigroup Country Officer (CCO) framework. We see those efforts as having clarified expectations and helped to strengthen the control infrastructure abroad. As the firm seeks to expand, domestically and internationally, management must ensure that the control infrastructure does not deteriorate.

***Information Technology***

We recognize that strengthening the technology infrastructure is one of senior management's objectives for the coming year. Exam work conducted with the OCC identified continued weaknesses in the firm's IS security program. Among other items, inconsistent practices were noted in reviewing user access to systems containing customer data; controls around the use of customer data as new systems are developed; and less than satisfactory collection and reporting of data that would allow the firm to assess on a real-time basis the quality of its IS infrastructure. We recognize steps management has taken over the past year to address our concerns. With a change in leadership, a remediation plan has been put into

**RISK MANAGEMENT - CONTINUED**

place with management paying closer attention to IS incidents and policy exceptions. Over the coming year, we expect management to better execute on the remediation plan and in a timely fashion.

***Anti-Money Laundering Efforts***

We see the need for more comprehensive AML oversight to ensure that all businesses and geographies are consistently applying appropriate AML processes and controls. A joint exam conducted with the OCC in mid-2005 assessed AML controls and risk management at the corporate-level as satisfactory. The OCC has since completed several other exams - three of which assessed AML risk management as 'weak' for certain aspects of correspondent banking and global transaction services. The identified weaknesses relate to due diligence and documentation processes. We view the weaknesses as serious, and management must remain focused on their remediation. Tied to concerns related to information security, we see it as important that management complete the automated process (also known as CRMR) for identifying and monitoring account relationships. Development issues persist with management having been unable to meet established deadlines. Project management around technology initiatives must be improved.

***BOARD AND SENIOR MANAGEMENT OVERSIGHT******SATISFACTORY***

During 2005, members of the Board and senior management took necessary steps to address identified control weaknesses. Further, they clarified expectations for Citigroup's employees regarding the manner in which business is to be conducted going forward. Board and senior management take an active role in understanding the risk profile of the organization. They are briefed regularly on risk issues, and formal escalation channels have been established and are relied upon throughout the firm. Regular updates include comprehensive risk and financial packages with certain topics discussed in detail.

Further, management remains abreast of risk limit utilization and exceptions to those limits both at the firm-wide and business unit levels. Those efforts include the monitoring of material positions and risk exposures. Examinations of your credit trading activity raised questions about the process by which business and control staff ensure growth remains within the capacity of the infrastructure and control environments. In this case, infrastructure weaknesses became more prevalent with a growth in transaction volume during the market stress conditions of May 2005. We see it as critical that management document decisions about whether or not to curtail activities given their assessment of the control environment.

***POLICIES, PROCEDURES AND LIMITS******SATISFACTORY***

Citigroup's policies, procedures and limits are appropriate, understood, and regularly reviewed. They reflect the risks inherent in the activities of the consolidated organization and the firm's stated goals and objectives. Since our last assessment, Corporate Compliance management has clarified through documentation the roles, responsibilities, and accountability of compliance staff. That work includes a directive on compliance MTR, which establishes broad, yet critical minimum standards, where formerly,

**RISK MANAGEMENT - CONTINUED**

little to no guidance existed. The directive specifies the fundamental requirement for regulatory risk matrices (RRMs) and how the RRM link to the RCSA process. Additionally, other important communications include guidance on escalation protocols and corrective action plan (CAP) development and validation.

Policies and procedures related to operational risk management also were found to be satisfactory. We recognize that management is currently updating its RCSA process, and are encouraged by this initiative. Corporate and consumer credit policies, such as those related to small- and medium-enterprise (SME) lending have been updated and rolled-out. Obligor and concentration limits covering loan commitments and derivative-related credit exposures are effective. We encourage strongly the firm's interest in developing limit structures based on economic capital. Citigroup also has developed an effective corporate portfolio management program for limiting single name and industry concentration exposure via the transfer of related credit risks. Further, a corporate-level new product approval policy has been released. As a result of examination efforts, we also acknowledge that the write-off policies for Germany and several other European countries were revised, as was the policy governing the allowance for loan and lease losses.

**RISK MONITORING AND MIS****SATISFACTORY**

MIS to the Board and senior management adequately captures the firm's major risks. A number of statistically-based early warning indicators were developed recently to assist risk managers with credit portfolio decisions. Through 'Project Optimize' electronic credit approval and documentation platforms are in place and provide enhanced efficiencies and better documentation of credit decisions. Our exam work indicates that Citigroup has one of the most comprehensive approaches for consolidating material concentrations to a given name, including timely MIS for management review.

The 'fair' risk management rating of last year was driven by concerns about the adequacy of the firm's compliance MTR program. We conducted a formal exam of the MTR processes within each of the four business sectors during the fourth quarter of 2005. We found the compliance framework to be reasonably sound in addressing higher risk issues; however, the comprehensiveness of compliance MTR efforts was in need of improvement. Corporate-level expectations regarding the components of an MTR program have been articulated, and a formal process is in place for tracking and evaluating business sector progress against implementation milestones. A significant amount of implementation work still remains.

During the exam, we also evaluated the way in which compliance issues are escalated to senior management and the Board of Directors. To date, the information flow regarding compliance issues has tended to be event driven and more reactive in nature. Going forward, we expect senior management to not only report on significant events and issues, but to also provide regular assessments of the level of compliance risk across the firm and the extent to which events and/or processes may be mitigating or contributing to it. Senior management has acknowledged the importance of having a more forward looking view of compliance risk and is developing key risk indicators for that purpose.

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**Risk Management - Continued**

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**RISK MANAGEMENT - CONTINUED**

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Tied to the remediation plan, we note an improvement in the way IS issues are monitored and tracked. Relevant IS metrics are now prepared and evaluated routinely. A formal process has been established for tracking progress against established milestones, and for holding appropriate staff accountable. Monitoring of the means by which AML policies and procedures are implemented within business lines must be improved.

**INTERNAL CONTROLS****SATISFACTORY**

Corporate compliance management has clarified through policy the roles and responsibilities of compliance staff, which is now independent from the businesses evaluated. We also note that ARR has developed a comprehensive standard audit program (SAP) for compliance-related reviews, including key audit elements and test procedures. Additionally, audit cycles for high risk entities have been shortened and business monitoring processes have been improved upon. Emphasis also has been placed on enhancing the RCSA process as a key business control. Overall, Citigroup has a sound business resiliency strategy with more work needed to implement a plan for addressing concerns related to proximity risk.

From our review of complex and illiquid exposure management, Citigroup has a well-disciplined valuation process. The firm monitors its exposures that are difficult to independently price verify. Specifically, the associated valuation risk is quantified, controlled and subject to limits with appropriate review by the Risk Committee. At the time of our review, Citigroup was lagging peers with respect to profit and loss attribution for market risk exposures. With the implementation of several new systems, it is noted that substantial progress has been made. We also acknowledge management's commitment to improving the infrastructure that supports the credit derivatives market.

**OTHER SUPERVISORY CONSIDERATIONS*****Compliance with Cease and Desist (C&D) Order***

The C&D Order announced on May 27, 2004 required remedial measures be put in place at CitiFinancial related to audit, compliance, internal controls, managerial oversight and training. During 2005, examiners completed a four-phased exam and follow-up review of CitiFinancial's remediation efforts. Examiners determined that CitiFinancial is in substantial compliance with the C&D order and that the compliance risk management program is adequate. Further, Citigroup management has been diligent in fulfilling its responsibilities to provide restitution to consumers.

***Compliance with Written Agreement on Structured Finance***

Staff of this Reserve Bank also evaluated Citigroup's progress toward fulfilling the conditions outlined in the written agreement concerning structured finance transactions, dated July 28, 2003. As

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**RISK MANAGEMENT - CONTINUED**

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stated in our September 2005 correspondence, we believe Citigroup is in substantial compliance with the provisions of the written agreement. Our exam work observed enhanced transparency, accountability, and stronger in-business controls around such transactions. Going forward, we expect the firm's independent control areas, such as compliance and ARR, to test and monitor business adherence with the established procedures and processes. Current efforts of this Reserve Bank have focused on assessing the transition of processes formerly conducted by Policy Compliance Assessment Group (PCAG).

***Basel II***

We recognize management's efforts to implement the proposed Basel II capital adequacy framework. They include establishment of a project management office; regular reporting on implementation status; and dedicated ARR resources. Recent efforts have focused on ensuring that appropriate technology solutions will be in place. Over the coming months, we will continue our dialogue with management on these efforts, including home-host challenges.

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**FINANCIAL CONDITION**

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Citigroup's financial condition remained strong over the assessment period. Capital adequacy, asset quality, earnings and liquidity of the consolidated banking organization were more than adequate to protect the firm against reasonable external shocks. Citigroup's standing in the capital markets remained steady throughout 2005, and the firm maintained strong sources of liquidity to meet its anticipated needs.

**CAPITAL****STRONG**

Throughout 2005, Citigroup's regulatory capital ratios exceeded both internal targets and regulatory thresholds for a 'well-capitalized' bank holding company. The firm maintained a strong capital base with significant retained earnings and a limited reliance on trust preferred securities, as of year-end. Citigroup's quality of capital and strong potential for capital generation exceeds that of other peer institutions. Citigroup currently maintains more than adequate capital to support the volume and risk characteristics of all parent and subsidiary business lines and sufficient cushion to absorb unanticipated losses.

**ASSET QUALITY****STRONG**

Citigroup's asset quality is now considered strong. During 2005, total non-performing assets (NPAs) remained low as a percentage of total assets, despite the implication of events such as Hurricane Katrina. While 2005 marked continued improvement in Citigroup's credit quality measures, the firm trails its peers in NPA levels, which is largely a result of business product mix. As of year-end, 86% of the corporate portfolio was considered investment grade quality. Further, the corporate portfolio experienced its seventh straight quarter of net recoveries, reflecting an economic turnaround in Latin America. Problem asset levels, having declined gradually over the years, reached their lowest level in 2005.

**EARNINGS****STRONG**

Consolidated earnings remained strong and were more than sufficient to absorb losses related to Hurricane Katrina, adoption of a shorter EMEA write-off period, and increased Chapter 11 filings related to the bankruptcy legislation change. Citigroup realized \$19.8 billion in 2005 income from continuing operations, reflecting a 23% increase from 2004. Citigroup's annual performance, as indicated by return on average assets (1.66%) and return on average equity (22.3%), compared favorably to that of peer banking organizations. Citigroup's net interest margin fell 58 basis points in 2005 as a result of a flattening yield curve, increasing cost of funds and high credit card payment rates; nevertheless, Citigroup's level of net interest margin was higher than that of peers.

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**FINANCIAL CONDITION - CONTINUED**

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**LIQUIDITY****STRONG**

Citigroup maintains a strong liquidity position, as well as reliable market access. Management maintains sufficient liquidity capacity to satisfy all maturing obligations without access to unsecured markets for twelve months. As of year-end 2005, Citigroup's liquidity risk measures remained comfortably above the 110% internal target, with holding company liquidity gap and net bank cash capital ratios at 131% and 120%, respectively. New internal liquidity standards were introduced, which enhance the quality of liquidity sources by reducing reliance on unsecured funding at the country and business segment levels.

Commercial paper balances were reduced 48% year-over-year, as the firm replaced it with long-term debt. The parent company relies on high quality and stable short-term liquidity sources to meet its short-term obligations. Those sources include two active asset securitization programs, a strong 23A capacity, and an available-for-sale (AFS) portfolio consisting entirely of AAA-rated securities. We understand that the AFS portfolio accounts for roughly 65% of the firm's short-term liquidity sources. Rating agencies have consistently evaluated Citigroup's medium- and long-term debt as equivalent to AA-rated or better, and the firm's treasury function has successfully reduced the weighted average cost of debt capital and extended its weighted average maturity.

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**IMPACT OF NON-DEPOSITORY ENTITIES**

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**IMPACT RATING****LIMITED NEGATIVE IMPACT**

This component rating reflects an assessment of the potential impact of the non-depository entities (comprising the parent company and non-depository subsidiaries) on subsidiary depository institutions, including an assessment of risk management practices and financial condition of the non-depository entities. In terms of Citigroup's consolidated assets, non-depository entities and Citigroup's parent company account for approximately 47% of the total, as of year-end. The largest non-depository institutions, Citigroup Global Markets Holdings, Inc. (CGMHI) and CitiFinancial Credit Company (CitiFinancial), represented 33% and 6%, respectively, of Citigroup's consolidated assets at year-end. Earnings from CGMHI and CitiFinancial contributed 16% and 6%, respectively, to Citigroup's total net income.

The parent company and other non-depository entities pose a limited likelihood of a significant negative impact on the firm's depository institutions (DIs). The parent company provides substantial financial strength to its subsidiaries and access to global markets to meet the firm's funding needs. The parent maintains ample cash flow and a double leverage ratio of 117.5%, as of year-end, that compares favorably to peers. In addition, principal non-depository subsidiaries, CGMHI and CitiFinancial, are considered in satisfactory condition based on relevant assessments conducted by staff of this Reserve Bank. Those assessments rely on an evaluation of information provided in risk reports, meetings with senior management, a review of ARR findings and an assessment of financial performance. Furthermore, CGMHI's risk management processes are considered satisfactory by its functional supervisor.

Exam work conducted by this Reserve Bank during 2005 suggests that CGMHI and other relevant businesses have made substantial progress in fulfilling the conditions outlined in the written agreement concerning structured finance transactions, dated July 28, 2003. In assigning the impact rating, we also considered the steps taken by management in response to the MTS-Eurozone trade conducted within a CGMHI subsidiary. The escalation protocols established by Citigroup management shortly thereafter represented a significant way forward. Further, we view positively formal management discussions – such as those undertaken by business practices committees – of the firm's appetite for participating in activities both new and existing that may give rise to reputational and/or legal risks. With the closure of the UK FSA's investigation into the MTS-Eurozone trade, we see the reputational implications of that trade as considerably diminished. As discussed in more detail in section 1, CitiFinancial's risk control processes also have improved.

## CAMEO RATING

CAMEO RATING	12/31/05 COIC	12/31/04 COIC
<i>Composite Rating</i>	2	2
<i>Component Ratings:</i>		
Capital	1	1
Asset Quality	2	2
Management	2	2
Earnings	1	1
Operations / Internal Controls	2	2

A satisfactory composite rating has been assigned to Citibank Overseas Investment Corporation (COIC). This Edge Act Corporation, whose direct and indirect subsidiaries comprise more than 40% of Citibank NA's total assets, continues to be effectively managed and maintains a strong capital base. Although Citigroup's decision to adopt a 120-day write-off rule in EMEA region had a negative impact on the earnings of COIC subsidiaries, particularly Citibank Privatkunden, overall earnings remained strong. The Edge's consolidated asset quality remains satisfactory, and the overall level of classified and criticized exposures at year-end 2005 were stable and manageable. Operations and internal controls also are considered to be in satisfactory condition.

COIC has been impacted favorably by management's efforts to strengthen the governance of international franchises. The 'franchise governance' reviews of more complex international operations have provided a forum for senior management to gain a firsthand understanding of the control infrastructure. As a result of that process, the role and responsibilities of the Chief Country Officer (CCO) have been clarified. Extensive CCO training and establishment of an issue escalation protocol have helped to further clarify the CCOs responsibilities in managing franchise risk.

We also view favorably the firm's response to concerns raised by the UK FSA regarding legal vehicle management. The Legal Vehicle Management Policy released in 2005 sets forth guidelines for creating, governing, and terminating legal vehicles to ensure that corporate governance practices meet the highest ethics and principles, in conformity with all applicable legal requirements.

<i>RISK MANAGEMENT</i>
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Risk management practices at COIC are considered satisfactory. In those countries where COIC subsidiaries have dominated the Citigroup businesses, country level management has been largely effective in managing franchise risk. An examination of Citibank Privatkunden in April 2005 revealed that local management was competent and effective in managing both franchise and country governance

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**CAMEO RATING - CONTINUED**

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risks within Germany. We see it as critical that COIC continue to operate within a compliance and governance environment that has adequate and effective internal controls across all geographies.

All of the consumer finance (CitiFinancial) portfolios have been assimilated and housed within COIC vehicles around the world, either as separate legal entities or as part of existing legal vehicles. Similarly, some of the more significant consumer retail businesses that were not already operating out of COIC entities (the major exception being Banamex) have been moved into COIC from selected Citibank NA branches. With international consumer growth a key strategic goal for the firm, we see it as essential that local governance and key internal controls keep pace with planned expansion.

**REGULATION K**

Management is aware of the limits and restrictions that apply to COIC under Regulation K and has internal controls in place for managing against them. We note that corporate financial control and treasury are responsible for tracking and managing COIC investments. We recognize that the bank consolidation planned for 2006 will increase the size of Citibank NA, and, in turn, its Regulation K investment limit. It is expected that management will continue to monitor Citibank NA's capital investment in COIC, as well as ensure that both are appropriately capitalized. ARR continues to finalize its standard audit procedures for testing compliance with Regulation K, which should be completed in 2006. We see ARR testing of compliance with this regulation as critical.

**SMALL & MEDIUM ENTERPRISE (SME) CREDIT POLICY**

Two of COIC's largest subsidiaries, Citibank Korea Inc. and Bank Handlowy, have significant exposure to small- and medium-sized entities (SMEs). Since our last annual assessment, policies and procedures pertaining to SME lending have been updated and consolidated across the firm. We view this effort as positive; one that once fully implemented should result in greater uniformity in SME lending while reflecting best practices across the firm.

**COIC SUBSIDIARIES**

The COIC subsidiaries examined were considered to be effectively managed. Our assessment takes into consideration the results of COIC-related reviews conducted by ARR over the past year. Additionally, it reflects examiner findings from on-site reviews conducted at Citibank Korea and Citibank Privatkunden. Management at both entities was receptive to the observations and findings noted by the examination teams and have implemented the recommended courses of action.

**BANK HOLDING COMPANY RATING**

The Bank Holding Company Rating System currently in use at the Federal Reserve requires an annual rating for Citigroup. The composite and component ratings are reflected in the table below

<b>BHC RATINGS</b>	<b>12/31/05 Citigroup</b>
<i>Bank Holding Company Rating System</i>	
Composite Rating	2
<i>Component Ratings:</i>	
Risk Management	2
Financial Condition	1
Impact of Non-depository Entities	2
Depository Institutions (DI)	(2)

**COMPOSITE RATING**

**SATISFACTORY**

Overall, our findings confirm that Citigroup is in satisfactory condition. Bank holding companies rated as such are considered to be fundamentally sound but may have modest weaknesses in risk management or financial condition. The weaknesses could develop into conditions of greater concern but are believed to be correctable in the normal course of business. Cash flow is adequate to service debt and other fixed obligations, and the non-depository institutions are unlikely to have a significant negative impact on the subsidiary depository institutions.

**DEPOSITORY INSTITUTIONS**

**SATISFACTORY**

Overall, banking subsidiaries remain in satisfactory condition as indicated by the most recent examinations conducted by the respective bank regulators. This rating is largely based on the evaluation of Citibank, NA given its asset size. Other banking subsidiaries, namely Citibank West, FSB; Citibank (South Dakota), NA; Citicorp Trust Bank, FSB; Citibank, FSB; Citibank (Nevada), NA; Citibank USA, NA; Citibank Texas, NA; California Commerce Bank; and Universal Financial Corp are also considered satisfactory. Citibank Delaware is considered strong.

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**SUPERVISORY ACTIVITIES AND SCOPE OF REVIEWS**

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***SUPERVISORY ACTIVITIES***

The Federal Reserve's supervisory program is accomplished through a combination of continuous monitoring by a core team of resident examiners and a series of more formal targeted examinations. In addition to periodic meetings with management, the core team has access to a significant amount of internal financial and risk management information. Analysis of that information enables the team to keep abreast of changes in the firm's business strategy, management structure, and risk profile. The review of internal risk management reports is a critical element of our supervisory process. Another important aspect is the reliance placed on the supervisory work of the primary bank, functional and foreign regulators. Supervisory information received from those sources is factored into our annual assessment of Citigroup. Further, meetings were held with the relevant bank, functional and foreign regulators to communicate the Federal Reserve's supervisory plans and findings, in instances where the corporation's activities involved entities under their jurisdiction.

***SCOPE OF REVIEWS***

The following on-site examinations and other supervisory activities, categorized by topic, were conducted by the Federal Reserve in 2005. The supervisory findings have been formally communicated to management in separate correspondence or discussions.

Compliance Risk Management

- **Compliance Monitoring, Testing & Reporting (MTR).** The purpose of this exam was to obtain a horizontal perspective of compliance monitoring and testing processes across large banking organizations. Another aim was to assess the appropriateness of the compliance program that was being implemented at the time of the review.
- **Global Anti-Money Laundering (AML) Function.** In conjunction with the OCC, examiners assessed the corporate oversight provided by Global AML. This effort included a review of the overall mission and objectives of the function, as well as the adequacy and expertise of staff. Focus was placed on the then newly established Compliance Monitoring and Training (CMT) function, the Suspicious Activity Report (SAR) database, as well as monitoring business rule standards and processes.
- **Correspondent Banking.** Examiners of this Reserve Bank participated in a review conducted by the OCC of the firm's correspondent banking activities. Among other objectives, examiners sought to further their understanding of how customer information is collected and analyzed; processes relied upon for identifying suspicious or unusual patterns of activity; and the method by which investigations are conducted to determine reportable incidents.

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**SUPERVISORY ACTIVITIES AND SCOPE OF REVIEWS - CONTINUED**

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- **CitiFinancial Consumer Compliance.** During 2005, examiners completed a four-phased exam and follow-up review of the actions management had taken to comply with the Federal Reserve Board's Cease & Desist Order (C&D order) imposed on CitiFinancial and its parent, Citigroup, on May 27, 2004.
- **Written Agreement on Structured Finance.** The objective of the review was to assess the adequacy of business-level control processes surrounding transactions that pose (or may pose) heightened legal or reputational risks, especially complex structured finance transactions. Examiners focused in on the processes through which such transactions are monitored, reported, and escalated when issues arise.

Economic Capital / Basel II

- **Debt Rating Models.** Examiners from this Reserve Bank and the OCC completed an examination of the processes carried out by the Risk Rating Analytics Unit to develop obligor risk ratings. Debt rating models and other risk rating methodologies were evaluated.
- **Advanced Measurement Approach (AMA).** The review focused on operational risk measurement / analytics, as well as progress being made in Citigroup's two largest business sectors (CIB and GCG) to implement the AMA framework.

Operational Risk

- **Information Security.** Examiners reviewed information security firm-wide, including the management of system entitlements and developer access to the production environment activities at the corporate, business, and product levels. An assessment was also made of processes that identify potential exposures, prioritize risks, and comply with regulatory requirements.
- **Business Resiliency.** This review focused on corporate governance, plan testing, and progress toward complying with the provisions of the Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System.

Market Risk

- **Complex Illiquid Transactions.** During this horizontal review, CIB processes for valuing complex and/or illiquid exposures were evaluated. Specifically, examiners sought to understand the range of valuation practices at large banking organizations and the integrity of internal controls surrounding the development of those estimates.
- **Exposure Concentration/Issuer Risk.** This review focused on management's ability to identify, measure, aggregate, and control concentrations of exposure to individual obligors and correlated names on a firm-wide basis.

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A(1)

Supervisory Activities and Scope of Reviews - Continued

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**SUPERVISORY ACTIVITIES AND SCOPE OF REVIEWS - CONTINUED**

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- **Credit Derivatives (London/New York).** The exam focused on the key infrastructure limitations that had been identified by management with respect to the firm's single-name and correlation trading activities in GCM businesses. In addition, examiners reviewed the risk profiles of the credit trading, structured credit products, and emerging markets businesses.

International Operations

- **Citibank Privatkunden.** Examiners assessed processes related to corporate governance, consumer credit risk management, and the technology infrastructure of Citibank Privatkunden.
- **Citibank Korea Inc.** This review focused on the due diligence and integration processes of acquiring KorAm Bank. Specifically, examiners assessed the quality of the corporate governance structure, compliance (including AML and KYC policies and procedures) risk management; credit risk management practices, and the technology infrastructure.
- **Citibank Overseas Investment Corporation (COIC).** As part of Citigroup's annual assessment, a composite CAMEO rating was assigned to COIC. Consideration was given to the adequacy of capital; asset quality; risk management processes; earnings, and operations.

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A(2)

**Supervisory Activities and Scope of Reviews - Continued**