

citigroup

Citigroup Inc.
399 Park Avenue
New York, NY 10043

June 8, 2007

Mr. John Ruocco
Assistant Vice President and
Central Point of Contact
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045-0001

RESTRICTED FR

Re: FRBNY 2006 Summary of Supervisory Activity and Findings for Citigroup Inc.

Dear Mr. Ruocco:

The Federal Reserve Bank of New York's Summary of Supervisory Activity and Findings for Citigroup Inc. ("FRBNY Report"), as of December 31, 2006, has been delivered to the Citigroup Board of Directors. We appreciate the time representatives of the FRBNY took to meet with the Citigroup Board of Directors' Audit and Risk Management Committee on April 16, 2007 to discuss the FRBNY Report.

We also appreciate your acknowledgement of the many important strides we made during 2006, particularly in areas such as compliance risk management and information technology. As we move forward in 2007 and beyond, we will sustain these efforts and build on the progress we made last year. We will continue to focus on improving the efficiency and effectiveness of our control environment, particularly in areas such as anti-money laundering and information security.

With respect to your comments on the impact our strategic expense initiative and control optimization projects might have on our control infrastructure, we want to assure you that we recognize the importance of continuing efforts to improve our control environment and we remain strongly committed to maintaining the controls this organization needs. As you know, over the last several years, we have committed enormous time and resources to develop and embed the Five Point Plan, the Shared Responsibilities and a host of other initiatives to improve our compliance and control environment. Given the investment we have made over these past years, we are very careful to ensure that we do not take actions that would undermine all that we have worked so hard to achieve. We all understand that we will only be successful if we operate our business in an environment where we have strong, effective control processes. Indeed, as Citigroup's Chief Executive Officer has stated many times, rather than being an impediment to our control environment, our expense initiative and control optimization projects will remove inefficiencies that will allow our control infrastructure to be more productive and more effective.

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As requested, below we respond to certain specific matters raised in the FRBNY Report.

Compliance Risk Management

We appreciate your recognition of the progress we have made to strengthen our compliance risk management program. We of course remain committed in our ongoing efforts to improve our control environment and fully embed a culture of compliance throughout the organization. We will continue to strengthen and improve the effectiveness of our monitoring, testing and reporting initiatives, our regulatory risk matrices, and our risk and control self-assessments. In addition, Compliance will continue to work closely with business management, Audit and Risk Review and the other control functions to ensure that we maintain a comprehensive, well-coordinated control environment.

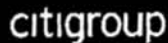
As noted above, given the extensive investment in time and resources we have made to improve our control environment in recent years, we will not allow our control optimization and strategic expense initiatives to compromise our compliance risk management. On the contrary, we believe these initiatives will help us to further improve the efficiency and the effectiveness of our compliance programs. We will continue to brief you on these initiatives and keep you fully informed about any significant changes.

Anti-Money Laundering

We made significant AML governance changes in 2006, and we continue to focus on strengthening oversight and governance of the AML control environment. We recognize the importance of having a broad, coordinated approach to effectively manage AML risk, and we continue to actively engage compliance, business and technology personnel in our AML compliance initiatives. We are particularly focused on improving how we monitor transactions and accounts, including our effort to implement the Citigroup Anti-Money Laundering Business Rules Standards (CAMBRS) and our Multi-Year AML Technology Plan. We briefly describe these efforts below. We will continue to keep senior management, the Board of Directors, and our regulators apprised of our AML initiatives.

CAMBRS Committee – This Committee has involved resources from Global AML, Business Sector AML Compliance and other business and technology staff in a collaborative effort to ensure that we successfully address our risk based monitoring needs.

AML Monitoring Directive – Through this Directive, we have refined our AML monitoring and risk assessment framework. Among other things, this Directive

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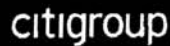
establishes general rules for how our businesses monitor high risk transactions and customer accounts, and it requires businesses to periodically evaluate their AML monitoring principles and ensure the parameters they use to detect suspicious activities are effective.

AML Monitoring Risk Assessment – As you know, we marshaled hundreds of compliance, business, and technology personnel to conduct a franchise-wide AML Monitoring Risk Assessment in 2006. We also completed and reviewed approximately 150 CAMBRS Surveys to help determine the state of compliance with the CAMBRS Core Principles. Together, the surveys and the risk assessment allowed us to evaluate our AML monitoring controls, and we incorporated opportunities to improve those controls in the most recent update to the Multi-Year AML Technology Plan (which we provided you a copy of on March 31, 2007). We expect that our AML Monitoring Assessment will mature over time and further enhance our ability to identify actions that may be necessary due to changes in products, services and market risks.

Multi-Year AML Technology Plan – As you know, we have devoted significant resources to develop and implement our Multi-Year AML Technology Plan. As we described in our most recent update, our AML technology initiatives this year focus on: (i) PATRIOT Act 314(a)/Ad Hoc Search Requests; (ii) Name and Entity Screening System; (iii) Know Your Customer/Customer Acquisition Due Diligence; and (iv) AML Monitoring. We understand that as we develop and implement long term solutions under the Multi-Year Plan, we must continue to monitor and proactively identify AML risk, have effective governance structures to ensure designated milestones are being met, and we must promptly identify and escalate any matters that require input from senior management. We believe our performance under the Multi-Year Plan thus far reflects our disciplined approach to project management and senior management's commitment to the Plan's success.

Information Technology

We appreciate your recognition of the progress we have made on our information technology initiatives, and we recognize that we must sustain our effort and continue to execute on those initiatives. For example, we will continue to strengthen our project management processes, implement the Information Technology Framework and Capabilities Maturity Model and execute the Information Security Strategic Implementation Plan. We are confident that these efforts will not be impaired by the expense reduction initiative underway. In fact, many initiatives designed to simplify and standardize our IT processes have been aided by the company-wide focus on improving efficiency. For example, the focus on efficiency in the business functions has allowed us

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to significantly reduce the cost and complexity of our efforts to consolidate the use of servers across the company.

As noted in the section on AML above, we are continuing to implement the Multi-Year AML Technology Plan. We will continue to monitor and track carefully our progress against the Plan, using the same rigorous project management discipline we successfully used on Project Fast Track and other recent IT initiatives.

The Information Security Strategic Implementation Plan is the framework for our information security program. As we have discussed with you during our regular briefings, this comprehensive Plan addresses 17 different information security areas and provides for consistent objectives across all business functions. In addition, we recognize the importance of quality assurance testing as part of our efforts to develop and implement information security program enhancements. Each project plan now includes a common framework for quality assurance testing, and we will continue to improve the quality assurance elements in our program development.

We understand that pandemic plans developed to date are highly dependent on internet infrastructure. We are trying to reduce this risk in our own pandemic plans, and we continue to work with others in the industry to develop additional possible solutions.

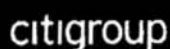
We will continue to update the Citigroup Board of Directors and our regulators on our progress against these initiatives and other information technology matters.

Allowance for Loan and Lease Losses (ALLL)

We received your recent ALLL Exam letter, and we are in the process of preparing a separate response. Below we respond to the issues raised in the FRBNY Report.

During the first quarter of 2007, we revised the reserving practice for our consumer loan portfolios. The reserves for all our consumer loan portfolios now include inherent losses in performing loans (i.e., the zero bucket). We have also initiated analysis to enhance our approach for estimating when a loss event has been incurred prior to delinquency. We will ensure that our analysis is thoughtful and rigorous, consistent with regulatory expectations and industry standards and that it includes appropriate testing and key ratio results. This will take a considerable amount of work to complete, and we would be pleased to brief you on our progress.

As you know, we believe that the ALLL for each of Citigroup Inc. and Citibank, N.A. is appropriate and in compliance with applicable requirements. We appreciate your acknowledgement of the progress we have made in documenting the adequacy of our reserves. We are reviewing practices in all of our business sectors in light of your

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comments about the 2006 Interagency Policy Statement on ALLL, including qualitative and environmental factors. We will explain any significant variances between our quarter-end and mid-quarter analysis that are not incorporated into reserve decisions. We will also continue to enhance our documentation of the reserve adequacy for the major bank subsidiaries.

Fair Lending

We have investigated and submitted materials to you concerning the Fair Lending issues in our CitiFinancial branches in Puerto Rico. As you know, we have temporarily suspended the practice of requiring non-applicant spouses to sign promissory notes for real estate secured loans pending the Federal Reserve's review of the Puerto Rican legal opinions we presented. With respect to the issue concerning the acceptance of a non-spouse as a co-applicant for unsecured credit, we took immediate corrective actions.

HMDA

As you know, we have taken steps to address the control issues related to HMDA data for Associates International Holding Company of Puerto Rico and CitiFinancial Services of Puerto Rico. Compliance staff in Baltimore and New York and an outside consultant conducted a thorough review of the HMDA files for the years in question. We corrected the data and refiled the impacted Loan Applicant Registers (LARs).

We appreciate your recognition of the important role played by CitiFinancial compliance staff in Baltimore in connection with this matter and the control enhancements recently added. As part of its responsibility for managing all CitiFinancial HMDA data, the Baltimore compliance staff directs the processes and procedures to review HMDA data from Puerto Rico and they conduct extensive file reviews on a regular basis. In addition, a new senior compliance officer, with a direct reporting line to CitiFinancial Baltimore, has been hired to oversee the operations in Puerto Rico and further ensure that appropriate HMDA processes and procedures are in place. In general, we are focused on trying to improve our efforts to collect and report HMDA data, and we are continuing to refine our processes across all applicable businesses.

Regulatory Reports

We are continuing to improve our internal controls and reporting processes to ensure the accuracy of the data we provide to our regulators. In response to FRBNY examination comments, we developed a comprehensive corrective action plan that focuses on process

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improvement, technology enhancements and training. As you know, we hold quarterly meetings with FRBNY staff to keep you apprised of our progress.

Basel II

When the final version of the U.S. Notice of Proposed Rulemaking ("NPR") and other guidance become available, we will revise our existing gap analysis and implementation plans. We will continue to use a comprehensive planning process and rigorous project management to ensure we meet the requirements of Basel II. We will continue to update our Audit and Risk Management Committee as necessary. When the NPR and supervisory guidance are finalized, we plan to provide tutorials for the Audit Committee to assist them in meeting their Basel II responsibilities.

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We hope that the above comments are responsive to the matters covered in your report. We appreciate your continued support. We have prepared this response with the understanding that it is exempt from public disclosure under 5 U.S.C. 552(b)(8).

Very truly yours,



David C. Bushnell
Senior Risk Officer



Michael S. Helfer
General Counsel

cc: Mr. William Rutledge, Executive Vice President, FRBNY
Ms. Sarah Dahlgren, Senior Vice President, FRBNY
Ms. Grace Dailey, Deputy Comptroller, Large Bank Supervision, OCC
Mr. Scott Waterhouse, Examiner in Charge, Large Bank Supervision, OCC
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Citigroup Business Heads
Citigroup Business General Counsels
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