COMPTROLLER OF THE CURRENCY
880 Third Avenue, Fifth Floor
New York, New York 10022

FEDERAL RESERVE BANK OF NEW YORK
33 Liberty Street
New York, New York 10045-0001

Copy for Board of Governors of the Federal Reserve System

May 20, 2002

Mr. Todd S. Thomson
Chief Financial Officer
Citigroup, Inc.
399 Park Avenue
New York, NY 10043

Dear Mr. Thomson:

The Office of the Comptroller of the Currency and the Federal Reserve Bank of New York performed a joint examination of Citigroup's Allowance for Loan and Lease Losses (ALLL). Our objectives were to determine the adequacy of the year-end ALLL and the appropriateness of the ALLL process. Our work focused on specific business lines and legal entities. Our findings for both the corporate and consumer ALLL processes are summarized in the attached conclusion memoranda.

The corporate ALLL process used through year-end was weak. Specific concerns about the former process are discussed in the attachment. We note that the change in the allowance has not been directionally consistent with the trend in problem credits over the past several quarters, and the reasons for this change were not clearly documented. Allowance process weaknesses made it very difficult for us determine the level of allowance adequacy. Given recent trends in asset quality and the current volatile credit environment, we feel that ALLL protection is situated at the low end of the adequate range.

We note that management recognized the deficiencies in the corporate allowance process and began implementing corrective action in the first quarter of 2002. We extended our examination to more fully assess the quality and effectiveness of these actions. Measures taken through March 31, 2002 should, if practiced effectively, address our fundamental concerns regarding the corporate allowance process.

On the consumer side, we also note that the reserve coverage has not been directionally consistent with portfolio growth and delinquency trends. Current reserve levels cover only ten months of rolling losses. We also note areas where the consumer reserve methodology can be improved.

In order for us to monitor the effectiveness of the new processes, we would like to obtain copies of reserve analysis prepared for members of the ALLL committee as well as minutes of the committee's deliberations. We would like to discuss the results of these deliberations with you each quarter.

A number of recommendations and observations are contained in the attached memoranda. We note that the new corporate process establishes general, 10% triggers, around estimated reserves for corporate credit losses. We will monitor the effectiveness of these triggers in the context of the overall allowance process, as we believe triggers tied to specific economic or other credit events may be more complimentary. We also ask that you provide us: 1) the timetable for validating the expected loss model for corporate credit and for CitiCapital; and, 2) actions taken or contemplated to improve the consumer reserve methodology by providing for losses inherent on consumer loans that are not past due.

We appreciate the cooperation and attention provided by you and your management team throughout the examination process. If you have any questions regarding the examination or the contents of the attached memoranda, please contact either of us.

Sincerely,

Homer C Hill III

Scott N. Waterhouse
National Bank Examiner

Homer C. Hill, III
Assistant Vice President
Federal Reserve Bank of New York

cc:

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