April 5, 2005

BY HAND

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

Dear Board Members:

Enclosed please find our annual Summary of Supervisory Activity and Findings for Citigroup Inc., presenting our assessment of the company and advising the Board of Directors of significant concerns discovered during the year that need to be addressed. This assessment is based on our continuous monitoring efforts, specific target reviews conducted throughout the year, and a review of assessments of primary bank and functional regulators.

Our findings confirm that Citigroup Inc. is in overall satisfactory condition, with some well-defined weaknesses in risk management, particularly in the area of legal and compliance risk. In January 2005, the Federal Reserve revised its supervisory rating system for bank holding companies to more closely mirror current supervisory practices. The primary components of the new rating system consist of Risk Management, Financial Condition and the potential negative Impact of non-depository entities (Parent Company and non-bank subsidiaries) on depository institutions (Impact). Those components are rated as follows: Risk Management - fair (3), Financial Condition – strong (1), and Impact – limited negative impact (2). Accordingly, the firm has been assigned a composite supervisory rating of “2”. Organizations so rated are fundamentally sound but may have modest weaknesses in risk management practices or financial condition that are believed to be correctable in the normal course of business.

The year 2004 was a disruptive one for the firm. Risk management improvements in Business Resiliency and economic capital, as well as the firm’s substantial financial prowess, were largely overshadowed by compliance and control weaknesses that resulted in significant headline events. In the course of the year, Citigroup’s reputation has been severely tarnished and its legal risks increased. Despite efforts in previous years in response to earlier problem situations, new problems developed (e.g., the Japan Private Bank and MTS Euro trade issues) that reflected critical lapses in compliance risk monitoring, timely issue escalation, and legal and reputational risk management. Past business practices have led to legal settlements, fines and Formal Agreements with several regulatory agencies,
including the Cease and Desist Order that was issued concerning CitiFinancial in May. Disturbingly, these recent events are consistent with historical issues raised in our previous annual assessment letters describing weaknesses in Citigroup's compliance risk management practices. As such, overall risk management is now considered fair.

Senior management has undertaken an aggressive and necessary initiative with its "Five Point Plan" designed to enhance the compliance and control environment and ensure that business incentives are properly balanced with a sound control infrastructure. We acknowledge these significant efforts; however, these initiatives will take time and the Board and senior management must remain steadfast in ensuring that these efforts to change culture take full hold in all of the firm's ongoing business practices. Additionally, the following risk management and control issues specifically warrant senior management and the Board's attention:

> Corporate governance weaknesses persist in the Global Compliance Function and firm-wide Information Security. Board and senior management must ensure that these areas are provided adequate resources so that policies and procedures are consistently and effectively implemented across the franchise.

> The independence of the Compliance Function was enhanced in 2004, however, the function is not considered fully effective. Considering the global nature of the firm, a more robust compliance monitoring and testing program is warranted to ensure that compliance issues are appropriately identified and escalated within the firm.

> Senior management and the Board must continue to bolster processes to make them more preventative rather than reactive. We acknowledge the firm's ability to quickly react once an issue has been clearly identified or becomes a headline issue. However, processes such as the Business Practices Committees should continue to be enhanced to ensure that due diligence is conducted more consistently across the businesses to assist in mitigating Citigroup's franchise risk.

Over the rest of 2005 our supervisory focus will be to closely monitor and review the initiatives being implemented to improve Citigroup's compliance and control environment. These initiatives are consistent with Senior Management's priorities in its "Five Point Plan" and will include the following:

1. **Firm-wide compliance** – specifically as it relates to the full implementation of compliance testing across the firm and the development of key risk indicators for use by senior management;

2. **Standardization of the risk control self assessments (RCSA) template and implementation of appropriate training**;
(3) Anti-Money Laundering policy enhancements and independent testing program;

(4) Examination tracking system (XTrak) enhancements;

(5) Enhanced governance initiatives in the International franchise, including franchise issue escalation procedures;

(6) Compliance training for Business line managers; and,

(7) Enhanced processes to address the underlying issues related to the two outstanding Federal Reserve actions which include the Cease and Desist Order in place at CitiFinancial and the Written Agreement on structured products.

Representatives of this Bank plan to meet with you on April 18, 2005 to discuss our current evaluation of the firm. After you have had an opportunity to review the report, we would expect to receive a written response to the matters discussed within 60 days of the receipt of this letter.

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

Sincerely,

Homer C. Hill, III
Vice President and
Central Point of Contact

Enclosures