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SUMMARY OF SUPERVISORY ACTIVITY AND FINDINGS

Name:	**CITIGROUP INC.**	**Period Covered:**	**JANUARY 1, 2006 – DECEMBER 31, 2006**
Location:	**NEW YORK, NEW YORK**	**RSSD ID Number:**	**1951350**

FEDERAL RESERVE BANK OF NEW YORK

RSSD No. 1951350

RESTRICTED F.R.
12 CFR 261

SUMMARY OF SUPERVISORY ACTIVITY AND FINDINGS

Citigroup Inc.	399 Park Avenue	New York
Corporate Title	**Street**	**City**
New York	New York	10022
County	**State**	**Zip Code**

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Inspection Date:	December 31, 2006	Previous Inspection Date:	December 31, 2005
Financial Statements:	December 31, 2006	Financial Statements:	December 31, 2005

RISK MANAGEMENT

The risk management rating represents an evaluation of the ability of Citigroup's Board of Directors (Board) 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.

Risk Management Ratings for Citigroup	**12/31/06**
Composite Rating	2
Component Ratings:	
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 for 2006 is reflective of a control environment where the risks facing Citigroup 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 risks. Further, as discussed in more detail below, management has focused on improving relevant processes specific to compliance monitoring, testing and reporting (MTR), anti-money laundering (AML) efforts and information security (IS), among others. During 2006, all formal restrictions and enforcement actions between the Federal Reserve and Citigroup were lifted.

In April 2006, the restriction on significant expansion stemming from the Order approving the First American Bank acquisition was lifted in recognition of the significant progress made by management in implementing a new compliance risk management program. In June 2006, CitiFinancial was determined to be in full compliance with the Cease and Desist Order that had been executed after a consumer compliance exam identified violations of law, safety and soundness concerns and control deficiencies. Importantly, examiners had determined that the compliance culture at CitiFinancial had improved significantly. In December 2006, the Written Agreement requiring Citigroup to strengthen risk management practices, particularly those associated with complex structured-finance transactions was terminated.

Compliance Risk Management

Last year, we noted that the framework for an effective compliance monitoring, testing and reporting (MTR) framework was in place, but that a significant amount of execution work remained particularly in the Corporate and Investment Bank (CIB) and Citigroup Alternative Investments (CAI). As a result of significant management attention, we view the compliance MTR program as being on a solid footing with corporate compliance staff providing an appropriate level of oversight.

Strong communication exists between corporate compliance and in-business staff to ensure compliance MTR objectives and responsibilities are well understood and executed upon. On the monitoring front, CIB management has continued to systematically work through the development of regulatory risk matrices which, in turn, are mapped to risk control self-assessments (RCSAs). CAI compliance staff has been working under a similar timeline. Our previous exam work indicated the need for a strong compliance testing platform to be implemented globally. Business sectors had testing programs of varying strength with the one in place for Global Wealth Management (GWM) representing best practice. During 2006, compliance testing was ramped up considerably as was the necessary dialogue between sectors regarding testing trends for identifying potential issues in need of escalation.

Anti-Money Laundering (AML) Program

We recognize the governance changes of midyear 2006 in the Global AML (GAML) function. Most notable is the accountability GAML has for ensuring that AML policies are being effectively implemented across Citigroup, which requires a strong partnership between business and compliance staff. While GAML has laid an appropriate foundation for stronger corporate oversight of Citigroup's AML control environment, continued management attention on its execution is required. The results of the OCC's examinations of bank-specific processes confirm that Citigroup has designed a reasonable AML program though certain weaknesses continued to be identified and must be addressed. In particular, we view as critical GAML's efforts related to implementation of the Citigroup Anti-Money Laundering Business Rules Standards (CAMBRS), and the roll-out of AML technology enhancements. Given Citigroup's AML risk profile, we expect a corporate oversight program of the magnitude under development to be in place.

Information Technology

Over the past few years, senior management has taken significant strides to strengthen Citigroup's technology infrastructure with an emphasis on improving information security (IS). This point notwithstanding, transaction testing conducted by examiners of this Reserve Bank in mid-2006 raised questions about the quality and consistency of the IS program enhancements. In early 2007, examiners reviewed O&T work papers to better understand how the aforementioned weaknesses were being addressed. Examiners were satisfied with the fixes completed and in process. We re-emphasize the need for program development and quality assurance to go hand-in-hand for IS systems to be relied upon for risk management. We see improvement in the IS area relative to prior years, and recognize that enhanced tools, to assist business staff in serving as a first line of defense, are now in place. Over the upcoming year, continued management focus will be required to address outstanding IS-related issues.

Allowance for Loan and Lease Losses

Citigroup's consumer loan loss reserving methodology does not fully align with the Interagency Policy Statement on the Allowance for Loan and Lease Losses. Examiners of this Reserve Bank drew their conclusions from a review of certain consumer portfolios of CitiFinancial, Banamex and COIC. The straight rate (SR) calculation does not account for inherent credit losses for certain performing portfolios where an incurred loss has not yet been confirmed. Accordingly, management must capture current consumer exposures in the straight rate calculation, as well as undertake the necessary analytical work to define when a loss event has been incurred prior to delinquency. Once completed, the results of the analysis should supplement the SR calculation.

Management adjustments are taken in cases where the SR calculation does not accurately capture inherent losses in the portfolio. Examiners reviewed several of the management adjustments made in 2006; most of which were the result of significant events, such as the impact of Hurricane Katrina, the 'gray zone' legislation in Japan, and a deteriorating consumer credit environment in Taiwan. The emphasis on more significant events raises questions about the threshold perceived by business staff for recommending management adjustments. Examiners also observed differing validation practices across businesses with room for improving the type of analytics undertaken to assess the reasonableness of ALLL results. Heaviest reliance was placed on determining the number of months coverage provided by the ALLL relative to an annualized net credit loss rate. Examiners believe management should articulate minimum standards for validating the SR calculation given its direct link to the management adjustment process. That would include carrying out at the business-line or portfolio level 'back testing' and assessing the annualized net charge-off experience relative to the allowance. The outcome of this validation work should be captured in the quarterly business line ALLL submissions.

Fair Lending

An examination of fair lending practices identified two set of concerns related to the CitiFinancial consumer finance branch business in Puerto Rico. Examiners found CitiFinancial's policy and practice of requiring non-applicant spouses to sign the promissory note when closing real-estate secured loans to be discriminatory under fair lending laws. Further, examiners determined that contrary to CitiFinancial policy and training, branch employees informed applicants who did not qualify for unsecured credit on their own that a spouse was the only acceptable co-applicant. Since having been informed of our findings, Citigroup management has completed an investigation of the aforementioned practices and submitted the results for our consideration. Examiners are currently engaged in discussion with management regarding the details of the response.

RISK MANAGEMENT - CONTINUED

BOARD AND SENIOR MANAGEMENT OVERSIGHT	*SATISFACTORY*

Board and senior management continue to set the tone for Citigroup's employees regarding the manner in which business is to be conducted with an emphasis on ensuring that an appropriate control infrastructure is in place. Board and senior management also 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 Citigroup's risk profile through the monitoring of material positions and risk exposures. We recognize the structural changes within risk management to better align expertise across the organization; the independent risk functions are adequately staffed with competent individuals aligned by business.

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. We recognize enhancements made to the credit model validation policy, and encourage management to continue in its efforts to strengthen the independent credit validation function.

Over the assessment period, we noted GAML's efforts to clarify existing policy, issue new guidance where necessary, and carry out targeted training. Examiners consider the guidance pertaining to the escalation of 'unusual activity' as critical with AML compliance and legal staff involved appropriately in determining what information can be shared across legal jurisdictions.

We understand that the policy governing the allowance for loan and lease losses for consumer exposures is under revision with the 'management adjustment' section having been expanded, among others. The current draft makes reference to the need for full support and documentation of management adjustments that have been introduced, changed or eliminated. We fully support this addition, and see timely execution of the revised policy by management as critical. As required by the relevant interagency policy statement, senior management and the Board are expected to annually review and approve the appropriateness of the loan loss reserve policy.

RISK MONITORING AND MIS	*SATISFACTORY*

MIS to the Board and senior management appropriately captures the firm's major risks. Development of a firm-wide platform to collect and aggregate operational risk data is another key initiative that is moving forward. Once fully implemented, we believe the technology platform will facilitate a more forward looking assessment of the degree of operational risk and strength of controls within and across businesses.

As discussed previously, the quality of compliance monitoring, reporting and testing has improved considerably relative to prior years. A more disciplined compliance reporting process also is in place. Regular forums, dashboard reporting and other MIS evidence comprehensive discussions of monitoring and testing practices with compliance staff anticipating potential issues that may not yet have manifested. Such efforts are expected to assist senior management in assessing the level of compliance risk across the firm and the extent to which events or processes may be mitigating or contributing to it.

Examiners support and further encourage GAML initiatives to assess periodically the strength of AML monitoring controls through mechanisms that require the involvement of in-business and compliance staff. Management must ensure that an efficient process is in place to keep those assessments accurate and current. Further, GAML is expected to ensure that appropriate and timely solutions are put into place where control weaknesses have been identified. Some monitoring processes, particularly in the CIB, could benefit from automation.

INTERNAL CONTROLS	*SATISFACTORY*

The quality of internal controls remains satisfactory. Audit and Risk Review (ARR) continues to achieve high audit plan completion rates, and regularly monitors audit results pertaining to IS and AML efforts. During 2006, ARR management enhanced the quality assurance process related to the review of complex structured-finance transactions, and has modified its approach to auditing regulatory reporting processes. Adoption of a longer (36-month) audit cycle for low risk entities with effective RCSA ratings should provide management with additional flexibility to direct resources to higher risk activities. We continue to view the RCSA process as a key business control and an effective tool for identifying important risks and assessing how they are controlled.

A limited exam of the effectiveness of controls related to the Home Mortgage Disclosure Act (HMDA) revealed some weaknesses. HMDA-related controls in Associates International Holding Company of Puerto Rico and CitiFinancial Services of Puerto Rico were found to be ineffective. The data deficiencies were attributed to ineffective HMDA compliance risk management controls at those two entities; staff misunderstanding the requirements of HMDA; inadequate training; and a lack of independent oversight by quality control and compliance in Puerto Rico. Notwithstanding the need to fully address the causes of the reporting errors, we had some comfort (based on our review of CitiFinancial's HMDA control and reporting processes) that the extension of CitiFinancial's compliance program to the Puerto Rican entities should help to address the issues going forward.

The accuracy of regulatory reports is an important component of our supervisory assessment of an institution's internal controls and processes. Our review identified material misstatements as a result of poor quality data indicating deficiencies in the firm's overall regulatory reporting process. The errors related to customer information files in the loan and deposit subsystems; system integration and interface problems; and clerical errors and misinterpretation of regulatory reporting instructions. With the exception of an error involving the netting of options, the affected regulatory reporting submissions have been refiled. Further, we acknowledge management's efforts to address the underlying process weaknesses, as well as the open dialogue taking place with staff of the Statistics function of this Reserve Bank about current regulatory reporting issues.

OTHER SUPERVISORY CONSIDERATIONS

Stress Testing

Our horizontal review of stress testing practices revealed that large banking organizations, such as Citigroup, do not have integrated stress testing processes that capture all major risks on a firm-wide basis. However, they do have reasonably well-developed business line and product level stress testing regimes incorporated into their risk management practices. Market and liquidity risk stress tests are the most advanced with credit risk stress testing needing the most improvement with practices varying considerably within and across product type. More specifically, credit risk stress testing tends to be conducted on a specific portfolio or individual name. For Citigroup, we recognize management's effort to further integrate stress testing into the risk capital allocation process, as well as in identifying concentrations of credit risk. The recent implementation of the long term accrual interest rate risk model incorporated both a firm-wide stress test and a risk capital methodology. Going forward, banking organizations will be expected to improve upon their counterparty credit risk stress testing, ensure that stress testing of the intersection between credit and market risks is carried out; as well as rely on stress testing to obtain more comprehensive yet separate views of the firm's aggregate wholesale and retail risk profiles.

Collateral Management

Collateral management, utilized as a risk transfer and mitigation tool for counterparty credit risk, is a sound, well-managed process at Citigroup. Appropriate risk management practices of counterparty, market and operational risk support management's ability to achieve credit risk mitigation. The industry, as a whole, is challenged by dispute levels and timely portfolio reconciliations. Citigroup's recent development of a system, that can conduct more timely portfolio reconciliations for its large dealer counterparties, does address some of the gaps ahead of an industry solution.

Control Optimization & Cost Restructuring

The control optimization program represents a significant step by management to rationalize control processes across the firm. Further, we recognize the corporate-wide efforts underway to more fundamentally restructure the way in which business is conducted across Citigroup in an effort to obtain efficiencies and cost savings. We caution that such efforts should not come at the expense of the control infrastructure.

Basel II

We recognize management's efforts to implement the proposed Basel II capital adequacy framework, including appropriate oversight provided by the project management office, as well as comprehensive reporting of the status of credit and operational risk efforts. Recent examinations have helped to further our understanding of the data and technology challenges Citigroup management faces in assessing the risk of wholesale and retail exposures. Examiners also found the quality of Citigroup's operational risk management to be satisfactory. While management has made substantial progress in implementing its advanced operational risk methodology, there is still a need to capture internal data in severity estimates. Over the coming months, we will continue our dialogue with management on these efforts, including home-host challenges.

FINANCIAL CONDITION

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 2006, and the firm maintained strong sources of liquidity to meet its anticipated needs.

CAPITAL	*STRONG*

Throughout 2006, 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 restricted capital instruments. Over the assessment period, the Federal Reserve approved for recognition in Citigroup's Tier 1 capital two enhanced trust preferred securities with features that allow them to also be recognized to varying degrees as capital by the rating agencies. 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. We acknowledge the potential for Citigroup's Tier 1 leverage ratio to decline below 5% yet remain well above regulatory minimums as a result of increased secured financing activities. The controls around secured financing activities are regarded as commensurate with the planned expansion and incremental increase in risk taking.

ASSET QUALITY	*STRONG*

Citigroup's asset quality remains strong. During 2006, delinquency and credit loss trends were stable across major consumer and corporate portfolios. While non-performing assets remained low as a percentage of total assets, the firm continues to trail peers in that measure at the consolidated level largely as a result of business product and geographic mix. As of year-end, 83% of the corporate portfolio was considered investment grade quality comparing favorably to peer. Further, the corporate portfolio experienced low levels of net credit losses following a period of net recoveries spanning seven straight quarters. Coverage of classified exposure by capital and reserves also continued to improve throughout the year.

EARNINGS	*STRONG*

Consolidated earnings were strong in 2006 with Citigroup realizing $89.6 billion in net revenues and $21.2 billion in income from continuing operations, both reflecting 7% increases from 2005. Citigroup's annual performance, as indicated by return on average assets (1.3%), return on average equity (18.8%), and return on risk capital (38%), compared favorably to that of peer banking organizations. The 44 basis point decline in net interest margin for 2006 (stemming from the interest rate environment, increasing cost of funds and a changing asset mix) was more significant than that exhibited by peer institutions but moderated from the 58 basis point decline experienced in 2005. Strategic initiatives and investment spending aimed at long-term growth coupled with economic, legal, and tax environment factors resulted in expense growth outpacing revenue growth in 2006.

LIQUIDITY *STRONG*

Citigroup maintains a strong liquidity position, as well as reliable market access. The parent company relies on high quality and stable short-term liquidity sources to meet its short-term obligations. Management maintains sufficient liquidity capacity to satisfy all maturing obligations without access to unsecured markets for twelve months. As of year-end 2006, Citigroup's holding company liquidity gap and deposit-to-loans measures remained comfortably above internal targets, at 137% and 108%, respectively. Net bank cash capital performance remained below target during 2006, with recent improvement reflecting heightened focus on structural liquidity. Deposits grew 20% during 2006 as a result of online banking and branch expansion initiatives and GTS deposit growth.

External rating agencies have consistently evaluated Citigroup's medium- and long-term debt as equivalent to AA-rated or better and the highest among peers. Citibank NA's rating was upgraded by Moody's Investor Services to Aaa in September 2006. The firm's treasury function successfully increased funding by 24% while extending weighted average maturity by one year and increasing the weighted average cost of debt capital by only 0.7 basis points, as well as further diversifying the currencies of issuances.

IMPACT OF NON-DEPOSITORY ENTITIES

IMPACT RATING	*LIMITED NEGATIVE IMPACT*

In terms of Citigroup's consolidated assets, non-depository entities and Citigroup's parent company account for approximately 41% of the total, as of year-end 2006. The largest non-depository institutions, Citigroup Global Markets Holdings, Inc. (CGMHI) and CitiFinancial Credit Company (CitiFinancial), represented 35% and 3%, respectively of the firm's consolidated asset base. Earnings from CGMHI and CitiFinancial contributed 15% 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 124%, as of year-end 2006; comparable to that of peers.

CitiFinancial is considered to be in satisfactory condition based on relevant assessments conducted by staff of this Reserve Bank. The Cease and Desist (C&D) Order against Citigroup Inc. and CitiFinancial Credit Company, dated May 27, 2004, was terminated in June 2006. Lifting of the C&D Order was contingent upon management having fully implemented remedial measures at CitiFinancial related to audit, compliance, internal controls, managerial oversight and training.

Risk management processes of CGMHI and its primary broker/dealer subsidiaries (CGMI in the US, CGML in the UK) are considered satisfactory by their respective functional supervisors. During 2006, management of CGMHI and other relevant businesses fulfilled the conditions outlined in the Written Agreement concerning structured finance transactions, dated July 28, 2003, with that agreement having been lifted in December.

Both CGMHI and CitiFinancial have experienced substantial growth in 2006, which is expected to continue into 2007. The buildup of controls has been seen by this Reserve Bank as commensurate with the degree of expansion and incremental increased risk taking. Both entities maintain strong retained earnings and capital positions.

CAMEO RATING

Citibank Overseas Investment Corporation (COIC) remains rated 'satisfactory.' As reflected in the assignment of the CAMEO rating, COIC exhibits a strong financial condition supported by a satisfactory risk management and compliance infrastructure. All components of the CAMEO rating remain unchanged from 2005.

CAMEO RATING	**12/31/06 COIC**	**12/31/05 COIC**
Composite Rating	**2**	**2**
Component Ratings:		
Capital	1	1
Asset Quality	2	2
Management	2	2
Earnings	1	1
Operations / Internal Controls	2	2

CAPITAL - STRONG

COIC maintains a strong capital base with estimated risk-based capital measures exceeding comparable regulatory thresholds for banks. In addition, COIC exhibits relatively low financial leverage with a 14.39% equity-to-asset ratio at year-end 2006, an increase of 142 basis points from the prior year. Retained earnings make up over 85% of COIC's total equity capital.

ASSET QUALITY - SATISFACTORY

Asset quality remains 'satisfactory' reflecting an overall positive credit quality with pockets of deterioration in countries such as Brazil and Japan. During 2006, delinquency and credit loss trends were generally low and stable across portfolios. With large consumer activity in Germany, Japan, South Korea, and the United Kingdom among other locations, COIC asset quality remains dependent on the ability of GCG risk management to identify and manage credit risk stemming from local market pressures. In countries where credit bureau information is limited, such as Brazil, management has taken appropriate steps to develop early warning mechanisms and scoring models that leverage relevant data and experience of other countries to identify and track trends. As noted in the risk management section of this report, our recommendations concerning the assessment of asset quality as it relates to the ALLL apply to COIC's consumer activities.

MANAGEMENT - SATISFACTORY

Management demonstrates effective franchise governance, evident through strong coordination at the country and regional levels. Corporate-level functions also provide effective policy guidance to in-country management on key business, risk management, and compliance issues. GAML's efforts to assess the quality of AML monitoring efforts within and across the geographies in which COIC operates are also recognized. Notably, in Japan, examiners observed significant improvements in the oversight of key control functions from 2004, when failures in issue escalation and compliance oversight were identified. These factors form a rating of 'satisfactory' for management.

EARNINGS - STRONG

Despite the impact of the 'gray-zone' events in Japan, COIC's earnings proved resilient during 2006 and continue to be rated 'strong.' Decreased provisions reflecting a generally positive credit environment and growth in fee income offset a persistent narrowing of the net interest margin and higher operating expenses associated with significant expansion in priority growth countries, such as Brazil, India, Russia, and Turkey. Despite strong asset growth, return-on-average-assets ticked up in 2006 to 1.49% and remained better than that of peers.

OPERATIONS / INTERNAL CONTROLS - SATISFACTORY

Overall effective risk management and compliance practices drive the 'satisfactory' rating for operations / internal controls. During on-site reviews of the Brazil and Japan franchises, examiners noted appropriate management attention to the effectiveness of internal controls. More broadly, progress in the areas of compliance MTR and AML are evident in COIC's operations. Strategic plans for retail bank and consumer finance branch expansion are well-planned, and management has given appropriate attention to enhancing risk management and other control functions to handle this growth, where necessary.

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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

BHC RATINGS	**12/31/06 Citigroup**
Bank Holding Company Rating System	
Composite Rating	2
Component Ratings:	
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, national banking subsidiaries remain in satisfactory condition as indicated by the most recent report of examination by the OCC. This rating is largely based on the evaluation of Citibank, N.A. given its asset size. Other banking subsidiaries, Citibank (South Dakota), N.A. and Citicorp Trust Bank, FSB are also considered satisfactory.

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SUPERVISORY ACTIVITIES & SCOPE OF REVIEWS

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. Reliance also is 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.

SCOPE OF REVIEWS

The following on-site examinations and other supervisory activities, categorized by topic, were conducted by the Federal Reserve in 2006. The supervisory findings have been formally communicated to management in separate correspondence or discussions.

- **Horizontal: Collateral Management**. During this horizontal review, examiners evaluated the collateral management process for OTC derivatives. They were charged with determining whether Citigroup's collateralization process effectively mitigates counterparty credit risk. Examiners also evaluated whether other risks arising from the collateralization process (such as operations, legal and market risk) were well-controlled.

- **Horizontal: Privacy / GLBA 501(b) IS Standards.** Examiners evaluated Citigroup's compliance with and management of risks associated with the safeguarding of customer information, as required by Section 501(b) of the Gramm-Leach-Bliley Act, and the recently adopted interagency guidance on response programs for unauthorized access to customer information and customer notice. Particular emphasis was placed on how banking organizations manage vendor relationships and control the associated risks.

- **Horizontal: Stress Testing**. The aim of this horizontal review was to better understand Citigroup's processes for evaluating cross-risk scenarios at the corporate level. Consideration was also given to the type of information shared with senior management and the Board of Directors. Additionally, sector level stress tests were evaluated.

- **Information Security**. Examiners evaluated the status of the firm's remediation efforts concerning its information security program, including: (a) the common risk assessment, (b) entitle management, and (c) Citigroup Systems Inventory work streams. Additionally, aspects of the IS governance process were evaluated.

- **Long-Term Accrual Measurement**: Over the course of 2006, Federal Reserve and OCC examiners evaluated the firm's implementation of a long-term interest rate risk (LTIRR) methodology. The focus of that work was to determine whether the new LTIRR methodology represented a substantial improvement over existing measures and adequately addressed our prior supervisory recommendation that management should develop an economic value approach to better dimension long term interest rate risk.

Basel II / Economic Capital

- **Basel II: Credit Risk (Wholesale and Retail)**. Joint discovery reviews were conducted with the OCC to assess Citigroup's risk management efforts related to wholesale and retail exposures, and how those processes are being modified by the firm in anticipation of the Basel II framework.

- **AMA: Operational Risk**. Examiners focused on operational risk measurement analytics as they relate to the calculation of economic capital. Attention was given to the manner in which loss data are collected, including the treatment of large legal losses. Additionally, examiners evaluated operational risk management processes within the Corporate and Investment Bank, the Global Consumer Group, and Global Wealth Management.

- **Model Validation Process**. Citigroup's model validation processes and associated controls for credit risk models have been adapted from those related to market risk. While some model validation areas require improvements and enhancements in controls, management is working to refine the framework for credit risk (and operational risk) models, and thus bring to the same level of rigor of validation as that present for market risk and valuation models. The importance and number of credit risk models will likely increase, in part buoyed by the adoption of Basel II rules and implementation of more sophisticated risk methodologies throughout Citigroup.

Compliance Risk Management

- **Risk Control Self-Assessment (RCSA) Process**. The primary goals of this review was to evaluate the way in which businesses rely on the RCSA process as a control tool and ascertain the progress made toward enhancing the RCSA framework across the firm.

- **Home Mortgage Disclosure Act (HMDA).** Examiners conducted a limited review of CitiFinancial; Associates International Holding Corporation of Puerto Rico (AIHC); CitiFinancial Services of Puerto Rico; and Citicorp Mortgage Financial Corporation (CMFC) to assess the effectiveness of controls related to and supervision of Home Mortgage Disclosure Act and Regulation C (12 CFR 203) data reporting within those entities. The examination findings were used to assist the Office of the Comptroller of the Currency as the lending activity of the aforementioned institutions will be considered when evaluating Citibank NA's performance under the Community Reinvestment Act.

- **Fair Lending.** The examination of fair lending controls at CitiFinancial, AIHC, CitiFinancial Services of Puerto Rico, and CMFC had several objectives. They included determining: (1) the extent to which compliance risk management controls have been implemented to ensure compliance with consumer and fair lending laws and regulations; (2) the reliance that can be placed on internal controls, policies and procedures, and compliance monitoring and audit functions for consumer and fair lending compliance; and (3) the adequacy and timeliness of corrective actions when policies or internal controls are deficient, or when violations of law or regulation are identified.

- **Global Anti-Money Laundering (GAML) Function.** Examiners evaluated the corporate oversight provided by GAML. The corporate-level function had been restructured since our last review; so examiners focused on the process by which GAML ensures that businesses are implementing corporate standards for identifying, measuring, monitoring and controlling AML risk. Examiners did not assess the integrity of AML controls across Citigroup, but did familiarize themselves with the AML technology enhancements underway.

- **Regulatory Reporting.** Staff of the Reserve Bank's Statistics function completed a regulatory reporting review at Citigroup. The purpose was to determine the effectiveness of the regulatory reporting process and the accuracy of the underlying data through transaction testing of selected reports submitted as of the quarter ending March 31, 2006. Similar reviews have been conducted at other large banking organizations operating in the Second Federal Reserve District.

International Operations

- **Citigroup: Japan.** This review, conducted jointly with the OCC, followed-up on issues identified during the 2004 examination of Citigroup Japan entities, including remediation efforts related to the JFSA business improvement orders; effectiveness of compliance across and within Japan entities, given local customer privacy laws; effectiveness of new corporate governance structure; management planning for potential impact of change in "gray zone" rules.

SUPERVISORY ACTIVITIES & SCOPE OF REVIEWS - CONTINUED

- **Citigroup: Brazil.** Examiners evaluated the effectiveness of consumer credit risk management practices; AML practices; and franchise governance in Citigroup's Brazilian operations. Integration of Credicard, formerly a joint venture between Banco Itau and Citigroup, was a particular area of focus. A review of AML practices followed-up on control deficiencies previously identified by the firm.

- **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.