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### FRBNY Letter from John J Ruocco from Board of Directorrs Re annual report for Citigroup Inc as of December 31 2007

John J. Ruocco

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## FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

April 15, 2008

**BY HAND**

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Board of Directors  
Citigroup Inc.  
c/o Vikram Pandit, CEO  
399 Park Avenue  
3<sup>rd</sup> Floor  
New York, NY 10043

Dear Board Members:

Enclosed is our annual report of inspection for Citigroup Inc., as of December 31, 2007. The report conveys our overall assessment of the firm, using the Federal Reserve's RFI/C (D) rating for bank holding companies.<sup>1</sup> Our findings are based on continuous monitoring efforts, target examinations conducted throughout the year, and assessments made by other primary bank and functional regulators.

We have assigned a rating of 332/3 (3) to Citigroup. Our overall composite assessment of the firm reflects a downgrade to fair or "3" from satisfactory at the previous inspection. Institutions so rated reflect a combination of weaknesses in risk management and financial condition that range from fair to moderately severe. They are less resistant to the onset on adverse business conditions and would likely deteriorate if concerted action is not taken. Consequently, they require more than normal supervisory attention and surveillance.

In assigning the overall fair rating, we now consider the risk management of the firm also to be only fair or "3," a downgrade from satisfactory at the previous inspection. This reflects serious deficiencies in Board & Senior Management oversight, policies/procedures/limits, monitoring & MIS, and internal controls. These weaknesses were apparent from the significant losses the firm experienced in its handling of risk posed in certain of its structured credit businesses, in its leveraged lending activities, and in the manner which the firm managed its balance sheet.

We also consider the financial condition of the firm to have deteriorated from strong to fair, or "3." This downgrade in the financial rating reflects our assessments of its various subcomponents.

<sup>1</sup> The components of the RFI/C(D) rating system are risk management, financial condition, likelihood of a negative impact of the parent and non-bank subsidiaries on the depository institutions, an overall composite, and a depository institution rating. All components use a scale of 1 to 5, ranging from strong to unsatisfactory.

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Earnings are considered only marginal or "4," while capital and liquidity have been downgraded to fair or "3." These reassessments take into account the likely financial stresses the organization will face in the coming months and the uncertainty of its future earnings in the near-to-medium term future. Asset quality at the firm has been downgraded to satisfactory or "2" reflecting the negative trend in the portfolio's stock of assets. It will require close monitoring and aggressive management going forward. We continue to view the likelihood of a potential negative "impact" that the non-depository entities could have on the subsidiary depository institutions as limited or "2."

Details of these findings are contained in the enclosed report and will be discussed with you during our scheduled meeting of April 21, 2008. Because of the nature and seriousness of the overall weaknesses, it is our intention to enter into an enforcement action with the firm, whereby both Citigroup and the Federal Reserve System agree on remedial action that must promptly be taken. The terms of the enforcement action will be submitted to you shortly for review.

After you have had an opportunity to review this report, and within 60 days of the receipt of this letter, we would appreciate receiving management's written response to the matters discussed in the report. Please note that this letter and enclosures contain confidential bank examination material and should be treated accordingly by your organization as described in the footnote.<sup>2</sup>

Respectfully,



John J. Ruocco  
Asst. Vice President

Enclosure

<sup>2</sup> **THIS DOCUMENT IS STRICTLY CONFIDENTIAL:** This document has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The document is the property of the Board of Governors and is furnished to directors and management for their confidential use. The document is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 U.S.C. 1817(a) and 1831m) and in the regulations of the Board of Governors (12 C.F.R. 261.20).

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