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### FRBNY Letter from John J Ruocco to Board of Directors Re annual report of inspection for Citigroup Inc as of December 31 2008

John J. Ruocco

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## FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

January 14, 2009

**BY HAND**

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, 2008. We assign ratings of 444/4<sup>1</sup> to Citigroup, and consider the firm to be in "marginal" condition<sup>2</sup>. Without prompt action, the organization's future viability could be impaired.

The financial condition of the firm has deteriorated. We are lowering our assessment of the firm's financial condition to "marginal" from "fair." Losses for five consecutive quarters weakened the firm's capital base. Earnings and liquidity are "unsatisfactory" and asset quality is "fair." The capital subcomponent remains unchanged at "fair" balancing various considerations.

Serious deficiencies in Board & Senior Management oversight relating to the strategic direction of the firm, serious weaknesses in liquidity risk management, and material weaknesses in the firm's ability and its systems to monitor key vulnerabilities lead us to lower our assessment of Risk Management to "marginal."

We are also lowering the "Impact" rating of the firm from "limited" to "considerable" to reflect the weakened financial condition of the parent and non-bank subsidiaries, which significantly increases the likelihood that the firm may be unable to serve as a source of strength to its subsidiary banks.

Details of these findings are contained in the enclosed report and will be discussed with you during our scheduled meeting of January 21, 2009. Because of the nature and seriousness of the overall weaknesses, it is our intention to intensify our direct communication with the full board of directors,

<sup>1</sup> The components of the RFI/C 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.

<sup>2</sup> Institutions so rated have significant risk management and financial weaknesses which may pose a heightened risk of significant negative impact on the subsidiary depository institutions. Companies so rated require close supervisory attention and substantially increased financial surveillance.

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January 14, 2009

as well as engage in regular dialogue with the chairs of the Audit and Risk Management, Nomination and Governance, and Personnel and Compensation Committees to insure that remedial action is overseen at the highest levels. We are also requiring that senior management revise its corrective action plan pertaining to the Memorandum of Understanding of June 3, 2008 so that the concerns expressed in this letter are fully addressed to our satisfaction.

After you have had an opportunity to review this report, and within 30 days of the receipt of this letter, we would appreciate receiving management's written response to the matters discussed herein. 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>3</sup>

Respectfully,

  
John J. Ruocco  
Asst. Vice President

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Enclosure

<sup>3</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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