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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

July 29, 2003

Ms. Michelle Sims  
Board of Governors of the  
Federal Reserve System  
Division of Banking Supervision  
and Regulation  
Surveillance Section  
Mail Stop 198  
Washington, DC 20551



Dear Ms. Sims:

Enclosed are two copies of the following report conducted by examiners for the Federal Reserve Bank of New York:

<u>Name</u>	<u>Start Date</u>
Citigroup Inc.	February 3, 2003

Please acknowledge receipt of these enclosures by signing and returning the attached copy of this letter in the envelope provided.

Sincerely,

A handwritten signature in cursive script that reads "Frank P. Sabato".

Frank P. Sabato  
Staff Leader  
Bank Supervision

Enclosures

**RESTRICTED FR**



**Copy for  
Board of Governors of the  
Federal Reserve System**

**SUMMARY OF SUPERVISORY  
ACTIVITY AND FINDINGS**



Name: CITIGROUP INC.

Period Covered: JANUARY 1, 2002 – DECEMBER 31, 2002

Location: NEW YORK, NEW YORK

RSSD ID Number: 1951350

Start Date: FEBRUARY 3, 2003

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**FEDERAL RESERVE BANK OF NEW YORK**

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-2164

July 1, 2003

**BY HAND**

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

Enveloped Addressed:  
C/O  
Mr. Sanford I. Weill  
Chairman

COPY

Dear Board Members:

Enclosed is our annual *Summary of Supervisory Activity and Findings for Citigroup Inc.*, presenting our assessment of the company and advising the Board of significant concerns discovered during the year that need to be addressed.

Our findings confirm that Citigroup Inc. remains in satisfactory condition, but with some noted areas for improvement. Accordingly it has been assigned a composite supervisory rating of "2". Organizations so rated are fundamentally sound but with modest weaknesses that are fully correctable in the normal course of business.

A positive factor in this assessment is our judgment that the firm continues to make progress in developing its risk management infrastructure. The firm's ability to aggregate risks across businesses has improved substantially. The risk management information that is provided to the Senior Risk Management Committee and the Board of Directors has noticeably improved and is now amongst the best in the industry. Of particular note, the measurement and reporting of Operational Risk has dramatically improved over the past two years. However, the firm still lags in implementing an economic capital framework and should continue to place emphasis on developing this risk management discipline throughout the organization.

More broadly, these risk management achievements have been overshadowed by issues related to investment banking research practices, the IPO allocation process, the structured finance business and consumer compliance weaknesses noted in CitiFinancial. Our review of Citigroup's relationship with Enron revealed serious risk management concerns and control lapses in the

July 1, 2003

structured finance business regarding the evaluation of legal and reputational risk for the firm, credit analysis and adherence to the internal transaction approval processes. For CitiFinancial, significant weaknesses in the control environment and consumer compliance training have resulted in potential regulatory violations. In the course of the year, Citigroup's reputation has been tarnished and its legal risks increased. Improvements are needed and some are in the process of being implemented to better control the compliance environment for certain businesses, as well as to strengthen the Global Compliance function. The Global Compliance department's stature, authority and resources need to be re-evaluated to ensure compliance risks are sufficiently identified, assessed and controlled. Management should also reassess the compliance organizational structure and monitoring practices to ensure the timely escalation of issues to Senior Management and the Board of Directors.

On a related note, during the compliance review of the CitiFinancial subsidiary, there was some integrity issues regarding several of the firm's employees that were particularly troubling. As the firm has made some notable changes in corporate governance and business practices in an effort to achieve the highest ethical standards, management needs to ensure that its efforts permeate all the subsidiaries in which it conducts business. It is imperative that the corporation maintains a business culture that properly balances risk/reward incentives with the control infrastructure to mitigate franchise risk.

In 2002, Citigroup Inc. distinguished itself from its peers in its earnings performance, once again posting record results despite the challenging economic environment, geopolitical issues and significant headline events. These results reflect the diversification of the Citigroup franchise and management's keen focus on maintaining expense controls which has continued to provide consistent earnings to bolster the corporation's capital base. The deteriorating trends in consolidated credit quality remained a concern in 2002, reflective of the economic environment and issues in the Latin American emerging markets. Moreover, certain segments of the Banamex and legacy Associates portfolios continue to be brought up to Citigroup standards and the consumer business has shown some signs of weakness in the Japanese and Asian portfolios. While credit risk management is considered effective and the loan loss reserve process adequate, management should continue its monitoring efforts and ensure that its risk mitigation techniques continue to reflect the changes in the company's risk profile.

Please acknowledge the receipt of the report by signing the enclosed printed form and returning it to us in the envelope provided. Representatives of this Bank plan to meet with you on July 15, 2003 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

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July 1, 2003

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  
Assistant Vice President and  
Central Point of Contact

COPY

Enclosures  
HCH:BP:NB:WLR/hch

RSSD No. 1951350

RESTRICTED F.R.  
12 CFR 261

**SUMMARY OF SUPERVISORY  
ACTIVITY AND FINDINGS**

<u>Citigroup Inc.</u> <b>Corporate Title</b>	<u>399 Park Avenue</u> <b>Street</b>	<u>New York</u> <b>City</b>
<u>New York</u> <b>County</b>	<u>New York</u> <b>State</b>	<u>10043</u> <b>Zip Code</b>

Homer C. Hill, III  
**Federal Reserve Bank of New  
York**

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Inspection Date:	December 31, 2002	Previous Inspection Date:	December 31, 2001
Financial Statements:	December 31, 2002	Financial Statements:	December 31, 2001

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**RISK MANAGEMENT**

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Risk management is evaluated in terms of the ability to identify, monitor and control the various financial risks associated with banking. These risks, which may arise from the bank's lending and/or money and capital markets activities, include credit /settlement risk, market risk, interest rate risk and liquidity risk. Consideration is given to the effectiveness of management's system of identifying risk, and whether management is adequately informed of the risk being undertaken, the effectiveness of risk management systems in monitoring and controlling risk exposures; and management's ability to recognize new risks that may arise from either the changing environment or management's decision to engage in new activities.

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**Overview**

Citigroup's risk profile is inherently high reflecting the scale and range of global operations, the reliance on large acquisitions to meet strategic objectives and corporate governance issues resulting in part from the integration of systems and businesses that continue to challenge the management team. However, risk management practices remain effective overall. Corporate Risk Architecture has made notable progress in aggregating risks across business lines; allowing for enhanced stress testing and portfolio analysis. The risk reporting to Senior Management and the Board of Directors (Board) has improved significantly, particularly in regards to operational risk and country risk. Consequently, the Senior Risk Management Committee is now provided more timely risk information and its resulting actions are more transparent.

Nonetheless, the FRBNY conducted two specific reviews in 2002 that revealed significant risk management and control weaknesses related to the structured finance business and CitiFinancial's compliance risk management processes. Serious issues were identified when reviewing Citigroup's relationship with Enron, as shortcomings were noted in the evaluation of legal and reputational risks to the firm, credit analysis, and adherence to internal control processes. With regards to CitiFinancial, several control deficiencies were noted concerning the effectiveness of its consumer protection measures, and weaknesses in consumer compliance training have resulted in potential regulatory violations. Further, there were issues regarding the integrity of some of the CitiFinancial employees during the course of the review that were disturbing. *We consider these issues to be severe lapses in the firm's risk management and internal control processes. As such, the Board and senior management is expected to provide its full attention to ensure the timely resolution of these issues and ongoing compliance.*

Legal and franchise risks rose noticeably throughout 2002 with the emergence of governance and control issues in investment research practices, initial public offerings, structured finance and consumer compliance practices. Previous business practices remain the focus of regulatory agencies and legal enforcement authorities, increasing the firm's exposure to litigation and the associated adverse reputational exposure. These concerns indicate a need to strengthen the compliance risk management controls within certain businesses, as well as the Global Corporate Compliance Function. Given the impact of the headline events on the franchise, management actions included the formation of a Board level corporate governance committee to promote high standards in business practices, the restructuring of the investment bank and enhanced risk management of the structured finance business. While considered a commendable response, management must remain vigilant in guarding its franchise and carefully weigh business risks and returns against potential reputational issues. This is particularly important given the firm's global presence, sizable operations and market share in various businesses, which lends itself to more public scrutiny.

The credit environment continues to challenge management as asset quality trends show signs of stress,

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**RISK MANAGEMENT - CONTINUED**

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reflective of the global economic slowdown and political uncertainties in emerging markets. Management has remained focused on improving the quality of its commercial credit portfolio and has taken aggressive actions to tighten credit standards and conduct extensive portfolio reviews to identify weaknesses. Despite these challenges, management has remained on track with its strategic plan and has expanded its franchise through targeted acquisitions and organic growth. Operational risk management continues to evolve with significant improvement noted this past year in measurement and monitoring aspects. However, the complexity of Citigroup's operations continues to increase with the acquisition of large organizations and management must ensure that the advances in risk management outpace the firm's risk profile.

***Reputational Risk***

As a result of issues related to past business practices in investment banking and equity research practices, consumer compliance weaknesses, and inadequate controls surrounding the structured finance business, the firm remains under intense scrutiny as its reputation has been tarnished, and the risk of being associated with headline events remains high. Settlements were reached with the Attorney General and SEC on the firm's research practices with significant fines levied. However, investigations by the SEC and the bankruptcy court regarding the structured finance transactions Citigroup conducted with Enron remain open. Additionally, the FRBNY conducted a review of the Enron transactions and the associated controls surrounding the transaction approval process in 2002. The review determined that the structured finance business was allowed by management to operate under a flawed business model that failed to identify the reputational risks in executing aggressive accounting transactions.

*In consequence, the firm is vulnerable to further adverse headlines and possible regulatory actions.* Going forward, management must ensure sound business practices prevail and these principles are not discarded in return for short-term gains. In light of these very public events, the firm's stock price declined sharply in 2002 although it has recovered to some extent recently.

The Board has taken several steps to enhance its corporate governance with the establishment of the Nomination and Governance Committee, and management has implemented Business Practices Committees at the corporate and business line levels. In addition, the firm improved its IPO allocation processes, realigned its business model to address potential research conflicts and voluntarily adopted the "Spitzer" principles in an effort to lead the industry to a higher level of ethical standards. With regards to the structured finance business, a new policy was issued that provides for more transparency through "the net effect rule" and risk management processes have been enhanced and training provided on these new policies and practices. While responsive, these overriding changes will need to be thoroughly tested over time to ensure their effectiveness and management must make certain that these cultural changes regarding business practices permeate the franchise.

In addition to these aforementioned risks, Citigroup's substantial sub-prime business exposes the firm to increased reputational risks, evidenced by the well-publicized Federal Trade Commission (FTC) investigation and the compliance problems described below, found by the Federal Reserve at CitiFinancial. Lastly, while control processes are deemed adequate, the need to ensure Anti-Money Laundering (AML) and U.S. Patriot Act compliance remains imperative given the firm's global scale of operations. Of particular



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**RISK MANAGEMENT - CONTINUED**

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concern is the Banamex subsidiary, which has experienced noticeable turnover in its compliance function. Additionally, the SAMBA investment, for which Citigroup provides managerial expertise, houses a "high risk" AML account that could give rise to significant reputational concerns. We urge management to continue their proactive efforts to mitigate the potential reputational and legal risk attributable to AML issues globally.

***Legal Risk***

Legal risk has certainly heightened this past year with numerous pending civil and class action suits arising from the Enron structured finance transactions and the settlement regarding stock research conflicts. This resulted in Citigroup establishing a \$1.3 billion legal reserve for 2002. Overall, management controls are considered generally effective in managing high-risk activities. Notwithstanding, the global compliance function and certain business units, such as CitiFinancial and the CIB, need to strengthen compliance risk management controls. The FRBNY recently completed its benchmarking of corporate compliance functions across complex financial organizations and concluded that Citigroup's function was at peer. However, given the nature and mix of Citigroup's businesses, the supervisory expectations are that the firm should operate above peer. There are some specific areas that still require improvement with regards to reporting line independence, monitoring and training oversight. Weaknesses were apparent in recent events with respect to concerns in the consumer finance business and the conflicts regarding equity research. As such, the Global Compliance department's stature should be raised and reporting lines reassessed to ensure that issues are properly escalated to Senior Corporate management and the Board of Directors, if need be. In response, senior management has indicated that the appropriateness of the compliance risk management program is being vigorously scrutinized. *This area warrants the Board's full attention and we will be monitoring the firm's progress very closely.*

***CitiFinancial***

In response to an order from the Board of Governors of the Federal Reserve System in conjunction with Citigroup's application to acquire European American Bank, the FRBNY conducted a review of CitiFinancial Inc. (CitiFinancial) and CitiFinancial Mortgage Company to assess the effectiveness of its consumer protection measures. During the 2001-2002 fair lending review, several control deficiencies and potential violations were uncovered, which are outlined below:

- There was an apparent absence of compensating controls and limited compliance training surrounding CitiFinancial's incentive compensation program. The program complements both CitiFinancial's business model of loan upgrades, renewals and insurance sales and the overriding culture of loan sales quotas, but compromises mitigating consumer compliance risk as personnel appeared poorly trained in consumer protection laws and regulations.
- The control environment surrounding the Maestro System is of particular concern since it is more detective than preventive and CitiFinancial's credit discipline is integrated with business processes through the Maestro model. CitiFinancial relies heavily on Maestro to guide lending activities, which emphasizes the importance of strengthening front-end controls to ensure that

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**RISK MANAGEMENT - CONTINUED**

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the system is not improperly circumvented or manipulated.

- There were weaknesses in controls to ensure that (1) all income and debt/monthly payment information (including real estate taxes and homeowner's insurance) is included in Ability-to-Pay (ATP) calculations, (2) the aforementioned information is verified independently, and (3) the aforementioned information is documented in accordance with the company's policy.
- CitiFinancial's Compliance and Quality Control Department (CQC), which conducts branch reviews, performed inadequate follow-up of management responses to consumer audit findings. Moreover, the responses were general in nature and the corrective action plans did not specifically outline steps to monitor and control for consumer compliance laws and regulations. Plans to roll out a Management Self-Assessment Program and to hire and train sufficient staff for additional follow-up required for corrective action plans should improve the control environment. However, greater emphasis should be placed on additional consumer compliance training and resolution of compliance related audit findings given the potential franchise risk implications.

As a result of these weaknesses in compliance risk management practices, the following three primary issues emerged, two of which are potential violations:

1. Section 202.7(d)(1) of Regulation B of the Board of Governors' Equal Credit Opportunity Act, which prohibits a creditor from requiring the signature of a co-applicant on a credit instrument if the applicant qualifies based on his or her own creditworthiness,
2. Section 226.32(e)(1) of Regulation Z of the Board of Governors' Truth in Lending Act, which prohibits a creditor from engaging in a pattern or practice of extending high cost mortgage credit based on the equity in a borrower's home without regard to his or her ability to repay the obligation, and
3. The sale of "discount points" in real estate secured loans that confer no benefit to the borrower was considered an unsafe and unsound practice.

Management has begun to be responsive in addressing these concerns with initiatives undertaken to change CitiFinancial's culture. The steps taken include enhanced compliance training and controls, a more balanced incentive program, clearer disclosures, and changing or eliminating certain business policies and practices.

In addition to these issues, it was discovered during the course of this review that CitiFinancial field management coached the CitiFinancial branch employees that were interviewed by the FRBNY and their answers were actually scripted and misrepresented branch practices. *This is a very serious issue as this behavior undermines the fundamentals of the examination process.* The firm's personnel is expected to conduct itself with utmost honesty and integrity so that examiners can rely on the information provided. Because we believe that this conduct may violate certain provisions of Title 18 of the United States Code, referrals were made to the United States Attorney's Office regarding these issues.

***Operational Risk***

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**RISK MANAGEMENT - CONTINUED**

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We noted significant progress in enhancing the overall framework for operational risk management since Citigroup's Operational Risk Policy was issued in February 2002. The firm continues to populate its loss database and key risk indicators have been developed for all operations, except for the Banamex operation. Moreover, comprehensive management information reporting is being delivered to the Board and senior management. We encourage the firm to continue to enhance the Operational Risk framework in light of Basel initiatives.

Operational risk is high given the scale and diversity of Citigroup's global operations but the firm's activities are considered adequately controlled. However, with an increased number of less than satisfactory audits in newly acquired businesses, the risk posed by control weaknesses continues to rise and the integration of new operations remains a significant concern. Other areas that management should continue to focus on include 1) Continuity of Business Planning, 2) timely implementation of Citigroup Information Technology Management Policies, and 3) Information Security.

Audit and Risk Review (ARR) is considered a sound organization that aids in improving the corporation's internal controls. We expect to continue to depend on its work to assist in our evaluation of Citigroup's internal control environment.

Overall, the target reviews and continuous monitoring performed by the FRBNY examiners indicate that the internal control environment at Citigroup remains satisfactory. The following findings are elevated for management's and the Board's awareness to further enhance its operational risk control infrastructure and risk management processes:

- **Control Self-Assessment (CSA)**: The review of CSA revealed considerable progress has been made in developing a program applicable throughout the corporation. Management has since established co-heads responsible for coordinating and monitoring the process. These sponsors should ensure that minimum CSA functionality is defined for each major business segment, and ARR should review the process against the defined functionality.
- **Special Purpose Entities**: While overall management of risks associated with SPEs is considered effective, the following recommendations would further enhance governance and control processes and more align the firm with observed best practices: (a) Identify and report the interest rate risk emanating from retained interest in certain SPE transactions, outside of the business line, (b) Consider defining alternative exit strategies for SPEs in case of a trigger event, (c) Formalize the Post Implementation Review process for significant transactions to extend beyond operational systems and validate that executed transactions mirror transaction approvals and met expectations (i.e., risk management assumptions) as outlined in the New Product Approval process, and (d) Consider implementing a portfolio management approach over retained interest exposures, including a report of aggregated exposures across business lines.

***Credit Risk***

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**RISK MANAGEMENT - CONTINUED**

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Overall, risk management practices are effective, policies and procedures are prudent and the reporting of risk to the Board and senior management has significantly improved. The management of credit exposure in the CIB is evolving towards a credit portfolio management approach where credit exposure is centrally managed and macro hedged. This approach aligns portfolio returns with economic capital and should improve the management of risk. In GCB, risk managers continue to impose tightened credit standards and increased emphasis is on the collection processes. Attention is also being directed at improving the management of country risk and cross border exposure with the formation of the Country Risk Committee. Notable progress has been made in reducing risk exposures in Argentina, Brazil and Venezuela as a result of aggressive exposure reductions programs.

Credit risk is inherently high but effectively managed. Both corporate and consumer portfolios continue to be affected by the global economic slowdown and difficult political situations in a number of Latin American countries. With credit costs increasing, management has remained focused on implementing risk-mitigating techniques that have benefited both the corporate and consumer portfolios. Oversight and management of risk is also being strengthened through the formation of senior level risk committees. Still, the weakness in key credit risk indicators has heightened regulatory concerns.

*Allowance for Loan and Lease Losses (ALLL)*

The ALLL process has notably improved. Management has revamped the process, approved revised policies and procedures, formed an ALLL Committee and established limits on adjustments to the corporate statistical model. Risk managers now provide estimates of credit losses based on a name by name review of classified non-performing corporate loans over a specified threshold. On the consumer side, the documentation for the consumer reserving methodology has been integrated into the process. The enhancements have resulted in a more disciplined approach to the ALLL process. Still, the corporate reserving process needs to be more transparent with respect to judgmental components; a similar recommendation was made by ARR.

The level of the corporate ALLL is adequate but vulnerable to credit surprises. Additional reserves were made in the fourth quarter and in aggregate provisions exceeded net credit losses during 2002. The level of the consumer ALLL is also considered adequate. Management has partially addressed the issue of impaired loans residing in the current bucket by establishing additional reserves. Reserve adequacy remains susceptible to any erosion in the U.S. or Japanese economies that would lead to rising unemployment, bankruptcies and delinquencies and greatly increase the potential for higher credit losses.

*Corporate Portfolio*

Risk management practices are adequate and management continues to closely monitor credit performance in the portfolio and initiate appropriate corrective actions. Corporate credit is well diversified with concentrations in banks/financial institutions and with governments. The Banamex acquisition resulted in a sizeable concentration in Mexican sovereign risk and the firm continues to focus on strategies to reduce/mitigate this concentration exposure.

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**RISK MANAGEMENT - CONTINUED**

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In 2002, we conducted several control process and high-risk reviews to assess risk management practices and the control environment. The reviews revealed some areas requiring management attention and areas where practices are considered in the forefront of the industry. The review of the country risk scenario planning process identified Citigroup's practices as setting the industry standard, given the involvement of both a corporate head of Country Risk Scenario Planning and the Country Risk Managers in developing stress analyses and the analytical rigor of the process. However, the inadequate credit analysis of Enron's financial condition and the failure to focus on free cash flow remains a concern especially as similar issues were identified during the shared national credit program with respect to low investment grade credits. In addition, the following issues were raised and require management's attention:

- **Structured Finance (Enron Related Issues):** In addition to the inadequate credit analysis of Enron, the documentation presented to risk managers regarding structured finance transactions such as structuring summaries and deal diagrams was insufficient in quality or detail for risk managers to identify all of the risks in transactions. Also, breakdowns in internal controls allowed a complex structured transaction to be approved as a simple credit extension, while another transaction closed without formal approval. Management has implemented new policies and procedures for the structured finance business and should ensure that the controls are effective for the transaction approval process.
- **Banamex – Mexico:** Credit risk management is mostly effective, however, considerable work remains to bring the Corporate and Empresarial businesses in line with Citigroup standards. With revised underwriting criteria established for the Empresarial business, management must now ensure adoption across businesses. In addition, credit risk management reports need to improve facilitate the monitoring of portfolio trends. Improved MIS will enable management to better assess the performance of Institutional Recovery Management ("IRM"). Also, management needs to meet its plan of implementing by December 2003 the risk-rating model under development by Risk Architecture.
- **Leverage Finance:** The loan underwriting and syndication processes are well managed and risk management practices compare favorably to peers. However, credit analysts need to improve the documentation of assumptions for downside scenarios to enhance the usefulness of this tool. In addition, processes for establishing, monitoring and releasing market risk reserves, resides within the business, contrary to industry practice that places such responsibility with an independent group to ensure reserve transparency. Also, price testing process controls require attention as formal approval of the material differences between trader's marks and month-end reports were not evident and procedures to escalate material breaches to senior management need to be enhanced.
- **High Risk Counterparty Exposure:** Management needs to continue its efforts in developing analysis to identify vulnerabilities either to market risk, through a stress testing program or to the combination of market and credit, through a high risk counterparty identification process. Such increased efforts will bring formal stress testing of counterparty exposures in line with regulatory guidance.

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**RISK MANAGEMENT - CONTINUED**

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*Consumer Credit*

Consumer credit risk is adequately managed. Risk management thoroughly reviews economic, competitive and behavioral factors that may adversely impact the consumer credit portfolio. Key credit quality indicators are tracked closely to ensure that profitability and growth are balanced with long-term credit quality. Credit portfolios are stress tested periodically and credit decisions are based on detailed MIS data. Decisions to approve new products and enter new countries are centralized and management conducts quarterly portfolio reviews and periodic on-site reviews of Global Consumer businesses and regions.

*CitiFinancial Japan*

In October 2002, the FRBNY conducted a review of CitiFinancial Japan. Credit risk management practices were considered generally effective and some improvement was noted in the control processes. Our review of this subsidiary validated the effectiveness of ARR's local presence in identifying risk issues for resolution. Advances were noted in risk management and credit administration in identifying, measuring, monitoring and controlling risks, although the processes were not yet fully mature. Underwriting criteria was revised to conform to the Global Consumer Bank policies. Areas where risk management processes could be further strengthened include the following:

- **Credit Risk Management and Credit Scoring:** MIS should be developed to track and report rewrites, workouts and RBOs as separate sub-portfolios per regulatory guidelines and management should consider developing a quality assurance process for judgmentally underwritten applications.
- **Compliance and the Self-Assessment Process:** Management is encouraged to continue its efforts in implementing initiatives to improve the self-assessment process. The tighter scorecards will impact the branches and their ability to achieve adjusted revenue and new account growth goals. Therefore, continued close monitoring of the potential for internal fraud is warranted. Efforts should also be made to periodically reinforce employee awareness of compliance and fraud prevention policies through some form of mandatory annual retraining and to continue to consolidate compliance training manuals and procedures.
- **Collections and Recovery:** Management should continue to build common collection systems across the businesses to maximize collection efforts and to improve efficiencies through uniformity. Once centralized, written policies and procedures related to call monitoring should be developed and implemented for the collection and recovery centers to ensure consistency. Management is also encouraged to monitor the 2Q03 implementation of both the automated tracking reporting for employee collections training and the physical centralization of the collection function for Unimat.

*Economic Capital Framework*

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**RISK MANAGEMENT - CONTINUED**

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While progress continues to be made in developing the corporate-wide economic capital framework, further work remains to integrate this risk management discipline into Citigroup's business culture. Corporate management has stipulated that the firm is planning to move forward. As such, management has identified potential issues limiting the usefulness of the current economic capital tools throughout Citigroup on the basis of quality, consistency and business relevance. In turn, management has devised a strategy that delineates the top priorities required to further refine the economic capital methodology on a firm-wide basis. We encourage management to continue striving to make economic capital a widely accepted and useful risk management tool, particularly in preparation for the new Basel Accord.

***Market Risk***

Market risk is moderate and effectively managed. Aggregate risk taking within the businesses remains stable with appropriate diversification of revenue sources and risk controls. Moreover, a robust corporate limit process is in-place that reflects the firm's risk appetite and effectively addresses the primary risks of each business in accordance with supervisory expectations. Management remains focused on expanding customer flow trading globally, while reducing proprietary trading positions in emerging market countries. Positive performance in most businesses continues despite current market conditions. Notably, progress has been made in integrating the exposures and systems of the legacy institutions and in developing a market risk framework suitable for the merged organization. Nonetheless, there are areas that require management's focus that include:

- **Market Risk Management**: Overall, market risk management processes are considered satisfactory and the efforts to date in developing the firm's stress testing program and increasing the frequency of such scenarios are viewed favorably. However, the firm trails its peer group specifically with respect to the development of portfolio tailored stress scenarios that focus on vulnerabilities and concentrations both within and across lines of business.
- **Model Validation Process**: Management has made significant progress over the past year in model identification and tracking, prioritization of model reviews, and the rigor of analytical testing. However, the timeliness of model validations is below supervisory expectations and lags peer practices as evidenced by the number of models that still require validation. While the vast majority of these models have been internally classified as low and medium-risk, timely validation of these models will ensure consistency with both supervisory expectations and industry practices.
- **Market Risk Aggregation and Methodologies**: With the virtual completion of Risk Architecture's market risk data capture project, significant improvements in monitoring and aggregation of market risk across global businesses have already been realized. Nevertheless, implementation issues such as test feed receipt and user acceptance testing have resulted in a few desks not yet in GMR production despite desk review completion by Risk Architecture. In order to take full advantage of the benefits associated with aggregating risk exposures, management is encouraged to finalize its population of the GMR system.

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**RISK MANAGEMENT - CONTINUED**

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***Liquidity Risk***

Liquidity risk management is considered effective as Citigroup continues to improve its liquidity risk position by lengthening debt maturities, appropriately managing the level of commercial paper and by generating new sources of asset liquidity through the securitization of home equity loans and the development of an available for sale portfolio. The firm's strong financial performance and earnings growth is recognized by the markets, as evidenced by a rating agency upgrade in June. However, reputational concerns impacted the firm's liquidity in July 2002 with declining stock prices and widening debt spreads, which normalized by the end of the year. These reputational concerns remain and the firm is encouraged to continue its close monitoring of the impact of "headline events" on liquidity.

Citigroup continues to implement best practices in its global contingency funding plan (CFP). Significant improvements in 2002 include an assessment of alternative funding sources by priority of use, formalization of corporate level triggers that are linked to local triggers and an expansion of the Artemis system for use during emergencies. We encourage management to remain in the forefront of industry practice by fully implementing improvements to liquidity MIS and by enhancing the CFP as needed.

***Insurance Liabilities Risk – Life/Health***

The risk in Life and annuity businesses is inherently low with exposure to mortality risk that is well defined and fairly predictable. Insurance business line reporting is comprehensive and has become more integrated into corporate reports. Controls are considered acceptable and management mitigates risk through the efficient use of reinsurance and financial hedges. Some annuity products, however, contain benefit guarantees for which reserving practices are not well established. Nevertheless, based on these factors and discussions with the functional regulator, the composite risk rating is considered low. Citigroup is encouraged to maintain its risk management discipline as it moves forward with new products and platforms to increase its insurance revenues.



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**FINANCIAL PERFORMANCE**

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Citigroup Inc. achieved strong financial results in 2002, once again distancing itself from other peer organizations and establishing the firm as the most profitable corporation for the year. This financial performance reflects the strength of the corporation's global franchise and the diversification benefits derived from its broad range of financial service businesses. The combination of a successful business model with diversification in geography and products allowed the company to post record earnings, despite the global economic slowdown and the headline events associated with unsavory business practices.

***Earnings***

Citigroup's consolidated earnings remain strong. Despite another year of operating in a challenging economic environment, Citigroup businesses provided ample revenue growth while management remained focused on controlling overhead expenses. Significant increases in core income in several key businesses offset several sizable costs items in 2002, including: credit charge-offs of \$10.6 billion, \$1.7 billion in pretax charges associated with Argentina, and a \$1.3 billion after-tax charge for regulatory settlements and a private litigation reserve. There were also several extraordinary income items in 2002, including the sale of 399 Park Ave., which resulted in \$323 million of after-tax gains and the IPO of Travelers Property Casualty Corp., which added \$1.2 billion in after-tax gains. Excluding these gains, core earnings at Citigroup remained strong and showed increases year-over-year, reflecting the strong revenue stream provided by the consumer business. In addition, management continued to pursue strategic acquisitions, totaling \$7.2 billion in 2002, with the addition of Golden State Bancorp, which significantly expanded Citigroup's retail branch network and enhanced its presence in the California market.

***Credit Quality***

Asset quality is satisfactory but the level of risk continues to rise across both the corporate and consumer portfolios. In the corporate portfolio, the increased cost of credit and the higher level of non-performing assets are reflective of the challenging credit environment. In addition, problem credits continue to migrate to more severe categories of risk. Portfolio sectors that present concerns are concentrated in merchant energy, telecom and Latin American. In the consumer portfolio, delinquency trends stabilized in the second half of 2002, showing some improvement since the end of 2001. Yet, credit cards and CitiFinancial portfolios continue to display the higher net credit losses. Consumer credit costs continued to rise in the card portfolios of Hong Kong and the UK and in Japan's consumer finance franchise as personal bankruptcies continued to increase. Further deterioration from migration is probable despite steps taken to significantly tighten credit criteria and a longer recovery period is expected due to record bankruptcies and the rise in unemployment. However, efforts to improve behavioral scorecards and obtain more comprehensive bureau data should mitigate some of the risk. Credit quality also remains vulnerable to the unsettled political climate in the more severe watch listed countries, particularly Argentina.

***Capital***

Regulatory capital ratios for Citigroup and Citicorp are strong and exceed guidelines for "well-capitalized" institutions. Total equity capital including trust securities increased slightly for fiscal year 2002 due to solid

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**FINANCIAL PERFORMANCE - CONTINUED**

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earnings retention. Management's attention to capital planning and balance sheet discipline has allowed the corporation to remain above internal capital targets and to continue with its share repurchase program. Moreover, the firm's insurance and securities subsidiaries continue to meet the minimum standards established by the respective functional regulators.

***Parent Company Liquidity***

Citigroup's parent company liquidity remains strong due to its full access to the debt and equity markets and globally diversified funding sources. Liquidity at the parent company has improved as the maturity of its debt has lengthened throughout 2002. Liquidity management ensures that the firm maintains ample liquidity in excess of daily funding needs and access to global markets. Additionally, improvements noted in the contingency funding plan further ensure the firm's ability to meet its liquidity needs should a crisis arise.

**BOPEC RATING**

The Bank Holding Company Performance 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.

<b>BOPEC RATINGS</b>	<b>12/31/02 Citigroup</b>	<b>12/31/01 Citigroup</b>
<i>Bank Holding Company Rating System</i>		
Composite Rating Management	2 Satisfactory	2 Satisfactory
<i>Component Ratings:</i>		
Bank Subsidiaries	2	2
Other Nonbank Subsidiaries	2	2
Parent Company	1	1
Consolidated Earnings	1	1
Consolidated Capital	1	1

Overall, banking subsidiaries remain in satisfactory condition as indicated by the examinations conducted by the respective regulators. This assessment primarily reflects the satisfactory rating accorded Citibank, N.A., which houses the preponderance of banking assets. Also considered in satisfactory condition are Citibank (Nevada), Citibank (South Dakota), N.A., Associates Capital Bank, Banamex, and the newly acquired Golden State Bancorp, which holds Citibank West, FSB. Both Citibank (NYS) and Travelers Bank (FSB) are considered in strong condition.

The principal nonbank subsidiaries of Citigroup are Salomon Smith Barney and Travelers Insurance Group, which remain in satisfactory condition. The evaluation of these subsidiaries is based on risk reports, meetings with senior management and risk managers as well as the findings from audits performed by ARR. In addition to ongoing monitoring, we also meet with the functional regulators and made assessments of the entities financial performance. In summary, the satisfactory rating reflects the adequacy of the risk control processes and overall effectiveness of risk management practices. However, within SSB the compliance function requires management's attention, particularly with respect to the reporting structure, compliance monitoring and training.

CitiFinancial, which is Citicorp's primary nonbanking subsidiary, continues to be one of the firm's more profitable and riskier franchises; however, its overall condition is now considered less than satisfactory due to control deficiencies revealed at the 2001-2002 compliance examination. While financially sound, issues from the consumer compliance review, which are described on page 1 of this report, raise questions concerning aspects of CitiFinancial's business model and its incentives program. Management's challenge

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**BOPEC RATING - CONTINUED**

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going forward will be to better balance practices that mitigate credit risks with stronger governance procedures, improved monitoring and enhanced training for compliance with consumer protection laws and regulations. The need for more emphasis to be placed on compliance training and corporate governance cannot be overstated, and we will vigorously test for such improvements in our next review of CitiFinancial. In addition, there were noted concerns with regards to the integrity of some of the firm's personnel and the candor provided to the examiners during the course of this review, which is particularly troubling and undermines the examination process. Citigroup management must ensure that its corporate principles in dealing with regulators in a forthright manner extend to all of its subsidiaries, including CitiFinancial.

The parent company continues to be strong and serve as a source of strength to its subsidiaries. Citigroup has full access to the money and capital markets to meet its funding requirements. The strength of the parent is recognized in the markets by the rating agency upgrade received in June 2002 and by the positive reception of the parent's debt issuances. The parent's cash flow position improved year-over-year, generating significantly more cash from operations and using less cash from borrowings. For additional details regarding earnings, capital, and liquidity, please refer to the Financial Performance page 2.

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3(1)

**BOPEC Rating - Continued**

## CITIBANK OVERSEAS INVESTMENT CORPORATION

CAMEO RATINGS	12/31/02 COIC	12/31/01 COIC
<i>Composite Rating</i>	2	2
<i>Component Ratings:</i>		
Capital	1	1
Asset Quality	2	2
Management	2	2
Earnings	1	1
Operations/Internal Controls	2	2

COIC's overall condition is considered satisfactory based on effective management, adequate internal controls and operations and a strong capital position. In addition, the Edge Act Corporation produced record earnings and contributed approximately 21% of Citigroup's consolidated 2002 earnings during a period of global economic weakness. While consolidated asset quality remains satisfactory, the level of classified and criticized exposures rose considerably over the last year given the inclusion of the former Associates international businesses into COIC vehicles.

### ***Risk Management***

Risk management practices are considered satisfactory. Country level management is effective in managing franchise risks in the current business environment. In particular, the Citigroup Europe Governance Committee provides a model for corporate oversight and governance in relation to the entirety of Citigroup's business activities across Europe. This oversight committee process is clearly at a level of best practices given its proven initiative in managing the risks associated with legal vehicle conversions and systems consolidation associated with the "Single Europe Project." We encourage management to share its experiences with other country governance processes globally to enhance oversight activities in countries where Citigroup maintains a significant presence.

### ***Operational Risk***

Operational risk management and the internal control environment of COIC and subsidiaries is considered adequate based on the various audits completed by ARR and the target reviews of select COIC subsidiaries. However, compliance risk management in international subsidiaries continues to present considerable managerial challenges. Specifically, a formal compliance function was only recently established in CitiFinancial Japan and the self-assessment process is in an evolutionary stage. Moreover, recent ARR reports note compliance concerns in the Bank Handlowy franchise. Management attention is needed to

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**CITIBANK OVERSEAS INVESTMENT CORPORATION - CONTINUED**

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ensure a strong compliance culture is embedded within the entire organization to mitigate operational and legal risks.

***Subsidiaries***

Overall, COIC subsidiaries are effectively managed. This evaluation reflects the continuous supervision process and target reviews that were conducted throughout the year. The targeted reviews of Banco Citibank, SA and CIPLC conducted during 2002 were assessed as being adequately managed and controlled.

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4(1)

**Citibank Overseas Investment Corporation - Continued**

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**SUPERVISORY ACTIVITIES AND SCOPE OF REVIEWS**

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**Supervisory Activities**

The Federal Reserve's supervisory program is accomplished through a combination of on-site meetings and reviews conducted at Citigroup, and extensive off-site analysis of the company's internal risk management reports, publicly available information, and information from the functional and foreign regulators. The review of internal risk management reports is a critical element of the process.

An important aspect of the supervisory program is reliance to the greatest extent possible on the primary bank and functional regulators. Examination and financial information received from these regulators were reviewed, including reports from the OCC, SEC and the State of Connecticut Insurance Department's (CID). Reviews of business lines, which included the primary bank, functionally and foreign regulated entities, were coordinated with those regulators. Meetings were held with the relevant bank, functional and foreign regulators to communicate the Federal Reserve's supervisory plans, in instances where the corporation's activities involved entities under their jurisdiction.

**Scope of Reviews**

The following on-site reviews were conducted in 2002 and the results of these reviews were conveyed to the corporation.

**Operational Risk Reviews**

- **Control Self-Assessment Process.** A review of the Control Self-Assessment Process evaluated senior management's and the Boards' oversight of the process, as well as its function within operational risk management and business line programs, and Audit and Risk Review's role in assessing the process and using its conclusions.
- **Special Purpose Entities ("SPE").** A review of the use of Special Purpose Entities ("SPE") at Citigroup assessed the firm's controls surrounding SPE governance and accounting policy in relation to other large and complex banking organizations in the second Federal Reserve District.
- **E-Commerce Outsourcing/Alliances.** The review of e-Commerce outsourcing and strategic alliance activities evaluated the risk management environment of Internet alliances and outsourcing relationships.
- **Corporate Information Security.** Corporate Information Security Governance was assessed to review changes in the governance structure and managerial processes, review key reports, and evaluate Audit coverage.

**Credit Risk Reviews**

- **Allowance for Loan and Lease Losses (ALLL).** Examiners assessed the adequacy of the year-end ALLL and the appropriateness of the ALLL process, focusing on specific business lines and legal entities.

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**SUPERVISORY ACTIVITIES AND SCOPE OF REVIEWS - CONTINUED**

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- **Country Risk Scenario Stress Testing.** A review of Citigroup's country risk scenario planning process was conducted to gain a better understanding of the recent developments in scenario planning, given the turmoil in some emerging markets, and assess the progress in implementing this process globally.
- **Leverage Finance.** A review of Citigroup's leveraged finance activities evaluated market and credit risk management and the control processes governing non-investment grade loan underwriting and syndication, as well as high yield bond underwriting and trading.
- **CitiFinancial Japan Underwriting & Collections.** A review of CitiFinancial Japan focused on the effectiveness of credit risk management and an assessment of initiatives taken to centralize the loan underwriting and collection functions.
- **High Risk Counterparty Credit Risk Management.** A review of High Risk Counterparty management assessed the effectiveness of Citigroup's risk management practices in identifying, monitoring and controlling high-risk counterparty credit exposures, including management's ability to aggregate credit risk exposure across entities.
- **Structured Finance and Commodities Business.** A review was conducted of Structured Finance and Commodities Business to assess the risk management processes, particularly legal, reputational and credit, as well as the internal controls surrounding the approval of the various Enron transactions.
- **Loan Portfolio Management.** In conjunction with the OCC, a review of the loan portfolio management group was conducted to assess practices, the adequacy of MIS and compliance with interagency guidelines on loan sales.

Economic Capital Reviews

- **IRB - Pilot.** A pilot review was conducted of Citigroup's efforts to date to meet the criteria set forth in the New Basel Accord's Internal Rating Based Approach. The review focused on the firm's risk rating system design, structure and criteria, data maintenance requirements, and the independence and quality of control functions.

Market Risk Reviews

- **Market Risk Management.** The Global Corporate and Investment Bank's Market Risk Management (MRM) function in New York and London was evaluated to ensure that a satisfactory level of independent control is maintained. The scope of the examination included a review of key responsibilities including: limit setting and monitoring, stress testing of trading and accrual book activities, and other MRM roles designated in GCIB Market Risk Policies.

International Banking Reviews

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A(1)

Supervisory Activities and Scope of Reviews - Continued



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**SUPERVISORY ACTIVITIES AND SCOPE OF REVIEWS - CONTINUED**

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- **Banamex – Risk Management Infrastructure.** A review of the risk management infrastructure of Grupo Financiero Banamex (Banamex) was conducted to further develop our understanding of the organization and to assess the level of risk management processes and control systems in place relative to Citigroup standards and best practices.
- **COIC (*Edge Act Review*).** An examination of Citibank Overseas Investment corporation (COIC), an Edge Act subsidiary of Citibank NA, was conducted and focused on assessing risk management processes, including an analysis of asset quality, as well as a review of internal and external audit coverage and compliance with Regulation K. Additional assessments were also made of certain COIC subsidiaries.
- **Brazil – Credit Underwriting/AML.** A review of Citigroup activities in Brazil booked in COIC legal vehicles focused on Global Corporate lending, the Treasury function, Information Technology and Operations, Anti-Money Laundering, and Regulatory Compliance.
- **Country/Regional Mgmt – CIPLC.** A review of Citibank International plc (CIPLC), the principal operating subsidiary of Citibank Investments Limited, was conducted in London. The review focused on governance, regulatory issues, audit, compliance, and certain systems projects (i.e., Flexcube) concerning the integration and consolidation of various European entities and businesses that will utilize the CIPLC legal vehicle as part of the Single Europe Project.

**Travelers Life and Annuity Management Reviews**

- **Quarterly Management Meetings.** On a quarterly basis, meetings were conducted with Citigroup's management responsible for insurance activities (with Connecticut Insurance Department in attendance). The meetings focused on quarterly operating performance results, integration of insurance business risks into Citigroup's firm-wide Operational Risk Management and progress on developing the Self Assessment program. In addition, plans were discussed to ensure smooth transition of services during and after the spin-off of Travelers Property & Casualty. Other items included descriptions of non-U.S. insurance platform; overview of product guarantees and associated risks; Patriot Act compliance, updates on legal/legislative/regulatory issues, plans for new product expansion
- **Connecticut Insurance Department.** In addition, FRBNY has had separate discussions with the Connecticut Insurance Department to obtain their views on the insurance companies.

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A(2)

Supervisory Activities and Scope of Reviews - Continued

RSSD No. 1951350

**BANK HOLDING COMPANY  
REPORT OF INSPECTION  
CONFIDENTIAL SECTION**

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Name of Institution:	<b>Citigroup Inc.</b>		
Examination As-Of Date:	December 31, 2002	Previous Examination Date:	December 31, 2001
Examination Open Off-Site:	Continuous Supervision	Examination Open On-Site:	February 3, 2003
Examination Closed On-Site:	April 11, 2003	Examination Closed Off-Site:	April 11, 2003

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**CONFIDENTIAL SECTION  
PRINCIPAL OFFICERS**

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<b>Name &amp; Title</b>	<b>Year of Birth</b>	<b>Position held in subsidiary and/or affiliate organization</b>
Hamid Biglari	1958	Global Head of CIB M&A (client advisory)
Winifried F. W. Bischoff	1941	Chairman - Citigroup Europe
David Bushnell	1954	Risk Officer GCIB
Michael A. Carpenter	1947	Chairman & CEO Citigroup Global Investments
Michael D'Ambrose	1957	Senior Human Resources Officer
Robert Druskin	1947	President & COO, GCIB
Ahmed Fahour	1966	Senior Vice President - Head of Development
Stanley Fischer	1943	Chairman of Citigroup International
Michael B. G. Froman	1962	Executive Director - Strategic Priorities and Business Development
Joan Guggenheimer	1952	Co-General Counsel of Citigroup Inc.
Robert Guthrie	1953	Chief Executive Officer - Global Equipment Finance
William Hannon	1948	Controller and Chief Accounting Officer
Thomas Wade Jones	1949	Chairman and CEO - Global Investment Management & Private Banking Group
Sallie Krawcheck	1964	Chairman and CEO of Smith Barney
Robert L. Lipp	1938	Chairman of Travelers Property and Casualty Co.
Marjorie Magner	1949	Chief Operating Officer of Global Consumer Group
Michael Masin	1944	Chief Operating Officer and Vice Chairman- Citigroup
Deryck C. Maughan	1947	Chairman & CEO, Citigroup International
Victor J. Menezes	1949	Senior Vice Chairman & CEO Head of M&A
Stephanie Mudick	1955	Co-General Counsel of Citigroup
Charles O. Prince	1950	Chairman & CEO, GCIB

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A

Principal Officers

**CONFIDENTIAL SECTION  
PRINCIPAL OFFICERS - CONTINUED**

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<b>Name &amp; Title</b>	<b>Year of Birth</b>	<b>Position held in subsidiary and/or affiliate organization</b>
William R. Rhodes	1935	Senior Vice Chairman
Peter Sabatacakis	1946	Senior Risk Officer
Todd S. Thomson	1961	Chief Financial Officer
Sanford I. Weill	1933	Chairman and CEO
Robert B. Willumstad	1945	Citigroup President & CEO - Global Consumer Business

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A(1)

Principal Officers - Continued

CONFIDENTIAL SECTION  
DIRECTORS

<b>Name (Committee Member)</b>	<b>Years on Board</b>	<b>Year of Birth</b>	<b>Occupation or principal business affiliation</b>
C. Michael Armstrong (A)	7	1938	Chairman and Chief Executive Officer AT&T Corp.
Alain J. P. Belda (A)	4	1943	President and Chief Operating Officer Alcoa Inc.
George David (A)	1	1942	Chairman and Chief Executive Officer United Technologies Corporation
Kenneth T. Derr (E), (A), (G)	13	1936	Chairman and Chief Executive Officer Chevron Corporation
John M. Deutch (A), (P), (G)	10	1938	Institute Professor, MIT
* Gerald R. Ford (PC), (P)	14	1913	Former President of the United States
** Alfredo Harp	1	1944	Chairman of the Board of Grupo Financiero Banamex Accival, S.A. de C.V. (Banacci)
Roberto Hernandez	1	1942	Chairman of the Board and CEO of Grupo Financiero Banamex Accival, S.A. de C.V. (Banacci)
Ann Dibble Jordan (P), (PC), (G)	11	1934	Consultant
** Reuben Mark (A), (P), (G)	5	1939	Chairman and Chief Executive Officer Colgate-Palmolive Co.
Dudley C. Mecum (E), (A), (G)	14	1934	Managing Director, Capricorn Holdings, LLC
Richard D. Parsons (PC), (G)	5	1948	President, Time Warner, Inc.
Andrall E. Pearson (PC)	14	1925	Chairman and Chief Executive Officer Tricon Global Restaurants, Inc.
Robert E. Rubin (E)	2	1938	Chairman of the Executive Committee
Franklin A. Thomas (E), (P), (PC), (G)	30	1934	Former President, The Ford Foundation

AA

Directors

**CONFIDENTIAL SECTION  
DIRECTORS - CONTINUED**

<b>Name (Committee Member)</b>	<b>Years on Board</b>	<b>Year of Birth</b>	<b>Occupation or principal business affiliation</b>
Sanford I. Weill (E)	14	1933	Chairman
Arthur Zankel (E), (PC)	14	1931	General Partner, First Manhattan Co.

\* The Honorable Gerald R. Ford is an honorary director and as such is appointed by the Board and does not stand for election.

\*\* At the April 15, 2003 annual meeting, Reuben Mark did not stand for re-election. At the April 16, 2002 meeting, Kenneth Bialkin and Robert Lipp did not stand for re-election. Mike Masin left the Board when he was appointed Vice Chairman and Chief Operating Officer of Citigroup in 2002.

There are five committees:

(E) - Executive Committee

(A) - Audit Committee

(P) - Public Affairs Committee

(PC) - Personnel, Compensation and Directors Committee

(G)- Nomination and Governance Committee established August 7, 2002

**Citigroup Directors' Fees**

Outside directors currently receive an annual retainer of \$125,000, payable either 100% in common stock, receipt of, which is deferrable at the director's election, or up to 50% in cash to cover taxes and the remainder in common stock. Effective January 1, 2001, directors may elect to receive all or a portion of their compensation in the form of an option to purchase shares of Citigroup common stock.

Effective July 18, 2000, outside directors and the honorary director became entitled to receive an annual option grant to purchase 5,000 shares of Citigroup common stock. The Board has made changes to the terms of future options awards to directors. The term of stock options granted in 2003 has been shortened to 6 years.

Committee and subcommittee chairs receive additional compensation of \$15,000, except for the chair of the audit committee, who receives \$25,000. Directors receive no additional compensation for participation on board committees and subcommittees. Additional compensation for special assignments is determined on a case by case basis, but no such additional compensation was paid to any director in 2000; however, Directors Harp and Hernandez were reimbursed \$1,830,000 and \$1,035,2000 for certain costs and services for themselves and immediate family members.

Directors who are employees of Citigroup or its subsidiaries do not receive any compensation for their services as directors.

AA (1)

Directors - Continued

**CONFIDENTIAL SECTION  
CONDITION OF BANK HOLDING**

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1. Prospects of holding company.
  2. Assess management and the board of directors. In addition, appraise the policies with respect to the level of control and supervision exercised over subsidiaries, including risk evaluation and control and management information systems.
  3. Subsidiary bank(s), date of most recent examination and rating.
  4. Is the holding company a member of a chain banking organization? No. If so, summarize significant problems at any holding company or subsidiary bank, or in the chain organization.
  5. List any individual or group that own(s) or control(s) 5 percent or more of the outstanding voting shares of the bank holding company's stock. Discuss significant changes in ownership.
  6. Other supervisory concerns. None.
  7. BOPEC Rating.
  8. Recommendations for supervisory action.
- 

*Given the information that is provided in the various risk-focused documents, the closed section of the report will only highlight certain key areas. Please refer to the risk-focused documents for more detailed information on corporate strategy/prospects, risk management/ controls and Senior Management.*

**1. Prospects**

The prospects for Citigroup continue to be favorable. Despite the difficult global operating environment and challenges specific to the firm in 2002, Citigroup posted net income growth of 8% while undertaking internal management and business changes that should position it well for future growth. Some of these changes include the acquisition of Golden State Bancorp, which is key to Citigroup's strategy to access the Hispanic banking market, and the separation of the equity research division into an independent business. Citigroup's strategy of diversification by region and product has been successful and the firm is in the position to take advantage of new opportunities as they arise. The firm has made significant efforts to address reputational and legal risks that threaten its franchise, mitigating the damage that these issues could inflict on future growth.

*Management will continue to focus its attention on the following areas:*

- **Global Consumer Services:** Citigroup plans double digit growth in 2003 in this area. This target will be achieved through the maintenance of a global leadership position in cards and by cross-selling investment products through the existing retail system. The acquisition of Golden State Bancorp has increased Citigroup's domestic retail channel and doubled mortgage originations. The firm plans to export its domestic consumer finance strength to international markets with initiatives such as opening CitiFinancial branches in Brazil.
- **The Corporate Investment Bank (GCIB):** Continuing the deep cost cutting seen in 2002, the firm plans to keep expense management a top priority as it improves organizational alignments and reduces redundancies with other business lines. The firm is growing the Global Transaction Services business and plans to maintain its number one position in sales and trading. Internationally, the firm has targeted Asia for expansion.
- **Global Investment Management:** Management is focused on managing costs in this business as they strengthen wealth management services outside of the U.S. The firm wants to build its international Private Banking base and use the Citigroup distribution channels to increase cross-selling opportunities, particularly for the Life Insurance & Annuity business. Growth in this business may be achieved through M&A opportunities.

Citigroup continues to exploit one of its core competencies of strategic acquisitions. The integration of Golden State Bancorp in the first quarter of 2003 follows on the acquisition of Grupo Financiero Banamex Accival (Banacci) in 2001. With this

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B

Condition of Bank Holding Company

**CONFIDENTIAL SECTION**  
**CONDITION OF BANK HOLDING COMPANY - CONTINUED**

position in Mexico and California, the firm is targeting a growing Hispanic customer base and appears open to acquisitions in Texas.

Overall, despite weakness in business lines that are reliant on equity markets, with Citigroup's strong and diversified earnings streams and capital base, the firm has demonstrated resiliency in times of economic stagnation and is well positioned for further growth.

**2. Combined Risk Management and Internal Controls - (Rated "2")**

Overall, Citigroup effectively manages its risks and is accorded a risk management and internal control rating of "2". The rating reflects the corporation's ability to handle existing and foreseeable exposures that may arise in the daily course of business, with noted areas for improvement. Board oversight, policies and limits, risk monitoring procedures and reports are considered generally adequate. Both the board and senior management are committed to providing the necessary guidance to ensure an effective risk management process at both the business line and corporate levels. Please see the open section of the report and risk-focused documents for more detailed information.

**Senior Management**

There were several senior management changes in 2002. They are listed as follows:

<b>Former position</b>	<b>Senior management</b>	<b>New position</b>
Chairman & CEO, GCIB	Michael Carpenter	Chairman & CEO Citigroup Global Investments
Chairman & CEO, Citibank, NA, Emerging Markets	Victor Menezes	Senior Vice Chairman, Citigroup Head of M&A
COO, Citigroup; Corporate Secretary	Chuck Prince	Chairman & CEO, GCIB
Chief Operations & Tech Officer	Bob Druskin	President & COO, GCIB
Vice Chairman, Citigroup	Deryck Maughan	Chairman & CEO, Citigroup International
Head of Corporate Strategy	Hamid Biglari	Global Head of CIB M&A (client advisory services)
	Stanley Fischer	Vice Chairman
	Sallie Krawcheck	Chairman & CEO, Smith Barney
	Deborah Hopkins	Head of Corporate Strategy
	Mike Masin	Vice Chairman & COO
	Michael Helfer	General Counsel

**3. Examination Ratings**

<b>Subsidiary Banks</b>	<b>Examination Date</b>	<b>Agency</b>	<b>CAMELS</b>
Citibank, N.A.	12/31/02	OCC*	1-2-2-1-1-2 / 2
Citibank (S.D), N.A.	12/31/02	OCC	1-2-2-1-2-2 / 2
Citibank (NV), N.A.	12/31/02	OCC	1-2-2-1-2-2 / 2
Citibank NYS	3/18/02	NYSBD	1-1-2-2-1-1 / 1
Citibank FSB	9/17/01	OTS	1-1-2-2-1-1 / 1
Citicorp Trust Bank, FSB	1/07/02	OTS	2-2-2-1-1-2 / 2
Associates Capital Bank Inc	5/20/02	FDIC	2-2-2-2-2-2 / 2
Citibank West, FSB (formerly Cal Fed)	1/09/02	OTS	2-1-1-2-2-1/ 2

\*OCC supervises Citibank on a continuous basis.

B(1)

Condition of Bank Holding Company - Continued



**CONFIDENTIAL SECTION**  
**CONDITION OF BANK HOLDING COMPANY - CONTINUED**

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**5. Major Shareholders**

As of December 31, 2002, there are no major shareholders that own more than 5% of Citigroup's outstanding common stock. The largest shareholders are State Street, Fidelity Investments, and Barclays, which hold 4.7%, 4.0% and 3.5%, respectively, and H-R-H. Alwaleed who beneficially owns approximately 3.2% of Citigroup's outstanding common stock.

7.

<b>BOPEC RATINGS</b>	<b>12/31/02 Citigroup</b>	<b>12/31/01 Citigroup</b>
<i>Bank Holding Company Rating System</i>		
Composite Rating Management	2 Satisfactory	2 Satisfactory
<i>Component Ratings:</i>		
Bank Subsidiaries	2	2
Other Nonbank Subsidiaries	2	2
Parent Company	1	1
Consolidated Earnings	1	1
Consolidated Capital	1	1

8. Given concerns related to the Special Enron review of structured transactions and the CitiFinancial compliance related issues, the firm is subject to *two potential formal supervisory actions* from the Federal Reserve.

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B(2)

Condition of Bank Holding Company - Continued

**OTHER SUPERVISORY ISSUES**

1. Is the holding company's policy on assessing dividends from the subsidiary bank(s) reasonable and is it being complied with? Yes. If no to either, discuss.
2. Has the holding company complied with all representations made in application(s) to the Board of Governors? Yes. If not, discuss.
3. Does the subsidiary bank(s) maintain compensating balances at another institution for debt advanced to the holding company? No. If the bank is not adequately compensated, discuss.
4. If applicable, describe the holding company's policy on assessing management and service fees for work performed for the subsidiary bank. Are policies and fees reasonable? Yes. If not, discuss.
5. Are there any intercompany transactions subject to comment? No. If so, discuss.
6. Are there any insider transactions subject to comment? No. If so, discuss.
7. Do the holding company's intercorporate income tax accounting policies and practices conform with the Board of Governors' September 1978 policy statement? Yes. If not, discuss.
8. If the holding company uses a subsidiary bank's personnel or assets to sell credit-related life insurance to the bank's customers, does the holding company give the bank reasonable compensation for its services? Yes. If not, discuss.
9. Is the holding company in compliance with the tie-in prohibitions contained in Section 106(b) of the BHC Act Amendments of 1970? Yes. If not, discuss.
10. Is the holding company or its subsidiary(ies) a defendant in any litigation which could have a significantly adverse effect on the overall organization? No. If so, discuss.
11. Is the insurance program for the holding company and its subsidiary(ies) considered adequate? Yes. If not, discuss.
12. Are reports filed with the Federal Reserve System prepared accurately and submitted on a timely basis? Yes. If not, discuss.
13. Did the inspection uncover any violation of law, regulation or Federal Reserve policy statement not cited above? No. If so, discuss.
14. Does the holding company or its subsidiary(ies) have any outstanding commitments to the Board of Governors? No. If so, discuss. Before the Gramm-Leach-Bliley Act became effective, as part of the merger approval process for Citicorp and Travelers, Citigroup Inc. entered into an agreement (Board Order) with the BOG. The primary covenants identified the need for the firm to upgrade its risk management aggregation systems to encompass the firm's group-wide exposures and develop a Privacy Promise for its customers. The firm continues to make good progress on these initiatives.
15. Is there any other matter having a detrimental impact on the subsidiary bank(s) not discussed elsewhere in this report? No. If so, discuss.
16. Does the holding company or its subsidiary(ies) have an internal credit risk-rating system? Yes. If so, is it adequate? Yes. If no, how does the organization effectively monitor credit risk?
17. Other Matters. None.

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**CONFIDENTIAL SECTION**  
**ADMINISTRATIVE MATTERS - CONTINUED**

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**Final meeting date and those attending:**

Meeting was held on April 1, 2003. In attendance from the Federal Reserve Bank of New York were Homer C. Hill, III, Assistant Vice President, and Brian Peters, Senior Vice President, and from Citigroup Inc. were Sandy Weill, Chairman and CEO, and Todd Thomson, CFO.

**Contact persons for records of bank holding company:**

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**Suggestions for the next inspection:**

For a listing of scheduled reviews, please refer to the Supervisory Plan of the risk-focused documents.

**Citigroup Summary Review**

The CPC should arrange to meet with the primary contacts, Michael Helfer and Michael Zuckert, two months prior to a review to present the applicable entry letters.

Michael Helfer and Michael Zuckert (559-0615) are responsible for coordinating the entry letter responses. The Audit division will also provide official listing of names and telephone numbers for examiner use.

**Parent Company and Liquidity/Funding:** Questions concerning the parent company's legal structure, dividend capacity and cash flow should be directed to Greg Ehlke (559-0302) and Marty Waters (559-3249) of the Office of Corporate Finance. For Liquidity and Funding contact: Firoz Tarapore (793-8090) and Marc Weinberg (559-1824).

**Asset Quality:** Mr. Julian Lustig (559- 3259), Vice President - Credit Risk Information and Reporting section of Risk Architecture, is directly responsible for our consolidated asset quality reports. Key monthly reports are the Citigroup Consolidated Credit Portfolio Review, the Citigroup Credit Risk Report and the Country Concentrations Report. The Country Risk monthly report is provided by the office of Doug Smee (559-1470), chief economist of emerging markets. Quarterly SEC reports including the financial data supplements are furnished by Grace Vogel (559-9392), Deputy Controller of Citigroup.

For a granular view of the Consumer portfolio, key reports are the Monthly Global Consumer Group's Credit Risk Management Reports which are supplemented by additional Risk Management Reviews of North America, Latin America, Asia Pacific, Western Europe and Eastern Europe- MidEast and Africa. The monthly International Consumer Finance Portfolios cover the Associates, Atlas, Credito Familiar and Provencred portfolios. To streamline Citi's reporting to the resident examiners, each of these reports are shared with the OCC examiners. The OCC examiner in charge of the Global Consumer Bank, is Gene Jacobi (527-0154).

**Risk Management:** Questions concerning risk management should be directed to Petros Sabatacakis (793-5243), Senior Risk Manager. Other contacts include: Nancy Newcomb, Windows on Risk (559-2773) and Jim Garnett of Risk Architecture (307-8418).

**Audit and Internal Controls:** Questions concerning audit and internal controls should be directed to Douglas Peterson, Chief Auditor (657-3416).

**Earnings:** The primary contact regarding earnings is Grace Vogel, Deputy Controller of Citigroup (559-9392).

**Technology:** Questions pertaining to Information Systems and Technology should be directed to Mel Taub (793-1215), William Philhower, Chief Technology Auditor (718-248-0067).

**CITIGROUP INC. - Annual Roll-up 2002**

Start Date: 2/3/03

End Date: 4/11/03

Week ending Feb. 7th

Week ending Feb. 14th

Name	Position	Commissioned/ Non-commissioned	Mon	Tues	Wed	Thurs	Fri	Total	Mon	Tues	Wed	Thurs	Fri	Total	Mon
			3-Feb	4-Feb	5-Feb	6-Feb	7-Feb	10-Feb	11-Feb	12-Feb	13-Feb	14-Feb	17-Feb		
Homer C. Hill III	CPC	Commissioned			2.00	2.00	(Flex Day)	4.00				2.00	3.00	5.00	(Holiday)
Jane Green	Credit Risk	Commissioned						0.00	3.00					3.00	
Tim MacMahon	Compliance	Commissioned						0.00		3.00	3.00	3.00	3.00	12.00	4.00
Kenneth Behrens	Operational Risk	Commissioned	2.00	4.00		3.00		9.00		4.00	3.00	2.00	4.00	13.00	
Catherine Tiltford	Financial Analyst	Non-commissioned	3.00	3.00	4.00	4.00		14.00	3.00	2.00	3.00	2.00	4.00	14.00	
Randolph Brown	Market Risk	Commissioned			4.00	4.00		8.00	4.00	5.00	3.00		3.00	15.00	
William Hilton	Consumer Credit Risk	Commissioned	4.00	4.00	4.00	5.00		17.00	4.00	5.00	5.00	5.00	4.00	23.00	
Elise Liebers	Insurance Risk	Commissioned			4.00			4.00		2.00	2.00	2.00		6.00	
<b>Grand Total for the Week</b>								<b>56.00</b>	<b>Grand Total for the Week</b>					<b>91.00</b>	<b>Grand To</b>

CONFIDENTIAL

Week ending Feb. 21st

Week ending February 28th

Tues	Wed	Thurs	Fri	Total	Mon	Tues	Wed	Thurs	Fri	Total
18-Feb	19-Feb	20-Feb	21-Feb		24-Feb	25-Feb	26-Feb	27-Feb	28-Feb	
3.00	3.00		(Flex Day)	6.00		3.00	4.00	2.00		9.00
			3.00	3.00	8.50	3.00	10.50	11.00		33.00
5.00	2.00	2.00		13.00	3.00	4.00	4.00		3.00	14.00
	4.00	2.00		6.00	2.00	3.00			3.00	8.00
3.00	2.00	3.00	4.00	12.00	4.00	3.00	2.00	3.00	4.00	16.00
4.00	3.00	6.00		13.00	4.00	5.00	3.00	3.00	4.00	19.00
4.00	5.00	4.00		13.00	5.00	4.00	4.00	5.00	4.00	22.00
				0.00	3.00	2.00				5.00

Total for the Week

66.00

Grand Total for the Week

126.00

**- R E S T R I C T E D -**  
**NATIONAL EXAMINATION DATA**  
**BHC INSPECTION - LARGE INPUT FORM**  
 BHC's OVER \$150MM IN CONSOLIDATED ASSETS

SUPERVISORY DATA INPUT			
RSSD ID Number:	1951350		
Select Form:	Large BHC Inspection		
Name of BHC:	Citigroup Inc.		
Location:	City:	New York	State: New York
DATES (CCYY-MM-DD)			
Scheduled Start Date:	2/3/03	Start Date:	2/3/03
Financial As Of Date:	12/31/02		
Asset Quality Review Date:	12/31/02	Close Date:	4/11/03
Exit Meeting Date:	4/1/03	Report Disposition Date:	7/1/03
Report Disposition:	<input checked="" type="checkbox"/> Mailed to Institution <input type="checkbox"/> For Internal Use Only		

GENERAL			
Continuous Exam?	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/> No
Inspection Mandated?	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/> No
Location?	<input checked="" type="checkbox"/>	Onsite	<input type="checkbox"/> Offsite
Purpose:	<input type="checkbox"/>	Change In Control	<input type="checkbox"/> Compliance
	<input type="checkbox"/>	Due Diligence	<input checked="" type="checkbox"/> Routine
	<input type="checkbox"/>	Concurrent	<input checked="" type="checkbox"/> Independent
Conducted:	<input checked="" type="checkbox"/>	Full	<input type="checkbox"/> Limited
Exam Scope:	<input type="checkbox"/>	Supervisory Assessment Activity	<input type="checkbox"/> Target
	<input type="checkbox"/>		<input type="checkbox"/> De Novo
	<input type="checkbox"/>		<input type="checkbox"/> Surveillance
	<input type="checkbox"/>		<input type="checkbox"/> Joint
	<input type="checkbox"/>		<input type="checkbox"/> Offsite Review
	<input type="checkbox"/>		<input type="checkbox"/> Risk Assessment

**Targeted Area(s) - If a targeted examination, place an "X" by appropriate entry(s).**

<input type="checkbox"/>	Accounting/Financial Reporting	<input type="checkbox"/>	Credit Administration	<input type="checkbox"/>	Investment Advisory Services	<input type="checkbox"/>	Other Nonbank
<input type="checkbox"/>	Asset/Liability Management	<input type="checkbox"/>	Earnings	<input type="checkbox"/>	Leasing	<input type="checkbox"/>	Pending/Threatened Litigation
<input type="checkbox"/>	Asset Quality	<input type="checkbox"/>	Fair Lending	<input type="checkbox"/>	Loan Review	<input type="checkbox"/>	Private Banking
<input type="checkbox"/>	Bank Secrecy Act	<input type="checkbox"/>	Funding/Liquidity	<input type="checkbox"/>	Mergers and Acquisitions	<input type="checkbox"/>	Risk Management
<input type="checkbox"/>	Broker/Dealer	<input type="checkbox"/>	Infrastructure	<input type="checkbox"/>	Mgmt Information Systems	<input type="checkbox"/>	Section 20
<input type="checkbox"/>	Capital Markets	<input type="checkbox"/>	Insurance	<input type="checkbox"/>	Mortgage Banking	<input type="checkbox"/>	Strategic Planning
<input type="checkbox"/>	Community Banking	<input type="checkbox"/>	Intercompany Transactions	<input type="checkbox"/>	Mutual Funds	<input type="checkbox"/>	Venture Capital Investments
<input type="checkbox"/>	Compliance	<input type="checkbox"/>	Interest Rate Risk	<input type="checkbox"/>	Other	<input type="checkbox"/>	Wire Transfer
<input type="checkbox"/>	Consumer Lending	<input type="checkbox"/>	Internal Controls/Audit	<input type="checkbox"/>	Supervisory Assessment		

Lead Agency:	<input checked="" type="checkbox"/> FRB	<input type="checkbox"/> NASD	<input type="checkbox"/> OCC	<input type="checkbox"/> OTS	<input type="checkbox"/> SEC	<input type="checkbox"/> State
Lead Office:	New York					
NAME OF PARTICIPATING AGENCY(IES)	OFFICE	ROLE				
		Participant	Reviewer			
		<input type="checkbox"/>	<input type="checkbox"/>			
		<input type="checkbox"/>	<input type="checkbox"/>			
		<input type="checkbox"/>	<input type="checkbox"/>			
		<input type="checkbox"/>	<input type="checkbox"/>			

<b>GENERAL (Continued)</b>											
Lead BOPEC/FM Rating:		2	2	1	1	1	/	2	S	Risk Management Rating:	2
Problem Bank(s)?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No							
Reviewer BOPEC/FM Rating:							/			Risk Management Rating:	
Problem Bank(s)?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No							

<b>ASSET QUALITY Dollar Value in Thousands (000)</b>			
CLASSIFIED	Parent	Bank(s)	Nonbank(s)
Substandard		19,366,000	3,090,000
Value Impaired Assets		390,000	173,000
Doubtful Assets		5,689,000	
Loss Assets		133,000	
<b>OTHER</b>			
Special Mention Assets		26,657,000	274,000
OTRP Assets		1,063,000	1,329,000
<b>ALLOWANCES</b>			
ALLL		11,668,000	
ATRR			
Tier 1 Risk-Based Capital		59,012,000	

<b>STAFF RESOURCES FOR EACH AGENCY (Lead, Participant, and/or Review) (Last Name, First Name)</b>			
Agency (e.g., FRB Boston):	FRB of New York		
Examiner in Charge:	Homer C. Hill, III		
Reviewer:			

<b>EXAMINATION HOURS - Lead Agency</b>		Budgeted <input type="checkbox"/>	Actual <input type="checkbox"/>		
<b>BY STAGE:</b>		<b>BY CATEGORY:</b>			
	<u>On-site</u>	<u>Off-site</u>	Commissioned:	691.50	
Preparation:			Noncommissioned:	132.00	
Examination:	823.50		Training:		
Report Development:					
Total By Stage:		823.50	Total By Category:	823.50	
Travel:		0	GRAND TOTAL (+Travel):	823.50	

<b>EXAMINATION HOURS - Participating Agency</b>		Budgeted <input type="checkbox"/>	Actual <input type="checkbox"/>		
<b>Name of Participating Agency:</b>					
	<u>On-site</u>	<u>Off-site</u>	Commissioned:		
Preparation:			Noncommissioned:		
Examination:			Training:		
Report Development:					
Total By Stage:			Total By Category:		
Travel:			GRAND TOTAL (+Travel):		

<b>OTHER</b>			
Coordinated with SMB Examination?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No
Coordinated with Lead Bank Examination?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No
External Auditor Present at Exit Meeting?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No
Board Meeting Mandated?	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/> No

<b>ADDITIONAL BHCs REVIEWED</b>					
RSSD ID	Offsite? (Y/N)	Separate Rpt? (Y/N)	BOPEC/FM	Risk Assmt? (Y/N)	Name and Location

<b>ADDITIONAL NONBANKs REVIEWED</b>			
RSSD ID	Offsite? (Y/N)	Risk Assmt? (Y/N)	Name and Location

Input Form Prepared By:	Catherine A. Tilford
Date Prepared:	July 8, 2003

<b>DATA/DATE INPUT</b>			
	<u>Open</u>	<u>Preliminary</u>	<u>Final</u>
NED Data Input By:			
Date Input Into NED:			
Supervisory Event Number:			