

33

David C. Bushnell  
Senior Risk Officer

Citigroup Inc.  
399 Park Avenue  
2nd Floor  
New York, NY 10022  
Tel 212 793 8793  
Fax 212 793 8777

March 14, 2005

Alfred P. Crumlish  
Senior National Bank Examiner  
Large Bank Supervision  
Comptroller of the Currency  
Administrator of National Banks  
880 Third Avenue, 5<sup>th</sup> Floor  
New York, NY 10022

Dear Mr. Crumlish:

Thank you for your constructive recommendations to improve and strengthen the risk management practices at Citigroup. The matters requiring attention highlighted in your letter dated January 31, 2005 are addressed below. But first, I would like to respond to your general comments regarding the recommendations contained in the OCC conclusion memoranda. These comments address efforts related to the budget expenditures of the control functions, the need to strengthen risk management processes, and ultimately, the risk culture in Citigroup. I would like to refer you to our two letters (dated January 18 and February 2, 2005) to Scott N. Waterhouse that I feel address these issues and set forth our plans. Specifically, we have developed a Five Point Plan that covers training, communications, talent/development, performance appraisals, and controls. As you are aware, I have been personally involved in the development of this Plan. The Plan action items that I feel are most relevant to your concerns are franchise, code of conduct, and compliance training for senior management; the improved performance appraisal and compensation process; and, the increased budget for both risk and compliance. I believe that these efforts, in coordination with the commitments described in this letter, will begin to significantly enhance both the culture and the risk management processes throughout the firm. We will continue to keep you updated on our progress against our Five Point Plan throughout the year. Following are our responses to your specific concerns:

- *"Risk management in business lines, legal vehicles, countries, and regions should broaden their perspective beyond individual risk silos (e.g., credit, market and operational risk) by assessing linkages among the various risk types."*

RESPONSE:

Citigroup Risk Management (CRM) agrees that our scope and reporting should be further expanded to include not only the vertical approach but also the horizontal assessment of market, credit and operational risks. Early in 2004, CRM created a new group, reporting to me, who aggregate and focus on potential concentrations of risk to products, industries

and geographies. To date, reviews of our real estate exposures as well as ongoing risk forums for individuals covering real estate, have allowed us to look across silos. The results of these reviews will be shared with the Business Heads shortly. Reviews of hedge fund exposures, the conflicts management process, and retail distribution are also in progress. In addition, as a member of the Business Heads Committee, the Chief Risk Officer discusses cross-functional risk issues, such as Basel II, with its members. We also have well-established Business Practice Committees representing business and group levels, who review our activities and their potential to create franchise impairment.

As we continue to expand these "aggregation" practices within and across Citigroup businesses over the course of 2005 and 2006, we will revise business level and group level reports, when appropriate, to incorporate cross risk type scenarios ("what-if"), and issues and trends, that may not be apparent within a single risk type. Examples may include operational infrastructures, due diligence practices and compensation schemes, and analysis of operational risk loss trends and key risk indicators. Starting in 3Q2005, we will arrange periodic meetings with you and your staff to monitor progress towards our mutual objective.

- *"A common set of risk definitions and types should be established."*

RESPONSE:

CRM recognizes that there is more than one set of risk definitions across Citigroup. One example is the variances that exist between ARR and Risk Management. CRM will map these different structures by the end of the 2Q2005 to eliminate any potential confusion, and work with ARR to develop a single set of risk definitions and types that can be effectively used by Citigroup going forward.

- *"A corporate policy for new products and services should be adopted."*

RESPONSE:

By the end of 2Q2005, CRM will develop a "corporate-wide" policy covering new products and services. This policy will include a definition of what comprises a "new product", and set forth the standards for documentation requirements and approval processes. We are also in the process of preparing a "white paper" on the new product approval process. As part of our review, we will compare all of the current processes throughout the firm, and will recommend to senior management best practices in the review process and structure for new products and distribution, for both retail and wholesale. It is anticipated that the white paper will be completed by the end of the second quarter, with any process and structure changes implemented by year-end 2005.

- *"Key risk indicators should be defined and more actively analyzed and used."*

RESPONSE:

CRM agrees that key risk indicators for specific businesses should be expanded to include quantitative and qualitative alerts or "circuit-breakers". The key risk indicators will span potential risks beyond those solely managed by CRM to include external environmental changes, in addition to measurements of our internal operational risks and key controls. We would like to formally share with you our progress during the second half of 2005.

- *"Risk management should be formally integrated into strategic and business/budget planning."*

RESPONSE:

Strategically, the Chief Risk Officer is involved in large-scale business decisions through participation in the Business Heads and the Merger & Acquisitions Committees, and the CEO's Strategy Group. For "business as usual", pure risk issues that are endemic in the existing businesses are already outlined and understood. In addition, the senior staff of the Chief Risk Officer "sit" on their respective business planning committees and therefore, are also involved in strategic business discussions. For the budget process, the control functions should be more pro-actively involved in the Mid-Year forecast and Annual Budget processes of the businesses to ensure that their own budget reflects the proper resourcing and costs to support the budget being proposed by the businesses. To that end, I will work with the CFO and her organization to ensure that, going forward, the control functions are included in the appropriate business budget discussions.

Please feel free to contact me should you have any questions regarding our responses.

Sincerely,



David C. Bushnell  
Citigroup Senior Risk Officer

CC: Armstrong, M.  
Prince, C.  
Willumstad, R.