

MEMORANDUM FOR THE RECORD

Event: Interview with Ellen “Bebe” Duke, former Head of Independent Risk for Citi Markets & Banking

Type of Event: Group interview

Date of Event: March 18, 2010

Team Leader: Brad Bondi

Location: 1285 Avenue of the Americas, New York, NY; Paul Weiss conference room

Participants - Non-Commission:

- Ellen “Bebe” Duke, former Citigroup employee
- Susanna Buerger, Paul Weiss

Participants - Commission:

- Donna Norman
- Tom Borgers

Date of MFR: April 5, 2010

Summary of the Interview or Submission:

Ellen Duke is currently a managing director at Lehman holding and is responsible for winding down its derivative positions. She was a mortgage ABS trader for thirteen years prior to her risk role.

Murray Barnes and Dominic Wallace were responsible for CDOs and the correlation desk (synthetic CDOs) and Smillie had Global Securitized Markets. All reported into Ms. Duke and all four of them met every Monday to discuss both sides of the house together. Mr. Barnes and Mr. Smillie sat in offices next to each other and talked “all the time” to each other about Global Securitized Markets and Global Structured Credit Products. Ms. Duke remembers in September becoming aware that Global Securitized Markets (GSM) was de-levering subprime and Global Structured Credit Products (GSCP) was doing more. In retrospect they were “seduced by the structuring and failed to look at the underlying collateral.” She conceded looking back that the analysis of CDO structuring shouldn’t have been different than RMBS securitization regarding evaluation of subprime as collateral.

In addition to her weekly (Monday) independent risk team meetings, there were weekly (Tuesday) meetings of the Citi Markets & Banking (CMB) risk committee, which included Ms. Duke, Mr. Barnes, Mr. Wallace, and Mr. Smillie from Independent Risk and Thomas Maheras and others from the business side, as well as representatives from Finance and Audit—about

twelve people total. CRO David Bushnell occasionally attended and was on the circulation list for the weekly “Risk Committee Package,” which contained a cover sheet with attendees and agenda. It always contained limits and any authorized or unauthorized limit increases, VAR and risk factors in each business, concentrated exposures, and a weekly narrative commentary.

Ms. Duke outlined the three areas of risk that Independent Risk evaluated: credit risk; market risk, and operational risk (reputational, etc). I asked which bucket liquidity risk fell in and she said it was separately evaluated outside of Independent Risk and was the express responsibility of Finance and the CFO: the Asset Liability Management Committee (ALCO) was charged with evaluating liquidity risk (Cliff Verron/Scott Freidenrich). Pricing and marking positions was the responsibility of traders, subject to Finance validation and, if asked, input by Independent Risk (Murray Barnes/ Dominic Wallace did have input variously).

She recalled one time in 2003 or 2004 that the super seniors made the “Top Ten Risks” list specifically because of the size of the position, but ultimately all became comfortable with the super seniors because of their overcollateralization. The Top Ten list was the annual compilation that Business made to Independent Risk.

Ms. Duke never had concerns regarding CDO, RMBS, or the correlation businesses until the first week in July—she had a clear recollection of being in Florida on vacation and getting a call over July 4 and spending her vacation on the phone talking about pending losses in RMBS/CDOs and the correlation desk.

One of Independent Risk’s responsibilities was to validate all models—there was frequently a backlog of business models that Independent Risk hadn’t validated sometime in 2003 or 2004. Ms. Duke put a process in place to prioritize model validations—generally desks could trade up to a set limit/set times prior to full validation or approval by Independent Risk.

She recalled one instance in August or September of 2007 where validation approval was an issue. The business side was creating a different model to value the super seniors and it came to her attention that the prior super-senior model had not been validated by Independent Risk. At the end of the day, she, Mr. Barnes, and Mr. Wallace were overruled by Mr. Bushnell and others regarding what house price appreciation inputs should go into the model. However, Ms. Duke was satisfied that there was a full vetting process even though she wanted a more conservative input and was overruled. It was already August by then, and the difference was approximately 400 million in markdowns. She believes that the desk may have still had opportunity to more effectively hedge (shorting the ABX) if the more conservative models had been adopted at that point

Until July 2007, Ms. Duke viewed the possibility of liquidity puts being triggered as “extremely remote.”

Ms. Duke has no knowledge of SIVs (would have been Patrick Ryan), no recollection of liquidity puts prior to July 2007, and was not aware of the surveillance unit in GSM (nor did she know who Susan Mills is).

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