

RISKY BUSINESS

TEMPLE UNIVERSITY, FOX SCHOOL OF BUSINESS AND MANAGEMENT, DEPARTMENT OF RISK MANAGEMENT AND INSURANCE

Citigroup Acknowledges Poor Risk Management

Citigroup acknowledged yesterday that its risk management models did not function properly during this summer's credit crisis, contributing to the company's 57 percent drop in third-quarter profit.

The bank suffered heavy blows to its fixed-income business, causing it to write off \$3.55 billion from deteriorating securities prices, leveraged loans and bad trading bets. It also set aside an additional \$2.24 billion to cover future losses from failing mortgages and consumer loans, indicating that its reserves had been substantially depleted and that it anticipated worsening economic conditions.

The troubles led Citigroup's profit to fall to \$2.38 billion in the third quarter and will cause expenses to outpace revenue for a third consecutive year under Charles O. Prince III, its embattled chairman and chief executive. They also raised new questions about Mr. Prince's ability to lead the sprawling company and about the effectiveness of its diversified banking model.

"This quarter's performance was well below expectations and, frankly, surprising," Mr. Prince said in a conference call during which he acknowledged that the bank's risk management models failed to avoid huge trading losses.

"The losses in fixed income this quarter were within the range of potential outcomes," he added. "But obviously at the very far end of that range, as they relate to risk limits."

No financial institution has escaped damage from the turmoil that rocked the credit markets in July and August as problems in the subprime mortgage market widened. But Citigroup has been particularly hard hit. Net income fell to \$2.38 billion, or 47 cents a share, compared with \$5.51 billion, or \$1.10 a share, a year

earlier. Revenue of \$22.7 billion was up 6 percent, buoyed by a \$729 million pretax gain from a stake in Redecard, a Brazilian operation that acquires merchants for MasterCard. Excluding that one-time gain as well as revenue from acquisitions, analysts estimated that revenue fell 3 percent.

The weak performance across virtually all of the company has raised doubts about Citigroup's diversified banking strategy. And the problems could get worse.

In September, Citigroup had a spike in late payments on consumer mortgages and home equity loans, causing the bank to set aside more money to cover expected losses.

"There is likely going to be deterioration that continues into the fourth quarter," the chief financial officer, Gary L. Crittenden, said in an interview.

Citigroup's investment banking operations are also likely to be hurt. Mr. Crittenden said that volume in its securities packaging operation was down, and many analysts say it could take years to recover. Meanwhile, he said the pipeline of buyout deals, which have fueled a steady stream of advisory fees, is drying up.

Analysts also have concerns about the deterioration of structured investment vehicles, where Citigroup has exposure of roughly \$100 billion. Its capital position could be challenged if the bank must bring the assets held by such off-balance-sheet funds back onto its balance sheet.

In sharp contrast to the statements made when the bank issued a profit warning two weeks ago, executives stopped short of suggesting that fourth-quarter earnings would stabilize.

The news sent Citigroup stock tumbling. The shares fell \$1.63, to \$46.24, slightly lower than where it was trading when Mr. Prince took over four years ago.

H. WAYNE SNIDER

DISTINGUISHED GUEST LECTURER

Jim Blaney

Executive Vice President

Willis of Pennsylvania

Wednesday, October 24, 2007

11:40am-12:30pm

Walk Auditorium, Temple University

Jim Blaney is an Executive Vice President and the Greater Philadelphia Region Employee Benefits Practice Leader for Willis North America. He also has North East Regional Leadership responsibilities for the Willis Employee Benefits Practice. He has 16 years experience working with large employers in design, implementation, and communication of employee benefit programs.

Jim started in the industry over 14 years ago as an Executive Benefit Consultant for Massachusetts Mutual Life Insurance Company working in the Philadelphia region. Subsequently, Jim was a founding member of a regional brokerage firm which grew to become a premier provider of employee and executive benefit products and services in the Philadelphia area.

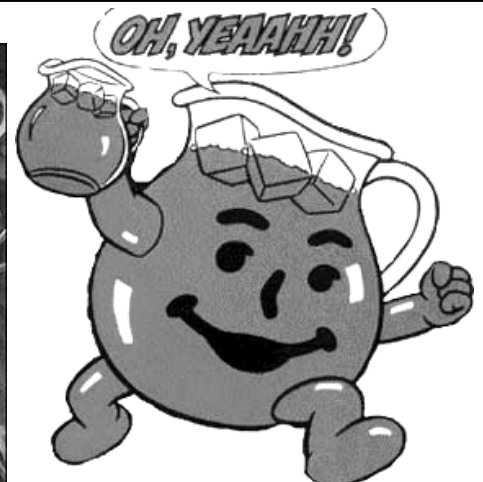
Jim is an outstanding public speaker and has worked extensively with employers in various business sectors to create and deliver employee benefit presentations to key executives and large employee groups. He also specializes in providing supplemental insurance advice for executives and top management. He has significant experience in working with not-for-profit organizations, providing counsel in design, funding and communicating employee benefit programs.

Jim has an undergraduate degree in Business and Business Communications from Bloomsburg University. He is the past Board President of the Friere Charter School in Philadelphia. He is also a regular volunteer at the Ronald McDonald House and The Children's Hospital of Philadelphia. Jim is a licensed Life, Accident and Health agent in every state in the US. Jim also holds a Series 6 and 63 NASD Securities license.

Risky Business took the time to interview several stockholders of Citigroup about the news.



NOOOOOO!!



**Actuarial Science
Philadelphia Corporate Trek**

Tuesday, October 23, 2007
1:00-4:45pm
Philadelphia

As part of our effort to bring the students to the industry, we will be journeying into the city to visit the corporate offices of Tower Perrin and CIGNA. This trip is designed to broaden students' understanding of their opportunities for internship positions as well as post-graduation employment. Various employees as well as alumni will be at hand to answer questions, making this an excellent opportunity for anyone to attend. We will be meeting at Broad and Cecil B. Moore at 1:00pm, near Wendy's.

If you would like to attend this event or if you have any questions regarding this event, please contact Gelena Turkel:
gelena@temple.edu

Pricewaterhousecoopers: Career Presentations

Friday, October 26, 2007
11:40am-12:30pm
Student Center 217D

When you receive a job offer, do you really know what you are getting into? To keep you informed, two consulting actuaries from PricewaterhouseCoopers will be taking time out to speak about their experiences as consultants. This week, we will have Elliott Cobin and Jim Burke, FSA to present to us. As usual, free pizza and soda will be provided.

If you have any questions regarding this event, please contact Nate Loughin:
nmloug@temple.edu

CPCU/ARM Designations Workshop

Friday, October 26, 2007
11:40am-12:30pm
Speakman 113

The American Institute of Chartered Property Casualty Underwriters (AICPCU) grants numerous designations to both professionals and students who take and pass a series of exams provided by the institute. Taking any of the CPCU or related exams is strongly encouraged for Risk Management majors focusing on Property & Liability. During our member workshop series this semester, we will be hosting a workshop at which representatives from the AICPCU will discuss the various professional designations and exams. Free pizza and soda will be provided, so be sure to attend!

If you have any questions regarding this event, please contact Karen Gaudet:
k.gaudet@temple.edu



Intern Testimonial: Kara "Karadactyl" Owens

Kara Owens is a Risk management major graduating in December 2007. In the summer of 2007, Kara interned with AIG in New York City. Risky Business sat down with Kara to ask about her experience.

RB: How was the internship in general?

KO: I interned at AIG over the summer in the Risk Management Construction Division. I worked out of the New York office which is in the financial district and commuted from the upper west side. I had a great experience and was able to do a great deal of networking. My boss took me to every single one of his meetings as well as his lunches, where the etiquette workshops came in handy. I was able to make contacts with many brokers (Willis in particular) and other clients — mainly NYC construction companies. I was went on a few loss control visits. I went to sites such as the new Citi Field (Mets Stadium), the Brooklyn Queens Expressway and the Goldman Sachs high-rise. These visits gave me a first hand look at what risks are involved in the construction field and what exactly it is that AIG insures.

RB: How did you adapt to being away from home?

New York City is an amazing place and much more exciting than any other city I have been in. It wasn't that difficult to adapt considering it is only two hours

from Philadelphia and home. I already know many people that live or work there. I also have previously studied abroad in Australia for a semester, so that experience also helped me adapt rapidly to my new environment.

RB: Did you have a mentor?

I wasn't officially assigned a mentor through the internship. However, my immediate boss effectively served as a mentor and I felt comfortable going to him to ask questions. However, I also made sure to keep contacts outside of AIG as mentors.

RB: Did you feel that your RMI classes helped?

My RMI classes definitely helped with understanding the language involved in the policies. As it turned out, AIG has a training week for summer associates. Part of the training involved classroom training which was pretty much the same as a mix of 001(2101), 209(3502) and 329(3504). Ed [Boyanoski] and I ended up taking over the classes and answering all of the questions since it was just a refresher course for us, compared to the rest of the students (many of which came from Ivy League schools). However, the RMI classes didn't help too much when it came down to actual underwriting and more specialized topics within the construction industry.

Intern Interview Workshop

Saturday, October 27, 2007
9:00am-12:00noon
Tuttleman 300AB

These workshops provide a way to learn what is happening in the risk management and insurance field. All students must attend one Intern Interview Workshop during their time in GIS, excepting those that have already completed one with Diane Fabii. This workshop is also a requirement for the Road to the Resume Book. **A sign-up sheet will be available on the Gamma Iota Sigma office door (the 4th floor of Ritter).** Spots are limited for each, so sign up soon.

If you have any questions regarding this event, please contact Joe Curry:
jscarry@temple.edu

Comedy Sportz

Saturday, October 27, 2007
7:30pm
2030 Sansom Street

Comedy Sportz is Philadelphia's premier interactive improv comedy club. It is set up very similar to the hit show "Whose Line Is It Anyway?" and is guaranteed to be a great time! The cost is a mere **\$11 per person. This event is open to EVERYONE** so bring all of your friends! Comedy Sportz is located at 2030 Sansom Street between Walnut & Chestnut and 20th & 21st.

Tickets will be on sale in the Gamma Office or at the Wednesday meetings. Get your tickets now before they are gone!

If you have any questions regarding this event, please contact Chelsea Balerno:
CBalerno@gmail.com

Halloween Costume Party

Wednesday, October 31, 2007
6:00-9:00pm
Draught Horse, 1431 Cecil B. Moore Avenue

Come join Gamma Iota Sigma at the Draught Horse, costumes at the ready, for a fun-filled night. Free appetizers will be provided and drink specials run all night for everyone over 21. The party will end with a Costume Competition, with prizes will awarded to the best male, best female, and best officer costume. This event is open to EVERYONE, so bring your friends as well!

If you have any questions regarding this event, please contact Jim O' Hearn:
ohearn@temple.edu

Don't forget to visit the Sigma Chapter website at <http://www.sigmachapter.org> for a full calendar of events, as well as other features!