PREPARED TESTIMONY OF

VIKRAM S. PANDIT

CHIEF EXECUTIVE OFFICER, CITIGROUP INC.

CONGRESSIONAL OVERSIGHT PANEL

MARCH 4, 2010

Introduction

Chair Warren and members of the Panel, I am Vikram Pandit. I appreciate this opportunity to appear today as the Chief Executive Officer of Citigroup.

Citi today is fundamentally different from the company we inherited when I became CEO two years ago. The writedowns Citi took during the financial crisis – together with concerns about the quality of some of our assets – led to questions about the Bank's financial condition. Now, as a result of the government's response to the crisis, our new team's focused strategy and the commitment of all our employees, I am pleased to say we are in a far different and much healthier position. Today, Citi is operating on a very strong foundation and is positioned to contribute to the economic recovery and generate sustained profitability for the benefit of all our stakeholders.

We have bolstered our financial strength, overhauled our risk management, reduced our risk exposures, defined a clear strategy and made Citi a more focused enterprise by returning to banking as the core of our business. As a result:

- We are now one of the best-capitalized banks in the world, with a Tier One Capital ratio of 11.7%, a Tier One Common ratio of 9.6% and loan loss reserves of $36 billion.
- Our leverage is 12 to 1, down from 18 to 1 when I became CEO.
- We have cut the size of our balance sheet by half a trillion dollars, or 21% from peak levels in the third quarter of 2007, and substantially reduced our exposure to risky assets.
- Our cash liquidity is strong at $193 billion, and we have reduced operating costs by more than $13 billion annually.

These achievements reflect the lessons we have learned from the financial crisis and acted upon at Citi, and I will expand further on these and other issues you have asked me to address in my testimony.

First, however, I want to thank our Government for providing Citi with TARP funds. For Citi, as for many other institutions, this investment built a bridge over the crisis to a sound footing on the other side, and it came from the American people. As the result of a successful public securities offering, in December 2009 we repaid $20 billion of the Government's TARP investment in Citi in consultation with our regulators and the Department of the Treasury. The Government has earned $3.0 billion in dividends and interest on its investment and asset-guarantee program for Citi. In addition, we have paid the Government $5.3 billion in premiums on on the asset-guarantee program, which we exited without the Government incurring any losses or making any payments. American taxpayers still hold 27% of Citi’s common stock, and we look forward to helping them realize value on that investment. Citi owes a large debt of gratitude to American taxpayers.

The Lessons of the Last Five Years for the Financial System

Citi's financial condition, like that of every other major financial services company, was dramatically affected in late 2007 and throughout 2008 by the collapse in the residential real estate market, which led to an unprecedented global credit crisis and the recession that followed. The errors, mistakes and business practices that precipitated these macroeconomic events have been much discussed: housing policies that led to increased subprime lending in the residential real estate market; an explosion in new subprime mortgage products premised on the assumption of stable and, indeed, ever-increasing residential real estate prices based on decades of precedent; the Federal Reserve's policy of maintaining historically low interest rates in the post-9/11 period; the growth in demand for securitized and structured credit products by investors of all types in all sectors with widely varying risk appetites and abilities to absorb risk; the lack of transparency in certain financial markets, including derivatives markets; and a regulatory system that did not keep pace with the ever-increasing sophistication, complexity and interrelatedness of the financial markets, to name just a few.

The lessons we have learned from the many and complex causes of the financial crisis include the following:

- That the entire financial system can systematically underestimate risk – and that an entire system can show hubris;
- That diversification does not always work as anticipated because risk exposures can be more concentrated and correlations more closely intertwined than believed;
- That in general we allowed ourselves too much leverage – too many people borrowed too much.
- That regulation must encompass all of those who are significant players in the financial markets so that we have a level playing field;
- That we must enhance transparency and protections for the consumer; and
- That to wind down major financial institutions in times of stress, regulators must have the right tools.

Consistent with those lessons, Citi supports prudent and effective reform of the financial regulatory system. America – and our trading partners – need smart, common-sense government regulation to reduce the risk of more bank failures, mortgage foreclosures, lost GDP and taxpayer bailouts. Citi embraces effective, efficient and fair regulation as an essential element in continued economic stability. Such regulation should have three points of emphasis: financial institution reform, market structure reform and consumer market reform.

- With regard to financial institution reform, we at Citi believe that banks should operate as banks, focused completely on serving their clients. Our internal reforms have been totally consistent with these principles, and we have publicly endorsed the general direction of financial regulatory reform under consideration by Congress. A systemic regulator with an overall view of the financial system and the ability to impose enhanced capital requirements and other prudential regulation is critical. I also strongly support the creation of an effective resolution authority that can resolve large, complex institutions in an orderly way.

- Regarding market reform, we support regulations that promote transparency, particularly in the derivatives markets, with the use of standardization and clearinghouses. It is also important that regulation is coordinated globally and applied uniformly to all participants in the financial sector. We need a level playing field on which market participants can compete, subject to uniform standards that protect investors and the marketplace as a whole.

- With regard to consumer market reform, a key lesson of the financial crisis is that what starts as an issue that affects consumers can become an issue for the entire financial system. Recent experience reinforces the truism that what is best for consumers is also best for the financial system and the economy. I strongly believe that consumer protection can and should be strengthened at the federal regulatory level. While a number of architectural frameworks could work to strengthen consumer protection, I believe any consumer authority should be centered on five principles:

> There should be enhanced authority in place with a focused responsibility for the well-being of consumers; there should be uniform national standards that apply to all market participants who provide financial products to consumers and a level playing field, irrespective of the entity; there should be transparency in disclosure so that product disclosures are simple, readable, and understandable; there should be a link to the safety and soundness regulator; and issues of market structure and collective action should be examined by the consumer regulator.

While some reform measures could have a significant cost impact on our industry, Citi believes they are necessary. Carefully considered reforms agreed upon by Government, business and consumers would lead to a healthier, more stable system. We commit to work with the Administration, with Congress and within our industry toward this goal.

How Citi is Embracing the New Reality

Given Citi's size and global reach, and its exposure to subprime-related asset classes, the systemic factors at the root of the financial crisis, and their confluence, combined to impact Citi's financial performance dramatically.

In response, we have taken responsibility for putting our own house in order. As a result, Citi is now a smaller institution that is focused on being a bank – not a financial supermarket. We are building on our distinctiveness as a global bank where everything is ultimately centered on helping our clients and customers connect with the world and facilitating the flow of capital that we believe is a catalyst to a U.S. economic recovery through manufacturing, exports and trade. And, we have developed a culture of responsible finance, including through a different approach to risk management, asset liability management and risk return.

- First, we have raised capital, sold businesses to generate additional capital and reduced assets. The actions we took in 2009 included exchanging certain preferred securities and trust preferred securities held by the U.S. Government, private investors and public investors for common stock and raising new capital from the public markets in December as part of our agreement to repay TARP. As a result of our actions, Citi's capital ratios are among the strongest in the financial industry. At the end of 2009, our Tier 1 Common Capital was $104.5 billion, up almost $82 billion from the end of 2008. Our Tier 1 Capital ratio – a key measure of capital strength – was 11.7%, while our Tier 1 Common ratio was 9.6%, up from 2.3% a year earlier.

- Second, we have rebuilt our senior management team. In particular, we have focused on strengthening risk management through regular stress testing and scenario analyses. Our Chief Risk Officer has not only changed the way we look at risk but he has made sure that we have risk managers assigned to oversee businesses, regions, and important product areas. At the same time, our Board of

Directors has installed seven new members, all of whom have significant experience in financial services, and our Board has established a separate Risk and Finance Committee, comprised entirely of independent directors, to focus on risk oversight issues. We have also structured our compensation programs to ensure they further incentivize performance that contributes to the long-term success of the company and do not encourage excessive risk taking.

- And <u>third</u>, we have returned to the basics of banking as the core of our business. The company is now reorganized as Citicorp – our core, client-driven business – and Citi Holdings – which contains businesses that are not core to Citi, as well as a special asset pool whose assets we are selling or managing down over time. In the past two years, we have sold more than 30 businesses that are not core to our strategy and we have scaled back proprietary trading substantially. <u>Citicorp</u> contains a global consumer bank, one of the largest institutional securities and banking businesses in the world and a unique transaction services business, all supported by a significant deposit base. We are positioned around all of the drivers of global growth, including emerging markets and increases in global trade and capital flows. We are targeting a balanced business mix in our core Citicorp businesses of one-third institutional, one-third consumer and one-third services. <u>Citi Holdings</u> contains businesses that are not core to our future, with assets in three segments – brokerage and asset management, local consumer lending and the special asset pool. These businesses are generally more asset-intensive or reliant on wholesale funding and product- rather than client-driven.

We have aggressively and successfully reduced these assets, both through dispositions and run-offs, and our focus is to manage Holdings down, over time, in a manner that optimizes value. Overall, we reduced assets in Citi Holdings by $168 billion during 2009 and by $351 billion from the peak at the end of the first quarter of 2008.

Our revenues have also changed since 2007, driven by our reorganization. In 2009, Citicorp represented 76% of Citigroup's adjusted revenues (excluding revenue marks and other large one-time items like the sale of Smith Barney or the TARP repayment), compared to 61% in 2007. Citi Holdings represents 29% of Citi's total assets, compared to 41% at the beginning of 2008. The Transaction Services and Regional and Consumer Banking businesses represented 40% of Citigroup's adjusted revenues in 2009, compared to 36% in 2007. As the assets in Citi Holdings continue to be divested or wound down, Citicorp's revenue contribution will continue to increase. We believe that the increasing proportion of stable revenues from Citicorp will provide additional stability during future economic slowdowns.

As we move forward, we believe we have positioned our business to perform as well as possible through the credit cycle and to gain strength as the U.S. and global economies improve. Some credit fundamentals appear to be stabilizing, particularly internationally. It is still early days but on a managed basis, Citi had its second consecutive quarter of declining credit losses in the fourth quarter of 2009 and non-accrual loans declined slightly for the first time in this cycle. However, U.S. consumer credit remains an issue, particularly with respect to mortgages. Credit costs will likely remain a significant driver of Citi's results in 2010, particularly in North America, where credit trends will be driven by broader macroeconomic factors as well as the impact of industry factors such as CARD Act implementation and the outcome of the Government's Home Affordable Modification Program (HAMP) and other loss mitigation efforts.

We are confident that the measures Citi has taken to strengthen its capital position, build our reserves and maintain ample liquidity will allow us mitigate the risks as we work through the cycle. Our allowance for loan losses at year-end was among the highest in the industry at $36 billion, or 6.1% of total loans, and our cash liquidity was $193 billion. Firm-wide deposits were $836 billion at December 31, 2009, up 8% from the prior year and $3 billion from the prior quarter. Citi currently anticipates issuing less than $15 billion of Citigroup-level long-term debt in 2010 (down from $85 billion in 2009) due to our current strong liquidity position and anticipated asset reductions within Citi Holdings. In addition, Citi has a smaller percentage of its assets in later cycle-sensitive asset classes such as adjustable rate mortgages (ARMs) and commercial real estate loans than any of the other major U.S. banks.

I believe that as economic growth begins to take hold, Citi and the financial sector are on course for a sustainable recovery. Citi will continue to focus on our core business of serving our clients, and on managing risk. We also intend to continue to support our nation's economic recovery through responsible lending to consumers and small businesses, working with homeowners to modify their mortgages where appropriate, and lending to state and local governments, universities, and non-profits alongside our corporate clients.

- Since the start of the housing crisis in 2007, Citi has helped approximately 824,000 homeowners and their families in their effort to avoid potential foreclosure on mortgages totaling nearly $98 billion. In 2009 alone, Citi provided support for approximately 388,000 borrowers with mortgage loans totaling $58 billion, and we helped approximately 270,000 borrowers to refinance their primary mortgages. In the fourth quarter of 2009, Citi kept 15 families in their homes for every foreclosure. Total loss mitigation solutions in 2009 increased by 50 percent versus 2008, and Citi remains #1 in active HAMP modifications. As of January 31, 2010, CitiMortgage, Inc. had active trials or permanent modifications for 50 percent of its eligible mortgage borrowers under HAMP, the highest proportion of any of the major U.S. mortgage servicers in percentage terms.

- In the credit card area, Citi is working with approximately 1.6 million credit card customers to help them manage their card debt through a variety of programs. This number includes 490,000 card members who entered these programs in the fourth quarter of 2009.

- And, in 2009, we provided $439.8 billion of new credit in the U.S., including approximately $80.5 billion in new mortgages and $80.1 billion in new credit card lending. We have carefully tracked and accounted for our use of TARP capital, which we used specifically to support new lending to individuals, families, communities and businesses in the U.S. This week, we published our fifth quarterly TARP report providing transparency on how we have used TARP capital to help support new U.S. lending initiatives. Taxpayers have a right to know how their investment was put to use, and we were the only bank to publish regular reports on the use of TARP money.

Conclusion

Chair Warren and members of the panel, at Citi we are confident in the business strategy that I have outlined. In short, everything we have been doing is to ensure that Citi never again needs the assistance of the American taxpayer.

I also would like to take this opportunity to thank Citi's 265,000 employees, who are among the best in the industry. They distinguish Citi in their service to our clients and are unstinting in their volunteer support for the communities where they live and work. They are the backbone of our organization and fundamental to our future success.

Thank you.