FINANCIAL CRISIS INQUIRY COMMISSION

Interview of CHARLES O. PRINCE

March 17, 2010
1285 Avenue of the Americas

9:30 a.m.

C O N F I D E N T I A L

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BY MR. BONDI:

Q Good morning, Mr. Prince. How are you?

A Good morning. Well, thank you.

Q My name is a Brad Bondi. I am with the Financial Crisis Inquiry Commission in Washington. We were formed by Congress to investigate the causes of the financial crisis, both domestic and globally, and to report on those causes in a report due December 15, 2010, this year.

This interview is being transcribed. Because we are members of the government, I am obligated to tell you that the typical rules of 18 USC 1001 apply. And that means obviously you have to be truthful to government investigator. But I have no reason, Mr. Prince, to doubt your veracity.

A Thank you for that.

Q But I am obligated just to put you on notice.

A Duly noted.

Q Could you please state your full name for the record?

A Charles Prince, P-R-I-N-C-E.

Q Are you currently provide, Mr. Prince?

A I am not.

Q Do you have a consulting role anywhere?

A I do.

Q Where is that?

A With a firm called Albright Stonebridge Group.

Q Where are you based?

A They are based in Washington, D.C. I am not based there. I consult with them as needed.

Q And, Mr. Prince, I understand you were CEO of course of Citigroup.

Could you briefly describe the positions you held at Citigroup or any of its predecessors and the years that you held them?

A Sure. And should I go all the way back to when I started, or as much as you want or --

Q If you don't mind briefly just

identify the position, the company and the years, if you wouldn't mind, if you recall.

A Sure.

I started with -- for these purposes, I started with a company called Commercial Credit Company in Baltimore, Maryland, on January 15, 1979. And commercial credit was a predecessor company of what became Citigroup.

First let me tell you how it became a predecessor company, than I'll give you my tenure and so forth.

Commercial Credit was a subsidiary of another company at that point in time. It went public in 1986 under the leadership of Mr. Weill and a series of other individuals.

And then from 1986 until 1998, commercial credit engaged in a series of acquisitions and changed its name as it went along so that by 1998, the company that was Commercial Credit was then known as Travelers Group. Travelers Group then in 1998 merged with Citicorp creating

Citigroup.

My tenure with these various companies, I started as an attorney in 1979 with Commercial Credit. I became general counsel of the company in about 1984 or thereabouts. I continued as general counsel of the company through its various iterations and name changes until the time of our merger in 1998, at which time I became the co-general counsel of the merged entity, Citigroup.

My partner, as co-general counsel, retired a year or so later. So I then became sole general counsel in about 1999. I stopped being general counsel I think sometime in 2000, maybe the fall of 2000, and was promoted to be chief administrative officer.

Then in about 2001, I was chief administrative officer. And then in 2002, I became the head of our corporate and investment bank. Then in 2003, became the CEO of the company and in 2006 became chairman.

I am surprised I remembered all that.

Q I am impressed that you remembered it all, sir.

When in 2003 did you become CEO, what was the official date?

A I think it was October.

Q When in 2006 did you become chairman, sir?

A That would have been at the annual meeting which was in April.

Q Who was chairman between 2003 and 2006?

A Sandy Weill.

Q Mr. Prince, what was Mr. Rubin's role vis-à-vis your role as CEO?

A During --

Q Since you became CEO of Citigroup, what was his role vis-à-vis your role?

A Bob Rubin continued the role that he had before I became CEO. Before I became CEO, Bob was, I believe the official title was chairman of the executive committee of

the board. And he continued with that official designation. But Bob's role was a more informal or nuanced one than the title would suggest.

Bob was a very important member of our board, of course. But he was also very involved in the strategic direction of the company, not so much the day-to-day operations. But where the company should be focused going forward, how it should grow, how it should think about its future. He was also fairly involved in client work, both in the private bank, on our institutional side. Given Bob's background, given his extremely high reputation, he was someone that people in our client base wanted to meet.

Q I understand things changed in the summer of 2007 in terms of the frequency of your interactions with Mr. Rubin. But prior to say summer of 2007 from let's say when you became CEO in October 2003 through early 2007, how often would you meet with Mr. Rubin?

A Well, with permission I will just disagree if I may with the premise.

Q Please.

A It didn't really change in the summer of 2007. As I am sure we will talk later, we talked about different things.

Q Yes, sir.

A But Bob's office was literally right next to mine. It was separated by a little conference room, but it was 20 feet away. And Bob and I would talk -- if we were both in the office, we would talk three or four times a day. He would walk into my office, I would walk into his office.

If one or the other of us wasn't physically in town that day, then we might talk by phone every other day. So, the level of interaction was frequent.

Bob was someone that I very much valued bouncing ideas off of, testing ideas. And when you are the CEO of a large company, there are very few people that you can do that with. But Bob's background and his general knowledge of the world was very significant, and so I would bounce lots of different ideas off of him.

Q You mentioned Mr. Rubin having a role in the strategic direction of the company.

Were there any particular areas that he focused on in terms of strategic direction, any particular areas of the business?

A Well, I would say no.

If you were to step back and look at our company from a distance, you would see that we had that three or four basic groups of activities. One would have been our international business, which was quite large and quite important. One would have been our U.S. consumer business, and one would have been our corporate and securities business.

We have we had private banking activity, that probably would not have been quite as high on the list. But those first three groupings, each of which of course is broken down into dozens of individual

businesses, I would say he spent a fair amount of time on each of them.

Q Mr. Prince, it seemed from -- please correct me if I am wrong -- it seemed from some of the reports and P and Ls that I have seen that the investment bank, CMB, grew substantially from 2003 to 2007.

Was Mr. Rubin involved in any strategic decisions that helped grow that bank?

A Well, I am not sure whether capital markets and banking grew -- I am thinking about the premise of your question if I may and then I will come to the actual question itself.

Q Sir, please, if at any time any of my premises are incorrect, we are on a fact finding mission, so correct me, please.

A I am trying to make sure we have the full answer and the correct answer.

Q Yes, sir.

A I think that capital markets and banking, I don't remember that in that period of time growing in relationship to

the company. Its size of the pie, if you understand what I mean by that, I don't remember it growing significantly, going from X percent to two X percent or something of the company.

It may have been that the entire industry grew and the company grew. So, I remember it not as growing in a dramatic sense. The numbers may suggest you are right. I apologize if I am wrong there.

In terms of Bob's influence and growth and so forth, obviously Bob's background from Goldman Sachs and his long history in the securities business gave him a pretty special feel for that business as compared to say our consumer business.

But, on the other hand, Bob was long removed from being a trader. He hadn't been a day-to-day trader for a long time. And so it was much more of where do we want the business to go in three years and five years and ten years than it was in the next six months let's try to do more of X, if you understand the distinction I am

drawing.

So, with that overview, you know, Bob was very much involved in all of our strategic activities. I am sure there were dozens of things that he participated in. I am hard pressed to pull out one to tell you. I am sorry.

Q As CEO, who directly reported to you? I am trying to distinguish between, you know, at the end of the day I assume every one in the company ultimately reports up to the CEO.

A All 350,000 people.

Q Yes, sir.

But who directly reported; in other words, who were the direct reports to you as CEO?

A We had a group that we called the Business Heads group. And in many companies it would have been called a Management Committee or an Executive Committee. We called it Business Heads for reasons which aren't particularly pertinent to the question. And that is a good grouping, to answer your question. It would have been the most senior leaders of line operations. So the head of our consumer business, the head of our corporate investment bank, the person who ran our business in Asia, that sort of grouping, as well as our most senior staff people. So, the head of risk, the head of legal, our chief administrative officer, our chief operating officer. It was more or less 10, 11, 12 people, something in that range.

Q How often would the Business Heads group meet? How often would you meet with the Business Heads group?

A Every Monday morning.

Q How long approximately would those meetings go?

A Seemed like forever sometimes. But it was officially for -- first an hour, then an hour and a half, then two hours as we wanted to cover more and more. So I would say for overview purposes an hour and a half to two hours.

Q Would this be a situation where

people would go around the room and report on their various areas, or would there be a set agenda for these type of meetings?

A You are very intuitive. There would be both. In other words, it was intended first and foremost as information sharing. We had lots of businesses, lots of areas, some of them the people who ran them were physically separated from each other: Uptown, downtown, Europe and so forth. And it was important for those people to interact frequently so that I knew what you were doing, you knew what I were doing, we could collaborate as necessary.

The first half of each meeting would typically be a going around the table, what is going on in your business, what is going on in my business and so forth.

The second half of the meeting would typically be involved with special -- or what is the right way to put it -- one off kinds of activities.

It might -- I am just picking examples at random. It might be in the

second hour we would talk about the budget process for next year. So we are going to do this then, this then and this then and so forth. Or we might talk about an upcoming meeting with an employee group in Japan and what are we going to accomplish in this particular area. Or we might talk about an acquisition for the company. We acquired companies right along. That sort of thing.

So first half, a go-around, the second half a one off kind of activity.

Q Would you give a presentation or have a role in that meeting? Say at the end of the meeting would you share your thoughts? Or what was your participation in the meeting, in those meetings typically?

A It was a pretty informal meeting. So I would typically start by saying here are three or four things that are on my mind this morning. And then we would go around the table, and then we would have this special project or one-off activity. But it wasn't a formal meeting and it typically wouldn't have a formal agenda. We might

have a follow-up from last week or something like that. But it wasn't a formal meeting with prepared remarks or anything like that.

Q Mr. Prince, you mentioned a few persons by title, and I just wanted to put some names with those titles.

You said the most senior risk officer. Is that the chief risk officer?

A Yes, Dave Bushnell.

Q He would have been during the relevant time period of 2003 to 2007?

A Yes.

Q Head of legal, is that Mr. Helfer?

A Yes, Michael was the general counsel that whole time. I am not sure whether Michael was on the Business Heads or not.

MR. KARP: He was not.

THE WITNESS: Lou Kaden was on and Lou Kaden was the chief administrative officer and also a lawyer. And Lou represented the legal, the audit, and the foundation and certain other functions.

BY MR. BONDI:

Q I've noticed Mr. Kaden's name in board minutes and several documents that your counsel has produced.

What was his role as chief administrative officer?

A Yes. Chief administrative officer would typically be -- and would be the case for Kaden -- would typically be someone who managed the administrative functions. And so that would typically be all of the staff functions, legal, audit, public relations, the foundation.

In many companies, in most companies it would also include risk. But in our company when I became CEO in 2003, I think literally the first thing I did that day, literally, was to put David in that job and to change the reporting structure so that he no longer reported to the chief administrative officer and the risk function no longer reported to the business units. Before that, it had reported inside the

business units.

And from that time through my whole tenure, the chief risk officer was a member of our Business Heads group and was a direct report to me.

Q Why did you make those changes with respect to the chief risk officer?

A The two changes, one putting him in the job and then making it separate.

I thought that the fellow who was the chief risk officer before David whose name was Petros, P-E-T-R-O-S, Sabatakakus (phonetic) . Just do the best you can, but it sounds, it spells sort of like it sounds, Sabatakakus. He was a very good fellow but did not have any understanding, detailed understanding of how the securities business worked. And I was very concerned that Petros would not be able to adequately manage the risk function as it related to our securities business. And so Petros was going to retire, and so he retired. We put Bushnell in the job, I put Bushnell in the job, to make sure that we had someone at

chief risk officer level who understood how those businesses worked.

David had been a trader much earlier in his life and understood the mechanics of how the business worked. Making it independent of the businesses, I think most people nowadays do that. I am grateful that we were a little ahead of that making it independent. It didn't get paid based on the profits of the business unit, it didn't get paid based on volumes or revenues. And I think that is just good corporate governance.

Q Would Mr. Bushnell as chief risk officer have a normal reporting role at this Business Heads group meeting? Would he provide a report?

A Yes. He would be part of the go-around.

Q You mentioned the chief operating officer. Who was that during the 2003 to 2007 time frame?

A I don't know when Bob Druskin became chief operating officer, but it was

at least halfway through. And so for the last couple of years at least, maybe the whole time, but at least the last couple of years Bob Druskin was the chief operating officer.

Q What did Mr. Druskin do as the chief operating officer?

A Well, his job, like most chief operating officers, is to focus on, focus a hundred percent of his time on the inside part of the job, running the company. The various business units reported to me and I was responsible for the overall direction of the company and so forth. But there was a lot of travel involved in my job. And someone needed to be at the desk every day making sure the trains ran on time, to use a cliched phrase, and that was Bob's job.

Q When you first became CEO in 2003, were there some regulatory problems that were immediately on your radar?

A There were, there were regulatory problems at many times, so I am not sure which ones in particular you are referring to.

Q What I was getting at is we have read about problems in Japan, problems with bond traders in Europe.

Were those problems that were in your focus when you became CEO in 2003, or did they come about later?

A Okay, I understand the question now, sorry.

When I became CEO in 2003, I thought that the most important thing I needed to focus on was turning the company's focus from an acquisition driven strategy to more of a balanced strategy involving organic growth. If you look at the history of the company and how it combined and so forth, we had been very, very busy with acquisitions. And the larger the company became, the harder it is to grow a company through acquisitions, just by definition.

If you have a business that makes -- I am making up examples -- that makes $100 and you want to grow ten percent a year, you have to buy something that makes

$10. If you have a business that makes a million dollars in this example and you want to grow ten percent a year, then you obviously have to buy a much larger company. And so and the company became larger and larger and larger, it became clear to me that relying as much as we had historically on acquisitions was not an appropriate course going forward and we had to have more balance and have more organic growth.

Q Why wasn't it an appropriate model going forward, this expansion model that you have described?

A I apologize. I thought I explained it. Let me try it again.

The larger the size of the entity, the more difficult it is to grow by buying things. That is, you have to buy more and more and more as your absolute size gets bigger.

So to use very rough numbers, during my tenure the company had about a hundred billion dollars of revenue a year, 80 to 100 billion dollars of revenue year.

So if you wanted to grow ten percent a year, so you wanted to grow your revenues from a hundred to 110, okay, just a simple math like that, you would have to go out and buy $10 billion of revenue somewhere. There aren't a lot of companies that have $10 billion of revenue. And so identifying them, courting them, and negotiating that and integrating that, it gets more and more difficult as the absolute size of the organization gets bigger.

So an acquisition strategy, if you are small, you can double and triple and quadruple in size just by acquiring things. If I can, can I give an analogy?

Q Please.

A If you had a law firm -- everybody here is a lawyer except this nice lady. Everybody here is a lawyer.

Q Karen is not.

A She is going to be a lawyer some day. Everybody here is a lawyer or is going to be a lawyer.

If you have a law firm of 500

lawyers, which is not a small law firm, a medium sized law firm, and you wanted to double in size, you would have to go find another 500 lawyers somewhere. Maybe one firm of 500 or maybe two of 250, something like that. And there would be the appropriate complications of doing that: Finding them, negotiating with them, integrating them into a culture and so forth.

If you had a law firm of 5000 lawyers and you wanted to double in size, it would be almost impossible to do that because there aren't 5000 lawyers out there somewhere to find and integrate. And then if you did that and you had 10,000 lawyers, then you wouldn't have anybody you could double with. You sort of run the string out as it were if you understand what I mean as I am trying to describe it.

So in that context, we had grown very rapidly and very well, I think, and our growth pattern had been quite good. But it sort of topped out in terms of the ability to do that in just a practical sense. And so my judgment was that at that point we needed to continue to do acquisitions, but make sure that the businesses we had on their own were growing to contribute to that. So, maybe instead of growing -- again, I am making up these numbers, just as an example.

Instead of growing ten percent through acquisitions, we would grow five percent through acquisitions and five percent through organic growth. So more of a balance. Does that make sense?

Q Yes, sir.

A So that is what I thought going in. Now your question was what about the regulatory issues.

What happened was that almost immediately we got diverted into these regulatory problems. So, in 2003, we had a regulatory problem with our consumer business here in the States. And then I think it was in early 2004 that the Japan situation began to unfold in complicated

ways. And then the MTS trade you mentioned in Europe was I think in the fall of 2004. Dim recollection.

So we had -- in 2004, we had two or three instances which in a cumulative sense caused various regulators to stop and say: Gosh, you guys got to tighten up your ship here a little bit.

Q Was one of those regulators that suggested that you tighten up the ship, was that the Federal Reserve when they put a hold on the acquisitions in growth that Citigroup could do?

A Yes.

Q What was their reason for putting a hold on acquisitions in growth at Citigroup, external growth?

A I have to think back now. That was quite a while ago.

My recollection of it is that they were -- let me think now to make sure I am recalling it correctly.

I believe that their reasons were to make sure that our regulatory processes

were robust enough that they would have a reasonable prospect for preventing the kinds of issues that had come up in Japan and in Europe.

The Japan private bank episode was one in which -- as I recall it, one of the bankers in Japan had engaged in some inappropriate activities with a client that was a charity or something like that. And the regulators over there became very focused on regulatory processes in Japan. And then as that was unfolding, the MTS trade happened in Europe.

The Japan issue was a pretty clear regulatory violation in Japan. The MTS one was less clear as to whether it was a violation, but it provoked quite a controversy. I believe that the Fed did not want those kinds of incidents to occur and wanted us to, in colloquial terms, take a time out and to make sure that everything was working very properly inside the company and to make sure that we had very robust regulatory processes.

Q During that time out as you have described, what did you do to address the Federal Reserve Board's concerns?

A We did lots of things. If I can give you a summary answer, and then you can ask anything further from that.

We obviously had quite a process of increasing our regulatory functions: The lawyers, the audit function, the control functions.

We also embarked on what we called the five-point plan, which was an all-employee program. All 350,000 employees had to go through training sessions in which we emphasized the company's core values. We emphasized long-term results over short-term results. We emphasized protecting the reputation of the company. Everyone had to go through this training; everyone had to certify that they had gone through this training.

We had anonymous 360 reviews of all of our managers so that if anybody had a concern that their manager was engaging in inappropriate activity they could report this and so forth and so on. The five-point plan was a quite large undertaking. We had progress points against it that we reported on to the Fed and others.

Q Was that five-point plan a success?

A Well, whenever you are talking about changing culture or reinforcing culture, it is something that is judged over the long term. I believe that since that 2004, 2005 time period we have not had -- to my knowledge, we have not had the kind of regulatory eruptions or problems that we had in the 2003, 2004 time frame. And if the goal of the program was to prevent those from recurring and if they have not recurred, then I think you would say it probably was successful.

Q In this time frame from 2003 and 2005, approximately how much of your time was devoted to addressing these types of regulatory issues that we have been talking about and implementing the five-point plan?

A It is hard to say. Well, over 50

percent.

Q Approximately how many subsidiaries or affiliates did Citigroup have during your tenure at CEO?

A I have no idea.

Q Over hundred or so?

A Well, over a hundred, yes. They are all listed in the 10-K filing, pages and pages and pages of them.

Q How many countries did you operate in?

A My recollection was that we operated in 102 countries. I don't know whether that was exactly right. I never went and counted each 102, but we always said it was 102.

Q How did you ensure out of the 102 countries and the many subsidiaries that Citigroup had, how did you ensure that critical information was reported up to you that needed to be reported up to you?

A That is a very good question, and something that any manager of a large organization needs to focus on. We focused

on that a lot and tried to ensure that we had multiple pathways for information. Again if I can I will describe three or four to give you a sense of it.

One way of doing that was through what you might think of as a normal management structure. So all of our operations, all of our people, all of our countries were organized into some kind of a management hierarchy. So this business reported to this person, reported to this person and up to someone who was on the Business Heads Group. Or this region, this country and this region reported to someone up on the Business Heads group. And so the, in a management hierarchy sense, the person on the Business Heads was responsible for managing his or her business down to the bottom of that level, that vertical level of activity. That is one. In some ways that was the primary or central method of management flows.

We also had our various staff functions. So legal, audit, risk, in some

ways our public relations function had parallel vertical structures.

So, to take an example, if we had a business operation in India, there would be a risk person assigned to them. There would be a lawyer assigned to that in India. There would be an audit person assigned to that in India. And those people would report up their own vertical management chains parallel to the business vertical chain up to someone who was at a reporting level with the Business Heads.

So lawyers would report up their legal management chain up to the general counsel and then to the chief administrative officer, the audit function in a similar way and so forth. So, we had our management of business chain, we had our several administrative function chains, and then we had a wide range of direct to the employee communications. So, we would do once a year an employee survey, an anonymous employee survey, which would ask various questions which could then be collated and reported on

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and so forth.

We had anonymous hotlines for reporting concerns or problems. Most of that turned out to be about employee issues, but some of it related to the business and it was certainly promoted as for the business.

So these are just several examples. We were constantly looking for additional ways to get information up and to get information across because these vertical structures I have described, you don't want the information to sit inside those. You want them to go across as much as you can.

Q In the 2007 year immediately preceding the financial difficulties in the market starting in the summer and during that time frame of summer through November 2007, did you feel as CEO sufficient information was reaching you so that you could evaluate the situations at Citigroup?

A I certainly thought so at the time. We had lots of information on lots of

different scores. We are sitting here three years later almost looking back at one very significant issue. But at the time in the summer of 2007, we were looking at lots of issues. I mean what turned out to be the CDO problems in our fixed income business were not the biggest issue on the list of things we were looking at in the summer of 2007.

And so if you imagine lots of information flowing on lots of different subjects in lots of different geographies, I thought we had pretty good information flow.

Q I know we are sitting here three years later. And so in retrospect, was there any information in retrospect that you wish you had sooner?

A You know, that is a hard question to answer because the fundamental issue -- and I know we will get into this I'm sure in great detail later. But the fundamental issue was that the believed strength or credit worthiness of the so-called super senior tranches of these securitized

products, that that belief was incorrect. And when you say to yourself would you have liked to have had more information about that, I am not sure at the time that more information would have changed anyone's belief.

Instruments were downgraded in the middle of October, and I think until that point most of the people thought they were very, very, very safe.

So, your question is there any information I wish I had gotten earlier is a hard question to answer because of that. It wasn't so much a flow of information as it was wrong conclusions about the information that people had.

Q Who made the wrong conclusions?

A Well, we have to talk in more detail about that. I mean the rating agencies, the people in the business, the regulators, everybody made the wrong conclusions.

Q We are jumping ahead of ourselves I know, Mr. Prince?

A I am sorry.

Q No, that is my fault, sir. I do want to talk to you in length about the CDO business and what happened there.

A Right.

Q But let me get back to more about the business and how it operated.

I have seen a report that said that you used to joke about not having one good culture but five or six good cultures.

Is that something that you would joke about, is that true that you said something like that?

A I am sure I said that in jest at some point.

Q What did you mean by five or six good cultures there?

A The company had grown through acquisition, as I said. As we got bigger, many of the acquisitions were quite large. And any company that you acquire which is large and has its own historical base of activities will have its own culture. And so if you look at various companies that

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were component parts of Citigroup, they had come to be part of Citigroup through acquisition. So we had started with Commercial Credit, let's say. That was one culture. We had the Travelers Insurance culture when this was part of the company. We had the Citibank culture, which was part of the company. We had the Salomon Brothers culture, which was part of the company. And so forth and so on.

Merging those cultures into a single culture, into a Citigroup culture, what we tried to described in our five-point plan as the one-Citi initiative, a one-Citi culture as opposed to a confederation. That was what I was trying to describe.

Q I don't have much spare time, but in the little that I do, I like to do some reading. And as you can imagine, most of my reading these days is focused on the financial crisis.

A I can recommend many other good books for you.

Q Yes, sir.

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One book that I recently read was former secretary Paulson's book. And there was something in that book about Citigroup that struck me.

He said that -- and I will represent that this was from the book. But he said that "Citigroup had an unwieldy organizational structure." And then he went on to say: "It lacked a single unifying culture or clear business strategy."

What is your reaction to that statement?

A Well, I don't have much reaction to that statement. People have points of view. Hank is a decent person, and if that is his point of view, then good for him.

Q I take it you don't share that point of view?

A Well, when I ran the company I didn't share that point of view. Now I don't have a point of view. I am a retiree.

But I am not trying to avoid the question. Look, we were trying to develop a more robust culture for the company. There

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is no question that was part of our effort in the five-point plan. And as I said, we were trying to move from a confederation of companies and confederation of cultures to a more unified culture.

In terms of an unwieldy -- I don't know, it didn't seem unwieldy to me.

Q In retrospect was it unwieldy?

A No, it didn't feel unwieldy to me. Probably did work as well as the Treasury Department.

MR. BONDI: I would like to show you a document.

(Thereupon, the e-mail Bates numbered Citi FCIC E 31616 was marked CR Exhibit 1 for Identification, as of this date.)

BY MR. BONDI:

Q For the record for her point, I showed you what is Bates numbered Citi FCIC E 31616, which appears, sir, to be an e-mail from you to Mr. Druskin copying David Bushnell and Mr. Crittenden and Mr. Kaden. I want to focus your attention, sir, on what

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you say in your e-mail that is dated October 2nd, 2007. And please, you know, there is e-mails underneath that and please feel free to read the entire context. But I did want to focus your attention on that first statement or the, excuse me, your e-mail that, says, "Incredible lack of coordination. We really need to break down the silos," exclamation point. What is the context there of your statement?

A Let me just read this.

Q What was the context of your statement there about "incredible lack of coordination. We really need to break down the silos," exclamation point?

A Well, I don't remember the e-mail exchange. But what I see in reading it is that someone in our consumer business -- I can identify the names if you would like. But someone in our consumer business was looking at some new business in the credit card area, apparently something called Revolution Money. And our credit card people, the consumer business people, were looking into this somehow and in the course of looking at it, perhaps to buy it or something like that, it turns out that this company that they were examining actually had quite a detailed relationship with our corporate side business. And so that came to my attention, that one of our entities was pursuing an outside group that it turned out another entity inside the company had a great relationship with or some kind of a relationship with. And I expressed a sense of frustration that that information wasn't being shared across business lines, across the silos.

You remember a moment ago I talked about the importance not only of information flow going up the vertical columns but going across. And it would have been nice, I apparently thought, if other consumer people had checked with our corporate people: Do you know anything about Revolution Money? Or if our corporate people had turned to our consumer people and said we are doing business with this company

Revolution Money, you ought to take a look at them instead of it working out the way it worked out here. But I'm inferring all this from reading. I don't have any independent recollection of it.

Q In relation with the events in the fall of 2007 relating to challenges in the marketplace, did you observe any other silos at Citigroup?

A In the fall of 2007, the issues that we are examining here today were pretty much contained inside the fixed income business and didn't involve so much cross business activities.

Q Was there any silos within the investment banking business that you observed?

A Oh, sure. Sure.

Q Did the silos in the investment bank pose any challenges during the financial crisis or leading up to the financial crisis?

A I have to give you a slightly long answer; I am sorry for that.

In the summer of 2007, not the fall of 2007, the summer of 2007, the biggest issue we were focused on was the deterioration in the leveraged lending business, the loaning of money to KKR, Carlyle, people like that.

The CDO problems, which in the fall of 2007, then came to have such serious impact and which we are talking about today, were not the highest thing on the list in the summer.

The leveraged lending activity related both to our fixed income business or our lending business on the one hand. And our advisory business in the investment bank, different from the fixed income business, the investment business, and so those were silo issues as it related to leveraged lending between those two parts of the corporate and investment bank.

The CDO business, which in the fall came to have such prominence, didn't have those kinds of cross business issues inside the corporate and investment bank.

It was pretty exclusively inside the fixed income business.

Is that clear?

Q Uh-huh.

To shift gears, I want to ask you about another area of our focus and that is the mortgage origination business.

(Thereupon, the printout of remarks of April 19, 2007 to the Greenlining Institute's 14 Annual Economic Summit in Los Angeles, California was marked CR Exhibit 2 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Prince, I am showing you what I will represent is a printout from some remarks that you gave on April 19, 2007, to the Greenlining Institute's 14 annual economic summit in Los Angeles, California.

I wanted to ask you about a few of the statements you made. And if you could look to page two of that, I will draw your attention to the bottom half of that document. In particular, the paragraph that

starts with: "And so" and I will just read the statement for the court reporter and the record and ask you to comment on it.

"And so the combination of two or three factors, several of them good: Excess liquidity and the desire for homeownership have combined with one, which I think is not so good which is the arbitrage of regulatory responsibilities and have led to very aggressive, very exotic mortgage products which are then pumped into some of our communities where they are clearly not appropriate. And then when the housing bubble naturally tips over, we go through cycles all the time, then it is exposed that those products were not appropriate, but there was no regulatory framework which they went through."

What do you mean aggressive, very exotic mortgage products?

A Well, there are a number, but there are two in particular that I think would fit that category. One is the negative amortization mortgage product and

the other was the adjustable ARM product. I am sure you know what those are. I won't bother explaining them. But I think in both cases they posed real concerns for people getting in over their heads.

Q Why were they posing concerns for people getting in over their heads? Was it the type of the product? Was it who they were being marketed to? What was the concern there?

A Well, because they weren't based on what I would call traditional lending criteria but were based in large part upon an expected appreciation in home value, they had the potential, potential, for being oversold. That is, sold to people who wouldn't necessarily qualify for those mortgage products unless the future appreciation would occur. And with the process of regulating the origination of mortgages, then and now, being as spotty as it is, it led to the possibility of very aggressive brokers going out in a largely unregulated way and selling these products

into communities, to people, who probably shouldn't have had them and who were susceptible to the overselling of these aggressive brokers.

Q Generally, do you know if the products that you have described, were they part of an originate-to-hold model where that the mortgage brokers would hold them on their books, or were they part of a model that would distribute them on to the secondary market for securitization, or do you know?

A The latter.

Q What role did financial institutions like Citigroup play in terms of this secondary market demand for the mortgages that you have described?

A What I was describing here of course as you see in the next paragraph, I say. "We have not participated in that. We have not been a lender of exotic, aggressive mortgages. We have not done option ARMs or negative amortization products in the subprime community."

"And our businesses -- " and I was focused here particularly on our consumer finance business and our mortgage business," -- were not in the business of originating those mortgages." And that part of our business was an originate and hold business.

Q Were there mortgage types, mortgage products, that your securitization business would purchase for securitization purposes into RMBS that your mortgage origination business would not originate?

A Yes.

Q What did you see in terms of Citigroup's role in the demand for those products if it was securitizing these products from other originators?

A There is a continuum of activity in my judgment at one end of which I would see our activities as being inconsistent with what I have described here in this speech. And at the other end of the activity as not being inconsistent with that description in my speech.

By that I mean that if we have a situation where our fixed business is buying and trading with other institutions securities which are traded in the marketplace and those securities have characteristics that relate to these activities, I would not see that as inconsistent with what I have said here in the speech. That is, I would not see us as participating in that business.

At the other end of the spectrum, if we were funding directly people who were doing this so that someone could say we were indirectly doing it instead of directly doing it, I would say that was not consistent with what we wanted to do as a company.

So, the activity you asked about would depend for me on where it was in that continuum. And one way to think about it is the closer we got to the actual origination of these products, the more uncomfortable I would feel with that. If it was already out in the marketplace and it was trading among

institutions who were trading lots of different securities and this is one of the securities they were trading, it is in the public marketplace, then it is already out there. It is being traded and we are just participating in a trading activity.

But if we are actually getting really close to the origination process, if we were enabling the origination process, then I would see that as inconsistent with the direction that we had laid out for the whole company which was not to originate these products.

Does that answer your question.

Q I think so. Let me ask a few questions based on that.

With respect to RMBS, securitization of mortgages in the RMBS, would you say that that is closer to the origination than say purchase of RMBS on a structuring desk for CDOs?

A I am not sure I can pars the middle part of that continuum. I am not sure I can say well, one notch to the left

is okay and one notch to the right is not okay. So I am not sure I am going to be able to answer the question with that degree of specificity.

For the company as a whole we had laid down the prescription that we did not want to be involved in the origination of these mortgages. And so I can't -- in part because the mechanics that you are describing are pretty discreet mechanics inside the way the trading desks worked. I am not sure I can answer as specifically as that question would suggest.

Q I have a more general macro question.

In your opinion, what role did Wall Street investment banks and large financial institutions play in promoting very aggressive, exotic mortgage products that were originated by brokers, mortgage brokers, and then sold off to investment banks and financial institutions for securitization?

A Well, that is a very broad

question. It is a very good question and from a policy standpoint it is the right question to ask.

I think that the right way to think about that question is this: In the middle of the decade, the middle of 2000 to 2010 decade, the investing environment was one where there were what seemed to be historically artificially low interest rates. That is, investing professionals thought that we were in a period where rates were unusually low.

Some people thought that was because of the way that capital flows worked with China and other companies buying treasuries at such significant amounts that is it reduced interest rates. Some people thought it was because the Fed had lowered interest rates after the tech bubble burst and after 9/11 to save the economy. But for whatever reason on any kind of historical basis, rates seemed unusually low.

Some people thought -- and I believe Alan Greenspan's been quoted -- that there was a new parodyne of risk, that in other words it was not a temporary phenomenon, but it was going to be a more extended phenomenon.

In that context, the growth of securitized products securitized products -- the securitized products grew and the growth of it became quite strong as the industry was trying to create through financial engineering safe, higher yielding assets.

In that context the need for raw material to securitize was high almost in the way that securitization could be seen as a factory line. You needed raw material to put in the front end of that.

I believe that in hindsight, the lack of adequate regulation of the origination of mortgages created a situation where the demand side, the pull side of that equation found a place where more raw material could be created than could be created safely. So that as more and more and more of these subprime mortgages were created as raw material for the

securitization process, not surprisingly in hindsight more and more of it was of lower and lower quality.

And at the end of that process, the raw material going into it was actually bad quality, it was toxic quality, and that is what ended upcoming out the other end of the pipeline. Wall Street obviously participated in that flow of activity.

Q Did Citigroup participate in that flow of activity?

A I think in hindsight, some of the structures we did at the end were not on a point in the continuum that I was comfortable about with when I found out about them. That is, I think at the end of the process, in hindsight, as I understood what was in some of those, I think that our team was closer to the wrong end of the continuum that I had set forth than, in hindsight, I was comfortable with.

Q If I can get you to elaborate on what products you are speaking about there that you said your team you thought was on

the wrong end of the spectrum.

A Well, I have described a continuum where at the level of publicly trading securities, I did not have a problem with that level of activity. And that the closer we got to the origination function itself of these mortgages, the less comfortable I was with that. And if we were close to the origination of that, then I would be uncomfortable with that.

I found out at the end of my tenure, I did not know it before, that we had some warehouse lines out to some originators. And I think getting that close to the origination function being that involved in the origination of some of these products is something that I wasn't comfortable with and that I did not view as consistent with the prescription I had laid down for the company not to be involved in originating these products.

(Thereupon, the document Bates marked Citi FCIC 91764 and 91765 continuing on to 765, which purports

to be the warehouse lines of credit with mortgage originators from 2000 to 2010 was marked CR Exhibit 3 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Prince, I am showing you what was produced by Citigroup's counsel and has been Bates marked Citi FCIC 91764 and 91765 continuing on to 765, which purports to be the warehouse lines of credit with mortgage originators from 2000 to 2010. Have you ever seen this document?

A I have not.

Q You spoke a few minutes ago about concern over warehouse lines. Did any of the originators on this list cause you concern?

A The only name that I recognize is Ameriquest and that was a business that our guys wanted to buy. And I told them we couldn't buy it unless after they bought it they did not originate any more of these loans. Other than that I don't recognize any names on the list, I'm sorry.

Interview - CHARLES PRINCE

Q Prior to the Ameriquest acquisition --

A I recognize Banco Popular, but that is a bank.

Q Prior to the Ameriquest acquisition, were you aware that Citigroup had warehouse lines of credit extended to Ameriquest?

A I think just before, I think just before. I think, I think just before they proposed buying it they said we had some lines out to them. I don't remember the size of the lines or that detail, but I remember them saying we had some lines out to them. They were struggling with this and that, and we wanted to buy them because after the credit crisis, they had a good platform for originating good mortgages. And I said we, I wouldn't permit them or approve them buying it unless they agreed that from the day we bought it going forward, they wouldn't originate any more of these bad loans, which they eventually said yes to and I think they went ahead and bought it.

Interview - CHARLES PRINCE

Q How did you feel when you learned that Citigroup had warehouse lines to Ameriquest originate bad loans?

A I think as I said just now, I am just going to repeat myself, I think the closer we got to originating loans, the more I thought that was inconsistent with my direction for the company.

Q In let's just say January 2007, in January 2007, would you have known about these warehouse lines of credit that had been extended to Citigroup? Was this something that was on your radar?

A Extended by Citigroup, no.

Q I have roughly totaled up the initial facility size of over $11 billion.

Would it have caused you concern if in January 2007 someone came to you and said we have over $11 billion in facilities to mortgage originators?

A Well, to mortgage originators who are originating these bad products, yes.

Q Do you know what kind of products were being originated by the mortgage

Interview - CHARLES PRINCE

originators on this list?

A I don't.

Q But you later learned that Ameriquest in your words were originating bad loans.

A Well, again, my judgement was these were not the kind of loans we wanted to originate. I will call them the exotics. Bad could mean bad credit. I am not focused on the credit quality at this point. I am focused on the type of loan they were originating, the exotic loans that I referred to in my speech that you gave me a moment ago.

And when the Ameriquest acquisition was presented to me, it was presented in the context that they were having some difficulties, it was an opportunity to buy something at a lower value because they were having difficulties I think in a regulatory sense, and that those regulatory issues related to these exotic loans that they had been originating. And I said we can't buy it if they are going

Interview - CHARLES PRINCE

to originate these exotic loans going forward; we don't do that.

MS. BUERGEL: Just to be clear, each warehouse line is governed by several written agreements that specify the types of loans that can be put into the line. So the lines don't extend to just any activity of each of the warehouse originators. They each have very specific agreements that govern.

THE WITNESS: You asked me if I would be surprised if we had lines out to people originating, I have no idea whether these people originated exotics, whether our lines with them allowed them to put exotics with it, I have no idea. You gave me a list of names and numbers, I don't know how they connect at all.

BY MR. BONDI:

Q In other words, as CEO you didn't approve the warehouse lines?

A Good heavens, no, no.

Q I noticed New Century on the warehouse line list here. It states there was an opening date of the warehouse facility of August 1st, 2006 and a termination date of March 8, 2007.
During that time frame of August 1st, 2006, to March 8, 2007, were you aware that Citigroup had a warehouse facility with a warehouse line to New Century?
A No.
Q And on this list there is several times where it is listed nonagency whole loans.
A Right.
Q What is a nonagency whole loan?
A In the mortgage business there are agency loans and nonagency loans. Agency loans are those you can put on to Fannie and Freddie. So there is a buyer of those.
Nonagency loans are those that Fannie and Freddie won't buy for I don't know what reason. There is some set of

criteria by which they will do it. So the agency business is a business that has much more of a flow activity to it. The nonagency business doesn't have that same purchaser on the other end.
Q Are nonagency loans securitized in the RMBS?
A I don't know the answer to that.
Q I want to ask a few more questions if you don't mind before we take break if you are okay.
A Sure.
Q You mentioned the decision to acquire Ameriquest. Who at Citi was involved in that decision to acquire Ameriquest?
A It was presented to me by Tom Maheras.
Q What did Mr. Maheras say when he presented this as a potential acquisition for Citigroup?
A I will just repeat what I said a moment ago.
I think, my recollection is that

he said that this was a platform for originating mortgages, meaning a company with offices around the country with a technology base, with trained people and so forth. And that this platform was available for us to purchase, that at the time we were looking at it, the mortgage business had some difficulties, but in his judgement, those would be temporary. And that when the temporary difficulties in the mortgage business was over, this would be a very valuable platform to have as part of the company.
Q How did you become comfortable with the decision?
A There with two aspects to the decision. One is the financial aspects, we are going to pay so much, we are going to make so much and so forth. And the second was whether or not we would buy something which had this history of doing these things. And as I said a moment ago, I said we wouldn't buy it if they were going to continue to originate those. We weren't

going to be in that business. We had suffered the revenue loss in our consumer side of not being in that business for several years. And we weren't going to start now. And the financial side of it, that is how much we paid and the return on the investment and so forth, I don't remember the details of that, but it came out well enough. And on the basis of those two things being right, my recollection is that we approved it and they went ahead.
Q Was the motivation to purchase Ameriquest driven in any part by Citigroup's potential exposure to Ameriquest?
A I don't remember that, no.
Q Did Mr. Maheras ever express concern over Citigroup's exposure to Ameriquest leading into the transaction to purchase Ameriquest?
A I don't remember that. I remember it being an opportunity to buy something during what he thought would be a temporary dip in the mortgage market.
Q Did you ever see any reports that

were presented to you during the negotiations to acquire Ameriquest expressing concern over the loan qualities, loan quality of the files at Ameriquest?

A I don't remember it, but I am sure in the context of it. Remember, we were going to buy something that had a history of problems. We weren't buying a gold-plated business. We were buying a business that had difficulties. And we were buying, trying to buy it because it was inexpensive reflecting those difficulties. So, I am comfortable without recalling it that there was a strong examination of the loan book and that David and his people were heavily involved in that, but I don't recall it independently.

Q In retrospect, was the decision to acquire Ameriquest a wise decision, a wise investment?

A My guess is no. But the honest answer is I don't know what happened to it. I think, I think we bought it in 2007, didn't we? Is that right?

Q Yes, sir. I believe the transaction closed in September of 2007.

A Yeah. Well, it wasn't part of the company very long on my watch, so I am not sure whether it was good or bad.

Q Do you want to take a break?

MR. KARP: Sure. That will be fine.

MR. BONDI: Thank you. We will take a break.

(Brief break.)

MR. BONDI: We will go back on record.

BY MR. BONDI:

Q I wanted to get your thoughts on the concept of originate-to-hold versus originate-to-distribute mortgages.

Because earlier we talked about how Citigroup's mortgage origination generally held these mortgages in their portfolio.

Do you think that an originate-to-hold model versus an originate-to-distribute model results in

higher quality mortgages being made?

A There is much public talk about that. That is a question posed for policy makers.

I think that if you look at the starkest version of it and you look at an institution that at one end of the spectrum originates and holds everything, and you look at the other end of the spectrum at an entity which originates and doesn't hold anything, in the starkest terms, the first one, the originate and hold, has to care more about the quality of assets than the one that originates and doesn't hold. That is at the starkest level.

I don't remember the names of the institutions, but I remember reading about several brokers who originated mortgages, went out of business, sort of fly by night kind of people, and then showed up two weeks later, same guys, different corporate name, originating, so forth. And I read an article that said some of those people now are setting up shop to refinance mortgages.

If you think about that at that level, then I think that the point is well taken. There is another category of institutions that originate and distribute where the institutional consequences of distributing bad products are quite negative.

So, take Lehman brothers as an example or Bear Stearns as example. These are firms where there is an institutional interest, or there was an institutional interest, in continuing to do business, in continuing to have a good reputation as a counter party.

And for institutions like that, I would say those folks would be one step removed from the starkest version of originate and distribute, doesn't necessarily care about the quality of the products.

So, clearly the more you hold, the more you are going to care about it. But I don't think it is an either/or necessarily, I think it could be either/or or maybe a little bit in the middle.

Q I would like to show you what has been marked as Exhibit 4.

(Thereupon, the presentation Bates Citi 7657 was marked CR Exhibit 4 for Identification, as of this date.)

BY MR. BONDI:

Q And for the record, I will identify that it is Bates Citi 7657 and it was produced by Citigroup's lawyers to us. First of all, just looking at the cover page, do you recall if you ever received or saw this presentation?

A I have seen it. Can I say I have seen it in preparation?

MR. BIRENBOIM: Yes.

THE WITNESS: Do I violate something if I say that?

MR. BIRENBOIM: No.

THE WITNESS: I have seen it in preparation.

BY MR. BONDI:

Q Prior to preparing for today's interview, did you ever see this document?

A I don't recall seeing it before that, no.

Q If you could take a look at what is the third page marked 7659, which looks to be another title page, another cover page from perhaps the earlier time this was presented, do you recognize this presentation or receiving this presentation?

A I would give you the same answer.

Q I ask you to flip to page seven of this presentation, which I will represent was the presentation given to the SEC in June of 2007.

A So I am clear, page seven is "Overview, Where Exposure is Found"?

Q Yes, sir.

A Thanks.

Q If you look in the section, the bullet, direct your attention to the bullet titled. "Super Senior and Liquidity Put Positions."

The first subparagraph there, "The CEO desk has exposure to subprime collateral in ABS CDOs through its purchase

of so-called super senior tranches of transactions."

In the time frame of April 2007 to June 2007 when this presentation was given to the SEC, were you aware that the CDO desk at Citi had exposure to subprime collateral in ABS CDOs through its purchase of so called super senior tranches of transactions?

A I don't recall having that information then, no.

Q You weren't aware that Citigroup had super senior positions on its books in April or June of 2007?

A No, I don't think so.

Q The next sentence says, "The probability of default is deemed by rating agencies to be extremely small, so this exposure is not aggregated in our totals."

In the time period of April through June of 2007, would you have been aware that the exposure from the super senior tranches were not aggregated in your totals?

A No, I don't think I had any exposure to or discussion of or knowledge of the area until it sort of came up in September.

MS. BUERGEL: To be clear, the totals being referred to there are the totals in the deck, in this presentation, and I think your question implied your totals as in your Citigroup totals, and I just think that is an unfair way to ask the question. The totals are the totals in this deck.

BY MR. BONDI:

Q The next paragraph refers to liquidity puts. In the time period of April to June 2007, were you aware of liquidity puts associated with asset backed commercial paper which was associated with super senior tranches of CDOs?

A I would give you the same answer, which is no.

Q Going back to both of these, when did you first become aware that Citigroup

owned super senior positions in CDO tranches?

A I think that the first time it came to my attention as any kind of an issue would have been in the September 2007 time frame. As I said earlier in the summer, the focus as it related to the corporate investment bank, which again was only one part of the company -- we had a lot of things going on in the company, but as far as it related to that part of the company, the focus was on the leveraged lending portfolio. And I think the issues of the CDOs and super seniors so forth came up as any kind of an issue was in September, came up to me as any kind of an issue.

Q Prior to September 2007, were you even aware that Citigroup held positions in super senior tranches of CDOs?

A No.

Q There is reference here to liquidity puts?

A Uh-huh.

Q Was your understanding of

liquidity puts in this context? Do you have one?

A Well, as I have come to understand it since, a liquidity put is something which obligates the company, obligates the bank, to fund someone if they can't find liquidity to fund it themselves.

So, in this case if someone owned something and was funding it through selling commercial paper to the outside world and for some reason they couldn't sell the commercial paper, then Citigroup would be obligated to provide the funding for them.

Now, that is a general answer. And that is the level of my understanding of it. There may be more detailed complications mechanically, but that is my understanding of it.

Q When did you first become aware that there were liquidity puts associated with commercial paper sold by Citigroup relating to the super senior tranches of CDOs? Would that have been September 2007 as well?

A Yes, that was probably later than September. The CDOs were the first things that came up and then the liquidity puts came up afterwards.

Q What was your reaction when you heard about the liquidity puts?

A Well, it is hard to give an "as of then" answer because so much has happened since which has colored that. But if can, I will put it in a little context.

The banks, financial institutions, are in the business of providing liquidity. It is not at all unusual for a financial institution to provide a liquidity support, one of the main lending instruments for a bank is a commercial paper back-up line. So all of the major companies in the U.S., the manufacturing company, industrial companies, fund themselves through commercial paper. And they take out back-up lines from banks to guarantee that if the commercial paper market seizes up, they can go borrow money from the banks. Commercial paper back-up

lines. Every bank issues them, every major company has them to back up their commercial paper issuance. It is a way of getting the benefit of the lower cost of short-term funding without taking the risk of the short-term funding.

From the bank's standpoint, the risk of the liquidity guarantee for commercial paper being called upon is quite low. And so you make some money off of that, but you don't have a huge exposure.

So, the notion of a liquidity guarantee extended someone else is not an unusual notion, not one which is strange or which would cause one's eyebrows to raise.

In the context of the CDO business of course it turned out to be quite a negative. But at the time this first came to my attention in the September time frame, even at that point people believed that the super seniors would not have any losses.

So, again, I am reconstructing what happened in September for you because sitting here today looking backwards, you would have an entirely different view. But in reconstructing what happened then, the notion that there were these better than triple A rated instruments out there, that we were providing liquidity support for, those words would not have excited anyone.

As it turned out, when the rating agencies downgraded everything multiple steps in a single several days, that changed the world. But when it first came up, I don't remember it being a moment of great excitement.

Q When you talk about it first coming up, that was in September?

A To me, yes, first coming up to me in September.

Q September 2007?

A Yes, middle. As I said I think the CDO issue came up in the middle of September. The liquidity puts came up a week or so later.

Q If you could flip to the page 11 of this deck, which is Bates Citi 7673.

A Yes.

Q Direct your attention to the first part where it is under super senior book, the second dash.

"This so-called super senior tranche is viewed by the rating agencies to have an extremely low probability of default, less than 0.01 percent."

Was that what was represented to you in September 2007 from persons at Citigroup?

A I am going to give you a long answer that is yes. The long answer is I don't know whether they used these words, I don't know whether they used this percentage number of one basis point, but the context of this sentence is what was represented.

Q Direct your attention to the fifth dash down under that section super senior book, states: "Our current open position as 14.6 billion."

Do you recall in September 2007 being told the amount of the open position on super seniors that Citigroup held?

A I can't reconstruct it that

finely, meaning that I have had so much -- it has been such an issue since then, and all of the information and the conversations have telescoped, that I can't reconstruct in my mind whether in late September when people first talked to me about this they said and the number is X. I can't reconstruct that, I am sorry.

Q Take me back to September 2007 when you were first told about the super senior tranches. Who told you?

A My best recollection is that at one of our Business Heads meetings Tom Maheras brought it up.

Q Why did Mr. Maheras bring it up?

A I can't put myself in his head. I don't know the reason for that.

Again, as I am reconstructing that time period, we had spent several months talking and focussing on the leveraged lending book. And, again, it is a little bit of speculation on my part, but my guess is that in that context, Tom said at one of the meetings, you know, we should

also think about the CDO book. He brought it up then. That is my recollection of how it came up.

Q As you sit here today, what precisely do you remember Mr. Maheras saying about the super senior tranches?

A Again, I can't reconstruction it because so much has happened. The intensity of the next 30 days, more or less, sort of collapses everything in my mind. And I don't -- because it wasn't presented at the time in a startling fashion, you know, you remember things if they startle you, if they surprise you, if they stand out in your memory.

This one didn't start that way. This was: Let me also mention this. And then it got bigger and bigger and bigger obviously over the next 30 days. So if you look back to the first one, there is nothing about that first conversation which with stand out in your mind.

Q At what point did the super senior positions cause you alarm?

A Well, let me, if I can, turn around at the end and back it up. It might be an easier way to answer the question.

The super seniors really, the whole process around the super seniors really collapsed when the rating agencies downgraded, all the rating agencies down graded thousands of securities from triple A to basically junk in a day or two. And that, that kind of collapse in the judgment of the rating agencies was a precipitous, meaning like a big explosion.

If you back up from that, that was as I recall middle of September kind of time frame, middle of October kind of time frame. If you back up from that a week or so, so maybe the first week of October, we were engaged in a dialogue -- me, Tom Maheras, several of our other people -- of a round of almost daily telephone calls and meetings, what is happening in the market as it relates to these kinds of securities. And those meetings or telephone calls would involve myself, Tom Maheras, Randy Barker,

several of their people at a lower level in the organization. Bob Rubin was in a number of them. Bob Druskin was in a number of them. Lou Kaden was in a number of them. This is in the couple of weeks, as I recall it, ten days before the rating agency downgrades.

During that period of time, I had convened these daily meetings and calls because I was more uncomfortable with the situation. And yet during that period of time, Tom had said and said till his last day at work: We are never going to lose a penny on these super seniors. We are never going to a lose penny on these super seniors. And of course we were going through accounting closings, you would close a month, you would close a quarter and so forth.

And when you do that, you have to engage in certain decision-making processes as it relates to valuations. And so there was a natural, driven by the calendar, a natural internal dialogue about this. And

as we went along and I was more and more uncomfortable with this and more and more uncomfortable with Tom's conclusion on ultimate valuations, that is when I really began to have some very serious concerns about what was going to happen.

Q What was making you feel more and more uncomfortable with Tom Maheras' conclusion that Citigroup would never lose a penny on its super seniors?

A Well, the external environment during those 30 days, three or four weeks time frame, it was obviously continuing to deteriorate and all of the, all of the indicators that I could see that related to certain trading indices, what other people in the industry were to doing, et cetera, et cetera, you know, as you look around the world, the things you see happening suggested a further deterioration. And Tom and Randy and others were pretty resolute that we were thinking about this in the wrong way, that these instruments had been structured in way that they would hold their

triple A value, that we wouldn't lose any money, I would say leading right up to when the rating agencies collapsed.

Q For the record, Mr. Maheras, at the time he said this, was the CEO of the investment bank?

A I think at that point Tom and, Tom Maheras and a fellow named Michael Klein were co-CEOs of the investment bank, corporate and investment bank.

Michael focused on the investment banking side of the house. And Tom Maheras focused on the fixed income or trading side -- fixed income equities, sort of the trading side of the house versus the investment bank side of the house.

Q You mentioned Randy. Is that Randy Barker?

A Yes, sorry.

Q What was Mr. Barker's role in September 2007?

A As best I can recollect it, Barker was the head of the fixed income business under Maheras. So, again, I'll make sure I am as clear as I can be.

Maheras and Klein were co-heads of an entity and the entity basically had two halves and Klein had the half which was the investment banking side and the corporate lending side. And Maheras had the, all the trading businesses. So fixed income and equities and commodities and so forth.

And under Maheras, then, on this side of the -- there were various businesses. As I membered, fixed income, equities, commodities, rates and currencies and so forth. And I think that Barker was the head of the fixed income part of that trading side of the business. Maheras had been the head of the fixed income business before he stepped up to being the co-head of the whole thing.

Q In terms of this belief that Citigroup was not going to lose any money on its super senior CDO positions, that was a belief that was shared by Mr. Maheras and Mr. Barker?

A I believe so, yes.

Q Who else shared that belief?

A Gosh, I don't know. There were I am sure other people inside fixed income who shared that belief. I am not sure that anyone else of the people that I mentioned on these calls and meetings that I set up that were outside of the fixed income business ever expressed that. I think that was pretty well contained to the fixed income business, but of course they understood it better than, or were supposed to understand it better than the rest of us.

Q How early in September would Mr. Maheras have shared this belief that Citigroup was not going to lose any money? Was that contemporaneous with the first time he presented the super senior positions as being on the books to you, or was that at a different time?

A What I remember about that is that throughout the entire time period we discussed this, meaning till the last day and any time before that, it was here are

these positions, this -- somebody says this might be an issue or this indicator suggests it might be an issue or something like that, but don't react to that. We are not going to lose any money on these positions; they are good.

Q Your reference to the last day. When was the last day?

A Well, Tom left the business in the second week in October, I think, something like that, of 2007?

Q And then following that time period, the belief that Citigroup was not going to lose money on super senior positions was no longer expressed within the organization? I am just trying to get a sense --

A I think what happened after that was that we changed management when Tom left and then basically over the -- then I think either just before he left or just after he left, the rating agencies collapsed and then there was a fairly short period of time, maybe it was a week, maybe it was ten days,

during which the analysis of the positions vis-à-vis the new lowered ratings was done up and then that led to the time when I resigned.

Q When Mr. Maheras first expressed to you that Citigroup was not going to lose a penny on its super senior CDOs, did you ask to see any stress testing?

A I can't -- I can't reconstruct the time frame during which we did that because as we were going through the end of September and closing the books, there was some stress testing done by Gary Crittenden and others working with Maheras.

I am confident, without remembering, that the first time Tom brought it up, he didn't say and here's a stress test to prove what I'm saying. I mean, he didn't do that. But whether or not a couple days later or a week later there was stress testing or whether that was two or three weeks, later I can't separate those in my mind.

But it was not a situation where

the first time it came up at our Business Heads meeting, if that is how I recall it, he would have had a big, you know, brief in support, it wouldn't have been that kind of a situation.

Q When Maheras first said that Citigroup was not going to lose a penny on its super senior position, was Mr. Bushnell present?

A It was a Business Heads meeting. David would have been at the meeting. Whether he was absent that day for some reason, whether he was out of the room or not, I can't remember. But it was at a meeting at which David would have been present.

Q Do you ever recall Mr. Bushnell expressing his belief on the super senior positions?

A I think that David -- David was part of these daily telephone calls and meetings we had during that interim period. So, again, I can't reconstruct carefully enough the first time Tom mentioned it

versus the next day versus the next day.

But I think if you take the 30 days from mid September to mid October, clearly by the time sort of the second week in October was coming along, so two thirds of the way through their process, we are in these daily meetings and calls and so forth, I think David was cautioning that I am not sure Tom is right about this. I can't remember him saying those exact words so I am not suggesting that.

But the tonality, if I can use that word, of the people was Tom and Randy were resolute, you know, don't, don't do something here which you are going regret, you not going to lose money on those things. Don't take a huge write down or a big reserve. And I would say that Gary Crittenden and David Bushnell -- if I can put it sort of at the other end of the figurative table -- were saying, you know, I am not sure that is right; I think we should test this a little bit more. It was that kind of a dynamic.

Q What was the nature of Mr. Maheras' departure from Citigroup?

A I have actually tried to reconstruct that in my mind, and it is a little fuzzy around the edges. But here's the essence of it.

There came a point in time when it was my judgment that Randy Barker should leave the company. And that judgment was based on my view that we were going to end up losing money on these positions and that someone else should manage the process of recovering what we could from that issue. It is very customary in the banking world that if someone makes a loan, any kind of a loan, and it goes bad, that the work out of that loan should be managed by someone other than the person who put it on the books, someone who is objective and doesn't have any history with it, so on. And so that was my judgment, that that should happen.

Maheras and Barker were quite close personally. And I would say it is fair to report that Tom resisted that. But

I insisted that that be the case. And as part of the restructuring process that resulted from Barker leaving the company, so not that day but within several days afterwards, Maheras came to me and said that he thought he did not want to continue. And those were the circumstances of him leaving.

Q So it was your decision to terminate Mr. Barker?

A Yes.

Q Did you consult anyone else on the decision to terminate Mr. Barker?

A I am sure I did. I am sure I talked to Druskin, I am sure I talked to Rubin, I am sure I talked to a number of people, but it was my decision, not theirs.

Q And did you decide to terminate anyone else in connection with this CDO business?

A I don't remember anybody else that I took action on personally, no. I mean I know a number of people were terminated, but I don't think anyone else I acted on personally.

Q I want to ask you about the liquidity puts that are also referenced in this document.

Can you tell me what you recall about the time you first were told about the liquidity puts associated with the asset backed commercial paper issued from the, secured by the super senior tranche?

A I can't really. Again, I want to put it in the context of what was happening.

We spent the summer thinking about the leveraged lending book. Then in the middle of September Tom Maheras says well, you know, we also have to think a little bit about these CDOs and so forth. And then that sort of the separate channel started happening. And then my best recollection is that a week or two later somebody said well, the CDOs are X, but also have liquidity puts relating to the CDOs. But it in my mind sort of folded into the same issue, and it wasn't as if a third train of activity went along as compared to it just being a larger second train of

activity if that makes sense to you.

So, it is not as if somebody came up one day and said ah, liquidity puts, and I said oh, liquidity puts. It wasn't that sort of a moment. It was sort of adding on to existing discussion.

Q When do you recall being informed or were you informed about the size of the exposure associated with the liquidity puts?

A I can't remember the specifics of when that number was put on the table or not put on the table.

Q Do you recall ever being eventually told of the number associated with that?

A Sure. Obviously in hindsight I have read all the papers and I know what happen and so forth. But I can't reconstruction in my mind a particular time when someone came in and said here's the number and that sticks out in my mind.

Q The commercial paper that was associated with the liquidity puts, do you recall being told that the commercial paper

was now back on Citi's books?

A I am not sure whether that happened when I was there or not. I mean there was quite a discussion about taking these things back on to Citi's books, but I thought that happen after I left.

Q I would like to show you another document which has been marked number five.

(Thereupon, the documents Bates Citi FCIC 24594 were marked CR Exhibit 5 for Identification, as of this date.)

BY MR. BONDI:

Q I am showing you what has been produced to us by Citigroup, it is Bates Citi FCIC 24594 and it is some attachments along with a cover e-mail from a Christina Pretto to you dated July 30, 2007.

First, who is Christina Pretto?

A She was one of our PR people.

Q Do you recall receiving this e-mail on or about June 30, 2007?

A I don't.

Q I would like to turn your

attention to the second attachment here, second attachment to the e-mail. It is Bates Citi FCIC 24607 and it is a Power Point deck entitled Tracking the Twin Storms Catalyst of Market Volitity.

A Got it.

Q Do you recognize this document, sir?

A I am sure I have seen it, but I can't remember in what context I saw it, I am sorry.

Q Do you recall seeing it during your tenure as CEO at Citigroup?

A I am sorry, I can't place it as to whether I saw it then or whether I saw it during preparation.

Q I would like to draw your attention to the first page of the presentation on the executive summary.

A Yes.

Q The third bullet down states, "The value of investment grade CDOs built up out of subprime mortgages has declined dramatically leading to significant losses.

Total damage has been estimated at 50 to 100 billion."

Do you recall having the, do you recall hearing that statement or reading that statement in or about July 30, 2007?

A I don't, but the -- it was clear that in the summer of 2007, many of the CDOs had, many parts of the tranches of the CDOs were declining in value. I want to distinguish that between the super seniors. Super seniors, at that point no one thought had any issues. In fact, no one thought those had any issues until October. But it is clear that some of the lower tranches had declined in value by the summer. So, do I remember seeing that at the time, no. I mean I see it on the piece of paper now.

MR. KARP: Just so the record is clear, because the quote would not revealed this, this is for the entire industry.

A For the entire industry.

Q I think the presentation in fact is titled Catalyst of Market Volatility.

In the summer of 2007, did it case you any concern that there were significant losses looming in the CDO business in general? When I am talking about business, I am talking about industry business, not necessarily Citi specific.

A At the time, people believed that the housing market would decline to a certain degree. Without having read the document, you can see in the little box on this page under "consumer" that it says, "Subprime foreclosure delinquency will likely impact less than one percent of U.S. housing stock."

And at the time, people believed that the housing market would be affected in ways where some of the lower or lowest of the tranches of CDOs would be affected. I think at the time no one had any or I know at the time no one had any idea or hint that the housing decline would be as significant or as broad as it turned out to be. So, your question was about CDOs, I didn't think about CDOs at that point in time. We were

thinking much more broadly about how would it affect the real estate business generally, how would it affect our consumer business, which has an originate and hold strategy. The parts of the CDOs that would be affected based on our thinking at the time wouldn't be things that we owned at all. So, the answer to your question is no, but it is a very long no.

Q So, in the summer of 2007, it was your understanding that you did not, you meaning Citigroup, did not hold the lower tranches of CDOs that were being affected?

A That was my understanding, yes.

Q In the summer of 2007, did you ever ask Mr. Maheras or any of his colleagues in the investment bank, what tranches do we hold or what is our exposure?

A You know, in hindsight that is an excellent question. At the time, it wouldn't have occurred to anyone to do that. And if someone had asked the question, the answer that would have been given wouldn't have in any way given you different

information.

I believe it is true that not only the risk function, but the management of the business believed that our holdings and our activities were a hundred percent mark to market on a daily basis, so that we had no nonmarked risk.

I believe that at the time people felt that there were almost literally no scenarios under which the super seniors could be touched, so it wouldn't have occurred to anyone either to ask the question or to volunteer the information to say now don't forget, we also have these super seniors which are triple A and there is no chance in the world that they will ever be touched. That wouldn't have come up in a normal context.

Looking back, I mean it is very easy to see that is the one issue that you should have asked. I understand that. But at the time, you have to deal with what was reality at the time and whether it was the presentation that you just showed me to the

SEC or the internal dynamics of marking to market, the super seniors were not thought to be of subprime character, as I have gone back now and looked at that time.

Obviously at the time it wasn't a topic of discussion. But as I looked at it in hindsight, it is clear that people didn't think of it as being in that character or that category at all.

So, your question was did anyone examine Tom Maheras on what the other categories were we hold and how do you think about it and so forth, that wasn't part of a real world situation at the time.

Q In the summer of 2007 when events were unfolding in the market as described in this presentation, did you ask anyone at Citigroup to run any stress test to see how is Citi going to fair if events unfold in the market, if things deteriorate in the market?

A I didn't have to. People ran stress tests all the time. There is an index of -- and I can't remember the name of

it -- of housing prices around the country which is used by everyone.

Q ABX?

MS. BUERGEL: Case-Shiller.

A Case-Shiller. And people would run stress tests off of that. And they would say okay, if Case-Shiller is down five percent, what does it mean? If it is down three percent what does it mean? If it is down five percent in so many cities, what does it mean and so forth? And I remember vividly David and others saying to me -- and I remember vividly the conversation. I don't remember what time frame, but it could easily have been in this time frame. People saying to me: Gosh, housing rises would have to go down 30 percent nationwide for us to have, not a problem with CDOs, but for us to have, quote, problems. And that has never happened since the Depression. I remember it vividly, those conversations.

So, it wasn't a situation where I could have commissioned stress tests. We had stress tests all the time.

Q If I could get you look at one additional page on this document here, which is the next page, 24609.

A Yes.

Q And it says, the title, Tracking the Twin Storms. Highlighting the Parallels. And to your counsel's point, I believe this is describing the market as a whole?

A Yes.

Q There is a section on the left, the subprime mortgages, it says, "Which securities are involved?" It says, "CDOs built out of subprime mortgages."

At the time you got this presentation in July of '07, summer of '07, did you realize that Citi had CDOs that were built out of subprime mortgages?

A You know, I can't honestly recall. As I said, the first time that CDOs came up as any kind of an issue for us, any kind of a problem or concern, was in the mid September time frame. This was I think talking about the industry as a whole. I

don't remember anybody saying: And don't forget, Chuck, we got some of these as well. I don't remember that as well.

MR. LERNER: For the record, I don't think he said he remembered receiving it at that time.

MR. BONDI: I understand that.

Q I was asking you if you understood at the time, though, generally, not based on this presentation, but generally the CDOs that Citigroup had were built out of subprime mortgages?

A I am not sure that I at that point in time even had any specific understanding of our, of the mechanics of our CDO business. This was, this was a very small part of one part of one division of the company. I mean, we had a large business. There would be no reason, unless I happened to have worked in the fixed income business, for me to have any familiarity with that detailed level of product activity.

Q On this same page, there is a

section called, looks like What Went Wrong? Under subprime mortgages it says, "Lax lending standards, high LTVs, piggyback loans, low or no doc and teaser rates."

Are the description of the mortgage types on this presentation here the types of mortgage products that we talked about earlier in connection with your Greenlining Institutional speech that you had some concerns about?

A Some yes and some no. The ones I mentioned earlier as examples of exotic mortgages were the negative amortization and the adjustable ARMs, which have to do fundamentally with how much you are required to pay back on a current basis. And by deferring how much you have to pay on a current basis, you are really betting on home price appreciation rather than the ability of the borrower to pay.

These items that are referred to here, some of these relate to that and some don't: So teaser rates or a category of ARM mortgages, but they are not necessarily

adjustable ARMs. Adjustable ARMs are you the borrower can decide how much you want to pay fundamentally.

A teaser rate could be that, or it could be simply it is two percent for the first 12 months and then it jumps to 12 percent. So you don't get to decide. It is an automatic, it is a formulaic change. So it could be similar or it could be different.

A low or no doc loan is one that doesn't have to do necessarily with you the borrower deciding how much you can pay back on a current basis, but could simply be that you say you have so much income and you don't have so much income. Or the appraisal saying that the house is worth a hundred thousand dollars and it is really only worth $50,000. So it could be a different category of issue than the ability to pay issue.

High LTVs and piggyback loans basically go to how much of the value of the house is loaned against. Some of the -- in

the old days, you would have an 80 percent LTV. You couldn't borrow more than 80 percent of the value of the house. And then it would go to 90 percent, then 95 percent and then a hundred percent. In some cases people were doing 105 and 110 percent LTV. And so that is a different issue. It is a related issue.

And if you put them altogether, that is really the worst possibility. If you have something where the borrower says I make so much money, but they really don't, and you have a situation where the appraisal says it is worth a hundred thousand dollars and it really isn't. And then you are lending 110 percent LTV against an inflated LTV, then you are really in trouble. And that is basically, you know, if you pick an example of a horrible loan, at the end of the process, you had borrowers who had no income borrowing 105 or 110 percent of an inflated LTV value, and then walking away from the loan, and not surprisingly the loan didn't have much value.

Q Mr. Prince, is it fair to say based on what you testified earlier that during your tenure at Citigroup, you wouldn't have known if any of these mortgage types high LTV, big piggyback loans, no or low doc or teaser rates were somehow in the CDOs that Citigroup had created?

A Well, I think that is correct. The reason I am hesitating a tiny bit in answering is I think at the very end, in the last week or so of my tenure, there were some suggestions that there was a little more of this, not a lot, but a little more of this in some of our originations or some of our CDO products than I had understood before. But if you take that caveat, that one week a little more information, a little more -- if you take that caveat to your question, the answer would be yes.

Q I am going to ask you, sir, to take a look at another document.

I am going to show you what has been produced to us by Citigroup, Citi FCIC E 24768. And it is an e-mail chain. At the

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top of the e-mail chain is an e-mail from you to Mr. Druskin dated August 3rd, 2007.

(Thereupon, the e-mail chain Bates Citi FCIC E 24768 was marked CR Exhibit 6 for Identification, as of this date.)

BY MR. BONDI:

Q It is responding to an earlier e-mail to you from Mr. Druskin.

First, at the bottom of this e-mail, let's talk about the first e-mail here, there is an e-mail from William Kister.

A Yes.

Q Looks to a distribution list, and it is titled Citi Markets and Banking Revenue Highlights for August 2nd, 2007.

A Yes.

Q And July Update.

First off, would is William Kister?

A I have no idea. I am sure he is a very valuable employee of the company, though.

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Q Is this an e-mail that you received?

A Yes. This is our daily report. The markets and banking business would, because of the kind of business it is, had to close their books every day and so every day you would get the results from the day before of activity. And so we would get one of these every day. This one happened to be for that particular day.

Q And you would get these e-mails on a daily basis during your entire tenure as CEO?

A Yes.

Q Were these e-mails that you would have read on a daily basis?

A You bet, you bet.

Q Looks like Mr. Druskin in response to this e-mail says to you, "This looks like water torture, just awful." And you respond, "Worse."

A Yes.

Q What was he referring to and what were you referring to in your response, if

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you know what he is referring to and what are you referring to?

A The -- there are some unusual aspects to running a securities business, both in the way that people participate and in the way you manage the business.

In most businesses, you have a budget forecast, you do certain activities to generate revenue, you try to hold down your costs, you try to make a profit. And most of those activities, if you are building refrigerators or something, have some level of predictability to them, some level of direction to them. You have long term contracts with suppliers, you have long term contracts with customers, you have an ability to see into the future a little bit.

In the securities business, your ability to see is measured on a daily basis. You have a budget for the year, you have a budget for the month, for the quarter. You have analysts who are predicting what you are going to make without knowing what the markets are going to do. And you are held

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to the standards of your earnings estimates.

So, today as we sit here there is an earnings estimate out for Citi that says at the end of the first quarter, their earnings ought to be X. And a large part of Citi's earnings today relate to the securities business.

The people who put those analyst estimates together have no idea whether the markets are going to be up, down or sideways between now and the end of March and yet they have estimates out there. So on a day-by-day basis, inside the company, your reviewing the progress of your business day by day by day against your budget, against the outside world's estimates and some days the markets will be way up and you make lots of money and you feel great. And some days the markets are way down and you lose lots of money and you feel awful.

So, on this particular day if you look at the first line of the first e-mail in the chain under "daily commentary," it says, "Fixed income markets lost $66

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million, $100 million below forecast. Meaning that we for that day had hoped to make 166 million I guess, right? No, if we -- we hoped to make $34 million that day, more or less, and instead we lost $66 million that day. All right? And then there are a series of sub-bullets below that which break to fixed income business down by components.

And then you go down a little bit and you see the next heading is fixed income underwriting, gained $2 million, but that is still 6.8 million below forecast. And then the next heading was equity markets made almost $6 million, but that is still $9 million below forecast. So, when you put the whole thing together -- is there a total at the bottom? I haven't read these in a long time. Here it is at the top.

The revenue for August 2nd, day 2 of 23 -- so we are measuring it for the month -- was a loss of $49 million, 162 million below forecast. Month to date revenue -- so again we are measuring how we

are doing against the month's budget was a loss of twenty-five, two hundred fifty one below forecast.

So, this is a daily snapshot that comes out. It came to, it comes to 10 or 11 people, mostly in the corporate banking business and to a couple of us at headquarters. And Druskin got his and said these daily losses are awful; they are like water torture, meaning day after day after day. And I apparently sent back something saying that it wasn't worse than water torture. I can't recall exactly the context in which I said that, but it may be self evident.

Q In other words, this wasn't a typical time period in the market?

A Oh, for all I know, this is day two of 23 and there is a cumulative, for all I know week before that we made a bunch of money. So this is one snapshot on one day.

Q This is reacting to that particular point in time?

A Right.

Q But were you concerned about conditions more broadly than just that day in this August time frame here? Were you concerned more generally about the direction that the market was heading?

A Well, sure is the answer. But again I would ask you to put this in context.

When we reported our results at the end of the second quarter -- so this is now mid-July, early July for the end of the second quarter, we reported both on a quarterly basis the second quarter and for the first six months of the year, the first and second quarters together, the best results in the company's 200-year history, the first quarter of 2007 -- first half of 2007 was the best six months in the 200-year history of the company. This is now 30 days after we reported the results. So was I concerned about where the markets were heading? Sure. But the markets are typically slow in August.

In hindsight of course it got

much worse, but I am trying to recollect how I felt at that point in time. We were doing great in the first six months of the year. And in July we recorded those results, we had our annual off-site with the board in July. We as a group, as a company felt very good about where we were. And then August came, it was a little slow. Then in September the leveraged lending thing went a little more south on us, et cetera.

So I would not see this even recalling it now, this is not a canary in a mine signalling some great calamity coming. It is daily report that Druskin and I both complained gosh, we had a bad day yesterday.

Q What was the, as you put it, the canary in the coal mine? What was it to you that you thought these aren't normal conditions, we are headed to awful times ahead?

A When the rating agencies collapsed.

Q That was the October time frame?

A Mid October.

Q 2007.

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What in your view is the significance of the rating agencies to the overall financial crisis?

A Well, I mentioned earlier an overview that I have of the currency flows and the artificially low interest rates, you remember all that.

I think as part of that the increase in structured products resulted in an increase the complexity of financial products almost by definition. The structured products were more complex than simpler products. And I think as investors were looking for enhanced yields in an artificially low yield environment and as the industry created more structured products to try to satisfy that demand, the rating agencies performed an absolutely key go, no-go, kind of role.

If the rating agencies hadn't approved the products, hadn't certified them as it were, people wouldn't have bought them. The more complex the instruments are, the more people rely on the ratings. And so

it is two sides of the same coin to say that as products became more complex, ratings became more important.

And as the industry grew in those four, five years in the middle of the decade, the structuring business grew, the ratings became more and more and more important. And that is why when the rating agencies collapsed and downgraded, you know, swathes of securities, not one, not one grades, not two grades, but collapsed them to junk bond status, it destroyed really, it was the precipitating event in the financial crisis.

Q How much did Citigroup rely on ratings for its own decisions with respect to its for instance CDO holdings?

A I don't know the answer to that. I mean I wasn't involved in those decisions. My belief is that the team did not rely exclusively on the ratings, they didn't rely primarily on the ratings because I think our people were better than that. But I don't know is the answer.

Q Why is that your belief, though, what is the basis for your belief to say that you didn't believe your team relied exclusively or primarily on ratings?

A Salomon Brothers, Tom Maheras and his team, were widely thought of as the best fixed income house on Wall Street and had been for a long time.

I was frequently told by the regulatory agencies that David Bushnell was the best risk manager on Wall Street. It would have been inconceivable in that circumstance for people with those levels of experience and activity to primarily rely or exclusively rely on some third party to do their due diligence. It is inconceivable to me that would be the case.

Q In July of 2007, in an article with the Financial Times, you were quoted as saying, "When the music stops in terms of liquidity, things will be complicated. But as long as the music is playing, we have got to get up and dance. We are still dancing." What did you mean by that quote?

A Well, I thank you at least for the courtesy of using the entire quote. The Financial Times likes that so much and applies it so broadly that they don't put in the first part about liquidity stopping and being complicated.

This was a quote, or part of an interview I gave in Japan, as I recall it, to an FT reporter. And what I was referring to was the leveraged lending business. And you will recall that I said a couple of times that in the summer of 2007, the problem child focus in our corporate and banking business was on leveraged lending.

Let me back up a step there.

In the leveraged lending business, we and other members of Wall Street had been in the business of lending money to the private equity firms. And the private equity firms had pushed the banks to the point where the terms and conditions of that lending were quite favorable to the private equity firms and were quite unfavorable for the banks. And all this has been widely reported.

The -- and widely recorded in the context of these were really quite unusual circumstances for the banks to loan money to the private equity firms on these kinds of terms.

In talking about this private equity lending business in the context of this interview, what I was trying to convey was the sense that for a number of reasons, it was impossible, in my view, for any one major participant on its own to stop doing those kinds of loans. Nothing illegal about these loans. The question was were they on good terms for the lender, were they smart for the lender to do? And it was my judgment then and it is my judgment now that it was impossible for any individual institution to simply say I am not going to to that anymore.

And of course if I had called my counterparts at the other banks and said let's all say we are not going to do it this way, smart lawyers would have said you are

going to go to jail if you do that.

So, my notion was -- and I guess it was either unartfully phrased or too artfully phrased that as long as that situation obtained, as long as the music was playing, that you had to, you had to dance to that music. You had to be part of that activity level. Although, I did point out that when this excess liquidity driven situation for the industry changed, it would be complicated. But this was, I want to emphasize, this was all in the context of the lending to the private equity firms. It had nothing to do with the mortgage business, it had nothing to do with what turned out to be CDOs. That was not part of my thinking or on the radar screen at all.

Q Appreciate that clarification.

Something you said that struck me as interesting again from the book that I referenced earlier from Mr. Paulson.

A You marked that up quite a bit, those tabs.

Q You should see my other books.

This is a reference on page 69 of Secretary Paulson's book, and I do want you to know I read other books beside Secretary Paulson's books.

MR. KARP: I see you read Chairman Bernanke's books.

MR. BONDI: And other, and others.

BY MR. BONDI:

Q Secretary Paulson is referring to an event, a dinner at the New York Fed in June 26th of 2007. About a month or so before this quote it seems like, June 26, 2007.

And he recounts this dinner, says that you were present. Do you remember being at a New York Fed dinner on June 26, 2007 with Secretary Paulson?

A I don't remember the date, but it was common for then Chairman Geithner of the New York Fed to have dinners for the Wall Street CEOs at which Secretary Paulson or others would come.

Q On the bottom of page 69, he

writes, "Chuck Prince, the Citigroup CEO, asked whether given the competitive pressures there wasn't a role for regulators to tamp down some of the riskier practices."

Basically, he asked, "Isn't there something you can do to order us not to take all these risks?" And he goes on to say, "Not long after I remember Prince was quoted as saying: As long as the music is playing, you have got to get up and dance."

Do you remember expressing in form or substance to Secretary Paulson this question of isn't there something you can do to order us not to take all these risks?

A Yes.

Q Can you elaborate on the context of that question?

A I am not sure I understand your question.

Q What was your conversation that you recall with Mr. Paulson about can't regulators do something to prevent us from taking all those risks? What was the context of Mr. Paulson's quote of you and

this conversation you had, do you recall having a conversation to that nature?

A We were -- Geithner had organized this dinner. And again I am not sure of the exact date, so I am not -- I don't know whether that was the date or not. But there was a dinner in the summer of that year at which almost all of the heads of the various banking and security houses were present. I was present, and Paulson was up to visit to talk to people. It was part of his normal outreach of staying connected with the industry and so forth.

And in the course of that, there was a discussion about the lending to the private equity firms and how some of those terms had, through a process of competition, had gotten to a point where they were really quite unfavorable for the lenders. And I remember expressing my view in this group context that none of us could individually back away from that business for a number of reasons, which I thought were important. And that as a result -- and that we couldn't

agree among ourselves not to do it. And that I thought it was an appropriate role for the regulators, since they recognized this unfavorable situation for the banks and the lenders and that the Fed directly and the Treasury Department perhaps indirectly had some oversight responsibility for the industry, that since we couldn't do it individually, we were prohibited from doing it as a group, that given their mandates, that they ought to consider directing us to tighten up. And that was the context.

Q So again it was in the context of leveraged lending?

A Yes.

Q Mr. Prince, I am showing you another document that was produced by Citigroup, Bates Citi FCIC 4648.

(Thereupon, the document Bates Citi FCIC 2648 was marked CR Exhibit 7 for Identification, as of this date.)

A Yes.

Q And I note for the record that there are two identical cover pages in this

production. I will represent that it appears that this letter was sent, identical letter was sent to multiple people. There are two cover letters with this particular exhibit; one is to Mr. Rubin and one is to Mr. Thomas. And the letter is, it appears to be signed by you.

First of all, do you recall sending this letter on August 15, 2007?

A Well, you have just handed me something and I haven't read it, but it appears to be the monthly letter that I would send to the board. That is why you have two cover letters, because it would have been sent, an identical letter would have sent to each person on the board. And I would typically send this along either with the materials for the next upcoming board meeting. Or if we didn't have a board meeting coming up, I would simply send a stand alone letter. And this was a practice to find a way to give a little more of a narrative or my thoughts about how the company was doing to our board members

because we sent them so much information for their meetings that there was no overview or there was no context. There wasn't enough of a context, I was concerned.

So, I got into the habit of saying you are going to get a big a stack of materials, but before you read that, here's a, how I am viewing the company and how we are doing right now. That is the context for these letters and this appears to be the one I sent in August of '07.

Q Directing your attention up -- first before we to that, Mr. Thomas was a member of the board?

A Yes.

Q And Mr. Rubin was a member of the board, obviously?

A Yes.

Q Page two of the letter which is Bates 4651, draw your to the paragraph that is next to the heading Credit Markets.

A Yes.

Q And you state, "You have read a great deal about the credit markets.

Whatever you have read, the reality is probably worse."

And then you go on at the end of that paragraph to say it is a very difficult and dangerous situation with few historical precedence.

What was on your mind in terms of this paragraph? And please read the entire paragraph. I have only drawn two sentences out of the paragraph. But what was your thinking, what was on your mind when you wrote that paragraph?

A Well, I am not sure I can reconstruct it except to say that I was trying to give a context for what they were reading in the papers. And, again, I don't have in mind exactly what was in the papers then. But it is clear as I read this paragraph that I was trying to give them a sense that as directors of the company, these are quite difficult issues, quite complicated issues.

And at the time -- this is early August. At the time, my guess is that what

was in the papers was probably not as -- it was probably mixed, as is often the case in the papers where you have some people saying it is going to be really bad or this could be quite difficult. And you have other people saying oh, it is a great buying opportunity and so forth.

And what I was trying to give them was a sense that there is really, there are really issues here that we are looking at very carefully.

Q In the next paragraph, you state, "There are two basic credit issues facing the market. The leveraged lending problem and the subprime problem."

Were these the two basic areas that you were focused on at the time that this letter was written in August 2007, that the leveraged lending problem and then the subprime problem?

A Well, I guess the short answer is I hope so. If I told the board these were the two issues, I would hope those were the ones I was focused on.

As you go through it -- I am just sort of skimming the balance of the next couple of pages -- you can see that the first thing I talk with is leveraged lending. And I have got a couple of paragraphs on that. And then at the bottom of page three, I say, "We have exposures in both leveraged lending and to a more limited degree in the subprime area. We consciously did not originate these aggressive products, but did purchase some as part of portfolio acquisitions" and so forth.

And so I think this is very consistent with what I told you earlier about in the summer, our primary focus was on the leveraged lending or the private equity lending kind of area. And only in a subordinate sense with what was happening in the mortgage markets and there my belief was that we didn't have as much exposure.

Q And this was belief because you were not aware at the time of the super senior positions?

A And frankly, if I had been aware

of the super senior -- the short is yes, that is correct. If I had been aware, there is nothing about the super seniors at that point in time which would have suggested to anyone including me that we would have had a big loss from this.

Q At the time you wrote this letter, you also weren't aware of the liquidity puts and the exposure from the liquidity puts?

A That is correct.

Q We talked about earlier this twin storms presentation that was sent to you on e-mail on July 30, 2007.

A Yes.

Q That seems to have been a couple weeks before this letter to the board of August 15, 2007. The twin storms presentation that had been sent to you two weeks earlier on e-mail refers to industry losses and CDOs of 50 to a hundred billion dollars.

I didn't notice anywhere in the letter to the board that you mentioned CDOs

or exposure to CDOs. Why not?

A Well, again, I doubt if I had in mind that we had any CDOs at all or any CDO exposure at all. I think the closest you get to that is on the bottom of page three, that last paragraph there. And again I think this pretty accurately reflects my thinking at the time. I was always very candid with the board. The worse thing you can do is try to not tell them things. And I wanted them to have my thinking as they got ready for our board meeting so that when they showed up, they at least understood how I viewed the issues. And I think this is a pretty good, pretty accurate, pretty candid summary of how I viewed the problem in whatever date this was, mid August.

Q You were chairman of the board at the time you wrote this letter?

A I was.

Q Just to be complete for the record, the paragraph that you referred to on the bottom of page three, I will just read it for the record so it is complete,

you said, you wrote, "We have exposures in both leveraged lending and to a more limited degree in the subprime area. (We consciously did not originate these aggressive products in our U.S. consumer group, but did purchase some as part of portfolio acquisitions and, in CMB, we did underwrite mortgage backed securities representing subprime products originated by others.)"

A Close paren, period. Sorry.

Q Oh, yes, close paren period. Yes, sir.

A Old lawyers never die. I am sorry.

Q I just wanted to be complete that we got that.

A Yes.

Q What was your basis, though, because earlier -- I am just trying to understand.

Earlier you had testified that you weren't aware of the super senior positions, but here you did write, "We

purchased some as part of the portfolio acquisitions." What was your basis to say that we, for that statement we did purchase some as part of portfolio acquisitions?

A I think it is important to -- in answering your question I think it is very important to understand the way this parenthetical is constructed, please.

Q Please.

A I am going to paraphrase it, if I may. We didn't originate these products in our U.S. consumer business but did purchase some as part of portfolio acquisitions. That is all referring to the U.S. consumer business. And then I turned to capital markets and baking. And in our corporate business, we did underwrite mortgage backed securities, et cetera, et cetera, et cetera, right?

So when you referred to purchase some as part of the portfolio acquisitions, that was still in our consumer business. That had nothing to do with the fixed income business.

Q I see?

A I am sorry to be very specific, but you have to read the sentence very carefully that way.

Q I appreciate the clarification and I am glad that you pointed that out.

So that part, the some as part of our portfolio acquisitions had nothing to do with CMB or fixed income?

A Right. That was our retail mortgage business which bought all kinds of mortgages and almost always sold them to Fannie and Freddie as part of that whole flow of the mortgage business nationally.

Q Appreciate that. Thank you.

MR. BONDI: Let me mark this eight.

(Thereupon, the e-mail chain Bates marked Citi FCIC E 36374 was marked CR Exhibit 8 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Prince, I am showing you what was produced by Citigroup and marked Citi

FCIC E 36374. It is an e-mail chain between yourself and Mr. Rubin. And I would like to first direct your attention to the first e-mail in this chain. At the bottom is one from yourself to Mr. Rubin dated Sunday September 9th where you begin with "Dear Bob, welcome back from Korea."

A Uh-huh.

Q There is a section that says a question regarding rescheduling.

A Uh-huh.

Q And the first star says, "Had good first meeting with Tom Maheras," et cetera, "re: CMB results."

What are you referring to about "good first meeting" there?

A The context of this e-mail chain is that I had set up these meetings, which started as a Tom, I want you and your folks to come and explain to me exactly what the situation is with these securities. I understand your point of view on them, but I want to understand the detail of them very carefully.

That eventually migrated from a one or two or three sets of meetings to becoming almost a daily update on the markets. But this was at the beginning of the: I want to understand much more carefully than your representation of what is going on here.

And what I am doing here in this bottom e-mail is telling Bob who was in Korea for the first meeting apparently, that we had a good first meeting and I would like to schedule two more follow-ups before our board meeting. And so Bob, what is your schedule like? Druskin is in this place, that place. I want to do it on Wednesday. Can you make the second meeting we are having with Tom and his people?

Q Just so I'm clear, what prompted your desire to have a greater understanding about this business and schedule these meetings? What was the precipitating event or events?

A I think I said earlier that in the time frame of the September into

October, I began to be more uncomfortable with Tom's representations on these issues and began to press him more on these and to inquire into more and to say I want understand this better. I want to be much more detailed about this and so forth.

This would have been in the context of him mentioning at that Business Heads meeting I mentioned to you. And so that was the context in which I shifted focus from the private equity lending and said okay, I want to really look at this much more carefully. That is how these came about.

Q Were these meetings held in the library outside your office?

A The first couple of them were. Then we had one or two that were downtown where that business is located so that we didn't -- we wanted to have a broader group of people. So if Maheras wanted to bring six or seven of his people, instead of having them all traipse uptown, the three or four of would go downtown. I wanted to see

them in person, judge them in that way. And then after a while we began to do them on the telephone as we were more monitoring market activities.

Q Do you recall Mr. Maheras at this first meeting quantifying the exposure to Citigroup associated with CDOs?

A You mean from a position?

Q Yes, sir.

A I don't remember. I don't know whether he did or not is what I am saying.

Q The next e-mail up is a response from Mr. Rubin to you dated also September 9th, 2007.

And he says, "According to Lou, Tom never did provide on on clear and direct answer on the super seniors. If that is so, and the meeting did not bring that to on on head, isn't that deeply troubling not as to what happened -- that is a different question that is also troubling, but as to providing full and clear information and analysis now?"

What do you understand Mr. Rubin

to have meant by those statements?

A He was reflecting, apparently, on comments from Lou Kaden who was in the meeting and who had worked with Bob Rubin for many, many, many years.

Apparently, Kaden had talked to Rubin after the first meeting that Rubin was not in and had said to Rubin that -- I am just, based on what Bob says here, Kaden must have said that Maheras wasn't a hundred percent forthcoming or something like that. And Bob was reflecting that comment, Kaden's comment to Rubin, back to me.

Q Did you share that belief that Mr. Maheras was not forthcoming?

A Well, the top of the e-mail chain is my response to Rubin, so that really is how I reflected that, how I reacted to that comment.

Q For the record you responded, "I thought for first meeting it was good. We weren't trying to get final answers, so I didn't see Tom avoid any questions. Also, want more back channel with Dave B and he

was only on phone for Friday."

First of all I best, what do you mean by we weren't trying to get final answers, final answers for what?

A Well, for, you know, we were examining what was going on with these positions and so forth. We were examining Tom's view of the positions, his judgments on the positions. And my view was that at that first meeting to do that, we had had a good first meeting. Apparently Kaden thought we didn't have a good first meeting. But I thought for -- it wasn't a once and only meeting. It was the start of a process. And I thought for that first meeting it was a good meeting and my back channel reference to Dave B, which is David Bushnell, was I wanted to have private conversations with David, not in front of people. But I wanted to say now David without anybody else in the room, tell me how you feel about this. That is what I meant by back channel conversations with David. And I had not had a chance to do

that because he was obviously traveling.

Q Did you ultimately have these as you described it back channel conversations with David Bushnell?

A Yes.

Q And can you tell me what those conversations entailed? What did you ask and what did he say?

A Again, I testified briefly, but I'll do it in more detail.

Throughout this period, it was a continuum, it was an evolving process in which the outside environment suggested that the CDO market or the CDO securities, that the water level would rise on these tranches and that the lowest level would be hit and then well maybe the next level might be hit. And maybe then the next level might be hit. And throughout that whole process, Tom in mid September some time said well, we have got some of these super seniors up here, but they will be a hundred percent fine.

And as figuratively the water level was rising, I began to be more

concerned about that. And as I said earlier in a figurative sense Tom Maheras and Randy Barker were figuratively at one end of a table and Gary Crittenden and Dave Bushnell were figuratively at the other end of a table with Maheras and Barker saying you are never going to lose a penny. These are structured in a way that no matter how high the water level gets, it is not going touch these super seniors.

And Gary and David were saying we ought to be pretty cautious about this. I don't know. I don't know about that. We ought to think about that. That was the context. And so my conversations with David fit into that context. I would say well David, Maheras says X; what do you think about that? How do you think about this index deteriorating from so forth to so forth? And so but those are the context of the discussions.

Q And what was Mr. Bushnell saying to you in response to those back channel conversations?

A What I can't do, unfortunately, is I can't disaggregate what happened in day by day sense. This was a period of time of no more than 30 days. Maybe less, maybe it was three weeks. It was very intensive. It was not the only issue that we were dealing with for the company. And so I can't, I didn't keep a diary, I don't have any way of saying well this on date David said this and then the next day he said that. And on that date Maheras said this versus that, I can't, I can't disaggregate any of that.

(Thereupon, the Power Point deck Bates marked FCIC 99654 was marked CR Exhibit 9 for Identification, as of this date.)

Q Mr. Prince, I am showing you what has been produced by Citigroup Bates Citi FCIC 99654 and it appears to be a Power Point deck CEO discussion on global credit markets dated September 12, 2007. Do you recall ever seeing this document?

A I have clearly seen it in preparation. And I remember being surprised

because of the cover which says CEO discussion. Because I never made any kind of presentation that even looked like this and then I realized it was somebody presenting to me.

I have a vague recollection of the document, but I am very clear that whether it was this document or something like this document, this kind of information would have been presented to me in about that time frame.

Q Do you recall having a meeting on or about Wednesday, September 12, 2007, in the library outside your office with Mr. Maheras and Mr. Barker and Mr. Bushnell and others?

A I am sure that happened and I am sure that was one of the meetings that I referred to in my previous answer.

Q I would like to draw your attention, sir, to the page 99657.

A Yes.

Q And it is entitled Global Credit Trading.

What is meant by global credit trading?

A That would have been the reference to that part of the business that was involved, what we would call fixed income.

Q Fixed income?

A Yes.

Q There is a heading called what Happened in July and August?

A Yes.

Q And there is a bullet that says "poor risk management and balance sheet management."

What do you understand by that statement, poor risk management and balance sheet management?

A What I think they meant by that was -- because the subsequent sub bullet says note that no limits were breached. So, it is not -- it is a little bit of, in my view, the senior people in the business saying the junior people shouldn't have had these positions.

Q Who were the senior people you are referring to and who were the junior people?

A Maheras and Barker were the senior people and you can see a couple lines below that, it says "invoked complete overall of trading management" and it mentions three names of people who are, quote, gone.

Q Those names Higgins, Pichler and Choi, who are these people?

A I have no idea.

MS. BUERGEL: Just understand, Mr. Prince gave his understanding of what global trading credit was. That actually was a subset of the fixed income business run by Mr. Higgens and Mr. Pichler. It was a very specific trading desk known as global credit trading. So, this slide actually refers to that business which was not the CDO business and not the leveraged lending business, but a separate trading operation.

THE WITNESS: Uh-huh, okay, thank you.
MS. BUERGEL: It also, if you look at the third quarter Q, took significant losses in the third quarter.
BY MR. BONDI:
Q If you will flip the page to the next page, sir.
A Yes.
Q Titled This Page is Global Structured Credit.
A Uh-huh.
Q Global structured credit is the CDO business within global structured credit?
A Well subject to my counsel's better thinking, I think so.
Q The first bullet talks about the CDO market experienced extremely high growth rate over the last three years, about the volumes increased 95 percent from 2005 to 2006. And then the next bullet I want to draw your attention to, "Citi consistently

ranked number one or two in the overall CDO business."
Were you aware of Citi's approximate rating as compared to its competitors in the CDO business through your tenure as CEO? Is that something that would have been on your radar, that Citi was ranked number one or number two?
A No. The CDO business was a product deep inside our fixed income business, and we would have measured our fixed income business three or four ways competitively. But we wouldn't have gone down to that lower level in terms of product activity in terms of what came to me or senior management.
Q From 2003 up until September 2007, would people in the business meeting have said to you along the lines of: Our CDO business is getting a lot bigger or we are getting a lot better? Is that something that would have come up at Business Heads meeting with you?
A Too small.

Q And the next, the next bullet says: "Deal volume grew 50 percent from 2005 to 2006 with a 30 percent increase in revenues."
Is that something you of that known prior to September 12, 2007, that the deal volume grew 50 percent from '05 to '06 with a 30 percent increase in revenues?
A Too small.
Q You indicate that that business was too small.
A To be reported on it at that senior level.
Q To be reported to you at a senior level.
But it ultimately caused some significant losses to Citigroup.
A Correct.
Q In retrospect, should the CDO business and its operations have been elevated up to your level prior to September 2007?
A Well, that is obviously a fundamental question.

I think that you would have to ask it in a slightly broader way.
If someone had elevated to my level that we were putting on a $2 trillion balance sheet, $40 billion of triple A rated, zero risk paper, that would not in any way have excited my attention.
So, the simple question of should I have been told about that business, if I may, that question by itself doesn't lead anywhere. What has to happen is that there has to be a way for risk professionals going forward to think about the possibility of risk in ways which are useful. In other words, it is not useful for -- it wouldn't have been useful for someone to come to me and say now, we have got $2 trillion on the balance sheet of assets. I want to point out to you there is a one in a billion chance that this $40 billion could go south. That would not have been useful information. There is nothing I can do with that because there is that level of chance on everything.
It turned out that the

possibility of risk for these assets was not understood. So, people would have had to give me information not only about the position, but about the risk characteristics which information would have been useful to me.

So I am sorry to give you a long answer, but simply telling me that our volume grew from X to Y wouldn't have really told me anything. And in fact, the proof of that is that as late as middle October, Tom Maheras -- best fixed income guy on Wall Street -- was telling me you are never going to lose a penny on these instruments.

So, if somebody had come to me in September and said now don't forget you got... it wouldn't have made any difference.

Q There is a section on that same page, it says Lessons Learned. The second bullet says, in quotes, "Market standard" end quote, "Warehouse agreements were not robust. Practical limitations in our ability to enforce them." What does that mean?

A What I think that means -- and I am not a hundred percent sure, so I am going to give you my best thought on it.

What I think that means is that the warehouse means that we -- as I have understood subsequently, we get mortgages and put them in sort of a holding pen, a warehouse as it were. And then from that warehouse of mortgages, create structured products. And that the market standard warehouse agreements in hindsight were not as creditor lender bank friendly as they should have been.

So the ability to say to an originator, we are going to give you back the mortgages; we are not going to keep them in our warehouse; we are not going to sell them out to the market; we are going to put them back to you, those agreements were not as, quote, robust, didn't have lender friendly enough standards.

And practical limitations on our ability to enforce them, which I think refers to the fact that if the originator

goes bankrupt, then you don't have anybody to put them back even if your agreements say if they don't meet these standards, I can give them back. I think that is what that sentence means.

Q The next bullet says, "Implemented significant changes to risk management in January; i.e., Donald Quinton in CDO business and Mickey Batia in ABS correlation," end of paren. Dash, "However, not completely built out by time of market disruption."

What do you understand to be meant by that bullet?

A I don't know who the people are. I think this falls under the heading of the more senior people, Maheras and Barker, saying we have changed the people. But them saying -- as they did on the previous page. But them saying here: We were caught in between making the change, I didn't and still don't put much stock in that sentence having much relationship to anything.

Q Next bullet, "Business model not

well diversified," dash "too much reliance on one asset class. One of the primary initiatives for 2007 was to increase mix of asset classes-consummated in time."

What do you understand, sir, to be meant by that bullet point?

A I don't know what that means. I mean I can read the words, but I don't understand it in this context.

Q And two pages later, Bates numbered 99660, titled Lessons Learned/ Opportunities Under Global Structured Credit, talks about, there is a bullet that says, "Redeployment of resources. Time frame within six weeks."

What was being done there or what was being contemplated there?

A I don't remember. I remember actually in this meeting them saying we are going to do something in the next weeks. I frankly can't remember what it was and of course in hindsight whatever it was it didn't make much difference. But I don't remember what it was. I am sure the people

Interview - CHARLES PRINCE

who put it together can tell you, but I don't.

Q And last question on this one, it says, "Redefine constraints and structures with risk management."

What do you understand by that bullet?

A I think it relates to the first bullet, which says, "Focused on resizing given revenue opportunities."

What they were saying here was that the structured business is going to be significantly smaller. They thought it was going to be still meaningful but much smaller than it had been. Turned out, of course, there isn't any structured business. And I think what they said was that given this smaller size, we are going to resize this, meaning we are going to get rid of people and make it a smaller business and so forth. And I think that in that context they were saying: And risk limits will shrink correspondingly with a smaller size of the business.

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Q Okay. If I may do one more document before we take a break for lunch.

(Thereupon, the e-mail chain Bates Citi FCIC E 31582 was marked CR Exhibit 10 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Prince, I showing you what has been produced by Citigroup and it is Bates Citi FCIC E 31582.

A Uh-huh.

Q It is an e-mail chain. The bottom e-mail says "from CEO's office corp."

A Uh-huh.

Q To, it appears to be Mr. Crittenden and cc yourself dated September 26, 2007.

A Right.

Q First, what does this CEO's office corp. mean? Is that an e-mail that you would have sent out?

A Took me a while to figure this out myself. Here are the, here's the Rosetta Stone to figure this out.

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Interview - CHARLES PRINCE

In the line you just referred to, in the bracket, at the end of it it says "Corporate HQ UTC dot-com." See that?

Q Yes?

A The very long bottom of it says "see you then, George." Do you see that.

Q Yes.

A This is George David, a board member, who was the CEO or chairman of the UTC Corporation at the time. So he had sent something to Gary Crittenden and copying me either in anticipation of a board meeting or after a board heating. But it took me a little while to figure this out.

Q Do you understand this e-mail seems to be focused on CDOs?

A Let me read it again. I am sorry.

Well, as I read it, it seems to me he is talking about most of the things that are in the corporate investment bank. So he talks about the warehouse, he talks about CDOs, he talks about leveraged lending commitments, and he talks about trading

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inventories of fixed income securities. So CDO is part of what he is talking about, but not all of what he is talking about.

Q I want to direct your attention to a statement that he makes in the bottom of the first paragraph there. It says, "The rate spikes of the last three to four months (and associated liquidity), were the three or four Six Sigma event. So the question is whether-how our models missed this. Alternatively, are our models too specific to individual businesses and/or exposures such that they don't encompass the big/rare event affecting the big/combined warehouse as outlined here."

A Uh-huh.

Q What do you understand to be Mr. David meaning by these three sentences?

A George ran UTC, and United Technologies Corporation is a business, as are many manufacturing businesses, built on the concept of Six Sigma. While I don't understand it completely, my understanding is that Six Sigma relates to a manufacturing

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process in which you try to minimize defects in the manufacturing process to a very, very small degree.

George always thought that it was a useful thing to try to apply the notion of how you manage screwing cars together to the banking business. And so he would say: Your lending doesn't meet a Six Sigma level of activity. I never could quite figure that out, honestly. And so as I read these two sentences, he seemed to be saying that there was a three or four Six Sigma event, whatever that is, and the question is how our models missed this, et cetera, et cetera.

And I think he was expressing in language that would be consistent with a manufacturing business the same, in some ways the same concept I mentioned just a moment ago that risk has to think about how to provide risk judgments on what he would call a three or four Sigma event; in other words, a very unusual kind of event. So that is what I understand him to be saying.

Q As you sit here today, you don't know what that three or four Six Sigma event means?

A Six Sigma refers to frequency. Six Sigma is supposed to be the ultimate, you know, one in a million or one in a billion or something. And three or four must be getting close to that level.

It is a bad analogy. I analogize it to the Richter scale. A ten on the Richter scale was the biggest earthquake ever. This may be a three or four, meaning it is a larger rather than a smaller one. But I don't really understand Six Sigma. I am sorry.

Q In the sentence he says, "Alternatively, are our models too specific to individual businesses and/or exposures such that they don't encompass the big/rare event affecting the big/combined warehouse as outlined here. What did you understand by that sentence?

A What I think he meant by that -- and again I'm guessing a little bit. But

what I think he meant by that was do our risk models measure businesses at a small individual level without aggregating.

So you could have a situation, for example, where we had real estate exposure in four or five parts of our business and because we measured each of those risks individually, each of the risks would seem smaller. But if you step back a little bit and you say well, wait a minute, you actually got real estate risk in four or five pockets, when you put the four or five pockets together in an aggregate base, it is a much bugger number.

That is not what happened here. We didn't have significant damage from four or five parts of the business individually which were small but when you aggregated them they were big, that didn't happen here.

What happened was a very small part of the business that had enormous consequences. So his question, which is a perfectly appropriate question, was are your, are your risk models, do they

aggregate disparate risks across the company -- perfectly appropriate question -- was not pertinent to what actually turned out to be the case here.

Q The e-mail above that from a woman named Karen Lowely (phonetic) to you. And she says, "I gave this to GC would said it was a DB issue. Dave called to say he is available to fill you in on this once you return." I assume DB is David Bushnell.

A Yes.

Q And the Dave referred to here is David Bushnell?

A Yes.

Q GC is that Michael Helfer?

A Gary Crittenden. Karen Lowely was my assistant, so she saw this come in, saw my e-mail. I was tied up obviously, apparently. And she said to me by e-mail: I gave this to Gary Crittenden, and Gary said it was Bushnell's issue and Bushnell called to say he can talk to me when I went I want. And my e-mail back was tell him to be prepared to join the 4:30 meeting. We must have had a meeting with George David.

Q You indicate for your assistant to tell him to be prepared, he meaning David Bushnell, to be prepared to respond.

A Right.

Q Did Mr. Bushnell respond to George David's concerns about the three or Six Sigma event not being caught by the models?

A I can only assume so in the 4:30 meeting orally. I don't remember being -- I don't remember this. I mean you showed it to me, but don't have an independent recollection of it. I don't remember any back and forth.

Q Do you recall anything about what Mr. Bushnell might have said at this 4:30 meeting concerning the models?

A No.

Q Before we go off record, I understand there might be a scheduling issue. Do you have a hard stop today, sir?

A Well, I guess I would just like to understand how long we are going to go or

what your thoughts are about that. I have some things scheduled in sort of the late afternoon time frame.

MR. BONDI: I think hopefully we will be finished by four, if that is sufficient by your schedule.

THE WITNESS: That would be a little late, but I will certainly accommodate that. I will make some changes during the break.

MR. BONDI: I will try my best to finish earlier.

THE WITNESS: Of course. And I will try to give you yes or no answers. How is that?

MR. BONDI: No, I want you to give full and complete answers. We are a fact finding commission here, so full and complete answers, please. Why don't we take a brief lunch break?

(Lunch recess.)

BY MR. BONDI:

Q Mr. Prince, you described how Mr. Maheras and Mr. Barker expressed that they

didn't believe that there was any prospect of loss in the CDOs in September of 2007.

A The super senior.

Q Super senior CDOs, excuse me.

What was Mr. Crittenden's view of that in September 2007?

A I already said, I think he was cautious about that. I described a couple times the figurative notion that Randy and Tom were at one end of a figurative table. It was actually a round table. But figuratively, and that David and Gary were figuratively at the other end of the table expressing caution about them.

Q You described in detail earlier about when you first learned and had an understanding of the CDOs and the positions associated with those CDOs.

But my question is: Who should have in your mind prior to the events that we have been discussing in the fall of 2007, who prior to those events do you believe should have had an understanding of the positions that were being taken with respect

to super senior tranches on CDOs?

A I believe that people at various levels of the management chain were aware of this, that is to say I don't believe that there was at certain levels of the organization any surprise that we had these positions. Whether it was the person on the desk itself or his or her manager, and those people led up in a management chain eventually to Randy Barker.

I don't know whether this product was a significant enough product before the September, October time frame, was seen to be significant a product that it would have gotten to Randy's attention. I don't know the answer to that.

My guess is it would not having been significant enough to be on Maheras's radar screen. I am not sure whether it would have been for Barker. But below that one, two, three layers below that, I am sure that it was at the right level.

The question that you are asking I think really is in hindsight, given what has happened to this, even though it was a very small position in an absolute sense, in a relative sense, what should have been known about this, who should have known about this, and I think that if there had been any inkling, any suggestion that $40 billion of assets could go to zero, that we wouldn't have had those positions.

And so the risk infrastructure, even though in hindsight we had these horrible problems, the risk infrastructure was quite robust. Hundreds and hundreds and hundreds of risk officers, very detailed risk limits. We had a number of regulators embedded into the organization. It was a pretty transparent place as it related to taking on risk.

In hindsight, the problem was that no one thought that these were risky. So, if I may, your question of who should have known about these, as I said earlier in my case, simply knowing about them wouldn't have done anything. One would have had to know about them and to have thought about

them in a way that no one was thinking about them.

On a going forward basis, how that is accomplished, not only the knowledge but the character of the knowledge, I don't know the answer to that. The risk people, the risk professionals, have to look at the likelihood in different ways.

Risk is composed of the likelihood of something happening and the consequences of something happening. Here the likelihood was quite small, but the consequences were devastating. So the question is how do you put that together? And it is really not just who should have known, but who should have known what about it, not just factually, but in a judgmental way. Who should have had a different risk judgment about these assets. That is I think if I may, that is a more complex way of asking the same question.

Q We talked earlier about some e-mails between you and Mr. Rubin talking about setting up meetings, one that occurred

before it he got back from Korea and then several as you describe after he returned from Korea.

Do you recall what the focus of these meetings that you testified to earlier? Were they solely on CDOs, or were they CDOs and leveraged lending and other matters?

A My best recollection is that they were primarily CDOs and at some point we hooked in the folks from the U.S. consumer mortgage business to give their point of view on the market situation as it related to real estate. And this was in the context -- when we had the meetings, we didn't talk about, quote, CDOs. We talked about the real estate market. And the impact on the real estate market would than translate into the CDOs. So I want to make sure I am clear about this.

We didn't get in a meeting and say okay, what about the CDOs? We didn't do that. We would get in the meetings and we would say we have got these securities

positions, they are supposed to be gold plated, but the real estate market is deteriorating. What are you seeing in the market about this? Who is buying this? Somebody is willing to pay X cents on the dollar for that. There was a trade. How do see that? Is that going to be a getting better situation or getting worse situation? I was trying to judge where the market was moving in that sense.

And so we would get input from the trading desks, we would get input in, towards the end I remember we would get input from our real estate people in the consumer business, certainly from the risk people. And I think that as part of that, as part of market color, we would also some times get trading activity on the leveraged lending book. So, somebody might say well, somebody just bought a piece of this private equity deal for 90 cents on the dollar. So that would be part of our mix of market color. But a primary focus would have been on the real estate market which would then have translated into the CDO valuations.

Q Mr. Prince, I am showing you what was produced by Citigroup and has been marked Citi 1611657. It appears to be a Power Point deck entitled Global Structured Credit Products, The Way Forward, September 2007, Michael Raynes.

(Thereupon, the document marked Citi 1611657 entitled Global Structured Credit Products, The Way Forward, September 2007, Michael Raynes was marked CR Exhibit 11 for Identification, as of this date.)

BY MR. BONDI:

Q Do you recognize this document?

A I do.

Q How do you recognize this document?

A I remember at one point we were having these meetings that described. I said I want to meet the fellow that is doing this. I want to meet as it turned out Michael Raynes. And I remember Maheras and Barker said: What do you need to meet him

for? I said with all that is going on, I actually want to be able to see the guy. I don't want to get it indirectly, I don't want to get it filtered. I want to look at this person, I wanted him to talk to me directly about what is going on. So, they got Raynes to come over and people put this thing together and he came up and sat in the library with our group and made this little presentation.

Q Was this the first time you had met Michael Raynes?

A Yes, first and only time. First and only time.

Q Who was Michael Raynes?

A He was this guy. I am sorry to put it this way. He was the guy who ran this. I didn't know who he was other than that. I learned since we hired him from Deutsche Bank. All I knew was he was this guy.

Q What was your impression after the meeting that they had with Mr. Raynes of Mr. Raynes?

A I think that Raynes was scared to death in the meeting. And I have a dim recollection that Barker told me afterwards, after the meeting, that Raynes expected me to fire him in the meeting. And so I think that my judgment of him in the meeting was probably not an objective or an accurate one. That is to say he was under a lot of pressure, he was under a lot of stress because of the context of the meeting.

He seemed to know the business. He seemed to have a much more optimistic view of the long term nature of the business, much more reflective of we are going through a dip, quite a large dip. But, but you know, don't give up precipitously kind of approach to it. That is about all I remember.

Q Did you ultimately fire Michael Raynes?

A No. The only person I acted on was Randy Barker.

Q Did you ask anyone else to fire anyone associated with the CDO business?

A No, I think I have answered that question. The only person I ever acted on in this context was Randy Barker.

Q Just wanted to make clear that you hadn't asked someone else to fire someone else.

A No.

Q Mr. Prince, I would ask you to turn to the page that is four, five pages into the deck, Citi 1611661, the topic says Development and Structured Credit at Citi.

A Yes. Okay.

Q The first bullet says, "Prior to June 2006, structured credit products was managed in silos." What does that mean?

A What that means -- and there are three sub bullets below that -- is that like any business, the capital markets and banking business is organized into operating units. And apparently structured credit products activities happened in several of these business units. That is what those words mean to me. By the way, all of these units that he mentions are within fixed income.

Q Do you know if the various silos under structured credit products, cash versus synthetic, New York versus London, capital markets versus trading, do you know if they utilized the same valuation methodologies for super senior tranches of CDOs?

A I don't. But I would be amazed if they didn't because we had a risk function which was separate from the businesses.

Q If you would flip two pages later to 665?

A "Analysis of what went wrong."

Q Yes. The analysis of what went wrong and proposed strategic changes."

First point. Significant dependence on distribution as proxy hedge to warehoused assets."

What do you understand that to mean?

A What that means is that the belief that Citi would be able to distribute

the products out of the warehouse was the significant dependence on part of this and was used in his view as a proxy hedge, meaning that the assets in the warehouse weren't otherwise hedged. And that I think in one of the Barker presentations that we looked at earlier, there was some reference to Citi's historical strength in distribution wasn't sufficient for something or other, and I think that is the same point.

Q What was your reaction to hearing that point about the significant dependence on distribution as a proxy hedge to warehoused assets?

A I don't remember any particular reaction to this single point on this single page of the presentation.

Q Did you agree with looking at this page 665 of what went wrong on these bullets? Did you agree with any of the analysis as to what went wrong when it was presented to you?

A Well, I don't have any way of

really answering that and the reason for that is this: In this presentation for this discussion by Raynes, he wasn't saying anything different than Maheras or Barker had been saying. And my, my view of this meeting was I simply wanted to hear it from the horse's mouth, if you understand what I mean. I wanted to make sure that he was saying this and that he actually believed it. But I don't think and I haven't reviewed this carefully obviously; you just handed it to me, but I don't think there is anything in here which is different than what Maheras and Barker was saying.

So, it is not as if I was getting new information. The only new information I was getting was that the guy running the desk believed this to be the case.

Q The bullet that says, "Unprepared for draconian meltdown scenario with respect to largest collateral asset. Risk limits too high."

What do you understand by the largest collateral asset? Is that the

subprime mortgages?

A Yes, I think he said that on an earlier page actually. As I was turning to get to this page, he said, I think he said something to that effect on page 658, the first page in the deck. "CDO market has come under significant assault this year prompted by an unprecedented fall in value of its largest asset class subprime mortgages."

Q Is reference to risk limits too high, was that the risk limits on the positions that could be accumulated on the books of Citi?

A I think that what it is referring to is if you look across to the right side of the page opposite that bullet, the change, the left side is what went wrong. The right side is what they would propose to do about it.

The change opposite that first bullet that you referred to is change in traditional CDO business model with respect to warehousing and counter party risk. I think this is the same point that we looked at a few minutes ago on this different document or a different document that talked about our market standard warehouse agreements weren't robust enough and our ability to put the loans -- I think that is what this is really referring to, that on a going forward basis, we would propose that our warehouse be much more not at our risk through the way that the agreements were structured and through monitoring the counter parties so that we would have the ability to put the loans back to somebody else. We wouldn't be stuck holding the bag as it were. And that the people we would put them back to would have to be of substance. I think that is what that means.

So, on the left risk limits too high, I think what he is referring to is that the way the warehouse agreements were structured and the nature of the counter parties didn't have us, give us the ability to put things back to people.

Q The next bullet, "Utilized

balance sheet specifically on super senior without a defined hedging strategy but within risk limits." Is that consistent with what Mr. Maheras was telling you earlier?

A I am not sure that Tom ever used those words. But I think it relates to the first bullet on the page, meaning that our hedge or our protection against the exposure wasn't a financial hedge with a counter party and so forth. But our hedge effectively was our ability, our historical demonstrated strong, et cetera, et cetera, ability to distribute.

And that I think what he is saying here is that because we had such a long history of being able to distribute the products out of the warehouse, that we didn't need, we thought we didn't need, to put a financial hedge on them while they were in the warehouse and that that was a problem. I think that is what he is saying here.

Q Did you have a view whether or

not a financial hedge would have been appropriate prior to this time period?

A Do I have that view thousand or did I have a view then? I don't understand the question.

Q I will clarify that.

When Mr. Raynes was presenting this to you --

A Right.

Q -- did you have a view that there should have been a hedging strategy in place in the past prior to this point where he is recommending a hedging strategy?

A I understand the question now, thank you.

At the time of this presentation, which as I recall was in either late September or early October, he was basically talking about what went wrong and how we are going to do it better going forward.

At that point in time, it was already -- I will put it -- becoming clear that we were going to have at what we thought at the time were modest losses in

this book. I think at the time -- well, I think even in mid September we were talking in the hundreds of millions of dollars. So at this time it was somewhere between Maheras' zero and a little bit more than that. But we thought we were going to have some modest losses in that area or worried about it.

And so at that point in time, of course I would have preferred to have had somebody else with that risk. And of course I would have preferred to have had somebody else have hedging exposure to us on what was in our warehouse.

But, the context here wasn't: Why didn't you have it before, what did you think about, why didn't you do it before? The context here was: I know we didn't have it. The reason we didn't have it was because we thought we could distribute everything. Historically we have been able to distribute everything. But going forward, we are definitely going to have hedges in place. That was the context of

the presentation.
Q How successful, do you know how successful Citigroup was in selling super senior positions?
A I don't know the answer. I don't whether our folks tried to sell a lot, didn't sell a lot, held them because they were thought to be so safe, I don't know the answer to that.
Q Flip to two pages later, 667, title of that page: Where Will The Alpha Opportunities Be In The Next Six to Twelve Months? The last bullet, "Reemergence of better structured CDO opportunties-finding higher fee potential given dislocation and potential competitor shifts."
A Uh-huh.
Q What do you understand Mr. Raynes to have meant by that?
A Well, this was his: We are in a dip in the road. And the business will immerge in a better way, there will still be structured CD opportunities, we will be able

to charge for more it because a number of our competitors won't be still in the business.
Q And did you form an opinion about whether this was a potential in the future for Citigroup based on what Mr. Raynes was telling you?
A I guess I thought at the time that it was a very optimistic view, that he was selling his view.
If we were in the mode of saying we don't think this business is coming back we are going to shut this business down, he would have been out of a job. So, just in a practical sense people don't usually kick themselves out of a job. So I took this to be his selling point that look, I know we are going through a rough patch now, but it is not going to be that bad and on the back end of this, it is going to be a much better business for us.
Q Did you feel as a whole, Mr. Prince, that the business persons such as Mr. Maheras and Mr. Barker and Mr. Raynes

were painting an overly rosy picture for you of the CDO business?
A Well, it turned out to be overly rosy. At the time, I didn't think of it using those words. I obviously didn't accept what they were saying or I wouldn't have gone through the process I went through. But I didn't think of it as being overly rosy. I thought of it as being much more of defensive role. People, when they do something, they are usually pretty defensive about it. It is very hard for somebody to say I did X and then to turn around and say that wasn't a very good thing to do. It is a very hard thing for people to do. And it is why I mentioned earlier, if you have a loan that goes bad you always put somebody else in charge of the work out. And I really thought at the time that they were underestimating the complications or the difficulties. But I didn't think it was in an overly rosy sense that they were, you know, consciously painting it to be better. I think that they were just sort of dragging

their feet if you understand the distinction I am drawing, and that is how I thought they were thinking about it.
Raynes I thought was selling. The other guys I think were thinking, you know, we have been through a lot of market dislocations, I don't want our bosses who are not in the business, haven't been in the fixed income business for 25 years, I don't want them to lose confidence or to lose resolve over a market dislocation. We have been through lot of these. It is not -- I know it looks bad now. We always come out of it. It is always going to be -- it was that kind of a context.
Q And what was your view in September and October's time frame of Mr. Bushnell's performance as a chief risk officer?
A I think -- I told you earlier that I was told many times that David was the best risk officer on the street. I believed that then. And I still think very highly of David's skills. I think that

David has to, has to reflect on what could have been done differently, what must have been done differently because I don't think it is satisfactory to simply say well, these things happen. But at the time I wouldn't have traded David for anybody else. So that is the only way I can answer the question.

Q And, Mr. Prince, as a former CEO, do you reflect on how things could have been done differently to have avoided or minimized the losses that Citi experienced?

A As CEO?

Q Yes, sir.

A Well, I have obviously thought about that a lot. The context I bring to that analysis is this: We had a $2 trillion balance sheet for the company as a whole. We were involved in lot of different businesses in lot of different geographies around the world. We ended up in a situation where a very, very small relative dollar value of assets caused great harm to the company. What could I have done realistically to have changed that? And I

have turned that over in my mind over and over and over again, as you might expect.

I have said earlier that simply having the information that was known at the time, I am not sure would have made much difference. If David Bushnell would come to me in June or July or a year earlier, the end of '06, and said I want you to understand that we are increasing our activity in this particular area or had said we are retaining these super seniors and had described to me what that meant and what the quality of the assets were and so forth as believed by the rating agencies, as believed by him as a risk professional, I think he would have pointed to the reported comment of Alan Greenspan that super seniors were as safe as U.S. treasuries. I think he would have pointed to Bernanke's comment that he did not see a large real estate crisis coming. I saw something from our chief economist, Lou Alexander, contemporaneous which said he not think we were going to have a serious recession. So I am not sure

what I would have done with that information.

If I had gone to Tom Maheras' office in the spring of 2007, the spring, after HSBC had their problems in the early part of the year with associates, and I had said Tom, I am nervous about these super seniors. Let's say I had that information. And I said I want you to sell these triple A rated securities. And he would have said well, why? And I would say because I am nervous that in the long run, we are going to see a real estate crisis like we have never seen since the depression. And I think that despite all the smart people who have done all the structuring, that the flood waters will actually get all the way up to that super senior level, I think I would have sounded like a lunatic. No one thought that would be the case in the industry.

Now, there are some hedge funds and so forth who bet against the real estate business, and I have seen that. But our

regulators from multiple regulatory agencies were fully embedded in our business. The rating agencies had this stuff rated higher than triple A. For someone not with a fixed income background to have gone and made that kind of direction to the largest fixed income business on the street, I think I don't excuse myself by saying that really wasn't a realistic situation.

So then I think well maybe, maybe it is because you weren't schooled in the business, maybe because you didn't come up through fixed income or maybe because we had a big business and you were worried about the consumer business or the acquisition in Latin America that you were working on or something like that. But I see whether it is Merrill Lynch or Bear Stearns, Lehman Brothers, firms that were much smaller, much more focused, led by people who were long time traders, market participants, missed the same issue.

So, I think to myself well, if I were Tom Maheras, would I have made a different call, if I had that kind of a background? I don't think he would have. So that leads me to, well, what could you have done? I know what I did do, which is that when the losses went from the hundred or 200 or 300 that people with talking about to 8 billion on a day, that I immediately resigned. I don't know what else I could have done. I am not satisfied with that answer. But I don't know sitting here today what I could have done differently.

If I had had information of a different character about the assets, I clearly would have acted on that. I turned down the Ameriquest deal, I turned down a number of deals where our consumer people wanted to buy lower quality assets. I directed our consumer finance people not to originate these loans. I think if I had had, if I had had the right information I would have acted.

Q Why did you resign?

A Well, this was quite a significant event, quite a negative event,

and it happened on my watch. How could you not resign?

Q Did someone ask you to resign?

A Just the opposite. When I told -- it was in the paper, I am sure you read the story. When I drove home and Gary called me and told me it wasn't going to be two or 300 million but it was going to be 8 billion -- I will never for get that call -- I continued driving, and I got home, I walked in the door, I told my wife, I said here's what I just heard and if this turns out to be true, I am resigning.

And I called Rubin that afternoon or the next morning, I can't remember, and I told him, and he said you can't do that. You can't, et cetera, et cetera. And it turned out to be true on Monday.

And so I called our senior, our lead director Alain Belda, and I handed him my resignation letter. I would say for that Monday, Tuesday into Wednesday of that week, they, several board members argued with me not to resign. And I told them, I said

look, this is going to be a big problem. Now, at the time we didn't realize that other people had very similar problems. I said this is going to be a big problem. And I am willing to continue to fight this fight. But my advice to you, if I were your lawyer, my advice to you is to accept my resignation. I said you are going to need a new person to lead us out of this difficult situation. You are going to need a new person who will start with a reservoir of credibility which where mine will be exhausted by this and so I will continue to serve if that is your decision, but my advise to you is to accept my resignation. And by about Wednesday afternoon, Thursday, they had decided to accept my resignation.

Q When do you recall first discussing super senior positions on CDOs with the board of directors?

A I am going to refer back to the 30 days or so that started with the middle of September and ended with the very end of October.

And if you were to fast forward that loop, if you were to have sort of a time frame fast forward, you would see that the issue first came up as a problem on my radar screen and then moved to a discussion among our group that I described in the library group, and then got on to the board's radar screen and then became an examination in a very detailed sense with Gary about valuations and valuation models and so forth and so on. And then was the end of the table. So without knowing specifically, I would have to have people recreate the paper trail.

My sense is that it was probably in sort of two-thirds of the way through that process which would have put us about the second week in October. I could be off. It wasn't before that 30-day started and I was gone after that. So it was sometime in that 30 days or so, and my best guess is it is about two-thirds of the way through that process.

Q Did any board member ask why

didn't you tell us about this sooner? Did anyone express frustration or concern with not learning about the super senior tranches sooner?

A Well, the answer is sure. As the thing unfolded, there was much: How did we get into this position? Why didn't we know this? How could we not know -- I am talking about me as well as them. I mean everybody. How could we have such a small part of the company with such apparent safety turn out to be so toxic? How could that be? How could it possibly be the case that something that the markets saw as triple A, the rating agencies saw as triple A, it was way off on the edges over here, a tiny little thing really, how could that blow up in this kind of way? Everybody was saying that.

Q Now you alluded to valuations and valuation models.

What were the challenges with valuing the super senior tranches of CDOs?

A These had to be mark-to-market, and when you have to mark-to-market things

and there is no market, that becomes complicated.

So, the way the accounting works, although I am not an accountant, the way the accounting works is that you use various models. And as I recall it, we used three or four models: Discounted cash flow model, a model that was based on the Case-Shiller index going from here to here. Three or four different models like that. At some point, one of our competitors made a big write-down, I don't remember who that was, and so that was -- well, they must have used a model of X backing into what their valuations were. So we looked at that as a model. Gary really led that process. But I remember there were at least three or four different models, and I think during the time I was there we finally settled on one that sort of averaged all of them across, is my recollection.

Q Were the models that you described, were they models that already existed or were these models that were being

developed by Citigroup and others at the time?

A I don't know the answer to that, I am sorry. My sense was that they already existed, but I don't know the answer.

Q I would like to turn your attention to the same document, page 1611679. It is entitled Current Risk Exposure and Mitigation.

A Yes.

Q It lists liquidity puts, 24.5 billion, ABS CDO cash inventory 2.3 billion. And the ABS CDO warehouse of 0.9 billion.

Was that your understanding in September 2007 of the current exposure to those three items?

A I can't really tell you. Again, during that time frame from mid September to late October, at some point the numbers were mentioned to me. My recollection is that the liquidity puts were a little bit after the super seniors that were held on the books. But whether that was new information the day it was presented, I can't remember.

Q What is meant by exposure?

A Well, it has lots of different meaning in lots of different contexts.

In context in which we are talking about, it would typically refer to something that is either where we have a liability I -- I started to say where we have exposure. Where we have a liability.

So, if you have an asset on your book, you have exposure to that asset. If you have someone who has a put to you or you have a backup line to that person, then you have exposure to that person and that amount. It is, it is a liability that is on your books or could be on your books.

MR. BONDI: Mark that, please.

(Thereupon, the e-mail Bates marked Citi FCIC E 16495 was marked CR Exhibit 12 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Prince, I am showing you what has been produced by Citi and Bates marked Citi FCIC E 16495. It appears to be an

e-mail from Andrew Liveris to you.
Who is Andrew Liveris?
A Andrew Liveris was on our -- well, still is on their board, is the CEO of Dow Chemical.
Q And below talks, below his e-mail to you it appears to be another e-mail that you are on Leah Johnson?
A Leah Johnson was the head of public relations for Citi.
Q And it says, subject is Q3 earnings announcement. And it has attached is a copy of the press release that we plan to release and a transcript of the prerecorded call.
A Uh-huh.
Q I would like to draw your attention to page three of the recorded call transcript?
A What is the Bates number.
Q Bates number is 16498.
A Got it, thank you.
Q Draw your attention to the penultimate bullet down there.

A Uh-huh.
Q It says, "Starting in January of this year, we began to lower our exposure to the subprime assets as we saw the market changing. At the beginning of this year, we had 24 billion of secured subprime exposure in our lending and structuring business. That number was 13 billion at the end of June and declined slightly this quarter."
Do you recall Mr. Crittenden saying that in a recorded transcript call on October 1st, 2007?
A I don't have an independent recollection of it. I know we did do a recorded call, and I assume this is accurate, but I don't have an independent recollection of it.
Q A few minutes ago on the Exhibit 11, we saw a list of other exposure. Here Mr. Crittenden said the number was 13 billion at the end of June and declined slightly this quarter.
A Uh-huh.
Q Why the discrepancy between the

exposure that was in Mr. Rayne's presentation of the global structured credit products, A Way Forward, and what Mr. Crittenden was saying in this recorded earnings call on October 1st, 2007?
A I can only try to put these together based on looking at the two documents. That is to say, I don't have, remember having any discussion with Gary about the number was X, Y or Z. My guess is that --
MR. BIRENBOIM: I don't think you should be guessing.
THE WITNESS: Okay.
MS. BUERGEL: If you don't have any understanding of how this is put together, Mr. Prince, the recorded call transcript and how it relates to the deck, then you shouldn't speculate.
THE WITNESS: As I said, I don't have a recollection of that.
BY MR. BONDI:
Q Did you agree as of October 1st,

2007 that Citigroup's exposure was 13 billion at the end of June and then declined slightly this quarter?
A Again I can't, I don't have an independent recollection of how Gary came to these numbers. You have shown me the other exhibit with a long list of numbers. And you have asked me why these numbers are different than those numbers. I don't know the answer to that.
Gary was responsible for putting all the numbers together. It is not as if we sat with that exhibit on one side of the table and this on the other side of the table. You are very appropriately I guess putting these together, but I don't recall how we got to those numbers so I can't really other than guessing which I have been asked not to guess, I can't really help you with that.
Q The Raynes presentation from September 2007 lists substantially more exposure.
MR. BIRENBOIM: What page are

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you referring to?

MR. BONDI: I am referring to page Citi 1611679.

MR. BIRENBOIM: Those numbers are in September?

MR. BONDI: In September.

MR. BIRENBOIM: This is in October.

MR. BONDI: Correct.

BY MR. BONDI:

Q Mr. Crittenden this October talks about exposure being 13 billion at the end of June and declined slightly this quarter.

Did you ever ask Mr. Crittenden how are you coming up with something less than 13 billion when internally we are hearing something a lot more than 13 billion?

MS. BUERGEL: Mr. Bondi, there is a lot whole lot of language about what exposure means here. You are plucking that out of a multi-paragraph transcript. And Mr. Prince, I will remind you if you don't have actual

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facts to offer, you shouldn't speculate.

MR. LERNER: You can answer yes or no.

THE WITNESS: I don't remember the question that far yes or no. But I don't have any independent recollection of how he got to those numbers, so all I could do would be to guess.

Q I don't think that was my question. I will let the court reporter read it back just to get it right.

(Thereupon, the record was read back by the reporter as recorded above.)

THE WITNESS: No.

BY MR. BONDI:

Q On November 4th, 2007, Citigroup announced that it had 55 billion in subprime exposure mentioning in disclosing the super senior tranches and the liquidity puts.

Do you have any understanding of how the announced exposure went from 13

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billion in October to 55 billion on November 4, 2007?

A Well, I feel like I am edging into the same territory we just covered on the earlier question, so I am hesitating to see if my lawyers want to say anything.

MR. BIRENBOIM: You should testify to what you have personal knowledge to, not just to what you read in the papers afterwards or speculation.

THE WITNESS: What I have personal knowledge of is the following: On the Saturday, eight days before that Monday, Gary Crittenden called me and told me we weren't looking at a couple hundred million bucks, but we were looking at eight billion dollars.

On Monday of that week, so a Monday before November 4th, I sat with Gary and as I recall it one or two people from our securities business and worked through their analysis of

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how, when I went home on Friday it was a couple hundred we were possibly going to have to deal with, and 72 hours later it was 8 billion. And over the course of that day on Monday, I became convinced that their calculation at the end of that day was correct. And that is when I handed in my resignation. And really didn't have any substantive involvement after that.

Q Let's move on to 13.

(Thereupon, the document Bates marked Citi FCIC E 41087 was marked CR Exhibit 13 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Prince, I am showing you what was produced by Citi and it is Bates marked Citi FCIC E 41087.

A Correct.

Q And it is a cover e-mail attaching a, appears to be Power Point presentation. The cover e-mail is from

Sheffali Welch e-mail on behalf of Gary Crittenden to you and it is dated October 14, 2007.

"All attached, please find the audit committee deck for tonight's call at 9 p.m."

Do you recall attending the audit committee call at 9 p.m. on October 14, 2007?

A I don't think there was an audit committee call on the, at 9 o'clock. My belief is that the 9 o'clock call was a prep call because it says sent Sunday, October 14th. The presentation says October 15th. And the list of people it was sent to would have been the kind of group we would get together with to prepare for tomorrow's meeting. And so my guess is that the Sunday night call assuming there was one, I don't recall a specific call, but assuming there was one was a prep call among these various people.

Q Do you recall attending the audit committee meeting or call on October 15th?

A Well, I certainly would have gone to the board meeting. I don't think this was just an audit committee presentation. I think this was, I think this was actually presented to the whole board. It may be that Gary's assistant misspoke, it may be that it was presented first to the audit committee and then to the full board. I think this was the big presentation to the board and I don't think it was just an audit committee. So -- and I am sorry to be particular. The answer to your question about the audit committee is no, but I think it was presented to the full board and I was there for that.

Q On page 37 of the deck, Citi FCIC E 41124, there is a "lessons learned" page?

A Lots of lessons learned pages, aren't there?

Q Yes, sir. And if you wouldn't mind just reading these six just to yourself in the interest of time and let me know when you are finished.

A I have read them.

Q I know we talked about many of these same lessons, and I just wanted to ask you on these six lessons learned that were presented to the board did you agree that these were lessons learned to Citigroup?

A Oh, I don't know. This -- these quote lessons learned were presented at a time when the fullness of the issues weren't completely understood, I think.

So if I were sitting here today, I wouldn't from a policy standpoint try to determine whether someone's suggestions of lessons learned put up in October of 2007 were the appropriate ones, whether they were implemented fully or not.

Since the time of this presentation, there has been almost a complete change in personnel at the company in the areas that we are talking about, and I think I would much more importantly look at what those new people thought the lessons learned were as opposed to what people thought at this point in time.

Q Mr. Prince, I am showing you what

was produced by Citi Bates marked FCIC 2970.

(Thereupon, the document Bates marked FCIC 2970 was marked CR Exhibit 14 for Identification, as of this date.)

A Yes.

Q It is a discussion of October CMB performance, presentation to the board of directors October 31, 2007.

A Yes.

Q Do you recognize this document?

A Oh, I don't have an independent recollection of it, but it certainly looks like something that was presented.

Q Sure. If you wouldn't mind taking a moment just to flip through it.

A Uh-huh.

Q To familiarize yourself with it.

A Yes, okay.

Q If you flip to page eight of the deck, Citi FCIC 2978, there is a list of subprime marketing methodology continued and it lists the ABCP. Did you understand ABCP to mean the asset backed commercial paper

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associated with the liquidity puts?

A Uh-huh, I think so, yes.

Q And the high grade ABS CDOs, mezzanine ABS CDOs and ABS CDO squared transactions, when this was presented to the board of directors on October 13, 2007, do you recall any reaction --

MR. BIRENBOIM: October 31st.

MR. BONDI: Sorry?

MR. BIRENBOIM: I think you said 13 or maybe I misheard.

BY MR. BONDI:

Q The presentation to the board of directors on October 31, 2007?

A Yes.

Q On page eight when it lists the various positions that Citigroup had and the net exposure associated with those positions as of September 30, 2007, do you recall any reaction by any of the board members when they heard this?

A The exposures?

Q Yes, sir.

A You know what I can't do? I

can't separate the different meetings, as obviously as the, as the situation deteriorated, there was more and more concern. But I can't in my mind remember whether this meeting had this conversation or that meeting had that conversation.

To the extent of exposures, if, if the question was more narrowly did someone say something extraordinary about the total number on the page or any of the components that led up to the total, I don't remember that. But you have to put it in context, I think. The exposure that we were looking at here in terms of the impact on the company was a couple hundred million bucks and in a company that earned five billion dollars quarterly, you don't want to lose $200 million obviously, but there was nothing on this page that would have caused one of the directors to say my gosh, what is going on here, because that is not the information that was being presented. And I know you are on a fact finding mission. Can I direct you to something?

Q Please.

A If you look at pages four and five, this is actually a key chart, you can see the three lines. They were in color on the original chart, but for here I will refer to them as the top line, middle line and the bottom line. The bottom line, it was the sort of the lowest quality. You can see in the very bottom, it is the right hand reference which ends with triple B minus. And the middle line and the middle reference is to single A. Do you see that at the bottom of the page? And the left side of the page you see the triple A, that is the top line.

And so if you look across, this is an historical chart on page four, and you can see that the bottom line, the worst quality over the course of the first part of the year going to March '07, you can see that first vertical line there, March '07, the bottom line deteriorated and then picked back up to a kind of a 75 percent level. And then in June began to deteriorate. And

in June, but only in June, the single A, the middle one, started to deteriorate. So up until, up until June, even the single A product hadn't really been affected.

The top line, the triple A, which is the super senior kind of quality stuff, straight as a line across, no impact at all. It began to waiver a little bit in that July, August time frame. You can see as we go into September, you see the line that says 8/29 and into September, it is trended back up and it is almost at a hundred percent again. And then you flip the page and you see that after the ratings downgrade, the top line began to deteriorate in that far right side of the page.

Q I am sorry, you are looking at page five?

A Now I am over to page five. Bates number 975.

Q And it is the last box, I apologize, the copy looks a little bad, it, looks like 10/11?

A 10/11 Moody's something

downgrade.

Q I think it is et al, Moody's et al downgrade?

A Yeah. That was really the only time -- you can see a little wavering on the top line in the middle but it actually recovers into the September time frame and then when the downgrade happens, that is when it falls off a cliff.

And so I point this out because this is a very good visual reminder of when Tom Maheras or somebody says look, the super seniors are not going to be touched. They would point at this chart, and they would say look, you can see that even though this has gone down, this one is straight as an arrow. And then in the summer we would say but it is still going down. And he would say yeah, it is, but you can see the top one is coming back up. It will be okay. Don't panic here. Don't go crazy here. This is going to be fine.

That was the context of the discussions as we came into the late summer.

I am sorry to divert you from your question, but this is a very good pictorial, these two pages, of what happened over the course of that summer and into the fall.

Q I appreciate that. I thank you. We definitely are trying to get at the facts. I appreciate the clarification.

Does the, on page eight of the Power Point where it lists the high grade ABS, the mezzanine ABS, CDOs, and the ABS CDO squared, did any of those three translate to any of these three lines on the graph on page five?

A It would -- the lines on page five deal with the credit rating. So anything on page eight that related to triple A these would relate to. So, if the high grade ABS CDOs were super seniors, then they would definitely be in the top line.

If the ABS CDO2 transactions related to super seniors, they would be in the top line as well. On page eight are formats that relate to quality of assets. They are not directly related. It could be

anything in ABS CDO2 , it could be low or high grade, but I think all of this related to the super seniors which may be why the marks that are shown on page eight, the projected marks, are so low.

Q Mezzanine ABS CDOs, that wouldn't have been super senior, though, would it?

A I don't know the answer to that. I don't though the answer to that. And the reason I don't know the answer is mezzanine could refer to a place on the hierarchy of the structure, or it could refer to a loan that is in the middle of credit, a loan portfolio. In other words -- I am sorry it is so confusing. You could have a subprime loan that is structured so that the highest tranche was thought to be triple A. And mezzanine could refer to something that is midway up that tranche. Okay?

But it is all based on a subprime loan at the bottom. You can also have a situation where a mezzanine loan to a corporation, to anybody, not real estate, a mezzanine loan could be structured. And

then you can have a low quality mezzanine loan, a middle quality mezzanine loan, and a high quality mezzanine loan. And I don't know whether this is referring to real estate in the middle of the structure or to a type of loan, like an auto loan would be a loan which would be structured or a credit card loan could be structured.

A mezzanine loan is a kind of a loan, and I don't know whether it is referring to that kind of a loan or a structure in the subprime structuring. I am sorry. Maybe it can be determined, but that is why I don't know which one it is.

Q This October 11th line pertaining on page five of the graph pertaining to Moody's et al downgrades. Seems very significant.

A I will say.

Q And I am interested to know, was your view that Moody's and others got it right on October 11, 2007, or that they got this downgrade wrong? Or what is your view of these downgrades that occurred on

October 11, 2007?

MR. BIRENBOIM: What his view was at the time or what his view was looking back now?

MR. BONDI: That is a fair characterization. Let's take those, both of those questions so we make sure the record is clear.

BY MR. BONDI:

Q At the time what was your view of the downgrades?

A At the time what Maheras and Barker and our folks said was that these will be accounting marks, not economic marks. What they meant by that was that because the ratings are cut, there will be an accounting loss instead of being marked on your books at -- I am making up a number -- a hundred, they will be marked on your books at 50. But they would say in the long run, if you hold the instrument, not if you are trading it, but if you hold on to it and wait for it to pay out because it is a bond, that you will be paid all of your

money plus interest. So, in an economic sense, there won't be an ultimate loss. There will be an accounting loss, not an economic loss. That is what they would say. I would say at this point I don't know whether that is true or not. In other words, I don't know whether or not sitting here today the super senior tranches are in default. Maybe you know. I don't know.

I read something in the paper the other day about something with Goldman and AIG where they said that the Goldman -- the worst Goldman originated tranche had lost 90 percent of its value or something like that but was not in default. So I don't know whether in the long run these ratings reflect economic losses. It may be the case. I think if Maheras were sitting here he would say we structured these so that as the flood waters of default rose, there were no circumstances under which the waters would breach into the super seniors.

Without knowing, I would bet that if Maheras were sitting here today he would

say they haven't and they won't. But that because no one's willing to take the risk that they won't, no one is willing to buy them. And because it is a mark-to-market paper, you have to value it not on the ultimate, although insurance companies hold it that way, right, but securities firms have to mark-to-market. And so in that sense I don't know whether or not in the long run the marks are correct or not correct. I know that it caused a precipitous drop in value, it caused havoc. I mean this was the precipitating event that broke the financial system. And there were a lot of things that happened since that could have been done better or worse. But this is the thing that broke the financial system.

MR. LERNER: I think you ought to give Mr. Prince a two-minute break if this is a convenient time.

MR. BONDI: Sure.

(Brief break.)

BY MR. BONDI:

Q We mentioned before the break or we were talking before the break mark-to-market accounting.

A Yes.

Q What role did mark-to-market accounting play in the difficulties at Citigroup?

A Well, I think for every one on the street, if you have to mark-to-market and there is no market, as I said earlier, it makes it very complicated. And if you have a temporary liquidity problem and today the liquidity problem has abated at least if not solved, but it is abated, if you have a temporary liquidity problem, then that has a negative circle or loop that makes things worse and worse and worse. So, if you can't sell something at a price, then you have to mark it lower. If you have to mark it lower, it makes it harder to sell which makes it down and down and down and down.

So, there is a negative reinforcing loop from mark-to-market accounting. You don't have that with loans, you don't have that in the insurance business. It is an unusual feature of the securities business.

Q Speaking more generally about the financial crisis and the markets as a whole, in your view, what was mark-to-market accounting's role in the financial crisis as a whole? Do you view it as a significant factor in the crisis, a contributing factor, a minor point? I am just trying to get a sense of your views in terms of the overall crisis and mark-to-market accounting's impact.

A I recognize that is a very controversial subject and you have lots of views on it. I think that mark-to-market account was somewhere between a contributing factor and a significant factor, somewhere between. And I think it has the effect of being pro-cyclical, meaning it worsens things rather than helping to make things less worse. And that is a negative.

Q Are there any lessons learned in the space of mark-to-market accounting that

you have thought of in terms of what we can do differently in the future with respect to mark-to-market accounting or accounting in general?

A I actually have a point of view on that. The debate is between people who think that there ought to be mark-to-market accounting because there is a purity of that. There is -- you don't want people hiding things on their books, you don't want them to be zombie banks and so forth.

And people at the other end that say mark-to-market accounting really causes the fall in value to be accelerated and to be so forth, so on.

I think that mark-to-market accounting ought to be treated in much the same way, a bad analogy, but an analogy, that pension accounting has created.

So, if I have a company and my pension plan is underfunded, I am not required to make it all up today. I can make it up over couple of years. And I think if you had a situation where

mark-to-market accounting involved stating a mark, but only having to recognize on making this up, a third of it, assuming you have stated an intention to hold the instrument, and you have to recognize a third of it this year and a third of it next year and a third of it -- now the mark market will change as you go along. So it is a third of whatever the mark is at that point in time and so forth. I don't think anybody would do this, but that is my point of view. You are asking me my point of view.

My point of view is that it is not an either/or. It is a how do you recognize the mark. But if you have a situation where you have a precipitous event, there is no ability to deal with that and the damage is accelerated by that precipitous event.

Q Mr. Prince, Citigroup was during your tenure supervised by the OCC, Federal Reserve, Federal Reserve Board of Bank of New York, among other regulators.

A The FDIC.

Q The FDIC.

Were your regulators in your opinion asking the right questions of Citigroup and Citicorp personnel?

A That is a very general question.

Our regulators were for the most part embedded in the organization. They had offices at the company. They were there full-time. I met with the regulators on a very frequent basis. They met with our directors, with the audit committee. They met with our auditors. They met with Dave Bushnell frequently. There was nothing that we were doing that wasn't fully transparent to the regulators.

In the context of what we are taking about, the question is were they asking the right questions, they clearly didn't ask the questions that related to the ultimate losses on the super seniors. Neither did Tom Maheras. Neither did the rating agencies.

So, I think that the regulators -- and I would say this with great respect. I think the regulators were in the same category of believing based on the information they had that these positions would not turn out to be very dramatic loss positions for the company.

So I don't think it was a matter them asking the right questions or wrong questions. It is much like the discussion we had earlier about information flow. I think they had the information, but it turned out to be completely wrong for everybody.

Q A lot of debate, Congress and on Main Street and Wall Street and elsewhere about regulations and whether the crisis that we experienced was a failure of regulation or regulations. And I wanted to know, Mr. Prince, do you have a view of that? Were there regulations that failed during the crisis or leading up to the crisis? Were there regulations that were missing that you believe should have been in place?

A I think clearly -- we talked

earlier about the regulatory structure of the origination of mortgages. This is done on a state by state basis. It is very spotty. In some states it is more robust than in others. In some states it doesn't exist at all. And I really think that among the many causes of what happened, the increasingly unhealthy nature of the raw material that went into the securitization factory was a big contributor. And if we had had better regulation of the creation of that raw material, we would have -- I don't think we would have had the crisis honestly. That is more the absence of regulation or the unevenness of regulation, that is an area that I would focus on. I frankly don't see much of that talked about.

Q How were you compensated at Citigroup? Was it a metrics? How did your compensation get developed.

A Well, there is very extensive disclosures in our proxy statements about the compensation, so I would be reluctant to summarize all that. I think the best

approach would be to try to read the disclosures in the proxy statement which had year by year by year very extensive and detailed discussions about that.

Q There have been much debate over compensation in general and about the incentives that go along with compensation.

In retrospect, do you believe that the compensation structure at Citigroup vis-à-vis the employees in the investment bank, structured credit, caused or contributed to some of the decisions that were being made that ultimately led to losses to Citigroup?

A Let me talk to, let me talk a little bit about how compensation worked at our company and make it personal, talk about me.

I had a career with the company which company and its predecessors was almost 30 years and was fortunate enough to be CEO for four years.

In that time frame, certainly for all the periods that were pertinent to my

having a leadership position the last 15, 20 years, our compensation was split between cash and stock. And for most of that time frame, we were required to retain so long as we were employed a hundred percent of the stock. We had no ability to sell and cash out.

When we merged with Citicorp in 1998, we lowered that requirement from a hundred percent to 75 percent, meaning you could sell 25 percent of your stock. In my case, I didn't do that. I kept a hundred percent. And over the course of 30 years, built up because of the percentage of your compensation that went into stock and the requirement to hold it, I built up 30 years, a career's worth of compensation in stock which I watched go from $52, $53 a share to $0.97. And virtually every share of stock I ever got I still own.

I think that that compensation program aligned me pretty well with stockholders. So I think from the standpoint of the leadership of the company,

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if you have that kind of a program, you are pretty well aligned. Now, I can't speak to people who might have sold some of their stock, might have sold their stock after they left the company, I didn't do that.

At lower levels of the company, at the level of someone running a particular desk, there I think that it is possible that the compensation structure could incent people to act aggressively.

You may remember I talked about the five-point plan in trying to emphasize to everyone long term versus short term. In Japan, don't go for the short term and risk the reputation of the company.

In the MTS trade, don't do that quick trade at the risk of putting off all of our clients. And despite all that, I can see situations where someone might have, do something because they were incented in the short run.

But I think that is not really the issue. I think the issue for Wall Street is there structure of compensation

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which incents organizations to go in directions, not individuals to go in directions. And all I can speak to is what happened in my case, and in my case I don't think it had that effect.

Q We have been looking at the accounting and the losses at Citigroup and one thing that struck me was the amount of off balance sheet activity at Citigroup.

Do you have any views in terms of whether the off balance sheet accounting caused or contributed to any of the financial problems at Citigroup in terms of when items came on balance sheet?

A That is a very broad and complicated subject, and I am sorry to respond that way.

The notion of having items off balance sheet is not in itself an unusual or complicated item. Almost all financial institutions have some activities or some assets that are off balance sheet. It is not appropriate to do off balance sheet activities to manage your quarter end. And

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I have read in the papers about the Lehman stuff and so forth. And if it is true that they did that just for quarter end, that's not appropriate.

But most institutions don't do it that way. They don't, they don't do it at the end of a quarter and then back on and off, on and off. But the notion that having off balance sheet activities is normal doesn't answer the question.

In Citi's case, as it turned out, there were certain asset classes that came back on the balance sheet. Most all of that happened after I left the company. So, I can only speak to it in the context of an outsider. But in that context, I think that again it is the precipitous nature of actions more than the actions themselves, I think. The suddenness of it, the inability to react, and so in much the same way that the rating agencies, the collapse of their thinking about structured products precipitated the decline of the triple A tranches, the liquidity crisis apparently

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forced these vehicles to be reconsolidated. And on a going-forward basis, I don't think that the right answer is to say you can't have things off balance sheet, but I do think there has to be a way to think about dealing with a precipitous reversal of those activities.

Q In December of 2007, after you had left the company, Citigroup made the announcement that it would bring on assets and liabilities associated with the seven structured investment vehicles out of London.

A Uh-huh.

Q The SIVs.

I know that occurred after your departure, but what role did you have in discussions concerning those SIVs prior to your departure?

A John Havens on our calls -- remember I said we had these calls periodically. John Havens was charged with managing the SIVs and the liquidity of the SIVs. He had taken that on as part of new

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responsibilities. And he would report on being able to sell an asset here or to roll over some commercial paper there and when I left was still reporting that he believed that we would get through the funding situation on the SIVs. That is that they would be self funded. That is the last I heard of it.

MR. BONDI: For this next exhibit, I think we might not want Mr. Learner to leave with it given the nature --

MR. KARP: This is the Federal Reserve April 15th --

MR. BONDI: Yes.

MR. LERNER: I won't steal it, I promise. I will give it back.

MR. BONDI: Do we have an understanding you will give it back after the questioning?

MR. LERNER: I will give it back.

(Thereupon, the document Bates marked FCIC Citi 198 was marked CR

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Exhibit 15 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Prince, I am showing you what is, was produced to us by the Federal Reserve and it is marked FCIC Citi 198. It is dated April 15, 2008. It was to the board of directors, care of Mr. Pandit, your successor.

I take it, sir, you haven't ever seen this document?

A I have not received or reviewed a copy of this.

Q I would like to draw your attention, sir, to the second page and it refers to a downgrade to Citi with respect to its risk management under the summary of risk management conclusions, Bates number 202?

A Got it.

Q I am going off of the page numbers at the top.

A I see that now. I apologize.

Q It is Bates number 202.

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Under the summary of risk management conclusions, "The assessment of Citigroup's overall risk management has been downgraded from a satisfactory to fair. It primarily reflects weaknesses in the firm's is setting and monitoring of its risk appetite and exposures that led to severe and unexpected losses and in its marking and bank business CMB."

What is your reaction, sir, to that statement?

A Well, this is, I have not seen this before. It is a document that appears to be about 26, 27 pages long. And I don't know the basis by which this first sentence of the summary paragraph, on what it is based, and I don't know what the company's reaction to this was. So with all those caveats, you know, I think it is -- I don't really have a comment on it. I think it is an unusual thing given the fact that the Fed was embedded in our organization. But since I didn't see it and don't know what the company's position is, I don't really have a

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reaction to it.

Q Please flip to the third page of this document, Bates FCIC Citi 203. The last sentence of the carryover paragraph reads: "Further, senior management at the firm allowed its drive for additional revenue growth to eclipse proper management of risk while risk management failed to serve as an effective check against these decisions.

Do you have any reaction to that statement by the Fed?

A I would just give you the same answer I gave before.

Q Next paragraph. "Management did not correctly identify and assess its concentration to subprime risk exposures and its CDO trading book which produced significant losses that severely eroded the firm's capital and its reputation."

Do you have any reaction to that statement?

A Well, the "did not correctly identify its concentration," I think is

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incorrect. I assume that people knew what we had there.

We did not correctly assess, I guess that might be closer to it. No one correctly understood what it meant to have those exposures in the CDO trading book. And I would say with respect, the Fed didn't either.

Q The next paragraph, the penultimate sentence I would draw your attention to, it begins with "it also did not properly," the "it" I will submit, if you carry over from the two prior, three prior sentences, it appears to refer to the firm, Citigroup.

"It also did not properly highlight the funding and liquidity implications of on-boarding assets and in the case of certain counter-party credit exposures such as liquidity puts that had been written to CDO conduits, under measured their potential impact."

What is your reaction to that statement by the Fed?

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A Again, without having read the whole document and without having read the company's response to it, all I can say is that the Fed was embedded in our organization, understood what we were doing. And beyond that I don't really have a comment on this.

Q And if you would bear with me, sir, I have a few more to ask you here.

A Sure.

Q The next paragraph, "Senior management, as well as the risk management function charged with independent monitoring responsibilities, did not properly identify and analyze these risks," carrying over I think from the prior paragraph, "in a timely fashion and were slow in presenting them to the board of directors and the audit and risk management committee."

What is your reaction to that statement?

A The first part of the statement I would have the same reaction I had before. The second part, slow in presenting them to

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the board and so forth, I would disagree with that. I think that we presented information to the board in a very timely fashion.

Q The next sentence pertains to the board itself. It says, "The board of directors in turn does not appear to have posed the proper questions to senior management in the early stages of the subprime mortgage crisis which otherwise might have caused senior management to report more meaningfully and completely on the potential impact on the firm's risk exposures and future earnings."

Again, do you have any reaction to that statement?

A I simply disagree with it. I don't think that the board could fairly be criticized in light of what market professionals, the rating agencies and the regulators, in light of the conduct of those parties over the course of 2007, I don't think that our board can be criticized for what they did over the course of 2007.

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Q The next paragraph, bear with me.

A I understand.

Q I want to go through the next paragraph at the least, please.

"Exasperating this situation was the fact that communication among the independent risk management function business line management and senior management on aggregated inherent subprime risk across portfolios and products proved to be inadequate when credit and market conditions deteriorated in 2007."

Do you have a reaction to that sentence?

A I don't think that the issues that we had in 2007 related to risk across portfolios and products. I think it was pretty well encapsulated in the fixed income business.

I think that in 2008, in a broad consumer slow down, there were products in different areas, very similar to the rest of the industry. But I think that in 2007 it was actually a very narrow product, not a broad based set of products.

Q Do you know if the CDO desks at Citigroup were communicating with other entities within the Citigroup umbrella that had some dealings with mortgages or the real estate market such as the RMBS securitization desk or such as the origination teams at Citi financial? Do you know if there was communication from the CDO desk to other areas of the entities?

A I don't.

Q If there was not, would that have surprised you?

A Communication about what?

Q Conditions in the real estate market and the decline?

A I would have expected that anyone in trading business would have reached out to as many sources of market information as one could get. And that you would have a more welcome reception from members of the family. So it seems to me logical that all of the parts of our business that dealt with mortgages would have had a natural

inclination to call and get market color. That is all I can add.

Q Looking back at the document, the next sentence in that paragraph says: This, meaning the communication -- strike that. We have already covered I think that sentence or at that least that concept.

The next sentence though, it starts with, "Senior management incorrectly discounted the probability that the deterioration that was becoming evident in the CDO market and in the subprime credit conditions during the spring and summer of 2007 would have such a significant deleterious affect on the firm's valuation of its assets and its ability to syndicate problematic assets."

What is your reaction to that statement?

A Well, senior management presumably includes more than just the CEO and the CFO and so forth. If you include in that Tom Maheras and Randy Barker, the people who were running the fixed income

business and had the background and the responsibility for running that business, I think it's probably correct to say that they incorrectly discounted the probabilities that the deterioration, et cetera, et cetera.

What I would object to or what I would not agree with is the use of the word probability instead of possibility.

Q What do you mean by that?

A The sentence says, "Senior management incorrectly discounted the probability that something would happen." It clearly wasn't probable that something would happen. It was -- in the spring and summer of 2007, it was at best remotely possible. It was at the far end of unlikely at that point in time, looking at every external indicator, the documents you have shown me today proved that.

So, it was not a probability that was discounted in that time period. It was a remote possibility. I think they did discount, if I can change the words, they

incorrectly discounted the remote possibility that the deterioration, et cetera, et cetera.

Without agreeing with every single word, I think if you were to say that Maheras and Barker in the summer, not the spring, but in the summer made a mistake about this possibility, this fairly remote possibility, one of the documents said 0.01 percent, I think, if their view of that turned out to be as wrong as it was, then yes, they were incorrect about that. But I think it was later in the year and I think it was a remote possibility, not a probability.

Q The next sentence reads: "While the firm ultimately released those managers whose businesses incurred the losses, some other remedial actions were slow in coming after the subprime CDO exposure was identified and its ramifications on earnings were announced."

Do you have any idea what the, whether there were other remedial actions

that were slow in coming after the subprime CDO exposure was identified and its ramifications on earnings were announced?

A I don't know the answer to that.

Q That may have occurred after your --

A Presumably the ramifications on earnings refers to our announcement in mid October and I was gone, yes, late October, early November, and I was gone after that.

Q When was your official last day?

A I think I was on the payroll until the end of December, but my last day as CEO was November 4th.

Q The last sentence of that paragraph is, "Two rounds of CEO write-downs were announced before a unit was formed to concentrate on loss mitigation and enhancing the CDO valuation process."

What is your reaction to that statement?

A I don't have any reaction. I mean I know what the words mean but I think it happened after I left.

MR. LERNER: If you are done

with this, I'm returning my copy.

MR. BONDI: Thank you.

BY MR. BONDI:

Q Do you know someone named Richard Bowen?

A Richard Bowen. Doesn't ring a bell. Sorry.

Q Did you offer any advice to Mr. Pandit in his role as CEO when he took over as CEO? Did you give him any advice?

A Well, you have to remember that Vikram didn't take over until some number of weeks after I left.

So it is not as if there was a hand off of the football on a Monday afternoon.

The only thing that is responsive to your question, I did meet with Vikram for breakfast at some point. This would have been sometime in 2008, first half of the year, but I don't remember exactly when. And he asked me my thoughts about different parts of the company and so forth. And the only thing I remember telling him was that

our consumer group had significantly under-performed for a number of years and that he should be very watchful of the performance of U.S. consumer business. And please don't take that out of context. It is not that I didn't talk to him about the securities business. But he had a background in the security business. And so I am sure we talked about the securities business, but it is not as if I felt that there was anything special that I was going to add to his thinking on the subject, but he did not have a background in the consumer business.

Q Take you back in time, Mr. Prince, to some testimony that you gave on April 29, 1998?

A That is a different lifetime, isn't it? Testimony where, if I may ask?

Q I will get to that. It was a hearing before the House Financial Services Committee on bank mergers on April 29, 1998. This was about a year before the Financial Services Modernization Act, the Gramm-Leach-Bliley Act which repealed

Glass-Steagall. And you said something there, and I just will read it for the record to get your reactions.

"The size, resources and diversity of operations of the new company will provide the financial strengths and stability necessary to survive and grow in today's rapidly changing world.

"Whether it is a country crisis, a real estate crisis or any other crisis, it is clear that the financial services company of tomorrow and its customers must have the ability to withstand shocks.

"As companies become larger and more diverse, they are better able to serve as a source of strength and stability, not only for their affiliates but most importantly for their customers. This is what we will do for the 100 million customers of Citigroup."

What is your reaction to hearing that statement now that you had made on April 29, 1998?

A I am not sure how to answer the

question.

Q Fair enough. That was general, and I should be more specific.

Do you feel that your description in terms of the size, resources and diversities of operations of Citigroup that had developed as a result of the merger with Travelers, the Citicorp/Travelers merger, and the growth through the years, put it in a better position to withstand financial shocks?

A Yes.

Q The model that you were describing in terms of the companies becoming larger and larger, more diverse and better able to withstand shocks, is that still your view to this day in terms of companies being larger and better able to absorb shocks as opposed to more focused and streamlined, or are we talking about two different things?

A Well, I think we are talking about a couple of different things.

In the case of the financial

crisis, what we saw was that a variety of firms, some small, some medium, some large, encountered significant problems. Bear Stearns was a fraction of the size of Citigroup, Merrill Lynch was somewhere in the middle. AIG was probably bigger in some ways. And some were brokerage houses, some were banks, some were insurance companies. We see a whole variety of institutions that were hit very hard by the super senior issue, basically.

So, I don't think that from the financial crisis one could reasonably take a view that size, type of business, or any of those characteristics were determining characteristics. I don't think you could, in light of Bear Stearns I don't think you could come away and say well, gosh, the bigger the company, the more complex, the more difficult it is. I don't think in light of AIG you can come away and say well, it is the banks. I think, I think it is not something that fits into one of those types of businesses or big versus small

businesses. I don't think that is the right conclusion to take from that.

Q Do you feel like Gramm-Leach-Bliley and the repeal of Glass-Steagall contributed in any way to the financial crisis?

A Well, it is very interesting. You understand of course that by the time of Gramm-Leach-Bliley, the Glass-Steagall Act in a legislative sense only applied to the insurance business, that the Fed had long had authority to have banks and be in the securities business. And in fact when Travelers and Citi merged, the only issue that had to be dealt with was the combination of the insurance business with the bank, not the combination of the securities business.

But I take your question to be the combination of securities businesses with banks, whether or not that is a good thing or a bad thing, whether this ought to cause us to revisit, whether that is permissible or not.

The variety of firms that had

problems, I am talking the 2007, 2008 time frame, not the consumer slow down after that, were mostly securities firms. Bears Stearns, Merrill Lynch -- Goldman and Morgan both bank holding companies because of this. Lehman Brothers of course. In our case, the Salomon Brothers business part of Citi. It was mostly the securities firms. And what happened was that the Fed had to take over responsibility for those in a funding and regulatory sense.

So, if we were to say we are going to enforce a separation of these businesses, I am not sure what we would get from that. The Fed had to take on the securities businesses. As I understand it, there is not much prospect for the Fed to let go of the securities business going forward, so they got it both ways.

My sense is that combining a volatile business with a more stable business is actually good, not bad. So, again, if you wanted to roll the clock back to the time when the securities businesses weren't as important as they were -- in the Great Depression, the banks were the main conduit to the capital markets; they are not any more, then I could see that.

But I don't think that question, and I don't mean it in a disrespectful way, I don't think that question deals with the reality of the modern world. The reality of the modern world is that securities firms and banks and insurance companies are all participants in the capital markets and there is no way to artificially segregate them.

Q Your testimony more recently on March 7, 2008, before the house committee on oversight and government reform, you testified that the risk models eventually proved to be inadequate.

A When was this?

Q March 7, 2008.

A What was that in the context of? 2008, I am sorry, yes, I have got it, right.

Q House oversight committee?

A I got it, sorry.

Q I think the title of the hearing was "CEO pay and the mortgage crisis."

You testified, and I am paraphrasing, that the risk models ultimately proved to be inadequate.

Do you still agree with that view that the risk models at Citigroup ultimately turned out to be inadequate?

A I think the risk models in the industry, I think the risk models of the rating agencies, I think the risk models of the regulators, I think everybody's risk models turned out to be inadequate.

Q During that hearing Congressman Kanjorski asked you the following. He said, "Mr. Prince, your bank was in trouble. Didn't you get any reports that there were such horrible failures in the system?"

You responded, "I think Congressman, that in all on honesty, by the time some of those reports surfaced in the spring of 2007, most of the damage had already been done. That is --" and Congressman Kanjorski interrupts and says,

"When do you think the damage occurred?"

And you responded, "Well, I think honestly that the lending patterns began to deteriorate pretty significantly in 2006."

In 2006, when the lending patterns began to deteriorate, did that sound off any alarms in your mind that there could be trouble ahead?

A Let me make sure that we are working with all the comments in the right area.

When I talked about lending standards deteriorating, I was talking about the lending standards in the origination of mortgages. And if you look at the subprime mortgage originations, as you know they are done by semi annual tranches. And it is really in the 2006 tranches and the first tranche in 2007 that the quality really began to deteriorate. So that is what I was talking about in the raw material.

That judgment, that conclusion can only be seen in hindsight, that is as those tranches of originations for the

industry had earlier and earlier and higher and higher default rates, it became clear in hindsight that in 2006 and 2007 the underwriting criteria had fallen off significantly.

When I talked about by the spring of 2007, the damage had been done, I was referring to the comments of Tom Maheras and Randy Barker that when they saw the bottom line in that chart on page five that I talked about, when they saw the triple B line start to deteriorate, which really happened when the HSBC had their problem with associates in March, they said to me and the board and others after the fact, in September, October, that they tried to go out and hedge the positions. And there wasn't enough liquidity in the market, there wasn't enough volume to hedge it.

And so my point was that whatever we owned in the spring, that top line that was still flat, there was no ability to get off of that by the time the spring came. And I was referring to them having said that

they tried to increase the hedging and wasn't able to. So, I am sorry, I am not sure I have answered your question. Is there more to the question that I didn't answer?
Q Let me ask it a little bit differently, and that is lending practices in the subprime origination space --
A Right.
Q -- as of, as an industry began to deteriorate if 2006.
Do you agree with that, not -- outside of Citigroup?
A The industry.
Q And Citigroup had a CDO business that relied on RMBS, residential mortgage backed securities, where the underlying asset of those residential mortgage backed securities were subprime mortgages originated by other originators other than Citi.
My question I guess is the following is: If you had known in 2006 that Citigroup had substantial positions on its

books of CDOs and underlying those CDOs were mortgages of originators that had deteriorating lending standards, if you had known that in 2006, could you have asked Mr. Maheras or Mr. Barker, take hedge positions on that? Could you have asked people to take defensive mechanisms that would have prevented Citigroup from having substantial losses in the future?
A Look, the answer that helps me is to say yes. But that is too simplistic an answer even though it serves my personal interest. The reality is that it would have depended upon both an appreciation of the underlying quality of the asset and the belief in the strength of the securitization model.
In '06, everybody, the rating agencies, everybody knew that lending standards were lax. They didn't know they were deteriorating, but they knew they were lax. It is not as if no doc and low doc loans or the fact of negative amortization products was unknown in 2006 or early 2007.

The rating agencies knew about that. The press had stories about those kinds of issues. But everybody believed and everybody believed up until October of 2007 that the strength of the structuring process would keep the rising flood waters away from the super seniors. It is just as simple as that.
And so it is not just the characterization of the underlying asset. It is also the characterization of the result of the securitization process. And as I said, for all I know, the super seniors are still paying out. That was the question. Now, in hindsight, if I knew a fraction of what I knew today, would I go and can them to get this stuff off books, of course I would. What is the difference between Citi and another bank? Our guys didn't sell the super seniors. It is just as simple as that. If our folks had sold the super seniors, you would be asking me why we were so much smarter than Merrill Lynch. How did we get it right, you would

be asking me. And that decision was made 17 levels below my office by people who had, I believe, a good faith belief in what they were doing. But it's overly generous to me to say if I had known X would I have gone and changed the world. I would like to say yes, but I think it is more complicated than that.
Q If I heard correctly today, though, in 2006 and early 2007, you didn't know the positions --
A Correct.
Q -- that were being taken on CDOs?
A Correct.
Q I have learned to always ask one question at the end that and that is, is there anything, Mr. Prince, that you expected me to ask or expected to talk about today that we haven't?
A Gosh, you have covered so much ground, so quickly. We talked about the rating agencies, we talked about the regulators, we talked about risk. We talked about the board. I can't think of anything

else, no.

Q And, Mr. Prince, in fairness obviously to you and to the process here, is there anything that you would like to add? Is there anything that you feel that either the Financial Crisis Inquiry Commission or its staff ought to know, anything that you would like to share?

A Well, I really wish that it hadn't happened. I don't wish that for me, but I wish it for the institution and I wish it for the people of the institution. But maybe that came through already.

Q Mr. Prince, we are obviously in a confidential interview. I just ask that you obviously don't discuss what we talked about today with anyone outside of your counsel.

A You get to the senior enough level in life, you forget things very easily.

Q And, Mr. Prince, on behalf of the Financial Crisis Inquiry Commission and its staff I would like to thank you for your time today and your candor. Thank you.

A Thank you for such a professional engagement.

(Time noted: 4 p.m.)

Products, The Way Forward, September 2007, Michael Raynes was marked CR Exhibit 11

E-mail Bates marked Citi FCIC E 16495 was marked CR Exhibit 12 201

Document Bates marked Citi FCIC E 41087 was marked CR Exhibit 13 209

Document Bates marked FCIC 2970 was marked CR Exhibit 14 213

Document Bates marked FCIC Citi 198 was marked CR Exhibit 15 238

CERTIFICATION

I, JESSICA R. BERMAN, a Notary Public for and within the State of New York, do hereby certify:

That the witness whose testimony as herein set forth, was duly sworn by me; and that the within transcript is a true record of the testimony given by said witness.

I further certify that I am not related to any of the parties to this action by blood or marriage, and that I am in no way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this 18th day of March, 2010.

JESSICA R. BERMAN

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