

**DRAFT
MEMORANDUM**

TO: File
FROM: Karen M. Dubas
DATE: March 11, 2010; 5:45 – 6:20pm
RE: Memo re Interview with Vikram Pandit

This is not a transcript of the proceeding and should not be quoted as such.

Paul Weiss

Brad Karp, Susanna Buergel,

Citigroup

Vikram Pandit, P.J. Mode

FCIC

Brad Bondi, Tom Greene, Matt Cooper, Karen Dubas

BB: Explains purpose of FCIC and report that we're writing.

What do you view as the Citi specific lessons learned from the financial crisis?

VP: The starting point on this for me is really a little more systemic than citi. Very few of us appreciated how much housing prices could go down in the marketplace, and that caused a lot of losses on the street. Lots of our lessons on this come down to looking at risk capital, liquidity, and risk measures and what we're doing with govt in terms of stress tests and scenarios planning like rest of Street. There is a renewed sense of appreciating and understanding that you look at a much broader and wider set of scenarios that could occur as opposed to just looking at 20 to 30 years. A lot of people didn't stress house prices by 40%. That leaves you with things like understanding that you don't always pick up every scenario that's possible. It leaves you with concentration of limits. We had a really large concentration of super senior paper that was perceived to be safe by a lot of people. That's the second lesson.

We had a lot of things that are specific to us. We had a concentrated position of the CDO stuff. It looked safe and seems safe, but it wasn't on an m2m basis. There are all kinds of lessons on that. We stepped up post Lehman crisis, which created funding

ddiscontinuity in mkt, we stepped up in Wachovia transaction at last minute, and eventually we didn't get it. When you do those kinds of things, and you had a mkt perception before, psychologically, when you have something and it's taken away, that started a cycle of people thinking that they might not have liked Citi as much without Wachovia. I don't know what the lesson was, but that was a lesson in our case.

The third aspect, we had our stock price go from \$10 to \$3 from Friday to Friday. It's really interesting because—some of us bought stock at that price, and thought it was not a fundamental issue there. The market took control of the stock price – short selling and a lot of other issues – and perceptions can become reality. The lesson for me is that capital strength really matters a lot. We thought we had it, but in dysfunctional markets that may not be enough.

BB: December 11, 2007 first day of CEO?

VP: yes

BB: had just announced \$55 billion in subprime exposure; april 15, 2008, frb sent a letter to bod addresses to you with overall assessment as fiat. The overall tone of the letter was critical, they entioned serious deficiencies. What were the deficiencies as you saw them, leading into and during the crisis.

VP: the single largest casuse of why where we are is because housing prices went down 40%, and not too many people thought that was a stress scenario. Once you know that, you can see why we are here. Take super seniors. You can stress them a lot and they look safe. The ultimate point when I got there was that we had a situation at hand and we had to focus on that and work through it, and understanding that the market would look different going forward, we changed the risk management team and devised a plan to raise capital. We didn't have much tiem to look back, but we know that no one thought that house prices would go where they went.

BB: We met with Leach, and he went through all of the risk management procedures. What were most sig for you?

VP: some of the things that have been put in place in the context of stress tests—to do that with a wide range of scenearios, even if they don't souned normal at all—was the lesson you learned. You have a more robust set of scenarios for a whatif analysis. That was what I wanted to look at, and brian did a lot of that.

Used that as a mech for how much capital I wanted to raise. From nov to dec 2007, we raised 40-50 bill in the mktplace, and I sold a couple of biz and we raised about 10 bill from that.

Those were the things that were most important.

BB: I know you've come from academia and I've looked up your dissertation. In academia there's a theory of trying to foresee black swans—low prob but high impact on firm.

VP: The two are scenario analysis. The question is what scenario?

Every month we have an Exec Comm meeting where someone comes in to talk about what's going on in the world. The reason they're called black swans is because they're invisible. The best way to address black swans is by diversification and not as much concentration of risk. The super seniors was a large position, even though I was perceived to be super safe. Diversification and notional limits are a way to deal with black swans. You want to be in a place where no one's position can put you in a place where we were.

BB: mistake for super senior concentration?

VP: when you talk to FI dealers, they thought about risk in terms of DV01—1 basis point changes. There's no bond holder or manager who thought that AAAs could go to zero overnight. The entire industry in FI has gone from understanding that risk was not all about PV0 or DV0, you have to have notional limits.

Many of the FI buyers can now only have this much exposure to certain things. The practice has gotten informed by the behavior of what's happened over the last 4-5 quarters. Frankly, you can't talk about AAAs going to zero, but concentration matters. That's a new thought process.

BB: how important is it for someone like yourself or CRO to be involved in setting limits?

VP: there is a hierarchy of decisions that have to get made. I have a risk tolerance. I don't want to go through the kind of situation we went through, so I'm willing to lose one year of post compensation earnings, but not more than that. So you run every scenario possible to see how much risk you can take before you get there. I'm involved at the top with my risk tolerance. And then Brian and I talk about the risk spreading out and translate it out to other groups. My guess is that I should be thankful that I wrote that dissertation.

BB: What's the largest position that anyone can take on the balance sheet without consulting the CRO or you?

VP: I don't know what the number is. You couldn't take \$30B—I don't see it. I cannot now recollect the limits that we put in place, but I was satisfied with the notional limits that we put in place.

BB: You mentioned shoring up capital. Role in capital from Abu Dhabi investment authority in 2007?

VP: Quite peripheral. I was here and I had a new job downtown. I wasn't involved in the selling process or designing the security. I knew about it, but that was not my role. I did raise the next round of capital with sovereign wealth funds and in the market. That was about \$25B. I also did a capital raise in April with common and preferred stock. I authorized sale to the German business. Those were all decisions made almost immediately after I entered. I was in India, and I came back to NY through Singapore.

BB: In raising the funds through investors, do you know if any of these investors sought assurances from the federal government about Citi's health or whether govt would step in?

VP: not to my knowledge. This was January 2008, thus was before Bear Stearns happened. This was a well priced security that they found attractive

BB: were the seven sibs in London under your oversight at CAI?

VP: I came into CAI in July. They were. After I left to go downtown, John Habens took over CAI

BB: role in decision to consolidate assets/liabilities onto Citi's balance sheet?

VP: let me think about what we did... what started happening with those kinds of funds is that they became difficult to finance on their own. They were issuers of CP and of liabilities of which they held the assets. I remember at some point—these are vague—that it became difficult to finance them that way. Ultimately, we also decided to make sure that we would supply them financing. We thought this was a market dislocation. In the context of that, the decision was made that if we were going to do that, we should bring them on balance sheet.

BB: lessons learned by your experiences with those sibs?

VP: broader lesson. What has changed is that the funding markets have changed—difficult to finance through wholesale funding. True for GE capital and CIT. partially because of disappearance of securitization market and notional limit. Funding shift in the market, both prior and post Lehman. The importance of stable, longterm funding in running business is the lesson that everyone has learned. The most stable is deposit funded businesses.

Sources of liquidity can—the wonderful thing about where we were, is that you didn't have to worry about liquidity, and that all changed over night.

BB: You recently testified before TARP. I took some notes, and there was a statement you made that was interesting: your management team has made Citi more focused by returning Citi to your core business. Was that to suggest that Citi was not as focused as it should have been in the past?

VP: there have been sig shifts. This funding mkt shift is really sig. you cannot run fiancne companies the way you used to run them. We decided not to be in the biz where you have to rely on wholesale funding (shadow banking)—I want to be in banking and rely on my depository base. The rest of the world has seen shadow banking get squeezed.

The second point was that I had to make some choices. We were a private bank and a brokerage company. You can run both things, but it became clear that we should pick. I wanted to go with the private bank model.

We did have a set of biz that were really good biz. We were selling a lot of these before I got here, and there were other plans to sell things like Primerica, and I decided to accelerate those.

It's not like it's right or wrong, but I thought we'd be a stronger company if we focused on just the banks.

We had a presentation today to investors that is probably the clearest explanation of where we're going.

BB: I was reading Paulson's book, and he made a comment that Citi had an unwieldy org structure that lacked a single unifying culture or strategy.

VP: How would he know? He wasn't inside here, and I was. I don't have the same background that a lot of people here had. The point that is important to me is that where we are today is the result of changes in the funding market, and you have to adapt to those, and the decisions that have been made, and has clarified that we want to be in the private banking business instead of the brokerage business.

We want to be the world's bank.

We have a very clear, targeted strategy. At the heart of Citi was a bank that served 5000 customers around the globe. Maybe that wasn't always transparent or articulated correctly, and the clarification that we've done is articulate a clear strategy on the bank. I took what I got and I articulated the strategy that has always been in place. A lot of the pieces were always there.

If you have a Primerica, it's not going to have the same culture as Citicorp. Those things were recognized up front. It cannot. The point is that there are different approaches to companies, different ways of looking at companies, and we've got one today that is the

right one because of the choices that have been made along the way. Anything before that, for a long period of time, as far as I can tell the analysts and the street liked what Citi was. People who were here before me would be able to tell you better.

BB: A few questions on Wachovia. Did you feel pressure either explicit or implicit by govt to do trans?

VP: No, definitely not.

BB: what made Wachovia an attractive acquisition, particularly in fall of 08.

VP: we had those shadow banking business. Wachovia brought a depository base, and that was the attraction.

BB: is the concern over shadow banking the lack of regulation, structure, or what is concerning?

VP: I think that in the shadow banking biz, there are people who lent money. They happened to finance them through raising money in cap markets rather than deposits. There are no questions that regulations were not level playing field. When you got to certain extreme ends, there was not much regulation. It's all those things together that cause it to get to a place where it was easier to get financing. There are lots of reasons why we are where we are. The point is that markets are unwilling to finance those activities like before. Why? We tried that and didn't like it. 2. Mktplace is looking for standards where they are looking to refinance things, and that's where regulation can help

Even in hindsight, trying to unravel what happened is not an easy thing. Mkt thought these were good and safe investments, more so than they turned out to be. Before these come back, markets wasn't to see a set of standards they can get comfortable with.

[End at 6:27pm]