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Pandit affirms Citi's faith in Asia

BY PETER STEIN AND RICK CAREW

HONG KONG -- Citigroup Inc. Chief Executive Vikram Pandit declared the bank wouldn't retreat from fast-growing Asian businesses even as the financial crisis has forced it to shrink its balance sheet by about 25%.

"There's no question in our mind that Asia is going to represent a disproportionate amount of the world's growth over the next decade," Mr. Pandit said in an interview at Citigroup's Hong Kong headquarters on Monday. That will result in big opportunities for Citi to expand its presence in trade finance, custody business and cross-border cash flows, he said.

"The intra-Asia flows are going to grow exponentially."

At a time when Citi's business in the U.S. remains weak from bad consumer loans, Asia is becoming a critical source of income. In the second quarter, net income from the Asia-Pacific region accounted for nearly 40% of global revenues at Citicorp, the unit that contains what Citi considers its core business of consumer banking and institutional client services.

Mr. Pandit, 52 years old, has held the top job at Citi since December 2007. A native of India who has studied and worked in the U.S. for much of his life, Mr. Pandit says his background gives him "a sense of understanding how different parts of the world click," which is important to appreciating Citigroup's global business.

While Citi is eager to expand its Asian business, Mr. Pandit still acknowledges "a significant responsibility" on Citi's part to help be "an integral part of the American recovery." He cited Citi's efforts to help American homeowners and credit-card holders who are having trouble making their payments.

But "now it's the turn for the foreign consumer to rise," he said, and American businesses can help with the U.S. recovery through exports to overseas consumers.

Mr. Pandit said he hopes to continue expanding Citigroup's business in the two biggest engines of growth in Asia, China and India, despite tough local restrictions that tie its hands more than in some other markets.

He took a swipe at competitors who sold down strategic stakes in Chinese banks to raise billions of dollars in capital during the financial crisis. Royal Bank of Scotland Group PLC sold its entire stake in Bank of China Ltd. and Bank of America Corp. and Goldman Sachs Group Inc. have both pared their holdings in Chinese banks this year.

"There have been other companies in the U.S. who have sold positions in their banks during this turbulence," Mr. Pandit said. "Maybe for them China is a financial play, but for us China is an important part of Citi's strategy in the future."

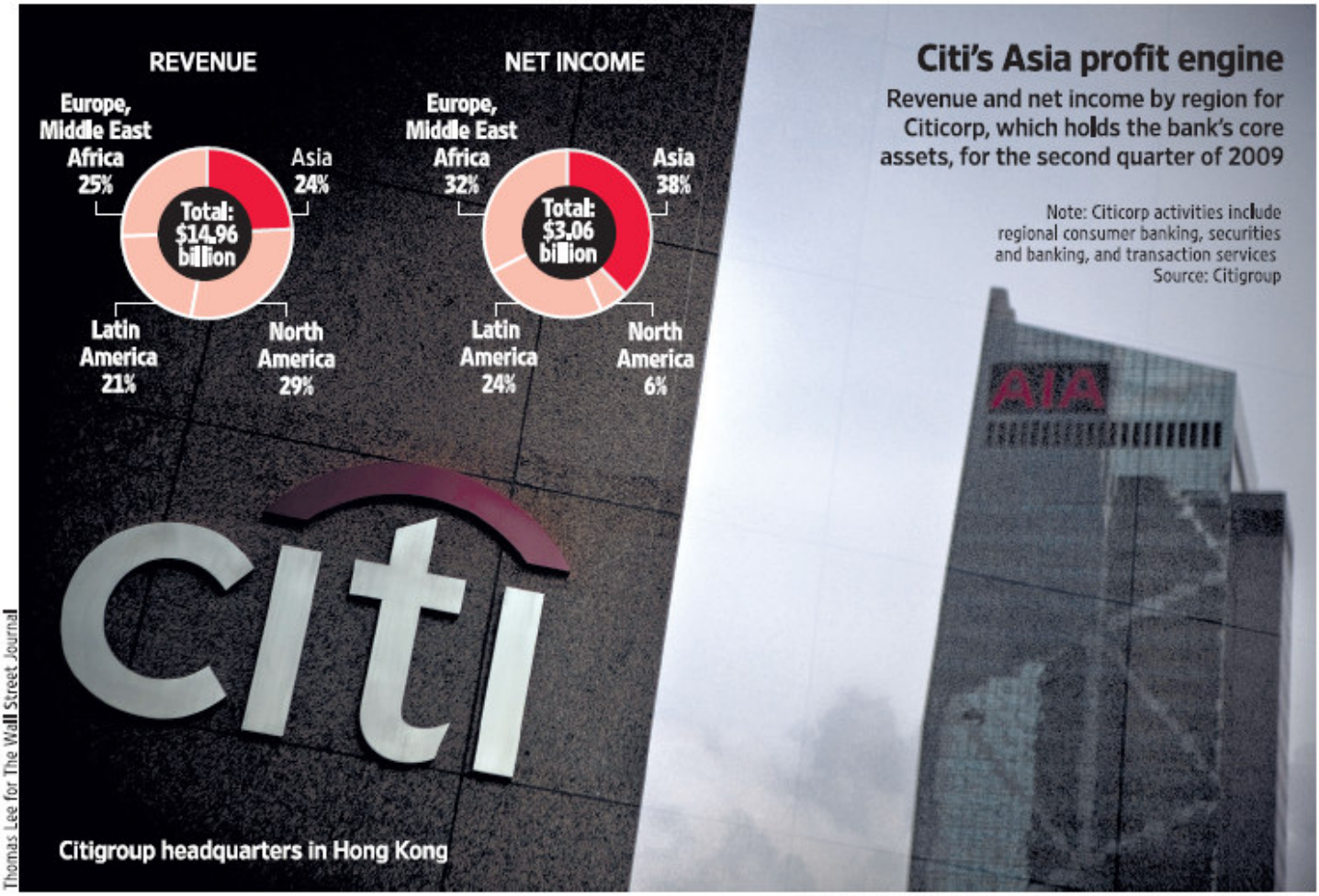
In China, Citigroup has one of the largest networks among foreign banks, with eight corporate branches and 26 consumer bank outlets. It also owns a 20% stake in southern Chinese lender Guangdong Development Bank.

Asked whether Citigroup would consider selling its stake in Guangdong Development Bank to help raise capital, Mr. Pandit said "our actions speak." He noted that Citi has "sold a lot of businesses or rationalized our businesses, and diluted our shareholders to raise a lot of equity." By contrast, it has held on to its biggest investment in China. "I think those actions stand for something," he said.

A just-completed exercise will end up converting some $58 billion of preferred and trust preferred securities into common shares, leaving Citi better capitalized. But it will also leave the government likely holding 34% of the bank. However, Mr. Pandit dismissed suggestions that competitors speaking ill of Citi's bailout from Washington are affecting the business. "I've usually found that you don't win business by talking down somebody," he said.

The global nature of Citi's fund flows can be controversial. Robust savings deposits in parts of Asia can be used to extend loans in an economically weaker U.S., potentially spreading default risk across borders. There are points in time, Mr. Pandit acknowledged, when companies in one part of the world need loans and liquidity available from elsewhere in the world.

"That's the business that we're in," he said. However, he added that the safety and soundness of its local businesses was critical and Citi worked closely with regulators everywhere it operated.



Thomas Lee for The Wall Street Journal

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