Citigroup‘s CEO Pandit defends group strength: report

By Jonathan Stempel and Quentin Webb

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Citigroup Inc was profitable in the first two months of 2009 and is confident about its capital strength, Chief Executive Vikram Pandit said, easing concerns about the bank ‘s survival prospects and sending its shares up 38.1 percent.

“I am most encouraged with the strength of our business so far in 2009,” Pandit wrote in a memo to staff on Monday. “We are profitable through the first two months of 2009 and are having our best quarter-to-date performance since the third quarter of 2007.”

The assessment may increase pressure on Pandit to deliver a first-quarter profit at Citigroup, following five straight quarterly losses totaling about $37.5 billion.

Citigroup earned $2.2 billion in the July-September period in 2007, the last quarter it made money. Analysts, on average, expect it to post losses through September. Pandit became chief executive in December 2007.

“You can ‘t say the first two months were the best since 2007, and then blame March later,” said Ralph Cole, who helps invest $2 billion at Ferguson, Wellman Capital Management in Portland, Oregon. “Pandit is putting his own credibility on the line. This absolutely raises the bar.”

Citigroup shares closed up 40 cents at $1.45, the biggest one-day percentage gain since November 24.

Pandit ‘s forecast sparked a rally in U.S. stocks, with the Dow Jones industrial average rising 5.8 percent and the Standard & Poor ‘s 500 jumping 6.4 percent.

Among other banks that face many of the same market pressures as Citigroup, Bank of America Corp and JPMorgan Chase & Co rose 28 percent and 22.6 percent, respectively. The KBW Bank Index gained 15.6 percent.

End of Uptick Rule?

Bank shares were bolstered after Rep. Barney Frank, head of the House Financial Services Committee, said U.S. regulators plan to soon restore the “uptick” rule, which prevents investors from selling a stock short while it is falling.

Citigroup has blamed short-sellers, who bet that stocks will fall, for some of the drop in its own share price, which last week fell below $1 for the first time.

Since October, New York-based Citigroup has received two federal bailouts, $45 billion of capital from the Treasury Department 's Troubled Asset Relief Program, and a government agreement to cap losses on $300.8 billion of troubled assets.

Last month 's bailout would make the government Citigroup 's largest shareholder, with a potential 36 percent stake.

U.S. regulators are working on a contingency plan to stabilize Citigroup if problems mount, but no imminent rescue is planned, a person familiar with the planning said. The person declined to be named because of the sensitivity of the discussions.

Citigroup also faces waning patience in Washington for expanded taxpayer support of the banking system.

"Stopped Listening"

In the memo, Pandit said he was disappointed with "broad-based misperceptions" about the bank, and that its credit spreads reflect neither its condition nor the government 's interest in supporting the financial system.

Pandit said deposit flows were "relatively stable," and that investment banking was performing well.

The bank said total revenue in January and February was $19 billion, excluding various writedowns, versus a quarterly average of $21 billion as adjusted in 2008. Expenses of $8.1 billion over the two months were below the bank 's target.

Some analysts were heartened. "Knowing what we know today, Citigroup 's capital levels look sufficient," Sandler O 'Neill & Partners LP analyst Jeff Harte wrote.

Pandit said the bank 's assessment of its capital strength was based on internal stress tests more severe than those being used by the Federal Reserve.

David Williams, head of European bank research at Fox-Pitt Kelton, said Citigroup should disclose more about its tests to help regain credibility with investors. "A one dollar stock price tells you the market has stopped listening," he said.

Citigroup plans to report quarterly results on April 17.

The cost of insuring Citigroup debt against default fell from a record level on Monday, indicating that investors see less risk. It cost $565,000 annually to protect $10 million of Citigroup debt against default for five years, down from $640,000 annually on Monday, Phoenix Partners Group said.

(Additional reporting by Douwe Miedima in London; Dena Aubin, Karen Brettell and Ellis Mnyandu in New York, and David Lawder, John Poirier and Rachelle Younglai in Washington, D.C.; Editing by John Wallace and Jeffrey Benkoe)

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