Citigroup Inc. (C) directors ousted Chief Executive Officer Vikram Pandit after concluding his mismanagement of operations caused setbacks with regulators and cost credibility with investors, a person with knowledge of the discussions said.

Episodes that led the board to replace Pandit with Michael Corbat included the rejection by regulators in March of a plan to boost shareholder payouts, said the person, who requested anonymity because board deliberations are private. Citigroup's $2.9 billion writedown on the Smith Barney brokerage unit and a two-level cut of its credit rating by Moody's Investors Service also contributed, the person said.

Directors had discussed whether to replace Pandit for months, even before the appointment of Michael E. O'Neill as chairman in April, the person said. O'Neill, a board member since 2009, and other directors became increasingly frustrated with Pandit's performance, and Corbat told the bank's 262,000 employees yesterday that a shakeup may follow.

Corbat, 52, said in a staff memo he's "a true believer in this company" after spending his whole career at Citigroup. "I'm going to take the next several weeks to immerse myself in the businesses and review reporting structures," he wrote. "These assessments will result in some changes."

Parsons Exit

The ousting of Pandit, 55, and simultaneous departure of Chief Operating Officer John P. Havens, 56, came six months after O'Neill, 65, took over from Richard Parsons as chairman at the third-biggest U.S. bank by assets. Shannon Bell, a spokeswoman for New York-based Citigroup, declined to comment on the change and O'Neill didn't respond to e-mailed inquiries. During a conference call yesterday with analysts, O'Neill said Pandit's departure wasn't tied to pay, regulatory or operational disputes.

Corbat "is a proven, hands-on leader who is known for his focus on enhancing productivity, holding people accountable and practicing sound risk management," O'Neill said in a statement. "He has consistently delivered impressive bottom-line results at many of our major global business units."

The new CEO also has better relations with regulators after running Citi Holdings, the division with some of the lender's most distressed assets, the person said. Corbat takes the helm immediately as Pandit leaves both his executive role and his board seat, according to Citigroup's statement.

Stock Gains

Citigroup shares rose 1.6 percent to close yesterday at $37.25 in New York. While the stock gained 39 percent this year through Oct. 15, it was down about 90 percent since Pandit was publicly named as CEO in December 2007, when losses tied to the brewing financial crisis drove out his predecessor, Charles O. "Chuck" Prince.

O'Neill, a former CEO at Bank of Hawaii Corp. (BOH), was among directors who joined in 2009 to bolster the panel's banking experience after its near-collapse and U.S. bailout. He headed a committee that oversaw Citi Holdings, which would have brought him into close contact with Corbat, CEO of the unit at the time.

Corbat told analysts on the conference call that Citigroup had the "right footprint" and that he will focus on making the bank's business more efficient.

Earlier: Bair on Vikram Pandit, "Bob Rubin's handpicked choice for CEO"

“We feel quite strongly that the strategy we have is the right one,” Corbat said.

Pandit said he doesn’t regret any decisions during his tenure.
Moving On

“It’s hard to come up with things we should have done differently,” he said in an off-camera interview for Bloomberg Television’s “Lunch Money,” recalling how he navigated the credit crisis, which was already in progress before he became CEO, and repaid a $45 billion bailout. “I was first out of the box to raise capital. I feel very good about the decisions that we’ve made.”

Pandit said he didn’t want to linger in a “lame-duck session” with the company and second-guess his replacement.

“I’ve been thinking about this for a long time,” Pandit said, adding that he concluded Oct. 15 that it was time to go. “It was my decision. I made it talking to Mr. O’Neill, and we did it understanding that the company was ready.”

The announcement just a day after third-quarter results were announced surprised analysts as well as some senior Citigroup executives, who said Pandit had told them he planned to remain for several years, according to two people with knowledge of the bank.

The abruptness disappointed some investment bankers, who were encouraged to make calls to clients to assure them the bank’s strategy remained intact and that there weren’t any hidden announcements yet to come, one of the people said.

Harvard Degree

Pandit’s departure will help the company, said Sheila Bair, who clashed with him when she was chairman of the Federal Deposit Insurance Corp.

“This was a very positive move,” Bair said in an interview with Tom Keene on Bloomberg Radio. “I did have concerns about Mr. Pandit’s qualifications to serve as the CEO of the largest commercial bank, because he had never been a commercial banker.”

Corbat, a 29-year veteran of Citigroup, has worked at the bank and its predecessors since graduating from Harvard University in 1983, according to yesterday’s statement. As CEO of Europe, Middle East and Africa operations, he oversaw consumer banking, corporate and investment banking and trading in that region. Previously, he was CEO of Citi Holdings, supervising more than 40 divestitures.

Pandit’s Pay

“The international business is where they live and die, so hopefully this fellow, because of his background, is going to be able to focus on that and retain that and then develop a model for the future,” Chris Whalen, a senior managing director at Tangent Capital Partners LLC, said on Bloomberg Television. The management change “is very disorderly and I think they need to explain to us why this timing made sense from the board’s perspective.”

If no alterations are made to Pandit’s compensation, Citigroup will have paid him about $261 million in the five years since he became CEO, including his personal compensation and about $165 million for buying his Old Lane Partners LP hedge fund in 2007 in a deal that led to his becoming CEO. The bank shut Old Lane soon after Pandit took the post, causing a $202 million writedown.

O’Neill told analysts that Pandit’s exit was “categorically” unrelated to compensation. The bank has been preparing a succession plan for more than two years, he said.

Bank Rebounds

Pandit spent 22 years at New York-based Morgan Stanley (MS) before quitting in 2005 amid a power struggle under then-CEO Philip Purcell. Havens, who ran equities at Morgan Stanley, quit around the same time and in 2006 helped Pandit start Old Lane.

Citigroup bought the hedge fund in 2007 for $800 million and incorporated it into Citi Alternative Investments, the bank’s private-equity, real estate and hedge-fund investment division. Pandit was placed in charge of the unit, which had lacked a full-time CEO for about a year.
The bank shut the fund shortly into Pandit’s reign as CEO, amid a spate of hedge-fund failures, purchasing its assets and allowing investors to withdraw their money.

Pandit oversaw the recovery of a bank that was saddled with losses and distressed assets accumulated before he became CEO, and in May 2008 he announced plans for about $400 billion of divestments within the next three years.

As the credit crunch turned into a full-blown crisis Citigroup began accepting federal help that eventually included $45 billion in cash and guarantees on $306 billion of loans and securities. The dividend was cut to 1 cent, and Pandit reduced his own salary to $1, vowing to keep it there until the bank became profitable.

**Strategy Setbacks**

By December 2010, the U.S. Treasury Department had sold the last of its Citigroup stake, and the following month Pandit’s base pay was restored to $1.75 million with more in bonuses after the bank reported its first annual profit under his watch. Earnings at the bank for 2010 and 2011 totaled more than $21 billion.

His future began to cloud in 2011, as investors pushed Pandit to turn that success into a higher payout for shareholders, and he asked at the April 2011 annual meeting “just a little bit of patience.” Almost a year later in March, regulators rejected his capital plan when the bank failed to meet minimum standards in a stress test, and Pandit abandoned the effort to raise the dividend for 2012.

More setbacks followed. In April, Citigroup shareholders rejected the company’s executive-pay plan amid criticism it lets Pandit collect millions of dollars in rewards too easily. In June, Moody’s Investors Service cut the bank’s credit rating two levels -- leaving it two steps above junk.

**Outlook Cut**

Last month, a dispute with Morgan Stanley over how much the brokerage should pay for the bank’s stake in Smith Barney was settled for about 40 percent less than Citigroup projected. That cost the bank $2.9 billion in writedowns. Late yesterday, Moody’s cut Citigroup’s credit-rating outlook to negative, citing the management turnover.

“The job was about transformation and turnaround, and we’ve done the turnaround,” Pandit said in the Bloomberg Television interview. “There are always bumps in the road. But the real issue to me is look at the five-year track record. It was never going to be a straight line.”

To contact the reporters on this story: Donal Griffin in New York at dgriffin10@bloomberg.net; Bradley Keoun in New York at bkeoun@bloomberg.net

To contact the editor responsible for this story: David Scheer at dscheer@bloomberg.net