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### OCC Letter from Grace E Dailey to Board of Directors Re Notification of Failure to Meet Safety and Soundness Standards and Request For Compliance Plan

Grace E. Dailey

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

**VIA HAND DELIVERY**

June 13, 2005

Board of Directors  
Citibank, N.A.  
399 Park Avenue, 3<sup>rd</sup> Floor  
New York, NY 10043

**NOTIFICATION OF FAILURE TO MEET SAFETY AND SOUNDNESS STANDARDS  
AND REQUEST FOR COMPLIANCE PLAN**

Members of the Board:

This letter is to inform you that, based upon the results of its ongoing supervision and other available information, the Office of the Comptroller of the Currency (OCC) has determined that Citibank, N.A., New York, New York (the Bank) has failed to satisfy the operational and managerial standards contained in the Interagency Guidelines Establishing Standards for Safety and Soundness set forth in Appendix A to 12 C.F.R. Part 30 (Part 30), specifically Sections II(A)(1), (2), and (5) and II(B)(4) and (6).

As detailed in the December 31, 2004, Report of Examination (the ROE), the Bank has had several significant breakdowns in internal controls, with the problems in the Japan Private Bank (JPB) being the most recent example. The OCC has determined that senior management in New York that was responsible for Japan did not properly supervise the activities of the JPB, and that the Board of Directors should have been more actively involved. The Bank's business, risk control, and compliance personnel located in Japan and the United States did not identify non-compliance with local laws and Bank policies or properly assess or remediate control issues raised by the Japanese Financial Services Authority (JFSA). Additionally, Audit and Risk Review (ARR) did not effectively monitor the system of internal controls in the JPB or its change in risk characteristics between full scope audits.

As a result of these deficiencies and weaknesses, the OCC hereby directs, pursuant to Section 39 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831p-1, and 12 C.F.R. § 30.3, that the Bank file with the OCC a compliance plan (the Plan). The Plan shall include a description of the steps the Bank will take or has taken to correct the deficiencies and weaknesses noted above and that are further set forth in the ROE. The Plan should require that management certify to the board on an annual basis until the OCC notifies the Bank that the Plan is fully satisfied that the following procedures have been established and are being adhered to, and shall address, at a minimum, the following:

1. With regard to the Bank's internal controls, the Plan shall describe in detail, with timeframes for completion, the actions the Bank will take to develop and implement:
  - a. Changes to the Bank's policies, procedures, systems, and controls to improve testing and monitoring of the Bank's compliance with applicable laws and regulations;
  - b. Policies, procedures, systems and controls to ensure that appropriate Bank management is informed of all laws and regulations governing the activities in which his or her staff engages;
  - c. A system to ensure that the Bank periodically tests and monitors its compliance with applicable laws and regulations, and timely reports any violations of law or regulation to appropriate management;
  - d. Appropriate processes in all countries where Citibank has significant activities to measure, monitor, and report compliance and control issues, within and across business lines;
  - e. Policies and procedures that ensure that compliance personnel staffing levels are adequate given the Bank's business mix, geography, and risks;
  - f. An evaluation of whether improved training programs are necessary to enhance compliance personnel's ability to prevent and detect future compliance failures, and the actions the Bank will take to the develop and implement any necessary programs; and
  - g. Improvements to the Bank's policies, procedures, systems, and controls to ensure that issues and deficiencies noted by internal audit, regulatory agencies, or other control or compliance processes are fully and accurately communicated to appropriate management and that meaningful corrective action plans are monitored and verified.
  
2. With regard to the Bank's internal audit system, the Plan shall describe in detail, with timeframes for completion, the actions the Bank will take to develop and implement:
  - a. A reassessment of staffing levels to ensure that they are adequate in relation to the Bank's business mix, geography, and risks; and
  - b. Revised procedures, policies, and/or standards to improve ARR's ability to detect and address in a timely manner problems in key risk areas and changes in risk conditions between full scope audits of the Bank's lines of business.

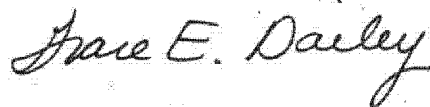
In accordance with 12 C.F.R. § 30.4(a), the Bank shall file the Plan with the OCC within 30 days from the date of this Notification.

The Plan must be sent to:

Scott N. Waterhouse  
Examiner-in-Charge  
880 Third Avenue, 5<sup>th</sup> Floor  
New York, NY 10022-4730

If the Bank fails to submit an acceptable plan to the OCC within the 30-day period specified herein, or fails in any material respect to implement a compliance plan, the OCC will, by order, require the Bank to correct the deficiency and may take such further actions as the OCC deems appropriate.

Sincerely,



Grace E. Dailey  
Deputy Comptroller  
Large Bank Supervision