

June 26, 2009

Press Release

Citibank Japan Ltd.

**Citibank Japan Receives Administrative Action  
From the Financial Services Agency**

Tokyo June 26, 2009 - Citibank Japan Ltd. ("Citibank Japan") received an administrative action from the Financial Services Agency ("FSA") based on Article 26 of the Banking Act. This action relates to the compliance framework and governance framework of Citibank Japan. The administrative action issued by the FSA today is attached.

In accordance with this action, Citibank Japan will suspend sales activities (including advertising, sales campaigns and solicitation) of all products that are handled by its Retail Banking Division from July 15 to August 14. This suspension does not restrict any activities with customers who wish to enter into a transaction with Citibank Japan.

Citibank Japan takes this administrative action very seriously and would like to express our sincere apology to our customers and other parties concerned. Citibank Japan is committed to implement all necessary measures to prevent any future occurrence of the problems identified.

The FSA cited problems relating to Citibank Japan's insufficient governance, compliance and internal control framework to fulfill its filing obligations for suspicious transactions. Since an initial incident was first identified and reported voluntarily to the FSA, Citibank Japan has subsequently been cooperating with the FSA and has already begun to take actions to address issues raised.

In response to the administrative action, Citibank Japan will submit a business improvement plan to enhance its governance and compliance framework to the FSA by July 31, 2009. In addition, Citibank Japan will clarify responsibility for this matter and take appropriate disciplinary action. Citibank Japan will announce the summary of the business improvement plan and disciplinary action promptly after submission to the FSA, and the improvement plan will cover the following:

- Enhancement of the governance and internal control framework.
- Enhancement of the compliance environment and re-training of all employees on applicable laws and regulations.
- Enhancement of the framework to file suspicious transaction reports adequately, including the management, monitoring and cancellation of such transactions, and specifically as related to handling of anti-social forces.
- Enhancement of internal audit review function.

Citibank Japan reiterates that it takes this administrative action very seriously and is deeply apologetic for the issues insufficiently resolved, including as part of its 2004 Business Improvement Order. Citibank Japan is committed to focus all necessary resources to implement every necessary measure to prevent future occurrence.

The administrative action does not affect Citibank Japan's ability to serve its Corporate Banking Division clients.

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Contact for media inquiries: 03-6270-9848

(Attachment)

**Administrative Action by the FSA**

Please refer to the following pages

### **Administrative Actions against Citibank Japan Ltd.**

The Financial Services Agency (FSA) issued today the following administrative actions against Citibank Japan Ltd.;

#### **I. Description of the Administrative Actions**

Orders based on Article 26(1) of the Banking Act

1. Suspend all sales operations (including advertisement, sales campaign and publicity and solicitation) pertaining to all products that are handled by Retail Banking Division during the period from July 15, 2009 to August 14, 2009; provided however, that this shall not preclude sales operations (including the explanation of products) in cases where there are any voluntary manifestations of intention by customers and where such manifestations of intention can be objectively found.

2. In order to ensure appropriate and sound business operation, fundamentally review and restructure the current governance, internal control and business management system (including adequate staffing and the construction of a proper organization and structure) of the Citibank Japan Ltd. [hereinafter referred to as the "CJL"] from the following perspectives:

(1) clarify the business attitude of the board of directors and management committee towards the establishment and enhancement of governance and internal control systems;

(2) develop and enhance a system for accurate execution of the obligation to make notification of suspicious transactions including money laundering; and establish a system for the control, monitoring, cancellation, etc. of transactions, etc. subject to notification;

(3) ensure a thorough understanding of and compliance to laws and regulations and other rules by officers and employees and foster and improve awareness of compliance with laws and regulations;

(4) restructure the system necessary for ensuring the effectiveness of internal control functions, review methods, the frequency, etc. of audits, and conduct follow-ups after the audits; and

(5) investigate the causes why the improvement plan that was submitted to the FSA in response to the FSA's previous order on September 17, 2004 to improve business operations was not implemented appropriately and clarify where the responsibility lies, including with management.

3. Submit business improvement plans (including clarification of the assignment of responsibilities for the development and establishment of a governance system to implement the improvement plan steadily and to ensure the effectiveness of the improvement plan) pertaining to matters stated in 2. above and the report order by July 31, 2009 and execute the plan immediately.

4. Report the progress, implementation status, and improvement status of said business improvement plan every three months on the fifteenth of the following month from the end of September 2009 until the business improvement plan is completed.

#### **II. Reasons for the Administrative Actions**

According to voluntary reporting submitted by CJL, a report collected by FSA pursuant to the provisions of Article 24(1) of the Banking Act, and subsequent on-site inspection (notification made on April 3, 2009), it is found that there are fundamental problems with CJL's compliance and governance system from the perspectives of sound and appropriate business management stated below.

#### 1. Problems with Compliance System

- (1) Inadequate system for accurate execution of the obligation to make notification of suspicious transactions including money laundering

Control systems necessary for the detection, monitoring, and follow-up of suspicious transactions have not been developed, such as the following: with regard to CJL's system to make notification of suspicious transactions including money laundering, despite the fact that it mainly relies on screening based on the database, input data is extremely limited; in addition, the database has not been updated since 2004; under these conditions, the screening has been performed, therefore, prior screening at the opening of an account or ex-post verification has become meaningless; moreover, it is found that procedures to control any dealing with anti-social forces have not been developed.

As mentioned above, CJL is in a condition where systems for accurate execution of the obligation to make notification of suspicious transactions, pursuant to Article 54 of the Act on the Punishment of Organized Crimes and Control of Crime Proceeds prior to the revision and Article 9 of the Act on the Prevention of Transfer of Criminal Proceeds after the revision, have not been developed.

- (2) Violation of a business improvement order pursuant to Article 26(1) of the Banking Act

In response to the result of our on-site inspection, in September 2004, CJL (Citibank, N.A. Japan Branch then) received a revocation order of Marunouchi branch et al., pursuant to Article 27 of the Banking Act and other regulations, and a business improvement order regarding fundamental review pertaining to the compliance and governance of Citibank, N.A. Japan Branch, pursuant to Article 26(1) of the Banking Act and other regulations.

In spite of the business improvement order, as mentioned in (1) above, with regard to the establishment of an operation and management system for the accurate execution of the obligation to make notification of suspicious transactions, the fact is found that the improvements on the plan that Citibank, N.A. Japan Branch has established have not yet been implemented.

#### 2. Problems with governance and internal control systems

Despite the fact that the board of directors and management committee of CJL (including the CEO and management committee of Citibank, N.A. Japan Branch) were responsible for the execution of the business improvement order, they lack an understanding of the rules applied in Japan, such as laws and regulations, and an awareness of improvement. Therefore, the board of directors and management committee do not have systems to consider, discuss, or inspect important matters of management across the board and have no way to control or check business departments, since the board of directors and management committee failed to confirm and inspect a system necessary for execution of the obligation to make notification of suspicious transactions, including money laundering; they overlooked the fact that the responsible department, such as the Anti Money Laundering Department of the Compliance Division, lacks engagement in the business improvement plan, etc.

#### 3. Internal audit

CJL has established an internal audit department in order to establish a system to engage in identifying problems by checking, following up, etc. the implementation status of the business improvement plan, in addition to auditing normal operations; however, CJL has not accurately identified a series of problems that were recently found during the implementation of the improvement plan up until today and the effectiveness of the internal audit has not been ensured.