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Case No. 12151-VCG

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM, KEY WEST MUNICIPAL FIRE FIGHTERS & POLICE OFFICERS' RETIREMENT TRUST FUND, and JEFFREY DROWOS, derivatively on behalf of Citigroup Inc., Plaintiffs, v. MICHAEL L. CORBAT, DUNCAN P. HENNES, FRANZ B. HUMER, EUGENE M. McQUADE, MICHAEL E. O'NEILL, GARY M. REINER, JUDITH RODIN, ANTHONY M. SANTOMERO, JOAN SPERO, DIANA L. TAYLOR, WILLIAM S. THOMPSON JR., JAMES S. TURLEY, ERNESTO ZEDILLO PONCE de LEON, ROBERT L. JOSS, VIKRAM S. PANDIT, RICHARD D. PARSONS, LAWRENCE R. RICCIARDI, ROBERT L. RYAN, JOHN P. DAVIDSON III, BRADFORD HU, BRIAN LEACH, MANUEL MEDINA-MORA, and KEVIN L. THURM, Defendants, - and - CITIGROUP INC., Nominal Defendant.	C.A. No. 12151-VCG **REDACTED PUBLIC VERSION FILED April 4, 2016**

VERIFIED STOCKHOLDER DERIVATIVE COMPLAINT

Plaintiffs Oklahoma Firefighters Pension & Retirement System ("**Oklahoma**"), Key West Municipal Fire Fighters & Police Officers' Retirement Trust Fund ("**Key West**") and Jeffrey Drowos ("**Drowos**," and together with Oklahoma and Key West, "**Plaintiffs**"), by and through their attorneys, bring this action derivatively on behalf of Citigroup Inc. ("**Citigroup**" or the "**Company**") against Defendants Michael L. Corbat, Duncan P. Hennes, Franz B. Humer, Eugene M. McQuade, Michael E. O'Neill, Gary M. Reiner, Judith Rodin, Anthony M. Santomero, Joan Spero, Diana L. Taylor, William S. Thompson Jr., James S. Turley, Ernesto Zedillo Ponce de Leon, Robert L. Joss, Vikram S. Pandit, Richard D. Parsons, Lawrence R. Ricciardi, Robert L. Ryan, John P. Davidson III, Bradford Hu, Brian Leach, Manuel Medina-Mora, and Kevin L. Thurm.

The allegations made herein are based upon personal knowledge as to Plaintiffs and Plaintiffs' own acts, upon information obtained from internal books and records received following Plaintiffs' inspections pursuant to 8 *Del. C.* § 220, and upon information and belief (including the extensive investigation of counsel and review of publicly available information) as to all other matters stated herein.

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INTRODUCTION

1. Over the past several years, Citigroup has spent billions of dollars of stockholder money paying fines, fees, and settlements because Defendants have in bad faith abdicated their oversight responsibilities. In business line after business line, Defendants permitted the Company systematically to commit fraud, enable money-laundering, collude to fix global benchmark rates, employ deceit to peddle credit products, squander customers' trust, and violate binding law. These incidents of corporate malfeasance did not happen in a vacuum: they occurred because Defendants—who were aware of significant internal control weaknesses throughout the enterprise—consciously and knowingly failed to take action.

2. Despite Citigroup's near death experience in 2008-2009—which resulted in the federal government making the largest corporate bailout in the country's history and concluding that it was the directors' and management's failure to implement effective controls that brought the Company to the brink of total collapse—Citigroup has seen one regulator after another investigate various forms of illegal conduct across multiple business lines.

3. This is not a case in which directors and senior officers were simply ignorant about holes in their risk management and legal compliance systems or had no reason to know of significant compliance risks. Against a history of numerous, widespread, and systematic risks and legal compliance debacles, stockholders have

filed this action to hold Citigroup's Board of Directors ("**Board**") accountable for the most recent failures. These include: (i) a sustained failure—in the face of repeated government investigations and regulatory orders—to comply with anti-money laundering laws and regulations; (ii) large losses suffered from a significant fraud resulting from the total lack of controls in a large accounts receivable lending program; (iii) criminal collusion by foreign exchange traders to manipulate benchmark exchange rates using confidential client information; and (iv) the perpetration over the period of a decade of deceptive marketing practices in its credit card businesses.

4. In response to these events, Citigroup and its subsidiaries entered into a series of civil and regulatory settlements and a felony guilty plea. Investigations remain ongoing. Repeatedly regulators have made specific findings concerning Citigroup's lack of effective internal controls across various business lines. In connection with the anti-money laundering violations described below, the Office of the Comptroller of the Currency ("**OCC**") found "an inadequate system of internal controls and ineffective independent testing." Similarly, with respect to the foreign exchange misconduct described below, the Board of Governors of the Federal Reserve System ("**Federal Reserve**" or "**FRB**"), found that "Citigroup lacked adequate firm-wide governance, risk management, compliance and audit policies and procedures." In connection with the deceptive credit card practices,

also detailed herein, the OCC found that Citigroup's subsidiaries "failed to implement appropriate controls." Likewise, after suffering a large loss from a fraud at its Banco Nacional de México ("**Banamex**") division, Citigroup itself recognized that glaring internal control failures were to blame.

5. It is rare for any company to exhibit such sustained and widespread internal control failures. The unrelenting revelations of wrongdoing, as well as the absence or ineffectiveness of internal controls and compliance practices, at Citigroup and its subsidiaries demonstrate that the tone set from the top is one of acquiescence, prioritizing the pursuit of quick profits over compliance and ethics. As regulators explained, Citigroup's internal controls are absent or known to be ineffective, and these failures have continued for a significant period of time. Citigroup's Board has repeatedly used stockholder funds to finance the penalties arising from its control failures. The Board has repeatedly represented to the federal regulators that it will adopt and implement effective risk and legal compliance controls to make it far less likely that illegal conduct will persist with Citigroup's operations. The one thing Citigroup's Board has not done is actually fix its internal risk and legal compliance controls.

6. This pattern, taken alone, suggests a systematic indifference from the Board towards its obligation to adopt and implement an effective system of

internal risk and legal compliance controls. This pattern is the prototype for board liability under Delaware law.

7. Plaintiffs here did not simply rest on the criminal prosecution or size and frequency of the regulatory fines and findings about the Board's failures, even though those facts speak for themselves. Here, following the guidance of this Court and of the Delaware Supreme Court, Plaintiffs pursued their rights under Section 220 of the General Corporation Law. Plaintiffs used the "tools at hand" to investigate the Company's nearly decade-long failure and apparent refusal to implement effective controls in diverse lines of its business. Among other things, Plaintiffs sought to determine what Citigroup's Board knew about the widespread regulatory and legal compliance problems plaguing the Company. Plaintiffs also sought to determine whether the Board took a properly proactive stance upon learning of the regulators' mounting frustrations.

8. Citigroup's internal documents reveal what Citigroup fought to keep hidden for nearly two years, through multiple Section 220 requests and trials, and even Plaintiffs' extraordinary motion to enforce in the face of Citigroup's non-compliance with this Court's judgment in one of the books-and-records actions. The Company's documents demonstrate that the Board was told, in a steady drumbeat of repeated warnings from management and regulators, about the Company's ongoing compliance and control problems involving money

laundering, rampant fraud at Banamex, deceptive credit card practices, and foreign exchange misconduct. The Board was told, repeatedly, that the regulators had insisted that Citigroup finally adopt internal controls in various portions of its business. The Board was also told, in meeting after meeting, that even when some form of controls were already in place, the regulators planned to hold the Board accountable to materially improve those deficient controls so they would be effective. The Board also learned, in meeting after meeting, that Citigroup had failed to improve its controls in key parts of its business and that the regulators were growing increasingly aggravated with Citigroup due to its sustained and systemic failure to adopt and implement effective legal compliance controls.

9. The Board's response to this onslaught of specific and credible "red flags" of internal compliance dysfunction demonstrates a bad faith abdication of its duties. The Board listened to a stream of warnings and regulator threats, yet consciously failed to respond in good faith. Despite repeated reports of serious issues, the Board failed to take meaningful, affirmative steps to ensure that control failures be remedied. To the contrary, no matter how much detail the Board was provided, its members sat like stones growing moss.

10. Defendants must be held accountable for their breaches of their oversight duties. Directors who, through their conscious inaction, treat billion-dollar corporate traumas as the price of doing business must be sent the message

that Delaware does not charter systemic and recidivist lawbreakers. Defendants have been granted the honor, and responsibility, of ensuring that Citigroup is a law-abiding business and that stockholders' investments in the Company are prudently managed. Defendants have subordinated those primary duties to the pursuit of quick profits, either refusing to act in the face of clear warnings or too overwhelmed by the task to do so.

11. The most reasonable explanation for the Board's sustained and systematic failure to adopt and implement effective internal risk and legal compliance controls is clear. Although Citigroup was saved in 2009 because it was "too big to fail," its Board has now concluded that Citigroup is simply "too big to govern." Judicial relief is needed now to hold Defendants liable for breaches of their fiduciary duty of oversight and to stem the tide of dysfunction.

I. PARTIES

A. PLAINTIFFS

12. Plaintiff Oklahoma is a retirement system that provides retirement allowances and other benefits to firefighters in Oklahoma. Oklahoma owns shares of Citigroup and has owned shares continuously at all relevant times alleged herein. Oklahoma was a petitioner in *Oklahoma Firefighters Pension & Retirement System v. Citigroup Inc*., C.A. No. 9587-ML (VCN), an action brought pursuant to 8 *Del. C.* § 220 to seek books and records relating to certain of the

wrongs alleged herein. Oklahoma will retain shares of Citigroup through the course of this litigation.

13. Plaintiff Key West is a retirement system that provides retirement allowances and other benefits to firefighters and police officers in Florida. Key West owns shares of Citigroup and has owned shares continuously at all relevant times alleged herein. Key West was a petitioner in *Key West Municipal Fire Fighters & Police Officers' Retirement Trust Fund v. Citigroup Inc.*, C.A. No. 10468-ML and *In re Citigroup Inc. Section 220 Litigation*, C.A. No. 11454-VCG, actions brought pursuant to 8 *Del. C.* § 220 to seek books and records relating to the wrongs alleged herein. Key West will retain shares of Citigroup through the course of this litigation.

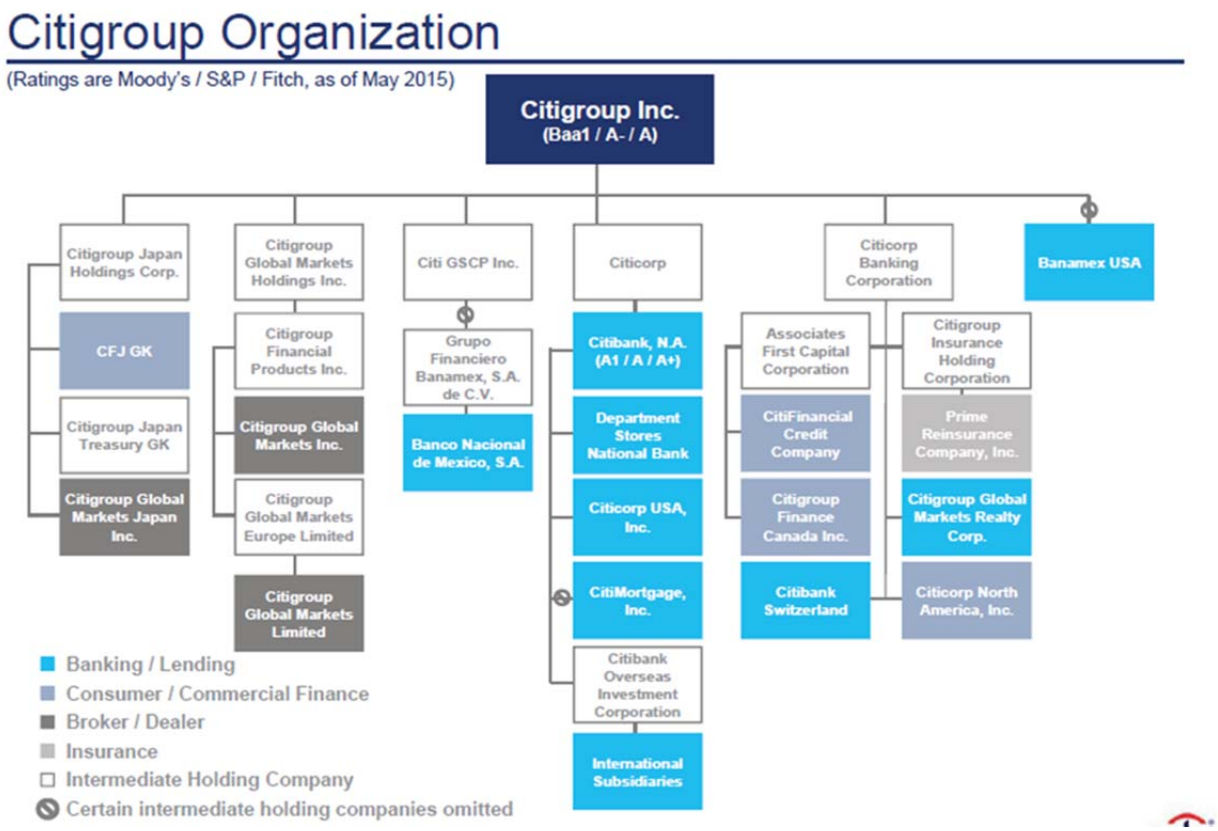
14. Plaintiff Drowos owns shares of Citigroup and has owned shares of Citigroup continuously at all relevant times alleged herein. Drowos was a petitioner in *In re Citigroup Inc. Section 220 Litigation*, C.A. No. 11454-VCG, an action brought pursuant to 8 *Del. C.* § 220 to seek books and records relating to certain of the wrongs alleged herein. Drowos will retain shares of Citigroup through the course of this litigation.

B. DEFENDANTS

1. Nominal Defendant

15. Nominal Defendant Citigroup is a Delaware corporation, with its principal place of business located in New York, NY. Citigroup's shares trade on the New York Stock Exchange under ticker symbol "C." Citigroup operates through a network of subsidiaries via two primary business segments: Citicorp and Citi Holdings. Citicorp consists of Citigroup's regional customer banking and institutional clients group. Citi Holdings consists of Citigroup's brokerage and asset management and local consumer lending businesses, and a special asset pool. Citibank N.A. ("**Citibank**") is Citigroup's main depository subsidiary. Citigroup has a market capitalization of approximately $126.6 billion, with a fiscal year 2014 reported net income of $11.5 billion. In 2014, Citigroup recorded a charge of $3.8 billion related to a mortgage-backed securities settlement announced in July 2014, among certain other charges, bringing Citigroup's net income for 2014 down to $7.3 billion. As of March 2015, Citigroup had approximately 241,000 employees.

Figure A



2. Current Citigroup Directors

16. The current Board of Citigroup consists of the following sixteen individuals: Defendants Michael L. Corbat, Duncan P. Hennes, Franz B. Humer, Eugene M. McQuade, Michael E. O'Neill, Gary M. Reiner, Judith Rodin, Anthony M. Santomero, Joan Spero, Diana L. Taylor, William S. Thompson, Jr., James S. Turley, Ernesto Zedillo Ponce de Leon, and non-defendants Peter Blair Henry, Ellen M. Costello, and Renee J. James.

17. Michael L. Corbat ("**Corbat**") has been the Chief Executive Officer ("**CEO**") and a director of Citigroup since October 2012. Prior to his appointment

as CEO of Citigroup, Corbat served as CEO of Citi Europe, Middle East, and Africa from December 2011 to October 2012. He also served as CEO of Citi Holdings from January 2009 until December 2011. Corbat was the CEO of Citigroup's Global Wealth Management unit from September 2008 until January 2009 and was head of Citigroup's Global Corporate Bank and Global Commercial Bank from March 2008 until September 2008. He was also head of Citigroup's Global Corporate Bank from April 2007 until March 2008. Previously, he was head of Citigroup's Global Relationship Bank from March 2004 until April 2007 and held numerous significant positions at Citigroup since 1988. The Board has determined that Corbat is not an independent director. Corbat has received the following compensation from Citigroup in his role as CEO and director:

MICHAEL L. CORBAT (CEO & DIRECTOR)

	Base Salary	Cash Bonus	Stock Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All Other Compensation	TOTAL
2012	1,049,188	2,090,162	2,250,000	5,217,414	4,215	1,766,529	12,377,508
2013	1,500,000	5,200,000	7,915,912	2,923,069	3,838	15,300	17,558,119
2014	1,500,000	4,600,000	7,727,757	606,924	6,918	15,600	14,457,199

18. Duncan P. Hennes ("**Hennes**") has been a director of Citigroup since December 2013 and a director of Citibank since 2013. Hennes has served as a member of Citigroup's Risk Management and Finance Committee (also known as the Risk Management Committee) since December 2013. He has also been the Chair of the Compliance Committee since April 2014. Hennes has served as a

member of Citibank's Risk Management and Finance Committee (also knowna s the Citibank Risk Management Committee) since December 2013.

19. Franz B. Humer ("**Humer**") has served as a director of Citigroup since April 2012 and a Citibank director from at least 2012 until at least March 2014. Humer has been a member of Citigroup's Risk Management and Finance Committee since at least September 2012. He served on Citibank's Risk Management and Finance Committee from at least September 2012 until at least January 2014.

20. Eugene M. McQuade ("**McQuade")** has served as a director of Citigroup since July 2015. He served as Vice Chairman of Citigroup from April 2014 until May 2015. He also served as CEO of Citibank from July 2009 until April 2014. McQuade has been a member of the Citibank board since at least 2011. He served as a member of Citibank's Compliance Committee from at least October 2011 until at least April 2015 and as a member of Citibank's Risk Management Committee from at least October 2011 until at least January 2014.

21. Michael E. O'Neill ("**O'Neill**") has served as a Citigroup director since April 2009 and a Citibank director since 2009. O'Neill has served as Chairman of Citigroup since March 2012. He has been a member of the Audit Committee since at least March 2013, and served as a member of the Company's

Risk Management and Finance Committee from at least March 2010 to March 2011.

22. Gary M. Reiner ("**Reiner**") has served as a Citigroup director since July 2013 and a Citibank director since 2013.

23. Judith Rodin ("**Rodin**") has been a Citigroup director since September 2004. She was a member of Citigroup's Compliance Committee from May 2012 until April 2013 and served as a member of the Company's Audit and Risk Management Committee in at least March 2009.[1]

24. Anthony M. Santomero ("**Santomero**") has served as a Citigroup director since April 2009 and a Citibank director since 2009. He has been the Chairman of Citibank since May 2012. Santomero has been a member of Citigroup's Audit Committee since at least March 2010 and was the Chair of that Committee from April 2013 until March 2014. Santomero has been Chair of Citigroup's Risk Management and Finance Committee since March 2015. He joined the Risk Management and Finance Committee no later than March 2010, and previously served as Chair from at least March 2012 until at least March 2013. He was Chair of Citigroup's Compliance Committee from at least October 2011 through April 2012. He has been a member of Citibank's Audit Committee since

[1] The Audit and Risk Management Committee was separated into two committees, the Audit Committee and the Risk Management Committee, by March 2010.

at least March 2010, and was the Chair of that committee from April 2013 until March 2014. He has also served on Citibank's Risk Management and Finance Committee since at least March 2010, where he has been the Chair since March 2015, and was previously the Chair from March 2012 until March 2013. Santomero served as Chair of the Citibank Compliance Committee from at least October 2011 until April 2012.

25. Joan Spero ("**Spero**") has served as a director of Citigroup since April 2012 and a director of Citibank since 2012. Spero has served as a member of the Audit Committees of both Citigroup and Citibank since the beginning of her service as a director.

26. Diana L. Taylor ("**Taylor**") has served as a director of Citigroup since July 2009. She has also served as a director of Citibank since 2013.

27. William S. Thompson, Jr. ("**Thompson**") has served as a director of Citigroup since April 2009. Thompson served as a member of Citigroup's Audit Committee from July 2011 until March 2012. Thompson was a member of Citigroup's Compliance Committee from May 2012 until April 2013. Thompson has served as a member of Citigroup's Risk Management and Finance Committee since April 2013, and previously from at least March 2010 until at least March 2011. He served as Chair of the Risk Management and Finance Committee from April 2013 until January 2014.

28. James S. Turley ("**Turley**") has served as a director of Citigroup since July 2013 and a director Citibank since 2013. Turley is currently the Chair of Citigroup's Audit Committee and has been a member of the Audit Committee since July 2013. Turley has been a member of the Citibank Audit Committee since September 2013 and has been the Chair of that committee since April 2014.

29. Ernesto Zedillo Ponce de Leon ("**Zedillo**") has served as a director of Citigroup since April 2010. He also served as a director of Citibank from 2010 until at least March 2013. He has served as a member of Citigroup's Risk Management and Finance Committee since at least March 2011 and was a member of Citigroup's Compliance Committee from May 2013 until March 2014. Zedillo served as a member of Citibank's Risk Management and Finance Committee from at least October 2011 until at least January 2013.

30. Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo are referred to herein as the "**Director Defendants**."

3. Former Citigroup Directors

31. Robert L. Joss ("**Joss**") was a director of Citigroup from 2009 until his retirement in April 2014. He also served as a director of Citibank from 2010 until 2014. He was on Citigroup's Risk Management and Finance Committee from at least March 2010 until at least March 2014. Joss was a member of the

Compliance Committee from at least October 2011 until March 2014 and served as Chair of the Compliance Committee from at least May 2012 until March 2014. Joss served as a member of Citibank's Risk Management and Finance Committee from at least March 2010 until at least March 2014. He was a member of Citibank's Compliance Committee from at least October 2011 until March 2014 and served as Chair of Citibank's Compliance Committee from at least May 2012 until March 2014.

32. Vikram S. Pandit ("**Pandit**") was the CEO and a director of Citigroup from December 2007 until October 2012. Pandit received the following compensation from Citigroup during the relevant period:

VIKRAM PANDIT

	Base Salary	Cash Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	TOTAL
2009	125,001	0	0	0	0	3,750	128,751
2010	1	0	0	0	0	0	1
2011	1,671,370	5,331,452	0	7,839,581	0	14,700	14,857,103
2012	1,750,000	2,661,333	3,998,589	0	1,129,768	15,000	9,554,690

33. Richard D. Parsons ("**Parsons**") was a director of Citigroup from 1996 until April 2012. He served as Chairman of Citigroup from 2009 until 2012. Parsons was also a Citibank director from 1996 to 1998.

34. Lawrence R. Ricciardi ("**Ricciardi**") was a director of Citigroup from 2008 until his retirement in April 2013. He also served as a director of Citibank from 2009 until 2013. He was a member of the Audit Committee (formerly the

Audit and Risk Management Committee) from at least January 2009 until at least March 2013, and served as Chair of the Audit Committee from at least January 2010 until his retirement in April 2013. Ricciardi served as Chair of the Citibank Audit Committee from July 2011 until at least January 2013.

35. Robert L. Ryan ("**Ryan**") was a director of Citigroup from 2007 until his retirement in April 2015. He was also a director of Citibank from 2009 until 2015. From 1975 until 1982, Ryan served as Vice President of Citibank. He also served as a member of Citigroup's Audit Committee from at least March 2009 until at least March 2015. Ryan served as a member of Citigroup's Risk Management and Finance Committee from at least March 2011 until at least March 2012. Ryan was a member of Citigroup's Compliance Committee from at least October 2011 until March 2015; a member of Citibank's Audit Committee from July 2011 until at least March 2015; a member of Citibank's Risk Management and Finance Committee in at least October 2011; and a member of Citibank's Compliance Committee from at least October 2011 until at least March 2015.

36. Defendants Joss, Pandit, Parsons, Ricciardi, and Ryan are referred to herein as the "**Former Director Defendants**."

4. Citigroup Officers

37. Corbat has served as CEO of Citigroup since October 2012, as CEO of Citi Europe, Middle East, and Africa from December 2011 until October 2012

and as CEO of Citi Holdings from January 2009 until December 2011, as described in paragraph 17 above.

38. John P. Davidson III ("**Davidson**") has served as Citigroup's Chief Compliance Officer since September 23, 2013, when the Board appointed Davidson to replace Kevin Thurm as Chief Compliance Officer. Prior to this appointment, Davidson served as Head of Enterprise Risk Management ("**ERM**"), a unit responsible for managing Citigroup's operational risk across businesses and geographies, from April 2008 until September 2013. Davidson was responsible for building the ERM team and was charged with managing operational risk through governance, mitigation, and recovery efforts. Davidson served as the Risk Chief Administrative Officer and was responsible for Infrastructure Risk Management from November 2008 until August 2011.

39. Bradford Hu ("**Hu**") has served as Citigroup's Chief Risk Officer since January 2013. Prior to this appointment, Hu served as Chief Risk Officer for Asia, and was responsible for managing and tracking Citigroup's risks across the consumer and institutional clients businesses in the region.

40. Brian Leach ("**Leach**") served as Citigroup's Head of Franchise Risk and Strategy from January 2013 until April 2015. In this capacity, Leach oversaw Compliance, Franchise Risk Architecture, Internal Audit, Operational Risk Management, Risk Management, Risk Strategy, and Strategic Regulatory

Initiatives for Citigroup. Leach also served as Citigroup's Chief Risk Officer from March 2008 until January 2013.

41. Manuel Medina-Mora ("**Medina-Mora**") has served as the non-executive Chairman of the Board of Directors of Grupo Financiero Banamex, S.A. de C.V. (the "**Banamex Group**") since June 2015. Medina-Mora previously served as Citigroup's Co-President from January 2013 until June 2015. He was CEO of Citigroup's Global Consumer Banking business from November 2011 until June 2015 and Executive Chairman of Mexico operations from 2004 until June 2015. Medina-Mora served as CEO of Banamex from 1996 until 2004 and held positions at Banamex dating back to 1971. By virtue of his positions at Citigroup and the Banamex Group, Medina-Mora was actively involved in discussions of BSA/AML compliance and fraud issues in Mexico, frequently attending both Board and committee meetings. In July 2012, Medina-Mora was the sponsor of the Global Consumer Banking AML Steering Committee, the purpose of which was to [redacted] Medina-Mora often presented to the Board concerning BUSA's regulatory issues and BUSA's response to a consent order issued by the Federal Deposition Insurance Corporation ("**FDIC**") in 2013.

42. Pandit served as CEO of Citigroup from December 2007 until October 2012 as described in paragraph 32 above.

43. Kevin L. Thurm ("**Thurm**") served as Citigroup's Chief Compliance Officer from 2011 until September 2013. As Chief Compliance Officer, the Board authorized Thurm to enter into a Consent Order to Cease and Desist with the Federal Reserve on Citigroup's behalf on March 21, 2013.

44. Defendants Corbat, Davidson, Hu, Leach, Medina-Mora, Pandit, and Thurm are referred to herein as the "**Officer Defendants**."

5. Individual Defendants

45. The Director Defendants, the Former Director Defendants, and the Officer Defendants are collectively referred to herein as the **"Individual Defendants."**

SUBSTANTIVE ALLEGATIONS

II. CITIGROUP

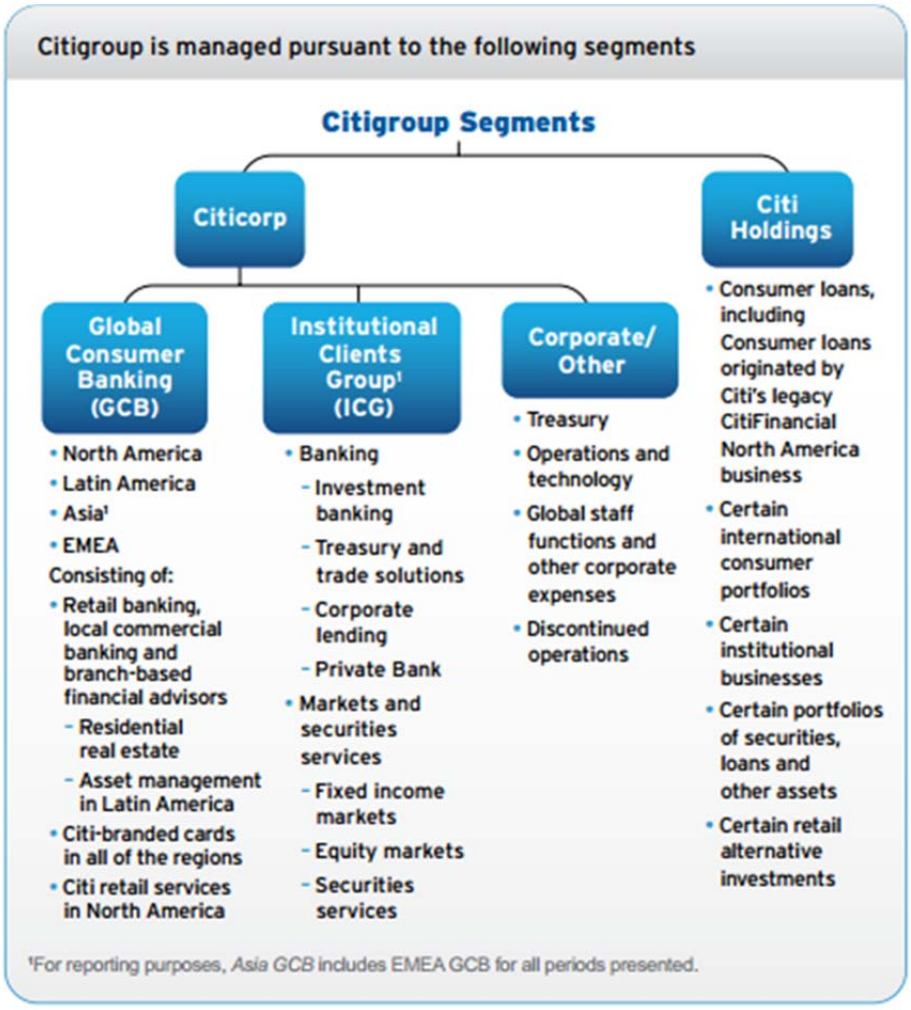
46. Citigroup describes itself as "the leading global bank." The Company has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. It has a market capitalization of approximately $160 billion. Citigroup reported net income of $7.3 billion for 2014, compared to $13.7 billion in 2013. It also reported incurring $5.8 billion in legal expenses for 2014 alone, nearly double the reported $3.0 billion for legal expenses in 2013.

47. As more fully set forth in Figure A,[2] Citigroup's principal subsidiaries are Citibank, Citigroup Global Markets Inc., and the Banamex Group, each of which is a wholly owned, indirect subsidiary of Citigroup. According to testimony in 2010 by the OCC's Comptroller, Citigroup's largest legal entity is Citibank, which, at year-end 2009, constituted 62% of Citigroup.

48. For management reporting purposes, Citigroup operates through two primary business segments: Citicorp and Citi Holdings.

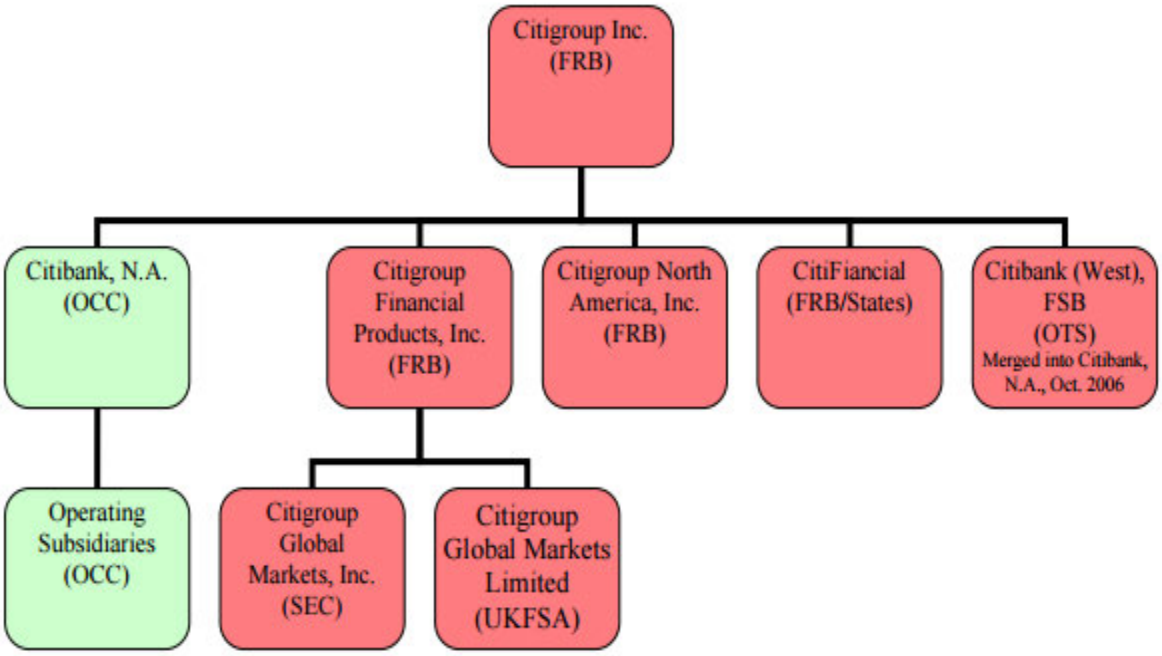
[2] Figure A is inserted between paragraphs 15 and 16.

Figure B – Citigroup Segments



49. Citigroup and its subsidiaries are regulated by a variety of agencies, including those described in Figure C.

Figure C – Citigroup Regulators



A. THE BANAMEX GROUP

50. The Banamex Group is a wholly owned, indirect subsidiary of Citigroup.[3] Citigroup acquired the Banamex Group, then known as Grupo Financiero Banamex-Accival, in August 2011 for $12.5 billion. At the time, the purchase was the largest-ever Latin American acquisition by a United States Company. Citigroup's existing Mexico operations were integrated with Banamex's operations under the Banamex name.

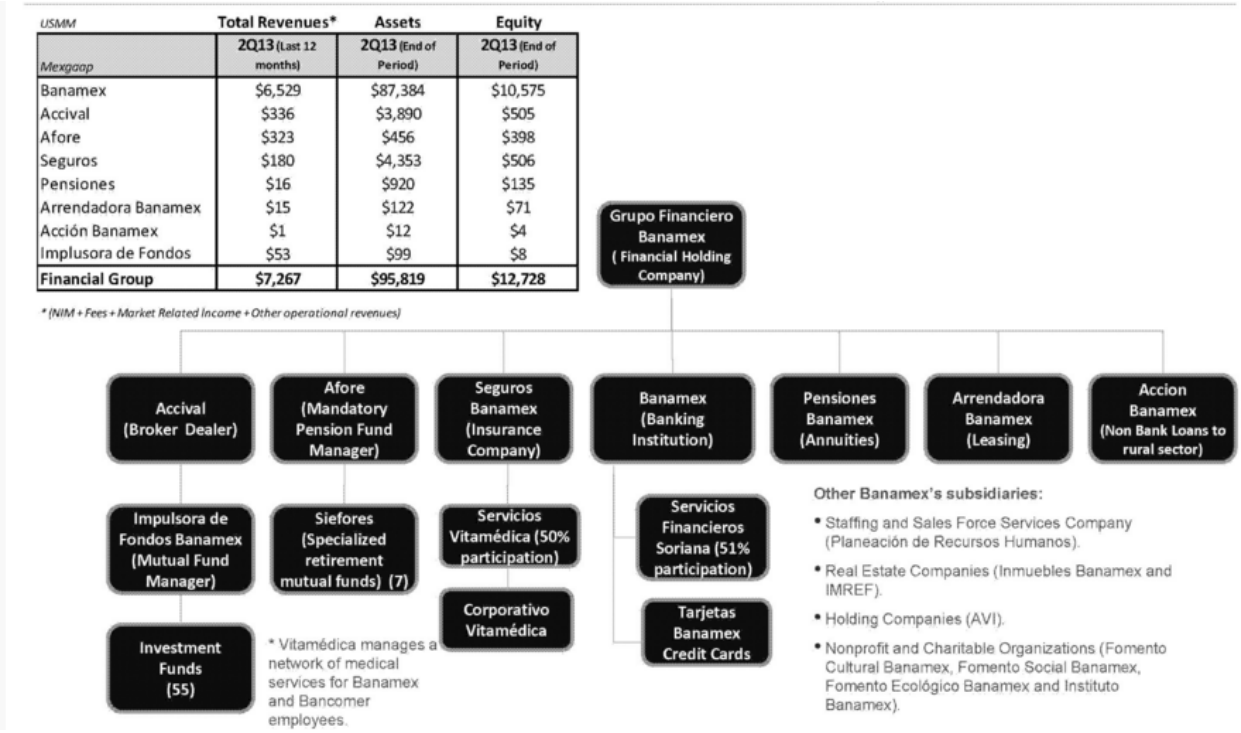
[3] The Banamex Group is a wholly owned subsidiary of Citicorp (Mexico) Holdings LLC. Citicorp (Mexico) Holdings LLC is an indirect, wholly owned subsidiary of Citigroup.

51. The Banamex Group is currently the third-largest lender in Mexico. In September 2015, the Banamex Group slipped from the number two spot, a position it had held consistently since Citigroup acquired it in 2001, due to the $400 million fraud involving oil services provider Oceanografía, S.A. de C.V. ("**OSA**"). Its subsidiary, Banamex, remains Mexico's second-largest lender by assets. In 2014, the Banamex Group controlled a credit portfolio of some 468 billion pesos while earning a net profit of 14 billion pesos.[4]

52. Citigroup is responsible for ensuring its subsidiaries' compliance with applicable laws and regulations and has made clear that its subsidiaries are subject to the same standards as Citigroup itself. As Citigroup recognized in a public statement: "While Banamex is a subsidiary of Citi, it is absolutely subject to the same risk, control, anti-money laundering and technology standards and oversight which are required throughout the company." In 2009, Citigroup's then-CEO Vikram Pandit affirmed that "Citi[group] and [the] Banamex [Group] are one and the same. The future of Citi is in emerging markets. It's in Latin America. It's in Mexico with Banamex."

[4] This represents approximately $804 million as of March 22, 2016.

Figure D – The Banamex Group



B. BANAMEX

53. Banamex is a wholly owned, direct subsidiary of the Banamex Group, and an indirect, wholly owned subsidiary of Citigroup. Citigroup acquired Banamex in August 2001.

54. Banamex now has almost twice as many branches as Citigroup operates in the United States. Its profits have almost quintupled in the last decade, and it accounts for approximately 10% of all of Citigroup's core revenue.

C. BUSA

55. BUSA, a retail bank, is an indirect wholly owned subsidiary of Citigroup. Citigroup acquired BUSA when it purchased Banamex. Its branches in the United States engage in cross-border transactions.

56. BUSA's accounts are typically opened following a referral from Banamex; in fact, about 90% of BUSA's accounts have some relationship to Banamex.

57. After years of failures to comply with anti-money laundering regulations, Citigroup announced in July 2015 that it would shut down BUSA entirely.

III. CITIGROUP'S PRIOR HISTORY OF OVERSIGHT AND CONTROL FAILURES

58. Defendants breached their fiduciary duties by consciously failing to develop, implement, and enforce effective internal controls throughout the Company, including at its subsidiaries. Despite receiving repeated warnings concerning the inadequacies of the Company's controls, and even after governance gaps manifested themselves in criminal and civil infractions, Defendants exhibited a shocking indifference to the Company's compliance problems.

59. Plaintiffs' derivative claims seek damages for the harm caused by each of the following four corporate traumas: (1) pervasive violations of anti-

money laundering rules; (2) substantial fraud at Banamex; (3) fraudulent manipulation of benchmark foreign exchange rates; and (4) deceptive credit card practices. These are detailed below.

60. A proper understanding of the depth and nature of the abandonment of good faith oversight at Citigroup, however, requires consideration of many other incidents across the Company's businesses in recent years, illustrating the laissez-faire approach the Company's directors and senior officers have taken towards their oversight responsibilities and internal controls.[5]

61. Citigroup's Board members did not operate from a clean slate when it comes to oversight or risk management and legal compliance. Whether or not they were on the Board at the time, each and every Director Defendant was aware of the severe risk management and legal compliance problems that resulted in Citigroup nearly failing, and only surviving thanks to an historic $300 billion government bailout and near takeover. Put another way, since 2008, any Citigroup Board member knew that the Company had suffered grievous harm because of lax oversight in the past, and that reform was essential.

[5] Citigroup's compliance failures are so pervasive that Citigroup has been the subject of a case study on the topic. Arthur E. Wilmarth Jr., *Citigroup: A Case Study in Managerial and Regulatory Failures*, 47 IND. L. REV 69, 71 (2014) ("Citigroup's managers and regulators repeatedly failed to prevent or respond effectively to legal violations, conflicts of interest, excessive risk-taking and inadequate risk controls within the bank's complex, sprawling operations.").

62. Specifically, in mid- to late 2008, having nearly imploded its balance sheet with highly risky mortgage-related investments that were neither understood by the Board nor disclosed to investors, Citigroup found itself in a dire financial situation. Citigroup's massive size and global reach rendered Citigroup "too big to fail," causing Citigroup to become the single largest government-bailout recipient of the financial crisis.

63. The Citigroup bailout came after significant failures in oversight and internal controls had already become apparent. Among other things, poor risk management and controls—and, reportedly, direct pressure from members of the Citigroup Board—enabled Citigroup to become overexposed to troubled mortgages that, by early 2008, constituted more than 80% of Citigroup's mortgage portfolio. The Board ignored repeated warnings that Citigroup's exposure to the subprime housing market created massive risk that could result in devastating losses. As warned, that risk and the Board's failure to act materialized as the financial crisis fomented throughout 2008.

64. With Citigroup in severe distress, in October 2008, the U.S. Treasury ("**Treasury**") provided Citigroup with $25 billion in Troubled Asset Relief Program ("**TARP**") funds. However, by the next month, Citigroup was insolvent, with a market value of $20.5 billion—*below* the amount the government had just provided.

65. On November 17, 2008, Citigroup announced plans to cut approximately 52,000 jobs (in addition to 23,000 jobs already cut in 2008), and announced that it was unlikely to turn a profit until 2010 at the earliest. Ultimately, Citigroup cut more than 100,000 jobs, and Citigroup's stock price plummeted to under $1.00 per share.

66. Out of concern that Citigroup's failure would severely harm the global economy, the U.S. government announced a massive bailout package for Citigroup on November 24, 2008, that regulators described as "the actions necessary to strengthen the financial system and protect U.S. taxpayers and the U.S. economy."

67. On top of the $25 billion in TARP funds that Citigroup had just received in the prior month, the Treasury provided an additional $20 billion in TARP funds, while the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation ("**FDIC**") agreed to back approximately $306 billion in loans and securities—covering 90% of the losses on Citigroup's $335 billion portfolio. And in January 2009, Citigroup borrowed almost $100 billion from the Federal Reserve.

68. In the aftermath of the government's bailout, Citigroup claimed that it had taken significant steps to improve its internal controls, oversight, and risk management. On March 4, 2010, then-CEO Pandit told a congressional oversight panel that, post-bailout, Citigroup was "in a far different and much healthier

position" and "operating on a very strong foundation." According to Pandit, Citigroup "bolstered our financial strength, overhauled our risk management, reduced our risk exposures, defined a clear strategy and made Citi a more focused enterprise by returning to banking as the core of our business."

69. Moreover, Pandit specifically told Congress on March 4, 2010, that Citigroup had "rebuilt our senior management team," including by "focus[ing] on strengthening risk management" and "mak[ing] sure that we have risk managers assigned to oversee businesses, regions, and important product areas." Pandit also trumpeted that the Citigroup Board "installed seven new members . . . and . . . established a separate Risk and Finance Committee, comprised entirely of independent directors, to focus on risk oversight issues."

70. It is hard to imagine a more prominent "red flag" to put the Citigroup Board on notice that the Company's internal controls are dangerously inadequate than Citigroup needing the largest bailout in U.S. history in order to avoid bankruptcy.

71. Despite the massive bailout in 2008 and the subsequent purported systemic overhaul of Citigroup's risk management and internal controls, however, Citigroup's oversight and internal control failures have continued unabated, resulting in pervasive misconduct throughout Citigroup and its subsidiaries and divisions. Prominent examples of that misconduct are discussed below.

A. NUMEROUS RISK MANAGEMENT AND COMPLIANCE VIOLATIONS ILLUSTRATE THAT THE BOARD IGNORED THE LESSONS OF 2008

72. In addition to the major corporate traumas supporting Plaintiffs' claims, which are discussed below, Citigroup's larger pattern of compliance meltdowns includes: hedge fund fraud; the improper disclosure of confidential client information in connection with equity research communications; inadequate insider trading oversight; misrepresentations concerning residential mortgage-backed securities and improper lending practices; and the manipulation of the Intercontinental Exchange London Interbank Offered Rate ("**LIBOR**") and the Singapore Interbank Offered Rate ("**SIBOR**"). Each of these topics is discussed more fully below.

73. The culture of non-compliance that has festered at the Company has caused substantial harm in the form of regulatory and criminal fines, civil settlements, a diminished reputation, extraordinary legal costs, and even a criminal conviction.

1. The Mortgage-Backed Securities Misconduct, the LIBOR Manipulation, and the SIBOR Manipulation

74. Citigroup's pervasive oversight and internal control failures have led to massive financial harm to the Company and its investors. For example, on July 14, 2014, Citigroup announced a settlement with the Residential Mortgage-Backed Securities ("**RMBS**") Task Force comprising the U.S. Department of Justice

("**DOJ**"), several state attorneys general, and the FDIC, related to RMBS and collateralized debt obligations ("**CDO**") that Citigroup issued between 2003 and 2008. Citigroup agreed to pay a total of ***$7 billion***, including $4 billion to DOJ, $500 million to the state attorneys general and the FDIC, and $2.5 billion in consumer relief (including construction of affordable housing, principal reduction and forbearance for residential loans).

75. In addition, on August 5, 2014, the U.S. District Court for the Southern District of New York approved a $285 million settlement, originally entered into in October 2011, concerning Citigroup's $1 billion CDO through which Citigroup bet against the U.S. housing market and made $160 million in fees and trading profits, while investors lost more than $700 million.

76. Numerous other examples show the Board knew that Citigroup's internal risk management and legal compliance functions remained woefully inadequate.

77. For example, in 2012, CitiMortgage—a wholly owned subsidiary of Citigroup—paid $2.2 billion as part of a settlement with federal and state authorities relating to mortgage loan servicing and foreclosure abuses. Similarly, in 2010, Citigroup paid $75 million to settle claims brought by the U.S. Securities and Exchange Commission ("**SEC**") that it failed to disclose more than $40 billion of subprime mortgage bonds. Citigroup lost or settled at least five claims in 2010

brought by borrowers who accused the Company of filing fraudulent mortgage documents.

78. In 2013, Citigroup paid at least $95 million in fines for manipulating the LIBOR benchmark interest rate. Similarly, in a February 1, 2016 filing, Citigroup disclosed that it agreed to pay $23 million to settle a class action suit alleging further LIBOR manipulation. Citigroup was also sanctioned by the Monetary Authority of Singapore for its attempts to influence the SIBOR local benchmark interest rate in 2013.

2. Citigroup Subsidiaries Commit Securities Fraud for the Better Part of a Decade

79. Citigroup's internal control failures permitted its subsidiaries to defraud investors for more than half a decade through misrepresentations concerning the risks related to two hedge funds. After conducting an investigation into the subsidiaries' investment marketing practices, the SEC required the subsidiaries to pay $180 million to settle fraud claims.

80. Citigroup Alternative Investments LLC ("**CAI**") is a wholly owned subsidiary of Citigroup that managed two hedge funds until their collapse during the financial crisis: (a) the ASTA/MAT fund, which was a municipal arbitrage fund; and (b) the Falcon fund, which was a multi-strategy fund that invested in the ASTA/MAT fund and other fixed-income and asset-backed securities. The funds

were managed by an employee who had a primary role in creating them. The highly leveraged funds were sold exclusively to clients of Citigroup Private Bank or Salomon Smith Barney by financial advisors associated with another wholly owned subsidiary of Citigroup, Citigroup Global Markets Inc. ("**CGMI**"), a broker-dealer.[6]

81. According to the SEC, from 2002 to 2007, CAI and CGMI willfully violated federal securities laws by "failing to control the misrepresentations made to investors as their employees misleadingly minimized the significant risk of loss resulting from the [F]unds' investment strategy and use of leverage among other things."[7] CAI also "failed to adopt and implement policies and procedures" to prevent misrepresentations.[8] Moreover, the CAI fund manager and staff were able to operate without any oversight, because "CAI failed to implement a system in which [the fund manager's] authority was checked adequately or to ensure that [his] communications with investors and financial advisers [concerning the funds] were accurate and not misleading."[9]

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[6] CGMI was formerly known as Salomon Smith Barney, Inc.

[7] Press Release, U.S. Securities & Exchange Commission ("**SEC**"), Citigroup Affiliates to Pay $180 Million to Settle Hedge Fund Fraud Charges (Aug. 17, 2015) ("**SEC Hedge Fund Press Release**").

[8] SEC Hedge Fund Press Release.

[9] *In re Citigroup Alt. Investments LLC and Citigroup Global Markets Inc.*, File No. 3-16757 (SEC Aug. 17, 2015) ("**SEC Hedge Fund Order**") at 3.

82. Although Citigroup was no doubt aware of its responsibilities under securities laws to ensure that its subsidiaries did not defraud investors, it apparently failed to verify that communications concerning those investments were accurate. Leaving its subsidiaries to develop and market hedge funds without guidance or meaningful checks invited the very fraud that occurred. As a result, investors poured money into the funds right up until they collapsed.[10] As a result, pursuant to an August 17, 2015 settlement with the SEC, Citigroup subsidiaries agreed to pay $180 million to settle fraud claims and compensate investors.

3. Compliance Rules for Citigroup Hedge Fund Analysts Allowed Confidential Information to be Improperly Disseminated for Nine Years

83. In yet another example of the Board's failure to effectively implement appropriate risk and legal compliance controls, for over nine years CGMI provided non-public information to select individuals in violation of federal law.[11] Financial

[10] SEC Hedge Fund Press Release at 1 ("Advisers at these Citigroup affiliates were supposed to be looking out for investors' best interests, but falsely assured them they were making safe investments even when the funds were on the brink of disaster.").

[11] CGMI's history of misconduct is extensive. In its consent order, FINRA identified six additional disciplinary actions regulators had taken against CGMI since 2002, which resulted in more than ***$438 million*** in fines and other penalties payable to FINRA, and which arose from, *inter alia*, the failure to supervise analysts' use and disclosure of non-public information. *In re Citigroup Global Markets Inc.*, No. 2013036054901 (Financial Industry Regulatory Authority ("**FINRA**"), Nov. 20, 2014) ("**FINRA Consent Order**") at 2-3.

Industry Regulatory Authority ("**FINRA**") determined that these violations were the result of inadequate supervision and lax enforcement of existing guidelines, and accordingly levied fines amounting to $15 million.

84. CGMI equity analysts were responsible for developing research reports, including ratings and price targets, using non-public information. Although analysts were prohibited by law from disclosing that information to clients, the analysts were incentivized to curry favor with clients because they were paid, in significant part, based on client feedback.

85. Yet again, the absence or failure to implement and monitor controls by Citigroup's Board harmed Citigroup's stockholders.

86. FINRA determined that from January 2005 to February 2014, "CGMI took inadequate steps to supervise its equity research analysts and to enforce the boundaries of permissible communications that could occur" at client events, and "failed to provide adequate guidance" about how analysts could participate in those dinners without violating internal policies and federal law.[12]

87. Between January 2005 and February 2014, "CGMI issued approximately 100 internal warnings" relating to improper communications by research analysts, but failed to adequately enforce its policies, discipline violators,

[12] FINRA Consent Order at 7.

and deter violations.[13] As a result, "equity research analysts tended to discount CGMI's efforts to impose discipline for violations of the Firm's policies and procedures."[14]

88. Citigroup's failure to create and implement oversight and control procedures to govern its subsidiaries' compliance with securities laws and FINRA regulations cost the Company $15 million in fines.

4. For Ten Years, Thousands of Improper Trades Went Undetected

89. Within a year of the FINRA action, CGMI was again found to be in violation of securities laws and regulations. On August 19, 2015, the SEC announced that CGMI had willfully violated securities laws failing to enact adequate insider-trading controls. Because of the risks inherent in high-speed

[13] Press Release, FINRA Fines Citigroup Global Markets Inc. $15 Million for Supervisory Failures Related to Equity Research and Involvement in IPO Roadshows (FINRA Nov. 24, 2014) at 1.

[14] FINRA Consent Order at 4.

trading, broker-dealers must "ensure that they have devoted sufficient attention and resources to trade surveillance and other compliance systems."[15]

90. However, CGMI both failed to detect thousands of trades in securities CGMI was prohibited from trading, and also routed hundreds of thousands of transactions on behalf of advisory clients to an affiliated market maker, which then executed those transactions as principal at or near market prices, violating prohibitions on advisers acting as principals without the requisite disclosure.

91. According to the SEC, CGMI willfully violated securities laws by failing to test and ensure compliance policies concerning restricted securities and advisory trades.[16] Furthermore, it failed to reasonably design or implement policies and procedures that would prevent the execution of advisory trades by the market maker as a principal.[17]

92. CGMI agreed to pay the SEC $15 million to settle its claims, and to pay over $2.5 million to affected clients.

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[15] Press Release, SEC Charges Citigroup Global Markets for Compliance and Surveillance Failures (SEC Aug. 19, 2015) ("**SEC Insider Trading Press Release**") (quoting Andrew J. Ceresney, Director of the SEC's Division of Enforcement); *see also In re Citigroup Global Markets, Inc.*, File No. 03-16764 (SEC Aug. 19, 2015) ("**SEC Insider Trading Order**") at 2 ("Technology oversight is a critical part of modern compliance, including the management of the technology systems that compliance personnel use. Failure to oversee those systems adequately can lead to compliance failures and securities law violations.").

[16] SEC Insider Trading Order at 10.

[17] SEC Insider Trading Order at 10.

93. Citigroup's persistent legal woes have severely impacted its bottom line. In December 2014, for example, Citigroup announced that it was forced to allocate $2.7 billion to its legal reserves, "wiping out the bulk of its expected fourth-quarter profit." Indeed, as of that month, ***more than half*** of the profits Citigroup earned under the 26-month leadership of Michael Corbat were lost to legal expenses. In those 26 months, Citigroup earned profits of $21.8 billion, but its legal expenses amounted to a staggering **$13.3 billion**.

IV. PLAINTIFFS INITIATE BOOKS-AND-RECORDS PROCEEDINGS TO INVESTIGATE DEFENDANTS' OVERSIGHT FAILURES

94. In the face of constant revelations of misconduct, Plaintiffs pursued two sets of books-and-records requests for Citigroup's documents. The documents obtained in those actions form the basis for many of the allegations that follow.

95. The first set of books-and-records demand letters were sent to the Company by Oklahoma and Key West. These letters requested documents relating to fraud at Banamex and the failure of AML controls at BUSA. As to Oklahoma's request, Citigroup failed to even acknowledge whether it had any Board or committee documents or policies and procedures relating to either fraud—let alone whether it would produce them. The Company dithered for over a month. Ultimately, Oklahoma filed a complaint to enforce its statutory rights.

96. After a trial on the paper record, Oklahoma prevailed. Citigroup filed a series of appeals of the master's report; at each stage, Oklahoma prevailed. Meanwhile, Citigroup agreed to provide Key West with copies of documents produced to Oklahoma. However, Citigroup delayed production and failed to produce the documents in the schedule it promised, necessitating Key West to file a Section 220 complaint, and only then did Citigroup ultimately turn over highly redacted documents, and withheld many other records called for by the judgment on the basis of the bank examination privilege. To date, Plaintiffs have still not received a complete production of all documents required by the final judgment in that matter.

97. While the books-and-records actions relating to the Banamex and BUSA misconduct proceeded, additional revelations established that Defendants' oversight failures were far broader than previously recognized. As a result, Key West and Drowos issued demand letters relating to a number of additional corporate traumas, including the manipulation by employees of Citigroup subsidiaries of the key global foreign exchange benchmark, as well as the systematic deception of credit card customers for a period lasting nearly a decade.

98. In response to the Drowos demand letter, Citigroup contested whether Drowos had established a proper purpose, again forcing stockholders to engage in litigation to obtain records. In a consolidated trial relating to the Drowos and Key

West complaints, the Court again found a proper purpose and granted judgment in Plaintiffs' favor.

99. Consistent with its conduct in the past, Citigroup dithered. In negotiations over the terms of the final judgment, Citigroup maintained that it required ninety days to produce its records. Even with months to collect and produce documents, however, it was clear that Citigroup's production failed to satisfy the Court's judgment. After Plaintiffs filed an emergency motion to enforce the judgment, Citigroup suddenly discovered nearly ***five times*** as many records to produce. Even these, however, do not appear to represent all of the documents to which Plaintiffs are entitled under the Court's judgment. As of the date of the filing of this complaint—following repeated attempts by Plaintiffs to secure responsive documents from Citigroup—the Company's counsel represented that its production was substantially complete. This universe of what Citigroup represents are all of the non-privileged documents presented to the Board concerning the corporate traumas described below lays bare the Board's bad faith failure to take effective action in the face of demonstrated threats, such as anti-money laundering violations, and the Board's utter failure to engage in any oversight over certain facets of its business, such as its foreign exchange trading and credit card add-on businesses.

V. DEFENDANTS KNOWINGLY FAILED TO IMPLEMENT EFFECTIVE ANTI-MONEY LAUNDERING CONTROLS

100. Defendants[18] abdicated their oversight duties concerning the prevention and detection of money laundering at Citigroup and its subsidiaries. Their failure to enact and enforce adequate AML controls resulted in numerous regulatory actions, steep fines, and significant reputational harm. In addition, Citigroup has announced that it will be closing BUSA and that it is the subject of an ongoing grand jury investigation. These costs were predictable and avoidable, as described below, but Defendants chose inaction and quick profits over effective risk management.

A. CITIGROUP IS REQUIRED TO ABIDE BY FEDERAL ANTI-MONEY LAUNDERING LAWS AND REGULATIONS

101. As depository institutions, Citigroup and certain of its subsidiaries, including Citibank and BUSA, are subject to federal anti-money laundering laws and regulations. The key AML laws with which they are required to comply are the Bank Secrecy Act of 1970 ("**BSA**") and provisions of the USA Patriot Act.[19]

102. These laws and regulations are administered and enforced by a number of federal and state agencies, including the Federal Reserve, the OCC, and

[18] Within Section V, unless otherwise noted, "Defendants" refers to Director Defendants, Former Director Defendants and Officer Defendants.

[19] United Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56.

the FDIC at the federal level, and agencies such as the California Department of Business Oversight ("**CDBO**"),[20] at the state level.

103. In general, the BSA creates mandatory reporting and record-keeping requirements to track currency transactions and detect and prevent money laundering. Similarly, Title III of the USA Patriot Act requires financial institutions to establish AML and customer identification programs, and to conduct enhanced due diligence ("**EDD**") for bank accounts held by non-U.S. persons. Banks are also required to vet their customers and transactions against sanctions lists maintained by the Office of Foreign Asset Control ("**OFAC**").

104. As an initial matter, these laws and regulations provide that each bank "must have a BSA/AML compliance program commensurate with its respective BSA/AML risk profile." Bank supervisors have made clear that "[p]olicy statements alone are not sufficient; practices must coincide with the bank's written policies, procedures, and processes."

105. More specifically, under BSA implementing regulation 12 CFR § 21.21, BSA/AML compliance practices "***must*** provide for the following ***minimum*** requirements":

a. A system of internal controls to ensure ongoing compliance;

[20] On July 1, 2013, California's Department of Financial Institutions ("**CDFI**") was merged with the California Department of Corporations and became the CDBO.

b. Independent testing of BSA/AML compliance;

c. Designation of an individual or individuals responsible for managing BSA compliance (e.g., a BSA compliance officer); and

d. Training for appropriate personnel.[21]

106. With regard to internal controls, "[t]he board of directors, acting through senior management, is ultimately responsible for ensuring that the bank maintains an effective BSA/AML internal control structure, including suspicious activity monitoring and reporting."[22]

107. Internal controls should, among other requirements, and without limitation:

a. Identify banking operations more vulnerable to abuse by money launderers and criminals; provide for periodic updates to the bank's risk profile; and provide for a BSA/AML compliance program tailored to manage risks;

b. Inform the board of directors, or a committee thereof, and senior management, of compliance initiatives, identified compliance deficiencies, and corrective action taken, and notify directors and senior management of SARs filed;

c. Identify a person or persons responsible for BSA/AML compliance;

[21] Banks are also required to create a customer identification program.

[22] *Bank Secrecy Act Anti-Money Laundering Examination Manual*, Federal Financial Institutions Examination Council (an interagency body created in 1978 to develop uniform standards for the supervision of financial institutions), *available at*: https://www.ffiec.gov/bsa_aml_infobase/pages_manual/OLM_007.htm.

d. Provide for program continuity despite changes in management or employee composition or structure;

e. Meet all regulatory recordkeeping and reporting requirements, meet recommendations for BSA/AML compliance, and provide for timely updates in response to changes in regulations;

f. Implement risk-based CDD policies, procedures, and processes;

g. Identify reportable transactions and accurately file all required reports including Suspicious Activity Reports ("**SARs**"), Currency Transaction Reports ("**CTRs**"), and CTR exemptions;

h. Provide for dual controls and the segregation of duties to the extent possible;

i. Provide sufficient controls and systems for filing CTRs and CTR exemptions;

j. Provide sufficient controls and monitoring systems for timely detection and reporting of suspicious activity;

k. Provide for adequate supervision of employees that handle currency transactions, complete reports, grant exemptions, monitor for suspicious activity, or engage in any other activity covered by the BSA and its implementing regulations; and,

l. Incorporate BSA compliance into the job descriptions and performance evaluations of bank personnel, as appropriate.

108. In addition to maintaining stringent internal controls incorporating the requirements listed above, implementing regulations 12 CFR § 21.11 and 12 CFR § 163.180 require that banks file a SAR upon detecting: (i) certain known or suspected violations of federal law; (ii) suspicious transactions related to a money laundering activity; or (iii) a violation of the BSA/AML. These regulations require a SAR filing for any potential crimes:

a. involving insider abuse, regardless of the dollar amount;

b. where there is an identifiable suspect and the transaction involves $5,000 or more;

c. where there is no identifiable suspect and the transaction involves $25,000 or more; and

d. where there is suspicious activity that is indicative of potential money laundering or BSA violations and the transaction involves $5,000 or more.

109. Similarly, implementing regulation 31 CFR § 1010.310 requires financial institutions to file a CTR whenever a currency transaction exceeds $10,000.

110. In addition to complying with the BSA and other requirements listed above, banks must comply with the USA Patriot Act and its implementing regulations. Implementing regulation 31 CFR § 1020.220 requires the creation and implementation of a written Customer Identification Program ("**CIP**") as part of a bank's BSA/AML compliance program. The CIP must be commensurate to the bank's size and risk profile.

111. Additionally, the CIP must include identity verification procedures which must encompass, at a minimum:

a. ***risk-based procedures*** for verifying the identity of each customer to the extent reasonable and practicable. The procedures must enable the bank to form a reasonable belief regarding the true identity of each customer. These procedures must be based on the bank's assessment of the relevant risks, including those presented by the various types of accounts

maintained by the bank, the various methods of opening accounts provided by the bank, the various types of identifying information available, and the bank's size, location, and customer base; and,

b. "procedures for opening an account that specify the identifying information that will be obtained from each customer," which at minimum must include name, date of birth, address, and identification number.

112. Section 312 of the USA Patriot Act also requires special due diligence for accounts requested or maintained by, or on behalf of, foreign banks and non-U.S. persons. Specifically, the bank's EDD policies, procedures, and controls applicable to foreign banks must, at a minimum:

> [E]nsure that the financial institution in the United States takes reasonable steps (i) to ascertain for any such foreign bank, the shares of which are not publicly traded, the identity of each of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; (ii) to conduct enhanced scrutiny of such account to guard against money laundering and report any suspicious transactions under subsection (g); and (iii) to ascertain whether such foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

113. Similarly, the bank's EDD policies, procedures, and controls applicable to non-U.S. persons must, at a minimum:

> [E]nsure that the financial institution takes reasonable steps (A) to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, such account as needed to guard against money laundering and report any suspicious transactions under subsection (g); and (B) to conduct enhanced scrutiny of any such account that is requested or maintained by, or on behalf of, a senior foreign political figure, or any immediate family member or

> close associate of a senior foreign political figure that is reasonably designed to detect and report transactions that may involve the proceeds of foreign corruption.

114. Moreover, USA Patriot Act implementing regulation 31 CFR § 1010.610 also requires a due diligence program that includes "specific, risk-based, and, where necessary, enhanced policies, procedures, and controls" for the correspondent accounts of foreign financial institutions.

115. In addition to BSA and USA Patriot Act regulations, OFAC regulations require that U.S. financial institutions ensure that their business operations and transactions do not violate U.S. economic and trade sanctions against entities such as targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. Importantly, OFAC regulations apply both to U.S. banks, including their domestic branches, agencies, and international banking facilities, and to their foreign branches and overseas offices and subsidiaries.

116. In general, OFAC regulations require that financial institutions: (i) block accounts and other property of specified countries, entities, and individuals; and (ii) prohibit or reject unlicensed trade and financial transactions with specified countries, entities, and individuals. Notably, OFAC imposes strict liability: if a sanctioned transaction is processed, then a legal violation occurs. OFAC also has

authority to assess civil money penalties against financial institutions that violate OFAC regulations/U.S. sanctions.

117. Similar to its BSA/AML compliance program, a financial institution must implement an OFAC compliance program that is commensurate with its risk profile. Specifically, the program must: (i) identify high-risk business areas and potential sanctions exposure; (ii) provide for appropriate internal controls for screening, reporting, recordkeeping, due diligence, and updating; (iii) establish independent testing/audits for compliance; (iv) designate a bank employee responsible for overseeing OFAC compliance; and (v) create and implement training programs.[23]

118. Finally, in addition to the BSA, USA Patriot Act, and OFAC requirements listed above, Citigroup is subject to Mexico's Anti-Money Laundering Law (the "**Mexico AML**"), which went into effect on July 17, 2013. The Mexico AML includes several requirements similar to those implemented under the BSA.[24]

[23] Like most financial institutions, [redacted] Accordingly, the BSA/AML laws referred to herein also include OFAC regulations.

[24] References herein to "AML" or "BSA/AML" includes Mexico AML.

119. Despite these clear requirements for an effective BSA/AML program, Defendants have consciously ignored their legal obligations and failed to ensure that their Company and its subsidiaries complied with governing law.

B. DEFENDANTS TOLERATED A CULTURE OF SUSTAINED NON-COMPLIANCE AND LEGAL VIOLATIONS

120. Over a number of years, Citigroup and its wholly owned subsidiaries have repeatedly failed to comply with BSA/AML regulations, defying a series of consent orders arising from federal and state investigations into their BSA/AML practices. Even in the face of high and increasing BSA/AML risk, and clear notice of flaws in their compliance programs and ongoing violations of the compliance structures in place, Defendants failed to implement effective internal controls. Ultimately, in reaction to Citigroup's continued neglect over a period of several years, regulators were forced to separately impose fines of $140 million and $40 million—the latter of which has the ignominy of representing the largest fine ever imposed on a bank by the CDBO. The regulators' rationale was straightforward: Citigroup had simply "failed to implement an effective BSA/AML Compliance Program over an extended period of time." That this was permitted to happen despite ***years*** of internal red flags and regulators' warnings makes the Board's abdication of its supervisory duties all the more evident.

1. Defendants Chose to Operate in High-Risk Geographies and Business Sectors and Failed to Enact Sufficient Controls

121. Citigroup operates in numerous countries and throughout multiple sectors; the Company and its subsidiaries therefore face an elevated risk for AML violations. Furthermore, because the Company has grown inorganically, by absorbing disparate businesses with different and sometimes conflicting standards, systems, and controls, its risks are further elevated.[25] Thousands of pages of internal Company documents, in fact, reveal that directors and senior management were aware of these risks.

122. As early as October 2009, management informed the Audit and Risk Management committees [redacted] Similarly, in January 2012, management reported to the Citigroup Compliance Committee that [redacted]

[25] *See* Arthur E. Wilmarth Jr., *Citigroup: A Case Study in Managerial and Regulatory Failures*, 47 IND. L. REV. 69, 119 (2013) ("By 2008, Citigroup was a sprawling financial conglomerate that held more than $2 trillion in assets, owned more than 2000 subsidiaries, operated in more than 100 countries, and employed more than 300,000 people. . . . Citigroup's business units and foreign subsidiaries operated on a decentralized, quasi-independent basis, and those entities used multiple data processing systems that were not compatible and did not communicate with each other. As banking analyst Meredith Whitney observed, '[CEO Chuck Prince] inherited a gobbledygook of companies that were never integrated, and it was never a priority of the company to invest. The businesses didn't communicate with each other. There were dozens of technology systems and dozens of financial ledgers.'") (internal citations omitted).

[redacted] The Committee was told that [redacted]

123. The Company's Internal Audit ("**IA**") team repeatedly warned members of the Board[26] about Citigroup's enterprise-wide AML risks. In April 2012, for example, IA [redacted] In subsequent, near-monthly reports to the Audit and Compliance Committees, IA repeatedly cautioned that [redacted] Despite a steady stream of warnings, the Board's inaction meant that from January 2013 through April 2015—the last date for which

[26] Documents reveal that at least Director Defendants Corbat, Hennes, Humer, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, Zedillo; Former Director Defendants Joss, Pandit, Parsons, Ricciardi, and Ryan; and the Officer Defendants received these warnings.

Citigroup has produced records relating to BUSA—Citigroup never earned an IA rating for its company-wide BSA/AML controls better than [redacted][27]

124. Citigroup's inability to implement meaningful AML controls was an enterprise-wide phenomenon. For example, in 2004, citing Citigroup's failure to "put in effect measures to prevent money laundering," Japan's banking regulator ordered Citigroup to shut down its private banking operations in the country, a penalty which, until then, had only been imposed on one other financial entity. Just five years later, Japan found the same flaws with respect to Citigroup's retail bank operations, determining, again, that Citigroup "had not developed adequate systems to detect suspicious transactions such as money laundering."

125. Citigroup apparently did not learn from its experiences in Japan. Having acquired significant subsidiaries in and around Mexico, Citigroup enjoyed their fast-growing profits. It failed, however, to effectively oversee the subsidiaries' operations and to adjust its compliance program for the attendant AML risk they presented.

[27] These ratings were communicated to the Audit and Compliance Committees on a near monthly basis, and on at least three separate occasions (April and October 2013, and March 2015), [redacted] to the full Board.

2. Defendants Knew That Citigroup's Banamex and BUSA Subsidiaries Presented a High AML Risk

126. It is well known that Mexico is a high-risk country for AML violations. Indeed, corrupt practices such as bribery and money laundering occur at a higher frequency in Mexico than in many of the other countries in which Citigroup operates.[28] The Company's own internal documents reflect a recognition of the inherently high money laundering risk associated with the Company's Mexican entities. Because BSA/AML compliance requires a risk-based approach, it is thus particularly important that Citigroup maintain effective internal controls and reporting systems with respect to its operations involving Mexico.

127. Citigroup, however, focused less on a robust risk management system than it did on profits. It entered the financial industry in Mexico in 2001, purchasing Banamex for $12.5 billion and, along with it, BUSA. Even as Citigroup acquired these subsidiaries, widespread reports surfaced that Banamex served as a tool for drug-related money laundering.

128. During the year in which Citigroup acquired the Banamex Group and BUSA, Citibank accounts were implicated in money laundering involving Mexican drug money. In February 2001, federal agents seized from Citibank accounts $1.8

[28] Bureau of International Narcotics and Law Enforcement Affairs, *2012 INCSR: Major Money Laundering Countries*, U.S. Dept. of State, March 7, 2012, available at http://www.state.gov/j/inl/rls/nrcrpt/2012/vol2/184112.htm (identifying Mexico as a "major money laundering [country].").

million in funds tied to drug dealers in Mexico, capping off one of the biggest money-laundering investigations in the United States up to that point. As Senator Carl Levin noted of officials at Citibank, "[t]hey weren't just asleep at the switch—they were in a deep sleep on this one." Even more troubling, at the time of the Banamex acquisition, its majority owner and then-director, Roberto Hernandez, was himself implicated as a drug trafficker.

129. The risk of money laundering affected not only Citigroup's banking operations in Mexico; it also implicated BUSA, which had numerous branches along the Mexican border and routinely engaged in cross-border transactions. In fact, BUSA's accounts were typically opened following a referral from Banamex; approximately 90% of BUSA's accounts have some relationship to Banamex. Thus, BUSA's operations were highly integrated with Mexican financial entities and institutions.

130. In light of these issues and of Mexico's high money laundering risk as a country, directors and senior management knew or should have known that money laundering would present a significant risk at Banamex and BUSA post-acquisition. They were therefore required to develop an AML/BSA program "commensurate with" that high level of risk.

131. Instead, their oversight failures were particularly egregious with respect to BUSA. As Bloomberg reported,[29] BUSA "***tolerated a culture of negligence*** during years of moving money across the U.S.-Mexico border."[30] These AML violations were only able to occur because Citigroup "failed to oversee" its subsidiary.

132. In fact, the failure to prevent and detect money-laundering—even over long periods of time—was common at BUSA. The Company's own documents reveal how the Board consciously ignored evidence of systemic control failures and endemic AML violations at its subsidiaries, including BUSA.

133. Citigroup's documents reveal that its Chief Compliance Officer notified the Audit Committee in April 2012 of [redacted] By June, IA reported that [redacted]

[29] Bloomberg's investigation included a review of specific AML/BSA violations and "interviews with more than a dozen former Citigroup employees and consultants."

[30] Alan Katz & Dakin Campbell, *Inside the Money Laundering Scheme That Citi Overlooked for Years*, BLOOMBERG, Nov. 20, 2015, http://www.bloomberg.com/news/articles/2015-11-20/inside-the-money-laundering-scheme-that-citi-overlooked-for-years (emphasis added).

[redacted][31] IA continued to warn that [redacted] September 2012 testing of BUSA's control environment revealed that [redacted] These issues remained unremedied; ***every single month*** from February 2013 to April 2015, IA rated BUSA's BSA/AML controls as [redacted][32]

134. Often, warnings about AML deficiencies came from the bank's own employees. BUSA employees repeatedly raised concerns about insufficient customer due diligence information; the need for additional resources, including compliance staff; and unresponsive management.

135. A telling example of Citigroup's failure to prevent, detect, or respond to money laundering involves the case of Antonio Pena Arguelles ("**Arguelles**"). Arguelles opened an account with BUSA in 2005, identifying himself to the bank as a small business owner who bred cattle and white-tailed deer. He informed BUSA that he expected to deposit about $50 a month. Within a week, he "wired in $7.09 million from an account in Mexico" to his account at BUSA. No one at

[31] Unless otherwise indicated, all bold and italic emphases within quoted material are added.

[32] These ratings were communicated to the Audit and Compliance Committees on a near monthly basis, and on at least three separate occasions (April and October 2013, and March 2015), [redacted] to the full Board.

BUSA raised any questions or filed any SARs. Ultimately, Arguelles used the BUSA account to funnel some $59.4 million for drug cartels like Los Zetas. His massive money-laundering scheme went undetected, even after his brother was murdered and his body very publically displayed with a prominent sign accusing Arguelles of being a money launderer. In fact, it took BUSA more than a year after Arguelles was indicted for money laundering to file a SAR regarding his account, and it only did so then after the FDIC and the CDBO specifically instructed it to review old accounts.

136. Rather than address the concerns raised by the Company's own audit team about the failure to detect and identify money launderers such as Arguelles, directors and senior management consciously chose to ignore them and took no action to remedy the underlying problem, thereby putting Citigroup and its subsidiaries at risk for regulatory investigations and the imposition of substantial fines and other penalties.

137. As a result, Citigroup and its subsidiaries racked up three regulatory orders in two years, each of which carried specific censures relating to control deficiencies and required significant changes to the Company's operations. Yet, as described further below, the Company's non-compliance with BSA and AML laws and regulations continued unabated.

138. Since 2010, Citigroup has been on notice that it not only was at risk of regulatory violations, but that such violations were actually occurring at its subsidiaries. [redacted]

3. The Failure to Address the OCC's Concerns Forces the Regulator's Hand

139. The failure to obey [redacted] led to the Company's first consent order with the OCC, which was issued on April 5, 2012 ("**2012 OCC**

33 [redacted]

Consent Order"). The 2012 OCC Consent Order followed an examination of Citibank's AML/BSA compliance program, and in it, the OCC castigated Citibank for its AML program deficiencies.[34] The 2012 OCC Consent Order [redacted] while imposing additional requirements.

140. The OCC determined that Citibank's deficiencies were caused by its "inadequate system of internal controls and ineffective independent testing." Among the many "critical" internal control weaknesses the OCC identified were "the inability to assess and monitor client relationships on a bank-wide basis," "weaknesses in the scope and documentation of the validation and optimization process applied to the automated transaction monitoring system," and "inadequate customer due diligence." The OCC also noted that the bank's "independent BSA/AML audit function failed to identify systemic deficiencies found by the OCC during the examination process."

141. Citibank was ordered to make significant changes, such as developing a "BSA/AML Action Plan"[35] and "appropriate customer due diligence policies, procedures, and processes" to be "implemented and applied on a bank-wide

[34] The OCC found that the bank's deficiencies constituted violations of 12 U.S.C. § 1818(s), 12 C.F.R. 21.21, 12 C.F.R. § 21.11, 31 U.S.C. § 5318(i) and 31 C.F.R. § 1010.610. 2012 OCC Consent Order at 1.

[35] 2012 OCC Consent Order at 5.

basis,"[36] including "[a]n electronic due diligence database."[37] The bank was also charged with developing policies and procedures to ensure timely review and reporting of suspicious activity and the filing of SARs and with conducting a "look-back" to examine previously unreported suspicious transactions.[38] Citibank's Board, the OCC ordered, would be responsible for ensuring that the bank complied with the 2012 OCC Consent Order.[39]

4. Red Flags Continue to Arise

142. Even after receiving the first consent order, Citigroup and Citibank continued to receive numerous indications that AML risk was unacceptably high.

143. For example, in the same month that Citibank entered into the 2012 OCC Consent Order, an IA Quarterly Report presented to the Audit Committee warned that [redacted]

[36] 2012 OCC Consent Order at 10.

[37] 2012 OCC Consent Order at 11.

[38] 2012 OCC Consent Order at 12, 17.

[39] 2012 OCC Consent Order at 5. The OCC specifically ordered that "[t]he Board and senior compliance management shall receive full information about the Bank's compliance management program in light of their obligation to oversee the Bank and fulfill its fiduciary responsibilities and other responsibilities under law." 2012 OCC Consent Order at 19. It reminded the board that the "Board has the ultimate responsibility for proper and sound management of the Bank." *Id.* at 20.

[redacted] IA also informed the Audit Committee that [redacted] In the very same month, Citigroup's Chief Compliance Officer, Kevin Thurm, reported to the Citigroup and Citibank Audit Committees that [redacted]

144. The steady flow of warnings to Defendants[40] continued. In June 2012, Dan Roberts—Division Chief Auditor for Regional Customer Banking—informed the Compliance Committees that [redacted] He referenced [redacted] Roberts proceeded to highlight [redacted]

145. No such solutions were forthcoming. In July 2012, IA informed the Compliance Committee that [redacted]

[40] At least Director Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo; Former Director Defendants Joss, Pandit, Ricciardi, and Ryan; and Officer Defendants received these warnings.

[redacted] This latter issue was caused by a [redacted]

[redacted]

[redacted]

[redacted]

5. Continued Inaction Causes the FDIC and CDFI to Impose Another Consent Order

146. While directors and senior management stood idly by with respect to AML compliance at the Company and its subsidiaries, regulators again took action. On August 2, 2012, BUSA entered into a consent order (the "**FDIC/CDFI Consent Order**") with the FDIC and the California Department of Financial Institutions ("**CDFI**"). The Citigroup Board was aware of the FDIC/CDFI Consent Order no later than October 2012, when Joss discussed the consent order with the Citigroup, Citibank, and Citicorp boards.

147. Among its most important provisions, the FDIC/CDFI Consent Order required BUSA's Board of Directors to "increase its oversight of the affairs of the Bank [and] assume full responsibility for . . . the oversight of all of the Bank's activities."[41] It required the bank to "develop, adopt, and implement an updated written compliance program"[42] that would be designed to "ensure and maintain

[41] FDIC/CDFI Consent Order at 2.

[42] FDIC/CDFI Consent Order at 4.

compliance" with the BSA. BUSA's management was also required to develop regular and comprehensive reports to BUSA's Board of Directors.[43] In terms of personnel, BUSA was required to hire an "experienced" BSA Compliance Officer "suitable for the Bank's size, complexity, and risk profile" and to ensure that staffing levels were at a level capable of "monitor[ing] day-to-day compliance with BSA."[44]

148. Oversight of BUSA, however, did not improve. In fact, six months after the FDIC/CDFI Consent Order, regulators investigating BUSA's money transfer services business [redacted]

6. Despite Two Extant Consent Orders, Citigroup Still Fails to Address its Control Deficiencies

149. Even after the 2012 OCC Consent Order and the FDIC/CDFI Consent Order, Citigroup continued to leave itself and its subsidiaries vulnerable to AML violations.

150. For instance, an IA report for the period ending September 30, 2012, presented to the Audit Committee, noted that [redacted]

[43] FDIC/CDFI Consent Order at 4.

[44] FDIC/CDFI Consent Order at 6-7.

[redacted] This report concluded that [redacted] That same month, a separate IA report warned that [redacted]

151. Six months after the 2012 OCC Consent Order, and over two years since [redacted] The next month, IA reported to the Compliance Committee that [redacted] Meanwhile, the Company faced an [redacted]

152. These assessments were consistent with the findings of the regulators themselves. [redacted]

153. The beginning of 2013 saw little change. The control environment for AML retained a [redacted], while the [redacted]

[redacted]

7. The Federal Reserve Issues Yet Another Consent Order, the Third Such Order in Two Years

154. As a result of Citigroup's failure to take timely and effective action in the nearly three years since its AML non-compliance was first brought to light, a third consent order was issued ("**FRB Consent Order**") on March 21, 2013, this time by the FRB. The previous two consent orders were addressed directly to Citigroup's subsidiaries by the regulators who oversaw them. The FRB Consent Order, however, focused on Citigroup's responsibility for the subsidiaries' non-compliance. Specifically, the FRB determined that "***Citigroup lacked effective systems of governance and internal controls to adequately oversee the activities of the Banks***."[45] The FRB Consent order stated that Citigroup was required to ensure compliance "on a firmwide basis," and to that end was required to "implement a firmwide compliance risk management program."[46]

155. By emphasizing Citigroup's obligation to enforce compliance across the firm and its various subsidiaries, the FRB highlighted the Board's ultimate

[45] FRB Consent Order at 2.

[46] FRB Consent Order at 3.

responsibility. It ordered the Board to "take steps to ensure that each of the Banks[47] complies with the Consent Orders issued" and to submit to the FRB "an acceptable written plan to continue ongoing enhancements to the board's oversight of Citigroup's firmwide compliance risk management program with regard to compliance with BSA/AML Requirements."[48]

156. The FRB Consent Order further required the Board to review its firmwide BSA/AML compliance program and, based on its findings, submit to the FRB a plan to "strengthen the management and oversight" of the compliance program.[49]

8. With Any Number of Consent Orders Seemingly Ineffective, Regulators Resort to Fines

157. Yet even the third consent order and threats of civil penalties were not enough to cause directors and senior management to comply. For the next two years, Citigroup's Board failed to respond meaningfully and in good faith to the misconduct that attracted so much regulatory scrutiny, ultimately leading to the imposition of a record-setting fine.

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[47] By "Banks," the FRB Consent Order refers to Citibank and BUSA. *See* FRB Consent Order at 2.

[48] FRB Consent Order at 4.

[49] FRB Consent Order at 7.

158. Warnings concerning the continued deficiencies were manifold. On a near monthly basis, IA reported to the Board or its committees that [redacted] For example,

- In April 2013, IA reported to the Audit and Compliance Committees that [redacted]
- The next month, IA reported to the Audit Committee that [redacted]
- In June 2013, IA highlighted [redacted]
- In both July and August 2013, IA reported to the Audit Committee that [redacted]
- By April 2014, IA was still warning [redacted]
- In July 2014, IA noted that [redacted]
- Two months later—and more than two years after the first BSA consent order—the FDIC rated BUSA a [redacted]

159. After patiently watching Citigroup prove itself unwilling or unable to comply with its consent order, the FDIC ultimately lost faith in the Company ever doing so. On July 22, 2015, the FDIC "announced the assessment of a civil money penalty of $140 million against Banamex USA . . . for violations of the Bank Secrecy Act (BSA) and anti-money laundering (AML) laws and regulations."[50]

160. The CDBO was similarly exasperated. Instead of seeing BSA/AML issues decline in the three years since the FDIC/CDFI Consent Order, regulators found "new, substantial violations of the BSA and anti-money laundering mandates over an extended period of time." The CDBO assessed a civil penalty of $40 million on BUSA,[51] the largest fine ever assessed by the CDBO against a bank.

161. The FDIC imposed a significant fine because it determined that BUSA:

> failed to implement an effective BSA/AML Compliance Program over an extended period of time. The institution failed to retain a qualified and knowledgeable BSA officer and sufficient staff, maintain adequate internal controls reasonably designed to detect and report

[50] Press Release, *FDIC and CDBO Assess Civil Money Penalties Against Banamex USA, Century City, CA* (FDIC, Jul. 22, 2015), available at https://www.fdic.gov/news/news/press/2015/pr15061.html.

[51] *Id*. "The FDIC's penalty of $140 million will be satisfied in part by the CDBO's penalty." *Id*.

> illicit financial transactions and other suspicious activities, provide sufficient BSA training, and conduct effective independent testing.[52]

162. On the same day, Citigroup—in an apparent acknowledgement of its continued failure to remedy its BSA/AML problems—announced that it would close BUSA. However, BUSA remains subject to a number of investigations, including a criminal investigation by the U.S. Department of Justice and an investigation by the Treasury Department's Financial Crimes Enforcement Network.

163. Starting in March 2014, prosecutors from the U.S. Attorney's Office for the District of Massachusetts issued grand jury subpoenas to BUSA demanding information about its anti-money-laundering controls and seeking documents about its due diligence on operations involving hundreds of clients. More specifically, according to the Company's 2015 annual report, "Citigroup and Related Parties, including Citigroup's indirect, wholly-owned subsidiary Banamex USA . . . received grand jury subpoenas issued by the United States Attorney's Office for the District of Massachusetts concerning, among other issues, policies, procedures and activities related to compliance with [BSA] and [AML] requirements under applicable federal laws and banking regulations."

[52] *Id.*

164. Six months later, a separate DOJ "criminal investigation into money-laundering controls at Citigroup Inc.'s Banamex USA unit [] uncovered potential violations serious enough to merit a fine under the Bank Secrecy Act." Although both of these investigations are ongoing, it is notable that the DOJ investigation was later expanded to investigate potential money-laundering ties between Banamex and hundreds of clients, including companies associated with Carlos Hank Rhon, a Mexican billionaire. Citigroup has also disclosed that it has received information requests from the CDBO and from the U.S. Treasury's Financial Crimes Enforcement Network.

165. Citigroup's treatment of BUSA and the issues that plagued the subsidiary for years can only be described as an utter abdication of their oversight responsibilities. For years, the Company failed to react to blatant warnings from both within and without BUSA that the subsidiary presented serious AML compliance risks. A series of regulatory orders allowing Citigroup to rehabilitate its practices proved insufficient, and after a full ***six years*** of inaction [redacted] regulators were compelled to impose a $140 million fine on Citigroup. Finally, in the ultimate acknowledgement that the Board was incapable of restoring order and legality to the Company's subsidiary, Citigroup decided to completely shutter what once was a highly profitable subsidiary. Unfortunately for

Citigroup, that decision does not insulate it from civil and criminal investigations that are yet ongoing.

VI. DEFENDANTS' REFUSAL TO IMPOSE AND ENFORCE EFFECTIVE CONTROLS RESULTS IN FRAUD AND HARMS CITIGROUP

166. The Board's oversight failures and glaring internal control deficiencies are not limited to repeated violations of laws and regulation, but also caused Citigroup to suffer enormous losses due to frauds. In February 2014, Citigroup announced that it lost more than $400 million as a result of a fraud at Banamex. The fraud concerned an account receivables financing program with OSA—a key supplier to Mexico's state-owned oil company Petróleos Mexicanos ("**Pemex**")—in which Banamex failed to have the most basic internal controls, such as checking whether the receivables OSA presented for financing were valid and other improper procedures such as failing to separate the roles of those authorizing loans.

167. Citigroup took a $235 million post-tax writedown ($360 million pretax) on its fourth quarter and full-year 2013 earnings as a result of the fraud. Citigroup further suffered an additional $165 million in incremental credit costs related to the financing program, some of which were associated with an additional supplier to Pemex who was found to have similar issues. This massive fraud was allowed to occur even after numerous prior frauds occurred at Banamex due to a

lack of internal controls. Each of these frauds exemplifies Defendants'[53] awareness of, but failure to correct, systemic control deficiencies.

168. The Board was warned of the deficiencies in internal controls at Banamex over a period of years, as described in detail below. Defendants' control failures have been recognized by regulators who have initiated a number of investigations into Citigroup and its subsidiaries, including an investigation by Mexico's banking regulator resulting in a $2.5 million fine based on ineffective controls at Banamex.

A. DEFENDANTS' INCESSANT REFUSAL TO IMPLEMENT BASIC CONTROLS AND REMEDY KNOWN DEFICIENCIES

1. Citigroup Consistently Failed to Properly Allocate Oversight Duties, Allowing Repeated Misconduct

169. One of the glaring systemic problems that developed at the Company and its subsidiaries was the failure to properly segregate duties and institute maker/checker controls. The maker/checker control principle reduces the frequency and scope of misconduct, by preventing too much authority from being centralized in single individuals or positions. As the OCC has noted, the "segregation of duties" is an important component of a bank's control activities, as

[53] As used within Section V, unless otherwise noted, "Defendants" means Director Defendants Corbat, Hennes, Humer, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo; Former Director Defendants Joss, Pandit, Parsons, Ricciardi, and Ryan; and Officer Defendants.

it reduces opportunities to commit or conceal fraud or wrongdoing. For example, banks must implement dual-signature authorization procedures so that "an appropriate level of management" approves particular transactions.

170. Defendants were aware that maker/checker controls were not robust in Mexico. In September 2013, management discussed with the Audit Committees [redacted] This was a theme of IA's 2013 year-end review, wherein the team noted that [redacted] The lack of stringent maker/checker controls also manifested itself in the hedge fund fraud that Citigroup perpetrated, where a single trader was able to defraud clients because Citigroup "failed to implement a system in which [his] authority was checked adequately."[54]

171. Citigroup management did create [redacted]

[54] SEC Hedge Fund Order at 3.

[redacted]

172. Indeed, maker/checker control weaknesses persisted even after the OSA fraud. In April 2014, IA told the Audit Committee that [redacted] In July 2014, IA reported that [redacted] Thus, Defendants failed to correct issues relating to the segregation of duties, despite repeated warnings concerning this significant deficiency.

2. Delays in Aligning Banamex's Technology with the Rest of the Bank Helped the Fraud Go Undetected

173. Another systemic failure contributing to both fraud and BSA/AML risk was the failure to align subsidiaries' technology systems (including those of Banamex) with the rest of Citigroup. While efforts were made to cause Citigroup and all of its units to "Go to Common" (in other words, to implement a common

technology system),[55] the Banamex Group lagged far behind. In fact, by September 2013—*twelve years* after acquiring the Banamex Group—Citigroup's management [redacted] In October 2013, the Chief Auditor of Citigroup's Institutional Clients Group informed the Audit Committee that [redacted] In April 2014, IA informed the Audit Committees that [redacted] Well before this, in a report to the Audit Committees on March 16, 2010, management reported that [redacted]

[55] Citigroup admitted that [redacted] Indeed, in January 2009, the Audit and Risk Management Committee received a report that [redacted]

174. Citigroup's failure to institute effective, company-wide technology platforms undermined its ability to understand the risk that it and its subsidiaries faced. As managers from the Global Consumer Business warned the Compliance Committee in January 2013, [redacted]

175. As a result of Citigroup's failure to implement adequate and uniform technology systems—at BUSA, Banamex, and elsewhere—the Company leaned heavily on out-of-date, inconsistent manual processes. As the FRB found following a 2008 review of the Company, "[r]eliance on manual processes that put additional pressures on controls is of particular concern."

176. The failure to remedy the deficient control systems led to a series of fraud-related incidents at Citigroup and its subsidiaries, particularly Banamex. These incidents themselves served as red flags that ought to have put the Board on notice of significant issues concerning fraud detection and prevention.

3. Employee Fraud Erupts at Banamex in the Absence of Proper Governance

177. The lack of governance allowed Banamex's own employees to defraud the Company. As a notable example, from September 2003 until December 2010, a Citigroup Treasury Finance employee fraudulently transferred $25 million to his own personal bank account. Management informed the Citigroup Audit Committee on July 18, 2011, that [redacted] The Chief Administrative Officer also informed the Audit Committee in 2011 that [redacted] However, because the Board took no meaningful action, fraud losses multiplied in the following years in a series of incidents.

178. For example, around the same time as the Treasury fraud, [redacted] Banamex employees had been engaged in a kickback scheme in collaboration with certain vendors. In a report to the Audit Committee[56] in March 2012, Chief Compliance Officer Thurm explained that [redacted]

[56] Thurm indicated during the report that [redacted]

[redacted]

179. In 2013, management identified [redacted] Management identified the [redacted]

180. In March 2014, IA notified the Audit Committee that [redacted]

181. Later, in October 2014, Citigroup announced that a private security unit at Banamex had been engaging in a series of illegal activities for nearly fifteen years. The unit had been established to provide security for Banamex executives and board members. Since 2000, however, the team had been conducting a number of unlawful activities: recording phone calls without authorization; fraudulently misreporting gas expenses in order to increase the reimbursements they received from Banamex; developing shell companies to launder proceeds; and receiving kickbacks from vendors who overcharged Banamex. All told, the

security unit's fraud amounted to $15 million. The failure of Citigroup to detect these blatant frauds occurring right under the noses of Banamex directors and executives is all the more troubling, as the person in charge of overseeing the private security unit ***was the Banamex board's own lawyer***.

4. The Failure to Impose Maker/Checker Controls Allows a Single Employee to Defraud Accival Out of Several Million Dollars

182. In addition to the pervasive fraud perpetrated by the Banamex Group's own employees, [redacted]

183. In September 2013, IA informed the Audit Committee that [redacted]

184. The manager involved [redacted] IA reported that [redacted]

[redacted] As described further below, this was a theme that persisted and that contributed significantly to the OSA fraud.

5. Despite Ample Cause for Scrutiny, Banamex Failed to Vet Collateral for Financing Programs, Losing Millions

185. In the years leading up to the OSA fraud at Banamex, Citigroup's control failures led to losses that—like the OSA fraud—involved fraudulent collateral. One significant example of this category of loss involved credit advanced to various companies involved in homebuilding in Mexico.

186. [redacted]

[redacted]

187. According to a Reuters report, the New York offices of Citigroup had "balked" at the idea of providing loans to the homebuilders because of the level of risk. According to a source to the Reuters report, "New York turned them down because [the loan applications] made no sense."[57] Banamex, however, did not. Banamex went ahead with hundreds of millions of dollars in loans.

188. Over the years, Banamex increased its exposure to the homebuilders.[58]

[redacted]

[57] Elinor Comlay, *How Citigroup Stumbled in the Mexican Housing Market*, REUTERS, Feb. 25, 2014, http://www.reuters.com/article/us-citigroup-mexico-insight-idUSBREA1O07Q20140225 Citigroup's spokesperson rejected the suggestion that the loans were made without Citigroup parent company approval, indicating that the "origination and management of the homebuilder loans, as with all loans in Mexico, was conducted under the oversight and framework of Citi[group]'s risk management function, and any suggestion to the contrary is false." *Id.*

[58] Citigroup's minutes refer [redacted]

[redacted]

189. In September 2013, management reported that [redacted]

190. In light of these lax internal verification procedures at Banamex, it is unsurprising that the homebuilders collateral lending program was rated [redacted]

191. In March 2014, management informed the Audit Committee that [redacted]

[redacted]

59 [redacted]

[redacted][60]

192. The deep-seated issues associated with these frauds are representative of the pervasive procedural and policy deficiencies that Citigroup allowed to dominate its secured lending business in Mexico. Repeatedly suffering serious fraud losses caused by the same underlying issues should have warned the Board of the significant control issues within the Banamex Group specifically, in relation to the absence of maker/checker controls generally. Instead, the Defendants consciously ignored these red flag warnings, allowing fraud at Banamex to thrive undetected.

B. SEEKING PROFITS FROM A KNOWN HIGH RISK COMPANY WHILE IGNORING COMPLIANCE FLAWS EXPOSED CITIGROUP TO A HALF-BILLION DOLLAR FRAUD

193. Complete disregard of lower-profile fraudulent conduct permitted by a no-controls or lax-controls environment resulted in a half-billion dollar fraud against Banamex.

194. In a February 28, 2014 press release, Citigroup disclosed a fraud associated with Banamex's accounts receivable financing program. Citigroup reported that "Citi, through [Banamex], had extended approximately $585 million

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[60] [redacted] Citigroup failed to produce any reports or other documents that would indicate when the fraud began.

of short-term credit to Oceanografia S.A. de C.V. ('OSA'), a Mexican oil services company, through an accounts receivable financing program." In such financing programs, the creditor (here, OSA) posts accounts receivable—instead of tangible assets—as collateral for a loan. The likelihood of recovery in the event of a default, therefore, is dependent entirely upon the reliability and veracity of the information concerning the value of the accounts receivable. For this reason, banks typically have stringent verification systems in place to ensure that any accounts receivable are sufficiently confirmable to serve as collateral. In this case, however, OSA was able to secure hundreds of millions of dollars of financing on the basis of invoices that "looked like they had been done on Microsoft Word."

195. OSA had been a key supplier to Pemex, the Mexican state-owned oil company. Pursuant to the accounts receivable program, Banamex extended credit to OSA on the basis of receivables due to OSA from Pemex.

196. Banamex entered into, and grew, the accounts receivable program with OSA despite the fact that it had been apparent for several years that OSA was a troubled company. In 2005, a clear warning about OSA was issued when Mexican regulators discovered that OSA had submitted fraudulent Pemex paperwork to secure a $27 million loan. OSA's connections with Banamex itself should have raised eyebrows at the bank: after all, in 2012, Banamex fired an

employee for receiving $200,000 from the CEO of OSA. That employee thereafter went to work for OSA.

197. Warning signs about OSA's creditworthiness continued to arise. In 2008, Standard and Poor's noted that Mexico had investigated allegedly improper deals between Pemex and OSA. That same year, the Mexican division of Banco Santander severed its lending relationship with OSA because it was "concerned about the credit risk." Then, in 2009, the ratings agency Fitch expressed its concern about OSA's high leverage and poor cash flow. Later, Fitch withdrew its ratings for the company entirely because OSA did not supply the agency with enough information—a telltale sign of potential wrongdoing. As of December 31, 2013, Banamex also had approximately $33 million in either outstanding loans made directly to OSA or standby letters of credit issued on OSA's behalf.

198. Instead of taking the cautious approach required in the face of so many red flags, Banamex developed OSA into one of the bank's 10 largest corporate clients because Citigroup was actively seeking to increase its lending volumes in Mexico, "specifically in the oil-and-gas sector." As a result, as described in a complaint filed by the law firm of Quinn Emanuel,[61] while OSA's revenue more than tripled from 2009 to 2012, Banamex's credit to OSA increased by more than six times over the same period. According to that complaint,

[61] *Candies v. Citigroup Inc.*, No. 16-cv-20725, Dkt. # 1 (S.D. Fla. Feb. 26, 2016).

Citigroup authorized nine credit limit increases to OSA over just a three-year period and by 2012, Banamex's loans to OSA constituted nearly half of OSA's revenue.

199. To accomplish this outsized lending project, Banamex adjusted its lending model specifically for OSA, which gave it more flexibility in the lending process. The procedures that were changed were among the most important: for example, Banamex stopped contacting Pemex to verify the receipts submitted by OSA as the bases for its credit. Such laxness allowed the OSA account to grow to an alarming size. As Felix Salmon noted, "no one [in the Banamex and Citigroup risk-management departments] seems to have stopped to ask how on earth a simple accounts-receivable credit line could have grown to more than half a billion dollars in size,"[62] particularly because the industry standard turnaround for accounts receivable is just around three months.

200. Banamex management was able to change the rules for approving OSA loans because Citi's Board had not implemented basic controls and legal compliance mechanisms.

201. In 2014, Citigroup revealed that Banamex's loans to OSA were based, at least in part, on fraudulent documents purporting to be invoices reflecting payments owed by Pemex to OSA for its services. In fact, of the 166 invoices

[62] Felix Salmon, *Salmon: Incompetent Banamex*, THE STREET, March 4, 2014.

submitted to Banamex by OSA from September 2013 (at the latest) to February 2014, ***each one of them*** contained forged Pemex signatures. Moreover, OSA consistently requested, and obtained from Banamex, credit in excess of the value of their Pemex contracts. This fraud involved over $400 million in unsupported short-term credit and was perpetrated in part by one or more Banamex employees.[63]

202. Neither Citigroup nor Banamex discovered this fraud until after February 11, 2014, when OSA missed a bond payment and the Mexican government suspended OSA from receiving new government contracts. Indeed, on February 21, 2014, [redacted] Had Banamex contacted Pemex to verify the validity of the Pemex invoices or the value of its OSA contracts, the fraud would not have persisted undetected.

203. Although the funds loaned to OSA constituted the largest accounts receivable financing program at Banamex, no verification was performed regarding the quality of the receivables, and [redacted] According to Citigroup's own management, this contravened the

[63] On May 12, 2014, a Mexican court issued arrest warrants against three Banamex employees.

typical practice in accounts receivable financing programs of reconciling the invoices provided as collateral. Management stated that [redacted] Management admitted that the program relied on "Oceanografía's ability and willingness to pay back any advanced funds." The failure to enforce the most basic controls, combined with the sheer size of the OSA account allowed this single fraud to eventually wipe out 19% of Banamex's banking profits in 2013.

204. These deficiencies persisted because Citigroup failed to exercise effective oversight over its subsidiary. In the months after the fraud was discovered, it became clear that Citigroup had known for some time that Banamex was vulnerable to fraud. At least since 2008, Citigroup executives knew that Banamex was failing to comply with Company guidelines and requirements which, according to some executives, "created an atmosphere that may have allowed fraud to occur." Executives interviewed by Bloomberg posited that Banamex's soaring profits insulated it from interference by Citigroup. In fact, Citigroup's Chief Risk Officer explained to the Audit Committee in October 2013 that [redacted]

[redacted] As one former Vice-President at Citigroup, who is a native of Mexico, stated in remarks concerning the Banamex fraud, "[y]ou know how in the U.S. everything is triple-checked and monitored . . . In Mexico it does not necessarily work like that. . . . It is all informal, a system of trust and prestige, of vouching for somebody because you know them or of them."[64]

205. This resistance to change and lack of oversight manifested itself in several ways. During the period of the fraud, the Company's Fundamental Credit Risk review team did not perform reviews. The IA department never conducted an audit before the discovery of the fraud to determine if the OSA/Pemex program [redacted]

[64] The employee, Luz Rainov, did not indicate that she had any personal knowledge of the Banamex fraud. Patricia Rey Mallén, *Why Did Banamex Grant $400M Loan to Oceanografía? Analysts And Citigroup Former Employee Weigh In On the Citigroup Fraud Scandal*, INT'L BUS. TIMES, http://www.ibtimes.com/why-did-banamex-grant-400m-loan-oceanografia-analysts-citigroup-former-employee-weigh-1560578.

206. Only after OSA was sanctioned by the Mexican government did Banamex question [redacted] The Company's belated discovery of the fraud further highlights the significant deficiencies with its internal fraud detection policies and procedures. Indeed, during a self-assessment of Citigroup's internal controls concerning financial reporting, [redacted]

207. Thus, according to management, there was an utter failure to create and implement the necessary procedures to detect and prevent the Banamex fraud. The deficiencies in the bank's internal controls included the failure to: (i) properly categorize the credit line as seller centric; [redacted]

208. According to a post-mortem review by IA, [redacted]

[redacted]

209. In fact, Citigroup acknowledged in a 2014 public filing that the fraud resulted from "the elimination of some basic operating controls in the execution of the [accounts receivable program]," including failure to segregate duties. Shockingly, [redacted] There was effectively no communication with Pemex concerning the validity of the documents or whether Pemex intended to pay what was alleged to be owed. Even Corbat—Citigroup's CEO—admitted in May 2014 that there were "telltale signs" of problems with the OSA account. Yet even after the fraud—in December 2014—reports reached the Audit Committees that the control environment in Mexico was "continu[ing] to deteriorate."

210. The conscious failure to create and implement adequate fraud detection procedures coupled with the resulting failure to detect the Banamex fraud led to over $400 million worth of post-tax losses, erasing ***19% of Banamex's profits*** for the year and exposing the bank to millions of dollars of potential liability relating to Banamex's involvement as trustee of trusts that held Pemex receivables. As Corbat acknowledged, "the impact to [Citigroup's] credibility is harder to calculate. Arguably, it is more damaging than the financial costs."

211. Soon after the fraud, Moody's lowered its ratings for Banamex, citing concerns regarding "deficiencies in Banamex's risk management and auditing functions that permitted this fraud to occur." It also referenced firings at Banamex, which, along with the disclosures of fraud, "signal that structural and cultural risk management and governance issues might be broader than initially thought."

212. The fraud also prompted investigations by both Mexican and American regulators. Mexico's banking regulator, the Comisión Nacional Bancaria y de Valores ("**CNBV**"), "commenced an in situ extraordinary review" following the disclosure of the fraud. On October 30, 2014, the regulator imposed one of the largest fines in its history because it determined that the fraud resulted from weaknesses in Banamex's internal controls, errors in its loan origination and administration procedures, and deficiencies relating to risk administration and internal audits. It also issued a corrective action plan ("**CAP**").

213. Even the fraud and regulator's action was apparently insufficient to compel Defendants' compliance. Citigroup failed to follow the CNBV's CAP, and on May 11, 2015, Citigroup announced that CNBV had imposed an additional fine against Banamex for its noncompliance. Less than three weeks later, the Company disclosed that "the CNBV continues to review Banamex's compliance with the corrective action order" and "has initiated a formal process to impose additional

fines on Banamex with respect to the manner in which OSA's debt was recorded by Banamex."

214. The fraud also precipitated an investigation by the SEC. As Citigroup revealed in a May 2, 2014 quarterly report, "the SEC has commenced a formal investigation" concerning the OSA fraud. Likewise, the Attorney General in Mexico announced an investigation into the fraud.

215. The OSA fraud was a terrifically consequential manifestation of oversight failures. But, as described above, it was just one of a number of other instances of fraud occurring at Banamex and the Banamex Group around the same time.

216. The Board knew, or should have known, that the fraud detection procedures at its wholly owned subsidiary were deficient. It likewise should have known that one of its largest short term credit facilities was supported by fraudulently inflated collateral. Yet, the Board did nothing, perhaps because Banamex kept raking in the profits. As Enrique Díaz Infante of the Espinosa Yglesias Study Centre, a think-tank, stated, "[Banamex] was the jewel in Citi's crown, yet it lacked internal controls."[65]

[65] THE ECONOMIST, *Tabasco Sauce: Citibank's Former Jewel is Spattered With Scandal*, June 7, 2014, http://www.economist.com/news/finance-and-economics/21603444-citibanks-former-jewel-spattered-scandal-tabasco-sauce.

VII. THE FOREIGN EXCHANGE RATE MANIPULATION

217. The consequences of Defendants' oversight failures were not limited to AML violations and substantial frauds in the Company's financing programs. As described more fully below, internal control deficiencies at Citigroup permitted foreign exchange ("**FX**" or "**forex**") traders to engage in a massive scheme of fraud, facilitated by the disclosure to competitors of clients' confidential information. This fraud led to investigations by five domestic and foreign regulators. Most notably, Citigroup pled guilty to conspiracy to rig the FX markets, earning itself a $925 million penalty in the process. More egregious than the size of this penalty, however, is the fact that it came (as was the case for Citigroup's other areas of misconduct) after several regulatory actions and a plethora of internal warnings. These were clearly not sufficient to overcome Citigroup's penchant for attracting record-setting fines, which altogether amounted to $2.2 billion in fines and begot a criminal guilty plea.

218. Regulators were unanimous in their analysis of Citigroup's FX practices, with the FRB and the OCC finding, respectively, that the lack of "adequate firm-wide governance, risk management, compliance and audit policies" and "deficiencies in internal controls" were to blame. The Commodities Futures Trading Commission ("**CFTC**") found that Citigroup "lacked adequate internal controls," while the FCA declared that "day-to-day oversight" was "insufficient."

That five different regulators were all able to reach the same conclusion regarding weakness that allowed the misconduct to persist for years, while the Board stood idly by, underscores the extent to which Defendants gave short thrift to their oversight responsibilities, costing the Company billions of dollars.

A. THE FOREIGN EXCHANGE MARKET

219. The FX market, in which participants buy, sell, exchange, and speculate on currencies, is one of the world's largest and most actively traded financial markets, with trading in global foreign exchange markets averaging over $5 trillion per day.[66] Citigroup plays a large role in this market, through its subsidiaries Citibank[67] and Citicorp.[68] These subsidiaries employ a number of traders who deal in the currency ("**Citigroup FX Traders**").

220. When placing orders to buy or sell currency, customers choose the future fix (that is, the FX benchmark rate) at which they wish to sell the currency. The trader then agrees to transact at that fix. Because the order requests a rate that

[66] *In re Citibank, N.A.*, CFTC Docket No. 15-03 (CFTC Nov. 11, 2014) ("**CFTC Order**") at 3.

[67] CFTC Order at 2. At the time of the misconduct, Citibank was an active dealer on certain FX sport markets. *See* Consent Order for a Civil Monetary Penalty, *In the Matter of Citibank, N.A.*, Case No. AA-EC-14-101, United States of America Department of the Treasury Comptroller of the Currency.

[68] *United States v. Citicorp*, Violation No. 15 U.S.C. § 1, Plea Agreement (D. Conn.) May 20, 2015 at 1 (the "**DOJ Plea Agreement**"). Citicorp acts as a dealer on the FX spot market. *See* DOJ Plea Agreement at Attachment B.

will not actually exist until sometime in the future (that is, the fix has not yet been set), traders are exposed to interim movements in the price of that currency. If a trader is able to buy the currency at an average price that is less than the fix, then the firm will profit from the transaction. If the opposite occurs, then the firm will lose money.

B. CITIGROUP'S FOREIGN EXCHANGE MARKET VIOLATIONS

221. From at least 2007 to at least 2013, Citigroup FX Traders (i) engaged in the manipulation of FX benchmark rates in collusion with traders at other firms; (ii) triggered customers' stop loss orders;[69] and (iii) engaged in inappropriate sharing of confidential information with traders at other firms, including specific client identities and information about clients' orders, in order to boost profits.[70] This misconduct alone earned Citibank £129,000,000 in revenue for the period March 6, 2010, through October 15, 2013.[71] Not only was this fraud widespread and financially consequential: it was on-going for a period lasting at least six years. The breadth, length, and scope of the criminal conduct happening at

[69] A stop loss order is an instruction from the client to the bank to trade a currency if the currency trades at a specified rate.

[70] Final Notice to Citibank N.A., Financial Conduct Authority ("**FCA**") (Nov. 11, 2014) ("**FCA Final Notice**") at 15.

[71] FCA Final Notice at 36 (calculating amount of disgorgement necessary for FX-related misconduct applicable to that time period).

Citigroup and its subsidiaries demonstrates that internal controls were ineffective to prevent, detect, or remedy the wrongdoing.

222. More specifically, Citigroup FX Traders manipulated two of the most widely referenced FX benchmark rates: the 4pm WM Reuters (the "**WM/R**") fix and the 1:15 pm European Central Bank ("**ECB**") fix.[72] Citigroup FX Traders used private electronic chat rooms with FX traders from other firms to facilitate their attempts to manipulate these rates. In the chat rooms, Citigroup FX Traders exchanged details relating to their net currency orders and related future fixes with FX traders at other banks to coordinate trading strategies. The traders referred to themselves as "the Mafia" and "the Cartel."[73]

223. Citigroup FX Traders also attempted to trigger client stop loss orders. A stop loss order is an instruction from a client to trade currency if the currency reaches a specified rate. Traders provided confidential details concerning such clients' instructions to traders at other firms to manipulate the FX spot rate and ultimately to set off clients' stop loss orders. This practice increased the firm's

[72] The WM/R rate is determined over a one-minute fix period, from 30 seconds before to 30 seconds after the time of the fix, which is generally 4pm in London. Median bid and offer rates captured from the order matching system during the one-minute window are calculated using valid rates over the fix period, and the mid-rate is then calculated from them. The ECB rate is measured at a single point in time, at about 1:15pm CET.

[73] DOJ Plea Agreement at 5.

profits, because FX Traders could take advantage of the difference between the rate at which they purchased a particular currency and the rate at which they sold to a client pursuant to a stop loss order. It was clear that Citigroup FX Traders acted intentionally to trigger the stop loss orders: in electronic chat rooms shared with external traders, they made comments such as "had to launch into the 50 offer to get me stop done" or state that they "went for a stop."[74]

224. The Citigroup FX Traders even disclosed specific client identities to traders at other firms over a period of eight years to further their collusive trading activity. These clients were typically large market participants whose trading activity could potentially influence the market.[75] To cover their tracks, Citigroup FX Traders would use code words to reveal details concerning trading activity without overtly stating the client's name.

225. Finally, Citigroup FX Traders and salespeople added "sales markup, through the use of live hand signals or undisclosed prior internal arrangements or communications, to prices given to customers that communicated with sales staff on open phone lines."[76] According to the Citicorp Disclosure Notice attached to the DOJ Plea Agreement, "[i]n certain instances, certain of our salespeople used

[74] FCA Final Notice at 20-21.

[75] FCA Final Notice at 21.

[76] DOJ Plea Agreement at 16.

hand signals to indicate to the trader to add markup to the price being quoted to the client on the open telephone line, so as to avoid informing the client listening on the phone of the markup and/or the amount of the markup."[77] Thus, Citigroup FX Traders and salespeople acted collusively to deceive clients regarding the price of the currency that those clients were interested in purchasing.

226. Citigroup FX Traders also intentionally worked clients' limit orders one or more price levels away from the price confirmed with the customer and on occasion decided not to fill clients' orders at all, even though it was possible to do so, because they decided it would be more profitable not to do so.[78]

C. THE FX GUILTY PLEA AND RELATED REGULATORY ACTIONS

227. The FX manipulation scheme—which thrived in the Citigroup oversight vacuum—caused significant harm to the Company, including in the form of a criminal guilty plea.

228. On May 20, 2015, Citicorp pled guilty to violating federal antitrust laws in connection with its traders' intentional manipulation of rates on the FX spot market. Citicorp's plea agreement specified that it had engaged in a "combination and conspiracy to fix, stabilize, maintain, increase or decrease the price of, and rig bids and offers for, the euro/U.S. dollar ('EUR/USD') currency

[77] DOJ Plea Agreement at Attachment B.

[78] DOJ Plea Agreement at Attachment B.

pair exchanged in the foreign currency exchange spot market . . . in violation of the Sherman Antitrust Act, 15 U.S.C. § 1."[79] Citicorp paid a ***$925 million*** criminal fine—the highest criminal fine imposed on any of the banks involved in FX manipulation—and was placed on probation for three years.[80]

229. The guilty plea—while significant—was just the latest in a series of regulatory actions against Citigroup and its subsidiaries in connection with the FX fraud.

230. The first regulatory censure came on November 11, 2014, when the CFTC issued an order imposing sanctions on Citibank.[81] "[B]y and through certain of its [FX] traders," Citibank violated the Commodity Exchange Act and CFTC regulations by manipulating FX benchmark rates. The CFTC found that, at the time the fraud was occurring, Citibank was on notice of related attempts by banks "to manipulate the London Interbank Offered Rate and other interest rate benchmarks"; yet, the FX manipulation proceeded without detection because of "internal control and supervisory failures" at Citibank.[82] The regulator also determined that the bank "failed to adequately supervise its FX traders by, among

[79] *United States v. Citicorp*, Docket No. 3:15-cr-00087-SRU (D. Conn. May 20, 2015), Plea Agreement ("**DOJ Plea Agreement**") at 2-3.

[80] DOJ Plea Agreement at 9.

[81] CFTC Order at 3.

[82] CFTC Order at 3.

other shortcomings, failing to have adequate controls and monitoring over the use of electronic chat rooms."[83] The CFTC ordered the bank to "implement and improve its internal controls and procedures in a manner reasonably designed to ensure the integrity of its participation in the fixing of any FX benchmark rate."[84] It also imposed a $310 million fine.[85]

231. On the same day as the CFTC issued its consent order, the OCC issued a Consent Cease and Desist Order ("**OCC FX Consent Order**") against Citibank. In the OCC FX Consent Order, the OCC identified "deficiencies and unsafe or unsound practices related to the Bank's wholesale foreign exchange business."[86] The OCC ordered Citibank to submit an oversight and governance plan that "shall provide for Board oversight of the Bank's development and implementation of internal processes and appropriately manage material risks"[87] to the bank. The OCC also levied a civil monetary penalty of $350 million.[88]

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[83] CFTC Order at 3.

[84] CFTC Order at 14.

[85] CFTC Order at 13.

[86] *In the Matter of: Citibank, N.A.*, OCC Docket No. AA-EC-14-101, dated Nov. 11, 2015, ("**OCC FX Consent Order**") at 1.

[87] OCC FX Consent Order at 9.

[88] *In the Matter of Citibank, N.A.*, A.A.-EC-101, Office of the Comptroller of the Currency, Consent Order For A Civil Money Penalty, dated November 11, 2014 ("**OCC FX Civil Penalty**") at 6.

232. In a third reprimand dated November 11, 2014, the United Kingdom's Financial Conduct Authority (the "**FCA**") issued a Final Notice concluding that Citibank "breached Principle 3 of the [FCA]'s Principles for Business in the period from 1 January 2008 to 15 October 2013 . . . by failing to take reasonable care to organize and control its affairs responsibly and effectively with adequate risk management systems" in connection with FX trading manipulation.[89] Like the CFTC, the FCA observed that Citibank was on notice of oversight failures at other firms in connection with ongoing LIBOR enforcement actions.[90] The FCA also noted that although Citibank had conducted a review of its FX trading business following the disclosure of the LIBOR regulatory actions, it had failed to implement adequate controls or to "address the root causes that gave rise" to the FX manipulation. The FCA therefore imposed a total financial penalty of £225,575,000 or approximately $358 million.[91]

233. On May 20, 2015, the same date as its DOJ guilty plea, Citigroup entered into a Consent Order with the FRB, which noted that "[a]s a result of deficient policies and procedures . . . Citigroup engaged in unsafe and unsound

[89] FCA Final Notice at 2.

[90] FCA Final Notice at 3-4, 14. As further noted below, Citigroup and its subsidiary Citigroup Global Markets Japan Inc. reached a settlement with the European Commission in connection with allegations of LIBOR manipulation. *See* Citigroup, Annual Report (Form 10-K) 319 (March 3, 2014).

[91] FCA Final Notice at 4.

banking practices."[92] These defective procedures prevented Citigroup "from detecting and addressing unsafe and unsound conduct" by Citigroup's FX Traders and sales personnel.[93] The FRB assessed a civil money penalty totaling $342 million and ordered Citigroup to engage in a range of internal controls and compliance reviews to enhance policies and compliance with applicable U.S. laws and regulations.[94]

234. Due to the serious and long-running nature of the misconduct and the significance of the oversight failures at Citigroup and its subsidiaries, four regulators[95] issued orders finding significant control failures, imposing more than $2.2 billion in civil and criminal fines,[96] and leading to a criminal guilty plea. In addition, its antitrust violations have resulted in significant private litigation

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[92] *In the Matter of Citigroup, Inc.*, Docket No.'s 15-008-B-HC, 15-008-CMP-HC, Board of Governors of the Federal Reserve System Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as Amended dated May 20, 2015 ("**FRB Order**") at 5.

[93] FRB Order at 4.

[94] FRB Order at 11.

[95] In addition to the regulatory orders already issued, the Fair Trade Commission in South Korea is investigating Citigroup's foreign exchange trading practices, as is the Attorney General of West Virginia.

[96] According to Bloomberg, the fines paid by Citigroup and its subsidiaries amounted to 2,500 times the amount it actually made in revenue from the trades. Dakin Campbell, *Citigroup Paid 2,500 Times More for FX Rigging Than It Made*, BLOOMBERG, June 10, 2015, https://www.bloomberg.com/news/articles/2015-06-10/citigroup-paid-2-500-times-more-for-fx-rigging-than-what-it-made.

against Citigroup.[97] Indeed, Citigroup has already agreed to pay $394 million to settle its share of certain consolidated class action private antitrust litigation. On top of everything else, it appears that Citigroup is now also the subject of an investigation into the FX manipulation by the Korea Fair Trade Commission. The internal control inadequacy and oversight failures within Citigroup could not be more apparent in light of these regulatory actions, governmental prosecutions, and private suits.

D. FINDINGS REGARDING CITIGROUP'S INADEQUATE FX CONTROLS

235. Each regulator who conducted an investigation regarding Citigroup's FX misconduct concluded that Citigroup and its subsidiaries did not have sufficient measures in place to exercise satisfactory control over the FX spot trading business. In criticism of Citigroup's FX oversight protocols, the FRB stated that Citigroup:

> ***lacked adequate firm-wide governance, risk management, compliance and audit policies*** and procedures to ensure that the firm's Covered FX Activities conducted at Citigroup complied with safe and sound banking practices, applicable U.S. laws and regulations, including policies and procedures to prevent potential

[97] At least 27 private antitrust actions have been filed against Citigroup in the U.S. District Court for the Southern District of New York in connection with the FX-related misconduct. At least 22 of these actions have been consolidated under the caption *In re Foreign Exchange Benchmark Rates Antitrust Litigation*, Docket No: 1:13-cv-07789-LGS.

violations of the U.S. commodities, antitrust and criminal fraud laws, and applicable internal policies.[98]

236. Similarly, the OCC noted that "[Citibank] had deficiencies in its internal controls and had engaged in unsafe or unsound banking practices with respect to the oversight and governance of [Citibank]'s FX Trading."[99] Specifically, the OCC identified the following shortcomings in Citibank's internal controls:

a. its compliance risk assessment lacked sufficient granularity and failed to identify the risks related to market conduct in FX Trading with respect to sales, trading and supervisory employees in that business ("Employee");

b. its transaction monitoring and communications surveillance were inadequate to detect potential Employee market misconduct in FX Trading;

c. its compliance testing procedures were inadequate to measure adherence to its standards of Employee conduct and firm policies applicable to Employee market conduct in FX Trading; and

d. Internal audit's risk assessment and coverage of FX Trading was inadequate to assess whether [Citibank]'s control framework was effective in identifying and mitigating compliance risks related to Employee market conduct.[100]

237. The CTFC provided a similar assessment of Citibank's compliance controls, stating that:

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[98] FRB Order at 3.

[99] OCC FX Consent Order at 5.

[100] OCC FX Consent Order at 5-6.

> During the Relevant Period, Citibank ***failed to adequately assess the risks*** associated with its FX traders participating in the fixing of certain FX benchmark rates. Citibank also ***lacked adequate internal controls*** in order to prevent its FX traders from engaging in improper communications with certain FX traders at other banks. Citibank ***lacked sufficient policies, procedures and training*** specifically governing participation in trading around the FX benchmarks rates and had ***inadequate policies*** pertaining to, or insufficient oversight of, its FX traders' use of chat rooms or other electronic messaging.[101]

238. Similarly, the FCA found that "Citi's day-to-day oversight of its spot FX traders' conduct was insufficient" and that "Citi failed to take adequate steps to ensure that general policies concerning confidentiality, conflicts of interest and trading conduct were effectively implemented in its G10 spot FX trading business. There was insufficient training and guidance on how these policies should be applied specifically to that business."

239. More specifically, the FCA explained that "Citi's failure to identify, assess and manage appropriately the risks in its G10 spot FX trading business allowed the following behaviors to occur in that business:

a. Attempts to manipulate the WMR and the ECB fix rates in collusion with traders at other firms, for Citigroup's own benefit and to the potential detriment of certain of its clients and/or other market participants;

b. Attempts to trigger clients' stop loss orders for Citigroup's own benefit and to the potential detriment of those clients and/or other market participants; and

[101] CFTC Order at 8-9.

c. Inappropriate sharing of confidential information with traders at other firms, including specific client identities and, as part of (1) and (2) above, information about clients' orders.[102]

240. Defendants' failure to properly oversee the Company and ensure effective internal controls could not be clearer in light of these regulatory findings.

E. THE BOARD WAS OR SHOULD HAVE BEEN AWARE OF THE FX MISCONDUCT AND NEVERTHELESS MAINTAINED DEFICIENT CONTROLS

241. Defendants knew or should have known that benchmark rate-fixing and collusive trading were serious compliance threats to the Company. Yet the Board appeared to be indifferent to the need to strengthen internal controls in the face of these risks.[103]

242. The warning signs were rampant. In 2009, Citigroup's Audit and Risk Management Committee was warned that [redacted] In the same report, management [redacted] Nevertheless, the Board allowed the FX misconduct to continue

[102] CFTC Order at 15.

[103] Tellingly, even ***after*** Citigroup entered into the consent orders, problems continued. On July 31, 2015, IA reported to the Audit Committees of Citigroup and Citibank that [redacted] On the same day, IA reported that [redacted]

from at least December 2007 through 2013, a period of over five years, without exercising sufficient oversight to identify and end the misconduct.

243. These warnings continued. In fact, "risks around confidentiality were highlighted when in August 2011 Citi became aware that a trader in its FX business outside London had inappropriately shared confidential client information in a chat room with a trader at another firm."[104] Yet Defendants consciously failed to impose controls sufficient to protect client confidentiality in chat rooms. Even more telling, several front office managers were aware of and/or involved in the FX misconduct as early as March 2010,[105] but the misconduct persisted for years.

244. In 2012, [redacted] One of the key issues highlighted was [redacted] In April 2013, IA reported to the Audit Committee that [redacted]

245. Citigroup was also on notice of what was required by industry standards—indeed, it had ***helped draft the standards***—and yet Defendants failed

[104] CFTC Order at 15.

[105] CFTC Order at 37.

to ensure that its oversight and compliance efforts satisfied those standards. More specifically, "[o]n 22 February 2001, a number of leading intermediaries, ***including Citibank***, issued a statement setting out a new set of '*good practice guidelines*' in relation to foreign exchange trading . . . ."[106] These guidelines specifically state that:

> The handling of customer orders requires standards that strive for best execution for the customer in accordance with such orders subject to market conditions. In particular, caution should be taken so that customers' interests are not exploited when financial intermediaries trade for their own accounts… ***Manipulative practices by banks with each other or with clients constitute unacceptable trading behaviour.***[107]

They further provide that "[f]oreign exchange trading management ***should prohibit the deliberate exploitation of electronic dealing systems to generate artificial price behaviour***."[108]

246. Citigroup thus violated well-established, *financial-industry-wide* standards ***that Citigroup itself assisted in drafting***.

247. Citigroup's oversight failures leading to the FX-related misconduct occurred in the midst of the LIBOR rate-fixing scandals that resulted in criminal investigations and monetary penalties against other firms. Citigroup was itself

[106] FCA Final Notice at 32.

[107] FCA Final Notice at 32.

[108] FCA Final Notice at 32.

subject to an investigatory probe concerning LIBOR rate-fixing during the same time period and learned of the risks posed by benchmark rate-fixing and inadequate internal controls.[109] Therefore, Citigroup was on notice of the need for robust controls across all its businesses to prevent trader misconduct, particularly with regard to traders' attempts to manipulate important benchmarks. Nevertheless, the Board refused to institute controls over an eight year period sufficient to prevent, detect, or remedy the FX-related misconduct.[110]

VIII. DECEPTIVE CREDIT CARD PRACTICES

248. Citigroup's subsidiaries involved in retail credit card services engaged in unlawful and deceptive practices for more than a decade. Defendants' failure to properly oversee the practices of the Company's subsidiaries and the third parties

[109] While Citigroup's FX misconduct was ongoing, it was revealed in September 2011 that a trader at UBS had engaged in fraudulent trading, ultimately costing UBS $2 billion. [redacted] However, Defendants still failed to ensure effective controls were in place to prevent similar misconduct at the Company.

[110] Mark Taylor, Dean of Warwick Business School, and member of the Academic Advisory Group of the Bank of England's Fair and Effective Markets Review, noted that the Plea Agreement raised questions "as to why no CEO or senior figure has resigned at any of these banks as the size of this fine and the investigations so far have revealed the rigging of forex was part of the culture at these banks." Gina Chon, Caroline Binham, & Laura Noonan, *Six Banks Fined $5.6bn Over Rigging of Foreign Exchange Markets*, FINANCIAL TIMES, May 20, 2015, http://www.ft.com/intl/cms/s/0/23fa681c-fe73-11e4-be9f-00144feabdc0.html#slide0.

with whom they contracted led to one of the largest fines in the history of the Consumer Financial Protection Bureau ("**CFPB**"). Finding that Citibank had consistently violated federal laws and regulations applicable to credit practices, the CFPB imposed a $35 million penalty, and ordered the bank to pay $700 million in restitution to customers that had fallen victim to a variety of fraudulent and deceptive practices. The OCC imposed a $35 million fine of its own, and both regulators emphasized that the Board bore "ultimate responsibility" for ensuring the robust and effective governance of Citibank's operations.

A. VIOLATIONS OF CONSUMER PROTECTION LAWS

249. From at least 2000 until at least 2013, Citigroup subsidiaries engaged in a vast array of improper practices in order to manipulate consumers into acquiring or retaining add-on products (i) relating to services that they did not receive, (ii) for which they did not give their informed and affirmative enrollment consent, (iii) that they did not know they could refuse, and/or (iv) that were not in their best financial interest. Approximately 8.8 million consumers were negatively affected by these dishonest practices.

250. Three of Citigroup's subsidiaries were involved in the unlawful credit practices: (i) Citibank; (ii) Citicorp Credit Services, Inc. ("**CCSI**"), a wholly owned Citibank subsidiary responsible for servicing Citibank-owned credit accounts; and (iii) Department Stores National Bank ("**DSNB**" and together with

CCSI and Citibank, the "**Citigroup Card Servicers**"), another wholly owned Citibank subsidiary, which issues credit cards for private retail account labels, such as Macy's.

251. According to the CFPB and the OCC, the Citigroup Card Servicers sold a variety of products as optional additions to the credit cards they issued. These included identity monitoring, debt protection, and identity theft reimbursement services.[111] In selling them, however, the Citigroup Card Servicers consistently misrepresented the terms and costs of these services, and billed customers for services they never received.

252. The Fair Credit Reporting Act requires that credit issuers obtain customer authorization to access customers' credit information. [112] The CFPB and the OCC found that, with respect to credit services offered by the Citigroup Card Servicers, in many cases such authorization was never obtained, was obtained only after they began charging for the services, or could not be processed by the credit reporting agencies.[113] Yet, the Citigroup Card Servicers still billed consumers in

[111] The identity monitoring products were sold or supported by companies referred to in Citigroup documents as Intersections, Affinion, and CPP/Metris.

[112] *In re Citibank, N.A., Department Stores National Bank, and Citicorp Credit Services, Inc.*, File No. 2015-CFPB-0015 (CFPB July 21, 2015) at 16.

[113] CFPB Consent Order at 17.

full for these products.[114] This occurred, according to the CFPB, because the Citigroup Card Servicers' "monitoring, vendor management, and quality assurance failed to prevent, identify, or correct in a timely manner the billing for Credit Monitoring Product services that were not fully provided."[115] As Citigroup acknowledged in its own documents, "a significant number of customers did not receive the full benefits" of its add-on products." Over two million consumer accounts were affected and consumers suffered approximately $197 million in damages as a result of that overbilling.[116]

253. The Citigroup Card Servicers also engaged in unlawful telemarketing techniques. Their telemarketers knew in advance which calls would be reviewed in their entirety by third-party quality assurance providers and were encouraged to create their own scripts—which were known to contain material misrepresentations about product benefits—on calls that would not be monitored.[117] This conduct included (i) misrepresentations regarding product terms and conditions, (ii) improper leading questions to obtain billing authorization from consumers when soliciting add-on credit products, and (iii) relying on ambiguous or misconstrued

[114] CFPB Consent Order at 17.

[115] CFPB Consent Order at 17.

[116] CFPB Consent Order at 18.

[117] CFPB Consent Order at 13.

responses to requests for billing authorization as permission for enrollment.[118] Ultimately, the CFPB found that the Citigroup Card Servicers' "monitoring, vendor management, and quality assurance functions failed to prevent, identify, or correct this conduct."[119]

254. The Citigroup Card Servicers also knowingly misrepresented or failed to correct consumers' mistaken beliefs concerning the costs and benefits of certain add-on products. For instance, the Citigroup Card Servicers failed to correct consumers' voiced (but mistaken) beliefs that they could enroll at an offered promotional rate for an advertised trial period without any further obligation.[120] They also represented to consumers that there was a 30-day free trial period for certain add-on products, even though in reality consumers were charged if they did not cancel after the trial period.[121]

255. The Citigroup Card Servicers pitched credit products to consumers without informing the consumers of their ineligibility for certain benefits of those products. Indeed, in some cases, consumers disclosed information that revealed their ineligibility, but the Citigroup Card Servicers enrolled them in the products

[118] CFPB Consent Order at 12-13.

[119] CFPB Consent Order at 12-13.

[120] CFPB Consent Order at 12.

[121] CFPB Consent Order at 11.

anyway.[122] The Citigroup Card Servicers further falsely represented that their credit monitoring service provided a credit score "from all three credit reporting bureaus," whereas the credit score they in fact provided was from a third-party vendor—not any of the three major credit reporting bureaus.[123]

256. The Citigroup Card Servicers also engaged in improper consumer retention practices. When consumers called to cancel their enrollment in certain add-on credit products, the Citigroup Card Servicers routinely misrepresented the benefits of various services or omitted the terms or limitations thereof.[124] They convinced consumers not to cancel their services by offering abridged versions of their services at a reduced price, without specifying that the price decrease would result in a concomitant reduction of services.[125] They also falsely represented that consumers' benefits would not change, inducing consumers to remain enrolled.[126]

257. DSNB allowed consumers to apply for credit cards via "pin pad" offer screens at retail stores like Macy's, and displayed certain add-on product offers to consumers prior to completion of the credit application. The display sequence conflated the two processes and deceptively made it appear that enrollment in these

[122] CFPB Consent Order at 11.

[123] CFPB Consent Order at 12.

[124] CFPB Consent Order at 20.

[125] CFPB Consent Order at 20.

[126] CFPB Consent Order at 20.

additional services was a condition to obtaining the credit card.[127] DSNB also used ambiguous text to make it appear that consumers were merely acknowledging the receipt of information, rather than actually enrolling in a service for a fee.[128] The OCC thus found that DSNB "failed to implement appropriate controls to ensure customers provided informed and affirmative consent to purchase the optional product."[129]

258. According to the CFPB, an estimated 4.8 million accounts were affected by the various deceptive practices detailed above, resulting in roughly $479 million in damages to consumers.[130]

B. DEFENDANTS WERE, OR SHOULD HAVE BEEN, AWARE OF DEFICIENCIES OF CONTROLS CONCERNING CREDIT CARD SERVICING

259. As early as 2011, [redacted] In July 2011, IA reported to the Audit Committee that the

[127] CFPB Consent Order at 19; *In re Citibank, N.A., Department Stores National Bank*, AA-EC-2015-52 (OCC July 15, 2015) ("**OCC Credit Card Consent Order**") at 3.

[128] CFPB Consent Order at 19.

[129] OCC Credit Card Consent Order at 3.

[130] Press Release, *CFPB Orders Citibank to Pay $700 Million in Consumer Relief for Illegal Credit Card Practices*, (CFPB July 21, 2015) ("**CFPB Press Release**").

[redacted]

260. In August 2011, the West Virginia Attorney General filed a lawsuit against Citigroup for use of deceptive tactics to sell credit card protection programs to customers in violation of the state's Consumer Credit and Protection Act. The complaint alleged that the payment protection products marketed by Citigroup were "essentially worthless" and swindled customers out of fees. The lawsuit sought civil penalties, restitution payments to affected customers, and injunctive and declarative relief. In September 2013, Citigroup agreed to pay $1.95 million to settle the charges.

261. Since at least 2012, Citigroup was aware that regulators were particularly concerned about financial institutions' sales of credit card add-on products. In January 2012, [redacted] In a September 2012 compliance update, [redacted] The next month, [redacted]

[redacted] Within a few months, directors were informed that [redacted]

262. U.S. regulators were not the only ones investigating the Citigroup Card Servicers. [redacted] Citigroup received 400,000 complaints regarding the PPI products from January 2005 to 2015.[132] Ultimately, it was forced to pay $732 million in restitution as a result of these improper sales, and as of July 2015, the Company had reserved another $192 million for this purpose.

263. By March 2013, IA [redacted] According to its report the Citigroup and Citibank Boards, this

[131] The subsidiary, Egg Banking PLC, was later renamed Canada Square Operations Limited.

[132] In fact, in 2009, the Audit Committee was informed that the UK's Financial Ombudsman Service ("**FOS**") released data showing that Citigroup had among the highest percentage of its bank decisions regarding PPI reversed by the FOS.

[redacted]

264. In October 2013, directors in the Risk Management & Finance Committees at Citigroup and Citibank were informed that [redacted] In the same month, an IA report provided to the Audit Committees [redacted] The problems persisted: by January 2014, IA was reporting to the Audit Committee that [redacted]

C. REGULATORY ACTIONS AGAINST CITIGROUP CARD SERVICERS RESULT IN FINDINGS OF INSUFFICIENT CONTROL AND OVERSIGHT, AND HUNDREDS OF MILLIONS IN FINES, PENALTIES, AND RESTITUTION

265. On July 20, 2015, the CFPB issued a Consent Order (the "**CFPB Credit Card Consent Order**") against the Citigroup Card Servicers setting forth significant, detailed findings of fact to support the CFPB's conclusion that over a period of thirteen years, these entities consistently violated federal laws and

regulations with respect to credit services. The OCC also issued a Consent Order (the "**OCC Credit Card Consent Order**") against Citibank and DSNB on July 20, 2015, concerning their misconduct in connection with credit card services.[133] During the course of its investigation, the OCC "identified deficiencies in the bank's practices" that violated Section 5 of the FTC Act.[134] The OCC coupled its consent order with a separate consent order relating to a civil monetary penalty (the "**OCC Penalty Consent Order**").

266. The CFPB Credit Card Consent Order required the Citigroup Card Servicers to pay a $35 million penalty[135] because these entities violated Sections 1031(a) and 1036(a)(1)(B) of the Consumer Financial Protection Act of 2010,[136] the Telemarketing Sales Rule,[137] and Section 5 of the Federal Trade Commission Act (the "**FTC Act**").[138] It also required them to pay $700 million in restitution to the estimated 8.8 million consumers harmed by their deceptive practices in connection with their optional services.[139] Moreover, under the OCC Penalty

[133] OCC Credit Card Consent Order.

[134] OCC Credit Card Consent Order at 1.

[135] CFPB Consent Order at 45.

[136] 12 U.S.C. §§ 5531(a), 5536 (a)(1)(B).

[137] 16 C.F.R. §§ 310.3(a), 310.4(a)(7).

[138] 15 U.S.C. § 45 (a)(1).

[139] CFPB Consent Order at 36.

Consent Order, Citibank and DSNB agreed to pay an additional $35 million in penalties.

D. INADEQUATE OVERSIGHT AND CONTROL FAILURES PERVADE CITIGROUP'S CREDIT CARD BUSINESSES

267. Regulators determined that the Citigroup Card Servicers failed to enact adequate controls to ensure that their add-on credit businesses conformed to applicable consumer protection laws and regulations. Indeed, the OCC explicitly found that the Citigroup Card Servicers' practices were deficient and ordered Citibank and DSNB to enact a wide variety of reforms and to establish or revise certain policies to rectify their inadequate controls and oversight mechanisms.

268. More specifically, the OCC ordered Citibank and DSNB to "develop a new or revised policy governing the management of Bank Vendors" to ensure the "ability of the Bank Vendor to perform the marketing, sales, delivery, servicing, and fulfillment of services for the product(s) in compliance with all applicable consumer protection laws and [DSNB] policies and procedures."[140] It also ordered them to conduct an add-on products review to assess compliance with the FTC Act.[141] Third, Citibank and DSNB must enact a consumer compliance internal

[140] OCC Credit Card Consent Order at 13.

[141] OCC Credit Card Consent Order at 18-20.

audit program to articulate written policies and procedures ensuring compliance with consumer protection laws and regulations.[142]

269. The OCC also required Citibank and DSNB to develop a "new or revised written enterprise-wide risk management program" for consumer credit add-on services, including a comprehensive assessment of the risk of unfair and deceptive practices in connection with the marketed product, and to implement procedures to prevent risk, including recording of telephone calls and independent call monitoring.[143] Finally, the OCC Credit Card Consent Order mandates that Citibank and DSNB create written procedures for identifying and reporting call monitoring results and any violation of consumer protection laws to an independent supervisor.[144]

270. Importantly, both the OCC and the CFPB issued findings regarding Board oversight responsibility in connection with their reprimands of Citigroup's FX and credit card related misconduct. With regard to the FX misconduct, the OCC explicitly stated that "the Board has the ultimate responsibility for proper and sound management of [Citibank]."[145] It made a parallel finding with regard to its

[142] OCC Credit Card Consent Order at 20-21.

[143] OCC Credit Card Consent Order at 15-17.

[144] OCC Credit Card Consent Order at 17.

[145] OCC FX Consent Order at 20.

assessment of the Company's credit card related misconduct, stating that "the Board has the ultimate responsibility for proper and sound management of [Citibank and DSNB]."[146] Finally, the CFPB explicitly stated that it is the Board's "ultimate responsibility" to ensure "proper and sound management of [Citibank, DSNB, and CCSI] and for ensuring that [Citibank, DSNB, and CCSI] comp[y] with Federal consumer financial laws and this Consent Order."[147]

271. Regulators' findings of oversight failures are especially revealing because, as Citigroup itself has acknowledged, it is "the responsibility of the Board of Directors and Management to ensure that third-party activities are conducted in a safe and sound manner and in compliance with applicable laws," and to "establish and approve risk-based policies to govern the outsourcing process, and to oversee the management of the outsourcing relationships."

272. By failing to properly oversee the conduct of Citigroup's credit-card subsidiaries, Defendants permitted significant violations of consumer protection laws to persist for thirteen years. This misconduct affected millions of customers over that period. It resulted not only in significant reputational harm—it also led to some of the highest fines in customer protection history.

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[146] OCC CC Consent Order at 23.

[147] CFPB CC Consent Order at 35. For each of these consent orders, the term "Board" refers to the Board of Directors of Citibank.

IX. DEMAND WOULD HAVE BEEN FUTILE AND IS EXCUSED

A. FIDUCIARY DUTIES

273. By reason of their positions as officers, directors, and/or fiduciaries of Citigroup and because of their ability to control the business and corporate affairs of Citigroup, the Director and Officer Defendants each have fiduciary duties to Citigroup and its stockholders, including the duties of care, loyalty, and good faith.

274. The Director Defendants have a duty to take reasonable measures to ensure that the Company's operations are conducted in a lawful manner, particularly with respect to the most significant risks the Company faces. For Citigroup, one of the most significant risks the Company faces is non-compliance with legal and regulatory requirements.

275. Furthermore, the Board has several standing committees to monitor specific aspects of Citigroup's business. Chief among these are the Audit Committee and the Risk Management Committee. As explained below, these committees have their own, supplemental charters setting forth duties for their respective members, in addition to the duties of board members generally. Finally, both Citigroup and Citibank maintain Compliance Committees which are ostensibly responsible for ensuring Citigroup's and Citibank's compliance with applicable legal regulations.

B. THIRTEEN OF THE SIXTEEN DIRECTORS FACE POTENTIAL LIABILITY BECAUSE THEY KNEW ABOUT THE BSA/AML FAILINGS AND LACK OF ADEQUATE INTERNAL CONTROLS AT CITIGROUP AND ITS SUBSIDIARIES

276. Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo face a substantial threat of liability because they were aware of significant red flags indicating that Citigroup's BSA/AML controls were failing, yet refused to implement and adequately oversee an effective BSA/AML compliance program.

277. Engaging in businesses that carry a major BSA/AML risk has long been both a significant source of revenue and risk for Citigroup. The Director Defendants either knew about this risk or should have known about it. By virtue of Citigroup's wide geographic footprint, the diverse nature of its businesses, the sheer size of its operations, its presence in high AML risk areas, and the risk characteristics of its client base, ensuring BSA/AML compliance and managing the BSA/AML risk of Citigroup and its subsidiaries should have been a top priority for the Citigroup Board.

278. The misconduct at the heart of this Action, perpetrated by both management and the Board, constitutes knowingly and consciously presiding over the Company's willful noncompliance with BSA/AML regulations and the OCC, FDIC/CDFI and FRB Consent Orders. For years, the Director Defendants turned a

blind eye to repeated instances of fraud that ultimately forced BUSA to dole out $140 million to regulators. Before this fine, the Board failed to intervene despite continuous reports of noncompliance with mandatory rules and regulations aimed at ensuring effective monitoring of high risk accounts and detection of AML anomalies.

279. Even if the obvious inherent risks of these operations had not been evident to the Board, the Director Defendants were repeatedly made aware of such risks. [redacted] In the aftermath of this action, the Citigroup Board continued to receive reports that BSA/AML compliance risk remained unacceptably high. On January 17-18, 2012, at a meeting attended by Director Defendants O'Neill, Rodin, Santomero, Taylor, and Thompson, and Former Director Defendants Pandit, Parsons, Ricciardi, and Ryan, Board members discussed that [redacted]

280. On April 5, 2012, the OCC entered a Consent Order against Citibank for failures in the bank's overall program for BSA/AML compliance. Each member of the Citibank board personally signed the 2012 OCC Consent Order, including Director Defendants McQuade, O'Neill, Santomero, and Zedillo and Former Director Defendants Joss, Ricciardi and Ryan. The 2012 OCC Consent

Order emphasized that "the ***Board has the ultimate responsibility for proper and sound management of the Bank***."

281. On April 17, 2012, at a Board meeting attended by Director Defendants Humer, O'Neill, Rodin, Santomero, Spero, Taylor, Thompson and Zedillo and Former Director Defendants Joss, Pandit, Ricciardi, and Ryan, Citigroup's Chief Compliance Officer Thurm reported that [redacted] At the same meeting, Defendant Santomero gave a report on the meeting of the Compliance Committees, stating that [redacted] As of April 2012, [redacted] no such program had yet been implemented.

282. On August 2, 2012, the FDIC and CDFI entered a Consent Order against BUSA, citing internal control deficiencies. Defendants were aware of the Consent Order. Even before the consent order, in April 2012, Citigroup's Chief Compliance Officer noted [redacted] Following the entry of the FDIC/CDFI Consent Order, each and every single IA report presented to the Audit Committee indicated that [redacted] At a December

11, 2012 meeting attended by Defendants Corbat, Humer, O'Neill, Rodin, Santomero, Spero, Taylor, and Thompson and Former Director Defendants Joss, Ricciardi, and Ryan, Defendant Joss reported to the Board that [redacted] following the FDIC/CDFI Consent Order.

283. In January 2013, months after the entry of the OCC and the FDIC/CDFI Consent Orders, the Board was again told [redacted] At a meeting attended by Defendants Corbat, Humer, McQuade, O'Neill, Rodin, Spero, Taylor, Thompson, and Zedillo and Former Director Defendants Joss, Ricciardi, Ryan, the Board received a report [redacted]

284. The Board took no action in the face of a cognizable threat despite receiving detailed reports concerning the high BSA/AML risk. As a result of the Board's inaction, on March 21, 2013, the Federal Reserve became the third federal regulator to issue a consent order against Citigroup and its subsidiaries for failure adopt sufficient BSA/AML oversight. The FRB Consent Order specifically found

that "Citigroup lacked effective systems of governance and internal controls to adequately oversee the activities of the Banks with respect to legal, compliance, and reputational risk related to the Banks' respective BSA/AML compliance programs," which the FRB found to be "evidenced by the deficiencies in the Banks' BSA/AML compliance programs identified by their respective banking agency supervisors that led to the issuance of the OCC and FDIC Consent Orders." The FRB Consent Order emphasized Citigroup's responsibility to ensure compliance "on a firmwide basis," and required Citigroup to "implement a firmwide compliance risk management program."

285. At a meeting of the Board on March 8, 2013, attended by Defendants Corbat, O'Neill Rodin, Santomero, Taylor, Thompson, and Zedillo and Former Director Defendants Joss, Ricciardi, and Ryan, Defendant Thurm reported on the FRB Consent Order, stating that it is [redacted] Thurm further noted that [redacted]

286. Following entry of all three BSA/AML consent orders and despite detailed instructions for amelioration of Citigroup's BSA/AML compliance, the Board still did not properly improve (much less make effective) Citigroup's compliance with applicable AML laws and regulations. At an April 24, 2013 Board meeting attended by Defendants Corbat, Humer, McQuade, O'Neill, Rodin, Santomero, Spero, Taylor, Thompson, and Zedillo and Former Director Defendants Joss and Ryan, Defendant Santomero reported that [redacted]

287. Similarly, at a July 2013 meeting attended by Defendants Corbat, Humer, McQuade, O'Neill, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendants Joss and Ryan, the Board was once again told that [redacted] The Board was also informed that [redacted] Moreover, the Board was informed that IA's assessment of [redacted]

288. The Citigroup Board members thus knew that they should exercise particular vigilance when it came to Citigroup's AML operations. In addition to the August 2012 FDIC/CDFI Consent Order, which targeted Banamex for BSA/AML violations and highlighted the intensity of the BSA/AML issues in Mexico, at an October 2013 meeting attended by Defendants Corbat, Humer, McQuade, O'Neill, Reiner, Rodin, Spero, Taylor, Santomero, Thompson, Turley, and Zedillo and Former Director Defendants Joss and Ryan, the Board was told that [redacted]

289. Similarly, at a January 14, 2014 meeting attended by Director Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendants Joss and Ryan, the Board was informed that [redacted]

290. Nevertheless, the Board consciously failed to take the necessary actions to correct the compliance failings. On March 3, 2014, Citigroup disclosed on its annual SEC report that the U.S. Attorney's Office for the District of

Massachusetts had issued grand jury subpoenas against Citigroup and Banamex USA concerning compliance with BSA/AML requirements under federal laws and regulations. Citigroup simultaneously announced that Banamex USA had also received a subpoena from the FDIC concerning its BSA/AML compliance.

291. Following the announcement of the investigation, the Board was specifically told that [redacted] During the March 18-19, 2014 Board meeting, attended by Director Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendants Joss and Ryan, Defendant Santomero informed the Board that [redacted]

292. Similarly, at an April 22, 2014 Board meeting attended by Director Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendant Ryan, Defendant Hennes reported that [redacted]

293. Notwithstanding the myriad warnings, the implementation of the remediation efforts required by the BSA/AML consent orders continued to lag behind schedule. More specifically, at a July 15, 2014 Board meeting attended by Director Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendant Ryan, the Board was informed that [redacted]

294. Again, at an October 20, 2014 Board meeting attended by Director Defendants Corbat, Hennes, McQuade, Reiner, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendant Ryan, the Board received a Franchise and Risk Report for Citigroup and Citibank from Defendant Leach. Leach reported on [redacted]

295. At a January 14, 2015 Board meeting attended by Director Defendants Corbat, Hennes, McQuade, Reiner, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendant Ryan, Defendant Davidson presented the Compliance Annual Risk Assessments. Despite years of regulatory actions and

the Company's lip-service concerning compliance, Davidson noted [redacted]

296. The BSA/AML compliance conditions at Citigroup did not improve despite repeated warnings to the Board. At a Board meeting on March 17-18, 2015, attended by Director Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Spero, Taylor, Santomero, Thompson, Turley, and Zedillo and Former Director Defendant Ryan, the Board was presented with an IA Report, which noted that [redacted]

297. Despite awareness—at least since [redacted]—of the weaknesses in Citigroup's overall control environment for BSA/AML, the Board failed to take sufficient action to remedy those weaknesses. Notwithstanding repeated warnings of [redacted]—the Board continued with the clearly deficient status quo. [redacted]

[redacted]

298. Regulators' exasperation with BUSA's persistent non-compliance resulted in the imposition of a $140 million fine in July 2015. The FDIC specifically found that "the bank failed to implement an effective BSA/AML Compliance Program over ***an extended period of time***."

299. Despite repeated red flags indicating that BSA/AML compliance was severely dysfunctional and following the OCC, Federal Reserve, and FDIC/CDFI consent orders, the Board still refused to exercise adequate oversight or put effective systems in place to ensure satisfactory BSA/AML compliance. Despite [redacted] the Company and its subsidiaries remained noncompliant through at least July 2015, as evidenced by the multimillion dollar fine issued by the FDIC/CDFI.

300. During this period, the Board also refused to exercise adequate oversight over many of the Company's other businesses and allowed various illicit behavior to continue for years including: deceptive credit card practices (from 2000-2013); rate manipulation in the FX trading business (from 2007-2013); and fraudulent activity at Banamex (from at least 2012-2014). All of these oversight failures occurred simultaneously with the BSA/AML related failings.

301. Accordingly, based on the particularized facts alleged herein, and all reasonable inferences to be drawn therefrom, Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Turley, and Zedillo (thirteen of the sixteen current Board members) knew of and facilitated the regulatory violations at issue in this Complaint.

302. A majority of the Board was aware of and participated in the above violations and faces a substantial possibility of liability in connection with Plaintiffs' allegations. Accordingly, demand on the board is excused.

C. THIRTEEN OF THE SIXTEEN DIRECTORS FACE A SUBSTANTIAL LIKELIHOOD OF LIABILITY BECAUSE THEY WERE AWARE OF REPEATED INSTANCES OF FRAUD AT BANAMEX AND DECLINED TO IMPLEMENT ADEQUATE INTERNAL CONTROLS AT CITIGROUP AND ITS SUBSIDIARIES OR OTHERWISE TAKE AFFIRMATIVE ACTION

303. Not only were the Director Defendants aware of the deteriorating BSA/AML environment and knowingly failed to take adequate remedial action to bring Citigroup into compliance, Citigroup directors were also aware of lack of adequate internal controls at Banamex, which enabled the OSA/Pemex fraud to occur. The Director Defendants were confronted with numerous red flags concerning instances of fraud at Banamex and turned a blind eye to warning signs that resulted in a $400 million fraud against the Company.

304. As early as January 2012, the Audit Committee received reports that

[redacted] The Audit Committee, including Director Defendants Santomero and Thompson were informed of [redacted]

305. At a September 2013 Board meeting attended by Director Defendants Corbat, Humer, O'Neill, Reiner, Rodin, Santomero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendants Joss and Ryan, Citigroup's Chief Risk Officer Hu discussed [redacted] Hu noted that [redacted] Hu explicitly stated that [redacted]

306. In October 2013, at a Board meeting attended by Director Defendants Corbat, Humer, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo and Former Director Defendants Joss and Ryan, Arrigunaga reviewed [redacted]

[redacted]

307. At the same meeting, the Board was informed that [redacted] The Risk Management and Finance Committees and the Audit Committees had been informed [redacted] in July of 2013, at meetings attended by Humer, McQuade, O'Neill, Santomero, Spero, Thompson, Turley, and Zedillo and Former Director Defendants Joss and Ryan.

308. Also at the October 2013 meeting, the Board was informed of [redacted] The Audit Committee had been informed of [redacted] at a

meeting attended by Director Defendants O'Neill, Santomero, and Turley and Former Director Defendant Ryan.

309. [redacted] Board members at the October 2013 meeting were informed [redacted]

310. The disclosures to the Board of serious problems, and the Board's complete indifference to the facts it learned, just continued with time. At a December 12, 2013 Board meeting, the Board was informed of [redacted][148]

311. On December 12, 2013, at a meeting attended by all the Director Defendants as well as Former Director Defendant Joss, the Board was informed of a [redacted]

[148] Attended by all the Director Defendants and Former Director Defendant Joss.

[redacted]

312. Nevertheless, the Board effectively ignored the above-mentioned warning signs and failed to implement the most basic safeguards and procedures, resulting in significant damage to Citigroup and its subsidiaries. In February 2014, Citigroup announced the $400 million OSA fraud, which bore significant similarities to the homebuilders' fraud.

313. From at least 2012 through at least 2014, the Board consciously failed to put in place adequate systems and follow the most basic safeguards and procedures to detect and prevent various instances of fraud. Root causes of fraud such as reliance on manual processes, maker/check issues and failure to reconcile cash and collateral flows went unaddressed, despite numerous red flags to the Board indicating that these issues created an environment ideal for and rife with fraud. At the same time as the Board refused to address core issues at Banamex resulting in hundreds of millions in fraud losses, the same Board also abdicated its oversight responsibilities over the Company's BSA/AML compliance (from 2006-at least 2015), compliance with consumer protection laws related to deceptive credit card practices (from 2000-2013), and manipulation of FX benchmark rates (from 2007-2013). All of these instances of misconduct were allowed to extend

over long periods of time, further demonstrating the Board's refusal to perform its duties.

314. Based on the particularized facts alleged herein, and all reasonable inferences to be drawn therefrom, Defendants Corbat, Hennes, Humer, McQuade, O'Neill, Reiner, Rodin, Santomero, Spero, Taylor, Thompson, Turley, and Zedillo face a substantial likelihood of liability with respect to their knowledge of and failure to implement effective fraud detection and prevention controls at Citigroup and its subsidiaries despite repeated warnings concerning fraudulent activity.

D. TEN OF THE SIXTEEN DIRECTORS FACE A SUBSTANTIAL LIKELIHOOD OF LIABILITY BECAUSE THEY WERE AWARE OF REGULATORY RISKS AND VIOLATIONS CONCERNING FX TRADING AND THE COMPANY'S LACK OF ADEQUATE INTERNAL CONTROLS

315. Defendants Corbat, Humer, McQuade, O'Neill, Rodin, Santomero, Spero, Taylor, Thompson, and Zedillo face a substantial likelihood of liability due to their failure to implement effective controls to prevent anti-competitive behavior and disclosure of confidential client information with respect to the Company's FX trading business. The Board received numerous indications that benchmark rate-fixing and collusive trading was a serious compliance threat, and the bank's FX operations should therefore have been a prime area of concern for the Board. Nevertheless, the Board allowed the FX misconduct to continue from at least

December 2007 through 2013, a period of over five years, without exercising sufficient oversight to identify and end the misconduct.

316. The FCA determined that the FX misconduct occurred "despite the fact ***that risks around confidentiality were highlighted*** when ***in August 2011*** Citi became aware that a trader in its FX business outside London had inappropriately shared confidential client information in a chat room with a trader at another firm."[149] Additionally, several of Citi's ***front office managers were aware of and/or involved in the misconduct*** as early as ***March 2010***.[150]

317. Furthermore, former Citigroup foreign exchange trader Perry Stimpson ("Stimpson"), who was terminated for "information sharing" in a foreign exchange rate rigging probe, revealed that "senior management was aware of the conduct" and was "responsible for a lack of control" at Citigroup. Stimpson, who vowed to reveal "the truth about foreign exchange at Citi" stated that the "culture of the bank at the time" was such that sharing of confidential client information was "condoned" by senior management.

318. Despite multiple warning signs, the Board appeared to be indifferent toward Citigroup's internal control failures and did not take adequate measures to

[149] FCA Final Notice at 3.

[150] FCA Final Notice at 37.

prevent or remedy the FX-related misconduct.[151] Importantly, the Board allowed the FX-related misconduct to occur in the midst of the LIBOR rate-fixing scandals, which resulted in criminal investigations and monetary penalties against other firms. Citigroup was itself subject to an investigatory probe concerning LIBOR rate-fixing during the same time period and learned of the risks posed by benchmark rate-fixing.[152] Indeed, on February 2, 2016, Citigroup entered into a $23 million settlement in a class action lawsuit alleging that it and other banks conspired to fix yen-denominated LIBOR rates. The case has been pending since April 2012.

319. Therefore, the Board was on notice of the need for robust controls across all its businesses to prevent, detect, and remedy misconduct by its traders, particularly with regard to attempts by traders to manipulate important benchmarks. However, the Board utterly failed to institute sufficient controls to

[151] Martin Wheatley, chief executive of the FCA, concluded that it was the "failure[] to establish adequate systems and controls" that allowed "traders to manipulate the fixed rate across the world's largest currencies." Ex. 10 (Chad Bray, Jenny Anderson & Ben Protess, *Big Banks Are Fined $4.25 Billion in Inquiry Into Currency-Rigging*, N.Y. TIMES, Nov. 12, 2014, available at http://dealbook.nytimes.com/2014/11/12/british-and-u-s-regulators-fine-big-banks-3-16-billion-in-foreign-exchange-scandal/?_r=0).

[152] Citi conducted a review of Citi's involvement in the setting of a number of submissions-based benchmarks in connection with the LIBOR-related misconduct. This review focused initially on LIBOR and other interbank offered rates, but was also extended to other benchmarks, including FX.

prevent the FX-related misconduct, and investigations so far have revealed that the rigging of Forex was part of the culture at Citigroup.

320. The damage from the Board's lack of adequate oversight of Citigroup's FX trading business has been massive. Citigroup has entered into a criminal guilty plea, agreed to pay a $925 million criminal fine, and collectively paid $2.2 billion in civil and criminal penalties. Moreover, Citigroup has agreed to pay $394 million to settle a class action alleging antitrust violations arising from the FX misconduct.

321. The Board allowed the FX misconduct to continue from at least 2007 until 2013. While the FX misconduct was ongoing, the Board also refused to ensure the Company's compliance with BSA/AML consent orders, failed to ensure that adequate systems were in place to detect and prevent fraud at Banamex and allowed the Company to engage in deceptive credit card practices, despite repeated red flags as to all of these issues. As a result, Defendants Corbat, Humer, McQuade, O'Neill, Rodin, Santomero, Spero, Taylor, Thompson, and Zedillo face a substantial likelihood of liability with respect to these claims and cannot impartially consider a demand.

E. TEN OF THE SIXTEEN DIRECTORS FACE A SUBSTANTIAL LIKELIHOOD OF LIABILITY BECAUSE THEY WERE AWARE OF DECEPTIVE CREDIT CARD PRACTICES AND THE COMPANY'S LACK OF ADEQUATE INTERNAL CONTROLS TO PREVENT AND DETECT SUCH PRACTICES

322. Defendants Corbat, Humer, McQuade, O'Neill, Rodin, Santomero, Spero, Taylor, Thompson, and Zedillo face a substantial likelihood of liability with respect to their failure to implement effective controls to prevent deceptive credit card practices and violations of consumer protection laws with respect to credit card add-on products.

323. It is clear from the OCC and CFPB consent orders that the Board's oversight of its credit cards add-on products was deficient. Specifically, the OCC ordered Citibank to "develop a new or revised policy governing the management of Bank Vendors" to ensure the "ability of the Bank Vendor to perform the marketing, sales, delivery, servicing, and fulfillment of services for the product(s) in compliance with all applicable consumer protection laws and [Citigroup] policies and procedures." The OCC also ordered Citibank to conduct an add-on products review to assess add-on products for compliance with the FTC Act and to enact a consumer compliance internal audit program that would include written

policies and procedures for conducting audits of Citigroup's compliance with consumer protection laws.[153]

324. Further, the OCC required Citibank to develop a "new or revised written enterprise-wide risk management program" for consumer add-on products. That risk management program required Citibank to conduct a comprehensive assessment of the risk of unfair and deceptive practices in connection with add-on products and to implement procedures to prevent risk, including recording of telephone calls and independent call monitoring.[154] Such sweeping reforms would not have been necessary had the Board been discharging its fiduciary duties and engaging in appropriate oversight of Citigroup's credit card business.

325. Moreover, the Board and its committees had clear signs that Add-On Products were a problem area that were the subject of increased regulatory scrutiny and yet refused to take appropriate steps to ensure adequate oversight. The OCC conducted a review of the overall cards business in 2010, which caused the OCC to raise certain concerns that Citigroup resolved to remediate. Also by 2010, [redacted] In July 2011, [redacted]

[153] FCA Final Notice at 20-21.

[154] FCA Final Notice at 15-17.

[redacted] Notably, in 2011, [redacted]

326. The Board allowed the problems to fester and in 2011, the West Virginia Attorney General filed a lawsuit against Citigroup and other banks for use of deceptive tactics in the sale of credit card protection programs. The lawsuit was reported to the Nomination and Corporate Governance Committee in September 2011. According to the Attorney General's office, consumers were enrolled in the programs without full awareness and consent and were unable to reap the full benefits of the programs. In 2013, Citigroup paid $1.95 million to settle the charges.

327. In addition to awareness of the regulatory environment in the United States, the Board allowed the deceptive credit card practices to continue despite being subjected to regulatory scrutiny over its PPI products in the United Kingdom As early as 2008, Citigroup's Egg Banking Plc ("Egg") subsidiary incurred a fine of £ 721,000 (over $1 million) in connection with a PPI issue. In 2009, the Audit Committee was told that [redacted] The

FCA noted problems with how PPI was sold, including customers being unaware that the cost of PPI was being added to their loans or PPI being unsuitable for the customer. In 2011, the FCA required Citigroup's PPI-selling subsidiaries to review their historical sales processes for PPI and to proactively contact any customers who may have been mis-sold PPI to have their sale reviewed. By February 2012, fees in connection with the remediation of PPI had cost Citigroup $290 million.

328. Similarly, in 2009, the Australia Securities and Investments Commission ("ASIC") was engaged in an investigation concerning the sale of credit insurance for credit cards and the conduct of call center employees. In a presentation to the Audit and Risk Management Committees, [redacted][155]

329. The Board allowed Citigroup to engage in deceptive credit card practices for over a decade, from 2000 until at least 2013. This oversight failure is part of a larger pattern of compliance failures which occurred during the same time period including numerous inquiries concerning Citigroup's inadequate money-laundering controls, inadequate fraud detection and prevention practices, inadequate FX-trading oversight and controls, and improper lending practices.

[155] Attended by Director Defendants Corbat and O'Neill and Former Director Defendant Ricciardi.

Troublingly, the Board allowed these various corporate traumas to persist for years on end as evidenced by regulators' findings with respect to the FX misconduct (from 2007 until 2013), the BSA/AML failings (2006 to present), and pervasive fraud at Banamex (at least 2012 until at least 2014).

330. The Citigroup Board has apparently either concluded that quick profits are more important than responsible corporate behavior, or that Citigroup is simply too big to govern. Citigroup has paid the price for the Board's abdication of its oversight responsibilities with regard to deceptive credit cards practices. In July 2015, it was ordered to pay $35 million to the OCC, $35 million to the CFPB, and $700 million in restitution to customers.

331. As a result of these oversight failures with respect to Citigroup's credit card add-on products, Defendants Corbat, Humer, McQuade, O'Neill, Rodin, Santomero, Spero, Taylor, Thompson, and Zedillo face a substantial likelihood of liability with respect to these claims and cannot impartially consider a demand.

F. FIVE OF THE SIXTEEN DIRECTORS FACE A SUBSTANTIAL LIKELIHOOD OF LIABILITY IN CONNECTION WITH THEIR MEMBERSHIP ON THE AUDIT COMMITTEE

332. Defendants O'Neill, Santomero, Spero, Thompson, and Turley (the "**Audit Committee Defendants**") face a substantial likelihood of liability because, as a result of their service on the Citigroup and Citibank Audit Committees, they

were aware of red flags signaling substantial compliance issues and operational risk, and did nothing about it.

333. Citigroup's Audit Committee charter provides that the Audit Committee's function is to assist the Board in its oversight responsibility relating to, *inter alia*, "[Citigroup's compliance] with legal and regulatory requirements, including Citigroup's disclosure controls and procedures," "policy standards and guidelines for risk assessment and risk management" and "the performance of the internal audit function." Pursuant to the Audit Committee charter, the Audit Committee has a ***duty to report regularly to the Board*** on the Audit Committee's activities. Furthermore, the Audit Committee must:

- Review and discuss with management "the effectiveness of the Company's anti-money laundering compliance program."
- Recommend to the Board approval of material changes to the AML program.
- "[R]eview periodically with management, including the Citigroup Chief Risk Officer, the Chief Compliance Officer, and the General Counsel and the Independent Auditors, any significant correspondence with, or other action by, regulators or governmental agencies, any material legal affairs of Citigroup and Citigroup's compliance with applicable law and listing standards."
- Monitor all significant regulatory examinations in the United States and abroad and "[r]eceive regular reports on the schedule and results of significant regulatory examinations in the United States and abroad, including the nature and status of corrective actions."

- Remain vigilant in the face of potential regulatory challenges and "[r]eceive regular reports on significant issues that potentially create regulatory attention, including briefings on business decisions or significant issues that arise in areas on which the regulators are focused or that otherwise generate regulatory scrutiny or actions."

- "[O]versee and receive reports on ongoing regulatory projects, including regular updates on significant long-term projects being implemented in response to particular regulatory issues or concerns."

- Receive "periodic briefings on the key controls and processes in specific business or functional areas" and "periodic briefings on existing or proposed regulations in the United States and abroad that could significantly impact Citigroup's business activities."

- Maintain Citigroup's relationships with regulators and "review and discuss with management the strategy for and status of Citigroup's key regulatory relationships in the United States and abroad."

- Review the implementation and effectiveness of each of the Company's compliance and ethics programs, including the procedures for resolution of compliance and ethics issues. Discuss the effectiveness thereof with management and obtain reports from the Chief Compliance Officer and other persons with operational responsibility over Citigroup's compliance and ethics programs.

- Ensure that appropriate incentives exist so that the Company's compliance objectives are met and that appropriate actions are taken when compliance failures are identified.

- Receive and discuss reports from management on an as needed basis (but at least annually) regarding Citigroup's compliance with regulatory internal control and compliance reporting requirements, significant reported ethics violations, fraud and operating losses, and internal and external fraud incidents (and any control enhancements or remediation plans).

- Review and discuss with management (i) key guidelines and policies governing Citigroup's significant processes for risk assessment and risk management; and (ii) Citigroup's major financial risk exposures and the steps management has taken to monitor and control such exposures.

334. Accordingly, the Audit Committee had access to crucial information concerning Citigroup's legal and regulatory compliance and had a duty to report this information to the Board. By virtue of their positions as members of the Audit Committee, the Audit Committee Defendants learned ***at least*** the following information concerning the compliance (or lack thereof) of Citigroup and its subsidiaries with various laws, rules, and regulations:

1. <u>BSA/AML Violations & Banamex Fraud</u>

- [redacted]
- In July 2011, the Audit Committees were given an update on [redacted][156]
- In January 2012, the Audit Committees discussed [redacted]

[156] Meeting attended by Director Defendants Santomero and Thompson, and Former Director Defendants Riccardi and Ryan.

[redacted].

- Also in January 2012, the Audit Committees were told [redacted]
- In March 2012, the Audit Committees learned that [redacted].
- In April 2012, the Audit Committees were told that [redacted]
- In July 2012, IA reported to the Audit Committees that the [redacted].[160]
- In September 2012, the Audit Committees were given an update on recent OCC exams. [redacted].

[157] Meeting attended by Director Defendants Santomero and Thompson, and Former Director Defendants Riccardi and Ryan.

[158] Meeting attended by Director Defendants Santomero and Thompson, and Former Director Defendants Riccardi and Ryan.

[159] Meeting attended by Director Defendants Santomero and Spero and Former Director Defendants Riccardi and Ryan.

[160] Meeting attended by Director Defendants Santomero and Spero and Former Director Defendants Riccardi and Ryan.

[161] Meeting attended by Director Defendants Santomero and Former Director Defendants Riccardi and Ryan.

- In October 2012, IA reported to the Audit Committees that BUSA had received an "Unsatisfactory" rating on its quarterly [redacted][162].
- In January 2013, IA reported to the Audit Committees that [redacted]
- In April 2013, IA reported to the Audit and Compliance Committees that [redacted][164]
- Also in April 2013, IA reported to the Audit Committees that [redacted]
- In July 2013, IA reported to the Audit Committees that [redacted].
- In September 2013, the Audit Committees were informed of [redacted]

[162] Meeting attended by Director Defendants Santomero and Spero and Former Director Defendants Ricciardi and Ryan.

[163] Meeting attended by Director Defendant Spero and Former Director Defendants Ricciardi and Ryan.

[164] Meeting attended by Director Defendants O'Neill, Santomero, and Spero and Former Director Defendant Ryan.

[165] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley, and Former Director Defendant Ryan.

[redacted]

- In October 2013, the Audit Committees discussed [redacted][167]
- In December 2013, the Audit Committees were briefed on a [redacted]
- In January 2014, the Audit Committees received a report that [redacted]
- In March 2014, the Audit Committees discussed [redacted]

[166] Meeting attended by Director Defendants Santomero and Turley, and Former Director Defendant Ryan.

[167] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley, and Former Director Defendant Ryan.

[168] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley.

[169] Meeting attended by Director Defendants O'Neill, Spero, and Turley, and Former Director Defendant Ryan.

[redacted][170]

- By April 2014, IA was still warning about [redacted]
- In July 2014, IA noted that [redacted][172]

2. Deceptive Credit Card Practices

- In January 2009, [redacted]
- In July 2009, [redacted]
- In October 2009, [redacted]

[170] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley and Former Director Defendant Ryan.

[171] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley and Former Director Defendant Ryan.

[172] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley and Former Director Defendant Ryan.

[173] Meeting attended by Director Defendants Corbat and O'Neill and Former Director Defendant Ricciardi.

[redacted]

- In July 2011, [redacted]
- In September 2012, [redacted]
- In October 2012, [redacted]

[174] Meeting attended by Director Defendants Santomero and Thompson, and Former Director Defendants Riccardi and Ryan.

[redacted]

- In March 2013, Mr. Thurm [redacted]
- In April 2013, Defendant Thurm [redacted] Citigroup took a reserve as a result of the regulatory scrutiny.[177]
- In September 2013, [redacted]
- In October 2013, [redacted]

[175] Meeting attended by Director Defendants Santomero and Spero and Former Director Defendants Riccardi and Ryan.

[176] Meeting attended by Director Defendants Corbat, O'Neill Santomero, and Spero and Former Director Defendants Ricciardi and Ryan.

[177] Meeting attended by Director Defendants O'Neill, Santomero, and Spero, and Former Director Defendant Ryan.

[178] Meeting attended by Director Defendants O'Neill, Santomero, and Turley, and Former Director Defendant Ryan.

[redacted][179]

- In December 2013, the Audit Committees were informed that [redacted]

- In January 2014, the Audit Committees received an Internal Audit presentation stating that [redacted]

- In April 2014, the Audit Committees received a report concerning DSNB. [redacted]

[179] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley, and Former Director Defendant Ryan.

[180] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley.

[181] Materials received by Director Defendants O'Neill, Spero and Turley and Former Director Defendant Ryan.

[182] Materials received by Director Defendants O'Neill, Spero and Turley, and Former Director Defendant Ryan.

[redacted][183]

3. FX Trading Misconduct

- In August 2011, risks surrounding confidentiality were highlighted when the Company became aware that an FX trader shared confidential client information via electronic chatroom with a trader at another firm.

- In 2012, the widely-publicized Libor scandal drew attention to a widespread plot by multiple banks to manipulate the interbank offered interest rate for profit since 2003, emphasizing the risk of collusive activity and efforts to manipulate benchmark rates.

- Also in 2012, a class action lawsuit was filed against multiple financial institutions, including Citigroup, due to the Company's role in the Libor rate-rigging scandal. Citigroup paid $23 million to settle allegations arising out of the lawsuit in February 2016.

- In January 2014, the Audit Committees received an Internal Audit presentation noting that [redacted]

G. SIX OF THE SIXTEEN DIRECTORS FACE A SUBSTANTIAL LIKELIHOOD OF LIABILITY BECAUSE THEY BELONGED TO THE COMPLIANCE COMMITTEE

335. Defendants Hennes, McQuade, Rodin, Santomero, Thompson, and Zedillo (the "**Compliance Committee Defendants**") face a substantial likelihood

[183] Meeting attended by Director Defendants O'Neill, Santomero, Spero, and Turley, and Former Director Defendant Ryan.

[184] Meeting attended by Director Defendants O'Neill, Spero and Turley and Former Director Defendant Ryan.

of liability because of the red flags they learned about as a result of their service on the Citigroup and/or Citibank Compliance Committees, and failed to act in good faith in response. While the Compliance Committee charters were not produced to Plaintiffs and are not publically available documents, the name "Compliance Committee" implies that its role is to ensure compliance with various rules, laws, and regulations which apply to Citigroup and its subsidiaries. The Compliance Committees are doubtlessly required to provide regular reports to the full Board, consistent with the obligations of all of Citigroup's known committees.

336. By virtue of their position as members of the Compliance Committee, the Compliance Committee Defendants learned of ***at least*** the following information concerning Citigroup and its subsidiaries' non-compliance with various rules, laws and regulations:

1. <u>BSA/AML Violations & Banamex Fraud</u>

- In January 2012, Citibank's Compliance Committee was told that [redacted][185]
- In February 2012, Citibank's Compliance Committee was told that [redacted]

[185] Meeting attended by Director Defendants McQuade and Santomero, and Former Director Defendant Ryan.

[redacted][186]

- In March 2012, Citibank's Compliance Committee was told that [redacted]
- In April 2012, following entry of the 2012 OCC Consent Order, Citibank's Compliance Committee was told that [redacted][188]
- In June 2012, the Compliance Committees learned that [redacted][189]
- The following month, the Compliance Committees were informed of [redacted]

[186] Meeting attended by Director Defendants McQuade and Santomero, and Former Director Defendant Ryan.

[187] Meeting attended by Director Defendants McQuade and Santomero and Former Director Defendants Joss and Ryan.

[188] Meeting attended by Director Defendants McQuade and Santomero and Former Director Defendants Joss and Ryan.

[189] Meeting attended by Director Defendants McQuade, Rodin, and Thompson, and Former Director Defendants Joss and Ryan.

[redacted]

- In August 2012, the Compliance Committees again received reports that [redacted][191]
- In September 2012, the Compliance Committees were told that [redacted][192]
- In November 2012, IA reported to the Compliance Committees that [redacted]
- In December 2012, IA reported to the Citibank Compliance Committee that [redacted]

[190] Meeting attended by Director Defendants McQuade and Thompson, and Former Director Defendants Joss and Ryan.

[191] Meeting attended by Director Defendants McQuade and Thompson, and Former Director Defendants Joss and Ryan.

[192] Meeting attended by Director Defendants McQuade, Rodin, and Thompson, and Former Director Defendants Joss and Ryan.

[193] Meeting attended by Director Defendant McQuade and Rodin, and Former Director Defendants Joss and Ryan.

[redacted]

- In January 2013, IA reported to the Compliance Committees that [redacted][195]
- In February 2013, IA reported to the Compliance Committees that [redacted]
- In March 2013, the Compliance Committees were told that [redacted][197]
- Also in March 2013, IA reported to the Compliance Committees that [redacted]

[194] Meeting attended by Director Defendant McQuade, and Former Director Defendants Joss and Ryan.

[195] Meeting attended by Director Defendants McQuade, Rodin, and Thompson, and Former Director Defendants Joss and Ryan.

[196] Meeting attended by Director Defendants McQuade and Thompson, and Former Director Defendants Joss and Ryan.

[197] Meeting attended by Director Defendants McQuade, Rodin, and Thompson, and Former Director Defendants Joss and Ryan.

- In May 2013, IA reported to the Compliance Committees that [redacted][98]
- In June 2013, IA highlighted the [redacted]
- In July 2013, IA reported to the Compliance Committees that [redacted]
- In August 2013, IA reported to the Compliance Committees [redacted]
- In September 2013, the Compliance Committees were informed that [redacted]

[198] Meeting attended by Director Defendant McQuade and Former Director Defendants Joss and Ryan.

[199] Meeting attended by Director Defendants McQuade, Rodin, and Thompson, and Former Director Defendants Joss and Ryan.

[200] Meeting attended by Director Defendants McQuade and Zedillo, and Former Director Defendants Joss and Ryan.

[201] Meeting attended by Director Defendant McQuade, and Former Director Defendants Joss and Ryan

[redacted]

- In October 2013, the Compliance Committees were informed that [redacted]
- In November 2013, the Compliance Committees were told that [redacted]
- In December 2013, the Compliance Committees were again informed that [redacted]
- In January 2014, the Compliance Committees were informed that [redacted]

[205] Meeting attended by Director Defendants McQuade and Zedillo, and Former Director Defendants Joss and Ryan.

[203] Meeting attended by Director Defendants McQuade and Zedillo, and Former Director Defendants Joss and Ryan.

[204] Meeting attended by Director Defendant McQuade, and Former Director Defendants Joss and Ryan.

[205] Meeting attended by Director Defendant McQuade, and Former Director Defendants Joss and Ryan.

[redacted]

- In February 2014, IA reported to the Compliance Committees that [redacted][207]
- In March 2014, the Compliance Committees were informed that [redacted][208]
- In April 2014, the Compliance Committees were informed that [redacted]

[206] Meeting attended by Director Defendants McQuade and Zedillo, and Former Director Defendants Joss and Ryan.

[207] Meeting attended by Director Defendants McQuade and Zedillo, and Former Director Defendants Joss and Ryan.

[208] Meeting attended by Director Defendant McQuade, and Former Director Defendants Joss and Ryan.

[redacted]

- In May 2014, IA reported that [redacted]

- In June 2014, IA reported that [redacted]

[209] Meeting attended by Director Defendants Hennes and McQuade, and Former Director Defendant Ryan.

[210] Meeting attended by Director Defendants Hennes and McQuade, and Former Director Defendant Ryan.

[211] Meeting attended by Director Defendants Hennes and McQuade, and Former Director Defendant Ryan.

- In August 2014, the Compliance Committees were informed that [redacted][212]
- In September 2014, IA reported to the Compliance Committees that [redacted]
- In October 2014, IA reported to the Compliance Committees that [redacted]
- In December 2014, IA reported to the Compliance Committees that [redacted][213]

[212] Meeting attended by Director Defendants Hennes and McQuade, and Former Director Defendant Ryan.

[213] Meeting attended by Director Defendants Hennes and McQuade, and Former Director Defendant Ryan.

[214] Meeting attended by Director Defendants Hennes and McQuade, and Former Director Defendant Ryan.

[215] Meeting attended by Director Defendants Hennes, and McQuade, and Former Director Defendant Ryan.

- In January 2015, the Compliance Committees received an [redacted][216]
- In March 2015, IA reported to the Compliance Committees that [redacted]

H. SEVEN OF THE SIXTEEN DIRECTORS FACE A SUBSTANTIAL LIKELIHOOD OF LIABILITY BECAUSE THEY BELONGED TO THE RISK MANAGEMENT AND FINANCE COMMITTEE

337. Defendants Hennes, Humer, McQuade, O'Neill, Satomero, Thompson, and Zedillo (the "**Risk Management Committee Defendants**") face a substantial likelihood of liability as a result of the knowledge they gained from their service on the Risk Management and Finance Committee (the "**Risk Management Committee**") of Citigroup, and the fact that they did nothing in response.

338. Citigroup's Risk Management Committee charter provides that the Risk Management Committee's function is to assist the Board in its oversight responsibility relating to, inter alia, "oversight of Citigroup's risk management framework, including the significant policies and practices used in managing

[216] Meeting attended by Director Defendants Hennes, and McQuade, and Former Director Defendant Ryan.

[217] Meeting attended by Director Defendants Hennes, and McQuade, and Former Director Defendant Ryan.

credit, market, operational, and certain other risks." The charter requires the Risk Management Committee to report to the Board concerning Citigroup's risk profile, its risk management framework (including significant policies and practices use to manage risk) and the overall adequacy of the Risk Management Function. Pursuant to its charter, the Risk Management committee must:

- Share information with the Audit Committee as necessary for the Audit Committee to carry out its statutory, regulatory, and other responsibilities.
- Receive reports from, review with, and provide feedback to management on the categories of risk Citigroup faces, including operational risk.
- Receive reports on and discuss the exposure in each category of risk, significant risk concentrations, the metrics used to monitor risk exposure, and management's views on the appropriate levels of risk exposure.
- "Review Citigroup's . . . operational risk management frameworks, including significant policies, processes and systems that management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing."
- Evaluate the "adequacy of the Risk Management function" and the training and credentials of certain senior risk officers.
- Work together with the Audit Committee to review and discuss with management "key guidelines and policies governing Citigroup's significant processes for risk assessment and risk management." The two committees, working in tandem, are also instructed to "review the adequacy and frequency of risk reporting to the Board."

- Remain aware of any remarkable or noteworthy events that adversely impact Citigroup's performance. Accordingly, "[i]n the event of a significant stress event, [the Risk Management Committee receives] reports from Citi's Recovery Planning Committee concerning the potential impact of a crisis on Citi's businesses and review[s] the recovery options to be pursued by Management."

339. Accordingly, the Risk Management Committee had access to crucial information concerning Citigroup's risk management framework and had a duty to report this information to the Board. By virtue of their positions as members of the Risk Management Committee, the Risk Management Committee Defendants learned the following information concerning the compliance (or lack thereof) of Citigroup and its subsidiaries with various laws, rules, and regulations:

1. <u>BSA/AML Violations & Banamex Fraud</u>

- In September 2012, the Risk Management Committee and management representatives discussed [redacted].[218]
- In April 2013, the Risk Management Committee was told that [redacted]

[218] Meeting attended by Director Defendants Hennes and McQuade, and Former Director Defendant Ryan.

[219] Meeting attended by Director Defendants Humer, McQuade, Santomero, Thompson, and Zedillo, and Former Director Defendant Joss.

- In July 2013, the Risk Management Committee was told that a [redacted][220]

- In September 2013, the Risk Management Committee was told that [redacted]

- In October 2013, a Mexico Franchise Collateral Review report presented to the Risk Management Committee noted tha [redacted]”

2. <u>Deceptive Credit Card Practices</u>

- In January 2009, the Audit & Risk Management Committees received a presentation indicating that [redacted]

[220] Meeting attended by Director Defendants Humer, McQuade, Santomero, Thompson, and Zedillo, and Former Director Defendant Joss.

[221] Meeting attended by Director Defendants Humer, McQuade, Santomero, Thompson, and Zedillo, and Former Director Defendant Joss.

[222] Materials received by Director Defendants Humer, McQuade Santomero, Thompson and Zedillo and Former Director Defendant Joss.

[223] Materials received by Director Defendant Rodin and Former Director Defendants Ricciardi and Ryan.

- In July 2009, [redacted][224]
- In October 2009, the Audit and Risk Management Committees learned that [redacted]
- In April 2010, the Risk Management Committees were informed that [redacted]
- In July 2010, the Risk Management Committees were told of [redacted]
- In October 2012, the Risk Management Committees received a presentation stating that [redacted]
- In April 2013, the Risk Management Committees received another report stating [redacted]

[224] Materials received by Director Defendant O'Neill and Former Director Defendant Ricciardi.

[225] Materials received by Director Defendant O'Neill and Former Director Defendant Ricciardi.

[226] Materials received by Director Defendants O'Neill, Santomero, and Thompson and Former Director Defendant Joss.

[227] Materials received by Director Defendants O'Neill, Santomero, Thompson and Zedillo and Former Director Defendants Joss and Ryan.

[228] Materials received by Director Defendants Humer, McQuade, Santomero, Thompson and Zedillo and Former Director Defendant Joss.

[redacted]

- In July 2013, the Risk Management Committees were informed that [redacted]

- In October 2013, the Risk Management Committees received a report noting that [redacted][31]

- Also in October 2013, the Risk Management Committees received a presentation on [redacted]

- In January 14, 2015, the Risk Management Committees received a presentation indicating that [redacted][232]

[229] Materials received by Director Defendants Humer, McQuade, Santomero, Thompson and Zedillo and Former Director Defendant Joss.

[230] Materials received by Director Defendants Humer, McQuade, Santomero, Thompson and Zedillo and Former Director Defendant Joss.

[231] Meeting attended by Director Defendants Humer, McQuade Santomero, Thompson and Zedillo and Former Director Defendant Joss.

[232] Materials received by Director Defendants Hennes, Humer, Santomero, Thompson, Turley, and Zedillo.

I. EACH OF THE DIRECTOR DEFENDANTS FACES A SUBSTANTIAL LIKELIHOOD OF LIABILITY DUE TO THEIR FAILURE TO EXERCISE THEIR OVERSIGHT DUTIES

1. Defendant Corbat

340. Defendant Corbat faces a substantial likelihood of liability because he has served as Citigroup's CEO and an executive director of Citigroup since October 2012; as CEO of Citi Europe, Middle East, and Africa from December 2011 until October 2012; and as CEO of Citi Holdings from January 2009 until December 2011, during the time of the BSA/AML, FX, and Credit Cards misconduct.

341. Corbat is the most senior executive officer of the Company, and in this role and in his capacity as senior executive of various Citigroup divisions during the relevant period, he has presided over the misconduct alleged herein. Corbat assumed the role of Citigroup CEO just after Citibank and BUSA entered into the April 2012 OCC Consent Order and the August 2012 FDIC/CDFI Consent Order, and oversaw the flawed implementation of the BSA/AML Consent Orders. Between February 2013 and April 2015, IA issued [redacted]

Between December 2012 and March 2015, Corbat attended ***at least 14*** Board meetings where he was specifically and repeatedly informed that [redacted]

[redacted]

342. Corbat also served as the CEO of Citi Europe, Middle East, and Africa during the FX misconduct, much of which reportedly occurred in the United Kingdom, a territory for which Corbat was directly responsible.[233] Corbat was responsible for overseeing FX trading activities during his time as CEO of Citi Europe, and apparently failed to exercise sufficient oversight of Citigroup's FX trading in that role. In an Operational Risk Management report for 1Q15, the root causes of the FX-related misconduct were listed as [redacted]

Furthermore, Corbat served as CEO and director of Citigroup when the FX Consent Orders were negotiated and entered into, and was responsible for overseeing the implementation of the FX consent orders. However, IA found that [redacted]

[233] As CEO of Citi Europe, Corbat "oversaw all of Citi's business operations in the region, including corporate and investment banking, securities and trading, private banking, transaction services and consumer banking." Joe Weisenthal, *Meet Michael Corbat, the Former NFL Prospect Who Just Became the CEO of Citi*, BUSINESS INSIDER, Oct. 16, 2012.

[redacted]

343. Similarly, Corbat served as CEO and director of Citigroup when the credit card consent orders were entered into, and was responsible for overseeing the implementation of the credit card consent orders. Moreover, Corbat attended ***at least four*** meetings where he was informed that [redacted]

344. Corbat has been a significant presence at the Company during the oversight failures described herein, often leading the division that incurred the corporate trauma. As a result, Corbat faces a substantial likelihood of liability and cannot impartially consider a demand.

345. Further, Defendant Corbat is an employee of Citigroup, who, in the years 2012, 2013, and 2014 alone, has received over $44 million in compensation from the Company (see Corbat compensation table ¶ 17). The Board has recognized Corbat's personal financial interest and has determined that Corbat is not an independent director. Pursuing the claims in this Complaint is clearly antithetical to Corbat's personal financial interest. He, therefore, cannot impartially consider a demand.

2. Defendant Hennes

346. Defendant Hennes faces a substantial threat of liability due to oversight failures and breaches of fiduciary duty in connection with Hennes's service on the Board since December 2013 and as a member of Citibank's Board since 2013. As a Citigroup Board member, Hennes regularly received reports that [redacted] Specifically, Hennes attended ***at least seven*** Board meetings where the Board was informed, *inter alia*, of [redacted]

347. Moreover, Hennes has served as a member of the Risk Management Committee since December 2013 and as the Chair of the Compliance Committee since April 2014. As Chair of the Compliance Committee, Hennes often personally made reports to the Board concerning the meetings of the Compliance Committee.

348. Hennes attended ***at least eight*** Compliance Committee meetings from at least April 2014 until at least March 2015 at which he learned that [redacted]

[redacted]

349. Accordingly, due to his role in the oversight failures as a member of the Citigroup and Citibank boards, Chairman of Citigroup's Compliance Committee and a member of the Citigroup Risk Management Committee, Hennes faces a substantial likelihood of liability and cannot impartially consider a demand.

3. Defendant Humer

350. Defendant Humer faces a substantial threat of liability due to oversight failures and breaches of fiduciary duty in connection with Humer's service on the Board since April 2012 and as a member of Citibank's board from 2012 until March 2014. As a Citigroup Board member, Humer attended ***at least 11*** Board meetings where the Board was specifically informed, *inter alia*, of a

[redacted]

[redacted]

351. Furthermore, Humer has been a member of the Risk Management Committee since September 2012. As a member of the Risk Management Committee, Humer attended ***at least four*** meetings where he was specifically informed, *inter alia*, that [redacted] As a member of the Risk Management Committee, Humer had a specific duty to report to the Board concerning the discussions of the Risk Management Committee and to share information with the Audit Committee as required to help the Audit Committee fulfill its function.

352. Defendant Humer was also a member of the Citigroup Board during the FX and credit card related misconduct alleged herein. Humer attended ***at least four*** Board meetings where Citigroup's deceptive credit card practices were discussed. By virtue of his service on the Risk Management Committee, Humer received ***at least five*** presentations concerning the deceptive credit card practices (see ¶ 339 for a detailed description of Risk Management Committee discussions).

353. Accordingly, due to his role in the oversight failures as a member of the Citigroup and Citibank boards and a member of the Citigroup Risk

Management Committee, Humer faces a substantial likelihood of liability and cannot impartially consider a demand.

4. Defendant McQuade

354. Defendant McQuade faces a substantial threat of liability due to oversight failures and breaches of fiduciary duty in connection with McQuade's service as CEO of Citibank from July 2009 until April 2014, as Vice Chairman of Citigroup from April 2014 until May 2015, as a director of Citibank since 2011, as a director of Citigroup since July 2015, and as a member of Citibank's and/or Citigroup's Compliance Committee since 2011.

355. By virtue of his positions as CEO and director of Citibank and/or Citigroup, McQuade attended ***at least a dozen*** Board meetings where the Board was specifically informed, *inter alia*, that [redacted]

Furthermore, McQuade personally signed the April 2012 OCC Consent Order as a member of the Citibank board. McQuade further attended ***at least 34*** separate Compliance Committee meetings wherein the Compliance Committee was

specifically informed of [redacted] (see ¶ 336 for a detailed description of Compliance Committee discussions).

356. McQuade also served as the CEO and a director of Citibank and a member of Citibank's Compliance Committee at the time the FX related misconduct and the credit card misconduct occurred. As CEO of Citibank, it was McQuade's responsibility to oversee the bank's various operations and to ensure compliance with applicable laws and regulations, including antitrust laws and consumer protection laws. McQuade attended ***at least four*** Board meetings where Citigroup's deceptive credit card practices were discussed. By virtue of his service on the Risk Management Committee, McQuade received ***at least four*** presentations concerning the deceptive credit card practices (see ¶ 339 for a detailed description of Risk Management Committee discussions).

357. As a result of his roles as CEO of Citibank from July 2009 until April 2014, Vice Chairman of Citigroup from April 2014 until May 2015, director of Citibank since at least 2011, member of the Citibank Compliance Committee since at least 2011, director of Citigroup since July 2015, McQuade faces a substantial likelihood of liability and cannot impartially consider a demand.

5. <u>Defendant O'Neill</u>

358. Defendant O'Neill faces a substantial threat of liability due to oversight failures and breaches of fiduciary duty in connection with his service as

director of Citigroup since April 2009, director of Citibank since 2009, Chairman of Citibank from September 2011 until May 2012, and Chairman of Citigroup since March 2012.

359. As a member of the Citigroup and Citibank boards, O'Neill has attended ***at least 14*** Board meetings where he was specifically and repeatedly informed that [redacted] Moreover, O'Neill personally signed the April 2012 OCC Consent Order as a member of the Citibank board.

360. Furthermore, O'Neill has been a member of Citigroup's Audit Committee since April 2013 and served as a member of Citigroup's Risk Management Committee from at least March 2010 until at least March 2011. As a member of Citigroup's Audit Committee, O'Neill attended at least ***eight*** Audit Committee meetings wherein he was again informed of Citigroup's BSA/AML struggles and the fraud issues at Banamex (see ¶ 334 for a detailed description of Audit Committee discussions).

361. O'Neill also served as the Chairman of Citibank, as a member of the Boards of both Citibank and Citigroup at the time of the FX related and credit card misconduct, and as Chairman of Citigroup for part of the FX and credit card related misconduct and at the time that the FX and Credit Card consent orders were entered into. O'Neill attended ***at least four*** Board meetings where Citigroup's deceptive credit card practices were discussed. As a function of his role on the Audit Committee, O'Neill attended ***at least five*** Audit Committee meetings where Citigroup's deceptive credit card practices were discussed (see ¶ 334 for a detailed description of Audit Committee discussions). By virtue of his service on the Audit and Risk Management Committees, O'Neill received ***at least four*** presentations concerning the deceptive credit card practices beginning in 2009 (see ¶¶ 334, 339 for a detailed description of Audit and Risk Management Committee discussions).

362. As a result of these roles, O'Neill had a duty of oversight over both Citibank and Citigroup. O'Neill failed to discharge his duties, as evidenced by the various legal and regulatory actions taken against Citigroup and its subsidiaries including Citibank during his tenure. As a result of his various roles at Citigroup and Citibank during the time of the misconduct alleged herein, O'Neill faces a substantial threat of liability and cannot impartially consider a demand.

6. Defendant Reiner

363. Defendant Reiner faces a substantial threat of liability due to oversight failures and breaches of fiduciary duty in connection with his service as director of Citigroup since July 2013 and director of Citibank since 2013. As a Citigroup Board member, Reiner received continued reports that Citigroup's overall [redacted] Specifically Reiner attended over half a dozen Board meetings where the Board was informed, *inter alia*, [redacted] Accordingly, due to his role in the oversight failures as a member of the Citigroup and Citibank boards, Reiner faces a substantial likelihood of liability and cannot impartially consider a demand.

7. Defendant Rodin

364. Defendant Rodin faces a substantial threat of liability due to oversight failures and breaches of fiduciary duty in connection with her service as director of Citigroup since September 2004, member of the Citigroup Audit and Risk

Management Committees in at least March 2009, and member of the Citigroup Compliance Committee from May 2012 until April 2013. In her capacity as a director of Citigroup, Rodin attended ***over a dozen*** Board meetings where she was specifically and repeatedly informed that [redacted]

365. Furthermore, as a member of the Citigroup Compliance Committee, Rodin attended ***at least six*** meetings that discussed these very same issues and yet still failed to take action (see ¶ 336 for a detailed description of Compliance Committee discussions).

366. Defendant Rodin was also a member of the Citigroup Board during the FX and credit card related misconduct alleged herein. Rodin attended ***at least four*** Board meetings where Citigroup's deceptive credit card practices were discussed. By virtue of her service on the Audit and Risk Management Committee, Rodin received reports as early as 2009 that [redacted] (see ¶¶ 334, 339 for a detailed description of Audit and Risk Management Committee discussions).

367. Defendant Rodin, along with the other Director Defendants, failed to take good faith action despite repeated reports of insufficient internal controls at Citigroup and its subsidiaries. Accordingly, due to her role in the oversight failures as a member of the Citigroup Board, Rodin faces a substantial likelihood of liability and cannot impartially consider a demand.

8. Defendant Santomero

368. Defendant Santomero faces a substantial likelihood of liability arising from his service as a director of Citigroup since April 2009, a director of Citibank since 2009, and Chairman of Citibank since 2012.

369. As a member of the Citigroup and Citibank boards, Santomero has attended ***at least 14*** Board meetings where he was specifically and repeatedly informed that [redacted] Defendant Santomero also attended ***at least five*** meetings discussing various instances of fraud at Banamex.

370. Furthermore, Santomero has been a member of Citigroup's Risk Management Committee since March 2010, a member of Citigroup's Audit Committee since March 2010, Chair of Citigroup's and Citibank's Compliance Committees from October 2011 until April 2012, a member of Citibank's Risk Management Committee since March 2010, and a member of Citibank's Audit Committee since March 2010. Santomero attended ***at least 10*** Audit Committee meetings and ***at least four*** Compliance Committee meetings where Citigroup and its subsidiaries' BSA/AML compliance and/or fraud risk was discussed (see ¶ 334 for a detailed description of Audit Committee discussions and ¶ 336 for a detailed description of Compliance Committee discussions). Santomero also attended ***at least five*** Risk Management Committee meetings where Citigroup's BSA/AML struggles and various instances of fraud at Banamex were discussed (see ¶ 339 for a detailed description of Risk Management Committee discussions).

371. Furthermore, Defendant Santomero served as a director of both Citibank and Citigroup during the FX and credit card misconduct and served as Chairman of Citibank during part of the FX and credit card misconduct. Santomero attended ***at least three*** Board meetings where Citigroup's deceptive credit card practices were discussed. Santomero further received ***at least seven*** presentations concerning Citigroup's deceptive credit card practices (see ¶ 339 for a detailed description of Risk Management Committee discussions). As a result of

his service on the Audit Committee, Santomero attended ***at least eight*** Audit Committee meetings where Citigroup's deceptive credit card practices were discussed and received Audit Committee presentations in connection therewith (see ¶ 334 for a detailed description of Audit Committee discussions).

372. Santomero failed to discharge his duties, as evidenced by the various legal and regulatory actions taken against Citigroup and its subsidiaries including Citibank during his tenure. As a result of his various roles at Citigroup and Citibank during the time of the misconduct alleged herein, Santomero faces a substantial threat of liability and cannot impartially consider a demand.

9. <u>Defendant Spero</u>

373. Defendant Spero faces a substantial likelihood of liability arising from her service as a director of Citigroup since April 2012, a director of Citibank since 2012, and member of the Citigroup and Citibank Audit Committees since April 2012.

374. As a member of the Citigroup and Citibank boards, Spero has attended ***at least 13*** Board meetings where she was specifically and repeatedly informed that [redacted]

[redacted] Defendant Spero also attended ***at least three*** meetings discussing various instances of fraud at Banamex.

375. In her capacity as a member of the Citibank and Citigroup Audit Committees, Spero attended ***at least eight*** Audit Committee meetings where Citigroup and its subsidiaries' BSA/AML risk and instances of fraud at Banamex were discussed (see ¶ 334 for a detailed description of Audit Committee discussions).

376. Furthermore, Defendant Spero served as a director of both Citibank and Citigroup during the FX and credit card misconduct. Spero attended ***at least four*** Board meeting where Citigroup's deceptive credit card practices were discussed. As a result of her service on the Audit Committee, Spero attended ***at least six*** Audit Committee meetings where Citigroup's deceptive credit card practices were discussed and received Audit Committee presentations in connection therewith (see ¶ 334 for a detailed description of Audit Committee discussions).

377. Accordingly, due to her role in the oversight failures as a member of the Citigroup and Citibank boards and a member of the Citigroup and Citibank Audit Committees, Spero faces a substantial likelihood of liability and cannot impartially consider a demand.

10. Defendant Taylor

378. Defendant Taylor faces a substantial likelihood of liability arising from her service as a director of Citigroup since July 2009 and a director of Citibank since 2013. As a member of the Citigroup and Citibank boards, Taylor has attended ***at least 16*** Board meetings where she was specifically and repeatedly informed that [redacted] Defendant Taylor also attended ***at least three*** meetings discussing various instances of fraud at Banamex.

379. Taylor further served as a director of Citigroup during the FX and credit card misconduct alleged herein. Taylor attended ***at least four*** Board meetings where Citigroup's deceptive credit card practices were discussed. Accordingly, due to her role in the oversight failures as a member of the Citigroup and Citibank boards, Taylor faces a substantial likelihood of liability and cannot impartially consider a demand.

11. Defendant Thompson

380. Defendant Thompson faces a substantial likelihood of liability arising from his service as a director of Citigroup since April 2009, a member of the

Citigroup Audit Committee since April 2013, a member of the Citigroup Audit Committee from July 2011 until March 2012, a member of the Citigroup Compliance Committee from May 2012 until April 2013, and a member of the Citigroup Risk Management Committee from March 2010 until March 2011.

381. As a member of the Citigroup Board, Thompson has attended ***at least 15*** Board meetings where he was specifically and repeatedly informed that the [redacted] Defendant Thompson also attended ***at least five*** meetings discussing various instances of fraud at Banamex.

382. Thompson attended ***at least eight*** Compliance Committee meetings where Citigroup and its subsidiaries' BSA/AML risk was discussed (see ¶ 336 for a detailed description of Compliance Committee discussions). Thompson also attended at least three Risk Management Committee meetings where Citigroup's BSA/AML struggles and various instances of fraud at Banamex were discussed (see ¶ 339 for a detailed description of Risk Management Committee discussions). Thompson also attended at least one Audit Committee meeting where instances of

fraud at Banamex were discussed (see ¶ 334 for a detailed description of Audit Committee discussions).

383. Thompson further served as a director of Citigroup during the FX and credit card misconduct alleged herein. Thompson attended ***at least four*** Board meetings where Citigroup's deceptive credit card practices were discussed. Further, as a result of his service on the Audit Committee, Thompson attended ***at least one*** Audit Committee meeting where Citigroup's deceptive credit card practices were discussed (see ¶ 334 for a detailed description of Audit Committee discussions). By virtue of his service on the Risk Management Committee, Thompson received ***at least seven*** presentations concerning the deceptive credit card practices (see ¶ 339 for a detailed description of Risk Management Committee discussions).

384. Accordingly, due to his role in the oversight failures as a member of the Citigroup Board and as a current or former member of the Citigroup Audit, Compliance and Risk Management Committees, Thompson faces a substantial likelihood of liability and cannot impartially consider a demand.

12. <u>Defendant Turley</u>

385. Defendant Turley faces a substantial likelihood of liability arising from his service as a director of Citigroup since July 2013, a director of Citibank since 2013, a member of the Citigroup Audit Committee since July 2013, a

member of Citibank's Audit Committee since September 2013, and Chair of the Citigroup and Citibank Audit Committees since April 2014.

386. As a member of the Citigroup Board, Turley has attended ***at least nine*** meetings where he was specifically and repeatedly informed that the [redacted] Defendant Turley also attended ***at least five*** meetings discussing various instances of fraud at Banamex.

387. Turley attended ***at least eight*** Audit Committee meetings where Citigroup and its subsidiaries' BSA/AML risk and instances of fraud at Banamex were discussed (see ¶ 334 for a detailed description of Audit Committee discussions). Turley also received ***at least two*** Audit Committee presentations concerning deceptive credit card practices.

388. Accordingly, due to his role in the oversight failures as a member of the Citigroup and Citibank boards and as the Chair of the Citigroup and Citibank Audit Committees, Turley faces a substantial likelihood of liability and cannot impartially consider a demand.

13. Defendant Zedillo

389. Defendant Zedillo faces a substantial likelihood of liability arising from his service as a director of Citigroup since April 2010, a director of Citibank from 2010 until 2013, a member of the Citigroup Audit Committee since April 2013, a member of Citigroup's Risk Management Committee since March 2011, a member of Citigroup's Compliance Committee from May 2013 until March 2014, and a member of Citibank's Risk Management Committee from October 2011 until January 2013.

390. As a member of the Citigroup board, Zedillo has attended ***at least 14*** meetings where he was specifically and repeatedly informed that the [redacted] Moreover, Zedillo personally signed the April 2012 OCC Consent Order as a member of the Citibank board. Defendant Zedillo also attended ***at least four*** meetings discussing various instances of fraud at Banamex.

391. Zedillo attended ***at least five*** Risk Management Committee meetings where Citigroup's BSA/AML struggles and various instances of fraud at Banamex were discussed (see ¶ 339 for a detailed description of Risk Management

Committee discussions). Zedillo attended ***at least five*** Compliance Committee meetings where Citigroup and its subsidiaries' BSA/AML risk was discussed (see ¶ 336 for a detailed description of Compliance Committee discussions).

392. Furthermore, Defendant Zedillo served as a director of both Citibank and Citigroup during the FX and Credit Card misconduct. Zedillo attended ***at least four*** Board meetings where Citigroup's deceptive credit card practices were discussed. By virtue of his service on the Risk Management Committee, Zedillo received ***at least six*** presentations concerning the deceptive credit card practices (see ¶ 339 for a detailed description of Risk Management Committee discussions).

393. Accordingly, due to his role in the oversight failures as a member of the Citigroup and Citibank boards, a member of the Citigroup Audit Committee since April 2013, a member of Citigroup's Risk Management Committee since March 2011, a member of Citigroup's Compliance Committee from May 2013 until March 2014, and a member of Citibank's Risk Management Committee from October 2011 until January 2013, Zedillo faces a substantial likelihood of liability and cannot impartially consider a demand.

DERIVATIVE ACTION ALLEGATIONS

394. Plaintiffs bring this action derivatively on behalf of and for the benefit of Citigroup to redress injuries suffered by the Company as a direct and proximate result of the breaches of fiduciary duty and other legal violations alleged herein. Citigroup is named as a nominal defendant.

395. Plaintiffs have owned Citigroup stock continuously during the time of the wrongful course of conduct constituting the basis for the claims asserted herein and will continue to hold Citigroup stock.

396. Plaintiffs will retain their respective shares in the Company throughout the duration of this litigation.

397. Plaintiffs will adequately and fairly represent the interests of the Company and its stockholders in this litigation and have retained counsel competent and experienced in stockholder derivative actions.

398. The wrongful acts complained of herein subject, and will persist in subjecting, the Company to continuing harm because the adverse consequences of the injurious actions are still in effect and ongoing.

CLAIMS FOR RELIEF

COUNT I
Breach of Fiduciary Duty
(Against the Director Defendants and the Former Director Defendants)

399. Plaintiffs incorporate by reference and reallege each and every allegation set forth above, as though fully set forth herein.

400. The Director Defendants all owed and owe fiduciary duties to Citigroup and its stockholders. By reason of their fiduciary relationships, the Director Defendants and the Former Director Defendants specifically owed and owe Citigroup the highest obligation of good faith and loyalty in the administration of the affairs of the Company, including, without limitation, the oversight of Citigroup's compliance with laws governing AML, Consumer Protection, antitrust and fair competition requirements, and the regulator actions and settlements discussed herein.

401. In addition, the Director Defendants have, and Former Director Defendants had, specific fiduciary duties as defined by the Company's corporate governance documents, including the Code of Conduct and the charters of various Board committees that, had they been discharged in accordance with the Director Defendants' and Former Director Defendants' obligations, would have necessarily prevented the misconduct and the consequent harm to the Company alleged herein.

402. The Director Defendants consciously breached their fiduciary duties and violated their corporate responsibilities by: affirmatively and repeatedly declining to implement an effective, company-wide compliance system to stop and prevent i) repeated violations of BSA/AML laws and regulations; ii) recurring instances of fraudulent activity at Banamex resulting in a $400 million fraud at Banamex; iii) anti-competitive behavior resulting in the violation of antitrust laws with respect to the FX trading business; and iv) deceptive credit card practices resulting in the violation of consumer protection laws, despite receiving numerous red flags indicating prolonged willful illegality.

403. As a direct and proximate result of the Director Defendants' and the Former Director Defendants' conscious failure to perform their fiduciary duties, Citigroup has sustained, and will continue to sustain, significant damages—both financially and to its corporate image and goodwill. Such damages to Citigroup caused by the Director Defendants and Former Director Defendants include and will include, substantial penalties, fines, damages awards, settlements, expenses, increased regulatory scrutiny, and other liabilities described herein. Indeed, Citigroup and its subsidiaries have already incurred tremendous reputational and financial penalties resulting from the Defendants' breaches including: i) $140 million in fines for failure to ensure compliance with applicable AML laws and regulations; ii) registration of a loss of $235 million to Citigroup's after-tax net

income for 2013 due to the $400 million Banamex fraud; iii) a criminal guilty plea to violations of federal antitrust laws and civil penalties and criminal fines totaling over $2.2 billion as a result of the FX-related misconduct, not including a $394 million civil settlement; and iv) civil penalties and restitution payments of over $770 million as a result of the deceptive credit card practices. Moreover, Citigroup and its subsidiaries are now the subjects of investigations by the U.S. Attorney's Office in Massachusetts, the Treasury Department's Financial Crimes Enforcement Network, and Mexico's bank regulator, among others, and are subject to increased prosecutorial and regulatory scrutiny.

404. As a result of the misconduct alleged herein, the Director Defendants are liable to the Company.

COUNT II
Breach of Fiduciary Duty
(Against the Officer Defendants)

405. Plaintiffs incorporate by reference and reallege each and every allegation set forth above, as though fully set forth herein.

406. The Officer Defendants all owed and owe fiduciary duties to Citigroup and its stockholders. By reason of their positions as fiduciaries to the Company, the Officer Defendants owed duties of good faith, loyalty, candor, and truthful disclosure. The Officer Defendants were well aware of the relevant i) BSA/AML laws and regulations; ii) risk of fraud and need to vigilantly guard

against it; iii) antitrust and fair competition laws and regulations; and iv) consumer protection laws and regulations, as well as the various actions, investigations and settlements discussed herein, and were duty-bound to enforce the Company's compliance with those laws, regulations and settlements.

407. The Officer Defendants consciously breached their fiduciary duties and violated their corporate responsibilities in at least the following ways:

a. by causing Citigroup and allowing the Company's agents to violate i) BSA/AML laws and regulations; ii) antitrust and fair competition laws and regulations; and iii) consumer protection laws and regulations for a prolonged period of time;

b. by failing to detect and prevent instances of fraud at Citigroup's Banamex subsidiary for a prolonged period of time;

c. by causing Citigroup to fail to comply with its obligations under the BSA and other AML laws and regulations, and with the requirements of the 2012 OCC Consent Order, the FDIC/CDFI Consent Order, and the 2013 FRB Consent Order;

d. by causing Citigroup to fail to maintain adequate internal controls with respect to prevention and detection of anti-competitive behavior in its FX trading as found by the FCA, the OCC, the CFTC, the Federal Reserve and the DOJ;

e. by failing to correct the anti-competitive FX trading behavior despite actual awareness of the misconduct as found by the FCA and engendering a culture where the anti-competitive FX trading behavior was tolerated and not discouraged;

f. by causing Citigroup to fail to maintain adequate internal controls with respect to prevention and detection of deceptive and illegal practices in connection with credit card product add-ons in contravention of consumer protection laws as found by the OCC and the CFPB;

g. by refusing to implement and maintain adequate internal controls.

408. As a direct and proximate result of the Officer Defendants' conscious failure to perform their fiduciary duties, Citigroup has sustained, and will continue to sustain, significant damages—both financially and to its corporate image and goodwill. Such damages to Citigroup caused by the Officer Defendants include and will include, substantial penalties, fines, damages awards, settlements, expenses, increased regulatory scrutiny, and other liabilities described herein. Indeed, Citigroup and its subsidiaries have already incurred tremendous reputational and financial penalties resulting from the Defendants' breaches including: i) $140 million in fines for failure to ensure compliance with applicable AML laws and regulations; ii) registration of a loss of $235 million to Citigroup's after-tax net income for 2013 due to the $400 million Banamex fraud; iii) a criminal guilty plea to violations of federal antitrust laws and civil penalties and criminal fines totaling over $2.2 billion as a result of the FX-related misconduct, not including a $394 million civil settlement; and iv) civil penalties and restitution payments of over $770 million as a result of the deceptive credit card practices.

Moreover, Citigroup and its subsidiaries are now the subject of investigations by the U.S. Attorney's office in Massachusetts and the Treasury Department's Financial Crimes Enforcement Network, and are subject to increased prosecutorial and regulatory scrutiny.

409. As a result of the misconduct alleged herein, the Officer Defendants are liable to the Company.

COUNT III
Corporate Waste
(Against the Individual Defendants)

410. Plaintiffs incorporate by reference and reallege each and every allegation set forth above, as though fully set forth herein.

411. As alleged in detail herein, the Individual Defendants had a fiduciary duty to exercise good faith and diligence in the administration of the affairs of Citigroup and in the use and preservation of its property and assets, and they had the highest obligation of fair dealing. The Individual Defendants breached these duties by diverting corporate assets for improper and unnecessary purposes. Any benefits received by the Company cannot reasonably be viewed as a fair exchange for the corporate assets and monies expended by Citigroup.

412. The Individual Defendants wasted corporate assets by forcing the Company to expend valuable resources in defending itself in the various legal and regulatory proceedings and investigations including i) the charges brought by the

DOJ for violations of federal antitrust laws; ii) the civil lawsuits brought against Citigroup for violations of federal antitrust laws; iii) [redacted] and the OCC, FDIC/CDFI, and FRB Consent Orders entered against Citigroup for ongoing BSA/AML violations; iv) the FCA, OCC, CFTC and FRB Consent Orders entered against Citigroup for the FX misconduct; v) the OCC and CFPB Consent Orders entered against Citigroup for deceptive credit card practices; and vi) the ongoing U.S. Attorneys' office and Financial Crimes Enforcement Network's investigations. No person of ordinary, sound business judgment would view the Company's legal expenditures as fair or reasonable, given that these expenditures stem from illegal conduct of the Company of which the Individual Defendants had full knowledge and/or participated.

413. Finally, the Individual Defendants wasted corporate assets by: (a) failing to maintain sufficient internal controls over the Company's i) BSA/AML compliance; ii) fraud detection and prevention; iii) FX trading; and iv) credit card add-on products; (b) failing to properly consider the interests of the Company and its public stockholders; and (c) failing to conduct proper supervision.

414. Any benefits received by the Company cannot be reasonably viewed as a fair exchange for the corporate assets and monies expensed by Citigroup as a result of the Individual Defendants' misconduct.

415. The wrongful conduct alleged herein was continuous, formed part of a pattern of oversight failures at Citigroup and ongoing throughout the period of the misconduct described herein. The wrongful conduct resulted in continuous, related and ongoing harm to the Company.

416. As a result of the Individual Defendants' wrongful conduct, Citigroup has suffered and continues to suffer economic losses and non-economic losses, all in an amount to be determined according to proof at the time of trial.

417. As a result of the waste of corporate assets, the Individual Defendants are liable to Citigroup.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs demand judgment as follows:

a. determining that this action is a proper derivative action maintainable under the law and demand was excused;

b. finding that the Individual Defendants breached their fiduciary duties by consciously allowing Citigroup to not comply with its obligations under various AML laws, antitrust laws, and consumer protection laws, and by failing to oversee internal controls so the Company would not suffer large losses as a result of frauds;

c. against all of the defendants and in favor of the Company for the amount of any and all damages sustained by Citigroup as a result of the defendants' breaches of fiduciary duties, and corporate waste, including any and all

damages compensable by statute and/or law.

d. against all of the defendants and in favor of the Company for extraordinary equitable and injunctive relief as permitted by law and/or equity;

e. directing Citigroup to take all necessary actions to reform and improve its compliance procedures and governance policies to comply with applicable laws and to protect Citigroup and its stockholders from a repeat of the damaging events described herein;

f. awarding to Citigroup restitution from the Individual Defendants, and each of them, and ordering disgorgement of all profits, benefits, and other compensation obtained by the Individual Defendants;

g. awarding to Plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' consultants' and experts' fees, costs, and expenses; and

h. granting such other and further relief as the Court deems just and proper.

DATED: March 30, 2016

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