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May 19, 2005

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*BY ELECTRONIC MAIL*

William J. Fox  
Director  
Financial Crimes Enforcement Network  
U.S. Department of Treasury  
P.O. Box 39  
Vienna, VA 22183

**Re: Notice of Proposed Rulemaking – Financial Crimes  
Enforcement Network (FinCEN): RIN 1506-AA81**

Dear Director Fox:

On behalf of our client, JSC Multibanka of Riga, Latvia, we present the following comments with respect to the Notice of Proposed Rulemaking (the "Notice") contained in RIN 1506-AA81, dated April 26, 2005.

Multibanka is eager to cooperate with the United States Government and the Government of Latvia in the fight against money laundering activities. Multibanka's policies and procedures have been, and remain, in compliance with Latvian standards. Indeed, as discussed in more detail below, Multibanka has in some cases implemented policies to fight money laundering prior to their being mandated by Latvian law or suggested by Latvian regulatory authorities. Moreover, Multibanka has not knowingly or intentionally participated in any illicit activities and was not aware of the alleged criminal activities or related investigations by U.S. authorities described in the Notice until it reviewed the Notice itself. Multibanka recognizes the importance of continued improvement in anti-money laundering ("AML") practices and of remedying any shortcomings as expeditiously as possible. Multibanka continues to consider steps it might take to enhance its existing policies and procedures in this regard, as is explained in greater detail below. Multibanka looks forward to demonstrating its commitment to compliance with all applicable laws and to implementation of industry best practices with respect to anti-money laundering measures. To this end, senior

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Multibanka officials are prepared to meet with U.S. Government officials as soon as possible to commence discussions in this regard.

Multibanka notes with regret that the Notice contains a number of points purporting to justify the proposed rulemaking that are misleading or inaccurate. This is of concern for many reasons. First, certain "facts" cited in the Notice are not correct or, at best, are no longer accurate. Second, Multibanka believes that a complete review of the bank's anti-money laundering and "know-your-customer" ("KYC") policies and procedures will demonstrate that Multibanka does not merit designation or the imposition of the fifth special measure under section 311 of the USA PATRIOT Act. Third, the Treasury Department's proposed rulemaking has been interpreted by many of Multibanka's business partners (including U.S. and non-U.S. financial institutions maintaining correspondent relationships with Multibanka) and shareholders as a final determination, resulting in an immediate and significant loss of business to, and confidence in, Multibanka. Finally, Multibanka observes that designation and imposition of the fifth special measure under section 311 likely would compromise severely the financial position of the bank, jeopardizing its continued viability as a going concern.

In light of the foregoing, Multibanka is eager to demonstrate to the U.S. Government the Notice's inaccuracies and, together with the U.S. Government, to explore measures the bank might take to address the concerns raised in the Notice. Multibanka looks forward to meeting with the U.S. Government in this regard as soon as possible.

### **I. Inaccuracies in the Notice of Proposed Rulemaking**

As stated above, Multibanka believes that the Notice contains a number of points purporting to justify the proposed rulemaking that are misleading or inaccurate. These are addressed in order below, with references to the Notice as it appeared in the Federal Register (Vol. 70, No. 79) on Tuesday, April 26, 2005.

#### **1. "Multibanka offers confidential banking services and numbered accounts for non-Latvian customers." (p. 21364)**

Multibanka terminated the practice of offering numbered accounts to its customers, whether Latvian or non-Latvian, in June 2002 pursuant to a

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decision of the bank's Board of Directors. At that time all existing numbered accounts were blocked, and customers holding such accounts were asked to re-register in non-numbered accounts or to transfer the numbered account balances out of the bank.

Multibanka notes that even when numbered accounts were offered, the bank nonetheless required that its customers provide information pertaining to the identity of the account holder and any third party beneficiaries of such accounts, which information was maintained in a customer file at the bank. Multibanka has always required such information as a prerequisite to the opening of any and all accounts. Accordingly, pre-2002 "numbered accounts" were not in any way equivalent to "anonymous" accounts. While the names of numbered account holders did not appear to third parties to transactions, numbered accounts did not differ in any other way from non-numbered accounts held at Multibanka.

Multibanka notes that even today numbered accounts are not prohibited under relevant Latvian law. The Latvian Financial and Capital Market Commission ("FCMC") issued a circular very recently (in May 2005) suggesting that Latvian banks should cease offering numbered accounts to customers (even in the absence of a legislative requirement to this effect). Unlike certain other Latvian banks, however, Multibanka voluntarily ceased offering numbered accounts three years prior to the FCMC announcement.

While Multibanka offers banking services to its customers that might be termed "confidential," in this regard the bank expects its services are no more confidential than those offered by other financial institutions around the world. If by "confidential" the Treasury Department means to imply that Multibanka withholds account information from Latvian regulators (or any other entity entitled to such information under applicable law), then this is certainly not correct. For example, Latvian regulators auditing the bank have been given full access to information pertaining to all accounts and their beneficiaries.

**2. "A significant portion of [Multibanka's] business involves wiring money out of the country on behalf of its accountholders." (p. 21364)**

Multibanka finds this statement to be misleading. The bank does not permit itself to be used to siphon money out of Latvia. Multibanka's business activities, like those of other Latvian banks, include domestic and international money wiring, and these activities are conducted in compliance with Latvian law

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and bank due diligence policies. Multibanka notes that prior to its privatization it was the Latvian branch of the Foreign Economic Relations Bank of the former Soviet Union. This entity was nationalized in 1991, becoming the foreign operations department of the Bank of Latvia, in which capacity it served as the foreign currency-clearing center for all branches of the Bank of Latvia and for newly established Latvian commercial banks until its privatization (and the creation of Multibanka) in 1994. In light of the bank's history, it is not surprising that its business includes cross-border financial transactions. Moreover, the bank notes that the flows of outgoing and incoming payments today are roughly equivalent.

The bank also resists the implication that it is an "offshore" financial institution. Fully half of Multibanka's customers are Latvian residents, who are served by Multibanka branch offices in five locations throughout Latvia. (The bank plans to open four more Latvian branches over the next two years.) Moreover, more than one quarter of the bank's net income derives from its credit department, which at the end of the first quarter of 2005 held a portfolio of loans of approximately US\$78 million, and which services almost exclusively Latvian residents.

**3. "The bank has been suspected of being used by Russian and other shell companies to facilitate financial crime." (p. 21364)**

If the U.S. Treasury has suspicions about Multibanka or its customers, it has not shared this information with Multibanka so that appropriate action could be taken. Multibanka has a proven record of cooperation with regulatory and law enforcement authorities. Latvian regulatory and law enforcement authorities, as well as financial institutions in other countries with which Multibanka maintains correspondent relationships, on many occasions have requested information from Multibanka pertaining to certain customers, accounts or transactions. For example, during 2004 alone Multibanka cooperated with Latvian authorities (including the Offices of the Investigative Attorney for Financial and Economic Crimes, the Public Prosecutor for Investigating Financial and Economic Crimes, and the Public Prosecutor for Organized Crime, as well as the State Revenue Service) in connection with requests for legal assistance from the United States Department of Justice and Internal Revenue Service and from the Governments of Belarus, Germany, Great Britain, Israel and Russia. Multibanka in each instance cooperated fully and provided the requested

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information in a timely manner. (Multibanka would be pleased to provide documentary evidence of such cooperation upon request.)

Moreover, in 2004, Multibanka reported approximately 200 transactions as "unusual" or "suspicious" to the Latvian Government's Office for Preventing Laundering of Proceeds Derived from Criminal Activity ("OPL"). Already in 2005 the bank has reported more than 50 unusual or suspicious transactions to the OPL and has refrained from executing certain of these transactions. The head of the OPL recently commented in the Latvian press that Multibanka follows all reporting requirements set forth under Latvian law and provides information on suspicious and/or unusual transactions to OPL.

From time to time, Multibanka receives information from Latvian authorities indicating that a certain customer is suspected of criminal activity. According to bank policy, such a customer is immediately classified as "high risk" and subjected to enhanced monitoring (which is described in greater detail below).

Consistent with the bank's Customer Policy, the bank does not permit itself to do business with customers whose activities resemble those of "shell" banks. Moreover, Multibanka takes steps prior to opening customer accounts to assure itself that it understands, and has verified, the nature of the prospective customer's business activities and intended beneficiaries of accounts held at the bank. (Verification of information is achieved, for example, through research using publicly available databases, checking references, reviewing commercial contracts, and site visits.) Where the prospective customer's business activities cannot be understood, or where significant doubts about them cannot be resolved, the bank will refuse to open an account. Where the business activities described by the prospective customer do not give rise to significant doubt but remain subject to further confirmation, the bank will consider opening an account for the customer while placing the account in a "high risk" category that entails application of enhanced monitoring procedures.

4. **"FinCEN also has reason to believe that certain criminals use accounts at Multibanka to facilitate financial fraud schemes."  
(p. 21364)**

Multibanka is not aware of the identity of any criminals and has never knowingly facilitated or otherwise participated in financial fraud schemes or other such activities. Multibanka was first made aware of the alleged criminal

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activities described in the Notice upon its review of the Notice itself. Multibanka would welcome the opportunity to cooperate with U.S. and Latvian authorities in order to bring criminals to justice.

#### **5. Section C. review of Latvian financial industry (pp. 21364-65)**

Multibanka does not understand the relevance of the description of the Latvian financial sector to claims made about Multibanka in particular. For example, the Notice states that "Latvia's 23 banks held approximately \$5 billion in nonresident deposits at the end of 2004, mainly from Russia and other parts of the Soviet Union." It is worth noting in this regard that Latvia is a small country bordered by four others, including Russia, which are all within 200 miles of Riga. Latvia's relatively recent independence in 1991, and its geographic neighborhood, also play a role in the composition of Latvian economic activities (and those of Multibanka as well). The significant presence of non-Latvians in the Latvian financial sector, and indeed the Latvian economy, is not surprising when viewed in this light. Moreover, of the "approximately \$5 billion in nonresident deposits" held at year-end 2004, Multibanka's nonresident deposits accounted for only US\$220 million, or approximately four percent of the total. At the same time, Multibanka maintains a significant presence in the domestic market. Multibanka serves Latvian customers through local branch offices and, for example, acts as a credit institution for Latvian residents (with a credit portfolio of 42 million LVL/US\$78 million at the end of the first quarter of 2005). Generalities about Latvia and its financial sector do not demonstrate anything about the activities of Multibanka in particular that support the imposition of the fifth special measure against the bank.

The Notice states that Latvia "has taken steps to address money laundering risks and corruption," (p. 21364) citing in particular a new anti-money laundering law of 2004 and the creation in 2002 of the Anti-Corruption Bureau ("ACB"), an independent government agency tasked with combating domestic corruption. Multibanka's AML policies and procedures comply with all aspects of the 2004 law. Moreover, Multibanka has cooperated consistently with the ACB, responding in a comprehensive and timely manner to requests for customer and account information. (Multibanka would be pleased to provide documentary evidence of such cooperation upon request.)

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6. **“Latvia has a general reputation for permissive bank secrecy laws and lax enforcement, as evidenced by multiple non-Latvian Web sites that offer to establish offshore accounts with Latvian banks in general, and Multibanka, in particular.” (p. 21364)**

Again, we note that general statements about the Latvian financial regulatory system and statements of unknown third parties are being used as justification to take action against Multibanka without regard to the actual policies and practices employed by Multibanka. (Moreover, the Notice at the same time acknowledges that Latvia has taken steps to address the reputation of its financial sector, including strengthening of relevant laws in light of international standards.)

While Multibanka permits prospective customers to initiate contact with the bank over the Internet, the bank will not open an account for a customer until it has received complete, verified identity information. In this manner, those who contact the bank via the Internet or other remote means are subject to the same identification and verification requirements applicable to all other bank customers as a prerequisite to opening an account at the bank.

In order to open an account, identification documents must be provided in person at a Multibanka office or, if presented via mail by a non-resident, must be notarized or otherwise validated by appropriate governmental *apostilles*. Multibanka notes that any customer opening an account through remote presentation of notarized documents (as opposed to an in-person meeting at a bank office) is automatically categorized as “high risk” and subjected to enhanced monitoring procedures. Multibanka would be pleased to provide the Treasury Department copies of relevant bank policies and to discuss how they have been and continue to be implemented in practice.

In addition, in cases where doubt remains as to the identity of the prospective customer or the legitimacy of its business activities, it is bank practice to make site visits. Finally, Multibanka notes that it ceased to cooperate with “verified intermediaries” in the opening of Multibanka accounts pursuant to a decision taken by the Multibanka Board of Directors in February 2003. Since then all customer accounts are opened by the bank alone in accordance with all applicable bank policies and procedures, including those described above.

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As is discussed in greater detail below, Multibanka has cooperated with Latvian regulatory authorities in an effort to ensure that full information is collected with respect to all bank customers. Throughout 2004, Multibanka reviewed all of its non-resident accounts. This review led to the closure of more than 35% of such accounts, the majority of which were closed due to the failure of customers to provide required information concerning customer identity and activities. These actions confirm the bank's commitment to combating money laundering.

7. **“Certain Latvian financial institutions are used by online ... “carding” groups to launder the proceeds of their illegal activities ... [and] to convert the funds obtained through fraud into cash.” (p. 21364)**

Multibanka has issued very few debit cards relative to the total number of debit cards currently in circulation in Latvia (approximately 0.3 percent). Moreover, Multibanka has imposed a general limit on debit card cash withdrawals of US\$500 per day. (In certain cases the bank will authorize a higher limit of up to US\$5,000 per day upon appropriate demonstration of customer requirements.) The general daily limit is much lower than that of other Latvian banks and was instituted pursuant to a February 2004 decision of the bank's Board of Directors for the express purpose of preventing the use of debit cards in money laundering activities. The FCMC recently requested that Latvian banks impose a 500 LVL (US\$925) limit on debit card withdrawals. This limit remains higher than the limit self-imposed by Multibanka more than one year ago.

Multibanka notes that since 2004 the vast majority of cash withdrawals by Multibanka customers holding credit and/or debit cards attached to their accounts have averaged less than US\$1,000 per month. In the past twelve months, less than three percent of all such accounts have experienced cash withdrawals of more than US\$5,000 per month. Moreover, Multibanka notes that Latvian legislation requires the bank to report to the OPL as “unusual” any card-related cash withdrawals totaling more than US\$75,000 in a given month. Multibanka also reports “suspicious” transactions to OPL, regardless of their value. The bank has filed approximately 25 such reports pertaining to “unusual” or “suspicious” transactions involving customer use of credit or debit cards since the start of 2004.



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**8. "Multibanka is being used to facilitate or promote money laundering and other financial crimes." (p. 21365)**

As stated above, Multibanka is not aware that it is being "used" in this manner. If it is in fact being used in connection with money laundering or other financial crimes, the bank is not knowingly or intentionally participating in such activities. The FCMC, which has supervised Multibanka since 2001 (and conducted numerous audits of the bank during this period), has confirmed in writing that it has no data suggesting that Multibanka is engaged in laundering proceeds derived from criminal activities. Accordingly, it is improper to assert that the bank is "facilitating" or "promoting" such activities. At most, the bank might have been the victim of sophisticated criminal activities, notwithstanding the bank's serious efforts to detect and prevent such activities. Multibanka would welcome the opportunity to review the evidence in the possession of the Treasury Department and to take action, together with U.S. and Latvian officials, to prevent any criminal activities.

**9. "Shell companies repeatedly used accounts at Multibanka to engage in a pattern of behavior indicative of money laundering. For example, in a one-month period during 2004, one U.S. bank received over 2,000 payment instructions involving \$68 million associated with eight shell companies with accounts at Multibanka." (p. 21365)**

As the Treasury Department has not shared information pertaining to these alleged activities, Multibanka cannot respond directly to the cited example. The bank is confident, however, that its policies and procedures in place today permit the bank to monitor customer activities in such a way as to detect illicit behavior. For example, under bank policy, all customers with monthly turnover greater than LVL 200,000 (approximately US\$370,000) are automatically subject to enhanced monitoring regardless of the quality of the information provided by these customers about their activities. As set forth in the bank's "Customer Policy," additional points of information collected and reviewed by the bank also can lead to enhanced monitoring of customer activities.

As set forth in the bank's "Enhanced Client Analysis Procedure," enhanced monitoring includes the following: analysis of account activity; analysis of current account turnover; comparison of customer's executed transactions and information pertaining to performance/profitability of business; evaluation of

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executed transactions for indications of unusual or suspicious activity; and analysis of present activities in light of projections for the current period.

Moreover, had Multibanka been advised of improper activities by the authorities, this would have triggered appropriate preventive actions at the bank. The bank often cooperates with law enforcement authorities in this regard, as is described in greater detail above.

The bank notes that it did identify certain customers that had unusually high volumes of transactions in November 2004 and closed any such accounts if the customers concerned could not justify the economic purpose of the transactions. Multibanka would be pleased to share evidence of the above with the Treasury Department.

**10. "Certain individuals view Multibanka as an excellent bank for conducting financial fraud schemes and to launder the proceeds of their criminal activity. In fact, one individual involved in such schemes reported that he successfully moved large sums through his Multibanka account." (p. 21365)**

Multibanka is not aware of the individual to which the Notice refers, but would be pleased to cooperate with U.S. and Latvian officials to put a stop to the criminal activities of this individual and others with similar intent. Multibanka has not willingly or knowingly associated itself with criminals or permitted known criminals to open accounts with Multibanka.

**11. "A significant portion of Multibanka's business is with shell companies, many from the former Soviet bloc countries." (p. 21365)**

As stated above, Multibanka's customer base includes many non-Latvian entities. Given its location and history, the bank's association with entities in countries that once were part of the Soviet Union cannot be viewed as surprising. As set forth in the bank's policies and procedures, upon the opening of an account Multibanka collects information (from all customers) that is designed to ensure that Multibanka knows the identity of its accountholders or the beneficial owners of those accounts. Moreover, the bank has policies and procedures in place that are designed to identify customers that pose "high risk" and to implement heightened scrutiny of the activities of such customers, in particular with respect to payment instructions received from them. Pursuant to the bank's "Customer

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Policy," a number of indicators are evaluated in making a determination that a customer poses "high risk," including: customers who are residents in a country on the "FATF List of non-cooperative countries and territories," customers whose transactions or accounts have been the subject of inquiries from correspondent banks or from law enforcement authorities, and customers whose transactions do not conform to the bank's understanding of the customer's economic activities, among others. The bank also established a "Financial Monitoring Service" ("FMS") unit in 2003 to maintain and monitor the bank's "high risk" client list and lead the bank's anti-money laundering efforts in this regard.

**12. "FinCEN believes that any legitimate use of Multibanka is significantly outweighed by its use to promote or facilitate money laundering and other financial crimes." (p. 21365)**

Multibanka's approximately 6,000 customers make legitimate use of Multibanka's services every day. As stated above, Multibanka has no knowledge of criminals having taken advantage of the bank. Should this nevertheless be the case, the bank is ready to cooperate fully with U.S. and Latvian authorities and to take action against such individuals, with whom the bank has not willingly or intentionally conspired to facilitate or promote money laundering or other financial crimes.

**13. Additional section 311 factors (pp. 21365-66)**

According to section 311 of the USA PATRIOT Act, the U.S. Government should consider, among other factors, the impact of the imposition of the fifth special measure upon the legitimate business activities of Multibanka. In its discussion of this factor, however, the Notice speaks to the likely minimal impact of the fifth special measure upon the "legitimate business activities within that jurisdiction." This is an inappropriate recasting of the relevant factor. The U.S. Government instead should acknowledge the significant impact of the imposition of the fifth special measure on the legitimate business activities of Multibanka itself which, as noted above, implicate more than 6,000 Multibanka customers (not to mention approximately 200 employees) making legitimate use of the bank's services every day.

## **II. Multibanka's Interactions to Date with Latvian Regulators Concerning AML and KYC Policies and Procedures**

In keeping with Latvian requirements, Multibanka has submitted to inspections by the Latvian Financial and Capital Market Commission at least once a year since 2001. Multibanka acknowledges that the FCMC has noted certain shortcomings in the bank's AML and KYC policies, procedures and practices. Over the course of inspections of the bank performed from 2001 to the present, the FCMC has offered warnings as well as recommendations for improvements in this regard, and the bank has made many responsive enhancements, as follows:

### **Recommendation 1: Multibanka should fully identify its current clientele and fully comprehend their business activities.**

Bank response: During 2003, Multibanka engaged in a comprehensive review of the files of all bank customers, both resident and non-resident, confirming customer identities (including identities of accountholders and actual beneficiaries) and business activities.

### **Recommendation 2: Corresponding certifying documents should be kept.**

Bank response: As a result of the comprehensive review of bank customers, additional certifying documents were gathered and maintained in customer files, pursuant to enhanced information collection and retention policies.

### **Recommendation 3: Accounts of all clients who have not been sufficiently identified and whose business activity remains unknown to the bank should be closed.**

Bank response: Accounts relating to any customer for which such information could not be gathered were first "frozen" and then closed. To date the bank has closed approximately 1,200 customer accounts, representing approximately 20 percent of the total number of the bank's accounts and one-third of the bank's non-resident accounts. These actions confirm the bank's commitment to combating money laundering.

**Recommendation 4: Establish a procedure for identifying unusual financial transactions in a timely manner (and designate a responsible bank official), and for reporting such transactions to regulatory authorities.**

Bank response: In December 2003, the bank established the Financial Monitoring Service unit, the purpose of which is to help prevent financial services from being provided by the bank for purposes associated with money laundering, terrorism financing, or other crimes. Under the bank's "Financial Monitoring Service Regulations," the FMS (with a staff of eight personnel) is responsible for regular analysis of the activities of existing clients, analysis of prospective clients with respect to "high risk" indicators set forth in the bank's Customer Policy (as described above), development and maintenance of the list of "high risk" clients, monitoring implementation of AML and KYC policies and procedures throughout the bank's departments, and reporting to designated "senior officials" of the bank with respect to the foregoing, among other duties.

The head of the FMS reports directly to members of the bank's Board of Directors who have been designated "senior officials" under the FMS Policy and who are responsible for overseeing and implementing the bank's AML and KYC policies and procedures.

In 2004, the bank also established procedures for "Identifying Clients' Unusual or Suspicious Financial Transactions," for "Applying and Actualizing the "Black List," and for "Cashier Operations."

In accordance with the bank's "Procedure for identification of clients, unusual and suspicious financial dealings," and under the supervision of the head of the Financial Monitoring Service, Multibanka has organized a number of training programs for its employees concerning customer and transaction analysis. Three such training sessions were held during 2004.

**Recommendation 5: Enhance procedures for analyzing business activities of major customers.**

Bank response: In 2004 and 2005, the Bank approved revised client policies and procedures addressing this issue, including the "Clients Policy," the "Enhanced Client Analysis Procedure," the "Procedure for Opening and

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Closing Current Accounts of Physical Entities,” the “Procedure for Opening and Closing Current Accounts of Legal Entities,” and the “Procedure for Issuing *Maestro* and *Cirrus* Payment Cards and Opening/Closing Card Accounts.”

In addition, as described above, the bank’s FMS unit is responsible for analysis of the activities of existing customers, and in particular the bank’s largest and most active customers.

Moreover, the bank screens all customers, and all parties to all transactions, against a “blacklist” of restricted persons and entities that is provided to Multibanka (and all Latvian banks) by the OPL. Multibanka augments this list with persons and entities of concern that the bank itself has identified. Blacklist screening is supervised by the FMS unit, and it is effected via an automated computer program acquired by the bank from a third party software vendor. The screening program has been integrated into the main computer program(s) governing the operations of the bank.

### **III. Multibanka’s Commitment to Improved Performance Concerning AML and KYC**

Multibanka remains committed to enhancing its AML and KYC policies and procedures, and to demonstrating improved performance in this regard.

First, Multibanka has designated members of its Board of Directors as “senior officials” responsible for overseeing and implementing the bank’s AML and KYC efforts. In addition, as noted above, the bank created a Financial Monitoring Service unit, with particular responsibility for oversight of customers identified as posing “high risk” and for screening all customers against lists of restricted persons. The head of the FMS unit reports to designated “senior officials” on the bank’s Board of Directors, who in turn report to the Bank’s Supervisory Council. (Multibanka notes that its Board of Directors is composed entirely of senior officers of the bank, while the bank’s Supervisory Council is populated by non-employees who fulfill oversight functions typically associated with boards of directors in the United States.)

Second, the bank continues to cooperate with the FCMC with respect to the development of the bank’s AML and KYC policies and procedures, as noted

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in the prior section. The bank has cooperated in audits and inspections made by Latvian regulatory authorities, including most recently an FCMC inspection of the bank in February and March 2005. The FCMC has noted in inspection reports the progress made by the bank to date and also has pointed out areas for further improvement. The bank has committed to address the issues set forth in FCMC reports and to continue to improve its practices in this regard.

Third, the bank recently has established a special internal committee to review the bank's current AML and KYC policies and procedures in light of the FCMC findings, the applicable requirements of Latvian law, and industry best practices. The bank has appointed two individuals to this committee from outside the bank, one of whom is the former head of the legal department of the Bank of Latvia. (Multibanka notes that the Bank of Latvia's responsibilities included oversight of the Latvian private banking sector until the FCMC was established in 2001 to assume this task.) These two individuals will report their findings directly to the Supervisory Council of the bank.

Fourth, the bank has recently retained KPMG to audit the bank's AML and KYC policies and procedures. The purpose of the audit is to highlight any gaps between, on the one hand, the bank's current policies and procedures and, on the other, the applicable requirements of Latvian law as well as industry best practices (including FATF Recommendations, Basel guidelines, and Wolfsberg principles). KPMG also will recommend concrete steps for the bank to take in order to address any shortcomings that are identified in the audit and supervise their implementation by the bank. Multibanka intends to undertake a subsequent audit in order to evaluate its implementation of KPMG's recommendations described above. In this manner, the bank expects to identify areas for improvement and to implement appropriate measures (including training of employees) in a timely and effective fashion in order to ensure that enhancements to policies and procedures result in improved performance in the areas of AML and KYC. Multibanka will be pleased to share with the U.S. Government the results of the KPMG audit and to identify any steps the bank takes in this regard.

\* \* \*

Multibanka reiterates its belief that designation, and imposition of the fifth special measure, under section 311 of the USA PATRIOT Act are not warranted. Multibanka has adopted a wide range of policies and practices, as described above, with the sole aim of strengthening its AML activities, and it

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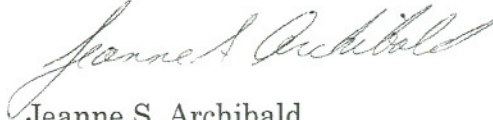
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continues to make significant efforts to enhance those activities. The bank has a record of cooperation with law enforcement authorities, and it is eager to cooperate with the U.S. Government (and the Government of Latvia) in order to reach a mutual understanding concerning the measures the bank has taken and will commit to taking in the immediate future with respect to AML and KYC issues. In the interim, Multibanka notes that with each passing day the existence of the Notice has a significant detrimental effect on the bank's legitimate business activities. In light of the foregoing, Multibanka respectfully requests a meeting with appropriate U.S. Government officials at the earliest possible opportunity. It also requests that the U.S. Government issue a statement to the effect that it does not intend to designate the bank, or apply the fifth special measure, under section 311 of the USA PATRIOT Act.

Thank you for your consideration of the foregoing.

Sincerely,



Jeanne S. Archibald

Jeremy B. Zucker

Counsel to JSC Multibanka