

WRITTEN STATEMENT OF
RIGGS BANK N.A.
to the
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
of the
COMMITTEE ON GOVERNMENTAL AFFAIRS
of the
UNITED STATES SENATE
July 15, 2004

I. Introduction.

Riggs Bank has been privileged to serve the banking needs of our nation's capital for nearly two centuries. During that time, Riggs has served such historical figures as President Abraham Lincoln and American Red Cross founder Clara Barton. Riggs also has assisted in some important historical transactions, such as supplying the gold for the purchase of the State of Alaska. Today, Riggs is the oldest independent bank headquartered in Washington, D.C., serving the District and the surrounding metropolitan area with more than 45 branch locations.

Without a doubt, this past year has been among the most challenging in the Bank's long and storied history. We will address today some of those challenges and how the Bank is moving to address them, and will address questions raised in the letter from Chairman Coleman and Senator Levin.

Looking back, it is clear that Riggs did not accomplish all that it needed to. Specifically, with respect to the improvements that were outlined by the Office of the Comptroller of the Currency ("OCC") in its examinations, Riggs deeply regrets that it did not more swiftly and more thoroughly complete the work necessary to meet fully the expectations of its regulators. For this, the Bank accepts full responsibility. Looking forward, Riggs is acting forcefully to comply with all federal rules and regulations and is cooperating as fully as possible with all appropriate agencies and congressional committees looking into these matters. Riggs recognizes the seriousness of the Bank Secrecy Act ("BSA") and other challenges confronting it, and it is committed to devoting all necessary resources, including money, technology, and personnel, to meet these challenges.

II. Regulatory Examinations.

The Bank is examined regularly by its principal federal regulator, the OCC. Riggs National Corporation, the Bank's holding company, is examined by the Federal Reserve. Over the past six to seven years, OCC examiners have commented on various aspects of BSA and anti-money laundering efforts by the Bank. The Bank took actions in response, but, regrettably, did not fully meet the OCC's expectations. At the end of 2002 and the beginning of 2003, the Bank was facing a number of challenges, including keeping pace with evolving corporate governance standards following the Sarbanes-Oxley Act and addressing the strategic direction of the Bank. One of our highest priorities, however, was an adequate anti-money laundering compliance program tailored to the risk profile of the Bank. By the end of 2002, the areas on which the Bank needed to focus its efforts had been relatively well defined by management and OCC comments, and management was working to address those areas.

By the OCC's examination in early 2003, examiner comments had become increasingly critical. The OCC was concerned that the Bank's efforts were falling behind and made clear that the Bank needed to take rigorous action. That led, as you know, to the July 2003 Consent Order, which is discussed in greater detail below.

III. The Bank's response to the Orders issued by the OCC and Federal Reserve, and the imposition of civil monetary penalties earlier this year; the Bank's anti-money laundering policies and procedures.

The business and regulatory environment in which the Bank operates changed dramatically over the past several years. The Bank's core businesses gave rise to unique challenges, requiring key resources and expertise to address those challenges. Technology is a key element of the success of compliance programs, and Riggs needed a new technology platform. The OCC noted flaws in the Bank's BSA compliance program and was critical of

Riggs for not implementing remediation efforts as promptly as the Bank or the OCC would have preferred. The changed environment post-September 11 went to the core of the Bank's business. In hindsight, the Bank did not appreciate sufficiently the complexity of the challenges it faced.

In July 2003, the Bank entered into a Consent Order with the OCC in which the Bank agreed to address a number of issues, including maintaining a Board level BSA Compliance Committee; employing an independent, external management consultant to analyze the Bank's compliance with the BSA; determining whether any changes were needed regarding the Bank's BSA Officer and supporting staff; developing, implementing, and ensuring the Bank's adherence to a written program of policies and procedures to provide for BSA and Office of Foreign Assets Control ("OFAC") compliance and for the appropriate identification and monitoring of transactions that pose greater than normal risks for compliance with the BSA; reviewing and evaluating the level of service and ability of the internal audit function; and developing, implementing, and thereafter ensuring Bank adherence to a comprehensive BSA training program.

In light of concerns voiced by OCC examiners in the Spring of 2003 and in response to the July 2003 Consent Order, the Bank has taken a number of steps, including the following actions:

- In April 2003, the Bank formed a Board-level BSA Compliance Committee. The BSA Compliance Committee meets jointly with the Riggs National BSA Compliance Committee. The Committee provides oversight of the Bank's BSA and anti-money laundering activities and provides monthly written progress reports to the OCC.

- The Bank established a new Compliance and Security Department ("CSD") led by the newly created position of Executive Vice President and Director of Compliance & Security. This department is responsible for implementing the Bank's enhanced BSA compliance program.
- Since June 2003, the Bank has launched more than 20 new programs to improve the detection, monitoring and reporting of suspicious activity, including the use of Assist//ck software, the Interactive Customer Identification Program, and the Security & Investigations referral process. In addition, the Bank has implemented additional monitoring and reporting methodologies, new BSA training programs and new BSA risk scoring models for new accounts.
- In September 2003, the Bank rolled out a new technology platform, the largest infrastructure initiative ever undertaken at the Bank, at a cost of \$60 million. This new platform provides the technological foundation for the advanced BSA systems and capabilities being implemented at the Bank.
- The Bank established an Officers' Risk Management Committee as part of the Bank's efforts to enhance risk management oversight. The Committee has the responsibility to ensure the effective consideration of risks affecting the Bank.

However, OCC examinations conducted in early 2004 noted that, despite the Bank's efforts, the Bank did not fully satisfy the 2003 Consent Order. As a consequence, the Bank currently is subject to additional regulatory orders and has paid a civil money penalty.

In accordance with the May 2004 OCC Consent Order and the Federal Reserve Order, Riggs's has developed staffing plans, including adding new positions that have been filled or are actively being recruited, to support the Bank's compliance, audit, risk management, and business

needs. The Bank also has engaged consultants to review its current staffing resources. As required by the 2004 OCC Consent Order, Riggs also has developed an action plan to evaluate whether “information required by the Bank Secrecy Act and its implementing regulations is appropriately documented, filed, and maintained.” These steps include:

- ensuring that information required under the Bank’s compliance policies related to the BSA is appropriately documented, filed, and maintained;
- reviewing the accuracy of previously filed Suspicious Activity Reports (“SARs”) and Currency Transaction Reports (“CTRs”);
- reviewing specified high risk accounts, including high risk Embassy Banking and International Private Banking accounts, to ensure that SARs have been filed as appropriate between January 1, 2001, and April 30, 2004; and
- correcting any material inaccuracies or omissions in this information.

In addition, the Bank has devoted considerable resources to its internal audit program, which has undergone substantial change over the past year. During the summer of 2003, in response to regulatory concerns about the effectiveness of the Bank’s internal audit department, the Bank retained a nationally-recognized accounting firm to provide outsourced internal audit services for the second half of 2003 and for the year of 2004. Unexpectedly, that firm did not live up to the expectations of the Bank or its regulators. As a result, the Bank retained a new outsourced internal audit provider in June 2004 -- a well respected, nationally recognized firm with vast experience and expertise. The Bank has kept the OCC fully informed throughout this process.

In response to the Federal Reserve’s concerns about one of the Bank’s subsidiaries, Riggs International Banking Corporation (“RIBC”), Riggs has decided to close all the accounts at

RIBC and to liquidate RIBC -- a process that is currently underway. Currently, RIBC is not accepting new customers and is performing only very limited transactions for existing customers, and the Bank expects that closing of accounts will be completed by August 20, 2004. RIBC also has adopted written policies and procedures to ensure that this closing process is carried out with proper attention paid to, among other things, the identification, investigation, and reporting of suspicious activity.

As the above steps demonstrate, Riggs takes the issues of anti-money laundering, BSA, and USA Patriot Act compliance very seriously. In addition to the improvements described above, the Bank also has taken other steps, including the following:

- The Bank has terminated a number of high-risk Embassy Banking relationships, including Equatorial Guinea, and is in the process of closing others.
- The Bank has significantly bolstered its senior management, and Riggs National has added a new member to its board:
 - Lawrence Connell, a respected banker and former regulator, is now the vice-chair of Riggs Bank. He is taking the lead in all of our regulatory relationships;
 - Anthony Terracciano, a highly regarded banking executive, is now an outside director of Riggs National Corporation. His experience leading First Fidelity and Dime Bancorp will be extremely valuable to us; and
 - David Caruso, an authoritative expert on bank security and anti-money laundering, now fills the position of executive vice president and

Director of CSD. He joined the Bank a little over a year ago and has assembled a new compliance and security group to address the Bank's needs in this area. David's staff of more than 25 includes former FBI and Secret Service officials, who on average have more than 15 years of investigative experience.

- The Bank has engaged several of the nation's premier experts to assist us in our compliance efforts, including Promontory Financial Group.
- The Bank has retained PricewaterhouseCoopers to provide outsourced internal audit services.
- The Bank has retained technology consultants, Crowe Chizek, to assist the Bank in optimizing the use of its new technology infrastructure for purposes of BSA-related compliance.

The Bank has completed and filed the responses due to date under the OCC and Federal Reserve Orders of May 2004.

IV. Accounts of Augusto Pinochet, Ashburton Company, Ltd., and Althorp Investment Ltd.

The Subcommittee has asked us to comment on the accounts of Augusto Pinochet Ungarte and his wife. They became clients of Riggs Bank in 1994. At that time, Mr. Pinochet was the Commander in Chief of the Chilean Armed Forces. Mr. Pinochet and his wife initially opened a depository account in the United States. Later, they opened investment accounts through Riggs Bank & Trust Company in the Bahamas in the name of two personal investment companies: Ashburton Company Limited and Althorp Investment Limited. Later, the Pinochets opened accounts in the London branch of Riggs Bank.

The Bank verified source of wealth and “know your customer” information related to the Pinochet accounts through inspection by the banker responsible for interfacing with the client. As part of enhanced due diligence, that same banker later obtained copies of source of wealth information, and the Bank retained outside counsel to gather information relating to the Spanish proceedings instituted against Mr. Pinochet.

In 2002, the OCC conducted a target examination into the accounts associated with the Pinochets. The OCC ultimately informed the Bank that it had concerns regarding certain activities. The Bank retained outside counsel to address certain issues relating to those accounts and then the Bank terminated its relationship with these clients.

V. Accounts of the Government of Equatorial Guinea, its officials and their family members.

The Subcommittee has asked us to comment on the accounts of the Government of Equatorial Guinea and related persons. The Government of Equatorial Guinea became a client of Riggs Bank in 1995. Over the years, the Bank established official accounts for the country’s treasury department and finance ministry, as well as personal accounts for its President, his wife and other governmental officials. Following the discovery of oil in Equatorial Guinea, the country selected Riggs to serve as the principal commercial bank for the government, in which capacity Riggs acted as the recipient and custodian of the government’s oil receipts. Those funds, wired from major international oil concerns, were deposited into Riggs accounts held in the name of the Government of Equatorial Guinea and under the joint control of several members of the Government of Equatorial Guinea.

In 2003, Riggs undertook an intensive review of all transactions in the Equatorial Guinea oil account using new tools authorized by the recently enacted USA Patriot Act, improved technology systems, and enhanced compliance personnel. In late 2003, the OCC began a

targeted examination into the accounts associated with Equatorial Guinea. The OCC was critical of the Bank with respect to these accounts. An investigation by the Bank revealed that Simon Kareri, the bank officer with authority over Equatorial Guinea accounts, had apparently diverted funds from two such accounts for his own benefit. The Bank terminated Mr. Kareri and handed the findings of its internal review over to federal criminal investigative authorities.

In addition, the reviews of the Equatorial Guinea accounts by the OCC and Riggs disclosed a small number of transfers of funds from the Equatorial Guinea oil account to overseas firms that appeared to be controlled by members of the Government of Equatorial Guinea. The Government of Equatorial Guinea refused to provide specific information as to the purpose or ultimate beneficiary of those payments, other than to say that such transfers were appropriate and authorized. On the basis of such lack of cooperation with Riggs' investigation, Riggs terminated all relationships with Equatorial Guinea and persons affiliated with the Government of Equatorial Guinea.

Riggs is cooperating closely with investigations into Equatorial Guinea bank accounts pursued by this Subcommittee and is making every effort to enhance its systems and processes to address the OCC's examination comments.

VI. Conclusion

Riggs Bank is proud of the strong history it shares with the city of Washington, D.C., and with the United States Government. For nearly two centuries, Riggs Bank has worked hard to build a solid reputation in the city and the banking community for integrity and trustworthiness. Riggs can assure you that it is dedicated to resolving any and all outstanding issues.