

LEPL FINANCIAL MONITORING SERVICE OF GEORGIA

ANNUAL REPORT

2021

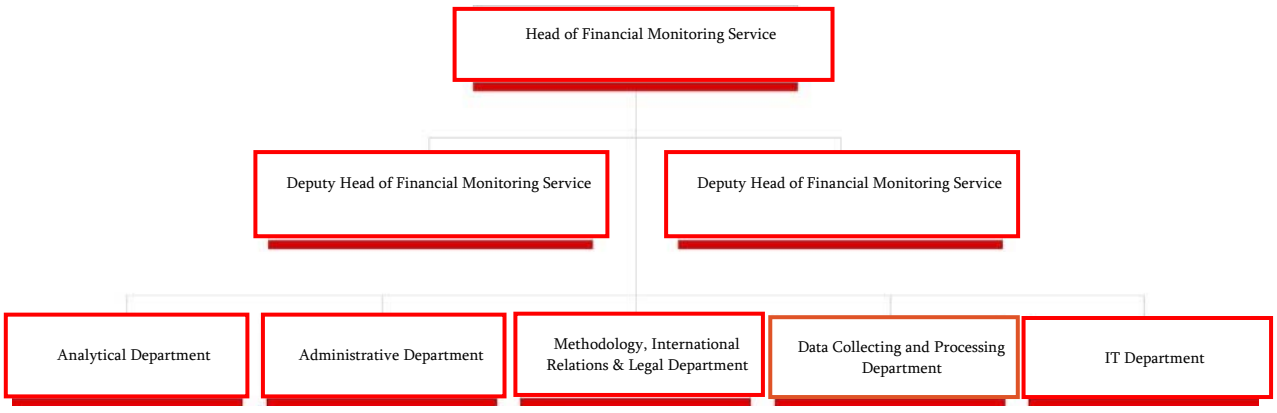
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Goals and Objectives, Main Areas of Activity

The Legal Entity of Public Law (LEPL) - Financial Monitoring Service of Georgia (FMS) - as the authority responsible for prevention of money laundering and terrorism financing, has been operated since 2004 and conducts its activities in accordance with the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing" along with other legislative acts and subordinate normative acts. For the purpose of detecting and preventing criminal offences, Financial Monitoring Service of Georgia receives information on suspicious activities and other transactions from obliged entities as defined by the law, analyzes this information and upon establishing a reasonable suspicion that the transaction is suspicious and may be conducted for the purpose of money laundering, terrorism financing or/and other predicate offenses promptly forwards such data and case materials at its disposal to the law enforcement authorities (LEAs) without requiring prior consent from any other body or individual.

The objectives, functions and organizational structure of the LEPL - Financial Monitoring Service of Georgia are defined by the "Statute of the Legal Entity of Public Law-Financial Monitoring Service of Georgia", approved by Decree No. 658 of the government of Georgia dated December 26, 2019. The organizational structure of the Financial Monitoring Service of Georgia is as follows:



Currently, FMS staff and amount of the salaries for the employees have been approved by the Prime Minister of Georgia, Decree No. 517, dated 31 December, 2019. There are 31 established staff positions within FMS based on the aforementioned act.

Statistics

The list of the obliged entities under the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing" is as follows:[1]

The Financial Institutions: non-bank depository institution - credit union; founder of a non-state pension scheme; insurance broker, reinsurance broker; currency exchange bureau; commercial bank; microfinance organization; brokerage company; payment service provider; insurance organization; leasing company; loan issuing entity; securities registrar; investment fund.

The Non-Financial Institutions: Lawyer, law firm; organizer of lotteries, gambling or other commercial games; notary; certified accountant; legal entity providing accountant services, on behalf of which a certified accountant operates; auditor, audit firm; trader of precious stones and metals; the National Agency of Public Registry and the Revenue Service.

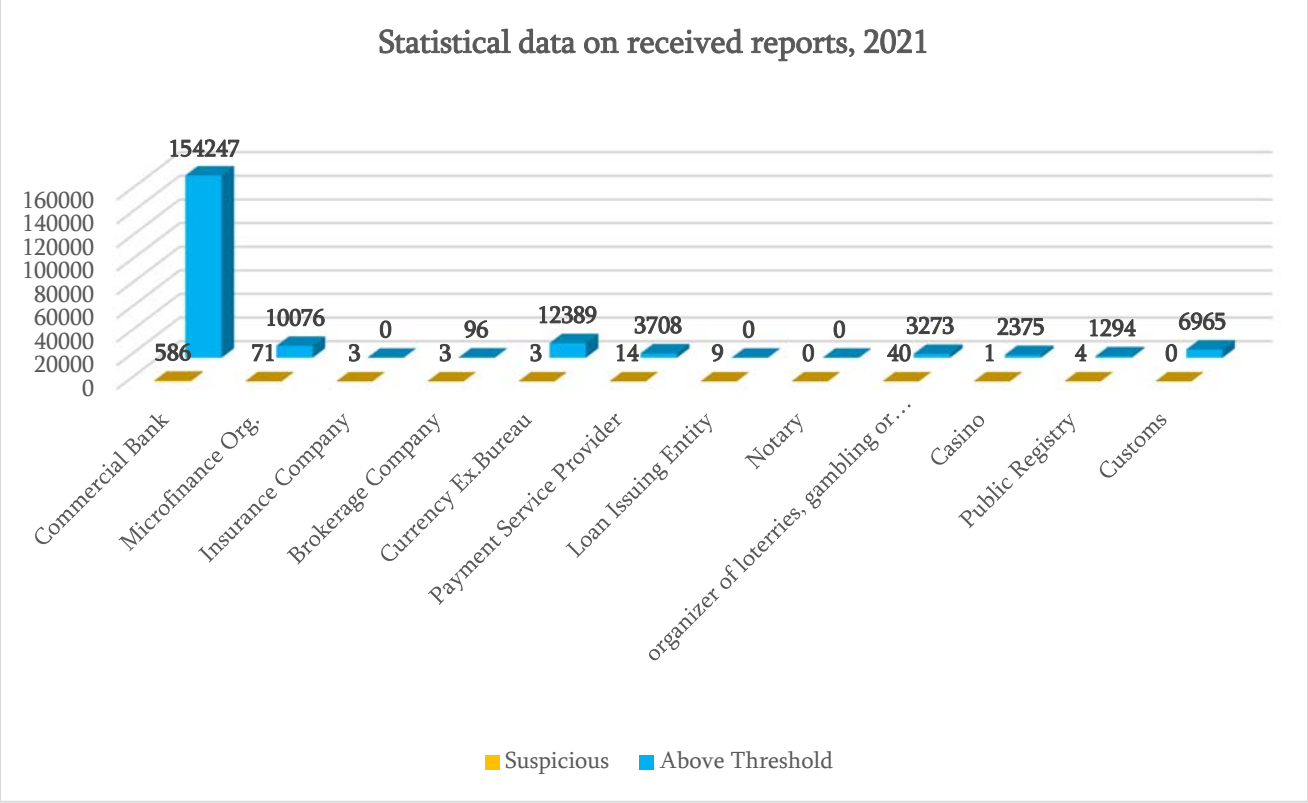
In accordance with the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing", the obliged entities are required to submit a report to the Financial Monitoring Service of Georgia regarding a suspicious transaction or an attempt to prepare, conclude or execute such transaction. Apart from a suspicious transaction, pursuant to the law, FMS, through a subordinate normative act, determines the types of transactions to be reported by the obliged entities to FMS[2].

Taking the above into account, the statistical data concerning the information received by the Service throughout 2021 is as follows:

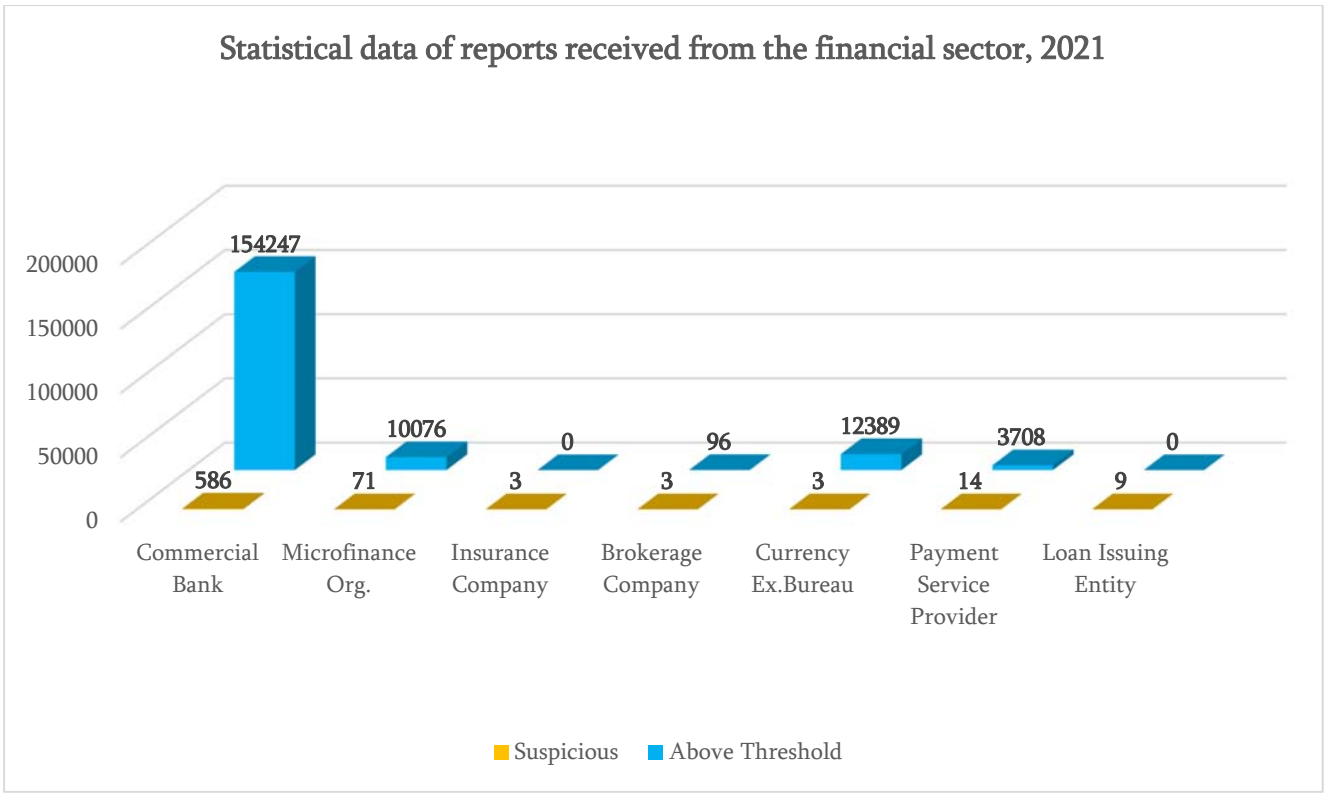
[1] Article 3 of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing".
[2] Article 25, Paragraph 2 of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing".

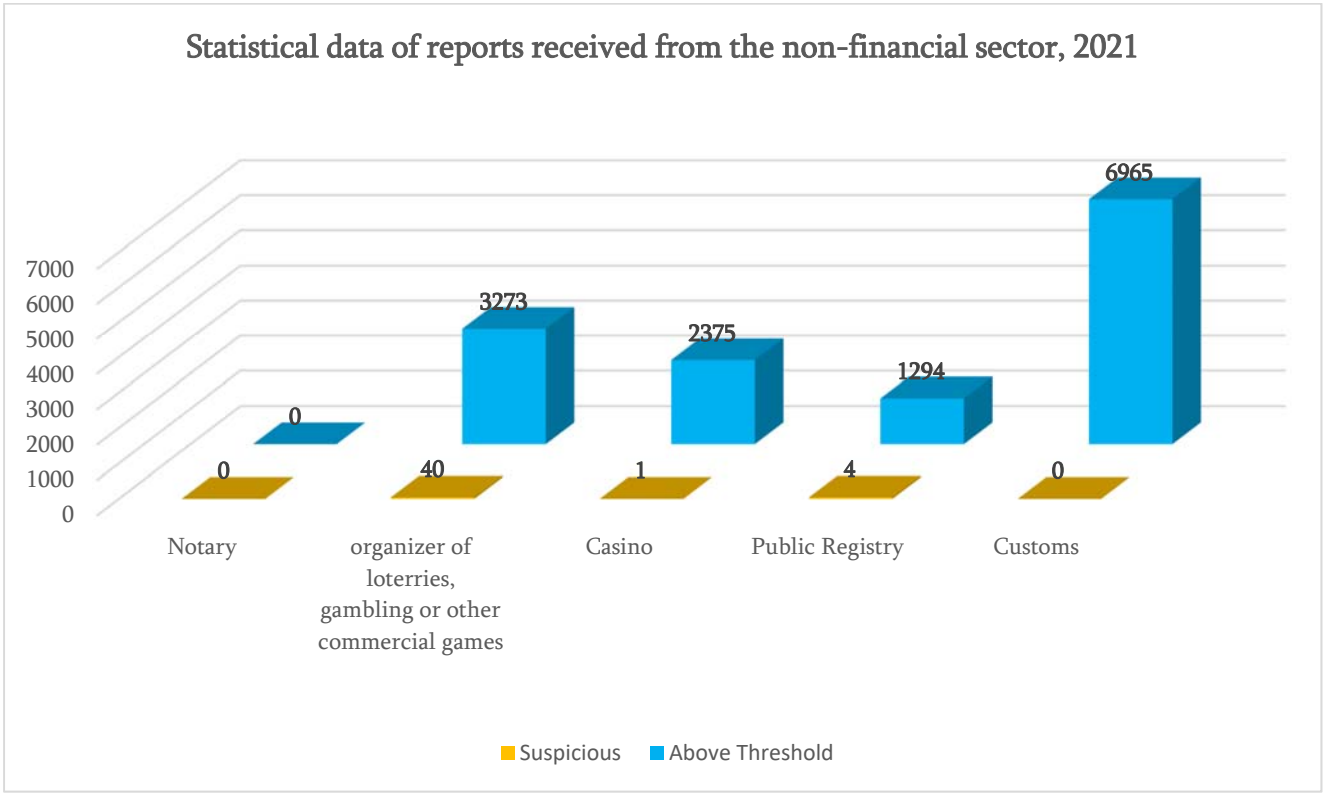
Statistical data on received reports, 2021	**Transaction Reports**	**Threshold-Based Transaction Reports**	**Suspicious Transaction Reports**	**Terrorism Financing**
Commercial Bank	154833	154247	586	13
Microfinance Organization	10147	10076	71	8
Insurance Company	3	0	3	0
Brokerage Company	99	96	3	0
Currency Exchange Bureau	12392	12389	3	0
Payment Service Provider	3722	3708	14	0
Loan Issuing Entity	9	0	9	0
Notary	0	0	0	0
Organizer of Lotteries, Gambling or other Commercial Games	3313	3273	40	0
Casino	2376	2375	1	0
Public Registry	1298	1294	4	0
Customs	6965	6965	0	0
Total	**195157**	**194423**	**734**	**21**

Number of reports received by FMS throughout 2021 is presented graphically as follows:



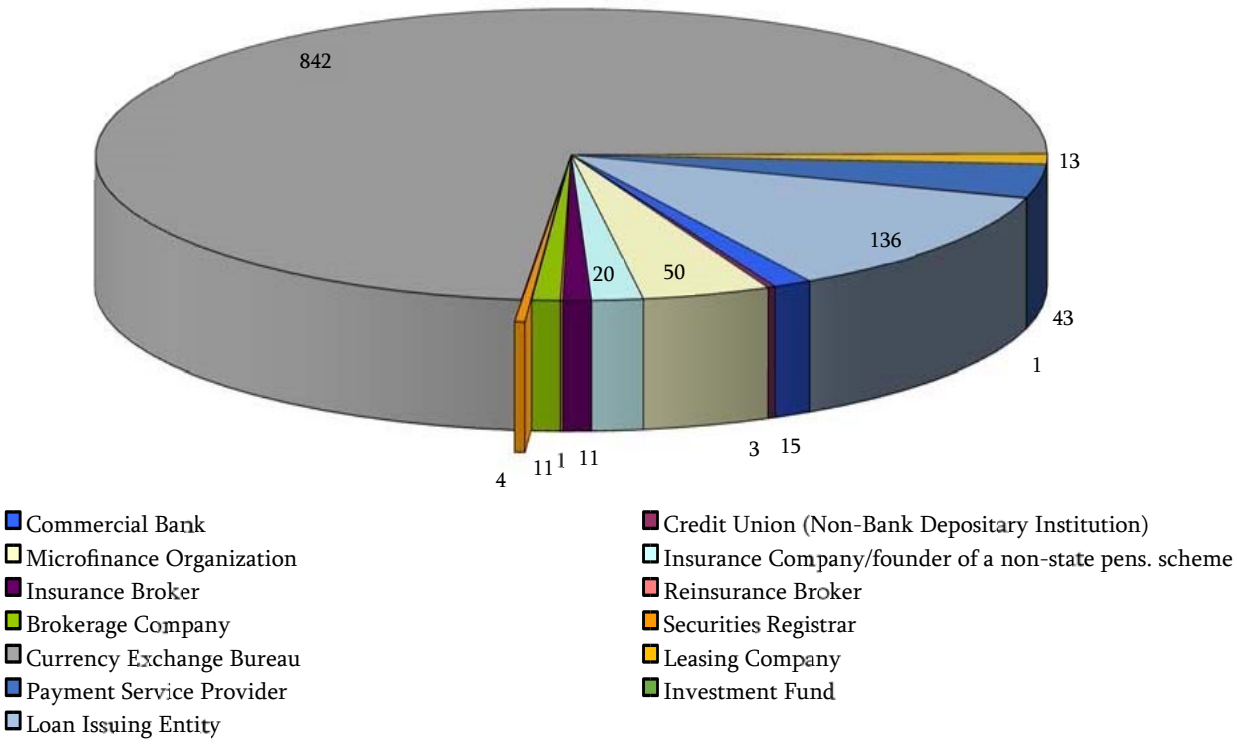
Accordingly, based on the systematization of statistical data, the number of reports received in 2021 from financial institutions (including commercial banks) and non-financial institutions is as follows:


Statistical data of reports received from the financial sector, 2021
200000
150000
100000
50000
0
154247
586
10076
71
0
3
96
3
12389
3
3708
14
0
9
Commercial Bank
Microfinance Org.
Insurance Company
Brokerage Company
Currency Ex.Bureau
Payment Service Provider
Loan Issuing Entity
Suspicious
Above Threshold


Statistical data of reports received from the non-financial sector, 2021
7000
6000
5000
4000
3000
2000
1000
0
0
0
40
3273
1
2375
4
1294
0
6965
Notary
organizer of loterries, gambling or other commercial games
Casino
Public Registry
Customs
Suspicious
Above Threshold

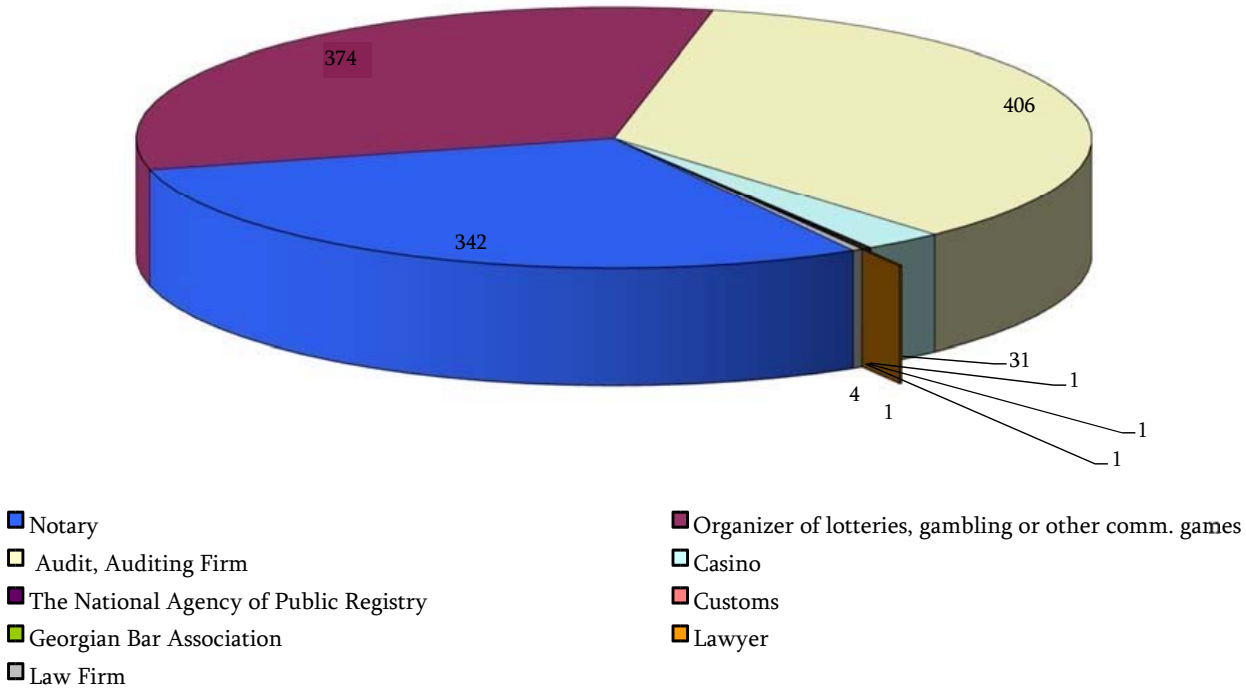
As of January 1, 2021, obliged entities defined by the law and registered within FMS, representing the financial sector of Georgia, included: 15 commercial banks, 3 credit unions, 50 microfinance organizations, 20 insurance organizations and founders of a non-state pension scheme, 11 brokerage companies, 11 insurance brokers, 1 reinsurance broker, 4 securities registrars, 842 currency exchange bureaus, 13 leasing companies, 43 payment service providers and 136 loan issuing entities.

Financial Sector, 2021



As of January 1, 2021, obliged entities defined by the law and registered in FMS, representing the non-financial sector of Georgia, included: 342 notaries, 374 organizers of lotteries, gambling or other commercial games, 406 auditing companies, 31 casinos, the National Agency of Public Registry, the Revenue Service (customs), 1 lawyer and 4 law firms.

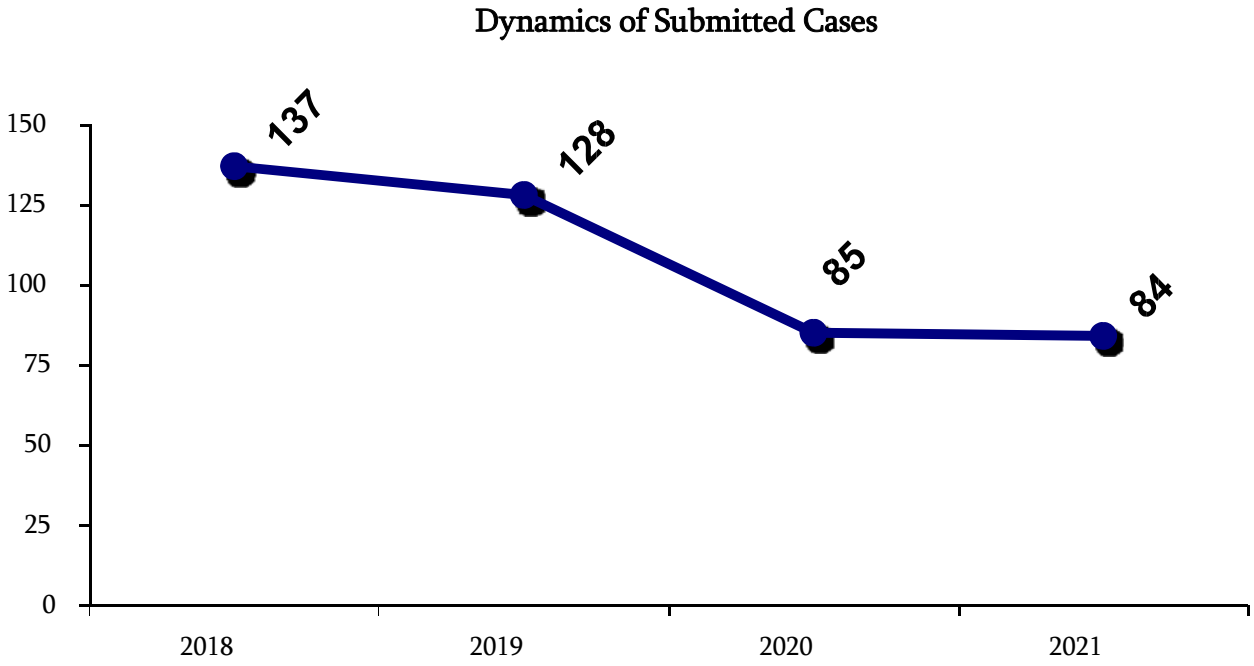
Non-Financial Sector, 2021



Based on the analysis of the reports received in 2021 and processing of additional information obtained either by FMS or from foreign counterparts, the Financial Monotiling Service of Georgia identified and, in accordance with the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing", transferred 84 cases to the relevant structural units of the Prosecutor's Office of Georgia, the Ministry of Internal Affairs, the State Security Service and the Revenue Service (including 10 cases related to possible terrorism financing and 1 case concerning a possible attempted circumvention of sanctions imposed against a particular country).

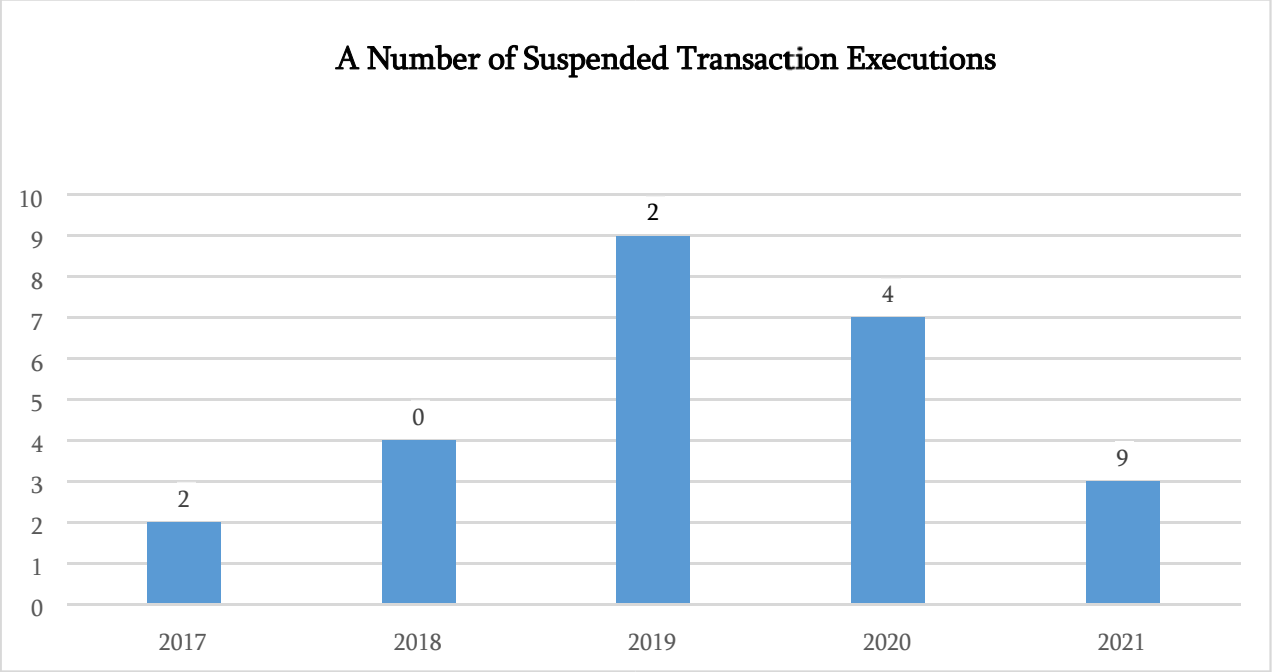
It is noteworthy that, as in 2020, the decrease in the number of cases submitted by FMS to the law enforcement agencies and the Revenue Service during 2021, compared to previous years, was due to global Covid-19 pandemic which negatively affected the economic growth in Georgia and in partner countries and consequently led to a decline in the volume of transactions conducted during this period.

See below the dynamics of the number of cases presented in graphics forwarded by the Financial Monitoring Service of Georgia to the law enforcement agencies and the Revenue Service during 2017-2021:



It is noteworthy, that in accordance with the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing", upon emergence of a reasonable suspicion of money laundering, terrorism financing or any other criminal offence, regardless of the transaction amount, Financial Monitoring Service of Georgia is authorized to issue a written instruction to the obliged entity to suspend the preparation, conclusion or execution of that transaction or any other transaction related to that transaction and/or individual involved therein within no more than 72 hours[3]. FMS exercised such authority and suspended the execution of transactions 9 times in 2021. The statistics on the use of this authority are as follows:

[3] Article 36 of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing".



Typology

The analysis of reports submitted to the Financial Monitoring Service of Georgia along with additional information requested from the obliged entities, data received from foreign colleagues and information obtained from open sources, showed that a significant portion of cases detected by FMS during 2021 was related to cybercrime manifested in various forms (including unauthorized access to computer systems or email accounts, hacking of bank accounts, changing banking details in documentation, falsification of identification documents, unauthorized use of data from stolen plastic cards, the so called *Romance-scam*, the so called *Identity theft*, the so called *Merchant-scam* and etc.) and in attempts to legalize obtained funds, while traditional channels were used for moving criminal assets including bank accounts and rapid money transfers. Various electronic wallets are also used for similar purposes.

The use of social engineering, fraudulent websites and social network platforms to obtain customers' confidential banking details persisted throughout the reporting year.

In 2021, as in previous years, legal entities registered in Georgia continued to be used for criminal purposes with their names identical to those of more or less well-known international companies operating abroad. However, it is important to note that the number of such cases showed a

declining trend. Such methods were used to mislead foreign entrepreneurs targeted as victims during international financial transactions.

In 2021, as in previous years, a number of cases forwarded to the law enforcement agencies by FMS referred individuals who were either wanted by the law enforcement authorities of foreign countries or listed on international the so-called "*Black List"*, such as Interpol's wanted persons, the Office of Foreign Assets Control (OFAC) of the United States Treasury Department etc.

During the reporting year, the use of Georgian-based bank accounts for transit purposes continued by both legal entities and individuals. Deposits and subsequent transfers were made to the accounts to the third countries, and the total turnover often reached the equivalent of several million GEL. Typically, such transactions have no economic connection with Georgia.

The volume of transactions potentially conducted by the call centers remained significant in 2021. Such companies are primarily formed to establish contacts with potential customers abroad offering them to purchase various products, make investments, play on currencies, binary options etc. In cases where a call center is created for fraudulent purposes, the victim either does not receive any pre-agreed service at all or receives a much lower quality service (the so-called *Boiler-Room Scam*) or losses the funds invested (commonly referred to as *Investment Scam*).

As anticipated, during the reporting period, certain individuals continued to offer some services to customers through social media messaging and online advertisements. In such cases, after payment, the customer cannot receive a service and loses the money entirely. As in the previous year, the conditions facilitating this type of crime have not changed. The mandatory restrictions due to pandemic contributed to the expansion of online commerce, which along with minimal financial costs by fraudsters and lack of due diligence by the majority of online users have created a fertile environment for such crimes. It is likely that the trend of committing this type of crime will continue.

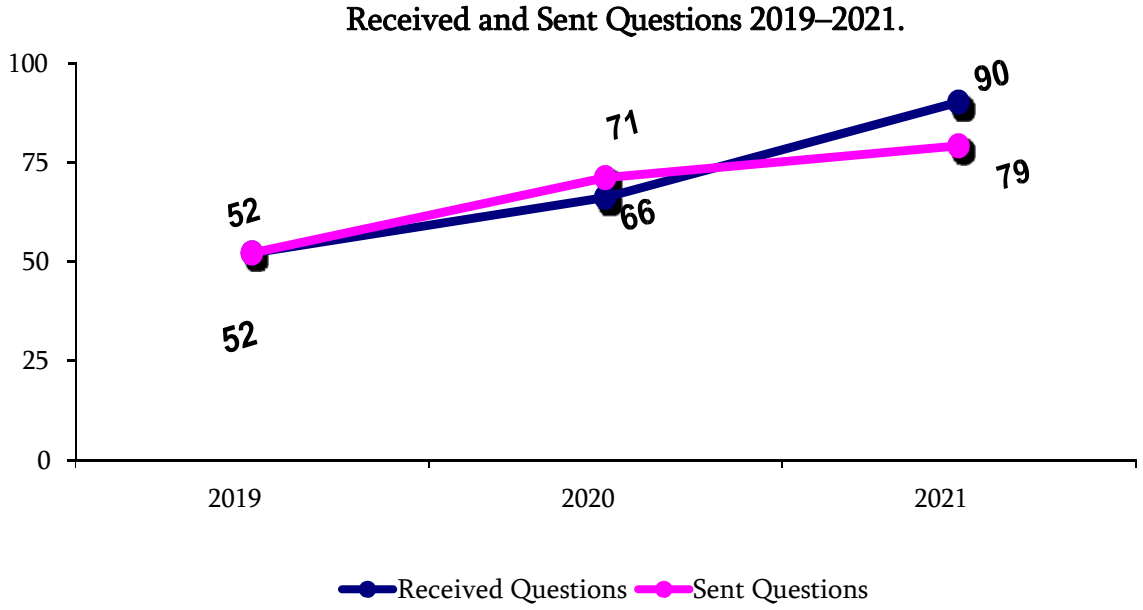
Domestic and International Cooperation

Within the reporting year FMS of Georgia maintained cooperation with international and foreign organizations.

FMS of Georgia was actively involved in the working process of plenary sessions of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

In 2021 the representatives of FMS of Georgia also took part in the 13th Conference of the parties of the Council of Europe Convention (C198-COP) on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on Terrorism Financing held on November 17-18, 2021, in Strasbourg.

Within the reporting year, the FMS of Georgia continued bilateral cooperation with foreign counterparts. In 2021, 90 requests were received from Financial Intelligence Units (FIUs) of different countries, all of them were provided with appropriate answers. In turn, the FMS sent 79 requests to foreign counterparts of which 68 were responded. In 2021 the FMS of Georgia shared information with the relevant organizations in foreign countries about 13 potential cases of money laundering, in return the FMS received 45 notifications about similar cases from foreign counterparts.



In 2021 the FMS maintained close cooperation with supervisory bodies. Regarding the preparation for the verification of obliged entities and the outcomes of inspection the FMS regularly exchanges information with supervisory authorities on the monitoring of compliance with the requirements of legislative framework in the field of preventing money laundering and terrorism financing.

Legislative and Regulatory Framework

In 2021 FMS of Georgia continued its work on normative-legislative framework regulating the prevention of money laundering and terrorism financing focusing its further development and improvement of legal framework.

In order to achieve the aforementioned objective, on March 30, 2021, the amendment was proposed to the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing". Pursuant to this amendment, Articles 41 and 42 of the Law were revised with new wording, in accordance with the recommendation provided by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) of the Council of Europe, as set forth in Georgia's mutual evaluation report.".

Specifically, any change made to the list of sanctioned individuals by the United Nations Sanctions Committee - acting pursuant to the UN Security Council resolutions on Combating the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction, adopted under Chapter VII of the United Nations Charter (including the addition or removal of individuals or modification to their identifying information - shall take immediate effect upon publication on the official website of the UN Sanctions Committee. Accordingly, the enforcement of restrictions imposed on sanctioned individuals shall be carried out in Georgia without delay.

In addition to the law, an amendment was also made to Order No. 2 of the FMS of Georgia, dated June 5, 2020, on the "Regulation on Approval of the Procedure of Identification and Verification of a customer by Obliged Entities". The amendment introduced in the order simplified procedures regarding services provided through electronic money instruments, specifically, in cases when the requirements set forth in the statute are met, certain cases of loading funds into electronic money instruments are exempt from the obligation of identification or/and verification.

Trainings and Seminars

Despite of widespread restrictions caused by Covid-19 global pandemic, various online seminars and workshops continued to be organized in 2021 with the purpose of raising awareness.

Over the reporting year the employees of the FMS took part in different international trainings and seminars, as well as attended appropriate meetings initiated by the international organizations. It is noteworthy that the number of similar events was significantly limited due

to the global pandemic. Particularly, in 2021 FMS employees participated in the following online events:

During 2021 – a project organized by the Georgian Centre for Strategy and Development supported by the Ministry of Foreign Affairs of the Kingdom of Norway – Strengthening Georgia's Capacities for the Prevention of Violent Extremism and Radicalization.

April 27-28, 2021 – Council of Europe/Partnership for Good Governance project – Enhancing the Systems of Prevention and Combating Corruption, Money Laundering and Terrorist Financing in Georgia; training on Financial Investigation of Money Laundering/Terrorism Financing Cases.

May 17-20, 2021 – Enhanced Training on Money Laundering and Cryptocurrencies – organized by EU-ACT project in cooperation with General Prosecutor's Office of Georgia.

June 3-4, 2021 - Council of Europe/Partnership for Good Governance project – Enhancing the Systems of Prevention and Combating Corruption, Money Laundering and Terrorist Financing in Georgia; Compliance of Currency Exchange Offices with Anti-Money Laundering and Counter-Terrorism Financing Measures.

October 4-5, 2021 – regional meeting targeting Crime Proceeds - organized by the CyberEast joint project of the European Union and the Council of Europe.

December 20, 2021 - Council of Europe/Partnership for Good Governance project – Enhancing the Systems of Prevention and Combating Corruption, Money Laundering and Terrorist Financing in Georgia; Compliance of Accounting/Auditing Sector in Georgia with Anti-Money Laundering and Counter-Terrorism Financing Measures.